

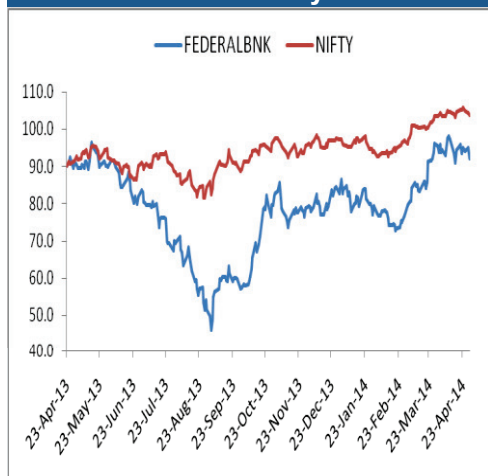
Result update	ACCUMULATE
CMP	92.25
Target Price	105
Previous Target Price	98
Upside	14
Change from Previous(Rs)	7

Market Data	
BSE Code	500469
NSE Symbol	FEDERALBNK
52wk Range H/L	99.85/44.25
Mkt Capital (Rs Cr)	7886
Average Daily Volume	4.99 cr
Nifty	6715

Stock Performance			
	1M	1yr	YTD
Absolute	-3.4	2.3	2.3
Rel.to Nifty	-3.6	-12.7	-12.7

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



Sluggish growth in balance sheet would not going to support profit growth in longer run as bank's loan and deposit both were reported growth at -3.9% and 3.7% YoY respectively. Bank has not shown aggression in branch addition which would be result of absence of loan and deposits growth. During quarter Federal bank increased SME loan growth by 36% but sequentially yield on loan asset declined sharply. Margin expansion happened due to decline of cost of fund which was led by high CASA base and foreign deposits. Although asset quality has been continuously improving from past five quarters but balance sheet growth is equally important. Bank's profit growth was supported by margin expansion and lower provisions led by improving trend of asset quality but it would not sustain for longer run in our view. We have not seen scope of valuation multiple and book value expansion. We value bank at 105/share which means bank would trade 1.15 times of FY14E book value.

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

Federal Bank net profit was up by 25% YoY to Rs.277 cr better than expectation largely on account of higher than expected revenue growth which was led by margin expansion, shifting of portfolio mix and better asset quality. Bank has been continuously improving its return ratio with ROA at 1.5%, second best after the Yes Bank despite of sluggish growth in balance sheet. But it would be hard to maintain its growth trajectory in the absence of balance sheet growth in our view. Bank was getting the benefit of declining cost of fund led by foreign deposits and better asset quality exhibition from last two quarters as the result of low provisions.

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

During quarter bank reported NII growth of 30.3% YoY to Rs.625 cr in-line with our expectation led by margin expansion which happened despite of compression in CD ratio. Margin expansion was basically due to change in portfolio mix and softening of cost of fund led by high CASA base and foreign deposits. Non- interest income was not supported for better revenue growth as fee income grew just 2% YoY while forex gain registered growth of 19% YoY but its share in overall income was low at 15%.

Financials

	Rs, Cr				
	2011	2012	2013	2014	2015E
NII	1747	1953	1975	2229	2575
Total Income	2263	2486	2639	2922	3285
PPP	1427	1506	1460	1505	1708
Net Profit	902	734	803	839	1030
EPS	6.5	8.6	9.4	9.8	12.0

(Source: Company/Eastwind)

FEDERAL BANK

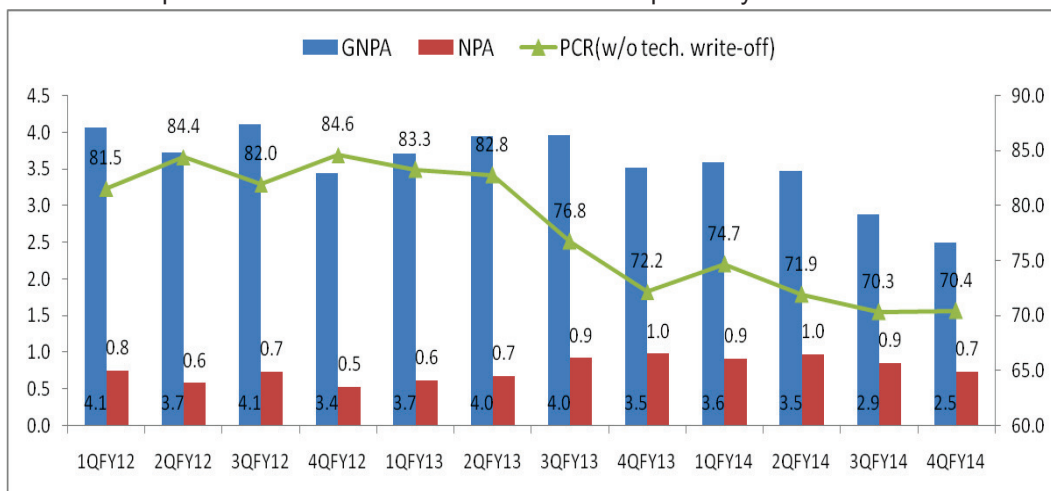
CI ratio increased by 230 bps YoY responsible for moderate operating profit growth despite of healthy NII growth

Cost was up by 25% YoY led by higher employee cost at 33% YoY while other operating cost was up by 17% YoY. Bank has not shown any aggression in branch expansion. It added just 71 branches in last one year; this caused sluggish growth in balance sheet. But operating leverage remained very comfortable at 0.48% which is better in peers. Operating profit during the quarter was up by 13.7% YoY despite of healthy NII growth. CI ratio increased by 230 bps YoY to 47.7% versus 45.4% and 52.9% in previous quarter.

Rs Cr	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14
NII	492	506	497	480	510	548	546	625
Other Income	124	139	204	197	216	143	156	178
Total Income	616	645	701	677	725	692	702	803
Employee	152	159	163	151	174	170	202	201
Other Expenses	117	136	144	156	151	167	169	183
Operating Expenses	269	296	307	307	325	338	371	383
Total Asset	62727	60594	64439	71050	71984	71236	74338	74594
CI Ratio	43.7	45.8	43.8	45.4	44.8	48.8	52.9	47.7
Operating Leverage	0.4	0.5	0.5	0.4	0.5	0.5	0.5	0.5

Asset quality has been improving from past five quarters

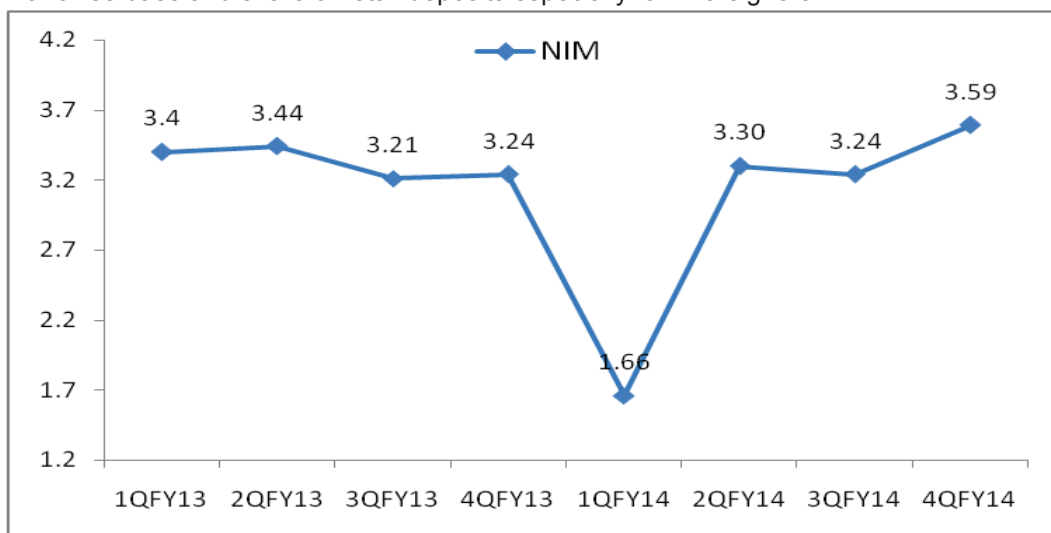
Asset quality has been improving sequentially from past five quarters which is good indicator for consolidation of balance sheet. During this quarter bank's GNPA improved by 9% QoQ in absolute term and accordingly provisions were also declined by 9% sequentially which was result of 10% declined of net NPA. In percentage term GNPA improved by 38 bps sequentially to 2.5% while net NPA improved by 12 bps QoQ to 0.7%. Provisions coverage ratio without technical write off was remained stable at 70.4%. Fresh accretion was Rs.194 cr versus Rs.145 cr in previous quarters largely came from SME and corporate sector at Rs.81 cr and Rs.71 cr respectively.



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Margin improved by 35 bps sequentially on account of softening cost of fund

Margin at sequential basis improved by 35 bps to 3.59% from 3.24% which was led by declined of cost of fund supported from high CASA base and foreign deposits. On our calculated basis yield on loan declined by 44 bps sequentially and yield on investment improved by 10 bps while cost of fund soften by 15 bps QoQ taking overall margin expansion despite of compression in CD ratio. Bank has significantly increased its exposure in SME advances but still face in comfort in loan asset yield. We believe scope in further margin expansion is low but would be sustain at current level on account of high franchise base and share of retail deposits especially form foreigners.



Sluggish growth in balance sheet is concerning issue

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 -3.9% led by 31% declined in corporate loan. However SME loan grew by 36% but share was low at 25% versus 30% of corporate loan which share declined from 42% in last quarter previous year. Retail loan grew by 6% YoY and share increased to 33% from 29% in 4QFY14. Deposits was up by 3.7% YoY in which saving deposits and current deposits reported 20% and 7% YoY growth while term deposits registered negative growth of 1.5%. Overall CASA ratio remained healthy among peers at 30.8%, helping bank to reduce cost. Bank has opted very caution approach while lending in corporate that was reason of declining loan growth. Without adequate growth in loan it would hard to maintain growth trajectory when loan asset itself declining.

FEDERAL BANK

Quarterly Result

Profit & Loss	4QFY14	3QFY14	4QFY13	% YoY	% QoQ	4QFY14E	Variation
Interest/discount on advances / bills	1238	1266	1,168	5.9	-2.2	1429	-13.4
Income on investments	481	461	397	21.1	4.2	442	8.7
Interest on balances with Reserve Bank of India	17	11	15	13.5	65.7	12	50.1
Others	103	2	3	3812.6	5894.7	1	9219.1
Total Interest Income	1839	1740	1,583	16.1	5.7	1884	-2.4
Others Income	178	156	197	-9.4	14.2	172	3.8
Total Income	2017	1896	1,780	13.3	6.4	2055	-1.9
Interest Expended	1214	1194	1,104	10.0	1.6	1279	-5.1
NII	625	546	480	30.3	14.6	604	3.4
Other Income	178	156	197	-9.4	14.2	172	3.8
Total Income	803	702	677	18.8	14.5	776	3.5
Employee	201	202	151	32.9	-0.4	194	3.7
Other Expenses	183	169	156	17.0	7.9	179	2.1
Operating Expenses	383	371	307	24.8	3.4	373	2.9
PPP(Rs Cr)	420	331	369	13.7	26.9	404	4.1
Provisions	55	-18	98	-43.9	-410.7	71	-23.0
PBT	365	349	271	34.5	4.7	332	9.9
Tax	88	118	49	77.8	-26.0	100	-12.0
Net Profit	277	230	222	24.9	20.5	233	19.2
Balance Sheet							
Equity Capital	171	171	171	0.0	0.0		
Reserve & Surplus	6780	6701	6194	9.5	1.2		
Net Worth	6951	6872	6365	9.2	1.1		
Deposits	59731	57737	57615	3.7	3.5		
Borrowings	5688	5850	5187	9.7	-2.8		
Other liabilities and provisions	2224	3878	1883	18.1	-42.6		
Total Liability	74594	74337	71050	5.0	0.3		
Cash In hand	3104	3609	2742	13.2	-14.0		
Money at Call	1425	1673	977	45.8	-14.8		
Investments	24118	25028	21155	14.0	-3.6		
Advances	43436	41640	44097	-1.5	4.3		
Fixed Assets	425	410	397	6.9	3.6		
Other Assets	2086	1978	1681	24.1	5.5		
Total Assets	74594	74338	71050	5.0	0.3		
Asset Quality							
GNPA	1,087	1,201	1,554	-30.0	-9.5		
NPA	322	356	432	-25.6	-9.7		
GNPA	2.5	2.9	3.5				
NPA	0.7	0.9	1.0				
% PCR (w/o technical write-off)	70.4	70.3	72.2				

Source: Eastwind/Company

FEDERAL BANK

Financials & View

Income Statement	2011	2012	2013	2014	2015E
Interest Income	4052	5558	6168	6946	7653
Interest Expense	2305	3605	4193	4717	5077
NII	1747	1953	1975	2229	2575
Change (%)	23.8	11.8	1.1	12.9	15.6
Non Interest Income	517	532	664	694	709
Total Income	2263	2486	2639	2922	3285
Change (%)	16.6	9.8	6.2	10.7	12.4
Operating Expenses	836	979	1180	1417	1577
Pre Provision Profits	1427	1506	1460	1505	1708
Change (%)	12.8	5.6	-3.1	3.1	13.5
Provisions	525	335	297	293	236
PBT	902	1172	1162	1212	1472
PAT	902	734	803	839	1030
Change (%)	94.1	-18.6	9.4	4.5	22.8

Balance Sheet

Eq Capital	171	171	171	171	171
Reserve & Surplus	4938	5535	6194	6780	7639
Net Worth	5109	5706	6365	6951	7810
Deposits(Rs Cr)	43015	48937	57615	59731	68691
Borrowings(Rs Cr)	1888	4241	5187	5688	6277
Other liabilities and provisic	1445	1742	1883	2224	80
Total Lliability	51456	60627	71050	74594	82858
Cash In hand	2935	2424	2742	3104	3138
Money at Call	813	1108	977	1425	1744
Investments(Rs Cr)	14538	17402	21155	24118	27200
Loans(Rs Cr)	31953	37756	44097	43436	47289
Fixed Assets	290	326	397	425	697
Other Assets	927	1610	1681	2086	2790
Total Assets	51456	60627	71050	74594	82858

Ratio

Avg. Yield on loans	9.9	11.1	10.5	11.5	11.5
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 Borrowimngs	7.6	6.5	6.9	7.0	7.0

Valuation

Book Value	60	67	74	81	91
CMP	84	85	96	93	93
P/BV	1.4	1.3	1.3	1.1	1.0

Source: Eastwind/Company