

Banks

Company Overview

Incorporated in 1931, Federal Bank Limited (FBL) operates through four segments: Treasury, Corporate, Retail Banking and other banking operations. The Treasury operations include trading and investments in government and corporate debt instruments, equity and mutual funds, derivative trading and foreign exchange operations on account and for customers. The Corporate Banking segment provides loans and other banking services to corporate and other clients. Retail banking segment provides lending to individuals/small business customers, other than corporate banking customers. It is also engaged in other banking operations segment such as para banking activities, third party product distribution and other banking transactions. Currently, it has 1,251 branches and over 1,942 automatic teller machines (ATMs) across 25 states and 4 union territories.

Investment Rationale

Moderate operational performance coupled with growth in deposit base

In Q2FY20, Federal bank's total loans & advances registered a comparatively lower 15% YoY growth with retail 25% and agriculture segment growing at 25% and 21% respectively on a YoY basis. With wholesale to retail advances in 51:49 proportion, the bank increased the market share in advances by 4bps YoY to 1.16%. On deposit front, bank has gained surplus traction such as rise in market share by 7bps on a YoY basis to 1.07%, with a marginal 11bps sequential increase in CASA ratio which currently stands at 31.55%. Going ahead, we expect better performance and rising market share will help the bank to stand ahead over its competitors.

Reduction in cost to income ratio led by increase in net banking system

Bank has been launching various new innovative products which has increased the participation via net banking. Currently, bank has a total active digital users of ~11.82 lakh. In FY19, bank witnessed a steep rise in digital transaction which has led to a 60% growth on yearly basis. Therefore, the use of digital facility and an increase in transaction will help to lower its operating expenses which ultimately will help to reduce its cost to Income ratio in long run.

Valuation and outlook

Federal Bank's strong management and its strategic focus on improving retail business, rising digital transactions and reducing stress would enable to augur healthy performance going forward. With improving return ratios led by margin expansion, operating leverage and stable asset quality levels, RoA is seen increasing to 0.9% and RoE to 12.4% by FY21E respectively. All these factors contribute our positive view towards the bank. We, therefore recommend a BUY on the bank assigning a P/BV multiple of 1.2x of FY21 book value implying a target price of INR 106.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	89
Target Price (INR)	106
NSE Symbol	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO

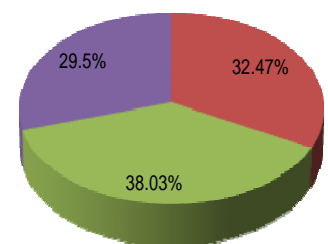
Key Data

Nifty	12,257
52WeekH/L(INR)	110/78
O/s Shares (Mn)	1992.8
Market Cap (INR bn)	176
Face Value (INR)	2

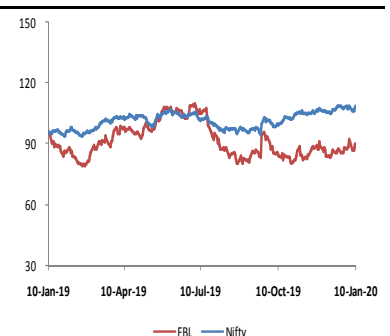
Average volume

3 months	13,229,910
6 months	13,246,960
1 year	13,096,930

Share Holding Pattern (%)



Relative Price Chart



Weekly Wealth

Key Financials

YE March (INR mn)	FY17	FY18	FY19	FY20E	FY21E
Net Interest Income	30,526	35,828	41,763	47,234	54,366
<i>Revenue Growth (Y-o-Y)</i>	21.7%	17.4%	16.6%	13.1%	15.1%
Pre-Provisioning Profits	19,249	22,910	27,631	30,698	36,838
<i>Growth (Y-o-Y)</i>	35.2%	19.0%	20.6%	11.1%	20.0%
Net Profit	8,308	8,788	12,439	15,922	20,062
<i>Net Profit Growth (Y-o-Y)</i>	2.3%	5.8%	41.5%	28.0%	26.0%
EPS	4.2	4.4	6.3	8.0	10.1
<i>Diluted EPS Growth (Y-o-Y)</i>	3.5%	5.8%	41.5%	28.0%	26.0%

Key Ratios

NIM(%)	3.3%	3.1%	3.1%	3.0%	3.1%
ROA (%)	0.7%	0.6%	0.8%	0.9%	0.9%
RoE (%)	9.7%	7.4%	9.5%	11.0%	12.4%
BV per share (INR)	43.3	59.8	65.9	72.5	81.2

Valuation Ratios

P/E (x)	21.3x	20.1x	14.2x	11.1x	8.8x
P/BV (x)	2.1x	1.5x	1.4x	1.2x	1.1x



Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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