Federal Bank

A solid baseline offers opportunity to reset upper ceiling

We recently met Mr. Shyam Srinivasan, the outgoing CEO of Federal Bank (FB), to reflect on the bank's evolution during his tenure and the key areas that need incremental attention for the bank to reset its ceiling. With its loan book at INR2.2trn and the deposit base at INR2.7trn, FB has broken through the mid-sized banks league and has steadily narrowed the gap with larger peers. FB has been focused on growing its mix of unsecured loans and building capabilities in the wealth management space, while simultaneously targeting better traction in its corporate book to drive productivity gains and stronger profitability. While FB has grown its high-yielding loans, our analysis of segmental yields suggests significant headroom for FB to better exercise pricing power in certain segments, thereby reflating blended yields. With its CEO-designate set to assume charge by Sep-24, we opine that the key challenge for the franchise lies in leveraging its formidable balance sheet strengths into sustainable P&L outcomes (better pricing power, superior efficiency, and productivity gains) to fortify its position as a credible alternative to larger private sector banks. We maintain BUY with a TP of INR225 (1.5x Mar-26 ABVPS).

- **Granular deposit franchise offers a strong baseline:** FB continues to boast of the most granular deposit franchise in the system (FY24: 69%), a formidable advantage, especially in a deposit-starved environment.
- **Shock-proof balance sheet:** FB has carefully crafted a shock-proof balance sheet, anchored on superior underwriting, reflecting in superior asset quality (credit costs averaging <70 bps over FY11-24), despite systemic shocks over the past decade.
- **Priority 1: Fixing the deposit mix**: Despite its best-in-class deposit franchise, FB has failed to translate this advantage into superior cost of funds, largely on account of a soft CASA ratio. As FB continues to improve its share of business, and product penetration in its wholesale banking relationships, the CA mix remains a key monitorable.
- **Priority 2: Addressing the pricing power handicap:** While blended yields have been improving over the past couple of years, we observe that FB has been adopting a loss-leader pricing strategy compared to larger peers, especially in new segments. While this augurs well for the bank's superior asset quality, we believe that FB needs to demonstrate its ability to exercise pricing power, which is likely to be the biggest driver for RoA reflation.
- **Strategy tweaks essential to reset RoA ceiling:** Given continued investments in tech, distribution, and people, we expect medium-term opex ratios to stay elevated, alongside margin pressures from a likely turn in the rate cycle. We believe that consistent exercising of pricing power and build-out of cross-sell capabilities are key to RoA and multiple reflation.

Financial Summary

(INR bn)	FY21	FY22	FY23	FY24	FY25E	FY26E
NII	55.3	59.6	72.3	82.9	96.3	113.2
PPOP	37.9	37.6	47.9	51.7	67.4	80.9
PAT	15.9	18.9	30.1	37.2	44.6	51.2
EPS (INR)	8.0	9.0	14.2	15.3	18.3	21.0
ROAE (%)	10.4	10.8	14.9	14.7	14.3	14.4
ROAA (%)	0.8	0.9	1.3	1.3	1.3	1.3
ABVPS (INR)	72.9	82.8	95.9	114.3	130.1	148.7
P/ABV (x)	2.5	2.2	1.9	1.6	1.4	1.2
P/E (x)	23.2	20.6	13.0	12.1	10.1	8.8

Source: Company, HSIE Research

BUY

CMP *(as on 9 Sep 2024)*	INR 185
Target Price	INR 225
NIFTY	24,936

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 225	INR 225
EPS %	FY25E	FY26E
	0.4%	0.3%

KEY STOCK DATA	
Bloomberg code	FB IN
No. of Shares (mn)	2,450
MCap (INR bn) / ($ mn)	453/5,397
6m avg traded value (INR mn)	2,587
52 Week high / low	INR 207/137

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	12.2	18.3	25.4
Relative (%)	5.6	8.3	3.0

SHAREHOLDING PATTERN (%)	Mar-24	Jun-24
Promoters	0.0	0.0
FIs & Local MFs	45.4	45.2
FPIs	28.6	28.6
Public & Others	26.0	26.2
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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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	NA	NA	NA	NA	NA	NA	NA	23.0%	16.1%	14.6%	14.4%
Sector-wise GNPAs (% 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%
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 balance sheet strength across cycles

During the tenure (FY11-FY24) of Mr. Shyam Srinivasan, its incumbent 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. Going ahead, in terms of key structural changes, with the RBI having become more vigilant, Mr. Srinivasan believes that the room for operational arbitrage among larger banks has shrunk over the past few years. He believes that economies of scale and efficiency gains are the only drivers of RoA reflation going ahead, especially for relatively large banks.

Exhibit 1: 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), as evident in Exhibit 2. We remain watchful of FB's efforts to drive a higher CA mix, thereby addressing its cost of funds handicap. While FB has grown its high-yielding loans, there is significant headroom for the bank to better exercise pricing power, especially as FB improves its mix of unsecured loans in line with peers.

