

Asset quality deteriorates; Bank's growth Inline

16th Jan, 2018

CMP: Rs.105
Target Price: Rs.120
Recommendation: **ACCUMULATE**

Stock Info

BSE Group	A
BSE Code	500469
NSE Symbol	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO
BSE Sensex	34,771
NSE Nifty	10,700

Market Info

Market Capital	Rs 20,575 cr
Equity Capital	Rs 391cr
Avg. Trading Vol.	1,05,88,810
52 Wk High/ Low	127/74
Face Value	2

Shareholding Pattern (%)

Promoters	-
Domestic Institutions	34.8
Foreign Institutions	36.4
Public & Others	28.8

Price Chart:


For the quarter ended Q3 FY18 Federal bank reported strong profitability. The net profit stood at Rs.260 cr vs. Rs.206 cr in the corresponding quarter of the previous year and Rs.264 cr in the sequential quarter.

NII:

The bank's top-line performance was up as net interest income increased by 20% to Rs 950 crs compared to Rs 791 crs YoY & Rs 899 crs QoQ. Other income de-grew by 17% to Rs 229 crs YoY. C/I ratio for the bank dropped to 52.37% vs. 55.48% YoY and increased sequentially from 50.83%. NIM's stood steady at 3.33% vs. 3.32% in corresponding quarter of previous year and sequentially from 3.31%.

Advances and Deposits:

Gross advances for the quarter under review grew by 22% YoY and deposits grew by 9% YoY. CASA ratio stood at 32.96% against 34.66% YoY and 32.93% QoQ. Retail advances grew by 9% YoY, SME advances grew by 20% YoY and Agriculture advances grew by 30% YoY.

Asset quality:

Gross NPA's stood at 2.54 vs. 2.80 in the corresponding quarter of previous year. Gross NPA's in the previous quarter stood at 2.39. Fresh accretion during the quarter increased to Rs 411 crs vs. Rs 273 crs in the corresponding quarter of previous year. Major fresh accretion were from agri and retail segment which increased from Rs 14 cr to Rs 42 cr YoY and from Rs 86 cr to Rs 150 cr respectively, while accretion from SME segment stood steady at Rs 122 cr vs. Rs 119 cr. PCR for the quarter stood at 70%.

Valuation:

Federal Bank reported consistent performance backed by NII growth and better operational efficiency. Asset quality deteriorated with fresh slippages at 2% of loans. We expect the bank to accelerate CASA accretion and also to focus on digitalization with continuous growth in active digital user and increasing FedMobile transaction volume. At CMP stock trades at P/ABV multiple of 2.0x on FY 19E. We have valued the stock at P/ABV multiple of 2.25x & arrived at fair value of Rs 120 per share and have 'ACCUMULATE' rating.

(Rs Cr)	FY17	FY18E	FY19E
Net interest income	3126	3697	4374
Operating Profit	1994	2459	2961
PAT	870	1083	1362
EPS (Rs)	5.1	6.3	7.9
EPS Growth (%)	82.7%	24.4%	25.8%
RoE (%)	10.6	12.2	14.1
P/E (x)	17.8	16.6	13.2
P/ABV (x)	2.0	2.2	2.0

Quarterly Result Highlights:

