

Industry
Bloomberg
BSE CODE

Financial
FB IN
500469

Mixed Bag as credit growth slows down

RATING	HOLD
CMP	107
Price Target	118
Potential Upside	10%

Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	110/67
Mkt Capital (Rs Cr)	20,498
Free float (%)	100%
Avg. Vol 1M (,000)	9,844
No. of Shares (Cr)	199
Promoters Pledged %	0%

FINANCIAL	FY19	FY20E	FY21E
NII	4176	5148	6462
PPP	2763	3461	4407
PAT	1244	1738	2281
NIM %	3.0	3.1	3.2
EPS (Rs)	6	9	11
EPS growth (%)	41	40	31
ROE (%)	10	12	15
ROA (%)	0.8	1.0	1.1
BV	67	74	84
P/B (X)	1.4	1.5	1.3
P/E (x)	15	12	9

1QFY20 Result Update

- Bank reported NII growth of 18% YoY to Rs 1154 Cr in 1QFY20, other income grew by 45%; PAT grew by 46% YoY. NIM improved to 3.15% from 3.12% during same period last year. C/I ratio improves by 240 bps YoY to 49.4%.
- The bank reported slippages of Rs 434 Cr in the quarter as against Rs 269 Cr in the last quarter 4QFY19. GNPA/NNPA increased by 7 bps/1 bps to 2.99%/1.49% in 1QFY20.
- Advances growth slowed down to 19%/1.6% YoY/QoQ against 23% plus YoY run rate seen in last several quarters. Deposits declined sequentially with -1.8% growth. CASA fell to 31.4% vs. 32.2% in 4Q FY19.

NIM stable but likely to improve

NII growth has been robust at 18% YoY backed by advances growth of 19% YoY in 1QFY20. NIM improved marginally to 3.15% from 3.12% in the same quarter last year. Yield improved drastically by 44 bps YoY to 9.55% whereas cost of deposits also increased by 33 bps YoY to 5.97% in 1QFY20. Continuous fall in bond yield and improving liquidity may improve the margins going ahead.

Operating expenses growth was at 18% YoY lower than total income growth of 24% YoY. Hence the C/I ratio declined by 244 bps/60 bps YoY/QoQ to 49.4%.

Credit Growth slows down

Advances grew by 19/2% YoY/QoQ mainly driven by growth of 25%/3% YoY/QoQ in retail advances. Retail advances composition stood at 29% of the total loan book. Corporate book grew by 17%/1% YoY/QoQ. In retail housing segment grew by 31%/4% YoY/QoQ. Personal loans also reported high growth with 20% growth QoQ. Auto loans reported high growth of 61% YoY and 10% QoQ. Agri book grew by 21% YoY. Total Deposits increased by 19% while CASA grew by 12% YoY. CASA as a percentage to Total Deposits stood at 31.44% in 1Q FY20 vs. 32.2% a quarter back.

Spike in Slippages

Asset quality largely remained stable with marginal increase in NPAs of 7 bps/1 bps QoQ leading to GNPA/NNPA at 2.99/1.99% in 1QFY20. However, slippages increased to Rs 434 Cr as against Rs 269 Cr in the last quarter. Reductions declined by 45% QoQ to Rs 202 Cr. Slippages growth of 110% QoQ in retail segment and 23% in SME segment. Corporate segment also reported slippages of Rs 88 Cr as against nil slippages in the last quarter. Slippages from the agri segment declined by 27% QoQ.

View and Valuation

We believe bank is on the path of structural improvement in the return ratios considering granularity and lower risk in the balance sheet. However, the current economic environment can slowdown the growth of Federal Bank. Further management also highlighted the stress arising in the certain segment of retail portfolio in Kerala book as the moratorium period of Kerala flood nears to end. We can see higher slippages in retail segment in near term. However, management is confident of meeting its FY20 guidance. We slightly reduce our PAT estimate for FY20 by 3% considering slower growth. Valuations seem comfort with the stock trading at 1.3x on FY21 book value. We maintain HOLD view on the stock with the earlier target price of Rs 118 at 1.4x BV FY21e.

