

C.M.P:
Rs.274.50

Target Price:
Rs.315.00

April 06, 2010

1 Year Comparative Graph



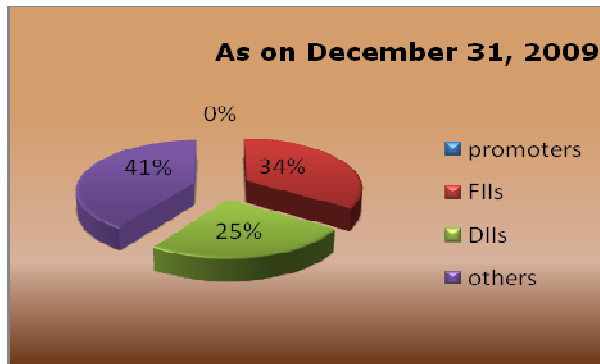
SYNOPSIS

- Federal Bank has played a pioneer role in developing and deploying new technology assisted customer. Friendly products and services. It is the first among the traditional banks in the country to introduce Internet Banking Service through FedNet.
- The Bank opened 26 branches and 37 ATMs during the quarter.
- CARE has reaffirmed AA rating to the Lower Tier II bonds of Federal Bank (FBL).
- Federal Bank has launched a contact centre for providing better customer service. It services of the contact centre, will be available on a 24x7 basis and is equipped to respond to all customer queries
- NII and Net profit of the bank are expected to grow at CAGR of 18% & 15% over FY08 to FY11E.

Stock Data

Sector	Banking
Face Value (Rs.)	Rs.10.00
52 wk. High/Low (Rs.)	288.00/148.00
Volume (2 wk. Avg.)	87000
BSE Code	500469
Market Cap(Rs.in mn)	46947.73

Share Holding Pattern



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Financials (Rs.in mn)	FY09	FY10E	FY11E
Net Income	33153.8	37214.0	41679.7
Operating Profit	12597.8	12600.0	13951.4
PAT	5004.9	4863.6	557.4
EPS	29.26	28.44	32.61
P/E	9.38	9.36	8.71

Peer Group Comparison

Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Federal Bank	274.5	46947.73	29.21	10.16	1.09	50.00
HDFC Bank	1935.90	881338.0	52.77	32.13	6.00	100.00
Yes Bank	265.85	79900.8	10.23	19.13	4.91	0.00
Axis Bank	1173.50	476889.9	50.57	20.46	4.65	100.00

Investment Highlights

✚ Q3 FY10 Results Update

The Federal Bank registered a decline of 45.93% in the net profit for the quarter ended Dec. 31, 2009. During the quarter, the company reported profit of Rs 1,102.50 million as against Rs 2,038.90 million in same quarter last year. Interest earned for the company was at Rs 9446.40 million, a rise of 7.78% over the prior year period. Total Income is increased to Rs.10611.20 million with a 1.91% growth as compared to prior period. Interest expended for the quarter was at Rs 5,635.30 million, a rise of 14.58% over the prior year period. The EPS for the quarter is stood at Rs.6.45.

Quarterly Results - standalone (Rs in mn)			
As At	Dec-09	Dec-08	%change
Interest Income	9446.40	8764.20	7.78
Net Profit	1102.50	2038.90	(45.93)
Basic EPS	6.45	11.92	(45.93)

Performance Highlights

- Deposits increased by 26.89 % from Rs. 27258.33 Cr to Rs. 34587.27 Cr
 - Advances increased by 20.77 % from Rs. 21552.69 Cr to Rs. 26029.60 Cr
 - Investments increased by 28.91 % from Rs. 9713.46 Cr to Rs. 12521.48 Cr
 - Net NPA at 0.56 %
 - Capital Adequacy Ratio at 17.76
 - Net Interest Margin for nine months (NIM) at 3.69 %
 - Return on Average Assets (annualized) at 1.17 %
 - Earnings Per Share (annualized) at Rs. 27.11
 - Book Value per share at Rs. 273.26
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- **Growth in business**

