

Lower provisions spur profit...

Federal Bank reported a steady set of Q1FY21 numbers wherein lower provisioning led to healthy PAT growth. Moratorium witnessed a reduction with asset quality remaining steady, as estimated.

As on July 12, net moratorium book (excluding gold loans/loans against liquid securities) of the bank was at 24% vs. 35% on May 25 led by a fall in retail moratorium book. Total provisioning for the quarter slumped to ₹ 395 crore (~32 bps of advances), including Covid-19 provisioning of ₹ 93 crore. Outstanding contingent provisioning was at ₹ 186 crore.

On asset quality front, overall slippages were at ₹ 184 crore, primarily due to recognition of a large corporate turning NPA. Total exposure to the aforesaid corporate account was at ₹ 174 crore while the bank has completely provided for the NPA corporate account in Q1FY21. GNPA inched up 12 bps QoQ to 2.96%. On the back of standstill asset classification norms, NNPA came in a tad lower at 1.22% vs. 1.31% in Q4FY20, 1.49% in Q1FY20.

NII came in at ₹ 1296 crore, up ~12.3% YoY, largely due to steady margins and stable credit growth. In terms of operational performance, lower opex was offset by a decline in fee income, which made the overall operational performance remain steady. Accordingly, operating profit was at ₹ 932 crore, up 19% YoY. Margins improved 3 bps QoQ to 3.07%, due to a steep decline in CoF. On the back of lower provisioning, the bank reported a profit of ₹ 400 crore, up 4.3% YoY.

On the back of the Covid led lockdown, advances growth decelerated to 8.5% YoY to ₹ 123437 crore with corporate book falling 1.5% QoQ to ₹ 49375 crore. Deposit growth was healthy at ~16.9% YoY to ₹ 154938 crore, led by growth in term deposit. CASA ratio improved 58 bps YoY to 32.02%. NRE deposits for the quarter was resilient at ₹ 60274 crore, up 18.6% YoY.

Lower provision buffer warrants caution for delinquency shocks

The bank reported that moratorium has declined from 35% in April 2020 to 24% (including gold loans and loans against liquid securities) as of July 12, 2020. However, ~12% of these customers have not paid even a single EMI, increasing probability of slippage into NPA post the end of moratorium. Though the management said that exposure to vulnerable sectors remains insignificant, relatively lower provisions buffer at ~25 bps of advances makes a case for higher volatility in earnings post end of moratorium.

Valuation & Outlook

With gradual unlocking of the economy, business growth is seen to be subdued in FY21E, post which pace should improve. With the management ruling out capital raising in near term, risk of dilution is taken care of. The bank intends to scale up provisions, going forward, which would take a toll on profitability. Accordingly, we expect PAT to dip 18% YoY to ₹ 1260 crore in FY21E but recover to ₹ 1755 crore in FY22E. We maintain **HOLD** and value the stock at 0.8x FY22E ABV with a revised target price of ₹ 55. The ambiguity on extension of term of the current MD remains a near term overhang.

Key Financial Summary

₹ crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
NII	3,583	4,176	4,649	4,850	5,136	7%
PPP	2,291	2,763	3,205	3,420	3,761	11%
PAT	879	1,244	1,543	1,260	1,755	12%
ABV (₹)	54.0	58.6	64.8	66.7	72.5	
P/E	9.4	6.7	5.4	6.6	4.8	
P/ABV	0.8	0.7	0.6	0.6	0.6	
RoE (%)	8.2	9.8	11.1	8.4	10.8	
RoA (%)	0.8	0.8	0.9	0.7	0.9	



Particulars

Particulars	Amount
Market Capitalisation	₹ 10521 crore
GNPA (Q1FY21)	₹ 3656 crore
NNPA (Q1FY21)	₹ 1477 crore
NIM (Q1FY21)	3.07%
52 week H/L	109 / 36
Net Worth	₹ 14518 Crore
Face value	₹ 2
DII Holding (%)	37.1
FII Holding (%)	33.3

Key Highlights

- Total 24% of borrowers by value have opted for moratorium
- Outstanding provisions is ₹ 186 crore, which is ~25 bps of advances
- Maintain **HOLD** with revised target price of ₹ 55

