

FEDERAL BANK

BANKING

Q4FY19: Strong performance

Federal Bank (FB) reported strong earnings growth led by sharp improvement in asset quality and lower provisions. GNPA improved by 22bps QoQ to 2.9% driven by lower slippages. Credit growth is at 20%, driven by retail, which grew 25%. Reported NIMs were stable at 3.17%. Healthy fee growth led 31%YoY increase in non-interest income. C-I ratio has improved to 50%. Credit cost has dropped by 72bps YoY to 51bps. Bank's RoA and RoE came in at 1.0%/11.86%.

Outlook

Overall performance is in place in terms of credit growth, growth in fee income, improved operational efficiency, which will result in higher return ratios, if sustained. Management has guided for current growth trajectory to continue with tilt towards retail lending and ROA improvement of 10-15bps every year over next two years. We maintain BUY with TP of 114 (1.5x P/ABV FY21E).

Key Highlights

- **Improvement in asset quality:** Headline asset quality improved sequentially with GNPA down 22bps QoQ to 2.9%, mainly due to lower slippages at Rs256cr compared Rs 435cr in Q3FY19. Corporate slippages were nil during the quarter. However, 16% of the Corporate book is rated BBB and below. IL&FS exposure is largely standard at Rs 246cr towards 3SPVs and ~9% has been provided against this exposure. Agri NPAs for the past two quarters have been higher due to flood related impact and in the backdrop of farm loan waivers. The stressed book at Rs 2,581cr has come down ~10% QoQ to form ~2.34% of loans. We expect asset quality to improve with GNPA's of 2.0-2.4% over FY20-21E.
- **NIM stable:** NIMs were stable sequentially at 3.17%, largely in line with management guidance of 3.2%. Yields moved up by 6 bps to 9.37% while CoD moved up 8bps to 5.93% sequentially. Interest on IT refund received during the quarter was Rs 18cr. We expect NIMs to be stable with higher focus on retail and positive traction in CA.

FINANCIAL SUMMARY

Y/E	NII	PAT	EPS	EPS	BVPS	P/E	P/BV	Net	Adj BV	P/Adj.BV	ROE	RoA
Mar	(Rs Cr)	(Rs. Cr)	(Rs.)	Change	(Rs)	(x)	(x)	NPA (%)	(Rs.)	(x)	(%)	(%)
FY18	3582.8	878.9	4.5	-8%	61.9	21.8	1.6	1.7	54.0	1.8	8.3	0.7
FY19P	4176.4	1243.9	6.3	41%	66.9	15.5	1.5	1.5	58.7	1.7	9.8	0.8
FY20E	4944.5	1532.1	7.7	23%	73.2	12.6	1.3	1.2	65.4	1.5	11.0	0.9
FY21E	5939.3	2122.1	10.7	39%	82.5	7.6	1.2	0.8	76.2	1.3	13.7	1.0

Source: Company, Axis Securities

Siji A. Philip
siji.philip@axissecurities.in

BUY

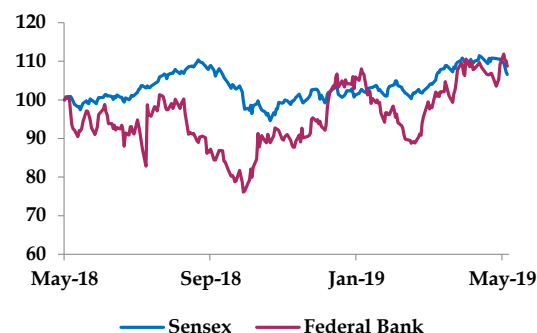
Target Price: Rs 114

CMP : Rs 97
 Potential Upside : 18%

MARKET DATA

No. of Shares : 198.51cr
 FV (Rs) : 2
 Market Cap : Rs 19,255cr
 52-week High / Low : Rs 103 / Rs 67
 Avg. Daily vol. (6mth) : 44,16,865 shares
 Bloomberg Code : FB IN
 Reuters Code : FED.BO
 BSE Code : 500469
 NSE Code : FEDERAL BNK

PRICE PERFORMANCE



Key Highlights (Cont'd)

- **Loan Book growth moderates:** Loan growth has moderated to 20% YoY/QoQ led by conscious rundown in corporate (20% YoY) and slowdown in SME (12% YoY). Agri (22%) and Retail (24%) delivered strong growth. The share of large corporate loans has dipped 100bps at 42.5%. Retail book includes Housing (49%), Mortgages (19%) and Auto (7%). Management has guided for loan growth of 22-23% with higher focus on retail book including auto loans, personal loans, gold loans, apart from its mortgages business. FB is also planning to enter micro finance business to diversify and improve its margins.
- **Drop in CASA:** CASA ratio dipped sequentially 120 bps to 32.15%. CASA plus Retail TD as a percentage of total deposit stood at 88% in Q4FY19 as against 91% in Q3FY19. SA was sequentially flattish (12% YoY) which was disappointing, however growth in CA of 30% was positively surprising.
- **C-I improves:** Cost-to-income (C-I) ratio improved to 50% in Q4FY19 from 50.3/52.8% (QoQ/YoY). Rise in opex was led by a ~17/6% YoY/QoQ increase in other opex. Management has guided for a C-I ratio improvement of 200bps in FY20. We expect cost-to-income ratio to gradually moderate over FY19-21E to ~47%.

