AMBIT
Acumen at work

Federal Bank
BUY

COMPANY INSIGHT	FB IN EQUITY	July 02, 2018

Earnings recover, valuation comfortable

FB now trades at 1.2x FY19 BV, below long-term historical average. Concerns over recent volatility in asset quality are overdone. At-risk corporate book is small (restructured at 0.9% of loans). Rating mix has improved with 76% of corporate loans rated 'A and above' vs 27% in FY14. Thus, credit cost should normalise to ~75bps in FY18-20 from 105bps in FY18. While challenges in income (NIM at 3.2%; fee income to assets at 0.6%) and opex efficiency (cost-to-income at 50-52%) persist, decline in credit cost will help RoE normalise to 11% with loan momentum sustaining at 20%+. On 34% EPS CAGR in FY18-20E, current valuations seem undemanding; so we turn BUYers. Our unchanged TP of ₹101 implies 1.3x one-year forward BV and 11x one-year forward EPS.

Competitive position: MODERATE   Changes to this position: STABLE

Operating profitability muted; asset quality volatile

We have been SELLers since Jun'14 given muted income profile (FY18 NIM of 3.2%) and operating efficiency (FY18 CI ratio of 52%). In the past year, the stock has underperformed Bankex/Sensex by ~40% given: (i) asset quality volatility (corporate and retail; gross NPA at 3.0% vs 2.3% at end-FY17) and (ii) muted underlying operating performance (FY18 operating profit to assets of 1.8%).

Asset quality concerns are overdone

Despite some volatility in retail asset quality (demonetisation, education loans) and corporate asset quality (transition of stressed standard loans to NPA), overall stressed assets, net of provisions, fell from 7% to 3% in the last three years with restructured loans moving to NPA. At-risk corporate restructured book is now 0.5% and mix of "above investment grade" corporate book is 76% (27% in FY14). So we expect credit cost to stay stable at ~75bps in FY18-20E vs 105bps in FY18.

Structural constraints on operating profit to persist

FB has the lowest core PPOP/RWA among peers (Jul'17 note) given low loan yields (~9%) and poor fee income generation (0.6%). It struggles to translate healthy liability franchise (5.8% cost of deposits) to reasonable RoE (<10%). Poor staff productivity (salary as high as new-gen banks but income per employee 30% lower) is behind weak assets franchise – a structural issue in improving cost-to-income. So credit cost normalisation is the key to RoE recovery.

Valuations now reasonable; earnings momentum provides support

Valuations of 12x one-year forward EPS and 1.2x one-year forward BV are now in line with historical average. Loan growth (20%+) is likely to sustain much above 10% over FY14-16. With normalisation in credit cost, FB should to deliver EPS CAGR of 34% (FY18-20E). Compared to peers, while RoE expectation is lower, focus on high-quality credit (enabled by competitive cost of funds) gives comfort on sustainable loan growth. We turn BUYers with no changes in our earnings estimates and valuation. Key risk: Volatility in retail/SME asset quality.

Key financials

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income (₹ mn)	25,077	30,526	35,828	43,454	51,031
Operating Profits (₹ mn)	14,238	19,249	22,910	28,857	34,671
Net Profits (₹ mn)	4,757	8,308	8,789	12,567	15,542
EPS (₹)	2.8	4.8	4.5	6.4	7.9
RoA (%)	0.54%	0.79%	0.69%	0.83%	0.86%
RoE (%)	6.0%	9.8%	7.8%	9.9%	11.3%
P/B (x)	1.69	1.53	1.28	1.19	1.09

Source: Company, Ambit Capital research

BFSI

Recommendation

Mcap (bn):	₹162/US$2.4
6M ADV (mn):	₹1,200/US$17.5
CMP:	₹82
TP (12 mths):	₹101
Upside (%):	23

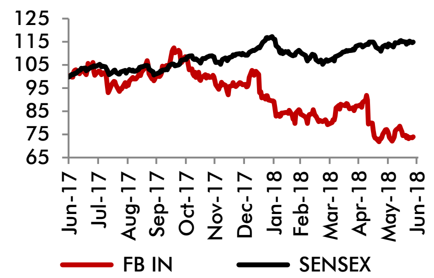
Flags

Accounting:	GREEN
Predictability:	AMBER
Earnings Momentum:	RED

Catalysts

- Fall in credit cost to 75bps in FY19 (vs 105bps in FY18)
- Loan growth, at 20%+ YoY, staying above banking system credit growth
- RoE of 11% in FY20 vs 8% in FY18

Performance (%)



Source: Bloomberg, Ambit Capital Research

Research Analysts

Ravi Singh
+91 22 3043 3181
ravi.singh@ambit.co

Pankaj Agarwal, CFA
+91 22 3043 3206
pankaj.agarwal@ambit.co

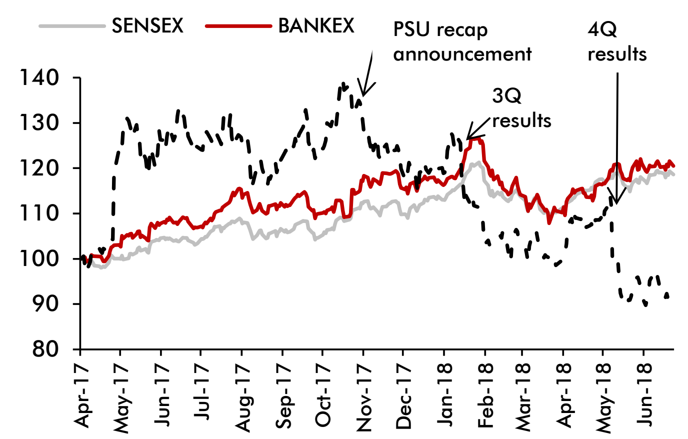
Rahil Shah
+91 22 3043 3246
rahil.shah@ambit.co

Multiple catalysts for share price underperformance

We have been SELLers on the stock since June 2014. While there has been little progress on our key concerns of muted underlying operating profitability, the bank also surprised negatively on volatility in its asset quality performance. With valuations having fallen, we take a look at expectations around earnings growth and whether valuations are now comfortable enough to be in line with those expectations.

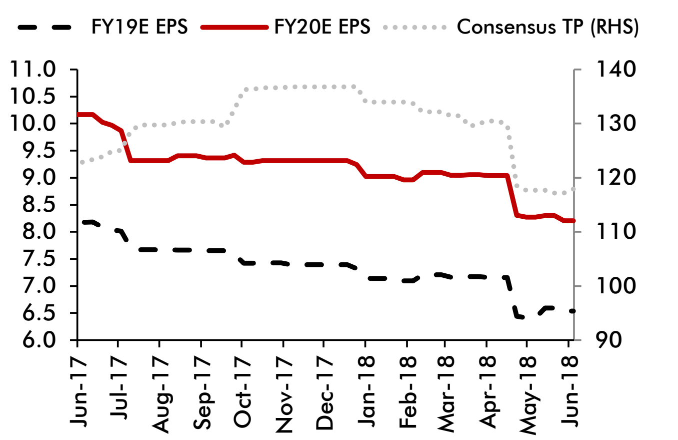
During the last nine months, the share price of Federal Bank (FB IN Equity) has underperformed both the broader market (SENSEX) and the banking index (BANKEX) by 27% and 29%, respectively.

Exhibit 1: Underperformance started post PSU recap and continued with 3Q18/4Q18 results...



Source: Bloomberg, Ambit Capital Research

Exhibit 2: ...and consensus downgraded EPS estimates and target price



Source: Bloomberg, Ambit Capital Research

Triggers to share price underperformance: There were several triggers in succession that impacted the share price performance: **(1)** Announcement of PSU banks recap plan of ₹2.1trn in Oct'17. This raised prospects of a reversal of high loan growth for private sector banks that were growing particularly fast by taking corporate loan market share from PSU banks; **(2)** Erratic trends in retail segment delinquencies in 9MFY18 (particularly in 3QFY18, when education loan NPAs increased); and **(3)** Increase in NPAs in 4QFY18, led by corporate loan segment.

Operating performance has also been underwhelming: Underlying these quarter-to-quarter negative surprises, operating performance of the bank stayed subdued due to its muted income profile. The bank delivered FY18 NIM of 3.2% and fee income to assets of 0.64% (exhibit 3). The weak income profile led to high cost-to-income of ~52% and a subdued operating profit to assets ratio of 1.8%.

Exhibit 3: FB's operating metrics remain the weakest amongst the peer banks

FY18	FB	KVB	CUBK	DCBB	RBK
NIMs (reported)	3.22%	3.86%	4.42%	4.16%	3.79%
Fee income to assets	0.64%	1.17%	1.04%	0.99%	1.59%
Cost to income ratio	52%	44%	38%	60%	53%
PPOP to Assets	1.81%	2.76%	3.21%	1.95%	2.41%

Source: Company, Ambit Capital Research

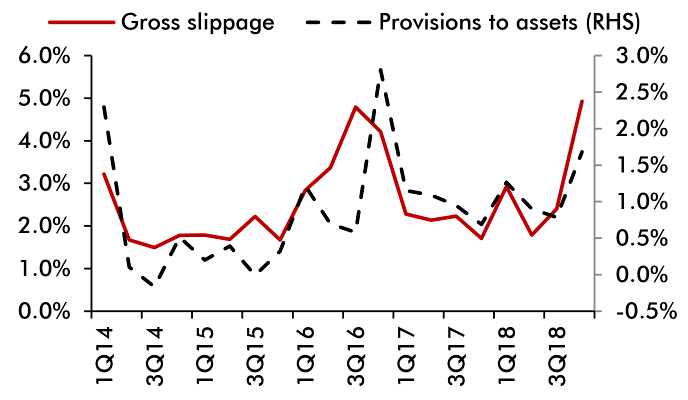
In the past 6 months, therefore, consensus estimates declined. FY19 and FY20 estimates fell 13% and 14% respectively. Consensus target price is lower by 16%. These reductions followed a period of upgrades in the previous 12-18 months as expectations of a sustained turnaround in the bank's profitability gained momentum (exhibit 2).

