



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	✓	↔	✓

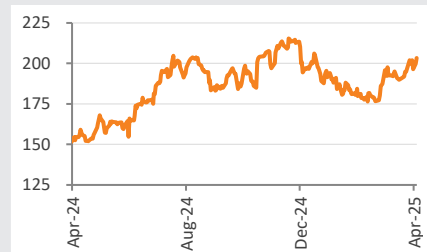
Company details

Market cap:	Rs. 48,265 cr
52-week high/low:	Rs. 217 / 148
NSE volume: (No of shares)	89.7 lakh
BSE code:	500469
NSE code:	FEDERALBNK
Free float: (No of shares)	244.3 cr

Shareholding (%)

Promoters	-
FII	26.3
DII	49.1
Others	24.7

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	5.3	-3.4	20.9
Relative to Sensex	-3.5	0.8	-3.3	13.1

Source: Mirae Asset Sharekhan Research, Bloomberg

Federal Bank Ltd

Mixed bag Q4

Banks	Sharekhan code: FEDERALBNK		
Reco/View: Buy	↔	CMP: Rs. 197	Price Target: Rs. 220 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Core operating profit growth declined 3% q-o-q, led by weak NII and higher opex however earnings were better than estimates mainly led by lower credit cost driven by a lumpy recovery in corporate loans.
- Loan growth was modest at 12% y-o-y/2% q-o-q, while deposit growth improved sharply by 6% q-o-q led by some seasonal flows. Bank is expecting better loan growth in FY26E over FY25 with faster growth in mid-yielding segment and a gradual pick-up in high yielding segment.
- Asset quality improved led by higher recoveries and contained slippages. The bank guided that credit card/personal loan portfolio has stabilised but MFI would stabilise over the next few quarters. Credit cost guidance remains at 40-45 bps of average loans.
- We remain assertive from a medium to long-term perspective and thus maintain buy rating on the stock with an unchanged PT of Rs. 220. Stock trades at 1.3x / 1.2x its FY2026E/ FY2027E BV estimates.

Q4FY25 numbers were a mixed bag. NII at Rs. 2,377 grew by 8% y-o-y/ down 2% q-o-q. Net interest margin (NIMs) were stable, improved marginally by 1 bps q-o-q to 3.12% despite spreads under pressure (down 13 bps q-o-q). Bank guided that higher yield on investment book/ other earnings assets supported the NIMs. However, the outlook on NIMs is negative, optimising asset/liability mix will partly cushion NIMs. Core fee income grew by 29% y-o-y/ 6% q-o-q. Treasury gains were at Rs. 46 crore versus Rs. 100 crore q-o-q and Rs. 42 crore y-o-y. Other income (ex-treasury gains) at Rs. 160 crore versus Rs. 92 crore q-o-q and Rs. 60 crore y-o-y. Total operating expenses grew by 4% y-o-y/ 8% q-o-q. Cost to average assets stood at 2.2% versus 2.1% q-o-q led by higher branch expansion in Q4 and marketing expenses. Operating profit (PPoP) grew by 32% y-o-y mainly aided by core fee income and other income but was down 7% q-o-q. Provisions were lower at Rs. 138 crore (versus estimates of Rs 234 crore). Core credit cost stood at 25 bps annualised versus 60 bps q-o-q. Lower credit cost was primarily attributable to a large corporate recovery. PAT at Rs. 1,030 crore (above estimates mainly led by lower credit cost and marginally lower effective tax rate) grew 14% y-o-y/ 8% q-o-q. Net advances grew by 12% y-o-y/ 2% q-o-q. Retail advances grew by 14% y-o-y/ 1% q-o-q mainly led by LAP and CV/CE loans. Commercial banking book grew by 27% y-o-y/5% q-o-q while wholesale corporate loans grew by 8% y-o-y / 3% q-o-q. Overall, deposits grew by 12% y-o-y/ 6% q-o-q. CASA grew by 16% y-o-y/ 7% q-o-q mainly led by higher year end seasonal current account flows. The bank's CASA ratio stands at 30.2% versus 29.4% y-o-y. Term deposits grew by 11% y-o-y/ 6% q-o-q. The LDR was at 82.8% versus 86.5% q-o-q. Headline GNPA/ NNPA ratio improved q-o-q by 11 bps/ 5 bps at 1.84 %/ 0.44% led by higher recoveries and contained slippages. PCR improved to 76% versus 75% q-o-q. Slippage ratio was at 0.84% annualized versus 0.86% q-o-q. Net slippages were lower at Rs. 58 crore versus Rs.163 crore q-o-q led by higher recoveries. Restructured book stood at 0.6% of net loans versus 0.7% q-o-q.

Key positives

- Net slippages were negligible at 0.1% annualised in Q4FY25 resulting in lower credit cost.

Key negatives

- Core operating profit growth was weak (down 3% q-o-q) led by weak NII and higher opex.

Management Commentary

- Bank is guiding for better loan growth in FY26E over FY25 with faster growth in mid yielding segment and gradual pick up in high yielding segment.
- Bank highlighted that delinquencies in credit card/personal loan portfolio has stabilised but MFI would stabilise over the next few quarters. Secured assets are showing healthy trends. Slowdown in gold loans was primarily due to revised regulatory guidelines.
- Higher yield on investment book/ other earning assets supported NIMs but the outlook on NIMs is negative. Optimising asset/liability mix will partly cushion NIMs. The bank is positioning itself for medium term NIM improvement.
- Deposit mix improved with greater granularity. Focus is on accelerating CASA growth in sustained manner.
- Lower credit cost was attributable to a large corporate recovery. Quantum of corporate recovery was Rs. 110-115 crore during Q4FY25.

