

Federal Bank

Reco: Buy

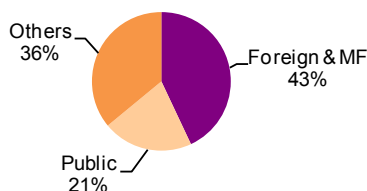
Stock Update

In-line performance, slippages decline
CMP: Rs64

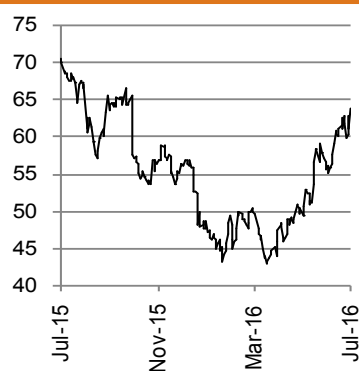
Company details

Price target:	Rs74
Market cap:	Rs10,971 cr
52-week high/low:	Rs71/41
NSE volume: (No of shares)	67.5 lakh
BSE code:	500469
NSE code:	FEDERALBNK
Sharekhan code:	FEDERALBNK
Free float: (No of shares)	171.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.0	42.8	31.4	-11.3
Relative to Sensex	5.6	31.3	12.1	-11.0

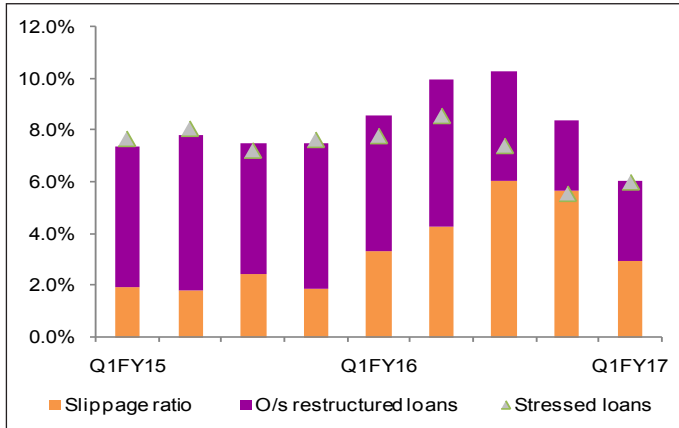
Key points

- Operating parameters improve, loan growth picks up:** Federal Bank has posted decent set of numbers for Q1FY2017, with its net interest income (NII) increasing by 14.5% YoY owing to 19.3% YoY surge in advances and 16BPS YoY expansion in its net interest margin (NIM). Growth in advances was mainly driven by 36.8% YoY growth in corporate advances and 17.8% YoY growth in SME advances. Non-interest income was up by 22.2% YoY, driven by 11.8% YoY increase in fee income and 118% YoY uptick in treasury income. Provisions declined by 56.6% on a sequential basis (up 10.0% YoY) due to lower addition of stressed loans.
- Asset quality deteriorates marginally but fresh accretion down:** During Q1FY2017, Federal Bank witnessed marginal weakness in its asset quality, as gross non-performing assets (GNPA) increased by 7BPS to 2.91% on a sequential basis. However, slippages declined significantly to Rs280 crore from Rs536 crore QoQ and Rs317 crore YoY. The arrest in fresh NPA accretion was observed in each of its lending segments, especially in its corporate book. However, due to lesser recoveries and upgrades compared to Q4FY2016 (generally recoveries and upgrades are higher in Q4), the GNPA number increased by 7BPS QoQ. During the quarter, the bank has neither sold any loans to asset reconstruction companies (ARC) nor has it undertaken any 5:25 refinancing or strategic debt restructuring (SDR). It foresees improved outlook on asset quality, notably on the incremental lending. However, few accounts from the restructured category (worth ~Rs200 crore) would be coming out of the moratorium period in the next couple of quarters. This could add to the stressed loans, thereby leading to higher credit costs.
- Valuation and Outlook:** Federal Bank has posted decent set of numbers during Q1FY2017 and the strong uptick in advances book is a positive sign. The liability franchise of the bank has seen continuous improvement, with the CASA ratio rising to 32.8% (up 36BPS QoQ and 156BPS YoY). This would help the bank to reduce its cost of funds. Although the overall asset quality picture seems to be improving post the RBI's AQR in FY2016, few accounts from the restructured category would require close scrutiny. The stock currently trades at 1.1x FY2018E BV, which is attractive. We maintain our Buy rating on the stock with a revised priced target of Rs74.

