

BUY

TP: Rs 249 | ▲ 27%

FEDERAL BANK

| Banking

| 01 May 2025

Improving advances mix; PAT beats estimate on recoveries

- **Focus on medium and high-yielding segments to drive loan growth. CASA profile stable; aided by rise in CA deposits**
- **In-line PPOP while PAT beat estimates by 12%, due to lower credit costs. Asset quality improved**
- **Maintain BUY. Raise SOTP-based TP to Rs 249 (from Rs 236); implying 1.4x FY27E ABV**

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Focus on medium/high-yielding segments to drive loan growth: FB reported loan growth of 12% YoY (+2% QoQ) in Q4FY25. Loan growth was in line with its strategy to focus on medium-yielding segments (CV/CE, LAP, auto, gold) that saw a rise in its gross advances share to 47% (45% in Q4FY24). Share of low-yielding segments (housing, CIB) witnessed a decline in gross loans to 48% (50% in Q4FY24). Within the high-yielding segments, credit cards increased by 19% YoY while PL declined by 2% YoY. PL book growth is expected to improve in FY26 with the management planning to relax its tightened underwriting norms. Loan growth was supported by deposit growth (+12% YoY; +6% QoQ), resulting in the CD ratio improving to 83% (-3.7% QoQ). CASA ratio remained stable sequentially at 30%, however, CA deposits grew at a high pace of 27% QoQ, which was in line with its strategy. Management expects CASA to improve to 36% in the next three years.

PPoP in-line while PAT beat estimates by 12%, due to lower credit costs: At Rs 14.7bn (-7% QoQ), PPoP was in line with our estimates; while PAT at Rs 10.3bn was 12% high vs our estimates. This was largely on account of lower credit costs (-53% QoQ; -38% from our estimates) driven by corporate recovery from a few accounts. NIMs were stable at 3.1% and management expects to maintain similar levels. C/I ratio increased to 56.7% (+3.6% QoQ), owing to 39 branches being opened in Q4FY25. Further, C/I ratio is expected to stay elevated in the 53-54% range in the next three years. With lower credit costs, RoA/RoE improved to 1.2%/12.3% in Q4FY25.

Asset quality improved: Asset quality improved with GNPA falling to 1.84% (-11bps QoQ). Improvement in GNPA was led by higher upgrades (+30% QoQ) and marginally lower slippages (-1% QoQ). PCR improved to 76% (+1.1% QoQ).

Maintain BUY: FB's strategy to position itself closer to the top private sector banks driven by changes in its assets and liabilities profile, is expected to result in steady business growth and improved return profile. We expect these strategic initiatives to take time to bear fruit and would be watchful. We model advances growth CAGR of 16% over FY25-27E with RoA/RoE of 1.2%/13.6% in FY27E. We value the bank at 1.4x FY27E ABV and maintain a BUY rating with revised TP of Rs 249 (from Rs 236).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FB IN/Rs 197
Market cap	US\$ 5.7bn
Free float	100%
3M ADV	US\$ 16.7mn
52wk high/low	Rs 217/Rs 148
Promoter/FPI/DII	0%/26%/49%

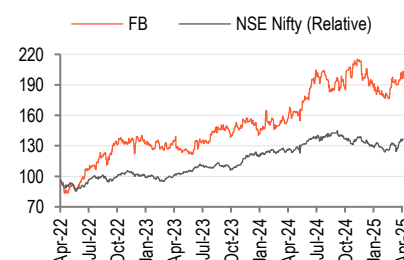
Source: NSE | Price as of 30 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	94,680	1,06,675	1,27,572
NII growth (%)	14.2	12.7	19.6
Adj. net profit (Rs mn)	40,519	44,912	54,421
EPS (Rs)	16.6	18.3	22.2
Consensus EPS (Rs)	16.5	19.0	22.3
P/E (x)	11.9	10.8	8.9
P/BV (x)	1.4	1.3	1.1
ROA (%)	1.2	1.2	1.2
ROE (%)	13.0	12.7	13.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

