

Federal bank (FB) posted good set of numbers for 2QFY25. NII for the quarter came in at ~Rs23bn (up +20%/4% YoY/QoQ) which was broadly in line with our estimates. Net Advances grew 19%/4% YoY/QoQ; Similarly, deposits grew 16%/1% YoY/QoQ – which were lower than anticipated leading to increase in LDR to ~85%. However, the management has indicated that Deposits growth would pick up and match advances growth incrementally. NIMs (reported) were marginally lower at 3.12% vs. 3.16% in 1QFY25 primarily due to reclassification of penal charge in other income vs. NII before. CTI for the quarter was higher at 53.0% vs. 52.5%/53.2% in 2QFY24/1QFY25. PPOP at Rs15.7bn, (higher by 18% YoY) due to higher other income. The loan loss provision came in at Rs1,584mn vs. Rs1,556mn in 2QFY24 at 28bps. Resultantly, PAT came at Rs10.6bn (11% YoY) vs our estimates of Rs9.5bn. CRAR came in at 15.2%. GNPA and NNPA were lower sequentially at 2.11% and 0.6%, respectively with improvement +100bps sequential improvement in PCR. With the management transition, investors have set clear priorities: 1) enhancing NIMs, 2) reducing opex, and 3) improving the overall return profile. The new leadership has indicated that they will outline their strategic approach to address these areas by the next quarter. We view these development very positively. Also, we roll over to 1HFY27E and continue to assign 1.5x P/B to arrive at our revised target price of Rs250. Maintain BUY with an upside of 35% from current levels.

#### Strong profitability driven by pristine asset quality

NII came in at ~Rs23bn, (+20% YoY/4% QoQ) which was slightly below our estimates. Notably, PPOP came at Rs15.7bn, an increase by 18%/4% YoY/QoQ. CTI for the quarter came at 53.0% (52.5%/53.2% in 2QFY24/1QFY25). Going ahead, management expects improvement in CTI in 2HFY25. Furthermore, the loan loss provision for quarter came in at Rs1,584mn vs. 1,556mn in 2QFY24 within the guided range of ~35bps. Resultantly, PAT came at Rs10.6bn (+11% YoY).

#### Gross advances growth lead by retail advances

Gross advances grew by an impressive +22% YoY/~4% QoQ, reaching Rs2.3Tn. Importantly, this growth was driven by higher yielding retail advances – RA (+27%/~5% YoY/QoQ). Wholesale advances grew by +17%/3% YoY/QoQ with focus on granular lending. The wholesale and retail mix came at 44:56.

#### Deposits grew by mere 1% but management is confident of better performance going ahead

Total deposits at Rs2.7Tn (+16%/+1% YoY/QoQ) growth was muted during the quarter. FB's CASA ratio witnessed an increase of 80bps sequentially and stood at 30.1% (31.2% in Q2FY24). TD stood at Rs1.9Tn (up 17%/0% YoY/QoQ). Further, the LDR ratio is very comfortable at ~86%. Moreover, CASA+ Retail TD stood at 80%. NR savings deposits have gone up due to various efforts taken like feet on street.

#### Reasonable valuations: Maintain BUY

Going ahead, management expects the momentum of growth and profitability to continue on the back of its retail franchise. However, we have factored slight NIMs moderation (to factor in competitive scenario), operating leverage (linked to maturity of branches) and normalization of credit cost. Resultantly, we bake in AUM/PPOP/PAT CAGR at 19%/21%/18% over FY24-27E and expect RoA/RoE to be maintained at 1.3%/15.0%. We maintain our BUY rating, with a revised target price of Rs250, assigning a 1.5x multiple to 1HFY27E ABV.

#### Financial and valuation summary

YE Mar (Rs mn)	2QFY25A	2QFY24A	YoY (%)	1QFY25A	QoQ (%)	FY25E	FY26E	FY27E
NII	23,672	20,564	15.1	22,920	3.3	94,528	114,806	137,096
PPOP	15,654	13,245	18.2	15,009	4.3	62,153	78,967	91,520
Provisions	1,584	439	260.7	1,443	9.8	6,949	8,199	9,675
Net profit	10,567	9,538	10.8	10,095	4.7	41,403	53,076	61,384
Loan growth (%)	19.4	19.6		20.3		18.0	18.0	18.0
NIM (%)	3.2	3.3		3.2		3.1	3.2	3.2
Cost/income (%)	53.0	52.5		53.2		54.0	51.5	52.0
GNPA (%)	2.1	2.3		2.1		2.0	2.0	1.9
RoA (%)	1.4	1.5		1.3		1.2	1.3	1.3
RoE (%)	14.7	16.6		15.3		13.3	15.0	15.0
P/ABV (x)						1.2	1.0	0.9

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

#### Market Data

Bloomberg:	FB IN
52 week H/L:	207/137
Market cap:	Rs453.5bn
Shares Outstanding:	2451.6mn
Free float:	83.8%
Avg. daily vol. 3mth:	1,08,57,920
Source:	Bloomberg