Exhibit 2: Q1FY25 Comparative Dashboard

Q1FY25	SBIN	ICICIBC	AXSB	KMB	IIB	FB
Net advances (INR bn)	37,491	12,232	9,801	3,900	3,479	2,208
Deposits (INR bn)	49,017	14,262	10,625	4,474	3,985	2,661
% QoQ						
Net advances	1.2%	3.3%	1.6%	3.7%	1.3%	5.4%
Deposits	-0.3%	0.9%	-0.6%	-0.3%	3.6%	5.4%
CASA	-1.4%	-2.0%	-3.2%	-4.9%	0.3%	5.0%
% YoY						
Net advances	16%	16%	14%	19%	15%	20%
Deposits	8%	15%	13%	16%	15%	20%
CASA	3%	9%	4%	3%	6%	10%
Liabilities						
Cost of funds (reported)	NA	5.1%	5.4%	5.1%	5.6%	5.9%
CASA ratio	39%	41%	42%	43%	37%	29%
C/D ratio	76%	86%	92%	87%	87%	83%
LCR	129%	123%	120%	139%	122%	113%
RSBDA/Total deposits	66%	56%	55%	56%	41%	69%
SA/Branch	739	619	543	631	324	405
% of loan book						
Retail	36%	73%	60%	69%	55%	45%
Mortgages	19%	33%	24%	28%	3%	24%
PL + CC	9%	14%	12%	9%	6%	3%
Operating ratios						
NIM (reported)	3.2%	4.4%	4.1%	5.0%	4.3%	3.2%
C/I ratio	49%	40%	47%	46%	50%	53%
Opex to Assets	1.8%	2.4%	2.6%	3.2%	3.1%	2.3%
Asset Quality						
Gross slippages %	1.0%	2.1%	2.1%	1.5%	1.9%	0.8%
Net slippages %	0.6%	0.9%	1.4%	0.9%	1.4%	0.4%
Credit costs %	0.5%	0.5%	1.1%	0.6%	1.2%	0.3%
RoA Tree (%)						
Interest Income	7.2%	8.3%	8.2%	8.5%	9.6%	8.0%
Interest Expenses	4.6%	4.1%	4.5%	3.9%	5.5%	5.1%
NII	**2.7%**	**4.2%**	**3.7%**	**4.5%**	**4.1%**	**2.9%**
Other income	0.7%	1.5%	1.6%	1.9%	1.9%	1.2%
Total Income	**3.4%**	**5.6%**	**5.2%**	**6.5%**	**6.0%**	**4.0%**
Opex	1.7%	2.2%	2.5%	3.0%	3.0%	2.1%
PPOP	**1.7%**	**3.4%**	**2.7%**	**3.5%**	**3.0%**	**1.9%**
Provisions	0.2%	0.3%	0.6%	0.4%	0.8%	0.2%
PBT	1.5%	3.1%	2.2%	3.1%	2.2%	1.7%
RoA	**1.1%**	**2.4%**	**1.6%**	**2.3%**	**1.7%**	**1.3%**
RoE	**17.4%**	**18.0%**	**15.6%**	**13.9%**	**13.5%**	**13.5%**

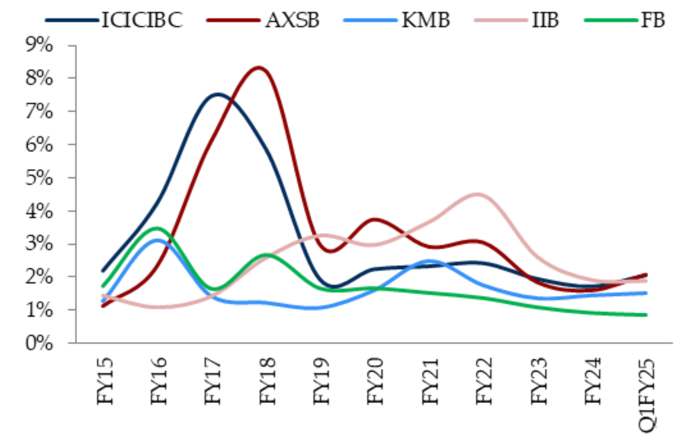
Source: Company, HSIE research

Superior asset quality but pricing emerges as key priority

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. While FB continues to grow its mix of high-yielding loans, our channel checks and analysis of segmental yields suggest that FB has adopted loss-leader pricing across most asset segments. We believe that FB's entry into newer segments (CV/CE, CC, PL, and MFI) has been driven by sub-par pricing across segments. While yields are higher on a blended basis compared to peers, we believe FB is leaving good risk on the table to counter the sub-optimal pricing on its best assets.

