

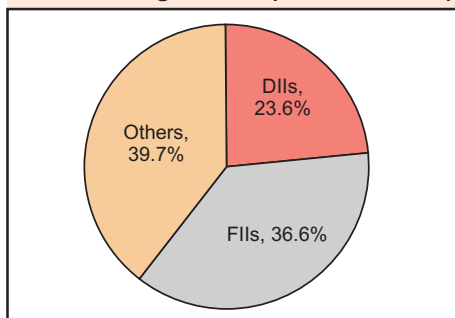
FEDERAL BANK LTD.

Q3FY11 Result Update

February 2, 2011

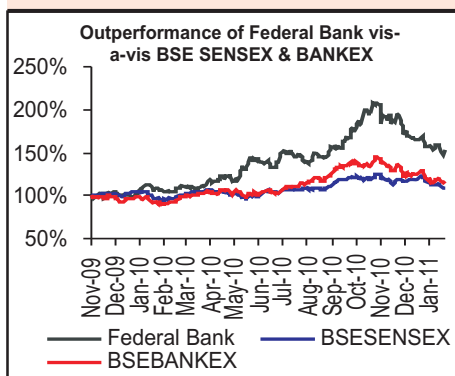
Key Stock Data	
Sector	Private Bank
CMP	₹362.95
52-wk High / Low	₹501/245.10
Market Cap	₹62.08bn (\$1349.5mn)
Avg 6m daily vol.	130157
BSE Sensex	18022.22
Reco	Buy
Target Price	₹425
Stock Codes	
Bloomberg Code	FB.IN
Reuters Code	FED.BO
BSE Code	500469
NSE Code	FEDERALBNK
Face Value	₹10per share

Shareholding Pattern (31st Dec, 2010)



Price Performance (%)			
1 Mth	3 Mths	6 Mths	1 Yr
-8.3%	-22.6%	5.1%	42.8%

Stock Price Performance



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Federal bank came out with modest results for 3QFY11 with 29.8% increase in the Net Profit on yoy basis at ₹143.10cr and 17.4% increase in the NII at ₹447.25cr. Interest spreads increased on y-o-y basis to 5.03% against 4.93% a year ago. NIM was also up at 4.31% against 4.05% a year ago. Tax provisions decreased by 39% (yoy) at ₹71.23cr and Net Profit grew by 30% on yoy basis to ₹143.10cr.

Key Performance Highlights

➤ **Stable growth in business**

The bank's total Net Advances grew by 8.5% to ₹28240.02 as at Dec 31, 2010 from ₹26029.60cr as at Dec 31, 2009. Its total Deposits grew marginally by 6.7% to ₹36913.53cr as at Dec 31, 2010 from ₹34587.27cr as at Dec 31, 2009. The total business increase by 7.5% on yoy basis and is expected to grow by 11.9% in FY11E. The CD ratio hovers ~76.5% as of Dec-10 and the stable growth in its total business would result in maintaining its CD ratio at same levels.

➤ **Improvement in margins**

- Net Interest Margin maintained at a robust level of 4.31 %.
- Cost of deposits reduced by 44 bps to reach 6.03 % as at end Dec 2010.
- Yield on advances marginally down to 11.06 % on y-o-y basis.
- Cost to Income ratio remains at a comfortable level of 37.30%.

(continued...)

