

Industry
Bloomberg
BSE CODE

Financial
FB IN
500469

RATING	HOLD
CMP	93
Price Target	99
Potential Upside	6%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	110/78
Mkt Capital (Rs Cr)	18,678
Free float (%)	100%
Avg. Vol 1M (,000)	12,209
No. of Shares (Crs)	196
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	4176	4669	5516
PPP	2763	3054	3712
PAT	1244	1698	2166
NIM %	3.0	2.9	3.0
EPS (Rs)	6	9	11
EPS growth (%)	41	37	28
ROE (%)	10	12	14
ROA (%)	0.8	1.0	1.1
BV	67	74	83
P/B (X)	1.4	1.3	1.1
P/E (x)	15	11	9

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Stable Margin And Lower Provisions Drove The Profitability

3QFY20 Result Update

- NII grew by 7%/3% YoY/QoQ due to slow growth in advances of 13%/2% YoY/QoQ. Operating expenses reported growth of 15%/-1% YoY/QoQ however PAT growth remained strong at 32%/6% YoY/QoQ on the account of lower provisioning in 3QFY20. Provisions declined by 15%/36% YoY/QoQ in 3QFY20.
- Other income had growth of 18% YoY on the account of growth in fee income whereas it declined QoQ by 3% due to degrowth in trading profit QoQ as well fee income. C/I ratio is expected to see 100 bps improvement in 4QFY20 and full year guidance of 51% and below 49% in the long run.
- The bank reported high slippages of Rs 593 Cr in 3QFY20 as against Rs 540 Cr last quarter, the reason being high slippages in corporate segment. Write offs have been high at Rs 332 Cr. High write off and recoveries have been reason for decline in GNPA QoQ to 2.99% from 3.07% last quarter.

Advances growth remained slow

Advances growth remained slow at 13%/3% YoY/QoQ in line with expectations in the same trend as in last few quarters. The growth drivers have been retail and SME segments. Retail advances grew by 23% YoY whereas SME grew by 11% YoY however corporate growth has been low at 6% YoY. In retail segment housing and personal loans reported good growth of 24% and 115% YoY.

High growth in slippages

Slippages have been high at Rs 593 Cr in 3QFY20 as against Rs 540 Cr last quarter, the reason being high slippages in corporate segment. The corporate slippages have been high at Rs 321 Cr in 3QFY20 majorly came from 2 large HFCs account i.e. DHFL and Reliance home finance. The bank has done 25% provisioning on one and 15% on the other account. GNPA declined by 8 bps QoQ to 2.99% on the account of high recoveries and write offs reported. Recoveries stood at Rs 263 Cr whereas write-offs stood at Rs 332 Cr in 3QFY20 however NNPA increased by 4 bps QoQ to 1.63%. PCR is expected to be at 70% in 4QFY20.

Stable Margins

NII grew by 7%/3% YoY/QoQ due to slow growth in advances of 13%/2% YoY/QoQ. Margins remained stable in line with the expectations mainly on the account of slightly high dip in cost of funds as against the dip in yields. Yields on advances declined by 6 bps QoQ whereas cost of funds declined by 9 Bps QoQ making the margins stable QoQ. The bank could not have reflection of pricing power in 3QFY20 as Rs 20 Cr have been interest reversal impact on the yields due to the slippages from 2 large accounts otherwise the margins would have been 3.05%

View and Valuation

Stress in corporate and SME book has been reason for the slow growth of the bank in last few quarters. A large pool of stressed asset from corporate segment has slipped i.e. RHFL and DHFL during the quarter and management is optimistic about the asset quality going ahead. Margins remained stable on the back of decline in cost of fund. Given the concern of slowing economy and pressure in MSME/SME segment, we remain cautious on the growth and asset quality front for the Federal Bank. Given the low specific PCR of 46%, we expect, credit cost to remain elevated in near term. We maintain our PAT estimates for FY21e and remain HOLD on the stock with the target price of Rs 99 at 1.2x BV FY21e.

Key Risks to our rating and target.

- Delinquencies in corporate and SME segment.
- Continued slowdown in Growth.

