

Federal Bank

 BSE SENSEX
 36,520

 S&P CNX
 11,008

CMP: INR88
TP: INR110 (+25%)
Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2018 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	FB IN
Equity Shares (m)	1,972
M.Cap.(INRb)/(USD\$b)	174.8 / 2.6
52-Week Range (INR)	128 / 74
1, 6, 12 Rel. Per (%)	3/-20/-37
12M Avg Val (INR M)	1145
Free float (%)	100.0

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
NII	35.8	42.7	51.5
OP	22.9	28.0	35.3
NP	8.8	11.5	15.6
NIM (%)	3.1	3.1	3.1
EPS (INR)	4.8	5.8	7.9
EPS Gr. (%)	-1.3	22.8	35.2
BV/Sh. (INR)	61.9	66.7	73.8
ABV/Sh. (INR)	54.2	58.9	65.4
ROE (%)	8.3	9.1	11.2
ROA (%)	0.7	0.8	0.9
Valuations			
P/E(X)	18.6	15.1	11.2
P/BV (X)	1.4	1.3	1.2
P/ABV (X)	1.6	1.5	1.4

Profitability improves due to decline in provision; asset quality stabilizes

- FB reported PPop growth of 2.4%/8.1% QoQ/YoY to INR6b (in-line), as the 3%beat on NII (+5%/+22% QoQ/YoY to INR9.8b) was offset by the 7% miss on other income (-14%/-18% QoQ/YoY to INR2.7b). Lower-than-expected provisions of INR1.9b (-46%/-16% QoQ/YoY) led to PAT of INR2.6b (5% beat).
- NIM was flat at 3.12% (+1bp QoQ). Yields declined marginally (-2bp) to 9.11%, while cost of deposits declined to 5.64% (-12bp QoQ).
- Loan growth of 2.5%/24% QoQ/YoY was led by 31% YoY growth in corporate book, while retail and SME loans also maintained healthy traction (+19%/+17% YoY). Deposits grew 16% YoY to INR1.25t. CASA ratio stood at 33.47%.
- Asset quality was stable – slippages moderated to 2.5% (4.8% in 4QFY18), while GNPA rose 3% QoQ to INR28.7b. Slippages included INR1.6b from a restructured corporate account. PCR declined to 43.5% from 44.5% in 4QFY18, leading to a 4% QoQ rise in NNPA to INR16.2b. GNPA/NNPA were 3.0%/1.72% (+0bp/+3bp QoQ). Recoveries and upgrades rose 44% QoQ to INR4.1b, while write-offs came in at INR1.6b. Total net stressed assets as on 1QFY19 stood at INR29.6b (3.1% of loans).
- **Other highlights:** (1) Tier1 ratio stood at 14.01%, with CRAR at 14.5%. (2) Management guided for normalized credit cost of 65-70bp. (3) Management further guided for FY19 ROA of ~1% and NIM of 3.2%.
- **Valuation and view:** We believe FB's asset quality concerns, which are largely legacy issues, have been largely recognized. Considering asset quality distractions in the PSU space, we believe FB is well positioned to gain market share in highly rated corporates. Proceeds from stake sale in Fed-Fina and IDBI Federal (not factored in our estimates) could provide upside. We reiterate **Buy** with a target price of INR110 (1.7x FY20E ABV).

Quarterly Performance

	(INR m)											
	FY18				FY19E				FY18	FY19E	1Q	v/s
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		FY19E	Est	
Net Interest Income	8,007	8,989	9,500	9,332	9,801	10,462	10,889	11,551	35,828	42,703	9,557	2.6
% Change (YoY)	15.6	23.8	20.0	10.8	22.4	16.4	14.6	23.8	17.4	19.2	19.4	3.0
Other Income	3,291	2,872	2,286	3,142	2,709	3,266	3,399	3,956	11,591	13,330	2,907	-6.8
Total Income	11,298	11,861	11,786	12,474	12,509	13,728	14,288	15,507	47,419	56,033	12,464	0.4
Operating Expenses	5,719	6,029	6,172	6,588	6,480	6,862	7,142	7,523	24,509	28,006	6,379	1.6
Operating Profit	5,579	5,832	5,614	5,886	6,029	6,867	7,147	7,984	22,910	28,027	6,085	-0.9
% Change (YoY)	31.0	22.8	18.2	7.2	8.1	17.7	27.3	35.7	19.0	22.3	9.1	-1.0
Provisions	2,364	1,768	1,624	3,715	1,992	2,590	2,695	3,294	9,472	10,570	2,293	-13.1
Profit before Tax	3,214	4,064	3,990	2,170	4,038	4,277	4,451	4,690	13,439	17,456	3,793	6.5
Tax	1,113	1,427	1,390	721	1,411	1,454	1,513	1,557	4,650	5,935	1,290	9.4
Net Profit	2,102	2,637	2,600	1,450	2,627	2,823	2,938	3,133	8,789	11,521	2,503	4.9
% Change (YoY)	25.6	31.0	26.4	-43.5	25.0	7.0	13.0	116.1	5.8	31.1	19.1	5.9
Operating Parameters												
Deposit (INR b)	958.4	972.1	1,005.4	1,119.9	1,112.4	1,226.3	1,279.5	1,332.7	1,119.9	1,332.7	1,184.3	-6.1
Loan (INR b)	763.1	806.5	849.5	919.6	943.0	1,020.7	1,071.3	1,121.9	919.6	1,121.9	974.7	-3.3
Asset Quality												
Gross NPA (INR b)	18.7	19.5	21.6	28.0	28.7	28.7	29.5	28.0	28.0	28.0	29.2	-1.6
Gross NPA (%)	2.4	2.4	2.5	3.0	3.0	2.8	2.7	2.5	3.0	2.5	3.0	0.0
Net NPA (INR b)	10.6	10.7	11.6	15.5	16.2	15.4	15.3	14.8	15.5	14.8	16.0	1.0
Net NPA (%)	1.4	1.3	1.4	1.7	1.7	1.5	1.4	1.3	1.7	1.3	1.6	0.1
PCR (%)	43.2	45.3	46.5	44.5	43.5	46.5	48.0	47.2	44.5	47.2	45.0	-1.5

