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Federal Bank

Getting ready for big innings

Initiating Coverage

October 18, 2011

Reco

Accumulate

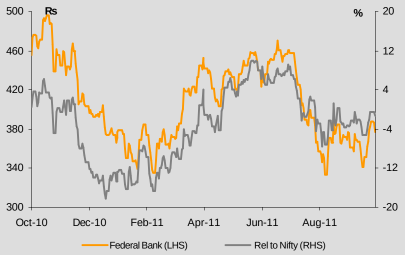
CMP	**Target Price**
Rs377	Rs425
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,038
Sensex	16,748

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(18)	(17)	(14)
Rel. to Nifty	2	(10)	(5)	4

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	FB@IN
Equity Capital (Rs mn)	1710
Face Value(Rs)	10
No of shares o/s (mn)	171
52 Week H/L	501/326
Market Cap (Rs bn/USD mn)	64/1,299
Daily Avg Volume (No of sh)	414761
Daily Avg Turnover (US$mn)	3.3

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	0.0	0.0	0.0
FII/NRI	47.0	43.1	45.9
Institutions	21.7	24.7	23.4
Private Corp	13.7	14.5	13.1
Public	17.6	17.8	17.7

Source: Capitaline

Pradeep Agrawal
pradeep.agrawal@emkayglobal.com
+91 22 6612 1340
Kashyap Jhaveri
kashyap.jhaveri@emkayglobal.com
+91 22 6612 1249
Aalok Shah
Aalok.shah@emkayglobal.com
+91 22 6612 1336

- **New management reinstates confidence in the bank through major changes in the risk management policy and various measures to drive fee income growth**
- **Centralization of the loan processing system and focus on recoveries to bring down slippage rate from 3% to 2% by FY13 and credit cost from 1.7% in FY11 to 1.2% in FY13**
- **Branch expansion in NRI/ SME regions to improve liability profile with increased opportunity for SME funding as well. Low cost deposit ratio to increase to 38% by FY13**
- **Balance sheet leverage to drive RoE from 12% in FY11 to 14% by FY13. Initiate coverage with a 'ACCUMULATE' rating and TP of Rs425 (1.1X FY13ABV)**

Reduced unseasoned book + improved risk mgmt = better asset quality

Historically, asset quality has been a weak area for the bank. Its GNPA increased from 2.5% in FY08 to 3.9% in Q1FY12, with slippage rate at ~3% and recoveries in the range of 10-29% of opening GNPA over FY08-11. We believe the GNPA's has peaked out at 3.9% in Q1FY12, and will show steady improvement over FY12/13 with GNPA falling to 2.9% by FY13. Increased recovery efforts (recovery rate improved to 44% in Q1FY12), lower proportion of unseasoned book at 24%, and separation of the loan sourcing and underwriting functions are likely to bring about the desired improvement in asset quality.

Balance sheet leverage to drive RoE

Post capital infusion in FY08, the bank's RoE came down significantly to 13.5% in FY08 from 21.3% in FY07, and since then, has been languishing in the range of 10-13%. However, as credit growth picks up driven by aggressive branch expansion plans in FY12/13 and softening of interest rate cycle in FY13/14, we expect the leverage to drive improvement in RoE's from 12% in FY11 to 14% by FY13, and further to 18% by FY15.

Expansion beyond Kerala to drive growth and improve liability profile

With 60% of the branch presence in Kerala alone, the bank was not able to grow to its true potential. However, now the bank plans to add 300 branches over FY12/13 with 75% of the new branches to be opened in Tamil Nadu, Karnataka, Punjab, Gujarat and Southern Maharashtra, which attract higher NRI and SME business. As a result, we expect the advances to grow at a CAGR of 22% over FY11-13, with low cost deposit improving further from 33% in FY11 to 38% in FY13.

Valuations reasonable; Initiate with Accumulate rating

We are enthused by the initiatives taken by the new management, which will not only help the bank to overcome its asset quality issues which has plagued the bank for long, but will also lend stability to the bank's earnings profile. At CMP, the stock trades at 1x FY13 ABV, 20% below its last two years average valuations. We believe as the initiatives take by the management bring about the desired results over the course of next two years, the valuation multiple should reach back its last two years average of 1.2x. We initiate coverage with a 'ACCUMULATE' rating and TP of Rs425.

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY10	20,395	4,646	27.2	266	1.1	10.3	13.9	1.4
FY11	22,634	5,871	34.3	287	1.2	12.0	11.0	1.3
FY12E	25,970	6,889	40.3	317	1.2	12.8	9.4	1.2
FY13E	30,678	8,624	50.4	379	1.2	14.1	7.5	1.0

Source: Company, Emkay Research

Company Background

Federal Bank is one of the oldest Kerala based mid sized bank, with balance sheet size of Rs526.5bn. The bank has a large network of 743 branches with dominance in the state of Kerala. It generates ~45% of its business from Kerala alone, which accounts for 60% of its total branch network.

The bank's loan book is diversified across Retail, SME and Corporate with focus on Retail and SME, which together constitute around 60% of the bank's total loan book. The bank also has a large NRI customer base, which helps the bank in keeping its cost of funds under check. The bank, with 19% market share in total NRI deposit in Kerala, has 23% of its total deposits in various NRI deposit accounts. This has helped the bank in maintaining a healthy deposit profile, with almost 33% of its total deposit being low cost.

Key Personnel

Mr. Shyam Srinivasan took charge as managing director and chief executive officer of the bank with effect from 23 September 2010. Srinivasan brings with him rich experience after working for many leading multinational banks in India and abroad covering Middle East and South East Asia. He has significant experience in the field of retail banking, wealth management and SME banking.

He is an alumnus of IIM-Calcutta and an engineer from Regional Engineering College, Tiruchirapally. He has completed a Leadership Development Program from the London Business School and has served on the Global Executive Forum (the top 100 executives) of Standard Chartered Bank from 2004 to 2010.

Mr. Pullattel Chacko Cyriac is the chairman of the Board of Directors, Federal Bank. He served as Managing Director of Jeevan Telecasting Corporation from 2001 to 2003. Mr. Cyriac also held several key administrative posts in the Tamil Nadu government. He has nearly 38 years of service as an IAS. He was Principal Commissioner of Commercial Taxes and Principal Secretary, Industrial Department, Tamil Nadu. He also served as the Chairman and Managing Director of Tamil Nadu Industrial Explosives Ltd.

