

THE FEDERAL BANK LIMITED

Strategic balance sheet positioning to drive sustained growth

LKP
Since 1948

Trust • Invest • Grow

Federal Bank delivered an all-round performance, marked by sustained loan growth and improved profitability. The bank maintained a steady NIM despite lower yields in a falling interest rate environment, supported by strategic initiatives to garner high-quality deposits. Additionally, asset quality improved even in a challenging macro environment and is expected to remain strong, aided by surplus provisioning and tightened underwriting in the unsecured lending space. Under the new leadership, Federal Bank aims to position itself among the top private sector banks by enhancing return ratios through a focus on profitable expansion and optimal asset-liability management. Hence, with an optimistic outlook, we reiterate our **BUY** rating on the stock, based on 1.3x FY27E BVPS with a target price of ₹225.

Profit rise on higher other income and benign credit cost

In Q4FY25, Federal bank's net-interest income (NII) grew 8.3% YoY (-2.2% QoQ) to ₹24 bn, driven by strong growth in advances (+12.1% YoY). While the net interest margin (NIM) was steady at 3.2% on YoY basis, despite rise in cost of funds (6.06% vs. 5.97% in Q4FY24) and lower yields (9.31% vs. 9.48% in Q4FY24), it expanded 4bps sequentially, owing to increased yield on investments and other earning assets. Further, pre-provision operating profit increased 32% YoY to ₹15 bn, due to strong growth in non-interest income (+33.4% YoY) and improved cost efficiency with cost-to-income (C/I) ratio at 56.7% (down 570 bps YoY). Subsequently, PAT grew 13.7% YoY to ₹10 bn, on benign provisions of ₹1 bn, as the bank has made accelerated provisions in the previous quarter. Credit cost for the quarter stood at 0.26%, well-within the guided range.

Maintains growth momentum with quality lending

During the quarter, growth in advances was led by robust growth in retail loans (+14.0% YoY), corporate loans (+8.0% YoY) and commercial loans (+27.0% YoY). Growth in the mid-yielding assets has been strong (+19% YoY), specifically in gold loans (+20.9% YoY) and LAP (+20.4% YoY). The bank's deposit growth remained strong (+12.3% YoY), this has resulted in a credit-deposit (CD) ratio of 82.8% vs. 86.5% in Q3FY25. Also, current account deposits grew 34.9% YoY and saving account deposits increased 10.6% YoY; term deposits continue to grow 11.0% YoY, in a high-interest rate scenario. As a result, the share of CASA deposits in total deposits stood at 30.2%. Moreover, asset quality improved, with gross non-performing assets (NPAs) and net NPAs at 1.84% and 0.44%, respectively (vs. 1.95% and 0.49% in Q3FY25), led by lower incremental slippages and higher recoveries and write-offs.

Key Financials (₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Loan & Advances	1,744	2,094	2,348	2,684	3,089
Net Interest Income	72	83	95	106	122
PPP ex Except. Items	48	52	61	71	83
Reported Profits	30	37	41	48	57
EPS (₹)	14.2	15.3	16.5	19.5	23.3
P/E (x)	13.8	12.9	11.9	10.1	8.4
Adj. BV (₹)	98.8	116.9	133.9	153.5	176.8
P/ABV (x)	2.0	1.7	1.5	1.3	1.1
Gross NPAs Ratio (%)	2.4	2.1	1.8	1.7	1.6
Adj. RoA	1.3	1.3	1.2	1.3	1.3
Adj. RoE	14.9	14.7	13.0	13.4	13.9

BUY

Current Market Price (₹) : 197

12M Price Target (₹) : 225

Potential Return (%) : 14

Stock Data

Sector	:	Banking
Face Value (₹)	:	2
Total MCap (₹ bn)	:	482
Free Float MCap (₹ bn)	:	480
52-Week High / Low (₹)	:	217 / 148
BSE Code / NSE Symbol	:	500469 / FEDERALBNK
Bloomberg	:	FB IN
Sensex / Nifty	:	24,334 / 80,242

Shareholding Pattern

(%)	Mar-25	Dec-24	Sep-24	Jun-24
MFs	35.85	35.89	34.28	33.79
FPIs	26.28	26.32	27.72	28.64
Insurance	10.19	10.00	10.15	9.67
AIF's	2.07	2.04	1.86	1.04
Others	25.61	25.75	25.99	26.86