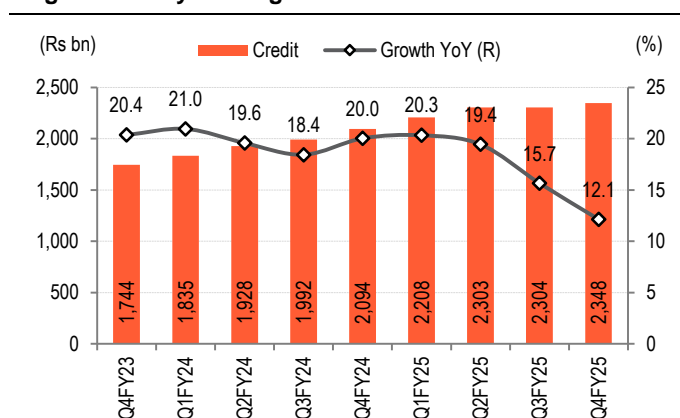
(Rs mn)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
Income Statement							
Interest Income	47,419	50,261	52,420	54,637	52,848	11.45	(3.27)
Income on investments	10,326	11,083	11,357	11,474	11,504	11.42	0.26
Int. on bal. with RBI & inter-bank funds & Others	2,039	1,965	1,996	1,976	2,131	4.52	7.85
Interest income	59,784	63,309	65,773	68,087	66,484	11.21	(2.36)
Interest expense	37,832	40,389	42,101	43,773	42,709	12.89	(2.43)
Net interest income	21,951	22,920	23,672	24,314	23,774	8.31	(2.22)
Growth YoY (%)	15.0	19.5	15.1	14.5	8.3		
Non-interest income	7,539	9,152	9,640	9,162	10,060	33.44	9.80
Growth YoY (%)	2.7	25.0	32.0	6.2	33.4		
Total income	29,490	32,072	33,312	33,476	33,834	14.73	1.07
Growth YoY (%)	11.6	21.0	19.5	12.1	14.7		
Staff expenses	8,869	7,380	7,777	7,832	7,838	(11.62)	0.09
Other operating expenses	9,518	9,682	9,882	9,949	11,342	19.16	14.00
Operating expenses	18,386	17,063	17,658	17,781	19,180	4.32	7.87
Pre-Provisioning Profit (PPoP)	11,104	15,009	15,654	15,696	14,654	31.98	(6.64)
Growth YoY (%)	(16.8)	15.2	18.2	9.2	32.0		
Provisions	(946)	1,443	1,584	2,923	1,381	(245.99)	(52.76)
Growth YoY (%)	(181.1)	(7.3)	260.7	220.5	(246.0)		
PBT	12,050	13,566	14,070	12,772	13,273	10.15	3.92
Tax	2,987	3,471	3,503	3,217	2,971	(0.53)	(7.66)
PAT	9,063	10,095	10,567	9,555	10,302	13.67	7.82
Growth YoY (%)	0.4	18.2	10.8	(5.1)	13.7		
Per Share							
FV (Rs)	2.0	2.0	2.0	2.0	2.0	-	-
EPS (Rs)	3.7	4.1	4.3	3.9	4.2	12.90	7.97
Book Value (Rs)	119	124	127	131	135	12.91	3.20

Source: BOBCAPS Research, Company

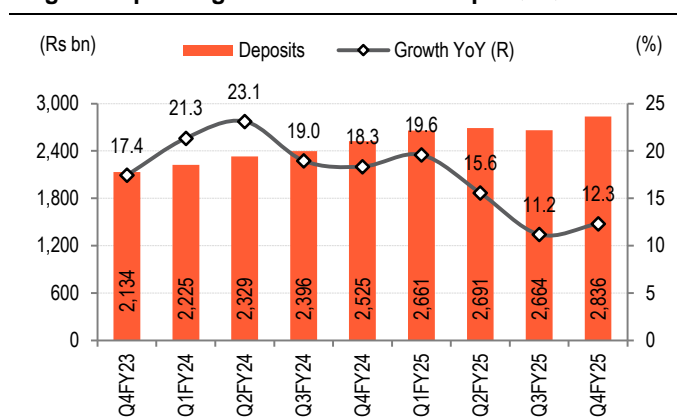
Fig 2 – Quarterly snapshot: Key balance sheet parameters & ratios

