



Federal Bank Q1 FY17 Quarterly Update

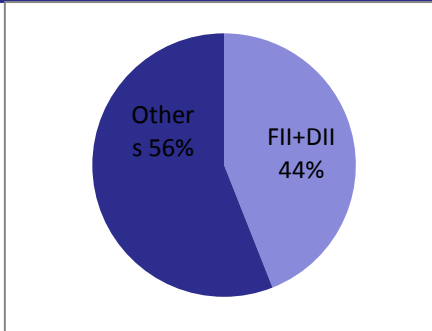
MARKET DATA

Net worth (FY17E)(Rs. Crs)	8,545
P/BV Ratio (FY17E) (x)	1.3
EPS (FY17E) (Rs.)	3.9
Market Price (Rs.)	65
P/E Ratio (FY17E) (x)	16.3
52 Week High(5/8/2015)(Rs)	70
52 Week Low (12/2/2016)(Rs)	41
Market Capitalisation (Rs. crs)	11,176

AVERAGE MONTHLY VOLUME ('000)

BSE	1,081
NSE	9,411

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Federal Bank	36%	37%	-5%
Sensex	8%	14%	2%

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In Q1 FY17, Federal Bank reported PAT of Rs. 168crs (19% y-o-y) which was largely attributable to higher NII (14% y-o-y), better CASA ratio (32.83%) and higher other income (23% y-o-y). Lower corporate slippages contained overall asset quality even as SME slippages were higher as previously guided by the management. The bank reported a robust loan growth of 19% y-o-y in advances.

■ Healthy loan book growth led by corporate and SME

Advances in Q1 FY17 grew by 19% y-o-y to Rs. 591bn. This growth was primarily led by Corporate and SME book which grew by 37% & 18% respectively. Retail ex gold book grew by 17% y-o-y while Agri book grew by 5% y-o-y. Loan book is well diversified with Retail, SME, Agri and Corporate exposure of 29%, 25%, 11% and 34% respectively. Gold loan book continued to drag the retail book as it de-grew by 27% y-o-y. Rating profile of the corporate book has shown remarkable improvement with the share of AAA/AA corporates standing at 51% in Q1FY17 against 24% in Q1 FY16. We expect loan book to grow by 18% both in FY17E & FY18E. The shift in the credit towards well rated companies and bringing higher rigour to the credit underwriting process across all verticals will further strengthen their risk mitigation mechanism.

■ Improvement in NIMs led by increased CD ratio

NIMs improved by 16bps over the corresponding period to 3.28% led by increase in C/D ratio which improved by 418bps y-o-y to 73%. CASA ratio for Q1 FY17 improved by 157bps y-o-y to 32.8%. The impact of MCLR will put some pressure on the NIMs going ahead. We expect NIMs to be in the range of 3%-3.1% for FY17E & FY18E. The bank has improved its market share in the remittance to 12% from ~20%. Cost to income ratio decreased by 15bps y-o-y to 54.2% due to better income profile and some new branches have started contributing to the income.

■ Stable asset quality

Fresh slippages were lower by 66bps (y-o-y) at 1.9% largely due to lower corporate slippages (Rs. 45crs vs Rs. 143crs in Q1 FY16). However, SME slippages (Rs. 134crs vs Rs. 109crs in Q1 FY16) were elevated as guided by the management. GNPA & NNPA remained stable at 2.92% & 1.68% respectively. Outstanding Security Receipts and standard restructured book as at Q1 FY17 stood at Rs. 635crs & Rs. 1,348crs respectively. After SEB accounts out from the restructured book, management expects no major slippages from the restructured book except for 4 accounts which are worth Rs. 200crs. We expect credit cost to be 0.88% & 0.65% for FY17E & FY18E respectively.

