

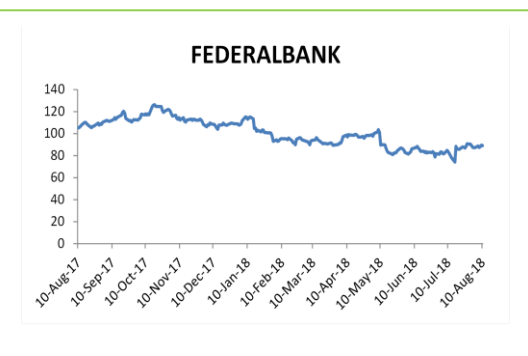
August 14, 2018

Rating:	BUY
Ticker:	FEDERALBANK
CMP:	Rs. 88.25
Target:	Rs. 115
Upside:	30%

Key Stock Data	
Sector	Banks
No. of shares	198 Crs
FV (Rs)	2
MCAP (Rs)	17,307 Crs
MCAP (\$)	248 Crs

Key Financials (Rs. in Crs)			
Y/E March	FY18 A	FY19 E	FY20 E
Revenue	10,911	13093	16367
PAT	878	1178	1637
NII	3582	4298	4728
EPS /sh.	14.50	19.58	27.21
BV /sh.	61.97	67	72
P/BV (x)	1.4	1.32	1.21
PE (x)	6.03	4.47	3.21
ROE (%)	7%	9%	11%

Shareholding Pattern	
Promoters	NIL
FIIs	37.36%
DIIIs	25.96%
Others	36.68%



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Federal Bank Ltd. – FEDERALBANK

1QFY19 Result Update

The bank reported stupendous set of 1QFY19 number on all counts both on a yearly as well as on a quarterly basis. The topline of the company grew by 11% Y-o-Y and 3% Q-o-Q to Rs. 2,938 Crs in 1QFY19 as against Rs.2653 Crs in 1QFY18. PAT grew by robust 25% Q-o-Q and 81% Y-o-Y to Rs.262 Crs in 1QFY19 as against Rs. 210 Crs in 1QFY18. GNPA increased to 3x from 2.42x in 1QFY19 and NNPA increased marginally from 1.39x to 1.72x in 1QFY19. ROA has increased from 0.19% in 1QFY18 to 0.2% in 1QFY19.

Tailwinds in the company

The Provisions for the bank during the quarter slashed by 16% Y-o-Y to Rs. 199 Crs in 1QFY19 from Rs. 236 Crs in 1QFY18. Fresh slippages increased by 8.4% to 461 Crs Y-o-Y. But, the fresh slippages reported in the last quarter were at Rs.872 Crs and which is declined significantly by 89% to Rs.461 Crs. The sequential decline in slippages helped to reduce the provisioning by 87% to 199 Crs in Q1FY19 against Rs.372 Crs in Q4FY18. The NII (Net Interest Income) grew by 22% Y-o-Y to Rs. 980 Crs in 1QFY19 from Rs. 801Crs in 1QFY18. The NIM (Net Interest Margin) for the quarter remained stable at 3.1% for the quarter.

Outlook & Valuations

Federal Bank is well placed given the conformation of stress recognition and multiple growth levers which say adequate capital. However, the continuation of the reducing the provisions is a worrisome. We estimate earnings CAGR of more than 20% over FY19–20E with potential ROE improvement of more than 10%. At CMP, the stock is trading at 1.2x FY20E P/BV and we would like to allot a multiple of 1.6x P/BV on a conservative side. We feel it is trading at very attractive valuation at CMP, hence we maintain BUY on the stock with target price of Rs. 115.