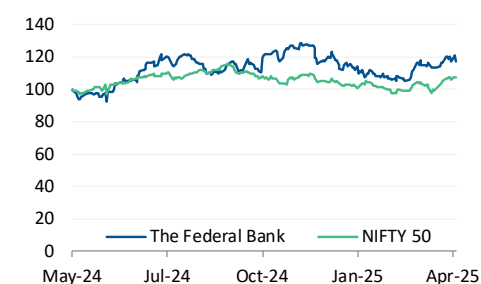
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Federal Bank	2.2%	6.3%	6.3%	17.1%
Nifty 50	5.0%	4.7%	0.0%	7.4%

* To date / current date : April 30, 2025

Federal Bank vs Nifty 50



Key Concall Highlights

Business highlight

- Within the low-yield segments, home loans grew 6.8% YoY as the bank has calibrated approach on risk-return trade-off, prioritizing customers who offer a broader revenue opportunity and relationship rather than competing solely on ultra-competitive pricing for the standalone product.
- Growth is strong in high-yield segments like credit cards business (+18.7% YoY), as the bank is comfortable with its underwriting standards and book in this area. Given its conservative approach in personal loans, it de-grew 1.5% YoY and is expected to see increased focus as the credit environment stabilize.
- The gold loan witnessed some slowdown in the quarter (-3% QoQ), due to regulatory guidelines of requiring to maintain loan-to-value (LTV) throughout the loan tenure (including accrued interest).
- Deposit growth is gaining traction, particularly in CASA deposits, supported by branch expansion (85 branches in FY25). Regarding future targets, the management aims to achieve a CASA ratio of 36% over three years. They also mentioned potentially reaching 40% in five years.
- Management guides the balance sheet growth for medium term continues to be 1.2x to 1.5x the industry growth rate or nominal GDP growth rate, with a strategic shift towards mid-yield segments and emphasis on high-quality, granular deposits.

Operational highlight

- The bank has 51% of its loan portfolio linked to external benchmark rate (EBLR) which are likely to impact its margin in a falling interest rate scenario. The management aims to maintain the margin by focusing towards mid-yielding assets, converting some loans to fixed rate and reducing saving and term deposit rates.
- Strong growth in other income was led by core fee income (+29.2% YoY) and is expected to remain healthy going forward.
- On sequential basis, operating costs were higher due to costs related to branch expansion, as 39 of 85 branches were opened in the quarter. Going forward, the management expects C/I ratio to be ~53%.

Asset quality

- Although asset quality improved on lower slippages in retail segment, slippages in agriculture segment saw an uptick pertaining to microfinance loans.
- Given the bank has taken accelerated provision against its unsecured book in FY25, its provision coverage ratio (PCR) stood at 75.4%.

Outlook & Valuation

We expect Federal Bank to deliver a loan growth CAGR of 14.7% over FY25–FY27E, driven by its expanding branch network, strong capital base, and strategic initiatives amid an improving credit demand environment. The bank's margins are expected to remain steady, supported by its reoriented strategy to enhance deposit quality and focus on mid-yielding assets. Furthermore, strong asset quality is likely to continue, aided by surplus provisioning and tighter underwriting in the unsecured lending segment. Additionally, the stock is currently trading at 1.1x FY27E BVPS, below its historical one-year average of 1.3x. Hence, we reiterate our **BUY** rating on the stock, based on 1.3x FY27E BVPS, with a target price of ₹225.