■ Outlook & Valuation

We believe worst is behind for Federal Bank in terms of asset quality. Further, the management's focus on improving process and digital footprint is positive as it will bring down the C/I ratio going ahead. Loan book is also expected to grow robustly as witnessed over the last 6 months, where the bank's loan book has outgrown the industry growth rate of ~10%. The Management has made provision for the stressed assets (not NPA yet) and accelerated provisioning for existing NPA. We expect loan book to grow at 18% CAGR (FY16-18E) with RoA and RoE towards 0.8% and 10% by FY18E. We recommend a HOLD rating with a target price Rs.73 (1.8x FY17E Adj.BV of Rs.41 after providing for 70% provisioning on GNPA & Security Receipts and 50% on restructured assets).

Quarterly Performance:

Particulars Rs. Cr	Q1 FY17	Q1 FY16	y-o-y	Q4 FY16	q-o-q	FY16	FY15	y-o-y
Net Interest Income	692	605	14%	686	1%	2,504	2,380	5%
Other Income	238	194	23%	227	5%	786	878	-10%
Total Income	930	799	16%	913	2%	3,291	3,259	1%
Operating Expenses	504	431	17%	518	-3%	1,867	1,631	14%
PPOP*	426	367	16%	395	8%	1,424	1,628	-13%
Total Provisions	168	153	10%	389	-57%	704	107	559%
PBT	258	214	20%	6	4282%	720	1,521	-53%
Taxes	90	73	24%	(4)	-2156%	244	515	-53%
PAT	168	141	19%	10	1534%	476	1,006	-53%



Q1 FY17 CONFERENCE CALL HIGHLIGHTS: -

- Loan Book

SME loans are majorly working capital loans outside Kerala to the mid-corporate and well rated corporate. Average ticket size for SME loans – Rs. 40-50lacs.

Management is seeing challenges in gold loan book especially retail gold loan book. Agri gold loan book is doing well.

Loan book growth is mainly coming from existing customers where bank has good relationships.

Management intends to raise business share of wallets and well-rated high corporates

- Asset Quality

Management guided that corporate exposure of Rs. 200crs (4 accounts) coming out of the moratorium period in Q2 & Q3 will be the only slippages from the corporate segment as for FY17E. Slippage from restructured book stands at Rs. 4crs.

Retail slippages run-rate should remain in the range of Rs. 50-60crs mainly coming from Kerala

SME slippages are going to remain at the upper end with the run-rate of ~Rs. 130crs, but these have better collateral than the large corporates.

Movement of NPA: Recovery- Rs. 83crs; Write offs – Rs. 93crs and no Sales to ARC during the quarter. No SDR and 5:25 refinancing during this quarter.

- Deposit growth was intentionally calibrated since there is sufficient headroom on the loan- to-deposit ratio which currently stands at 73%.
- NIMs guidance in the range of 3.1-3.2% going ahead



QUARTERLY PERFORMANCE:

Particulars (amt in Rs. Crs)	Jun-16	Jun-15	y-o-y	Mar-16	q-o-q	FY16	FY15	y-o-y
Interest Income	2,013	1,913	5%	2,027	-1%	7,745	7,420	4%
Interest Expenses	1,321	1,308	1%	1,341	-1%	5,240	5,039	4%
Net Interest Income	692	605	14%	686	1%	2,504	2,380	5%
Other Income	238	194	23%	227	5%	786	878	-10%
Fee Income (includes forex)	142	127	12%	162	-12%	546	542	1%
Total Income	930	799	16%	913	2%	3,291	3,259	1%
Operating Expenses	504	431	17%	518	-3%	1,867	1,631	14%
Employee	289	252	15%	293	-1%	1,053	892	18%
Others	214	179	20%	225	-5%	814	739	10%
Operating Profits before provisions	426	367	16%	395	8%	1,424	1,628	-13%
Total Provisions	168	153	10%	389	-57%	704	107	559%
PBT	258	214	20%	6	4282%	720	1,521	-53%
Taxes	90	73	24%	(4)	-2156%	244	515	-53%
PAT	168	141	19%	10	1534%	476	1,006	-53%
EPS	1.0	1.7	-41%	0.1	1534%	3	12	-76%
Asset Quality								
GNPA Rs. Cr	1,747	1,305	34%	1,668	5%	1,668	1,058	58%
NNPA Rs. Cr	996	484	105%	950	5%	950	373	154%
GNPA %	2.92	2.59	33	2.84	8	2.84	2.04	80
NNPA %	1.68	1.0	70	1.64	4	1.64	0.73	91
PCR % Reported	72.09	80.53	-844	72.05	4	72.05	83.94	-1189
Slippages	280	317	-12%	536	-48%	1,829	773	137%
Slippage Ratio %	1.89	2.56	-66	3.69	-180	3.15	1.51	164
Restructured Assets	1,348	2,583	-48%	1,382	-2%	1,590	2,600	-39%
Restructured assets % of advances	2.3	5.2	-56%	2.4	-4%	2.7	5.1	-46%
Credit Cost %	1.14	1.24	-10	2.68	-154	1.21	0.21	100
Ratios %								
Fees to Advances	0.96	1.03	-6	1.12	-15	0.94	1.06	-12
Cost to Income ratio	54.18	54.02	15	56.78	-260	56.73	50.05	668
Tax Rate	34.96	33.96	99	-74.49	10945	33.90	33.88	2
Loan/Deposit	72.87	68.69	418	73.37	-51	73.37	72.41	96
CASA %	32.83	31.26	157	32.47	36	32.47	30.43	204
RoA %	0.19	0.70	-51	0.05	14	0.05	1.32	-127
RoE %	8.37	7.25	112	0.50	787	0.50	13.75	-1325
CAR (Basel III) %	13.59	15.07	-148	13.93	-34	13.93	15.46	-153
Tier I %	12.99	14.4	-141	13.36	-37	13.36	14.81	-145
Tier II %	0.6	0.67	-7	0.57	3	0.57	0.65	-8
Opex to Loan book	3.41	3.48	-7	3.57	-16	3.21	3.18	3
Quarterly NIMs	3.28	3.12	16	3.31	-3	3.31	3.27	4
BV-Calculated	48	92	-48%	47	2%	47	91	-48%
Adjusted Net worth	7,265	7,405	-2%	7,142	2%	7,142	7,385	-3%
Adj. BV	42	86	-51%	42	2%	42	86	-52%
Balance sheet								
Capital	344	171	101%	344	0%	344	171	101%
Net Worth	8,260	7,889	5%	8,092	2%	8,092	7,758	4%
FV	2	2		2		2	2	
Deposits	81,132	72,140	12%	79,172	2%	79,172	70,825	12%
Investments	22,851	23,164	-1%	22,217	3%	22,217	24,409	-9%
Loans	59,118	49,552	19%	58,090	1.8%	58,090	51,285	13%

* Adj. Net worth = Reported Net worth – NNPA

Source: Company, Dimensional Securities



ROA TREE:

Particulars	Jun-16	Mar-16	Dec-15	Sep-15	Jun-15	FY16	FY15
Interest Income	9.0%	9.3%	9.1%	9.2%	9.6%	8.9%	9.4%
Interest Expenses	5.9%	6.2%	6.2%	6.3%	6.5%	6.0%	6.4%
Net Interest Income	3.1%	3.1%	2.9%	3.0%	3.0%	2.9%	3.0%
Other Income	1.1%	1.0%	0.9%	0.9%	1.0%	0.9%	1.1%
Fee Income	0.6%	0.7%	0.6%	0.7%	0.6%	0.6%	0.7%
Total Income	4.2%	4.2%	3.8%	3.8%	4.0%	3.8%	4.1%
Operating Expenses	2.3%	2.4%	2.2%	2.2%	2.2%	2.1%	2.1%
Employee	1.3%	1.3%	1.2%	1.2%	1.3%	1.2%	1.1%
Others	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%
Operating Profits before provisions	1.9%	1.8%	1.6%	1.6%	1.8%	1.6%	2.1%
Total Provisions	0.8%	1.8%	0.4%	0.4%	0.8%	0.8%	0.1%
PBT	1.2%	0.0%	1.2%	1.2%	1.1%	0.8%	1.9%
Taxes	0.4%	0.0%	0.4%	0.4%	0.4%	0.3%	0.7%
PAT (RoA)	0.8%	0.0%	0.8%	0.8%	0.7%	0.5%	1.3%
Average Assets/Average Equity	11.03	10.99	10.56	10.64	10.64	10.99	10.70
RoE	8.3%	0.5%	8.2%	8.3%	7.5%	6.0%	13.7%