Key Risks to our rating and target.

- Increase in delinquencies will increase the credit cost
- Continued slowdown in Growth

RESEARCH ANALYST

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Below the Expectations

1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	2,667	2,765	2,954	3,032	3,229	21%	6%	9,753	11,419	17.1%
Interest Exp.	1,687	1,742	1,877	1,936	2,075	23%	7%	6,170	7,243	17.4%
NII	980	1,022	1,077	1,097	1,154	18%	5%	3,583	4,176	16.6%
Other Income	271	323	346	412	392	45%	-5%	1,159	1,351	16.6%
Total Income	1,251	1,345	1,423	1,508	1,546	24%	2%	4,742	5,527	16.6%
Ope Exp.	648	648	715	754	763	18%	1%	2,451	2,764	12.8%
PPP	603	698	708	755	783	30%	4%	2,291	2,763	20.6%
Provisions	199	289	190	178	192	-4%	8%	947	856	-9.6%
PBT	404	409	518	577	591	46%	2%	1,344	1,907	41.9%
Tax	141	143	184	195	207	46%	6%	465	663	42.7%
Net Profit	263	266	334	382	384	46%	1%	879	1,244	41.5%

Concall Highlights

- Yield grew mainly due to repricing done by the bank. Margins are expected to be at 320 bps by the end of FY20. The yield break up stood at 10% for retail and 11% for business banking and commercial, corporate closer to 8.9%, overall at 9.55% in 1QFY20.
- ROA guidance of 1-1.25% for FY20. C/I ratio guidance of 49% by FY20.
- The forex income declined by 20% QoQ in 1QFY20 mainly on the account lesser booking of contracts due to stability of the rupee. The core fee income is expected to grow 400-500 bps more than the credit growth.
- Credit cost is expected to be 55-60 bps for FY20.
- Credit growth is expected to be at 18-20% for FY20. The Retail and Wholesale book composition stood at 47%/53% in 1QFY20, the management expects to bring it to 50:50 going ahead in next 2 years.
- The corporate book growth has been marginally lower as against previous growth mainly on the account of slowdown in exposure due to the stress reported in this segment.
- Auto book grew by 61%/10% YoY/QoQ mainly due to better relationship model adopted by the bank in 2-3 geographies and gained the share considerably. The portfolio is of Rs 12 Lakh ticket size.
- CD ratio is expected to be maintained at 84% going ahead.
- CASA declined to 31% from 32% in the last quarter mainly on the account of low growth in savings account. CASA ratio is expected to be at more than 33% in FY20.
- Within deposits the overall deposits declined by 2% QoQ on the account running down of CDs issued in 4QFY19 which has now come down by Rs 4500 Cr in 1QFY20. The deposits composition is expected to be at 95% retail.
- The lending and deposits rates are expected to come down over a period of year.
- Rs 240 Cr was the exposure to IL&FS from which Rs 32 Cr has slipped to NPA in 1QFY20. 2 Amber accounts have been standard in 1QFY20 and the management hopes it to be upgraded in the next quarter. The bank has increased provisions from Rs 17 Cr to Rs 21 Cr for this account.
- The bank has taken provision of 15% for its exposure to one of the housing finance company. Exposures towards two stressed HFCs are performing one.
- Retail slippages of Rs 140 Cr in 1QFY20 mainly triggered by local event in the state of Kerala which may persist for 1-2 quarters. 20% of the slippages from Kerala floods accounts have been recovered in the first two weeks of this quarter.
- PCR is expected to grow by 250-300 bps by the end of FY20.
- In the H2 of FY20 30-40 branches are expected to be opened, 10 in Tamil Nadu, 10 in west and rest in rest part of country.
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Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	52.4	52.8	51.8	48.1	50.3	50.0	49.4	-2.44	-0.60
Empl. Cost/ Tot. Exp. %	48.7	50.2	53.2	47.7	49.5	49.1	52.1	-1.10	3.02
Other Exp/Tot. Exp.%	51.3	49.8	46.8	52.3	50.5	50.9	47.9	1.10	-3.02
Provision/PPP %	28.9	63.1	33.0	41.4	26.9	23.6	24.5	-8.50	0.98
Tax Rate %	34.8	33.2	34.9	34.9	35.6	33.9	35.0	0.02	1.08
Int Exp./Int Inc. (%)	62.0	63.4	63.3	63.0	63.5	63.8	64.3	1.00	0.42
Other Inc./Net Inc. %	19.4	25.2	21.7	24.0	24.3	27.3	25.3	3.68	-1.97
PAT/ Net Income %	22.1	11.6	21.0	19.8	23.4	25.3	24.9	3.86	-0.44
RoE %	8.7	4.9	8.6	8.5	10.5	11.9	11.4	2.83	-0.42
RoA %	0.9	0.5	0.8	0.8	0.9	1.0	1.0	0.19	-0.04

