

Federal Bank

Focused on fixing the right gaps; execution remains key

Federal Bank (FB) hosted an analyst meet to spotlight the bank's key priorities over the medium term to better monetise its balance sheet strengths: a) better CASA mobilisation (especially CA balances) reflecting in lower cost of funds; b) scaling its medium-yield businesses driving stronger risk-adjusted returns; and c) higher fee income traction by building capabilities in areas of trade/FX income, wealth management, and CMS. Under the new MD, FB is embarking on a journey to address its deposit mix and the pricing power handicap on both sides of the balance sheet (highlighted in our Sep-24 [update](#)). While the strategic focus on profitability is a welcome move, the franchise is likely to go through an extended investment phase, which is likely to push the operating leverage benefits more towards FY27. With a rejig in priorities, we believe FB is well-placed to capitalise on its current balance sheet strengths (quality deposit franchise and superior underwriting standards) with clear catalysts for earnings refraction, compared to larger peers that are nearly-fully optimised. We tweak our estimates to factor in elevated opex intensity in FY26E, while building in operating efficiencies in FY27E. We maintain BUY with a revised TP of INR210 (1.3x Sep-26 ABVPS).

- **Priority 1 - fixing the deposit mix:** The management has reoriented its focus to improving its zero-cost CA mix (6%), significantly lower than larger peers (12%-15%), by improving its capabilities in wholesale banking and capital markets and focusing on non-resident deposits beyond the Kerala and GCC corridors. The management has guided towards improving its CASA mix to 36% by FY28 (FY25E: ~30%), especially focused on building a higher mix of CA balances (+400 bps), resulting in lower cost of funds.
- **Priority 2 - addressing the pricing power handicap:** FB has guided on re-balancing its loan mix towards medium-yield secured portfolios for a more favourable risk-reward trade-off, coupled with better risk-based pricing on its existing loans. We believe this is a relatively easier fix for the bank, likely to reflect in tangible near-term gains, especially given the higher provisioning buffer (better margin of safety). Meanwhile, we expect FB to stay cautious with its unsecured portfolio mix until the environment is more conducive.
- **Priority 3 - higher fee income traction:** Given its quality customer franchise (higher mix of NR and MSME customers), FB is keen on building capabilities to address adjacencies (trade, FX, and capital market offerings), translating into stronger fee traction (FY25: 1.1% of assets), another gap that needs fixing.
- **Strategies in place; execution is key:** Given a formidable deposit franchise, shock-proof balance sheet, and high margin of safety as starting points, we believe the reorientation towards monetising its balance sheet strengths is likely to help FB become more comparable to its larger peers. We reiterate FB as our preferred pick amongst mid-sized banks with a revised TP of INR210.

Financial Summary

(INR bn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	59.6	72.3	82.9	95.8	114.4	139.4
PPOP	37.6	47.9	51.7	62.6	76.6	93.2
PAT	18.9	30.1	37.2	40.4	46.7	56.3
EPS (INR)	9.0	14.2	15.3	16.6	19.2	23.1
ROAE (%)	10.8	14.9	14.7	13.0	13.3	14.1
ROAA (%)	0.9	1.3	1.3	1.2	1.2	1.3
ABVPS (INR)	82.8	95.9	114.3	130.1	147.2	168.0
P/ABV (x)	2.2	1.9	1.6	1.4	1.2	1.1
P/E (x)	20.0	12.6	11.7	10.8	9.4	7.8

Source: Company, HSIE Research

BUY

CMP (as on 21 Feb 2025)	INR 180
Target Price	INR 210
NIFTY	22,796

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 220	INR 210
EPS %	FY25E 0.1%	FY26E -2.7%

KEY STOCK DATA

Bloomberg code	FB IN
No. of Shares (mn)	2,454
MCap (INR bn) / (\$ mn)	441/5,090
6m avg traded value (INR mn)	1,988
52 Week high / low	INR 217/140

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(14.7)	(11.5)	17.0
Relative (%)	(12.3)	(4.6)	13.3

SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	0.0	0.0
FIs & Local MFs	47.2	45.2
FPIs	27.7	26.3
Public & Others	25.1	24.8
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Akshay Badlani

