IIFL INDIA PRIVATE CLIENTS

Federal Bank – BUY

'Better comfort'

Sector: Banking

Sensex:	15,858
CMP (Rs):	354
Target price (Rs):	440
Upside (%):	24.4
52 Week h/l (Rs):	477/326
Market cap (Rscr) :	6,048
6m Avg vol ('000Nos):	451
No of o/s shares (mn):	171
FV (Rs):	10
Bloomberg code:	FB IB
Reuters code:	FED.BO
BSE code:	500469
NSE code:	FEDERALBNK

Prices as on 24 Nov, 2011

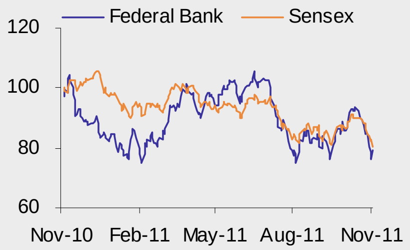
Shareholding pattern

September '11	(%)
Promoters	-
Institutions	61.7
Non promoter corp hold	14.0
Public & others	24.3

Performance rel. to sensex

(%)	1m	3m	1yr
Federal Bank	(1.5)	2.5	(1.6)
ING Vysya Bank	(2.2)	(3.8)	(10.7)
Karur Vysya Bank	5.8	0.1	7.3
South Indian Bank	1.3	9.3	1.2

Share price trend



SME and corporate segments to drive healthy loan growth

After being flat in Q1 FY12 due to organizational restructuring and employee issues, Federal Bank's loan book expanded by healthy 5% qoq in Q2 FY12. With substantial SME and corporate exposure, bank's credit growth typically accelerates in H2. The loan mix has been shifting towards corporate segment off-late with the bank lapping-up better-quality opportunities. Within the retail segment, mortgages and gold loans are likely to be the key drivers. We estimate a healthy 18% CAGR in advances over FY11-13. Regional loan mix is expected to become more diversified in the medium term with reduction in Kerala concentration.

NIM to remain stable; adverse liquidity conditions is the only risk

During H1 FY12 Federal Bank's NIM moderated to 3.8% from higher levels of 4%+ in FY11 impacted by tight liquidity, unfavorable shift in deposit mix and decline in C/D ratio. H2 FY12 outlook for NIM is sanguine as the favorable impact of recent lending rate hikes (more effective for bank as 90%+ advances are floating), improvement in C/D ratio would comfortably offset the headwinds of higher deposits cost (mainly from retail TDs) and shift in loan mix towards lower-yielding corporate segment. Justifiably, the bank has given a NIM guidance of 3.75-3.8%.

Sharp spike in NPLs unlikely; credit cost to be modest

Driven by substantial slippages in the SME segment, delinquency ratio was high in H1 at 3.5%. As macro credit environment continues to weaken, we don't foresee notable improvement here. However, strong recoveries and acceleration in loan growth would drive marginal improvement in GNPL ratio. Federal Bank's perturbing exposure to Kingfisher, Air India and SEBs (combined ~4%) is currently standard with restructuring not requested by borrowers. Bank's high PCR at 83% lends strength to the balance sheet and provides some leeway for commensurately lower LLP. We therefore expect credit cost at relatively modest 1.1-1.2% in H2. With net NPL ratio to be sustained at 0.6%, NNPL/Networth ratio (NPL risk) would continue to be one of the lowest in the industry at near 4%.

Provides comfort on multiple parameters; preferred mid-cap bank

Federal Bank's strong pricing and lean operating structure enabled it to earn respectable RoA even during tough times of 2008-09 despite higher LLP. RoA is estimated to sustain near 1.2% aided by lower credit cost and stable NIM. With Tier-1 capital at 14%, capitalization level is high and reassuring in current environment. Bank has underperformed most peers in past 3/6 months and valuation has corrected significantly to 1x rolling 1-yr fwd P/adj.BV. In our view, Federal Bank provides comfort on multiple fronts - diversified loan profile, robust provisioning cover, high capitalization, low NPL risk and attractive valuation vis-à-vis estimated RoA. Initiate coverage with BUY rating and 9-month target of Rs440.

Financial summary

Y/e 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Total operating income	19,417	22,634	24,442	29,027
Yoy growth (%)	6.0	16.6	8.0	18.8
Operating profit (pre-provisions)	12,648	14,273	14,743	17,873
Net profit	4,645	5,871	6,777	8,134
yoy growth (%)	(7.2)	26.4	15.4	20.0
EPS (Rs)	27.2	34.3	39.6	47.6
Adj.BVPS (Rs)	266.4	287.2	313.1	344.4
P/E (x)	13.0	10.3	8.9	7.4
P/BV (x)	1.3	1.2	1.1	1.0
ROA (%)	1.1	1.2	1.2	1.2
CAR (%)	18.4	16.8	14.1	13.1

Source: Company, India Infoline Research

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Regional bank having substantial exposure to the state of Kerala

In 2010, Mr Shyam Srinivasan took over as MD & CEO of the bank

He has significant experience in SME banking

Deposits and advances witnessed 18%/21% CAGR over FY07-11

RoA has been in an impressive range of 1.1-1.4%

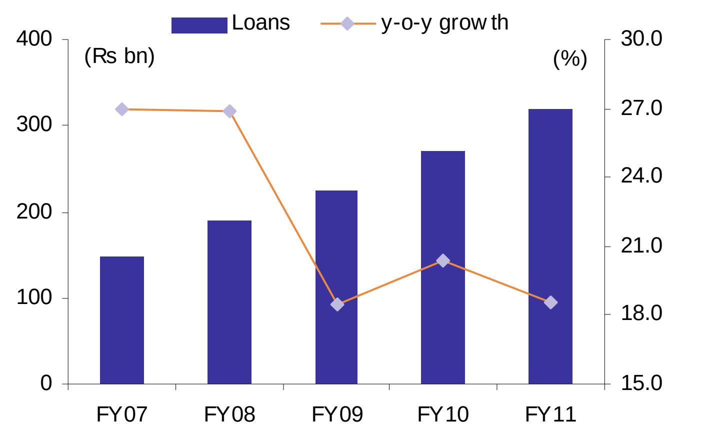
Background – healthy growth and profitable track record

Incorporated in 1931, Federal Bank is one of the oldest private sector banks in the country. It is predominantly a regional bank having substantial exposure to the state of Kerala (59% of branches, 51% of deposits, 42% of loans). However, the concentration in the business has been on decline thanks to bank's focused efforts to diversify. Within Kerala, the bank has strong presence in semi-urban and rural parts. Over the years, Federal Bank has continuously upgraded its technology platform and trained resources (5,541 employees were trained in varied areas during FY11) to evolve as a new-age bank. In 2010, there was a welcoming change in the management with Mr Shyam Srinivasan taking over as MD & CEO of the bank. In his previous assignments, he has been the Country Head of consumer banking division of Standard Chartered Bank in India as well as Malaysia. Mr Srinivasan has significant experience in SME banking which is a core segment for Federal Bank.

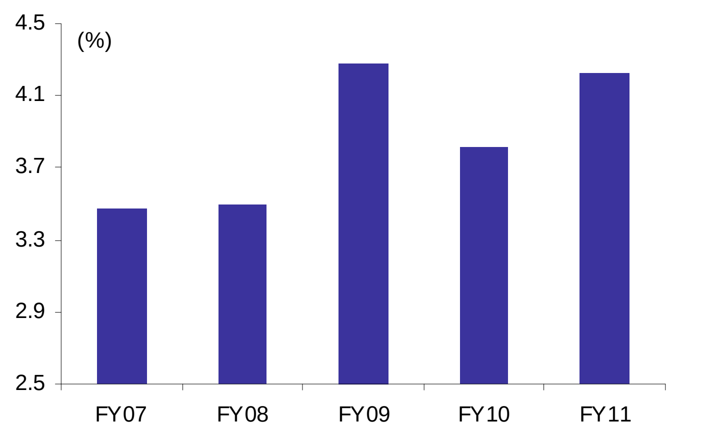
Federal Bank's deposits and advances have witnessed healthy CAGR of 18% and 21% over FY07-11. More importantly, RoA has been in an impressive range of 1.1-1.4% implying that bank has been able to preserve profitability even in the phase of rising NPLs. Presently, bank's loan profile is well distributed across its three segments of Corporate, SME and Retail. Federal Bank enjoys a sizeable NRI deposits franchise (14% of total). As on September 30, 2011, bank had 823 branches and 846 ATMs. Bank plans to add around 200 branches in the current fiscal subject to RBI's approval.

