

# Federal Bank

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR197**

**TP: INR230 (+17%)**

**Buy**

**NII and PPop in line; lower provisions drive earnings beat**

Bloomberg	FB IN
Equity Shares (m)	2454
M.Cap.(INRb)/(USD\$)	482.8 / 5.7
52-Week Range (INR)	217 / 148
1, 6, 12 Rel. Per (%)	-1/-3/14
12M Avg Val (INR M)	2213

## Financials & Valuations (INR b)

Y/E Mar	FY25	FY26E	FY27E
NII	94.7	104.7	125.4
OP	61.0	70.1	86.8
NP	40.5	43.9	54.9
NIM (%)	3.2	3.1	3.2
EPS (INR)	16.6	18.0	22.5
EPS Gr. (%)	1.8	8.4	24.9
BV/Sh. (INR)	137	151	171
ABV/Sh. (INR)	131	144	162

## Ratios

ROA (%)	1.2	1.2	1.3
ROE (%)	13.0	12.5	14.0

## Valuations

P/E(X)	11.8	10.9	8.7
P/BV (X)	1.4	1.3	1.1
P/ABV (X)	1.5	1.4	1.2

## Shareholding Pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	0.0	0.0	0.0
DII	48.6	48.4	44.9
FII	27.0	27.1	29.3
Others	24.4	24.5	25.8

## Asset quality remains steady

- Federal Bank (FB) reported 4QFY25 earnings of INR10.3b (12% beat) amid lower provisions and healthy other income.
- NII was in line, while NIM stood broadly flat (up 1bp QoQ to 3.12%), as the bank focused on reorienting its asset mix with the goal of improving yields and increasing its CASA deposits.
- Advances grew 12% YoY/ 2% QoQ, while deposits grew 12.3% YoY/6.5% QoQ, largely driven by CA deposits. The CASA mix improved 7bp QoQ to 30.2%.
- Total slippages stood at INR4.9b vs INR5b in 3QFY25. GNPA/NNPA ratios declined 11bp/5bp QoQ, respectively, to 1.84%/0.44%, while restructured book declined 7bp QoQ to 0.6%. Credit cost stood at 26bp for 4QFY25.
- We fine-tune our earnings projections and estimate RoA/RoE of 1.25%/14.0% by FY27. **Reiterate BUY rating with a TP of INR230 (1.4x FY27E ABV).**

## CD ratio declines to ~82.8%; LCR ratio improves 23% QoQ to 142%

- FB reported 4QFY25 earnings of INR10.3b (12% beat) amid lower provisions and healthy other income. For FY25, PAT grew 9% YoY to INR40b.
- NII stood in line at INR23.8b (up 8.3% YoY/ down 2.2% QoQ), while NIMs expanded marginally by 1bp QoQ to 3.12%.
- Other income rose 33% YoY (10% QoQ) to INR10.1b (10% beat) amid steady core fee income. Provisions stood at INR1.4b (43% lower than MOFSLe), aided by a corporate recovery.
- Opex stood at INR19.2b (4% YoY, 4% higher than MOFSLe), while the C/I ratio increased to 56.7%. The bank expects a C/I ratio of ~53-53.5% over the next few quarters. PPop increased 32% YoY to INR14.6b (in line).
- On the business front, advances grew 12% YoY/2% QoQ. Retail grew 2% QoQ, while SMEs grew 3.3% QoQ. CV/CE grew 10% QoQ and corporate grew 3% QoQ. The credit card business has grown well at 3% QoQ and the bank aims to continue growing this segment.
- Deposits grew 12.3% YoY/6.5% QoQ, largely driven by CA deposits, which grew 27% YoY. The CASA mix improved 7bp QoQ to 30.2%. The bank's overall CD ratio remained comfortable at 82.8% (down 370bp QoQ), while the LCR ratio improved 2,342bp QoQ to 142%.
- Total slippages stood at INR4.9b vs INR5b in 3QFY25. GNPA/NNPA ratios declined 11bp/5bp QoQ, respectively, to 1.84%/0.44%. Reported PCR stood healthy at 75.4%. Restructured book declined 3bp to 0.7%. Credit costs stood at 26bp for 4QFY25.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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### Highlights from the management commentary

- The bank aims to deliver 1.2x-1.5x of banking system growth with a focus on sustainable performance.
- Deposit growth has been strong, with retail and wholesale CAs accelerating. The CA acquisition rate on the retail side is at least 50% higher than it was six months ago.
- The growth rate is fairly strong at 19% YoY in the medium-yield segment. Credit card growth has been robust, with the bank pursuing both organic and inorganic growth in this space.
- On NIM, an increase in yields on investments and other assets has helped maintain margins despite a cut in repo rates.
- Of the 85 branches opened in FY25, 39 were opened in 4Q, with some one-offs leading to an increase in cost. The bank expects the C/I ratio to be ~52.5-53.5% over the next few quarters.

### Valuation and view: Reiterate BUY with a TP of INR230

FB reported a healthy quarter as lower provisions and healthy other income led to an earnings beat. Margins stood broadly flat with 1bp QoQ expansion. Deposits growth was steady as the bank focused on current account deposits (up 27% YoY), which led to a marginal improvement in the CASA ratio. Opex stood elevated as the bank continued to invest in branches, people, and technology. Asset quality remained steady with credit costs remaining in control, while PCR improved to 76%. We believe that FB is well-placed among mid-sized private sector banks to deliver a healthy earnings trajectory, supported by steady business growth and gradual improvements in margins and operating leverage. Under the new leadership and strategy, the bank aims to deliver sustained growth and superior profitability. We fine-tune our earnings projections and estimate RoA/RoE of 1.25%/14.0% by FY27E. **Reiterate BUY rating with a TP of INR230 (1.4x FY27E ABV).**

### Quarterly performance

(INR b)