akshay.badlani@hdfcsec.com
+91-22-6171-7325

Annual Report Dashboard

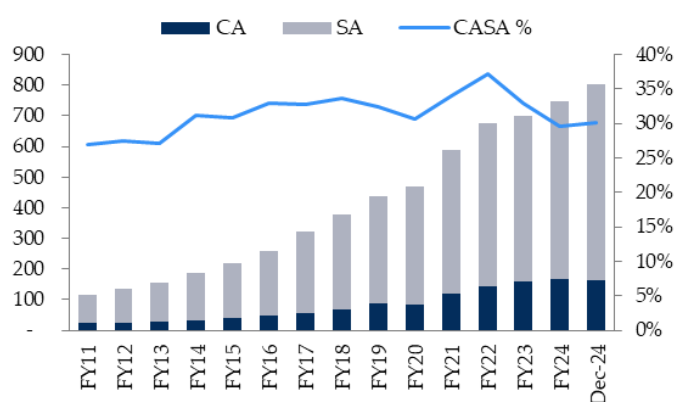
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Concentration metrics											
% Share of Top 20 advances	16.6%	14.1%	19.8%	12.9%	13.5%	12.1%	12.7%	13.7%	12.2%	10.5%	10.6%
% Share of Top 20 exposures	11.2%	10.1%	16.9%	11.1%	10.5%	10.0%	10.3%	10.4%	9.4%	8.1%	7.4%
% Share of Top 20 depositors	3.6%	4.5%	2.9%	5.0%	4.3%	3.9%	6.0%	4.8%	3.3%	5.2%	7.0%
% Share of Top 20 NPA a/cs								23.0%	16.1%	14.6%	14.4%
Sector-wise GNPA's (% of sector-wise net advances)											
Priority Sector	3.7%	2.8%	3.6%	4.5%	5.1%	5.7%	6.5%	4.1%	4.2%	3.8%	3.1%
Industrial credit	2.8%	2.5%	7.2%	7.7%	5.7%	5.6%	7.5%	2.3%	3.5%	4.8%	4.3%
Credit for services	4.2%	4.3%	4.2%	5.4%	6.3%	7.2%	7.4%	1.1%	2.0%	2.2%	2.0%
Agricultural credit	3.6%	2.0%	1.7%	2.9%	3.6%	4.9%	5.9%	5.4%	5.2%	3.8%	2.9%
Personal loans	3.8%	2.9%	4.7%	5.3%	6.7%	6.0%	5.5%	7.0%	6.7%	7.0%	7.5%
Non-Priority Sector	1.8%	1.7%	2.5%	1.5%	2.2%	1.8%	1.7%	3.1%	2.2%	1.7%	1.6%
Industrial credit	3.5%	3.7%	6.3%	4.3%	6.8%	4.7%	1.7%	4.6%	2.0%	0.9%	0.7%
Credit for services	1.5%	1.1%	2.2%	1.1%	0.7%	0.7%	1.4%	3.3%	2.3%	2.1%	1.8%
Agricultural credit	NA	NA	NA	NA	0.0%	0.0%	NA	NA	NA	NA	NA
Personal loans	0.6%	0.6%	0.8%	0.7%	1.2%	1.2%	1.9%	2.2%	2.3%	1.7%	2.0%
GNPA Mix %											
Sub standard	44.3%	46.2%	44.4%	35.8%	44.4%	30.1%	33.5%	38.4%	27.8%	24.3%	25.3%
Doubtful 1	14.8%	26.2%	23.8%	28.5%	23.8%	26.7%	25.5%	18.3%	22.2%	23.1%	17.0%
Doubtful 2	24.3%	17.0%	18.8%	23.5%	18.8%	28.1%	22.8%	24.0%	23.2%	24.6%	23.2%
Doubtful 3	5.0%	2.1%	5.6%	3.6%	5.6%	7.0%	10.2%	10.8%	15.1%	17.4%	23.0%
Loss	11.6%	8.4%	7.4%	8.5%	7.4%	8.1%	8.1%	8.4%	11.8%	10.6%	11.4%
Operational Risk											
Bancassurance - % of Total Fee	4.1%	4.3%	5.7%	5.3%	4.6%	5.7%	5.7%	6.1%	6.4%	6.4%	7.2%
PSLC Bought (% of prior year loans)	NA	NA	NA	0.5%	0.0%	4.1%	0.0%	9.8%	12.3%	3.3%	0.9%
PSLC Sold (% of prior year loans)	NA	NA	NA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.7%	3.1%
Operational Risk											
Frauds reported (#)	NA	NA	NA	NA	44	96	589	344	413	1,298	12,420
Amt. involved in frauds (INR mn)	NA	NA	NA	NA	53	1,756	1,967	7,240	3,479	1,815	1,278
Provision for fraud (INR mn)	NA	NA	NA	NA	36	358	252	1,831	353	504	432
Provision for fraud (% of PPOP)	NA	NA	NA	NA	0.2%	1.3%	0.8%	4.8%	0.9%	1.1%	0.8%
Real Estate Exposure (% of Real Estate Exposure)											
Secured by residential mortgage	76%	66%	62%	56%	54%	59%	60%	64%	65%	65%	68%
Individual housing loans	43%	31%	25%	16%	12%	14%	11%	11%	9%	7%	5%
Secured by commercial mortgage	15%	13%	14%	22%	24%	20%	18%	16%	15%	18%	21%
Exposure to NHBs and HFCs	7%	21%	25%	22%	22%	21%	21%	20%	20%	17%	11%
LCR Disclosures											
LCR %	NA	NA	NA	NA	NA	156%	185%	242%	180%	122%	128%
RSBD (% of total deposits)	NA	NA	NA	NA	NA	83%	82%	83%	86%	76%	69%

Source: Company, HSIE Research

Formidable deposit franchise but mix needs attention

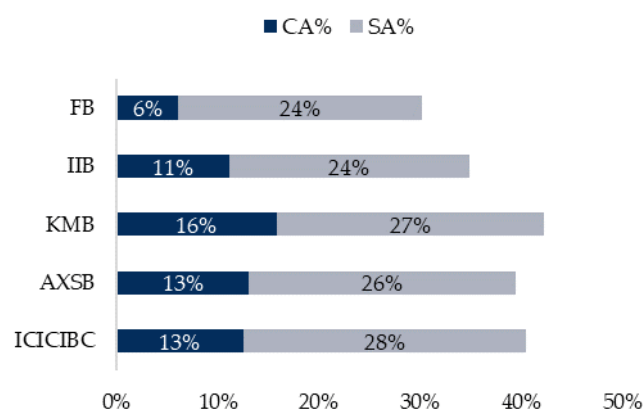
- Addressing the low-cost deposit mix handicap:** Although FB continues to boast best-in-class deposit granularity (proportion of retail deposits to total deposits), the bank has not been able to translate this into a superior cost of funds. This has been largely on account of low CASA ratio (especially low CA mix). The bank intends to address the issue via improving its wholesale banking capabilities, making inroads into capital market-based relationships, diversifying its NR deposits beyond the gulf and Kerala corridor and improving its branch productivity (via centralization and automation). The bank's guide for improving its CASA ratio from ~30% currently to 36% by FY28, largely driven by the CA mix. While the initial signs of improvement in low-cost deposits was visible in Q3FY25 (contrary industry trends), we need to closely monitor this metric, going forward. We currently built in a CASA uptick of ~175 bps (31.7% by Mar-27) over FY25-FY27E awaiting further evidence of consistent improvement in this same.

Exhibit 1: CASA (% of deposits)



