

Federal Bank

BSE SENSEX

39,131

S&P CNX

11,663

CMP: INR107 TP:INR125 (+16%)
Buy

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Bloomberg	FB IN
Equity Shares (m)	1,985
M.Cap.(INRb)/(USD\$)	213.2 / 3.1
52-Week Range (INR)	110 / 67
1, 6, 12 Rel. Per (%)	2/14/37
12M Avg Val (INR M)	1247
Free float (%)	100.0

Financials & Valuation (INR b)

Y/E Mar	FY19	FY20E	FY21E
NII	41.8	49.4	59.5
OP	27.6	33.0	40.9
NP	12.4	16.0	20.3
NIM (%)	3.1	3.1	3.2
EPS (INR)	6.3	8.0	10.2
EPS Gr. (%)	32.2	27.8	27.1
BV/Sh. (INR)	66.9	73.0	80.8
ABV/Sh. (INR)	59.1	64.7	72.0
ROE (%)	9.8	11.5	13.3
ROA (%)	0.8	0.9	1.0

Valuations

P/E(X)	17.1	13.4	10.5
P/BV (X)	1.6	1.5	1.3
P/ABV (X)	1.8	1.7	1.5

Steady quarter; RoA expansion on track

- FB reported 1QFY20 PAT of INR3.8b (+46% YoY, our estimate: INR3.5b), led by controlled provisions (-4% YoY to INR1.9b) and higher other income (+45% YoY).
 - NII stood at INR11.5b (+18% YoY), which, coupled with higher other income, drove 24% YoY growth in total income. NIM shrank 2bp QoQ to 3.15%. Core fee income grew robustly by ~35% YoY to INR2.2b and was well supported by treasury profit of INR0.9b (+86% YoY).
 - Loan growth of 1.6%/18.8% QoQ/YoY was driven by retail + agri loans (+24% YoY), whereas growth across business banking/commercial banking slowed down to 13%/12% YoY. Deposit base grew 19% YoY to INR1.3t, led by term deposits (+23% YoY). CASA mix moderated to 31.4% (-71bp QoQ).
 - Fresh slippages increased to INR4.2b (1.5% annualized), driven by slippages in the retail (INR1.4b) and SME (INR1.2b) portfolios. Corporate slippages came in at INR880m (v/s nil in 4QFY19) as the bank downgraded two IL&FS entities (INR320m). Healthy recoveries/upgrades at INR2b drove a 60bp QoQ improvement in the PCR to 50.7% (67.4% including tech. w/o). GNPA/NNPA ratios increased marginally by 7bp/1bp QoQ to 3%/1.5%.
 - **Other highlights:** (1) FB maintained its credit cost guidance of 55-60bp for FY20. (2) IL&FS exposure stands at INR2.4b, of which INR320m is NPA and the remaining INR2.1b (amber category) is standard, where FB carries a 10% PCR. (3) Stressed exposures: The bank has exposure toward two HFCs, which are still standard (INR2.8b, carries a PCR of 15% on exposure to one HFC).
 - **Valuation view:** FB has maintained strong momentum in business growth and is reporting a gradual improvement in operating earnings. It has limited exposure to stressed entities, while the healthy coverage ratio of 67.4% (including TWO) will likely facilitate controlled credit costs. With stronger growth in retail and management guidance of increasing the retail mix to 50%, the margins will likely improve gradually. We raise our FY20/21 PAT estimate by 0.9%/2.4%. Over FY19-21, we expect 20bp RoA expansion and RoE improvement to 13.3%.
- Maintain Buy** with revised PT of INR125 (1.6x FY21E ABV).

Quarterly Performance

	FY19				FY20E				FY19	FY20E	1Q	V/s our
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			FY20E	Est
Net Interest Income	9,801	10,225	10,773	10,965	11,542	12,100	12,594	13,153	41,763	49,390	11,797	-2.2
Other Income	2,709	3,229	3,456	4,117	3,915	3,972	4,134	4,191	13,510	16,212	3,478	12.6
Total Income	12,509	13,454	14,228	15,083	15,457	16,072	16,728	17,344	55,274	65,602	15,275	1.2
Operating Expenses	6,480	6,478	7,150	7,535	7,629	7,982	8,308	8,660	27,643	32,579	7,704	-1.0
Operating Profit	6,029	6,976	7,078	7,548	7,828	8,091	8,421	8,684	27,631	33,023	7,571	3.4
% Change (YoY)	8.1	19.6	26.1	28.2	29.8	16.0	19.0	15.1	20.6	19.5	25.6	4.3
Provisions	1,992	2,888	1,901	1,778	1,920	2,375	2,120	2,066	8,559	8,481	2,222	-13.6
Profit before Tax	4,038	4,088	5,177	5,770	5,907	5,716	6,301	6,619	19,073	24,543	5,349	10.4
Tax	1,411	1,427	1,841	1,955	2,065	2,001	2,205	2,316	6,634	8,590	1,872	10.3
Net Profit	2,627	2,660	3,336	3,815	3,842	3,715	4,096	4,302	12,439	15,953	3,477	10.5
% Change (YoY)	25.0	0.9	28.3	163.1	46.2	39.7	22.8	12.8	41.5	28.2	32.3	13.9
Operating Parameters												
Deposit (INR b)	1,112.4	1,181.8	1,234.6	1,349.5	1,325.4	1,429.8	1,487.2	1,579.0	1,349.5	1,579.0	1,363.0	-2.8
Loan (INR b)	943.0	1,009.4	1,055.5	1,102.2	1,120.3	1,196.5	1,248.8	1,311.7	1,102.2	1,311.7	1,147.6	-2.4
Asset Quality												
Gross NPA (%)	3.0	3.1	3.1	2.9	3.0	2.8	2.8	2.7	2.9	2.7	2.8	0.2
Net NPA (%)	1.7	1.8	1.7	1.5	1.5	1.4	1.3	1.3	1.5	1.3	1.4	0.1
PCR (%)	43.5	43.6	45.9	50.1	50.7	52.0	53.5	52.4	50.1	52.4	51.0	-0.3

