FEDERAL BANK

Edelweiss
Ideas create, values protect

Turnaround underway

October 18, 2010

Reuters: FED.BO Bloomberg: FB IN

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA		
CMP	:	INR 438
52-week range (INR)	:	448 / 218
Share in issue (mn)	:	170.9
M cap (INR bn/USD mn)	:	75 /1,701
Avg. Daily Vol. BSE/NSE ('000)	:	727.3

SHARE HOLDING PATTERN (%)		
Promoters*	:	0.0
MFs, FIs & Banks	:	23.7
FIIs	:	36.6
Others	:	39.7
* Promoters pledged shares (% of share in issue)	:	NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	13.7	3.4	2.9
3 months	23.7	12.7	22.5
12 months	80.3	18.7	36.2

We recently met the management of Federal Bank (FB) to get insights into the bank's strategy and growth plans. Mr. Shyam Srinivasan (ex-Stan C) has been inducted as the MD & CEO of the bank taking over from Mr. Venugopalan. The bank is currently undergoing a restructuring exercise on Boston Consultancy Group's (BCG) advice. We believe post restructuring, under the dynamic leadership, FB is geared to step up the growth momentum and improve RoE—the only missing link in an otherwise attractive franchise (characterised by best-in-class RoA and productivity metrics).

Laying foundation for growth

Currently, FB has undertaken a restructuring exercise to transform itself from an old generation to a new generation private sector bank. Over the next six-nine months, before embarking on the high growth path, management focus will be on developing/standardizing processes (both operational and HR), addressing asset quality and employee motivation issues. The essence of the entire restructuring exercise is to increase product focus, improve credit standards, and instill a performance-driven work culture. Key initiatives in this direction include:

a) To inculcate specialization and capitalize on synergies, six new verticals have been created under two groups, each headed by an ED.

b) Set up centralized underwriting hubs (facilitating better control over underwriting) and decentralized delivery mechanisms (to improve turnaround time).

c) FB has intensified recovery efforts by employing independent recovery agencies; further regional hubs have been created to control NPLs in retail and SME segments effectively.

Outlook and valuations: BUY the Change; maintain **'BUY'**

FB enjoys an attractive franchise characterized by high return ratios and employee/branch productivity compared to regional peers. The bank is currently undertaking restructuring exercise putting people and processes in place to further enhance productivity and achieve growth while maintaining high credit standards. Near term trigger for the stock will be decline in slippages and consequent reduction in credit cost which act as a buffer for the bank to undertake the restructuring exercise without disturbing higher RoAs. With credit growth at 24% and margins at 3.5% (calculated) over FY10-12E, we expect earnings CAGR of 31%, with RoE improving to ~15% by FY12E from 10.3% currently. Despite the outperformance of 1.4% (over bankex) in the past three months, the stock is trading at attractive valuations of 1.3x FY12E book (discount to peers) and 9.4x earnings. We believe as benefits of restructuring gather pace over the next 9-12 months, the stock will re-rate to 1.7/1.8x book. We maintain **'BUY'** recommendation and rate it **'Sector Outperformer'** on relative return basis.

Financials

Year to March	FY09	FY10	FY11E	FY12E
Revenues (INR mn)	18,312	20,395	22,242	25,850
Rev growth (%)	*45.0*	*11.4*	*9.1*	*16.2*
Net profit (INR mn)	5,005	4,646	6,393	7,987
Shares outstanding (mn)	171	171	171	171
EPS (INR)	29	27	37	47
EPS growth (%)	*36.0*	*(7.2)*	*37.6*	*24.9*
PE (x)	15.0	16.1	11.7	9.4
Price to adj. book (x)	1.8	1.6	1.5	1.3
ROE (%)	12.1	10.3	12.9	14.5

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Change of guard; introduction of ESOPs proposed

After retirement of Mr. Venugopalan, Mr. Shyam Srinivasan has been inducted as the Managing Director & CEO of FB with effect from September 23, 2010. Before joining FB, Mr. Srinivasan worked with the Standard Chartered Bank. He has a vast banking experience across verticals (retail, wealth and SME) and geographies (India, Middle-East and SEA); in his last assignment at Standard Chartered Bank, he headed the bank's Consumer Banking Business (which covers SME and retail lending operations). Over the next six-nine months, management focus will be on developing/ standardizing processes (both operational and HR), addressing asset quality and employee motivation issues, before embarking on the high growth path. Further, to motivate the management, an ESOPs (subject to necessary approvals) has been proposed (amounting to ~5% of the bank's equity share capital).

Strategic focus: Strong execution

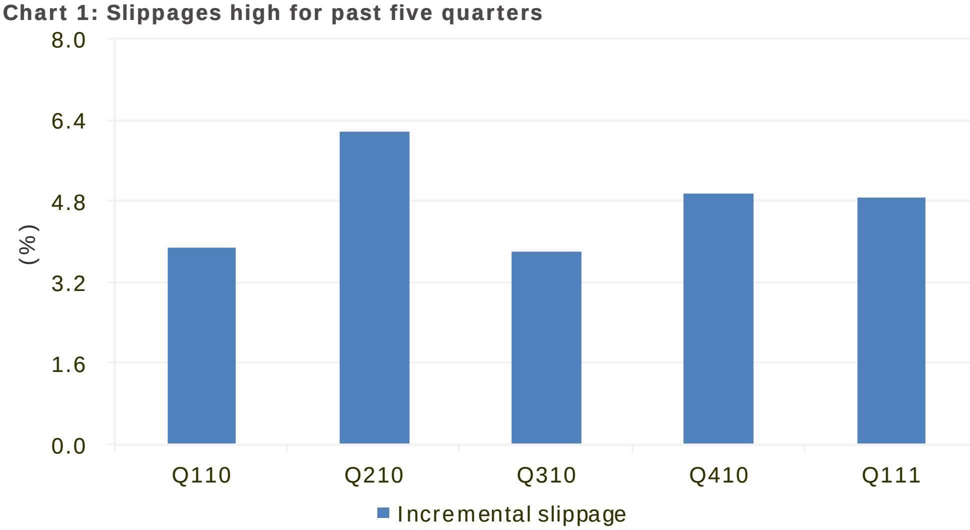
The management seeks to: (a) maintain focus on disciplined organic growth; (b) build business on sound risk management; (c) remain a Kerala head quartered bank with all-India presence; and (d) focus strongly on execution rather than doing new things.

