

RETAIL EQUITY RESEARCH

Federal Bank Ltd

Banking/Finance

BSE CODE:500469

NSE CODE: FEDERALBNK

Bloomberg CODE: FB IN

SENSEX: 32,609

Accumulate

Rating as per Midcap

12months investment period

CMP Rs. 126 TARGET Rs. 142 RETURN 13% ↑

18th October 2017

Sustaining robust performance...

Federal Bank Ltd (FB) is a mid-sized private commercial bank having a network of 1252 branches across India with a loan book size of ~Rs81,000cr.

- PAT grew 31% YoY in Q2FY18, better than estimated supported by robust 24% YoY growth in Net Interest Income (NII).
- Loan book grew 25%YoY with strong growth across Retail, SME and Corporate segments, while deposits grew 13% YoY.
- Asset quality was stable with GNPA and NNPA at 2.39% & 1.32% respectively, and we factor 52bps improvement in GNPA by FY19E.
- Robust retail network and market share gains across segments will lead to 20% CAGR in loan book and 36% CAGR in earnings over FY17-19E.
- On robust operating performance and healthy earnings outlook we increase our valuation to 2.1x FY19E adjusted BV and recommend Accumulate with a revised target price of Rs 142.

Strong traction in earnings momentum...

PAT grew 31% YoY, better than estimates on the back of strong NII growth. NII grew 25% YoY supported by healthy loan growth and margins. Margins improved 15bps QoQ to 3.31%. Stable asset quality helped to bring down provisions and supported the earnings momentum. We factor 21% CAGR growth in NII over FY17-19E on robust loan growth and stable margins. Asset quality will see continuous improvement in the coming quarters on lower slippages, which will lead to lower provisions and we factor 36% CAGR in earnings over FY17-19E.

Healthy loan growth across segments...

Loan book grew 25% YoY in Q1FY18, supported by robust growth across segments. Corporate loans grew 36% while retail and SME grew 18% YoY each. With the aggressive marketing and expanding geographical reach, FB's market share in the Indian banking space has improved to 1%. Deposits grew 13% YoY and low cost CASA ratio improved 190bps YoY to 33%. Strong retail network and aggressive branch light distribution (Online) will help deliver robust business growth evenly in the coming years. Corporate, SME and retail loans will continue to see strong traction and we factor 20% CAGR in loan book over FY17-19E.

Asset quality on road to improvement...

GNPA and NNPA was stable QoQ at 2.39% and 1.32% with marginal improvement. Fresh slippages significantly reduced QoQ after the one-off prudential recognition in Q1FY18. Slippages as percentage of gross advances have come down to 0.35% v/s 0.55% QoQ. Asset quality outlook has further improved due to reduction in large risk assets, and we expect fresh slippages to reduce in the coming quarters. We factor 43bps and 58bps improvement in GNPA and NNPA over FY17-19E.

Valuations...

Federal Bank is currently trading at 1.9x one year forward price to adjusted book value (Adj. P/B). Robust business growth and improving return ratios on healthy earnings trajectory will support the premium valuations. On sustainable operating performance and healthy earnings outlook we increase our valuation to 2.1x FY19E adjusted BV and recommend Accumulate with a revised target price of Rs 142.

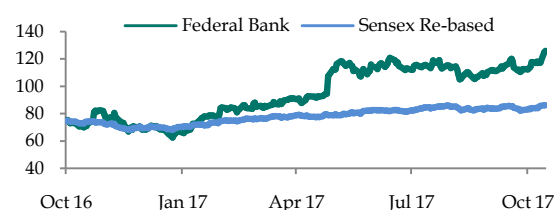
Company Data

Market Cap (cr)	Rs. 24,628
Outstanding Shares (cr)	192
Free Float	100%
Dividend Yield	0.7%
52 week high	Rs. 128
52 week low	Rs. 62
6m average volume (cr)	1.17
Beta	1.2
Face value	Rs2

Shareholding(%)	Q4FY17	Q1FY18	Q2FY18
Promoters	0	0	0
FII's	39.0	38.3	38.3
MFs/Insti	30.9	33.9	34.1
Public	30.1	27.8	27.6
Total	100.0	100.0	100.0

