

30 April 2025

## Federal Bank

*Challenging quarter, expect to maintain RoA near current levels; Buy*

Rating: Buy

Target Price (12-mth): Rs.246

Share Price: Rs.184

Strong growth in non-interest income was counterbalanced by weak NII and higher opex which led to ~3% sequential de-growth in core operating profits for Federal bank. Lower provisions (one large recovery of ~1.1bn led to lower provisions) supported profitability with RoA coming at 1.24%. We believe bank's strategy for 1) better deposit profile with higher CASA and retail deposits, 2) margin accretive products in loan book and 3) conservative provisioning practices would lead to a structurally better NIM/RoA profile for the bank in the medium to long run, however, rate cut cycle would keep pressure on the margins in the near term. Ahead, we expect the bank to deliver high-teen growth and generate a sustainable 1.2% RoA through FY26/27. We maintain a Buy rating on it with a TP of Rs246, 1.3x P/ABV on its FY27e book.

**Headline asset quality improves.** Slippages were Rs4.9bn (0.9% of loans), slightly lower than last quarter and within the guided-to range. Barring Argi (which included MFI segment), slippages improved across segments. Overall net slippages were lower than last quarter levels on account of strong recoveries. GNPA/NNPA improved 11bps/5bps/ sequentially. The standard restructured book fell 8.5% q/q to Rs14.3bn (0.6% of loans). Ahead, we expect the gross slippage rate to be under ~1% and net slippages to be negative.

**RoA sustainable near current levels.** A strong liability franchise and sharper focus on the better-yielding product-mix would keep medium-term margins near current levels. Stable margins, strong fee income (high-teen credit growth) and favourable credit costs should hold the RoA near 1.2% through FY26/27.

**Valuation.** Our Rs246 TP comes from a sum-of-parts valuation (1.3x FY27e adj. book value, Rs20/sh for Fedfina and IDBI-Federal Life). **Risks:** Lumpy slippages from the corporate book/co-lending book, slower credit growth.

Key financials (YE Mar) (Rs m)	FY23	FY24	FY25	FY26e	FY27e
Net interest income	72,322	82,935	94,616	1,05,158	1,20,792
Pre-provisioning profit	47,944	51,745	60,947	67,703	79,853
Provisions	7,499	1,961	7,331	10,145	13,828
PAT	30,106	37,206	40,455	43,053	49,387
EPS (Rs)	14.2	15.3	16.5	17.5	20.1
NIM (%)	3.4	3.3	3.2	3.1	3.1
Cost-Income (%)	49.9	54.5	54.0	54.6	53.6
RoE (%)	14.9	14.7	12.9	12.2	12.5
RoA (%)	1.3	1.3	1.2	1.2	1.2
Advances growth (%)	20.4	20.0	12.1	16.0	16.0
GNPA (%)	2.4	2.1	1.8	1.5	1.3
CAR (%)	14.8	16.1	16.4	15.7	15.3
P / E (x)	13.8	12.9	11.9	11.2	9.8
P / BV (x)	1.9	1.6	1.4	1.3	1.2
P / ABV (x)	2.0	1.7	1.5	1.3	1.2

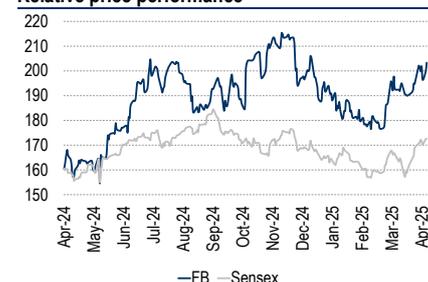
Source: Company, Anand Rathi Research

Key data	FB IN / FED.BO
52-week high / low	Rs.217 / 148
Sensex / Nifty	80,242 / 24,334
Market cap	Rs.499bn
Shares outstanding	2455m

Shareholding pattern (%)	Mar'25	Dec'24	Sep'24
Promoters	-	-	-
- of which, Pledged	-	-	-
Free float	100	100	100.0
- Foreign institutions	26.3	26.3	27.7
- Domestic institutions	49.1	48.9	47.2
- Public	24.7	24.8	25.1

Estimates revision (%)	FY26e	FY27e
Net interest income	(8.0)	(10.3)
Pre-provisioning profit	(13.3)	(14.4)
PAT	(10.2)	(11.9)

