



DOHA BROKERAGE

Federal Bank

Rating BUY
Target Rs 454

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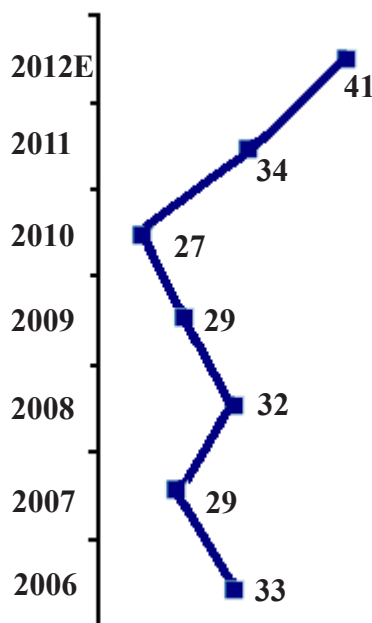
Key Highlights

Stock Data –(Rs in Million)

Price	392
Price objective	454
Data Established	01-02-12
Volatility and Risk	Medium
52- Week High	476.40
52-week Low	322.25
Shares out standing (mn)	171.05
Market Cap (mn)	67,103.289
Average Daily Volume	413,494
Bloomberg	FB:IN
Reuters	FED.NS
Beta	0.97
NIFTY	5259
Exchange rate	49.40

- Total business of the Bank reached Rs.79948.53 Crore in the quarter ended on 31st December 2011, showing an increase of 22.71 % on a year on year basis. Total deposits increased by 26.63 % from Rs 36913.53 Crore as on previous year third quarter to Rs.46742.46 Crore as on 31.12.2011. NRI deposits reported an increase of 35.41% from December 2010, to reach Rs10546.26 Crore. Retail deposits grew by 27.25% to touch Rs.38678.16 Crore. CASA deposits grew by 21.97% to reach Rs13186.04 Crore.
- The net profit has increased 41% to Rs 201.87 crore in the third quarter of the current fiscal as compared to the same period last year. The net profit increased to Rs 539.19 crore for the nine month period ending December 31, 2011, registering a 29.81%. The operating profit touched Rs 418.72 crore for the third quarter, which represents a 17.39 % rise over the third quarter of the previous year. We expect Federal bank to continue its growth momentum in the coming quarter also.
- The total income for the third quarter went up by 40.33 % on a y-o-y basis to 1604.76 Cr from 1143.57 Cr reported for corresponding period of the previous fiscal. The interest income increased by 43.54 % on a y-o-y basis to 1466.83 Crore from 1021.88 Crore.
- Federal Bank hiked its interest rate on non-resident term deposits for a period of one year to 9.5%. This rate hike may create some pressure on Net Interest Margin but it is expected to attract more funds from NRI's in the long run.

EPS



Estimates

Rs (mn)	2009	2010	2011	2012E	2013E
Net Interest income	13154.52	14108.33	17465.79	20867.78	24685.26
Net Income	5004.94	4645.45	5870.83	7089.11	8141.38
EPS	29.26	27.16	34.32	41.45	47.60
EPS Change	-9.75%	-7.18%	26.36%	20.76%	14.84%
Net Interest Margin	4.13%	3.86%	4.09%	4.17%	4.20%
Non-Interest Income to Net Revenues	13.46%	12.63%	11.31%	9.58%	8.38%
FE	4.65	9.83	12.18	10.95	9.54

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Key Income Statement Data (Mar)

Rs(mn)	2009	2010	2011	2012E	2013E
INCOME					
Interest earned	33153.76	36732.36	40520.28	48848.34	55802.41
Other income	5157.75	5309.08	5168.14	5173.34	5106.78
Total	38311.52	42041.44	45688.42	54021.69	60909.19
EXPENDITURE					
Interest expended	19999.24	22624.03	23054.50	27980.57	31117.15
Operating expenses	5714.56	6768.94	8361.39	10114.08	12363.16
Provisions & contingencies	7592.78	8003.02	8401.71	8837.93	9287.50
Total	33306.58	37395.99	39817.59	46932.58	52767.81
PROFIT	5004.94	4645.45	5870.83	7089.11	8141.38