Immediate agenda: Get processes in place

As the banks has embarked upon a restructuring exercise, the immediate task at hand is to set up processes in-line with best practices. The key initiatives in this direction include:

- **Strengthening underwriting and recovery mechanism**
  Asset quality has been a key challenge for the management with high slippages for the past five quarters. Key reason cited for higher slippages by management is limited underwriting control exercised in an overtly decentralized set up. Hence, to maximize asset growth against high credit standards, the bank has decided to combine centralized underwriting control and decentralized delivery mechanism, coupled with clear demarcation between business, support and control functions. While the point of sale (sourcing, disbursement and servicing) will be managed by relationship managers at the branch level, sanctioning/underwriting will be centrally controlled through a regional hub (instead of branch manager). This move was opposed by unions; however, it was resolved through a dialogue. On the recovery side, management has intensified efforts through independent agencies. It has also introduced regional processing hubs to control NPAs in retail and SME segments.

Chart 1: Slippages high for past five quarters



Source: Company, Edelweiss research

- **Laying foundations of performance-based culture**

  The two key human resource issues that management is currently facing are: (a) employee union (more pronounced due to presence in Kerala); and (b) developing specialized skill sets within the organization. Union-related issues are likely to get less pronounced going forward as:

  - To boost employee productivity, ESOPs and variable pay packages will be offered.

  - Nearly 40% of staff has been recruited in the past three years which is: (a) more likely to focus on performance driven incentives rather than unionization; and (b) can be easily moulded to work in a competitive setting; in addition, (substantial) retirements at the senior level can be laterally filled, especially in specialised positions (like treasury, economist).

  To develop skill sets of the existing workforce, rigorous training schedules have been introduced across the organization. While currently the training center is located in Alva, Kerala, FB has long-term plans to open another one (in some other location).

Chart 2: Employee age

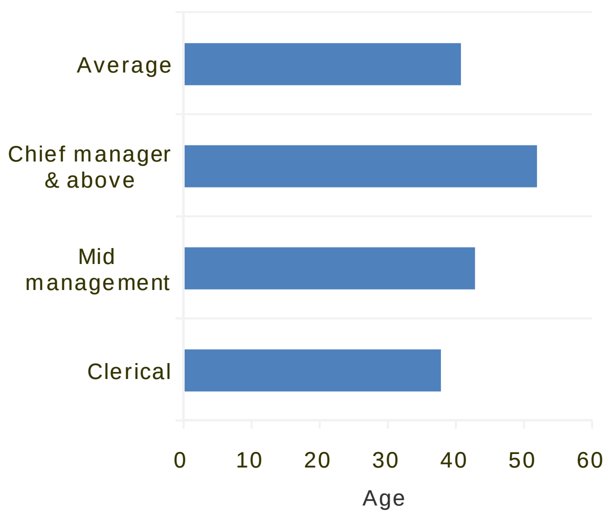
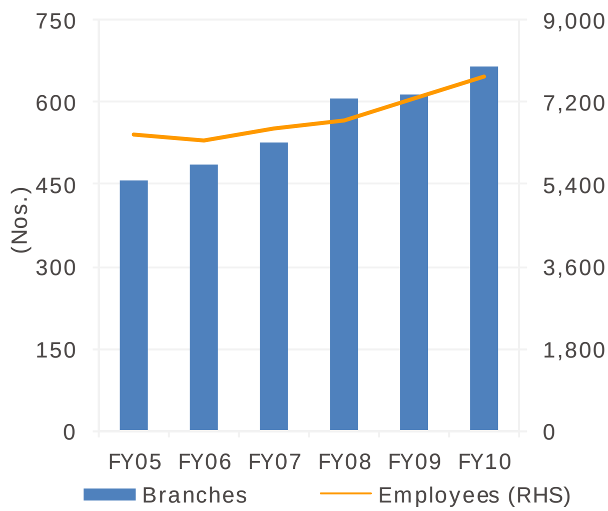


Chart 3: Branches and employees



Source: Company, Edelweiss research

Business strategies going ahead

Product strategy: SME focus to continue

FB has traditionally been a Kerala-centric-SME bank. Core product strategy going forward will be to: (a) leverage its strengths in the SME segment (which is a natural strength to the bank) outside Kerala; (b) actively pursue priority banking in INR 1.0-2.5 mn segment; and (c) capture opportunity in the NRI segment. Management intends to bring broad-based loan book growth, expecting growth to kick in from the following:

- Venturing in the SME space requires strong regional presence (where the bank leverages its branch network), sound processes and strong underwriting control. To improve control and support functions, FB has opened two CPCs and intends to open another 11 for credit sanctioning/underwriting.

- In the corporate lending space, management intends to: (a) capture opportunities as lead banker (apart from being in consortiums); and (b) increase market share in non-fund business. To this end, management has opened corporate branches in Delhi and Mumbai while it plans to increase the number of branches in Chennai, Hyderabad, Kolkata and Hyderabad and intends to start one in Ernakulam (Kerala) as well. Also, the bank intends to invest in product capabilities in the segment which will start showing results over the next 12 months.

- FB is increasing its focus on retail banking both on asset and liability sides. It has opened retail processing centers to: (a) reduce the turnaround time for credit sanctioning; and (b) monitor asset quality. Recently, it also introduced some new retail saving bank products to boost low cost deposits.
- While so far it focused only on Kerala to meet its priority segment targets in agri, going forward, the bank will increase focus on Kolhapur region in Maharashtra through the branches of Ganesh Bank that it acquired and other centers outside Kerala where the potential is strong.
- Management plans to grow FB's gold loan book in line with overall balance sheet growth only. However, it plans to capture the market opportunity in the segment through its own NBFC subsidiary.