3QFY20 Results Above the Expectations

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	2,954	3,032	3,229	3,254	3,330	13%	2%	9,753	11,419	17.1%
Interest Exp.	1,877	1,936	2,075	2,130	2,175	16%	2%	6,170	7,243	17.4%
NII	1,077	1,097	1,154	1,124	1,155	7%	3%	3,583	4,176	16.6%
Other Income	346	412	392	421	408	18%	-3%	1,159	1,351	16.6%
Total Income	1,423	1,508	1,546	1,545	1,563	10%	1%	4,742	5,527	16.6%
Ope Exp.	715	754	763	826	819	15%	-1%	2,451	2,764	12.8%
PPP	708	755	783	719	744	5%	3%	2,291	2,763	20.6%
Provisions	190	178	192	252	161	-15%	-36%	947	856	-9.6%
PBT	518	577	591	467	583	13%	25%	1,344	1,907	41.9%
Tax	184	195	207	50	142	-23%	183%	465	663	42.7%
Net Profit	334	382	384	417	441	32%	6%	879	1,244	41.5%

Concall Highlights

- The bank could not have reflection of pricing power in 3QFY20 as Rs 20 Cr have been interest reversal impact on the yields due to the slippages from 2 large accounts otherwise the margins would have been 3.05% not 3% as there was impact of 5 bps on yield of this. The management expects pricing power to get reflected there in numbers in 4QFY20.
- The management gave margin guidance of 3.10% for Fy20.
- The management maintained earlier ROA guidance of 1.12% for Fy20.
- C/I ratio is expected to see 100 bps improvement in 4QFY20 and full year guidance of 51% and below 49% in the long run.
- The management gave credit cost guidance of 60-65 bps for Fy20.
- The management guided loan growth of 16-17% for the full year Fy20.
- In 3QFY20 standard restructured book declined to Rs 463 Cr from Rs 613 Cr last quarter due to settlement of Air India account in the quarter.
- The corporate slippages have been high at Rs 321 Cr in 3QFY20 majorly came from 2 large HFCs account i.e. DHFL and Reliance home finance .The bank has done 25% provisioning on one and 15% on the other account. The entertainment account slipped last quarter is still NPA and provisioning there is 25%.
- PCR is expected to be at 70% in 4QFY20.
- L&FS exposure is still standard one with exposure of Rs 192 Cr. Two accounts i.e. ITNL and one more have been NPA for which provisioning has been done and 3rd one is standard.
- Write offs has been high at Rs 332 Cr due to settling and write off of one of large accounts i.e. Air India account of around Rs 200 Cr.
- The bank provided 10% in 1QFY20, 2% in 2QFY20 for wage revision and there are expectations of 2% more to come going ahead.
- The bank has added 10 branches in this FY20 till now and expects it to reach 25 by the end of FY20 and 40 by the end of FY21.
- 10% of the total book is linked to external benchmark rates.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	51.8	48.1	50.3	50.0	49.4	53.5	52.4	2.15	-1.06
Empl. Cost/ Tot. Exp. %	53.2	47.7	49.5	49.1	52.1	53.4	50.6	1.18	-2.72
Other Exp/Tot. Exp.%	46.8	52.3	50.5	50.9	47.9	46.6	49.4	-1.18	2.72
Provision/PPP %	33.0	41.4	26.9	23.6	24.5	35.0	21.6	-5.23	-13.40
Tax Rate %	34.9	34.9	35.6	33.9	35.0	10.8	24.4	-11.14	13.64
Int Exp./Int Inc. (%)	63.3	63.0	63.5	63.8	64.3	65.5	65.3	1.78	-0.15
Other Inc./Net Inc. %	21.7	24.0	24.3	27.3	25.3	27.2	26.1	1.81	-1.15
PAT/ Net Income %	21.0	19.8	23.4	25.3	24.9	27.0	28.2	4.75	1.22
RoE %	8.6	8.5	10.5	11.9	11.4	12.1	12.5	2.02	0.44
RoA %	0.8	0.8	0.9	1.0	1.0	1.0	1.0	0.13	0.01