Asset quality concerns appear overdone

The gross NPA slippage pattern has been volatile (led by both corporate and retail/SME segments) but compare well with the wider peer group. Moreover, most of the slippages have arisen from the bank's stressed standard book, and overall stressed assets have thus fallen. With incremental growth largely coming from high-rated corporate credit and mortgages, credit cost should normalise to 70-80bps over FY18-20E vs 105bps in FY18.

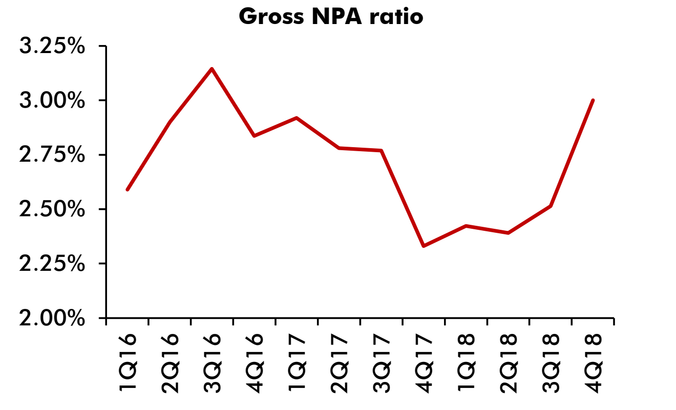
While NPA additions have been volatile…: Federal Bank delivered stable asset quality performance over FY14-15, with gross slippages to NPAs averaging at ~1.9% (exhibit 4). In FY16, however, this doubled to ~3.8% due to higher slippages arising from the corporate and SME segments. This was in context of the RBI driving an asset quality review (AQR) for the banking system, which led to a large share of Indian banks' standard stressed loans being recognized as NPA. Stability resumed in FY17 with average slippage of 2.1%, which led to the expectation that the bank had control over asset quality. The bank also reported no divergence between its NPA reporting and RBI's assessment for end-FY16 and end-FY17. In FY18, however, asset quality worsened again with average slippage of 3.0% (exhibit 4). Gross NPA thus increased to 3.0% at end-FY18 vs 2.3% at end-FY17 (exhibit 5).

Exhibit 4: Gross slippages and provisions picked up in 4Q18 with accelerated recognition of NPA from restructured book



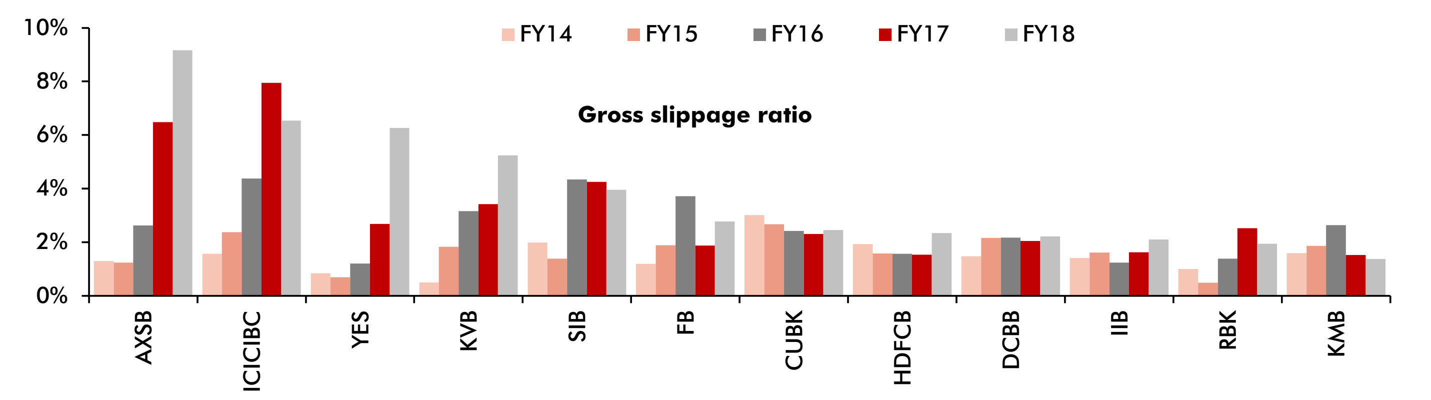
Source: Company, Ambit Capital research

Exhibit 5: Gross NPA ratio picked up after accelerated recognition of stressed loans as NPAs



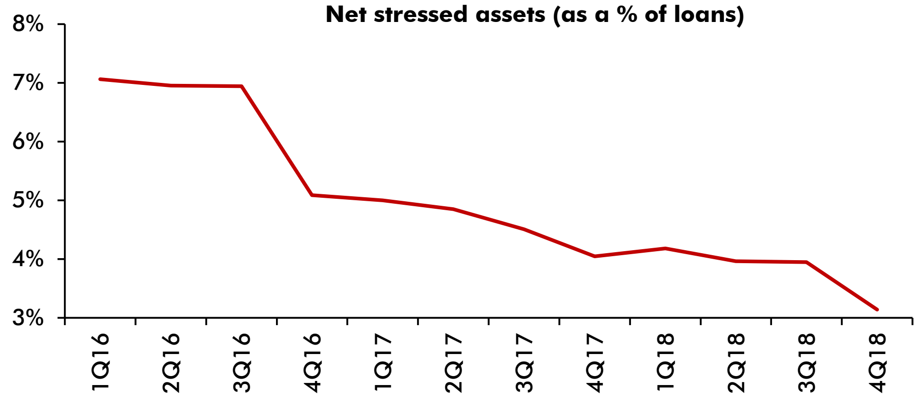
Source: Company, Ambit Capital research

Exhibit 6: While volatile, FB's gross slippages in general are low relative to peers



…total stressed assets have fallen: Slippages were volatile in FY18 due to slippages in education loan portfolio in 3QFY18 and accelerated recognition of NPA from the restructured corporate book in 4QFY18. However, total net stressed loans (net NPAs plus net restructured loans and net security receipts outstanding) stood at 3.1% of loans at end-FY18 vs 7.1% at end-1QFY16. With recognition of stressed loans as NPA, credit costs rose to 103bps in FY18 vs 70bps in FY14-17.

Exhibit 7: Net stressed assets have been on a decline



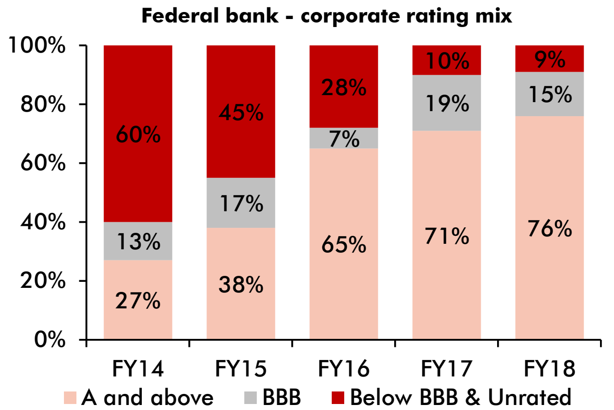
Source: Company, Ambit Capital research

With a large part of the stressed book already recognised as NPA, gross restructured loans as a percentage of total loans have come down to 0.9% vs 5.1% in FY15. Overall bad loans, net of provisions (net NPA + net standard restructured book + net security receipts) account for nearly 3.1% of the loans (vs 7.1% in 1QFY16).

Further slippages from restructured loans to be limited: Nearly half of the exposure of the bank in its standard restructured book comprises loans backed with sovereign and state government guarantee (loans unlikely to slip into NPAs). Also, the bank has exposures to five accounts referred to the NCLT under the IBC proceeding. For these loans, the bank has provision coverage of ~60%.

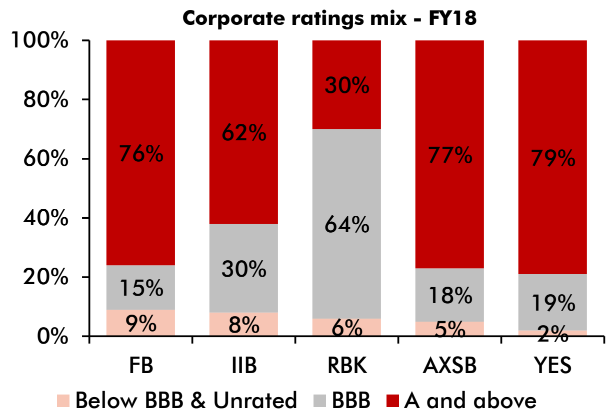
Corporate rating mix has shifted in favour of high quality credit: In the past three years, the corporate segment has driven the overall loan book growth. Within corporates, fresh lending has been skewed towards better rated corporate customers (rated A and above). The composition of A and above rated customers in the overall corporate mix stands at 76% (vs 38% in FY15).

Exhibit 8: Corporate mix for Federal Bank is now skewing towards A and above rated



Source: Company, Ambit Capital research

Exhibit 9: The rating mix for the bank is geared towards higher rated corporates



Source: Company, Ambit Capital research

With recognition of standard stressed assets into NPA mostly behind, we expect asset quality of the bank to remain stable. Our estimates for credit costs in FY18-20E are ~68bps with gross/net NPA moderating to <2%/~1% respectively by FY20E.