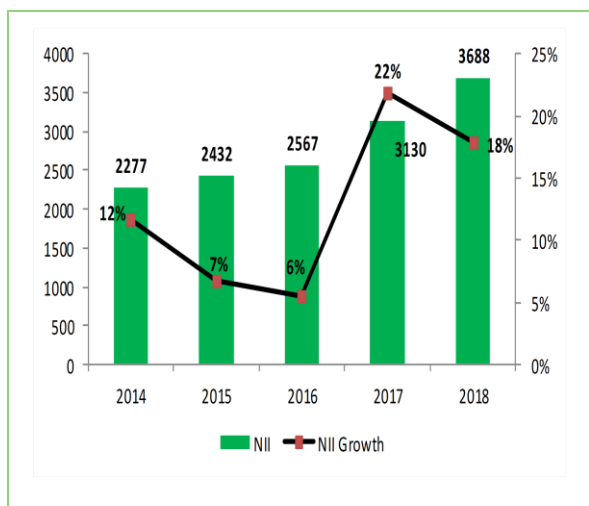
Quarterly Financial Highlight Table (Rs. In Crs)

Particulars	1QFY19	4QFY18	1QFY18	Q/Q	Y/Y	FY2018
Revenue	2938	2862	2653	3%	11%	10911
PAT	262	145	210	81%	25%	878
NII	980	932	801	5%	22%	3582
GNPA (x)	3	3	2.42	NA	(58 bps)	3
NNPA (x)	1.72	1.69	1.39	(33 Bps)	(3 Bps)	1.69
ROA (%)	0.2	0.11	0.19	8 bps	17 bps	0.75

Investment Rationale

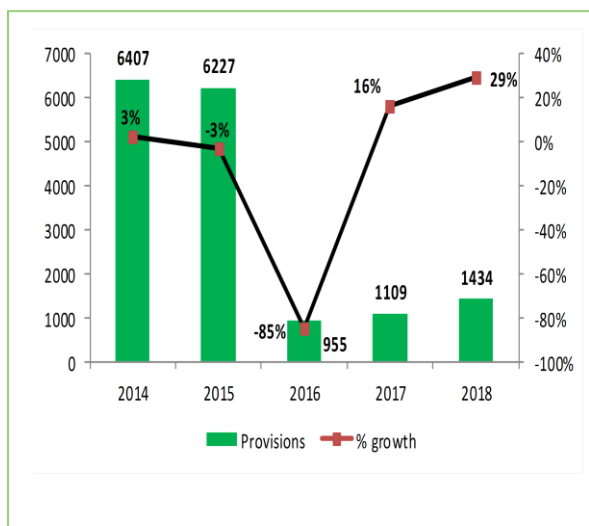
1. Healthy Advances across segments.

Total advances grew by 24% Y-o-Y to Rs. 95,515 Crs in 1QFY19 as against Rs. 77,087 Crs in 1QFY18. Corporate lending witnessed highest loan book growth of 32% Y-o-Y to Rs. 41,002 Crs in 1QFY19 as against Rs.31,174 Crs in 1QFY18. Agri. business advances also grew by good 22% Y-o-Y to Rs. 9,699 Crs in 1QFY19 as against Rs. 7,947 Crs in 1QFY18. On a sequential basis, Total Advances grew by 3% Q-o-Q to Rs. 95,515 Crs in 1QFY19 as against Rs. 93,173 Crs in 4QFY18. Corporate book advances grew by 4% Q-o-Q to Rs. 41,002 Crs in 1QFY19 as against Rs.39,509 Crs in 4QFY18. Agri business too grew by 3% Q-o-Q to Rs. 9,699 Crs in 1QFY19 as against Rs. 9,392 Crs in 1QFY18.



