



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Q2 FY21 Result Update@ Dalal & Broacha

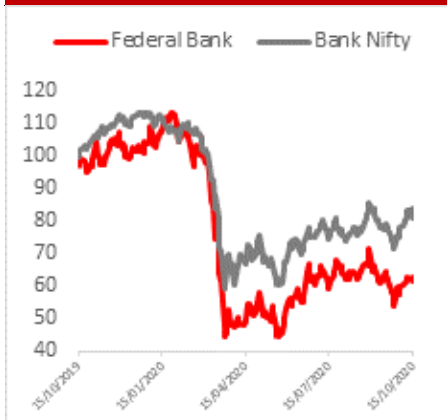
BUY

Current Price (Rs)	52
52 Week Range	36/97
Target Price (Rs)	61
Upside (%)	17

Key Share Data

Market Cap (Rs.bn)	104
Market Cap (US\$ mn)	1419
No of o/s shares (Cr)	1993
Face Value	2
BSE Code	500469
NSE Code	FEDERALBNK
Bloomberg	FB:IN

Price performance



% Shareholding	Jun-20	Mar-20
FII	30.95	33.31
DII	37.16	37.10
Others	31.89	29.59
Total	100	100

Please Note: September Shareholding Pattern not released yet.

Despite the challenging environment, Federal Bank has reported a decent set of numbers for the quarter ended Sep 30, 2020. Strong operational performance was supported by better margin and lower operating cost, while profitability was hampered by higher Provisions. Bank has made standard provisions of Rs 4.02 Bn in Q2FY21, taking the total provisions to Rs. 5.88 Bn.

- NII came in at INR 13.80 Bn, 22.8% YoY/6.4% QoQ and 5% above our est.
- Other Income came in at INR 5.09 Bn, 21% YoY/4.3% QoQ and 3% above our est.
- PPOP came in at INR 10.07 Bn, 40% YoY/8% QoQ and 10% above our est.
- Provisions came in at INR 5.92 Bn, 135.2% YoY/50% QoQ and 23% above our est.
- PAT came in at INR 3.08 Bn, -26.2% YoY/-23.2% QoQ and 5% below our est.
- EPS stood at INR 1.54 vs INR 2.01 / INR 2.1 in Q1FY21 / Q2FY20 respectively.

Other Key Highlights

- **Bank's Asset quality improved, with GNPA's at 2.84%, down by 23 bps YoY / 12 bps QoQ, while NNPA's at 0.99% (down by 59.9 bps YoY and up by 23 bps QoQ).** Slippages would have been Rs 2.37 Bn (instead of Rs 30 Mn) if normal rules had been applicable during Q2FY21. The bank's management expects 2.5% - 3% of its loan book to be restructured in next two-three quarters. For which, bank has already made upfront provisions of 10% of its expected restructured pool. The bank's PCR stood at 65.7% (up 1715 bps YoY/612 bps QoQ).
- **Bank's loan growth of 6% YoY/1.4% QoQ was driven by retail loans, which grew by 14.8% YoY/5.9% QoQ, whereas wholesale loans have degrew by 1.4% YoY/3.0% QoQ.** Strong growth in retail loans was aided by 54% YoY and 10% YoY growth in Gold loans and housing loans respectively. According to management, its gold loans portfolio is one of the best in the industry and crossed Rs 120 Bn in Q2FY20. BuB grew by 13% YoY.
- **Bank's capital adequacy ratio stood at 14.6% (vs 14.2% QoQ), of which Tier I capital was 13.3% (vs 13.0% QoQ) and Tier II capital was 1.3% (vs 1.2% QoQ).** According to management, the bank has an adequate capital base and does not see a need for additional capital raising in the next 12 months.
- Operational efficiency remained strong, with cost to income ratio falling by 675 bps YoY to 46.7%, backed by higher net income (NII + other inc) growth of 22.3% vs lower opex growth of 6.9%. Bank's margins expanded to 3.13% (6 bps QoQ), aided by a 27 bps QoQ fall in CoD vs yields on advance dipped 8 bps QoQ.