	FY24				FY25				FY24	FY25E	FY25E 4QE	V/s our Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>Net Interest Income</b>	<b>19.2</b>	<b>20.6</b>	<b>21.2</b>	<b>22.0</b>	<b>22.9</b>	<b>23.7</b>	<b>24.3</b>	<b>23.8</b>	<b>82.9</b>	<b>94.7</b>	<b>24.0</b>	<b>-1.0%</b>
% Change (YoY)	19.6	16.7	8.5	15.0	19.5	15.1	14.5	8.3	14.7	14.2	9.4	
Other Income	7.3	7.3	8.6	7.5	9.2	9.6	9.2	10.1	30.8	38.0	9.1	10%
<b>Total Income</b>	<b>26.5</b>	<b>27.9</b>	<b>29.9</b>	<b>29.5</b>	<b>32.1</b>	<b>33.3</b>	<b>33.5</b>	<b>33.8</b>	<b>113.7</b>	<b>132.7</b>	<b>33.1</b>	<b>2%</b>
Operating Expenses	13.5	14.6	15.5	18.4	17.1	17.7	17.8	19.2	62.0	71.7	18.4	4%
<b>Operating Profit</b>	<b>13.0</b>	<b>13.2</b>	<b>14.4</b>	<b>11.1</b>	<b>15.0</b>	<b>15.7</b>	<b>15.7</b>	<b>14.7</b>	<b>51.7</b>	<b>61.0</b>	<b>14.7</b>	<b>0%</b>
% Change (YoY)	33.8	9.3	12.8	-16.8	15.2	18.2	9.2	32.0	7.9	17.9	32.3	
Provisions	1.6	0.4	0.9	-0.9	1.4	1.6	2.9	1.4	2.0	7.3	2.4	-42%
<b>Profit before Tax</b>	<b>11.5</b>	<b>12.8</b>	<b>13.5</b>	<b>12.0</b>	<b>13.6</b>	<b>14.1</b>	<b>12.8</b>	<b>13.3</b>	<b>49.8</b>	<b>53.7</b>	<b>12.3</b>	<b>8%</b>
Tax	2.9	3.3	3.4	3.0	3.5	3.5	3.2	3.0	12.6	13.2	3.1	-4%
<b>Net Profit</b>	<b>8.5</b>	<b>9.5</b>	<b>10.1</b>	<b>9.1</b>	<b>10.1</b>	<b>10.6</b>	<b>9.6</b>	<b>10.3</b>	<b>37.2</b>	<b>40.5</b>	<b>9.2</b>	<b>12%</b>
% Change (YoY)	42.1	35.5	25.3	0.4	18.2	10.8	-5.1	13.7	23.6	8.9	1.5	
<b>Operating Parameters</b>												
Deposit (INR b)	2,225	2,329	2,396	2,525	2,661	2,691	2,664	2,836	2,525	2,836	2,758	
Loan (INR b)	1,835	1,928	1,992	2,094	2,208	2,303	2,304	2,348	2,094	2,348	2,370	
Deposit Growth (%)	21.3	23.1	19.0	18.3	19.6	15.6	11.2	12.3	18.3	12.3	9.2	
Loan Growth (%)	21.0	19.6	18.4	20.0	20.3	19.4	15.7	12.1	20.0	12.1	13.2	
<b>Asset Quality</b>												
Gross NPA (%)	2.4	2.3	2.3	2.1	2.1	2.1	2.0	1.8	2.1	1.8	1.8	
Net NPA (%)	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.4	0.7	0.4	0.4	
PCR (%)	71.3	72.3	72.3	72.3	71.9	72.9	75.2	76.2	69.6	76.2	75.8	