Key shareholders

Name of the Shareholder	% shareholding
International Finance Corporation	5.0
HSBC Bank Mauritius Ltd	5.0
Life Insurance Corporation of India	4.9
L & T Capital Holding Ltd	4.7
Emirates Financial Servises PSC	4.3
Bajaj Allianz Life Insurance Company Ltd	3.4
FID Funds (Maurities) Ltd	3.3
Morgan Stanley Mauritius Company Ltd	3.2
General Insurance Corporation of India	2.2
Franklin Templeton Investment Funds	2.1
Acacia Partners LP	2.1
Deutche Bank Trust Company Americas	1.9
Equinox partners LP	1.9
Reliance Capital Trustee Company Ltd	1.9
Reliance Capital Trustee Co Ltd	1.3
Asiabridge Fund I LLC	1.2
Total	**48.2**

Source: BSE

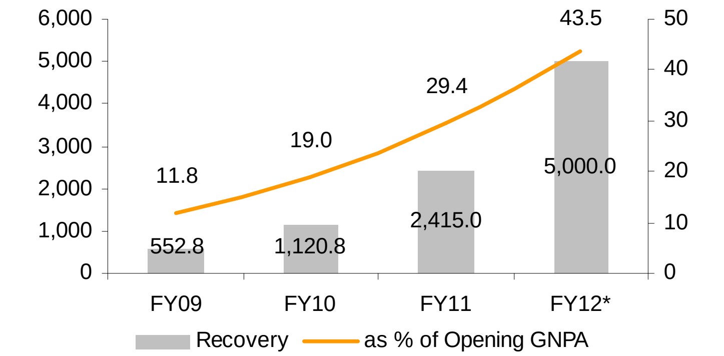
Investment argument

Improvement in asset quality to drive credit cost down

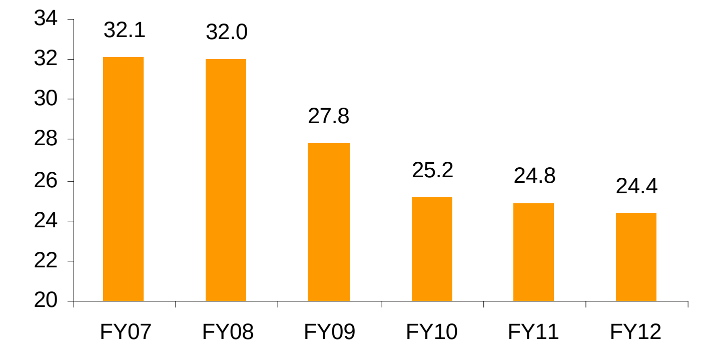
Higher recovery and reduced unseasoned book …..

The bank historically has grappled with asset quality issues led by higher slippages and lower recoveries. Its Gross NPA increased from 2.5% in FY08 to 3.9% in Q1FY12, with slippage rate at ~3% and recoveries in the range of 10-29% of opening GNPA over FY08-11. Though recoveries has improved over FY08-11, but still remained in a lower range of 10-30%. We believe the GNPA's has peaked out at 3.9% in Q1FY12, and will show steady improvement over FY12/13 with GNPA falling to 2.9% by FY13. Increased recovery efforts by the new management and lower proportion of unseasoned book at 24%, are likely to bring about the desired improvement in asset quality.

Improvement in Recovery rates



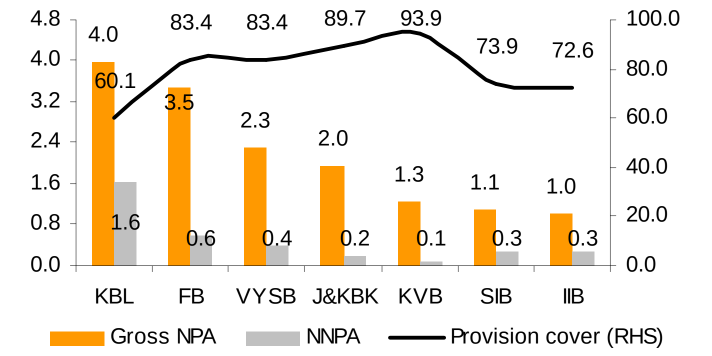
Unseasoned book (As % of total credit)



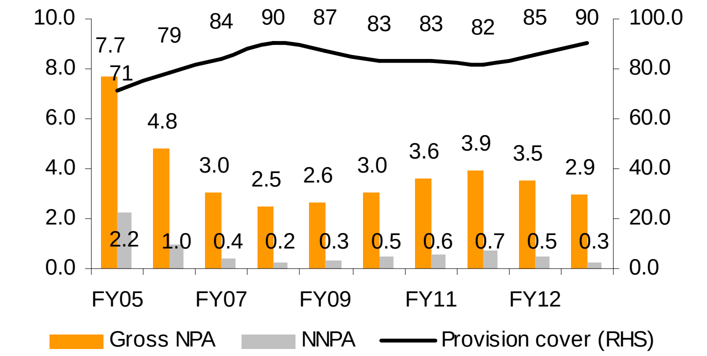
*Source: Company, Emkay Research *Annualised*

The bank strengthened its recovery mechanism by utilizing SARFESI Act more effectively and engaging recovery agents. As a result of which the recoveries has picked up significantly over the last few quarters, with recovery rate of 43.5% (Annualised) in Q1FY12 as against 19% in FY10. This is despite the fact that bank was not fully functional for some 45 days in the last quarter, due to employee related issues.

Weak asset quality as compared to peers… (%)



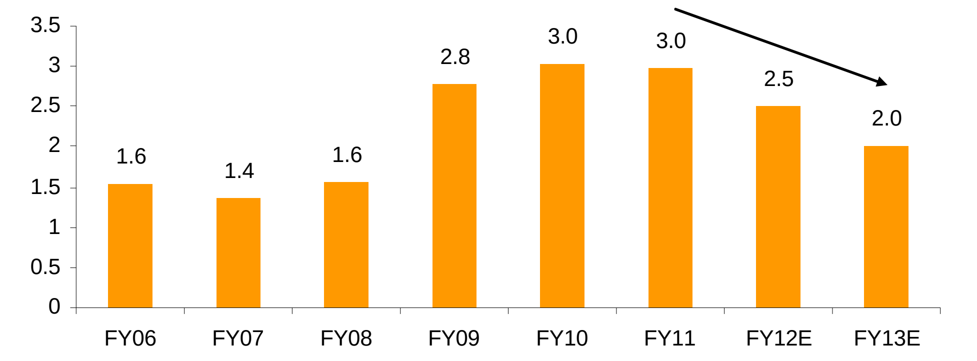
….to improve by FY12/13 (%)



Source: Company, Emkay Research

Moreover, with less than 20% credit growth over FY08-11 as against ~30% growth in FY06-08, the unseasoned book stands reduced at ~24% from 32% in FY08. We believe with large part of the book being seasoned and improved risk management systems at place, the slippage rate will moderate over FY12/13. We expect the slippage rate to come down from 3% in FY11 to 2% in FY13.

Slippage rate to trend down, going forward (as % of advances)



Source: Company, Emkay Research

Coupled with centralisation of Risk management systems…

The bank under its new chairman, Mr. Shyam Srinivasan, has strengthened its risk management systems, since his joining in September 2011. Earlier, the bank used to follow a decentralized set up under which the loans used to get sourced and appraised at the branch level only. This would have led to inadequate underwriting of some loans, as all branches do not have the expertise to underwrite loans, resulting in higher slippage rate in the last three years.