Recent Performance at a glance

Income Statement Analysis

(₹ bn)	Q4FY25	Q4FY24	% yoy / bps	Q3FY25	% qoq / bps	FY25	FY24	% yoy / bps
Interest Inc.	66	60	11.2	68	(2.4)	264	222	18.8
Interest Expenses	43	38	12.9	44	(2.4)	169	139	21.6
Net Interest Income	24	22	8.3	24	(2.2)	95	83	14.2
<i>NIM (%)</i>	3.2	3.2	(6)	3.1	4	3.0	3.1	(8)
Other Income - Total	10	8	33.4	9	9.8	38	31	23.4
Net Operating Revenue	34	29	14.7	33	1.1	133	114	16.7
Employee Expenses	8	9	(11.0)	8	0.8	31	28	9.4
Other Opex	11	10	18.6	10	13.4	41	34	20.9
Total Opex	19	18	4.3	18	7.9	72	62	15.6
<i>Cost to Income Ratio (%)</i>	56.7	62.3	(566)	53.1	357	54.0	54.5	(48)
Pre Provision Profits	15	11	32.0	16	(6.6)	61	52	17.9
Exceptional Profit (Loss)	-	-	-	-	-	-	-	-
PPP ex Except. Items	15	11	32.0	16	(6.6)	61	52	17.9
Provisions & Contingencies - Total	1	-1	(246.0)	3	(52.8)	7	2	273.8
Profit Before Tax	13	12	10.2	13	3.9	54	50	7.8
Tax	3	3	(0.5)	3	(7.7)	13	13	4.6
Reported Profits	10	9	13.7	10	7.8	41	37	8.9
Basic EPS (₹)	4.2	3.7	12.9	3.9	8.0	16.5	16.1	2.9

Balance Sheet Analysis

(₹ bn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Net Worth	282	291	306	315	323	334	3.4	14.9
<i>RoE (%)</i>	14.8	12.8	13.6	13.7	12.0	12.8	82	7
<i>Tier 1 (%)</i>	13.5	14.6	14.2	13.8	13.8	15.0	126	43
<i>Total CAR (%)</i>	15.0	16.1	15.6	15.2	15.2	16.4	124	27
RWA - Total	1,811	1,897	1,971	2,026	2,027	2,101	3.7	10.8
Advances - Total	1,992	2,094	2,208	2,303	2,304	2,348	1.9	12.1
Investments	574	609	638	647	664	662	(0.3)	8.9
Total Assets	2,962	3,083	3,280	3,355	3,399	3,490	2.7	13.2
<i>RoA (%)</i>	1.40	1.20	1.28	1.28	1.16	1.24	8	4
Deposits	2,396	2,525	2,661	2,691	2,664	2,836	6.5	12.3
CASA Deposits	734	742	779	809	803	858	6.7	15.6
<i>CASA Ratio (%)</i>	30.6	29.4	29.3	31.2	30.2	30.2	7	85
Interest Bearing Liabilities - Total	2,569	2,706	2,878	2,929	2,951	3,074	4.2	13.6

Funding Profile Analysis

(₹ bn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Deposits	2,396	2,525	2,661	2,691	2,664	2,836	6.5	12.3
CASA Deposits	734	742	779	809	803	858	6.7	15.6
Saving Deposit	153	590	615	635	641	652	1.6	10.6
Current Deposit	581	152	164	174	162	206	26.9	34.9
Term Deposits	1,662	1,783	1,882	1,882	1,860	1,979	6.4	11.0
Borrowings	173	180	217	237	287	237	(17.3)	31.6
Interest Bearing Liabilities - Total	2,569	2,706	2,878	2,929	2,951	3,074	4.2	13.6