Key Quarterly Updates

Particulars	Q3-FY11	Q3-FY10	%change y-o-y	9M-FY11		% change y-o-y
				9M-FY11	9M-FY10	
Interest Earned	1021.88	944.64	8.2%	2952.01	2720.09	8.5%
Interest expended	574.63	563.53	2.0%	1653.07	1718.95	-3.8%
Net Interest Income	447.25	381.11	17.4%	1298.94	1001.14	29.7%
% of total operating income	78.6%	76.6%		77.6%	71.4%	
Non-Interest Income	121.69	116.48	4.5%	375.62	400.32	-6.2%
% of total operating income	21.4%	23.4%		22.4%	28.6%	
Net Total Income	568.94	497.59	14.3%	1674.56	1401.46	19.5%
Operating Expenses	212.23	166.05	27.8%	597.53	488.4	22.3%
Cost to Inc ratio	37.3%	33.4%		35.7%	34.8%	
Staff costs	119.84	87.43	37.1%	345.38	269.59	28.1%
% of total operating income	21.1%	17.6%		20.6%	19.2%	
Operating Profit	356.71	331.54	7.6%	1077.03	913.06	18.0%
Provisions and Contingencies	142.38	105.31	35.2%	446.02	307.4	45.1%
% of Pre. Prov. Profit	39.9%	31.8%		41.4%	33.7%	
PBT	214.33	226.23	-5.3%	631.01	605.66	4.2%
Tax	71.23	115.98	-38.6%	215.65	257.96	-16.4%
% tax rate	33.2%	51.3%		34.2%	42.6%	
PAT	143.1	110.25	29.8%	415.36	347.7	19.5%
EPS (₹)	8.37	6.45		24.29	20.33	

(E- Keynote Capitals Institutional Research Estimates)

➤ **Increase in earnings**

The Bank delivered ROE of 11.4% (annualized) and ROA of 1.3% (annualized) for Q3FY11 and is well capitalized for growth with Total Capital Adequacy of 16.4% as at Dec 31, 2010.

➤ **Asset Quality**

The asset quality of the bank is stable with gross and net NPA ratios of 3.9% and 0.8% respectively, as of Dec-2010. Provision coverage stands at 79.0% well above RBI's mandate of 70%.

New developments and future plans

➤ **Expansion Initiatives**

- The total number of branches and ATMs has increased to 737 and 775 respectively, as on Dec-2010. The bank has received clearance from RBI for opening 60 more branches in Tier 1 and Tier 2 centres, out of which, majority will be located outside Kerala state. 3 additional Regional Offices are also proposed to be started in the coming months. Besides this, it plans to open more than 50 branches in Tier 3 to Tier 6 centres in this fiscal.

➤ **Other recent developments**

- The business per employee and profit per employee for 3QFY11 are at ₹7.96cr and ₹0.07cr respectively, as against ₹7.90cr and ₹0.05cr respectively, for 3QFY10.
- With a view to enhance the convenience of its customers, bank has recently made free usage of other bank's ATM, enabling its debit card holder to transact through any bank's ATM in the country, any number of times, without being levied any charges.
- Tie-up with 14 leading Asset Management Companies for Mutual Fund sales.
- Priority Banking officers and Relationship Managers offering advisory services on third party products
- Steady growth shown in the sales of Mutual Fund and Insurance products.
- Distribution of third party products becomes a steady fee income stream.

Concerns

- Though the percentage of net NPAs to net Advances increased in last fiscal, we expect the pressure on asset-quality, in line with the industry.
- Competition from newer branches of private banks and PSU banks in Kerala may likely to reduce their market share.

Valuations

Considering the bank's total business growth, stable asset quality and margins, we revised our target price to ₹425 per share by assigning a multiple of 1.35x FY12E P/ABV with a Buy recommendation. At CMP of ₹362.95, the stock is trading at 1.36x FY10 P/ABV and is expected to trade at 1.27x FY11E and 1.16x FY12E P/ABV.