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Net interest income	72,322	82,935	94,616	1,05,158	1,20,792
<i>NII growth (%)</i>	21.3	14.7	14.1	11.1	14.9
Non-interest income	23,300	30,793	38,013	44,095	51,150
Income	95,622	1,13,728	1,32,628	1,49,253	1,71,942
<i>Income growth (%)</i>	18.8	18.9	16.6	12.5	15.2
Operating expenses	47,678	61,983	71,681	81,550	92,089
PPoP	47,944	51,745	60,947	67,703	79,853
<i>PPoP growth (%)</i>	27.6	7.9	17.8	11.1	17.9
Provisions	7,499	1,961	7,331	10,145	13,828
PBT	40,445	49,784	53,617	57,558	66,026
Tax	10,339	12,578	13,162	14,505	16,638
PAT	30,106	37,206	40,455	43,053	49,387
<i>PAT growth (%)</i>	59.3	23.6	8.7	6.4	14.7
FDEPS (Rs)	14.2	15.3	16.5	17.5	20.1
DPS (Rs)	1.8	1.2	1.2	1.8	2.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Share capital	4,232	4,871	4,912	4,912	4,912
Reserves & surplus	2,10,830	2,86,073	3,29,295	3,68,042	4,12,491
Deposits	21,33,860	25,25,340	28,36,475	32,90,311	38,16,760
Borrowings	1,93,193	1,80,264	2,37,263	2,42,008	2,46,848
Other Liabilities	61,303	86,570	82,104	86,369	93,724
<b>Total liabilities</b>	<b>26,03,418</b>	<b>30,83,118</b>	<b>34,90,048</b>	<b>39,91,642</b>	<b>45,74,735</b>
Advances	17,44,469	20,94,033	23,48,364	27,24,102	31,59,958
Investments	4,89,833	6,08,595	6,62,456	7,35,326	8,23,565
Cash & bank balances	1,76,887	1,89,629	3,08,592	3,45,623	3,87,098
Fixed & other assets	1,92,229	1,90,860	1,70,636	1,86,590	2,04,113
<b>Total assets</b>	<b>26,03,418</b>	<b>30,83,118</b>	<b>34,90,048</b>	<b>39,91,642</b>	<b>45,74,735</b>
No. of shares (m)	2,116	2,435	2,456	2,456	2,456
<i>Deposits growth (%)</i>	17.4	18.3	12.3	16.0	16.0
<i>Advances growth (%)</i>	20.4	20.0	12.1	16.0	16.0

Source: Company, Anand Rathi Research

**Fig 3 – Ratio analysis %**

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
NIM	3.4	3.3	3.2	3.1	3.1
Other inc. / total inc.	24.4	27.1	28.7	29.5	29.7
Cost-income	49.9	54.5	54.0	54.6	53.6
Provision coverage	71.2	72.3	76.2	75.0	75.0
Dividend payout	12.7	7.9	7.3	10.0	10.0
Credit-deposit	81.8	82.9	82.8	82.8	82.8
Investment-deposit	23.0	24.1	23.4	22.3	21.6
Gross NPA	2.4	2.1	1.8	1.5	1.3
Net NPA	0.7	0.6	0.4	0.4	0.3
BV (Rs)	101.6	119.5	136.1	151.9	170.0
Adj. BV (Rs)	97.6	115.9	133.1	148.9	167.0
CAR	14.8	16.1	16.4	15.7	15.3
- Tier 1	13.0	14.6	15.0	14.6	14.3
RoE	14.9	14.7	12.9	12.2	12.5
RoA	1.3	1.3	1.2	1.2	1.2