(Rs mn)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
Deposits	25,25,340	26,60,650	26,91,070	26,63,750	28,36,475	12.32	6.48
Growth YoY (%)	18.3	19.6	15.6	11.2	12.3		
Advances	20,94,033	22,08,070	23,03,120	23,03,700	23,48,364	12.15	1.94
Growth YoY (%)	20.0	20.3	19.4	15.7	12.1		
Investment	6,08,595	6,38,320	6,46,620	6,64,410	6,62,456	8.85	(0.29)
Equity	2,90,944	3,05,650	3,14,560	3,23,340	3,34,206	14.87	3.36
Assets	30,83,118	32,79,720	33,55,420	33,99,050	34,90,048	13.20	2.68
Growth YoY (%)	18.4	19.6	16.7	14.8	13.2		
Yield (%)							
Yield on Funds	8.43	8.46	8.39	8.50	8.12	(31bps)	(38bps)
Cost of Funds	5.74	5.79	5.80	5.96	5.67	(7bps)	(28bps)
Spread	2.70	2.67	2.59	2.54	2.45	(25bps)	(9bps)
Net Interest Margin (calc.)	3.10	3.06	3.02	3.04	2.90	(19bps)	(13bps)
Ratios (%)							
Other Income / Net Income	25.6	28.5	28.9	27.4	29.7	417bps	236bps
Cost to Income ratio	62.3	53.2	53.0	53.1	56.7	(566bps)	357bps
CASA ratio	29.4	29.3	30.1	30.2	30.2	85bps	7bps
C/D ratio	82.9	83.0	85.6	86.5	82.8	(13bps)	(369bps)
Investment to Assets	19.7	19.5	19.3	19.5	19.0	(76bps)	(57bps)
Assets Quality							
GNPA	45,289	47,384	48,845	45,530	43,755	(3.39)	(3.90)
NNPA	12,553	13,304	13,223	11,312	10,404	(17.12)	(8.03)
Provision	32,735	34,079	35,622	34,218	33,352	1.88	(2.53)
GNPA (%)	2.13	2.11	2.09	1.95	1.84	(29bps)	(11bps)
NNPA (%)	0.60	0.60	0.57	0.49	0.44	(16bps)	(5bps)
PCR (%)	72.3	71.9	72.9	75.2	76.2	394bps	107bps
Others (nos)							
Branches	1,504	1,518	1,533	1,550	1,589	85	39
ATMs	2,015	2,041	2,052	2,054	2,080	65	26

