

## Q1FY15-Tough quarter

CMP: Rs. 124  
Target Price: Rs. 110  
Recommendation: REDUCE

### Stock Info

BSE Group	A
BSE Code	500469
NSE Symbol	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO
BSE Sensex	25,561
NSE Nifty	7,640

### Market Info

Market Capital	Rs 10,632cr
Equity Capital	Rs 171cr
Avg. Trading Vol.	32,32,680
52 Wk High/ Low	136/44
Face Value	2

### Shareholding Pattern (%) (30<sup>th</sup> Jun 2014)

Promoters	-
Domestic Institutions	25.5
Foreign Institutions	38.8
Public & Others	41.4

The Q1FY15 Earnings of Federal bank, though not very impressive, were largely in-line with expectations. The top-line looked strained, that coupled with muted other income, resulted in higher cost to income ratio which stood at 51.2% compared to 44.8% YoY. It had advances growth of only 9.1% which is much below industry average.

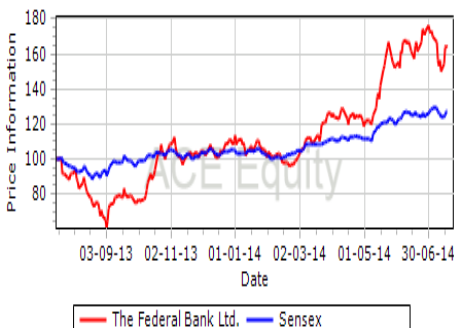
**Top-line disappoints:** The bank disappointed on top-line performance with poor net interest income which stood at Rs 564 crs compared to Rs 510 crs YoY, largely on account of choppy corporate loan book. Other income declined by 27.5% YoY to Rs 157 crs. Net profit more than doubled to Rs 220 crs largely on account of lower provisioning for NPA's.

**Gross Advances and Deposits:** Gross advances growth was muted at 9.1% YoY largely on account of 8% decline in corporate loan book. We are expecting same run rate for FY15. Deposits were up by 8.5% YoY. CASA ratio stood at 30.75 marginally lower than 30.81 QoQ. Bank's bulk deposits came down from 10.8% in Q1FY14 to 1.53% in Q1FY14 which will reduce the cost of funds.

**Asset quality:** Quality of assets improved during the quarter with gross NPA's at Rs 1,016 crs vs. 1,087 crs QoQ. Fresh slippages during the quarter stood at Rs 297 crs. Credit cost for the quarter stood at 0.49 vs. 0.23 QoQ. There is no material change happening at ground level but right directional measures are coming from RBI as well as GOI.

**Margins:** NIM stood at 3.25 vs. 3.13 YoY largely in line of expectations. However cost to income ratio increased to 51.23 vs. 46.16 YoY. For FY15 we are expecting NIM to be 3.5 while C/I of 49.2.

**Investment Outlook:** With advances growth remaining in 8-10% range coupled with subdued fee income we have cautious view. We have arrived at the price target of Rs 110 base on 1.2x FY16 ABV of Rs 92.



(Rs Cr)	FY13	FY14	FY15E	FY16E
Net interest income	1975	2229	2516	2925
Operating Profit	1460	1480	1649	1874
PAT	838	839	895	993
EPS (Rs)	9.8	9.8	10.5	11.6
EPS Growth (%)	7.9%	0.1%	6.7%	10.9%
RoE (%)	13.9	12.6	12.3	12.4
P/E (x)	12.7	12.7	11.9	10.7
PABV (x)	1.8	1.6	1.5	1.4

July 18, 2014

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Q1FY15 Earnings Snapshot

Particulars (Rs in Cr)	Q1FY15	Q1FY14	YoY%	Q4FY15	QoQ %	
Interest Earned	1,772	1,653	7.2	1,839	-3.7	
Interest Expended	1,207	1,144	5.6	1,214	-0.5	
<b>Net Interest Income</b>	<b>564</b>	<b>510</b>	<b>10.7</b>	<b>625</b>	<b>-9.7</b>	
Other Income	157	216	-27.5	178	-12.3	Bank should focus more on fee based income to improve RoA
<i>Other income / Net Income (%)</i>	22	30		22		
<b>Total income</b>	<b>721</b>	<b>725</b>	<b>-0.6</b>	<b>803</b>	<b>-10.3</b>	
Employee Expenses	204	174	17.8	201	1.8	
Non-Employee expenses	165	151	8.9	183	-9.7	
<b>Operating Expenses</b>	<b>369</b>	<b>325</b>	<b>13.7</b>	<b>383</b>	<b>-3.7</b>	
<i>Cost-income Ratio (%)</i>	51.2	44.8		47.7		C/I ratio for the bank is on the higher side.
<b>Pre-Prov Profits</b>	<b>352</b>	<b>401</b>	<b>-12.2</b>	<b>420</b>	<b>-16.3</b>	
Provisions & Contingencies	22	245	-91.0	55	-59.9	
<b>PBT</b>	<b>329</b>	<b>155</b>	<b>111.9</b>	<b>365</b>	<b>-9.7</b>	
<i>Exceptional (Reported)</i>						
Provisions for Tax	109	50	119.4	88	24.5	
<i>Effective Tax Rate (%)</i>	33	32		24		
<b>PAT (reported)</b>	<b>220</b>	<b>106</b>	<b>108.4</b>	<b>277</b>	<b>-20.6</b>	Growth largely on account of lower provisioning for NPA's.
EPS Basic	2.6	1.2	107.3	3.2	-20.7	
EPS Diluted	2.6	1.2	107.3	3.2	-20.7	
GNPA	1016	1483	-31.5	1087	-6.5	
NNPA	304	374	-18.7	322	-5.5	
GNPA (%)	2.2	3.5		2.5		
NNPA (%)	0.7	0.9		0.7		
Total CAR (%)	15.2	14.3		15.1		
NIM	3.3	3.1		3.6		
Advances	45012	41263	9.1	44157	1.9	
Deposits	61815	56996	8.5	59731	3.5	