Federal Bank has a fully owned subsidiary FedBank Financial Services Ltd and holds 26% equity in IDBI Federal Life Insurance Company Ltd. During FY11, the bank generated a total premium collection of Rs1.58bn (v/s Rs1.34bn in FY10) for the life insurance joint venture.

Steady loan growth in the past three years

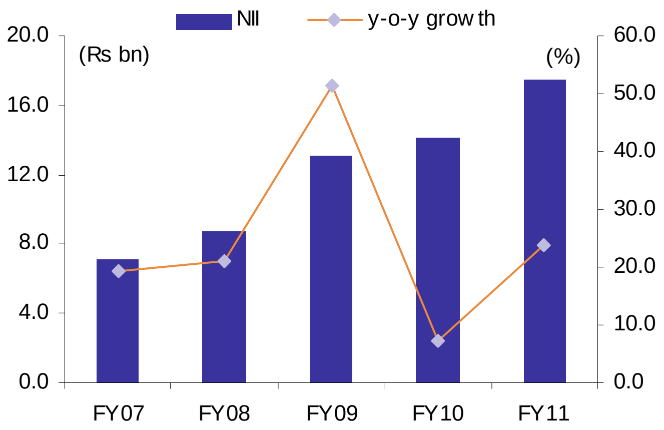


Elevated NIMs reflect partly strong pricing power of the bank

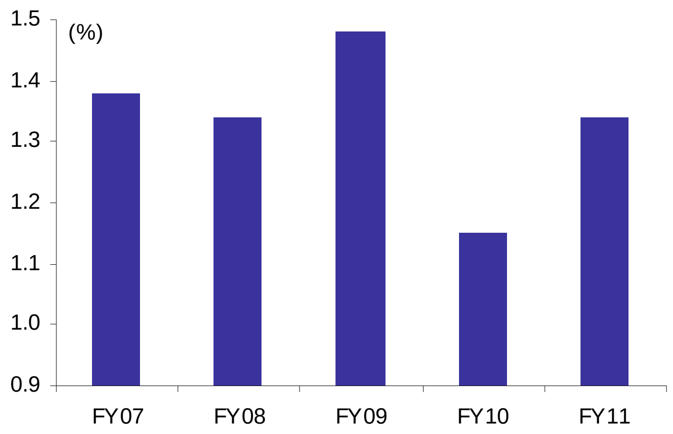


Source: Company, India Infoline Research

NII almost doubled over FY08-11

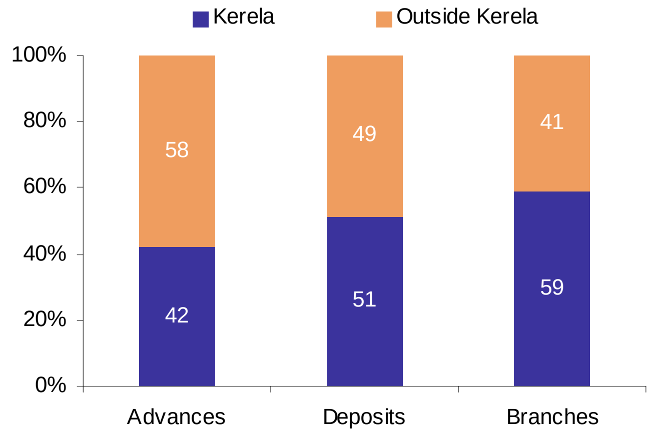


RoA was sustained above 1.1% despite higher provisioning

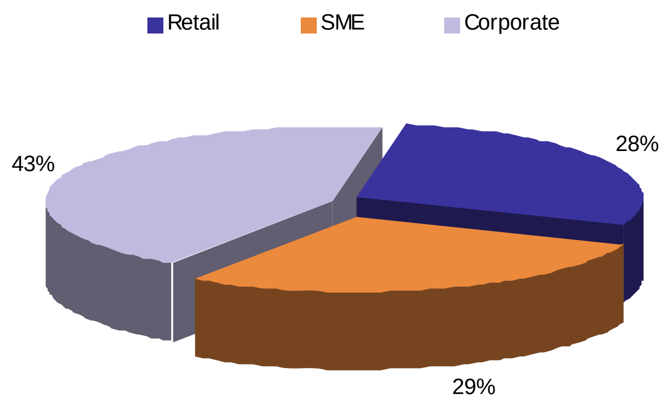


Source: Company, India Infoline Research

Kerala concentration in advances lower than branches



Well-diversified loan mix between three key segments



Source: Company, India Infoline Research

Recent reorganization includes constitution of marketing department, setting-up of credit hubs and broad-basing of regional structure

Recent reorganization has improved operational control

Over the past 12-15 months, Federal Bank has been in the process of reorganization. The bank has constituted a marketing department to promote its products better and to enhance brand image. Bank now has credit hubs to improve the quality of loan portfolio via better credit origination and credit risk management. Federal Bank has added significant depth to its operational structure by broad basing its regional set-up. Earlier the bank had 13 regional officers with about 70-80 branches under each officer making effective monitoring difficult. Now there are about 30 regional officers having not more than 25-30 branches under them thereby allowing better operational control. The performance of these regional officers in-turn is being supervised by 8 zonal managers. After overcoming some employee resistance, the new set-up has been functional from May 2011.

Loan growth to remain healthy; SME and corporate segments to drive growth

Loan book expanded by 5% qoq in Q2 FY12

Over past three quarters, loan mix has shifted towards the corporate segment

In weakening credit environment, management deliberately focusing on better-quality corporate assets

Loan book, after being flat in Q1 FY12 due to aforesaid organizational restructuring and employee issues, expanded by 5% qoq in Q2 FY12. Given the substantial SME and corporate exposure, bank's loan book growth typically accelerates in the second half of a fiscal. Over the past three quarters, there has been a material shift in loan mix towards the corporate segment. Bank has made significant inroads into developing core relationships with a number of Indian companies. Federal Bank has already set-up Corporate Banking branches in Mumbai and Delhi, and more are being planned in other metros and major centers to cater exclusively to the requirements of large corporate clients. Secondly, in the weakening credit environment, management has deliberately focused on better-quality (especially AA and AAA rated) though relatively lower-yielding corporate lending to enhance strength of loan book. A technical reason behind the segmental movement is that bank classifies exposure above Rs250mn to a single entity (even though to SMEs) within the corporate segment. According to the bank, SME exposure would be 50-55% against reported 29% based on the turnover of the entities. With bank having strong forte in the SME segment, the loan mix is expected to gradually move towards this segment in the medium term. Management is looking at nearly equally distributed segmental mix across SME, Retail and Corporate in the longer term