The management has now separated the two functions, with credit appraisal now being done at the regional and head office level, with only sourcing done at the branch level. Credit assessment and approval of loans between Rs1mn to Rs2.5mn is now done at the regional offices, while loans above Rs2.5mn need to be approved by the head office. We believe the above change to result in better credit appraisal and monitoring.

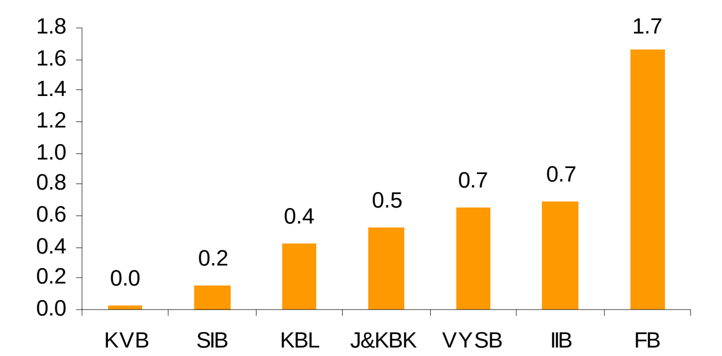
…to drive the improvement in asset quality

Drive by the above factors we expect the asset quality to improve over FY12/13, with GNPA coming down to 2.9% in FY13 from 3.9% in 1QFY12. While reduced unseasoned book at 24% will keep the slippage from the old book at lower levels, improved risk management systems will control the quality of fresh issuances. As a result, we expect the slippage rate to come down from 3% in FY11 to 2% by FY13. Moreover with increased efforts on recovery front, we expect the recovery rate to improve from 29% in FY11 to 50% in FY13. Resultantly the net slippage ratio is likely to improve from 1.1% in FY11 to 0.5% in FY12 and 0.1% in FY13.

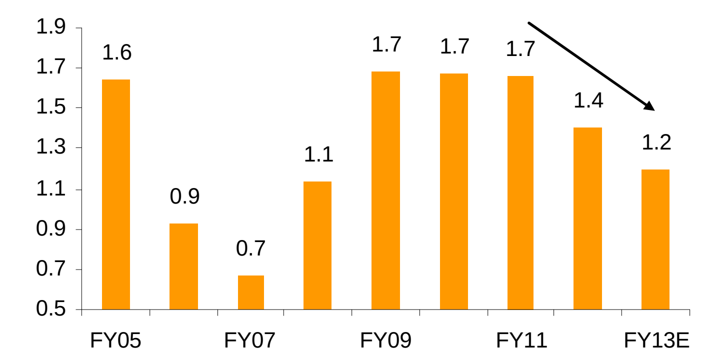
Credit cost to come down to 1.2% by FY13

Historically, Federal Bank's credit cost has been high with it further increasing to 1.7% over FY09-11 due to the financial crisis. However, with improvement in risk management systems and recovery mechanism, we expect slower accretion to NPA and improvement in recoveries. Consequently, the credit cost is expected to trend down to 1.4% in FY12 and further to 1.2% in FY13.

Highest credit cost among peers (%)



…expected to come down to 1.2% by FY13 (%)



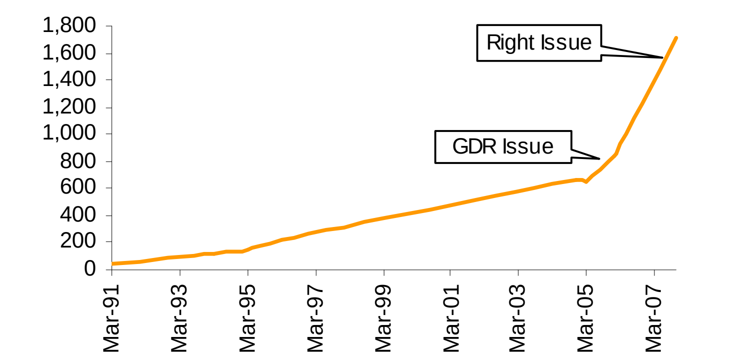
Source: Company, Emkay Research

Balance sheet leverage to drive improvement in RoE

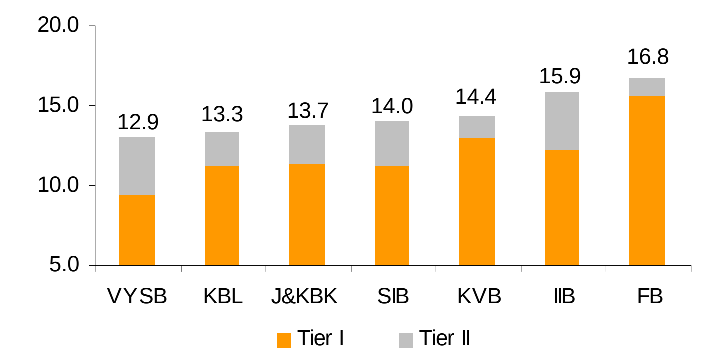
Comfortably placed on capital adequacy front

The bank's capital adequacy ratio at 16.8% is the highest amongst its peers, followed by 15.9% for Indusind bank and 14.4% for Karur Vysya bank. The bank raised Rs213.5bn of capital in FY08 through a rights issue, which boosted its CAR to 22.5% in March 2008. However, the bank was not able to utilise its capital at the required pace as the financial crisis took a toll on the credit demand in the subsequent years.

Equity capital raising over the years (Rsmn)



Highest capital adequacy amongst peers (%)

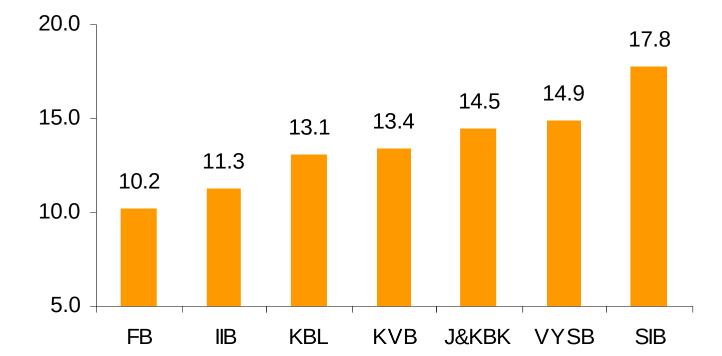


Source: Company, Emkay Research

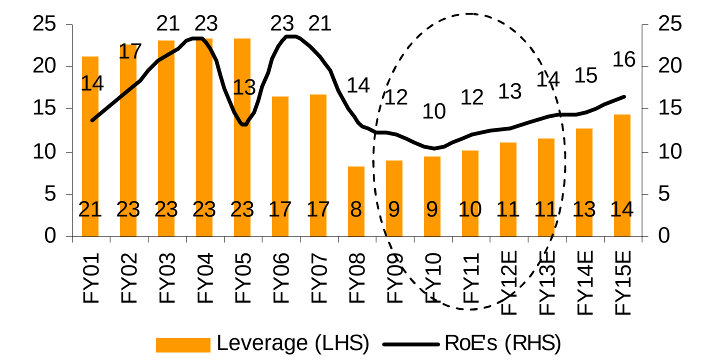
Underleveraged balance sheet drove down RoE over FY08-11

Post capital infusion in FY08, the bank's RoE came down significantly to 13.5% in FY08 from 21.3% in FY07, and since then, has been languishing in the range of 10-13%. Morerover due to subdued credit growth since FY08, the bank failed to leverage its capital base, as is evident from lower leverage of 9-10%.

