

Axis Annual Analysis 2025



Federal Bank Ltd.



Resilient Today, Ready for Tomorrow - Unlocking the Next Leg of Growth!

Summary

FY25 was the year of transition of the bank under the new management spearheaded by Mr KVS Manian. The bank's strategic focus shifted towards scaling Federal Bank (FB) to new heights, placing it amongst the top banks over the next 3-5 years as the bank identified key growth drivers to ensure sustainable, strong growth as a part of its 'Project Breakthrough'. Throughout the year, the bank continued to make progress on the strategy laid out, with green shoots visible as it exit FY25. With challenges persisting in the unsecured segments, the bank consciously slowed down growth in the higher-yielding segment and shifted focus towards mid-yielding secured segments, while effectively managing NIMs despite higher CoF. Asset Quality remained healthy, driven by controlled slippages and healthy recoveries.

Key Highlights

- Operational Performance:** FB reported healthy credit growth of 12% YoY, led by the LAP (+20% YoY), Gold Finance (+21% YoY), CV/CE (+35% YoY), and Commercial Banking (+27% YoY). The mix of high and very-high yielding segments remained largely stable at ~5% in FY25. The bank shifted its focus to mid-yielding segments amidst asset quality challenges in unsecured segments, thereby improving its share in the portfolio to 47% vs 45% in FY24. Deposit growth replicated the credit growth at 12% YoY, driven by CA (+34% YoY), while CASA deposits grew by 16% YoY. As a result, the CASA ratio improved to 30.5% from 29.4% YoY. LDR remained comfortable at 82.8%, flat YoY.
- Financial Performance:** NII growth was steady at 14% YoY in FY25, despite margin pressures, though controlled with focus on yield management. Margin compression of 7bps YoY was mainly led by the increase in the CoD (reported)/CoF (calc.). NIMs stood at 3.13% vs 3.2% in FY24. Non-interest income grew by 23% YoY, largely driven by healthy core fee income growth (+25% YoY). Opex growth was marginally ahead of business growth (+16% YoY), primarily driven by other expenses (+21% YoY), while employee expense growth was modest (+9% YoY). C-I Ratio remained largely stable at 54.0% vs. 54.5% in FY24. PPOP growth came in strong at 18% YoY, supported by strong non-interest income. Credit costs continued to normalise. During the year, the accelerated provision (one-off; entirely towards existing NPAs) was based on FB's intent to strengthen the risk framework by changing its approach to NPA provisioning towards retail unsecured loans. Credit costs stood at 38bps vs 23bps, thereby weighing on earnings, which grew by 9% YoY.
- Asset Quality:** In FY25, as stress in the unsecured segments, particularly in the MFI segment, surfaced, it remained better managed vs peers/industry. This can be credited to the bank's cautious growth approach and lower approval rates vs the industry. Slippages remained under control with a slippage ratio at 0.8% vs 0.9% in FY24, except for higher slippages in MFI. GNPA/NNPA improved to 1.84/0.44% vs 2.13/0.60% in FY24.
- Operational Review:** Risk-weighted Assets (RWA) constituted ~60/90% of total assets/advances vs 62/91% in FY24. The bank continues to remain well-capitalised with CRAR/Tier I capital of 16.4/15.0%. FB added 85 branches during the year, taking the total branch count to 1,589. The bank continued to deepen its presence in the South, while also growing in high-potential markets across the West, North and Northeast.

Key Competitive Strengths: (a) Robust distribution reach facilitating customer growth; (b) Stable asset quality across cycles; (c) Strong, diversified and granular liability franchise; (d) Diversified portfolio ensuring portfolio stability; (e) Strong network of fintech facilitating deposit growth amidst intense competition

Growth Drivers: (a) Focus on growing mid/higher-yielding portfolio to drive continued credit growth alongside supporting NIMs; (b) Leveraging the existing and forging new fintech partnerships to ensure healthy business growth; (c) Adequate Capitalization to fuel medium-term growth; (d) Strong risk management framework to help navigate asset quality challenges; (e) Strengthening fee income and cost optimization measures in place to drive RoA improvement.

Outlook & Valuation

The bank's strategy re-orientation under the new management is seeing green shoots across most key metrics. We expect FB's RoA/RoE to improve between 1.3-1.4%/13-15% over the FY27-28E, while navigating near-term headwinds. This improvement is likely to be driven by (1) Healthy risk-adjusted credit growth, (2) Margin improvement levers playing out with portfolio mix shift towards better-yielding segments and lower CoF, (3) Strong deposit franchise with improved CASA Mix, (4) Strengthened Fee income profile, and (5) Stable asset quality metrics, keeping credit costs under control. **We believe the risk-reward is favourable at current valuations. We recommend a BUY on the stock with a target price of Rs 240/share, implying an upside of 20% the CMP.**

Key Financials (Standalone)

(Rs Cr)	FY25	FY26E	FY27E	FY28E
NII	9,468	10,141	12,701	15,185
PPOP	6,101	6,532	8,544	10,692
Net Profit	4,052	3,960	5,328	6,717
EPS (Rs.)	16.5	16.1	21.7	27.3
ABV	131.9	146.2	165.1	188.7
P/ABV	1.5	1.4	1.2	1.1
NNPA (%)	0.4	0.4	0.4	0.4
ROA (%)	1.2	1.1	1.3	1.4

Source: Company, Axis Securities Research

(CMP as of 21th August, 2025)

CMP (Rs)	200
Upside/Downside (%)	20%
High/Low (Rs)	220/173
Market cap (Cr)	49,104
Avg. daily vol. (6m) Shrs.	86,80,180
No. of shares (Cr)	245.9

Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	0.0	0.0	0.0
FIIs	26.3	26.3	26.9
MFs / UTI	35.9	35.9	35.4
Others	37.8	37.8	37.7

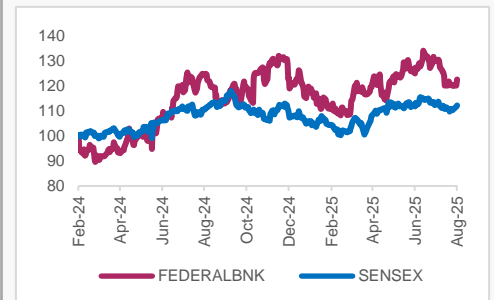
Financial & Valuations

Y/E Mar (Rs. Cr)	FY26E	FY27E	FY28E
NII	10,141	12,701	15,185
PPOP	6,532	8,544	10,692
Net Profit	3,960	5,328	6,717
EPS (Rs.)	16.1	21.7	27.3
ABV (Rs.)	146.2	165.1	188.7
P/ABV (x)	1.4	1.2	1.1
NNPA (%)	0.4	0.4	0.4
RoA (%)	1.1	1.3	1.4

Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
NII	-1.1	+0.5	-0.3
PPOP	-1.2	+0.4	+0.4
PAT	-1.4	+0.4	+0.5

Relative Performance



Source: AceEquity, Axis Securities Research

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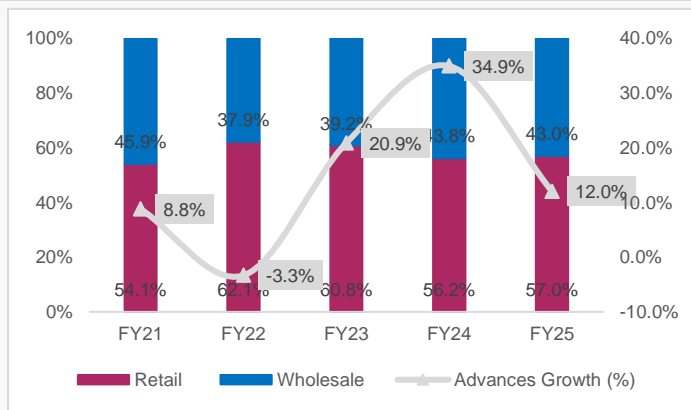
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FY25 Story in Charts

Exhibit 1: Healthy credit growth with strategy re-orientation, led by Retail portfolio...



Source: Company, Axis Securities Research

Exhibit 2: ...Advances Mix remains diversified, ensuring portfolio stability (FY25)

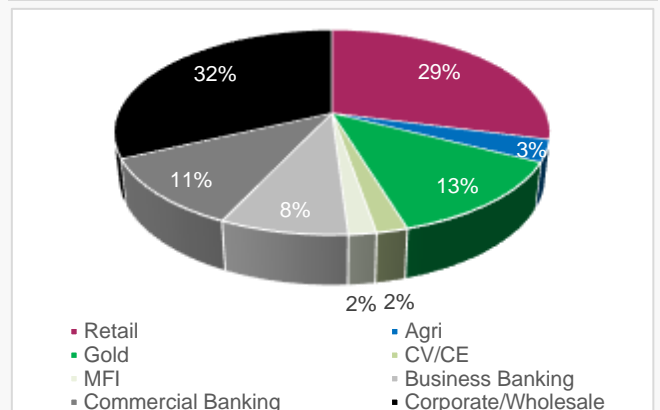
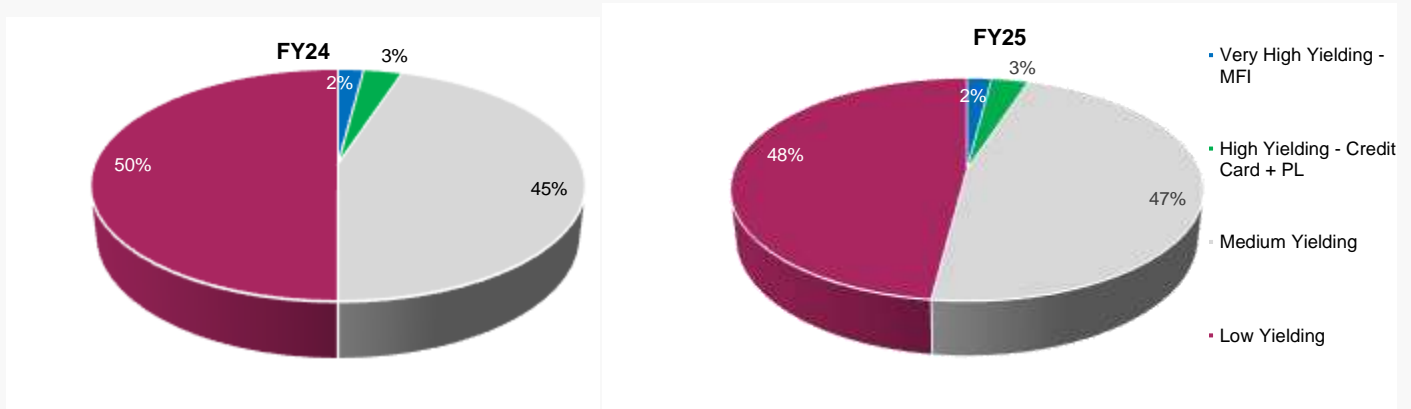
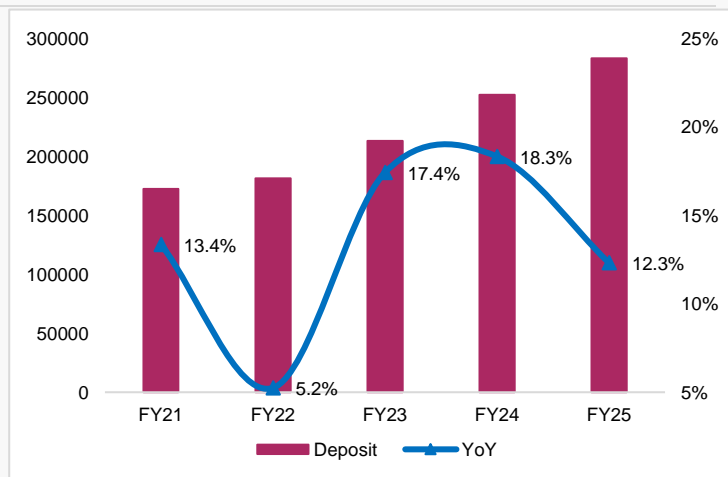


Exhibit 3: Pivoting towards mid-yielding segments with stress build-up in certain unsecured higher-yielding segments



Source: Company, Axis Securities Research

Exhibit 4: Deposit growth mirrored credit growth, with focus on CA Deposits, keeping LDR steady...