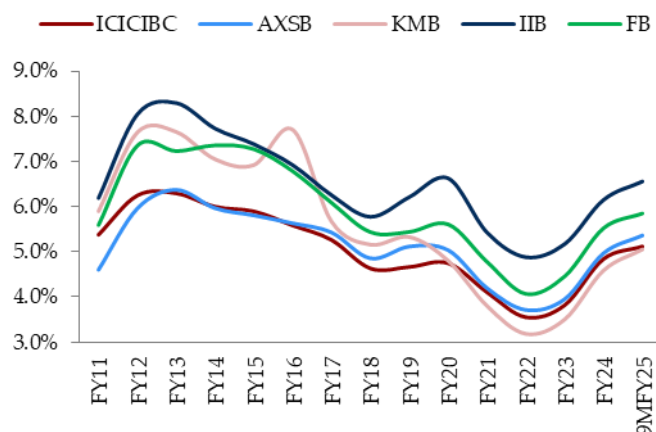
Source: Company, HSIE Research

Exhibit 2: CA and SA as a % of deposits



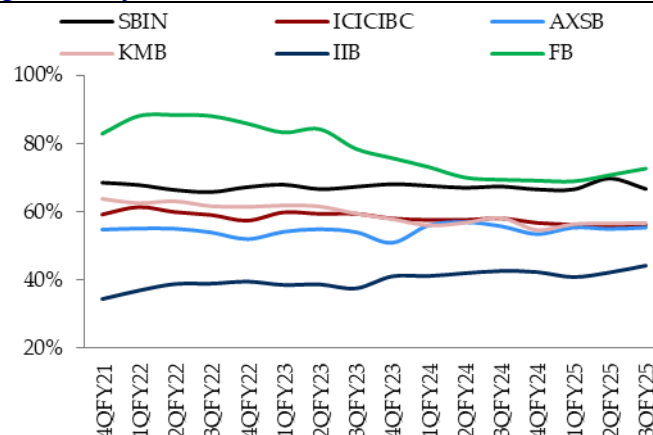
Source: Company, HSIE Research

Exhibit 3: Cost of funds (derived) - FB suffers from a handicap



Source: Company, HSIE Research

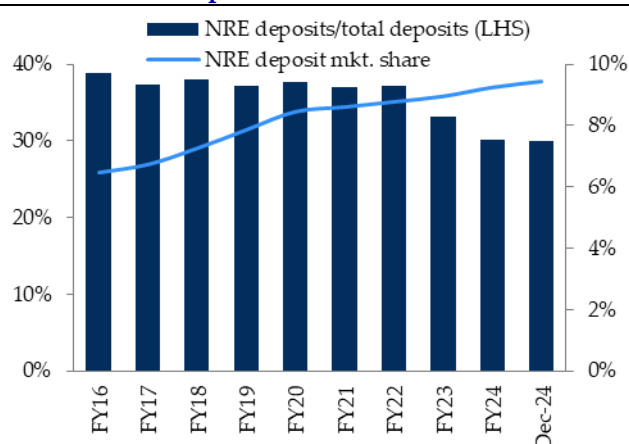
Exhibit 4: RSBD (% of total deposits) - best-in-class granularity



Source: Company, HSIE Research

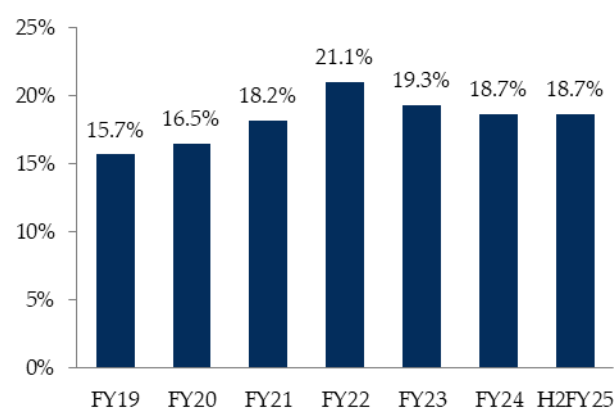
- Reducing dependence on Kerala and gulf corridor:** FB has historically been a dominant player in the NR customer segment, especially NRE deposits (core bread-and-butter business) with a ~19% inward remittance market share. However, this has only translated into a sub-optimal 9.4% NRE deposit market share, indicating relatively lower stickiness (low conversion of remittance to deposits) of remittances in the deposit account. This is largely on account of the declining contribution of GCC in overall inward remittances at 18% during 2023 (FY17: 50%), a dominant corridor for inward remittances into FB's home state (Kerala). This has been reflected in Kerala's contribution to overall remittances dropping to ~10% in the recent past from ~20% a few years ago. Addressing the same, FB intends to widen its coverage of cross-border corridors, and its bouquet of offerings coupled with wealth management services to up its value proposition for NR customers while further improve its remittance retention ratio (proportion of remittances that stay with the bank as deposits and further as low-cost deposits).

Exhibit 5: NRE deposits



Source: Company, HSIE Research, RBI

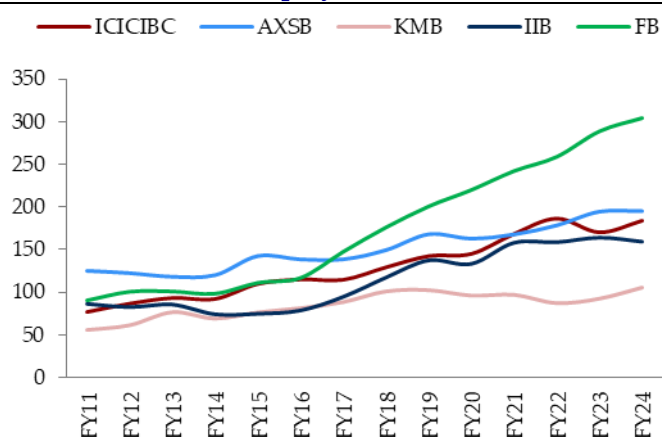
Exhibit 6: Remittance market share



Source: Company, HSIE Research

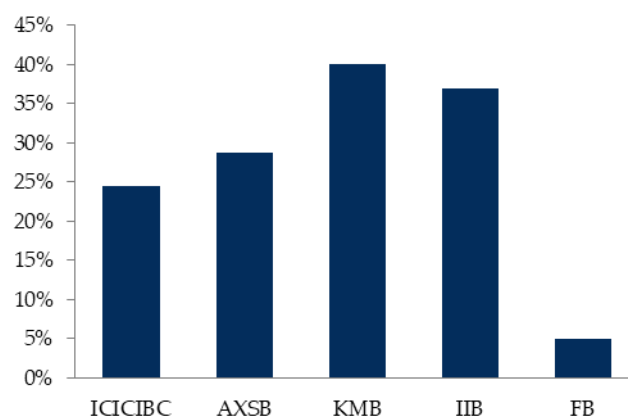
- Shift to a P&L mindset:** Traditionally, FB has been more focused on balance sheet productivity, visible in business related employee metrics, which the current management intends to shift towards P&L productivity (which has lagged its larger peers). The management guided to achieve the same by realigning its incentive structure, centralising its operational activities at branch level, and improving digitisation. This might lead to higher attrition rates for the bank in the near term, which is significantly low vis a vis larger peers. We believe a large part of this attrition would be healthy and beneficial for the bank, going forward.

Exhibit 7: Business/Employee (INR mn)



Source: Company, HSIE Research

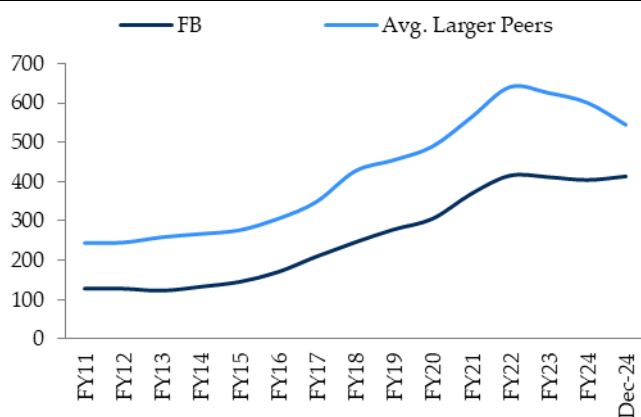
Exhibit 8: Employee turnover rate - Mar-24