Total business of the Bank reached Rs. 60617 Crore, showing an increase of 24.19 % from the corresponding period of the previous fiscal. Total deposits increased by 26.89 % to Rs. 34587 Crores by end of December 2009. Net Advances went up by 20.77 % to Rs. 26030 Cr as on 31st December 2009 from Rs. 21553 Cr as on 31st December 2008. The growth was driven by Corporate, Retail and SME advances. The retail advances of the Bank grew by 19.12 % on y-o-y basis and reached Rs. 8220 Cr forming 30 % of the total advances. The advances to priority sector reached Rs. 10647 Cr as on 31st December 2009 from Rs. 9514 Cr as on 31st December 2008 thereby recording a y-o-y growth of 11.91 %. Lending to Agriculture sector was at Rs. 2638 Cr.
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- **Net worth & capital adequacy**

The Net Worth of the Bank increased to Rs. 4674 Crores as on 31.12.2009 from Rs. 4263 Crores as on 31.12.2008. The Capital Adequacy (CRAR) of the Bank, computed as per Basel 1 guidelines, stands at 17.76 %, against the regulatory minimum of 9 %. The CRAR computed as per Basel 2 norms is 18.50 %. The Tier-1 (core CRAR) capital works out to 15.69 %. (17.05 % under Basel 2)

- **Asset quality**

The Bank had a Gross NPA of 2.97 % and Net NPA of 0.56 % as on December 31, 2009, as against 2.83 % and 0.33 % respectively as at the end of December 2008. The total provisions held against non-performing advances, expressed as a percentage of gross NPAs amounted to 80.69 % at the end of the third quarter of FY 2009-10. During the third quarter of the current fiscal, assets from 19 accounts worth Rs. 6.51 Crore was restructured.

- **ICRA Rating**

CARE has reaffirmed AA rating to the Lower Tier II bonds of Federal Bank (FBL). Instruments with this rating are considered to offer high safety for timely servicing of debt obligations. Such instruments carry very low credit risk.

- **Bank Net working**

The total number of branches and ATMs had increased to 669 and 707 respectively, by the end of the third quarter of the current fiscal. The Bank opened 26 branches and 37 ATMs during the quarter. The business per employee and profit per employee as on December 31, 2009 were at Rs. 794 Lacs and Rs. 6.10 Lacs respectively as compared to Rs. 669 Lacs and Rs. 7.11 Lacs respectively as on December 31, 2008. The Cost to Income ratio increased to 34.85 % as on December 2009 from 30.81 % in December 2008

Company Profile

Federal Bank is the leading player in the category - traditional banks, the term tradition denoting that a set of values are followed for quite a few years. The bank envisions all-round prosperity to all its stakeholders; customers, employees, shareholders and associates. Excellence is practiced and propagated, in all spheres of activities. Strategic alliances and diversification measures are adopted, making sure that the ultimate aim is achieved, to be a bank of true world class standards.

The Federal Bank Limited (the erstwhile Travancore Federal Bank Limited) was incorporated with an authorized capital of rupees five thousand at Nedumpuram, a place near Tiruvalla in Central Travancore on 28/4/1931 under the Travancore

Company's Act. It started business of auction -chitty and other banking transactions connected with agriculture and industry. The bank though successful in the earlier periods, suffered set backs and was on the verge of liquidation.

Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	FY08	FY09	FY10E	FY11E
Description	12m	12m	12m	12m
Net Income	25154.40	33153.80	37214.08	41679.77
Other income	3949.90	5157.70	5261.18	5682.08
Total Income	29104.30	38311.50	42475.27	47361.85
Interest Expended	-16474.30	-19999.20	-23297.54	-26174.90
Net Interest Income	12630.00	18312.30	19177.73	21186.95
Operating Expenses	-4688.80	-5714.50	-6577.71	-7235.48
Operating Profit	7941.20	12597.80	12600.02	13951.47
Provisions & Contingencies	-2939.70	-4667.70	-4232.41	-4655.65
Profit Before Tax	5001.50	7930.10	8367.61	9295.82
Tax	-1321.00	-2925.20	-3504.00	-3718.33
Net Profit	3680.50	5004.90	4863.60	5577.49
Equity capital	1710.30	1710.30	1710.30	1710.30
Reserves	37483.00	41487.40	46351.00	51928.50
Face value (Rs.)	10.00	10.00	10.00	10.00
EPS	21.52	29.26	28.44	32.61

