

# Federal Bank Ltd.

## Accumulate

Sector: Banking

11<sup>th</sup> March 2025

<b>Key Changes:</b>	<b>Target</b> ▲	<b>Rating</b> ▲	<b>Earnings</b> ▼	<b>Target</b>	<b>Rs.199</b>
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Mid Cap	FB:IN	74,102	FEDERALBNK	500469	12 Months
				<b>CMP</b>	<b>Rs.179</b>
				<b>Return</b>	<b>+11%</b>

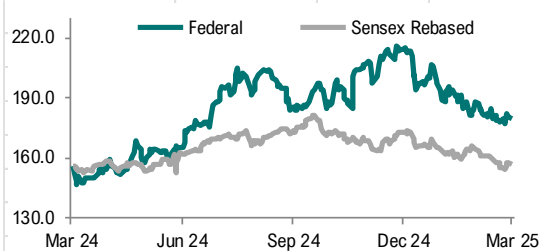
Data as of: 11-03-2025

Company Data	
Market Cap (Rs. cr)	43,973.6
52 Week High — Low (Rs.)	217-140
Outstanding Shares (Rs cr)	245.6
Free Float (%)	99.5
Dividend Yield (%)	0.7
6m average volume (cr)	0.8
Beta	1.0
Face value (Rs.)	2.0

Shareholding (%)	Q1FY25	Q2FY25	Q3FY25
Promoters	-	-	-
FII's	28.6	27.7	26.3
MFs/Institutions	45.0	47.0	48.9
Public	26.4	25.3	24.8
Total	100.0	100.0	100.0
Promoter Pledge	-	-	-

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-16.5%	-3.4%	15.2%
Absolute Sensex	-9.1%	-9.5%	0.8%
Relative Return	-7.4%	6.1%	14.4%

\*over or under performance to benchmark index



Standalone (Rs cr)	FY25E	FY26E	FY27E
NII	9625	10938	12967
Growth(%)	16.0	13.6	18.6
NIM(%)	3.2	3.2	3.3
Provisions	820	1101	1159
Adj. PAT	3,972	4,395	5,431
Growth(%)	6.7	10.7	23.6
Adj. EPS	16.3	18.0	22.3
Growth(%)	1.5	10.7	23.6
BVPS	134.0	150.0	170.3
P/E	11.0	11.0	9.9
P/B	1.3	1.3	1.2
ROE (%)	12.9	12.9	12.7
ROA(%)	1.2	1.2	1.2

## Attractive valuation and sustainable growth

**Federal Bank Ltd. (FBL) is an Indian private commercial bank, headquartered in Kerala. FBL owns 1,550 banking outlets with a gross advances size of Rs.2,33,749cr.**

- Gross Advances grew modestly at 15% YoY, driven by a 49% YoY increase in Agri loans and a 20% YoY increase in SME loans. Deposit growth advanced by 11% YoY, with CASA accounts growing by 10% YoY. The CASA ratio stood at 30%.
- Net Interest Income grew by 15% YoY to Rs. 2,431cr. The Net Interest Margin (NIM) stayed flat at 3.1% sequentially.
- Slippages have increased marginally to Rs.484cr compared to Rs.428cr in the last quarter. But GNPA/ NNPA has improved to 1.95%/ 0.49% from 2.29%/ 0.64% in Q3FY24.
- PAT de-grew marginally by 5% YoY to Rs. 955cr due to a 220% YoY increase in provisions, attributed to an increases in slippages.
- Provision Coverage Ratio (PCR) was marked at 74.2%, up from 71.0% in Q3FY24.

## Outlook & Valuation

Under new management, the bank is focusing on a granular growth strategy that prioritizes sustainable and high-quality asset and liability management. While this reorientation may cause short-term challenges and medium-term pressure on the NIM, the bank is confident that better management of CASA and shifting the loan structure from floating to fixed will improve the NIM trajectory. **With valuations returning to long-term averages, we upgrade our rating to Accumulate with a revised target price of Rs.199, based on 1.2x FY27E BVPS.**

## Quarterly Financials (Standalone)

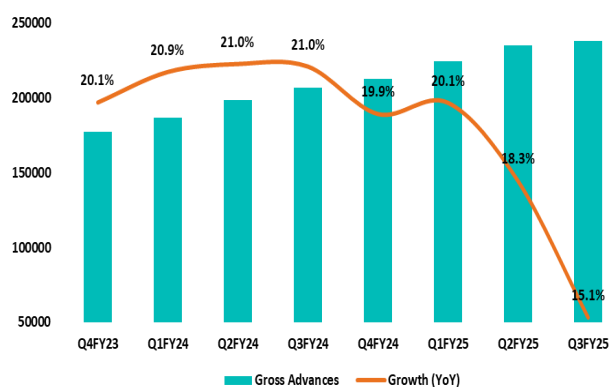
Rs cr	Q3FY25	Q2FY25	QoQ(%)	Q3FY24	YoY(%)	9MFY25	9MFY24	YoY(%)
Net Interest Income	2,431	2,367	2.7	2,123	14.5	7,091	6,098	16.3
Total Income	3,348	3,331	0.5	2,986	12.1	9,886	8,424	17.4
Expenditure	1,778	1,766	0.7	1,549	14.8	5,250	4,360	20.4
Pre-Provision Profit	1,569	1,565	0.3	1,437	9.2	4,636	4,064	14.1
Provision	292	158	84.6	91	220.5	595	291	104.7
PBT	1,277	1,407	-9.2	1,346	-5.1	4,041	3,773	7.1
Rep. PAT	955	1,057	-9.6	1,007	-5.1	3,022	2,814	7.4
Diluted EPS (Rs)	3.9	4.3	-9.7	4.1	-6.0	12.2	12.2	-0.2