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Exhibit 1: Quarterly Snapshot (INR b)

INR m	FY18				FY19				FY20	Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
Profit and Loss											
Net Interest Income	8,007	8,989	9,500	9,332	9,801	10,225	10,773	10,965	11,542	18	5
Other Income	3,291	2,872	2,286	3,142	2,709	3,229	3,456	4,117	3,915	45	-5
Total Income	11,298	11,861	11,786	12,474	12,509	13,454	14,228	15,083	15,457	24	2
Operating Expenses	5,719	6,029	6,172	6,588	6,480	6,478	7,150	7,535	7,629	18	1
Employee	2,985	3,127	3,005	3,308	3,450	3,089	3,537	3,702	3,978	15	7
Others	2,735	2,902	3,168	3,280	3,030	3,388	3,614	3,834	3,651	20	-5
Operating Profits	5,579	5,832	5,614	5,886	6,029	6,976	7,078	7,548	7,828	30	4
Core Operating Profits	4,459	5,082	5,324	5,666	5,539	6,466	6,528	6,808	6,918	25	2
Provisions	2,364	1,768	1,624	3,715	1,992	2,888	1,901	1,778	1,920	-4	8
NPA provisions	2,364	1,400	1,200	2,600	1,660	1,560	1,750	1,370	1,770	7	29
PBT	3,214	4,064	3,990	2,170	4,038	4,088	5,177	5,770	5,907	46	2
Taxes	1,113	1,427	1,390	721	1,411	1,427	1,841	1,955	2,065	46	6
PAT	2,102	2,637	2,600	1,450	2,627	2,660	3,336	3,815	3,842	46	1
Balance sheet (INR b)											
Deposits	958	972	1,005	1,120	1,112	1,182	1,235	1,350	1,325	19	-2
CASA Deposits	320	320	333	373	372	395	412	434	417	12	-4
% of overall Deposits	33.4	32.9	33.0	33.3	33.5	33.4	33.4	32.2	31.4	-203	-71
Savings Deposits	28	28	28	28	28	28	28	26	26	-219	-5
Current Deposits	5	5	5	6	5	6	6	6	5	16	-66
Retail Deposits	927	943	966	1,049	1,070	1,119	1,158	1,228	1,230	15	0
% of overall Deposits	96.7	97.0	96.1	93.7	96.2	94.7	93.8	91.0	92.8	-340	184
Investments	267	263	298	308	283	282	292	318	318	12	0
Advances	763	806	850	920	943	1,009	1,056	1,102	1,120	19	2
Retail	222	233	243	256	261	278	297	317	328	26	3
Total Assets	1,164	1,218	1,282	1,383	1,367	1,444	1,498	1,593	1,603	17	1
Asset Quality (INR m)											
GNPA	18,679	19,490	21,612	27,956	28,688	31,845	33,612	32,607	33,947	18	4
NNPA	10,613	10,664	11,567	15,520	16,202	17,963	18,173	16,262	16,728	3	3
Slippages	4,250	2,840	4,120	8,720	4,610	4,770	4,270	2,560	4,340	(6)	70
Ratios											
Asset Quality Ratios (%)											
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
GNPA	2.4	2.4	2.5	3.0	3.0	3.1	3.1	2.9	3.0	-1	7
NNPA	1.4	1.3	1.4	1.7	1.7	1.8	1.7	1.5	1.5	-23	1
PCR (Calculated)	43	45	46	44	44	44	46	50	51	720	60
Slippage Ratio	2.9	1.8	2.4	4.8	2.4	2.4	2.0	0.9	1.5	-87	62
Credit Cost	1.3	0.7	0.6	1.2	0.7	0.6	0.7	0.5	0.6	-8	13
Business Ratios (%)											
Fees to Total Income	12.9	13.0	13.0	14.6	12.9	14.9	14.4	15.6	14.1	121.3	-149.0
Cost to Core Income	60.4	57.3	55.9	59.1	56.8	53.0	55.7	56.6	55.6	-117.7	-98.1
Tax Rate	34.6	35.1	34.8	33.2	34.9	34.9	35.6	33.9	35.0	2.3	108.0
Loan/Deposit	79.6	83.0	84.5	82.1	84.8	85.4	85.5	81.7	84.5	-23.9	285.5
CAR	15.3	14.6	14.4	14.7	14.5	13.3	13.0	14.1	14.1	-40.0	-4.0
Tier I	14.7	14.1	13.8	14.2	14.0	12.8	12.4	13.4	13.0	-97.0	-34.0
Profitability Ratios (%)											
Yield on loans	10.0	9.5	9.5	9.1	9.1	9.2	9.3	9.4	9.6	42	18
Yield on Funds	8.8	8.8	8.8	8.4	8.5	8.6	8.8	8.6	8.8	37	23
Cost of Funds	6.0	5.6	5.6	5.2	5.6	5.5	5.7	5.4	5.8	23	40
Cost of Deposits	6.1	5.8	5.7	5.8	5.6	5.7	5.9	5.9	6.0	33	4
NIM	3.1	3.3	3.3	3.1	3.1	3.2	3.2	3.2	3.2	3	-2
RoA	0.8	0.9	0.9	0.5	0.8	0.8	0.9	1.0	1.0	19	-4
RoE	8.3	9.0	8.7	4.9	8.6	8.5	10.5	11.9	11.4	283	-42
Others											
Branches	1,252	1,252	1,252	1,252	1,252	1,252	1,251	1,251	1,251	-1	0
ATMs	1,678	1,678	1,679	1,696	1,684	1,683	1,669	1,669	1,934	250	265