#### Changes in the report

Rating:	Unchanged
Target price:	Changed from Rs232 to Rs250
ABVS:	FY25E;129.0 FY26E;150.1

Source: Centrum Broking

#### Shareholding pattern

	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	0.0	0.0	0.0	0.0
FIIs	27.7	28.6	28.6	29.4
DIIIs	47.2	45.2	45.4	44.7
Public/other	25.1	26.2	26.0	25.9

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY25	Actual Q2FY25	Variance (%)
NII	24,076	23,672	-1.7
PPOP	14,364	15,654	9.0
PAT	9,478	10,567	11.5

Source: Company, Centrum Broking



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## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
NII	94,528	93,869	0.7	1,14,806	1,14,109	0.6
PPOP	62,153	58,962	5.4	78,967	76,412	3.3
PAT	41,403	39,397	5.1	53,076	51,616	2.8

Source: Centrum Broking

### Federal Bank versus NIFTY Mid Cap 100

	1m	6m	1 year
fb in equity	(4.5)	17.8	32.6
NIFTY Mid Cap 100	(7.7)	9.6	44.0

Source: Bloomberg, NSE

### Key assumptions

Y/E Mar	FY25E	FY26E
AUM Growth	20.0	18.0
NII Growth	14.0	21.6
Other Inc./Assets	1.2	1.2
Opex/Assets	2.2	2.1
Provision Cost	0.3	0.3

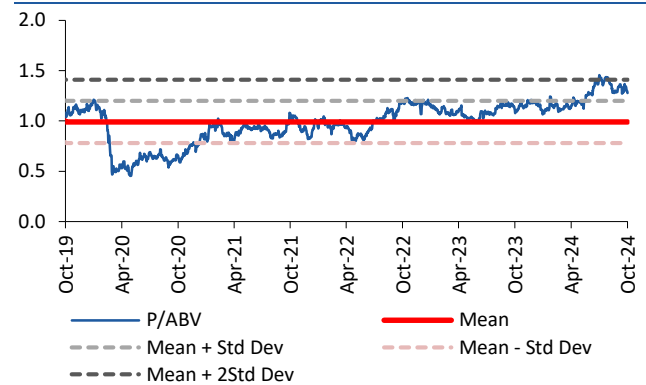
Source: Centrum Broking

### Valuations

We bake in AUM/PPOP/PAT CAGR at 19%/21%/18% over FY24-27E and expect RoA/RoE to be maintained at 1.3%/15.0%. Hence we maintain our BUY rating, with a revised target price of Rs250, assigning a 1.5x multiple to 1HFY27E ABV.

Valuations	Rs/share
ABV 1HFY27E	161
Target multiple	1.5
	<b>242</b>
FEDFINA @20% disc.	8
<b>Target</b>	<b>250</b>

### P/ABV mean and standard deviation



Source: Bloomberg, Centrum Broking

### Peer comparison

Company	EPS (Rs)				BVPS (Rs)				RoAA (%)				RoAE (%)			
	FY23A	FY24A	FY25E	FY26E	FY23A	FY24A	FY25E	FY26E	FY23A	FY24A	FY25E	FY26E	FY23A	FY24A	FY25E	FY26E
City Union Bank	12.6	13.6	14.9	16.5	100.7	113.4	125.6	140.1	1.5	1.5	1.5	1.5	13.4	12.8	12.5	12.4
RBL Bank	15.3	20.8	17.8	27.8	225.6	245.2	263.9	284.4	0.8	1.0	0.7	1.0	7.1	8.9	7.1	10.2
IDFC First Bank	3.7	4.2	3.0	6.2	39.1	45.6	50.5	56.6	1.1	1.1	0.7	1.1	10.1	10.1	6.4	11.5
Bandhan Bank	13.6	13.8	23.5	26.9	121.6	134.1	156.3	179.4	1.5	1.3	2.0	1.9	11.9	10.8	16.2	16.0
<b>Average</b>	<b>11.3</b>	<b>13.1</b>	<b>14.8</b>	<b>19.4</b>	<b>121.8</b>	<b>134.6</b>	<b>149.1</b>	<b>165.1</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.4</b>	<b>10.6</b>	<b>10.7</b>	<b>10.6</b>	<b>12.5</b>
<b>Federal Bank</b>	<b>14.2</b>	<b>15.3</b>	<b>17.0</b>	<b>21.8</b>	<b>101.6</b>	<b>119.5</b>	<b>135.5</b>	<b>155.9</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>14.9</b>	<b>14.7</b>	<b>15.0</b>	<b>15.0</b>