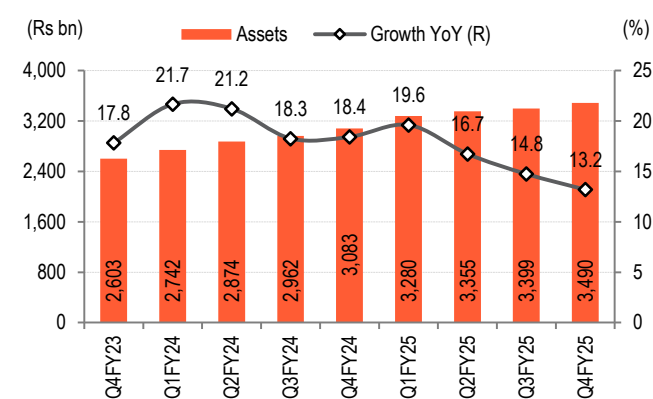
Source: Company, BOBCAPS Research

Fig 3 – Healthy credit growth

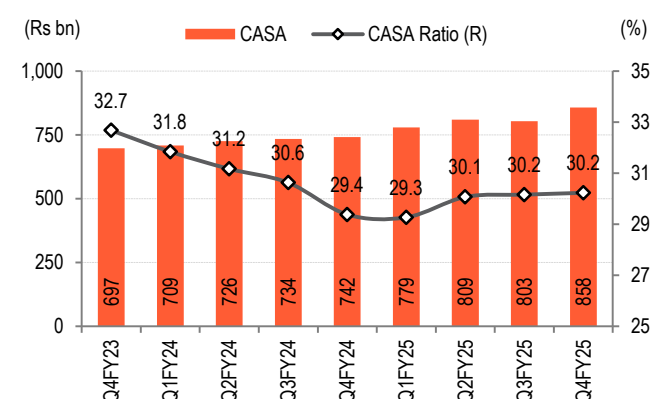
Source: Company, BOBCAPS Research

Fig 4 – Deposits growth increased 114bps QoQ

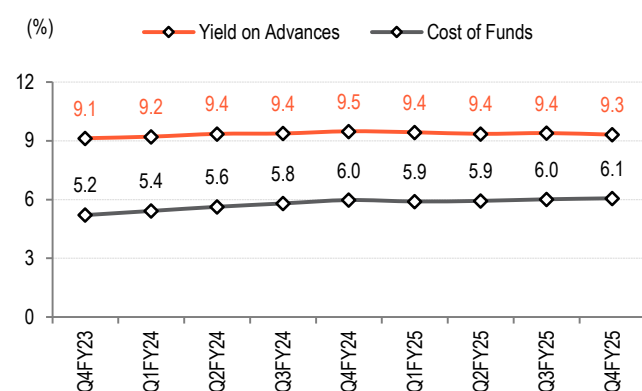
Source: Company, BOBCAPS Research

Fig 5 – Assets grew 13.2% YoY

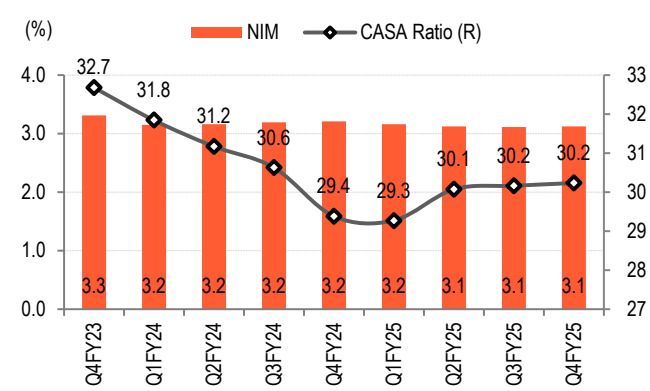
Source: Company, BOBCAPS Research

Fig 6 – CASA ratio remains stable with focus on CA

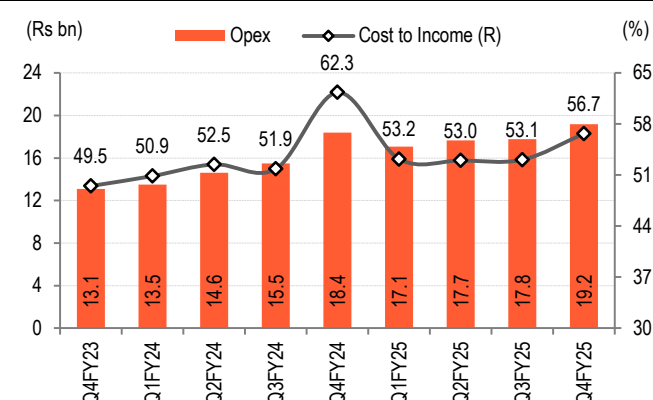
Source: Company, BOBCAPS Research

Fig 7 – Yields and cost of funds moderated

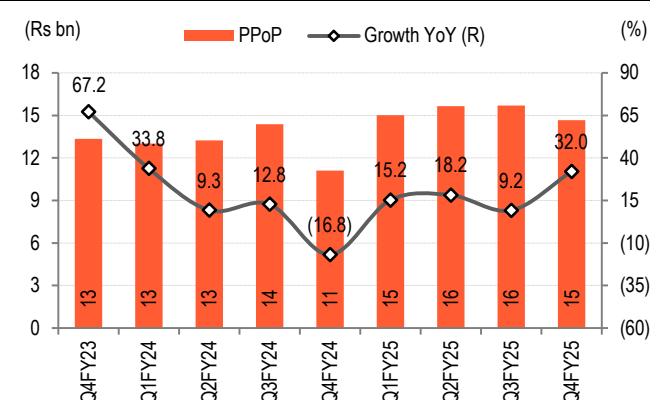
Source: Company, BOBCAPS Research

Fig 8 – NIMs remained stable

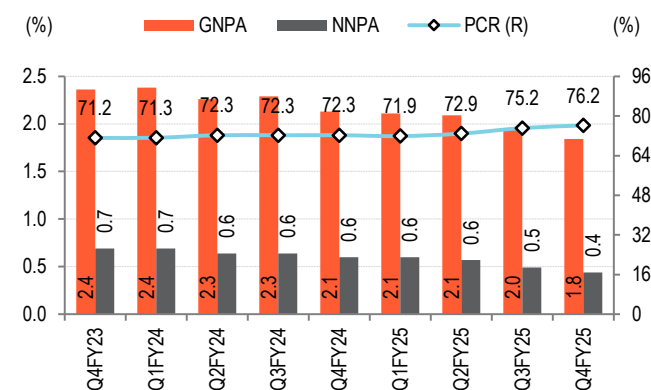
Source: Company, BOBCAPS Research

Fig 9 – C/I ratio to remain elevated

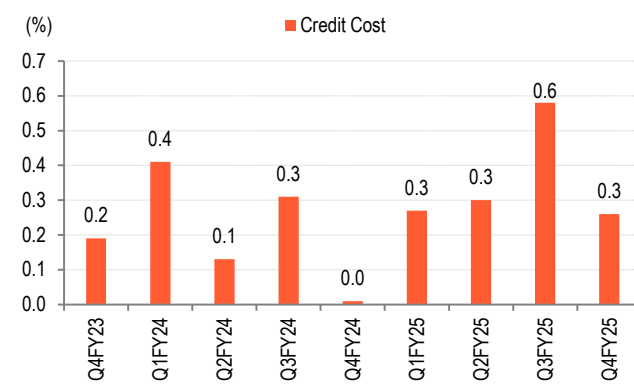
Source: Company, BOBCAPS Research

Fig 10 – PPOp increased 32% YoY on a lower base

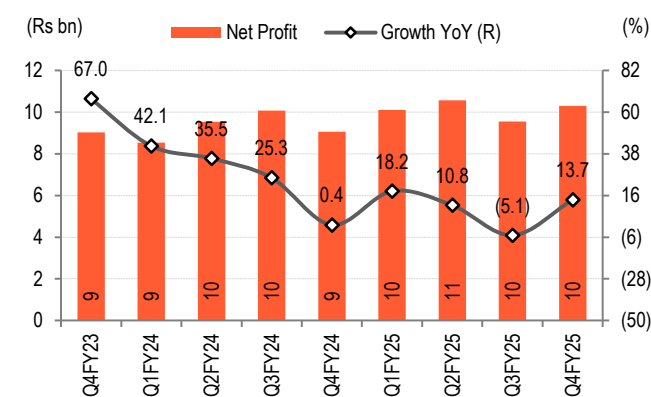