Exhibit 10: We expect credit costs to remain broadly stable as NPAs moderate

	FY16	FY17	FY18	FY19E	FY20E
Gross NPA	2.84%	2.33%	3.00%	2.23%	1.94%
Net NPA	1.64%	1.28%	1.69%	1.23%	1.05%
Credit Cost	1.07%	0.74%	0.75%	0.83%	0.78%

Source: Company, Ambit Capital research

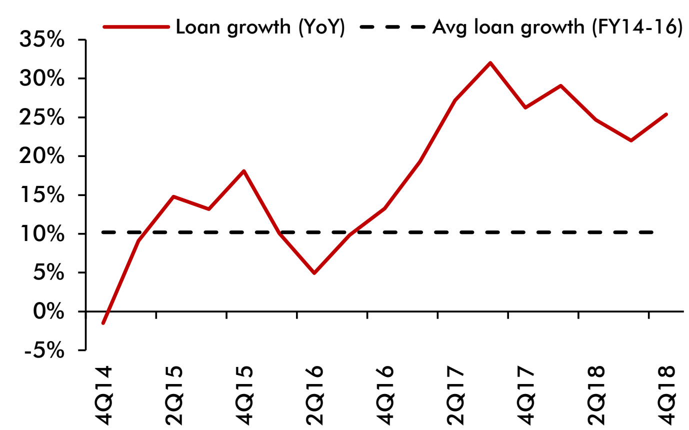
Operating profit challenges would persist

Focus on high-quality credit has adversely impacted the bank's loan yield and, thus, NIMs are underwhelming at ~3.2%. Further, a sticky employee cost base, with per employee salary being 20-30% higher than peers, structurally limits the bank's operating efficiency (cost-to-income sticky above 50%). Thus, loan growth momentum (20%+ YoY) and normalising credit costs would lead to recovery in RoE (11-12% vs 60-10% in FY16-18) and drive EPS CAGR of 34% over FY18-20E.

Loan growth momentum sustained, led primarily by the corporate segment

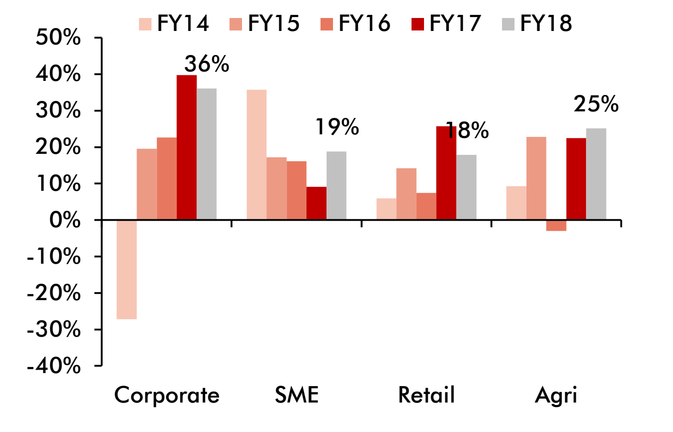
After recording average of ~10% YoY during FY14-16, loan growth accelerated to ~26% YoY during the last eight quarters (exhibit 11). This was driven by the corporate segment which grew at an average of ~42% YoY over the last eight quarters while the retail segment grew by an average of 20% YoY (exhibit 12). Corporate loans now form ~42% of loans (vs 34% in FY16). The share of retail loans has been broadly stable at ~28%.

Exhibit 11: Loan growth has jumped to an average of 26% YoY in the last eight quarters



Source: Company, Ambit Capital research

Exhibit 12: Corporate and retail segments have driven this pick-up in growth



Source: Company, Ambit Capital research

High-rated credit drove corporate loan growth: Growth in the corporate segment was led by loans to companies rated "A and above"; these loans now account for 76% of corporate loans (vs 38% at end-FY15). The bank which was consolidating its corporate loan book until FY16 (average corporate loan growth of 1% YoY during FY14-16) has been rapidly expanding its corporate loan book (42% YoY average growth during FY17-18). For this incremental growth, the bank is only focusing on higher quality credit taking advantage of its competitive cost of funds and benign competition from PSU banks in corporate lending. In the retail segment, acceleration in growth was driven by housing and mortgages.

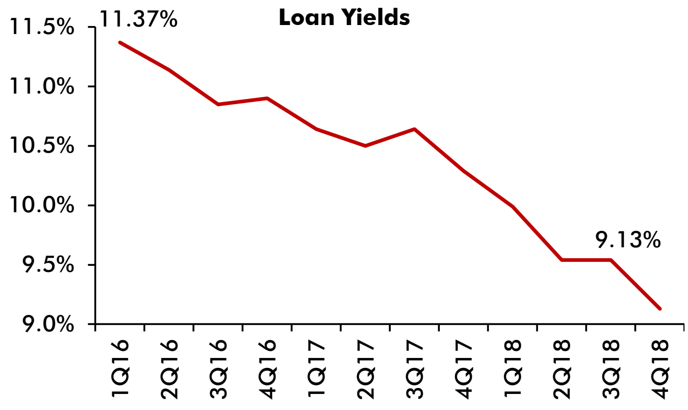
Exhibit 13: Change in corporate rating profile (>90% to investment grade corporates)

Federal Bank	FY14	FY15	FY16	FY17	FY18
A and above	27%	38%	65%	71%	76%
BBB	13%	17%	7%	19%	15%
Below BBB & Unrated	60%	45%	28%	10%	9%

Source: Company, Ambit Capital research

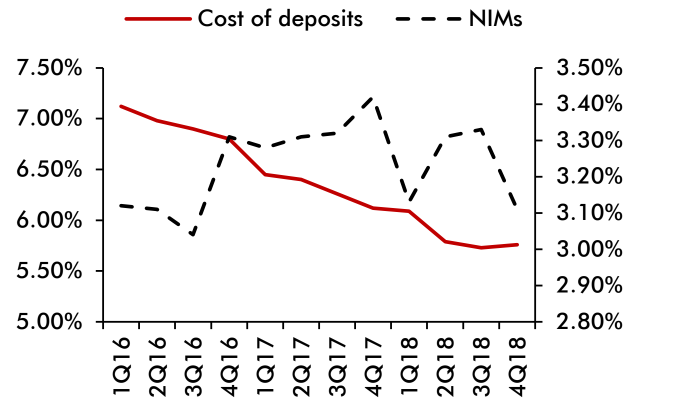
The growth on the corporate side has come at the cost of yields: Yields on loans have fallen steeply over the last few quarters to 9.1% in 4Q18 (vs 11.4% in 1Q16). Change in corporate loan mix towards high quality corporates by increasing share of "A and above" rated credit has led to this decline. Thus, NIMs have been muted at 3.1-3.3% despite benefits on cost of funds. Supported by the bank's base in Kerala, liability franchise is healthy with granular deposits (deposits less than ₹10mn) forming 88% of total deposits.

Exhibit 14: Continuous pressure on loan yields



Source: Company, Ambit Capital research

Exhibit 15: NIMs stay muted at 3.1-3.3% despite a healthy liabilities franchise



Source: Company, Ambit Capital research

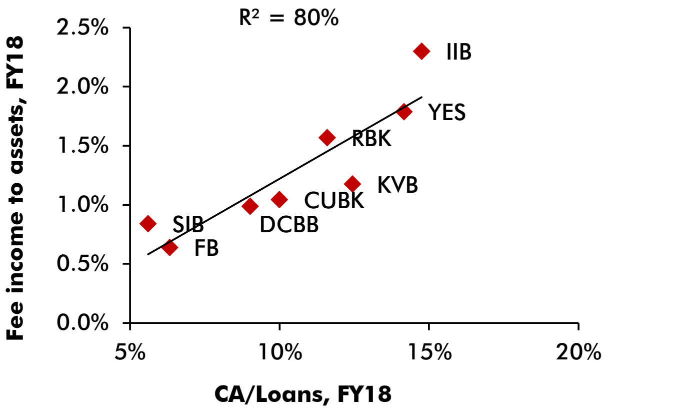
Fee income profile stays weak

As highlighted in our note (July'17 note), the bank has structural problem in its income profile with lower yields and one of the lowest fee income-to-assets amongst its peers.

The weakness in the assets franchise (depth of customer relationships/cross-sell) has dragged fee income generation. The bank has a low CA/loans ratio among peers, which shows poor levels of customer relationships and cross-sell. CA deposits are a key measure of the strength of customer relationships, and a higher number indicates a higher proportion of primary banking relationships with customers.

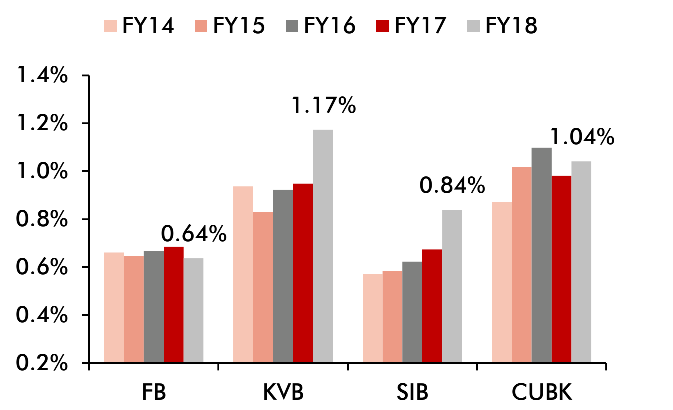
Thus, it is not surprising that fee income generation of banks closely tallies with CA/loans for the banks (exhibit 16). More importantly, historical trends show that Federal Bank has not been able to make any major headway in improving CA productivity of its business or level of relationships with or wallet-share of customers.