Results Update

Federal Bank	Quarterly					Yearly				
	Q4FY19	Q4FY18	Y-o-Y Ch (%)	Q3FY19	Q-o-Q Ch (%)	FY18	FY19P	FY20E	FY21E	CAGR FY19-21E
Interest income	3032.3	2548.0	19.0	2954.4	2.6	8677.4	9752.9	11419.0	13647.2	16506.5
Interest expended	1935.8	1614.8	19.9	1877.1	3.1	5624.8	6170.1	7242.7	8702.7	10567.2
Net interest income	1096.5	933.2	17.5	1077.3	1.8	3052.6	3582.8	4176.4	4944.5	5939.3
NII as a % of Net income	72.7	74.8	-2.8	75.7	-4.0	73.8	75.6	75.6	76.1	76.9
Other income	411.7	314.2	31.1	345.6	19.1	1081.8	1159.1	1351.0	1553.7	1786.7
Total income	3444.0	2862.1	20.3	3300.0	4.4	9759.2	10912.0	12770.1	15200.9	18293.2
Net total income (3+4)	1508.3	1247.4	20.9	1422.8	6.0	4134.5	4741.9	5527.4	6498.2	7726.1
Operating expenses	753.5	658.8	14.4	715.0	5.4	2209.5	2450.9	2764.3	3184.1	3631.3
Personnel exp	370.2	330.8	11.9	353.7	4.7	1163.8	1242.5	1377.8	1528.4	1732.1
Other exp	383.4	328.0	16.9	361.4	6.1	1045.8	1208.4	1386.5	1655.7	1899.1
Profit before tax & prov.	754.8	588.6	28.2	707.8	6.6	1924.9	2291.0	2763.1	3314.1	4094.8
Provisions & contingencies	177.8	371.5	-52.2	190.1	-6.5	618.4	947.2	855.9	1061.0	974.1
PBT	577.0	217.0	165.8	517.7	11.5	1306.5	1343.9	1907.3	2253.0	3120.7
Tax	195.5	72.1	171.3	184.1	6.2	475.7	465.0	663.4	721.0	998.6
Tax as % of PBT	33.9	33.2	2.1	35.6	-4.7	36.4	34.6	34.8	32.0	32.0
Profit after tax	381.5	145.0	163.1	333.6	14.4	830.8	878.9	1243.9	1532.1	2122.1
Extra ordinary Item	0.0	0.0		0.0		0.0	0.0	0.0	0.0	0.0
Reported PAT	381.5	145.0	163.1	333.6	14.4	830.8	878.9	1243.9	1532.1	2122.1
Equity	397.0	394.4		396.8		344.8	394.4	397.0	397.0	397.0
Cap. adequacy ratio (Basel-III)	14.1	14.7	-	13.0	-	12.4	14.7	14.1	13.5	12.7
EPS (Rs)	1.9	0.7	159.5	1.7	14.3	4.8	4.5	6.3	7.7	10.7
BVPS (Rs)	66.9	61.6	8.6	64.6	3.5	51.9	61.9	66.9	73.2	82.5
NIMs (%)	3.2	3.1	-	3.2	-	3.3	3.1	3.1	3.2	3.2
CASA (%)	32.2	33.3	-	33.4	-	32.6	33.3	32.1	31.8	31.6
RoE (%)	11.9	4.9	-	10.5	-	9.8	8.3	9.8	11.0	13.7
RoA (%)	1.0	0.5	-	0.9	-	0.8	0.7	0.8	0.9	1.0
Gross NPA (%)	2.9	3.0	-	3.1	-	2.3	3.0	2.9	2.4	2.0
Net NPA (%)	1.5	1.7	-	1.7	-	1.3	1.7	1.5	1.2	0.8
Provisional Coverage (%)	67.2	64.5	-	64.2	-	45.5	44.5	50.1	52.5	61.0
Credit cost (%)	0.5	1.2	-	0.7	-	0.8	1.0	0.8	0.8	0.6
NII/ Operating expenses	1.5	1.4	-	1.5	-	1.4	1.5	1.5	1.6	1.6

Source: Company and Axis Securities

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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