Source: MOSL, Company

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Exhibit 1: Quarterly Snapshot (INR b)

INR m	FY17				FY18				FY19	Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
Profit and Loss											
Net Interest Income	6,927	7,262	7,914	8,424	8,007	8,989	9,500	9,332	9,801	22	5
Other Income	2,370	2,616	2,747	2,821	3,291	2,872	2,286	3,142	2,709	-18	-14
Total Income	9,297	9,878	10,661	11,245	11,298	11,861	11,786	12,474	12,509	11	0
Operating Expenses	5,039	5,128	5,912	5,753	5,719	6,029	6,172	6,588	6,480	13	-2
Employee	2,894	2,916	3,197	2,630	2,985	3,127	3,005	3,308	3,450	16	4
Others	2,144	2,212	2,714	3,123	2,735	2,902	3,168	3,280	3,030	11	-8
Operating Profits	4,259	4,750	4,749	5,492	5,579	5,832	5,614	5,886	6,029	8	2
Core Operating Profits	3,429	3,890	3,889	4,952	4,459	5,082	5,324	5,666	5,539	24	-2
Provisions	1,685	1,684	1,588	1,227	2,364	1,768	1,624	3,715	1,992	-16	-46
NPA provisions	1,268	980	1,040	770	2,364	1,400	1,200	2,600	1,660	-30	-36
PBT	2,574	3,066	3,161	4,265	3,214	4,064	3,990	2,170	4,038	26	86
Taxes	901	1,053	1,104	1,699	1,113	1,427	1,390	721	1,411	27	96
PAT	1,673	2,013	2,057	2,566	2,102	2,637	2,600	1,450	2,627	25	81
Balance sheet (INR b)											
Deposits	811	863	922	977	958	972	1,005	1,120	1,112	16	-1
CASA Deposits	33	268	320	318	320	320	331	373	372	16	0
% of overall Deposits	32.8	31.0	34.7	32.6	33.4	32.9	33.0	33.3	33.5	0	1
Savings Deposits	28	26	29	27	28	28	28	28	28	1	3
Current Deposits	5	5	6	6	5	5	5	6	5	3	-11
Retail Deposits	793	815	888	919	927	943	966	1,049	1,070	15	2
% of overall Deposits	97.7	94.5	96.2	94.1	96.7	97.0	96.1	93.7	96.2	-1	3
Investments	229	242	285	282	267	263	298	308	283	6	-8
Advances	591	647	696	733	763	806	850	920	943	24	3
Retail	174	200	213	218	222	233	243	257	261	18	2
Total Assets	938	1,005	1,115	1,150	1,164	1,218	1,282	1,383	1,367	17	-1
Asset Quality											
GNPA	17,473	18,197	19,516	17,271	18,679	19,490	21,612	27,956	28,688	54	3
NNPA	9,945	10,397	11,024	9,412	10,613	10,664	11,567	15,520	16,202	53	4
Slippages	2,800	2,660	2,740	2,440	4,250	2,840	4,120	8,720	4,610	8	-47
Ratios (%)											
Asset Quality Ratios	FY17				FY18				Change (%)		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ	
GNPA (%)	2.9	2.8	2.8	2.3	2.4	2.4	2.5	3.0	3.0	58	0
NNPA (%)	1.7	1.6	1.6	1.3	1.4	1.3	1.4	1.7	1.7	33	3
PCR (Calculated, %)	43	43	44	46	43	45	46	44	44	34	-96
Slippage Ratio (%)	2.3	2.1	2.1	1.7	2.9	1.8	2.4	4.8	2.4	-46	-234
Credit Cost (%)	0.9	0.6	0.6	0.4	1.3	0.7	0.6	1.2	0.7	-126	-118
Business Ratios											
Fees to Total Income	12.3	12.7	12.9	15.2	12.9	13.0	13.0	14.6	12.9	-7.3	-174.5
Cost to Core Income	62.5	60.2	63.6	56.8	60.4	57.3	55.9	59.1	56.8	-361.1	-227.0
Tax Rate	35.0	34.3	34.9	39.8	34.6	35.1	34.8	33.2	34.9	32.0	173.9
Loan/Deposit	72.9	75.0	75.5	75.1	79.6	83.0	84.5	82.1	84.8	514.7	265.7
CAR	13.6	12.9	12.3	12.4	15.3	14.6	14.4	14.7	14.5	-78.0	-20.0
Tier I	13.0	12.2	11.6	11.8	14.7	14.1	13.8	14.2	14.0	-71.0	-17.0
Profitability Ratios											
Yield on loans	10.6	10.6	10.5	10.3	10.0	9.5	9.5	9.1	9.1	-86	2
Yield On Investments	7.6	7.4	6.9	6.8	6.8	6.8	6.9	6.8	6.9	4	4
Yield on Funds	9.7	9.6	9.5	9.0	8.8	8.8	8.8	8.4	8.5	-38	11
Cost of Funds	6.4	6.0	6.1	5.7	6.0	5.6	5.6	5.2	5.6	-40	36
Cost of Deposits	6.5	6.4	6.3	6.1	6.1	5.8	5.7	5.8	5.6	-45	-12
NIM	3.3	3.3	3.3	3.4	3.1	3.3	3.3	3.1	3.1	-1	1

