

Mixed performance, moderation in growth expected...

Federal Bank reported a mixed set of Q4FY20 numbers wherein the operational performance was healthy due to other income one offs but a surge in provisioning dented PAT growth.

As on May 25, 2020, 35% of borrowers by value opted for the moratorium with retail customers comprising a majority. Total provisioning for the quarter was at ₹ 567 crore (~46 bps of advances), which includes Covid-19 provisioning of ₹ 93 crore (RBI requirement of ₹ 30.3 crore). The bank has reported Covid-19 impact on loss of revenues and recoveries to the extent of ₹ 80 crore. PCR was at 72.48% vs. 67.16% in Q4FY19.

Overall slippage came in at ₹ 284 crore with major slippages from retail book. GNPA dipped to ₹ 3530 crore, leading to 8 bps drop in GNPA ratio to 2.84% while NNPA ratio also slumped to 1.31%. Excluding the moratorium standstill impact, GNPA would have been up 23 bps to 3.07%.

Advances growth was at 10.9% YoY to ₹ 12267.9 crore but growth was a bit slower vs. previous run rate. Retail growth continue to remain healthy at ~19.3% YoY to ₹ 37878 crore while corporate growth came in lower at 5.4%. In terms of sector wise based exposure, NBFC and HFC witnessed the highest traction, which is a cause for asset quality worry. Deposit grew ~12.8% YoY to ₹ 152290.1 crore, led by growth in term deposit. However, CASA ratio declined 96 bps QoQ, 165 bps YoY to 30.5%. NRE deposits for the quarter were at ₹ 57223 crore, up 14.2% YoY.

NII came in at ₹ 1216 crore, up ~10.9% YoY, largely due to stable credit growth. Operational performance was steady led by treasury gain one offs of ₹ 369 crore. Accordingly, operating profit was at ₹ 959 crore, up 27.1% YoY. Margins improved 4 bps QoQ to 3.04% due to a steep decline in CoF. Surge in provisions dented PAT that was ₹ 301.2 crore, down 21.3% YoY.

Credit growth to remain subdued; liabilities mix comfortable

The bank reported that 35% of its loan book by value (₹ 43067 crore) was under moratorium wherein retail in absolute terms, accounted for the majority of the moratorium at ₹ 14271 crore. Given 50% of retail book is in home loans, retail moratorium at 38% looks high as customers are keeping liquidity. Corporate book includes NBFC and HFC exposure of 13%, which has not been provided the option of moratorium. Apart from this, the bank seeks to opt for guarantee scheme of government selectively by lending to half of MSME book under guarantee schemes. Given an uncertain economic condition, we expect credit growth to at ~7% CAGR in FY20-22E. However, the bank fares well on the liabilities front as focus on benchmark linked liabilities and replacement of bulk deposits provide comfort.

Valuation & Outlook

Exposure to MSME and LAP could be a cause for asset quality worry in the medium term led by Covid-19. The bank would make additional provisioning in Q1FY21, Q2FY21, which would take a toll on earnings. We estimate RoA, RoE at 0.7%, 8.7%, respectively, for FY22E. We maintain **HOLD** rating and value the stock at 0.6x FY22E ABV with a revised target price of ₹ 47.

Key Financial Summary

₹ crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
NII	3,583	4,175	4,649	4,247	4,268	1%
PPP	2,291	2,763	3,205	2,744	2,815	1%
PAT	880	1,243	1,543	1,220	1,398	4%
ABV (₹)	54.1	58.6	64.8	69.1	73.6	
P/E	9.9	7.0	5.7	7.2	6.3	
P/ABV	0.8	0.8	0.7	0.6	0.6	
RoE (%)	8.2	9.8	11.1	8.1	8.7	
RoA (%)	0.7	0.8	0.9	0.6	0.7	



Particulars

Particulars	Amount
Market Capitalisation	₹8725 crore
GNPA (Q4FY 20)	₹3531 crore
NNPA (Q4FY 20)	₹1607 crore
NIM (Q4FY 20)	3.04%
52 week H/L	110 /36
Net Worth	₹14518 Crore
Face value	₹2
DII Holding (%)	37.1
FII Holding (%)	33.3

Key Highlights

- 35% of the borrowers by value have opted for moratorium
- Total provisioning stands at ₹ 567 crore which includes Covid provisions of ₹ 93 crore
- Maintain HOLD with a target price of ₹ 47

