

Federal Bank (FEDBAN)

₹ 392

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY12E)	Changed from ₹ 40.6 to ₹ 43.4
EPS (FY13E)	Unchanged
RATING	Unchanged

NII above estimates, margins upbeat...

Federal Bank reported stellar NII growth of 18.1% YoY and 11.3% QoQ to ₹ 528 crore (I-direct estimate: ₹ 490 crore) backed by strong NIM of 3.94%. Non-interest income witnessed 17.9% QoQ growth to ₹ 138 crore boosted by 46.9% QoQ jump in forex income to ₹ 27.7 crore. Operating expenses grew 16.5% YoY to ₹ 247 crore as C/I ratio remains stable at 37%. Asset quality remains a concern with GNPA ratio rising to 4%.

■ Credit growth revised from 19% to 16% for FY12E

We are revising credit growth estimate for FY12E to 16% as the bank is expected to grow in line with industry. Credit growth dipped 1.2% sequentially in Q3FY12 to ₹ 33206 crore (17.6% YoY growth) as corporate book witnessed 2.9% QoQ de-growth ₹ 14571 crore.

■ NIM surprises positively in Q3FY12, guided lower for FY13E

Base rate hikes, higher retail mix in portfolio and running down of high cost bulk deposit helped the bank to improve NIM by 17 bps sequentially to 3.9% in Q3FY12. YoA rose 17 bps QoQ to 12.9% while CoD rose 13 bps QoQ to 7.6%. We expect the full impact of NRE rate hikes to creep in from coming quarters, which will cause the CoD to rise, thereby keeping NIM under pressure. Management has guided NIM of ~3.8% for FY12E and ~3.6 for FY13E.

■ NPAs increase sequentially...

The GNPA surged 9% QoQ in absolute terms to ₹ 1363.4 crore while advances slipped 1.2% QoQ, thereby causing a sharp uptick in GNPA ratio to 4%, up by 36 bps sequentially. NNPA ratio came at 0.7% with PCR of 80.5%. Slippages for the quarter were high at ₹ 330 crore as this time around corporate portfolio deteriorated with ₹ 193 crore slippages. Retail and SME slippage we lower at ₹ 46 crore and ₹ 91 crore, respectively. Restructured book remained stable at ₹ 1438 crore QoQ with expected pipeline of aviation (exposure of ₹ 400 crore) and Haryana SEB (exposure of ₹ 480 crore) restructuring.

Valuation

Stronger margins, higher RoA and improving RoE remain the key positives for the bank. We maintain target at ₹ 472 at 1.5x FY13E ABV.

Exhibit 1: Financial Performance

₹ Crore	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	YoY Gr. (%)	QoQ Gr. (%)
NII	528.0	489.7	447.3	474.4	18.1	11.3
Total Income	666.0	615.3	568.9	591.4	17.1	12.6
PPP	418.7	381.5	356.7	361.3	17.4	15.9
PAT	201.9	187.3	143.1	191.2	41.1	5.6

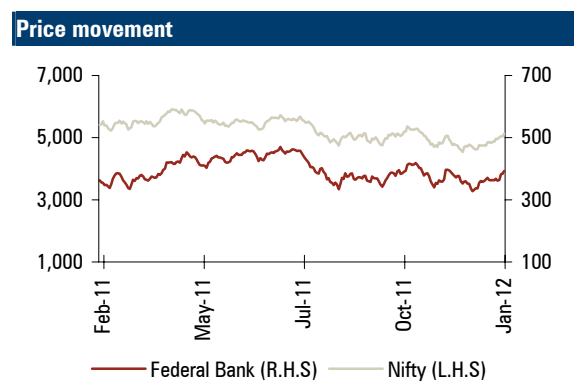
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 472
Target Period	: 12 months
Potential Upside	: 20 %

Key Financials				
₹ crore	FY10	FY11	FY12E	FY13E
NII	1411	1747	2005	2281
PPP	1265	1427	1586	1783
PAT	465	587	742	833