Margin Performance

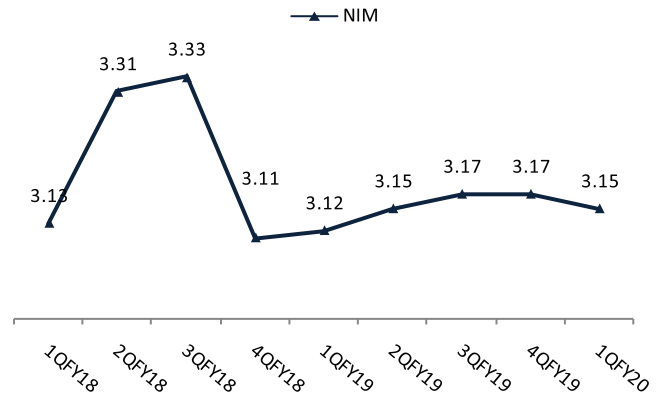
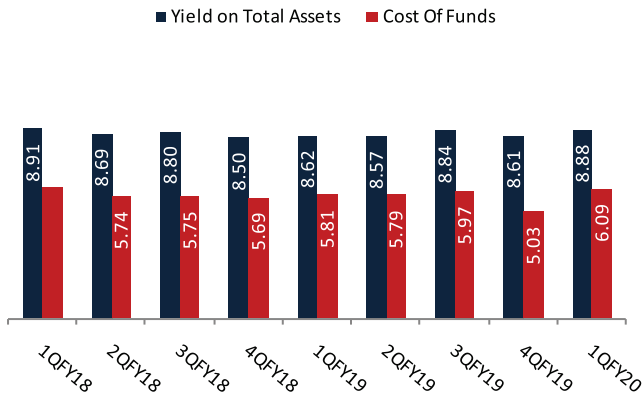
MARGIN %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	9.5	9.1	9.1	9.2	9.3	9.4	9.6	0.44	0.18
Yield (Total Assets)	8.8	8.5	8.6	8.6	8.8	8.6	8.9	0.26	0.27
Cost of Deposits	5.7	5.8	5.6	5.7	5.9	5.9	6.0	0.33	0.04
Cost Of Funds	5.7	5.7	5.8	5.8	6.0	5.0	6.1	0.29	1.06
NIM	3.3	3.1	3.1	3.2	3.2	3.2	3.2	0.03	-0.02

Exhibit: Yield and Cost

Both yield on total assets and cost of fund decreased.