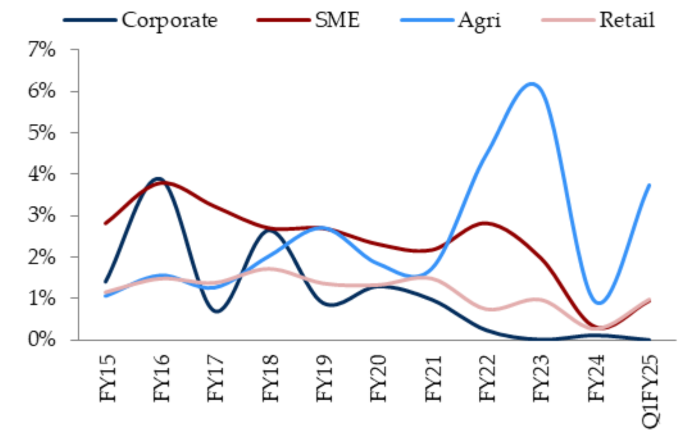
- **Best-in-class underwriting**: FB improved its underwriting standards significantly in the tenure of Mr Srinivasan, evident from the gradual slowdown of gross slippages over the years, largely driven by lower corporate and SME slippages. The gross slippages continue to be lower vis-a-vis larger peers, partly benefiting from a lower unsecured mix. The credit cost too which picked up during the covid period has now converged with the larger peers. The concentration of NPAs too is lower indicating granularity of franchise on the asset side.

Exhibit 3: Gross slippages consistently lower than peers



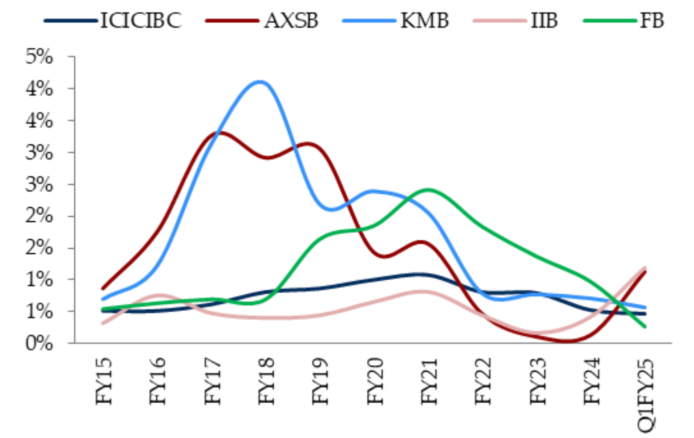
Source: Company, HSIE Research

Exhibit 4: Slippage mix - agri slippages remain volatile



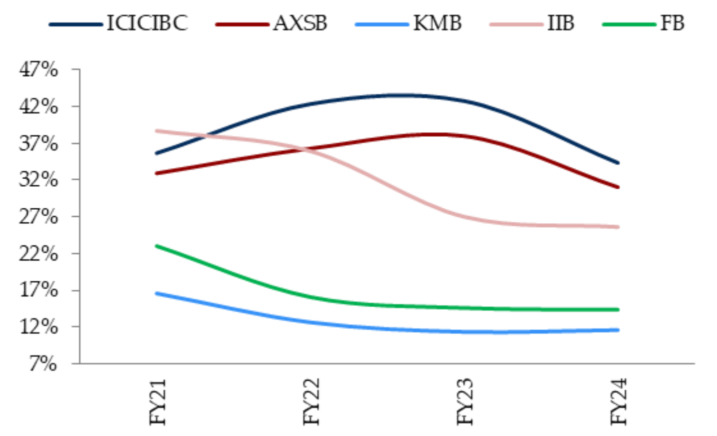
Source: Company, HSIE Research

Exhibit 5: Credit costs converged with larger peers



Source: Company, HSIE Research

Exhibit 6: Top 20 NPA concentration - among the lowest



Source: Company, HSIE Research

- **Visible improvement in pricing power:** Basis disclosures by banks on interest rates contracting across asset classes during Q1FY25, 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).

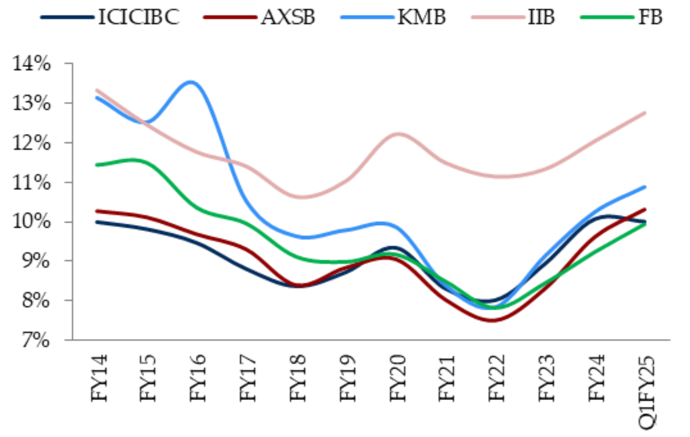
Exhibit 7: Interest rate range of loans contracted during Q1FY25

	Home loan			LAP			PL			Auto loans		
Banks	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%	8.60%	15.65%	9.44%	10.80%	19.50%	13.09%	8.76%	13.10%	9.59%
AXSB	8.30%	11.00%	8.89%	8.52%	14.25%	9.63%	10.25%	22.00%	13.18%	NA	NA	NA
KMB	8.40%	11.00%	8.76%	8.60%	14.00%	9.73%	NA	NA	NA	NA	NA	NA
FB	8.30%	12.50%	9.04%	8.80%	13.30%	10.51%	9.50%	19.90%	14.12%	8.50%	17.00%	9.22%

