

# THE FEDERAL BANK LIMITED

Strategic balance sheet positioning to drive sustained growth

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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

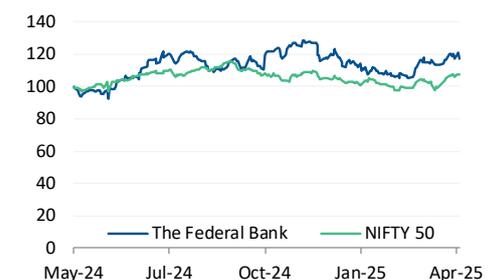
Source: BSE

## 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
<b>Net Interest Income</b>	<b>24</b>	<b>22</b>	<b>8.3</b>	<b>24</b>	<b>(2.2)</b>	<b>95</b>	<b>83</b>	<b>14.2</b>
NIM (%)	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
<b>Net Operating Revenue</b>	<b>34</b>	<b>29</b>	<b>14.7</b>	<b>33</b>	<b>1.1</b>	<b>133</b>	<b>114</b>	<b>16.7</b>
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
<b>Total Opex</b>	<b>19</b>	<b>18</b>	<b>4.3</b>	<b>18</b>	<b>7.9</b>	<b>72</b>	<b>62</b>	<b>15.6</b>
Cost to Income Ratio (%)	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
<b>Exceptional Profit (Loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
PPP ex Except. Items	15	11	32.0	16	(6.6)	61	52	17.9
<b>Provisions &amp; Contingencies - Total</b>	<b>1</b>	<b>-1</b>	<b>(246.0)</b>	<b>3</b>	<b>(52.8)</b>	<b>7</b>	<b>2</b>	<b>273.8</b>
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
<b>Reported Profits</b>	<b>10</b>	<b>9</b>	<b>13.7</b>	<b>10</b>	<b>7.8</b>	<b>41</b>	<b>37</b>	<b>8.9</b>
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
<b>Net Worth</b>	<b>282</b>	<b>291</b>	<b>306</b>	<b>315</b>	<b>323</b>	<b>334</b>	<b>3.4</b>	<b>14.9</b>
RoE (%)	14.8	12.8	13.6	13.7	12.0	12.8	82	7
Tier 1 (%)	13.5	14.6	14.2	13.8	13.8	15.0	126	43
Total CAR (%)	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
<b>Total Assets</b>	<b>2,962</b>	<b>3,083</b>	<b>3,280</b>	<b>3,355</b>	<b>3,399</b>	<b>3,490</b>	<b>2.7</b>	<b>13.2</b>
RoA (%)	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
CASA Ratio (%)	30.6	29.4	29.3	31.2	30.2	30.2	7	85
<b>Interest Bearing Liabilities - Total</b>	<b>2,569</b>	<b>2,706</b>	<b>2,878</b>	<b>2,929</b>	<b>2,951</b>	<b>3,074</b>	<b>4.2</b>	<b>13.6</b>

## 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
<b>Interest Bearing Liabilities - Total</b>	<b>2,569</b>	<b>2,706</b>	<b>2,878</b>	<b>2,929</b>	<b>2,951</b>	<b>3,074</b>	<b>4.2</b>	<b>13.6</b>