Source: Company, Axis Securities Research

Exhibit 5: ...Focus on CASA Deposit accretion, witnessing green shoots

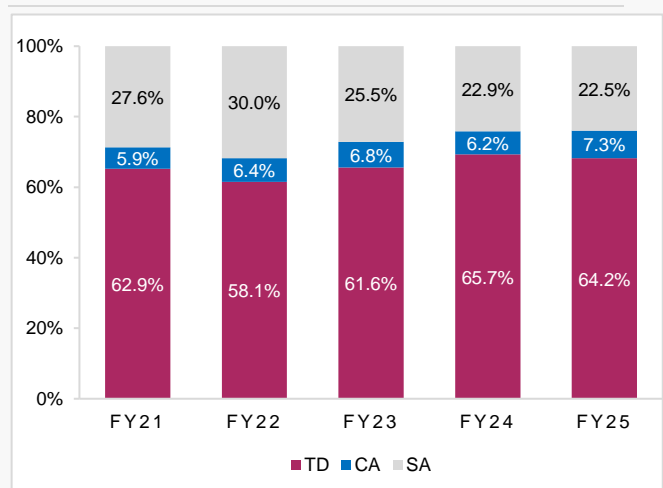
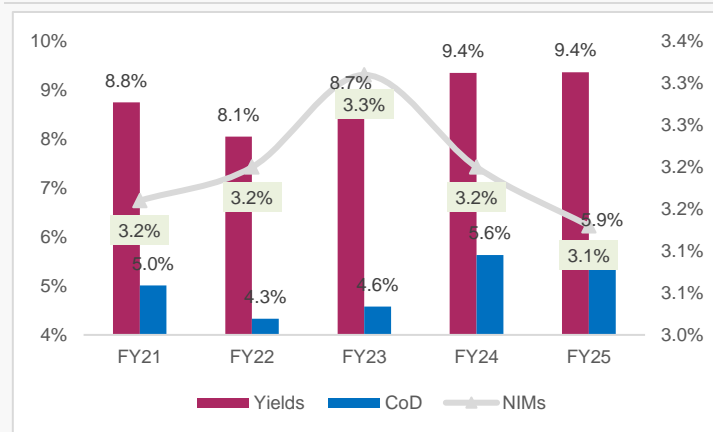


Exhibit 6: Higher CoF weighs on Margins, Yields on advances steady...



Source: Company, Axis Securities Research

Exhibit 7: ...Opex growth marginally ahead of business growth, C-I Ratio steady YoY

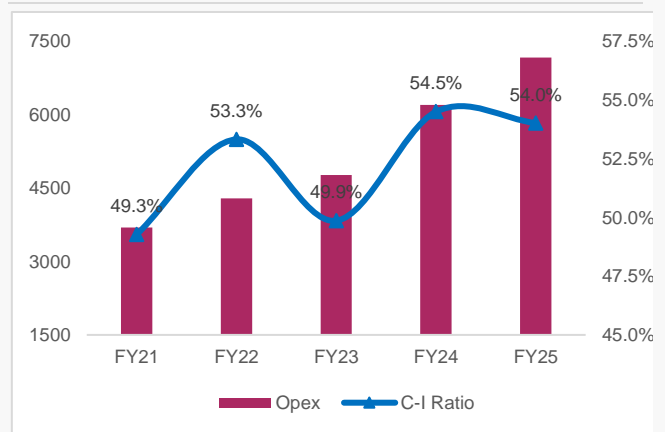
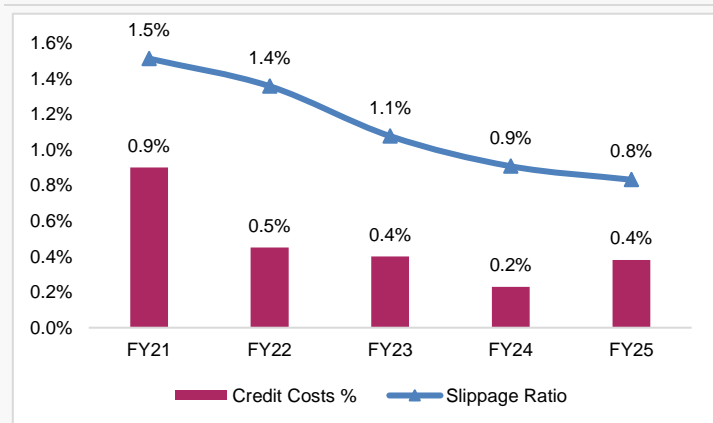


Exhibit 8: Slippages well controlled, keeping credit costs in check, despite one-off accelerated provision...



Source: Company, Axis Securities Research

Exhibit 9: ...Assets quality remains steady across segments

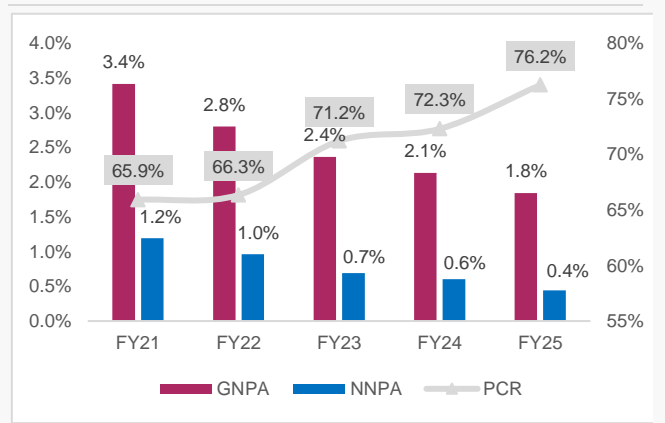
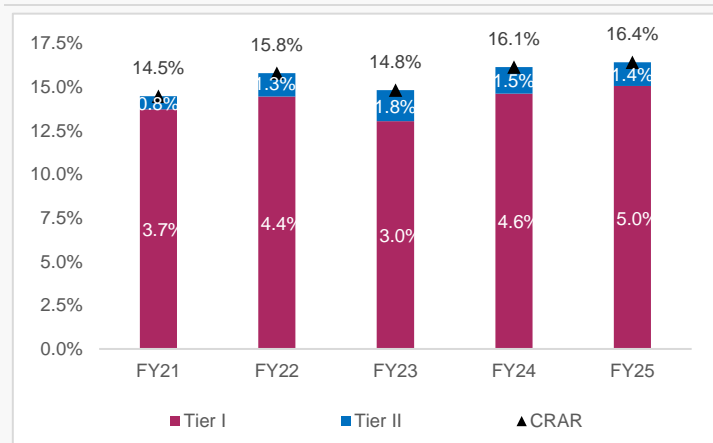


Exhibit 10: FB remain well-capitalised to steer medium-term growth...