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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
NII	1,296	1,201	1,154	12.3	1,216	6.6	NII up 12.3% YoY due to steady margins & stable credit growth
NIM (%)	3.07	3.01	3.15	-8 bps	3.04	3 bps	NIMs increase sequentially due to drop in CoF
Other Income	488	692	392	24.7	711	-31.3	Other income growth muted due to degrowth of forex & fee income
Net Total Income	1,785	1,893	1,546	15.5	1,927	-7.4	
Staff cost	496	524	398	24.6	519	-4.5	
Other Operating Expenses	357	449	365	-2.3	449	-20.5	
PPP	932	919	783	19.1	959	-2.8	
Provision	395	492	192	105.5	568	-30.5	Bank has provided ₹ 93 crore for Covid-19. Additional credit provisions at ₹ 186 crore
PBT	538	427	591	-9.0	392	37.2	
Tax Outgo	137	107	207	-33.7	91	51.2	
PAT	401	320	384	4.3	301	33.0	Steady operational performance and lower provisions aid PAT growth
Key Metrics							
GNPA	3,656	3,548	3,395	7.7	3,531	3.5	Overall slippages came in at ₹ 184 crore, primarily due to recognition of a large corporate turning NPA
NNPA	1,477	1,615	1,673	-11.7	1,607	-8.1	
Total Restructured assets	604	649	1,064	-43.2	599	0.8	
Credit	120,861	122,268	95,515	26.5	110,223	9.7	Advances growth witnessed deceleration with corporate book declining 1.5% QoQ to ₹ 49375 crore
Deposit	144,592	152,290	111,242	30.0	134,954	7.1	CASA ratio improved 58 bps YoY to 32.02%. NRE healthy at ₹ 60274 crore, up 18.6% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Net Interest Income	4,247	4,850	14	4,268	5,136	20
Pre Provision Profit	2,744	3,420	25	2,815	3,761	34
NIM(%) (calculated)	3	3	26 bps	2	3	36 bps
PAT	1,220	1,260	3	1,398	1,755	25
ABV per share (₹)	69	67	-4	74	73	-1

Source: Company, ICICI Direct Research

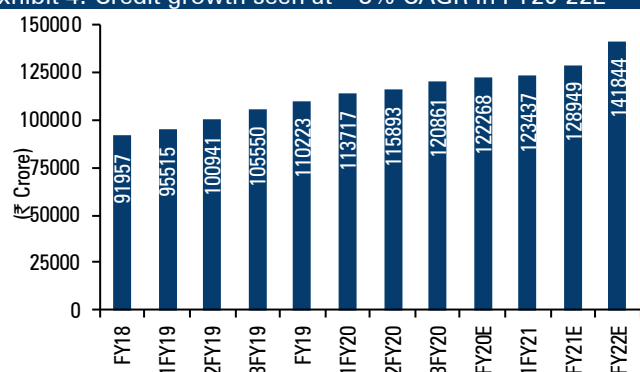
Exhibit 3: Assumption

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	19.9	10.9	5.5	10.0	4.0	10.0
Deposit Growth (%)	20.5	12.8	7.9	15.0	7.9	15.1
CASA ratio (%)	32.4	30.7	30.7	32.0	31.7	33.0
NIM Calculated (%)	3.1	3.0	2.8	2.8	2.6	2.4
Cost to income ratio (%)	50.0	51.3	49.4	48.0	55.5	55.8
GNPA (₹ crore)	3,260.7	3,530.8	4,304.5	5,297.4	4,611.7	5,590.8
NNPA (₹ crore)	1,626.2	1,607.2	2,226.1	2,438.9	1,691.1	1,900.9
Slippage ratio (%)	1.8	1.7	1.5	0.9	1.0	0.9
Credit cost (%)	0.7	0.2	0.8	0.7	0.9	0.7

