

3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

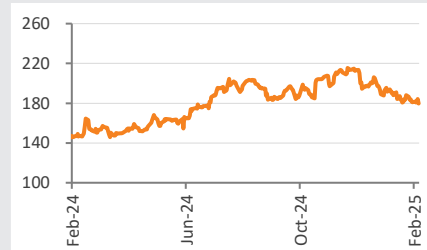
Company details

Market cap:	Rs. 44,438 cr
52-week high/low:	Rs. 217 / 140
NSE volume: (No of shares)	98.3 lakh
BSE code:	500469
NSE code:	FEDERALBNK
Free float: (No of shares)	244.3 cr

Shareholding (%)

Promoters	-
FII	26.3
DII	48.9
Others	24.8

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-3.7	-14.2	-10.8	19.1
Relative to Sensex	-1.4	-7.2	-2.7	16.8

Source: Mirae Asset Sharekhan Research, Bloomberg

Federal Bank Ltd

High on aspiration, execution is key

Banks	Sharekhan code: FEDERALBNK		
Reco/View: Buy	↔	CMP: Rs. 181	Price Target: Rs. 220 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Federal Bank aspires to be a universal lender with a nationwide franchise and among the top 5 private sector banks over the next 3-5 years.
- It is eyeing an improvement in the return ratios (RoA/RoE) that is closer to top 3 private banks.
- Rise in RoA would be led by improvement in NIMs driven by better liability mix, alongside efforts to improve loan yields through mix and pricing and higher fee income contribution.
- The bank has set an ambitious goal but execution remains key. We remain assertive on the franchise from medium to long term thus maintain a Buy rating on the stock with an unchanged PT of Rs. 220. At CMP, the stock trades at 1.2x / 1.1x its FY2026E/ FY2027E BV estimates.

We attended Federal Bank analyst day, where in Mr. K.V.S Manian, the recently appointed MD& CEO, presented its strategy. The bank aspires to be in the top 5 private banks operating in India and is benchmarking itself with the top large private banks in terms of key operating metrics, sustaining growth along with maintaining pristine asset quality over the next 3-5 years. The management also emphasized on the execution part and thus created 50 key and 100 other ancillary projects to ensure good execution. The bank launched 12 themes to position itself. The focus of the themes remains on revenue maximization and franchise would continue to invest in products, technology & distribution but greater emphasis is on improvement in the return ratios (RoA/RoE) through NIMs and higher fee income growth. Initial focus is to recalibrate liability mix that gives sustainable NIMs trajectory rather than chasing high yielding assets. There would be pressure on NIMs in near term led by lower repo rates & elevated cost of deposits however bank is confident on improving NIMs trajectory over medium term by improving the share of CASA. Cost ratios will be higher in near term led by increased investments but the bank is committed to closely monitoring cost growth and bring in cost efficiency over the medium term. Loan growth is being recalibrated in the near term but over the medium term, the bank is reasonably confident to grow at 1.5x of nominal GDP. Pivoting efforts are right steps to improve risk adjusted returns needed for re-rating and outperformance in the medium term but we also acknowledge that it will take few quarters to understand its full implications as execution happens on ground.

- RoA levers:** The bank articulated key levers for RoA expansion – a) Lower cost of funds driven by improvement in CASA share by 6% to ~36%. Out of this 6%, ~ 4% will come from CA by focusing on SME to get more CA and rest from SA. b) The focus is on improving the share of mid-yield assets from 31% to 34% and high-yield assets from 5% to 8% led by increasing the share of mid corporates, used CVs, micro LAP and tractors. c) Focus on higher fees contribution through trade, forex, cash management and cards. d) Productivity gains. RoA improvement target of 70-80bps by FY28E is ambitious.
- Loan growth:** The bank is reasonably confident to grow loan book at 1.5x of nominal GDP if the broader environment remains conducive. It plans to add new products like – Micro LAP, tractor, unsecured business loans (mainly a cross-sell product for ETB customers), affordable housing and real estate financing, which should improve yields over medium term. The focus is also to increase the share of mid corporates and SME loans. It expects the change in loan mix to drive loan yields higher by 25-35 bps. The management clarified that it is not looking for inorganic acquisitions right now.
- Execution is key:** Management emphasized on the execution part also and thus created 50 key and 100 ancillary projects to ensure good execution. The bank has set an ambitious goal in terms of RoA improvement thus execution remains key. Order of priority will be - improvement in cost of deposits, yield on advances, fee income and opex. We believe that as and when operating metrics starts to converge on guided path, we would see a partial re-rating.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 220

The bank has identified levers of improvement across all parts of the RoA tree. The pivoting efforts are right steps to improve risk adjusted returns needed for re-rating and outperformance in the medium term but we also acknowledge that it will take few quarters to understand its full implication as execution happens on ground. We remain assertive from medium to long term. We believe that as and when operating metrics starts to converge on guided path, we would see a partial re-rating. At CMP, the stock trades at 1.2x / 1.1x its FY2026E/ FY2027E BV estimates.