Gold loans have been growing at 50%+ over the past two quarters

Home loans to also drive growth of the retail segment

Loans to witness 18% CAGR FY11-13

Moderation in deposit mobilization during H2 to improve C/D ratio

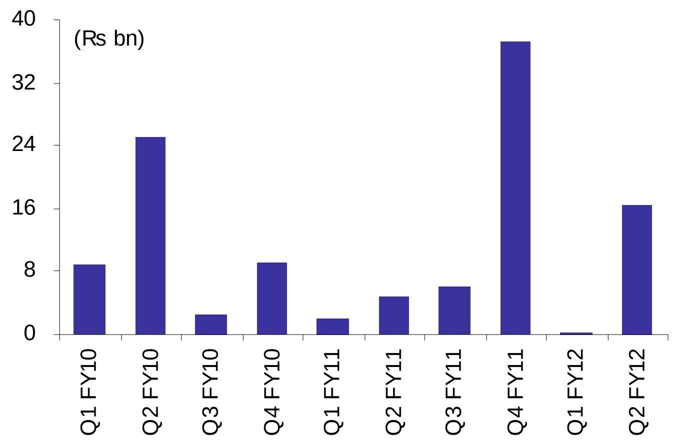
Within the retail segment, loan against gold has been growing at robust 50%+ over the past two quarters and this sub-segment now contributes a significant 15% of total retail loans. Pre-dominantly being based in south, Federal Bank has great opportunity of tapping the largest gold loan market using its well-entrenched network. In the current backdrop of rising gold prices, gold loans manifests the safest and most profitable (bank charges 13-13.5% interest) form of lending. Apart from gold loans, Federal Bank will provide thrust on home loans (56% of portfolio) to drive growth of the retail segment. Given the uncertain macroeconomic backdrop, we have assumed a conservative 18% CAGR in the bank's advances over FY11-13. The deposits growth that has been substantially higher than loan expansion in H1 FY12 (9.9% v/s 5.2%) is likely to notably moderate in H2 FY12 and thereby improve the C/D ratio from current 71% to 73% by the end of the year.

Bank adding incrementally higher number of branches outside Kerala

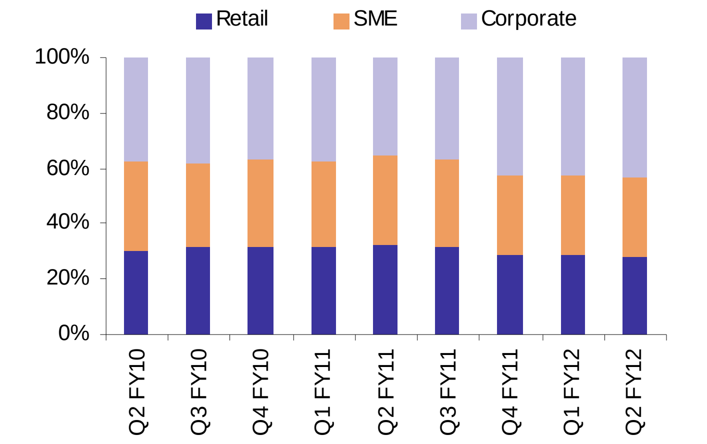
Added 66 branches in October; likely to add 100-120 branches in H2 FY12

Geographically, future growth would be more diversified further reducing state concentration. Towards this, the bank has been adding incrementally higher number of branches outside Kerala during the year. In the month of October, Federal Bank achieved a milestone of opening 66 branches. Of this, 28 were in Kerala and remaining 38 were outside Kerala, in the states of Tamil Nadu, Karnataka, Punjab, Gujarat and Maharashtra. The bank targets to gain substantial foothold in these five states over the next 24-30 months. In the Western zone, bank now has more than 100 branches and intends to reach this mark in the states of Tamil Nadu and Karnataka by March 2012. In H2 FY12, Federal Bank is likely to add 100-120 branches.

Quarterly credit expansion has been chequered

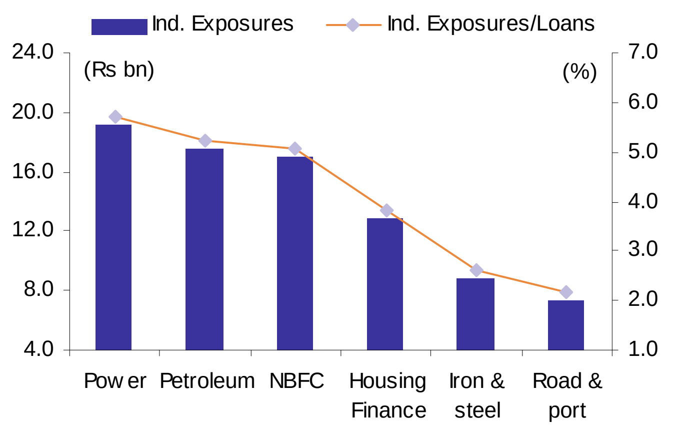


Loan mix has moved towards the corporate segment in recent quarters

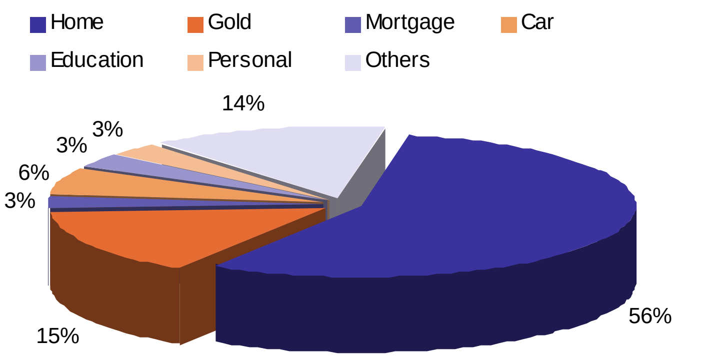


Source: Company, India Infoline Research

Meaningful exposure to Power and Petroleum sectors

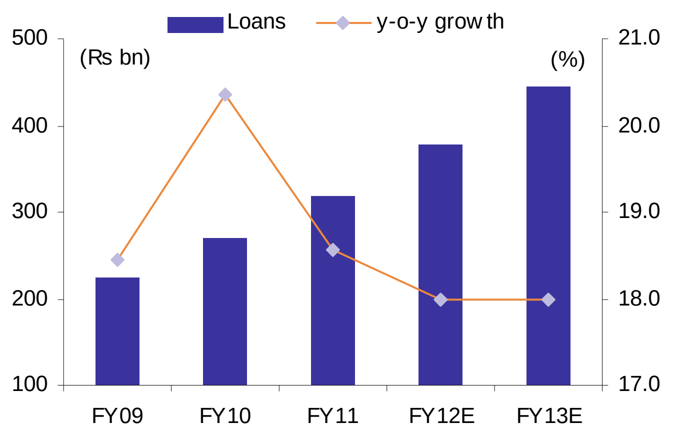


Retail loan mix dominated by mortgages; gold loans share has been fast increasing

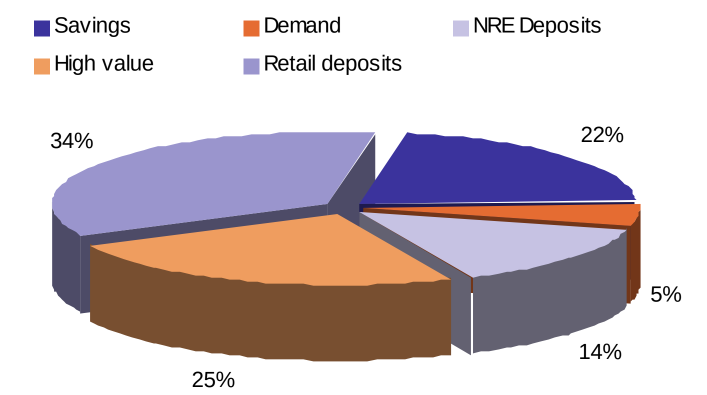


Source: Company, India Infoline Research

Loans to witness 18% CAGR over FY11-13



Deposits mix to change favorably; CASA to increase while high value deposits to decline



Source: Company, India Infoline Research

NIM to remain stable near 3.8%; adverse liquidity conditions is the only risk

NIM improvement in FY11 was driven by steep decline in CoD and improvement in C/D ratio

During FY11, Federal Bank's NIM improved by material 40bps (from 3.8% to 4.2%) aided by steep decline in cost of deposits (CoD) and significant improvement in C/D (200bps+ on average basis). The yield on advances (YoA) corrected by sharp 80bps as bank offered competitive rates in most segments to maintain/improve market share and higher delinquencies lead to significant interest de-recognition. The reduction in average deposit cost was driven by lower reliance on high-cost bulk deposits and CASA improvement.