Source: Company, HSIE Research

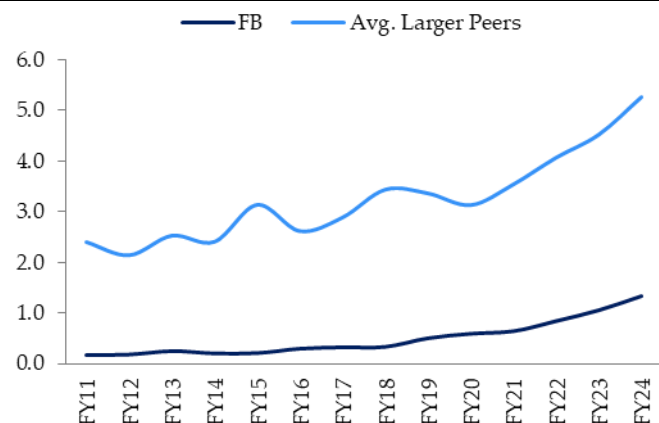
- Centralisation of branch operations:** While FB has witnessed gradual improvement in branch productivity over the past few years, the wedge between FB and its larger peers has not narrowed. The management intends to centralise its operational activities at the branch level in order to drive incremental focus on generating business, especially liabilities. Investments to improve digitisation at branch level and realigning its incentive structure are also key measures taken to address branch productivity. Cross-sell is another area where the bank is lacking its peers, which shall be addressed by mix of building capabilities of higher in-house sourcing of credit cards, better quality of fintech partnerships in PL and higher focus towards wealth and insurance distribution. We believe FB's quality fintech partnerships hold a key to improving cross-sell across customer cohorts to enhance potential profitability and attract more high-potential alliance partners.

Exhibit 9: SA/branch (INR mn)



Source: Company, HSIE Research

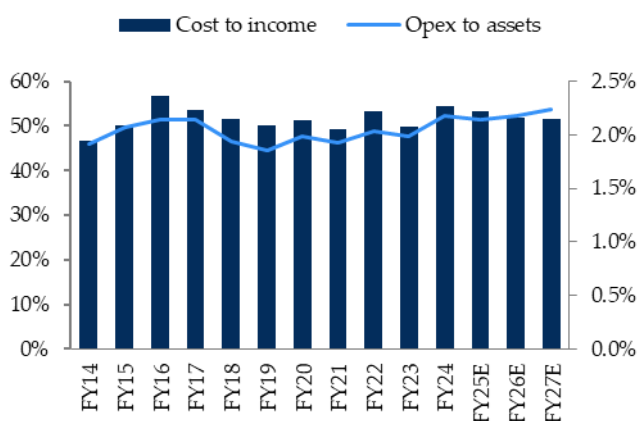
Exhibit 10: Banca income per branch (INR mn)



Source: Company, HSIE Research

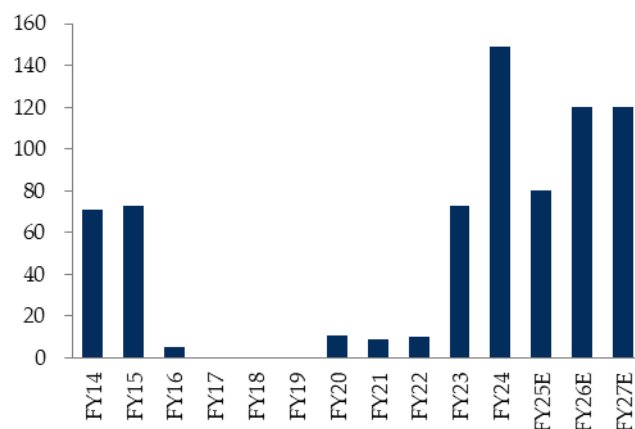
- Investment phase to delay operating leverage benefits:** We believe that FB is entering an investment phase, in the areas of distribution, people, technology, and compliance, which is likely to keep opex intensity elevated through FY26E. The management guided for expanding its distribution by 400-450 branches by FY28E, largely concentrated in metros, especially in western and southern geographies. We believe these investments are critical to the franchise - as a result, operating leverage benefits are likely to be protracted. Our forecasts build in a cumulative addition of 320 branches over FY25-27E.

Exhibit 11: Opex intensity



Source: Company, HSIE Research

Exhibit 12: Branch additions

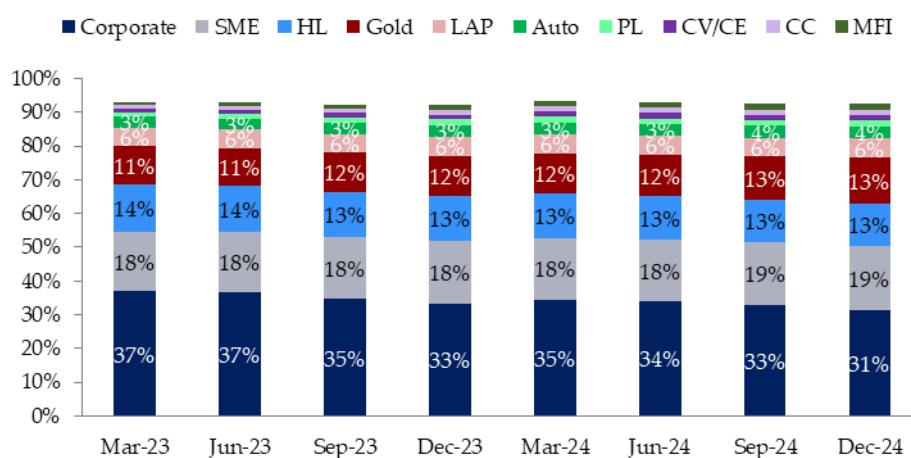


Source: Company, HSIE Research

Shift towards scaling medium-yield assets

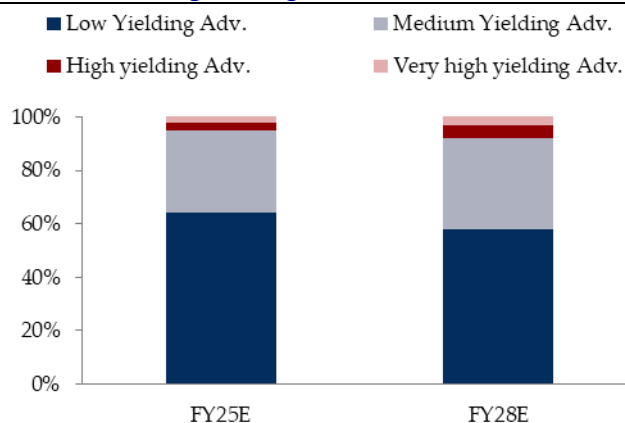
- Change in mix catalyst to yield reflation:** The bank has guided for scaling its secured medium yielding assets in order to drive yield reflation. It intends to scale up its LAP, CV/CE/auto (especially used), mid-market corporate business alongside foraying into product offering like micro-LAP, tractor finance, affordable housing. The bank has categorically mentioned about not scaling its unsecured business until there is a conducive environment for the same. We believe scaling up its secured medium yielding assets augurs well for the franchise, especially with its super underwriting and higher provisioning buffer. However, we caution that venturing into new product segments simultaneously and too early can prove to be counter intuitive. The change in mix shall shield the margins to drop owing to the rate cut cycle and reflect in yields in FY27. We built in a gradual yield reflation of +10 bps from FY25 to FY27E.