Source: MOSL, Company

Exhibit 2: Quarterly performance v/s estimates and reasons for deviation (INR m)

Y/E MARCH	1QFY19A	1QFY19E	Var (%)	Comments
Interest Income	26,674	25,480	5	
Interest Expense	16,873	16,148	4	
Net Interest Income	9,801	9,557	3	Improved margins helped by lower cost of deposit led to NII beat
% Change (YoY)	22.4	19.4		
Other Income	2,709	2,907	-7	Lower treasury gains led to beat on other income
Total Income	12,509	12,464	0	
Operating Expenses	6,480	6,379	2	
Operating Profit	6,029	6,085	-1	
% Change (YoY)	8.1	9.1		
Provisions	1,992	2,293	-13	Provisions lower than expected due to moderated slippages
Profit before Tax	4,038	3,793	6	
Tax	1,411	1,290	9	
Net Profit	2,627	2,503	5	Lower than expected provisions led to PAT beat
% Change (YoY)	25.0	19.1		

Source: MOSL, Company

71% of the wholesale book is now rated A or above, compared to 70% in 1QFY18

Loan growth momentum continues; Corporate/Retail book outside Kerala picking up

- Loan growth of 2.5%/23.6% QoQ/YoY was driven by corporate (31.5%YoY). Retail book also continued strong traction with 19.0% YoY while SME book grew 16.7% YoY. SME book outside Kerala (INR97.5b) showed healthy growth of 24.6% YoY.
- Corporate loan book now constitutes 42.9% of overall loan book; we believe this is largely opportunistic acquisition of new corporate relationships
- Although FB remains committed to its overarching strategy of calibrating its loan mix towards SME and retail lending, we believe that the current environment is offering the bank opportunities to acquire high-quality corporate customers, especially in the mid-corporate space which is the focus area of the bank.

Sharp improvement in asset quality due to controlled slippages

- Slippages moderated to INR4.6b vs INR8.7b in 4QFY18. Slippages in the corporate segment (INR2.1b) grew 23.1% YoY followed by agriculture (+20% YoY). Slippages in the SME segment moderated to ~INR1b down 21.1% YoY.
- Recoveries and upgrades at INR2.4b were 3% higher sequentially, while write-offs came in at INR1.6b
- GNPA increased 2.6% QoQ while NNPA increased 4.4% QoQ on account of moderated slippages. PCR declined to 43.5% from 44.5% in 4QFY18. In percentage terms GNPA was flat whereas NNPA was up only 3bp.
- OSRL book stood at INR5.8b (0.6% of loans). Total stressed assets considering total SR book stands at INR29.6b (3.1% of loans).

Strong CASA growth; Share of retail deposits at 96% of overall deposits

- FB registered CASA growth of 16.2% YoY, driven by 17.5% growth in SA deposits. CASA ratio increased 21bp QoQ to 33.47% from 33.26% in 4QFY18.
- The proportion of retail deposits stood at 96.2%, one of the best within the banking system.

Slippages moderated to INR4.6b in 1QFY19, compared to INR8.7b in 4QFY18

1QFY19 conference call highlights

P&L related

- Provision on SRs: Bank holds INR1.8b of cumulative provisions on SRs. Bank provides every quarter taking into account the NAV; provisions also depend on the redemptions that take place during the quarter
- Bank is committed to bring the CI ratio down; the only line item that could be spoiler would be the pension costs (variable costs).
- Bank is expecting the cost of deposits to be flat for the quarter and then increase from there onwards. Weighted average cost of SA is 3.5%.
- Break-up of provision: INR1.7b for NPAs, INR30m for standard assets and INR1.9b for taxes.
- Blended yield on corporate loans are 9% to 10%, and incremental yields are in the range of 8.5% to 9%.

Balance sheet related

- During the quarter, bank run down its CD book by INR30b as deposits were sufficient to fund credit growth.
- Bank is trading cautiously in one or two geographies in the SME book.
- Gold loan: Retail gold loan has come down for the bank, but agri gold loan is showing good tractions.
- 70% of the book is linked to MCLR; less than 10% of the book is linked to external benchmark and/or 3-6 months MCLR.

Business updates and guidance

- FedFina has got a strategic partner, final nod is awaited from regulator.
- Bank is still exploring options for the BC partner to enter into the MFI business.
- FY19 credit costs: ~65bp to 70bp.
- Stressed assets: 1.70% to 1.75% (currently 2.01% of the total assets).
- Bank has guided for INR11b of slippages for the full year (Air India is not considered in the guidance).