Key Risks

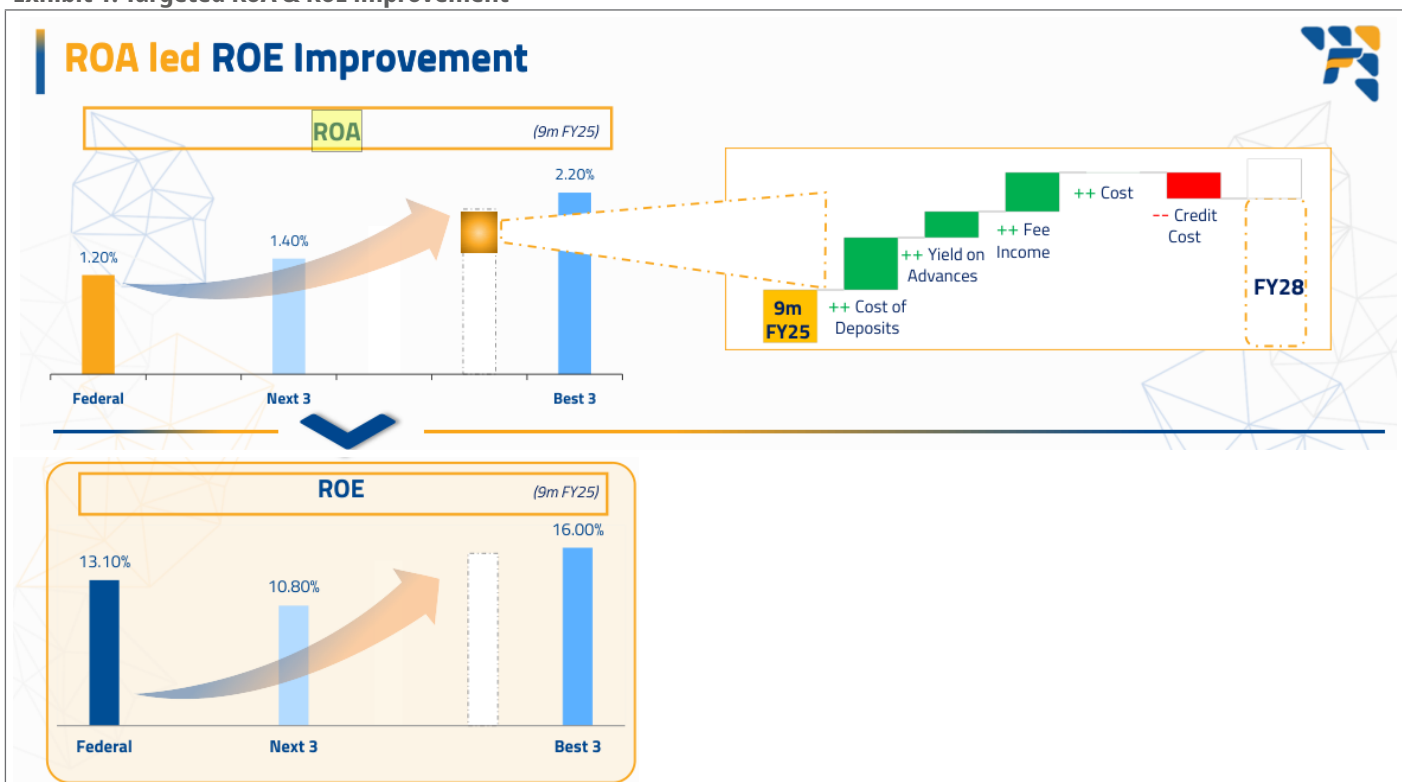
An economic slowdown can lead to slower loan growth and higher-than-anticipated credit cost; slower growth in retail deposits; and lower margins.

Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	7,232	8,293	9,594	10,923	13,091
Net profit	3,011	3,721	4,005	4,495	5,544
EPS (Rs.)	14.1	15.3	16.4	18.5	22.8
P/E (x)	12.8	11.8	11.0	9.8	8.0
P/BV (x)	1.8	1.5	1.4	1.2	1.1
RoE	14.9	14.7	13.0	13.0	14.2
RoA	1.3	1.3	1.2	1.2	1.3

Source: Company; Mirae Asset Sharekhan estimates

Exhibit 1: Targeted RoA & RoE improvement



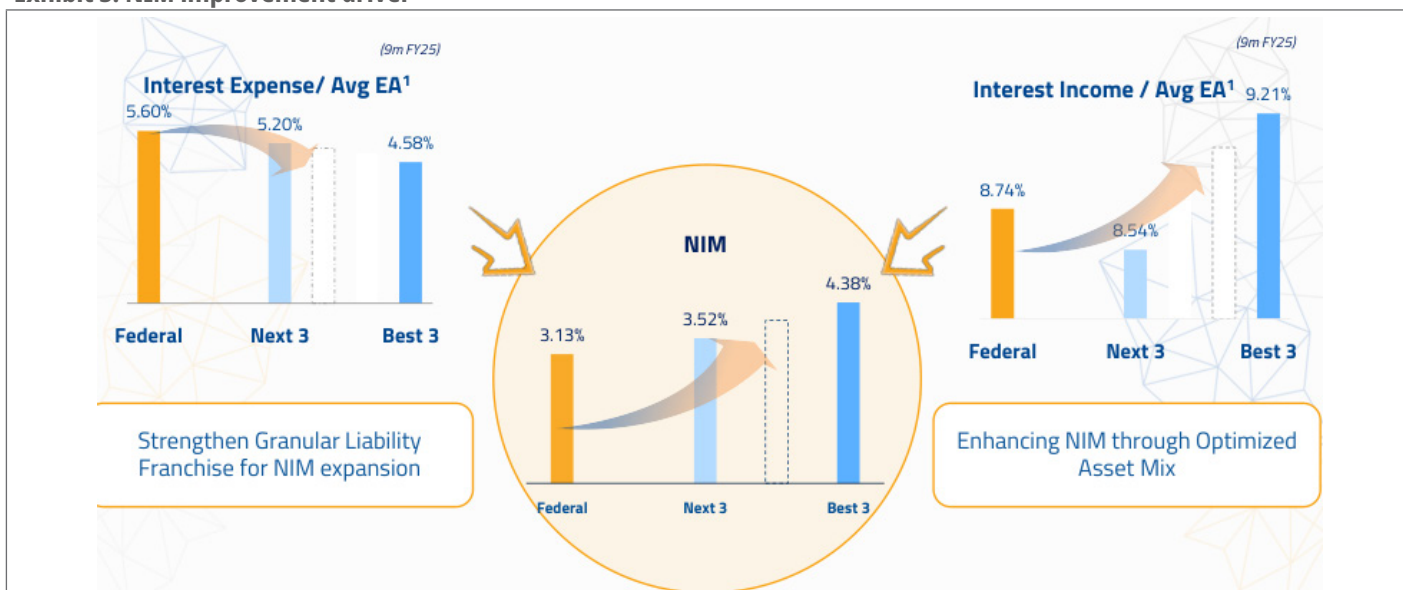
Source: Company Presentation, Mirae Asset Sharekhan