Chart 4: Loan book break up

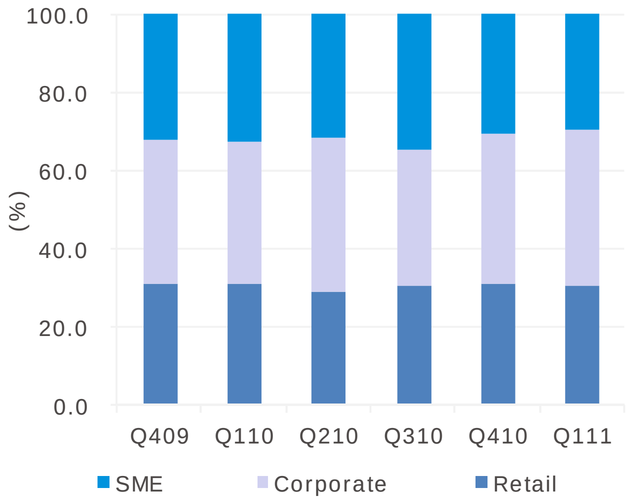
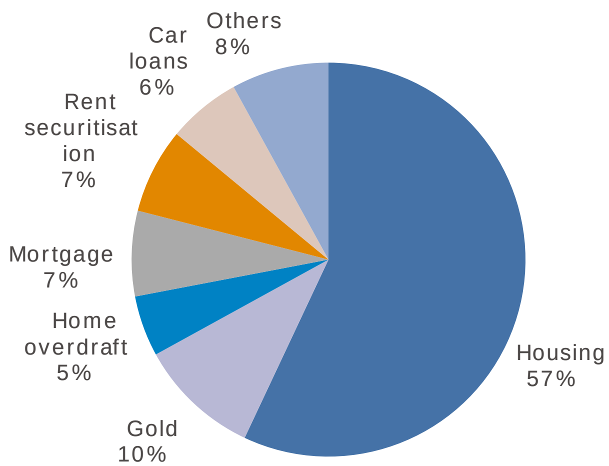


Chart 5: Retail loan break-up



Source: Company, Edelweiss research

Improved product offerings to enhance fee income

FB has been weak in generating fee income compared to the other new generation private sector banks. Going forward, its fee income is set to improve as the bank: (a) strengthens its product focus (at branch level); (b) drives cross sell opportunities in the corporate segment; (c) strengthens marketing efforts in the NRI segment (which offers wealth and forex opportunities besides liability) by posting NRI relationship managers/officers across 50 branches in the state, and marketing officers in several countries in the Middle-East; and (d) enters in priority banking. The bank has also identified treasury (where it plans to improve its product offerings) and third party distribution as areas where it needs to intensify efforts.

Chart 6: Fees & other income

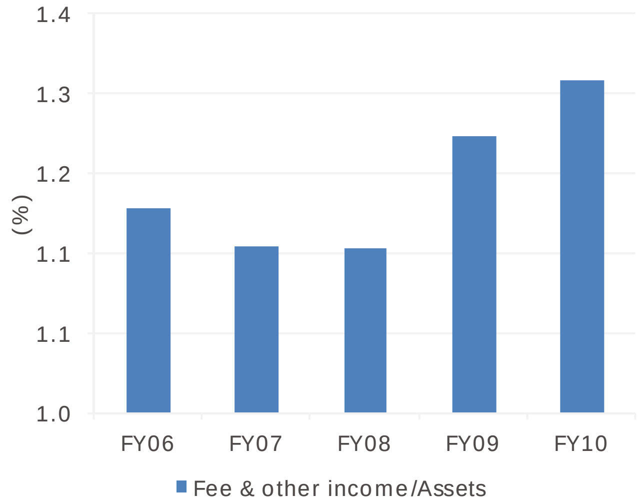
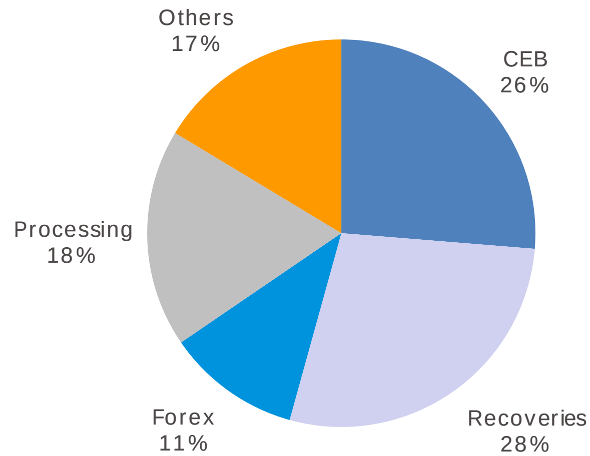


Chart 7: Other income break-up



Source: Company, Edelweiss research

- **Key strategic initiatives underway to set stage for long-term growth**

Key initiatives of the management so far are:

- **Established new verticals**

  The entire organization has been restructured with the aim of streamlining processes, realizing marketing and operational synergies, increasing product focus and accelerating decision-making. From CY10, the organization has been divided into 2 groups (comprising 3 verticals each) headed by an ED. While large corporate, treasury and NRI businesses are headed by ED P.C. John, ED PR Kalyanaraman will lead retail, SME and recovery; support functions are headed by Chief General Managers (CGM). **The idea of restructuring is to ensure that branch managers should take care of the liability side and documentation, relationship manager should focus on sales effort, and product (definition)/underwriting can be centrally controlled/monitored**. These efforts will inculcate specialization across verticals/levels and strengthen central control.