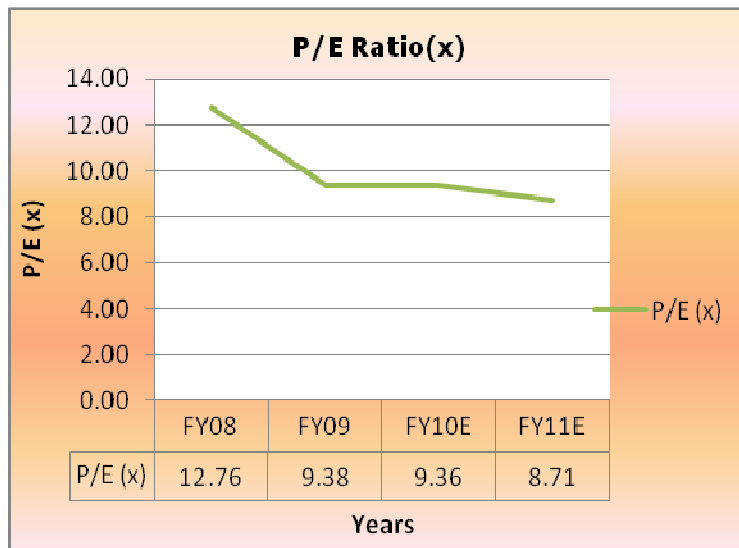
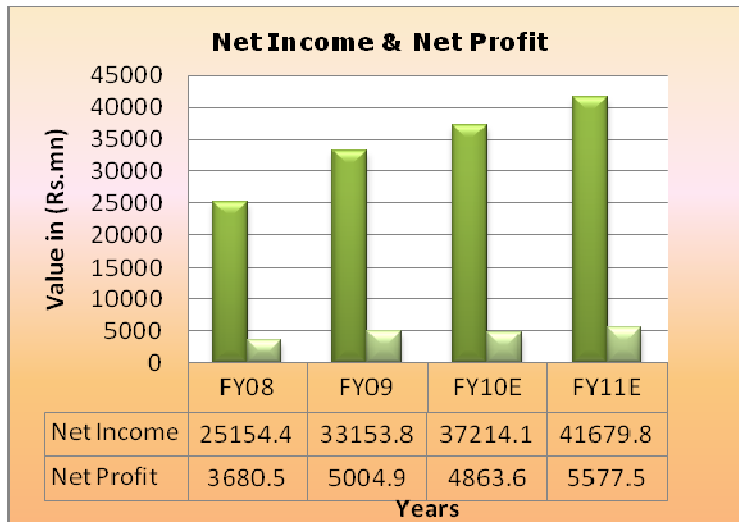
Quarterly Ended Profit & Loss Account (Standalone)