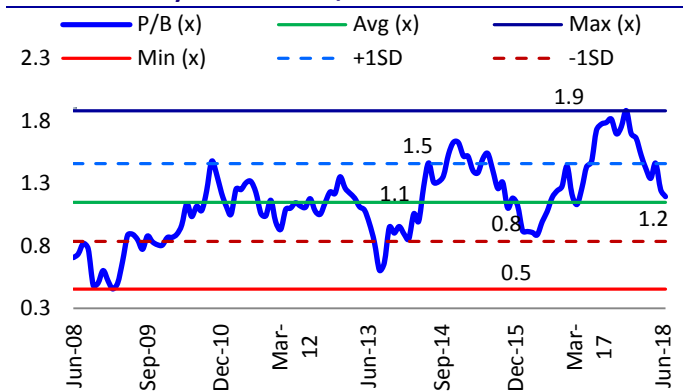
Valuation and view

- FB's cautious approach to loan growth over the past few years is now beginning to manifest itself in a calibrated loan mix towards highly-rated corporate assets and retail loans, resulting in upward-trending risk-adjusted NIMs (likely to settle upwards of 3% over the next 12 months).
- 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, we believe FB's loan growth engine is perfectly poised to fire. Our confidence also stems from the structural process improvements in its corporate underwriting procedures, which will drive the quality of FB's incremental loan growth (23% CAGR over FY18-FY20E).
- 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.

Buy with a target price of
INR110 (1.7x FY20E ABV)

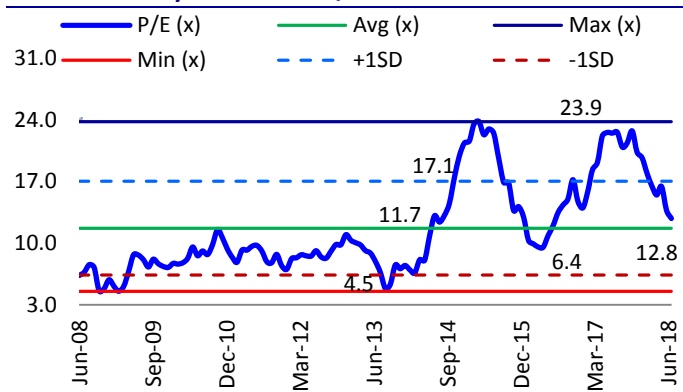
- We expect PAT CAGR of ~33% over FY18-20E. Stock trades at FY20 PE and PABV of 11.2x/1.4x. On the back of a healthy capitalization ratio (Tier 1 of 14.02%) and improving ROE profile, we **maintain Buy** with a target price of INR110 (1.7x FY20E ABV).

Exhibit 3: One year forward P/BV



Source: MOSL, Company

Exhibit 4: One year forward P/E



Source: MOSL, Company

Exhibit 5: We largely maintain our estimates

(INR b)	Old Estimates		Revised Estimates		Change (%)	
	FY19	FY20	FY19	FY20	FY19	FY20
Net Interest Income	43.4	54.1	42.7	51.5	-1.7	-4.8
Other Income	13.2	15.2	13.3	15.5	0.9	1.8
Total Income	56.7	69.3	56.0	67.0	-1.1	-3.4
Operating Expenses	29.0	33.1	28.0	31.6	-3.4	-4.5
Operating Profits	27.7	36.2	28.0	35.3	1.3	-2.3
Provisions	10.4	11.6	10.6	11.7	1.4	1.1
PBT	17.2	24.6	17.5	23.6	1.3	-3.9
Tax	5.9	8.3	5.9	8.0	1.3	-3.9
PAT	11.4	16.2	11.5	15.6	1.3	-3.9
Loans	1,140	1,403	1,122	1,402	-1.6	0.0
Deposits	1,378	1,681	1,333	1,613	-3.3	-4.0
Margins (%)	3.12	3.23	3.09	3.09		
Credit Cost (%)	0.90	0.82	0.93	0.83		
RoA (%)	0.8	0.9	0.8	0.9	0.7	-5.5
RoE (%)	9.0	11.7	9.1	11.2	1.2	-3.8
EPS	5.8	8.2	5.8	7.9	1.3	-3.9
BV	66.6	74.0	66.7	73.8	0.1	-0.3
ABV	59.5	66.4	58.9	65.4	-1.0	-1.5

Source: MOSL, Company

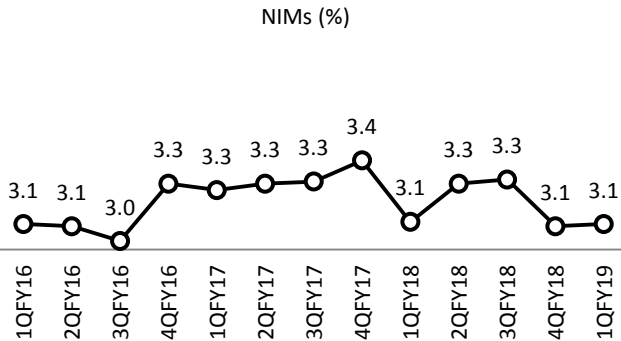
Exhibit 6: DuPont Analysis: Operating performance improvement will drive profitability