E: MOFSL Estimates

**Quarterly snapshot**

INRb	FY24				FY25				Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
<b>Profit and Loss</b>										
Interest Income	50.2	54.6	57.3	59.8	63.3	65.8	68.1	66.5	11.2	-2
Interest Expense	31.1	34.0	36.1	37.8	40.4	42.1	43.8	42.7	12.9	-2
<b>Net Interest Income</b>	<b>19.2</b>	<b>20.6</b>	<b>21.2</b>	<b>22.0</b>	<b>22.9</b>	<b>23.7</b>	<b>24.3</b>	<b>23.8</b>	<b>8.3</b>	<b>-2.2</b>
Other Income	7.3	7.3	8.6	7.5	9.2	9.6	9.2	10.1	33.4	9.8
<b>Total Income</b>	<b>26.5</b>	<b>27.9</b>	<b>29.9</b>	<b>29.5</b>	<b>32.1</b>	<b>33.3</b>	<b>33.5</b>	<b>33.8</b>	<b>14.7</b>	<b>1.1</b>
Operating Expenses	13.5	14.6	15.5	18.4	17.1	17.7	17.8	19.2	4.3	7.9
Employee	6.2	6.3	6.9	8.9	7.4	7.8	7.8	7.8	-11.6	0.1
Others	7.3	8.4	8.6	9.5	9.7	9.9	9.9	11.3	19.2	14.0
<b>Operating Profits</b>	<b>13.0</b>	<b>13.2</b>	<b>14.4</b>	<b>11.1</b>	<b>15.0</b>	<b>15.7</b>	<b>15.7</b>	<b>14.7</b>	<b>32.0</b>	<b>-6.6</b>
<b>Core Operating Profits</b>	<b>11.1</b>	<b>12.5</b>	<b>12.2</b>	<b>9.8</b>	<b>12.4</b>	<b>13.9</b>	<b>14.1</b>	<b>14.7</b>	<b>50.1</b>	<b>4.0</b>
<b>Provisions</b>	1.6	0.4	0.9	-0.9	1.4	1.6	2.9	1.4	<b>-246.0</b>	<b>-52.8</b>
NPA provisions	1.8	0.6	1.5	0.1	1.4	1.7	3.4	1.5	2,014.3	-56.9
<b>PBT</b>	<b>11.5</b>	<b>12.8</b>	<b>13.5</b>	<b>12.0</b>	<b>13.6</b>	<b>14.1</b>	<b>12.8</b>	<b>13.3</b>	<b>10.2</b>	<b>3.9</b>
Taxes	2.9	3.3	3.4	3.0	3.5	3.5	3.2	3.0	-0.5	-7.7
<b>PAT</b>	<b>8.5</b>	<b>9.5</b>	<b>10.1</b>	<b>9.1</b>	<b>10.1</b>	<b>10.6</b>	<b>9.6</b>	<b>10.3</b>	<b>13.7</b>	<b>7.8</b>
<b>Balance sheet (INR b)</b>										
<b>Loans</b>	<b>1,835</b>	<b>1,928</b>	<b>1,992</b>	<b>2,094</b>	<b>2,208</b>	<b>2,303</b>	<b>2,304</b>	<b>2,348</b>	<b>12.1</b>	<b>1.9</b>
<b>Deposits</b>	<b>2,225</b>	<b>2,329</b>	<b>2,396</b>	<b>2,525</b>	<b>2,661</b>	<b>2,691</b>	<b>2,664</b>	<b>2,836</b>	<b>12.3</b>	<b>6.5</b>
<b>CASA Deposits</b>	<b>709</b>	<b>726</b>	<b>734</b>	<b>742</b>	<b>779</b>	<b>809</b>	<b>803</b>	<b>858</b>	<b>15.6</b>	<b>6.7</b>
-Savings	142	157	153	152	164	174	162	206	34.9	26.9
-Current	567	569	581	590	615	635	641	652	10.6	1.6
<b>Loan mix (%)</b>										
Retail	28.8	28.9	28.2	29.2	28.9	28.7	28.6	28.5	-70.6	-2
SME	17.8	18.0	16.2	18.0	18.1	18.6	18.8	19.1	6.0	1.3
Agriculture	3.6	3.6	11.5	3.5	3.4	3.4	3.4	3.4	-3.5	-1.0
Corporate	36.4	35.6	31.2	34.3	34.0	33.2	32.5	32.9	-4.2	1.0
Gold	11.1	11.4	10.4	11.8	12.2	12.7	13.2	12.6	6.8	-4.8
CV/CE	1.3	1.4	1.3	1.6	1.7	1.7	1.8	1.9	19.2	7.6
MFI	1.0	1.2	1.2	1.6	1.7	1.7	1.7	1.7	5.3	-2.2
<b>Asset Quality (INR m)</b>										
GNPA	44.3	44.4	46.3	45.3	47.4	48.8	45.5	43.8	-3.4	-3.9
NNPA	12.7	12.3	12.8	12.6	13.3	13.2	11.3	10.4	-17.1	-8.0
Slippages	5.0	3.7	5.0	3.7	4.2	4.3	5.0	4.9	32.6	-1.2
<b>Asset Quality Ratios (%)</b>										
	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>YoY (Bp)</b>	<b>QoQ (BQ)</b>
GNPA	2.37	2.26	2.29	2.13	2.11	2.09	1.95	1.84	-29	-11
NNPA	0.74	0.64	0.64	0.60	0.60	0.57	0.49	0.44	-16	-5
PCR (Exc TWO)	71	72	72	72	72	73	75	76	394	107
Slippage Ratio	1.2	0.8	1.1	0.8	0.8	0.8	0.9	0.9	11	-4
Credit Cost	0.4	0.1	0.3	0.0	0.3	0.3	0.6	0.3	25	-37
<b>Business Ratios (%)</b>										
CASA	31.9	31.2	30.6	29.4	29.3	30.1	30.2	30.2	85	7
Loan/Deposit	1.3	1.2	1.2	1.2	1.1	1.1	1.1	1.0	-15	-7
Other income/Total Income	27.6	26.2	28.9	25.6	28.5	28.9	27.4	29.7	417	236
Cost to Income	50.9	52.5	51.9	62.3	53.2	53.0	53.1	56.7	-566	357
Tax Rate	25.6	25.5	25.2	24.8	25.6	24.9	25.2	22.4	-240	-281
<b>Capitalisation Ratios (%)</b>										
Tier I	12.5	13.8	13.5	14.6	14.2	13.8	13.8	15.0	43	126
- CET 1	12.5	13.8	13.5	14.6	14.2	13.8	13.8	15.0	43	126
CAR	14.3	15.5	15.0	16.1	15.6	15.2	15.2	16.4	27	124
RWA / Total Assets	59.4	58.9	61.1	61.5	60.1	60.4	59.6	60.2	-132	58
LCR	125.0	124.8	119.9	127.8	112.6	115.2	118.5	141.9	1411	2342
<b>Profitability Ratios (%)</b>										
Yield on loans	9.2	9.4	9.4	9.5	9.4	9.4	9.4	9.3	-17	-8
Yield on Funds	9.2	9.5	9.5	9.4	9.5	9.5	9.6	9.0	-42	-54
Cost of Funds	5.4	5.6	5.8	6.0	5.9	5.9	6.0	6.1	9	5
Cost of Deposits	5.3	5.5	5.7	5.9	5.8	5.9	5.9	6.0	8	6
Margins	3.20	3.22	3.19	3.21	3.16	3.12	3.11	3.12	-9	1
<b>Others</b>										
Branches	1,366	1,389	1,438	1,504	1,518	1,533	1,550	1,589	85	39
ATMs	1,920	1,937	1,962	2,015	2,041	2,052	2,054	2,080	65	26