Valuation summary				
	FY10	FY11	FY12E	FY13E
Net Profit (₹ crore)	464.5	587.1	741.8	832.9
EPS (₹)	27.2	34.3	43.4	48.7
Growth (%)	-7.2	26.4	26.4	12.3
P/E (x)	13.2	10.4	8.3	7.4
ABV (₹)	266.4	287.2	293.4	306.6
Price / Book (x)	1.3	1.2	1.1	1.1
Price / Adj Book (x)	1.4	1.3	1.2	1.2
GNPA (%)	3.0	3.6	3.7	3.3
NNPA (%)	0.5	0.6	0.9	0.9
RoNA (%)	1.1	1.5	1.3	1.2
RoE (%)	10.3	13.5	14.2	15.1

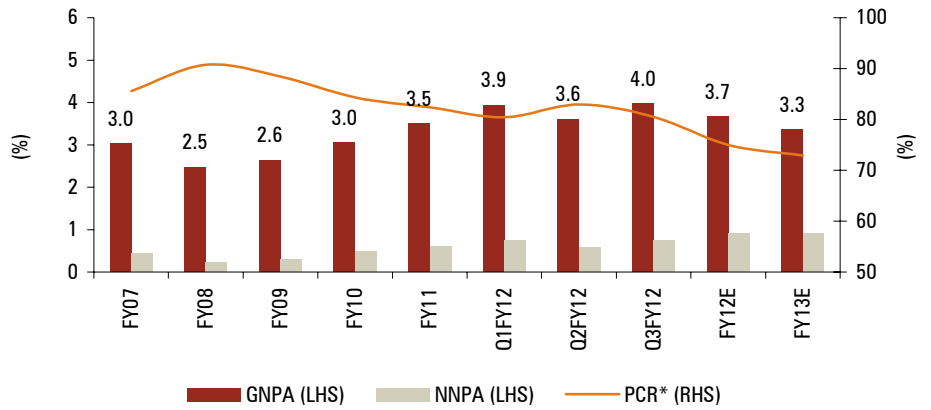
Stock data	
Market Capitalisation	₹ 6700 crore
GNPA (Q3 FY12)	₹ 1363 crore
NNPA (Q3 FY12)	₹ 244 crore
NIM (Q3 FY12)	3.9%
52 week H/L	476/322
Equity capital	₹ 171 Crore
Face value	₹ 10
DII Holding (%)	20.2
FII Holding (%)	41.2



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GNPA ratio is considerably higher than NNPA ratio and high PCR of 80.5% depicting large book of fully provided assets still lying in GNPA and can be w/off over time.

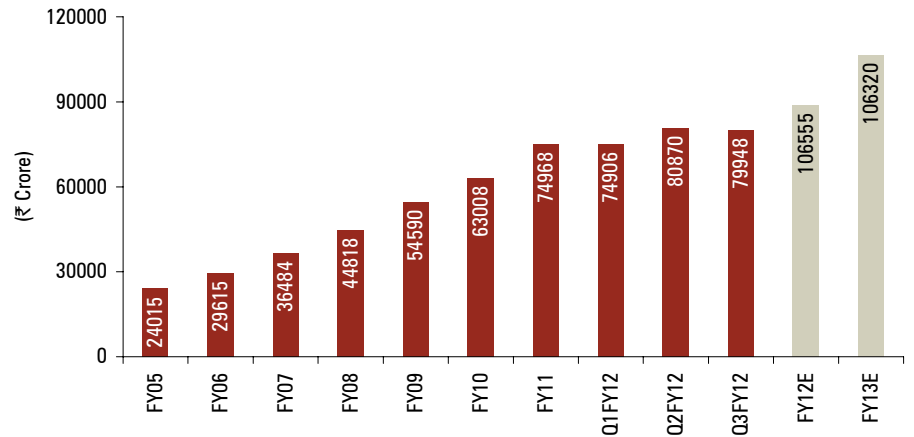
Exhibit 2: Asset quality surprises negatively



Source: Company quarterly presentation, ICICIdirect.com Research

We have revised credit growth to 16% from 19% for FY12E

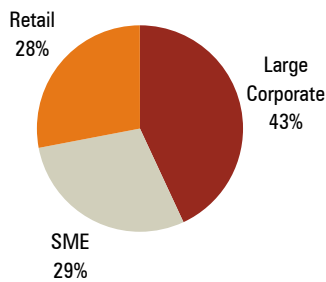
Exhibit 3: Business growth momentum moderates



Source: Company quarterly presentation and annual report, ICICIdirect.com Research