Exhibit 13: Loan mix - Gradually shift towards medium-yielding segments



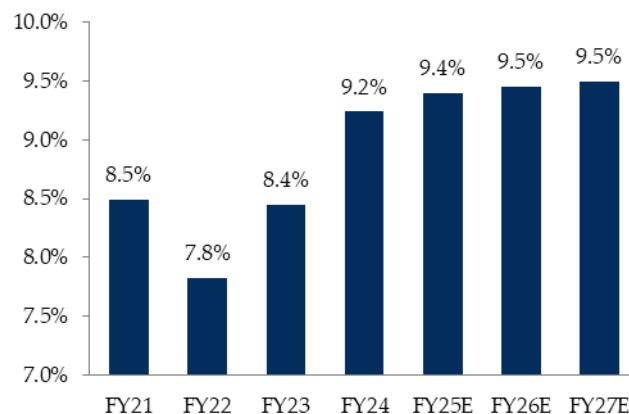
Source: Company, HSIE Research

Exhibit 14: Management guidance on loan mix



Source: Company, Feb-25 analyst day presentation

Exhibit 15: Yield on advances



Source: Company, HSIE Research

- **Visible improvement in pricing power:** Basis disclosures by banks on interest rates contracting across asset classes during Q2FY25, we observe that on average, FB has demonstrated its pricing power in HL, LAP, and PL portfolios better than its larger peers. However, it is also evident that across asset classes, FB's floor pricing is lower than peers, which indicates a loss-leader pricing strategy across categories. While the rationale for loss-leader pricing strategy in B2B businesses (wholesale book) is evident on account of the potential for demand elasticity (higher share of business from highly-rated clients), we see limited merit in FB pursuing this strategy disproportionately in B2C lending (retail loans).

Exhibit 16: Interest rate range of loans contracted during Q2FY25

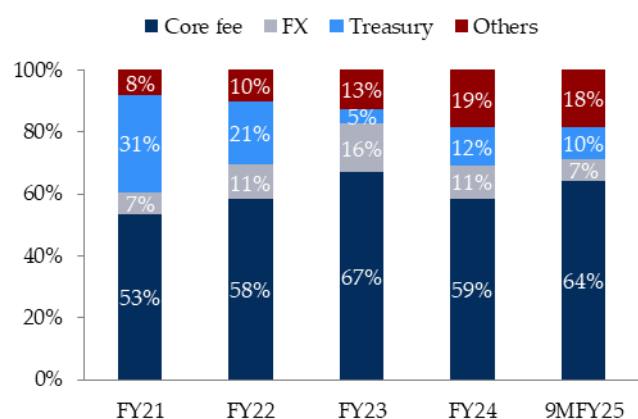
Banks	Home loan			LAP			PL			Auto loans		
	Min ROI	Max ROI	Mean Rate	Min ROI	Max ROI	Mean Rate	Min ROI	Max ROI	Mean Rate	Min ROI	Max ROI	Mean Rate
ICICIBC	8.60%	13.25%	8.92%	8.65%	15.65%	9.42%	10.85%	16.25%	12.81%	8.95%	12.00%	9.56%
AXSB	8.30%	11.00%	8.89%	8.60%	13.25%	9.77%	10.49%	22.50%	13.08%	NA	NA	NA
KMB	8.40%	11.00%	8.76%	8.80%	18.00%	9.72%	NA	NA	NA	NA	NA	NA
FB	8.30%	12.50%	9.04%	9.25%	12.80%	10.40%	9.50%	19.90%	14.40%	8.45%	16.30%	9.12%

Note: ROI - Rate of interest, Mean rate - Sum of rate of interest of all loan a/cs divided by number of all loan a/cs

Source: Company, HSIE Research

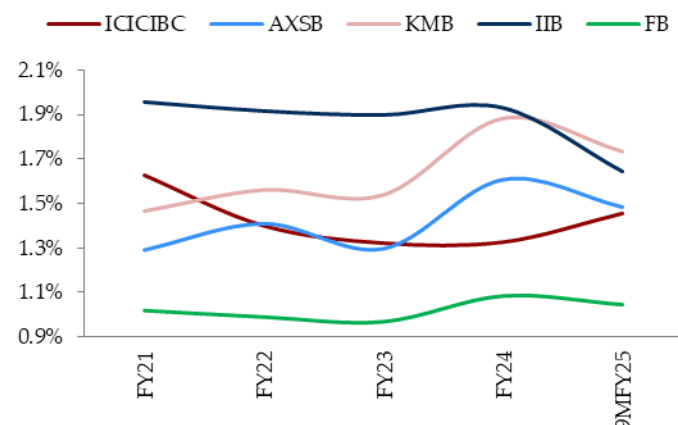
- **Enhancement of fee income pool:** FB has lacked its larger peers when it comes to traction in core fee income. The bank guides to scale its fee income pool by strengthening its wealth management offerings, tapping into forex and trading income of its NR customer base, building its cash management services and shifting focus towards higher cross-selling of wealth/insurance products. The bank intends to increase its in house sourcing in credit cards from 30% currently to 45% by FY28 and diversify sourcing in PL via fintech partnerships (from 40% now to 50% by FY28). We believe this the journey towards fee income reflation shall be gradual one and build in ~5 bps reflation in fee income to avg. assets over FY25-FY27E.

