

CMP (INR) (As on 8th May)	99
Target (INR) (Old)	121
Target (INR) (New)	123
Upside(%)	24
Recommendation	Strong Buy

BSE Code	500469
NSE Code	FEDERALBNK
Reuters Ticker	FED.BO
Bloomberg Ticker	FB IN

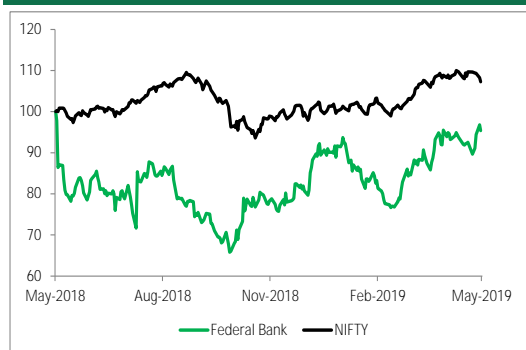
Stock Scan

Market cap (INR Cr.)	19615
Outstanding Shares (Cr.)	198
Face Value (INR)	2
Dividend Yield(%)	1
TTM P/E (x)	14.9
Industry P/E (x)	21.5
Debt/Equity	-
Beta vs Sensex	1.16
52 Week High/ Low (INR)	105/67
Avg. Daily Vol. (NSE)/1 yr.	13641138

Shareholding Pattern (%)

	Mar-2019	Dec-2018	Sep-2018
Promoters	0	0	0
Institutions	66.97	67.28	66.15
Non-institutions	33.03	32.72	33.85

Stock vs. Nifty (Relative Returns)



Company Overview

Federal bank is an Indian commercial bank in the private sector. Headquartered at Aluva in Kerala, the bank has 1252 branches spread across different states in India. The bank was incorporated as Travancore Federal Bank Ltd.

Key Highlights

- There has been a significant decrease in the slippages in spite of floods in Kerala. The total slippages for the quarter stood at INR1620 Cr. There has been significant improvement in the recoveries as well which stood at INR963 Cr.
- The agri portfolio has faced some slowdown due to floods in Kerala. The Bank has a one time hit by providing for all the bad loans in that portfolio.
- CASA ratio still remains low for the Bank, which provides significant growth opportunities as the interest expense can come down, which would boost NII.
- The Cost to Income Ratio stood at 50%. The continuous fall has been due to increasing digital presence & the long term levels as guided by the management stands at 48%.
- Fee income from retail vertical has posted growth of 27%.

Financial Performance at a glance (Standalone)

Particulars (INR Cr.)	FY17A	FY18A	FY19A	FY20E	FY21E
Net Interest Income	3,053	3,583	4,177	4,984	5,980
Growth (%)	21%	17%	17%	19%	20%
Total Income	9,759	10,912	12,770	15,127	17,143
Growth (%)	14%	12%	17%	18%	13%
Provision & Write Off	1,094	1,412	1,518	1,638	2,104
Profit After Tax	831	879	1,246	1,425	1,900
EPS	4.83	4.62	6.29	7.20	9.60
BVPS	45.16	61.67	67.04	73.04	81.57
P/E (x)	20.5	21.4	15.7	13.8	10.3
P/B (x)	2.2	1.6	1.5	1.4	1.2
ROE (%)	9.9%	8.4%	9.4%	9.9%	11.8%
ROA (%)	0.8%	0.8%	0.8%	0.8%	0.9%

Financial Performance Quarterly - Statement of Profit & Loss

Particulars (in INR Cr)	Quarter Ended					Year Ended		
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %	FY19	FY18	YoY%
Interest Income	3032	2548	19%	2954	3%	11419	9753	17%
Interest Expense	1936	1615	20%	1877	3%	7242	6170	17%
Net Interest Income	1096	933	17%	1077	2%	4177	3583	17%
Other Income	412	314	31%	346	19%	1351	1159	17%
Total Income	3444	2862	20%	3300	4%	12770	10912	17%
Total Expenditure	754	659	14%	715	5%	2764	2451	13%
Operating Profit	754	588	28%	708	6%	2764	2291	21%
Total Provisions	373	444	-16%	374	0%	1518	1412	7%
Net Profit	381	144	165%	334	14%	1246	879	42%
NIM (%)	3.2	3.1		3.2		3.15	3.2	
CIR (%)	50.0	52.8		50.3		50.0	51.7	
EPS	1.92	0.7		1.7		6.3	4.6	