Lowest leverage among peers… (x)



Low leverage(x) brought down RoE's(%)



Source: Company, Emkay Research

Leverage, key to RoE expansion; however, will be a gradual process

We expect profitable leverage of balance sheet rather than improvement in RoA to drive RoE expansion. The bank has been consistently reporting RoAs in the range of 1.2-1.4% over the last five years, and we expect it to remain stable at 1.2% in FY12/13. We do not expect the leverage to playout in the immediate near term, as credit growth is likely to remain moderate owing to:

- Deliberate strategy of management to first stabilize credit cost, and thereafter focus on credit growth (The bank guided for credit growth of 18-20% for FY12)
- Continued rise in interest rates over the last 18 months, which has led to postponement of many projects, resulting in lower credit demand

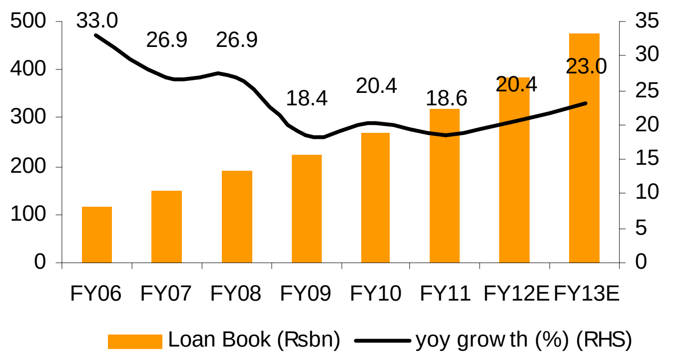
However, driven by aggressive branch expansion in FY12/13 and softening of interest rate cycle in FY13/14, we expect credit growth to gain pace post FY12, thereby resulting in improved leverage and hence better RoE's at 14% by FY13 and 18% by FY15.

Branch expansion to improve productivity along with liability profile

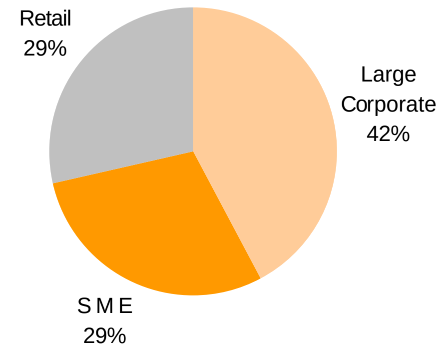
Kerala centric focus restricted growth

The operations of the bank were confined to Kerala until 1972, after which, the bank expanded operations to all metropolitan centers. However, the bank still has 60% of its branch network confined to Kerala region only, contributing 45% of its total business. Being a regional bank, the bank was not able to grow to its true potential. It also limited fee income opportunities for the bank.

Loan book grew at a CAGR of 22% over FY06-11



Loan book break up (%)

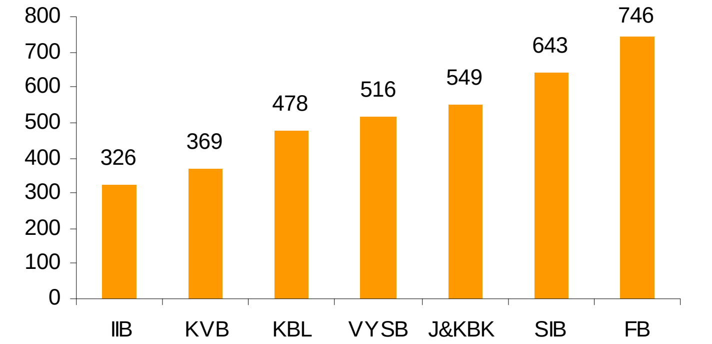


Source: Company, Emkay Research

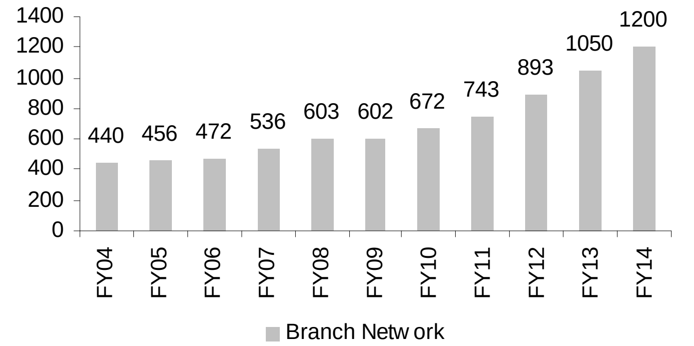
Aggressive expansion plans in select SME/ NRI regions

However, the bank aims to strengthen its presence outside Kerala, by expanding aggressively into other regions, with specific focus on SME and NRI business, which are its strong areas. The bank plans to open around 200 branches each in FY12 and FY13, most of which, would be in Tamil Nadu, Karnataka, Punjab, Gujarat and southern Maharashtra. Post this expansion plan, the branch concentration in Kerala will fall to 50% from 60% currently.

Largest branch network among peers

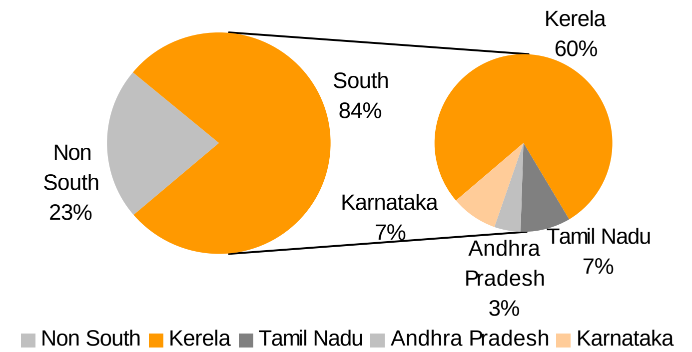


Aggressive branch expansion plans

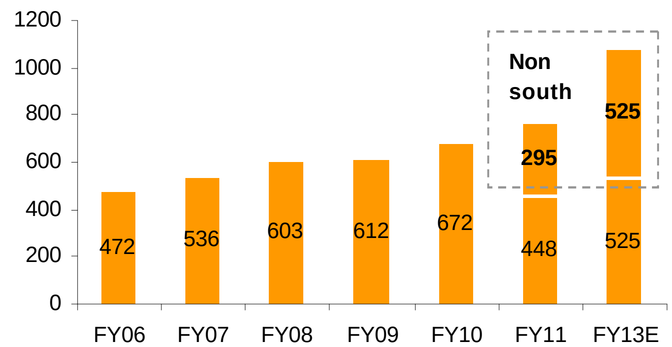


Source: Company, Emkay Research

60% of the branches are in Kerala alone.....