Exhibit 17: Fee income mix



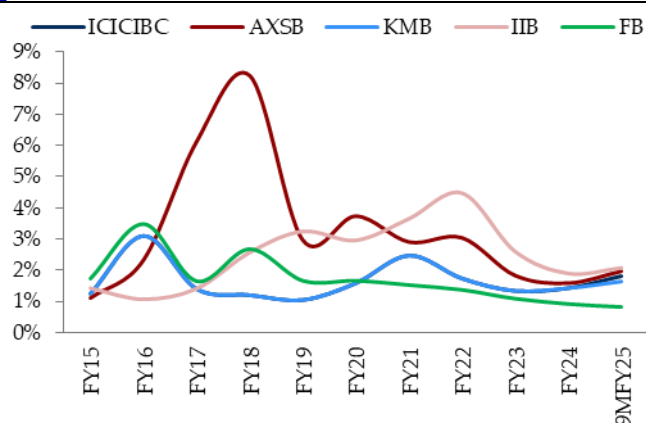
Source: Company, HSIE Research

Exhibit 18: Core Fee income as a % of avg advances

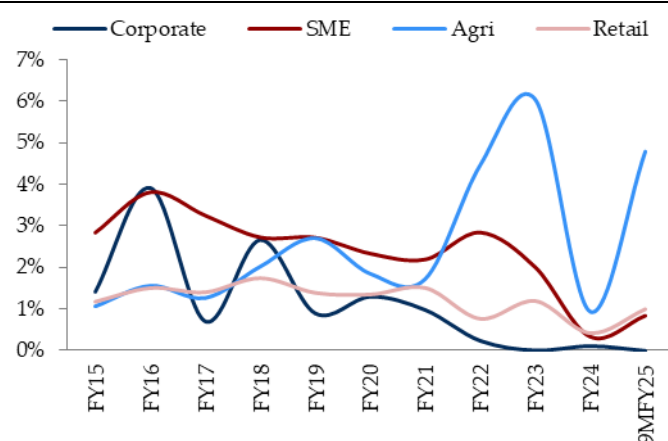


Source: Company, HSIE Research

- Best-in-class underwriting:** Having completely overhauled its underwriting architecture during the early part of the last decade, FB has consistently prioritised superior credit underwriting practices, reflecting in outstanding asset quality despite multiple systemic shocks during the same period. The same is evident from gross slippages trending lower, largely driven by lower corporate and SME slippages. The gross slippages continue to be lower vis-a-vis larger peers, partly benefiting from a lower unsecured mix. We believe the underwriting standards shall continue to be best in class as the management intends to scale its medium yielding secured businesses rather than its unsecured book, stress in which continues to be elevated across industry.

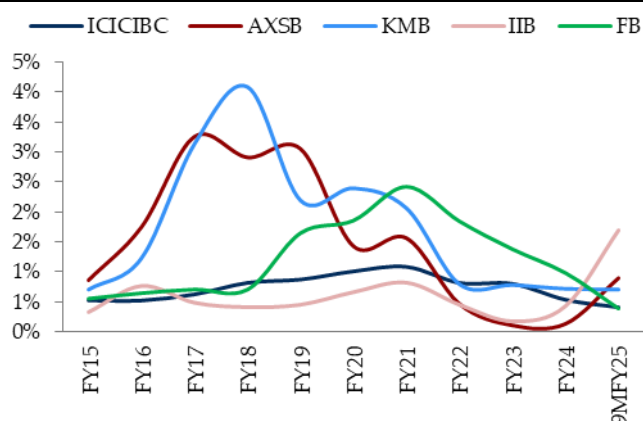
Exhibit 19: Gross slippages consistently lower than peers


Source: Company, HSIE Research

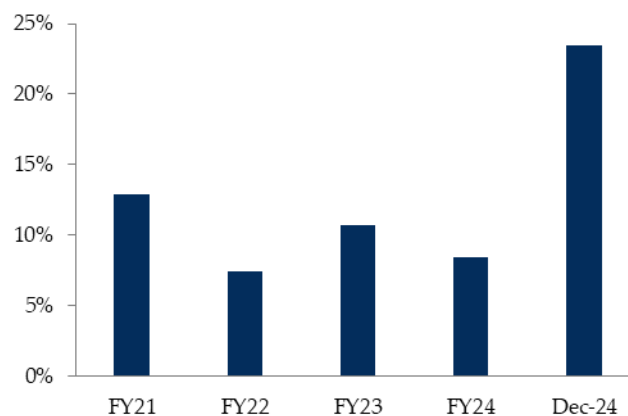
Exhibit 20: Slippage mix - agri slippages remain volatile


Source: Company, HSIE Research

- Shoring up provisioning buffers:** Given its change in loan mix towards medium-yield segments, the bank built in additional buffers taking its PCR up from 73% in Q2FY25 to 75% in Q3FY25. The bank is now operating at a higher margin of safety closer v/s its historical levels. We built in credit cost of 40-45bps over FY25-FY27E factoring in higher provisioning.

Exhibit 21: Credit costs converged with larger peers


Source: Company, HSIE Research

Exhibit 22: Margin of safety (Excess PCR – Mandated PCR)


Source: Company, HSIE Research, Assumed highest rate of mandated provisioning across sub-standard, doubtful and loss buckets

Formidable balance sheet strength across cycles

During the tenure (FY11-FY24) of Mr. Shyam Srinivasan, ex MD & CEO, FB managed to build reasonable market share gains and improved its credit quality by leaps and bounds, while navigating industry headwinds across cycles. As a result, FB has emerged as one of the few franchises that delivered shock-proof, consistent, predictable, and sustainable earnings. However, the one area where investors found the franchise wanting was in its ability to capitalise on its formidable balance sheet strengths and translate them into strong P&L outcomes (in terms of better market share gains and return ratios) across cycles. With the rejig in strategy under the new MD Mr. KVS Manian, the bank has laid out a roadmap towards monetizing its balance sheet strengths. Execution of the same shall be critical to earnings reflation.

Exhibit 23: Federal Bank - A cross-cycle journey

Federal Bank	Units	FY11-13	FY13-17	FY17-20	FY20-22	FY22-24
Business						
Net advances CAGR	%	17%	14%	19%	9%	20%
Deposits CAGR	%	16%	14%	16%	9%	18%
CASA CAGR	%	16%	20%	13%	20%	5%
Net advances mkt. share	%	0.7%	0.7%	1.1%	1.2%	1.2%
Deposits mkt. share	%	0.8%	0.8%	1.1%	1.1%	1.2%
CASA Market share	%	0.6%	0.7%	0.8%	0.9%	0.9%
Average CASA %	%	27%	31%	32%	34%	33%
Retail mix	%	30%	28%	31%	41%	45%
Margins						
Yield on advances	%	11.4%	10.9%	9.3%	8.5%	8.5%
Cost of funds	%	6.7%	6.9%	5.6%	4.8%	4.7%
NIM	%	3.7%	3.3%	3.1%	3.1%	3.3%
Operating ratios						
Opex to assets	%	1.8%	2.0%	2.0%	2.0%	2.1%
C/I ratio	%	40%	50%	52%	51%	53%
Branches	No.	360	149	11	19	222
Asset Quality						
Gross slippages %	%	2.4%	2.1%	1.9%	1.5%	1.1%
Net slippages %	%	1.4%	1.3%	1.1%	0.8%	0.3%
Credit costs %	%	0.9%	0.6%	0.8%	0.8%	0.3%
RoA Tree (%)						
Interest Income	%	9.3%	9.1%	7.9%	7.1%	7.1%
Interest Expenses	%	5.9%	6.1%	5.1%	4.3%	4.2%
NII	%	3.4%	3.0%	2.8%	2.8%	2.9%
Other income	%	1.0%	1.0%	1.0%	1.0%	1.0%
Total Income	%	4.4%	4.0%	3.8%	3.9%	3.9%
Opex	%	1.8%	2.0%	2.0%	2.0%	2.1%
PPOP	%	2.6%	2.0%	1.9%	1.9%	1.9%
Provisions	%	0.7%	0.5%	0.7%	0.7%	0.3%
PBT	%	1.9%	1.5%	1.2%	1.2%	1.5%
RoA	%	1.3%	1.0%	0.8%	0.9%	1.2%
Leverage	%	10	11	12	12	12
RoE	%	13.4%	11.5%	9.7%	10.8%	13.5%

