

Pick of the Week

- 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 (Rs Cr)	CMP	Target Price *	Potential Upside (%)	Reco
FEDERAL BANK	17,378	87.5	100	14%	Buy

* Note: Investment horizon Approx. 6-9 months., CMP as on 8th March, 2019.

CMP	Target
87.5	100

MARKET DATA

No. of Shares	: 198.60 cr
Market Cap	: Rs 17,378 Cr
52-week High / Low	: Rs 105/67
BSE Code	: 500469
NSE Code	: FEDERALBNK

Investment Rationale

- Slippages coming down:** Slippages in Q3FY19 dipped sequentially (~Rs 440cr, 1.69% vs. 1.98% QoQ) led by lower corporate and retail slippages. However, the disappointing rise in SME slippages (~Rs 192cr) continued. The slippage guidance for FY19 at ~Rs 1550bn is very optimistic. The performance of the SME book as well as the decision to utilise the dispensation on these advances in 4Q is a key monitorable.
- Loan growth continues:** Robust and broad based loan growth continued, (24/5% YoY/QoQ) led by Corp loans (+28% YoY) and Retail loans (+22%). Within the retail book, home loans grew at ~35% and mortgages grew ~21% while gold loans shrank ~14%
- Higher opex impacts C-I improvement:** After a quarter of controlled opex, FB faltered, as opex jumped driven by higher staff costs (18/15% YoY/QoQ). Higher staff costs may be attributed in part, to higher provision for post employment benefits (impact of Rs 35-40lac). Other opex too, increased 15/7% (after a 12% sequential increase in 2Q), partly attributable to higher CSR expenses to meet statutory requirement. Consequently, the sequential improvement in the C-I Ratio in Q2 (360bps) was largely eroded (+200bps QoQ) in Q3..
- We have a **BUY** with a target of Rs. 100

Financial Summary

Y/E	NII	PAT	EPS	BVPS	P/E	P/BV
March	(Rs Cr)	(Rs. Cr)	(Rs.)	(Rs)	(x)	(x)
FY18	3,583	879	4.5	61.9	19.7	1.4
FY19E	4,515	1,326	6.7	68.1	13.1	1.3
FY20E	5,577	1,769	9.0	76.2	9.8	1.2

Source: Reuters, Consensus Estimates

No of Stocks Matrix		
No of Stocks	9m	15m
Met Target	10	27
Not Met Target	29	38

Performance Matrix		
% Return	9m	15m
Met Target	10.6	11.7
Not Met Target	(12.7)	(18.1)

Benchmark Performance Matrix		
% Return	9m	15m
Met Target	2.4	1.4
Not Met Target	(1.0)	(0.4)

Note : Performance of the pick of the week is calculated for stocks recommended from June-18 to Feb-19 for 9 Months and from Dec-17 to Feb-19 for 15 Months.

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DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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