Source: Company, Axis Securities Research

Exhibit 11: RoA remain healthy despite NIM pressures and normalisation of credit costs

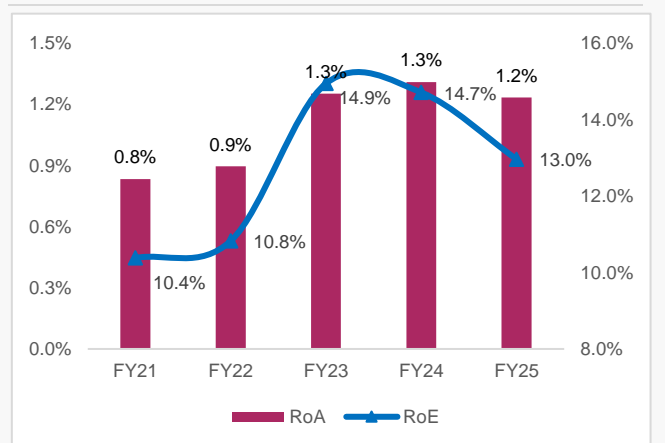


Exhibit 12: Productivity Metric Improving

(Rs Cr)	FY21	FY22	FY23	FY24	FY25
Advances per Branch	103.7	107.0	127.1	139.2	147.8
Deposits per Branch	135.7	134.1	155.5	167.9	178.5
Business per Branch	239.4	241.1	282.7	307.1	326.3
PAT per Branch	1.3	1.4	2.2	2.5	2.5
Advances per Employee	10.5	11.3	13.0	13.8	14.6
Deposits per Employee	13.7	14.2	15.9	16.6	17.6
Business per Employee	24.2	25.5	28.8	30.4	32.2
PAT per Employee	0.1	0.1	0.2	0.2	0.3

Source: Company, Axis Securities Research

Key Operating Highlights

Focus On Balanced, Risk-Adjusted Profitable Growth

FB delivered advances growth of ~12% YoY, slower as compared to its average growth delivery of 18-20% post COVID, as it recalibrated its growth strategy. The bank consciously calibrated growth in the unsecured segments (PL and MFI) amidst continued asset quality headwinds and pivoted towards accelerating growth in the medium-yielding segments. Within the medium-yielding segments, FB registered strong growth in the Commercial Banking (+27% YoY), Gold Loans (+21% YoY), LAP (+20% YoY), and CV/CE Loans (+35% YoY, albeit on a smaller base), while business bank (+11% YoY) and Agri (+9% YoY) growth was muted. The bank **maintained a prudent stance with a focus on profitable risk-adjusted growth in the corporate book**, resulting in muted growth of ~8% YoY. In the corporate segment, **FB is focusing on acquiring new clients from the mid-market segment to ensure profitable growth.**

The core retail portfolio grew by 10% YoY, with strong growth in LAP, Auto, and Credit Cards segments. The growth in the housing portfolio (+7% YoY) **remained subdued owing to a conscious pull-back given sub-optimal yields and industry rate challenges. The bank will continue prioritising home loan customers who offer a broader revenue opportunity and relationship.** In its effort to improve the TAT for Mortgage loans, FB initiated the process of redefining and digitising the entire Loan Origination System (LOS). Additionally, the End-to-End Digitised HL Top-up platform was also introduced as one of the means to offer Top-up facilities to existing Housing Loan customers without the need for additional documentation.

Gold loans portfolio growth was strong at 21% YoY in FY25. FB introduced specialised modules and platforms that have simplified the gold loan journey for both customers and employees, enhancing transparency, compliance, and process efficiency. The expansion of strategic partnerships through fintech collaborations and sales channels has played a vital role in scaling the business, and FB has further deepened its engagement with its various partners, enabling a wider reach and quicker service delivery across geographies. While the gold business faced headwinds as FB exited FY25 owing to regulatory issues, the bank remains committed to **accelerating growth in the gold financing segment, with regulatory clarity emerging.**

In unsecured lending, credit card growth remained steady (+19% YoY), driven by both organic and co-branded offerings, with a focus on acquiring new customers and co-origination credit cards to existing Savings Bank customers. PL and MFI witnessed a slowdown amidst asset quality concerns and a conservative approach adopted by the bank. However, **the bank plans to resume growth in these segments once the stress alleviates.**

Deposit Strategy Revamped; Focus Shifts to CASA Accretion

As a part of its strategy re-orientation, FB enhanced its focus on CASA Deposits while aspiring to become a primary banker for its retail and corporate customers. Resultantly, FB's deposit market share improved by 3bps in FY25. The **focus remained on acquiring both ETB and NTB CASA customers through improved branch productivity and the introduction of new products alongside leveraging its existing distribution network, brand and franchise strength.** Moreover, internal focus was on tracking average CASA as a performance metric to ensure stability and sustainability in the deposit base rather than short-term end-of-period fluctuations. Green shoots were visible with H2 CA balances being considerably higher (~50%) vs H1FY25, in both value and volume terms. In FY25, the bank reported a strong CA deposit growth of 34% YoY, while SA deposits grew by 10% YoY. CASA Ratio improved to 30.5% vs 29.6% in FY24.

- *Growth driven by Commercial Banking, Gold and LAP.*
- *Focus on mid-yielding segments, amidst asset quality challenges in the unsecured higher-yielding segments.*
- *Gold loan growth to accelerate*

- *Deposit strategy revamped, focus shifts to CASA accretion*
- *Green shoots visible with CA accretion being healthy*
- *Efforts to contain CoF*

In its endeavour to ensure healthy CASA accretion, FB also introduced a new savings product called Esteem, designed as a theme-based account targeting resident individuals aged 55+, which was received well. The bank also launched new CA variants with an in-built sweep facility and RERA Accounts.

TD growth remained steady at ~11% YoY, **with the bank being judicious and selective in TD mobilisation to manage CoF**. The NR deposits grew by ~10% YoY after a slow H2FY24, with a remittance market share of ~17.3% (as on Q3FY25). Furthermore, with a view to de-risking and diversifying the deposit base, the concentration of Top-20 depositors declined to 4.9% in FY25 vs 7.0% in FY24. Going forward, the bank aims to further strengthen its liability franchise, especially CA deposits, to optimise the CoF, eventually enhancing the RoA.

NIM Contraction Primarily Owing to an Increase in CoF

FB witnessed a 7bps decline in NIMs from 3.2% in FY24 to 3.13% in FY25. NIM contraction was well managed with a focus on mid-yielding segments, as the bank pulled back growth in the high and very high-yielding segments, citing asset quality headwinds. Yield on advances remained steady in FY25 at 9.37% vs 9.35% in FY24. Yield on investments improved meaningfully to 7% vs 6.71% in FY24. Thus, blended yields (calc.) improved by 12bps YoY, partially offsetting the impact of higher CoF. During the year, FB's CoD/CoF inched up sharply by 27/34bps, weighing on NIMs. Margin improvement remains a key focus area for the bank and it has identified levers to maintain and enhance NIMs, which including **a) Pivot towards growth in mid-to-high-yielding segments such as CC, PL, CV and gold loans while maintaining a favourable risk-reward b) Transitioning certain portion of the floating rate book to fixed rate (majorly in auto portfolio) c) Focusing on low-cost CASA deposits mobilisation and d) Resetting new floating rate loans from T+1 to T+90.**

Along with the unabated **focus on scaling up the unsecured segments**, as headwinds ease, the bank has also forayed into **new products, namely, loan against car, and used car financing**, which is expected to improve the share of high-yield products. These initiatives are expected to mitigate the impact of the rate cuts and improve the NIMs going forward.