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	9.1	9.2	9.3	9.4	9.6	9.3	9.3	-0.04	-0.06
Yield (Total Assets)	8.6	8.6	8.8	8.6	8.9	8.6	8.5	-0.28	-0.11
Cost of Deposits	5.6	5.7	5.9	5.9	6.0	5.9	5.8	-0.01	-0.09
Cost Of Funds	5.8	5.8	6.0	5.0	6.1	6.0	5.9	-0.01	-0.10
NIM	3.1	3.2	3.2	3.2	3.2	3.0	3.0	-0.17	-0.01

Exhibit: Yield and Cost

Yield declined .Cost declined

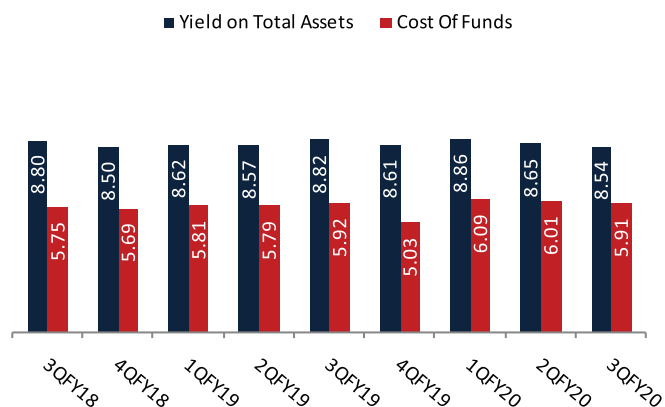
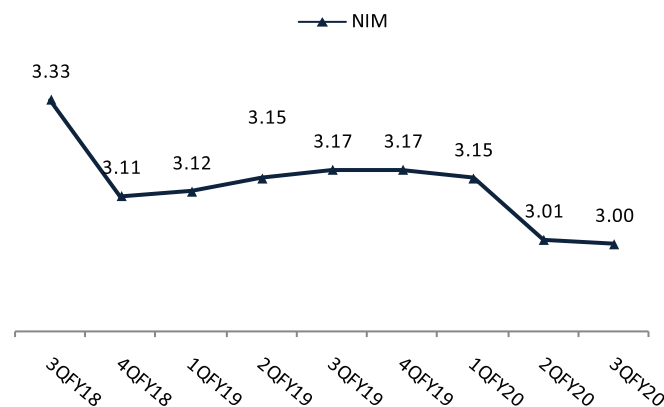


Exhibit: Net Interest Margin

stable NIM



Other Income Break Up- smart growth in processing fee

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Loan Processing Fee	34	46	31	53	50	50	49	61	63
Commission, Exchange, Brokerage	120	136	129	147	156	185	169	191	191
Net Profit on Forex Transactions	39	56	47	61	74	54	43	64	56
Total Fee-Based Income	193	238	207	261	280	289	261	316	310
Growth YoY %	13%	12%	15%	34%	45%	21%	26%	21%	11%
Profit on sale of securities	29	22	49	51	55	74	91	82	65
Recovery from assets written off & Other Receipts	7	54	14	11	11	49	40	22	32
Other Income	229	314	270	323	346	412	392	420	407
Growth YoY %	-17%	11%	-18%	13%	51%	31%	45%	30%	18%

