

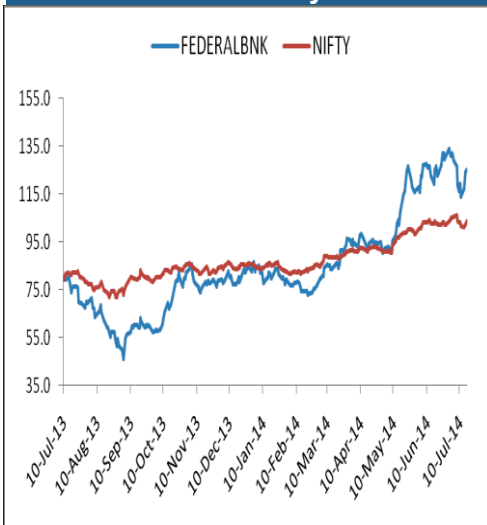
Result update	ACCUMULATE
CMP	125
Target Price	140
Previous Target Price	105
Upside	12
Change from Previous(Rs)	33

Market Data	
BSE Code	500469
NSE Symbol	FEDERALBNK
52wk Range H/L	99.85/44.25
Mkt Capital (Rs Cr)	10704
Average Daily Volume	24.21
Nifty	7625

Stock Performance			
	1M	1yr	YTD
Absolute	0.1	58.3	58.3
Rel.to Nifty	0.2	27.3	27.3

Share Holding Pattern-%			
	Current	1QFY14	4QFY1
Promoters	-	-	-
FII	42.4	44.1	44.4
DII	21.6	20.6	20.8
Others	36.1	35.3	34.8

FEDERAL Bank Vs Nifty



Bank's profitability was up by more than double fold on account of lower provisions led by exhibited improving asset quality from past six quarters. But operating matrixes remained sluggish. We have seen pressure in margin at sequential basis led by yield in loan while cost of fund softens supported from NRE deposits and CASA base. Balance sheet growth remained sluggish with muted loan and deposits growth. Bank has healthy CAR of 15% in which tier-1 14.5% good enough for 5-6 years of growth. We believe bank's ROE would improve to 14-15% in FY15 from present of 12.3%. We remained have target price to book multiple of 1.5 on account of sluggish performance at operating level. We value bank at Rs.140/share

Net profit up by 25% YoY led by healthy NII and lower provisions

Federal Bank net profit was up by 108% YoY to Rs.220 cr in line with our expectation largely on account of higher than loan growth, margin expansion led by shifting of portfolio mix, lower provisions led asset quality. Bank has been continuously improving its return ratio with ROE at 14.6% which is one of the best in private sector in mid space under our coverage. Bank exhibited better asset quality from previous quarter, resulted of which much lower provisions at sequential basis and profitability more than double fold. At operating profit level, it reported 12% negative growth.

NII growth better than expectation due to margin expansion led by declining cost of fund

During quarter bank reported NII growth of 11% YoY to Rs.546 cr led by margin expansion which happened due to change in portfolio mix and softening of cost of fund led by high CASA base and foreign deposits. Non- interest income was Rs.157 cr versus Rs.216 cr in 1QFY14 due to sluggish business growth, dragged revenue de-growth of 1% YoY.

Asset quality has been improving from past six quarters

Asset quality has been improving sequentially from past six quarters which is good indicator for consolidation of balance sheet. During this quarter bank's GNPA improved by 7% QoQ in absolute term and accordingly provisions were also declined by 7% sequentially which was result of 5% declined of net NPA. In percentage term GNPA improved by 25 bps sequentially to 2.26% while net NPA improved by 7bps QoQ to 0.7%. Provisions coverage ratio without technical write off was remained stable at 70.1%.

Financials

	Rs, Cr				
	2011	2012	2013	2014	2015E
NII	1747	1953	1975	2229	2924
Total Income	2263	2486	2639	2922	3661
PPP	1427	1506	1460	1505	1904
Net Profit	902	734	803	839	1161
EPS	6.5	8.6	9.4	9.8	13.6

(Source: Company/Eastwind)

FEDERAL BANK

CI ratio increased by 230 bps YoY responsible for moderate operating profit growth despite of healthy NII growth

Cost was up by 14% YoY led by higher employee cost at 18% YoY while other operating cost was up by 9% YoY. During quarter bank added 29 branches which somehow escalated loan and deposits growth to some extent. CI ratio was up by 645 bps to 51.2% from 45% in 1QFY14 which was led by total revenue growth than cost. Operating profit during the quarter was down by 12% YoY due to lower growth revenue and higher cost.

Margin improved by 160 bps YoY but was declined 35 bps sequentially

Margin at sequential basis declined by 35 bps to 3.25% from 3.59% which was led by declined of cost of fund supported from high CASA base and foreign deposits. On our calculated basis yield on loan was slightly up by 12 bps YoY to 11.8% while cost of fund declined by 22 bps YoY.

Bank has significantly increased (30% YoY) exposure in SME advances which would help to maintain NIM going forward.

Sluggish growth in balance sheet continue

On balance sheet growth parameters bank continue to report muted growth on account of negative growth in corporate book and sluggish growth in retail segment. Overall loan grew by 9% led by 30% growth in SME segment but share of this segment remain low in overall deposits. Retail loan grew by 10 YoY and share increased to 32% from 30% in 4QFY14. Deposits was up by 8% YoY in which saving deposits and current deposits reported 15% and 17% YoY growth while term deposits registered growth of 6%. Overall CASA ratio remained healthy among peers at 30.8%, helping bank to reduce cost. NRE deposits grew by 31.97% to reach Rs.19938 cr (32% of total deposits).