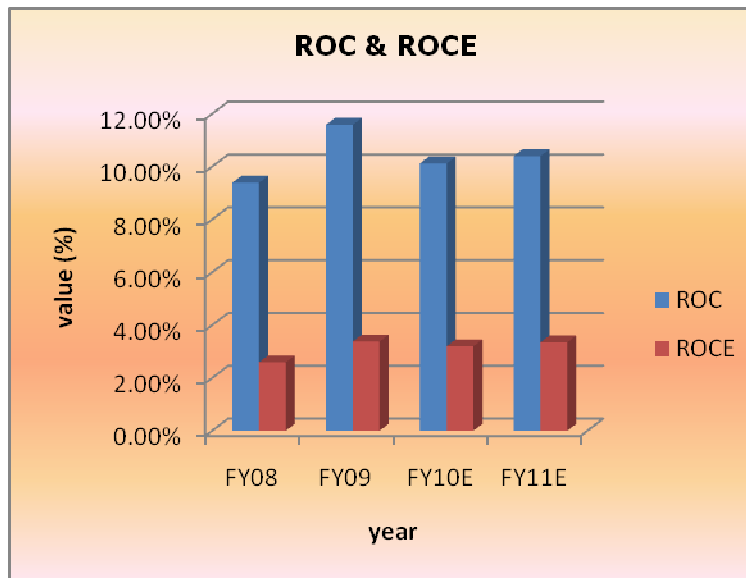
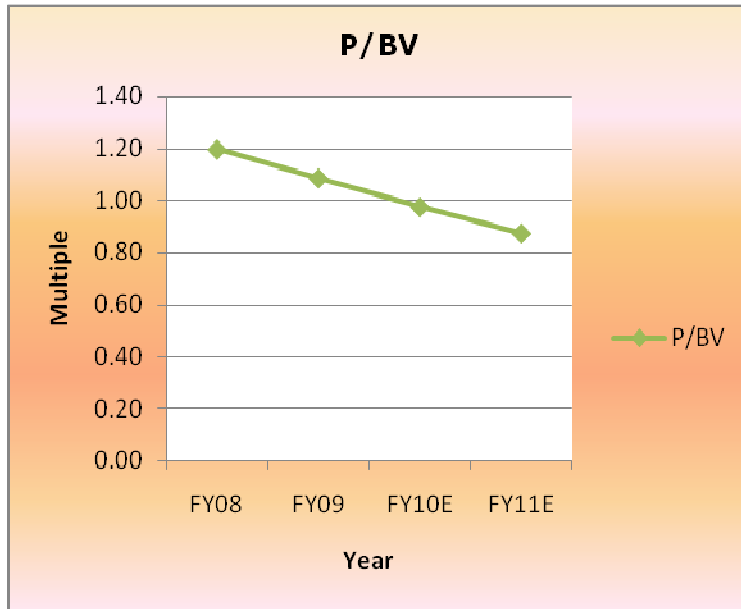
Value(Rs.in.mn)	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10E
Description	3m	3m	3m	3m
Net Income	8743.80	9010.70	9446.40	10013.18
Other income	1474.10	1364.30	1164.80	1257.98
Total Income	10217.90	10375.00	10611.20	11271.17
Interest Expended	-5843.00	-5711.20	-5635.30	-6108.04
Net Interest Income	4374.90	4663.80	4975.90	5163.13
Operating Expenses	-1592.10	-1631.40	-1660.50	-1693.71
Operating Profit	2782.80	3032.40	3315.40	3469.42
Provisions & Contingencies	-519.50	-1501.40	-1053.10	-1158.41
Profit Before Tax	2263.30	1531.00	2262.30	2311.01
Tax	-899.50	-520.30	-1159.80	-924.40
Net Profit	1363.80	1010.70	1102.50	1386.60
Equity capital	1710.30	1710.30	1710.30	1710.30
Face value (Rs.)	10.00	10.00	10.00	10.00
EPS	7.97	5.91	6.45	8.11

Key Ratio

Particulars	FY08	FY09	FY10E	FY11E
No. of Shares(In Million)	171.03	171.03	171.03	171.03
Operating Profit Margin (%)	31.57%	38.00%	33.86%	33.47%
PBT Margin (%)	19.88%	4.50%	17.00%	16.70%
PAT Margin (%)	14.63%	4.50%	17.00%	16.70%
P/E Ratio (x)	12.76	9.38	9.36	8.71
ROE (%)	9.39%	11.59%	10.12%	10.40%
ROCE (%)	2.59%	3.38%	3.20%	3.35%
Debt equity ratio	6.81	7.627	7.198	6.772
Book Value (Rs.)	229.16	252.57	281.01	313.62
P/BV	1.2	1.09	0.98	0.88

Charts:





Outlook and Conclusion

- ✚ At the current market price of Rs.274.50, the stock is trading at 9.36 x FY10E and 8.71 x FY11E respectively.
- ✚ Price to Book Value of the stock is expected to be at 0.98 x and 0.88 x respectively for FY10E and FY11E.
- ✚ Earning per share (EPS) of the company for the earnings for FY10E and FY11E is seen at Rs.28.44 and Rs.32.61 respectively.
- ✚ NII and Net Profit of the company are expected to grow at a CAGR of 18% and 15% over 2008 to 2011E respectively.
- ✚ Advances increased by 20.77 % from Rs. 21552.69 Cr to Rs. 26029.60 Cr
- ✚ Investments increased by 28.91 % from Rs. 9713.46 Cr to Rs. 12521.48 Cr
- ✚ We expect that the company will keep its growth story in the coming quarters also. We recommend 'BUY' in this particular scrip with a target price of Rs.315.00 for Medium to Long term investment.