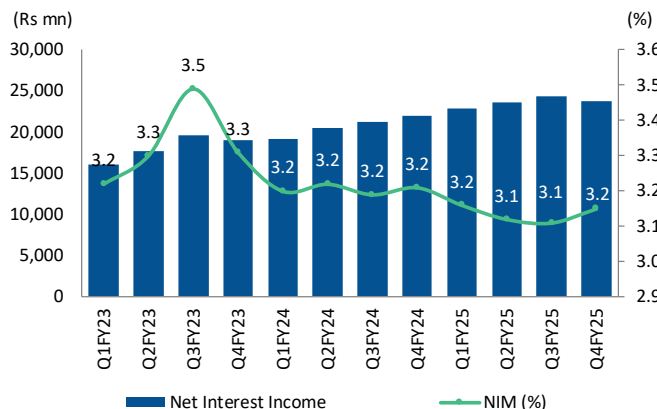
Source: Company, LKP Research

Assets Quality Analysis

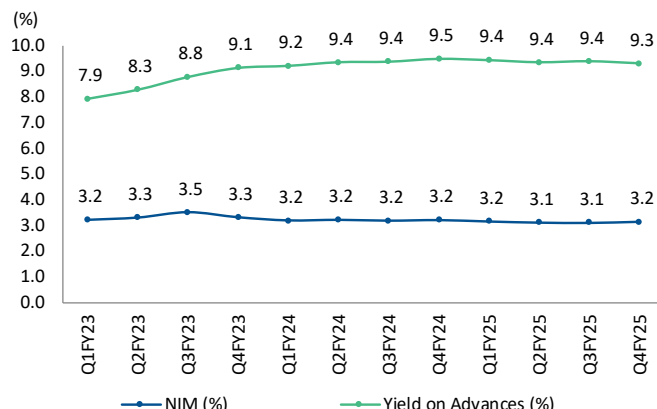
(₹ bn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Total Slippages	5	4	4	4	5	5	(1.2)	32.6
Slippages Ratio (%)	0.28	0.21	0.20	0.21	0.24	0.23	(0)	2
Gross NPA	46	45	47	49	46	44	(3.9)	(3.4)
Gross NPAs Ratio (%)	2.29	2.13	2.11	2.09	1.95	1.84	(11)	(29)
PCR - Calculated (%)	72.3	72.3	71.9	72.9	75.2	76.2	107	394
Net NPA	13	13	13	13	11	10	(8.0)	(17.1)
Net NPAs Ratio (%)	0.64	0.60	0.60	0.57	0.49	0.44	(5)	(16)