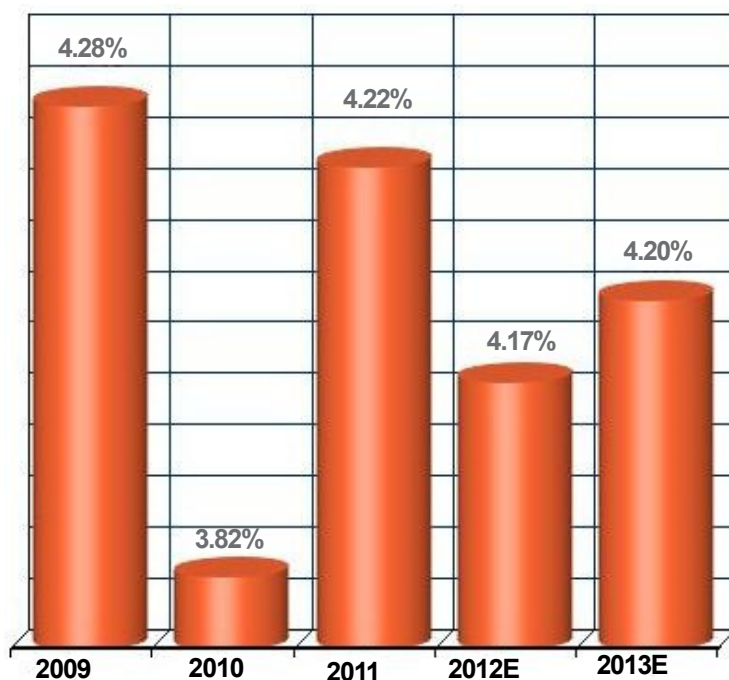
Key Balance Sheet Data

Rs(mn)	2009	2010	2011	2012E	2013E
CAPITAL AND LIABILITIES					
Capital	1710.33	1710.33	1710.47	1710.47	1710.47
Reserves & Surplus	41548.43	45194.16	49376.15	54431.68	60232.13
Deposits	321981.92	360579.51	430147.81	498553.24	586228.32
Borrowings	7489.35	15467.56	18883.63	29985.13	41749.19
Other Liabilities & Provisions	15778.62	13804.49	14445.59	14777.22	15289.00
Total	388508.65	436756.05	514563.64	599457.75	705209.11
ASSETS					
Cash & Balances with R B I	22143.95	23188.77	29350.53	34358.46	41764.72
Balances with banks, money at call and short notice	12226.99	4045.12	8132.50	9904.60	15498.50
Investments	121189.66	130546.48	145376.75	159224.41	175845.76
Advances	223918.75	269501.11	319532.34	381704.25	454265.97
Fixed assets	2807.80	2897.70	2898.17	2944.44	2979.87
Other assets	6221.49	6576.88	9273.35	11321.60	14854.29
Total	388508.65	436756.05	514563.64	599457.75	705209.11

Key Metrics

	2009	2010	2011	2012E	2013E
CASA	24.50%	26.19%	26.86%	28.21%	29.46%
Net Interest Margin	4.28%	3.82%	4.22%	4.17%	4.20%
BASEL I CAR	20.14%	17.27%	15.39%	14.68%	14.13%
BASEL II CAR	20.22%	18.36%	16.79%	15.30%	15.10%
Net NPA	0.30%	0.48%	0.60%	0.79%	0.85%
EPS	29.26	27.16	34.32	41.45	47.60

Net Interest Margin(%)



Federal Bank is one of the oldest private sector banks in the country Incorporated in the year 1931. It is predominantly a regional bank having substantial exposure to the state of Kerala. Within Kerala, the bank has strong presence in semi-urban and rural parts. future growth would be more diversified further reducing state concentration. Towards this, the bank has been adding incrementally higher number of branches outside Kerala during the year. The bank targets to gain substantial foothold in these five states Tamil Nadu, Karnataka, Punjab, Gujarat and Maharashtra.