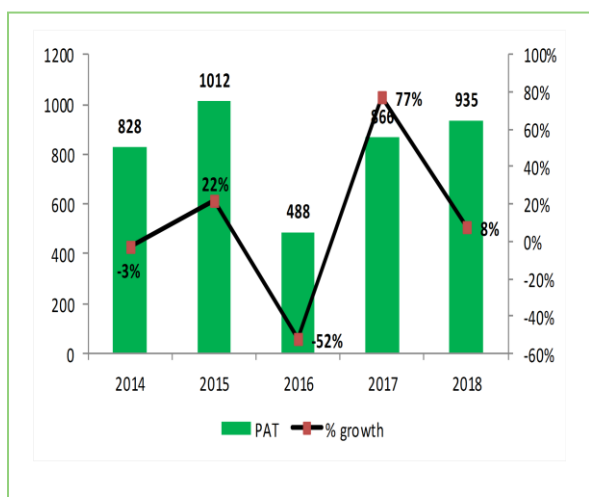
2. Asset Quality stabilizes

GNPA is stable at 3% QoQ and NNPA ratio has slightly increased from 1.69% in Q4FY18 to 1.72% in Q1FY19. The fresh slippage reported in corporate segment was at Rs207 Crs against Rs169 Crs and in SME at Rs90 Crs against Rs.114 Crs in Q1 FY18. Fresh slippages increased by 8.4% to 461 Crs Y-o-Y. But, the fresh slippages reported in the last quarter were at Rs.872Crs and which is declined significantly by 89% to Rs.461cr. The sequential decline in slippages helped to reduce the provisioning by 87% to 1992cr in Q1FY19 against Rs.3715cr in Q4FY18.



3. Performance improvement on all parameters

Federal Bank's Core fee Income rose by 15% in 1QFY19 to Rs.208 Crs from Rs. 180 Crs. Its cost to income ratio decreased to 5.18% from 52.8% in 1QFY19. The bank's profit per employee rose by steep 79% Y-o-Y to Rs. 8.63 lacs as against Rs. 4.82 lacs in 1QFY18. The bank's CASA ratio increased by 21 bps to 33.47 Crs in 1QFY19 as against Rs. 33.26 Crs.



August 14, 2018

Federal Bank is a Kerala-based regional private sector bank.

It was incorporated on 23 April, 1931 as the Travancore Federal Bank Limited.

FB has an asset base of over INR1.4tn and a network of 1,252 branches (~48% in Kerala) and 1,679 ATMs.

The bank has been proactively managing its strategy of being a branch-light distribution-heavy franchise with an eye on operational improvement.

We estimate earnings CAGR of more than 20% over FY19–20E with potential ROE improvement of more than 10%.

At CMP, the stock is trading at 1.2x FY20E P/BV and we would like to allot a multiple of 1.6x P/BV on a conservative side

Company Background

Federal Bank (FB) is a Kerala-based regional private sector bank incorporated on 23 April, 1931 as the Travancore Federal Bank Limited. Today, the bank has a presence in 25 states, the National Capital Territory of Delhi and four union territories. The bank also has exposure to insurance and the NBFC business.

FB has an asset base of over INR1.4tn and a network of 1,252 branches (~48% in Kerala) and 1,679 ATMs. SME and retail lending are the focus areas and constitute approx.19% and 27%, respectively of loan book. The bank has been proactively managing its strategy of being a branch-light distribution-heavy franchise with an eye on operational improvement.

Risk & Concerns

1. Any lumpy delinquencies from the corporate loan book could harden the credit cost estimates, hence concluding in lower return ratios.
2. Lower-than-expected loan growth could distort estimates.
3. High dependence on the NRI segment exposes Federal Bank to regulatory risks.
4. Relatively soft CASA accretion in the current scenario is negative for the bank.

Outlook & Valuations

Federal Bank is well placed given the conformation of stress recognition and multiple growth levers which say adequate capital. However, the continuation of the reducing the provisions is a worrisome. We estimate earnings CAGR of more than 20% over FY19–20E with potential ROE improvement of more than 10%. Stake sale in its NBFC arm will be a big positive for earnings in the upcoming coming quarter which will be utilized for creating reserves At CMP, the stock is trading at 1.2x FY20E P/BV and we would like to allot a multiple of 1.6x P/BV on a conservative side. We feel it is trading at very attractive valuation at CMP, hence we maintain BUY on the stock with target price of Rs.115.

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Analyst Stock Rating	
Ratings	Expected absolute returns over 12 months
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

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Indiabulls Ventures Limited is a SEBI Registered Research Analyst having registration number: INH100004906

Disclosure:

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