Financials

Profit & Loss Statements						(₹Cr)
Particulars	FY08	FY09	FY10	FY11E	FY12E	
Interest Earned	2515.44	3315.38	3673.23	4004.62	4452.12	
Interest on advances	1827.32	2564.25	2849.73	3131.86	3484.62	
Income from Investment	623.04	700.28	783.41	858.42	956.34	
Interest on RBI balances & others	37.47	36.65	29.85	11.24	11.15	
Others	27.61	14.20	10.24	3.11	0.00	
Interest expended	1647.43	1999.92	2262.40	2256.58	2555.99	
Net Interest Income	868.01	1315.46	1410.83	1748.04	1896.13	
Non-Interest Income	394.72	515.77	530.91	512.88	568.14	
Net Total Income	1262.73	1831.23	1941.74	2260.92	2464.28	
Operating Expenses	468.61	571.45	676.89	821.81	888.02	
Staff costs	271.23	317.45	366.05	471.54	485.98	
Other expenses	197.38	254.00	310.84	350.27	402.04	
Pre-provisioning profit (PPP)	794.12	1259.78	1264.85	1439.11	1576.25	
Provisions and Contingencies	293.97	466.77	405.30	554.64	538.71	
PBT	500.15	793.01	859.55	884.47	1037.54	
Tax	132.10	292.52	395.00	323.37	407.57	
PAT	368.05	500.49	464.55	561.10	629.97	
EPS (₹)	21.52	29.26	27.16	32.81	36.83	
Book Value (₹)	229.53	252.93	274.25	300.00	329.01	
Adjusted Book Value (₹)	226.63	248.59	266.39	286.29	313.92	

(E - Keynote Capitals Institutional Research Estimates)

Balance Sheets						(₹Cr)
Particulars	FY08	FY09	FY10	FY11E	FY12E	
Sources of Funds						
Paid-up Equity Share Capital	171.03	171.03	171.03	171.03	171.03	
Reserves	3754.66	4154.84	4519.42	4959.88	5455.98	
Net Worth	3925.69	4325.87	4690.45	5130.91	5627.01	
Deposits	25913.36	32198.19	36057.95	39934.18	43927.60	
Borrowings	791.95	1218.94	1546.76	2184.77	2515.85	
Other Liabilities & Provisions	1977.48	1107.86	1380.45	1467.68	1267.24	
Total Liabilities	32608.48	38850.86	43675.61	48717.54	53337.71	
Applications of Funds						
Cash & Balances with RBI	2355.70	2214.39	2318.88	2811.71	2935.16	
Bal with Banks & money at call	389.79	1222.70	404.51	759.92	733.79	
Investments	10026.59	12118.97	13054.65	13377.95	14935.38	
Advances	18904.66	22391.87	26950.11	30588.14	33906.20	
Fixed Assets	232.84	280.78	289.77	306.68	318.76	
Other Assets	698.90	622.15	657.69	873.13	508.41	
Total Assets	32608.48	38850.86	43675.61	48717.54	53337.71	

(E - Keynote Capitals Institutional Research Estimates)

Return Ratios (%)

Particulars	FY08	FY09	FY10	FY11(E)	FY12(E)
Deposit growth	20.1%	24.3%	12.0%	10.8%	10.0%
Loan growth	26.9%	18.4%	20.4%	13.5%	10.8%
Credit Deposit ratio (C-D ratio)	73.0%	69.5%	74.7%	76.6%	77.2%
Net Interest Margin (NIM)	3.5%	4.3%	3.8%	4.2%	3.7%
Yield on Advances	11.5%	12.3%	11.3%	11.1%	11.1%
Cost of Deposits	6.7%	7.0%	6.6%	5.9%	6.4%
Return on Average Assets	1.3%	1.4%	1.1%	1.2%	1.2%
Return on Average Net worth/ROAE	13.6%	12.1%	10.3%	11.4%	11.7%
Cost to income	37.1%	31.2%	34.9%	36.3%	36.0%
Opex/ Avg. assets	1.6%	1.6%	1.6%	1.8%	1.7%
EPS (₹)	21.52	29.26	27.16	32.81	36.83
Book Value (₹)	229.53	252.93	274.25	300.00	329.01
Adjusted Book value (₹)	226.63	248.59	266.39	286.29	313.92
P/e (x)	16.87	12.40	13.36	11.06	9.85
P/BV (x)	1.58	1.43	1.32	1.21	1.10
P/ABV (x)	1.60	1.46	1.36	1.27	1.16

(E: Keynote Capitals Institutional Research Estimates)

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