Source: Company, BOBCAPS Research

Fig 11 – Asset Quality improving

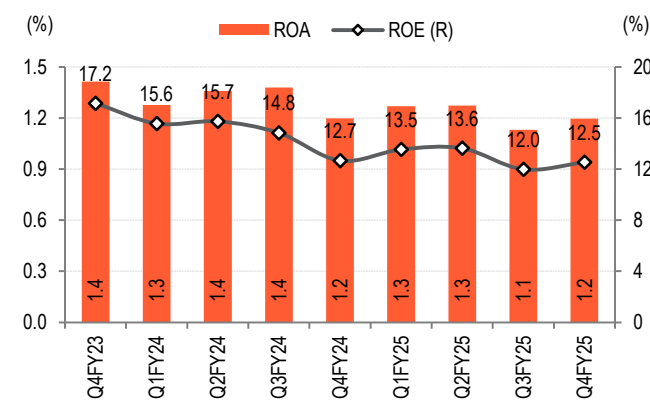
Source: Company, BOBCAPS Research

Fig 12 – Credit Cost aided by corporate account recovery

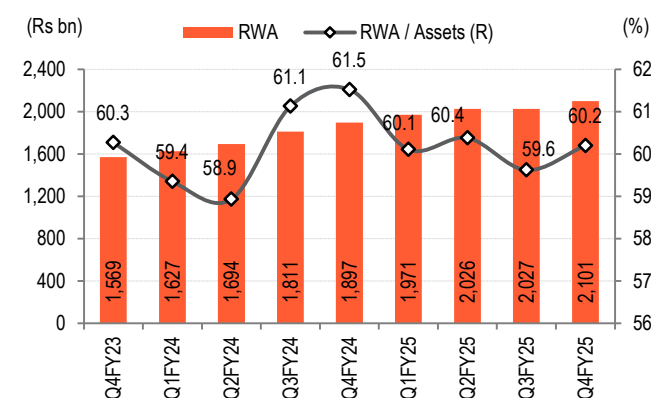
Source: Company, BOBCAPS Research

Fig 13 – Net Profit aided by lower credit costs

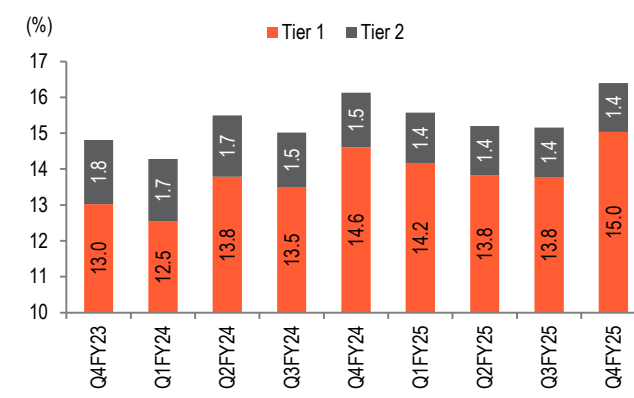
Source: Company, BOBCAPS Research

Fig 14 – Return Ratios improved sequentially

Source: Company, BOBCAPS Research

Fig 15 – RWA expected to stabilise at ~60% mark

Source: Company, BOBCAPS Research

Fig 16 – Healthy Capital position

Source: Company, BOBCAPS Research

Earnings call highlights

Guidance

- Aiming for a 1.5x system growth rate in advances over the medium term, driven by focus on high/medium yielding segments.
- Management expects C/I ratio to remain elevated in the 53-54% range in the next three years.
- CASA ratio is expected to improve to 36% in the next three years, largely aided by focus on CA deposits.