Diversified Offerings Drive Sustained Fee Income Growth

FB's strong fee income growth (+25% YoY) is an outcome of a healthy business growth along with a diverse portfolio offering of insurance products, including life insurance, health insurance, and general insurance. FB entered into a partnership with TATA AIA Life Insurance and Bajaj Allianz Life Insurance to offer life insurance products. Within the fee income, insurance distribution income emerged as the largest contributor to the non-banking fee income.

The bank focuses on enhancing the Product Per Customer (PPC) and delivering the right products through appropriate channels such as Branch Banking, Digital Platforms and Telesales. Additionally, the wealth management vertical continues to contribute healthily to the overall fee income. **The bank remains confident of sustaining strong fee income growth supported by (a) disbursement momentum is improving, (b) pick-up in the credit card vertical, (c) scale-up of wealth management and (d) bolstering of the trade and forex vertical.**

- *NIM improvement levers identified*
- *Conscious efforts to contain CoF drove better NIM outcomes*
- *Focus remains on mid-to-high yielding segments*

- *Healthy core fee income growth*
- *Levers to ensure fee income growth sustainability in place*

C-I Ratio Remains Steady

FB reported a 16% YoY growth in Opex, marginally higher than business growth. However, despite slower NII growth in view of margin pressures, the C-I Ratio improved to 54% in FY25 vs 54.5% in FY24, supported by strong non-interest growth. The key drivers of Opex in FY25 included the opening of new branches (85 branches in FY25), increased spending on brand and credit card campaigns and continued investments in technology.

Credit Costs Continued to Normalise; Prudent Lending Supports Asset Quality

FB's strong performance on asset quality can be attributed to its prudent growth approach of pursuing growth in the secured segments, while simultaneously pulling back growth in the unsecured segments. The slippage ratio was steady at 0.8% in FY25 vs 0.9% in FY24. In line with the industry, FB saw an increase in the MFI slippages. Consequently, the bank grew the MF portfolio in a risk-calibrated, cautious manner with lower approval rates in comparison to the industry. In the personal loans and credit cards segment, despite the marginal increase in slippages, the stress was manageable.

The bank's credit costs continued to normalise and stood at 38bps, largely in line with management guidance of 40-50bps. The increase in the provisions can be attributed to the accelerated provision of Rs 292 Cr (entirely towards existing NPAs) taken as a prudent measure to strengthen the risk framework by changing the approach to NPA provisioning towards retail unsecured loans. The bank's asset quality was at its decadal best with GNPA/NNPA at 1.84/0.44% vs 2.13/0.6% in FY24.

Strong Capital Adequacy

The bank remains adequately capitalised with CRAR/Tier I capital of 16.4%/15.0% which allows the bank to have long-term stability, planned business growth, and provide cushioning in times of risk. The Risk-weight Assets (RWA) grew by 11% YoY and stood at ~60% of total assets vs 62% in FY24.

- *Asset Quality stress well managed despite higher slippages from MFI*
- *Credit costs under control despite one-time adjustment*
- *Asset quality at decadal best*

Key Subsidiary Performance

Fedbank Financial Services Limited (FEDFINA; Stake Held – 61%)

FEDFINA, a non-deposit taking NBFC, fulfils the financial demands of retail and MSME customers, providing a diverse range of secured loan offerings, including mortgage, business and gold loans. The company primarily focuses on the secured granular retail lending segment, targeting self-employed individuals and the underserved segment. FEDFINA operates via a branch network of 694 branches (75 branches added in FY25) across 18 states.

Exhibit 13: FEDFINA Financial and Operational Performance Highlights

Particulars (Rs Cr)	FY24	FY25	Change	Comments
Disbursements	13,579	18,788	38.0%	Driven by strong growth momentum in gold and the Medium ticket LAP segment
AUM	12,192	15,812	29.7%	Strong disbursement growth driven by gold (+48% YoY) and Medium ticket size LAP (+44% YoY) segments; focus remained on improving secured product mix.
NII	812	1,082	33.2%	Led by strong AUM growth, coupled with NIM expansion
NIM (%)	7.7	8.2	+52 bps	Strong uptick in yields (+118bps) supported NIMs despite an increase in CoF.
PPOP	394	591	34.8%	Slower Opex growth vs business growth, driving C-I Ratio improvement and healthy top-line growth
Provisions	66	227	244.9%	Small mortgage business witnessed higher delinquencies; Taken a one-time credit cost impact of Rs 75 Cr to fortify the balance sheet
PAT	245	225	-8.2%	Earnings saw a dent due to increased provisions
RoA (%)	2.4%	1.8%	-57bps	Higher credit costs weighed on RoA despite improved NIMs
RoE (%)	13.5%	9.4%	-417bps	
NNPA (%)	1.3%	1.2%	-11bps	

Source: Company; Axis Securities Research

Federal Operations and Services Ltd. (FEDSERV; Stake Held 100%)

FEDSERV, a wholly owned subsidiary of Federal Bank, plays an important role in delivering and optimising efficiency and enhanced customer experience through centralised back-office support. Since its inception in Dec 2018, FEDSERV has played a key role in the Bank's process transformation strategy, which includes enhancing process turnaround times, improving First Time Right (FTR) metrics and reducing operational costs, thus supporting the Bank's ambition to be the First Choice for customers.

Currently, FEDSERV manages 235 operational activities across four strategic locations— Kochi, Visakhapatnam, Bengaluru and Indore.

Exhibit 14: FEDSERV Financial and Operational Performance Highlights

Particulars (Rs Cr)	FY24	FY25	Change
Revenue	79.0	105.1	33.0%
PAT	6.0	7.9	31.7%

Key Growth Drivers

NIM Improvement Assumes Priority

With the new management prioritising NIM improvement, FB's margins are expected to witness an upward trajectory, post-navigating near-term challenges. To enhance the stability on margins in the rate easing cycle, the bank has introduced measures such as (1) resetting of new floating rate loans at T+90 instead of T+1, (2) shifting the car loan business to fixed rate, (3) offering fixed rate medium tenor loans to the business banking segment and (4) gradually accelerating growth in the higher-yielding segments and fixed rate segment (Credit cards, PL, CV and Gold). FB plans to adopt a nimble approach while effectively managing yields and deposits to minimise the impact on NIMs.