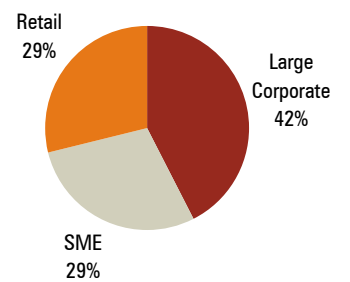
Gold loans constitute ₹ 3000 crore in total loan book

Exhibit 4: Q2FY12- break-up of loan book



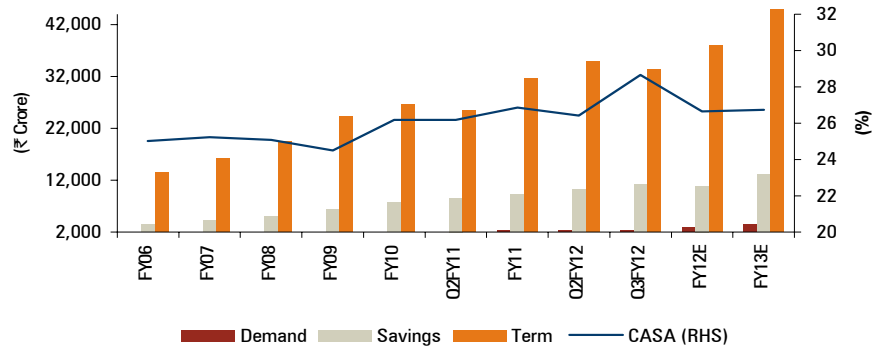
Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 5: Q3FY12- break-up of loan book



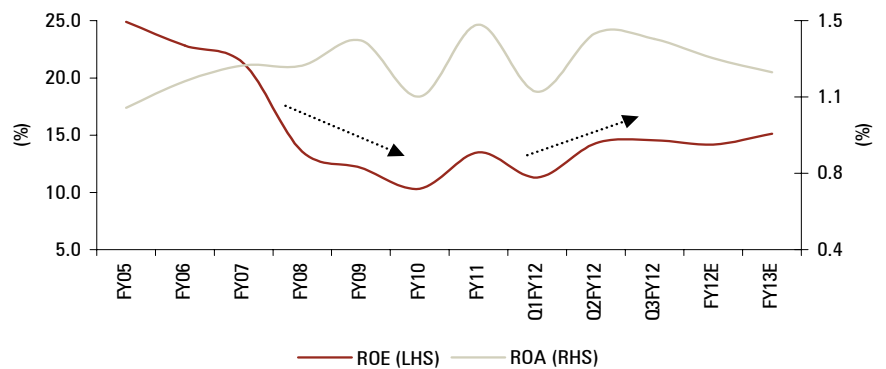
Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 6: CASA ratio to remain steady



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 7: ...RoE improvement seen from FY13E onwards



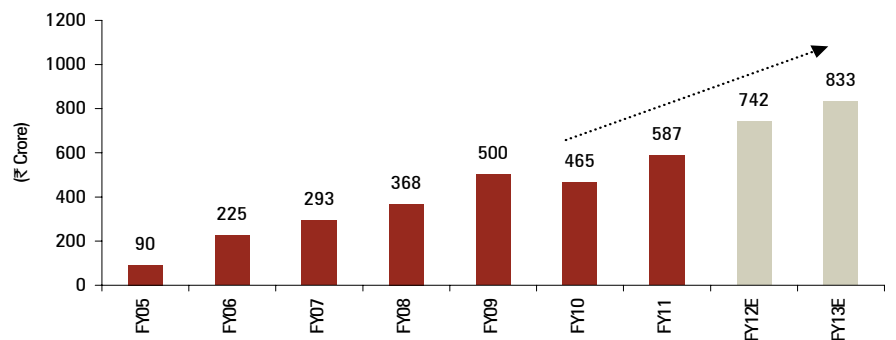
Source: Company quarterly presentation and annual report, ICICIdirect.com Research

Exhibit 8: RoE decomposition tree...