Sources: MOFSL, Company



## Highlights from the management commentary

### Opening remarks

- Competition for retail and MSME deposits continues to intensify in the industry.
- The concentration of the top 20 borrowers and depositors as a % of the total portfolio stood at 7.93% and 4.85%, respectively.
- Digital transactions increased 9.5% compared to the last quarter.
- Digital share stands at over 92% for Mar'25.
- NIM expanded 1bp QoQ despite the rate cut to 3.12%.
- Credit cost for FY25 stood at 38bp, in line with the bank's guidance.
- CA grew 27% QoQ and the CASA ratio stood at 30.2%, better than last year.
- The bank opened 85 branches in FY25 and ensured to strategically choose the locations.
- Of the 85 branches opened in FY25, 39 were opened in 4Q, with some one-offs leading to an increase in cost. Opex to average asset was 1bp lower in FY25 vs FY24.
- The CD ratio was comfortable at 82.8%.
- A decline in wholesale deposits contributed to an improvement in the LCR, which now stands at 142%.
- RoA stood at 1.24% and RoE at 12.82% in 4QFY25.
- Deposit growth has been strong, with retail and wholesale CAs accelerating. The current account acquisition is running at a 50% higher rate than the previous period.
- The company has adopted a robust business budgeting approach and rolled out revised scorecards.
- On the asset side, the company achieved 19% growth rate in the mid-yielding segment.
- In the low-yield segment, it has adopted a new approach to growth. For HL, the bank is adopting a risk-related approach.
- 75% of new corporate clients are in mid-market segments.
- In the high-yielding segment, the card business is performing well, with an increase in card acquisitions.
- The bank has largely maintained its NIM by resetting new loans to T+90 from T+1 and revising SA and TD rates.
- Fee income growth has significantly outperformed asset growth.
- The bank has made accelerated provisions for its unsecured book.
- It is now looking beyond Kerala, with a clear strategic focus on expansion.
- The bank is focused on granular growth, with a visible reorientation of its balance sheet strategy.
- The bank is witnessing tangible progress in liabilities, with a focus on growing average CASA, which is seen as a more sustainable approach.
- Strategic decisions have played a key role in the business growth.
- The bank is focused on the RaRoC return.

### Loans and deposits

- CASA grew 15.6%, driven by 35% growth in CAs on a YoY basis.
- Housing loans grew at 6.8% YoY and 1% QoQ (Deliberate restraint due to suboptimal yields and industry rate challenges). LAP loans grew at 20.4% YoY and 6.0% QoQ.
- There is a sharpened focus on mid-market clients, with over 75% of NTBs onboarding from the mid-market segment.
- The growth rate was fairly strong at 19% YoY for the medium-yield segment.
- Though the bank's gold growth has not been healthy, new guidelines are expected to bode well for growth going forward.
- The bank will continue to remain cautious on MFI despite being uncertain about its growth prospects.
- On an average basis, CA has shown 7% average growth rate in the quarter.
- The CA acquisition rate on the retail side is at least 50% higher than what it was six months ago.
- LTV on gold loans stood at 61.6% in the current quarter, primarily due to a significant increase in gold prices.
- The SA rate has been cut for balances exceeding 5m.
- The bank aims to build a holistic relationship with customers through its home loan business.
- Corporate recovery is ~INR1.1-1.15b. The bank does not anticipate a similar level of recovery in the coming quarters as it typically sees in 4Q.
- The remittance market share is largely ~18-20%. The bank remains focused on pricing and has refrained from offering significant discounts. Increased exchange and aggregator partnerships are expected to drive higher volumes.
- Corporate recovery is booked in the provisions line. The self-funding level stood at 36% in 4QFY25.
- Wholesale deposits dipped significantly from 2Q to 3Q. In 4Q, wholesale deposits increased, and the mix changed.
- The bank intends to achieve growth at 1.2x-1.5x the banking system's growth. This reorientation is expected to drive the desired growth.
- The growth rate for credit cards has been robust, with the bank pursuing both organic and inorganic opportunities in this segment.
- In personal loans, slippages have reduced and the bank aims to shift its focus on growing this area. It will remain only cautious on MFI.
- The bank does not aim to overplay the fixed rate book and seeks a reasonable mix of both fixed and floating rate assets. The fixed book will inch up gradually.
- On the cards side, the bank faced a regulatory issue regarding its business with fintech companies, but it has now resumed business with one fintech partner.
- On the personal loan side, the bank is expanding its business by enhancing distribution through fintech partnerships.

### Yields, costs, and margins

- The bank is changing its mix in the mid-yield segment, as well as converting loans from floating to fixed rates. Additionally, the reduction in SA and TD rates will support NIMs.
- On NIM, the increase in yield on investments and other assets has helped maintain it.

- The bank expects the C/I ratio to be ~52.5-53.5% over the next few quarters.
- The bank will optimize its cost of funds in any way possible to support NIM.
- There was an uptick of 19bp in risk-adjusted NIMs despite the cut in repo rates.

### **Provisions**

- Credit cost reduction was primarily attributed to a large corporate recovery.
- Credit costs stood at 26bp in 4QFY25 (annualized).
- Credit RWA is increasing due to a focus on mid-yielding segments.

### **Asset quality**

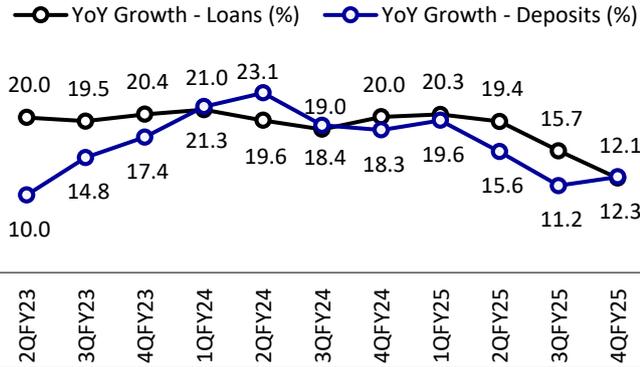
- Asset quality is at its best in a decade, reflecting the resilience of the balance sheet.
- Agri slippages were high due to MFI slippages.
- The GNPA/NNPA ratio has improved 11bp/5bp QoQ to 1.8%/0.4% in 4QFY25.

### **Guidance**

- The bank expects the C/I ratio to be ~52.5-53.5% over the next few quarters.
- Loan growth is likely to improve from the current level.
- The bank aims to achieve growth of 1.2x-1.5x of the banking system's growth.
- The bank expects the C/I ratio to remain flattish at ~53% over two years.