Exhibit 2: Key 12 themes identified



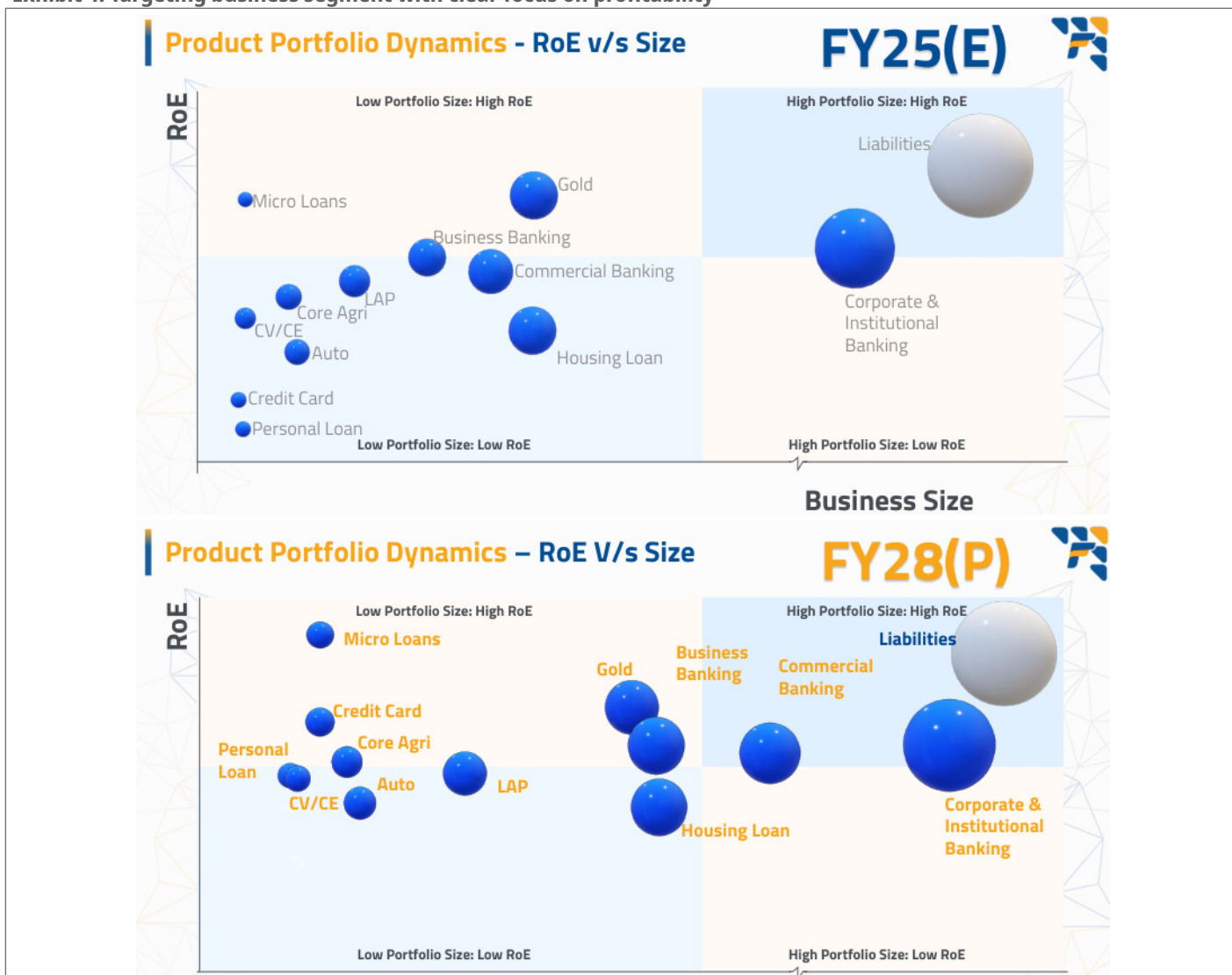
Source: Company Presentation, Mirae Asset Sharekhan

Exhibit 3: NIM improvement driver



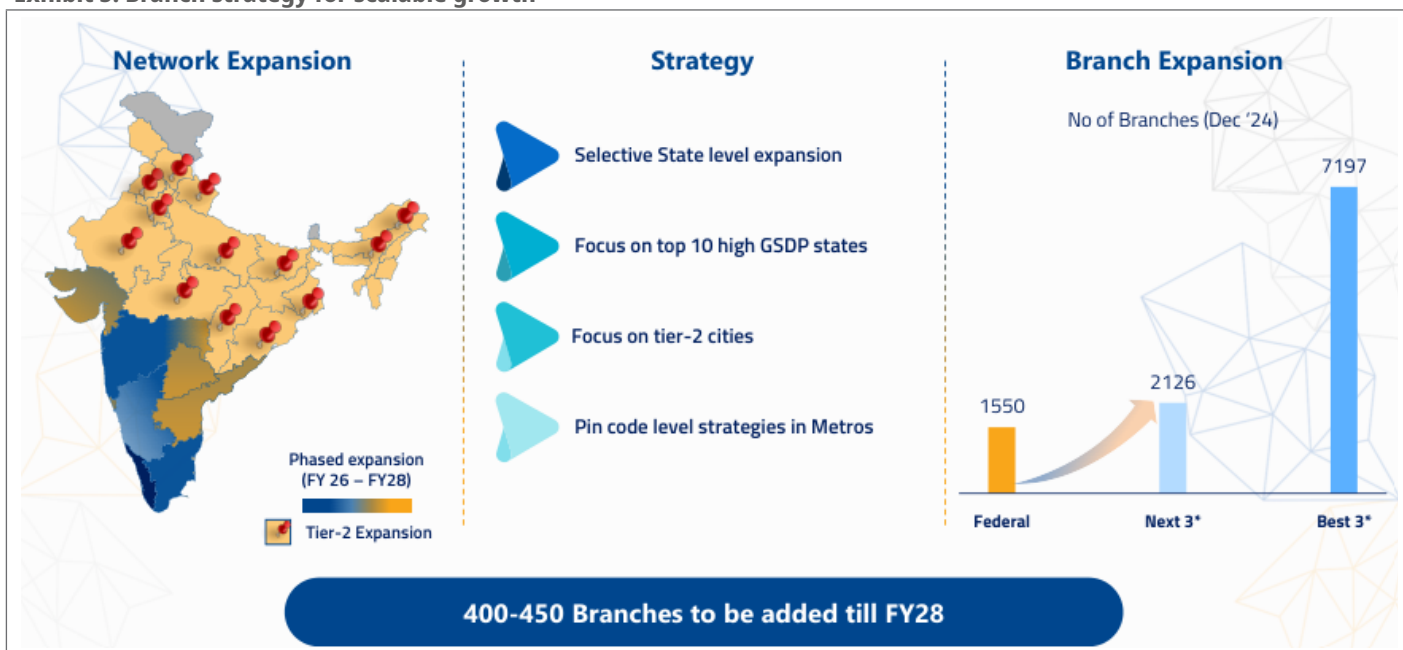
Source: Company Presentation, Mirae Asset Sharekhan