Company	Mcap (Rs mn)	P/E (x)				P/BV (x)			
		FY23A	FY24A	FY25E	FY26E	FY23A	FY24A	FY25E	FY26E
City Union Bank	1,27,290	12.7	12.6	11.5	10.3	1.5	1.4	1.3	1.2
RBL Bank	1,01,210	15.4	11.3	9.1	5.8	1.9	0.7	0.7	0.6
IDFC First Bank	5,02,320	20.3	15.9	22.1	10.7	1.7	1.4	1.3	1.2
Bandhan Bank	2,97,720	14.0	10.0	7.9	7.0	1.6	1.4	1.2	1.0
<b>Average</b>		<b>15.6</b>	<b>12.5</b>	<b>12.7</b>	<b>8.5</b>	<b>1.7</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>
<b>Federal Bank</b>	<b>4,53,710</b>	<b>9.3</b>	<b>12.1</b>	<b>10.9</b>	<b>8.5</b>	<b>1.3</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>

**Exhibit 1: Key conference call takeaways and metrics**

Centrum Quarterly Monitor	Q1FY25	Q2FY25	Our Comments
<b>Margins and Profitability</b>	<ul style="list-style-type: none"> <li>FY25 CTI: 53% and 50% in 1-2years.</li> <li>NIMs margin guidance maintained at 3.15%-3.25%.</li> <li>*RoA and RoE – 1.3% (similar levels) and ~13.5%.</li> </ul>	<ul style="list-style-type: none"> <li>FY25 CTI: 53% and 50% in 1-2years.</li> <li>NIMs margin guidance maintained at 3.15%-3.25%.</li> <li>*RoA and RoE – 1.3% (similar levels) and ~13.5%*</li> </ul>	<ul style="list-style-type: none"> <li>Federal Bank has been consistently maintaining its margin and return profile and we bake in this performance</li> </ul>
<b>Asset quality</b>	<ul style="list-style-type: none"> <li>Credit cost has remained stable and outlook remains robust.</li> <li>Slippages and overall asset quality is in line with earlier guidance.</li> </ul>	<ul style="list-style-type: none"> <li>Growth in high yielding products has been calibrated considering the macro environment.</li> <li>Current slippages and asset quality will hold with marginal uptick.</li> <li>Unsecured advances are 4.6% of total advances.</li> </ul>	<ul style="list-style-type: none"> <li>Federal bank has witnessed one of the best asset quality performance in the Industry.</li> </ul>
<b>Outlook and guidance</b>	<ul style="list-style-type: none"> <li>Management is confident that the trajectory of growth would continue backed on various capabilities.</li> <li>Management had talks with RBI on getting clearance to restart issuing Co-Branded credit cards and is expected to get clarity by 3Q</li> <li>NRE deposits were coming down post Covid however during 1QFY25 money which was getting invested is getting parked into deposits.</li> </ul>	<ul style="list-style-type: none"> <li>Advances &amp; Deposits growth maintained ~18%.</li> <li>CC embargo is expected to be lifted soon.</li> <li>NR savings deposits have gone up due to various efforts taken like feet on street.</li> </ul>	<ul style="list-style-type: none"> <li>With the management transition, investors have set clear priorities: 1) enhancing NIMs, 2) reducing Opex, and 3) improving the overall return profile.</li> <li>The new leadership has indicated that they will outline their strategic approach to address these areas by the next quarter.</li> </ul>

Source: Centrum Broking

## Earnings concall KTAs

### Opening remarks

- Federal bank reported highest ever yearly profits and operating profits.
- Diversification helps bank to achieve strong growth across products.
- NRE led deposits has picked up in this quarter vs. decline in last few quarters.
- Credit quality has remained stable and outlook remains robust.

### Guidance

- NIMs margin guidance maintained at 3.15%-3.25%.
- Focus is on mobilisation of Deposits and CASA.
- Current slippages and asset quality will hold with marginal uptick.
- RoA and RoE – 1.3% (similar levels) and ~13.5%.**

### Advances and deposits

- Advances & Deposits growth maintained ~18%.**
- Unsecured advances are 4.6% of total advances.
- CC embargo is expected to be lifted soon.
- GL is predominantly organic and Fintechs tie up (sourcing and distribution) GL PF is sub 10%..

### Asset quality and margins

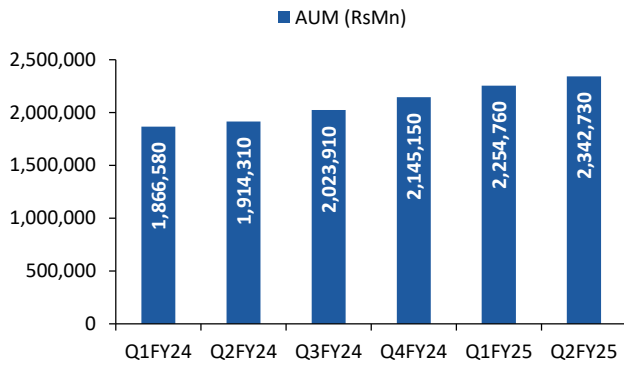
- Incremental growth in deposits and advances would match as LDR has gone up to 85%.
- Growth in high yielding products has been calibrated considering the macro environment.
- Fee income has been higher due to better distribution/network and change in classification of penal charge to be included in other income vs. NII before.