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	9.37	9.54	9.42	8.89	8.41	7.70	8.31	8.35
Interest Expense	6.37	6.48	6.40	6.01	5.45	4.87	5.47	5.49
Net Interest Income	3.00	3.06	3.02	2.88	2.96	2.83	2.84	2.85
Core Fee Income	0.62	0.68	0.66	0.68	0.70	0.77	0.76	0.75
Trading and others	0.39	0.27	0.46	0.25	0.35	0.15	0.13	0.11
Non Interest income	1.01	0.95	1.12	0.93	1.05	0.92	0.89	0.86
Total Income	4.01	4.01	4.14	3.81	4.01	3.74	3.72	3.71
Operating Expenses	1.79	1.98	2.07	2.17	2.14	1.94	1.86	1.75
Employee cost	0.95	1.06	1.13	1.21	1.13	0.98	0.96	0.89
Others	0.84	0.92	0.94	0.96	1.01	0.95	0.90	0.86
Operating Profits	2.22	2.03	2.07	1.63	1.87	1.81	1.86	1.96
Core Operating Profits	1.83	1.76	1.61	1.39	1.51	1.66	1.74	1.85
Provisions	0.40	0.37	0.14	0.81	0.60	0.75	0.70	0.65
NPA	0.29	0.31	0.26	0.64	0.39	0.52	0.41	0.39
Others	0.12	0.06	-0.12	0.17	0.21	0.23	0.29	0.26
PBT	1.8	1.7	1.9	0.8	1.3	1.1	1.16	1.31
Tax	0.54	0.51	0.65	0.28	0.46	0.37	0.39	0.44
RoA	1.3	1.2	1.3	0.5	0.8	0.7	0.77	0.86
Leverage (x)	10.9	10.9	10.7	11.0	12.1	12.0	11.9	13.0
RoE	13.9	12.6	13.7	6.0	9.8	8.3	9.1	11.2