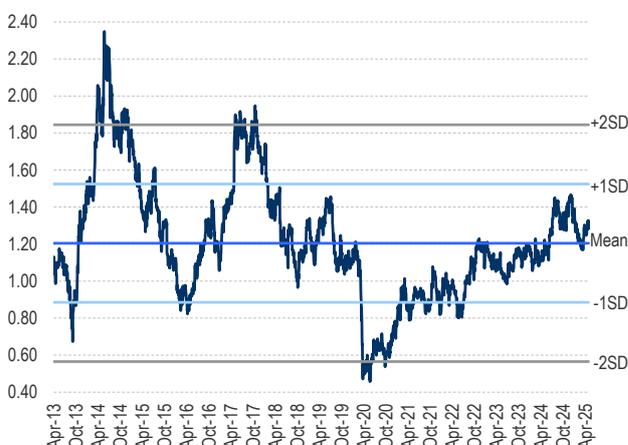
Source: Company, Anand Rathi Research

**Fig 4 – Price-to-Book band**



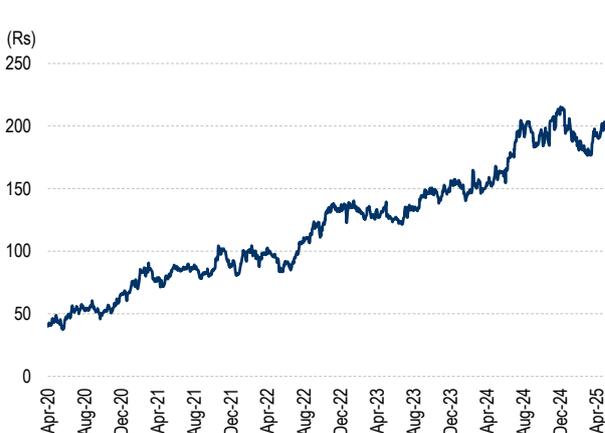
Source: Bloomberg

**Fig 5 – One-year-forward price-to-book value**



Source: Company, Anand Rathi Research

**Fig 6 – Price movement**



Source: Bloomberg

## Key Highlights

### Quarterly snapshot

**Fig 7 – Income statement**

(Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Interest income	36,289	40,208	44,333	47,207	50,245	54,553	57,301	59,784	63,309	65,713	68,087	66,480
Interest expense	20,244	22,590	24,767	28,115	31,059	33,989	36,067	37,832	40,389	42,101	43,774	42,709
<b>NII</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>23,612</b>	<b>24,313</b>	<b>23,770</b>
Y/Y growth (%)	13.1	19.1	27.1	25.2	19.6	16.7	8.5	15.0	19.5	14.8	14.5	8.3
Non-interest income	4,526	6,095	5,340	7,339	7,324	7,304	8,626	7,539	9,152	9,640	9,162	10,060
<b>Total income</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>33,252</b>	<b>33,475</b>	<b>33,830</b>
Y/Y growth (%)	-0.5	20.3	23.1	32.8	28.9	17.5	19.9	11.6	21.0	19.3	12.1	14.7
Operating expenses	10,838	11,591	12,163	13,091	13,487	14,624	15,486	18,386	17,063	17,658	17,781	19,180
Of which, staff cost	4,993	5,156	5,608	5,977	6,167	6,263	6,932	8,869	7,380	7,777	7,832	7,838
<b>PPoP</b>	<b>9,734</b>	<b>12,122</b>	<b>12,742</b>	<b>13,341</b>	<b>13,024</b>	<b>13,245</b>	<b>14,373</b>	<b>11,104</b>	<b>15,009</b>	<b>15,594</b>	<b>15,695</b>	<b>14,650</b>
Y/Y growth (%)	-14.1	32.9	39.4	67.1	33.8	9.3	12.8	-16.8	15.2	17.7	9.2	31.9
Total provisions	1,667	2,679	1,987	1,167	1,556	439	912	(946)	1,443	1,584	2,923	1,381
<b>PBT</b>	<b>8,067</b>	<b>9,444</b>	<b>10,755</b>	<b>12,174</b>	<b>11,468</b>	<b>12,806</b>	<b>13,461</b>	<b>12,050</b>	<b>13,566</b>	<b>14,010</b>	<b>12,771</b>	<b>13,269</b>
Tax	2,060	2,407	2,719	3,153	2,930	3,267	3,394	2,987	3,471	3,503	3,217	2,971
<b>PAT</b>	<b>6,007</b>	<b>7,037</b>	<b>8,036</b>	<b>9,021</b>	<b>8,537</b>	<b>9,538</b>	<b>10,067</b>	<b>9,063</b>	<b>10,095</b>	<b>10,507</b>	<b>9,554</b>	<b>10,298</b>
Y/Y growth (%)	63.5	52.9	54.0	66.9	42.1	35.5	25.3	0.5	18.2	10.2	-5.1	13.6