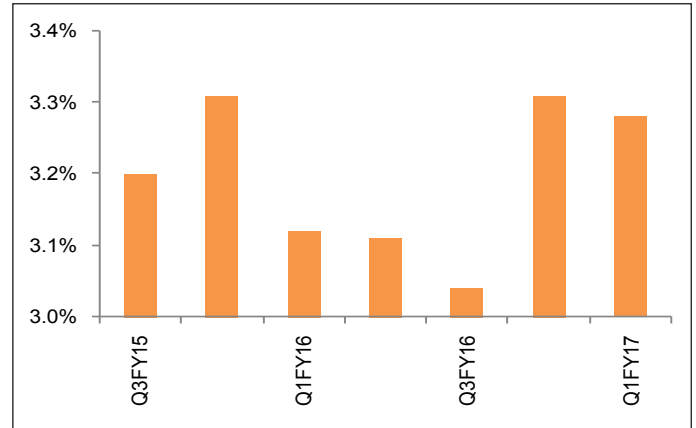
Results

Particulars	Q1FY17	Q1FY16	YoY %	Q4FY16	Rs cr	QoQ %
Interest income	2,013.8	1,913.2	5.3	2,026.5		-0.6
Interest expense	1,321.1	1,308.4	1.0	1,340.6		-1.5
Net interest income	692.7	604.8	14.5	685.9		1.0
Non-interest income	237.0	193.9	22.2	226.9		4.5
Net total income	929.7	798.7	16.4	912.8		1.9
Operating expenses	503.9	431.5	16.8	518.3		-2.8
- Employee expenses	289.4	252.3	14.7	293.0		-1.2
- Other operating expenses	214.4	179.2	19.7	225.2		-4.8
Pre-provisioning profit	425.9	367.2	16.0	394.5		7.9
Provisions	168.5	153.10	10.0	388.6		-56.6
Profit before tax	257.4	214.1	20.2	5.9	4,277.2	
Tax	90.1	72.7	23.9	-4.4	-2,156.4	
Profit after tax	167.3	141.4	18.3	10.3	1,530.7	
Asset quality						
Gross NPLs	1,747.3	1,304.6	33.9	1,667.8		4.8
- Gross NPLs (%)	2.91	2.59	32 BPS	2.84		7 BPS
Net NPLs	994.5	484.5	105.3	950.0		4.7
- Net NPLs (%)	1.68	0.98	70 BPS	1.64		4 BPS
Capital adequacy (%)						
CAR	13.59	15.07	-148 BPS	13.93		-34 BPS
Tier I	12.99	14.40	-141 BPS	13.36		-37 BPS
Key reported ratios (%)						
NIM	3.28	3.12	16 BPS	3.31		-3 BPS
CASA	32.83	31.26	156 BPS	32.47		36 BPS

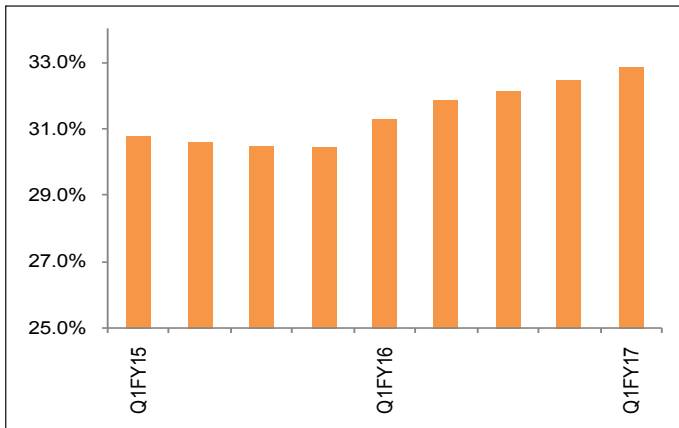
Asset quality (%)



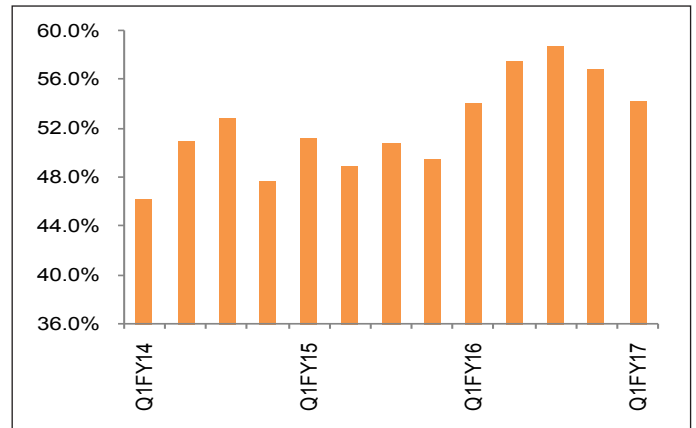
NIM (%)



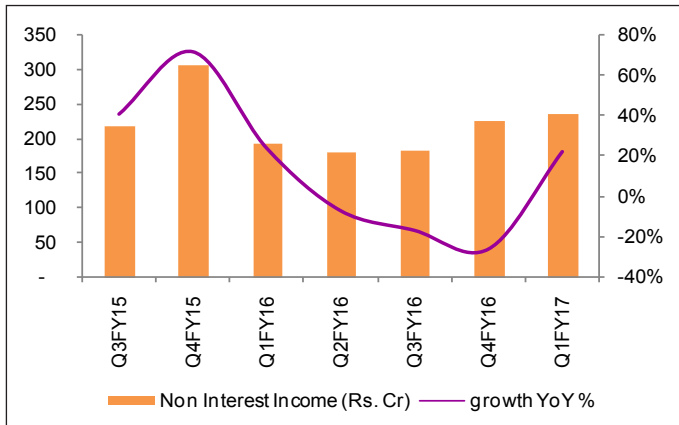
CASA ratio (%)



