

- **In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.**
  - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
  - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

| Scrip            | Mcap<br>(Rs Cr) | CMP<br>(Rs) | Target<br>Price * | Potential<br>Upside (%) | Reco       |
|------------------|-----------------|-------------|-------------------|-------------------------|------------|
| Federal Bank Ltd | 10,649          | 53.5        | 60                | 12%                     | <b>BUY</b> |

\* Note: Investment horizon Approx. 6-9 months., CMP as on 26<sup>th</sup> June, 2020



| CMP (Rs) | Target (Rs) |
|----------|-------------|
|----------|-------------|

|      |    |
|------|----|
| 53.5 | 60 |
|------|----|

**MARKET DATA**

No. of Shares : 199.2 cr

Market Cap : Rs 10,649 Cr

52-week High / Low : Rs 110/36

BSE Code : 500469

NSE Code : FEDERALBNK

Federal Bank (FB) is a Kerala-based regional private sector bank incorporated on 23 April, 1931 as the Travancore Federal Bank Limited. 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.

**Investment Rationale**

- ❑ **Deposits growth well- maintained:** Deposit growth held up much better compared to that of other mid-tier banks in light of the Yes Bank moratorium during the quarter. Overall deposits increased ~13% YoY in Q4FY20 with 11% growth in retail deposits. NR deposit growth was stronger at ~14% YoY. 2020. The share of NR deposits was up ~50 bps YoY at 38%. The bank has indicated that NR deposits and retail deposits in general have continued to grow well in April and May
- ❑ **Granular liability franchise:** FB's deposits from retail and small business customers are ~85% of overall deposits, which is one of the highest in the banking industry. The bank has lower cost of funds advantage compared to other midsize banks and is focused on cross-selling liability products to corporate clients to garner salary accounts.
- ❑ **NIMs stable:** In Q4FY20, reported NIM was roughly flat QoQ at 3.0% with marginal declines in both yields and cost of funds. Yield on loans was down ~10 bps QoQ to 9.2% while cost of funds was down ~10 bps to 5.7%. Management indicated that margins will remain stable in H1FY21 on a stable loan book though this has to be revisited depending on how the Covid-19 situation evolves and moratorium ends. In the medium term, however, margins are expected to be supported by faster growth in higher yielding product segments. The bank is considering incremental gold loans, selective corporate lending and cross-selling to existing retail customers
- ❑ **Asset quality sustained:** Over a five year period, GNPA's have not moved beyond 3%. Slippages over the five quarters have not gone above 2%. In Q4FY20, bank reported G/NNPAs of 2.8/1.3% and slippage ratio of 0.9%. It has largely avoided large lending mistakes that have been seen in other banks. The impact of floods has not been adverse as expected earlier. The moratorium of ~35% is not very high and closer to frontline banks than mid-tier banks.
- ❑ We re-iterate **Buy** with target price of Rs 60.

**Financial Summary**

| Y/E   | NII (Rs mn) | PPOP (Rs mn) | Net Profit (Rs mn) | EPS (Rs) | ABV (Rs) | P/ABV (x) | ROAA (%) | NNPA (%) |
|-------|-------------|--------------|--------------------|----------|----------|-----------|----------|----------|
| March |             |              |                    |          |          |           |          |          |
| 2019  | 41,763      | 27,630       | 12,437             | 6.3      | 54.1     | 0.99      | 0.8      | 1.5      |
| 2020  | 46,489      | 32,047       | 15,427             | 7.8      | 64.9     | 0.82      | 0.9      | 1.3      |
| 2021E | 49,981      | 32,763       | 12,577             | 6.3      | 68.1     | 0.79      | 0.7      | 1.3      |
| 2022E | 56,381      | 37,220       | 15,127             | 7.6      | 70.2     | 0.76      | 0.7      | 1.0      |

## Performance

### No of Stocks Matrix

| <i>No of Stocks</i> | 9m | 15m |
|---------------------|----|-----|
| Met Target          | 19 | 39  |
| Not Met Target      | 17 | 23  |

### Performance Matrix

| <i>% Return</i> | 9m      | 15m     |
|-----------------|---------|---------|
| Met Target      | 12.81   | 12.68   |
| Not Met Target  | (25.09) | (29.50) |

### Benchmark Performance Matrix

| <i>% Return</i> | 9m      | 15m     |
|-----------------|---------|---------|
| Met Target      | 1.86    | 1.68    |
| Not Met Target  | (11.28) | (12.07) |

Note : Performance of the pick of the week is calculated for stocks recommended from Aug-19 to Apr-20 for 9 Months and from Feb-19- to Apr-20 for 15 Months.

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