Price Performance	3 month	6 month	1 Year
Absolute Return	11.2%	36.1%	69.1%
Absolute Sensex	2.8%	10.8%	15.5%
Relative Return	8.4%	25.3%	53.7%

*over or under performance to benchmark index



Standalone (Rs.cr)	FY17A	FY18E	FY19E
NII	3,053	3,736	4,475
Growth (%)	22%	22%	20%
NIM (%)	3.21%	3.27%	3.34%
PAT Adj	831	1,140	1,549
Growth (%)	75%	37%	36%
Adj.EPS	4.8	5.9	8.1
Growth (%)	74%	23%	36%
P/E	26.1	21.2	15.6
P/B	2.4	1.9	1.8
Adj. P/B	2.7	2.1	1.8
ROE %	9.8	10.7	11.8

Anil R
Analyst

Quarterly Financials

Profit & Loss Account

(Rs cr)	Q2FY18	Q2FY17	YoY Growth %	Q1FY18	QoQ Growth %
Interest Income	2,380	2,066	15.2	2,324	2.4
Interest Expense	1,481	1,340	10.5	1,523	-2.8
Net Interest Income (NII)	899	726	23.8	801	12.2
Fee and Other Income	287	262	9.5	329	-12.8
Total Income	1,186	988	20.0	1,130	5.0
Expenditure	603	513	17.5	572	5.4
Provision	177	168	5.4	236	-25.0
PBT	406	307	32.2	321	26.5
Tax	143	105	36.2	111	28.8
Reported PAT	264	201	31.3	210	25.7
Adjustment	0	0	0	0	0
Adj PAT	264	201	31.3	210	25.7
Diluted EPS (Rs)	1.4	1.0	40.0	1.1	27.3

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net Interest Income (NII)	3,702	4,370	3736	4475	+0.9%	2.4%
NIM (%)	3.27	3.34	3.27	3.34	-	-
Fee and Other Income	1,127	1,253	1,165	1,296	3.4%	3.4%
Adj PAT	1,105	1,472	1,140	1,549	3.2%	5.2%
Diluted EPS (Rs)	5.7	7.6	5.9	8.1	3.5%	6.6%

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	7,419	7,748	8,677	10,286	11,840
Interest Expense	5,039	5,240	5,625	6,550	7,366
Net Int. Income	2,380	2,508	3,053	3,736	4,475
% Change	6.8%	5.3%	21.7%	22.4%	19.8%
Non Int. Income	878	808	1,082	1,165	1,296
Operating Income	3,259	3,316	4,134	4,901	5,771
% Change	11.5%	1.8%	24.7%	18.5%	17.7%
Pre Prov. Profit	1,628	1,424	1,925	2,411	2,975
Prov. & Conting.	107	704	618	657	592
PBT	1,521	720	1,307	1,754	2,383
% Change	25.5%	-52.7%	81.6%	34.3%	35.8%
Tax	515	244	476	614	834
Tax Rate (%)	34%	34%	36%	35%	35%
Reported PAT	1,006	476	831	1,140	1,549
Adj*	0	0	0	0	0
Adj PAT	1,006	476	831	1,140	1,549
% change	19.9%	-52.7%	74.7%	37.3%	35.8%
No. of shares (cr)	86	172	172	192	192
EPS (Rs)	6	2.8	4.8	5.9	8.1
% change	19.7%	-52.7%	74.7%	23.2%	35.8%
DPS (Rs)	2.6	1.3	0.8	0.8	0.8
CEPS (Rs)	6.3	3.4	5.5	6.6	8.8