Going forward, NIM improvement would be supported by actions on the liability franchise, which should enable the bank to effectively manage its CoF:

- Expanding CA mobilisation through strategic product innovation and market penetration
- Refocusing branches on deposit growth to strengthen balance sheet resilience
- Diversifying base by tapping high CASA-potential markets beyond the Gulf and Kerala corridor. **The bank plans to improve the CASA ratio from ~31% in FY25 to ~36% in FY28, with the CA component improving from ~6% to ~10% in the same period.**

Similarly, the bank has identified levers on the asset side to support lending yields, with

- Granular focus on CASA and TD to ensure stability, LCR efficiency and cost of funds
- Targeting mid-market borrowers to improve spreads and asset quality
- Expanding unsecured, high-yield credit to optimise portfolio returns as market conditions improve; in the interim, focus will remain on medium secured retail assets to improve NIMs. **In its endeavour to reshape the portfolio mix, FB plans to improve the mix of very-high and high yield segments to 3/5% by FY28E vs 2/3% in FY25. A bulk of the heavy-lifting on the yield improvement would be from the improved mix of medium-yield segments.**
- Apply RAROC and tenor-based pricing methodologies to enhance margins

FB's NIMs declined sharply by 18bps owing to a 27bps drop in yields and a 4-5bps impact of interest reversals. This was partially offset by a 20bps decline in CoD. **With the bulk of the repo rate cut impact reflecting in the yields (given pass-on is on a T+1 basis), the quantum of NIM compression in Q2 is expected to be significantly lower at 5-10bps. Resultantly, NIMs will bottom out in Q2, assuming no further rate cuts.** The SA rate cut taken in mid-Jun'25 is yet to reflect in the CoF, and should enable the bank to cushion the dent on margins. With TD repricing kicking in from the forthcoming quarters, NIMs are expected to improve gradually over H2. FB has seen a gradual shift in its portfolio mix from EBLR loans declining to 48% vs 52% in Mar'24 and a corresponding increase in the fixed rate portfolio to 33% from 27%. Going ahead, the management sees levers to further decrease the share of EBLR loans, as the growth in the fixed-rate Gold, CV, and Car Financing portfolio gathers pace. **Moreover, the gradual shift towards mid-yielding segments along with an improving mix of CASA deposits should also provide support to NIMs. We expect FB's margins to range between 3.0-3.3% over FY26-28E.**

- *NIM improvement gaining priority with both asset and liability side levers identified and being leveraged*
- *Focus on CASA, particularly CA*
- *Effectively navigating near-term challenges*
- *NIMs set to improve to 3.2-3.3% over FY27-28E vs ~3% in FY26E*

Growth To Remain Broad-Based

In line with the strategic initiative, the bank has realigned its growth in the retail portfolio and is ready to push for strong growth from H2FY26 onwards. Similarly, **the bank will also look to pursue strong growth in the mid-yielding segments. As the macro environment turns favourable, FB will look to accelerate growth in the higher-yielding segments.**

In the **low-yielding segment**, FB is consciously adopting a nuanced approach to growth. The bank does not intend to compete amid pricing pressures in the home loan book and will focus on risk-return tradeoffs, prioritising customers who offer a broader revenue opportunity and relationship. Similarly, in the corporate segment, FB is focusing on acquiring new clients from the mid-market segment to ensure profitable growth.

In the **higher-yielding segment**, the cards business is growing at a healthy pace with strong card acquisitions and a balanced mix of organic and co-branded cards. The bank will look to push growth in the credit card segment going into FY26. Moreover, as the **stress in the Personal Loan (PL) book has stabilised, the bank has already initiated the issuance of credit cards, both co-branded and organic, focusing on co-origination.** Similarly, with MFI stress having peaked in May'25, FB will look to resume growth cautiously in the MFI portfolio. The bank has ample headroom to increase the unsecured portfolio share from the current ~5%.

In the auto finance business, FB plans to scale up the margin-accretive used car financing business and loan against car, while in the HL segment, the focus will be on affordable housing to enhance yields. FB plans to deepen the geographical penetration to Tier II/III cities for Commercial banking, offering higher reciprocity and revenue. Furthermore, the bank has identified supply chain financing as an opportunity to expand its coverage of the corporate and mid-corporate ecosystem to achieve higher risk-adjusted returns. On the corporate banking front, the bank's strategy revolves around becoming the preferred banking partner for its clients, thereby increasing wallet share. **Given uncertain macros, FB expects to grow at 1.2x of nominal GDP in FY26. However, supported by improving consumption demand and favourable macros, FB will aim at growing the book at 1.2-1.5x nominal GDP on a steady state basis. We expect FB to deliver a healthy 16% CAGR credit growth over FY25-28E.**

Strengthening Fee Income Profile

Fee income remains a key lever in the bank's journey of achieving a RoA of 1.4% in the near-medium term. FB has identified key opportunities to strengthen its core fee income profile. Apart from the improving growth momentum facilitating fee income growth, FB believes **(1) Trade and Forex income, (2) Wealth Management and Bancassurance, (3) Credit Cards & Acquiring Businesses, and (4) Cash Management Services through Product co-origination and cross-selling** will further bolster the fee income growth momentum. Focus will remain on mass affluent & NR deposit customers, MSME segments (identified as a key growth driver) and the mid-market segment.

In line with the bank's revamped strategy to strengthen the core fee income profile, FB has recalibrated its fees to align with peers and also renegotiated with certain partners' fee structures. The bank has started to see green shoots in terms of a healthy pick-up in fee income and expects the trend to sustain.

- *Growth drivers available across segments*
- *Growth to be broad-based*
- *Focus remains on risk-adjusted profitable growth*

Improved Cost Metrics and Operational Efficiency to Support RoA

The management has indicated that the bank will look at modernising the bank and scaling up the franchise pan-India. FB will adopt a selective state expansion approach while planning to add 400-450 branches till FY28 in a phased manner. The focus will remain on foraying into the top 10 high-GSDP states while tapping the huge potential rather than irrationally expanding across states.

Another initiative that the bank will be focusing on would be **“Free the Branch”** (Operation Udaan), with the initiative focusing on reallocation of human capital, redesigning service roles and strengthening frontline productivity. It will look to (a) **Modernize branch formats** by centralising admin tasks to eliminate redundancies and sharpen customer focus, (b) **Expanding sales & distribution capacity** by deploying specialised teams to boost sales and product penetration, (c) **Elevating the branch manager's** (BM) role thereby enabling BMs to refocus on business growth, customer engagement, and market expansion and (d) **Accelerating digitisation** to streamline processes, reduce manual effort, and enhance efficiency.

FB continues to remain in the investment phase and expects this to reflect in the Opex ratios. However, focus will remain on optimising resources and improving efficiency, driving the cost ratio. The management has guided the C-I Ratio to remain steady at mid-50%.