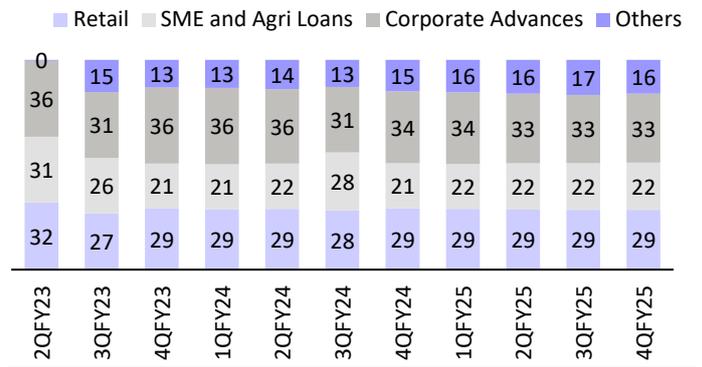
## Story in charts

**Exhibit 1: Advances/deposits grew 12.1%/12.3% YoY**



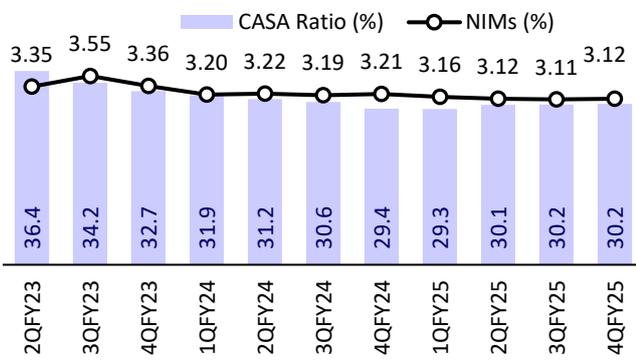
Sources: MOFSL, Company

**Exhibit 2: Retail book mix stood at 29% and corporate at 33%**



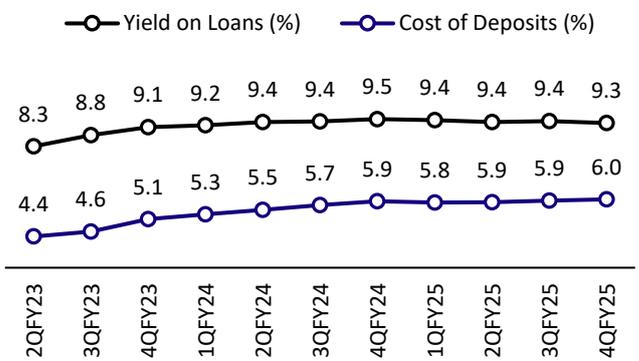
Sources: MOFSL, Company

**Exhibit 3: NIM expanded 1bp to 3.12%; CASA stood at 30.2%**



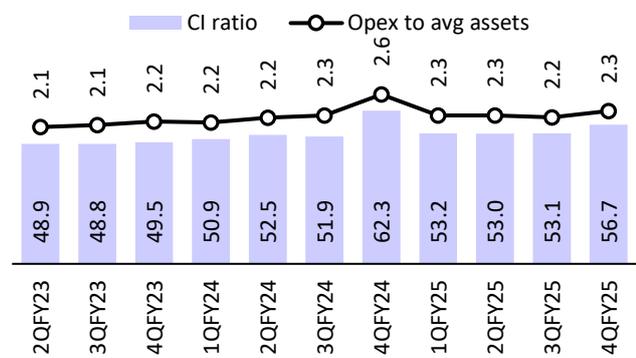
Sources: MOFSL, Company

**Exhibit 4: YoA declined 8bp QoQ; CoD up 6bp QoQ**



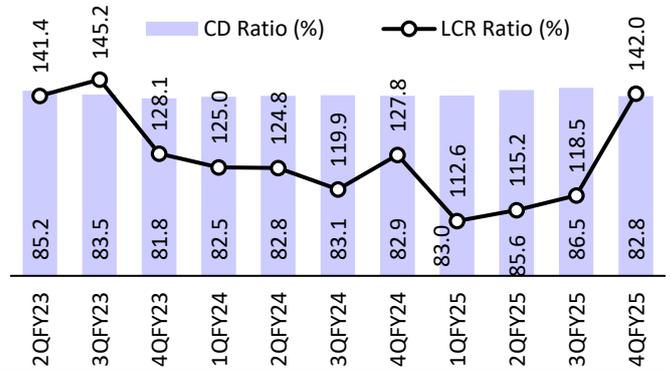
Sources: MOFSL, Company

**Exhibit 5: C/I ratio increased to 56.7% in 4QFY25**



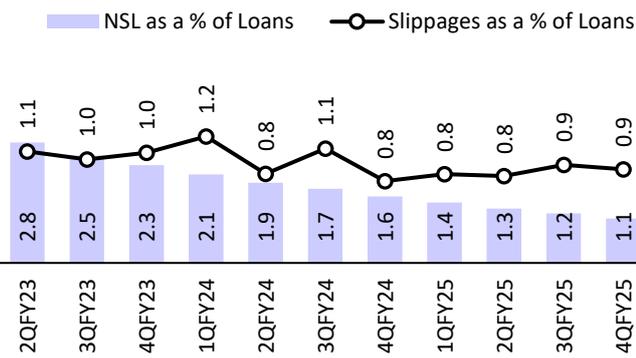
Sources: MOFSL, Company

**Exhibit 6: LCR ratio improved to 142%; CD ratio at 82.8%**



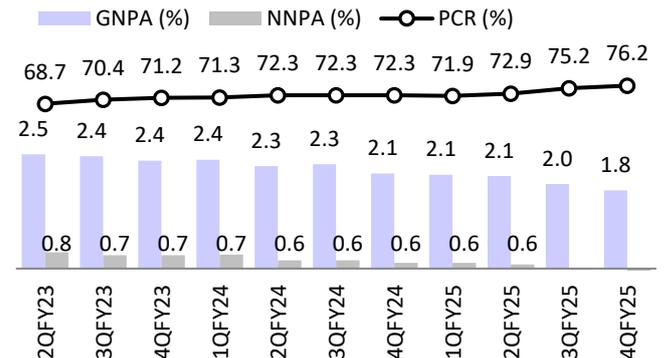
Sources: MOFSL, Company

**Exhibit 7: NSL as a % of loans stood at 1.1%, while slippages stood at 0.9%**



Sources: MOFSL, Company

**Exhibit 8: GNPA/NNPA ratios improved to 1.8%/0.4%; calculated PCR at ~76.2%**



Sources: MOFSL, Company

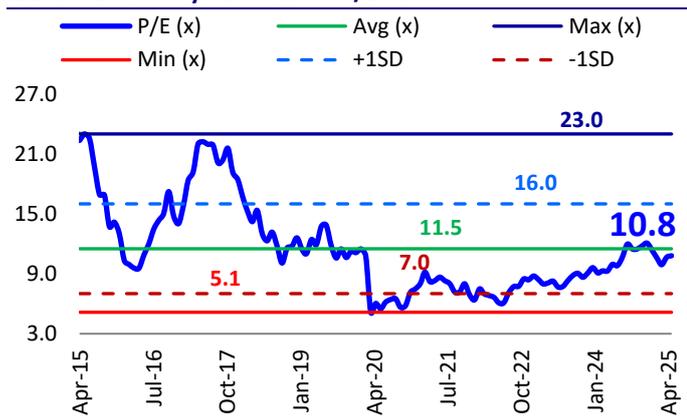
### Valuation and view: Reiterate BUY with a TP of INR230

- FB reported a healthy quarter, as lower provisions and healthy other income led to an earnings beat. Margins stood broadly flat with 1bp QoQ expansion. Deposits growth was steady as the bank focused on current account deposits (up 27% YoY), which led to an improvement in the CASA ratio. Opex stood elevated as the bank continued to invest in branches, people, and technology.