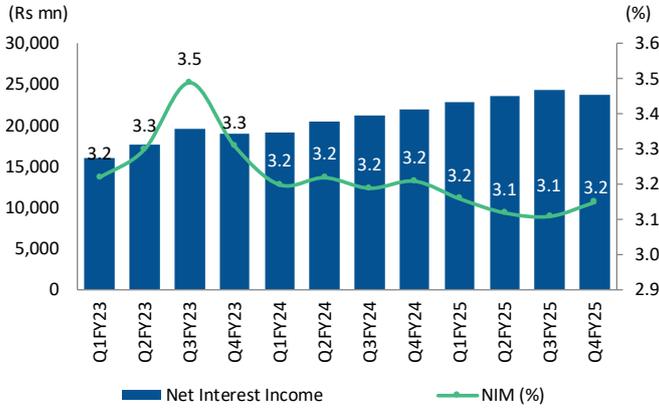
Source: Company, LKP Research

## Assets Quality Analysis

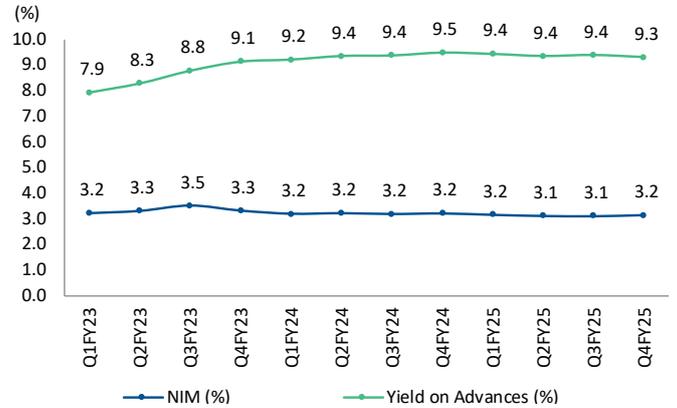
(₹ bn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Total Slippages	5	4	4	4	5	5	(1.2)	32.6
<b>Slippages Ratio (%)</b>	<b>0.28</b>	<b>0.21</b>	<b>0.20</b>	<b>0.21</b>	<b>0.24</b>	<b>0.23</b>	<b>(0)</b>	<b>2</b>
Gross NPA	46	45	47	49	46	44	(3.9)	(3.4)
<b>Gross NPAs Ratio (%)</b>	<b>2.29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