Particulars (Rs in Cr)	Q3 FY18	Q3 FY17	YoY%	Q2 FY18	QoQ %
Interest Earned	2,501	2,281	9.6	2,380	5.1
Interest Expended	1,551	1,490	4.1	1,481	4.8
Net Interest Income	950	791	20.0	899	5.7
Other Income	229	275	-16.9	287	-20.4
<i>Other income / Net Income (%)</i>	19	26		24	
Total income	1179	1066	10.5	1186	-0.6
Employee Expenses	300	320	-6.0	313	-3.9
Non-Employee expenses	317	272	16.4	290	9.2
Operating Expenses	617	592	4.3	603	2.4
<i>Cost-income Ratio (%)</i>	52.4	55.5		50.8	
Pre-Prov Profits	561	474	18.3	583	-3.7
Provisions & Contingencies	162	159	2.3	177	-8.1
PBT	399	316	26.4	406	-1.8
Provisions for Tax	139	110	25.8	143	-2.6
<i>Effective Tax Rate (%)</i>	35	35		35	
PAT (reported)	260	205	26.7	264	-1.4
EPS	1.3	1.2	11.2	1.4	-1.5
GNPA	2161	1952	10.7	1949	10.9
NNPA	1157	1102	4.9	1066	8.5
GNPA (%)	2.54	2.80		2.39	
NNPA (%)	1.36	1.58		1.31	
Provision Coverage	70.0	71.0		70.0	
Total CAR (%)	14.4	12.3		14.6	
NIM	3.33	3.32		3.31	
Advances	84953	69629	22.0	81497	4.2
Deposits	100537	92236	9.0	97211	3.4

Income Statement

Particulars (Rs. cr)	FY17	FY18E	FY19E
Interest Income	8,856	10,351	12,128
Interest Expenses	5,730	6,655	7,754
Net Interest Income	3,126	3,697	4,374
- growth %	25	18	18
Other Income	1,044	1,148	1,263
Fee-based Income	629	671	728
Treasury Income	350	385	424
Other non interest income	175	193	212
Operating Income	4,169	4,845	5,637
Operating Expenses	2,175	2,385	2,675
- Staff Cost	1,225	1,299	1,429
- Other Operating Exp.	951	1,086	1,247
Gross Profits	1,994	2,459	2,961
Provisions	655	794	866
Profit Before Taxes	1,339	1,666	2,095
Taxes	468	583	733
Profit After Taxes	870	1,083	1,362

Balance Sheet

Particulars (Rs. cr)	FY17	FY18E	FY19E
LIABILITIES			
Capital	344	344	344
Employee stock option	-	-	-
Reserves & Surplus	8,514	9,288	10,289
Deposits	94,215	1,09,289	1,25,682
Borrowings	15,344	11,508	12,659
Other liabilities & provisions	4,530	4,632	4,735
Total Liabilities	1,22,947	1,35,060	1,53,709
ASSETS			
Cash on hand & with RBI	4,880	5,269	5,534
Money at call and short notice	10,676	9,730	9,721
Advances	70,870	85,044	1,00,352
Investments	30,454	28,128	30,259
Fixed assets	514	525	535
Other assets	5,552	6,364	7,307
Total Assets	1,22,947	1,35,060	1,53,709

Ratio Analysis

Particulars	FY17	FY18E	FY19E
Basic Ratio (Rs.)			
EPS	5.1	6.3	7.9
Book Value per share	52	56	62
Adjusted Book Value	45	48	53
Dividend per share	0.5	1.5	1.8
Asset Quality (%)			
Gross NPAs	2.8	2.6	2.5
Net NPAs	1.6	1.5	1.5
PCR	71.0	70.0	70.0
Profitability ratios (%)			
RoAE	10.6	12.2	14.1
RoAA	0.9	1.0	1.1
NIM	3.4	3.5	3.6
Cost to Income	52.2	49.2	47.5

Spread analysis (%)

	FY17	FY18E	FY19E
Yield on advances	10.5	10.5	10.5
Yield on investments	7.5	7.5	7.5
Cost of deposits	6.5	6.5	6.6
Cost of funds	5.2	5.5	5.6
Spread	3.5	3.7	3.7
Interest Income to AWF	8.4	8.3	8.7
Net Interest Income to AWF	3.0	3.0	3.1
Non Interest Income to AWF	1.0	0.9	0.9
Operating Expense to AWF	2.1	1.9	1.9
Operating Profit to AWF	1.9	2.0	2.1
Net Profit to AWF	0.8	0.9	1.0
Valuation ratios (x)			
P/E	17.8	16.6	13.2
P/BV	1.7	1.9	1.7
P/ABV	2.0	2.2	2.0

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