Outlook and Valuation

Bank's strong liability franchise along with better capitalization levels (Tier-1 at 13.3%), and incremental focus on retail business are key positives. However, its profitability will remain under pressure in FY21 due to slower credit offtake & higher provisions. We expect the bank's RoA/RoE to moderate to 0.6%/8% in FY21 and recover back to 0.8%/10% in FY22. At CMP the stock trades at 0.8x its FY21E ABV and 0.7x its FY22E ABV. **With the stock trading at ~52% discount to the last 5-year average P/B (1yr fwd), we believe maximum negatives are in the price and thus we recommend BUY with a TP of Rs 61 (based on 0.8x FY22E Adj. BVPS); a potential upside of 17%.**

Key Financials (Rs Mn)

Year	NII	PPOP	PAT	ROE	Adj BVPS	P/ABVPS
FY20	46,489	32,047	15,428	11.1	65	0.8
FY21E	52,011	36,292	12,286	8.2	67	0.8
FY22E	58,835	41,286	16,484	10.2	76	0.7



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Highlights of the Conference Call

Asset Quality

- Bank's collection efficiency in the month of Sep'20 stood at ~95%, which was better than Jan'20 and at par with Feb'20. Collection efficiency in Sep'20 for Retail segment, Commercial Banking, Business Banking, and Corporate segment stood at 91%, 93%, 95% and 99% respectively. Collection efficiency was better in non-moratorium book; stood at ~99% in Sep'20.
- Slippages would have been Rs 237 Cr (instead of Rs 3 Cr) if normal rules had been applicable during Q2FY21. However, the bank as a prudent measure made an interest reversals of Rs 30 Cr.
- During the quarter, the bank has restructured loans worth Rs 26 Cr and have got requests for Rs 360 Cr worth of loans to be restructured. The bank has already made upfront provisions of 10% of its expected loans to be restructured. Overall, the bank's management expects 2.5% - 3% of its loan book to be restructured in next two-three quarters. Out of which, less than a third will be from corporate segment, and the balance will be retail, small business, and commercial loans.
- As far as asset quality is concern, Q3FY21 could be the worst impacted due to the post-moratorium stress (accounts which are not eligible for the restructuring will slip) along with Rs 237 Cr worth carry forward slippages from the current quarter (Q2FY21). According to management, bank's slippages could be ~40%-50% higher than the normal slippage run-rate of Rs 300 Cr-Rs 350 Cr in next two-three quarters. Slippages will be broad-based across sectors.
- As a prudent step and as part of strengthening the balance sheet, the Bank made standard asset provisions of Rs 402 Cr, taking the total to Rs. 588 Cr held at end of Q2FY21.
- Bank's unsecure portfolio is too small to cause any problem; does not have credit card products and its personal loans (most of which is to existing customers of the bank) is only 1.25% of the total loan book.

Operating efficiency

- Bank has reported a cost-to-income (CIR) ratio of 46.7% in Q2FY21. According to management, this ratio is not sustainable at current level and guided it (CIR) to be in the range of 48-50%.
- Loan processing fee is driven by the business volumes. According to management, fee income on cards and related businesses is likely to hold on at similar levels or even better from here.

Business prospects

- According to management, worst from an economic standpoint is almost over and it expects recovery to be sooner than earlier anticipated. Also, the bank has comparatively lower exposures towards vulnerable sectors like Hotels, travel and tourism.
- In several segments, Bank is seeing a demand recovery at ~75%-80% of pre-COVID levels. Bank is looking to grow ahead of the market and expect loan growth of 8-9% for FY21.
- Bank is not looking to raise fresh equity capital and would consider the same post Mar'21.
- Bank has a strong liability franchise, with retail deposits comprised ~90% of total deposits base.* Furthermore, Bank is gaining share in non-resident business, with its share in remittances that come into India, has gone up to ~17.3%.
- In corporate segment, Bank has added 54 new names in H1FY21. It also saw some churn in its corporate book; some better rated entities, which could borrow money at much lower rates, chose to pre-pay Federal Bank's loan.
- As far as gold loans is concern, Bank remained conservative approach and limited the LTVs to upto 85% on the fresh gold loans. The bank's interest rate on gold loans is much lower than the NBFCs.