Exhibit 16: Low CA/loans shows weak customer relationships/cross-sell and weak fee income profile



Source: Company, Ambit Capital Research

Exhibit 17: Fee income has traditionally been low for the bank amongst its peers



Source: Company, Ambit Capital Research

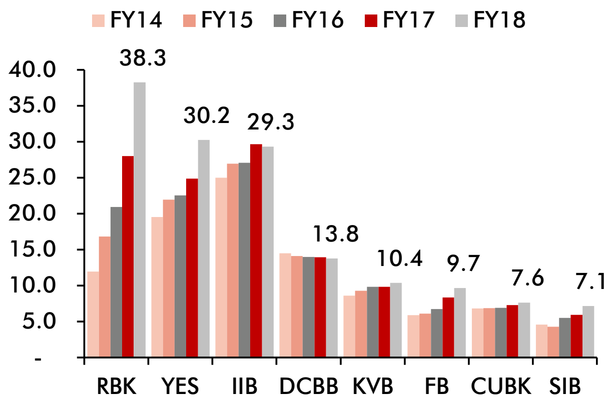
High cost-to-income drags operating profitability

On the cost side, the bank has a structural issue on the employee cost front, a legacy factor with unionised staff. The bank is now focusing on an RM (relationship manager) based strategy, wherein it has built a team of ~30 RMs in corporate banking and ~60 RMs in commercial banking. Further, there are another 200-250 strong team of retail RMs and on-field sales team. However, due to unionised staff, the entry level salary for such staff is much higher than other new-gen bankers. This reflects in the average employee cost per employee for the bank, which is amongst the highest in its peer group (exhibit 20).

Low employee productivity: While the bank's overall cost-to-assets looks fairly contained compared to peers (exhibit 18), it hides the bloated employee cost base within that. Breaking up the opex into employee expenses and other opex shows the following:

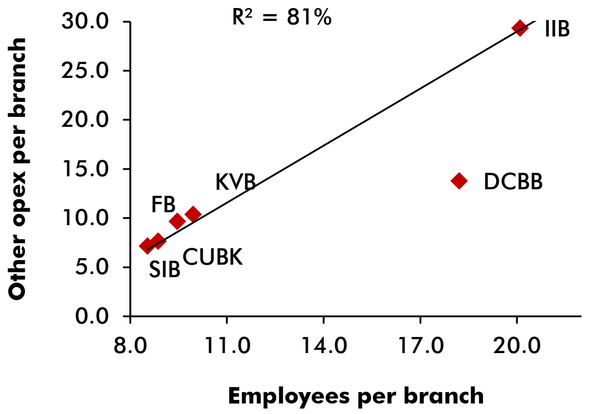
- Federal Bank's other opex to branch ratio is low, which is in line with its regional, old private sector bank peers (exhibit 18) and reflective of the nature of its branch network (e.g. low employees per branch; exhibit 19);

Exhibit 18: Other opex per branch (₹ mn) is low for FB, in line with regional and old private sector peers...



Source: Company, Ambit Capital Research

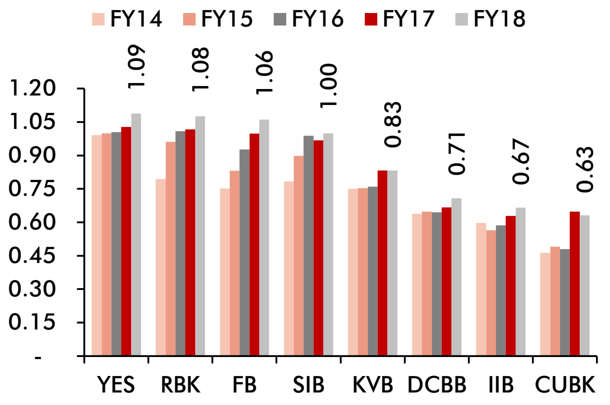
Exhibit 19: ...which reflects the nature of branch network and customer (low employees per branch and other opex)



Source: Company, Ambit Capital Research

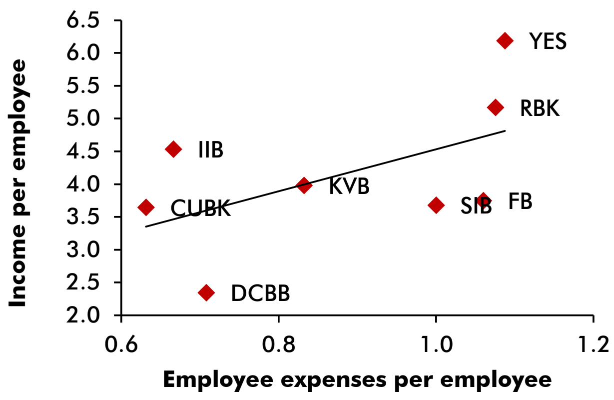
- However, employee expenses per employee are high, in line with new-gen banks (exhibit 20), but income (NII + fee income) per employee is much lower than that of peers (exhibit 21).

Exhibit 20: FB's employee expenses per employee (₹ mn) are as high as those for new-gen private sector peers...



Source: Company, Ambit Capital Research

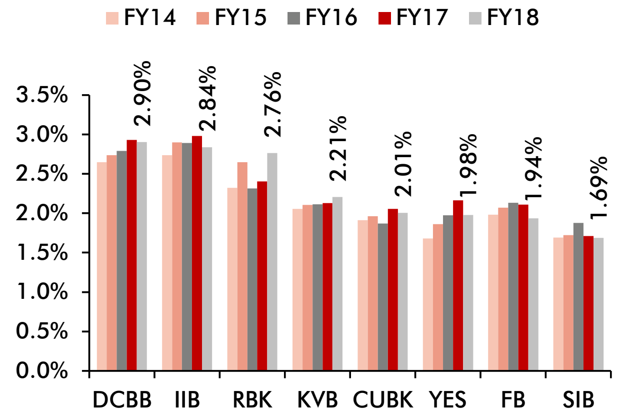
Exhibit 21: ...which is not commensurate with income per employee that FB generates



Source: Company, Ambit Capital Research

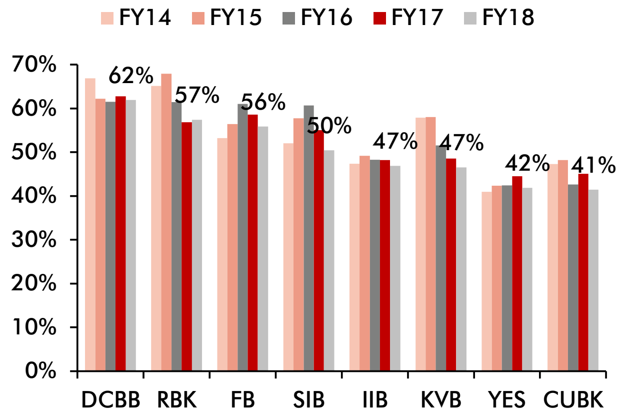
As discussed, the bank's underlying operating profitability struggles due to a weak income profile (NIM and fee income). Thus, even as the bank's cost-to-assets ratio is low relative to peers (exhibit 22), on cost-to-income ratio the bank fares poorly (exhibit 23). Thus, any improvement in the cost-to-income ratio and operating profitability has to take place at the income level.

Exhibit 22: In line with the regional nature of its branch network, cost-to-assets for Federal Bank is low…



Source: Company, Ambit Capital Research

Exhibit 23: …but weak income has an adverse impact on cost-to-core income ratio, which is high relative to peers



Source: Company, Ambit Capital Research

The bank has hardly opened any new branches in last three years (5 new branches). Going ahead, the management plans investments in branch and non-branch-led distribution. This would put additional pressure on the cost structure of the bank. Thus, the weak income profile coupled with the sticky cost-to-income and cost-to-core-income ratios will keep RoA/RoE subdued. We expect 0.9% RoA in FY20. High loan growth (above 20% YoY) with muted RoA will consume capital, leading to increase in leverage and need to raise capital. We expect RoE to stay below 12% before the bank would need to raise capital in FY20/21.

Exhibit 24: Weak income profile with sticky cost base to keep RoE subdued

Du-Pont Analysis (%)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
NII / Assets (%)	**3.06%**	**3.02%**	**2.83%**	**2.91%**	**2.83%**	**2.87%**	**2.82%**
Core other income / Assets (%)	0.66%	0.65%	0.67%	0.69%	0.64%	0.65%	0.65%
Other income / Assets (%)	0.95%	1.12%	0.91%	1.03%	0.92%	0.88%	0.86%
Total Income / Assets (%)	**4.01%**	**4.14%**	**3.74%**	**3.95%**	**3.74%**	**3.74%**	**3.68%**
Cost to Assets (%)	1.98%	2.07%	2.13%	2.11%	1.94%	1.84%	1.76%
Cost to Income (%)	**49.3%**	**50.0%**	**57.1%**	**53.4%**	**51.7%**	**49.2%**	**47.9%**
PPP / Assets (%)	2.03%	2.07%	1.60%	1.84%	1.81%	1.90%	1.92%
Provisions / Assets (%)	0.37%	0.14%	0.79%	0.59%	0.75%	0.64%	0.60%
PBT / Assets (%)	1.66%	1.93%	0.81%	1.25%	1.06%	1.27%	1.31%
RoA (%)	**1.15%**	**1.28%**	**0.54%**	**0.79%**	**0.69%**	**0.83%**	**0.86%**
Leverage	11.0	10.7	11.1	12.4	11.4	11.9	13.1
RoE (%)	**12.6%**	**13.7%**	**6.0%**	**9.8%**	**7.8%**	**9.9%**	**11.3%**