Industry Overview

The Indian banking system is financially stable and resilient to the shocks that may arise due to higher non-performing assets (NPAs) and the global economic crisis, according to a stress test done by the Reserve Bank of India (RBI).

Significantly, the RBI has the tenth largest gold reserves in the world after spending US\$ 6.7 billion towards the purchase of 200 metric tonnes of gold from the International Monetary Fund (IMF) in November 2009. The purchase has increased the country's share of gold holdings in its foreign exchange reserves from approximately 4 per cent to about 6 per cent.

Following the financial crisis, new deposits have gravitated towards public sector banks. According to RBI's 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks: September 2009', nationalised banks, as a group, accounted for 50.5 per cent of the aggregate deposits, while State Bank of India (SBI) and its associates accounted for 23.8 per cent. The share of other scheduled commercial

banks, foreign banks and regional rural banks in aggregate deposits were 17.8 per cent, 5.6 per cent and 3.0 per cent, respectively.

With respect to gross bank credit also, nationalised banks hold the highest share of 50.5 per cent in the total bank credit, with SBI and its associates at 23.7 per cent and other scheduled commercial banks at 17.8 per cent. Foreign banks and regional rural banks had a share of 5.5 per cent and 2.5 per cent respectively in the total bank credit.

The report also found that scheduled commercial banks served 34,709 banked centres. Of these centres, 28,095 were single office centres and 64 centres had 100 or more bank offices.

The confidence of non-resident Indians (NRIs) in the Indian economy is reviving again. NRI fund inflows increased since April 2009 and touched US\$ 45.5 billion on July 2009, as per the RBI's February bulletin. Most of this has come through Foreign Currency Non-resident (FCNR) accounts and Non-resident External Rupee Accounts. India's foreign exchange reserves rose to US\$ 284.26 billion as on January 8, 2010, according to the RBI's February bulletin.

Major Developments

The State Bank of India (SBI) has posted a net profit of US\$ 1.56 billion for the nine months ended December 2009, up 14.43 per cent from US\$ 175.4 million posted in the nine months ended December 2008.

The SBI is adding 23 new branches abroad bringing its foreign-branch network number to 160 by March 2010. This will cement its leading position as the bank with the largest global presence among local peers.

Amongst the private banks, Axis Bank's net profit surged by 32 per cent to US\$ 115.4 million on 21.2 per cent rise in total income to US\$ 852.16 million in the second quarter of 2009-10, over the corresponding period last year. HDFC Bank has posted a

32 per cent rise in its net profit at US\$ 175.4 million for the quarter ended December 31, 2009 over the figure of US\$ 128.05 million for the same quarter in the previous year.

Government Initiatives

In its platinum jubilee year, the RBI, the central bank of the country, in a notification issued on June 25, 2009, said that banks should link more branches to the National Electronic Clearing Service (NECS). Ideally, all core-banking-enabled branches should be part of NECS. NECS was introduced in September 2008 for centralised processing of repetitive and bulk payment instructions. Currently, a little over 26,000 branches of 114 banks are enabled to participate in NECS.

In the Third Quarter Review of Monetary Policy for 2009-10, the RBI observed that the Indian economy showed a degree of resilience as it recorded a better-than-expected growth of 7.9 per cent during the second quarter of 2009-10. In its Third Quarter Review of Monetary Policy for 2009-10, the RBI hiked the Cash Reserve Ratio (CRR) by 75 basis points (bps) to 5.75 per cent, while keeping repo and reverse repo rates unchanged.

According to the RBI, the stance of monetary policy for the remaining period of 2009-10 will be to:

- Anchor inflation expectations and keep a vigil on inflation trends and respond swiftly through policy adjustments,
- Actively manage liquidity to ensure credit demands of productive sectors are met adequately,
- Maintain an interest rate environment consistent with financial stability and price stability.

The money supply (M3) growth on a year-on-year basis at 18.9 per cent as on October 9, 2009, remained above the indicative projection of 18.0 per cent set out in the First Quarter Review of July 2009. The main source of M3 expansion was bank credit to the government, reflecting large market borrowings of the Government.

Meanwhile, outstanding bank credit in the 15 days up to January 29 2010 rose by US\$ 4.32 billion, pointing to a revival in credit growth. This is the highest year-on-year growth recorded since August 14, 2009.

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