Source: Company, HSIE Research, ROI – Rate of interest, Mean rate – Sum of rate of interest of all loan a/cs divided by number of all loan a/cs

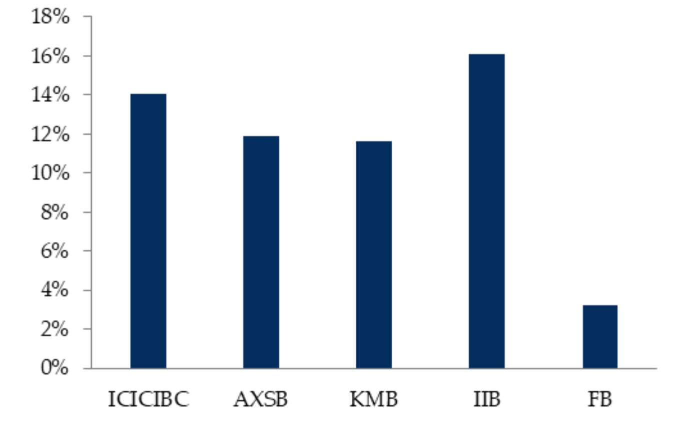
- **Greater headroom to grow unsecured mix:** While FB's handicap on pricing power has been evident for long, blended yields are also a function of loan mix, wherein peers have grown their mix of unsecured loans significantly over the past few years while FB has adopted a relatively calibrated approach. This offers FB significant headroom to reflate its margins while peers may need to calibrate their unsecured exposure, going forward.

Exhibit 8: Yield on advances (derived) - Lowest for FB



Source: Company, HSIE Research

Exhibit 9: Lowest unsecured mix (Q1FY25)

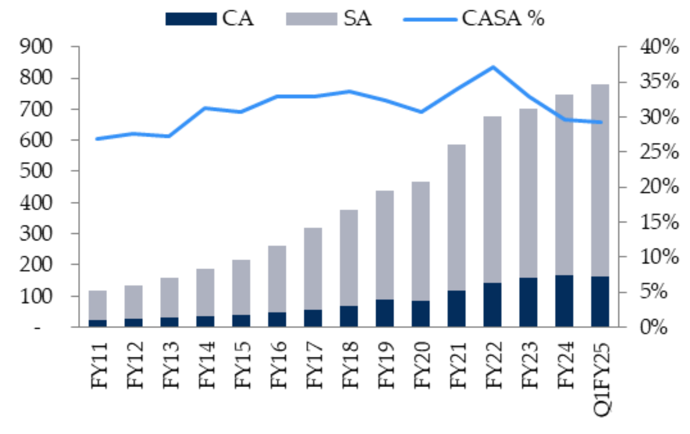


Source: Company, HSIE Research

Formidable deposit franchise but mix needs attention

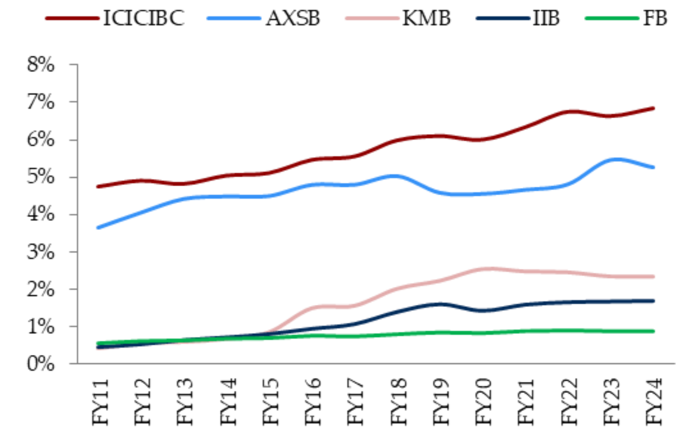
- **Low-cost deposit mix remains a handicap:** Although FB continues to boast best-in-class deposit granularity (proportion of retail deposits to total deposits), the bank has not been able to translate this into a superior cost of funds. While FB dominates the GCC-KL corridor within the non-resident (NR) market and continues to gain market share in overall remittances, the share of CASA continues to be sub-1%, compared to KMB and IIB, which started at similar levels a decade back but are now are gaining higher incremental market share.