Quarterly story in charts

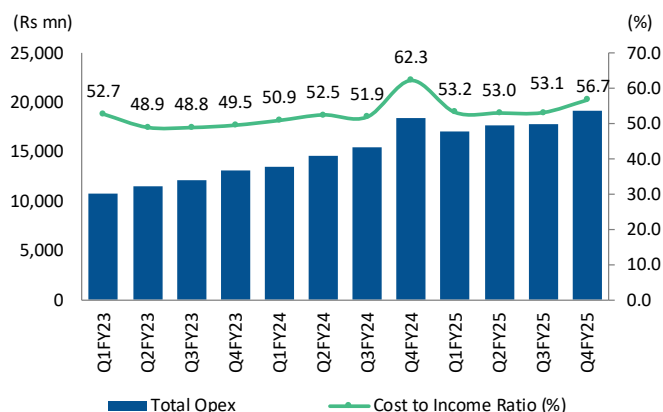
NII Trend



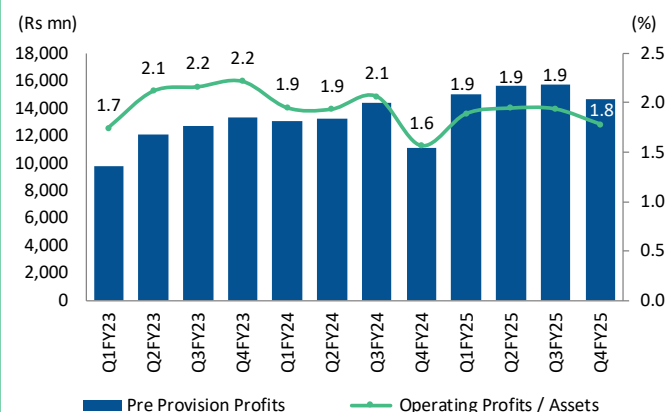
Yields and Margin Trend



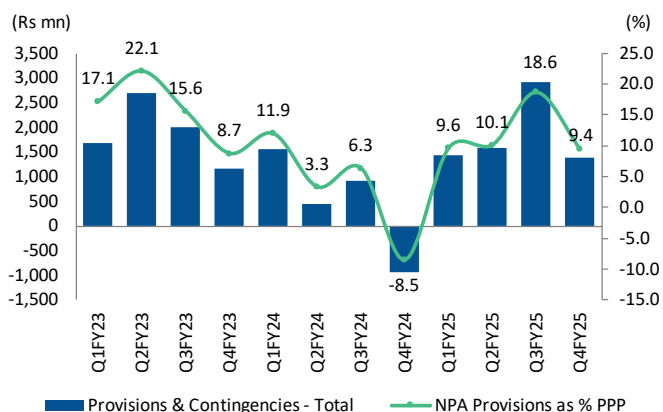
Total OPEX Trend



Pre Provision Profit trend



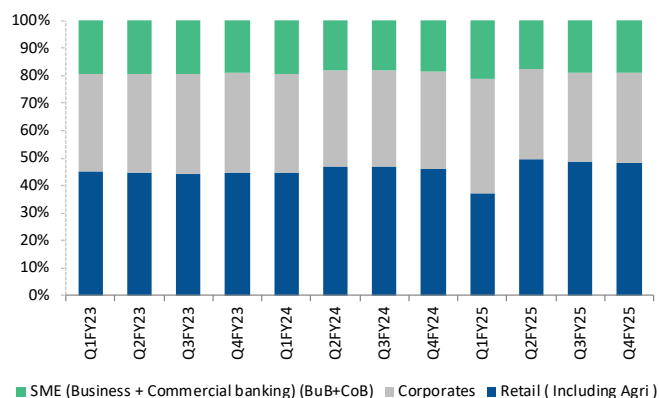
Provision expenses trend



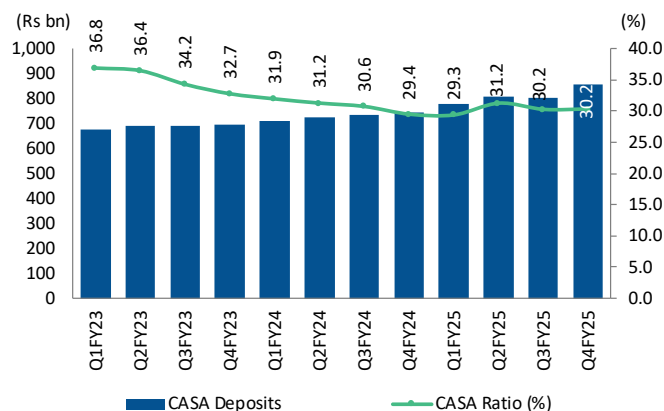
Loan book trend



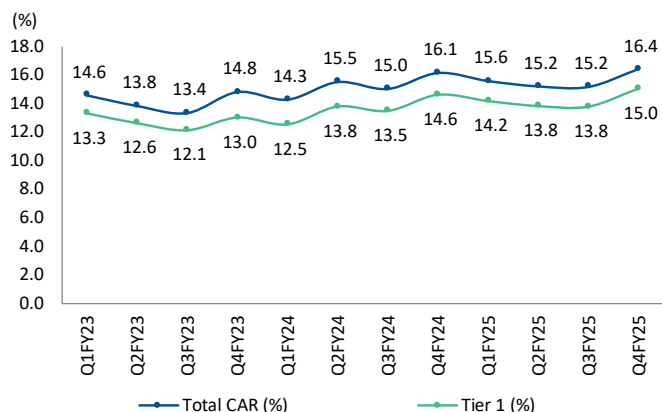
Loan Book Mix Trend



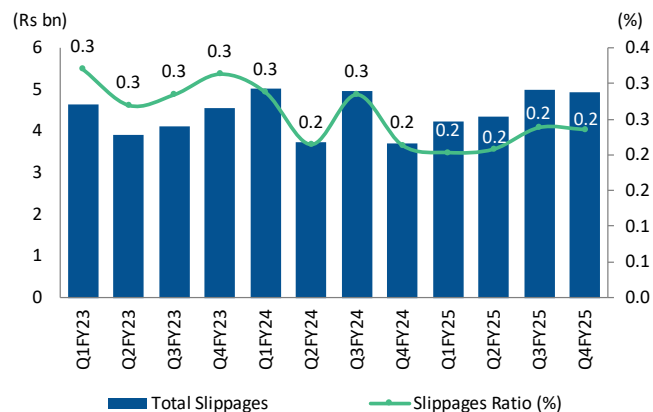
CASA Deposit trend



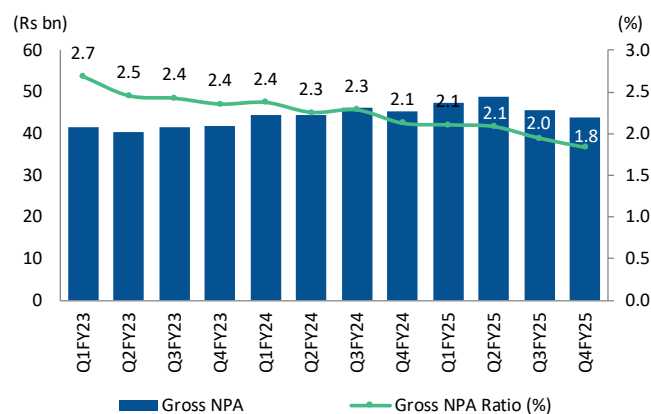
CRAR and Tier 1 trend



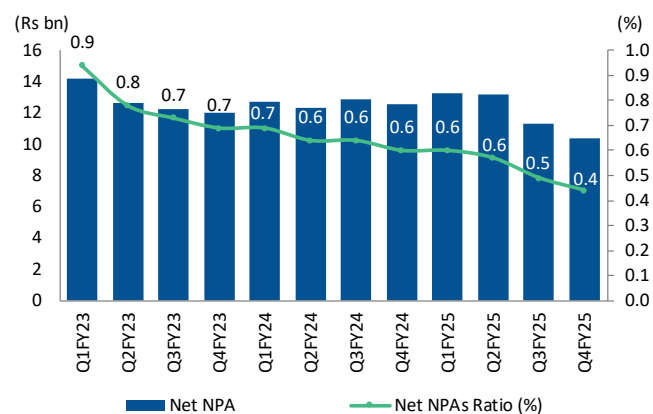
Slippages trend



Gross NPA Trend



Net NPA trend



Annual Projections

Profit and Loss Statement

(₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Int. Income	168	222	264	298	340
Interest Expenses	96	139	169	192	218
Net Interest Income	72	83	95	106	122
<i>NIM (%)</i>	3.2	3.1	3.0	3.0	3.0
Other Income - Total	23	31	38	46	54
Net Operating Revenue	96	114	133	152	176
Employee Exp.	22	28	31	34	40
Other Opex	26	34	41	46	53
Total Opex	48	62	72	81	93
<i>C/I Ratio (%)</i>	49.9	54.5	54.0	53.3	52.9
