

Q3FY15-Mixed quarter

16th Jan, 2015

CMP: Rs. 145
Target Price: Rs. 184
Recommendation: BUY

Stock Info

BSE Group	A
BSE Code	500469
NSE Symbol	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO
BSE Sensex	28,076
NSE Nifty	8,494

Market Info

Market Capital	Rs 12,385cr
Equity Capital	Rs 171cr
Avg. Trading Vol.	44,45,460
52 Wk High/ Low	154/72
Face Value	2

Shareholding Pattern (%) (31st Dec 2014)

Promoters	-
Domestic Institutions	28.2
Foreign Institutions	38.9
Public & Others	32.9

The Q3FY15 Earnings of Federal bank was largely in-line with expectations. The top-line was muted, but stellar performance by other income growth, resulted in decent total income growth. Federal bank continues to have higher C/I ratio. It had advances growth of 14.8% and deposits growth of 13.5%. Total number of branches as on 31st Dec, 2015 stood at 1220 and total numbers of ATM was 1470.

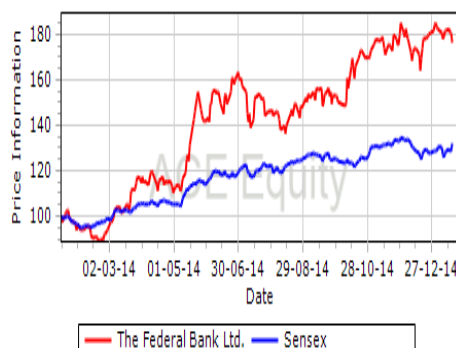
Top-line performance on expected lines: The bank top-line performance was in line with expectations with net interest income rising by 7.6% to Rs 587 crs compared to Rs 546 crs YoY, on account of strong growth in Retail(15.3%), SME(17.7%) and Agri(26.8) loan book. Other income increased by 40.6% YoY to Rs 220 crs. Net profit increased by 15% to Rs 265 crs largely on account of no provisioning for NPA's.

Gross Advances and Deposits: Gross advances grew by 14.8% YoY while deposits grew by 13.5%. C/D ratio for the bank stood at 74%. CASA ratio stood at 30.49 % marginally lower than 30.56 QoQ. Bank's bulk deposits came down from 6.27% in Q3FY14 to 1.25% in Q3FY15 which will reduce the cost of funds.

Asset quality: Quality of assets remained stable during the quarter with gross NPA's at Rs 1,067 crs vs. 1,031 crs QoQ. Fresh slippages during the quarter stood at Rs 234 crs while assets restructured during the quarter stood at Rs 41 crs. GNPA stood at 2.2% while NNPA was 0.7%. Credit cost for the bank stood at 0.45%.

Margins: NIM stood at 3.20 vs. 3.24 YoY largely in line of expectations. RoA was at 1.38% vs 1.28 QoQ, Management expects RoA to remain in the range of 1.3-1.35% for FY15.

Investment Outlook: Federal bank continues to shine with advances growth picking up to 15% from 12% level in previous quarter coupled with strong other income growth. We remain positive about the prospects of the bank in the longer run and have price target to Rs 184 based on 2x ABV of Rs 92. We have 'BUY' rating on the stock.



(Rs Cr)	FY13	FY14	FY15E	FY16E
Net interest income	1975	2229	2516	2925
Operating Profit	1460	1480	1649	1874
PAT	838	839	895	993
EPS (Rs)	9.8	9.8	10.5	11.6
EPS Growth (%)	7.9%	0.1%	6.7%	10.9%
RoE (%)	13.9	12.6	12.3	12.4
P/E (x)	14.8	14.8	13.8	12.5
PABV (x)	2.1	1.9	1.7	1.6