In H1 FY12, bank has witnessed a reverse phenomenon with NIM moderating

Deposits mix has moved unfavourably over the three quarters

In H1 FY12, bank has witnessed a reverse phenomenon of moderation in NIM (by 20bps from Q4 FY11) characterized by increase in deposits cost and decline in C/D ratio. Like most banks, Federal Bank was impacted by liquidity tightening and material increase in term deposits rates. The deposits mix has also moved unfavourably in the past three quarters with decline in CASA (by 260bps on quarter-end basis) and increase in the share of high value deposits (by 500bps on quarter-end basis). The bank also has passed actively higher deposits cost to its customers through multiple Base Rate and BPLR hikes. With more than 90% of advances floating, lending rate hikes is more effective for Federal Bank as compared to other banks (YoA has improved by substantial 160bps in past three quarters). During Q2 FY12, the bank mobilized substantial deposits (Rs43bn, 10% qoq growth) led by strong accretion in high value deposits (increased by 21% qoq, essentially bulk deposits with average duration of 6 months) and NRE deposits (up 9% qoq). We believe that cooling-off of rates on high value deposits (rates have come-off by ~50bps in past 6-9 months) and increase in retail TD rates (average duration 12-15 months) should have driven the change in deposit mix. The deterioration in C/D ratio (by 300bps) had its negative impact on the NIM during H1 FY12.

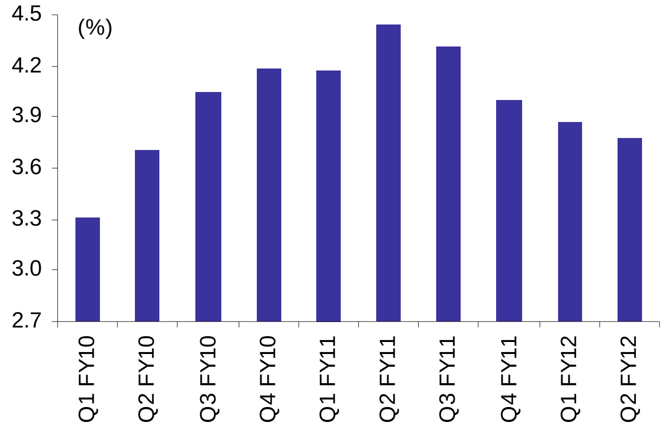
H2 FY12 outlook for NIM is sanguine – recent lending rate hikes and C/D ratio improvement to support

In the longer term, NIM would be stable near 3.8%

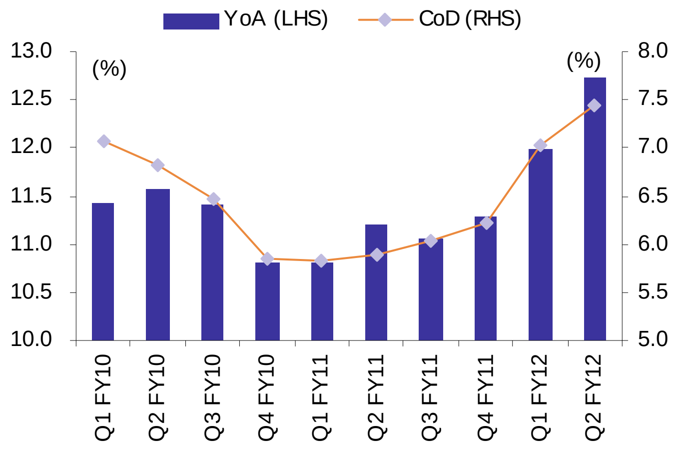
Branch expansion and launch of priority banking to drive structural improvement in CASA

The H2 FY12 outlook for NIM remains sanguine as we see the favorable impact of recent lending rate hikes and expected improvement in C/D ratio comfortably offsetting the headwinds of higher deposits cost (mainly from retail TDs) and change in loan mix towards lower-yielding corporate segment (average loan yield at 10.5-11% v/s 13% in SME and Retail segments). The only downside risk would be a sharp spike in wholesale rates driven by adverse liquidity conditions. In the longer term, we see NIM being stable around the current 3.8% mark with substantial branch expansion and launch of priority banking driving a structural improvement in CASA and low-cost NRE deposits (NRE TDs cost less than 3%). Currently these deposits combined are at 32% and the bank expects their share to increase to 40% over the next 2-3 years.

NIM has corrected materially over the past four quarters

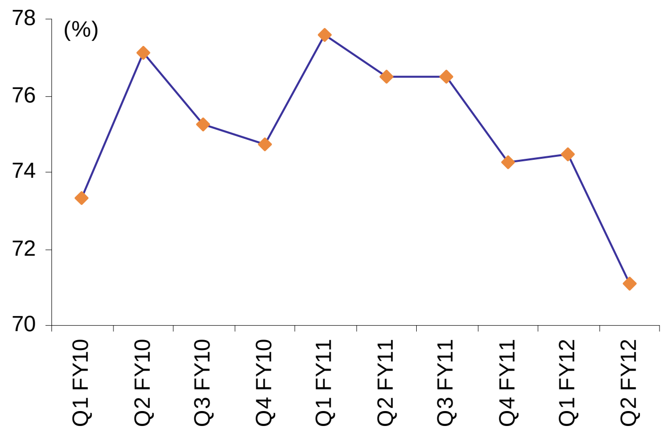


Increase in CoD has been steeper than YoA

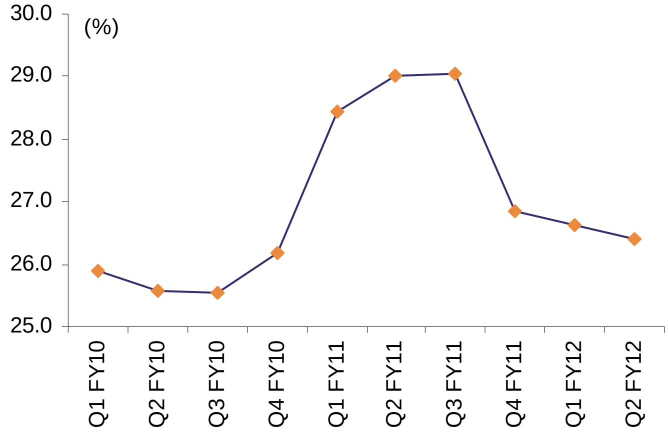


Source: Company, India Infoline Research

C/D ratio has fallen with robust deposit mobilization

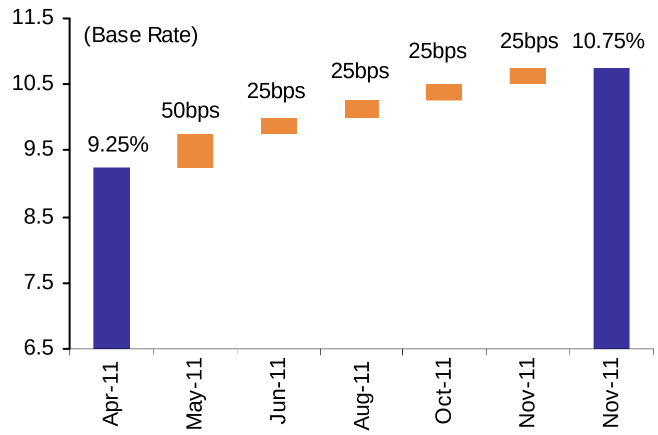


Higher TD rates and mustering of bulk deposits led to sharp CASA decline

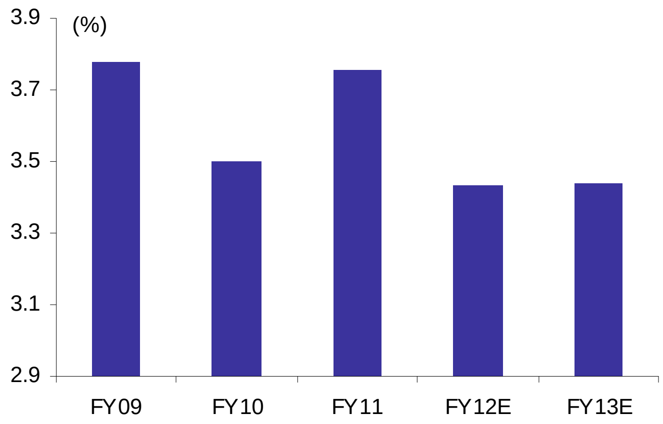


Source: Company, India Infoline Research

Base Rate has been hiked by 150bps since April



NIM (calculated) to stabilize near the current levels



Source: Company, India Infoline Research

Flattish fee income and significant branch expansion to impact C/I ratio in the near term

