

Federal Bank

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Shareholding (%)

FII's	35.5
MFs	14.0
Insurance Co.	4.1
Others	46.4

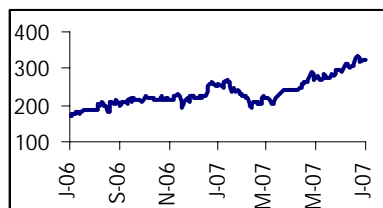
Share price performance

52-week high/low (Rs) 349/170

	-1m	-3m	-12m
Abs (%)	11.5	33.9	89.9
Rel* (%)	3.7	23.4	41.4

*to Nifty

Stock chart



Reasonable growth with improvement in NIM

Federal Bank Ltd. reported 67% growth in PAT at Rs669.2mn in Q1FY08 as against Rs401.8mn in Q1FY07. The bank's operating performance has been impressive with 66% growth during the quarter as compared to Q1FY07. However, sequentially Federal Bank's advances declined by 1.5% and deposits by 3.2% as compared to Q4FY07. During the quarter the bank reported NIM of 3.21%, a 4bps and 15bps increase as compared to Q4FY07 and Q1FY07 respectively.

The stock has outperformed not only the sector, but also the Sensex and Nifty. Therefore we maintain 'Hold' rating on the stock. However, the run-up in price has narrowed the discount on the stock as compared to its peers. At the CMP of Rs325, the stock trades at 1.55x FY08E BV and 1.29x FY09E BV.

Key result highlights are:

- Lower business growth:** During Q1FY08, the bank has reported 2.5% decline in business as compared to Q4FY07. CASA has dropped to 25% of total deposits in Q1FY08 as compared to 25.2% in Q4FY07, while deposits have declined by 3.5% against the previous quarter.
- Growth in diversified advances:** Advances have gone up by 23% YoY to Rs146bn in Q1FY08 as compared to Rs119bn in Q1FY07. Total advances to retail and small and medium segments (SME) constituted 62% of the bank's total advances. Of these, 82% was on floating basis as against 60% the previous year. The bank's retail advances comprise of various retail loans extended to individuals, which grew by 35%.
- Higher incremental yield on advances:** The bank's yield on advances has increased from 10.16% in Q4FY07 to 11.23% in Q1FY08. We believe that the bank will be able to sustain its NIM between 3.1-3.2% in FY08E going forward, as it does not want to grow at the cost of term deposits.
- Higher level of recoveries:** Federal Bank has recovered Rs470mn from written-off accounts in Q1FY08 as compared to Rs110mn in Q1FY07. GNPA and NNPA ratios have also improved from 2.95% and 0.44% in Q4FY07 to 2.92% and 0.37% in Q1FY08 respectively.

Hold

Rs324

July 27, 2007

Market cap

Rs bn 28

US \$ mn 685

Avg 3m daily volume

253,715

Avg 3m daily value

USD mn 2

Shares outstanding (mn)

86

Reuters

FED.BO

Bloomberg

FB.IN

Sensex

15,776

Nifty

4,620

Federal Bank

▲ **Outlook and valuation:** At the CMP of Rs325, the stock trades at 1.55x FY08E BV and 1.29x FY09E BV. We maintain 'Hold' rating on the stock, as the price has moved ahead of its valuations, leaving no room for surprises.

Table 1. Results at a glance

Rs mn	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)
Interest Earned	559.2	531.3	5.26	408.3	36.97
- Interest/Discount on Advance/Bills	404.6	381.8	5.96	278.6	45.20
- Income on Investments	137.4	129.0	6.49	115.1	19.38
- Int on RBI bal	11.8	13.4	(12.06)	13.7	(13.73)
- Others	5.4	7.0	(22.49)	0.8	551.81
Interest Expanded	366.5	303.3	20.82	249.7	46.78
Net Interest Income (NII)	192.7	228.0	(15.45)	158.6	21.52
Other Income	100.5	105.4	(4.63)	54.3	85.22
Net Operating Income (NOI)	293.2	333.3	(12.03)	212.9	37.75
Operating Expenses	104.8	108.6	(3.49)	99.1	5.73
- Employee cost	53.1	69.7	(23.83)	64.9	(18.16)
- Others	41.7	38.9	7.28	34.2	21.83
Operating Profit	188.4	224.7	(16.16)	113.7	65.66
Provisions and Contingencies	67.0	86.7	(22.69)	55.9	19.80
- For NPAs	40.0	7.5	436.91	24.5	63.20
- For Others	27.0	79.2	(65.92)	31.4	(14.07)
PBT	121.4	138.1	(12.06)	57.8	110.03
TAX	54.5	38.8	40.39	17.6	209.13
PAT	66.9	99.3	(32.57)	40.2	66.55
Equity Capital	85.6	85.6		85.6	
EPS	7.8	11.6		4.7	
Ratios (%)					
Int Expense / Int Income	65.5%	57.1%	NA	61.2%	NA
Cost / NOI	35.7%	32.6%	NA	46.6%	NA
Other Income/NOI	34.3%	31.6%	NA	25.5%	NA
Tax / PBT	44.9%	28.1%	NA	30.5%	NA
Advances	14,668.0	11,933.6	22.91	14,899.1	(1.55)
Deposits	20,893.0	18,455.5	13.21	21,584.4	(3.20)
Gros NPA %	2.92	4.44	NA	2.95	NA
Net NPAs %	0.37	0.76	NA	0.44	NA

Source: IISL research, company

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