Source: MOFSL, Company

Exhibit 2: Quarterly performance v/s estimates and reasons for deviation

Y/E MARCH	1QFY20	1QFY20E	Var (%)	Comments
Interest Income	32,293	32,451	0	
Interest Expense	20,751	20,653	0	
Net Interest Income	11,542	11,797	-2	Largely in line
% Change (YoY)	17.8	20.4		
Other Income	3,915	3,478	13	Higher than estimated other income due to better core fee income
Total Income	15,457	15,275	1	
Operating Expenses	7,629	7,704	-1	
Operating Profit	7,828	7,571	3	Higher other income and controlled opex led to PPOP beat
% Change (YoY)	29.8	25.6		
Provisions	1,920	2,222	-14	Lower than expected provisions
Profit before Tax	5,907	5,349	10	
Tax	2,065	1,872	10	
Net Profit	3,842	3,477	11	PAT beat due to lower provisions
% Change (YoY)	46.2	32.3		

Source: MOFSL, Company

73% of wholesale book is now rated A & above (same as last quarter)

Advances grew ~19% YoY driven by retail loans; Retail mix at 47% of loan book

Loan growth of 1.6%/18.8% QoQ/YoY was driven by retail + agri loans (24% YoY), whereas growth across business banks/commercial banking slowed down to 13%/12% as management sounded cautious on SME/corporate loans.

- SME book outside Kerala (INR111.4b) grew at 14.4% YoY, while that in Kerala increased at 9.5% YoY.
- Corporate loan book now accounts for 42.4% of overall loan book and wholesale (commercial + COB) constitutes 53%. Management has guided to have 50:50 mix between retail and wholesale over the next 2-3 years.

Fresh slippages increase 1.5%; healthy recoveries enable improvement in PCR

- Fresh slippages rose to INR4.2b v/s INR2.6b in 4QFY19, led by INR1.4b/1.2b of slippages from retail and SME portfolio. Corporate slippages declined ~58% YoY to INR8.8b, of which INR320m was from the two IL&FS projects.
- Recoveries and upgrades came in at INR2b, while write-offs were at ~INR1b.
- Despite healthy recoveries and upgrades, absolute GNPA/NNPA grew 4.0%/3% QoQ to INR33.9b/INR16.7b. GNPA/NNPA ratio increased by 7bp/1bp QoQ to 2.99%/1.49%, whereas higher provisions led to a 60bp improvement in the PCR to 50.7%. PCR (incl TWO) improved by 25bp to 67.4%.
- OSRL book stood at INR6.2b (0.6% of loans). Total stressed assets considering total SR book stands at INR26.2b (2.3% of loans).

Share of retail deposits at 93% of overall deposits

- FB registered muted CASA growth of 11.9% YoY, driven by 23% growth in CA deposits. CASA ratio declined 71bp QoQ to 31.4% as overall CASA growth trailed deposits growth.
- The proportion of retail deposits stood at 93% (91% in 4QFY19) – one of the best in the banking system.



1QFY20 conference call highlights

Balance sheet and P&L related

- Bank has been running down/selling down corporate loans where it is seeing some amount of stress and managing the same by accelerating retail loans.
- SA growth remains a concern for the industry as a whole, and the bank is abstaining from increasing the SA rates.
- FB is gaining share in auto loans in the ticket size of INR7lac to 12lac (doing end use financing on the same).
- Deposit growth has been impacted due to running down of CDs in 1QFY20.
- Yields on loans have gone up due to re-pricing and improvement in yields.
- Cross sell rate is 2 products per customer at present and the target is to take this number 3.5.
- Retirement provision for the quarter: INR800m – of which INR200m is due to a fall in the yield this quarter (additional).
- Retail yields: 10%, Corporate: 8.9%, BuB & CoB: 11%.
- LLP provision: INR1,770m , investment provision: INR150m.
- Bank maintains low duration in the AFS portfolio.
- FB is looking at Australia and Africa markets for forex remittance markets.
- Board has sent an approval to the RBI for renewal of MD's term.

Asset Quality

- INR320m has slipped into NPA from two IL&FS accounts. Third account is in the AMBER category. Bank has increased the provision on these accounts from 7.5% to 10%.
- Bank has exposure to stressed housing NBFC and has done 15% provision on the same.
- FB is experiencing stress in the business banking portfolio and therefore has tightened the underwriting criteria for these loans.
- Extension of moratorium in Kerala has been in discussion between RBI and the government.
- Retail slippages are due to the conditions prevailing in the home state and bank is confident of recoveries going forward. Moratorium book is INR2b as of 1QFY20.
- 20% of slippages (INR100cr due to moratorium) has been recovered in the first two weeks of July.
- Bank's total developer portfolio is below INR1b.