Fee income performance has been disappointing in H1 FY12

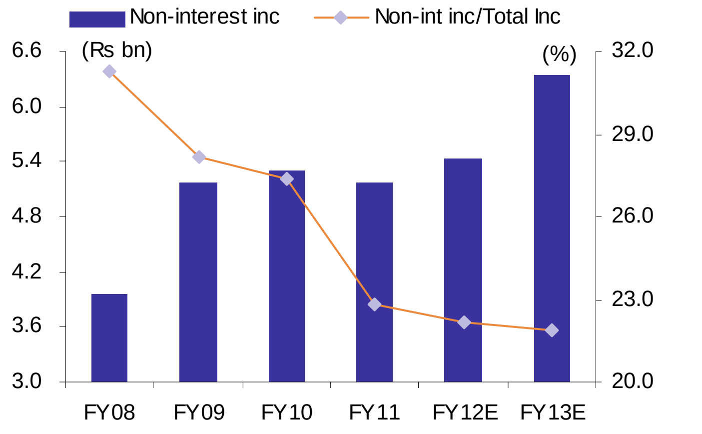
Management expects core fee income to pick-up strongly in H2

Cost/income ratio to reach near 40% by the year-end

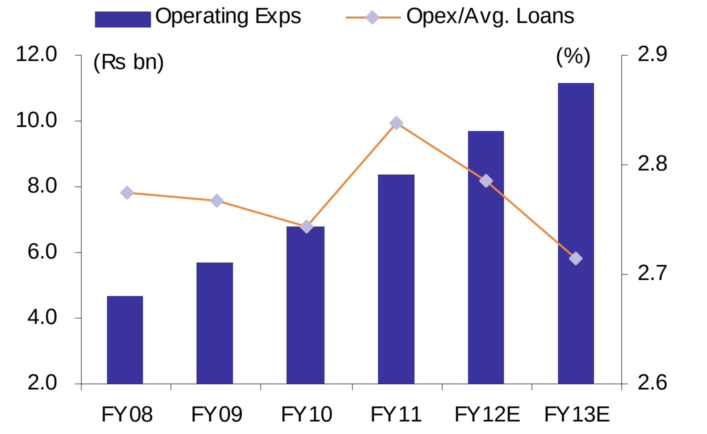
Fee income performance has been disappointing in H1 FY12 with yoy growth being flattish. Overall non-interest income has declined by 8% yoy on account of lower write-back of written-off assets. Management expects core fee income growth to pick-up strongly in the second half driven by multiple initiatives taken over the past three quarters, one of them being strengthening of large corporate and treasury desk in Mumbai. Factoring some acceleration in core fee income in H2 FY12 (being significantly conservative than management though), we expect a marginal growth in overall other income for the year.

Substantial branch addition, manning of these branches, upgradation of some existing branches and employee training is anticipated to increase opex materially in H2 FY12. This would likely take the cost/income ratio to near 40% by the year-end from current 38.9%. Aided by better fee income performance, we see ratio improving in FY13.

Sluggish fee income and lower write-back of w/off accounts to impact performance

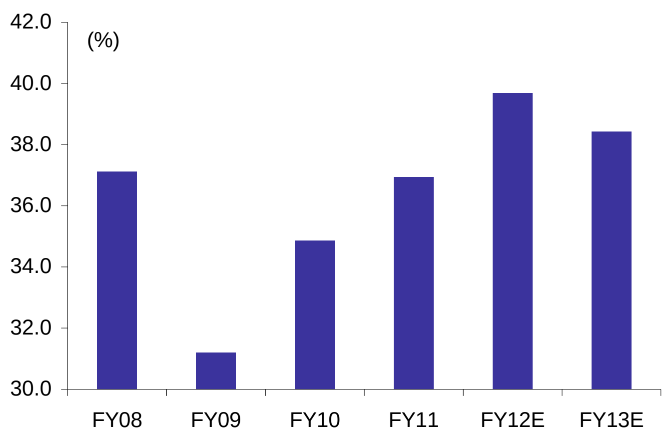


Opex/Avg. Asset ratio to decline significantly over FY11-13



Source: Company, India Infoline Research

C/I ratio to peak-out in FY12



Source: Company, India Infoline Research

Asset quality to marginally improve but credit cost to be significantly lower

Delinquency at 3% for the past three years; GNPL increased from 2.5% in FY08 to 3.6% in FY11

Higher delinquencies mainly driven by SME segment

In Q2 FY12, the slippage ratio improved to 3.2%

Given the bank's significant exposure to SMEs, the delinquency ratio has been high at near 3% for the past three years. The gross NPL ratio has significantly increased from 2.5% in FY08 to 3.6% in FY11. After further increasing in Q1 FY12 to 3.9%, it has declined to 3.6% in Q2 FY12. Segment-wise, GNPL ratio is substantially higher in the SME segment at 6.8% (being high-yielding relatively risky lending) while it is significantly lower in the corporate segment at 1.6% (lending dynamics being vice versa). In Q1 FY12, slippages were alarming at annualized 4% as monitoring and recovery was impacted by organizational restructuring and employee issues. In Q2 FY12, the slippage ratio improved to 3.2%. Higher delinquencies have been mainly driven by SME segment where the quarterly run-rate has been in the range of Rs1.2-1.4bn.

Weak credit environment would keep slippages high in H2; estimated in range of 3-3.3%

Bank has perturbing exposure to TN, Guj and AP SEBs and Kingfisher and Air India

Recent initiatives could help in containing slippages in FY13

Quarterly slippage run-rate is unlikely to significantly improve in the near term as macro credit environment continues to weaken. Federal Bank expects SME delinquencies to remain near Rs1.2bn and retail slippages near Rs0.6bn. Corporate segment being chunky, even a couple of accounts turning NPLs would imply significant addition. The bank has perturbing exposure to SEBs (~Rs10bn, majority to Tamil Nadu, Rajasthan and AP SEBs) and Kingfisher, Air India in the airlines sector (combined exposure at ~Rs4bn). As per the management, these loans are currently standard (being serviced) and the borrowers have not yet requested for restructuring. We estimate slippages in the range of 3-3.3% in remaining quarters of the year taking the annual slippage ratio to 3.3%, higher than FY11. With the bank introducing a centralized system for credit appraisal and sanction, the quality of new loans could be much better as many branches were lacking the required expertise. Further, monitoring mechanism has been strengthened significantly. These measures should restrict a spike in slippage ratio in FY13 notwithstanding tough operating conditions, in our view.

Robust recovery run-rate expected to continue

GNPL ratio expected to marginally improve by the year-end

Recoveries have been robust over the past few quarters in the range of Rs1.3-1.5bn aided by effective utilization of SARFAESI proceedings and engagement of recovery agents. Bank expects this recovery run-rate to continue. Though bank hopes to bring down its GNPL ratio to near 3% by the year-end, we believe that it would be an aggressive assumption as slippages can surprise on the higher side. So, we estimate year-end GNPL ratio near 3.4%, a marginal improvement from the current levels.

