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Result Update-Q4 FY17
Federal Bank

Superior Quarter!

29th April, 2017

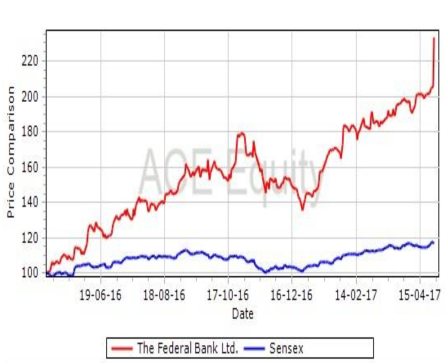
CMP:	**Rs.107**
Target Price:	**Rs.122**
Recommendation:	**ACCUMULATE**

Stock Info	
BSE Group	A
BSE Code	500469
NSE Symbol	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO
BSE Sensex	27,214
NSE Nifty	8,408

Market Info	
Market Capital	Rs 18,525 cr
Equity Capital	Rs 344cr
Avg. Trading Vol.	97,77,620
52 Wk High/ Low	109/44
Face Value	2

Shareholding Pattern (%)	**(Dec 2016)**
Promoters	-
Domestic Institutions	30.88
Foreign Institutions	31.29
Public & Others	37.83

Price Vs Sensex Chart



For the quarter ended Q4 FY17 Federal bank reported strong profitability. The net profit stood at Rs 256 cr vs. Rs 10 cr in the corresponding quarter of the previous year and Rs 217 cr in the sequential quarter.

NII:

The bank's top-line performance was up as net interest income increased by 23% to Rs 842 crs compared to Rs 686 crs YoY & Rs 791 crs QoQ. Other income rose by 19% to Rs 282 crs YoY. C/I ratio for the bank dropped to 51.16% vs. 56.78% YoY and decreased sequentially by 381 bps. NIM expanded from 3.31% in corresponding quarter of previous year to 3.42% and 10bps sequentially from 3.32%.

Advances and Deposits:

Gross advances for the quarter under review grew by 32% YoY and deposits grew by 23% YoY. CASA ratio stood at 35% against 32% YoY and 31% QoQ majorly due to demonetization. Retail advances grew by 35% YoY, SME advances grew by 16% YoY and corporate advances grew by 53% YoY.

Asset quality:

Quality of assets improved during the quarter with gross NPA's at 2.3 vs. 2.8 in the corresponding quarter of previous year. Gross NPA's in the previous quarter stood at 2.8. Fresh accretion during the quarter cooled to Rs 244 crs vs. Rs 536 crs in the corresponding quarter of previous year. Major fresh accretion were from agri segment which increased from Rs 14 cr to Rs 30 cr QoQ while accretion from corporate segment dropped to Rs 37 cr vs. Rs 254 cr. PCR for the quarter stood at 72%.

Valuation:

Federal Bank reported consistent performance backed by NII growth and better operational efficiency. Asset quality too showed improvement. We expect the bank to continue trend with more focus on digitalization and distribution. At CMP stock trades at P/ABV multiple of 1.7x on FY 19E. We have valued the stock at P/ABV multiple of 2.3x & arrived at fair value of Rs 122 per share and have 'ACCUMULATE' rating.

(Rs Cr)	FY16	FY17	FY18E	FY19E
Net interest income	2504	3126	3697	4374
Operating Profit	1424	1994	2459	2961
PAT	476	870	1083	1362
EPS (Rs)	2.8	5.1	6.3	7.9
EPS Growth (%)	-76.4%	82.7%	24.4%	25.8%
RoE (%)	6.0	10.6	12.2	14.1
P/E (x)	16.8	17.8	14.3	11.4
P/ABV (x)	1.1	2.0	1.9	1.7

Source: Ace Equity, Arihant Research

Q4 FY 17 Earnings Snapshot

Particulars (Rs in Cr)	Q4 FY17	Q4FY16	YoY%	Q3 FY17	QoQ %
Interest Earned	2,316	2,027	*14.3*	2,281	*1.5*
Interest Expended	1,474	1,341	*9.9*	1,490	*-1.1*
Net Interest Income	**842**	**686**	*22.8*	**791**	*6.4*
Other Income	282	227	*24.3*	275	*2.5*
Other income / Net Income (%)	*25*	*25*		*26*	
Total income	**1124**	**913**	*23.2*	**1066**	*5.4*
Employee Expenses	263	293	*-10.2*	320	*-17.7*
Non-Employee expenses	312	225	*38.6*	260	*20.1*
Operating Expenses	**575**	**518**	*11.0*	**580**	*-0.8*
Cost-income Ratio (%)	*51.2*	*56.8*		*54.4*	
Pre-Prov Profits	**549**	**395**	*39.2*	**487**	*12.9*
Provisions & Contingencies	123	389	*-68.4*	159	*-22.7*
PBT	**426**	**6**	*7151.7*	**328**	*30.1*
Provisions for Tax	170	-4	*-3979.5*	110	*53.9*
Effective Tax Rate (%)	*40*	*-74*		*34*	
PAT (reported)	**256**	**10**	*2399.8*	**217**	*18.0*
EPS	1.5	0.1	*2392.4*	1.3	*17.7*
GNPA	1727	1668	*3.6*	1952	*-11.5*
NNPA	941	950	*-0.9*	1102	*-14.6*
GNPA (%)	2.5	2.8		2.8	
NNPA (%)	1.4	1.6		1.6	
Provision Coverage	71.8	72.1		71.0	
Total CAR (%)	12.4	13.9		12.3	
NIM	3.42	3.31		3.32	
Advances	73336	58090	*26.2*	69629	*5.3*
Deposits	97665	79172	*23.4*	92236	*5.9*