Performance

- FB reported advances growth of 12% YoY (+2% QoQ), while deposits rose 12% YoY (+6% QoQ). Focus on growing medium/high-yielding segments to drive loan growth.
- NII came in at Rs 23.8bn, up 8% YoY (-2% QoQ). Other income grew 33% YoY (+10% QoQ), largely supported by higher fee income growth (+6% QoQ). Yield on advances declined by 8bps QoQ. CoF increased by 5bps QoQ. This led to a marginal increase in NIMs by 1bp QoQ to 3.12%.
- FB focuses on ramping up the share of medium-yielding segments such as LAP was up 20.4% YoY (6% QoQ), Auto rose 17.8% YoY (1.6% QoQ), among others. Within the high-yielding segments, credit cards increased by 19% YoY, while PL declined by 2% YoY. PL book growth is expected to improve in FY26 with management planning to relax underwriting norms.
- Opex was up 4% YoY and 8% sequentially. Cost to income ratio remained elevated at 56.7% in Q4FY25. PPOP increased 32% YoY and -7% QoQ sequentially.
- Provisions at Rs 1.4bn vs Rs2.9bn in Q3FY25 vs Rs -0.9bn in Q4FY24. Hence, credit cost decreased to 26bps vs 58bps in Q3FY25.
- PAT came in at Rs 10.3bn, up 14% YoY and 8% QoQ.
- CD ratio decreased to 82.8% vs 86.5% in Q3FY25 and 82.9% in Q4FY24. LCR stood at 141.95% vs 118.53% in Q3FY25, mainly supported by degrowth in wholesale deposits from financial entities.

Deposits

- Deposits grew by 12% YoY (Current and Savings accounts grew 35% YoY and 11% YoY respectively).
- CASA ratio stood at 30.2%, same as Q3FY25. However, the average CASA ratio grew 2% QoQ, reflecting improving operational focus on sustainable deposit growth.
- The bank registered 10% YoY growth in NRE deposits, showcasing its popularity among non-resident customers.

Asset quality

- GNPA improved by 11bps QoQ to 1.84% and NNPA by 5bps QoQ to 0.44% in Q4FY25. PCR increased to 76.22% vs 75.16% in Q3FY25 and 72.28% in Q4FY24. Slippage ratio remained flattish at 0.85% vs. 0.86% in Q3FY25.
- Slippages declined in retail book (-12% QoQ) while increased in Agri (MFI) portfolio (+39% QoQ).
- The bank witnessed recovery from a corporate account of Rs 970 mn in Q4FY25.

Valuation methodology

FB's strategy to position itself closer to top private sector banks, driven by changes in its assets and liabilities profile, is expected to result in steady business growth and improved return profile. We expect these strategic initiatives to take time to bear fruit and would be watchful. We model advances growth CAGR of 16% over FY25-27E with RoA/RoE of 1.2%/13.6% in FY27E. We value the bank at 1.4x FY27E ABV and maintain BUY with revised TP of Rs 249 (from Rs 236).

Fig 17 – Actuals vs BOBCAPS Estimates

(Rs mn)	Q4FY25A	Q4FY25E	Variance (%)
Loan	23,48,364	23,66,258	(0.8)
Deposits	28,36,475	27,52,621	3.0
Assets	34,90,048	35,06,655	(0.5)
NII	23,774	24,488	(2.9)
PPoP	14,654	14,507	1.0
Provision	1,381	2,218	(37.7)
PAT	10,302	9,192	12.1

Source: Company, BOBCAPS Research

Fig 18 – Key operational assumptions

(%)	FY23A	FY24A	FY25	FY26E	FY27E
Advances growth	20.4	20.0	12.1	16.0	17.0
NII growth	21.3	14.7	14.2	12.7	19.6
PPoP growth	27.6	7.9	17.9	11.8	19.8
PAT growth	59.3	23.6	8.9	10.8	21.2
NIM	3.3	3.2	3.1	3.0	3.1
GNPA	2.3	2.1	1.8	1.7	1.6
CAR	14.8	16.1	16.4	16.0	15.8