Guidance and others

- Bank is planning for wholesale : retail mix of 50 : 50.
- By FY20, technical PCR would go up by 250bp from the current levels.
- Core fee income (excl. treasury gains) growth will continue to be higher than loan growth.
- FY20 NIM: 3.2%; Loan growth: 18 to 20%.
- Recoveries & Upgrades: INR 9b to INR10b.
- Credit cost: 55bp to 60bp.
- FY20/21 ROA: 1.12%/1.25%.
- Branch addition in FY20: 15 to 20.

Buy with a target price of
INR125 (1.6x FY21e ABV)

Valuation and view

- FB's cautious approach to loan growth over the past few years is now beginning to manifest itself in a calibrated loan mix toward highly-rated corporate assets and retail loans, resulting in upward-trending in risk-adjusted NIMs.
- On the back of a consistently stable deposit franchise (highest proportion of retail sub-INR10m deposits amongst its peers) and rising confidence in its conscious asset-side strategy, FB's loan growth engine is perfectly poised to fire.
- Given the enormous credit challenges that other corporate lenders are facing, FB's relative competitive positioning within the sector continues to improve. We expect FB to capitalize on this relative competitive position by acquiring new-to-bank (NTB) relationships with highly-rated corporates and generate SME/retail leads from such accounts.
- FB has maintained strong momentum in business growth and is reporting a gradual improvement in operating earnings. It has limited exposure to stressed entities, while the healthy coverage ratio of 67.4% (including TWO) will likely facilitate controlled credit costs. With stronger growth in retail and management guidance of increasing the retail mix to 50%, the margins will likely improve gradually. We raise our FY20/21 PAT estimate by 0.9%/2.4%. Over FY19-21, we expect 20bp RoA expansion and RoE improvement to 13.3%. **Maintain Buy** with revised PT of INR125 (1.6x FY21E ABV).

Exhibit 3: DuPont Analysis: We expect return ratios to improve further from hereon

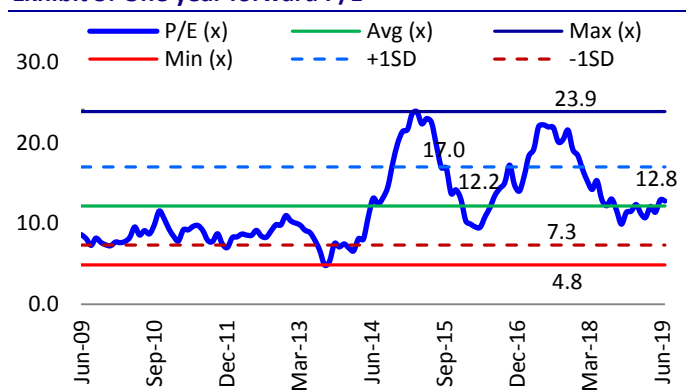
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Interest Income	8.41	7.70	7.67	7.85	7.96
Interest Expense	5.45	4.87	4.87	4.96	4.97
Net Interest Income	2.96	2.83	2.81	2.88	2.98
Core Fee Income	0.70	0.73	0.75	0.81	0.84
Trading and others	0.35	0.19	0.15	0.13	0.11
Non Interest income	1.05	0.92	0.91	0.95	0.96
Total Income	4.01	3.74	3.71	3.83	3.94
Operating Expenses	2.14	1.94	1.86	1.90	1.89
Employee cost	1.13	0.98	0.93	0.94	0.93
Others	1.01	0.95	0.93	0.96	0.97
Operating Profits	1.87	1.81	1.86	1.93	2.05
Core Operating Profits	1.51	1.62	1.70	1.79	1.93
Provisions	0.60	0.75	0.58	0.50	0.48
PBT	1.27	1.06	1.28	1.43	1.56
Tax	0.46	0.37	0.45	0.50	0.55
RoA	0.81	0.69	0.84	0.93	1.02
Leverage (x)	12.1	12.0	11.7	12.3	13.1
RoE	9.8	8.3	9.8	11.5	13.3

Source: MOFSL, Company

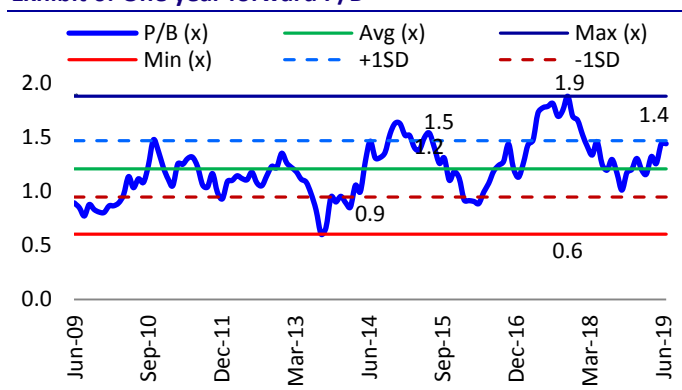
Exhibit 4: We revise our earnings estimates upwards by ~1%/2.4% for FY20/FY21