- Asset quality remained steady, with credit cost at 26bp. NIMs expanded marginally by 1bp QoQ to 3.12%. We believe that FB is well-placed among mid-sized private sector banks to deliver a healthy earnings trajectory, supported by steady business growth and gradual improvements in margins and operating leverage. Under the new leadership and strategy, the bank aims to deliver sustained growth and superior profitability.
- We fine-tune our earnings projections and estimate an RoA/RoE of 1.25%/14.0% by FY27. Reiterate BUY rating with a TP of INR230 (1.4x FY27E ABV).

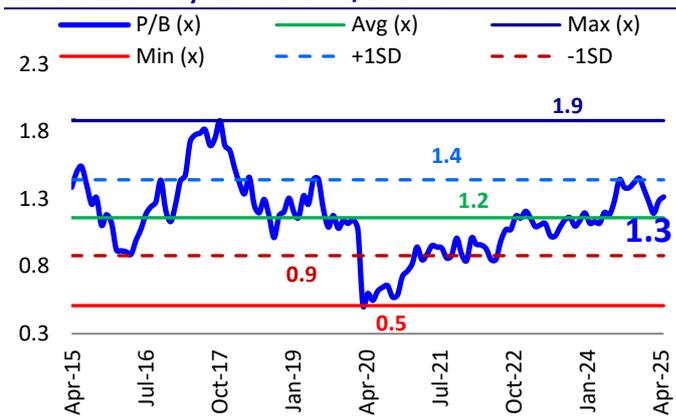
#### Exhibit 9: Changes to our estimates

(INR b)	Old Estimates		Revised Estimates		Change (%)/bps	
	FY26	FY27	FY26	FY27	FY26	FY27
Net Interest Income	107.6	130.0	104.7	125.4	-2.7	-3.5
Other Income	43.4	51.2	45.2	53.4	4.3	4.3
<b>Total Income</b>	<b>150.9</b>	<b>181.2</b>	<b>149.9</b>	<b>178.8</b>	<b>-0.7</b>	<b>-1.3</b>
Operating Expenses	80.4	91.4	79.8	92.0	-0.7	0.7
<b>Operating Profits</b>	<b>70.6</b>	<b>89.8</b>	<b>70.1</b>	<b>86.8</b>	<b>-0.6</b>	<b>-3.4</b>
Provisions	11.4	15.2	11.4	13.4	-0.5	-12.0
<b>PBT</b>	<b>59.1</b>	<b>74.7</b>	<b>58.8</b>	<b>73.4</b>	<b>-0.6</b>	<b>-1.6</b>
Tax	15.1	19.0	14.9	18.6	-1.4	-2.4
<b>PAT</b>	<b>44.1</b>	<b>55.6</b>	<b>43.9</b>	<b>54.9</b>	<b>-0.3</b>	<b>-1.4</b>
Loans	2,731	3,200	2,717	3,193	-0.5	-0.2
Deposits	3,158	3,688	3,248	3,793	2.9	2.9
Margins (%)	3.18	3.30	3.11	3.20	-6	-10
Credit Cost (%)	0.42	0.48	0.42	0.42	0	-6
<b>RoA (%)</b>	<b>1.18</b>	<b>1.28</b>	<b>1.17</b>	<b>1.25</b>	<b>-1</b>	<b>-3</b>
<b>RoE (%)</b>	<b>12.7</b>	<b>14.2</b>	<b>12.5</b>	<b>14.0</b>	<b>-20</b>	<b>-21</b>
EPS	18.1	22.8	18.0	22.5	-0.3	-1.4
BV	150.2	170.6	150.6	170.7	0.3	0.0
ABV	143.0	162.3	143.6	162.4	0.4	0.0