....Proportion to come down to 50% by FY13



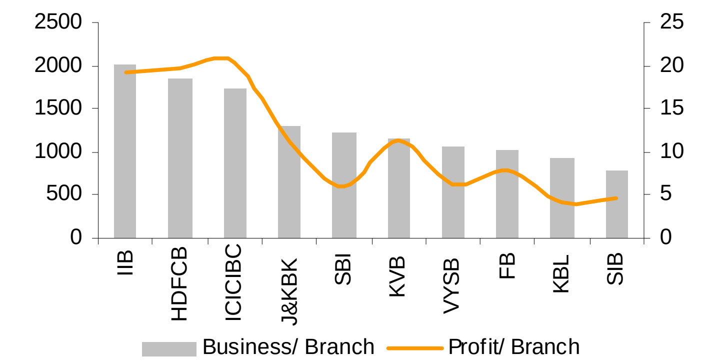
Source: Company, Emkay Research

……… to further improve branch productivity

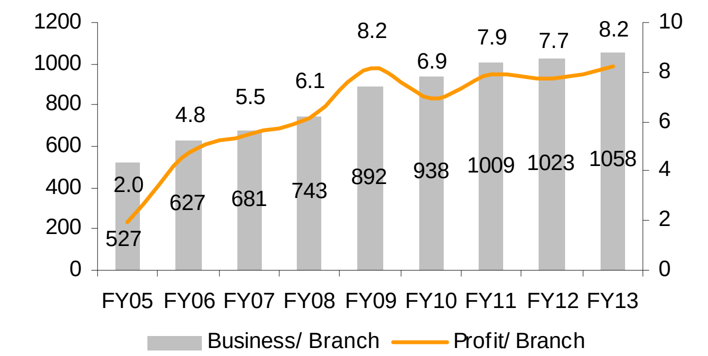
Despite having the largest branch network among private peers, the bank has been unable to fully leverage on its strengths. Though the bank's productivity has improved over the years, it is still the lowest amongst peers. The bank business/ branch is Rs1,009mn as against Rs2,018mn for IndusInd bank and Rs1,153mn for Karur Vysya bank. Low branch productivity can be attributed to lower branch productivity in the Kerala region.

The bank's business per branch in Kerala is Rs753mn, whereas business per branch in non Kerala region is significantly higher at Rs1,396mn. We believe as the bank increases its presence in the rest of the country, its productivity ratios will also improve further. We expect the business per branch to improve to Rs1,059mn in FY13 from Rs1,009mn in FY11 and profit per branch to improve to Rs8.2mn in FY13 from Rs7.9mn in FY11.

Business per branch



Branch productivity on the rise

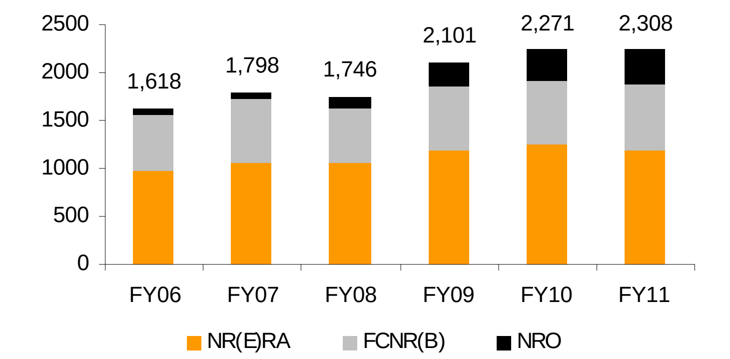


Source: Company, Emkay Research

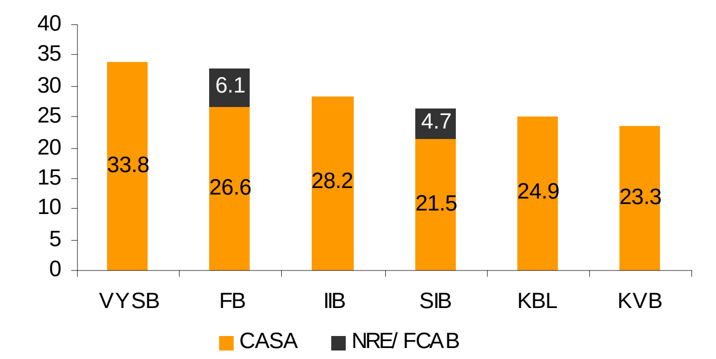
…..and also improve the liability profile

The bank's liability profile, with low cost deposit constituting 33% to the total deposit, is better than most of the peers. The bank's large NRI customer base has helped the bank in garnering low cost NRE/FCNR deposits, which has lent strength to the banks liability profile. As on June 30th 2011, low cost NRI deposits constituted ~6% of the total deposit.

All India System NRI deposit break up –Account wise (Rs bn)



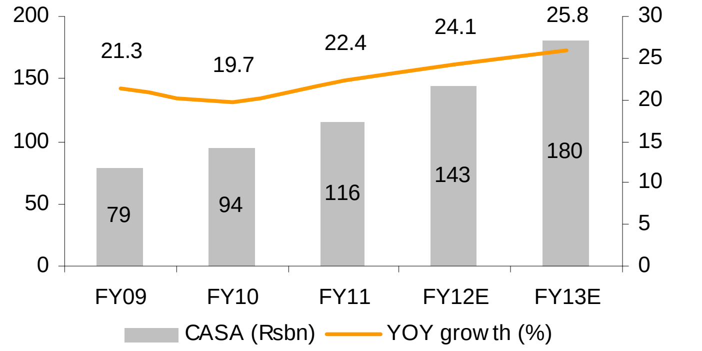
Federal bank better placed than most of peers in low cost deposit



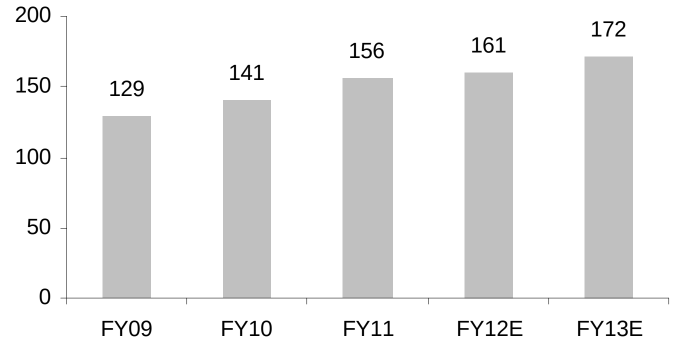
Source: Company, Emkay Research

The bank has the second largest branch network in Kerala region after State Bank of Travancore. A large network has helped the bank gain ~19% market share in NRI deposit. Expansion into other NRI/ SME regions beyond Kerala will give further fillip to its NRI/ CASA deposit base. We expect CASA/ Branch to improve further to Rs172mn/ Branch by FY13 from 156mn/ Branch in FY11. The management expects its expansion plans to help improve its low cost deposit to 38% in FY13 from 33% currently.