Source: Ace Equity, Arihant Research

Income Statement				
Particulars (Rs. cr)	FY16	FY17E	FY18E	FY19E
Interest Income	7,745	8,856	10,351	12,128
Interest Expenses	5,240	5,730	6,655	7,754
Net Interest Income	**2,504**	**3,126**	**3,697**	**4,374**
- growth %	*5*	*25*	*18*	*18*
Other Income	787	1,044	1,148	1,263
Fee-based Income	546	629	671	728
Treasury Income	128	350	385	424
Other non interst income	113	175	193	212
Operating Income	**3,291**	**4,169**	**4,845**	**5,637**
Operating Expenses	1,867	2,175	2,385	2,675
- Staff Cost	1,053	1,225	1,299	1,429
- Other Operating Exp.	814	951	1,086	1,247
Gross Profits	**1,424**	**1,994**	**2,459**	**2,961**
Provisions	704	655	794	866
Profit Before Taxes	**720**	**1,339**	**1,666**	**2,095**
Taxes	244	468	583	733
Profit After Taxes	**476**	**870**	**1,083**	**1,362**

Balance Sheet				
Particulars (Rs. cr)	FY16	FY17E	FY18E	FY19E
LIABILITIES				
Capital	344	344	344	344
Employee stock option	-	-	-	-
Reserves & Surplus	7,747	8,514	9,288	10,289
Deposits	79,172	94,215	1,09,289	1,25,682
Borrowings	5,115	15,344	11,508	12,659
Other liabilities & provisions	2,204	4,530	4,632	4,735
Total Liabilities	**94,582**	**1,22,947**	**1,35,060**	**1,53,709**
ASSETS				
Cash on hand & with RBI	3,775	4,880	5,269	5,534
Money at call and short notice	1,645	10,676	9,730	9,721
Advances	58,090	70,870	85,044	1,00,352
Investments	25,155	30,454	28,128	30,259
Fixed assets	520	514	525	535
Other assets	5,396	5,552	6,364	7,307
Total Assets	**94,581**	**1,22,947**	**1,35,060**	**1,53,709**

Ratio Analysis				
Particulars	FY16	FY17E	FY18E	FY19E
Basic Ratio (Rs.)				
EPS	2.8	5.1	6.3	7.9
Book Value per share	47	52	56	62
Adjusted Book Value	42	45	48	53
Dividend per share	0.7	0.5	1.5	1.8
Asset Quality (%)				
Gross NPAs	2.9	2.8	2.6	2.5
Net NPAs	1.7	1.6	1.5	1.5
PCR	72.1	71.0	70.0	70.0
Profitability ratios (%)				
RoAE	6.0	10.6	12.2	14.1
RoAA	0.5	0.9	1.0	1.1
NIM	3.2	3.4	3.5	3.6
Cost to Income	56.7	52.2	49.2	47.5

Spread analysis (%)				
	FY16	FY17E	FY18E	FY19E
Yield on advances	11.1	10.5	10.5	10.5
Yield on investments	7.7	7.5	7.5	7.5
Cost of deposits	7.1	6.5	6.5	6.6
Cost of funds	6.2	5.2	5.5	5.6
Spread	3.1	3.5	3.7	3.7
Interest Income to AWF	8.9	8.4	8.3	8.7
Net Interest Income to AWF	2.9	3.0	3.0	3.1
Non Interest Income to AWF	0.9	1.0	0.9	0.9
Operating Expense to AWF	2.2	2.1	1.9	1.9
Operating Profit to AWF	1.6	1.9	2.0	2.1
Net Profit to AWF	0.5	0.8	0.9	1.0
Valuation ratios (x)				
P/E	16.8	17.8	14.3	11.4
P/BV	1.0	1.7	1.6	1.5
P/ABV	1.1	2.0	1.9	1.7

Source: Ace Equity, Arihant Research

Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254800

Head Office

#1011, Solitaire Corporate park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road,
Chakala, Andheri (E).
Mumbai - 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com