



Federal Bank

BSE SENSEX	S&P CNX
27,309	8,435
Bloomberg	FB IN
Equity Shares (m)	1,719.0
M.Cap.(INRb)/(USDb)	139.2/2.1
52-Week Range (INR)	82/41
1, 6, 12 Rel. Per (%)	13/61/40
Avg Val, INRm	414
Free float (%)	100.0

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
NII	25.0	30.1	35.2
OP	14.2	18.6	21.7
NP	4.8	7.9	9.4
NIM (%)	3.2	3.3	3.1
EPS (INR)	2.8	4.6	5.5
EPS Gr. (%)	-52.9	66.1	19.1
BV/Sh. (INR)	47	51	55
ABV/Sh. (INR)	43	47	51
ROE (%)	6.0	9.4	10.4
ROA (%)	0.5	0.8	0.8
Payout (%)	29.3	23.2	23.2

Valuations			
	2016	2017E	2018E
P/E(X)	27.8	16.8	14.1
P/BV (X)	1.6	1.5	1.4

CMP: INR77 TP: INR105 (+36%)

Buy

Strong balance sheet and core PPOP growth; Stable asset quality

- Federal Bank's (FB) 3QFY17 PAT grew 26% YoY to INR2.05b (10% beat), led by strong core PPOP growth (+42% YoY) and lower credit costs (64bp annualized). NII grew 31% YoY and 9% QoQ to INR7.9b, driven by strong loan growth and stable sequential NIM (+28bp YoY to 3.3%). Adjusted for one-off income of INR190m, NII grew 28% YoY.
- Other income increased 44% YoY (5% miss), led by strong growth in fee income (+33% YoY). Trading gains were lower than expected at INR860m (27% of PBT)
- Strong loan growth of 32% YoY was driven by corporate (+71% YoY; predominantly consisting of working capital loans) and retail (ex-gold loans, +35% YoY). Deposit growth of 23% YoY (+7% QoQ) was led by strong mobilization in SA deposits (+32% YoY). CASA ratio improved 360bp QoQ to 34.7% (CASA grew 33% YoY)
- Incremental slippages increased marginally to INR2.73b from INR2.66b in 2Q (annualized slippage ratio of ~2.1%), led by higher slippages in corporate and retail. The bank made use of the RBI's 90dpd dispensation on portfolio of ~INR350-400m. Absolute GNPA increased 7% QoQ, but remained stable in percentage terms (2.77%). There was no sale to ARC during the quarter.

Valuation and view: We are enthused by FB's core operating performance, driven by its strong balance sheet. Although the bank's corporate asset quality issues may not be completely behind, we believe it is ahead of corporate lending peer banks on the asset quality curve. Considering asset quality distractions in the PSU space, we believe FB is well positioned to gain market share in highly rated corporates. We largely maintain FY17/18 estimates, and retain **Buy** with a target price of INR105 (1.8x December FY18 BV) based on RI model.

Quarterly Performance

	FY16				FY17				FY16	FY17E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Interest Income	6,048	6,083	6,057	6,859	6,927	7,262	7,914	8,043	25,042	30,145
% Change (YoY)	7.2	0.4	3.2	10.1	14.5	19.4	30.7	17.3	5.2	20.4
Other Income	1,939	1,823	1,828	2,269	2,370	2,616	2,633	2,854	7,864	10,473
Net Income	7,987	7,906	7,885	9,128	9,297	9,878	10,547	10,897	32,906	40,619
Operating Expenses	4,315	4,540	4,630	5,183	5,039	5,128	5,798	6,064	18,668	22,029
Operating Profit	3,672	3,366	3,255	3,945	4,259	4,750	4,749	4,833	14,238	18,590
% Change (YoY)	4.5	-17.9	-18.1	-15.9	16.0	41.1	45.9	22.5	-12.5	30.6
Other Provisions	1,531	873	751	3,886	1,685	1,684	1,588	1,506	7,041	6,463
Profit before Tax	2,141	2,493	2,504	59	2,574	3,066	3,161	3,327	7,197	12,128
Tax Provisions	727	880	877	-44	901	1,053	1,104	1,163	2,440	4,220
Net Profit	1,414	1,613	1,627	103	1,673	2,013	2,057	2,165	4,757	7,907
% Change (YoY)	-35.8	-32.9	-38.5	-96.3	18.3	24.8	26.4	2,010.0	-52.7	66.2

Operating Parameters										
	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E	2016
NIM (Cal, %)	3.2	3.1	3.1	3.4	3.3	3.3	3.3	3.2	3.2	3.3
Deposit Growth (%)	16.7	14.3	14.1	11.8	12.5	17.0	23.3	22.0	11.8	22.0
Loan Growth (%)	10.1	5.0	9.8	13.3	19.3	27.2	32.0	25.0	13.3	25.0

Asset Quality										
	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E	2016
Gross NPA (INR b)	13.0	15.0	16.8	16.7	17.5	18.2	19.5	20.9	16.7	20.9
Gross NPA (%)	2.6	2.9	3.2	2.8	2.9	2.8	2.8	2.9	2.8	2.9

E: MOSL Estimates