Source: Company, Anand Rathi Research

**Fig 8 – Balance sheet**

(Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Equity capital	4,210	4,219	4,230	4,232	4,240	4,703	4,870	4,871	4,900	4,905	4,910	4,912
Reserves & Surplus	1,89,720	1,93,269	2,01,650	2,10,830	2,19,520	2,56,485	2,76,850	2,86,074	3,00,750	3,09,661	3,18,430	3,29,295
Deposits	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	26,63,750	28,36,475
Borrowings	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	2,86,900	2,37,263
Other Liabilities	67,710	78,048	88,010	61,303	81,460	92,579	1,11,330	86,570	96,320	1,12,313	1,25,050	82,104
<b>Equity and Liabilities</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>33,99,040</b>	<b>34,90,048</b>
Deposits y/y growth %	8.2	10.0	14.8	17.4	21.3	23.1	19.0	18.3	19.6	15.6	11.2	12.3
Deposits q/q growth %	0.9	3.2	6.5	5.9	4.3	4.7	2.9	5.4	5.4	1.1	-1.0	6.5
Cash and cash balances	1,31,570	1,26,543	1,39,670	1,25,909	1,35,910	1,50,013	1,37,580	1,14,936	1,60,950	1,69,485	1,76,920	2,03,544
Advances	15,16,890	16,12,403	16,81,730	17,44,469	18,34,870	19,28,167	19,91,850	20,94,033	22,08,080	23,03,122	23,03,700	23,48,364
Investments	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	6,64,410	6,62,456
Other Assets	1,65,150	1,73,070	1,81,550	1,92,229	1,94,840	1,94,543	1,84,300	1,90,860	1,84,710	1,77,020	1,69,220	1,70,636
<b>Total Assets</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>33,99,040</b>	<b>34,90,048</b>
Advances y/y growth	16.9	20.0	19.5	20.4	21.0	19.6	18.4	20.0	20.3	19.4	15.7	12.1
Advances q/q growth	4.7	6.3	4.3	3.7	5.2	5.1	3.3	5.1	5.4	4.3	0.0	1.9

Source: Company, Anand Rathi Research

**Fig 9 – Asset quality movement**

(Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
<b>Opening balance</b>	<b>41,367</b>	<b>41,553</b>	<b>40,311</b>	<b>41,479</b>	<b>41,838</b>	<b>44,348</b>	<b>44,361</b>	<b>46,288</b>	<b>45,289</b>	<b>47,384</b>	<b>48,845</b>	<b>45,533</b>
Slippage	4,630	3,900	4,120	4,540	5,010	3,730	4,960	3,720	4,240	4,340	4,980	4,920
Recovery	2,810	3,290	2,870	3,990	2,460	3,590	2,900	4,500	2,060	2,720	3,350	4,340
Write-offs	1,634	1,853	82	191	40	127	133	219	85	159	4,942	2,358
<b>Closing balance</b>	<b>41,553</b>	<b>40,311</b>	<b>41,479</b>	<b>41,838</b>	<b>44,348</b>	<b>44,361</b>	<b>46,288</b>	<b>45,289</b>	<b>47,384</b>	<b>48,845</b>	<b>45,533</b>	<b>43,755</b>
GNPA (%)	2.7	2.5	2.4	2.4	2.4	2.3	2.3	2.1	2.1	2.1	2.0	1.8
Gross slippage ratio (%)	1.3	1.0	1.0	1.1	1.1	0.8	1.0	0.7	0.8	0.8	0.9	0.9