Exhibit: Fee Income/Advances %

Fee income decreased

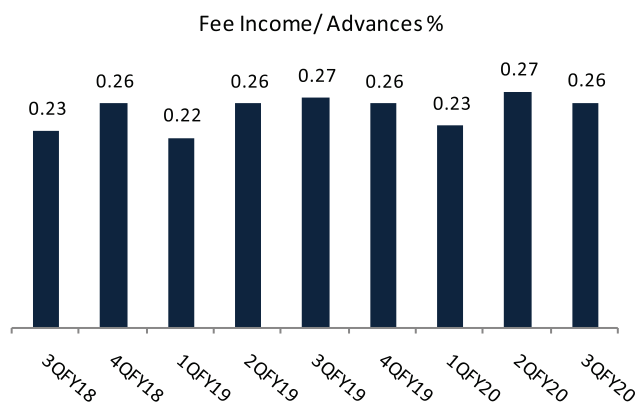
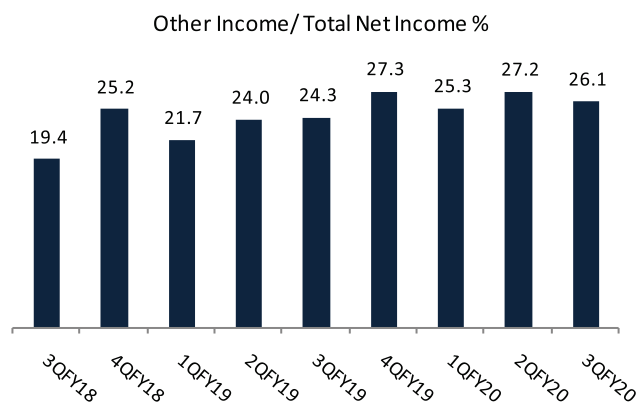


Exhibit: Other Income/ Total Income %

Other income as % of total income decreased



Asset Quality

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	GoQ (+/-)
GNPA (Rs in Cr)	2,869	3,185	3,361	3,261	3,395	3,612	3,620	8%	0%
GNPA %	3.00	3.11	3.14	2.92	2.99	3.07	2.99	-0.15	-0.08
NNPA (Rs in Cr)	1,620	1,796	1,817	1,626	1,673	1,844	1,941	7%	5%
NNPA %	1.72	1.78	1.72	1.48	1.49	1.59	1.63	-0.09	0.04
Slippages (Rs in Cr)	482	482	435	269	434	540	593	36%	10%
Std Restructured Assets %	0.62	0.57	0.61	0.50	0.55	0.53	0.39	-0.22	-0.14
Net Stress Assets %	2	3	3	2	2	2	2	-0.69	-0.37
PCR %	65	63	64	67	67	66	66	2.18	0.22

Slippage Contribution (%)

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Retail	36	8	24	25	25	26	34	23	17
Agriculture	10	6	12	14	17	36	16	13	8
SME	30	16	20	35	45	38	29	27	20
Wholesale	24	69	45	26	13	-	21	37	54
Total	100	100	100	100	100	100	100	100	100