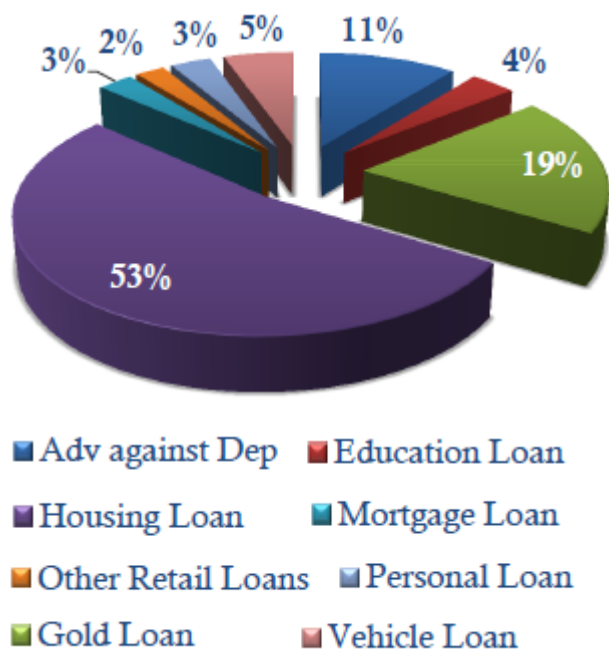
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Q3 Analysis

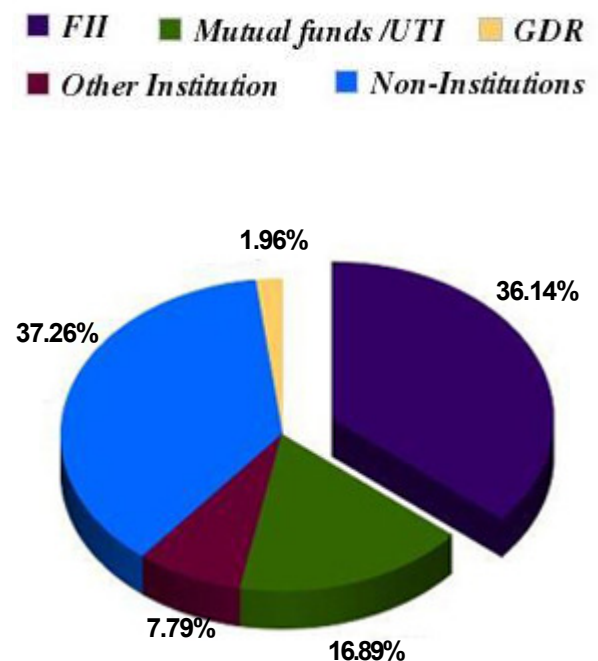
Rs (Cr)	2011Q3	2012Q2	2012Q3	Q on Q	Y on Y
Interest Earned	1021.88	1367.83	1466.83	7.24%	43.54%
Interest/discount on advances/bills	794.76	1,050.05	1084.23	3.26%	36.42%
Income on investments	221.4	310.24	367.44	18.44%	65.96%
Interest on balances RBI& other Banks	4.38	5.69	10.18	78.91%	132.42%
Others	1.34	1.85	4.98	169.19%	272%
Other Income	121.69	116.96	137.93	17.93%	13.35%
TOTAL INCOME	1143.57	1484.79	1604.76	8.08%	40.33%
Interest Expended	574.63	893.42	938.8	5.08%	63.37%
Operating Expenses	212.23	230.1	247.24	7.45%	16.50%
Payments to employees	119.84	128.25	138.45	7.95%	15.53%
Other operating expenses	92.39	101.85	108.79	6.81%	17.75%
TOTAL EXPENDITURE	786.86	1123.52	1186.04	5.56%	50.73%
OPERATING PROFIT	356.71	361.27	418.72	15.90%	17.38%
Provisions (o thn Tx) and Contingence	142.38	72.19	115.25	59.65%	-19.05%
P&L ordinary activities before tax	214.33	289.08	303.47	4.98%	41.59%
Tax Expense	71.23	97.92	101.6	3.76%	42.64%
Net profit	143.1	191.16	201.87	5.60%	41.07%

Last Quarter reported a year on year net advances growth of 17.59% to Rs.33206.07Crore from Rs28240.02Crore on last year same quarter. This growth was contributed by SME, corporate advances and retail segments. The retail advances of the Bank forms 28.77 % of the gross advances while SME contributes 28.75 %. The advance to priority sector was at 12229.58 Cr as on 31st December 2011. Lending to Agriculture sector was at 4172.76 Crore as on 31.12.2011, growing at 16.17%.