Source: Company data, Arihant Research



Income Statement				
Year to 31st March (Rs.Cr)	FY13	FY14	FY15E	FY16E
Interest Income	6,168	6,946	7,368	8,353
Interest Expenses	4,193	4,717	4,851	5,429
<b>Net Interest Income</b>	<b>1,975</b>	<b>2,229</b>	<b>2,516</b>	<b>2,925</b>
- growth %	1	13	13	16
Other Income	664	694	728	765
Fee-based Income	373	397	416	437
Treasury Income	285	281	295	310
Other non interest income	6	16	16	18
<b>Operating Income</b>	<b>2,639</b>	<b>2,922</b>	<b>3,244</b>	<b>3,690</b>
- growth %	6	11	11	14
Operating Expenses	1,180	1,442	1,595	1,816
- Staff Cost	626	772	859	956
- Other Operating Exp.	553	671	736	861
<b>Gross Profits</b>	<b>1,460</b>	<b>1,480</b>	<b>1,649</b>	<b>1,874</b>
- growth %	(3)	1	11	14
Provisions	266	268	313	391
<b>Profit Before Taxes</b>	<b>1,194</b>	<b>1,212</b>	<b>1,336</b>	<b>1,482</b>
Taxes	356	373	441	489
<b>Profit After Taxes</b>	<b>838</b>	<b>839</b>	<b>895</b>	<b>993</b>
- growth %	8	0	7	11

Balance Sheet				
As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
<b>LIABILITIES</b>				
Capital	171	171	171	171
Employee stock option	-	-	-	-
Reserves & Surplus	6,194	6,780	7,455	8,198
Deposits	57,615	59,731	68,094	78,989
Borrowings	5,187	5,688	6,571	7,754
Other liabilities & provisions	1,866	2,224	2,342	2,466
<b>Total Liabilities</b>	<b>71,033</b>	<b>74,594</b>	<b>84,632</b>	<b>97,577</b>
<b>ASSETS</b>				
Cash on hand & with RBI	2,742	3,104	3,353	3,854
Money at call and short notice	977	1,425	1,540	1,677
Advances	44,097	43,436	50,386	58,951
Investments	21,155	24,118	26,614	30,103
Fixed assets	400	425	446	469
Other assets	1,662	2,086	2,294	2,523
<b>Total Assets</b>	<b>71,033</b>	<b>74,594</b>	<b>84,632</b>	<b>97,577</b>

Ratio Analysis				
Year to 31st March	FY13	FY14	FY15E	FY16E
<b>Basic Ratio (Rs.)</b>				
EPS	9.8	9.8	10.5	11.6
Book Value per share	74	81	89	98
Adjusted Book Value	69	77	83	92
Dividend per share	1.8	2.0	2.2	2.5
<b>Asset Quality (%)</b>				
Gross NPAs	3.5	2.5	2.5	2.3
Net NPAs	1.06	0.86	0.98	0.89
PCR	70.6	66.3	60.7	61.6
<b>Profitability ratios (%)</b>				
RoAE	13.9	12.6	12.3	12.4
RoAA	1.3	1.2	1.1	1.1
NIM	3.3	3.4	3.5	3.5
Operating Profit Margin	21.4	19.4	20.4	20.5
Net Profit Margin	12.3	11.0	11.1	10.9
Cost to Income	44.7	49.3	49.2	49.2

Spread analysis (%)				
	FY13	FY14	FY15E	FY16E
<b>Yield on advances</b>	11.3	11.4	11.4	11.2
Yield on investments	7.6	7.0	7.0	6.5
Cost of deposits	7.2	7.2	6.9	6.7
Cost of funds	6.7	7.2	6.5	6.3
Spread	2.8	3.1	3.1	3.1
Interest Income to AWF	9.6	9.8	9.5	9.4
<b>Net Interest Income to AWF</b>	3.08	3.15	3.25	3.30
Non Interest Income to AWF	1.0	1.0	0.9	0.9
Operating Expense to AWF	1.84	2.04	2.06	2.05
Operating Profit to AWF	2.3	2.1	2.1	2.1
Net Profit to AWF	1.31	1.19	1.16	1.12
<b>Valuation ratios (x)</b>				
P/E	19.2	13.2	12.7	11.9
P/BV	2.0	1.7	1.5	1.4
P/ABV	2.1	1.9	1.6	1.4

Source: Company data, Arihant Research



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### Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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Source: - Company, Arihant Research

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