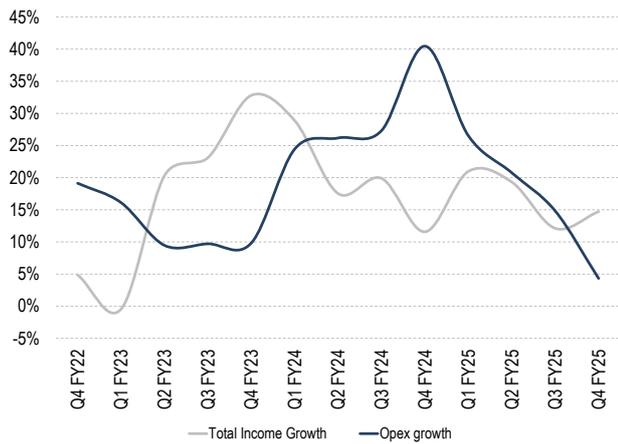
Source: Company, Anand Rathi Research

**Fig 10 – Break-up of advances (%)**

(%)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Corporate	35.4	35.7	36.7	36.2	36.1	34.7	36.5	36.0	34.0	33.4	33.8	34.4
SME	18.1	18.1	17.9	17.7	18.0	18.2	17.7	17.6	18.1	18.7	18.6	18.7
Retail	32.7	32.2	31.5	31.6	40.0	31.6	39.6	39.9	41.1	41.0	40.8	40.1
CV/CE	0.9	1.0	1.1	1.2	1.3	1.4	1.4	1.6	1.7	1.7	1.7	1.9
MFI	-	-	-	-	-	1.2	1.3	1.6	1.7	1.8	1.7	1.7
Agriculture	12.9	12.5	12.2	13.2	3.6	12.8	3.4	3.4	3.4	3.4	3.3	3.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>99.5</b>	<b>99.4</b>	<b>100.0</b>	<b>99.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