Exhibit: Net Interest Margin

Stable NIM



Other Income Break Up- smart growth in processing fee

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Loan Processing Fee	28	35	34	46	31	53	50	50	49
Commission, Exchange, Brokerage	118	119	120	136	129	147	156	185	169
Net Profit on Forex Transactions	34	41	39	56	47	61	74	54	43
Total Fee-Based Income	180	195	193	238	207	261	280	289	261
Growth YoY %	27%	28%	13%	12%	15%	34%	45%	21%	26%
Profit on sale of securities	112	75	29	22	49	51	55	74	91
Recovery from assets written off & Other Receipts	37	17	7	54	14	11	11	49	40
Other Income	329	287	229	314	270	323	346	412	392
Growth YoY %	38%	10%	-17%	11%	-18%	13%	51%	31%	45%

Exhibit: Fee Income/Advances %

Fee income decreased

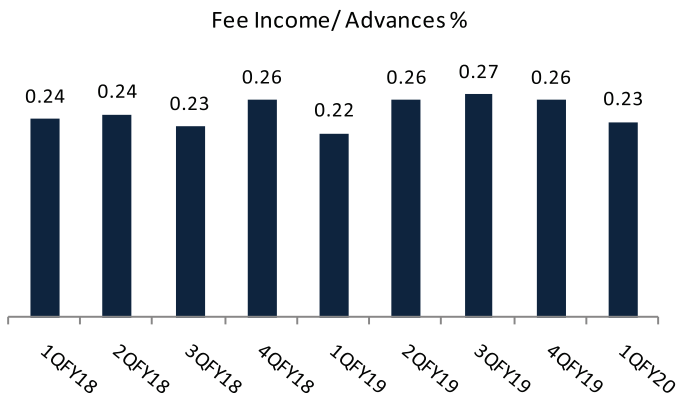
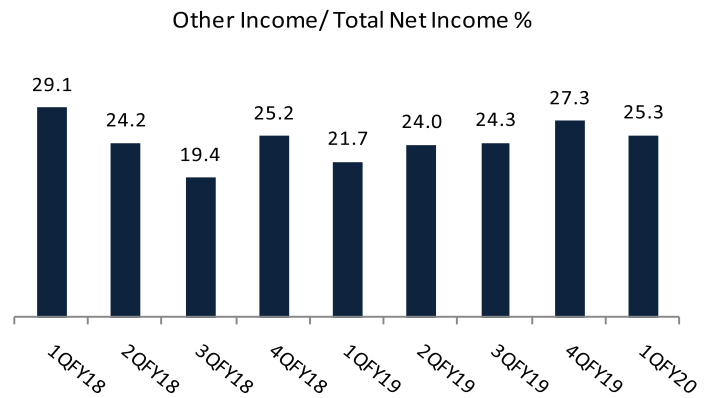


Exhibit: Other Income/ Total Income %

Other income as % of total income decreased



Asset Quality

MARGIN %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	2,161	2,796	2,869	3,185	3,361	3,261	3,395	18%	4%
GNPA %	2.52	3.00	3.00	3.11	3.14	2.92	2.99	-0.01	0.07
NNPA (Rs in Cr)	1,157	1,552	1,620	1,796	1,817	1,626	1,673	3%	3%
NNPA %	1.36	1.69	1.72	1.78	1.72	1.48	1.49	-0.23	0.01
Slippages (Rs in Cr)	433	892	482	482	435	269	434	-10%	61%
Std Restructured Assets %	1.68	0.86	0.62	0.57	0.61	0.50	0.55	-0.06	0.05
Net Stress Assets %	3	3	2	3	3	2	2	0.01	0.03
PCR %	70	65	65	63	64	67	67	2.70	0.41

Slippage Contribution (%)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Retail	23	37	36	8	24	25	25	26	34
Agriculture	11	18	10	6	12	14	17	36	16
SME	27	38	30	16	20	35	45	38	29
Wholesale	40	7	24	69	45	26	13	-	21
Total	100	100	100	100	100	100	100	100	100