(INR b)	Old Estimates		Revised Estimates		Change (%)/bps	
	FY20	FY21	FY20	FY21	FY20	FY21
Net Interest Income	49.2	58.8	49.4	59.5	0.5	1.2
Other Income	15.8	18.7	16.2	19.1	2.6	2.6
Total Income	65.0	77.5	65.6	78.7	1.0	1.5
Operating Expenses	32.1	37.2	32.6	37.8	1.5	1.5
Operating Profits	32.9	40.2	33.0	40.9	0.5	1.5
Provisions	8.5	9.8	8.5	9.7	-0.7	-1.2
PBT	24.3	30.5	24.5	31.2	0.9	2.4
Tax	8.5	10.7	8.6	10.9	0.9	2.4
PAT	15.8	19.8	16.0	20.3	0.9	2.4
Loans	1,329	1,611	1,312	1,587	-1.3	-1.5
Deposits	1,619	1,960	1,579	1,879	-2.5	-4.1
Margins (%)	3.09	3.08	3.12	3.16	3.3	7.4
Credit Cost (%)	0.64	0.60	0.64	0.60	0.0	0.0
RoA (%)	0.9	1.0	0.9	1.0	2.4	6.1
RoE (%)	11.4	12.9	11.5	13.3	10.0	39.8
EPS	8.0	10.0	8.0	10.2	0.9	2.4
BV	72.9	81.9	73.0	80.8	0.1	-1.4
ABV	65.3	73.7	64.7	72.0	-0.8	-2.4

Source: MOFSL, Company

Exhibit 5: One year forward P/E

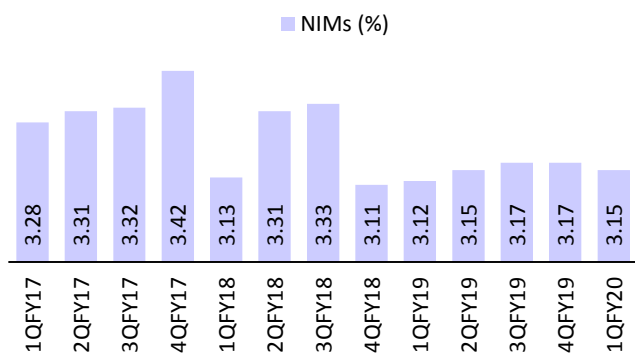
Source: MOFSL, Company

Exhibit 6: One year forward P/B

Source: MOFSL, Company

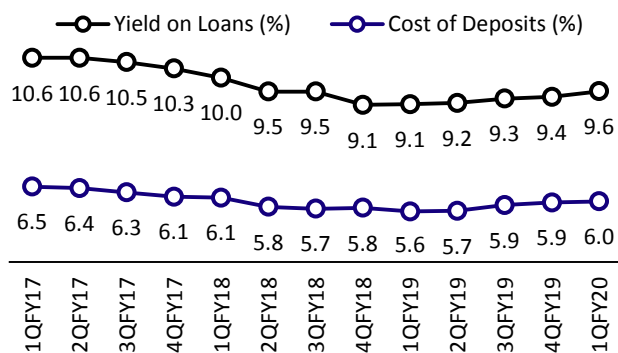
Story in charts

Exhibit 7: NIM shrank 2bp QoQ to 3.15%



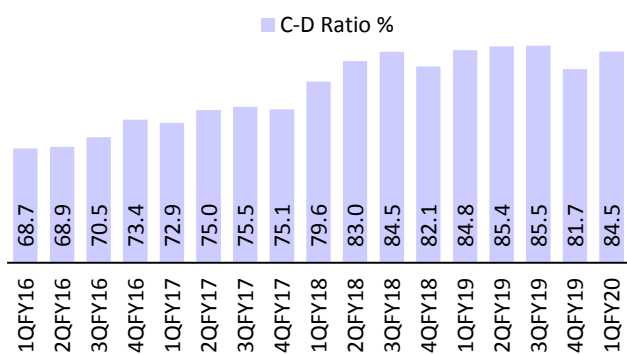
Note: NIM's in 4QFY19 had an impact of 5bp due to interest on income tax refund
Source: MOFSL, Company