Source: Company, BOBCAPS Research

Fig 19 – Valuation summary

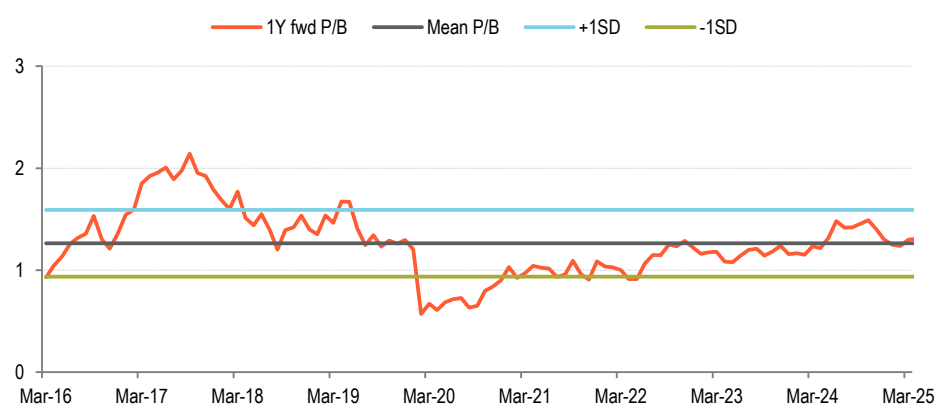
Business	Valuation	Holdings (%)	Value (Rs/sh)
Federal Bank	1.4x FY27E ABV	100	240
Fed Financial Services	Market cap	61.03%	9
Total			249

Source: Company, BOBCAPS Research

Fig 20 – Valuation assumptions

Gordon Growth Model	Assumptions
Cost of equity (%)	11.9
Blended ROE (%)	13.4
Initial high growth period (years)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	5
Long term dividend payout ratio (%)	60
Justified P/BV (x)	1.4

Source: BOBCAPS Research

Fig 21 – PB band chart

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- reversal in credit cycle, which can lead to higher deterioration in asset quality and thus overall profitability owing to higher provisions;
- inability to manage cost of funds, which may drag NIM as well as overall profitability; and,
- inability of management to implement the new strategy.

Glossary

Glossary of Abbreviations			
AUCA	Advance Under Collection Account	MTM	Mark to Market
CASA	Current Account and Savings Account	NII	Net Interest Income
CAR	Capital Adequacy Ratio	NIM	Net Interest Margin
CET1	Common Equity Tier 1	NNPA	Net Non-Performing Assets
CD	Credit-Deposit Ratio	NRE	Non-Resident (External) Account
C/I	Cost-Income Ratio	NRO	Non-Resident Ordinary Account
CV/CE	Commercial Vehicle/Construction Equipment	PCR	Provision Coverage Ratio
EBLR	External Benchmark-based Lending Rate	PPOP	Pre-Provision Operating Profit
ECL	Expected Credit Loss	PSU	Public Sector Unit
FCNR	Foreign Currency Non-Resident Account	RWA	Risk-weighted Assets
GNPA	Gross Non-Performing Assets	SA	Savings Account
LCR	Liquidity Coverage Ratio	SLR	Statutory Liquidity Ratio
LDR	Loan to Deposit Ratio	SMA	Special Mention Account
MCLR	Marginal Cost of Funds-based Lending Rate	SME	Small and Medium-sized Enterprises
MFI	Microfinance Institution		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Net interest income	72,322	82,935	94,680	1,06,675	1,27,572
NII growth (%)	21.3	14.7	14.2	12.7	19.6
Non-interest income	23,300	30,793	38,013	43,392	50,005
Total income	95,622	1,13,728	1,32,692	1,50,066	1,77,577
Operating expenses	47,678	61,983	71,681	81,839	95,858
PPOP	47,944	51,745	61,011	68,227	81,718
PPOP growth (%)	27.6	7.9	17.9	11.8	19.8
Provisions	7,176	1,961	7,331	7,862	8,571
PBT	40,768	49,784	53,681	60,365	73,147
Tax	10,662	12,578	13,162	15,453	18,726
Reported net profit	30,106	37,206	40,519	44,912	54,421
Adjustments	0	0	0	0	0
Adjusted net profit	30,106	37,206	40,519	44,912	54,421

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Equity capital	4,232	4,871	4,912	4,912	4,912
Reserves & surplus	2,10,830	2,86,074	3,29,295	3,70,928	4,21,540
Net worth	2,15,062	2,90,944	3,34,206	3,75,839	4,26,451
Deposits	21,33,860	25,25,340	28,36,475	32,47,764	37,51,167
Borrowings	1,93,193	1,80,264	2,37,263	3,08,442	3,91,721
Other liab. & provisions	61,303	86,570	82,104	1,24,275	1,47,071
Total liab. & equities	26,03,418	30,83,118	34,90,048	40,56,320	47,16,410
Cash & bank balance	1,76,887	1,89,629	3,08,592	3,58,970	4,19,936
Investments	4,89,833	6,08,595	6,62,456	7,52,499	8,46,900
Advances	17,44,469	20,94,033	23,48,364	27,24,102	31,87,199
Fixed & Other assets	1,92,229	1,90,860	1,70,636	2,20,749	2,62,374
Total assets	26,03,418	30,83,118	34,90,048	40,56,320	47,16,410
Deposit growth (%)	17.4	18.3	12.3	14.5	15.5
Advances growth (%)	20.4	20.0	12.1	16.0	17.0