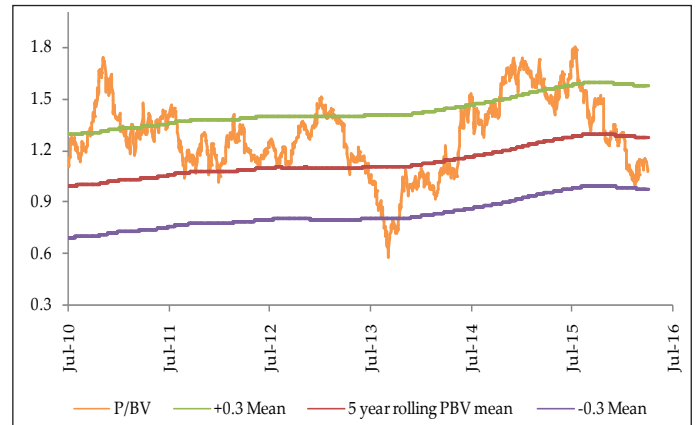
Cost to income ratio (%)



Non interest income (Rs cr)



One-year forward P/BV SD band



Profit and loss statement

Rs cr

Particulars	FY14	FY15	FY16	FY17E	FY18E
Net interest income	2,229	2,380	2,504	2,819	3,303
Non-interest income	694	878	786	919	1,064
Net total income	2,922	3,259	3,291	3,738	4,367
Operating expenses	1,442	1,632	1,867	2,070	2,331
Pre-provisioning profit	1,480	1,627	1,424	1,668	2,037
Provisions	268	107	704	487	462
Profit before tax	1,212	1,520	720	1,181	1,574
Tax	373	515	244	390	520
Profit after tax	839	1,005	476	791	1,055

Balance sheet

Rs cr

Particulars	FY14	FY15	FY16	FY17E	FY18E
Liabilities					
Networth	6,951	7,738	8,091	8,897	9,705
Deposits	59,731	70,825	79,172	91,047	105,615
Borrowings	5,688	2,308	2,177	2,959	3,697
Other liabilities & provisions	2,224	1,979	1,991	3,140	3,628
Total liabilities	74,594	82,850	91,430	106,043	122,645
Assets					
Cash & balances with RBI	3,104	3,380	3,775	4,370	5,070
Balances with banks & money at call	1,425	1,400	1,645	1,686	1,729
Investments	24,118	20,569	22,217	29,107	33,696
Advances	43,436	51,285	58,090	67,965	79,520
Fixed assets	425	467	520	572	629
Other assets	2,086	5,750	5,183	2,342	2,003
Total assets	74,594	82,850	91,430	106,043	122,645

Key ratios

Particulars	FY14	FY15	FY16	FY17E	FY18E
Per share data (Rs)					
Earnings	4.9	5.9	1.4	4.6	6.1
Dividend	1.0	1.1	0.4	0.9	1.2
Book value	39.3	43.6	22.8	49.6	54.4
Adj. book value	37.4	41.4	20.0	43.0	46.8
Spreads (%)					
Yield on advances	11.4	11.5	10.4	10.4	10.2
Cost of deposits	7.2	7.1	6.7	6.6	6.5
Net interest margins	3.3	3.3	3.2	3.1	3.1
Operating ratios (%)					
Credit to deposit	72.7	72.4	73.4	74.6	75.3
Cost to income	49.3	50.1	56.7	55.4	53.4
CASA	31.2	30.8	32.9	34.6	36.1
Non interest income / Total income	23.7	27.0	23.9	24.6	24.4
Assets/Equity (x)	10.9	10.7	11.0	11.7	12.4
Return ratios (%)					
RoE	12.6	13.7	6.0	9.4	11.5
RoA	1.1	1.2	0.5	0.7	0.9
Asset quality ratios (%)					
Gross NPA	2.5	2.0	2.8	2.5	2.0
Net NPA	0.7	0.7	1.6	1.7	1.6
Growth ratios (%)					
Net interest income	12.9	6.8	5.2	12.6	17.2
Pre-provisioning profit	1.8	9.9	-12.5	17.2	22.1
Profit after tax	0.1	19.8	-52.7	66.4	33.3
Advances	-1.5	18.1	13.3	17.0	17.0
Deposits	3.7	18.6	11.8	15.0	16.0
Valuation ratios (%)					
P/E	12.2	10.2	43.4	13.0	9.8
P/BV	1.5	1.4	2.6	1.2	1.1
P/ABV	1.6	1.4	3.0	1.4	1.3

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