- Credit cards and PL are very small part of PF, but there has been some stress but the management believes it has enough control in place and there are no FLDGs.

### Others

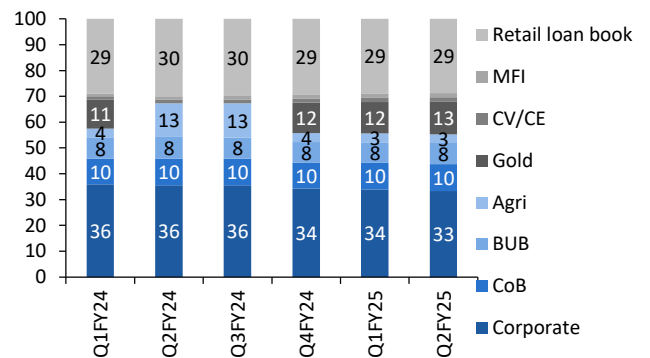
- Average LCR has improved to 115% from 112%
- New draft guidelines on LCR are draft and management believes that RBI may consider some suggestions from the IBA.
- NR savings deposits have gone up due to various efforts taken like feet on street.
- Bank don't take FCNR and focus has been on NRE Savings accounts and Deposits.

**Exhibit 2: AUM growth trend**



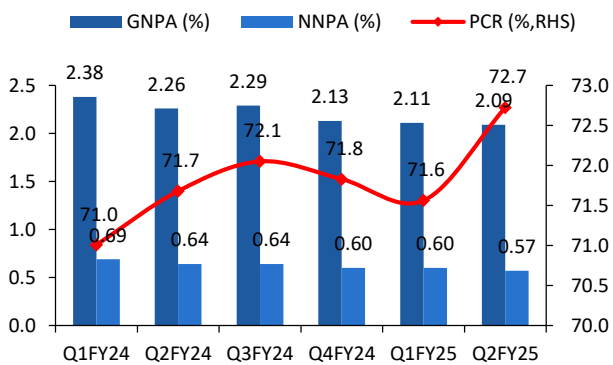
Source: Company Data, Centrum Broking

**Exhibit 3: Gross advances mix**



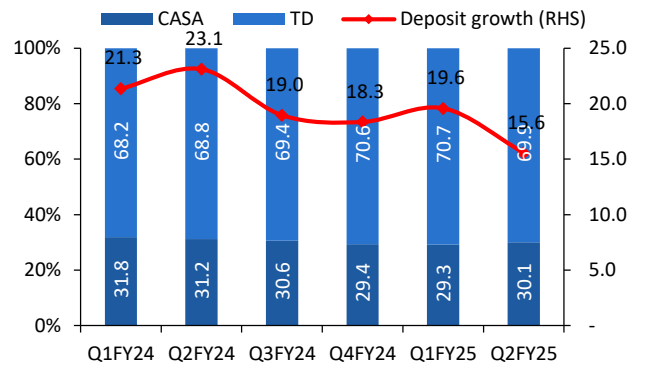
Source: Company Data, Centrum Broking

**Exhibit 4: Asset quality trend**



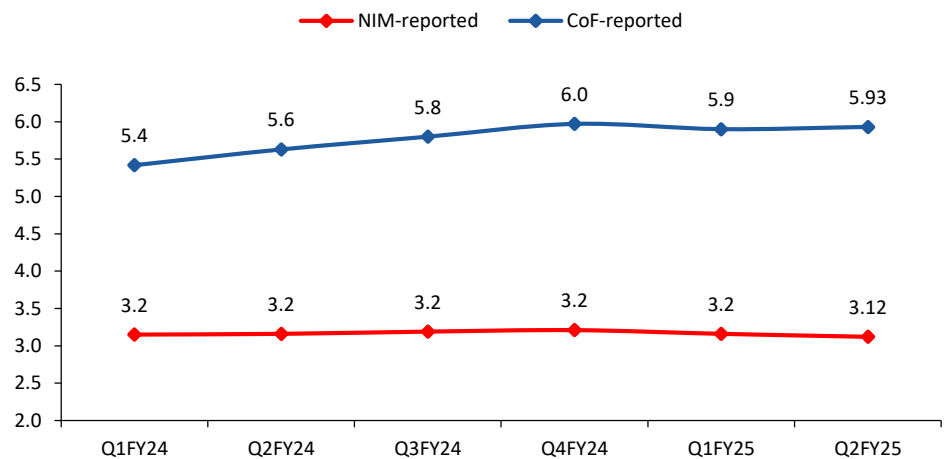
Source: Company, Centrum Broking

**Exhibit 5: Deposits trend**



Source: Company, Centrum Broking

**Exhibit 6: NIMs slightly lower for the quarter**



Source: Company, Centrum Broking

**Exhibit 7: Quarterly financial Snapshot**

Income statement	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Interest earned	34,426	34,832	36,289	40,208	44,333	47,207	50,245	54,553	57,301	59,784	63,309	65,773
Interest expended	19,037	19,580	20,244	22,590	24,767	28,115	31,059	33,989	36,067	37,832	40,389	42,101
<b>Net Interest Income</b>	<b>15,389</b>	<b>15,252</b>	<b>16,045</b>	<b>17,618</b>	<b>19,565</b>	<b>19,093</b>	<b>19,186</b>	<b>20,564</b>	<b>21,234</b>	<b>21,951</b>	<b>22,920</b>	<b>23,672</b>
Other income	4,842	4,650	4,526	6,095	5,340	7,339	7,324	7,304	8,626	7,539	9,152	9,640
<b>Total Income</b>	<b>20,231</b>	<b>19,902</b>	<b>20,571</b>	<b>23,714</b>	<b>24,905</b>	<b>26,432</b>	<b>26,510</b>	<b>27,868</b>	<b>29,859</b>	<b>29,490</b>	<b>32,072</b>	<b>33,312</b>
<b>Operating Expenses</b>	<b>11,088</b>	<b>11,920</b>	<b>10,838</b>	<b>11,591</b>	<b>12,163</b>	<b>13,086</b>	<b>13,487</b>	<b>14,624</b>	<b>15,486</b>	<b>18,386</b>	<b>17,063</b>	<b>17,658</b>