Risks & Mitigation

Increased Competition for CASA Mobilisation

The competitive intensity amongst banking peers continues to remain elevated, especially in terms of deposit mobilisation, with challenges persisting particularly in CASA mobilisation.

Mitigation: FB is enhancing its network footprint and leveraging existing and enhancing partnerships with fintech companies to sustain growth and thereby maintain its market position, with a focus on improving market share in both advances and deposits. The bank has also chalked out a plan for garnering deposits by offering different products, digital initiatives and changes in the scorecards of the on-ground staff.

Key Risks:

- *Increased competition for CASA*
- *Asset quality stress in the unsecured segments*

Continued Asset Quality Challenges in The Unsecured Segments

Challenges on asset quality in the unsecured segment, primarily driven by PL, CC and MFI segments, remain a risk to earnings growth. Persisting stress in these segments will continue to keep credit costs elevated, denting the earnings for the bank, although the management has indicated that the stress has peaked.

Mitigation: The bank has consciously curtailed its growth momentum in segments where it is observing stress. Similarly, focus will remain on pursuing calibrated growth wherein the risk-reward ratio is favourable, to maximise RoA. Moreover, **MFI slippages have peaked in May'25 and have been trending downwards MoM over Jun-Jul'25. Similarly, the SMA pool and Collection Efficiency in the MFI book have been on an improving trend, possibly indicating that the worst is behind us.** In the Business Banking and CV portfolio, the bank has seen a slight increase in stress; however, it is not alarming. FB continues to tightly monitor these portfolios for any emerging signs of stress. Apart from these portfolios, asset quality continues to remain largely stable. **The management has guided for 55bps credit costs for FY26.**

Operational Performance & Financial Statement Analysis

Profitability Analysis

(Rs Cr)

Particulars	FY24	FY25	Change (%)	Comments
Net Interest Income	8,293	9,468	14.2%	NII growth was steady, with NIMs managed effectively. Amidst increasing CoF, focus on mid-to-higher-yielding segments helped manage NIMs.
Non-Interest Income	3,079	3,801	23.4%	Driven by healthy fee income growth
PPOP	5,174	6,101	17.9%	PPOP growth was supported by the strong non-interest income, steady NII growth despite 16% Opex growth
Provisions	196	733	273.8%	Stress in the unsecured segments, along with prudent NPA provisioning and gradual credit cost normalisation, resulted in higher provision.
PAT	3,721	4,052	8.9%	Increase in the provisions weighed on the earnings
EPS	15.3	16.5	8.0%	Same as above

Source: Company, Axis Securities Research

Spread Analysis

(%)

Particulars	FY24	FY25	Change	Comments
Blended Yields (calculated)	8.4%	8.5%	+12bps	Healthy growth in medium-yielding segments and calibrated growth in high-yielding segments enhanced the yields marginally.
Cost of Deposits (reported)	5.6%	5.9%	+27bps	Upward Repricing of deposits resulted in pressure on CoD.
Cost of Funds (reported)	5.8%	6.2%	+34 bps	Same as above.
Spreads (reported)	2.5%	2.3%	-22bps	Sharp rise in the CoF weighed on the spreads.
NIMs (reported)	3.2%	3.1%	-7bps	Same as above.

Source: Company, Axis Securities Research

Asset Quality Analysis

(Rs Cr)

Particulars	FY24	FY25	Change	Comments
GNPA	4,529	4,376	-3.4%	Controlled slippages and healthy recoveries enabled the bank to maintain asset quality at decadal best levels.
GNPA (%)	2.13%	1.84%	-29bps	Same as above
Slippage	1,742	1,847	6.1%	Stress in the unsecured segments – mainly PL and MFI weighed on asset quality.
Slippage Ratio (%)	0.9%	0.8%	-8bps	Same as above
NNPA	1,255	1,040	-17.1%	Higher PCR resulted in lower NNPA
NNPA (%)	0.6%	0.4%	-16bps	Same as above
Provision Coverage Ratio %	71.1%	75.0%	+429bps	

Source: Company, Axis Securities Research

Efficiency Ratios
(%)

Particulars	FY24	FY25	Change	Comments
Cost-Income Ratio	54.5%	54.0%	-48bps	Opex growth was slightly higher than the business growth, owing to tech upgrade initiatives and branch openings; however, healthy top-line growth facilitated C-I Ratio improvement.
ROA	1.3%	1.2%	-8bps	Pressure on NIMs and higher credit costs weighed on earnings and, resultantly RoA.
ROE	14.7%	13.0%	-175bps	
Tier I	14.6%	15.0%	+43bps	Well capitalised to fuel medium-term growth.
CRAR	16.1%	16.4%	+27bps	Same as above
RWA (Rs Cr)	1,89,690	2,10,102	10.8%	Largely in line with advances growth
RWA to Total Assets (%)	61.5%	60.2%	-132 bps	

Source: Company, Axis Securities Research

Asset and Liability Analysis
(Rs Cr)

Particulars	FY24	FY25	Change	Comments
Advances	2,12,623	2,38,134	12.0%	Mainly led by LAP, Gold and Business Banking segments, with muted growth in the unsecured segment and business banking.
Deposits	2,52,534	2,83,647	12.3%	Deposit growth is mainly led by CA, with the CASA ratio improving marginally; TD growth is also healthy.
C/D Ratio (%)	82.9%	82.8%	-13bps	Deposit growth in line with the advances growth, keeping LDR steady
CASA Deposits	74,651	86,378	15.7%	Strategic focus on CASA, particularly CA, resulted in strong CASA growth
CASA Ratio (%)	29.6%	30.5%	89bps	Led by faster growth in CASA Deposits vs TDs
Total Assets	3,08,312	3,49,005	13.2%	Steady balance sheet growth.

Source: Company, Axis Securities Research

Contingent Liability Analysis
(Rs Cr)

Particulars	FY24	FY25	Change	Comments
Contingent Liabilities				
(a) Claims against the Bank not acknowledged as debts	2,507	1,996	-20.4%	Usual Business activity; These represent claims filed against the Bank in the normal course of business relating to various legal cases currently in progress
(b) Guarantees given on behalf of constituents – In India	13,518.2	15,584.3	15.3%	Usual Business activity: the bank issues guarantees on behalf of its customers to enhance their credit standing.
(c) Liability on account of outstanding forward exchange contracts	82,427	1,86,334	126.1%	The Bank presently enters into foreign exchange contracts and interest rate swaps with interbank Counterparties and Customers. The notional amounts of such foreign exchange contracts and derivatives provide a basis for comparison with instruments recognised on the balance sheet, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments
Total Contingent Liabilities	1,02,073	2,08,262.0	104.0	
Contingent Liabilities/Total Assets (%)	33.1%	59.7%		