	FY09	FY10	FY11	FY12E	FY13E
Net interest income/ avg total assets	3.7	3.4	3.7	3.6	3.4
Non-interest income/ avg total assets	1.4	1.3	1.1	1.0	0.9
Net total income/ avg total assets	5.1	4.7	4.8	4.5	4.3
Operating expenses/ avg total assets	1.6	1.6	1.8	1.7	1.7
Operating profit/ avg total assets	3.5	3.1	3.0	2.8	2.7
Provisions/ avg total assets	1.3	1.0	1.1	0.8	0.8
Return on avg assets	1.4	1.1	1.5	1.3	1.2
Leverage (avg assets/ avg equity) (x)	8.6	9.2	9.0	10.8	12.1
Return on equity	12.1	10.3	13.5	14.2	15.1

Source: Company, ICICIdirect.com Research

Exhibit 9: ...PAT growth OF 19.1% CAGR expected



Source: Company quarterly presentation and annual report, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Interest Earned	3673.2	4052.0	5225.8	6239.9
Interest Expended	2262.4	2305.4	3220.5	3959.4
Net Interest Income	1410.8	1746.6	2005.3	2280.5
growth (%)	7.3	23.8	14.8	13.7
Non Interest Income	530.9	516.8	540.8	626.7
Fees and advisory	105.3	114.4	125.9	151.1
Trading Gains	107.7	45.8	46.7	49.0
Other income	317.9	356.6	368.3	426.7
Net Income	1941.7	2263.4	2546.1	2907.3
Staff cost	366.1	480.4	550.8	629.3
Other operating Expense	310.8	355.7	409.7	495.1
Operating Profit	1264.8	1427.3	1585.6	1782.8
Provisions	405.3	525.4	455.2	513.5
PBT	859.5	901.8	1130.4	1269.3
Taxes	395.0	314.7	388.6	436.3
Net Profit	464.5	587.1	741.8	832.9
growth (%)	-7.2	26.4	26.4	12.3
EPS (₹)	27.2	34.3	43.4	48.7

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Sources of Funds				
Capital	171.0	171.0	171.0	171.0
Reserves and Surplus	4519.4	4937.6	5192.0	5482.8
Networth	4690.4	5108.6	5363.1	5653.8
Deposits	36058.0	43015.0	51682.6	61830.7
Borrowings	1546.8	1888.0	2426.6	2910.7
Other Liabilities & Provisions	1380.4	1444.0	1878.6	1970.6
Total	43675.6	51458.0	61350.8	72365.8
Application of Funds				
Fixed Assets	289.8	293.0	308.8	338.7
Investments	13054.6	14537.0	17243.9	19976.0
Advances	26950.1	31953.0	37056.4	44488.9
Other Assets	657.7	927.0	2552.7	2752.9
Cash with RBI & call money	2723.4	3748.0	4189.0	4809.3
Total	43675.6	51458.0	61350.8	72365.8

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Valuation				
No. of Equity Shares	17.1	17.1	17.1	17.1
EPS (Rs.)	27.2	34.3	43.4	48.7
BV (Rs.)	273.9	298.3	313.2	330.2
ABV (Rs.)	263.7	283.8	293.9	308.4
P/E	13.2	10.4	8.3	7.4
P/BV	1.3	1.2	1.1	1.1
P/ABV	1.4	1.3	1.2	1.2
Yields & Margins (%)				
Net Interest Margins	3.7	4.0	3.9	3.8
Yield on assets	9.6	9.2	10.2	10.4
Avg. cost on funds	6.3	5.5	6.8	7.0
Yield on average advances	11.6	10.8	12.1	12.3
Avg. Cost of Deposits	6.4	5.5	6.5	6.6
Quality and Efficiency (%)				
Cost to income ratio	34.9	36.9	37.7	38.7
Credit/Deposit ratio	74.7	74.3	71.7	72.0
GNPA	3.0	3.6	3.7	3.3
NNPA	0.5	0.6	0.9	0.9
RoE	10.3	12.0	14.2	15.1
RoA	1.1	1.2	1.3	1.2

Source: Company, ICICIdirect.com Research

Growth ratios

	(% growth)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Total assets	12.4	17.8	19.2	18.0
Advances	20.4	18.6	16.0	20.1
Deposit	12.0	19.3	20.2	19.6
Total Income	9.7	8.7	26.2	19.1
Net interest income	7.3	23.8	14.8	13.7
Operating expenses	18.5	23.5	14.9	17.1
Operating profit	0.4	12.8	11.1	12.4
Net profit	-7.2	26.4	26.4	12.3
Net worth	8.4	8.9	5.0	5.4
EPS	-7.2	26.4	26.4	12.3