Exhibit: Asset Quality

Assets quality stable

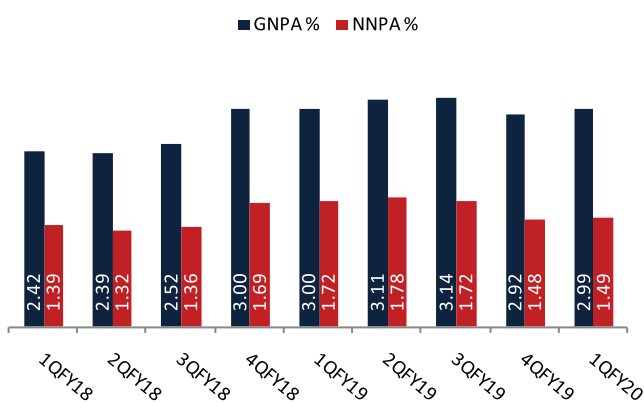


Exhibit: Provisions

PCR almost stable

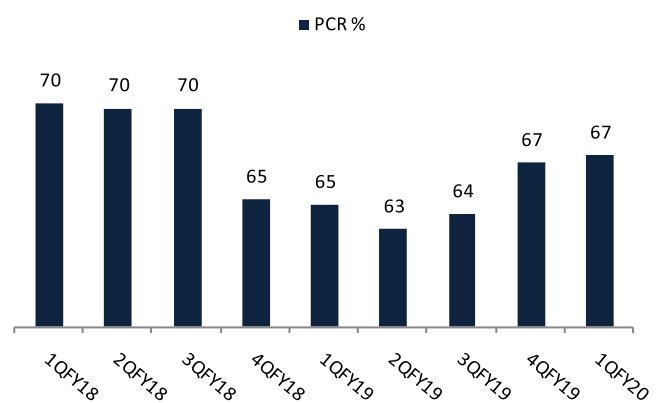


Exhibit: Advances Performance

Slow Advances Growth

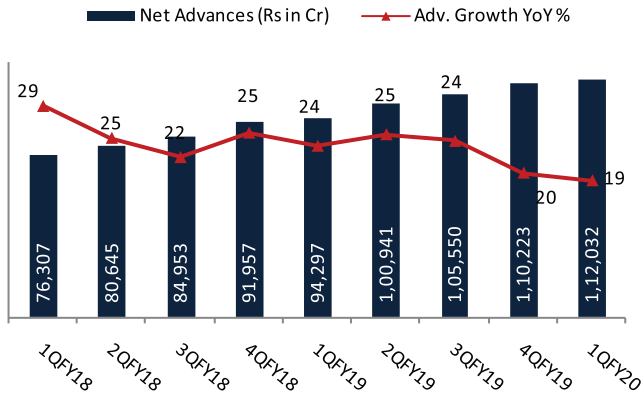


Exhibit: Advances Breakup%

Better retail portfolio share, selective for corporate

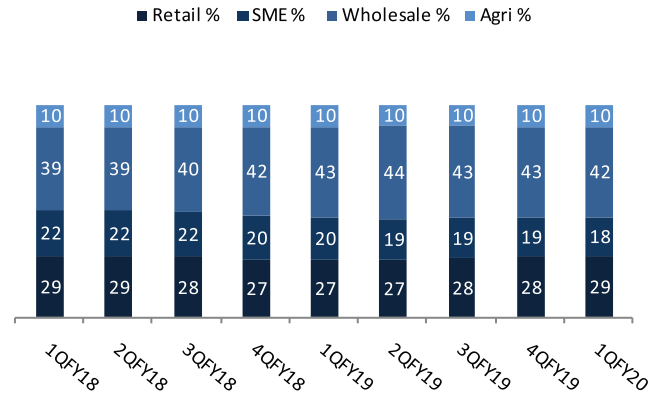