Exhibit 10: CASA (% of deposits) - Averaging 31%



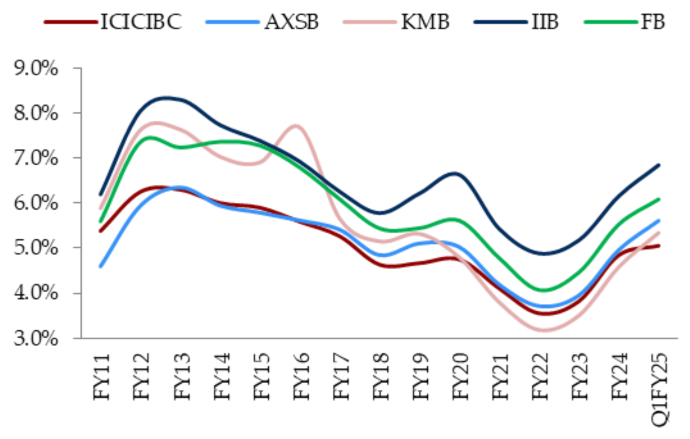
Source: Company, HSIE Research

Exhibit 11: CASA market share



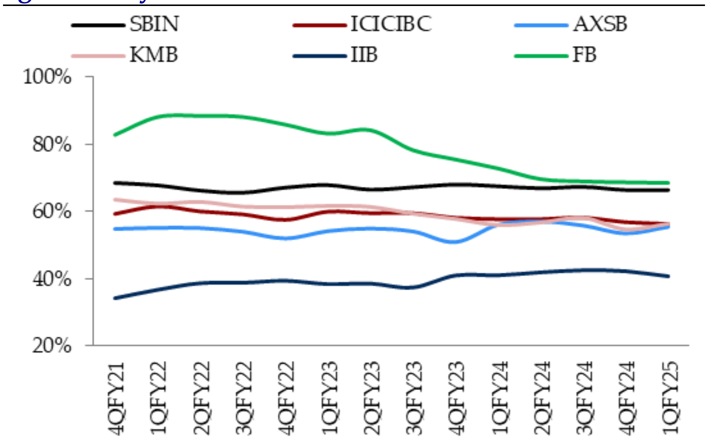
Source: Company, HSIE Research

Exhibit 12: Cost of funds (derived) - FB suffers from a handicap



Source: Company, HSIE Research

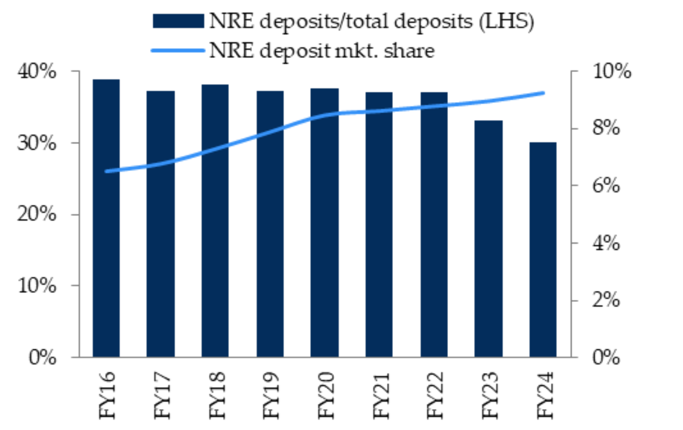
Exhibit 13: RSBDA (% of total deposits) - best-in-class granularity



Source: Company, HSIE Research

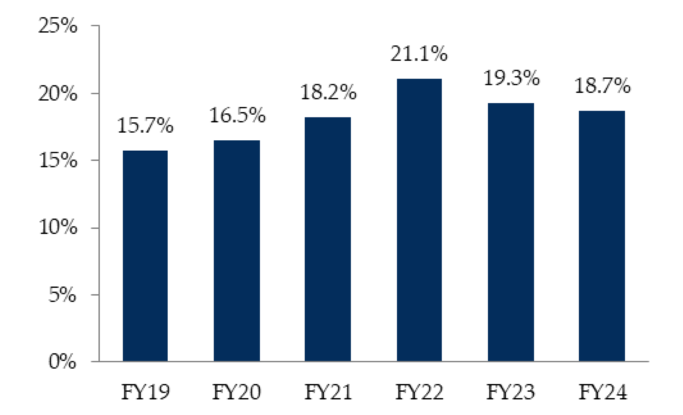
- **Inward remittances not translating into sticky deposits:** FB has historically been a dominant player in the NR customer segment, especially NRE deposits (core bread-and-butter business) with a ~19% inward remittance market share. However, this has only translated into a sub-optimal 9.2% NRE deposit 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. Given the declining share of NR deposits for Kerala, FB has widened its coverage of cross-border corridors, and its bouquet of offerings to up its value proposition for NR customers and further improve its remittance retention ratio (proportion of remittances that stay with the bank as deposits and further as low-cost deposits).