Exhibit: Asset Quality

Assets quality deteriorated

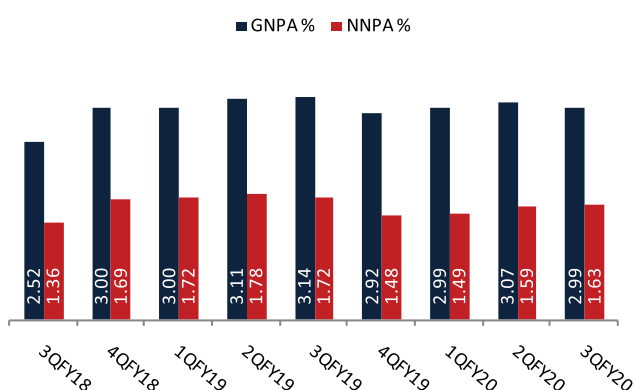


Exhibit: Provisions

PCR almost stable

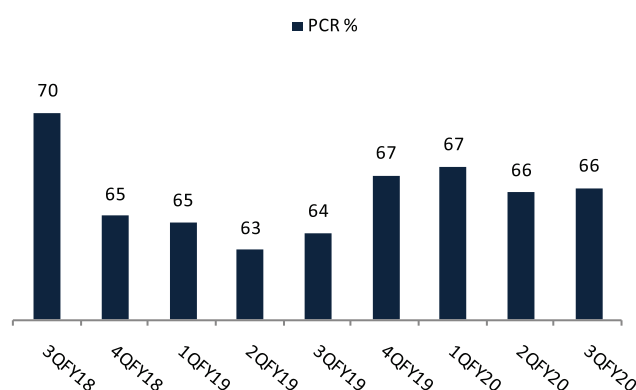


Exhibit: Advances Performance

Slow Advances Growth

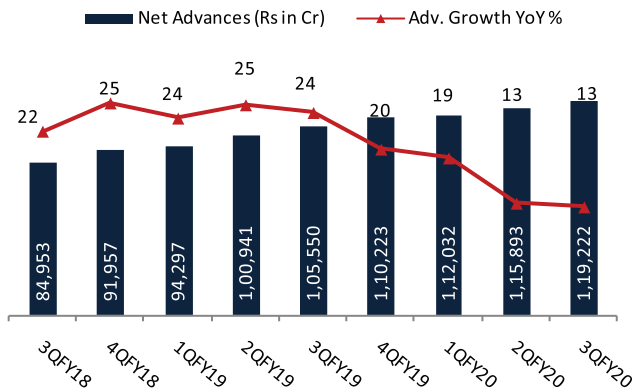


Exhibit: Advances Breakup%

Better retail portfolio share, selective for corporate

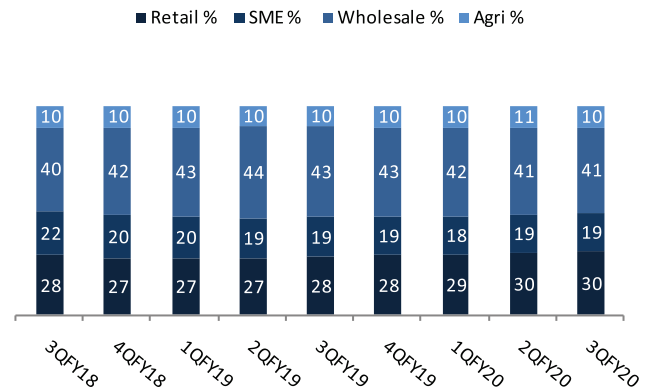


Exhibit: Deposits Performance

Deposits growth slightly low

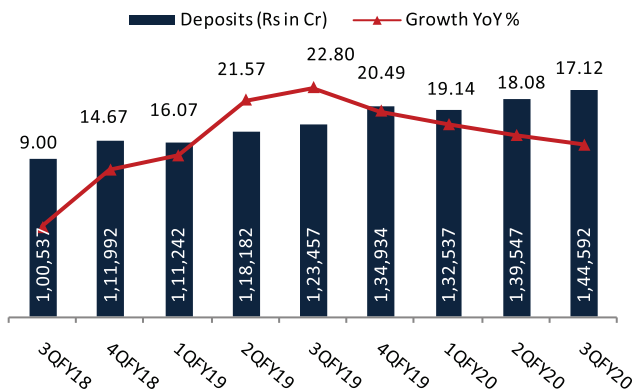


Exhibit: CASA Performance

CASA ratio stable

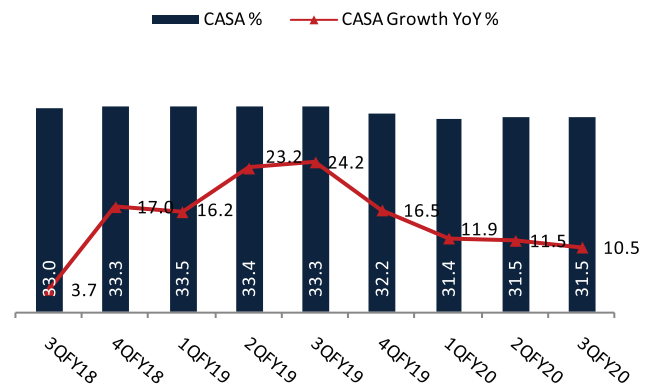


Exhibit: Credit Deposit Ratio

CD ratio decreased

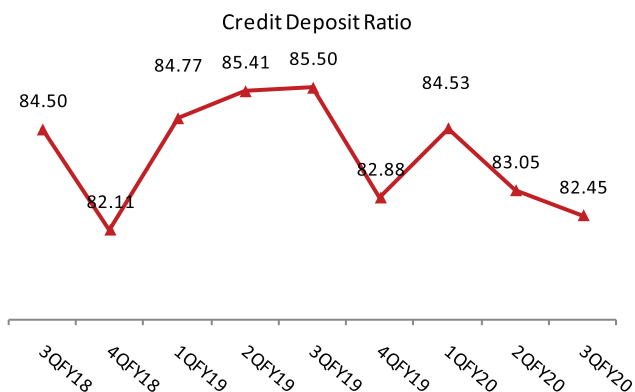
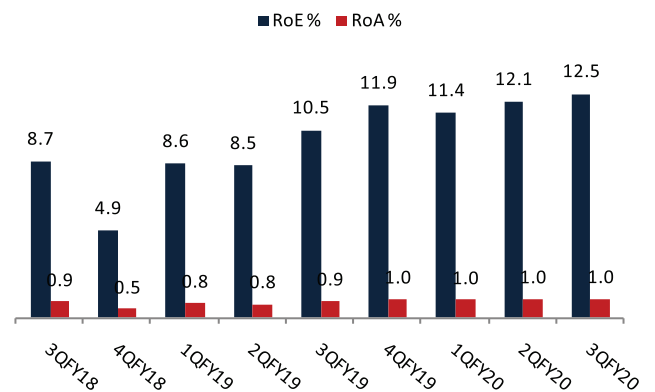


Exhibit: Return Ratios

ROE improved. ROA stable



Financial Details

Balance Sheet

Fig in Rs Cr

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	14241	16026
Networth	6951	7738	8091	8942	12210	13273	14638	16423
Deposits	59731	70825	79172	97665	111992	134954	151391	178641
Change (%)	4	19	12	23	15	21	12	18
CASA Deposits	18401	21550	25705	31838	37252	43388	48445	60738
Change (%)	19	17	19	24	17	16	12	25
Borrowings	5688	2308	5115	5897	11534	7781	8743	10415
Other Liabilities & Provisions	2601	2268	2204	2473	2578	3331	3633	4287
Total Liabilities	74970	83140	94581	114977	138314	159340	178404	209766
Cash & Bank	4529	4780	5420	7452	9204	10066	12193	12899