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)
Public Sector Banks

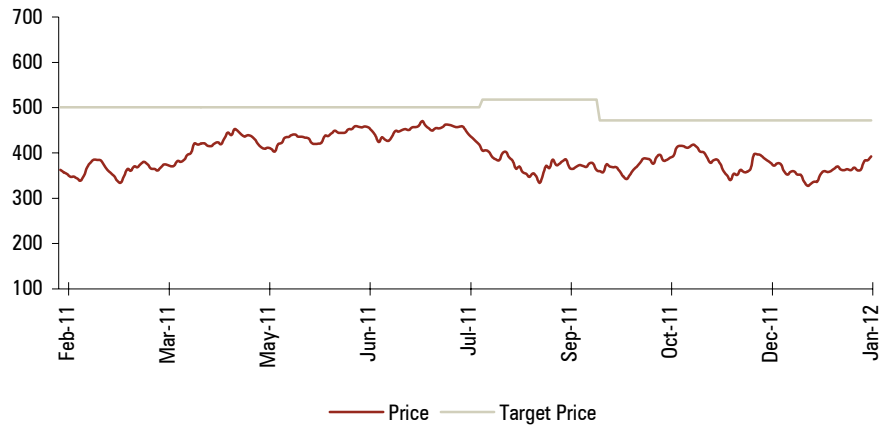
Bank of India					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	340	FY11	2488.7	45.5	7.5	1.3	0.8	15.8
		Target	331	FY12E	2155.3	39.4	8.6	1.4	0.6	11.9
Mcap (₹ Cr)	17863	Upside (%)	-2.5	FY13E	3140.3	57.4	5.9	1.2	0.7	16.0
Bank of Baroda										
Idirect Code	BANBAR	CMP	800	FY11	4241.7	108.0	7.4	1.7	1.3	23.5
		Target	954	FY12E	4776.2	121.6	6.6	1.4	1.2	20.8
Mcap (₹ Cr)	29228	Upside (%)	19.3	FY13E	5681.3	144.6	5.5	1.2	1.2	20.7
Dena Bank										
Idirect Code	DENBAN	CMP	66	FY11	611.6	21.3	3.1	0.8	1.0	21.2
		Target	84	FY12E	726.4	25.3	2.6	0.7	0.9	18.6
Mcap (₹ Cr)	2200	Upside (%)	27.3	FY13E	847.3	29.5	2.2	0.5	0.9	18.7
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	94	FY11	1072.5	17.3	5.4	0.8	0.7	14.8
		Target	94	FY12E	927.7	13.3	7.1	0.8	0.5	10.4
Mcap (₹ Cr)	5108	Upside (%)	0.3	FY13E	1196.9	17.1	5.5	0.7	0.5	11.9
IDBI Bank										
Idirect Code	IDBI	CMP	101	FY11	1650.3	18.4	5.5	1.1	0.7	15.8
		Target	UR	FY12E	1817.0	18.5	5.5	1.0	0.7	13.6
Mcap (₹ Cr)	9969	Upside (%)	-	FY13E	2021.4	20.5	4.9	0.9	0.7	13.6
OBC										
Idirect Code	ORIBAN	CMP	253	FY11	1502.9	45.3	5.6	0.8	0.9	14.5
		Target	322	FY12E	1111.5	51.5	4.9	0.8	1.0	17.9
Mcap (₹ Cr)	7384	Upside (%)	27.2	FY13E	1506.5	38.1	6.6	0.7	0.6	9.7
Punjab National Bank										
Idirect Code	PUNBAN	CMP	1003	FY11	4433.5	124.9	8.0	1.8	1.3	22.6
		Target	1050	FY12E	4886.9	154.3	6.5	1.5	1.2	20.8
Mcap (₹ Cr)	31764	Upside (%)	4.7	FY13E	5991.5	189.1	5.3	1.2	1.2	21.3
SBI										
Idirect Code	STABAN	CMP	2041	FY11	82.7	130.2	15.7	2.5	0.7	12.6
		Target	2200	FY12E	96.2	144.6	14.1	2.2	0.7	13.5
Mcap (₹ Bn)	129591	Upside (%)	7.8	FY13E	129.4	187.6	10.9	1.8	0.8	15.1
Syndicate Bank										
Idirect Code	SYNBN	CMP	97	FY11	1047.9	18.3	5.3	1.0	0.7	16.5
		Target	111	FY12E	1277.2	22.3	4.3	0.9	0.8	17.0
Mcap (₹ Cr)	5532	Upside (%)	15.0	FY13E	1612.3	28.1	3.4	0.8	0.8	19.3
Union Bank of India										
Idirect Code	UNIBAN	CMP	213	FY11	2081.9	39.7	5.4	1.2	1.0	20.9
		Target	220	FY12E	1914.9	36.5	5.8	1.2	0.8	16.2
Mcap (₹ Cr)	11155	Upside (%)	3.4	FY13E	2438.6	46.5	4.6	1.0	0.8	17.9
Private Sector Banks										
Axis Bank										
Idirect Code	UTIBAN	CMP	1033	FY11	3388.5	83.0	12.4	2.3	1.7	20.1
		Target	1274	FY12E	4042.4	98.5	10.5	2.0	1.5	19.5
Mcap (₹ Cr)	42393	Upside (%)	23.4	FY13E	5092.8	124.0	8.3	1.6	1.6	20.7
City Union Bank										
Idirect Code	CITUNI	CMP	42	FY11	215.1	5.3	7.8	1.8	1.6	23.5
		Target	52	FY12E	285.7	6.7	6.2	1.4	1.7	24.2
Mcap (₹ Cr)	1664	Upside (%)	25.0	FY13E	361.3	8.5	4.9	1.1	1.8	23.8
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	60	FY11	26.0	3.3	18.0	0.6	0.2	4.1
		Target	-	FY12E	30.1	2.5	23.8	0.6	0.2	3.0
Mcap (₹ Cr)	506	Upside (%)	-	FY13E	48.9	4.1	14.6	0.6	0.2	4.1
DCB										
Idirect Code	DCB	CMP	43	FY11	21.4	1.1	40.2	1.7	0.3	3.9
		Target	60	FY12E	51.1	2.6	16.9	1.5	0.6	8.7
Mcap (₹ Cr)	861	Upside (%)	39.5	FY13E	63.6	2.6	16.2	1.2	0.7	8.2
Federal Bank										
Idirect Code	FEDBAN	CMP	392	FY11	587.1	34.3	11.4	1.4	1.5	13.5
		Target	472	FY12E	741.8	43.4	9.0	1.3	1.3	14.2
Mcap (₹ Cr)	6700	Upside (%)	20.4	FY13E	832.9	48.7	8.0	1.3	1.2	15.1