Exhibit 14: NRE deposits



Source: Company, HSIE Research, RBI

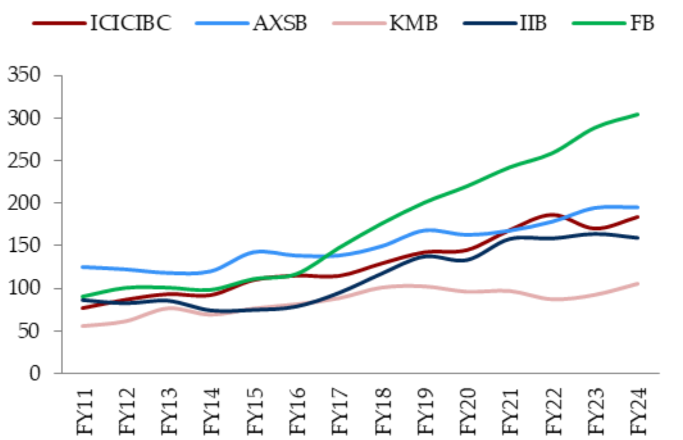
Exhibit 15: Remittance market share



Source: Company, HSIE Research

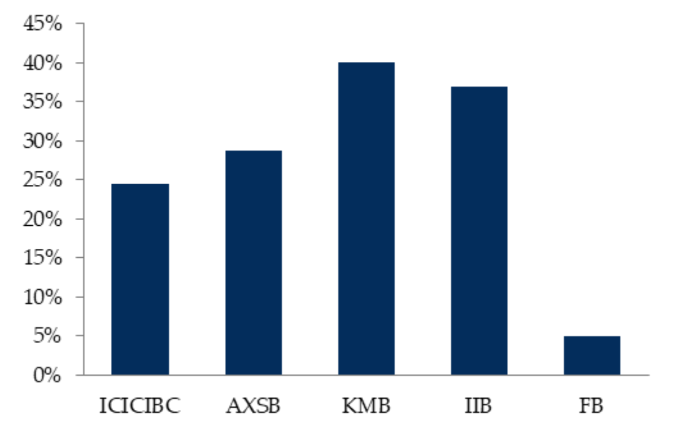
- **Superior employee productivity:** FB has been able to offset its inferior branch productivity by significantly improving its employee productivity over the past few years. This is also evident from FB's employee turnover rate, which is significantly lower than its larger peers, indicating greater stability across the bank.

Exhibit 16: Business/Employee



Source: Company, HSIE Research

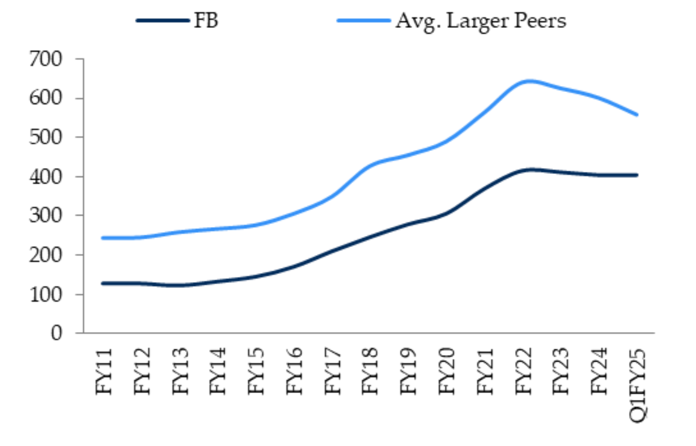
Exhibit 17: Employee turnover rate - Mar-24



Source: Company, HSIE Research

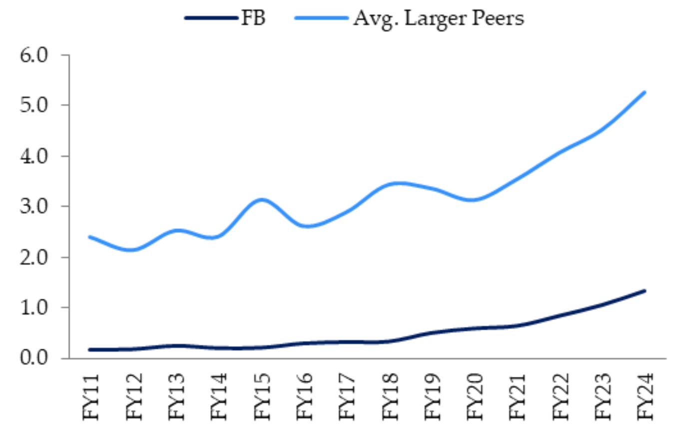
- **Branch productivity continues to lag larger peers:** While FB has witnessed gradual improvement in branch productivity over the past few years, the wedge between FB and its larger peers has not narrowed. Given the higher average age of existing FB customers, the bank's potential to cross-sell multiple products to its ETB base appears a challenge. The management also highlighted that recently-acquired NTB customers (younger age group), onboarded over the past few years, offer lower business potential versus older customers. While the RBI-imposed embargo on its partnership with OneCard is a setback, 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 18: SA/branch (INR mn)



Source: Company, HSIE Research

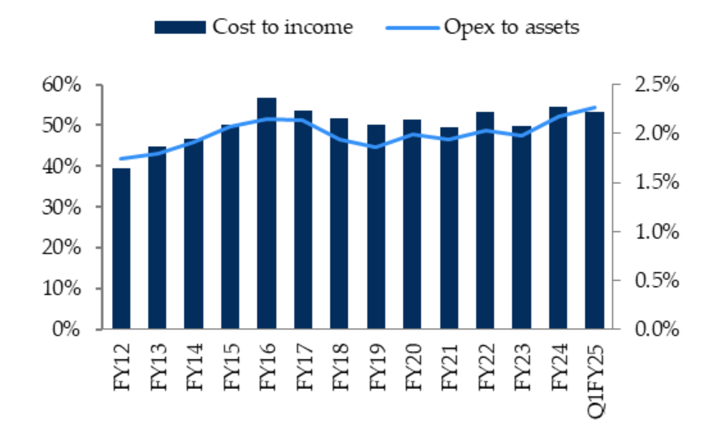
Exhibit 19: Banca income per branch (INR mn)