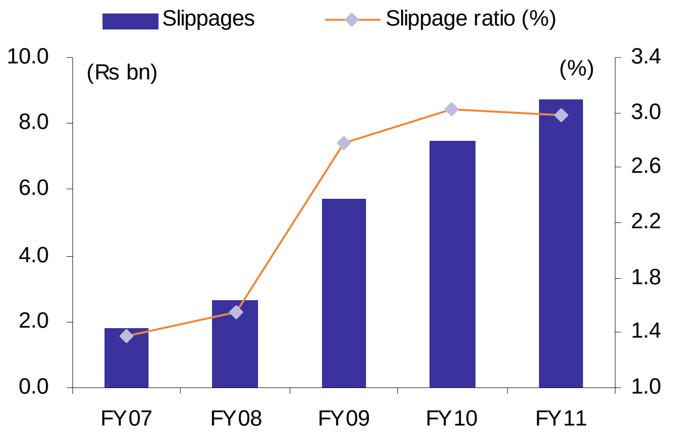
Conservative provisioning policy has been encouraging; PCR strong at 83%

FY12 credit cost to be significantly lower at 120bps; Net NPL ratio to be maintained near 0.6%

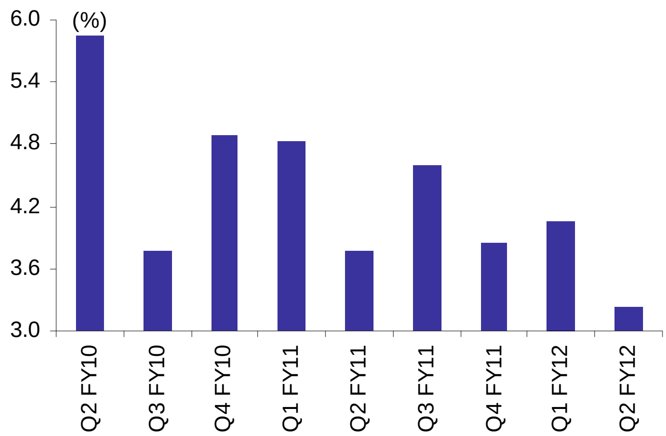
NPL risk one of the lowest in the industry

Bank's conservative provisioning policy over the past two years has been encouraging and instrumental in building a strong coverage of 83%. Despite elevated slippages, credit cost stood lower at 70bps in Q2 FY12 (140bps in Q1 FY12) on account of robust recoveries and upgradations. We factor credit cost at 120bps in H2 FY12 with the bank intending to sustain high PCR. As compared to 175bps in FY11, FY12 credit cost would be significantly lower at 120bps. Remaining cautious, we expect credit cost in FY13 to be higher at 135bps. Higher GNPL coverage raises the probability of some provisions being reversed in case of recovery of assets. Our credit cost assumptions imply that Net NPL ratio would be maintained near current 0.6%. The NPL risk for Federal Bank as indicated by NNPL/Networth ratio is one of the lowest in the industry at 3.6% also reflecting robustness of the balance sheet.