Source: MOSL, Company

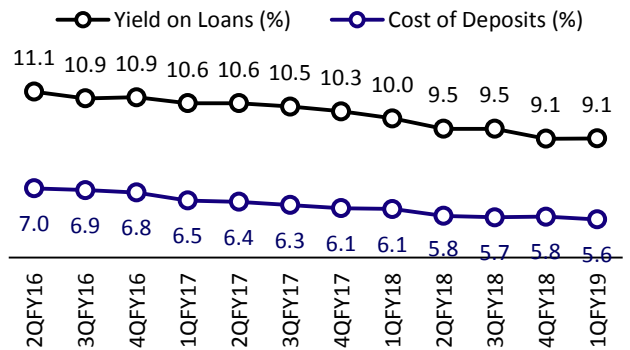
Story in charts

Exhibit 7: NIMs improved 1bp QoQ to 3.12%



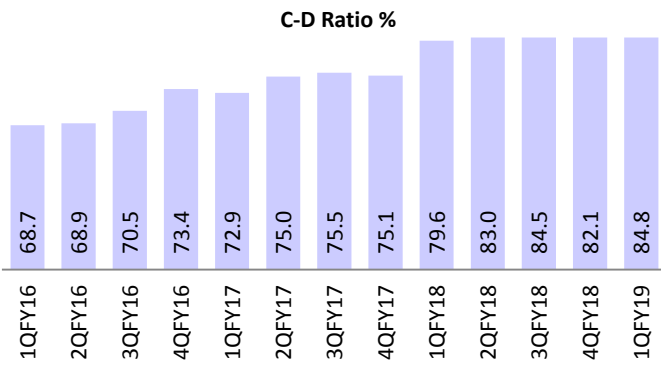
Source: MOSL, Company

Exhibit 8: Yields declined by 2 bps; COD was down 12bp QoQ



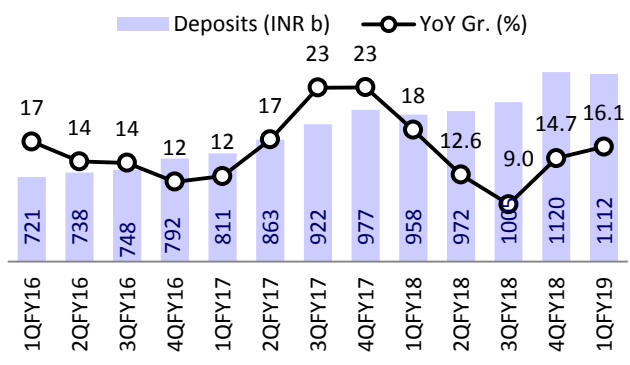
Source: MOSL, Company

Exhibit 9: CD ratio (84.8%) was up 266bp QoQ



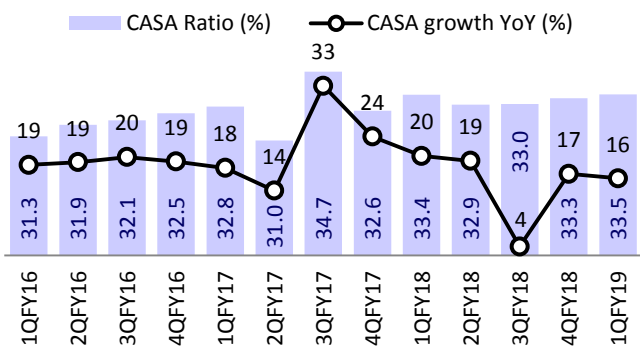
Source: Company, MOSL

Exhibit 10: Deposit growth came in at ~16% YoY



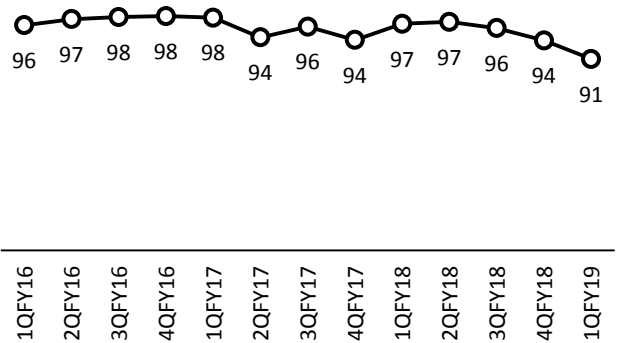
Source: Company, MOSL

Exhibit 11: CASA deposits grew 16.2% YoY



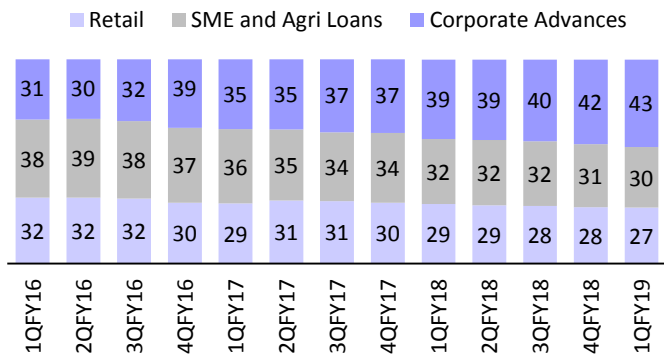
Source: MOSL, Company

Exhibit 12: Proportion of retail deposits remains high (%)



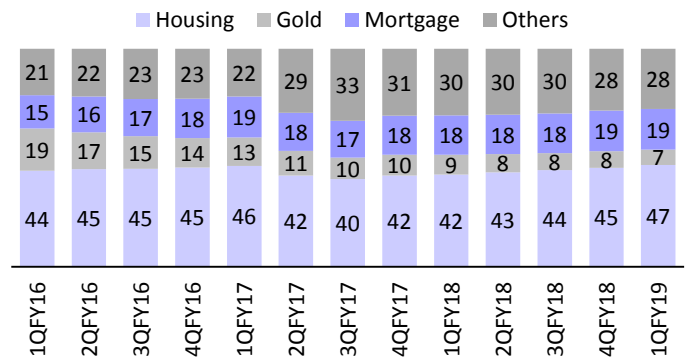
Source: MOSL, Company

Exhibit 13: Corporate book constitutes ~43% of the total loan book (+393bp YoY)



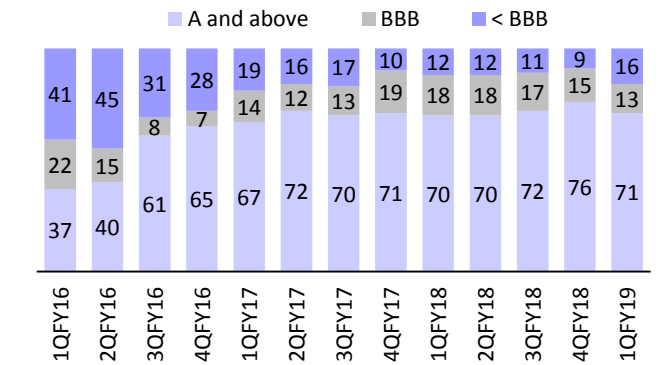
Source: MOSL, Company

Exhibit 14: Declining emphasis on bulk gold lending



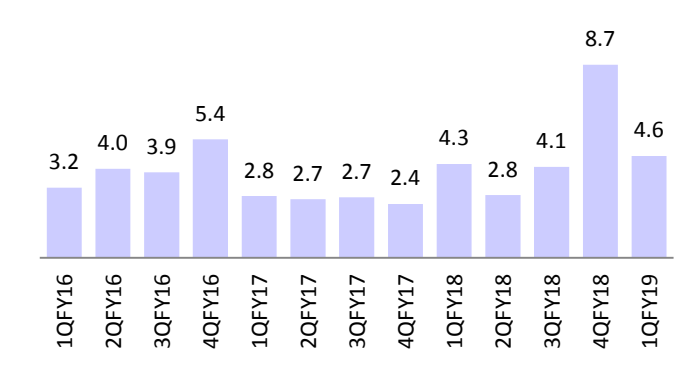
Source: MOSL, Company

Exhibit 15: Share of A & above remains healthy



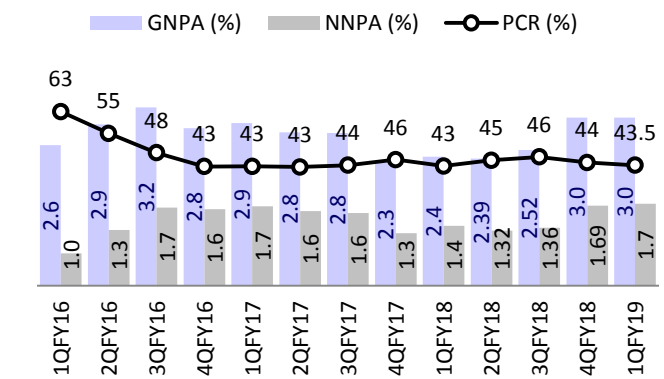
Source: MOSL, Company

Exhibit 16: Slippages moderated to INR4.6b in the quarter



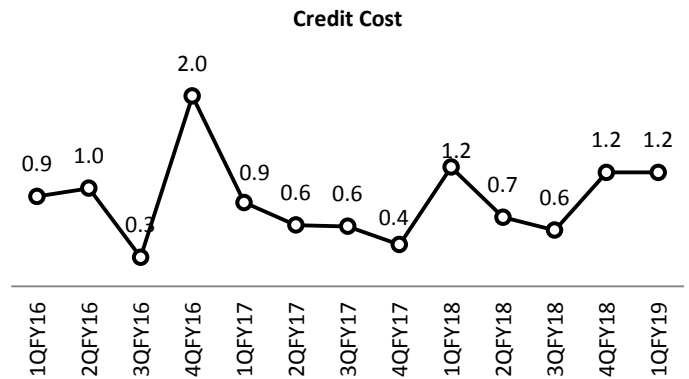
Source: MOSL, Company

Exhibit 17: GNPA(%) was flat sequentially; PCR decreases to 43.5% (vs 44.5% in 4QFY18)