Actual Vs. Estimates(Standalone)

Particulars(INR Cr.)	Actual	SMIFS Estimate	% Deviation from SMIFS Estimates	Comments
Interest Income	3032.0	3636.0	-16.6%	The NII estimates have been in line with numbers, however the interest income & expense was on the higher side due to higher loan growth & borrowing. The NPAs have come down & so have the provisions, which have further led to profit growth.
Interest Expense	1936.0	2539.0	-23.7%	
Net Interest Income	1096.0	1097.0	-0.1%	
Total Provisions	373.0	259.0	44.0%	
Net Profit	381.0	251.0	51.8%	

Q4FY19 Concall Highlights:

- Slippages were around INR250 Cr whereas recoveries were around INR350. Recoveries were granular in nature which just one account which involves INR50 Cr.
- ROA is expected to improve by 10-12 bps every year for the next 2 years. Target for ROA should be 1.25% in FY21. Improvement in credit cost, operating leverage & fee income would drive growth.
- Margin expansion is not expected further. Another 250 bps improvement in CIR is expected in the next 2 years.
- There is no direct exposure to NBFCs & media companies. Small exposure to Reliance Home Finance.
- Greenfield projects, Infra & other stressed sectors are seeing a scale down. Going forward wholesale & retail would contribute equally to the loan book.
- NIMs are expected to improve from 3.17% to 3.20%. Higher yield products will increase their share in the product mix.
- Interest income in the Amber segment in IL&FS has been booked as the interest has been received & the account is fully secured. Agri loans have taken a hit due to floods in Kerala & it has been provided for.
- On recoveries focus is given to bilateral relationship as recovery becomes easier due to one time settlement rather than consortium lending which takes time.
- Written off book is around INR1500 Cr. An amount of INR44 Cr has been recovered in this segment.
- Home loan segment is growing well. Average ticket size in Mumbai is INR80 Lakh & other areas at INR40 Lakh. The bank has become principal lender in many projects & tie up with developers have also increased.

Change in Estimates - Statement of Profit & Loss
Previous Estimates

Particulars (in INR Cr)	Year Ended				
	FY17A	FY18A	FY19E	FY20E	FY21E
Interest Earned	8677	9753	12022	14634	17908
Other Income	1082	1159	1180	1217	1269
Total	9759	10912	13203	15852	19177
Interest expended	5625	6170	7845	9470	11535
Operating Expenses	2210	2451	2839	3295	3949
Pre provisioning Pre tax profit	1925	2291	2519	3086	3693
Provisions & Contingencies (including tax)	1094	1412	1405	1688	1979
PAT	831	879	1114	1398	1714
EPS (Face Value INR2)	5	5	6	7	9

Revised Estimates

Particulars (in INR Cr)	Year Ended				
	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Earned	8677	9753	11419	13754	15544
Other Income	1082	1159	1351	1373	1598
Total	9759	10912	12770	15127	17143
Interest expended	5625	6170	7242	8770	9564
Operating Expenses	2210	2451	2764	3295	3575
Pre provisioning Pre tax profit	1925	2291	2764	3063	4003
Provisions & Contingencies (including tax)	1094	1412	1518	1638	2104
PAT	831	879	1246	1425	1900
EPS (Face Value INR2)	4.8	4.6	6.3	7.2	9.6