Employees	5,831	6,373	4,993	5,156	5,608	5,972	6,167	6,263	6,932	8,869	7,380	7,777
Others	5,257	5,548	5,844	6,435	6,555	7,114	7,319	8,361	8,554	9,518	9,682	9,882
<b>Operating profit</b>	<b>9,143</b>	<b>7,982</b>	<b>9,734</b>	<b>12,122</b>	<b>12,742</b>	<b>13,346</b>	<b>13,024</b>	<b>13,245</b>	<b>14,373</b>	<b>11,104</b>	15,009	15,654
Provisions	2,140	752	1,667	2,679	1,987	1,167	1,556	439	912	-946	1,443	1,584
<b>Profit before tax</b>	<b>7,003</b>	<b>7,230</b>	<b>8,067</b>	<b>9,444</b>	<b>10,755</b>	<b>12,179</b>	<b>11,468</b>	<b>12,806</b>	<b>13,461</b>	<b>12,050</b>	13,566	14,070
Taxes	1,786	1,824	2,060	2,407	2,719	3,153	2,930	3,267	3,394	2,987	3,471	3,503
<b>Net Profit</b>	<b>5,217</b>	<b>5,405</b>	<b>6,007</b>	<b>7,037</b>	<b>8,036</b>	<b>9,026</b>	<b>8,537</b>	<b>9,538</b>	<b>10,067</b>	<b>9,063</b>	<b>10,095</b>	<b>10,567</b>
<b>Balance sheet</b>	-											
Shareholders funds	1,82,520	1,87,938	1,93,930	1,97,488	2,05,880	2,15,062	2,23,760	2,61,188	2,81,720	2,90,944	3,05,650	3,14,566
Borrowings	81,500	1,53,931	1,58,340	2,04,132	1,96,760	1,93,193	2,11,780	1,91,808	1,73,170	1,80,264	2,17,100	2,37,486
Deposits	17,54,320	18,17,006	18,33,550	18,91,457	20,14,080	21,33,860	22,24,960	23,28,684	23,95,910	25,25,340	26,60,650	26,91,066
Other liabilities	70,430	50,588	67,710	78,048	88,010	61,303	81,460	92,579	1,11,330	86,570	96,320	1,12,313
<b>Total liabilities</b>	<b>20,88,770</b>	<b>22,09,463</b>	<b>22,53,530</b>	<b>23,71,124</b>	<b>25,04,730</b>	<b>26,03,418</b>	<b>27,41,960</b>	<b>28,74,260</b>	<b>29,62,130</b>	<b>30,83,118</b>	<b>32,79,720</b>	<b>33,55,430</b>
Cash & bank	1,53,140	2,10,104	1,59,620	1,49,938	1,78,790	1,76,887	1,92,830	1,99,859	2,12,250	1,89,629	2,48,620	2,28,669
Advances	14,07,430	14,49,283	15,16,890	16,12,403	16,81,730	17,44,469	18,34,870	19,28,167	19,91,850	20,94,033	22,08,070	23,03,122
Investments	3,74,950	3,91,795	4,11,860	4,35,713	4,62,650	4,89,834	5,19,420	5,51,691	5,73,730	6,08,595	6,38,320	6,46,619