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
EPS	14.3	16.3	16.6	18.3	22.2
Dividend per share	1.0	1.3	1.2	1.3	1.6
Book value per share	101.6	119.5	136.1	153.0	173.6

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
P/E	13.8	12.0	11.9	10.8	8.9
P/BV	1.9	1.6	1.4	1.3	1.1
Dividend yield (%)	0.5	0.7	0.6	0.7	0.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Net interest income	3.0	2.9	2.9	2.8	2.9
Non-interest income	1.0	1.1	1.2	1.2	1.1
Operating expenses	2.0	2.2	2.2	2.2	2.2
Pre-provisioning profit	2.0	1.8	1.9	1.8	1.9
Provisions	0.3	0.1	0.2	0.2	0.2
PBT	1.7	1.8	1.6	1.6	1.7
Tax	0.4	0.4	0.4	0.4	0.4
ROA	1.3	1.3	1.2	1.2	1.2
Leverage (x)	11.9	11.2	10.5	10.6	10.9
ROE	14.9	14.7	13.0	12.7	13.6

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
YoY growth (%)					
Net interest income	21.3	14.7	14.2	12.7	19.6
Pre-provisioning profit	27.6	7.9	17.9	11.8	19.8
EPS	54.8	14.5	1.3	10.4	21.2
Profitability & Return ratios (%)					
Net interest margin	3.3	3.2	3.1	3.0	3.1
Fees / Avg. assets	0.2	0.2	0.2	0.2	0.2
Cost-Income	49.9	54.5	54.0	54.5	54.0
ROE	14.9	14.7	13.0	12.7	13.6
ROA	1.3	1.3	1.2	1.2	1.2
Asset quality (%)					
GNPA	2.3	2.1	1.8	1.7	1.6
NNPA	0.7	0.6	0.4	0.4	0.4
Slippage ratio	1.2	1.0	0.9	0.8	0.8
Credit cost	0.4	0.1	0.3	0.3	0.3
Provision coverage	70.5	71.7	75.8	75.8	75.8
Ratios (%)					
Credit-Deposit	81.8	82.9	82.8	83.9	85.0
Investment-Deposit	23.0	24.1	23.4	23.2	22.6
CAR	14.8	16.1	16.4	16.0	15.8
Tier-1	13.0	14.6	15.0	14.5	14.2

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

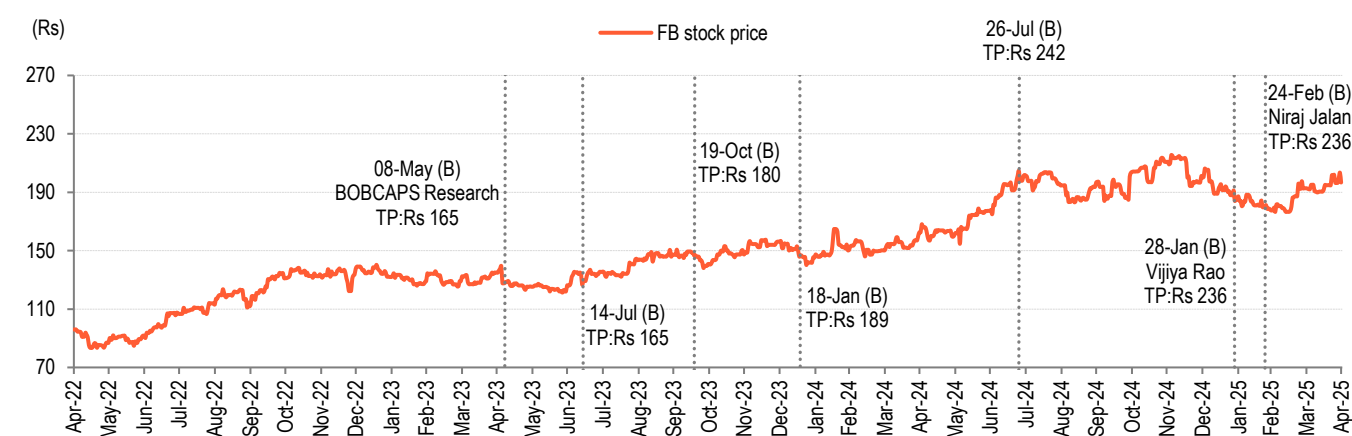
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): FEDERAL BANK (FB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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