Sources: MOFSL, Company

**Exhibit 10: One-year forward P/E ratio**


Source: MOFSL, Company

**Exhibit 11: One-year forward P/B ratio**


Source: MOFSL, Company

**Exhibit 12: DuPont analysis: Expect return ratios to improve gradually**

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Interest Income	7.20	6.47	6.98	7.80	8.02	7.57	7.51
Interest Expense	4.31	3.65	3.98	4.89	5.14	4.79	4.64
<b>Net Interest Income</b>	<b>2.90</b>	<b>2.82</b>	<b>3.01</b>	<b>2.92</b>	<b>2.88</b>	<b>2.78</b>	<b>2.87</b>
Core Fee Income	0.70	0.85	0.96	0.99	1.06	1.10	1.11
Trading and others	0.33	0.14	0.01	0.10	0.10	0.11	0.11
<b>Non Interest income</b>	<b>1.03</b>	<b>0.99</b>	<b>0.97</b>	<b>1.08</b>	<b>1.16</b>	<b>1.20</b>	<b>1.22</b>
<b>Total Income</b>	<b>3.92</b>	<b>3.81</b>	<b>3.97</b>	<b>4.00</b>	<b>4.04</b>	<b>3.98</b>	<b>4.09</b>
<b>Operating Expenses</b>	<b>1.93</b>	<b>2.03</b>	<b>1.98</b>	<b>2.18</b>	<b>2.18</b>	<b>2.12</b>	<b>2.10</b>
-Employee cost	1.07	1.10	0.90	0.99	0.99	0.97	0.96
-Others	0.87	0.93	1.08	1.19	1.19	1.14	1.14
<b>Operating Profits</b>	<b>1.99</b>	<b>1.78</b>	<b>1.99</b>	<b>1.82</b>	<b>1.86</b>	<b>1.86</b>	<b>1.98</b>
<b>Core Operating Profits</b>	<b>1.66</b>	<b>1.64</b>	<b>1.98</b>	<b>1.72</b>	<b>1.76</b>	<b>1.76</b>	<b>1.88</b>
Provisions	0.87	0.58	0.31	0.07	0.22	0.30	0.31
<b>PBT</b>	<b>1.12</b>	<b>1.20</b>	<b>1.68</b>	<b>1.75</b>	<b>1.63</b>	<b>1.56</b>	<b>1.68</b>
Tax	0.29	0.31	0.43	0.44	0.40	0.39	0.42
<b>RoA</b>	<b>0.83</b>	<b>0.89</b>	<b>1.25</b>	<b>1.31</b>	<b>1.23</b>	<b>1.17</b>	<b>1.25</b>
Leverage (x)	12.5	12.1	11.9	11.2	10.5	10.7	11.2
<b>RoE</b>	<b>10.4</b>	<b>10.8</b>	<b>14.9</b>	<b>14.7</b>	<b>13.0</b>	<b>12.5</b>	<b>14.0</b>

Sources: MOFSL, Company

## Financials and valuations

Income Statement							(INRb)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Interest Income	137.6	136.6	168.0	221.9	263.7	285.3	328.4
Interest Expense	82.2	77.0	95.7	138.9	169.0	180.6	203.0
<b>Net Interest Income</b>	<b>55.3</b>	<b>59.6</b>	<b>72.3</b>	<b>82.9</b>	<b>94.7</b>	<b>104.7</b>	<b>125.4</b>
-growth (%)	19.0	7.7	21.3	14.7	14.2	10.6	19.8
Non Interest Income	19.6	20.9	23.3	30.8	38.0	45.2	53.4
<b>Total Income</b>	<b>74.9</b>	<b>80.5</b>	<b>95.6</b>	<b>113.7</b>	<b>132.7</b>	<b>149.9</b>	<b>178.8</b>
-growth (%)	13.9	7.5	18.8	18.9	16.7	13.0	19.2
Operating Expenses	36.9	42.9	47.7	62.0	71.7	79.8	92.0
<b>Pre Provision Profits</b>	<b>38.0</b>	<b>37.6</b>	<b>47.9</b>	<b>51.7</b>	<b>61.0</b>	<b>70.1</b>	<b>86.8</b>
-growth (%)	18.6	-1.1	27.6	7.9	17.9	15.0	23.7
Provisions (excl tax)	16.6	12.2	7.5	2.0	7.3	11.4	13.4
<b>PBT</b>	<b>21.4</b>	<b>25.4</b>	<b>40.4</b>	<b>49.8</b>	<b>53.7</b>	<b>58.8</b>	<b>73.4</b>
Tax	5.5	6.5	10.3	12.6	13.2	14.9	18.6
Tax Rate (%)	25.6	25.5	25.6	25.3	24.5	25.3	25.3
<b>PAT</b>	<b>15.9</b>	<b>18.9</b>	<b>30.1</b>	<b>37.2</b>	<b>40.5</b>	<b>43.9</b>	<b>54.9</b>
-growth (%)	3.1	18.8	59.3	23.6	8.9	8.4	24.9

### Balance Sheet

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
<b>Share Capital</b>	<b>4.0</b>	<b>4.2</b>	<b>4.2</b>	<b>4.9</b>	<b>4.9</b>	<b>4.9</b>	<b>4.9</b>
Equity Share Capital	4.0	4.2	4.2	4.9	4.9	4.9	4.9
Reserves & Surplus	157.3	183.7	210.8	286.1	329.3	362.0	410.8
<b>Net Worth</b>	<b>161.2</b>	<b>187.9</b>	<b>215.1</b>	<b>290.9</b>	<b>334.2</b>	<b>366.8</b>	<b>415.6</b>
<b>Deposits</b>	<b>1,726.4</b>	<b>1,817.0</b>	<b>2,133.9</b>	<b>2,525.3</b>	<b>2,836.5</b>	<b>3,247.8</b>	<b>3,793.4</b>
-growth (%)	13.4	5.2	17.4	18.3	12.3	14.5	16.8
<b>- CASA Dep</b>	<b>587.1</b>	<b>674.7</b>	<b>701.2</b>	<b>746.5</b>	<b>853.8</b>	<b>1,013.3</b>	<b>1,248.0</b>
-growth (%)	25.5	14.9	3.9	6.5	14.4	18.7	23.2
Borrowings	90.7	153.9	193.2	180.3	237.3	340.3	391.4
Other Liabilities & Prov.	35.3	50.6	61.3	86.6	82.1	90.3	103.9
<b>Total Liabilities</b>	<b>2,013.7</b>	<b>2,209.5</b>	<b>2,603.4</b>	<b>3,083.1</b>	<b>3,490.0</b>	<b>4,045.2</b>	<b>4,704.2</b>
Current Assets	195.9	210.1	176.9	189.6	308.6	326.5	355.7
<b>Investments</b>	<b>371.9</b>	<b>391.8</b>	<b>489.8</b>	<b>608.6</b>	<b>662.5</b>	<b>794.9</b>	<b>922.1</b>
-growth (%)	3.6	5.4	25.0	24.2	8.9	20.0	16.0
<b>Loans</b>	<b>1,318.8</b>	<b>1,449.3</b>	<b>1,744.5</b>	<b>2,094.0</b>	<b>2,348.4</b>	<b>2,717.1</b>	<b>3,192.5</b>
-growth (%)	7.9	9.9	20.4	20.0	12.1	15.7	17.5
Fixed Assets	4.9	6.3	9.3	10.2	14.8	17.3	20.4
Other Assets	122.2	151.9	182.9	180.7	155.9	189.4	213.4
<b>Total Assets</b>	<b>2,013.7</b>	<b>2,209.5</b>	<b>2,603.4</b>	<b>3,083.1</b>	<b>3,490.0</b>	<b>4,045.2</b>	<b>4,704.2</b>