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
NII	1,216	1,030	1,097	10.9	1,155	5.3	NII was up 10.9% mainly due to stable credit growth
NIM (%)	3.04	3.01	3.17	-13 bps	3.00	4 bps	NIMs increased sequentially due to drop in CoF
Other Income	711	375	412	72.7	408	74.4	Healthy other income on the back of strong growth in treasury income at ₹ 369, up 401% YoY
Net Total Income	1,927	1,405	1,508	27.8	1,563	23.3	
Staff cost	519	413	370	40.2	415	25.1	
Other Operating Expenses	449	410	383	17.1	404	11.0	
PPP	959	582	755	27.1	744	29.0	
Provision	568	196	178	219.3	161	252.8	The bank has provided ₹ 93 crore for Covid-19. Additional credit provisions is at ₹ 167 crore.
PBT	392	386	577	-32.1	583	-32.8	
Tax Outgo	91	97	195	-53.7	142	-36.3	
PAT	301	290	382	-21.0	441	-31.6	Surge in provisioning partially offset by healthy operational performance dented PAT
Key Metrics							
GNPA	3,531	3,793	3,261	8.3	3,612	-2.2	Fresh slippages were at ₹ 284 crore with major slippages from the retail book. Excluding moratorium impact, GNPA would have been higher by ₹ 303 crore
NNPA	1,607	2,067	1,626	-1.2	1,941	-17.2	
Total Restructured assets	0	685	9,550	-100.0	635	-100.0	
Credit	120,861	122,268	95,515	26.5	110,223	9.7	Retail book growth remained healthy at 19.3% while corporate book growth rate remained slow at 5.4%
Deposit	144,592	152,290	111,242	30.0	134,954	7.1	CASA ratio declined 96 bps QoQ to 30.5% on the back of slower SA growth. NRE deposits were at ₹ 57223 crore, up 14.2% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E
	Old	New	% Change	New
Net Interest Income	4,967	4,247	-14	4,268
Pre Provision Profit	3,088	2,744	-11	2,815
NIM(%) (calculated)	3	3	-34 bps	2
PAT	1,572	1,220	-22	1,398
ABV per share (₹)	69	69	0	74

Source: Company, ICICI Direct Research

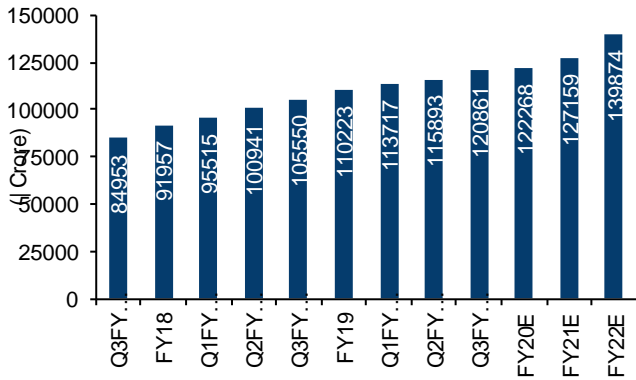
Exhibit 3: Assumption

	Current				Earlier	
	FY 19	FY 20	FY 21E	FY 22E	FY 21E	FY 22E
Credit growth (%)	19.9	10.9	4.0	10.0	12.4	12.9
Deposit Growth (%)	20.5	12.8	7.9	15.1	13.4	17.3
CASA ratio (%)	32.4	31.7	31.7	33.0	34.5	35.2
NIM Calculated (%)	3.1	3.0	2.6	2.4	2.9	2.8
Cost to income ratio (%)	50.0	51.3	55.5	55.8	53.6	36.3
GNPA (₹crore)	3,260.5	3,530.8	4,611.7	5,590.8	4,925.3	5,515.4
NNPA (₹crore)	1,626.5	1,607.2	1,691.1	1,900.9	2,016.4	2,075.4
Slippage ratio (%)	1.5	0.7	1.0	0.9	1.0	0.9
Credit cost (%)	0.8	1.0	0.9	0.7	0.7	0.8