Source: MOSL, Company

Exhibit 18: Credit cost at 1.2% was flat sequentially



Source: MOSL, Company

Financials and Valuations

Income Statement

(INR Million)

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Interest Income	61,676	69,461	74,195	77,482	86,774	97,529	1,25,094	1,50,782
Interest Expense	41,929	47,175	50,391	52,404	56,247	61,701	82,391	99,255
Net Interest Income	19,747	22,286	23,804	25,077	30,526	35,828	42,703	51,527
Growth (%)	1.1	12.9	6.8	5.3	21.7	17.4	19.2	20.7
Non Interest Income	6,644	6,938	8,783	8,082	10,818	11,591	13,330	15,463
Total Income	26,391	29,225	32,587	33,159	41,345	47,419	56,033	66,990
Growth (%)	6.2	10.7	11.5	1.8	24.7	14.7	18.2	19.6
Operating Expenses	11,795	14,421	16,309	18,921	22,095	24,509	28,006	31,645
Pre Provision Profits	14,596	14,804	16,278	14,238	19,249	22,910	28,027	35,345
Growth (%)	-3.1	1.4	10.0	-12.5	35.2	19.0	22.3	26.1
Core PPP	12,538	13,242	13,721	12,963	16,163	21,009	26,126	33,444
Growth (%)	-12.0	5.6	3.6	-5.5	24.7	30.0	24.4	28.0
Provisions (excl tax)	2,658	2,684	1,067	7,041	6,184	9,472	10,570	11,745
PBT	11,938	12,120	15,210	7,197	13,065	13,439	17,456	23,600
Tax	3,556	3,731	5,153	2,440	4,757	4,650	5,935	8,024
Tax Rate (%)	29.8	30.8	33.9	33.9	36.4	34.6	34.0	34.0
PAT	8,382	8,389	10,057	4,757	8,308	8,789	11,521	15,576
Growth (%)	7.9	0.1	19.9	-52.7	74.7	5.8	31.1	35.2

Balance Sheet

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Equity Share Capital	3,421	3,421	3,427	3,438	3,448	3,944	3,944	3,944
Reserves & Surplus	60,225	66,085	73,955	77,474	84,108	1,18,158	1,27,638	1,41,552
Net Worth	63,647	69,506	77,381	80,912	87,556	1,22,102	1,31,582	1,45,496
Deposits	5,76,149	5,97,313	7,08,250	7,91,717	9,76,646	11,19,925	13,32,711	16,12,580
Growth (%)	17.7	3.7	18.6	11.8	23.4	14.7	19.0	21.0
of which CASA Dep	1,56,521	1,86,638	2,17,835	2,60,526	3,20,528	3,72,520	4,42,845	5,40,680
Growth (%)	16.1	19.2	16.7	19.6	23.0	16.2	18.9	22.1
Borrowings	51,870	56,880	23,082	21,766	58,973	1,15,335	1,35,248	1,96,109
Other Liabilities & Prov.	18,831	22,243	19,791	19,905	26,594	25,777	28,355	31,191
Total Liabilities	7,10,496	7,45,941	8,28,505	9,14,300	11,49,769	13,83,140	16,27,895	19,85,376
Current Assets	37,200	45,294	47,800	54,198	74,522	92,034	88,078	1,08,521
Investments	2,11,546	2,41,179	2,05,688	2,22,175	2,81,961	3,07,811	3,56,316	4,07,019
Growth (%)	21.6	14.0	-14.7	8.0	26.9	9.2	15.8	14.2
Loans	4,40,967	4,34,361	5,12,850	5,80,901	7,33,363	9,19,575	11,21,881	14,02,351
Growth (%)	16.8	-1.5	18.1	13.3	26.2	25.4	22.0	25.0
Fixed Assets	3,975	4,250	4,666	5,200	4,895	4,574	5,976	6,574
Other Assets	16,808	20,859	57,500	51,826	55,029	59,146	55,644	60,910
Total Assets	7,10,496	7,45,941	8,28,505	9,14,300	11,49,769	13,83,140	16,27,895	19,85,376

Asset Quality

GNPA (INR m)	15,540	10,874	10,576	16,677	17,270	27,956	28,024	29,510
NNPA (INR m)	4,319	3,216	3,733	9,500	9,412	15,520	14,801	15,332
GNPA Ratio	3.4	2.5	2.0	2.8	2.3	3.0	2.5	2.1
NNPA Ratio	1.0	0.7	0.7	1.6	1.3	1.7	1.3	1.1
Slippage Ratio	2.14	1.18	1.87	3.70	1.85	2.41	1.7	1.5
Credit Cost	0.58	0.55	0.55	1.07	0.74	0.88	0.8	0.8
PCR (Excl Tech. write off)	72.2	70.4	64.7	43.0	45.5	44.5	47.2	48.0