Exhibit: Deposits Performance

Deposits growth slightly low

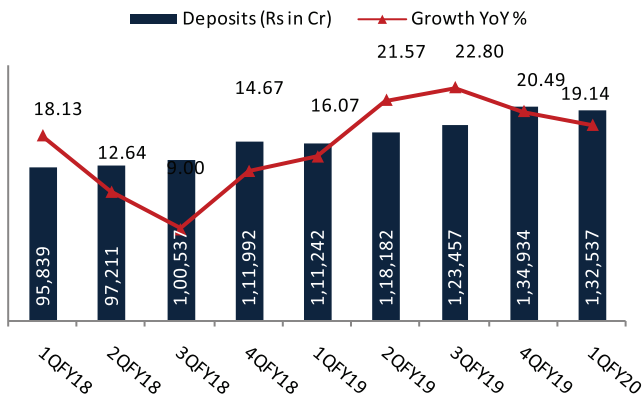


Exhibit: CASA Performance

CASA ratio went down

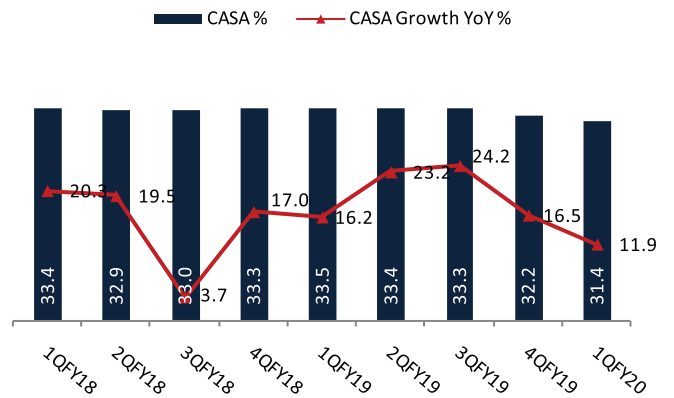


Exhibit: Credit Deposit Ratio

CD ratio increased

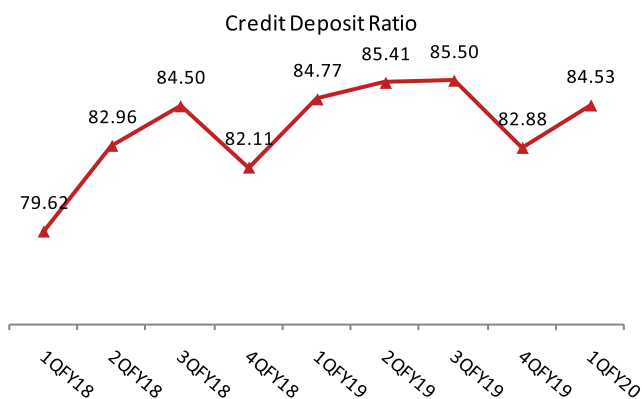
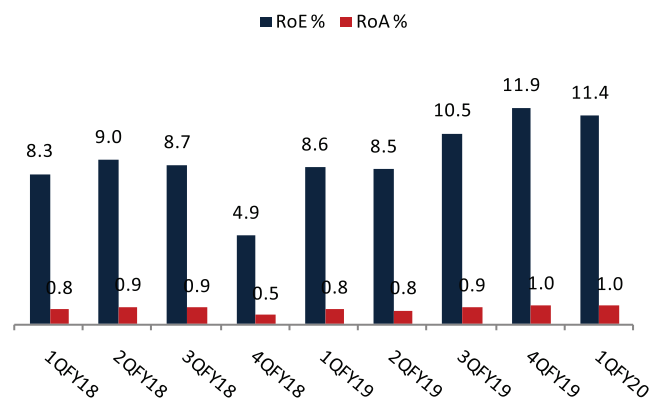


Exhibit: Return Ratios

Return ratio profile.