CASA Mix

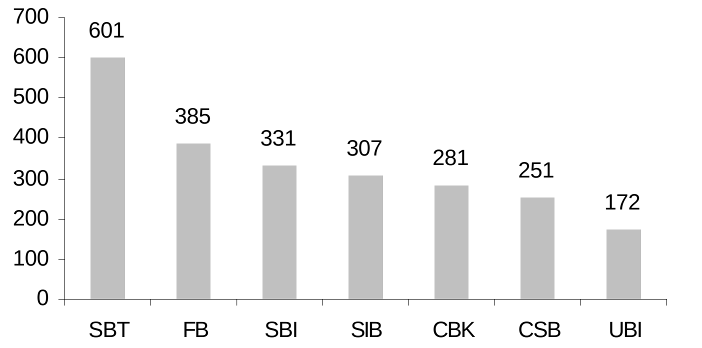


CASA/ Branch to rise further

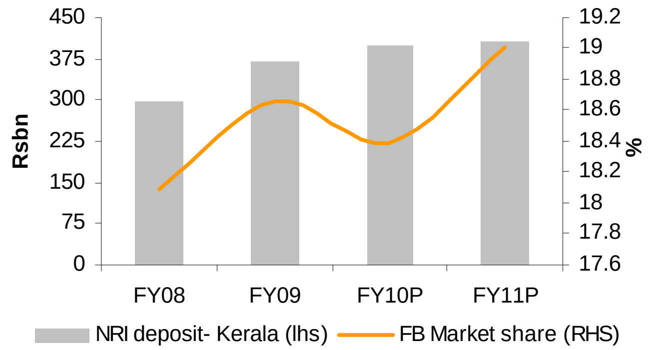


Source: Company, Emkay Research

Second largest branch network in Kerala



Federal bank holds 19% NRI deposit in the Kerala region



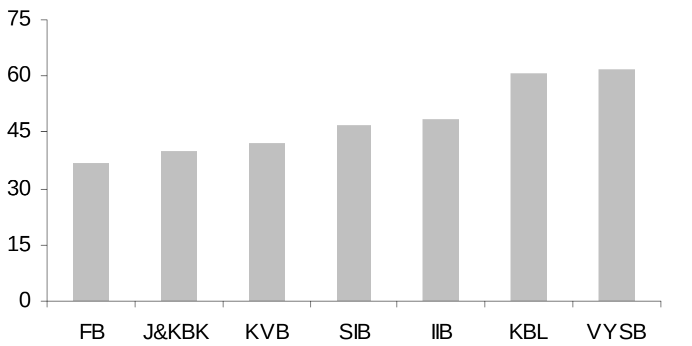
*Source: RBI, *Note: Data as on Mrach2009*

…while opex structure to remain healthy

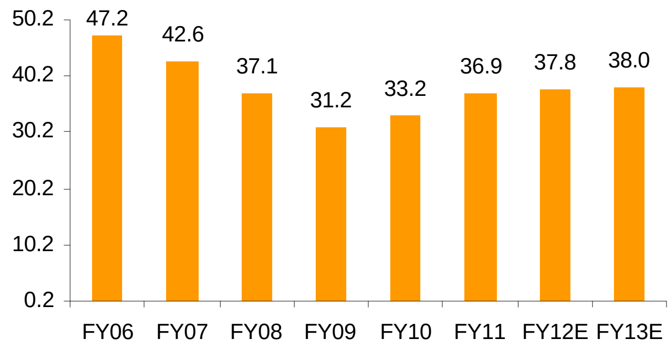
The bank has a low opex structure with its cost to income ratio at 36.9%, one of the lowest among peers. The low cost structure could be attributed to higher NIMs, on account of strong presence in high yielding SME and retail segment. Moreover, significant presence in low cost markets in Kerala and limited branch addition in the last five years helped in keeping a check on the operating expenditure.

However, with aggressive branch expansion plans, we expect the opex to increase at a CAGR of 18% over FY11-13 with an average cost/ income ratio of 38% over the period. Despite the opex ratio increasing by 105bps to ~38% over FY12/13, it will still remain lower than most of its peers.

Lowest cost/ Income ratio among peers



Cost/ Income ratio to remain healthy



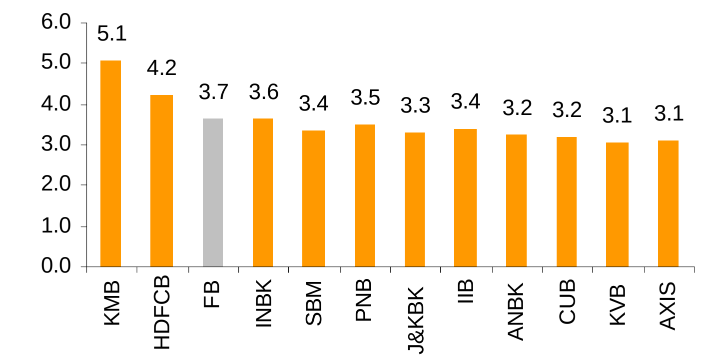
Source: Company, Emkay Research

Higher fee income and lower credit cost to make up for lower margins

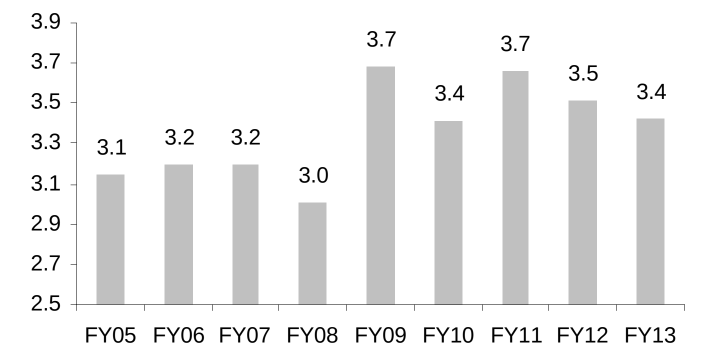
Margins to stabilize at lower levels as bank focuses on quality assets

With bank's advance book skewed towards SME segment, the bank has been enjoying one of the highest yields in the industry. Its yield on advances stood at 10.8% in FY11 as against industry average of 9.3%. Moreover a lower leverage has also provided some comfort on the cost front. Every 1x increase in leverage, results in 4bps increase in cost of funds and vice versa. The above factors helped the bank in commanding superior margin at as compared to its peers. However, under the new management, the bank aims to focus only on quality accounts, and hence, expect its loan yield to come down a bit. Moreover, due to increase in leverage, cost of funds will also see a marginal rise. As result of the above factors, margins are likely to stabilize at a lower but robust 3.5%.