Source: Company, HSIE Research, Average of ratios taken across cycles

- Graduating to the big league:** With its loan book at INR2.2trn and its deposit base at INR2.7trn, FB has broken out from the league of mid-sized banks and is now closer to larger banks in terms of scale. FB stands tall vis-à-vis peers in terms of the quality of its deposit franchise (liabilities side) and credit underwriting (asset side). We remain watchful of FB's efforts on addressing its pricing power on both sides of the balance sheet while also improving traction in other income. Opex shall remain elevated for the bank in the near term as the bank enters the investment phase with operating leverage kicking in later in the cycle.

Exhibit 24: Q3FY25 Comparative Dashboard

Q3FY25	Units	SBIN	ICICIBC	AXSB	KMB	IIB	FB
Net advances	INR trn	40.0	13.1	10.1	4.1	3.7	2.3
Deposits	INR trn	52.3	15.2	11.0	4.7	4.1	2.7
% QoQ							
Net advances	%	1.2%	2.9%	1.5%	3.6%	2.7%	0.0%
Deposits	%	2.2%	1.5%	0.8%	2.6%	-0.7%	-1.0%
CASA	%	0.0%	1.1%	-1.9%	-0.4%	-3.5%	-0.7%
% YoY							
Net advances	%	14%	14%	9%	15%	12%	16%
Deposits	%	10%	14%	9%	16%	11%	11%
CASA	%	3%	17%	2%	3%	1%	9%
Liabilities							
Cost of funds	%	NA	5.1%	5.5%	5.1%	5.7%	6.0%
CASA ratio	%	37.6%	40.5%	39.5%	42.3%	34.9%	30.2%
C/D ratio	%	77%	86%	93%	87%	90%	86%
LCR	%	136%	123%	119%	132%	118%	118%
RSBDA/Total deposits	%	67%	56%	55%	57%	44%	72%
SA/Branch	INR	739	631	507	607	317	414
% of loan book							
Retail	%	36%	78%	60%	69%	54%	20%
Mortgages	%	19%	32%	23%	29%	3%	26%
PL + CC	%	8%	14%	12%	8%	5%	3%
Operating ratios							
NIM (reported)	%	3.1%	4.3%	3.9%	4.9%	3.9%	3.1%
C/I ratio	%	55%	38%	46%	47%	53%	53%
Asset Quality							
Gross slippages %	%	0.4%	1.9%	2.2%	1.6%	2.4%	0.9%
Net slippages %	%	0.3%	0.8%	1.4%	0.9%	2.1%	0.3%
Credit cost%	%	0.2%	0.4%	0.8%	0.7%	1.9%	0.6%
RoA Tree (%) - Avg Assets Q3FY25							
Interest Income	%	7.2%	8.3%	8.2%	8.5%	9.4%	8.1%
Interest Expenses	%	4.7%	4.2%	4.6%	4.0%	5.5%	5.2%
NII	%	2.6%	4.1%	3.6%	4.6%	3.8%	2.9%
Other income	%	0.7%	1.4%	1.6%	1.7%	1.7%	1.1%
Total Income	%	3.2%	5.5%	5.2%	6.2%	5.6%	4.0%
Opex	%	1.8%	2.1%	2.4%	2.9%	2.9%	2.1%
PPOP	%	1.5%	3.4%	2.8%	3.3%	2.6%	1.9%
Provisions	%	0.1%	0.2%	0.6%	0.5%	1.3%	0.3%
PBT	%	1.4%	3.1%	2.2%	2.8%	1.4%	1.5%
RoA	%	1.0%	2.4%	1.7%	2.1%	1.0%	1.1%
Leverage	x	15.6	7.5	9.0	5.6	8.2	10.6
RoE	%	16.3%	17.8%	14.9%	13.9%	8.4%	12.0%

Source: Company, HSIE research

Priorities in place, execution remains the key

- Well placed to take a leap closer to its larger peers:** With its loan book at INR2.2trn and its deposit base at INR2.7trn, FB has broken out from the league of mid-sized banks and is now closer to larger banks in terms of scale. With its traditional moats of a granular deposit franchise and superior underwriting capabilities the bank always carried a superior baseline. With a rejig in the strategy of monetising its balance sheets strengths to P&L, the bank is well placed to leap closer to its larger peers. We believe that FB is entering an investment phase which shall keep the return ratios which shall push the operating leverage benefits to FY27. We argue that FB provides a one-of-its-kind credible alternative to the larger private sector banking peers with most of them already operating at maximum efficiency.

Exhibit 25: Change in estimates

(INR bn)	FY25E			FY26E			FY27E		
	New	Old	Δ	New	Old	Δ	New	Old	Δ
Net advances	2,439	2,439	0.0%	2,891	2,891	0.0%	3,435	3,436	0.0%
NIM (%)	3.2	3.2	0 bps	3.3	3.3	2 bps	3.4	3.4	4 bps
NII	95.8	95.8	0.0%	114.4	113.9	0.4%	139.4	137.8	1.2%
PPOP	62.6	62.5	0.1%	76.6	78.0	-1.9%	93.2	97.3	-4.2%
PAT	40.4	40.4	0.1%	46.7	47.9	-2.7%	56.3	59.6	-5.5%
Adj. BVPS (INR)	130.1	130.1	0.0%	147.2	147.6	-0.3%	168.0	169.5	-0.9%

Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	136,607	168,036	221,883	267,760	312,118	368,846
Interest Expenses	76,988	95,715	138,948	171,912	197,683	229,420
Net Interest Income	59,619	72,322	82,935	95,847	114,435	139,426
Non-Interest income	20,890	23,300	30,793	37,848	44,858	52,601
Total income	80,509	95,622	113,728	133,695	159,294	192,027
Operating Expenses	42,928	47,678	61,983	71,102	82,737	98,798
Operating Profit	37,581	47,944	51,745	62,593	76,556	93,228
Provisions	12,217	7,499	1,961	8,374	13,932	17,611
PBT	25,364	40,445	49,784	54,219	62,625	75,617
Tax	6,463	10,339	12,578	13,826	15,969	19,282
PAT	18,901	30,106	37,206	40,393	46,655	56,335

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share capital	4,205	4,232	4,871	4,871	4,871	4,871
Reserves	183,732	210,830	286,073	323,544	367,277	420,690
Net worth	187,937	215,062	290,944	328,415	372,148	425,560
Deposits	1,817,005	2,133,860	2,525,340	2,842,380	3,303,476	3,922,700
Borrowings	153,931	193,193	180,264	276,713	281,633	296,777
Other liabilities & provisions	50,587	61,303	86,570	94,757	112,563	134,280
Total Liabilities & Equity	2,209,460	2,603,418	3,083,118	3,542,265	4,069,819	4,779,317
Cash balance	210,103	176,887	189,629	244,828	244,913	250,308
Investments	391,795	489,834	608,595	688,552	734,280	858,695
Advances	1,449,282	1,744,469	2,094,033	2,438,520	2,890,746	3,435,009
Fixed assets	6,339	9,340	10,201	14,281	14,852	15,446
Other assets	151,942	182,889	180,660	156,084	185,027	219,859
Total Assets	2,209,460	2,603,418	3,083,118	3,542,265	4,069,819	4,779,317

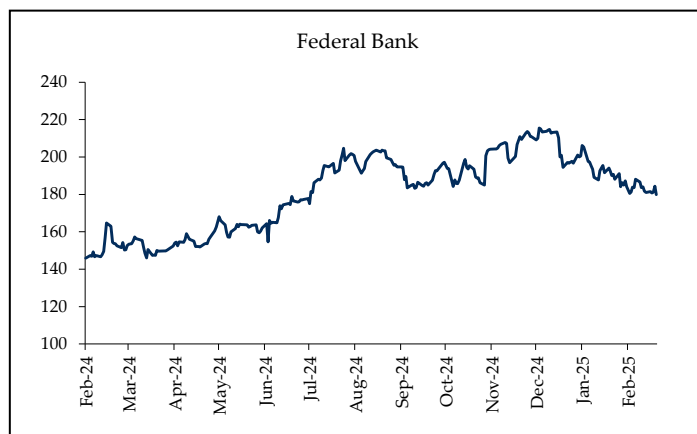
Source: Company, HSIE Research

Key Ratios

	FY22	FY23	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS						
EPS (INR)	9.0	14.2	15.3	16.6	19.2	23.1
Earnings Growth (%)	19%	59%	24%	9%	16%	21%
BVPS	89	102	119	135	153	175
Adj. BVPS	82.8	95.9	114.3	130.1	147.2	168.0
ROAA (%)	0.9%	1.3%	1.3%	1.2%	1.2%	1.3%
ROAE (%)	10.8%	14.9%	14.7%	13.0%	13.3%	14.1%
P/E (x)	20.0	12.6	11.7	10.8	9.4	7.8
P/ABV (x)	2.2	1.9	1.6	1.4	1.2	1.1
P/PPOP (x)	11.6	9.1	8.4	7.0	5.7	4.7
PROFITABILITY (%)						
Yield on loans	7.8%	8.4%	9.2%	9.4%	9.5%	9.5%
Cost of Funds	4.1%	4.5%	5.5%	5.9%	5.9%	5.9%
Cost of Deposits	4.1%	4.4%	5.5%	5.6%	5.5%	5.5%
Spread	3.7%	4.1%	3.7%	3.8%	3.9%	4.0%
NIM	3.2%	3.4%	3.3%	3.2%	3.3%	3.4%

	FY22	FY23	FY24	FY25E	FY26E	FY27E
OPERATING EFFICIENCY						
Cost to average assets	2.0%	2.0%	2.2%	2.1%	2.2%	2.2%
Cost-income	53.3%	49.9%	54.5%	53.2%	51.9%	51.5%
BALANCE SHEET STRUCTURE RATIOS						
Loan Growth (%)	9.9%	20.4%	20.0%	16.5%	18.5%	18.8%
Deposits Growth (%)	5.2%	17.4%	18.3%	12.6%	16.2%	18.7%
C/D ratio	79.8%	81.8%	82.9%	85.8%	87.5%	87.6%
Equity/Assets (%)	8.5%	8.3%	9.4%	9.3%	9.1%	8.9%
Equity/Loans (%)	13.0%	12.3%	13.9%	13.5%	12.9%	12.4%
CASA %	37.1%	32.9%	29.6%	29.9%	30.6%	31.7%
CRAR (%)	15.8%	14.8%	16.1%	16.4%	16.1%	15.6%
Tier I (%)	14.4%	13.0%	14.6%	15.1%	14.9%	14.6%
ASSET QUALITY						
Gross NPA	41,367	41,837	45,288	46,932	55,775	66,250
Net NPA	13,926	12,050	12,553	11,504	13,638	16,319
PCR	66.3%	71.2%	72.3%	75.5%	75.5%	75.4%
GNPA %	2.9%	2.4%	2.2%	1.9%	1.9%	1.9%
NNPA %	1.0%	0.7%	0.6%	0.5%	0.5%	0.5%
Slippages	1.4%	1.1%	0.9%	0.8%	0.9%	0.9%
Credit costs	0.4%	0.4%	0.2%	0.4%	0.4%	0.4%
ROAA Tree						
Net Interest Income	2.8%	3.0%	2.9%	2.9%	3.0%	3.2%
Non-Interest Income	1.0%	1.0%	1.1%	1.1%	1.2%	1.2%
Operating Cost	2.0%	2.0%	2.2%	2.1%	2.2%	2.2%
Provisions	0.6%	0.3%	0.1%	0.3%	0.4%	0.4%
Tax	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%
ROAA	0.9%	1.3%	1.3%	1.2%	1.2%	1.3%
Leverage (x)	12.1	11.9	11.2	10.7	10.9	11.1
ROAE	10.8%	14.9%	14.7%	13.0%	13.3%	14.1%

Source: Company, HSIE Research

1 Yr Price history**Rating Criteria**

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

We, **Krishnan ASV, PGDM & Akshay Badlani, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

Any holding in stock – NO

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

Please note that HDFC Securities has a proprietary trading desk. This desk maintains an arm's length distance with the Research team and all its activities are segregated from Research activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

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

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

HDFC Securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com