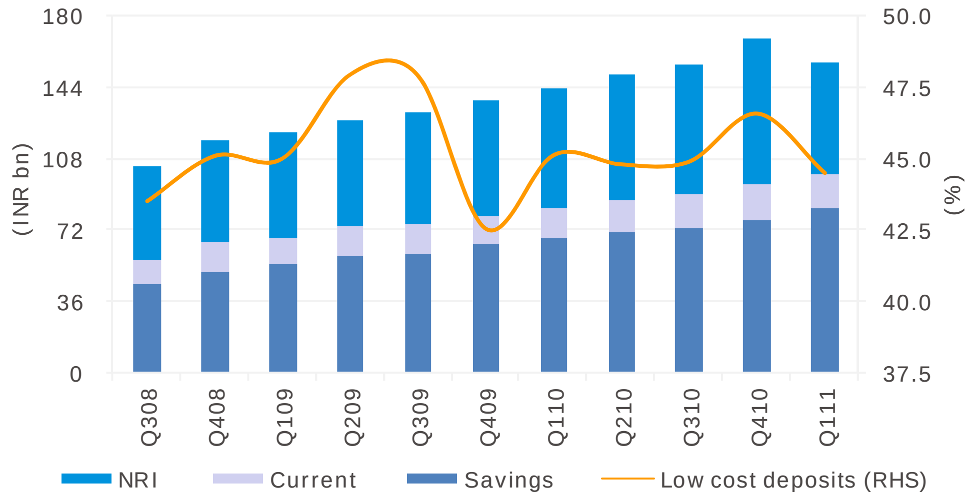
- **Branch expansion strategy: Focus on increasing presence in SME clusters**

  Being an SME bank, branch banking is at the heart of FB's overall strategy. The objective of branch expansion will be to maintain dominance in Kerala, while outside the state it intends to increase presence in clusters where it is already present.

- **Strengthening liability franchise**

  FB enjoys a strong liability franchise with low cost CASA deposits standing close to 28% and growing at an average 20% over FY10-Q1FY11. Besides CASA, the bank also benefits from low cost NRI deposits that contribute ~19% to its deposit base. To drive retail liability led asset growth, management intends to: (a) improve CASA accretion through concerted effort at the branch level—a likely outcome of restructuring exercise; (b) strengthened NRI marketing efforts to push NRI deposits. Also, NRI deposits are interest rates sensitive; rising interest rates will be a natural fillip to NRI deposits.

Chart 8: Low cost deposits



Source: Company, Edelweiss research

- **Capturing business opportunities outside Kerala**
  Going forward, the bank intends to aggressively capture opportunities outside Kerala. Currently, the state contributes 42% to advances and 49% to deposits. However, 60% of the branches are located in Kerala, while it controls ~10% of branch network in the region (touching saturation point). Going forward, the strategy is to primarily grow outside Kerala in metros/urban areas; while further branch additions within Kerala and Tamil Nadu will be in rural, urban and high CASA potential areas.

Chart 9: Kerala exposure

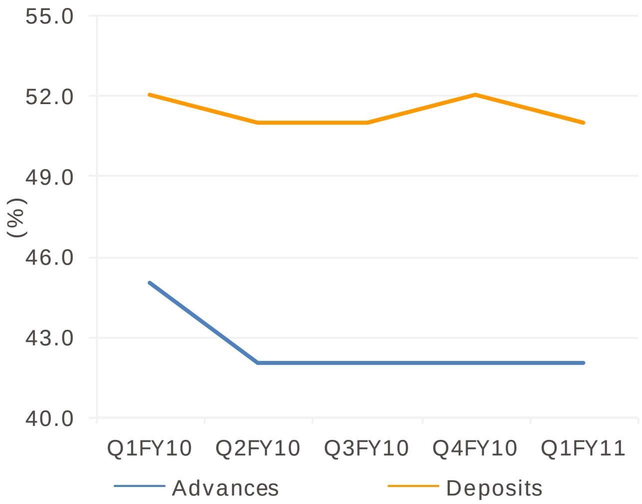
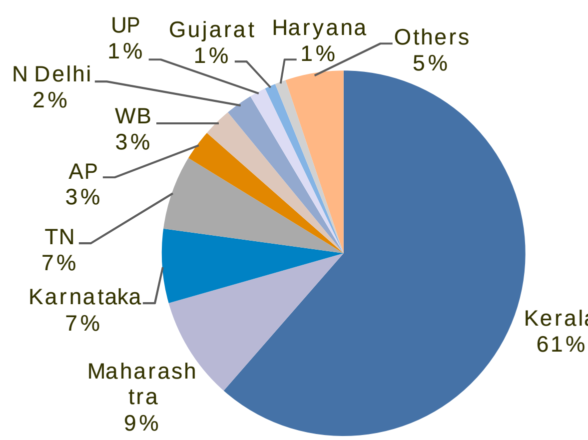


Chart 10: Branches: Geographic spread



Source: Company, Edelweiss research

- Impact on financials:

RoAs / RoE trajectory

Though FB has faced asset quality headwinds, on the positive side, high NIMs (even after adjusting for excess capital, the bank has maintained NIMs higher than regional peers) enable the bank to absorb higher credit costs. With the pricing power it enjoys in the SME segment, we expect FB to maintain NIMs at the current level going forward. While the bank has one of the lowest cost-income ratios in the industry, the near term trigger for profitability will be decline in the credit costs to 14bps by FY12, driving RoAs to 1.4%.

Currently, the bank holds INR 22 bn of excess capital (tier I stands at 16.56%), resulting in poor leverage of 9x; as the bank grows its RWAs over FY11-12, the improved leverage (of the order of 11x) will push RoEs to 15% by FY12E.

Chart 11: NIMs higher than peers

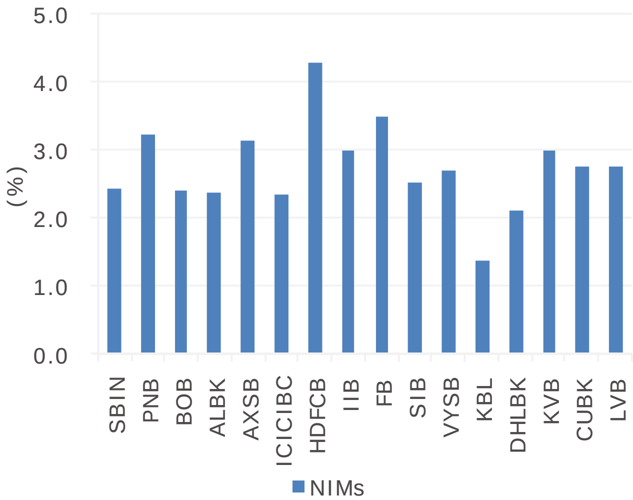
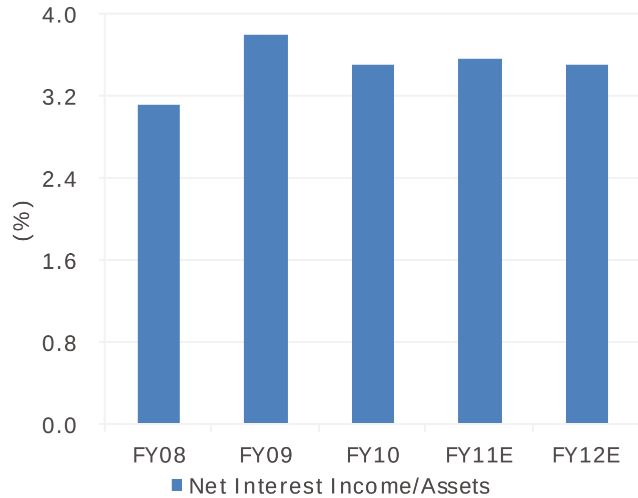