Source: Company, ICICI Direct Research

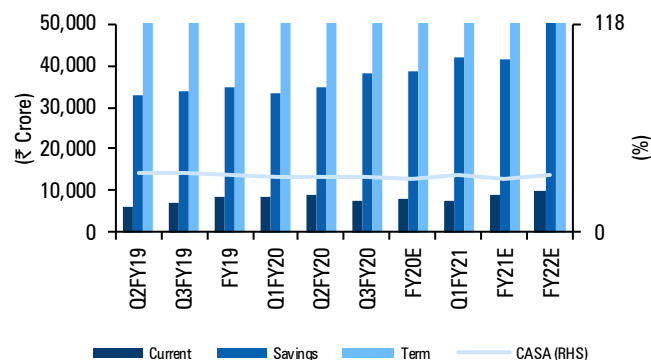
Story in Charts

Exhibit 4: Credit growth seen at ~8% CAGR in FY20-22E



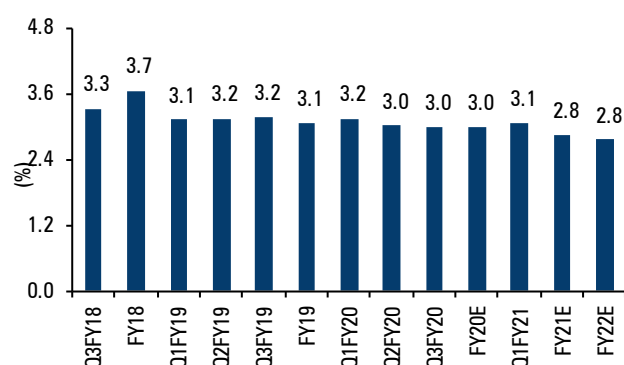
Source: Company, ICICI Direct Research

Exhibit 5: Casa to remain broadly at 31% level



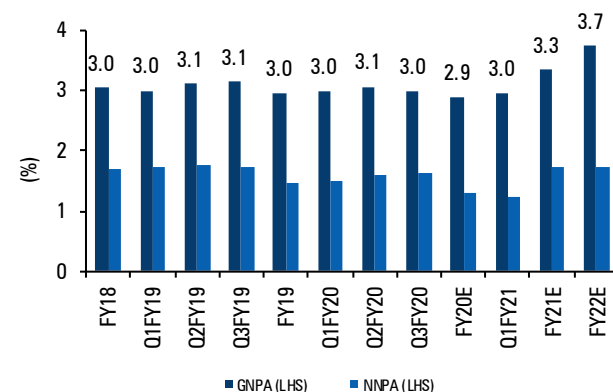
Source: Company, ICICI Direct Research

Exhibit 6: Fall in yields offsets dip in CoF



Source: Company, ICICI Direct Research

Exhibit 7: Asset quality seen deteriorating



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios to moderate, going ahead

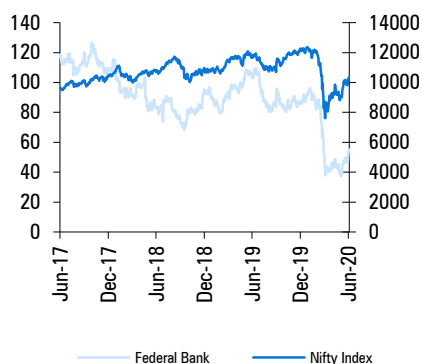
	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net interest income/ avg total assets	3.0	3.6	3.2	2.8	2.7	2.6	2.5
Non-interest income/ avg total assets	1.0	1.3	1.0	0.9	1.1	1.0	1.0
Net total income/ avg total assets	4.0	4.9	4.2	3.7	3.9	3.6	3.5
Operating expenses/ avg total assets	2.3	2.6	2.2	1.9	2.0	1.8	1.7
Operating profit/ avg total assets	1.7	2.3	2.1	1.9	1.9	1.8	1.8
Provisions/ avg total assets	0.6	0.4	0.8	0.6	0.7	0.9	0.7
Return on avg assets	0.7	1.2	0.8	0.8	0.9	0.7	0.9
Leverage (avg assets/ avg equity) (x)	10.3	9.5	10.4	11.7	12.2	12.4	12.7
Return on equity	7.6	11.5	8.2	9.8	11.1	8.4	10.8

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	11,419.0	13,210.8	13,876.0	15,028.8
Interest Expended	7242.7	8561.8	9026.2	9892.6
Net Interest Income	4,176.3	4,648.9	4,849.8	5,136.2
growth (%)	16.6	11.3	4.3	5.9
Non Interest Income	1351.0	1931.4	1912.1	2103.3
Fees and advisory	801.0	989.5	1088.4	1219.0
Trading Gains	228.4	607.8	486.3	527.6
Other income	321.6	334.1	337.4	356.6
Net Income	5527.4	6580.3	6761.9	7239.5
Staff cost	1377.8	1772.4	1719.2	1736.4
Other operating Expense	1386.5	1603.3	1622.5	1741.8
Operating Profit	2763.1	3204.7	3420.2	3761.3
Provisions	855.9	1172.3	1740.5	1421.6
PBT	1907.3	2032.4	1679.7	2339.7
Taxes	663.4	489.6	419.9	584.9
Net Profit	1,243.9	1,542.8	1,259.8	1,754.8
growth (%)	41.5	24.0	-18.3	39.3
EPS (₹)	6.3	7.7	6.3	8.8