Pre Provision Profits	48	52	61	71	83
<i>PPP Growth (yoy %)</i>	27.6	7.9	17.9	16.0	16.9
Provisions & Contingencies - Total	7	2	7	7	7
<i>Credit Cost (As % of Op. AUM)</i>	0.5	0.1	0.3	0.3	0.3
Profit Before Tax	40	50	54	64	76
Tax	10	13	13	16	19
<i>Effective Tax Rate (%)</i>	25.6	25.3	24.5	24.5	24.5
Reported Profits	30	37	41	48	57
<i>PAT Growth (yoy %)</i>	59.3	23.6	8.9	18.4	19.4

Balance Sheet

(₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	4	5	5	5	5
Reserves (ex Revel. Reserve)	211	286	329	377	435
Net Worth - Ex Revaluation	215	291	334	382	439
Deposits	2,134	2,525	2,836	3,285	3,826
<i>Growth (yoy %)</i>		18.3%	12.3%	15.8%	16.5%
Borrowings	193.19	180.26	237.26	247.25	244.24
Interest Bearing Liabilities	2,327	2,706	3,074	3,532	4,071
Other Lia. & Prov.	61	87	82	87	94
Total Liabilities	2,603	3,083	3,490	4,001	4,604
Assets					
Cash & Cash Equivalent	177	190	309	334	355
Investments	490	609	662	805	977
Loan & Advances	1,744	2,094	2,348	2,684	3,089
<i>Growth (yoy %)</i>		20.0	12.1	14.3	15.1
Fixed Assets	9	10	15	16	19
Other Assets	183	181	156	162	164
Total Assets	2,603	3,083	3,490	4,001	4,604