Retail Loan Book Composition



Shareholding pattern(%)

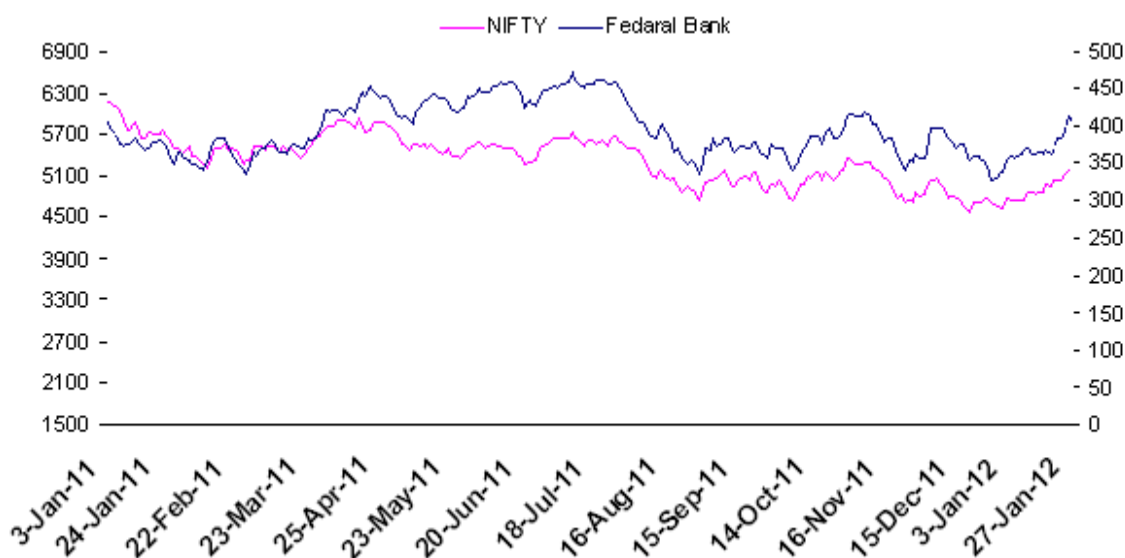


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Movement of NPL forecast

Rs(Cr)	2009	2010	2011	2012E	2013E
Net NPAs to Net Advances	0.30%	0.48%	0.60%	0.79%	0.85%
(ii) Movement of NPAs (Gross)					
(a) Opening balance	468.59	589.54	820.97	1148.33	1626.47
(b) Additions during the year	574.95	747.39	875.84	1080.99	1242.05
(c) Reductions during the year	454.00	515.96	548.48	602.86	651.65
(d) Closing balance	589.54	820.97	1148.33	1626.47	2216.87
(iii) Movement of Net NPAs					
(a) Opening balance	43.20	68.12	128.79	190.69	300.47
(b) Additions during the year	210.53	327.56	352.54	438.93	483.10
(c) Reductions during the year	185.61	266.89	290.64	329.15	395.53
(d) Closing balance	68.12	128.79	190.69	300.47	388.05
(iv) Movement of provisions for NPAs					
(a) Opening balance	422.57	514.93	684.43	942.34	1302.50
(b) Additions during the year	347.34	413.11	488.85	579.94	687.14
(c) Reductions during the year	254.98	243.61	230.94	219.78	196.89
(d) Closing balance	514.93	684.43	942.34	1302.50	1792.75

The Bank's Gross NPA's and Net NPA 'sstands at 3.97 % and 0.74 % respectively as against 3.95 % and 0.81 % as at the end of December 2010. The total provisions held against non performing advances, expressed as a percentage of gross NPAs amounted to 80.54% at the end of the third quarter of FY 2011-12. Because of its good asset quality, bank provisioned only less as compared to the same quarter previous year. Since taking charge of Federal bank, Mr Srinivasan's (CEO) key focus has been to improve back-end processes, risk management systems and processes to tackle asset quality issues.



The Earning per Share and Return on average Equity for the quarter ended 31.12.2011 stood at 47.21 and 14.56% respectively as against 33.47 and 11.37% respectively at December 31, 2010. Loans and deposits increased 18% and 27% respectively on year on year basis,. CASA deposits grew 6% Quarter on Quarter and 22% Year on Year to Rs 13186.04 Crore. CASA ratio improved to 28.2% v/s 26.4% a quarter ago. Our entire analysis on this company makes us to put a "BUY" rating with a target of Rs.454 which gives an appreciation of 16 percent from the current level.

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