Quarterly story in charts

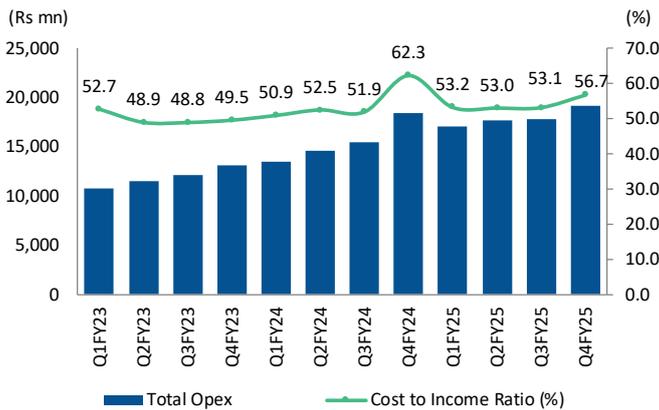
**NII Trend**



**Yields and Margin Trend**



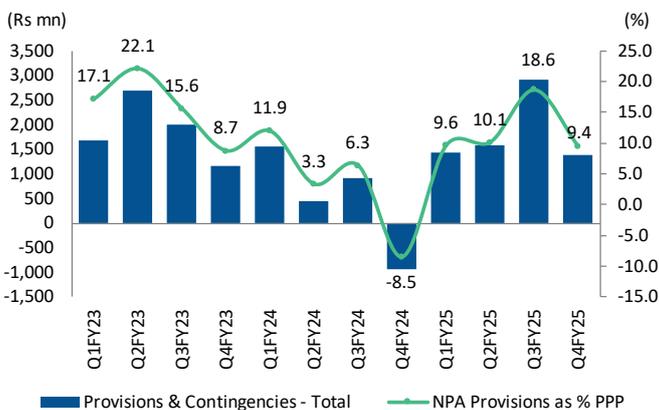
**Total OPEX Trend**



**Pre Provision Profit trend**



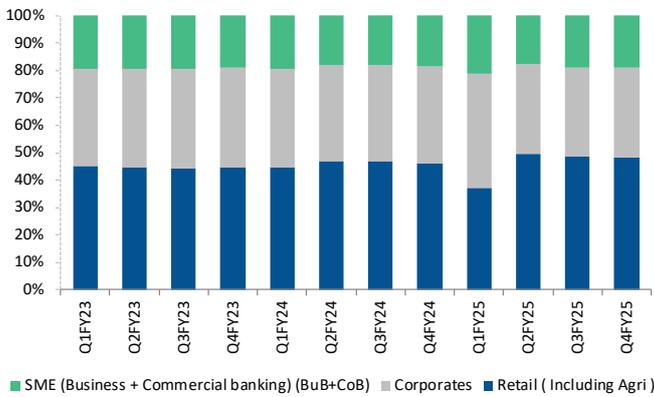
**Provision expenses trend**



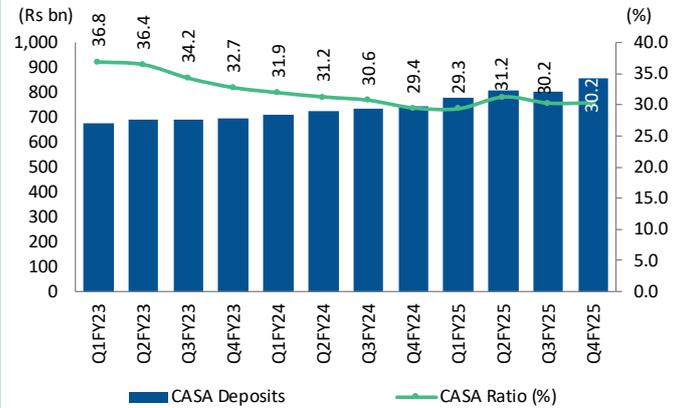
**Loan book trend**



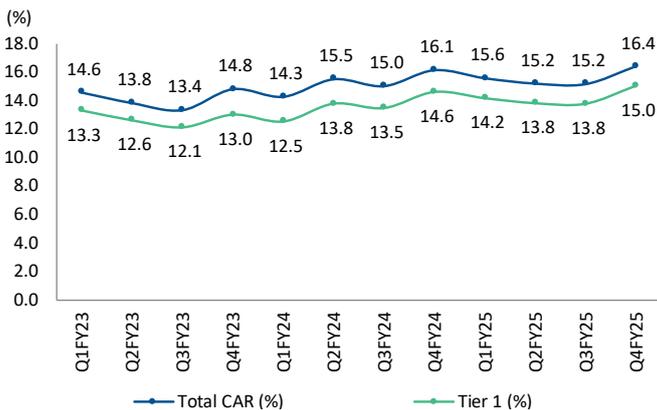
**Loan Book Mix Trend**



**CASA Deposit trend**



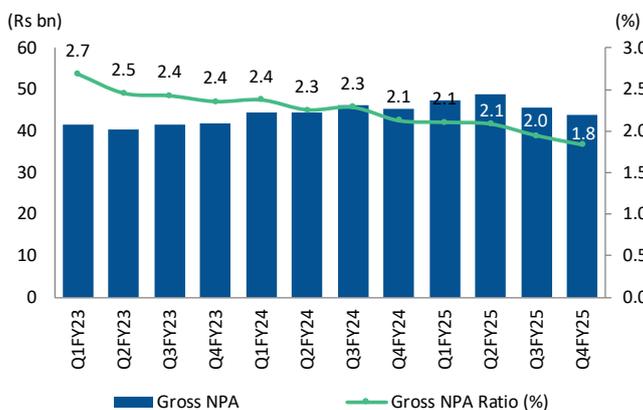
**CRAR and Tier 1 trend**



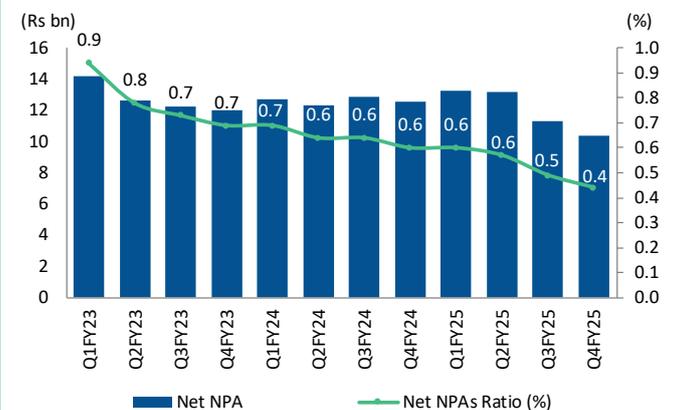
**Slippages trend**



**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
<b>Net Interest Income</b>	<b>72</b>	<b>83</b>	<b>95</b>	<b>106</b>	<b>122</b>
<i>NIM (%)</i>	3.2	3.1	3.0	3.0	3.0
<b>Other Income - Total</b>	<b>23</b>	<b>31</b>	<b>38</b>	<b>46</b>	<b>54</b>
<b>Net Operating Revenue</b>	<b>96</b>	<b>114</b>	<b>133</b>	<b>152</b>	<b>176</b>
Employee Exp.	22	28	31	34	40
Other Opex	26	34	41	46	53
<b>Total Opex</b>	<b>48</b>	<b>62</b>	<b>72</b>	<b>81</b>	<b>93</b>
<i>C/I Ratio (%)</i>	49.9	54.5	54.0	53.3	52.9
<b>Pre Provision Profits</b>	<b>48</b>	<b>52</b>	<b>61</b>	<b>71</b>	<b>83</b>
<i>PPP Growth (yoy %)</i>	27.6	7.9	17.9	16.0	16.9
<b>Provisions &amp; Contingencies - Total</b>	<b>7</b>	<b>2</b>	<b>7</b>	<b>7</b>	<b>7</b>
<i>Credit Cost (As % of Op. AUM)</i>	0.5	0.1	0.3	0.3	0.3
<b>Profit Before Tax</b>	<b>40</b>	<b>50</b>	<b>54</b>	<b>64</b>	<b>76</b>
Tax	10	13	13	16	19
<i>Effective Tax Rate (%)</i>	25.6	25.3	24.5	24.5	24.5
<b>Reported Profits</b>	<b>30</b>	<b>37</b>	<b>41</b>	<b>48</b>	<b>57</b>
<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
<b>Total Liabilities</b>	<b>2,603</b>	<b>3,083</b>	<b>3,490</b>	<b>4,001</b>	<b>4,604</b>
<b>Assets</b>					
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
<b>Total Assets</b>	<b>2,603</b>	<b>3,083</b>	<b>3,490</b>	<b>4,001</b>	<b>4,604</b>

Detailed ROA Tree

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
<b>Yields / Margins</b>					