Fixed assets	5,580	6,339	6,680	7,169	8,400	9,340	9,340	9,375	9,990	10,201	10,790	10,951
Other assets	1,47,670	1,51,942	1,58,480	1,65,901	1,73,160	1,82,890	1,85,500	1,85,167	1,74,310	1,80,660	1,73,920	1,66,069
<b>Total assets</b>	<b>20,88,770</b>	<b>22,09,463</b>	<b>22,53,530</b>	<b>23,71,124</b>	<b>25,04,730</b>	<b>26,03,418</b>	<b>27,41,960</b>	<b>28,74,260</b>	<b>29,62,130</b>	<b>30,83,118</b>	<b>32,79,720</b>	<b>33,55,430</b>
<b>Balance sheet (%)</b>	-											
Loan growth	12.1	9.9	16.9	11.3	19.5	20.4	21.0	19.6	18.4	20.0	20.3	19.4
Deposit growth	8.5	5.2	8.2	4.1	14.8	17.4	21.3	23.1	19.0	18.3	19.6	15.6
Loans/Deposits	80.2	79.8	82.7	85.2	83.5	81.8	82.5	82.8	83.1	82.9	83.0	85.6
Investment /Deposits	21.4	21.6	22.5	23.0	23.0	23.0	23.3	23.7	23.9	24.1	24.0	24.0
<b>Capital Adequacy</b>												
Tier-1	13.5	14.4	13.3	12.6	12.1	13.0	12.5	13.8	13.5	14.6	14.2	13.8
Tier-2	0.9	1.3	1.3	1.2	1.2	1.8	1.7	1.7	1.5	1.5	1.4	1.4
CRAR	14.4	15.8	14.6	13.8	13.4	14.8	14.3	15.5	15.0	16.1	15.6	15.2
<b>Profitability (%)</b>												
Yield on assets	7.6	7.5	7.8	8.1	8.8	9.0	9.2	9.5	9.5	9.4	9.5	8.9
Cost of funds	4.3	4.1	4.3	4.4	4.9	5.2	5.6	5.9	6.0	6.0	6.1	5.8
NIM	3.4	3.3	3.4	3.6	3.9	3.7	3.5	3.6	3.5	3.5	3.4	3.2
Other income/Assets	1.0	0.9	0.9	1.1	0.9	1.2	1.2	1.1	1.3	1.1	1.2	1.2
Cost/Income	54.8	59.9	52.7	48.9	48.8	49.5	50.9	52.5	51.9	62.3	53.2	53.0
Employees	28.8	32.0	24.3	21.7	22.5	22.6	23.3	22.5	23.2	30.1	23.0	23.3
Others	26.0	27.9	28.4	27.1	26.3	26.9	27.6	30.0	28.6	32.3	30.2	29.7
Cost/Assets	2.2	2.3	2.0	2.0	2.1	2.2	2.2	2.2	2.3	2.6	2.3	2.1
RoA	1.0	1.0	1.1	1.2	1.4	1.5	1.4	1.5	1.5	1.3	1.3	1.3
RoE	12.3	12.4	13.4	14.6	16.6	17.9	16.4	16.6	16.5	14.3	15.3	13.6
<b>Asset quality (%)</b>												
GNPA	3.1	2.8	2.7	2.5	2.4	2.4	2.4	2.3	2.3	2.1	2.1	2.1
NNPA	1.05	0.96	0.94	0.78	0.73	0.69	0.69	0.64	0.64	0.60	0.60	0.57
PCR	65.7	65.7	65.1	68.3	70.0	70.8	71.0	71.7	72.1	71.8	71.6	72.7
Credit Cost on gross AUM (bps)	63	21	46	71	51	29	37	10	19	-19	28	28