Exhibit 8: Yield on loans increased 18bp QoQ to 9.55%



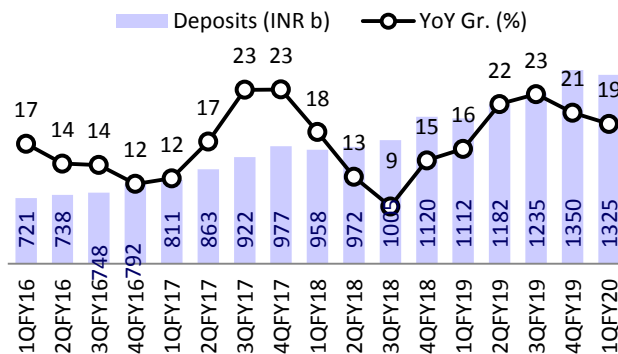
Source: MOFSL, Company

Exhibit 9: CD ratio increased to 84.5% v/s 81.7% QoQ



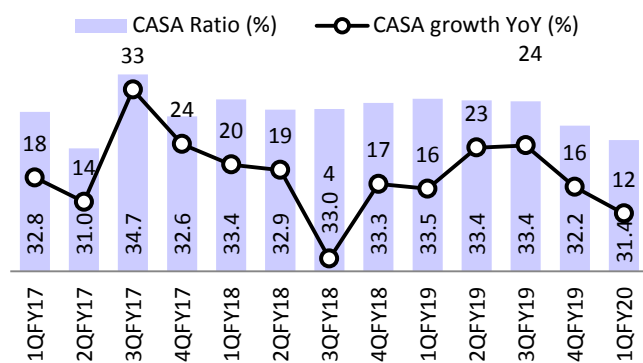
Source: Company, MOFSL

Exhibit 10: Deposit growth moderated to ~19% YoY



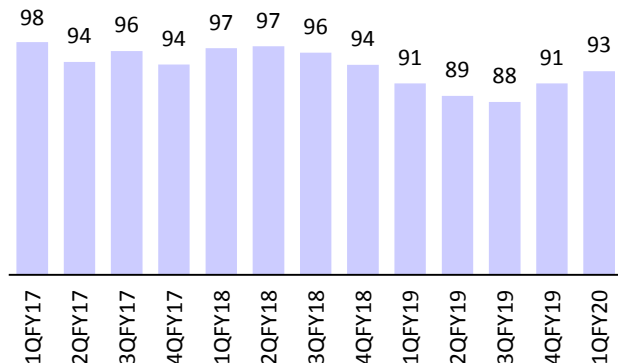
Source: Company, MOFSL

Exhibit 11: CASA deposit growth moderated to ~12% YoY

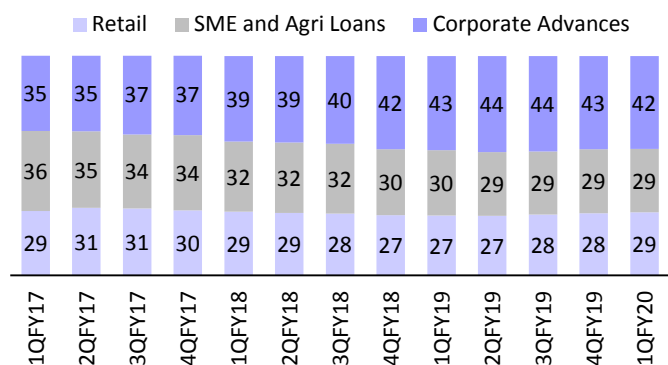


Source: MOFSL, Company

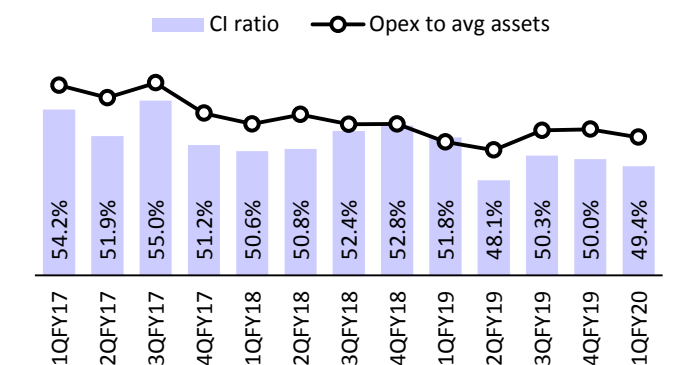
Exhibit 12: Proportion of retail deposits improved to 93%



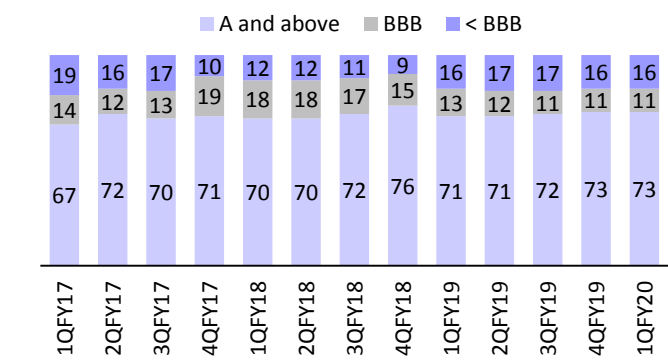
Note: Deposits represents (CASA + Deposit) less than INR10m
Source: MOFSL, Company