Slippage ratio has been above 3% for the past three years

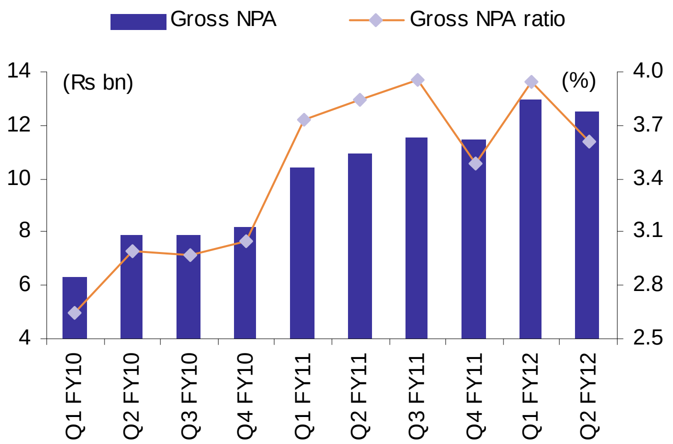


Slippage ratio in Q2 FY12 was at multi-quarter low

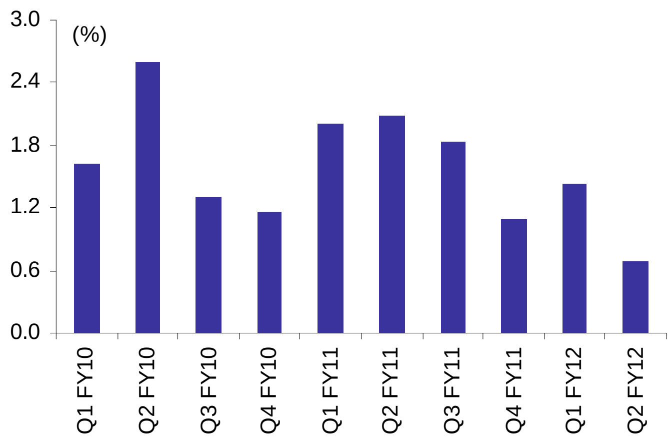


Source: Company, India Infoline Research

GNPL ratio has trend upwards on account of high delinquencies

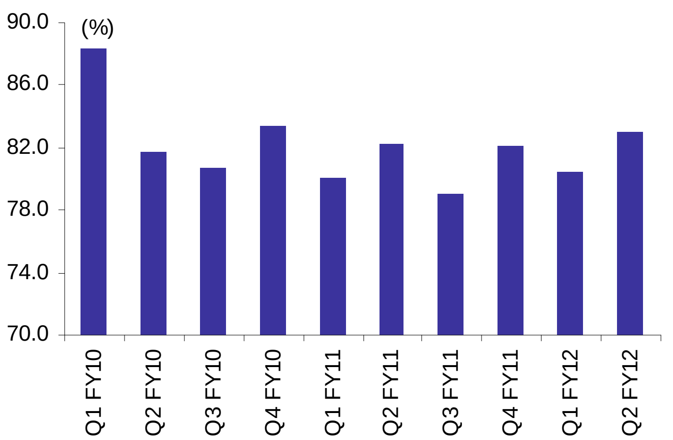


Credit cost was raised in response

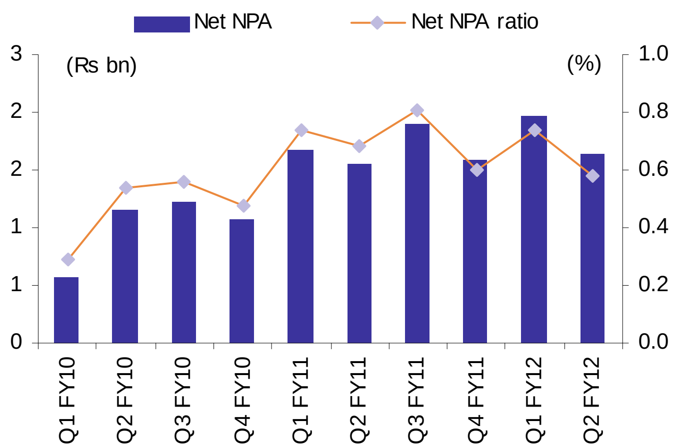


Source: Company, India Infoline Research

PCR has been maintained at higher levels

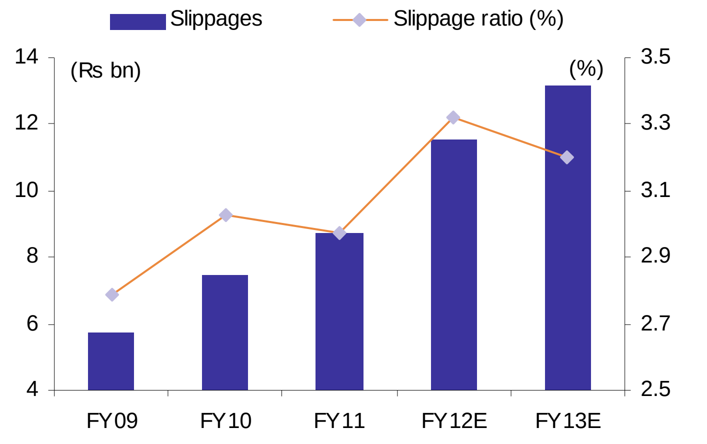


Resultantly, NNPL ratio has been kept under check

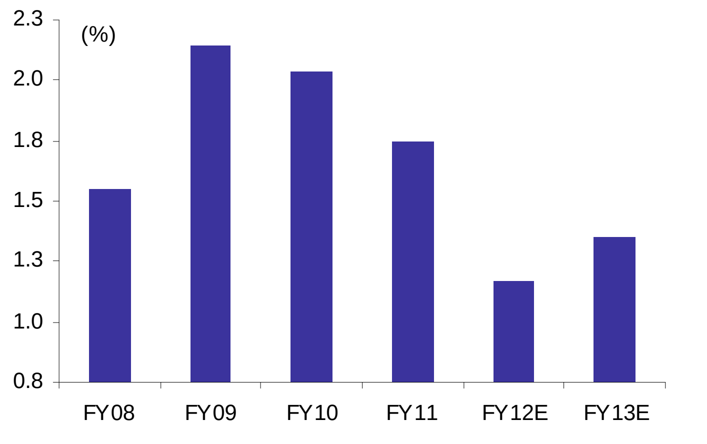


Source: Company, India Infoline Research

Slippage ratio estimated to remain elevated

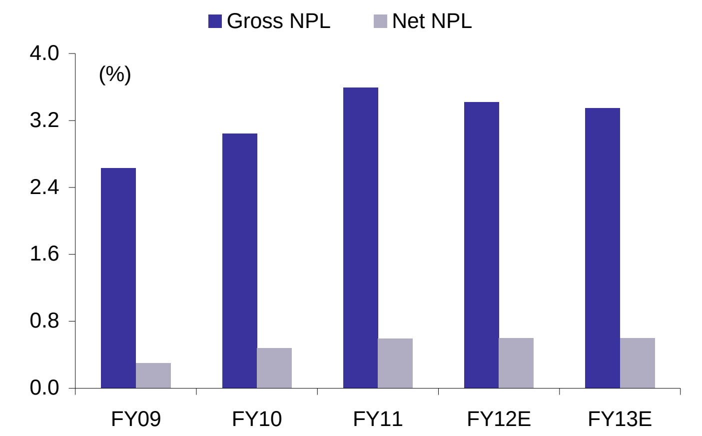


Credit cost in FY12/13 to be significantly lower as compared to past few years



Source: Company, India Infoline Research

GNPL and NNPL ratio to stabilize around current levels



Source: Company, India Infoline Research

RoA to be sustained at 1.2% despite tough operating conditions; high capitalization provides significant comfort and ample headroom for growth

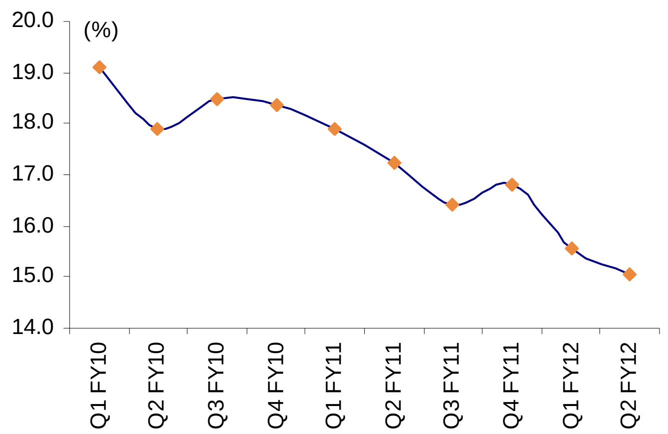
Bank was able to maintain respectable RoA even during FY08-09

Estimate RoA to sustain near 1.2% over FY12-13

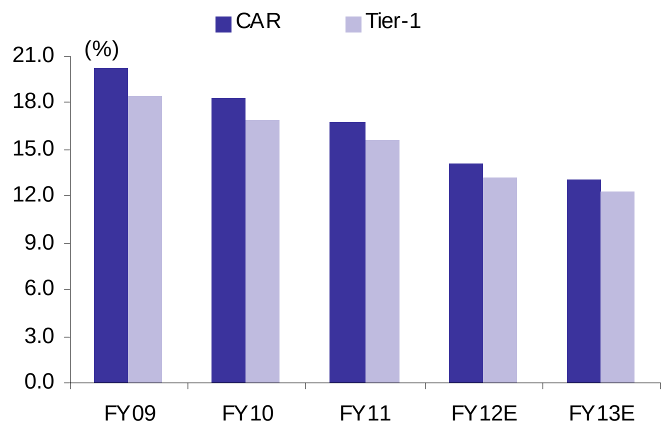
Tier-1 at 14% provides immense comfort in the current environment

Federal Bank's strong pricing in its operating segments (reflected in above-industry NIM) and lean operating structure (reflected in below-industry C/I ratio) enabled it to earn respectable RoA even during tough times of 2008-09 notwithstanding higher NPL provisioning. We estimate RoA to sustain near 1.2% for FY12 despite some deterioration in C/I ratio supported by a lower credit cost. In FY13, it is likely to be comforted by improved growth in non-interest income. With CAR at 15.1% and more importantly Tier-1 at 14%, capitalization level of the bank is high and provides immense comfort in the current environment. It should also be sufficient to support 18-20% asset growth for the next three years. We estimate RoE of the bank to improve from 12% in FY11 to 14% in FY13 driven by improved financial leverage.

CAR has always been maintained at robust levels

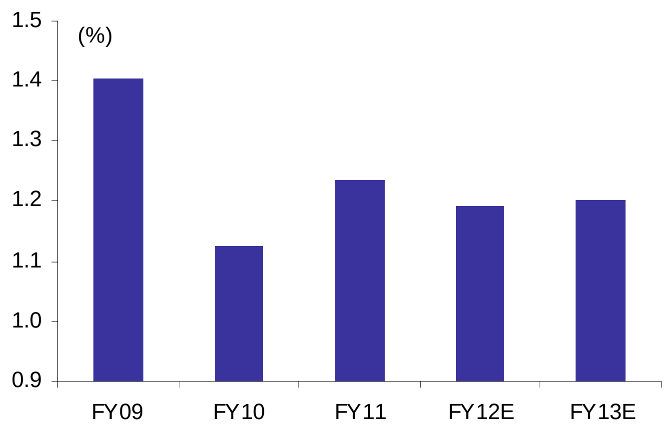


Current capitalization sufficient enough to support growth over the next three years