Investments	24118	24409	25155	28196	30781	31824	33306	41087
Change (%)	14	1	3	12	9	3	5	23
Advances	43436	51285	58090	73336	91957	110223	125654	148272
Change (%)	-1	18	13	26	25	20	14	18
Fixed Assets	425	467	520	489	457	472	496	520
Other Assets	2462	2199	5396	5503	5915	6754	6756	6987
Total Assets	74970	83140	94581	114977	138314	159340	178404	209766

Income Statement

Fig in Rs Cr

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	13,248	15,167
Interest expended	4,717	5,039	5,240	5,625	6,170	7,243	8,579	9,651
Net Interest Income	2,229	2,380	2,504	3,053	3,583	4,176	4,669	5,516
Change (%)	13	7	5	22	17	17	12	18
Other Income	694	878	786	1,082	1,159	1,351	1,635	1,834
Change (%)	4	27	(10)	38	7	17	21	12
Core Fee Income	464	498	554	677	806	1,037	1,226	1,500
Treasury Income	156	256	129	309	238	229	283	243
Others	74	124	103	96	115	85	125	90
Total Net Income	2,922	3,259	3,291	4,134	4,742	5,527	6,304	7,350
Operating Expenses	1,442	1,631	1,867	2,210	2,451	2,764	3,250	3,638
Change (%)	22	13	14	18	11	13	18	12
Employee Expenses	772	892	1,053	1,164	1,242	1,378	1,683	1,837
Pre-provisioning Profit	1,480	1,628	1,424	1,925	2,291	2,763	3,054	3,712
Change (%)	1	10	(13)	35	19	21	11	22
Provisions	268	107	704	618	947	856	804	817
Change (%)	1	(60)	560	(12)	53	(10)	(6)	2
PBT	1,212	1,521	720	1,307	1,344	1,907	2,251	2,895
Tax	373	515	244	476	465	663	553	729
Profit After Tax	839	1,006	476	831	879	1,244	1,698	2,166
Change (%)	0	20	(53)	75	6	42	37	28