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	171	171	344	345	394	397	397	398
Equity Capital	171	171	344	345	394	397	397	397
Preference Capital	0	0	0	0	0	0	0	1
Reserves & Surplus	6780	7567	7747	8598	11816	12876	14280	16180
Networth	6951	7738	8091	8942	12210	13273	14677	16577
Deposits	59731	70825	79172	97665	111992	134954	159358	194417
Change (%)	4	19	12	23	15	21	18	22
CASA Deposits	18401	21550	25705	31838	37252	43388	51792	66102
Change (%)	19	17	19	24	17	16	19	28
Borrowings	5688	2308	5115	5897	11534	7781	10135	12365
Other Liabilities & Provisions	2601	2268	2204	2473	2578	3331	3825	4666
Total Liabilities	74970	83140	94581	114977	138314	159340	187995	228026
Cash & Bank	4529	4780	5420	7452	9204	10066	11469	14075
Investments	24118	24409	25155	28196	30781	31824	36652	44716
Change (%)	14	1	3	12	9	3	15	22
Advances	43436	51285	58090	73336	91957	110223	132268	161366
Change (%)	-1	18	13	26	25	20	20	22
Fixed Assets	425	467	520	489	457	472	496	520
Other Assets	2462	2199	5396	5503	5915	6754	7111	7348
Total Assets	74970	83140	94581	114977	138314	159340	187995	228026

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	6,946	7,419	7,745	8,677	9,753	11,419	13,697	16,475
Interest expended	4,717	5,039	5,240	5,625	6,170	7,243	8,549	10,013
Net Interest Income	2,229	2,380	2,504	3,053	3,583	4,176	5,148	6,462
Change (%)	13	7	5	22	17	17	23	26
Other Income	694	878	786	1,082	1,159	1,351	1,613	1,931
Change (%)	4	27	(10)	38	7	17	19	20
Core Fee Income	464	498	554	677	806	1,037	1,235	1,544
Treasury Income	156	256	129	309	238	229	279	312
Others	74	124	103	96	115	85	100	75
Total Net Income	2,922	3,259	3,291	4,134	4,742	5,527	6,761	8,393
Operating Expenses	1,442	1,631	1,867	2,210	2,451	2,764	3,301	3,987
Change (%)	22	13	14	18	11	13	19	21
Employee Expenses	772	892	1,053	1,164	1,242	1,378	1,632	1,930
Pre-provisioning Profit	1,480	1,628	1,424	1,925	2,291	2,763	3,461	4,407
Change (%)	1	10	(13)	35	19	21	25	27
Provisions	268	107	704	618	947	856	819	950
Change (%)	1	(60)	560	(12)	53	(10)	(4)	16
PBT	1,212	1,521	720	1,307	1,344	1,907	2,641	3,457
Tax	373	515	244	476	465	663	904	1,175
Profit After Tax	839	1,006	476	831	879	1,244	1,738	2,281
Change (%)	0	20	(53)	75	6	42	40	31

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	(1)	18	13	26	25	20	20	22
Deposit Growth (%)	4	19	12	23	15	21	18	22
C/D Ratio (%)	72.7	72.4	73.4	75.1	82.1	81.7	83.0	83.0
CASA (%)	30.8	30.4	32.5	32.6	33.3	32.2	32.5	34.0
Investment/Deposit (%)	40.4	34.5	31.8	28.9	27.5	23.6	23.0	23.0
CRAR (%)	15.1	15.5	13.9	12.4	14.7	14.1	12.4	11.6
Tier 1 (%)	14.6	14.8	13.4	11.8	14.2	13.4	12.0	11.2
Tier 2 (%)	0.6	0.7	0.6	0.6	0.5	0.8	0.4	0.4

Assets Quality Metrics								
Gross NPA (Rs)	1,087	1,058	1,668	1,727	2,796	3,261	3,863	4,202
Gross NPA (%)	2.5	2.0	2.8	2.3	3.0	2.9	2.9	2.6
Net NPA(Rs)	322	373	950	941	1,552	1,626	1,854	2,017
Net NPA (%)	0.7	0.7	1.6	1.3	1.7	1.5	1.4	1.2
Slippages (%)	2	2	4	2	3	2	1	1
Provision Coverage (%)	84	84	72	72	65	67	69	69
Provision/Average Advances (%)	0.6	0.2	1.3	0.9	1.1	0.8	0.7	0.6