Our Call

Valuation – Maintain Buy on Federal Bank with an unchanged PT of Rs. 220: We acknowledge that there are no levers for RoA improvement in FY26 versus FY25 as outlook on NIMs is negative. Opex would remain higher due to greater investments and credit cost would broadly mirror with FY25 however bank is expecting better loan growth in FY26E over FY25 with faster growth in mid yielding segment and gradual pick up in high yielding segment. The bank remains committed to improve risk adjusted returns over the medium term led by identified levers thus we remain assertive from a medium to long-term perspective. It will take few quarters for the bank to reflect the execution but as and when operating metrics starts to converge on guided path gradually, we would see a re-rating. Medium-term outlook remains positive with a focus on sustainable growth and improved profitability. At CMP, the stock trades at 1.3x / 1.2x 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	FY25	FY26E	FY27E
Net Interest Income	7,232	8,293	9,468	10,259	11,481
Net profit	3,011	3,721	4,052	4,183	4,701
EPS (Rs.)	14.1	15.3	16.5	16.9	18.8
P/E (x)	13.9	12.8	11.9	11.6	10.4
P/BV (x)	1.9	1.6	1.4	1.3	1.2
RoE	14.9	14.7	13.0	11.9	12.1
RoA	1.3	1.3	1.2	1.1	1.1

Source: Company; Mirae Asset Sharekhan estimates

Results (Standalone)

Particulars	4QFY25	4QFY24	3QFY25	Y-o-Y (%)	Rs cr Q-o-Q (%)
Interest Inc.	6,648	5,978	6,809	11%	-2%
Interest Expenses	4,271	3,783	4,377	13%	-2%
Net Interest Income	2,377	2,195	2,431	8.3%	-2.2%
NIM (%)	3.12	3.21	3.11		
Core Fee Income	800	620	756	29.0%	5.8%
Other Income	206	134	160	54%	29%
Net Income	3,383	2,949	3,348	15%	1%
Employee Expenses	784	887	783	-12%	0%
Other Opex	1,134	952	995	19%	14%
Total Opex	1,918	1,839	1,778	4%	8%
Cost to Income Ratio	56.7%	62.3%	53.1%		
Pre Provision Profits	1,465	1,110	1,569	32%	-7%
Provisions & Contingencies - Total	138	-95	292	-246%	-53%
Profit Before Tax	1,327	1,205	1,277	10%	4%
Tax	297	299	322	-1%	-8%
Effective Tax Rate	22%	25%	25%		
Reported Profits	1,030	906	955	14%	8%
Basic EPS (Rs)	4.2	3.7	3.9	13%	8%
Diluted EPS (Rs)	4.2	3.7	3.9	13%	8%
RoA (%)	1.2	1.2	1.2		
Advances	2,34,836	2,09,403	2,30,370	12.1%	1.9%
Deposits	2,83,647	2,52,534	2,66,375	12.3%	6.5%
Gross NPA	4,376	4,529	4,553	-3%	-4%
Gross NPA Ratio (%)	1.84	2.13	1.95		
Net NPA	1,040	1,255	1,131	-17%	-8%
Net NPAs Ratio (%)	0.44	0.6	0.49		
PCR - Calculated	76.2%	72.3%	75.2%		

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

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

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, driven by slower deposit growth, slowdown 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%. Moreover, deposit growth is mainly led by time deposits rather than CASA deposits. Margins are expected to be under pressure due to the elevated cost of term deposits, while a 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 that 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

With a change in management, 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.

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

We acknowledge that there are no levers for RoA improvement in FY26 versus FY25 as outlook on NIMs is negative. Opex would remain higher due to greater investments and credit cost would broadly mirror with FY25 however bank is expecting better loan growth in FY26E over FY25 with faster growth in mid yielding segment and gradual pick up in high yielding segment. The bank remains committed to improve risk adjusted returns over the medium term led by identified levers thus we remain assertive from a medium to long-term perspective. It will take few quarters for the bank to reflect the execution but as and when operating metrics starts to converge on guided path gradually, we would see a re-rating. Medium-term outlook remains positive with a focus on sustainable growth and improved profitability. At CMP, the stock trades at 1.3x / 1.2x 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	197	48,265	11.6	10.4	1.3	1.2	11.9	12.1	1.1	1.1
IndusInd Bank	833	64,895	9.1	7.0	0.9	0.8	10.1	11.7	1.2	1.4

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 1,589 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/RoE momentum 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 than expected.

Additional Data

Key management personnel

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	7.04
2	International Finance Corp	3.81
3	Life Insurance Corp of India	3.58
4	Franklin Resources Inc	3.24
5	Kader Yusuffali M V A	3.12
6	Nippon Life India Asset Management	2.79
7	Fund Rock Management Co SA	2.76
8	Mirae Asset Financial Group	2.58
9	Axis Asset Management Co Ltd/India	2.57
10	Kotak Mahindra Asset Management Co	2.35

Source: Bloomberg

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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

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