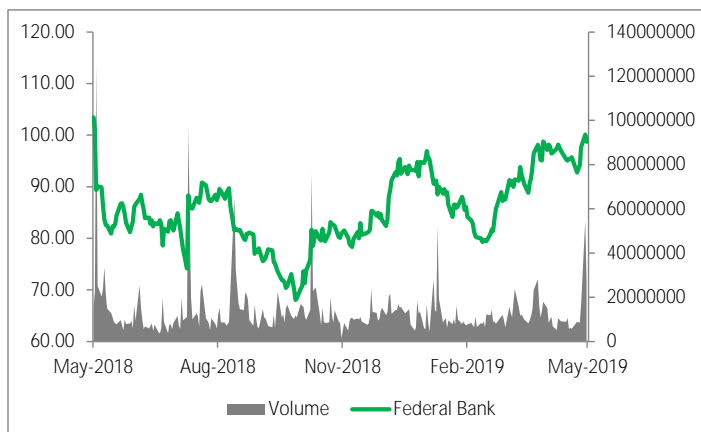
We have revised our loan book & deposit growth, which has led to a reduction in the Net Interest Income, which looks sustainable for the future. There has been improvement in the NPA ratios, which has led to a reduction in the provision estimates for the future. Growing digital presence & focus on retail portfolio, will lead to higher other income, which will be maintaining profitability.

Change in Estimates - Balance S
Previous Estimates

Particulars (in INR Cr)	Year Ended				
	FY17A	FY18A	FY19E	FY20E	FY21E
Capital & Liabilities					
Capital	345	394	394	394	394
Reserves & Surplus	8,598	11,816	12,720	13,908	15,412
Deposits	97,665	1,11,992	1,35,003	1,64,526	2,02,118
Borrowings	5,897	11,533	13,256	15,249	17,556
Other Liabilities & Provision	2,473	2,578	2,690	2,919	3,092
Total	1,14,977	1,38,314	1,64,063	1,96,996	2,38,573
Assets					
Cash & Balances with RBI	4,577	5,133	5,683	6,268	6,914
<i>Balances with banks & money at call & short notice</i>	<i>2,876</i>	<i>4,071</i>	<i>4,663</i>	<i>5,130</i>	<i>6,066</i>
Investments	28,196	30,781	33,032	35,992	39,876
Advances	73,336	91,957	1,14,947	1,43,684	1,79,604
Fixed Assets	489	457	457	445	362
Other Assets	5,503	5,915	5,280	5,477	5,751
Total	1,14,977	1,38,314	1,64,063	1,96,996	2,38,573

Revised Estimates

Particulars (in INR Cr)	Year Ended				
	FY17A	FY18A	FY19A	FY20E	FY21E
Capital & Liabilities					
Capital	345	394	397	394	394
Reserves & Surplus	8,598	11,816	12,876	14,067	15,756
Deposits	97,665	1,11,992	1,34,954	1,51,994	1,72,638
Borrowings	5,897	11,533	7,782	14,428	15,733
Other Liabilities & Provision	2,473	2,578	3,331	3,017	3,092
Total	1,14,977	1,38,314	1,59,340	1,83,900	2,07,614
Assets					
Cash & Balances with RBI	4,577	5,133	6,419	6,481	7,231
<i>Balances with banks & money at call & short notice</i>	<i>2,876</i>	<i>4,071</i>	<i>3,648</i>	<i>5,180</i>	<i>5,759</i>
Investments	28,196	30,781	31,824	36,262	39,409
Advances	73,336	91,957	1,10,223	1,29,890	1,48,724
Fixed Assets	489	457	472	589	591
Other Assets	5,503	5,915	6,754	5,499	5,901
Total	1,14,977	1,38,314	1,59,340	1,83,900	2,07,614



Outlook

The bank recognised huge NPA in FY18 and also faced troubles in FY19 due to floods in Kerala. Expanding its reach beyond the state of Kerala, will give the bank the much needed growth and diversification. Currently, the bank has 1252 branches out of which 600 are in Kerala. The bank is expanding its presence outside Kerala and has achieved significant growth in Corporate lending. The growth in CASA deposits have helped the bank to maintain their NIMs.

Valuation:

Considering clean books, ROE improvement diversification benefits, focus on various verticals, we assign a multiple of **1.5(x) on the FY21 Book Value, to arrive at a target price of INR123.**

For our previous reports, please refer below:

Date : 22-01-2019

CMP : 89

Target Price : 121

[Stewart & Mackertich Research—Federal Bank—Q3FYF19 Result Analysis](#)

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