Continued...

					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
HDFC Bank										
Idirect Code	HDFBAN	CMP	489	FY11	3926.4	16.9	29.0	4.5	1.6	16.7
		Target	532	FY12E	5074.3	21.8	22.4	4.0	1.7	18.7
Mcap (₹ Cr)	113593	Upside (%)	8.8	FY13E	6560.0	28.2	17.3	3.5	1.8	21.2
Kotak Bank										
Idirect Code	KOTMAH	CMP	496	FY11	818.3	11.1	39.8	4.9	1.9	14.5
		Target	436	FY12E	991.7	13.5	32.8	4.3	1.8	13.7
Mcap (₹ Cr)	36534	Upside (%)	-12.1	FY13E	1212.4	16.5	26.9	3.8	1.9	14.7
South Indian Bank										
Idirect Code	SOUINO	CMP	23	FY11	292.6	2.6	8.9	1.6	1.0	18.5
		Target	26	FY12E	381.2	3.4	6.8	1.3	1.0	20.6
Mcap (₹ Cr)	2610	Upside (%)	12.6	FY13E	468.9	3.2	7.3	1.0	1.0	17.6
Yes Bank										
Idirect Code	YESBAN	CMP	319	FY11	727.1	20.9	15.2	2.9	1.5	21.1
		Target	369	FY12E	958.4	26.3	12.1	2.3	1.4	21.3
Mcap (₹ Cr)	11088	Upside (%)	15.5	FY13E	1301.8	34.0	9.4	1.8	1.5	21.4

*UR: Under Review

Exhibit 10: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 11: Recent Releases

Date	Event	CMP	Target Price	Rating
2-Aug-11	Q1FY12 Result update	420	518	Strong Buy
23-Sep-11	Banking Industry Update	362	472	Buy
5-Oct-11	Q2FY12 Result Preview	349	472	Buy
28-Oct-11	Q2FY12 Result update	411	472	Buy
16-Dec-11	Banking Industry Update	378	472	Buy
6-Jan-12	Q3FY12 Result Preview	357	472	Buy

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/ 15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

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