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	14	18
Deposit Growth (%)	4	19	12	23	15	21	12	18
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	32.0	34.0
Investment/Deposit (%)	40.4	34.5	31.8	28.9	27.5	23.6	22.0	23.0
CRAR (%)	15.1	15.5	13.9	12.4	14.7	14.1	13.0	12.5
Tier 1 (%)	14.6	14.8	13.4	11.8	14.2	13.4	12.6	12.1
Tier 2 (%)	0.6	0.7	0.6	0.6	0.5	0.8	0.5	0.4

Assets Quality Metrics

Gross NPA (Rs)	1,087	1,058	1,668	1,727	2,796	3,261	3,924	4,246
Gross NPA (%)	2.5	2.0	2.8	2.3	3.0	2.9	3.1	2.8
Net NPA(Rs)	322	373	950	941	1,552	1,626	1,883	2,038
Net NPA (%)	0.7	0.7	1.6	1.3	1.7	1.5	1.5	1.4
Slippages (%)	2	2	4	2	3	2	2	1
Provision Coverage (%)	84	84	72	72	65	67	74	74
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	9.0
Yield On Investment (%)	7.8	7.6	7.1	6.8	6.5	6.5	6.6	6.5
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	5.7	5.5
Cost Of Funds (%)	7.3	7.3	6.6	6.0	5.4	5.4	5.6	5.5
Spread (%)	2.7	2.7	2.7	2.9	2.7	2.7	2.6	2.7
NIM (%)	3.2	3.2	3.0	3.1	3.0	3.0	2.9	3.0

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	67.9	67.9	67.7	64.8	63.3	63.4	64.8	63.6
Fee Income/NII (%)	20.8	20.9	22.1	22.2	22.5	24.8	26.3	27.2
Cost to Income (%)	49.3	50.0	56.7	53.4	51.7	50.0	51.6	49.5
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	24.6	25.2

Valuation Ratio Metrics

EPS (Rs)	4.9	5.9	2.8	4.8	4.5	6.3	8.6	10.9
Change (%)	0.1	19.9	(52.9)	74.7	(7.8)	41	36.5	27.6
ROAE (%)	12.6	13.7	6.0	9.8	8.3	9.8	12.2	13.9
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	18.7	16.5
Dividend yield (%)	2.1	1.7	1.5	1.0	1.1	1.5	1.7	1.9
Book Value (Rs)	40.6	45.2	47.1	52.0	61.9	66.9	73.7	82.7
Change (%)	9	11	4	11	19	8	10	12
ABVPS (Rs)	39	43	42	47	54	59	64	72
P/B (X)	1.2	1.5	1.0	1.8	1.4	1.4	1.3	1.1
P/E (X)	9.7	11.2	16.7	18.9	20.0	15.4	11.0	8.6

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	9.4	8.7	8.3	7.7	7.7	7.8	7.8
Interest expended	6.4	5.9	5.4	4.9	4.9	5.1	5.0
Net Interest Income	3.0	2.8	2.9	2.8	2.8	2.8	2.8
Non-Fund Based Income	1.1	0.9	1.0	0.9	0.9	1.0	0.9
Core Fee Income	0.6	0.6	0.6	0.6	0.7	0.7	0.8
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	3.5	3.6
Total Income	4.1	3.7	3.9	3.7	3.7	3.7	3.8
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	1.0	0.9
Other Expenses	0.9	0.9	1.0	1.0	0.9	0.9	0.9
Operating Profit	2.1	1.6	1.8	1.8	1.9	1.8	1.9
Provisions	0.1	0.8	0.6	0.7	0.6	0.5	0.4
Others	-	-	-	-	-	-	-
PBT	1.9	0.8	1.2	1.1	1.3	1.3	1.5
Tax	0.7	0.3	0.5	0.4	0.4	0.3	0.4
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	12.1	12.5
ROAE	13.7	6.0	9.8	8.3	9.8	12.2	13.9

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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