



Federal Bank

Analyst: MB Mahesh, CFA / Nischint Chawathe / Dipanjan Ghosh / Shrey Singh (Email: kspcg.research@kotak.com; Contact: +91 22 6218 6427)

CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
95	130	36.8%	110 / 67	189066

Key Highlights:

- Federal Bank reported ~20% YoY loan growth in 1QFY20, driven by robust growth in retail lending (up ~25% YoY) and strong performance in the agricultural portfolio (up 20% YoY). We forecast the retail and corporate segment to deliver robust growth going ahead. We forecast ~15% loan CAGR in FY19-22E.
- GNPL during 1QFY20 decreased by 5% QoQ to Rs.34 bn (3% of loans; up 5 bps QoQ) while net NPL decreased marginally QoQ to Rs.17 bn (1.5% of loans; flat QoQ). We expect GNPL to remain broadly stable around 3% levels till FY22E. Slippages are expected to drop to ~1.5% from current levels.
- Overall deposit growth was strong at 20% YoY in 1QFY20 driven by strong CA growth at ~25% YoY and moderate SA growth at >10% YoY. We expect CASA ratio to remain in the range of ~32-33% over the medium term driven by 15% CAGR in CASA over FY19-22E while deposits will grow at marginally higher CAGR over the same period due to robust traction in retail deposits.
- NIM (reported) was flat QoQ at 3.2% as increase in cost of deposits offset rise in lending yields. Our outlook on NIM is broadly stable to positive in the medium term. We expect calculated NIM to marginally increase by 10 bps over FY19-22E to 3.1%.
- Non-interest income increased sharply by 45% YoY in 1QFY20 led by increase in fee income (up 40% YoY) and sharp uptick in sale of investments at 90% YoY.
- Cost-to-income ratio was broadly stable at 50% in 1QFY20 (down 60 bps QoQ and 240 bps YoY) while growth in operating expenses was robust at 20% YoY in 1QFY20. We expect cost-to-income ratio to gradually moderate to <45% by FY22E on the back of ~10% CAGR in operating expenses over FY19-22E (employee expense will grow at a marginally higher pace).
- We maintain our BUY rating with an unchanged fair value of Rs.130, valuing the bank at ~2X book and 14X March 2021E EPS for RoEs in the range of ~14% in the medium term and strong earnings growth of ~25% CAGR in FY19-22E.

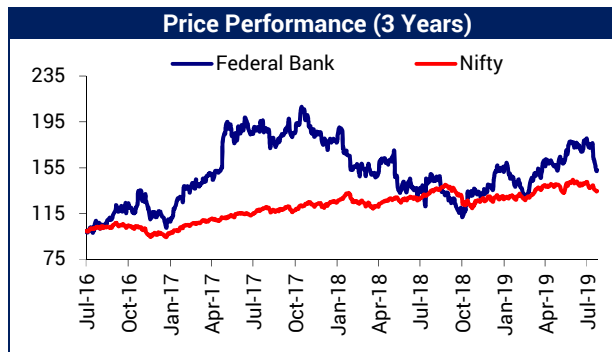
Financials (Rs mn)*	FY19	FY20E	FY21E
Net Interest Income	34,437	42,808	50,052
Non-interest Income	13,510	14,012	16,773
Total Income	47,947	56,820	66,825
Growth (%)	10.0%	18.5%	17.6%
PBT	19,073	26,134	31,607
Net profit	12,439	17,044	20,614
EPS (Rs)	6.3	8.6	10.4
BVPS (Rs.)	61.5	66.9	73.9
P/B (x)	1.5	1.4	1.3

Gross NPL (%)	2.9%	3.0%	3.1%
Net NPL (%)	1.5%	1.5%	1.5%
ROE (%)	9.8%	12.3%	13.5%
RoA (%)	0.8%	1.0%	1.0%

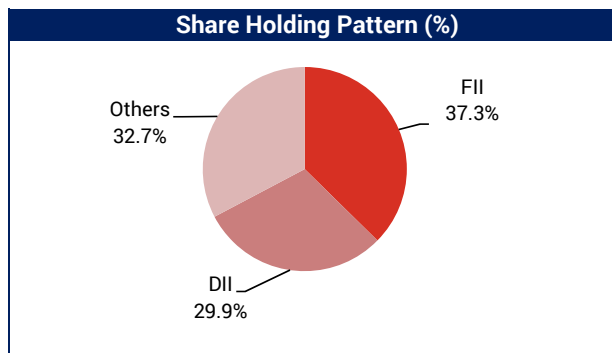
Source: Kotak Institutional Equities *Consolidated

Financials (Rs mn)*	Q1-FY19	Q1-FY20	% Chg
Net Interest Income	9,801	11,542	17.8%
Non-Interest Income	2,709	3,915	44.5%
Total Income	12,510	15,457	23.6%
PBT	4,038	5,907	46.3%
PAT	2,627	3,842	46.2%
Slippages (%)	2.0%	1.6%	-43bps

Source: Kotak Institutional Equities *Consolidated



Source: Bloomberg



Source: Bloomberg

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
- SELL** – We expect the stock to deliver < -5% returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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FUNDAMENTAL RESEARCH TEAM

Rusmik Oza Head of Research rusmik.oza@kotak.com +91 22 6218 6441	Arun Agarwal Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	Amit Agarwal Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	K. Kathirvelu Support Executive k.kathirvelu@kotak.com +91 22 6218 6427
Sanjeev Zarbade Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	Jatin Damania Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	Deval Shah Research Associate deval.shah@kotak.com +91 22 6218 6425	
Sumit Pokharna Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	Pankaj Kumar Midcap pankajr.kumar@kotak.com +91 22 6218 6434	Krishna Nain M&A, Corporate actions krishna.nain@kotak.com +91 22 6218 7907	

TECHNICAL RESEARCH TEAM

Shrikant Chouhan shrikant.chouhan@kotak.com +91 22 6218 5408	Amol Athawale amol.athawale@kotak.com +91 20 6620 3350	Faisal Shaikh, FRM, CFTE Research Associate faisalf.shaikh@kotak.com +91 22 62185499	Siddhesh Jain Research Associate siddhesh.jain@kotak.com +91 22 62185498
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DERIVATIVES RESEARCH TEAM

Sahaj Agrawal sahaj.agrawal@kotak.com +91 79 6607 2231	Malay Gandhi malay.gandhi@kotak.com +91 22 6218 6420	Prashanth Lalu prashanth.lalu@kotak.com +91 22 6218 5497	Prasenjit Biswas, CMT, CFTE prasenjit.biswas@kotak.com +91 33 6625 9810
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