Detailed ROA Tree

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
<u>Yields / Margins</u>					
Yield on Advance	8.4	9.2	9.5	9.4	9.2
Yield on Funds	7.5	8.4	8.5	8.4	8.2
Cost of Funds (CoF)	4.5	5.5	5.8	5.8	5.7
Interest Spread	3.1	2.8	2.6	2.5	2.5
NIM's	3.2	3.1	3.0	3.0	3.0
Interest Income / Assets	7.0	7.8	8.0	8.0	7.9
Interest Exp. / Assets	4.0	4.9	5.1	5.1	5.1
NII / Assets	3.0	2.9	2.9	2.8	2.8
Fee Income / Assets	0.7	0.8	0.8	0.9	0.9
Other Non Core Income / Assets	0.0	0.1	0.1	0.1	0.1
Other Income / Assets	1.0	1.1	1.2	1.2	1.3
Net Operating Income / Assets	4.0	4.0	4.0	4.0	4.1
<u>Operating Ratios</u>					
NII to Net Operative Income	75.6	72.9	71.4	69.9	69.2
Other Income to Net Operative Income	24.4	27.1	28.6	30.1	30.8
Empl. Cost/Oper. Exps.	45.6	45.5	43.1	42.5	42.6
Other Op. Exps./Oper. Exps.	54.4	54.5	56.9	57.5	57.4
C/I Ratio (%)	49.9	54.5	54.0	53.3	52.9
Provisions as % PPP	7.8	1.7	5.5	4.7	3.9
Credit Cost (As % of Op. AUM)	0.5	0.1	0.3	0.3	0.3
Effective Tax Rate (%)	25.6	25.3	24.5	24.5	24.5
Employee Exp. / Assets	0.9	1.0	0.9	0.9	0.9
Other Opex/ Assets	1.1	1.2	1.2	1.2	1.2
Total Opex / Assets	2.0	2.2	2.2	2.2	2.2
Operating Profits / Assets	2.0	1.8	1.9	1.9	1.9
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	2.0	1.8	1.9	1.9	1.9
Provisions / Assets	0.3	0.1	0.2	0.2	0.2
Profit Before Tax / Assets	1.7	1.8	1.6	1.7	1.8
Tax Expenses / Assets	0.4	0.4	0.4	0.4	0.4
RoA	1.3	1.3	1.2	1.3	1.3
Leverage (x)	12.1	10.6	10.4	10.5	10.5
RoE	14.9	14.7	13.0	13.4	13.9
Adj. RoA	1.3	1.3	1.2	1.3	1.3
Adj. RoE	14.9	14.7	13.0	13.4	13.9

Credit Quality

(₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Slippage Ratio (%)	1.2	1.0	0.9	0.9	0.9
Gross NPA	41,838	45,289	43,755	46,883	50,497
Gross NPAs Ratio (%)	2.4	2.1	1.8	1.7	1.6
PCR (%)	71.2	72.3	76.2	77.6	78.2
Net NPA	12,050	12,553	10,404	10,487	11,024
Net NPAs Ratio (%)	0.7	0.6	0.4	0.4	0.4
Total Impaired Loans	41,838	45,289	43,755	46,883	50,497
Impaired Loan as % of Loan / AUM	2.3	2.1	1.8	1.7	1.6
Total Risk Reserves	29,788	32,735	33,352	36,396	39,472
Total Risk As % of Loan Book	1.7	1.5	1.4	1.3	1.2

Key Assumptions & Forecasts

(₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Loan & Advances	1,744	2,094	2,348	2,684	3,089
Growth (yoy %)		20.0	12.1	14.3	15.1
Interest Bearing Liabilities	2,327	2,706	3,074	3,532	4,071
Growth (yoy %)		16.3	13.6	14.9	15.2
Yield on Funds	7.5	8.4	8.5	8.4	8.2
Cost of Funds (CoF)	4.5	5.5	5.8	5.8	5.7
Interest Spread	3.1	2.8	2.6	2.5	2.5
NIM's	3.2	3.1	3.0	3.0	3.0
Other Income Growth	11.5	32.2	23.4	19.9	18.7
C/I Ratio (%)	49.9	54.5	54.0	53.3	52.9
Effective Tax Rate (%)	25.6	25.3	24.5	24.5	24.5
Return Ratios					
Adj. RoA	1.3	1.3	1.2	1.3	1.3
Adj. RoE	14.9	14.7	13.0	13.4	13.9
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	0.5	0.1	0.3	0.3	0.3
Gross NPAs Ratio (%)	2.4	2.1	1.8	1.7	1.6
Net NPAs Ratio (%)	0.7	0.6	0.4	0.4	0.4

DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, 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 or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.