Source: Company, ICICI Direct Research

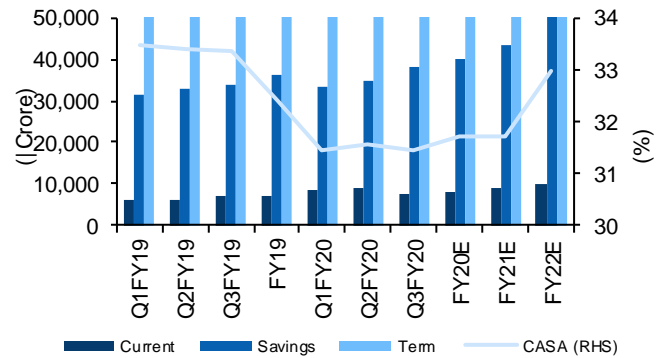
Story in Charts

Exhibit 4: Credit growth seen at ~7% CAGR in FY20-22E



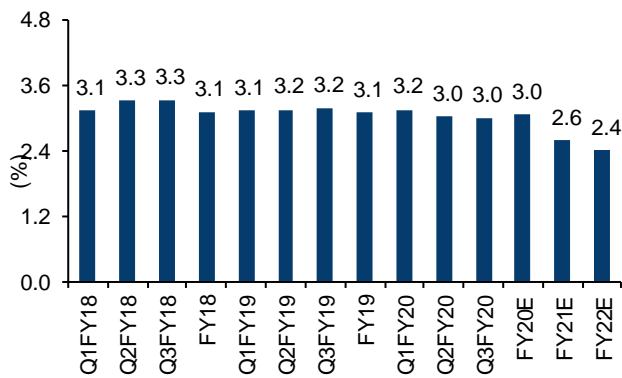
Source: Company, ICICI Direct Research

Exhibit 5: CASA to remain broadly at ~30-32% level



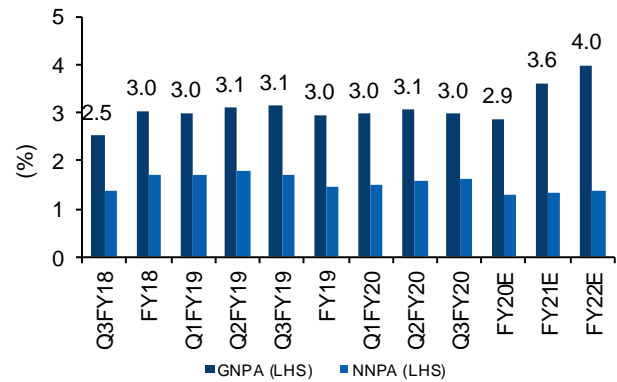
Source: Company, ICICI Direct Research

Exhibit 6: Fall in yields to lead to dip in margins



Source: Company, ICICI Direct Research

Exhibit 7: Asset quality seen deteriorating



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios to moderate, going ahead

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net interest income/ avg total assets	2.8	2.9	2.8	2.8	2.7	2.3	2.1
Non-interest income/ avg total assets	0.9	1.0	0.9	0.9	1.1	1.0	1.0
Net total income/ avg total assets	3.7	3.9	3.7	3.7	3.9	3.3	3.1
Operating expenses/ avg total assets	2.1	2.1	1.9	1.9	2.0	1.8	1.7
Operating profit/ avg total assets	1.6	1.8	1.8	1.9	1.9	1.5	1.4
Provisions/ avg total assets	0.8	0.6	0.7	0.6	0.7	0.6	0.5
Return on avg assets	0.5	0.8	0.7	0.8	0.9	0.6	0.7
Leverage (avg assets/ avg equity) (x)	11.1	12.0	11.9	11.7	12.2	12.5	13.0
Return on equity	5.9	9.5	8.2	9.8	11.1	8.1	8.7

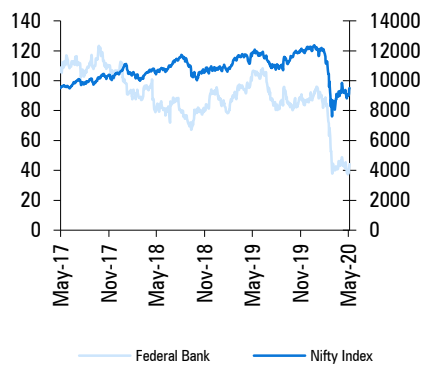
Source: Company, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	0.0	0.0	0.0	0.0	0.0
FII	37.2	37.5	35.0	34.5	33.3
DII	29.7	30.5	35.4	36.0	37.1
Others	33.1	32.0	29.6	29.5	29.6

Source: Company, ICICI Direct Research

Exhibit 10: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	11,418.2	13,210.8	13,647.2	14,581.6
Interest Expended	7243.1	8561.9	9399.8	10313.6
Net Interest Income	4,175.1	4,648.9	4,247.4	4,268.0
growth (%)	16.5	11.3	-8.6	0.5
Non Interest Income	1350.9	1931.4	1912.1	2103.3
Fees and advisory	763.2	877.7	965.4	1081.3
Trading Gains	249.9	262.4	249.3	270.5
Other income	337.8	791.3	697.4	751.5
Net Income	5526.0	6580.3	6159.5	6371.3
Staff cost	1377.4	1772.4	1790.1	1808.0
Other operating Expense	1386.0	1603.3	1625.7	1748.8
Operating Profit	2762.6	3204.7	2743.7	2814.5
Provisions	855.9	1172.2	1116.4	950.1
PBT	1906.7	2032.5	1627.3	1864.4
Taxes	663.4	489.8	406.8	466.1
Net Profit	1,243.3	1,542.8	1,220.5	1,398.3
growth (%)	41.3	24.1	-20.9	14.6
EPS (₹)	6.3	7.7	6.1	7.0