Chart 12: NIMs to remain stable at current level



Source: Company, Edelweiss

Chart 13: Cost-income ratio one of the lowest

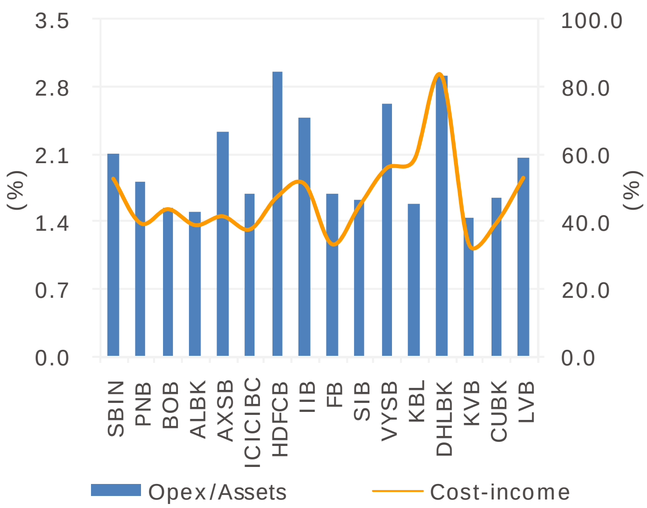
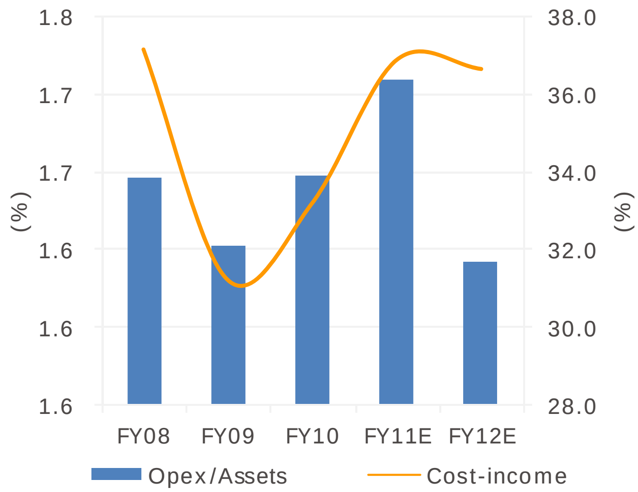
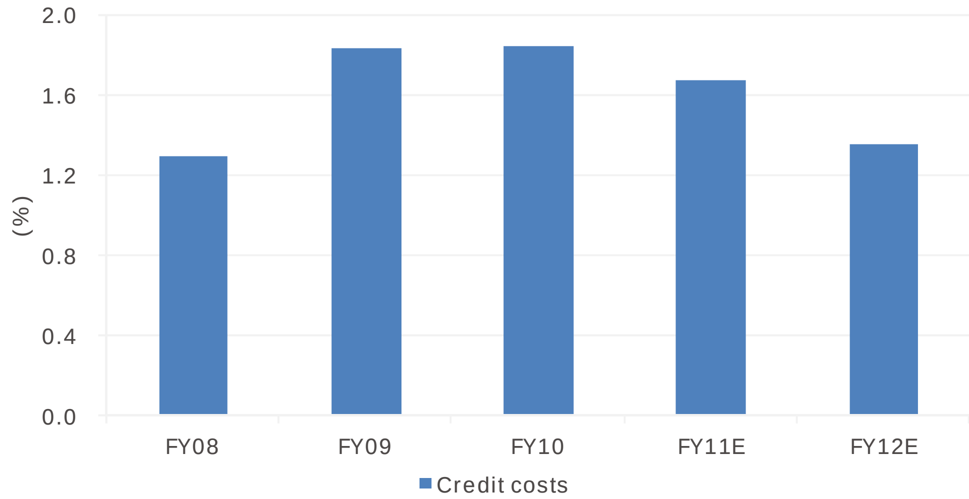


Chart 14: Cost-income ratio to hover around 35% FY11-12



Source: Company, Edelweiss

Chart 15: Credit costs to come off by FY12



Source: Company, Edelweiss

Chart 16: RoAs higher than peers

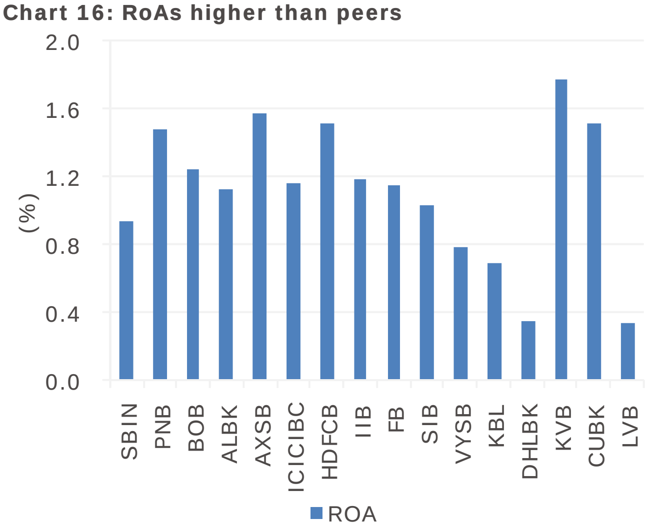
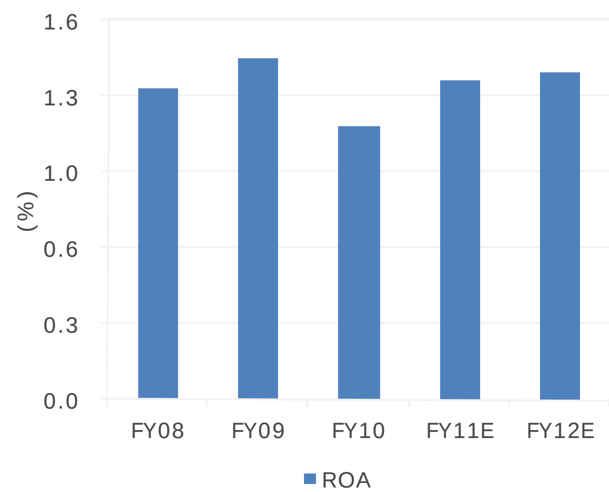