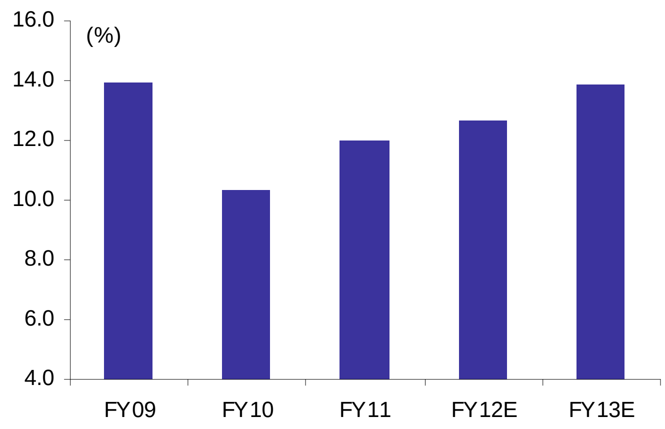


Source: Company, India Infoline Research

RoA to sustain near 1.2%



RoE to improve due to financial leverage



Source: Company, India Infoline Research

Provides comfort on multiple parameters; preferred mid-cap pick in the sector

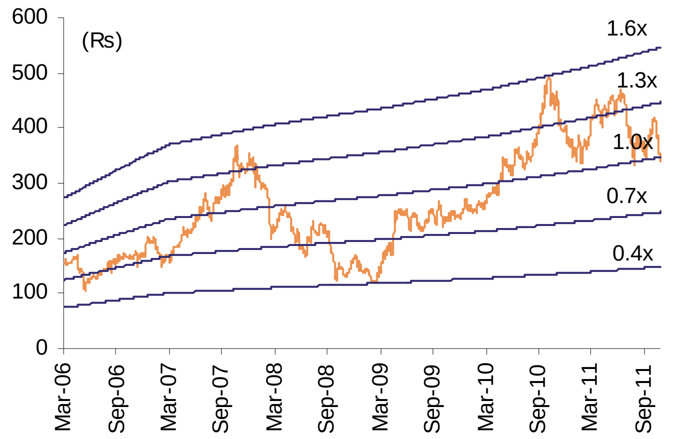
Bank has underperformed most peers over past 3/6 months; Valuation has corrected to 1x currently

Federal Bank has underperformed most of its peers over the past 3 and 6 months. From trading at 1.4x rolling 1-yr fwd P/adj. BV during July 2011, bank's valuation has corrected significantly to 1x currently. This de-rating was mainly driven by sector-wide capitulation as Federal Bank's performance in Q2 FY12 was fairly impressive. With high probability that resilient performance would continue for the next two quarters, we believe that current price provides attractive return opportunity for long term investors. The key buying points for Federal Bank are diversified loan profile, robust provisioning cover, high capitalization levels, negligible NPL risk and attractive valuation vis-à-vis respectable RoA. We initiate coverage on the bank with BUY recommendation and 9-month price target of Rs440. Given relatively better comfort Federal Bank provides in a deteriorating operating environment, it is our preferred mid-cap pick within the sector.

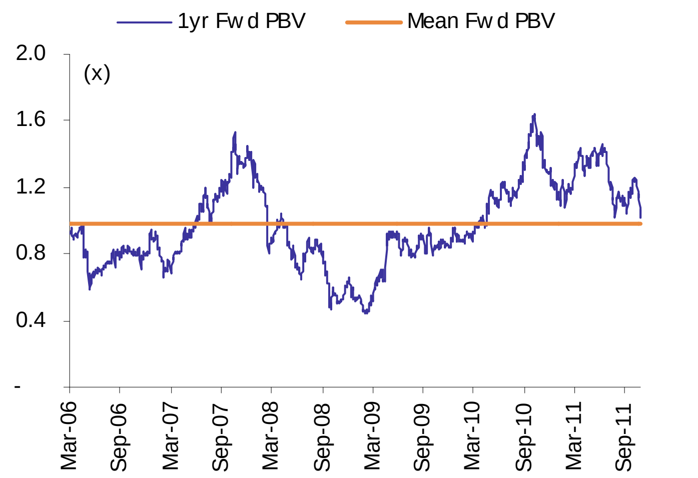
Provides comforts on multiple fronts

Initiate coverage with BUY rating and 9-month price target of Rs440

1-yr rolling fwd P/adj.BV has corrected significantly over the past few months



Current valuation near 20-month low



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Interest income	36,732	40,520	55,575	64,543
Interest expense	(22,624)	(23,054)	(36,559)	(41,864)
Net int income	**14,108**	**17,466**	**19,016**	**22,678**
Non-int income	5,309	5,168	5,427	6,349
Total op income	**19,417**	**22,634**	**24,442**	**29,027**
Total op expenses	(6,769)	(8,361)	(9,699)	(11,154)
Op prof (pre-prov)	**12,648**	**14,273**	**14,743**	**17,873**
Provisions	(4,053)	(5,254)	(4,475)	(5,548)
Profit before tax	**8,595**	**9,018**	**10,268**	**12,325**
Taxes	(3,950)	(3,147)	(3,491)	(4,190)
Net profit	**4,645**	**5,871**	**6,777**	**8,134**

Balance sheet

Y/e 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Total cash & equiv	27,234	37,483	33,245	36,928
Investments	130,546	145,377	194,805	231,818
Advances	269,501	319,532	377,048	444,917
Total int-earn assets	**427,281**	**502,392**	**605,098**	**713,663**
Fixed assets	2,898	2,898	3,188	3,506
Other assets	6,577	9,273	12,983	14,281
Total assets	**436,756**	**514,564**	**621,268**	**731,450**
Net worth	**46,904**	**51,087**	**55,876**	**61,624**
Deposits	**360,580**	430,148	516,177	611,670
Borrowings	**20,168**	18,884	31,158	37,390
Total int-bearing liab	**380,747**	**449,031**	**547,335**	**649,060**
Non-int-bearing liabs	**9,104**	14,446	18,057	20,766
Total liabilities	**389,852**	**463,477**	**565,392**	**669,825**
Equity + Total liab	**436,756**	**514,564**	**621,268**	**731,450**

Key ratios

Y/e 31 Mar	FY10	FY11	FY12E	FY13E
Growth matrix (%)				
Net interest income	7.3	23.8	8.9	19.3
Total op income	6.0	16.6	8.0	18.8
Op profit (pre-prov)	0.4	12.8	3.3	21.2
Net profit	(7.2)	26.4	15.4	20.0
Advances	20.4	18.6	18.0	18.0
Deposits	12.0	19.3	20.0	18.5
Total assets	12.4	17.8	20.7	17.7
Profitability Ratios (%)				
NIM	3.5	3.8	3.4	3.4
Non-int inc/Total inc	27.3	22.8	22.2	21.9
Return on Avg Equity	10.3	12.0	12.7	13.8
Return on Avg Assets	1.1	1.2	1.2	1.2
Per share ratios (Rs)				
EPS	27.2	34.3	39.6	47.6
Adj.BVPS	266.4	287.2	313.1	344.4
DPS	5.0	8.5	10.0	12.0
Other key ratios (%)				
Credit/Deposits	74.7	74.3	73.0	72.7
Cost/Income	34.9	36.9	39.7	38.4
CASA	26.2	26.9	27.0	28.0
CAR	18.4	16.8	14.1	13.1
Tier-I capital	16.9	15.6	13.2	12.3
Gross NPLs/Loans	3.0	3.6	3.4	3.3
Total prov/Avg loans	2.0	1.7	1.2	1.4
Net NPLs/Net loans	0.5	0.6	0.6	0.6
Tax rate	46.0	34.9	34.0	34.0
Dividend yield	1.4	2.4	2.9	3.4

In the year 2011 itself, we have received two reputed awards for being the Best Broker in India.

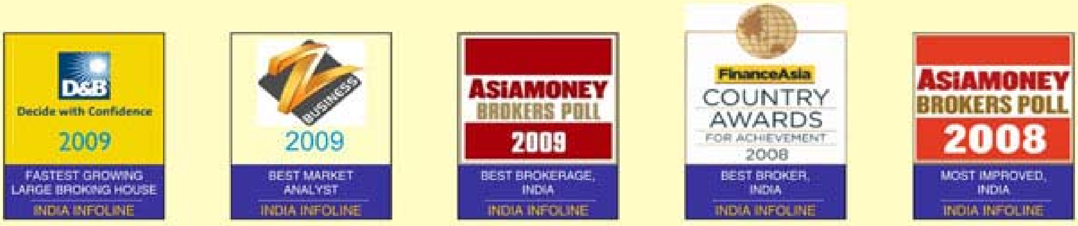
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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