Valuation & View

Bank's profitability was up by more than double fold on account of lower provisions led by exhibited improving asset quality from past six quarters. But operating matrixes remained sluggish. We have seen pressure in margin at sequential basis led by yield in loan while cost of fund softens supported from NR deposits and CASA base. Balance sheet growth remained sluggish with muted loan and deposits growth. Bank has healthy CAR of 15% in which tier-1 14.5% good enough for 5-6 years of growth. We believe bank's ROE would improve to 14-15% in FY15 from present of 12.3%. We remained have target price to book multiple of 1.5 on account of sluggish performance at operating level. We value bank at Rs.140/share

FEDERAL BANK

Quarterly Result

Profit & Loss

	1QFY15	4QFY14	1QFY14	% YoY	% QoQ	1QFY15E	Variation
Interest/discount on advances / bills	1300	1238	1,242	4.7	5.0	1276	1.8
Income on investments	458	481	397	15.4	-4.7	498	-8.0
Interest on balances with Reserve Bank of India	13	17	13	-5.5	-28.4	14	-13.0
Others	1	103	1	2.2	-99.1	29	-96.8
Total Interest Income	1772	1839	1,653	7.2	-3.7	1818	-2.5
Others Income	157	178	216	-27.5	-12.3	177	-11.7
Total Income	1928	2017	1,869	3.2	-4.4	1995	-3.4
Interest Expended	1207	1214	1,144	5.6	-0.5	1213	-0.5
NII	564	625	510	10.7	-9.7	605	-6.7
Other Income	157	178	216	-27.5	-12.3	177	-11.7
Total Income	721	803	725	-0.6	-10.3	782	-7.8
Employee	204	201	174	17.8	1.8	217	-5.7
Other Expenses	165	183	151	8.9	-9.7	177	-7.1
Operating Expenses	369	383	325	13.7	-3.7	394	-6.3
PPP(Rs Cr)	352	420	401	-12.2	-16.3	388	-9.3
Provisions	22	55	245	-91.0	-59.9	59	-62.6
PBT	329	365	155	111.9	-9.7	329	0.3
Tax	109	88	50	119.4	24.5	110	-1.0
Net Profit	220	277	106	108.4	-20.6	218	0.9

Balance Sheet

Equity Capital	171	171	171	0.0	0.0
Reserve & Surplus	7000	6780	6299	11.1	3.3
Net Worth	7171	6951	6470	10.8	3.2
Deposits	61815	59731	56996	8.5	3.5
Investments	23564	24117.85	24040	-2.0	-2.3
Advances	45012	43436	41263	9.1	3.6

Asset Quality

GNPA	1,016	1,087	1,483	-31.5	-6.5
NPA	304	322	375	-19.1	-5.5
GNPA	2.3	2.5	3.6		
NPA	0.7	0.7	0.9		
% PCR (w/o technical write-off)	70.1	70.4	74.7		

Source: Eastwind/Company

FEDERAL BANK

Financials & View

Income Statement	2011	2012	2013	2014	2015E
Interest Income	4052	5558	6168	6946	8203
Interest Expense	2305	3605	4193	4717	5280
NII	1747	1953	1975	2229	2924
Change (%)	23.8	11.8	1.1	12.9	31.2
Non Interest Income	517	532	664	694	738
Total Income	2263	2486	2639	2922	3661
Change (%)	16.6	9.8	6.2	10.7	25.3
Operating Expenses	836	979	1180	1417	1757
Pre Provision Profits	1427	1506	1460	1505	1904
Change (%)	12.8	5.6	-3.1	3.1	26.5
Provisions	525	335	297	293	246
PBT	902	1172	1162	1212	1658
PAT	902	734	803	839	1161
Change (%)	94.1	-18.6	9.4	4.5	38.3

Balance Sheet

Eq Capital	171	171	171	171	171
Reserve & Surplus	4938	5535	6194	6780	7769
Net Worth	5109	5706	6365	6951	7940
Deposits(Rs Cr)	43015	48937	57615	59731	68691
Borrowings(Rs Cr)	1888	4241	5187	5688	6527
Other liabilities and provisio	1445	1742	1883	2224	1984
Total Lliability	51456	60627	71050	74594	85142
Cash In hand	2935	2424	2742	3104	3263
Money at Call	813	1108	977	1425	1813
Investments(Rs Cr)	14538	17402	21155	0	28283
Loans(Rs Cr)	31953	37756	44097	43436	49172
Fixed Assets	290	326	397	425	435
Other Assets	927	1610	1681	2086	2176
Total Assets	51456	60627	71050	50476	85142

Ratio

Avg. Yield on loans	9.9	11.1	10.5	11.5	12.0
Avg. Yield on Investments	6.0	7.6	6.9	7.4	7.5
Avg. Cost of Deposit	5.0	6.8	6.7	7.9	8.0
Avg. Cost of Borrowings	7.6	6.5	6.9	7.0	7.0

Valuation

Book Value	60	67	74	81	93
CMP	84	85	96	100	100
P/BV	1.4	1.3	1.3	1.2	1.1

Source: Eastwind/Company