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Quarterly performance

Rs Mn	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Interest Earned	29544	30323	32293	32543	33304	33968	34442	34879
Interest Expended	18771	19358	20751	21305	21754	21808	21477	21081
NII	10773	10965	11542	11238	11549	12160	12964	13799
Other Income	3456	4117	3915	4209	4079	7111	4884	5093
Net Income	14228	15083	15457	15447	15628	19271	17848	18892
Opex	7150	7535	7629	8259	8190	9678	8524	8827
PPOP	7078	7548	7828	7188	7438	9593	9324	10065
Provisions	1901	1778	1920	2518	1609	5675	3946	5921
PBT	5177	5770	5907	4670	5830	3918	5378	4145
Tax	1841	1955	2065	503	1423	906	1370	1069
PAT	3336	3815	3842	4167	4406	3012	4008	3076
Balance Sheet								
Net-worth	128870	132730	136610	137543	142115	145176	149225	152353
Deposits	1234570	1349540	1325372	1395465	1445920	1522901	1549380	1567474
Advances	1055500	1102230	1120320	1158932	1192220	1222679	1212970	1229120
Growth (%)								
NII	13	17	18	10	7	11	12	23
PPOP	26	28	30	3	5	27	19	40
PAT	28	163	46	57	32	-21	4	-26
Deposits	23	21	19	18	17	13	17	12
Advances	24	20	19	14	13	11	8	6
Efficiency (%)								
GNPA	3.14	2.92	2.99	3.07	3.07	2.84	2.96	2.84
NNPA	1.72	1.48	1.49	1.59	1.59	1.31	1.22	0.99
PCR	45.93	50.13	50.72	48.55	46.37	54.48	59.58	65.71
C/I Ratio	50.25	49.96	49.36	53.47	52.40	50.22	47.76	46.72

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P&L (Rs mn)	FY19	FY20	FY21	FY22
Interest Earned	114190	132108	140688	156179
Interest Expended	72427	85619	88677	97344
NII	41764	46489	52011	58835
Other Income	13510	19314	20492	22752
Net Income	55274	65803	72503	81587
Opex	27643	33756	36211	40301
PPOP	27631	32047	36292	41286
Provisions	8559	11722	19866	19249
PBT	19073	20325	16426	22037
Tax	6634	4898	4139	5553
PAT	12439	15428	12286	16484

BS (Rs mn)	FY19	FY20	FY21	FY22
Capital	3970	3985	3985	3985
Reserves	128760	141191	151703	164615
Deposits	1349543	1522901	1691654	1944263
Borrowings	77813	103724	87162	90254
Other Liabilities	33313	34579	43301	50807
Total	1593400	1806381	1977805	2253926
Cash & Bank	100668	125746	126587	145878
Investments	318245	358927	432533	467957
Advances	1102230	1222679	1313946	1527060
Fixed Assets	4720	4800	5045	5560
Other Assets	67537	94229	99694	107470
Total	1593400	1806380	1977805	2253926

Ratios (%)	FY19	FY20	FY21	FY22
Growth				
NII	17	11	12	13
Operating profit	21	16	13	14
Net profit	42	24	-20	34
Advances	20	11	7	16
Deposits	21	13	11	15
Returns				
ROA	0.8	0.9	0.6	0.8
ROE	9.8	11.1	8.2	10.2

Ratios (%)	FY19	FY20	FY21	FY22
Asset quality				
GNPA	2.9	2.8	4.2	3.3
NNPA	1.5	1.3	1.7	1.2
PCR	50	54	61	65
Per share (Rs)				
EPS	6.3	7.7	6.2	8.3
ABVPS	59	65	67	76
P/E	8.3	6.7	8.5	6.3
P/ABVPS	0.89	0.81	0.78	0.69



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