

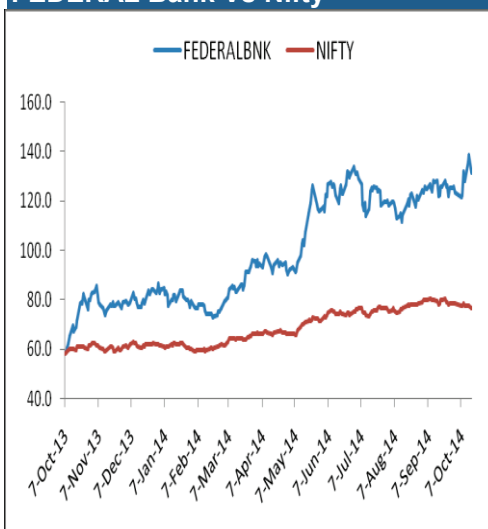
Result update	ACCUMULATE
CMP	131
Target Price	140
Previous Target Price	140
Upside	7
Change from Previous(Rs)	0

Market Data	
BSE Code	500469
NSE Symbol	FEDERALBNK
52wk Range H/L	140/67
Mkt Capital (Rs Cr)	11253
Average Daily Volume	12.2Cr
Nifty	7748

Stock Performance			
	1M	1yr	YTD
Absolute	7.6	126.0	126.0
Rel.to Nifty	10.4	94.8	94.8

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 6.4% YoY due to muted performance in all around however asset quality improvement trends are continued. Margin was by and large stable at sequential basis and management also guided similar trend of margin for the current fiscal. In credit growth term bank guided 22-25% much higher than current growth rate and fee income would be 3-4% higher than credit growth. In our model we have already factor all the growth parameters that management has stated. We have not increased our book value assumption for FY15 and accordingly we have maintained our price target to Rs.140/share.

Net profit up by 6.4% YoY led by muted performance all around

Federal Bank net profit was up by 6.4%YoY to Rs.240 cr in line with our expectation. We have not seen any drastic change in P/L accounts and balance sheet. Loan growth was good if we take accumulation of 1HFY15 and was stood at 15%. Management guided loan growth would be somewhere in between 20-22% but we have taken 19% for FY15E. Margin at sequential basis remained flat at 3.26% versus 3.25% but slightly lower (4 bps) at year on year basis. In full year basis margin is expected to be 3.25-3.5% level as per management. We have already modeled margin at 3.5% for FY15E, this has restricted book value growth assumption therefore our target price remained at same as in our company updated report dated 9th Oct.2014.

NII growth was in line with our expectation due to stable margin

During quarter bank reported NII growth of 10.5% YoY to Rs.606 cr as against our expectation of Rs.607 cr due to stable margin. Non- interest income was Rs.196 cr versus Rs.143 cr in 2QFY14, registered growth of 37% YoY in which fee income grew by 14.3% YoY. But in fee income term, management is very bullish and guided 3-4% higher than credit growth means it could be in the range of 22-25% for FY15. At present quarter fee income's share in overall non interest was 55%.

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

Margin at sequential basis was remained flat at 3.26% from 3.25% this was due to marginal declined of loan yield from 11.8% to 11.7% while cost of fund increased from 7.8% to 7.9%. This is the reason why margin was flat despite of better loan growth. Management believes that margin will be in the range of 3.25-3.5% level for current fiscal. We have built margin assumption of 3.5% for FY15E in line with management guidance.

Financials

	Rs, Cr				
	2012	2013	2014	2015E	2016E
NII	1953	1975	2229	2522	3137
Total Income	2486	2639	2922	3383	4196
PPP	1506	1460	1505	1729	2182
Net Profit	734	803	839	1007	1249
EPS	42.9	46.9	49.0	58.8	73.0

(Source: Company/Eastwind)

FEDERAL BANK

Asset quality has been improving from past seven quarters

Continuous improvement in asset quality has been seen in past seven quarters which is good indicator for consolidation of balance sheet. During this quarter bank's GNPA slightly increased by 1.4% QoQ in absolute term while provisions for loan loss was remained same that has escalated net NPA to 5%. In percentage term GNPA improved by 13 bps sequentially to 2.10% while net NPA improved by 2bps QoQ to 0.66%. Provisions coverage ratio without technical write off was remained stable at 69%. Fresh slippages was Rs.176 cr as against last quarter was Rs.224 cr and restructure stood at Rs.68 cr.

Sluggish growth in balance sheet continue

On balance sheet growth parameters bank continue to report muted growth on account of muted growth in corporate book while SME reported negative growth of 15% YoY and share of this segment in overall advance declined to 24% from 29% in 2QFY14. Retail and agriculture advances registered growth of 16% and 25% YoY respectively. Overall loan grew by 15% YoY and deposits growth of 14%. Management guided loan growth of 22% for this fiscal which could be propelled by demand of corporate and retail segment. In deposits profile, CASA was remained flat at 31% in which saving deposits and current deposits reported growth of 13% each and 17% YoY growth while term deposits registered growth of 14%. NRE deposits grew by 26% and 18% growth in residential saving deposits.