Exhibit 13: Corporate book constitutes ~42% of loan book

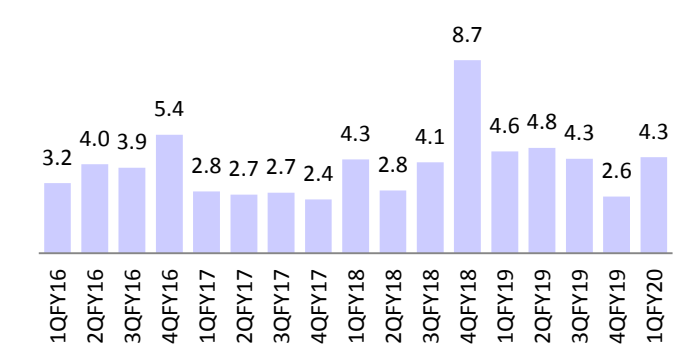
Source: MOFSL, Company

Exhibit 14: C/I ratio improved 60bp QoQ to 49.4%

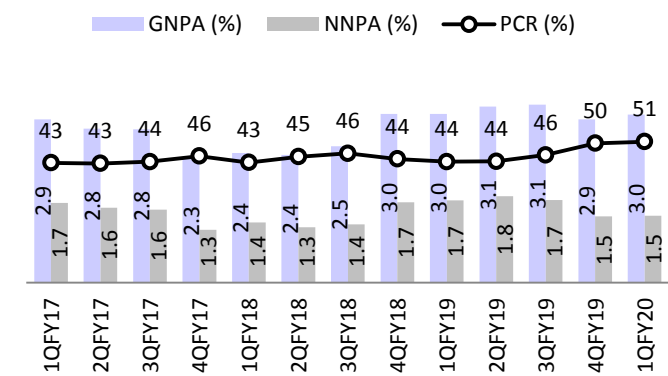
Source: MOFSL, Company

Exhibit 15: Share of A & above remains healthy

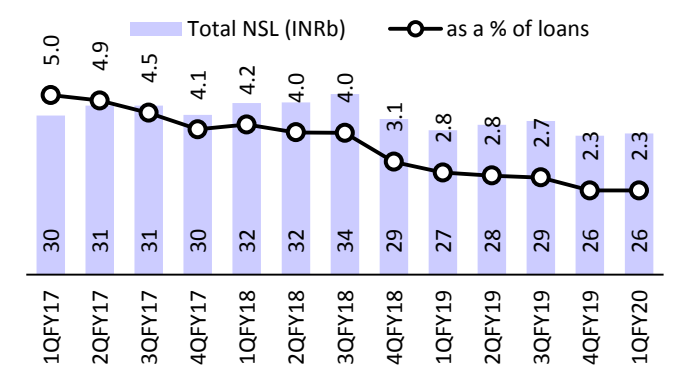
Source: MOFSL, Company

Exhibit 16: Absolute slippages inched up to INR4.3b

Source: MOFSL, Company

Exhibit 17: GNPA/NNPA ratios increased marginally; PCR ratio improved to 50.7%

Source: MOFSL, Company

Exhibit 18: Net stress loans remain flat QoQ at 2.3%

Source: MOFSL, Company

Financials and Valuations

Income Statement						(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	77,482	86,774	97,529	114,190	134,393	158,798
Interest Expense	52,404	56,247	61,701	72,427	85,004	99,271
Net Interest Income	25,077	30,526	35,828	41,763	49,390	59,528
Growth (%)	5.3	21.7	17.4	16.6	18.3	20.5
Non-Interest Income	8,082	10,818	11,591	13,510	16,212	19,130
Total Income	33,159	41,345	47,419	55,274	65,602	78,658
Growth (%)	1.8	24.7	14.7	16.6	18.7	19.9
Operating Expenses	18,921	22,095	24,509	27,643	32,579	37,802
Pre Provision Profits	14,238	19,249	22,910	27,631	33,023	40,856
Growth (%)	-12.5	35.2	19.0	20.6	19.5	23.7
Core PPP	12,963	16,163	20,521	25,347	30,739	38,572
Growth (%)	-5.5	24.7	27.0	23.5	21.3	25.5
Provisions (excl tax)	7,041	6,184	9,472	8,559	8,481	9,673
PBT	7,197	13,065	13,439	19,073	24,543	31,183
Tax	2,440	4,757	4,650	6,634	8,590	10,914
Tax Rate (%)	33.9	36.4	34.6	34.8	35.0	35.0
PAT	4,757	8,308	8,789	12,439	15,953	20,269
Growth (%)	-52.7	74.7	5.8	41.5	28.2	27.1
Balance Sheet						
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	3,438	3,448	3,944	3,970	3,970	3,970
Reserves & Surplus	77,474	84,108	118,158	128,760	140,884	156,367
Net Worth	80,912	87,556	122,102	132,730	144,854	160,337
Deposits	791,717	976,646	1,119,925	1,349,543	1,578,966	1,878,969
Growth (%)	11.8	23.4	14.7	20.5	17.0	19.0
of which CASA Dep	260,526	320,528	376,867	437,314	543,164	655,760
Growth (%)	19.6	23.0	17.6	16.0	24.2	20.7
Borrowings	21,766	58,973	115,335	77,813	69,173	76,090
Other Liabilities & Prov.	19,905	26,594	25,777	33,313	38,643	44,826
Total Liabilities	914,300	1,149,769	1,383,140	1,593,400	1,831,636	2,160,222
Current Assets	54,198	74,522	92,034	100,668	115,370	136,854
Investments	222,175	281,961	307,811	318,245	365,981	424,538
Growth (%)	8.0	26.9	9.2	3.4	15.0	16.0
Loans	580,901	733,363	919,575	1,102,230	1,311,653	1,587,100
Growth (%)	13.3	26.2	25.4	19.9	19.0	21.0
Fixed Assets	5,200	4,895	4,574	4,720	5,051	5,354
Other Assets	51,826	55,029	59,146	67,537	33,580	6,375
Total Assets	914,300	1,149,769	1,383,140	1,593,400	1,831,636	2,160,222
Asset Quality						
GNPA (INR m)	16,677	17,270	27,956	32,607	35,254	38,545
NNPA (INR m)	9,500	9,412	15,520	16,262	16,768	17,278
GNPA Ratio	2.8	2.3	3.0	2.9	2.7	2.4
NNPA Ratio	1.6	1.3	1.7	1.5	1.3	1.1
Slippage Ratio	3.7	1.9	2.7	1.6	1.3	1.2
Credit Cost	1.3	0.9	1.1	0.8	0.64	0.60
PCR (Excl Tech. write off)	43.0	45.5	44.5	50.1	52.4	55.2

