



Farsight

MORNING FARSIGHT

Monday, October 29, 2018

FEDERAL BANK

CMP:RS 79.50

TRGT:RS 95

TIME HORIZON: 1 YEAR

Federal Bank is looking a good buy, as Bnak having reported highest ever Nil of Rs. 1,022 cr against Rs. 980 cr QoQ and Rs. 899 cr YoY, a growth of 4% QoQ and 14% YoY, despite Kerala impacting business in Q2FY19. Loan Growth was robust at 26% YoY at Rs. 1.02 lakh cr, while Deposits were higher by 19% YoY to Rs. 1.11lakh cr. Besides, the CASA ratio of the bank has risen from 26% to 33.7% in the last five years, among the best compared to peers. Retail deposit constitutes a staggering 94% of total deposits, which is less sensitive to interest rate risk and poses low liquidity risk. Asset quality was largely stable, with absolute slippages coming in largely similar to Q1FY19 number at Rs. 477 cr (major increase in slippages were seen in the SME segment at Rs. 169 cr against Rs. 90 cr in Q1FY19). Absolute GNPA in Q2FY19 was at Rs. 3,185 cr against Rs. 2,869 cr QoQ with GNPA ratio at 3.11% against 3% QoQ, while NNPA rose 6 bps QoQ to 1.78%. We are also enthused to see NIM having expanded 3bps QoQ to 3.15%, even in this environment of elevated generic interest rates and crimped liquidity, where majority of NBFCs and Pvt Banks are witnessing NIM contraction on sequential basis. Core fee income rose 33% showing incipient signs of fee income strategy working out, while opex control and digital strategy continued to display encouraging outcomes, resulting in significantly lower Cost To Income Ratio of 48.15% against 51.8% QoQ. Post a surge in slippages in FY18, owing to RBI's February 12 circular on stressed accounts, accretion of the same has moderated to the previous run rate. Restructured assets have also been trimmed down due to a fall in NPA. The management guidance on moderation, going ahead, is panning out As per management, Kerala floods will likely in incremental slippage of —Rs 150 cr in total and full year FY19 slippage guidance stands given at Rs. 1,450 cr, of which, Rs. 938 cr has already been realised in 1HFY19, this implies significantly lower slippage ratio over 2HFY19. The "most affected" portion of Kerala book, which is —Rs 1,600 cr and is fully eligible for dispensation / restructuring and has seen restructuring worth —Rs35 cr in 2C/FY19 with another —Rs70cr expected in 3QFY19 before the SLBC deadline of 30th November. Share is trading at PE of 14.8x on an estimated EPS of Rs. 5.5 for FY19 and PBV of 1.4x, which are reasonable, due to better earnings delivered by the bank during tough macro environment Share ruling at Rs.79.50 can move to Rs.95 in 1 year. Buy as an investor only in this extreme volatility and pessimism now seen prevailing.

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