Valuation & View

Bank's profitability was up by 6.4% YoY due to muted performance in all around however asset quality improvement trends are continued. Margin was by and large stable at sequential basis and management also guided similar trend of margin for the current fiscal. In credit growth term bank guided 22-25% much higher than current growth rate and fee income would be 3-4% higher than credit growth. In our model we have already factor all the growth parameters that management has stated. We have not increased our book value assumption for FY15 and accordingly we have maintained our price target to Rs.140/share.

FEDERAL BANK

Quarterly Result

Profit & Loss	2QFY15	1QFY15	2QFY14	% YoY	% QoQ	1QFY15E	Variation
Interest/discount on advances / bills	1363	1300	1,265	7.8	4.9	1371	-0.6
Income on investments	453	458	438	3.4	-1.2	458	-1.2
Interest on balances with Reserve Bank of India	23	13	11	109.3	86.0	42	-44.6
Others	31	1	1	4401.5	3191.4	0	-
Total Interest Income	1870	1772	1,714	9.0	5.5	1871	-0.1
Others Income	196	157	143	36.6	25.1	232	-15.6
Total Income	2065	1928	1,858	11.2	7.1	2103	-1.8
Interest Expended	1264	1207	1,166	8.4	4.7	1264	0.0
NII	606	564	548	10.5	7.4	607	-0.3
Other Income	196	157	143	36.6	25.1	232	-15.6
Total Income	802	721	692	15.9	11.2	839	-4.5
Employee	204	204	170	19.6	-0.3	222	-8.0
Other Expenses	188	165	167	12.4	14.1	181	3.8
Operating Expenses	392	369	338	16.0	6.1	403	-2.7
PPP(Rs Cr)	410	352	354	15.8	16.6	436	-6.1
Provisions	46	22	11	316.3	107.0	70	-34.3
PBT	364	329	343	6.2	10.5	367	-0.8
Tax	124	109	117	5.7	13.3	121	2.2
Net Profit	240	220	226	6.4	9.1	246	-2.2
Balance Sheet							
Equity Capital	171	171	171	0.1	0.0	171	
Reserve & Surplus	7239	7000	6525	10.9	3.4	7246	
Net Worth	7411	7171	6696	10.7	3.3	7417	
Deposits	64564	61815	56794	13.7	4.4	63208	
Investments	22712	23564	22794	-0.4	-3.6	24134	
Advances	48466	45012	42220	14.8	7.7	46399	
Asset Quality							
GNPA	1,030	1,016	1,466	-29.7	1.4		
NPA	319	304	411	-22.6	4.8		
GNPA	2.1	2.2	3.5				
NPA	0.7	0.7	1.0				
% PCR (w/o technical write-off)	69.1	70.1	71.9				

Source: Eastwind/Company

FEDERAL BANK

Financials & View

Income Statement	2012	2013	2014	2015E	2016E
Interest Income	5558	6168	6946	7600	8443
Interest Expense	3605	4193	4717	5079	5306
NII	1953	1975	2229	2522	3137
Change (%)	11.8	1.1	12.9	13.1	24.4
Non Interest Income	532	664	694	862	1060
Total Income	2486	2639	2922	3383	4196
Change (%)	9.8	6.2	10.7	15.8	24.0
Operating Expenses	979	1180	1417	1654	2014
Pre Provision Profits	1506	1460	1505	1729	2182
Change (%)	5.6	-3.1	3.1	14.9	26.2
Provisions	335	297	293	221	318
PBT	1172	1162	1212	1508	1864
PAT	734	803	839	1007	1249
Change (%)	-18.6	9.4	4.5	20.0	24.1

Balance Sheet

Eq Capital	171	171	171	171	171
Reserve & Surplus	5535	6194	6780	7614	8650
Net Worth	5706	6365	6951	7785	8821
Deposits(Rs Cr)	48937	57615	59731	67288	72114
Borrowings(Rs Cr)	4241	5187	5688	4295	4603
Other liabilities and provisic	1742	1883	2224	3744	5225
Total Lliability	60627	71050	74594	81888	93712
Cash In hand	2424	2742	3104	3221	3452
Money at Call	1108	977	1425	1790	1918
Investments(Rs Cr)	17402	21155	0	25770	27618
Loans(Rs Cr)	37756	44097	43436	51760	53732
Fixed Assets	326	397	425	421	478
Other Assets	1610	1681	2086	2147	2302
Total Assets	60627	71050	50476	81888	93712

Ratio

Avg. Yield on loans	11.1	10.5	11.5	10.8	11.8
Avg. Yield on Investments	7.6	6.9	7.4	7.2	7.0
Avg. Cost of Deposit	6.8	6.7	7.9	7.5	7.4
Avg. Cost of Borrowings	6.5	6.9	7.0	7.0	7.0

Valuation

Book Value	67	74	81	91	103
CMP	85	96	100	131	131
P/BV	1.3	1.3	1.2	1.4	1.3

Source: Eastwind/Company