One of the best margins in the industry (%)



…to contract by 25bps over FY12/13 (%)

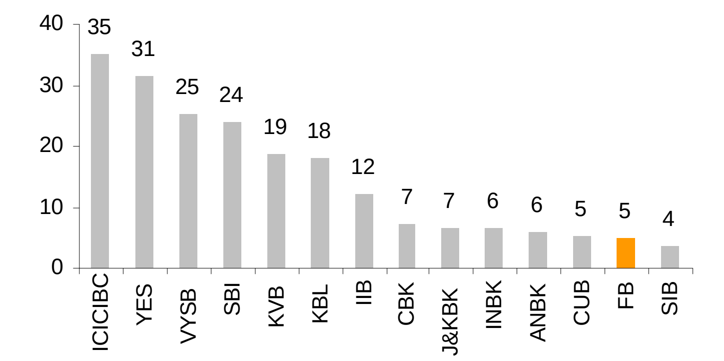


Source: Company, Emkay Research

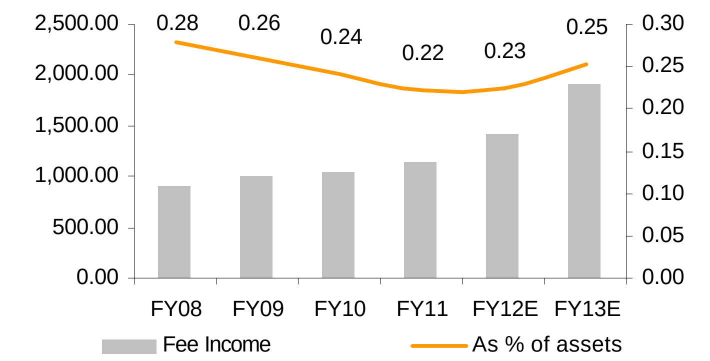
… to be offset by higher fee income

Fee income has always been a weak area for the bank. Historically, the bank's fee income growth has not kept pace with its asset growth. The bank's assets grew at a CARG of 20% over FY05-11, whereas fee income grew at a CAGR of just 5% over the same period. As a result, fee income as a percentage of assets came dome from 0.43% in FY06 to 0.22% in FY11. However, the bank has now taken a slew of measures to improve this line of business. The bank recently hired Mr. Abraham Chacko, with more than 30 years of experience in domestic and international markets, to head its wholesale banking & treasury division. Also, the bank has opened up specialized branches for corporate banking in Mumbai, Delhi, Kolkata, Bangalore, etc. Through these specialised branches, FB will offer customised, non-fund-based products to corporates, in addition to its usual lending activities. As a result of these measures, we expect fee income to grow at ~30%CAGR over FY11-13.

Fee income as proportion of Net income one of the lowest (%)



Fee income to gain momentum going forward



Source: Company, Emkay Research

…and lower credit cost

As mentioned above in the report, we expect the credit cost to come down by 50bps over FY11-12, led by asset quality improvement. This improvement in credit cost will more than offset the reduction in margins, hence maintaining the RoA's at 1.2% over FY12/13.

Dupont Analysis

	FY11	FY12E	FY13E
Interest income	8.51	8.80	8.47
Interest expended	4.84	5.29	5.05
Net interest income	3.67	3.51	3.42
Other income	1.08	1.03	1.00
CEB	0.24	0.25	0.28
Net Income	4.75	4.54	4.42
Expenses	1.76	1.72	1.68
Pre provisioning profit	3.00	2.83	2.74
Provision for bad advances	1.03	0.86	0.74
Profit before tax	1.89	1.83	1.88
Profit after tax	1.23	1.20	1.24
Return on assets	1.23	1.20	1.24
RoA excl treasury	1.17	1.16	1.20

Source: Company, Emkay Research

Financials and Valuation

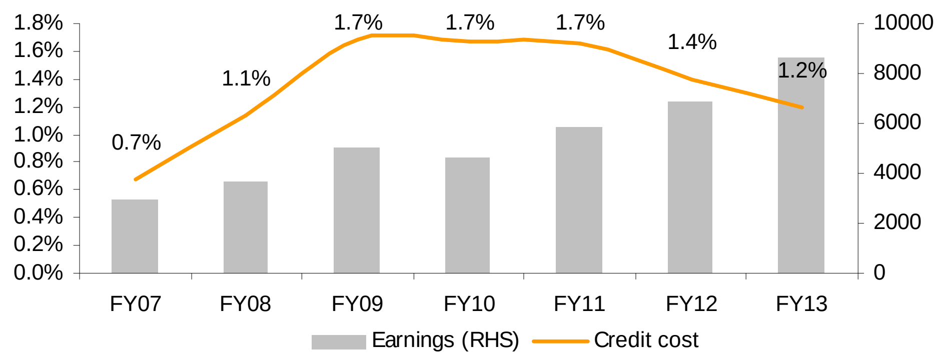
Moderate revenue growth in the near term as the bank stabilises its platform

The bank has grown its revenue at a CAGR of 24% over FY07-11, driven by strong NIM's and healthy advance growth during the period. However, with the bank going slow on credit creation and focusing only on quality accounts now, we expect the advance to grow at a moderate pace of 20% and NIM's to contract by 15bps to 3.5% in FY12. As a result, we expect near term pressure on revenue front, with just 15% revenue growth expected in FY12. With aggressive branch expansion plans in FY12/13, and credit cost stabilization we expect the revenue growth to pick up with ~18.5% growth expected in FY13.

…however, lower provisioning requirement to keep earning growth steady

Despite moderation in revenue growth, we expect earnings growth to remain steady at 21% over FY11-13, inline with 20% CAGR over FY07-11. Lower provisioning requirement, in conjunction with improvement in asset quality is likely to compensate for the lower revenue growth in FY12/13. We expect the credit cost to come down to 1.4% in FY12 and further down to 1.2% by FY13.

Fall in credit cost to keep earnings growth healthy



Source: Company, Emkay Research

Recent initiatives to lend stability to RoA; leverage to improve ROE

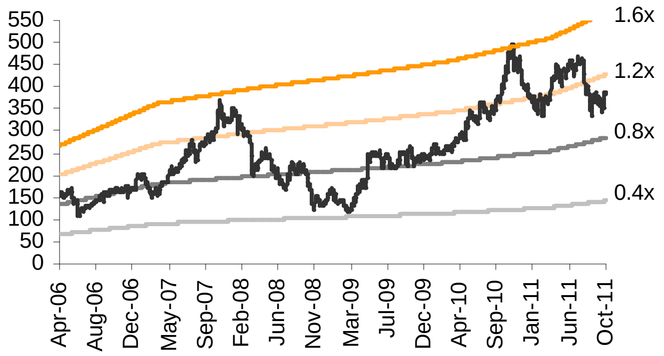
Recent initiatives are likely to bring improvement and more stability to earnings profile with increase in fee income proportion and lower credit cost at 1.2% by FY13 from 1.7% in FY11. However with NIM's also moderating from the current levels of 3.7% to a more normalized level of 3.4%, the RoA's to remain stable at 1.2%. With stability to RoA profile and excess capital in hand (Tier1- ~15%), the RoE's to march higher, as the bank leverages its capital. We expect the RoE to increase to ~14% by FY13 from 12% in FY11 and further to 18% by FY15.