Exhibit 4: Targeting business segment with clear focus on profitability



Source: Company Presentation, Mirae Asset Sharekhan

Exhibit 5: Branch strategy for scalable growth



Source: Company Presentation, Mirae Asset Sharekhan

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation and asset quality to be in focus

System credit growth is slowing and has declined to ~11.4% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth, slow down in unsecured retail segment and a high credit-deposit ratio. Deposit growth at 10.3% is lagging loan growth and stays rangebound at 10-12%. Also, deposit growth is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to elevated cost of term deposits, while lower interest rate cycle will lead to yield pressure. Overall, asset quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Focus on improving risk adjusted returns

Mr. K.V.S Manian, the recently-appointed MD & CEO presented its medium-term strategy. The bank has identified key areas for improvement and is confident to execute on the glided path. While short-term adjustments may be necessary, the medium-term outlook remains positive with a focus on sustainable growth and improved profitability.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 220

The bank has identified levers of improvement across all parts of the RoA tree. The pivoting efforts are right steps to improve risk adjusted returns needed for re-rating and outperformance in the medium term but we also acknowledge that it will take few quarters to understand its full implication as execution happens on ground. We remain assertive from medium to long term. We believe that as and when operating metrics starts to converge on guided path, we would see a partial re-rating. At CMP, the stock trades at 1.2x / 1.1x its FY2026E/ FY2027E BV estimates.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Federal Bank	181	44,438	9.8	8.0	1.2	1.1	13.0	14.2	1.2	1.3
IndusInd Bank	1,030	80,211	11.4	9.6	1.1	1.0	9.8	10.5	1.2	1.3

Source: Company; Mirae Asset Sharekhan Research

About company

Federal Bank is a private-sector bank headquartered in Aluva, Kerala. The bank operates in four segments: treasury operations, wholesale banking, retail banking, and other banking operations. The bank has 1,550 branches and has its representative offices in Abu Dhabi and Dubai and an IFSC Banking Unit (IBU) in Gujarat International Finance Tec-City (GIFT City).

Investment theme

Federal Bank is evolving as a strong business franchise. Diversified loan mix and low share of unsecured book renders ability to continue grow in the near term without seeing large earnings volatility. The bank has identified key areas for improvement (NIMs and CASA) and is implementing strategy to address them. While short-term adjustments may be necessary, the medium-term outlook remains positive with a focus on sustainable growth and improved profitability.

Key Risks

An economic slowdown can lead to slower loan growth and higher-than-anticipated credit cost; slower growth in retail deposits; and lower margins.

Additional Data

Key management personnel

Name	Designation
KVS Manian	Managing Director and CEO
Shalini Warriar	Executive Director
Harsh Dugar	Executive Director
V. Venkateshwaran	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	7.02
2	International Finance Corp	3.81
3	Life Insurance Corp of India	3.58
4	FundRock Management Co SA	3.58
5	Franklin Resources Inc	3.11
6	Kader Yusuffali M V A	3.06
7	Nippon Life India Asset Management	2.87
8	Mirae Asset Financial Group	2.57
9	Axis Asset Management Co Ltd/India	2.49
10	Kotak Mahindra Asset Management Co	2.32

Source: Bloomberg

Mirae Asset Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.