Source: Company, Ambit Capital Research

Detailed assumptions and estimates

Exhibit 25: Key assumptions and estimates

	FY16	FY17	FY18	FY19E	FY20E	Comments
Assumptions						
YoY loan growth	**13.3%**	**26.2%**	**25.4%**	**21.2%**	**21.2%**	**Loan growth momentum to sustain as the bank grows its high rated corporate book**
Yields on loans	10.37%	9.96%	9.12%	9.02%	9.12%	Change in loan mix to lead to yield compression
Cost of funds	6.66%	5.99%	5.43%	5.37%	5.45%	Benefit on liability franchise to sustain and help control cost of funds
Net interest margins	**3.03%**	**3.09%**	**2.97%**	**3.00%**	**2.95%**	**NIM thus stays broadly stable at current levels.**
Fee income to average assets	0.7%	0.7%	0.6%	0.6%	0.7%	Fee income franchise to show little improvement.
Opex to average assets	2.13%	2.11%	1.94%	1.84%	1.76%	Marginal improvement in cost ratios led by healthy assets growth.
Credit cost	1.07%	0.74%	0.75%	0.83%	0.78%	Credit costs to stay at current 70-80bps level.
Key output [mn]						
Net interest income	25,077	30,526	35,828	43,454	51,031	
Operating profit	14,238	19,249	22,910	28,857	34,671	
Profit after tax	4,757	8,308	8,789	12,567	15,542	
EPS	2.8	4.8	4.5	6.4	7.9	
RoA	0.54%	0.79%	0.69%	0.83%	0.86%	
RoE	6.0%	9.8%	7.8%	9.9%	11.3%	

Source: Company, Ambit capital research

Our NII estimates for FY18-20 are largely in line with consensus. We build in NII CAGR (FY18-20E) of 19% driven by loan CAGR of ~21% and broadly stable NIM. Our FY20E net profit estimate is 3% lower as we expect only gradual improvement in RoE with little scope of improvement in NIM, credit cost and cost-to assets. We expect fee income (as % of assets) to remain stagnant at the current low levels. Overall, consensus earnings estimates have been downgraded in the past six months and are broadly in line with our estimates.

Exhibit 26: Ambit vs consensus

Federal Bank (₹ mn)	Consensus	Ambit	Difference (%)
NII			
FY19E	43,202	43,454	1%
FY20E	51,693	51,031	-1%
Net profit			
FY19E	12,886	12,976	1%
FY20E	16,256	15,743	-3%
EPS			
FY19E	6.5	6.6	1%
FY20E	8.2	8.0	-3%
RoE			
FY19E	10.1%	9.9%	-0.2%
FY20E	11.6%	11.3%	-0.3%

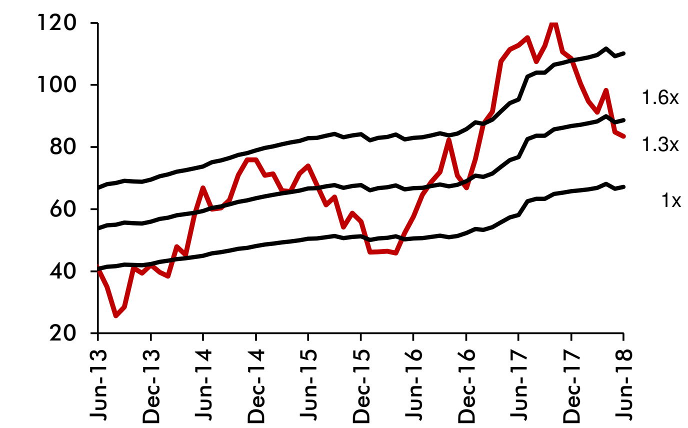
Source: Company, Ambit Capital research

Valuations provide comfort

Valuations are now broadly in line with the bank's long-term average. Compared to peers, while RoE is likely to stay underwhelming (11-12%), loan growth momentum and normalising credit costs provide visibility on superior EPS growth. With limited downside in case of a negative surprise, we expect valuations to stabilise at the current levels.

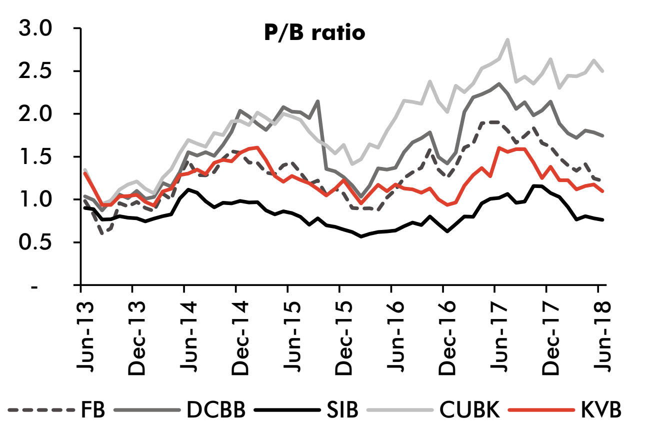
P/B has corrected to historical mean: Given the share price underperformance in the last nine months, FB now trades at 1.2x 1-year forward P/B, which is 5% lower than its five-year average of 1.3x. While the RoE is not likely to materially improve from its track record in the last five years, loan growth is definitely better and likely to sustain and thus help valuations stay at current levels.

Exhibit 27: Stock is trading at the cross-cycle average P/B of 1.3x



Source: Bloomberg, Ambit Capital Research; the price represents mean ± 1 standard deviation PB.

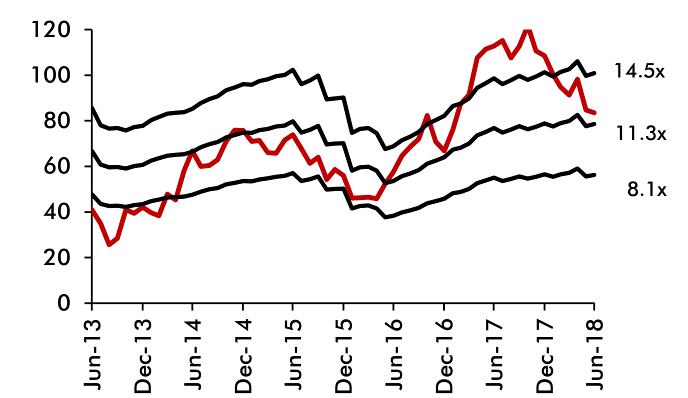
Exhibit 28: FB's valuation relative to peers reflect the bank's superior growth momentum but mediocre RoE



Source: Bloomberg, Ambit Capital Research

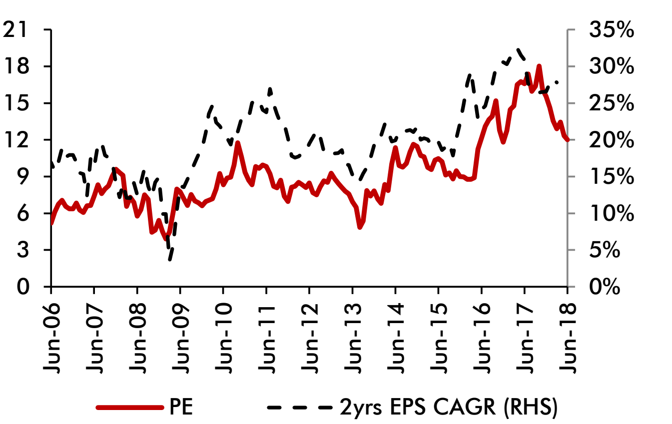
On P/E, forecast earnings growth now justifies upside: On P/E, FB trades at 12x 1-year forward EPS. While this has fallen in the last nine months, it is 7% above the historical mean of 11.3x. However, the bank is now consistently delivering higher balance sheet growth of 21% (average YoY growth in FY17-18) vs average growth of 10% in FY14-16. Forecast 2-year EPS CAGR is now 28% over FY18-20E vs 7% over FY14-18. Thus, forecast EPS growth justifies a P/E above the historical average.

Exhibit 29: The stock now trades in line with its historical P/E



Source: Bloomberg, Ambit Capital Research; the price represents mean ± 1 standard deviation PE

Exhibit 30: P/E multiples have fallen faster than what reduction in consensus forecast EPS CAGR suggests



Source: Bloomberg, Ambit Capital Research

Absolute valuations

In absolute terms, we value Federal Bank using the excess return to equity model, which is 'net profit – (cost of equity x average net worth)' for all the future years discounted back to June 2019 using cost of equity; we add this to net worth as at June 2019.

- We have explicitly forecast the net profit for FY18-20E based on the assumptions in Exhibit 25.
- Our assumptions for other stages of valuation models are shown in Exhibit 31.
- We have assumed a cost of equity of 15% and terminal growth of 5%. Our 15% cost of equity assumption is based on risk-free rate of ~8% (30-year G-sec yield at ~7.7%) and market risk premium of 7%.

Exhibit 31: Stages in our 'excess return to equity' valuation model

Stage	FY21-27	FY28-38	Comments
Period	7 years	10 years	
Assets CAGR	18%	16%	Long-term assets CAGR of ~18% and 16% compares with our expected assets CAGR of 14% for banking system (1.3x to nominal GDP growth of ~11%). Lower cost of funds to support growth as the bank takes market share in high rated corporate credit.
RoA	Improving from 0.9% to 1.1%	Flat at 1.1%	We expect RoA to gradually increase over the next ten years to 1.1% and then be stable at that level.
Leverage	15.6x, on average	15.8x, on average	

Source: Company, Ambit Capital research

Based on these assumptions, our 'excess return' model gives a 1-year forward target price of ₹101 for the bank (23% upside from current levels). Our target price implies 1-year forward P/B of 1.2x and 1-year forward P/E of 11.1x.