Source: Company, Dimensional Securities

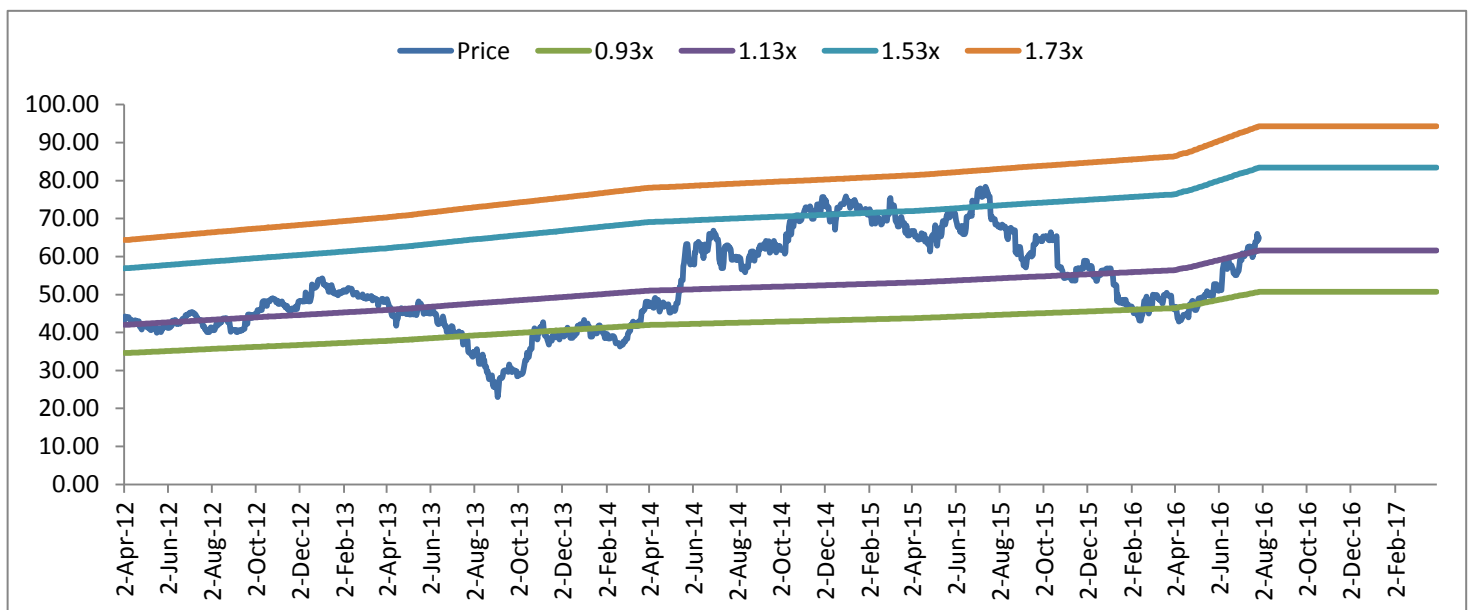
OUTLOOK & VALUATION: -

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P/BV (Forward)