Chart 17: RoAs to touch 1.3% over FY11-12E



Source: Company, Edelweiss

Chart 18: RoEs lower because of lower leverage

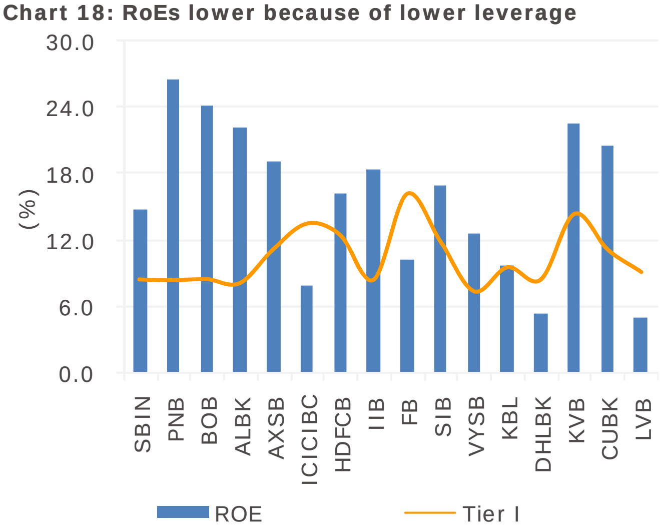
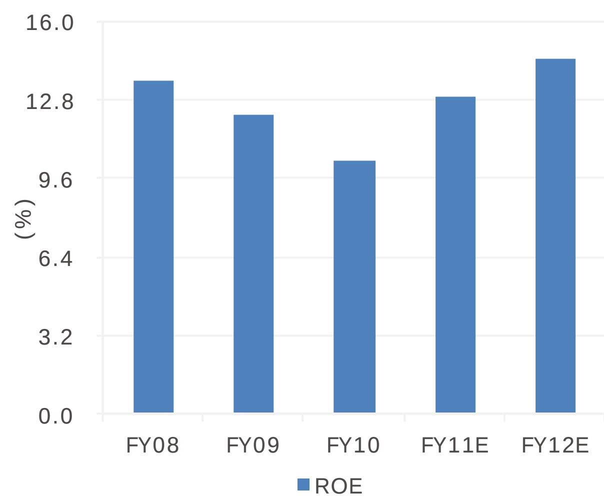


Chart 19: RoEs to rise to 15% by FY12E



Source: Company, Edelweiss

Table 1: Productivity ratios

	Business per employee	Business per branch	PAT per employee	PAT per branch	Cost per employee	Cost per branch	Employee cost per employee	Employee per branch	CASA	ROA (%)		ROE (%)		P/Adj book	
									FY10	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
PSB															
SBIN	72	1,159	0.5	7.3	1.0	16.2	0.6	16.2	47.3	1.1	1.2	17.8	18.0	2.4	1.8
PNB	81	930	0.7	8.3	0.9	10.1	0.6	11.5	40.8	1.4	1.6	25.0	26.6	2.2	1.7
BOB	111	1,394	0.8	10.2	1.0	12.7	0.6	12.6	29.6	1.1	1.2	22.6	24.6	2.3	1.8
UNBK	124	1,046	0.9	7.4	1.1	9.0	0.6	8.4	31.7	1.1	1.2	24.4	24.7	2.0	1.6
ALBK	87	789	0.6	5.3	0.8	7.1	0.5	9.1	34.5	1.1	1.2	22.8	23.3	1.6	1.2
PSB- avg	**82**	**1,098**	**0.6**	**7.7**	**1.0**	**13.0**	**0.6**	**13.4**	**36.8**	**1.2**	**1.3**	**22.5**	**23.4**	**2.1**	**1.6**
Private															
AXSB	123	2,875	1.2	27.9	1.8	41.1	0.6	23.4	46.7	1.7	1.7	19.0	20.7	3.3	2.8
ICICIBC	111	2,459	1.2	25.6	1.7	37.2	0.6	22.2	41.7	1.5	1.6	9.9	11.5	2.1	1.9
HDFCB	56	1,868	0.6	18.7	1.1	36.6	0.4	33.2	52.0	1.7	1.8	17.0	19.3	4.5	3.9
Pvt- avg	**87**	**2,322**	**0.9**	**23.4**	**1.4**	**37.8**	**0.5**	**26.7**	**46.8**	**1.6**	**1.7**	**15.3**	**17.2**	**3.3**	**2.8**
Old private															
FB	**82**	**951**	**0.6**	**6.9**	**0.9**	**10.1**	**0.5**	**11.6**	**26.2**	**1.3**	**1.4**	**12.9**	**14.5**	**1.5**	**1.3**
SIB	83	698	0.5	4.2	0.8	6.6	0.5	8.4	23.1	1.0	1.0	18.0	18.6	1.9	1.6
VYSB	73	925	0.4	5.0	1.3	16.8	0.7	12.7	32.6	0.9	0.9	13.3	15.1	2.0	1.8
KBL	76	816	0.3	3.5	0.8	8.1	0.4	10.7	23.3	0.6	0.9	8.6	15.7	1.3	1.2
Old pvt- average	**79**	**851**	**0.5**	**5.1**	**0.9**	**10.2**	**0.5**	**10.8**	**25.8**	**1.0**	**1.1**	**13.8**	**16.0**	**1.7**	**1.5**