Source: Company, HSIE Research

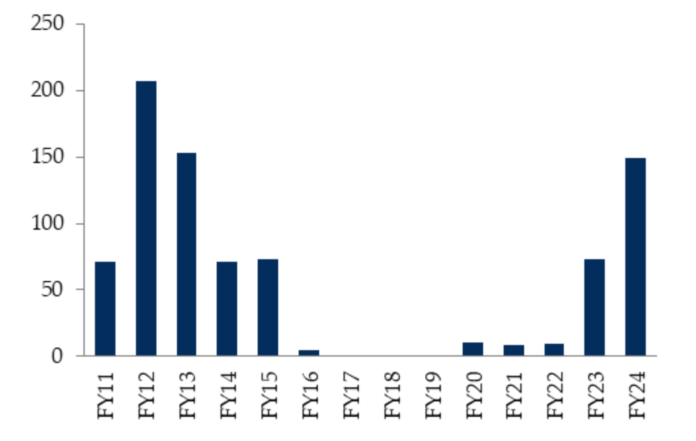
- **High opex intensity despite periods of lower branch additions:** While FB added very few branches during FY16-22, opex intensity continued to remain stubbornly elevated, largely on account of spends on technology, compliance, and externally imposed wage costs during that period. Going forward, we believe there is room for FB to sweat / rationalise its opex better, thus improving overall productivity.

Exhibit 20: Opex intensity



Source: Company, HSIE Research

Exhibit 21: Net branch additions



Source: Company, HSIE Research

Valuation and Recommendation

- **Narrowing the gap with larger peers; no longer in the mid-sized 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. With a granular deposit franchise, a carefully crafted accident-free loan book, and investments in the right areas, we believe the incumbent CEO has positioned FB on a solid platform. We believe that FB has the requisite quality in its top and middle order to build further on these core strengths and plug key gaps around pricing power, and productivity and efficiency gains to fortify its position as a one-of-its-kind credible alternative to the larger private sector banking peers.

Exhibit 22: Change in estimates

(INR bn)	FY25E			FY26E		
	Old	New	Δ	Old	New	Δ
Net advances	2,481	2,481	0.0%	2,944	2,944	0.0%
NIM (%)	3.2	3.2	1 bps	3.2	3.3	2 bps
NII	96.0	96.3	0.3%	112.8	113.2	0.3%
PPOP	67.1	67.4	0.3%	80.7	80.9	0.2%
PAT	44.4	44.6	0.4%	51.1	51.2	0.3%
Adj. BVPS (INR)	130.6	130.1	-0.4%	149.1	148.7	-0.3%

Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	137,579	136,607	168,036	221,883	261,919	306,835
Interest Expenses	82,242	76,988	95,715	138,948	165,609	193,638
Net Interest Income	**55,337**	**59,619**	**72,322**	**82,935**	**96,310**	**113,198**
Non-Interest income	19,449	20,890	23,300	30,793	39,212	45,586
Total income	74,786	80,509	95,622	113,728	135,522	158,784
Operating Expenses	36,917	42,928	47,678	61,983	68,164	77,932
Operating Profit	**37,869**	**37,581**	**47,944**	**51,745**	**67,358**	**80,852**
Provisions	16,496	12,217	7,499	1,961	7,538	12,118
PBT	21,373	25,364	40,445	49,784	59,819	68,734
Tax	5,470	6,463	10,339	12,578	15,254	17,527
PAT	**15,903**	**18,901**	**30,106**	**37,206**	**44,565**	**51,207**

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Share capital	3,992	4,205	4,232	4,871	4,871	4,871
Reserves	157,244	183,732	210,830	286,073	327,716	376,001
Net worth	161,236	187,937	215,062	290,944	332,587	380,871
Deposits	**1,726,445**	**1,817,005**	**2,133,860**	**2,525,340**	**2,932,392**	**3,398,581**
Borrowings	90,685	153,931	193,193	180,264	189,331	198,857
Other liabilities & provisions	35,308	50,587	61,303	86,570	99,927	118,250
Total Liabilities & Equity	**2,013,674**	**2,209,460**	**2,603,418**	**3,083,118**	**3,554,237**	**4,096,560**
Cash balance	195,914	210,103	176,887	189,629	183,807	168,127
Investments	371,862	391,795	489,834	608,595	657,847	711,318
Advances	**1,318,786**	**1,449,282**	**1,744,469**	**2,094,033**	**2,481,134**	**2,944,043**
Fixed assets	4,911	6,339	9,340	10,201	10,609	11,033
Other assets	122,201	151,942	182,889	180,660	220,840	262,039
Total Assets	**2,013,674**	**2,209,460**	**2,603,418**	**3,083,118**	**3,554,237**	**4,096,560**