Relative valuations

The bank is trading at 1.2x FY19E P/B and 11.2x FY19E P/E. Given the decline in last nine months, these valuations are now below the average of the peer group (mid- and small private sector banks). While the bank's forecast RoE, at ~11%, is lower than the peer group average of 13%, higher loan growth implies better EPS growth (34% vs 19% for peers). Thus, we believe current valuation multiples offer little downside and are likely to sustain at current levels. EPS growth in that case is likely to be a prime driver of share price returns and implies 23% upside to our target price from a one-year perspective.

Exhibit 32: Relative valuations of mid- and small-sized private sector banks based on our estimates

	Mcap US$bn	Price (₹)	P/B at CMP		P/E at CMP		EPS CAGR	RoA		RoE	
			FY19E	FY20E	FY19E	FY20E	FY18-20E	FY19E	FY20E	FY19E	FY20E
Federal Bank	**2.4**	**83**	**1.24**	**1.14**	**12.7**	**10.4**	**34%**	**0.86%**	**0.87%**	**10.2%**	**11.4%**
RBL Bank	3.5	563	3.22	2.47	29.6	24.9	20%	1.13%	1.22%	11.4%	11.9%
DCB Bank	0.8	174	1.82	1.60	16.1	12.5	31%	1.01%	1.07%	11.8%	13.6%
Karur Vysya bank	1.1	105	1.13	1.02	13.3	9.2	6%	0.83%	0.94%	10.4%	12.1%
South Indian Bank	0.6	23.2	0.78	0.70	6.2	5.4	25%	0.60%	0.68%	9.9%	11.9%
City Union Bank	1.8	186	2.54	2.16	17.2	13.9	15%	1.45%	1.49%	14.6%	15.6%
Average			**1.90**	**1.59**	**16.5**	**13.2**	**19%**	**1.00%**	**1.08%**	**11.6%**	**13.0%**

Source: Bloomberg, Ambit Capital research

Exhibit 33: Valuations implied by target prices

	Reco	Upside / (Downside)	TP (₹)	Implied P/B at TP		Implied P/E at TP	
				FY19E	FY20E	FY19E	FY20E
Federal Bank	BUY	23%	101	1.4	1.3	14.6	11.8
RBL Bank	SELL	(23%)	423	2.4	1.9	22.2	18.7
Karur Vysya Bank	SELL	(1%)	105	1.1	1.0	13.2	9.1
South Indian Bank	SELL	(1%)	22.6	0.8	0.7	6.0	5.3
City Union Bank	BUY	14%	210	2.9	2.4	19.4	15.7

Source: Ambit Capital research

Still some gaps to fill for Federal Bank: To pull it altogether, while there are some areas where the bank is behind peers, rising the income profile (while maintaining asset quality) and employee productivity are key challenges, the bank has indeed turned a corner on loan growth momentum and asset quality. Liability franchise remains the main strength for the bank. With reduction in credit costs the bank should be in position to improve its RoE over FY18-20E.

Exhibit 34: Relative strength of Federal Bank's franchise vis-à-vis its peers

	FB	KVB	CUBK	SIB	DCBB	RBK	IIB	YES
Loan growth	Strong	Relatively weak	Average	Average	Relatively Strong	Strong	Strong	Strong
Liability franchise	Strong	Average	Average	Average	Average	Relatively Strong	Strong	Strong
Loan yields	Relatively weak	Relatively Strong	Strong	Relatively weak	Strong	Average	Strong	Relatively Strong
Fee income	Relatively weak	Average	Average	Relatively weak	Average	Relatively Strong	Strong	Strong
Cost efficiency	Relatively weak	Average	Strong	Average	Relatively weak	Relatively weak	Relatively Strong	Strong
Asset quality	Relatively Strong	Average	Relatively Strong	Relatively weak	Strong	Strong	Strong	Strong
Average	Average	Average	Relatively Strong	Average	Relatively Strong	Relatively Strong	Strong	Strong
Relative strengths	Liability franchise and growth momentum	Loan yields	Loan yields and cost efficiency	Loan yields, fee income and asset quality	Loan yields and asset quality	Loan growth and asset quality	Most areas	Most areas
Relative weaknesses	Loan yields, fee income and employee productivity	Loan growth, asset quality	loan growth and liability franchise		Cost efficiency	Loan yields and cost efficiency	Cost efficiency	Loan yields

Source: Company, Ambit Capital Research; Note: - Strong; - Relatively Strong; - Average; - Relatively weak.

Key risks and catalysts

Risks

Our key argument for our BUY rating is expectation of stable loan growth of 21% (over FY18-20E) with RoE normalizing to 11% in FY20E vs 7-8% during FY16-18. With valuations now at reasonable levels, downside for any potential risk is limited. Two risks to our BUY thesis are:

- **Higher-than-expected volatility in asset quality in its retail and SME book:** The bank lacks a specialist niche of high risk-adjusted profitability and its asset quality track record has been patchy (e.g. education loans or NRI-led NPAs in retail). The bank has a track record of negative surprises in its non-corporate asset quality. A specialist RM-led model is yet in a formative phase. Portfolio quality could be volatile.
- **Risk from intensifying competitive intensity in a climate where overall bank credit growth stays weak:** A slowdown in loan growth momentum due to continued weakness in overall credit demand from the banking system (overall banking system loan growth subdued at ~12% YoY) and increased competition from larger banks could hamper earnings growth. Potential for RoE expansion is limited due to structural issues in the bank's income and cost efficiencies.

Catalysts

EPS CAGR of ~34% over FY18-20 would be a key catalyst of share price performance. After a large one-time increase in credit cost to 120bps in 4QFY18, due to migration of stressed corporate loans to NPA, credit cost would normalise to 70-80bps in FY18-20E. Loan book growth sustaining at 20%+ will also boost visibility of superior EPS growth. With RoE improving from 8% in FY18 to 11% in FY20 and with loan growth of 21%, we expect EPS CAGR of 34%.

Exhibit 35: Explanation for our flags on the cover page

Segment	Score	Comments
Accounting	**GREEN**	Federal Bank has lower exposure to stressed assets, real estate, off-balance-sheet liabilities and concentration risks, and has a prudent ESOP accounting policy.
Predictability	**AMBER**	Lower amount of stressed loans on the balance sheet and clean accounting on NPAs (no divergence in reported NPAs and RBI assessment) support earnings predictability. However, the bank has a track record of negative surprises in terms of earnings volatility.
Earnings Momentum	**RED**	In the last six months, consensus has downgraded FY19 and FY20 EPS estimates by 12-13%.

Source: Ambit Capital research

Summary Financials

Balance sheet – standalone

Year to March (₹ mn)	FY16	FY17	FY18E	FY19E	FY20E
Networth	80,862	89,374	122,102	131,779	143,746
Deposits	791,717	976,646	1,119,925	1,343,910	1,612,692
Borrowings	51,146	58,973	115,335	144,169	180,211
Other Liabilities	22,039	24,727	25,777	29,644	34,090
Total Liabilities	**945,764**	**1,149,719**	**1,383,140**	**1,649,501**	**1,970,739**
Cash & Balances with RBI & Banks	54,198	74,522	92,034	103,314	115,390
Investments	251,555	281,961	307,811	358,098	416,085
Advances	580,901	733,363	919,575	1,114,344	1,350,552
Other Assets	59,109	59,874	63,720	73,746	88,712
Total Assets	**945,764**	**1,149,719**	**1,383,140**	**1,649,501**	**1,970,739**

Source: Company, Ambit Capital research

Income statement - standalone

Year to March (₹ mn)	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	77,482	86,774	97,529	116,626	140,415
Interest Expense	52,404	56,247	61,701	73,172	89,384
Net Interest Income	**25,077**	**30,526**	**35,828**	**43,454**	**51,031**
Total Non-Interest Income	8,082	10,818	11,591	13,302	15,536
Total Income	**33,159**	**41,344**	**47,419**	**56,756**	**66,567**
Total Operating Expenses	18,921	22,095	24,509	27,899	31,896
Employees expenses	10,529	11,638	12,425	13,761	15,354
Other Operating Expenses	8,393	10,458	12,084	14,139	16,542
Pre Provisioning Profits	**14,238**	**19,249**	**22,910**	**28,857**	**34,671**
Provisions	7,041	6,184	9,472	9,640	10,905
PBT	7,197	13,065	13,439	19,216	23,765
Tax	2,440	4,757	4,650	6,649	8,223
PAT	**4,757**	**8,308**	**8,789**	**12,567**	**15,542**

Source: Company, Ambit Capital research

Ratio analysis - standalone

Year to March (₹ mn)	FY16	FY17	FY18E	FY19E	FY20E
Credit-Deposit (%)	73.4%	75.1%	82.1%	82.9%	83.7%
CASA ratio (%)	32.9%	32.8%	33.3%	32.1%	31.3%
Cost/Income ratio (%)	57.1%	53.4%	51.7%	49.2%	47.9%
Gross NPA (₹ mn)	16,678	17,271	27,956	25,154	26,414
Gross NPA (%)	2.84%	2.33%	3.00%	2.23%	1.94%
Net NPA (₹ mn)	9,500	9,412	15,520	13,712	14,135
Net NPA (%)	1.64%	1.28%	1.69%	1.23%	1.05%
Provision coverage (%)	43.0%	45.5%	44.5%	45.5%	46.5%
NIMs (%)	3.03%	3.09%	2.97%	3.00%	2.95%
Tier-1 capital ratio (%)	13.4%	11.8%	14.2%	12.7%	11.5%