Source: Company, Centrum Broking

**Exhibit 8: ROAE Tree**

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Assets	13,83,140	15,93,400	18,06,381	20,13,674	22,09,463	26,03,418	30,83,118	36,34,909	43,05,278	50,70,302
Average total assets	12,66,454	14,88,270	16,99,890	19,10,027	21,11,568	24,06,441	28,43,268	33,59,013	39,70,094	46,87,790
Equity	1,22,362	1,33,016	1,45,487	1,61,245	1,87,938	2,15,062	2,90,944	3,29,998	3,79,665	4,37,639
Average Equity	1,06,010	1,27,689	1,39,252	1,53,366	1,74,592	2,01,500	2,53,003	3,10,471	3,54,832	4,08,652
Interest Income on term loans/ Average total assets	6.0%	6.1%	6.3%	5.7%	5.1%	5.6%	6.2%	6.5%	6.5%	6.5%
Income on investments/money with RBI/other banks / Average total assets	1.6%	1.4%	1.4%	1.4%	1.2%	1.2%	1.4%	1.4%	1.4%	1.3%
Non-Interest Income/ Average total assets	0.9%	0.9%	1.1%	1.0%	1.0%	1.0%	1.1%	1.2%	1.2%	1.1%
<b>Total Income/ Average total assets</b>	<b>8.5%</b>	<b>8.4%</b>	<b>8.8%</b>	<b>8.1%</b>	<b>7.3%</b>	<b>7.8%</b>	<b>8.7%</b>	<b>9.1%</b>	<b>9.1%</b>	<b>9.0%</b>
Interest on Deposits, borrowings and debt securities / Average total assets	4.9%	4.9%	5.0%	4.3%	3.6%	4.0%	4.9%	5.1%	5.1%	5.0%
<b>Net Interest Income / Average total assets</b>	<b>2.8%</b>	<b>2.8%</b>	<b>2.7%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>3.0%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>2.9%</b>	<b>2.9%</b>
<b>Net Total Income/ Average total assets</b>	<b>3.7%</b>	<b>3.7%</b>	<b>3.9%</b>	<b>3.9%</b>	<b>3.8%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.1%</b>	<b>4.1%</b>
Operating Expenses / Average total assets	1.9%	1.9%	2.0%	1.9%	2.0%	2.0%	2.2%	2.2%	2.1%	2.1%
<b>PPOP/Average total assets</b>	<b>1.8%</b>	<b>1.9%</b>	<b>1.9%</b>	<b>2.0%</b>	<b>1.8%</b>	<b>2.0%</b>	<b>1.8%</b>	<b>1.9%</b>	<b>2.0%</b>	<b>2.0%</b>
Provision Cost / Average total assets	0.75%	0.58%	0.69%	0.87%	0.58%	0.31%	0.07%	0.21%	0.21%	0.21%
<b>Profit before tax / Average total assets</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.8%</b>	<b>1.7%</b>
Tax expense/ Average total assets	0.4%	0.4%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%
One-time adjustment/Average Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>RoAA</b>	<b>0.7%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>1.3%</b>	<b>1.31%</b>	<b>1.23%</b>	<b>1.34%</b>	<b>1.31%</b>
Leverage (Average total assets/average Equity or average Net-worth)	11.9	11.7	12.2	12.5	12.1	11.9	11.2	10.8	11.2	11.5
<b>RoAE</b>	<b>8.3%</b>	<b>9.8%</b>	<b>11.1%</b>	<b>10.4%</b>	<b>10.8%</b>	<b>15.0%</b>	<b>14.7%</b>	<b>13.3%</b>	<b>15.0%</b>	<b>15.0%</b>

Source: Company, Centrum Broking

P&L					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Interest earned	1,68,036	2,21,883	2,66,870	3,16,458	3,70,756
Interest expended	95,715	1,38,948	1,72,342	2,01,652	2,33,660
<b>Net Interest Income</b>	<b>72,322</b>	<b>82,935</b>	<b>94,528</b>	<b>1,14,806</b>	<b>1,37,096</b>
Other income	23,300	30,793	40,565	48,093	53,641
<b>Total Income</b>	<b>95,622</b>	<b>1,13,728</b>	<b>1,35,093</b>	<b>1,62,900</b>	<b>1,90,737</b>
<b>Operating Expenses</b>	<b>47,678</b>	<b>61,983</b>	<b>72,940</b>	<b>83,932</b>	<b>99,217</b>
Employees	21,730	28,231	32,039	37,005	43,961
Others	25,948	33,752	40,902	46,928	55,256
<b>PPoP</b>	<b>47,944</b>	<b>51,745</b>	<b>62,153</b>	<b>78,967</b>	<b>91,520</b>
Provisions	7,499	1,961	6,949	8,199	9,675
<b>Profit before tax</b>	<b>40,445</b>	<b>49,784</b>	<b>55,205</b>	<b>70,768</b>	<b>81,845</b>
Taxes	10,339	12,578	13,801	17,692	20,461
<b>Net Profit</b>	<b>30,106</b>	<b>37,206</b>	<b>41,403</b>	<b>53,076</b>	<b>61,384</b>

Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Growth (%)</b>					
Loans	20.4	20.0	18.0	18.0	18.0
Deposits	17.4	18.3	19.3	18.0	18.0
RWA growth	28.4	20.9	18.9	19.4	18.7
NII	21.3	14.7	14.0	21.5	19.4
Other income	11.5	32.2	31.7	18.6	11.5
Opex	11.1	30.0	17.7	15.1	18.2
PPoP	27.6	7.9	20.1	27.1	15.9
Provisions	(38.6)	(73.8)	254.3	18.0	18.0
Net profit	59.3	23.6	11.3	28.2	15.7
<b>Profitability (%)</b>					
Yield on assets	7.9	8.6	8.7	8.8	8.7
Cost of funds	4.5	5.5	5.8	5.8	5.6
NIM	3.5	3.3	3.1	3.2	3.2
Other income / Total inc.	24.4	27.1	30.0	29.5	28.1
Other inc. / avg assets	1.0	1.1	1.2	1.2	1.1
Cost/Income	49.9	54.5	54.0	51.5	52.0
Employee	22.7	24.8	23.7	22.7	23.0
Other	27.1	29.7	30.3	28.8	29.0
Opex/ Avg assets	2.0	2.2	2.2	2.1	2.1
Provisioning cost	0.5	0.1	0.3	0.3	0.3
Tax rate	25.6	25.3	25.0	25.0	25.0
RoE	14.9	14.7	13.3	15.0	15.0
RoA	1.3	1.3	1.2	1.3	1.3
RoRWA	2.2	2.1	2.0	2.1	2.1
<b>Du-pont (%)</b>					
Interest income	7.0	7.8	7.9	8.0	7.9
Interest expenses	4.0	4.9	5.1	5.1	5.0
<b>NII</b>	<b>3.0</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>	<b>2.9</b>
Other income	1.0	1.1	1.2	1.2	1.1
<b>Total income</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.1</b>	<b>4.1</b>
Operating expenses	2.0	2.2	2.2	2.1	2.1
Employee	0.9	1.0	1.0	0.9	0.9
Other	1.1	1.2	1.2	1.2	1.2
<b>PPOP</b>	<b>2.0</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>
Provisions	0.3	0.1	0.2	0.2	0.2
<b>PBT</b>	<b>1.7</b>	<b>1.8</b>	<b>1.6</b>	<b>1.8</b>	<b>1.7</b>
Tax	0.4	0.4	0.4	0.4	0.4
<b>RoA</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Share capital	4,232	4,871	4,871	4,871	4,871
Reserves & surplus	2,10,830	2,86,073	3,25,128	3,74,794	4,32,768
Deposits	21,33,861	25,25,340	30,13,365	35,55,771	41,95,810
Borrowings	1,93,193	1,80,264	1,94,364	2,46,562	2,91,235
Other Liabilities	61,303	86,570	97,182	1,23,281	1,45,618
<b>Total liabilities</b>	<b>26,03,418</b>	<b>30,83,118</b>	<b>36,34,909</b>	<b>43,05,278</b>	<b>50,70,302</b>
Cash balances with RBI	1,25,908	1,14,936	1,38,615	1,44,991	1,51,661
Balances with banks	50,978	74,693	82,868	1,06,673	1,25,874
Investments	4,89,833	6,08,595	7,08,141	8,53,385	10,06,994
Advances	17,44,469	20,94,033	24,70,959	29,15,732	34,40,564
Fixed Assets	9,340	10,201	11,221	12,343	13,577
Other Assets	1,82,889	1,80,660	2,23,106	2,72,154	3,31,632
<b>Total assets</b>	<b>26,03,418</b>	<b>30,83,118</b>	<b>36,34,909</b>	<b>43,05,278</b>	<b>50,70,302</b>

Ratios					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Balance Sheet (%)</b>					
Loans / Deposits	81.8	82.9	82.0	82.0	82.0
Investments / Deposits	23.0	24.1	23.5	24.0	24.0
CASA	32.9	29.6	26.2	26.3	25.4
Assets/equity (x)	12.1	10.6	11.0	11.3	11.6
RWA / Total assets	60.3	61.5	62.0	62.5	63.0
<b>Capital ratios (%)</b>					
CET-1	13.0	14.6	14.0	13.6	13.3
Tier-1	13.0	14.6	14.0	13.6	13.3
Tier-2	1.8	1.5	1.3	1.1	0.9
CRAR	14.8	16.1	15.3	14.7	14.2
<b>Asset quality ratios (%)</b>					
GNPA (Rs mn)	41,838	46,307	50,750	57,862	67,643
NNPA (Rs mn)	12,050	12,553	15,800	18,713	22,818
GNPA	2.4	2.2	2.0	2.0	1.9
NNPA	0.7	0.6	0.6	0.6	0.7
PCR	70.7	72.5	68.4	67.2	65.8
Slippage	1.2	1.0	1.1	1.1	1.1
NNPA / Equity	5.6	4.3	4.8	4.9	5.2
<b>Per share</b>					
EPS	14.2	15.3	17.0	21.8	25.2
BVPS	101.6	119.4	135.5	155.9	179.7
ABVPS	95.9	113.4	129.0	150.1	172.7
<b>Valuation (x)</b>					
P/E	9.3	12.1	10.9	8.5	7.3
P/BV	1.3	1.5	1.4	1.2	1.0
P/ABV	1.4	1.3	1.2	1.0	0.9

Source: Company, Centrum Broking

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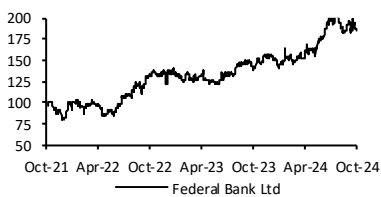
Buy – The stock is expected to return above 15%.

Add – The stock is expected to return 5-15%.

Reduce – The stock is expected to deliver -5--5% returns.

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**Federal Bank**



Source: Bloomberg

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