Source: Company, Edelweiss research

- ### Outlook and valuations: Attractive; maintain **'BUY'**

FB enjoys an attractive franchise characterized by: (a) high return ratios and productivity compared to peers; and (b) strong liability franchise reflected in high proportion of low cost deposits. The bank is currently undertaking a restructuring exercise putting people and processes in place to improve employee productivity and achieve higher growth while maintaining high credit standards. Under leadership of the new MD & CEO Mr. Shyam Srinivasan, while the bank may consolidate over 6-9 months as it completes the restructuring measures, we expect it to embark on high growth trajectory over FY12. Near term trigger for the stock will be decline in slippages and consequent reduction in credit cost which act as a buffer for the bank to undertake the restructuring exercise without disturbing higher RoAs. With credit growth at 24% and margins at 3.5% (calculated) over FY10-12E, we expect earnings CAGR of 31%, with RoE improving to ~15% by FY12E from 10.3% currently. Despite the outperformance of 1.4% (over bankex) in the past three months, the stock is trading at attractive valuations of 1.3x FY12E book (discount to peers) and 9.4x earnings. We believe as benefits of restructuring gathers pace over the next 9-12 months, the stock will re-rate to 1.7/1.8x book. We maintain **'BUY'** recommendation on the stock and rate it **'Sector Outperformer'** on relative return basis.

Company Description

Federal Bank is a Kerala-based private sector bank. It has an asset base of ~INR 430 bn as on Q1FY11 and a market cap of INR 72 bn, branch network of over 720 (60% in Kerala), and over 760 ATMs. SME and retail lending are the bank's focus areas and constitute 35% and 30%, respectively, of its loan book. The bank's merger with Ganesh Bank has added 32 branches to its existing network, increasing its foothold in western India.

Bank also has a joint venture agreement with IDBI Ltd & Fortis Insurance International N V for a Life Insurance Company under the name of IDBI Federal Life Insurance Company Ltd. During the year 2007-08, FBL has opened its Representative office at Abu Dhabi, Capital of U.A.E. for the gateway of the bank to the whole of Middle East.

Investment Theme

SME and retail loans, which constitute a bulk of the bank's loan book, are likely to continue to lead its growth in future. The loan book is expected to grow at 25% (CAGR) over the next two years through network expansion and increased penetration. NRI deposits contribute 16% of overall deposit base which provides sticky source of inexpensive funds helping the bank to maintain above 3% margins. The bank is adequately capitalised with tier-1 capital above 15%, one of the highest in the industry.

Key Risks

The bank's high dependence on the NRI segment (20% of its deposits come from the segment) exposes it to regulatory risks.

Lower CASA comparatively in this current scenario will be a negative for the bank.

Financial Statements

Income statement (INR mn)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Interest income	25,154	33,154	36,732	41,210	51,327
Interest expenses	16,474	19,999	22,624	24,318	31,117
Net interest income	8,680	13,155	14,108	16,892	20,210
Non interest income	3,950	5,158	6,287	5,350	5,639
- Fee & forex income	1,650	2,042	2,053	1,519	1,695
- Misc. income	1,550	2,281	3,153	3,290	3,344
- Investment profits	751	836	1,081	540	600
Net revenues	12,630	18,312	20,395	22,242	25,850
Operating expense	4,689	5,715	6,769	8,198	9,467
- Employee exp	2,712	3,175	3,661	4,584	5,488
- Other opex	1,977	2,540	3,109	3,614	3,979
Preprovision profit	7,941	12,598	13,626	14,044	16,383
Provisions	2,940	4,668	5,030	4,559	4,637
- Loan loss provisions	1,921	3,465	4,131	4,508	4,497
- Investment depreciation	315	235	0	28	90
- Other provisions	704	967	899	23	50
PBT	5,002	7,930	8,596	9,485	11,746
Taxes	1,321	2,925	3,950	3,092	3,759
PAT	3,681	5,005	4,646	6,393	7,987
Reported PAT	3,681	5,005	4,646	6,393	7,987
EPS (INR)	21.5	29.3	27.2	37.4	46.7
DPS (INR)	4.0	5.0	5.0	6.0	7.0
Payout ratio (%)	18.6	17.1	18.4	16.1	15.0

Growth ratios (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
NII growth	18.5	51.5	7.3	19.7	19.6
Fees growth	18.5	23.7	0.6	(26.0)	11.6
Opex growth	15.5	21.9	18.5	21.1	15.5
PPOP growth	24.2	63.6	6.7	7.6	16.9
PPP growth	26.3	58.6	8.2	3.1	16.7
Provisions growth	27.5	58.8	7.8	(9.4)	1.7
PAT growth	25.7	36.0	(7.2)	37.6	24.9

Operating ratios (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Yield on advances	10.8	12.4	11.6	10.8	11.0
Yield on investments	7.5	6.5	6.3	6.0	6.1
Yield on assets	9.0	9.5	9.1	8.7	8.9
Net interest margins	3.1	3.8	3.5	3.6	3.5
Cost of funds	6.3	6.3	6.1	5.6	5.8
Cost of deposits	6.4	6.4	6.4	5.7	6.0
Cost of borrowings	9.7	10.2	6.8	7.2	7.5
Spread	2.7	3.2	3.0	3.1	3.0
Cost-income	37.1	31.2	33.2	36.9	36.6
Tax rate	26.4	36.9	46.0	32.6	32.0