Source: Company, Ambit Capital research

Du-pont analysis - standalone

Year to March	FY16	FY17	FY18E	FY19E	FY20E
NII / Assets (%)	2.8%	2.9%	2.8%	2.9%	2.8%
Other income / Assets (%)	0.9%	1.0%	0.9%	0.9%	0.9%
Total Income / Assets (%)	3.7%	3.9%	3.7%	3.7%	3.7%
Cost to Assets (%)	2.1%	2.1%	1.9%	1.8%	1.8%
PPP / Assets (%)	1.6%	1.8%	1.8%	1.9%	1.9%
Provisions / Assets (%)	0.8%	0.6%	0.7%	0.6%	0.6%
PBT / Assets (%)	0.8%	1.2%	1.1%	1.3%	1.3%
Tax Rate (%)	33.9%	36.4%	34.6%	34.6%	34.6%
ROA (%)	0.54%	0.79%	0.69%	0.83%	0.86%
Leverage	11.2	12.3	11.3	11.9	13.1
ROE (%)	6.0%	9.8%	7.8%	9.9%	11.3%

Source: Company, Ambit Capital research

Valuation parameters

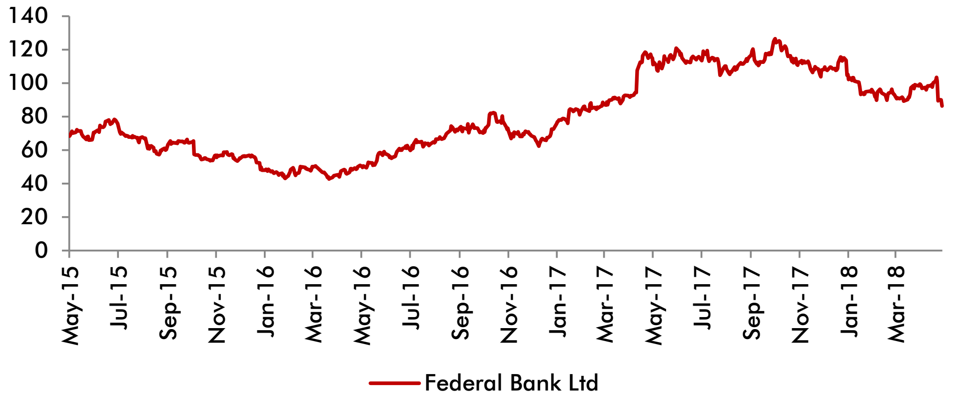
Year to March	FY16	FY17	FY18E	FY19E	FY20E
EPS (₹)	2.8	4.8	4.5	6.4	7.9
EPS growth (%)	-53%	74%	-8%	43%	24%
BVPS (₹)	47.0	51.8	61.9	66.8	72.9
P/E (x)	28.5	16.4	17.7	12.4	10.0
P/BV (x)	1.68	1.52	1.28	1.18	1.08

Source: Company, Ambit Capital research

Institutional Equities Team

Pramod Gubbi, CFA	MD & Head of Equities	(022) 30433124	pramod.gubbi@ambit.co
Research Analysts			
Name	**Industry Sectors**	**Desk-Phone**	**E-mail**
Nitin Bhasin - Head of Research	E&C / Infra / Cement / Home Building	(022) 30433241	nitin.bhasin@ambit.co
Aadesh Mehta, CFA	Mid-Caps	(022) 30433239	aadesh.mehta@ambit.co
Abhishek Ranganathan, CFA	Retail / Consumer Discretionary	(022) 30433085	abhishek.r@ambit.co
Amandeep Singh Grover	Small Caps	(022) 30433082	amandeep.grover@ambit.co
Anuj Bansal	Consumer	(022) 30433122	anuj.bansal@ambit.co
Archit Varshney	Consumer	(022) 30433275	archit.varshney@ambit.co
Ariha Doshi	Consumer	(022) 30433228	ariha.doshi@ambit.co
Ashish Kanodia	Power Utilities / Capital Goods	(022) 30433264	ashish.kanodia@ambit.co
Basudeb Banerjee	Automobiles / Auto Ancillaries	(022) 30433141	basudeb.banerjee@ambit.co
Bhargav Buddhadev	Power Utilities / Capital Goods / Small Caps	(022) 30433252	bhargav.buddhadev@ambit.co
Deep Shah	Media / Telecom	(022) 30433064	deep.shah@ambit.co
Gaurav Kochar	Banking / Financial Services	(022) 30433246	gaurav.kochar@ambit.co
Girisha Saraf	Home Building	(022) 30433211	girisha.saraf@ambit.co
Karan Khanna, CFA	Strategy / Small Caps	(022) 30433251	karan.khanna@ambit.co
Kushagra Bhattar	Agri Inputs / Chemicals	(022) 30433062	kushagra.bhattar@ambit.co
Nikhil Mathur	Small Caps	(022) 30433220	nikhil.mathur@ambit.co
Mayank Porwal	Retail / Consumer Discretionary	(022) 30433214	mayank.porwal@ambit.co
Pankaj Agarwal, CFA	Banking / Financial Services	(022) 30433206	pankaj.agarwal@ambit.co
Prashant Mittal, CFA	Strategy / Derivatives	(022) 30433218	prashant.mittal@ambit.co
Prateek Maheshwari	Cement / E&C / Infrastructure	(022) 30433234	prateek.maheshwari@ambit.co
Rahil Shah	Banking / Financial Services	(022) 30433217	rahil.shah@ambit.co
Ravi Singh	Banking / Financial Services	(022) 30433181	ravi.singh@ambit.co
Ritesh Gupta, CFA	Oil & Gas / Agri Inputs / Chemicals	(022) 30433242	ritesh.gupta@ambit.co
Ritika Mankar Mukherjee, CFA	Economy / Strategy	(022) 30433175	ritika.mankar@ambit.co
Ronil Dalal, CFA	Conglomerates	(022) 30433278	ronil.dalal@ambit.co
Sudheer Guntupalli	Technology / Staffing	(022) 30433203	sudheer.guntupalli@ambit.co
Sumit Shekhar	Economy / Strategy	(022) 30433229	sumit.shekhar@ambit.co
Surabhi Bomb	E&C / Infrastructure	(022) 30433254	surabhi.bomb@ambit.co
Utsav Mehta, CFA	E&C / Infrastructure	(022) 30433209	utsav.mehta@ambit.co
Vivekanand Subbaraman, CFA	Media / Telecom	(022) 30433261	vivekanand.s@ambit.co
Sales			
Name	**Regions**	**Desk-Phone**	**E-mail**
Sarojini Ramachandran - Head of Sales	UK	+44 (0) 20 7886 2740	sarojini.r@ambit.co
Anmol Arya	India	(022) 30433079	anmol.arya@ambit.co
Dharmen Shah	India / Asia	(022) 30433289	dharmen.shah@ambit.co
Dipti Mehta	India	(022) 30433053	dipti.mehta@ambit.co
Nityam Shah, CFA	Europe	(022) 30433259	nityam.shah@ambit.co
Punitraj Mehra, CFA	India / Asia	(022) 30433198	punitraj.mehra@ambit.co
Shaleen Silori	India	(022) 30433256	shaleen.silori@ambit.co
Singapore			
Praveena Pattabiraman	Singapore	+65 6536 0481	praveena.pattabiraman@ambit.co
Shashank Abhisheik	Singapore	+65 6536 1935	shashankabhisheik@ambitpte.com
USA / Canada			
Hitakshi Mehra	Americas	+1(646) 793 6751	hitakshi.mehra@ambitamerica.co
Achint Bhagat, CFA	Americas	+1(646) 793 6752	achint.bhagat@ambitamerica.co
Production			
Sajid Merchant	Production	(022) 30433247	sajid.merchant@ambit.co
Sharoz G Hussain	Production	(022) 30433183	sharoz.hussain@ambit.co
Jestin George	Editor	(022) 30433272	jestin.george@ambit.co
Richard Mugutmal	Editor	(022) 30433273	richard.mugutmal@ambit.co
Nikhil Pillai	Database	(022) 30433265	nikhil.pillai@ambit.co

Federal Bank Ltd (FB IN, BUY)



Source: Bloomberg, Ambit Capital research

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month)
BUY	>10%
SELL	≤10%
NO STANCE	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NOT RATED	We do not have any forward looking estimates, valuation or recommendation for the stock
POSITIVE	We have a positive view on the sector and most of stocks under our coverage in the sector are BUYs
NEGATIVE	We have a negative view on the sector and most of stocks under our coverage in the sector are SELLs

* In case the recommendation given by the Research Analyst becomes inconsistent with the rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures (like change in stance/estimates) to make the recommendation consistent with the rating legend.

Disclaimer

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital Private Ltd. AMBIT Capital Private Ltd. research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities is available on request.

Disclaimer

1. AMBIT Capital Private Limited ("AMBIT Capital") and its affiliates are a full service, integrated investment banking, investment advisory and brokerage group. AMBIT Capital is a Stock Broker, Portfolio Manager, Merchant Banker, Research Analyst and Depository Participant registered with Securities and Exchange Board of India Limited (SEBI) and is regulated by SEBI.
2. AMBIT Capital makes best endeavours to ensure that the research analyst(s) use current, reliable, comprehensive information and obtain such information from sources which the analyst(s) believes to be reliable. However, such information has not been independently verified by AMBIT Capital and/or the analyst(s) and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties. The information, opinions, views expressed in this Research Report are those of the research analyst as at the date of this Research Report which are subject to change and do not represent to be an authority on the subject. AMBIT Capital and its affiliates/ group entities may or may not subscribe to any and/ or all the views expressed herein and the statements made herein by the research analyst may differ from or be contrary to views held by other parties within AMBIT group.
3. This Research Report should be read and relied upon at the sole discretion and risk of the recipient. If you are dissatisfied with the contents of this complimentary Research Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using this Research Report and AMBIT Capital or its affiliates shall not be responsible and/ or liable for any direct/consequential loss howsoever directly or indirectly, from any use of this Research Report.
4. If this Research Report is received by any client of AMBIT Capital or its affiliate, the relationship of AMBIT Capital/its affiliate with such client will continue to be governed by the terms and conditions in place between AMBIT Capital/ such affiliate and the client.
5. This Research Report is issued for information only and the 'Buy', 'Sell', or 'Other Recommendation' made in this Research Report as such should not be construed as an investment advice to any recipient to acquire, subscribe, purchase, sell, dispose of, retain any securities and should not be intended or treated as a substitute for necessary review or validation or any professional advice. Recipients should consider this Research Report as only a single factor in making any investment decisions. This Research Report is not an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.
6. This Research Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Research Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Research Report in other jurisdictions may be strictly restricted and/ or prohibited by law or contract, and persons into whose possession this Research Report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.
7. Ambit Capital Private Limited is registered (SEBI Reg. No.- INH000000313) as a Research Entity under the SEBI (Research Analysts) Regulations, 2014.