Source: Company, ICICI Direct Research

Exhibit 12: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	198.5	199.3	199.3	199.3
EPS (₹)	6.3	7.7	6.1	7.0
BV (₹)	66.8	72.8	77.6	83.2
ABV (₹)	58.6	64.8	69.1	73.6
P/E	7.0	5.7	7.2	6.3
P/BV	0.7	0.6	0.6	0.5
P/ABV	0.8	0.7	0.6	0.6
Yields & Margins (%)				
Net Interest Margins	3.1	3.0	2.6	2.4
Yield on assets	8.4	8.7	8.3	8.2
Avg. cost on funds	5.5	5.7	5.7	5.6
Yield on average advance	9.0	9.1	8.9	8.9
Avg. Cost of Deposits	5.2	5.4	5.4	5.3
Quality and Efficiency (%)				
Cost to income ratio	50.0	51.3	55.5	55.8
Credit/Deposit ratio	81.7	80.3	77.4	73.9
GNPA	3.0	2.9	3.6	4.0
NNPA	1.5	1.3	1.3	1.4
RoE	9.8	11.1	8.1	8.7
RoA	0.8	0.9	0.6	0.7

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	397	399	399	399
Reserves and Surplus	12876	14119	15074	16179
Net worth	13273	14518	15473	16577
Deposits	134954	152290	164388	189173
Borrowings	7782	10372	10873	9828
Other Liabilities & Provisio	3325	3458	4486	5277
Total	159334	180638	195221	220856
Application of Funds				
Fixed Assets	472	480	697	860
Investments	31824	35893	38424	43080
Advances	110224	122268	127159	139874
Other Assets	6747	6133	17135	24234
Cash with RBI & call mon	10067	15865	11807	12808
Total	159334	180638	195221	220856

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY19E	FY20E	FY21E	FY22E
Total assets	15.2	13.4	8.1	13.1
Advances	19.9	10.9	4.0	10.0
Deposit	20.5	12.8	7.9	15.1
Total Income	17.0	18.6	2.8	7.2
Net interest income	16.5	11.3	-8.6	0.5
Operating expenses	12.8	22.2	1.2	4.1
Operating profit	20.6	16.0	-14.4	2.6
Net profit	41.3	24.1	-20.9	14.6
Net worth	8.7	9.4	6.6	7.1

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹) Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
Bank of Baroda (BANBAR)	37	65	Hold	17,304.0	-0.4	-1.9	-4.3	NA	NA	NA	0.5	0.5	0.4	0.0	-0.1	-0.2	-0.3	-1.2	-2.5
State Bank of India (STABAN)	151	250	Buy	1,34,627	16.8	24.2	33.7	9.0	6.2	4.5	0.9	0.8	0.7	0.4	0.6	0.7	7.6	11.0	13.2
Indian Bank (INDIBA)	44	50	Hold	4,997	-27.2	8.5	13.0	-1.6	5.2	3.4	0.3	0.3	0.2	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	337	500	Buy	95,128	5.8	17.4	27.9	58.4	19.4	12.1	1.3	1.3	1.2	0.2	0.5	0.7	2.2	5.6	8.5
City Union Bank (CITUNI)	128	171	Buy	9,404	8.7	10.1	11.4	14.7	12.7	11.2	2.0	1.8	1.5	1.4	1.4	1.4	12.6	13.0	13.0
Development Credit Bank (DCB)	60	59	Hold	2,524	13.0	13.5	15.0	4.6	4.4	4.0	0.6	0.6	0.5	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	44	47	Hold	8,725	7.7	6.1	7.0	5.7	7.2	6.3	0.7	0.6	0.6	0.9	0.6	0.7	11.1	8.1	8.7
HDFC Bank (HDFBAN)	936	1,100	Buy	5,12,858	47.9	57.1	69.6	19.5	16.4	13.4	3.1	2.8	2.5	1.9	1.9	2.0	16.4	17.1	18.4
Indusind Bank (INDBA)	338	400	Hold	23,456	63.7	54.9	66.7	5.3	6.2	5.1	0.7	0.7	0.6	1.5	1.2	1.2	13.5	10.5	11.4
Jammu & Kashmir Bank (JAMKAS)	13	12	Sell	895	-12.7	-0.1	-6.1	-1.0	NA	NA	0.2	0.2	0.3	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,160	1,600	Buy	2,22,049	31.1	30.4	34.9	37.3	38.2	33.2	4.6	3.8	3.4	1.8	1.5	1.5	12.9	10.7	10.4
Bandhan Bank (BANBAN)	203	300	Buy	32,737	18.1	18.8	19.9	11.2	10.8	10.2	2.3	2.0	1.8	3.9	2.9	2.5	22.1	18.8	17.4
IDFC First (IDFBAN)	19	23	Buy	9,067	-4.8	1.0	2.1	NA	19.8	9.2	0.7	0.6	0.6	-1.6	0.3	0.6	-15.0	3.0	6.2

Source: Company, ICICI Direct Research

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Sell: < -15%



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