Balance sheet **(INR mn)**

As on 31st March	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Equity capital	1,710	1,710	1,710	1,710	1,710
Reserves	37,483	41,487	45,136	50,250	56,641
Net worth	39,193	43,198	46,846	51,961	58,351
Sub bonds/pref cap	4,700	4,700	0	0	0
Deposits	259,134	321,982	360,580	450,896	556,417
Borrowings	7,920	7,489	15,468	13,089	16,153
Other liabilities	15,075	11,079	15,272	16,063	16,547
Total	**326,021**	**388,448**	**438,165**	**532,010**	**647,467**
Assets					
Loans	189,047	223,919	269,501	332,905	412,902
Investments					
Gilts	*78,091*	*82,978*	*92,783*	*112,757*	*135,993*
Others	*22,175*	*38,212*	*37,763*	*41,002*	*44,711*
Cash & equi	27,455	34,371	27,234	35,170	43,772
Fixed assets	2,265	2,747	2,839	2,659	2,449
Other assets	6,989	6,222	8,044	7,515	7,639
Total	**326,021**	**388,448**	**438,165**	**532,009**	**647,467**
Balance sheet ratios (%)					
Credit growth	26.2	19.8	19.9	23.5	24.0
Deposit growth	20.1	24.3	12.0	25.0	23.4
EA growth	30.7	19.8	12.6	22.1	22.1
SLR ratio	29.2	25.2	24.7	24.3	23.8
C-D ratio	74.2	71.5	76.9	76.0	76.3
Low-cost deposits	25.1	24.5	26.2	26.2	26.2
Gross NPA ratio	2.4	2.6	3.0	3.4	3.0
Net NPA ratio	0.2	0.3	0.5	0.7	0.7
Provision coverage	90.8	88.4	84.3	79.5	76.4
Incremental slippage	1.7	3.0	3.3	4.0	2.7
Net NPA / Equity	1.1	1.6	2.7	4.5	5.1
Capital adequacy	22.5	20.1	18.3	16.2	14.1
- Tier 1	19.1	17.5	16.2	14.7	12.9
Book value	229	253	274	304	341

Ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
ROA decomposition (%)					
Net interest income/Assets	3.1	3.8	3.5	3.6	3.5
Fees/Assets	1.1	1.2	1.3	1.0	0.9
Investment profits/Assets	0.3	0.2	0.3	0.1	0.1
Net revenues/Assets	4.5	5.3	5.1	4.7	4.5
Operating expense/Assets	(1.7)	(1.6)	(1.7)	(1.7)	(1.6)
Provisions/Assets	(1.1)	(1.3)	(1.2)	(1.0)	(0.8)
Taxes/Assets	(0.5)	(0.8)	(1.0)	(0.7)	(0.6)
Total costs/Assets	(3.2)	(3.8)	(3.9)	(3.3)	(3.1)
ROA	1.3	1.4	1.2	1.3	1.4
Equity/Assets	9.7	11.8	11.2	10.4	9.5
ROAE	13.6	12.1	10.3	12.9	14.5

Valuation metrics

Year to March	FY08	FY09	FY10	FY11E	FY12E
Diluted EPS (INR)	21.5	29.3	27.2	37.4	46.7
EPS growth (%)	*(37.1)*	*36.0*	*(7.2)*	*37.6*	*24.9*
Book value per share (INR)	229.2	252.6	273.9	303.8	341.2
Adjusted book value/share (INR)	227.4	249.8	268.6	294.1	329.1
Diluted P/E (x)	20.3	15.0	16.1	11.7	9.4
Price/ BV (x)	1.9	1.7	1.6	1.4	1.3
Price/ ABV (x)	1.9	1.8	1.6	1.5	1.3
Dividend yield (%)	*0.9*	*1.1*	*1.1*	*1.4*	*1.6*
Price to income (x)	14.5	10.9	9.0	8.9	8.3
Price to PPOP (x)	10.4	6.4	6.0	5.5	4.7
Current Market Price	438	438	438	438	438

RATING & INTERPRETATION

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SO	H	Axis Bank	BUY	SO	M
Bank of Baroda	BUY	SO	L	Federal Bank	BUY	SO	M
HDFC	HOLD	SU	L	HDFC Bank	HOLD	SP	L
ICICI Bank	BUY	SO	L	Indian Overseas Bank	HOLD	SU	H
Infrastructure Development Finance Co Ltd	HOLD	SU	M	ING Vysya	BUY	SO	H
Kotak Mahindra Bank	BUY	SP	L	LIC Housing Finance	BUY	SP	M
Manappuram General Finance	BUY	SO	M	Oriental Bank Of Commerce	BUY	SP	H
Power Finance Corp	BUY	SO	L	Punjab National Bank	BUY	SO	L
Reliance Capital	HOLD	SP	M	Rural Electrification Corporation	BUY	SO	L
Shriram City Union Finance	BUY	SP	H	South Indian Bank	BUY	SO	H
State Bank of India	BUY	SP	L	Syndicate Bank	BUY	SP	H
Union Bank Of India	BUY	SO	L	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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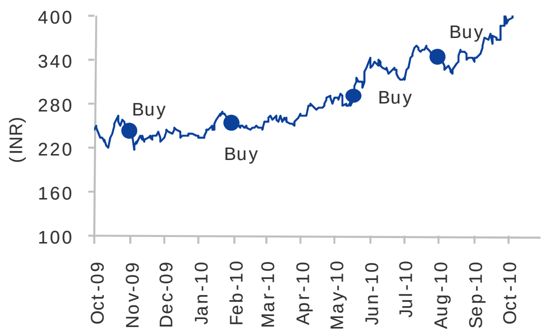
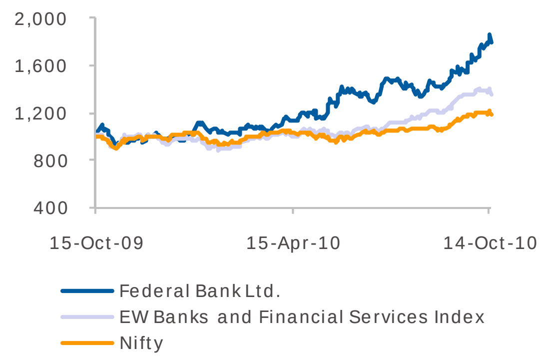
Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bank of Baroda, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, Indian Overseas Bank, Kotak Mahindra Bank, LIC Housing Finance, Manappuram General Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, State Bank of India, Shriram City Union Finance, South Indian Bank, Syndicate Bank, Union Bank Of India, ING Vysya, Yes Bank

Federal Bank



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 3 stocks under review	116	45	12	176

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	110	53	13

Recent Research

Date	Company	Title	Price (INR)	Recos
18-Oct-10	**HDFC**	Growth momentum intact; spreads sustained *Result Update*	724	Hold
14-Oct-10	**LIC Housing Finance**	Better than expected disbursement growth and margins; *Result Update*	1,459	Buy

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