Financials and Valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Yield and Cost Ratios (%)						
Avg. Yield-Earning Assets	10.0	9.3	8.4	8.4	8.5	8.4
Avg. Yield on loans	10.4	10.0	9.1	9.0	9.0	8.9
Avg. Yield on Investments	8.2	7.1	6.6	6.6	6.7	6.7
Avg. Cost-Int. Bear. Liab.	6.8	6.1	5.4	5.4	5.5	5.5
Avg. Cost of Deposits	6.7	6.1	5.5	5.5	5.6	5.5
Avg. Cost of Borrowings	8.0	5.5	5.1	5.2	4.7	4.7
Interest Spread	3.2	3.2	3.0	2.9	2.9	2.9
Net Interest Margin	3.2	3.3	3.1	3.1	3.1	3.2

Capitalization Ratios (%)

CAR	13.9	12.4	14.9	14.4	13.3	12.1
Tier I	13.4	11.8	14.4	13.7	12.6	11.7
Tier II	0.6	0.6	0.5	0.8	0.6	0.5

Business and Efficiency Ratios (%)

Loans/Deposit Ratio	73.4	75.1	82.1	81.7	83.1	84.5
CASA Ratio	32.9	32.8	33.7	32.4	34.4	34.9
Cost/Assets	2.1	1.9	1.8	1.7	1.8	1.7
Cost/Total Income	57.1	53.4	51.7	50.0	49.7	48.1
Cost/Core Income	59.3	57.8	54.4	52.2	51.5	49.5
Int. Expense/Int.Income	67.6	64.8	63.3	63.4	63.3	62.5
Fee Income/Net Income	17.8	17.4	19.4	20.3	21.2	21.4
Non Int. Inc./Net Income	24.4	26.2	24.4	24.4	24.7	24.3
Empl. Cost/Op. Exps.	55.6	52.7	50.7	49.8	49.5	49.0
Investment/Deposit Ratio	28.1	28.9	27.5	23.6	23.2	22.6

Valuation

RoE	6.0	9.9	8.3	9.8	11.5	13.3
RoA	0.5	0.8	0.7	0.8	0.9	1.0
RoRWA	0.8	1.1	1.0	1.3	1.4	1.5
Book Value (INR)	47.1	50.8	61.9	66.9	73.0	80.8
Growth (%)	4.2	7.9	21.9	8.0	9.1	10.7
Price-BV (x)		2.1	1.7	1.6	1.5	1.3
Adjusted BV (INR)	43.5	47.2	54.4	59.1	64.7	72.0
Price-ABV (x)		2.3	2.0	1.8	1.7	1.5
EPS (INR)	2.8	4.8	4.8	6.3	8.0	10.2
Growth (%)	-52.9	74.1	-1.3	32.2	27.8	27.1
Price-Earnings (x)		22.3	22.6	17.1	13.4	10.5
Dividend Per Share (INR)	0.7	1.1	1.1	1.2	1.9	2.4
Dividend Yield (%)	0.7	1.0	1.0	1.1	1.8	2.2

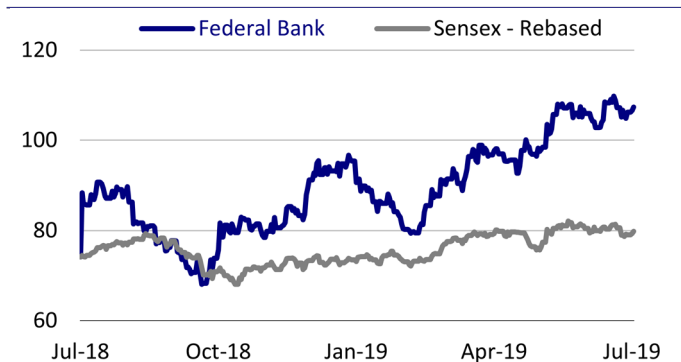
E: MOFSL Estimates

Corporate profile

Company description

Federal Bank is an old age Private Sector Bank with a history that dates back to the pre-independence era. The bank has a dominant presence in Southern India especially in Kerala. Mr. Shyam Srinivasan, with experience of over 20 years with MNC banks, took charge as the MD&CEO of the bank in 2010. Under his leadership the bank is increasing the presence and visibility at the national level. Federal Bank has 1,251 branches and 1,934 ATMs across the country.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-19	Dec-18	Mar-18
Promoter	0.0	0.0	0.0
DII	29.3	29.5	30.5
FII	38.2	38.3	38.8
Others	32.5	32.2	30.6

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
ICICI PRUDENTIAL S & P BSE 500 ETF	4.0
YUSUFFALI MUSALIAM VEETIL ABDUL KADER	3.8
RELIANCE EMERGENT INDIA FUND	3.5
HDFC TRUSTEE COMPANY LTD A/C HDFC ARBITRAGE FUND	2.9
EAST BRIDGE CAPITAL MASTER FUND LIMITED	2.4

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shyam Srinivasan	Managing Director & CEO
Ashutosh Khajuria	Executive Director & CFO
Girish Kumar Ganapathy	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Ashutosh Khajuria	Nilesh S Vakamsey*
Balagopal Chandrasekhar*	Shubhalakshmi Panse*
Dilip Gena Sadarangani*	Abhaya Prasad Hota*
Grace Elizabeth Koshie*	
Balakrishnan Krishnamurthy*	

*Independent

Exhibit 6: Auditors

Name	Type
B S R & Co LLP	Statutory
M M Nissim & Co	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	6.3	6.3	0.3
FY20	8.0	8.2	-2.6
FY21	10.2	10.4	-1.6

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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* MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench.