

## Q1FY13-Subdued quarter

CMP: Rs. 409  
Target Price: Rs. 480  
Upside/(Downside)%: 17%  
Recommendation: BUY

**Kochi based Federal Bank has posted subdued numbers for Q1 with sequential decline in profitability owing to poor core income and non-interest income performance and higher credit costs.**

### Stock Info

BSE Group	A
BSE Code	500469
NSE Symbol	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO
BSE Sensex	5240.5
NSE Nifty	17257.4

### Market Info

Market Capital	7002cr
Equity Capital	171cr
Avg. Trading Vol. (NSE Qtly)	176182
52 Wk High/ Low	480/322
Face Value	10

### Shareholding Pattern (%) (30<sup>th</sup> June 2012)

Promoters	-
Domestic Institutions	20.8
Foreign Institutions	43.8
Non Promoters Corp.	11.9
Public & Others	23.5
Govt. Holdings	-

**Top-line disappoints, H2FY13 expected to be better:** The bank disappointed on top-line performance with poor net interest income that was recorded at Rs 490 crs with mere 7% YoY growth and flat on sequential basis primarily due to increased costs for the quarter. Also, the other income show was poor at Rs 124 crs that witnessed sequential decline of 23% and mere 6% growth YoY. This consequently dragged the profitability that observed sequential decline of 20%. However, with the business momentum picking up in the second half of the fiscal year, we expect 20% CAGR growth in Net interest income for the bank.

**Sequential weak earnings performance, Q1 tends to be subdued:** Poor top-line show and dramatic spike in credit costs pulled down the sequential profits to Rs 190 crs that reported 20% decline QoQ. However, on YoY basis PAT reported robust 30% growth backed by lower provisions. The first quarter tends to be subdued wrt business, but going ahead we expect 20% CAGR for earnings and expect the bank to maintain RoEs in the range of 15-16% and RoAs at 1.4% for FY13-14.

**NPLs inched upwards, no major concern:** The quarter witnessed rise in GNPLs to Rs 1409 crs from 1300 crs a year ago. We suspect slippages to have gone up this quarter. Also, the restructured book needs to have a closer look given the bank's exposure to SEBs and certain shaky infrastructure accounts that majorly forms the downside risks to earnings for the bank. However, the provision cushion with coverage ratio at 82% levels provides relief. Though we model in higher NPLs for the bank, the bank still stands to report healthy return ratios in tough environs which make us positive on the stock.

**Investment Outlook:** We continue to remain confident wrt fundamentals of the bank and given the inherent balance sheet strength, provision cushion, healthy capital cushion, adequacy and good return ratios, we Maintain BUY. We value the bank at 1.1X P/ABV FY14E with target price of Rs 480 and believe that the stock has corrected for a while indicating buying opportunity for the long-term investors.

**Note: We await further details from The Conference Call scheduled 3<sup>rd</sup> August, 2012**



(Rs Cr)	FY11	FY12	FY13E	FY14E
Net interest income	1747	1953	2296	2809
Operating Profit	1430	1506	1807	2258
PAT	590	777	936	1110
EPS (Rs)	34.3	45.4	54.7	64.9
EPS Growth (%)	26.4%	32.3%	20.5%	18.6%
RoE (%)	12.0	14.4	15.4	16.0
P/E (x)	11.9	9.0	7.5	6.3
PABV (x)	1.3	1.2	1.1	1.0

Source: Company, Arianth Research.

Aug 02, 2012



**Table 1:- Q1FY13 Earnings**

Particulars (Rs in Cr)	Q1FY13	Q1FY12	YoY%	Q4FY12	QoQ %	Comments
Interest Earned	1,537	1,245	23.5	1,479	3.9	
Interest Expended	1,045	785	33.1	988	5.8	
<b>Net Interest Income</b>	<b>492</b>	<b>460</b>	<b>6.9</b>	<b>491</b>	<b>0.1</b>	NII performance disappoints
Other Income	124	117	6.4	161	-22.6	Poor other income show
<i>Other income / Net Income (%)</i>	20	20		25		
<b>Total income</b>	<b>616</b>	<b>577</b>	<b>6.8</b>	<b>652</b>	<b>-5.5</b>	
Employee Expenses	152	131	16.4	146	4.2	
Non-Employee expenses	117	92	27.7	133	-12.1	
<b>Operating Expenses</b>	<b>269</b>	<b>223</b>	<b>21.1</b>	<b>279</b>	<b>-3.5</b>	YoY opex stood on the higher side
<i>Cost-income Ratio (%)</i>	44	39		43		As a result, C/I ratio stood on the higher side
<b>Pre-Prov Profits</b>	<b>347</b>	<b>354</b>	<b>-2.1</b>	<b>372</b>	<b>-7.0</b>	
Provisions & Contingencies	63	134	-53.2	16	304.8	Sequential spike in credit costs, almost 4 times
<b>PBT</b>	<b>284</b>	<b>220</b>	<b>29.0</b>	<b>357</b>	<b>-20.5</b>	
Provisions for Tax	93	74	26.4	119	-21.7	
<i>Effective Tax Rate (%)</i>	33	34		33		
<b>PAT (reported)</b>	<b>190</b>	<b>146</b>	<b>30.2</b>	<b>238</b>	<b>-19.9</b>	<b>Though YoY PAT growth stood robust, sequential decline disappointed</b>
EPS Basic	11.1	8.5		13.9		
EPS Diluted	11.1	8.5		13.9		
GNPA	1409	1300		1301		NPLs stood on the higher side, we suspect slippages to have increased for the quarter
NNPA	236	236		199		
GNPA (%)	3.6	3.9		3.4		
NNPA (%)	0.6	0.7		0.5		
Total CAR (%)	15.5	15.6		16.6		

Source: - Company, Arihant Research



Income Statement				
Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	4052	5558	6499	7763
Interest Expenses	2305	3605	4203	4954
<b>Net Interest Income</b>	<b>1747</b>	<b>1953</b>	<b>2296</b>	<b>2809</b>
- growth %	24	12	18	22
Non-interest Income	520	532	643	767
<b>Operating Income</b>	<b>2266</b>	<b>2485</b>	<b>2940</b>	<b>3576</b>
- growth %	17	10	18	22
Operating Expenses	836	979	1132	1318
- Staff Cost	480	544	617	706
- Other Operating Exp.	356	435	515	612
<b>Gross Profits</b>	<b>1430</b>	<b>1506</b>	<b>1807</b>	<b>2258</b>
- growth %	13	5	20	25
Provisions	525	337	411	551
<b>Profit Before Taxes</b>	<b>905</b>	<b>1169</b>	<b>1397</b>	<b>1707</b>
Taxes	315	393	461	598
<b>Profit After Taxes</b>	<b>590</b>	<b>776</b>	<b>936</b>	<b>1110</b>
- growth %	27	32	21	19

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
<b>LIABILITIES</b>				
Capital	171	171	171	171
Reserves & Surplus	4,938	5,535	6,301	7,241
Deposits	43,014	48,937	57,256	67,563
- growth %	19	14	17	18
Borrowings	1,888	4,241	6,535	7,744
Other liabilities & provisions	1,445	1,742	3,217	4,566
<b>TOTAL LIABILITIES</b>	<b>51,456</b>	<b>60,627</b>	<b>73,480</b>	<b>87,285</b>
<b>ASSETS</b>				
Cash, Inter-bank, etc	2,936	2,424	4,008	4,696
Money at call and short notice	813	1,108	1,161	1,394
Advances	31,953	37,756	45,307	54,369
- growth %	19	18	20	20
Investments	14,538	17,402	20,750	24,052
Fixed assets	290	326	401	467
Other assets	926	1,610	1,853	2,307
<b>TOTAL ASSETS</b>	<b>51,456</b>	<b>60,627</b>	<b>73,480</b>	<b>87,285</b>

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
<b>Basic Ratio (Rs.)</b>				
EPS	34.3	45.4	54.7	64.9
Book Value per share	298.4	333.3	378.1	433.0
70% Adjusted Book Value	307.3	341.8	373.3	422.1
Dividend per share	8.5	9.0	8.5	8.5
<b>Asset Quality (%)</b>				
Gross NPAs	3.6	3.4	3.7	3.9
Net NPAs	0.6	0.7	1.3	1.5
NPA Coverage	83.4	81.1	65.2	61.2
<b>Profitability ratios (%)</b>				
RoAE	12.0	14.4	15.4	16.0
RoAA	1.2	1.4	1.4	1.4
NIM	4.0	3.8	3.8	3.9
Operating Profit Margin	31.2	24.7	25.3	26.5
Net Profit Margin	12.8	12.8	13.1	13.0
Cost to Income	36.9	39.4	38.5	36.9

	FY11	FY12	FY13E	FY14E
<b>Spread analysis (%)</b>				
Yield on advances	10.8	12.0	12.2	12.2
Yield on investments	6.3	8.2	7.3	7.3
Yield on interest-earning assets	8.7	10.0	9.8	9.8
Cost of deposits	5.5	7.2	7.4	7.5
Cost of funds	5.1	6.8	6.6	6.5
Spread	3.5	3.2	3.2	3.3
Net Interest Income to AWF	3.8	3.6	3.5	3.7
Non Interest Income to AWF	1.1	1.0	1.0	1.0
Operating Profit to AWF	3.1	2.8	2.8	2.9
Net Profit to AWF	1.3	1.4	1.4	1.4

Valuation ratios (x)				
	FY11	FY12	FY13E	FY14E
P/E	11.9	9.0	7.5	6.3
P/BV	1.4	1.2	1.1	0.9
P/ABV	1.3	1.2	1.1	1.0



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### Stock Rating Scale

	<b>Absolute Return</b>
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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