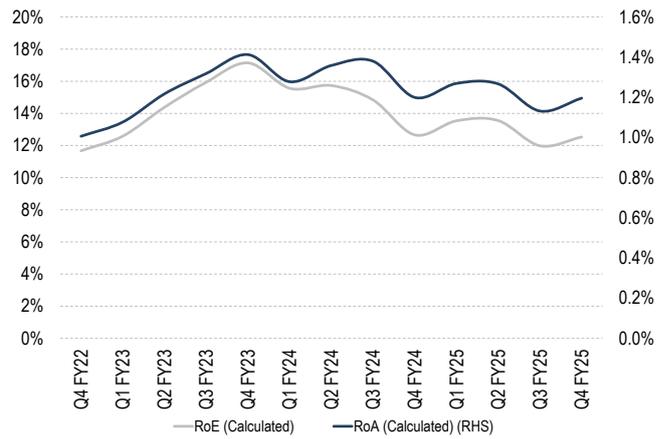
Source: Company, Anand Rathi Research

**Fig 11 – Income vs. Opex growth**



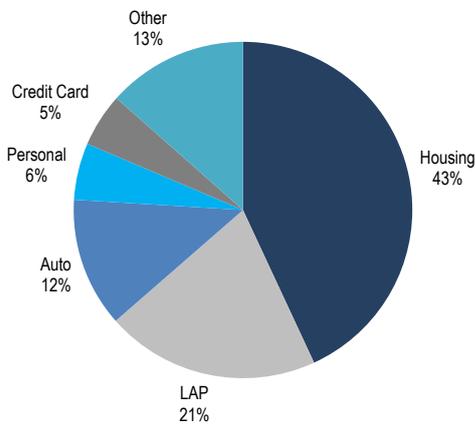
Source: Company, Anand Rathi Research

**Fig 12 – RoE vs. RoA**



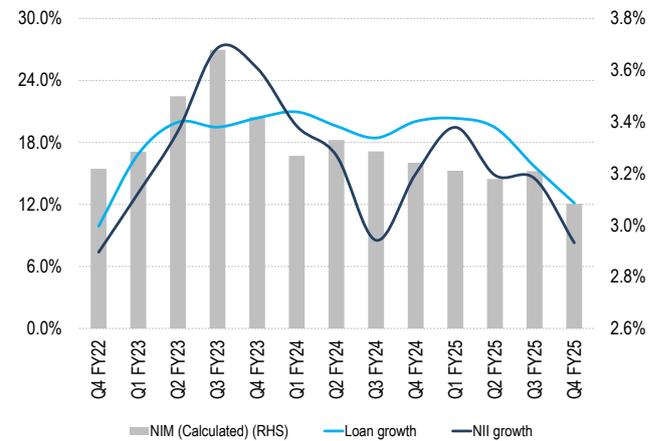
Source: Company, Anand Rathi Research

**Fig 13 – Retail loan break-up**



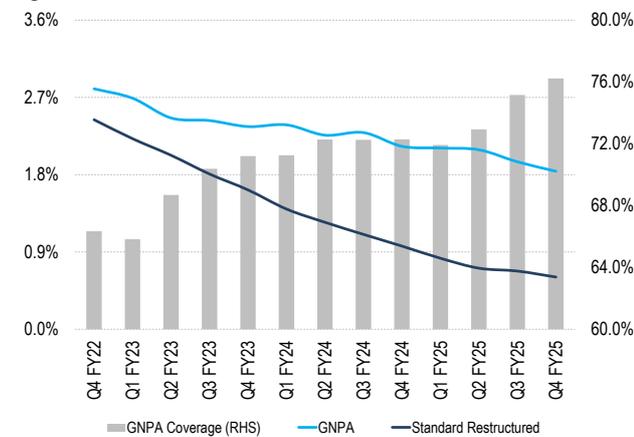
Source: Company, Anand Rathi Research

**Fig 14 – Credit growth vs. NIM (%)**



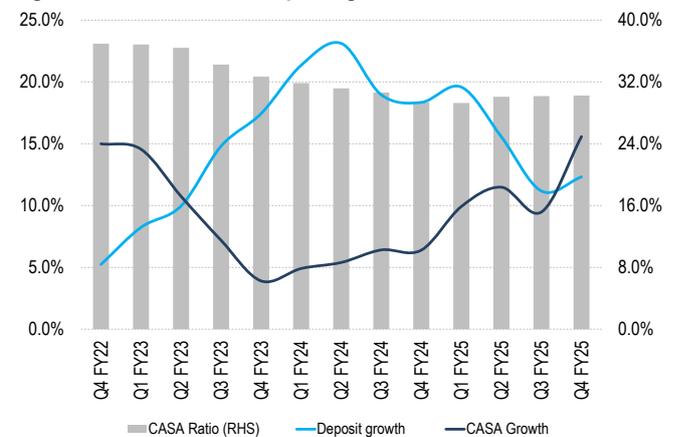
Source: Company, Anand Rathi Research

**Fig 15 – Re-structured assets vs. GNPA**



Source: Company, Anand Rathi Research

**Fig 16 – CASA ratio vs. Deposit growth**



Source: Company, Anand Rathi Research

## Valuation

- Our Rs246 TP stems from a sum-of-parts valuation (1.3x FY27e book value, Rs20 a share for Fedfina and IDBI-Federal Life).

**Fig 17 – Change in estimates**

(Rs m)	FY26e			FY27e		
	New	Old	Chg (%)	New	Old	Chg (%)
Net interest income	1,05,158	1,14,266	(8.0)	1,20,792	1,34,611	(10.3)
Pre-provisioning profit	67,703	78,126	(13.3)	79,853	93,331	(14.4)
PAT	43,053	47,925	(10.2)	49,387	56,063	(11.9)

Source: Anand Rathi Research

### Risks

- Lumpy delinquencies from corporate/co-lending could harden our credit-cost estimates, manifesting in lower return ratios.
- Less-than-expected loan growth could distort our estimates.

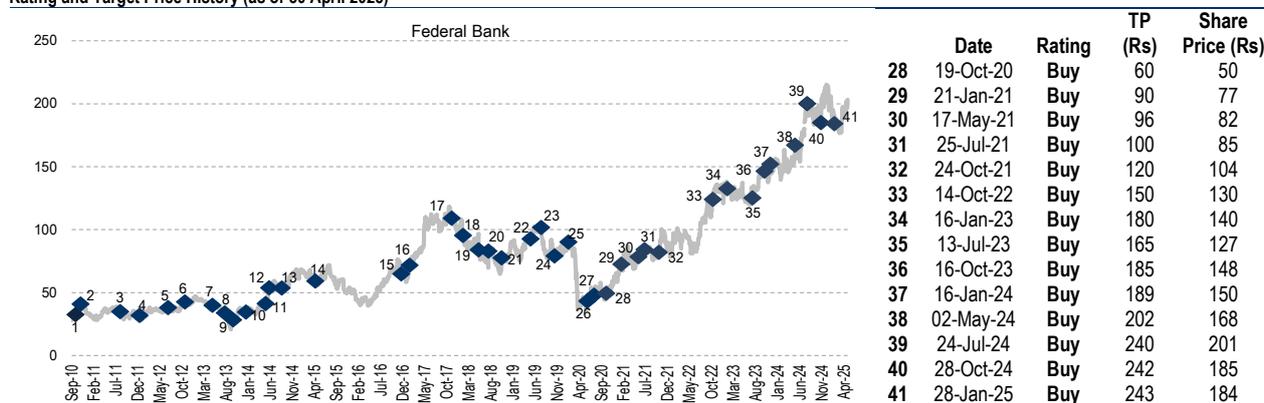
## Appendix

### Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

### Important Disclosures on subject companies

#### Rating and Target Price History (as of 30 April 2025)



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#### Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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