### Asset Quality

GNPA	46.0	41.4	41.8	45.3	43.8	50.7	59.0
NNPA	15.7	13.9	13.2	13.8	10.4	12.4	14.7
Slippages	19.2	18.8	17.2	17.4	18.2	25.3	29.5
GNPA Ratio (%)	3.4	2.8	2.4	2.1	1.8	1.8	1.8
NNPA Ratio (%)	1.2	1.0	0.8	0.7	0.4	0.5	0.5
Slippage Ratio (%)	1.5	1.4	1.1	0.9	0.8	1.0	1.0
Credit Cost (%)	1.3	0.9	0.5	0.1	0.4	0.4	0.4
PCR (Excl Tech. write off) (%)	65.9	66.3	68.4	69.6	76.2	75.6	75.0

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
<b>Yield and Cost Ratios (%)</b>							
<b>Avg. Yield-Earning Assets</b>	<b>8.0</b>	<b>7.4</b>	<b>8.0</b>	<b>8.8</b>	<b>8.9</b>	<b>8.5</b>	<b>8.3</b>
Avg. Yield on loans	8.5	7.8	8.4	9.2	9.5	8.9	8.8
Avg. Yield on Investments	6.6	6.3	6.5	6.9	7.3	6.9	6.9
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>4.8</b>	<b>4.1</b>	<b>4.5</b>	<b>5.5</b>	<b>5.8</b>	<b>5.4</b>	<b>5.2</b>
Avg. Cost of Deposits	4.8	4.1	4.4	5.5	5.6	5.4	5.2
Avg. Cost of Borrowings	4.3	3.0	5.5	6.4	5.2	5.2	5.1
<b>Interest Spread</b>	<b>3.2</b>	<b>3.3</b>	<b>3.6</b>	<b>3.2</b>	<b>3.1</b>	<b>3.0</b>	<b>3.1</b>
<b>Net Interest Margin</b>	<b>3.2</b>	<b>3.2</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>	<b>3.1</b>	<b>3.2</b>
<b>Capitalization Ratios (%)</b>							
CAR	14.6	15.8	14.8	16.5	16.6	15.8	15.0
Tier I	13.9	14.4	13.0	14.8	15.1	14.5	13.9
-CET-1	13.9	14.4	13.0	14.82	14.4	13.8	13.3
Tier II	0.8	1.3	1.8	1.6	1.5	1.3	1.1
<b>Business Ratios (%)</b>							
Loans/Deposit Ratio	76.4	79.8	81.8	82.9	82.8	83.7	84.2
CASA Ratio	34.0	37.1	32.9	29.6	30.1	31.2	32.9
Cost/Assets	1.8	1.9	1.8	2.0	2.1	2.0	2.0
Cost/Total Income	49.3	53.3	49.9	54.5	54.0	53.2	51.4
Cost/Core Income	53.7	55.4	50.0	55.9	55.4	54.7	52.9
Int. Expense/Int.Income	59.8	56.4	57.0	62.6	64.1	63.3	61.8
Fee Income/Net Income	17.8	22.2	24.1	24.7	26.2	27.5	27.2
Non Int. Inc./Net Income	26.1	25.9	24.4	27.1	28.6	30.2	29.9
Empl. Cost/Op. Exps.	55.1	54.1	45.6	45.5	45.3	46.0	45.9
<b>Efficiency Ratios (INRm)</b>							
Employee/branch (in nos)	9.8	9.8	9.8	10.1	10.0	9.9	9.8
Staff cost/employee	1.6	1.8	1.6	1.9	2.0	2.2	2.4
CASA per branch	455.5	519.0	511.1	496.3	535.5	599.6	696.7
Deposits per branch	1,339.4	1,397.7	1,555.3	1,679.1	1,779.2	1,921.9	2,117.7
Business per Employee	241.8	255.4	288.2	303.7	324.6	355.7	396.7
PAT per Employee	1.3	1.5	2.2	2.4	2.5	2.6	3.1

### Valuation

RoE	10.4	10.8	14.9	14.7	13.0	12.5	14.0
RoA	0.8	0.9	1.3	1.3	1.2	1.2	1.3
RoRWA	1.4	1.5	1.9	1.9	1.8	1.7	1.8
Book Value (INR)	81	89	102	119	137	151	171
-growth (%)	10.9	10.7	13.7	17.6	14.9	9.8	13.3
Price-BV (x)	<b>2.4</b>	<b>2.2</b>	<b>1.9</b>	<b>1.6</b>	<b>1.4</b>	<b>1.3</b>	<b>1.1</b>
Adjusted BV (INR)	72.7	81.6	94.1	112.8	131.3	143.6	162.4
Price-ABV (x)	<b>2.7</b>	<b>2.4</b>	<b>2.1</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>
EPS (INR)	8.0	9.2	14.3	16.3	16.6	18.0	22.5
-growth (%)	2.8	15.6	54.8	14.5	1.8	8.4	24.9
Price-Earnings (x)	<b>24.6</b>	<b>21.3</b>	<b>13.7</b>	<b>12.0</b>	<b>11.8</b>	<b>10.9</b>	<b>8.7</b>
Dividend Per Share (INR)	0.0	0.7	1.8	1.0	1.5	2.0	2.5
Dividend Yield (%)	<b>0.0</b>	<b>0.3</b>	<b>0.9</b>	<b>0.5</b>	<b>0.8</b>	<b>1.0</b>	<b>1.3</b>

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

**Disclosures**

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