Source: Company, Dimensional Securities

**PROFIT & LOSS STATEMENT:**

Particulars, Rs Cr	FY14	FY15	FY16	FY17E	FY18E
Interest Earned	6,946	7,419	7,745	8,412	9,633
Interest expended	4,717	5,039	5,240	5,646	6,416
Net Interest Income	2,229	2,380	2,505	2,765	3,217
Other Income	694	878	786	904	1,039
NII+ Other Inc.	2,922	3,259	3,291	3,669	4,257
Employees Cost	772	892	1,053	1,178	1,317
Op, Admin & Other expenses	671	739	814	908	1,015
Profit Before Provision & Contingencies	1,480	1,628	1,424	1,582	1,925
Provisions & Contingencies	268	107	704	604	530
PBT	1,212	1,521	720	979	1,396
Provision for Tax	373	515	244	339	483
PAT	839	1,006	476	640	913

Source: Company, Dimensional Securities

BALANCE SHEET STATEMENT:

Particulars, Rs. Cr	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS :					
Capital	342	343	343	343	343
Reserves	6,608	7,395	7,748	8,168	8,860
Deposits	59,731	70,825	79,171	90,256	104,697
Borrowings	5,688	2,308	2,177	2,673	3,154
Other Liabilities	2,224	1,979	1,981	2,585	3,114
TOTAL LIABILITIES	74,594	82,850	91,420	104,024	120,168
APPLICATION OF FUNDS :					
Cash & Bank Balances	4,529	4,780	5,420	5,208	4,963
Investments	24,118	24,409	22,217	24,439	28,105
Advances	43,436	51,285	58,090	68,546	80,885
Fixed Assets	425	467	520	533	568
Other Assets	2,086	1,910	5,174	5,299	5,648
TOTAL ASSETS	74,594	82,850	91,421	104,024	120,168

Source: Company, Dimensional Securities



RATIOS:

Particulars	FY14	FY15	FY16	FY17E	FY18E
Spread Analysis					
Yield on Earning Assets	9.9%	9.8%	9.4%	9.2%	9.2%
Cost of Funds	7.1%	7.1%	6.6%	6.3%	6.2%
Interest Spread	2.8%	2.7%	2.8%	2.9%	3.0%
Net Interest Margin	3.2%	3.1%	3.0%	3.0%	3.1%
Profitability Ratio					
RoE, %	12.6%	13.7%	6.0%	7.7%	10.3%
RoA, %	1.2%	1.3%	0.5%	0.7%	0.8%
Interest Expense/Interest Income	67.9%	67.9%	67.7%	67.1%	66.6%
Non-Interest Income/Total Income	23.7%	27.0%	23.9%	24.6%	24.4%
Efficiency Ratio					
Cost/Income	49.3%	50.0%	56.7%	56.9%	54.8%
Employee Cost/Operating Expenses	53.5%	54.7%	56.4%	57.0%	57.5%
Asset Liability Ratio					
Credit/Deposit	72.7%	72.4%	73.4%	75.9%	77.3%
CASA/Deposit	30.8%	30.4%	32.5%	33.5%	33.9%
Investment/Deposits	40.4%	34.5%	28.1%	27.1%	26.8%
Asset Quality					
GNPA (%)	2.5%	2.0%	2.8%	2.8%	2.4%
NNPA (%)	0.7%	0.7%	1.6%	1.5%	1.2%
Valuation Ratio					
Book Value, Rs.	40.6	45.2	47.2	49.7	53.7
Book Value (Adjusted), Rs.	38.8	43.0	41.7	43.8	48.3
EPS, Rs.	4.9	5.9	2.8	3.7	5.3
Dividend, Rs.	1.0	1.1	1.1	1.1	1.1
P/BV, x	1.2	1.5	1.0	1.3	1.2
P/E, x	9.7	11.2	16.6	17.2	12.1

* Adj. BV = Book Value adjusted for NNPA



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