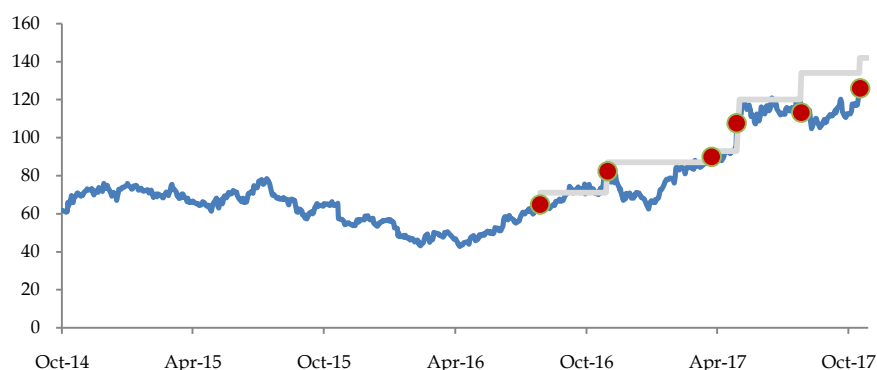
Ratios

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Profitability & Return Ratios					
Interest yield (%)	10.4	9.8	9.1	9.0	8.8
Cost of funds (%)	7.4	6.7	6.0	6.0	5.8
Net int. spread (%)	3.0	3.1	3.1	3.1	3.0
NIM (%)	3.3	3.2	3.2	3.3	3.3
ROE (%)	13.7	6.0	9.8	10.7	11.8
ROA (%)	1.0	0.4	0.8	0.9	1.1
Asset Quality					
GNPA (%)	2.0	2.8	2.3	2.2	1.9
NNPA (%)	0.7	1.6	1.3	0.8	0.7
Capital					
Cap adeq ratio (%)	15.5	13.9	12.4	15.3	14.5
Valuation ratios					
P/E (x)	21.4	45.5	26.1	21.2	15.6
P/BV (x)	2.8	2.7	2.4	1.9	1.8
P/ABV (x)	2.9	3.0	2.7	2.1	1.8

Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Cash	3380	3,775	4,577	2,769	3,738
Loans & Advances	51,285	58,090	73,336	88,935	1,05,848
Investments	20,569	25,155	28,196	30,706	34,390
Gross Fixed Assets	1,027	1,189	1,266	1,404	1,504
Net Fixed Assets	440	504	475	482	439
CWIP	27	16	15	16	18
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	7,150	7,041	8,379	8,800	9,672
Total Assets	82,850	94,581	1,14,977	1,31,707	1,54,105
Deposits	70,825	79,172	97,665	1,13,380	1,31,662
Debt Funds	2,308	5,115	5,897	2,857	5,072
Other Liabilities	1,426	1,743	2,078	2,405	2,759
Provisions	553	461	395	643	798
Equity Capital	171	344	345	384	384
Reserves & Surplus	7,567	7,747	8,598	12,038	13,431
Shareholder's Fund	7,738	8,091	8,942	12,423	13,815
Total Liabilities	82,850	94,581	1,14,977	1,31,707	1,54,105
BVPS (Rs)	45.2	47.1	51.9	64.7	71.9
% change	11.2%	4.2%	10.2%	24.7%	11.2%
Adj. BVPS (Rs)	43.0	41.5	46.4	61.0	68.0

Recommendation Summary (last 3 years)



Dates	Rating	Target
25-July -16	Accumulate	71
28-October -16	Hold	87
24-March -17	Hold	93
02-May -17	Hold	120
27-July -17	Buy	134
18-October -17	Accumulate	142

Source: Bloomberg, Geojit Research

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is 10% or more.	Buy	-	Upside is 15% or more.
Hold	-	Upside or downside is less than 10%.	Accumulate*	-	Upside between 10% - 15%.
Reduce	-	Downside is 10% or more.	Hold	-	Absolute returns between 0% - 10%.
			Reduce/Sell	-	Absolute returns less than 0%.
			To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.		

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Anil R, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the

recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports / research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

- (i) It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.
- (ii) It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein. However, it is mentioned that one of our Directors, Mr. Rakesh Jhunjunwala has over 1% stake in the subject company

Further, the Analyst confirms that:

- (i) he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.
- (ii) he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

- (a) Have not received any compensation from the subject company;
- (b) Have not managed or co-managed public offering of securities for the subject company
- (c) Have not * received any compensation for investment banking or merchant banking or brokerage services from the subject company.
- (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company
- (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report
- (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that the I Anil R Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Fax: +91 484-2979695, Website: geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Regn.Nos.: NSE: INB/INF/INE231337230 I BSE:INB011337236 & INF011337237 | MSEI: INE261337230, INB261337233 & INF261337233, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, NSDL: IN-DP-NSDL-24-97, CDSL: IN-DP-CDSL-648-2012, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.
Research Entity SEBI Registration Number: INH200000345