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Yield and Cost Ratios (%)								
Avg. Yield-Earning Assets	10.1	10.3	10.4	10.0	9.3	8.4	9.0	9.0
Avg. Yield on loans	11.3	11.4	11.5	10.4	10.0	9.1	9.9	9.8
Avg. Yield on Investments	7.6	7.8	7.4	8.2	7.1	6.6	6.5	6.5
Avg. Cost-Int. Bear. Liab.	7.2	7.4	7.3	6.8	6.1	5.4	6.1	6.1
Avg. Cost of Deposits	7.2	7.2	7.1	6.7	6.1	6.1	6.1	6.1
Avg. Cost of Borrowings	7.5	9.3	10.3	8.0	5.5	4.0	5.6	5.6
Interest Spread	2.8	2.9	3.2	3.2	3.2	3.0	2.9	3.0
Net Interest Margin	3.2	3.3	3.3	3.2	3.3	3.1	3.1	3.1
Capitalisation Ratios (%)								
CAR	14.7	15.1	15.5	13.9	12.4	14.7	13.2	11.9
Tier I	14.1	14.6	14.8	13.4	11.8	14.2	12.8	11.6
Tier II	0.6	0.5	0.7	0.6	0.6	0.5	0.4	0.3
Business and Efficiency Ratios (%)								
Loans/Deposit Ratio	76.5	72.7	72.4	73.4	75.1	82.1	84.2	87.0
CASA Ratio	27.2	31.2	30.8	32.9	32.8	33.3	33.2	33.5
Cost/Assets	1.7	1.9	2.0	2.1	1.9	1.8	1.7	1.6
Cost/Total Income	44.7	49.3	50.0	57.1	53.4	51.7	50.0	47.2
Cost/Core Income	48.5	52.1	54.3	59.3	57.8	53.8	51.7	48.6
Int. Expense/Int.Income	68.0	67.9	67.9	67.6	64.8	63.3	65.9	65.8
Fee Income/Net Income	15.6	17.0	15.8	17.8	17.4	20.4	20.4	20.2
Non Int. Inc./Net Income	25.2	23.7	27.0	24.4	26.2	24.4	23.8	23.1
Empl. Cost/Op. Exps.	53.1	53.5	54.7	55.6	52.7	50.7	51.5	50.7
Investment/Deposit Ratio	36.7	40.4	29.0	28.1	28.9	27.5	26.7	25.2
Profitability Ratios and Valuation								
RoE	13.9	12.6	13.7	6.0	9.9	8.3	9.1	11.2
RoA	1.3	1.2	1.3	0.5	0.8	0.7	0.8	0.9
RoRWA	1.9	1.8	2.0	0.8	1.1	1.1	1.2	1.3
Book Value (INR)	37.2	40.6	45.2	47.1	50.8	61.9	66.7	73.8
Growth (%)	11.5	9.2	11.2	4.2	7.9	21.9	7.8	10.6
Price-BV (x)						1.4	1.3	1.2
Adjusted BV (INR)	35.6	39.4	43.7	43.5	47.2	54.2	58.9	65.4
Price-ABV (x)						1.6	1.5	1.4
EPS (INR)	4.9	4.9	5.9	2.8	4.8	4.8	5.8	7.9
Growth (%)	7.9	0.1	19.7	-52.9	74.1	-1.3	22.8	35.2
Price-Earnings (x)						18.6	15.1	11.2
Dividend Per Share (INR)	0.9	1.0	1.1	0.7	1.1	0.8	0.8	0.8
Dividend Yield (%)					1.2	0.9	1.0	1.0

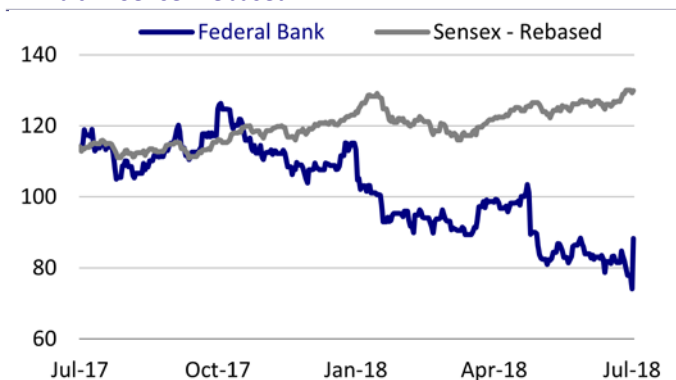
E: MOSL Estimates

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 1,252 branches and 1,655 ATMs across the country.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	0.0	0.0	0.0
DII	30.5	34.2	30.3
FII	38.8	37.4	32.5
Others	30.6	28.3	37.1

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
YUSUFFALI MUSALIAM VEETIL ABDUL KADER	3.8
HDFC TRUSTEE COMPANY LTD A/c HDFC Arbitrage fund	3.6
ICICI PRUDENTIAL MID CAP FUND	3.3
AMANSA HOLDINGS PRIVAT LIMITED	2.9
EAST BRIDGE CAPITAL MASTER FUND LIMITED	2.5

Source: Capitaline

Exhibit 4: Top management

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

Source: Capitaline

Exhibit 5: Directors

Name	Name
Dilip Gena Sadarangani	Grace Elizabeth Koshie
Harish H Engineer	K M Chandrasekhar
Nilesh S Vakamsey	Sudhir M Joshi
Balagopal Chandrasekhar	Shubhalakshmi Panse

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells	Statutory
M P Chitale & Co	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	5.8	6.5	-11.1
FY20	7.9	8.2	-3.6

Source: Bloomberg

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 becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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Analyst ownership of the stock	No

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