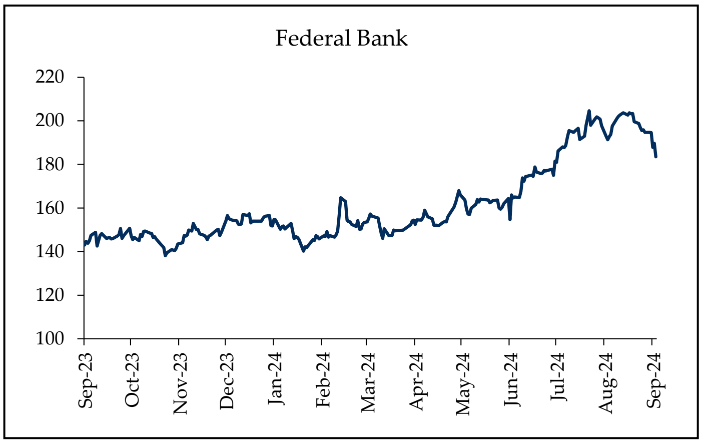
Source: Company, HSIE Research

Key Ratios

	FY21	FY22	FY23	FY24	FY25E	FY26E
VALUATION RATIOS						
EPS (INR)	8.0	9.0	14.2	15.3	18.2	21.0
Earnings Growth (%)	3%	19%	59%	24%	19%	15%
BVPS	81	89	102	119	136	156
Adj. BVPS	72.9	82.8	95.9	114.3	130.0	148.5
ROAA (%)	0.8%	0.9%	1.3%	1.3%	1.3%	1.3%
ROAE (%)	10.4%	10.8%	14.9%	14.7%	14.2%	14.3%
P/E (x)	25	21.7	13.7	12.8	10.7	9.3
P/ABV (x)	2.7	2.4	2.0	1.7	1.5	1.3
P/PPOP (x)	12.6	12.7	9.9	9.2	7.1	5.9
PROFITABILITY (%)						
Yield on loans	8.5%	7.8%	8.4%	9.2%	9.2%	9.2%
Cost of Funds	4.8%	4.1%	4.5%	5.5%	5.7%	5.8%
Cost of Deposits	4.8%	4.1%	4.4%	5.5%	5.6%	5.6%
Spread	3.7%	3.7%	4.1%	3.7%	3.6%	3.5%
NIM	3.2%	3.2%	3.4%	3.3%	3.2%	3.3%
OPERATING EFFICIENCY						
Cost to average assets	1.9%	2.0%	2.0%	2.2%	2.1%	2.0%
Cost-income	49.4%	53.3%	49.9%	54.5%	50.3%	49.1%
BALANCE SHEET STRUCTURE RATIOS						
Loan Growth (%)	7.9%	9.9%	20.4%	20.0%	18.5%	18.7%
Deposits Growth (%)	13.4%	5.2%	17.4%	18.3%	16.1%	15.9%
C/D ratio	76.4%	79.8%	81.8%	82.9%	84.6%	86.6%
Equity/Assets (%)	8.0%	8.5%	8.3%	9.4%	9.4%	9.3%
Equity/Loans (%)	12.2%	13.0%	12.3%	13.9%	13.4%	12.9%
CASA %	34.0%	37.1%	32.9%	29.6%	28.8%	28.2%
CRAR (%)	14.6%	15.8%	14.8%	16.1%	16.6%	16.4%
Tier I (%)	13.8%	14.4%	13.0%	14.6%	15.2%	15.2%
ASSET QUALITY						
Gross NPA	46,024	41,367	41,837	45,288	51,806	61,696
Net NPA	15,693	13,926	12,050	12,553	15,741	18,808
PCR	65.9%	66.3%	71.2%	72.3%	69.6%	69.5%
GNPA %	3.5%	2.9%	2.4%	2.2%	2.1%	2.1%
NNPA %	1.2%	1.0%	0.7%	0.6%	0.6%	0.6%
Slippages	1.5%	1.4%	1.1%	0.9%	1.1%	1.2%
Credit costs	1.2%	0.4%	0.4%	0.2%	0.3%	0.4%
ROAA Tree						
Net Interest Income	2.9%	2.8%	3.0%	2.9%	2.9%	3.0%
Non-Interest Income	1.0%	1.0%	1.0%	1.1%	1.2%	1.2%
Operating Cost	1.9%	2.0%	2.0%	2.2%	2.1%	2.0%
Provisions	0.9%	0.6%	0.3%	0.1%	0.2%	0.3%
Tax	0.3%	0.3%	0.4%	0.4%	0.5%	0.5%
ROAA	0.8%	0.9%	1.3%	1.3%	1.3%	1.3%
Leverage (x)	12.5	12.1	11.9	11.2	10.6	10.7
ROAE	10.4%	10.8%	14.9%	14.7%	14.3%	14.4%

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:

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