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	9,468	10,141	12,701	15,185
Other Income	3,801	4,519	5,162	6,202
Net Income	13,269	14,660	17,863	21,388
Operating Expenses	7,168	8,129	9,319	10,696
Pre-Provision Profits	6,101	6,532	8,544	10,692
Provisions	733	1,252	1,441	1,736
PBT	5,368	5,280	7,103	8,955
Tax	1,316	1,320	1,776	2,239
Profit After Tax	4,052	3,960	5,328	6,717

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS				
Equity Share Capital	491	491	491	491
Reserves & Surplus	32,929	36,493	41,288	47,333
Net Worth	33,421	36,985	41,779	47,824
Deposits	2,83,647	3,26,238	3,81,843	4,49,565
Borrowings	23,726	19,828	22,668	26,579
Other Liabilities	8,210	9,228	10,752	12,623
Total Liabilities	3,49,005	3,92,279	4,57,042	5,36,592
APPLICATION OF FUNDS				
Cash & Bank balances	30,859	29,340	34,341	40,432
Investments	66,246	77,497	89,561	1,05,445
Loans	2,34,836	2,65,869	3,10,337	3,63,944
Fixed Assets & Others	17,064	19,572	22,803	26,772
Total Assets	3,49,005	3,92,279	4,57,042	5,36,592

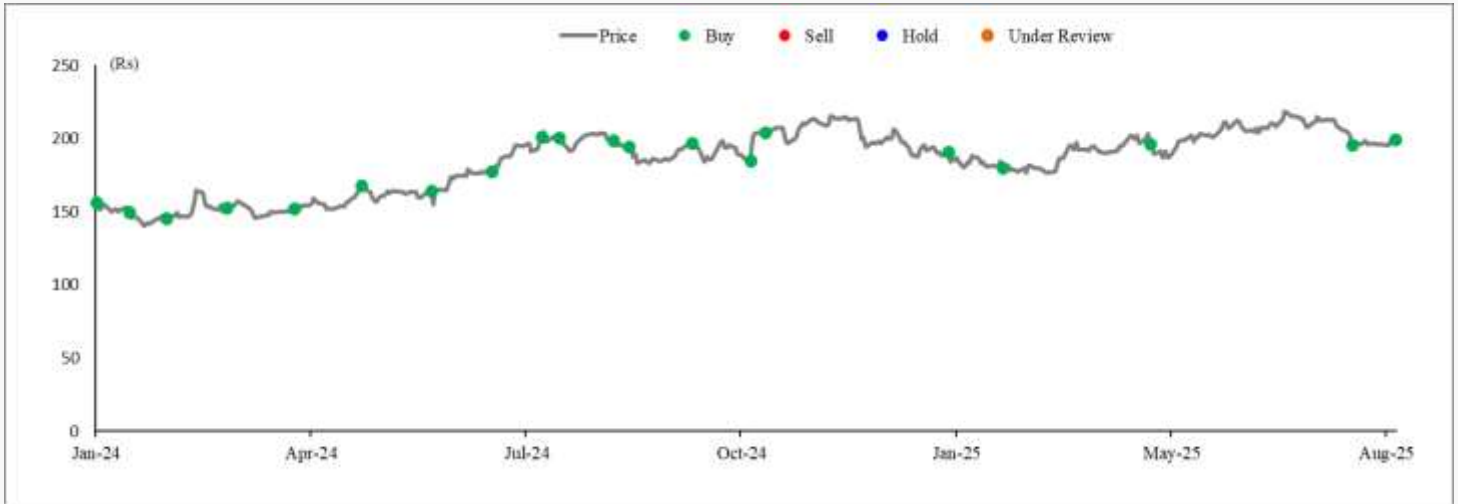
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS (Rs)	16.5	16.1	21.7	27.3
Earnings Growth (%)	8.0	-2.3	34.5	26.1
Book Value per share	136.1	150.6	170.1	194.7
Adj. BV per share	131.9	146.2	165.1	188.7
RoA	1.2	1.1	1.3	1.4
RoE	13.0	11.2	13.5	15.0
Price-Earnings (x)	12.1	12.4	9.2	7.3
Price-ABV (x)	1.5	1.4	1.2	1.1
Dividend Yield (%)	0.6	0.8	1.1	1.4
PROFITABILITY				
Net Interest Margin	3.1	3.0	3.2	3.3
Cost to Assets	2.2	2.2	2.2	2.2
Cost to Income	54.0	55.4	52.2	50.0
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	12.1	13.2	16.7	17.3
Deposit Growth (%)	12.3	15.0	17.0	17.7
C/D Ratio (%)	82.8	81.5	81.3	81.0
Equity/Assets	9.6	9.4	9.1	8.9
Equity/Loans	14.2	13.9	13.5	13.1
Capital Adequacy Ratio	16.4	16.0	15.4	15.0
Tier 1	15.0	14.7	14.2	13.9
ASSET QUALITY				
GNPA Ratio	1.9	1.7	1.7	1.7
NNPA Ratio	0.4	0.4	0.4	0.4
Coverage Ratio	76.2	76.2	76.2	76.2
Credit Cost	0.3	0.5	0.5	0.5
ROAA TREE				
Net Interest Income	2.9	2.7	3.0	3.1
Non-Interest Income	1.2	1.2	1.2	1.2
Operating Cost	2.2	2.2	2.2	2.2
Provisions	0.2	0.3	0.3	0.3
Tax	0.4	0.4	0.4	0.5
ROAA	1.2	1.1	1.3	1.4
Leverage (x)	10.5	10.5	10.8	11.1
ROAE	13.0	11.2	13.5	15.0

Source: Company, Axis Securities Research

Federal Bank Price Chart and Recommendation History



Date	Reco.	TP	Research
01-Jan-24	BUY	180	Top Picks
17-Jan-24	BUY	180	Result Update
02-Feb-24	BUY	180	Top Picks
01-Mar-24	BUY	180	Top Picks
01-Apr-24	BUY	180	Top Picks
03-May-24	BUY	205	Result Update
03-May-24	BUY	205	Top Picks
01-Jun-24	BUY	205	Top Picks
01-Jul-24	BUY	205	Top Picks
24-Jul-24	BUY	230	Result Update
01-Aug-24	BUY	230	Top Picks
02-Sep-24	BUY	230	Top Picks
01-Oct-24	BUY	230	Top Picks
29-Oct-24	BUY	230	Result Update
29-Jan-25	BUY	225	Result Update
24-Feb-25	BUY	225	Analyst Meet Update
02-May-25	BUY	230	Result Update
04-Aug-25	BUY	240	Result Update
22-Aug-25	BUY	240	AAA

Source: Axis Securities Research

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HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.