Valuations reasonable; Initiate with Accumulate rating

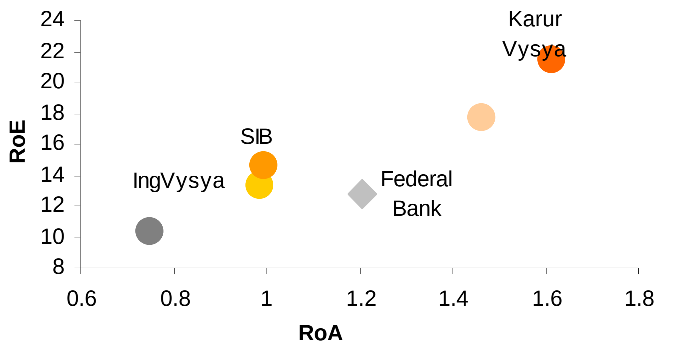
We are enthused by the initiatives taken by the new management over the course of last 12 months, which includes strengthening of risk management systems, increased focus on fee income, expansion into other regions. Above mentioned initiatives will not only help the bank to overcome its asset quality issues which has plagued the bank for long, but will also lend stability to the bank's earnings profile. At CMP, the stock trades at 1x FY13 ABV, 20% below its last two years average valuations. We believe as the initiatives take by the management bring about the desired results over the course of next two years, the valuation multiple should gradually reach back its last two years average of 1.2x. We initiate coverage with a 'ACCUMULATE' rating and price target of Rs425 (1.1x 13E ABV).

Peer Valuation

P/ ABV Band



Comparative profitability indicators



Source: Company, Bloomberg, Emkay Research

Comparative valuations

	RoA		RoE		P/ABV	
	FY12	FY13	FY12	FY13	FY12	FY13
Federal Bank	1.2	1.2	12.8	13.9	1.2	1.0
Indusind Bank	1.5	1.5	17.6	19.2	2.8	2.3
Karnataka Bank	0.8	0.8	10.3	12.1	0.6	0.6
Karur Vysya Bank	1.6	1.6	21.4	22.0	1.5	1.3
Ing Vysya Bank	1.0	1.0	13.3	13.7	1.3	1.1
South Indian Bank	1.0	1.0	14.6	13.7	1.2	1.1

Source: Company, Bloomberg, Emkay Research

Risk

Employee Union

The bank has historically faced many issues on the employee front, which have impacted its productivity levels. However, management's various initiatives in this direction are likely to resolve these issues and improve productivity. The management has now introduced performance linked compensation structure, ESOPs and other employee benefit programs.

Power exposure higher at 7%

Power sector exposure is relatively high at 7% of the total loan book and includes exposure to Tamil Nadu and Rajasthan SEBs as well. However, as of now, these accounts are servicing well and management does not expect any restructuring in these accounts.

ALM mismatch in 1 Year Bucket

The bank has ~20% mismatch in < 1 Yr bucket with 55% of its deposits lying in less than one year maturity bucket against only ~35% of the advances.

Delay in geographical diversification

The bank has laid out a very ambitious plan to expand network outside southern region. Any delay or cutback in expansion plan could restrict growth in the future.

Competition for NRI share

The bank may face severe competition for NRI deposits from other banks. Moreover, any policy change to make NRI deposits costlier could hurt bank's margins as well as growth strategy.

Key Assumptions

(Rsbn)	FY11A	FY12E	FY13E
Advances	320	385	473
yoy growth (%)	18.6	20.4	23.0
Deposit	430	528	639
yoy growth (%)	19.3	22.8	20.9
CD ratio (%)	74.3	72.9	74.1
Credit cost	4.9	4.9	5.1
As % of advances	1.7	1.4	1.2

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	14,108	17,466	20,061	23,745
Other income	6,287	5,168	5,909	6,933
Net income	20,395	22,634	25,970	30,678
Operating expenses	6,769	8,361	9,808	11,656
Pre provision profit	13,626	14,273	16,162	19,022
PPP excl treasury	12,549	13,815	15,762	18,522
Provisions	5,030	5,254	5,724	5,955
Profit before tax	8,596	9,018	10,437	13,067
Tax	3,950	3,147	3,549	4,443
Tax rate	*46%*	*35%*	*34%*	*34%*
Profit after tax	4,646	5,871	6,889	8,624

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	1,710	1,710	1,710	1,710
Reserves	45,194	49,376	54,521	64,525
Net worth	46,905	51,087	56,232	66,236
Deposits	360,580	430,148	528,255	638,878
Borrowings	30,739	33,329	44,604	55,301
Total liabilities	438,223	514,564	629,091	760,415
Assets				
Cash and bank	27,234	37,483	48,409	58,078
Investments	124,049	139,323	177,024	208,981
Customer assets	275,999	325,586	390,925	479,445
Others	10,942	12,172	12,732	13,911
Total assets	438,223	514,564	629,091	760,415

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	3.7	4.0	3.8	3.7
Non-II/avg assets	1.5	1.1	1.0	1.0
Fee income/avg assets	0.2	0.2	0.2	0.3
Opex/avg assets	1.5	1.6	1.6	1.5
Provisions/avg assets	1.7	1.7	1.4	1.2
PBT/avg assets	2.0	1.8	1.7	1.7
Tax/avg assets	0.9	0.6	0.6	0.6
RoA	1.1	1.2	1.2	1.2
RoAE	10.3	12.0	12.8	14.1
GNPA (%)	3.0	3.6	3.5	2.9
NNPA (%)	0.5	0.6	0.5	0.3

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	4,646	5,871	6,889	8,624
Shares in issue (mn)	171	171	171	171
EPS (Rs)	27.2	34.3	40.3	50.4
PER (x)	13.9	11.0	9.4	7.5
FDEPS(Rs)	27.2	34.3	40.3	50.4
FDPER (x)	13.9	11.0	9.4	7.5
Book value (Rs)	273.9	298.3	328.4	386.9
P/BV (x)	1.4	1.3	1.1	1.0
Adj book value (Rs)	266.4	287.2	317.4	379.4
P/ABV (x)	1.4	1.3	1.2	1.0
P/PPP (x)	4.7	4.5	4.0	3.4
Dividend yield (%)	1.3	2.3	2.7	3.1

Emkay Rating Distribution

BUY	Expected total return (%) (stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (stock price depreciation) of upto (-)10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +9122 6612 1212 Web: www.emkayglobal.com