Margin Metrics								
Yield On Advances (%)	11.4	11.5	10.4	10.0	9.1	9.0	9.1	9.2
Yield On Investment (%)	7.8	7.6	7.1	6.8	6.5	6.5	6.6	6.3
Yield on Earning Assets (%)	10.0	9.9	9.4	8.9	8.1	8.1	8.3	8.2
Cost Of Deposits (%)	7.2	7.1	6.7	6.1	5.5	5.5	5.5	5.3
Cost Of Funds (%)	7.3	7.3	6.6	6.0	5.4	5.4	5.4	5.3
Spread (%)	2.7	2.7	2.7	2.9	2.7	2.7	2.8	3.0
NIM (%)	3.2	3.2	3.0	3.1	3.0	3.0	3.1	3.2

Profitability & Efficiency Metrics								
Int. Expense/Int.Income (%)	67.9	67.9	67.7	64.8	63.3	63.4	62.4	60.8
Fee Income/NII (%)	20.8	20.9	22.1	22.2	22.5	24.8	24.0	23.9
Cost to Income (%)	49.3	50.0	56.7	53.4	51.7	50.0	48.8	47.5
Cost on Average Assets (%)	2.0	2.1	2.1	2.1	1.9	1.9	1.9	1.9
Tax Rate (%)	30.8	33.9	33.9	36.4	34.6	34.8	34.2	34.0

Valuation Ratio Metrics								
EPS (Rs)	4.9	5.9	2.8	4.8	4.5	6.3	8.8	11.5
Change (%)	0.1	19.9	(52.9)	74.7	(7.8)	41	39.7	31.3
ROAE (%)	12.6	13.7	6.0	9.8	8.3	9.8	12.4	14.6
ROAA (%)	1.1	1.3	0.5	0.8	0.7	0.8	1.0	1.1
Dividend Payout (%)	20.4	18.7	25.3	18.6	22.4	22.3	18.3	15.7
Dividend yield (%)	2.1	1.7	1.5	1.0	1.1	1.5	1.5	1.7
Book Value (Rs)	40.6	45.2	47.1	52.0	61.9	66.9	73.9	83.5
Change (%)	9	11	4	11	19	8	11	13
ABVPS (Rs)	39	43	42	47	54	59	65	73
P/B (X)	1.2	1.5	1.0	1.8	1.4	1.4	1.5	1.3
P/E (X)	9.7	11.2	16.7	18.9	20.0	15.4	12.3	9.3

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	9.4	8.7	8.3	7.7	7.7	7.9	7.9
Interest expended	6.4	5.9	5.4	4.9	4.9	4.9	4.8
Net Interest Income	3.0	2.8	2.9	2.8	2.8	3.0	3.1
Non-Fund Based Income	1.1	0.9	1.0	0.9	0.9	0.9	0.9
Core Fee Income	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Trading and Other Income	0.5	0.3	0.4	0.3	0.2	0.2	0.2
Core Operating Income	3.6	3.4	3.6	3.5	3.5	3.7	3.8
Total Income	4.1	3.7	3.9	3.7	3.7	3.9	4.0
Total Operating Expenses	2.1	2.1	2.1	1.9	1.9	1.9	1.9
Employee Expenses	1.1	1.2	1.1	1.0	0.9	0.9	0.9
Other Expenses	0.9	0.9	1.0	1.0	0.9	1.0	1.0
Operating Profit	2.1	1.6	1.8	1.8	1.9	2.0	2.1
Provisions	0.1	0.8	0.6	0.7	0.6	0.5	0.5
Others	-	-	-	-	-	-	-
PBT	1.9	0.8	1.2	1.1	1.3	1.5	1.7
Tax	0.7	0.3	0.5	0.4	0.4	0.5	0.6
PAT/RoAA	1.3	0.5	0.8	0.7	0.8	1.0	1.1
Equity Multiplier (x)	10.8	11.2	12.3	12.0	11.7	12.4	13.3
ROAE	13.7	6.0	9.8	8.3	9.8	12.4	14.6

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