Source: Company data, Arihant Research



Q3FY15 Earnings Snapshot

Particulars (Rs in Cr)	Q3FY15	Q3FY14	YoY%	Q2FY15	QoQ %	
Interest Earned	1,870	1,740	7.5	1,870	0.0	
Interest Expended	1,283	1,194	7.4	1,264	1.5	
Net Interest Income	587	546	7.6	606	-3.1	NII declined QoQ
Other Income	220	156	40.7	196	12.3	Growth in other income led by strong growth in fee income
Other income / Net Income (%)	27	22		24		
Total income	807	702	15.0	802	0.7	
Employee Expenses	235	177	33.0	204	15.3	
Non-Employee expenses	175	169	3.2	188	-7.2	
Operating Expenses	410	346	18.4	392	4.5	
Cost-income Ratio (%)	50.8	49.3		48.9		Opex is on higher side
Pre-Prov Profits	397	356	11.6	410	-3.0	
Provisions & Contingencies	-1	7	-111.2	46	-101.8	
PBT	398	349	14.2	364	9.4	
Exceptional (Reported)						
Provisions for Tax	133	118	12.7	124	7.9	
Effective Tax Rate (%)	34	34		34		
PAT (reported)	265	230	15.0	240	10.1	
EPS Basic	3.1	2.7	14.9	2.8	10.0	
EPS Diluted	3.1	2.7	14.9	2.8	10.0	
GNPA	1067	1201	-11.2	1031	3.5	Stable asset quality QoQ
NNPA	333	356	-6.5	319	4.5	
GNPA (%)	2.2	2.8		2.1		
NNPA (%)	0.7	0.9		0.7		
Total CAR (%)	14.5	14.8		14.5		
NIM	3.20	3.24		3.35		
Advances	48726	42439	14.8	49147	-0.9	
Deposits	65550	57737	13.5	64564	1.5	

Source: Company data, Arihant Research



Income Statement				
Year to 31st March (Rs.Cr)	FY13	FY14	FY15E	FY16E
Interest Income	6,168	6,946	7,368	8,353
Interest Expenses	4,193	4,717	4,851	5,429
Net Interest Income	1,975	2,229	2,516	2,925
- growth %	1	13	13	16
Other Income	664	694	728	765
Fee-based Income	373	397	416	437
Treasury Income	285	281	295	310
Other non interest income	6	16	16	18
Operating Income	2,639	2,922	3,244	3,690
- growth %	6	11	11	14
Operating Expenses	1,180	1,442	1,595	1,816
- Staff Cost	626	772	859	956
- Other Operating Exp.	553	671	736	861
Gross Profits	1,460	1,480	1,649	1,874
- growth %	(3)	1	11	14
Provisions	266	268	313	391
Profit Before Taxes	1,194	1,212	1,336	1,482
Taxes	356	373	441	489
Profit After Taxes	838	839	895	993
- growth %	8	0	7	11

Balance Sheet				
As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
LIABILITIES				
Capital	171	171	171	171
Employee stock option	-	-	-	-
Reserves & Surplus	6,194	6,780	7,455	8,198
Deposits	57,615	59,731	68,094	78,989
Borrowings	5,187	5,688	6,571	7,754
Other liabilities & provisions	1,866	2,224	2,342	2,466
Total Liabilities	71,033	74,594	84,632	97,577
ASSETS				
Cash on hand & with RBI	2,742	3,104	3,353	3,854
Money at call and short notice	977	1,425	1,540	1,677
Advances	44,097	43,436	50,386	58,951
Investments	21,155	24,118	26,614	30,103
Fixed assets	400	425	446	469
Other assets	1,662	2,086	2,294	2,523
Total Assets	71,033	74,594	84,632	97,577

Ratio Analysis				
Year to 31st March	FY13	FY14	FY15E	FY16E
Basic Ratio (Rs.)				
EPS	9.8	9.8	10.5	11.6
Book Value per share	74	81	89	98
Adjusted Book Value	69	77	83	92
Dividend per share	1.8	2.0	2.2	2.5
Asset Quality (%)				
Gross NPAs	3.5	2.5	2.5	2.3
Net NPAs	1.06	0.86	0.98	0.89
PCR	70.6	66.3	60.7	61.6
Profitability ratios (%)				
RoAE	13.9	12.6	12.3	12.4
RoAA	1.3	1.2	1.1	1.1
NIM	3.3	3.4	3.5	3.5
Operating Profit Margin	21.4	19.4	20.4	20.5
Net Profit Margin	12.3	11.0	11.1	10.9
Cost to Income	44.7	49.3	49.2	49.2

Source: Company data, Arihant Research

Spread analysis (%)				
	FY13	FY14	FY15E	FY16E
Yield on advances	11.3	11.4	11.4	11.2
Yield on investments	7.6	7.8	7.8	7.7
Cost of deposits	7.2	7.2	6.9	6.7
Cost of funds	6.7	7.2	6.5	6.3
Spread	2.8	3.1	3.1	3.1
Interest Income to AWF	9.6	9.8	9.5	9.4
Net Interest Income to AWF	3.08	3.15	3.25	3.30
Non Interest Income to AWF	1.0	1.0	0.9	0.9
Operating Expense to AWF	1.84	2.04	2.06	2.05
Operating Profit to AWF	2.3	2.1	2.1	2.1
Net Profit to AWF	1.31	1.19	1.16	1.12
Valuation ratios (x)				
P/E	14.8	14.8	13.8	12.5
P/BV	1.9	1.8	1.6	1.5
P/ABV	2.1	1.9	1.7	1.6



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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