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
<b>Interest Spread</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>
<b>NIM's</b>	<b>3.2</b>	<b>3.1</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
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
<b>NII / Assets</b>	<b>3.0</b>	<b>2.9</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>
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
<b>Other Income / Assets</b>	<b>1.0</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>
<b>Net Operating Income / Assets</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.1</b>
<b>Operating Ratios</b>					
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
<b>Provisions as % PPP</b>	<b>7.8</b>	<b>1.7</b>	<b>5.5</b>	<b>4.7</b>	<b>3.9</b>
<b>Credit Cost (As % of Op. AUM)</b>	<b>0.5</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
<b>Effective Tax Rate (%)</b>	<b>25.6</b>	<b>25.3</b>	<b>24.5</b>	<b>24.5</b>	<b>24.5</b>
<b>Employee Exp. / Assets</b>	<b>0.9</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>
Other Opex/ Assets	1.1	1.2	1.2	1.2	1.2
<b>Total Opex / Assets</b>	<b>2.0</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>
Operating Profits / Assets	2.0	1.8	1.9	1.9	1.9
Exceptional Items / Assets	-	-	-	-	-
<b>Op Profit ex Except Items / Assets</b>	<b>2.0</b>	<b>1.8</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>
Provisions / Assets	0.3	0.1	0.2	0.2	0.2
<b>Profit Before Tax / Assets</b>	<b>1.7</b>	<b>1.8</b>	<b>1.6</b>	<b>1.7</b>	<b>1.8</b>
Tax Expenses / Assets	0.4	0.4	0.4	0.4	0.4
<b>RoA</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>
<b>Leverage (x)</b>	<b>12.1</b>	<b>10.6</b>	<b>10.4</b>	<b>10.5</b>	<b>10.5</b>
<b>RoE</b>	<b>14.9</b>	<b>14.7</b>	<b>13.0</b>	<b>13.4</b>	<b>13.9</b>
<b>Adj. RoA</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>
<b>Adj. RoE</b>	<b>14.9</b>	<b>14.7</b>	<b>13.0</b>	<b>13.4</b>	<b>13.9</b>

### Credit Quality

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

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