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	6.3	8.8
BV (₹)	66.8	72.8	77.8	84.8
ABV (₹)	58.6	64.8	66.7	72.5
P/E	8.3	6.7	8.2	5.9
P/BV	0.8	0.7	0.7	0.6
P/ABV	0.9	0.8	0.8	0.7
Yields & Margins (%)				
Net Interest Margins	3.1	3.0	2.8	2.8
Yield on assets	8.4	8.5	8.1	8.1
Avg. cost on funds	5.2	5.4	5.5	5.4
Yield on average advances	9.0	9.2	8.9	8.9
Avg. Cost of Deposits	5.5	5.6	5.4	5.3
Quality and Efficiency (%)				
Cost to income ratio	50.0	51.3	49.4	48.0
Credit/Deposit ratio	81.7	80.3	78.5	75.0
GNPA	3.0	2.9	3.3	3.7
NNPA	1.5	1.3	1.7	1.7
RoE	9.8	11.1	8.4	10.8
RoA	0.8	0.9	0.7	0.9

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	15114	16501
Networth	13273	14518	15513	16899
Deposits	134954	152290	164336	189008
Borrowings	7781	10372	8867	7823
Other Liabilities & Provisions	3331	3458	4352	5208
Total	159340	180638	193068	218938
Application of Funds				
Fixed Assets	472	480	505	565
Investments	31824	35893	40842	46521
Advances	110223	122268	128949	141844
Other Assets	6754	9423	9134	15179
Cash with RBI & call money	10067	12575	13639	14829
Total	159340	180638	193068	218938

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

(%)

(Year-end March)	FY19E	FY20E	FY21E	FY22E
Total assets	15.2	13.4	6.9	13.4
Advances	19.9	10.9	5.5	10.0
Deposit	20.5	12.8	7.9	15.0
Total Income	17.0	18.6	4.3	8.5
Net interest income	16.6	11.3	4.3	5.9
Operating expenses	12.8	22.1	-1.0	4.1
Operating profit	20.6	16.0	6.7	10.0
Net profit	41.5	24.0	-18.3	39.3
Net worth	8.7	9.4	6.9	8.9

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)	48	58	Hold	21,994.0	1.2	2.3	6.9	NA	NA	NA	0.6	0.5	0.5	0.0	0.1	0.3	0.8	1.5	4.0
State Bank of India (STABAN)	184	215	Hold	164,078	16.2	10.8	21.3	12.3	18.4	9.3	1.0	1.1	1.0	0.4	0.3	0.5	6.8	4.8	9.1
Indian Bank (INDIBA)	61	50	Hold	6,832	12.4	14.2	22.8	5.3	4.6	2.9	0.2	0.2	0.2	0.3	0.3	0.4	3.6	3.8	5.9
Axis Bank (UTIBAN)	427	500	Buy	120,444	5.8	17.4	27.9	78.7	26.1	16.3	1.8	1.7	1.5	0.2	0.5	0.7	2.2	5.6	8.5
City Union Bank (CITUNI)	121	171	Buy	8,951	6.5	10.1	11.4	21.3	13.7	12.1	2.2	1.9	1.5	1.0	1.4	1.4	9.4	13.0	12.9
Development Credit Bank (DCB)	80	59	Hold	2,474	13.0	13.5	15.0	6.6	6.3	5.7	0.8	0.8	0.7	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	52	55	Hold	10,521	7.7	6.3	8.8	6.7	8.2	5.9	0.8	0.8	0.7	0.9	0.7	0.9	11.1	8.4	10.8
HDFC Bank (HDFBAN)	1,052	1,100	Buy	577,691	47.9	57.1	69.6	23.5	19.7	16.2	3.7	3.4	2.8	1.9	1.9	2.0	16.4	17.1	18.4
Indusind Bank (INDBA)	504	400	Hold	34,921	63.7	61.5	68.7	8.7	9.1	8.1	1.2	1.0	0.8	1.5	1.4	1.4	13.5	11.7	11.7
Jammu & Kashmir Bank (JAMKAS)	17	12	Sell	1,220	-12.7	-0.1	-6.1	-1.6	NA	NA	0.3	0.3	0.4	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,290	1,600	Buy	255,315	31.1	30.4	34.9	44.0	45.0	39.2	5.2	4.2	3.8	1.8	1.5	1.5	12.9	10.7	10.4
Bandhan Bank (BANBAN)	350	400	Hold	56,303	18.1	17.7	25.2	19.3	19.7	13.9	3.7	3.4	2.8	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	25	30	Buy	14,294	-4.6	-1.1	1.2	NA	NA	23.8	0.9	1.0	1.0	-1.3	-0.4	0.4	-13.1	-3.8	3.9

Source: Company, ICICI Direct Research

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