Conflict of Interests

8. In the normal course of AMBIT Capital's or its affiliates'/group entities' business, circumstances may arise that could result in the interests of AMBIT Capital or other entities in the AMBIT group conflicting with the interests of clients or one client's interests conflicting with the interest of another client. AMBIT Capital makes best efforts to ensure that conflicts are identified and managed and that clients' interests are protected. AMBIT Capital has policies and procedures in place to control the flow and use of non-public, price sensitive information and employees' personal account trading. Where appropriate and reasonably achievable, AMBIT Capital segregates the activities of staff working in areas where conflicts of interest may arise and maintains an arms – length distance from such areas, at all times. However, clients/potential clients of AMBIT Capital should be aware of these possible conflicts of interests and should make informed decisions in relation to AMBIT Capital's services.
9. AMBIT Capital and/or its affiliates may from time to time have or solicit investment banking, investment advisory and other business relationships with companies covered in this Research Report and may receive compensation for the same.
10. The AMBIT group may, from time to time enter into transactions in the securities, or other derivatives based thereon, of companies mentioned herein, and may also take position(s) in accordance with its own investment strategy and rationale, that may not always be in accordance with the recommendations made in this Research Report and may differ from or be contrary to the recommendations made in this Research Report.

Additional Disclaimer for Canadian Persons

11. AMBIT Capital is not registered in the Province of Ontario and /or Province of Québec to trade in securities and/or to provide advice with respect to securities.
12. AMBIT Capital's head office or principal place of business is located in India.
13. All or substantially all of AMBIT Capital's assets may be situated outside of Canada.
14. It may be difficult for enforcing legal rights against AMBIT Capital because of the above.
15. Name and address of AMBIT Capital's agent for service of process in the Province of Ontario is: Torys LLP, 79 Wellington St. W., 30th Floor, Box 270, TD South Tower, Toronto, Ontario M5K 1N2 Canada.
16. Name and address of AMBIT Capital's agent for service of process in the Province of Québec is Torys Law Firm LLP, 1 Place Ville Marie, Suite 1919 Montréal, Québec H3B 2C3 Canada.

Additional Disclaimer for Singapore Persons

17. This Report is prepared and distributed by Ambit Capital Private Limited and distributed as per the approved arrangement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of the First Schedule to the Financial Advisors Act (CAP 110) provided to Ambit Singapore Pte. Limited by Monetary Authority of Singapore.
18. This Report is only available to persons in Singapore who are institutional investors (as defined in section 4A of the Securities and Futures Act (Cap. 289) of Singapore (the "SFA")." Accordingly, if a Singapore Person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform Ambit Singapore Pte. Limited.

Additional Disclaimer for UK Persons

19. All of the recommendations and views about the securities and companies in this report accurately reflect the personal views of the research analyst named on the cover. No part of this research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report. This report may not be reproduced, redistributed or copied in whole or in part for any purpose.
20. This report is a marketing communication and has been prepared by Ambit Capital Private Ltd. of Mumbai, India ("Ambit") and has been approved in the UK by Ambit Capital (UK) Limited ("ACUK") solely for the purposes of Section 21 of the Financial Services and Markets Act 2000. Ambit is regulated by the Securities and Exchange Board of India and is registered as a Research Entity under the SEBI (Research Analysts) Regulations, 2014. ACUK is regulated by the UK Financial Services Authority and has registered office at C/o Panmure Gordon & Co PL, One New Change, London, EC4M9AF.
21. In the UK, this report is directed at and is for distribution only to persons who (i) fall within Article 19(1) (persons who have professional experience in matters relating to investments) or Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc.) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (as amended) or (ii) are professional customers or eligible counterparties of ACUK (all such persons together being referred to as "relevant persons"). This report must not be acted on or relied upon by persons in the UK who are not relevant persons.
22. Neither Ambit nor ACUK is a US registered broker-dealer. Transactions undertaken in the US in any security mentioned herein must be effected through a US-registered broker-dealer, in conformity with SEC Rule 15a-6.
23. Neither this report nor any copy or part thereof may be distributed in any other jurisdictions where its distribution may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe, any such restrictions. Distribution of this report in any such other jurisdictions may constitute a violation of UK or US securities laws, or the law of any such other jurisdictions.
24. This report does not constitute an offer or solicitation to buy or sell any securities referred to herein. It should not be so construed, nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. The information in this report, or on which this report is based, has been obtained from publicly available sources that Ambit believes to be reliable and accurate. However, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. It has also not been independently verified and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties.

25. The information or opinions are provided as at the date of this report and are subject to change without notice. The information and opinions provided in this report take no account of the investors' individual circumstances and should not be taken as specific advice on the merits of any investment decision. Investors should consider this report as only a single factor in making any investment decisions. Further information is available upon request. No member or employee of Ambit or ACUK accepts any liability whatsoever for any direct or consequential loss howsoever arising, directly or indirectly, from any use of this report or its contents.
26. The value of any investment made at your discretion based on this Report, or income therefrom, maybe affected by changes in economic, financial and/or political factors and may go down as well as go up and you may not get back the original amount invested. Some securities and/or investments involve substantial risk and are not suitable for all investors.
27. Ambit and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). Ambit and ACUK may from time to time render advisory and other services to companies referred to in this Report and may receive compensation for the same.
28. Ambit and its affiliates may act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies discussed in this Report (or in related investments) or may sell them or buy them from clients on a principal to principal basis or may be involved in proprietary trading and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.
29. Ambit and ACUK may sell or buy any securities or make any investment which may be contrary to or inconsistent with this Report and are not subject to any prohibition on dealing. By accepting this report you agree to be bound by the foregoing limitations. In the normal course of Ambit and its affiliates' business, circumstances may arise that could result in the interests of Ambit conflicting with the interests of clients or one client's interests conflicting with the interest of another client. Ambit makes best efforts to ensure that conflicts are identified, managed and clients' interests are protected. However, clients/potential clients of Ambit should be aware of these possible conflicts of interests and should make informed decisions in relation to Ambit services.

Additional Disclaimer for U.S. Persons

30. The Ambit Capital research report is solely a product of AMBIT Capital Pvt. Ltd. and may be used for general information only. The legal entity preparing this research report is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and/or the independence of research analysts.
31. Ambit Capital is the employer of the research analyst(s) who has prepared the research report.
32. Any subsequent transactions in securities discussed in the research reports should be effected through Ambit America Inc. ("Ambit America").
33. Ambit America Inc. does not accept or receive any compensation of any kind directly from US Institutional Investors for the dissemination of the AMBIT Capital research reports. However, Ambit Capital Pvt. Ltd. has entered into an agreement with Ambit America Inc. which includes payment for sourcing new MUSSI and service existing clients based out of USA.
34. Analyst(s) preparing this report are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Therefore the analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by the research analyst.
35. In the United States, this research report is available solely for distribution to major U.S. institutional investors, as defined in Rule 15a – 6 under the Securities Exchange Act of 1934. This research report is distributed in the United States by Ambit America Inc., a U.S. registered broker and dealer and a member of FINRA. Ambit America Inc., a US registered broker-dealer, accepts responsibility for this research report and its dissemination in the United States.
36. This Ambit Capital research report is not intended for any other persons in the USA. All major U.S. institutional investors or persons outside the United States, having received this Ambit Capital research report shall neither distribute the original nor a copy to any other person in the United States. In order to receive any additional information about or to effect a transaction in any security or financial instrument mentioned herein, please contact a registered representative of Ambit America Inc., by phone at 646 793 6001 or by mail at 370, Lexington Avenue, Suite 803, New York, 10017. This material should not be construed as a solicitation or recommendation to use Ambit Capital to effect transactions in any security mentioned herein.
37. This document does not constitute an offer of, or an invitation by or on behalf of Ambit Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Ambit Capital or its Affiliates consider to be reliable. None of Ambit Capital accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

Disclosures

38. The analyst (s) has/have not served as an officer, director or employee of the subject company.
39. There is no material disciplinary action that has been taken by any regulatory authority impacting equity research analysis activities.
40. All market data included in this report are dated as at the previous stock market closing day from the date of this report.
41. Ambit and/or its associates have actual/beneficial ownership of 1% or more in the securities of DCB Bank Limited. Ambit and/or its associates have received compensation for investment banking/merchant banking/brokering services from DCB Bank Ltd and HDFC Bank Ltd in the past 12 months.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Acumen at work

Ambit Capital Pvt. Ltd.
Ambit House, 3rd Floor. 449, Senapati Bapat Marg,
Lower Parel, Mumbai 400 013, India.
Phone: +91-22-3043 3000 | Fax: +91-22-3043 3100
CIN: U74140MH1997PTC107598
www.ambitcapital.com