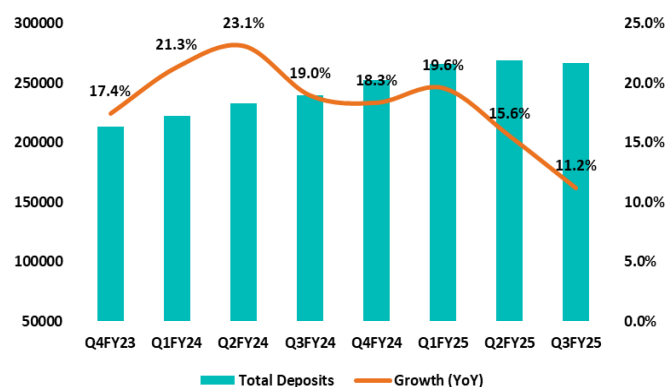
## Key Highlights

- Q3 marks the first full quarter under the new MD & CEO, KVS Manian. His leadership has brought a significant shift in strategic direction for the bank. Manian's approach has been characterized by his "Listening Tours," where he engaged with over 2,000 employees across all zones to gain a deep understanding of the bank's operations and gather valuable insights.
- The new management emphasizes a granular growth strategy, prioritizing sustainable and high-quality asset and liability management. The bank has shifted its focus to improving the quality of its liability base, particularly through average CASA metrics, and has implemented a robust provisioning framework for retail unsecured loans. Additionally, the bank is transitioning from floating to fixed-rate models in various loan segments to enhance yields and optimize portfolio performance. This strategic reorientation aims to build a stronger foundation for long-term growth and profitability.
- The bank aims to grow at 1.5x the system growth, balancing reorientation and growth. The bank is confident in leveraging its franchise and distribution network to achieve this growth target. While the reorientation process may create short-term headwinds, the bank is committed to building a stronger foundation for long-term growth and profitability.
- The bank has adopted a more robust provisioning framework for retail unsecured loans, leading to an increase in year-to-date annualized credit cost to 41 basis points. The bank expects credit costs to remain in the 40-45 basis points range, reflecting a cautious and prudent approach to managing potential credit risks.

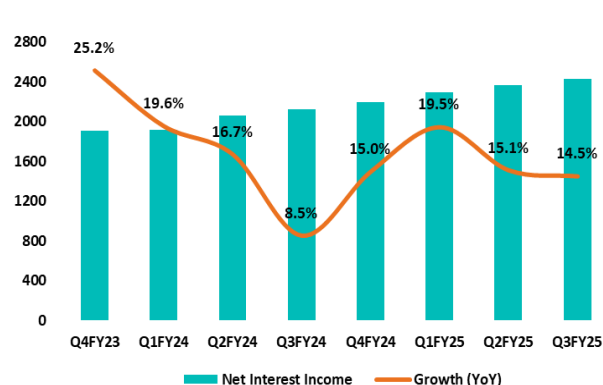
## Gross Advances



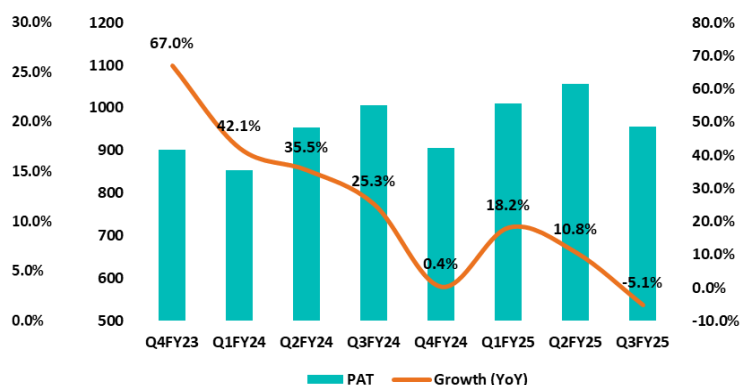
## Total deposits



## Net Interest Income



## PAT



## Change in Estimates

Year / Rs cr	Old estimates		New estimates			Change(%)	
	FY25E	FY26E	FY25E	FY26E	FY27E	FY25E	FY26E
Net Interest Income (NII)	9,971	11,675	9,625	11,555	13,639	-3.5	-1.0
Net Interest Margin (%)	3.28	3.20	3.23	3.37	3.48	-5.4 bps	17.1 bps
Pre-Provision Profit	6,150	6,988	6,115	7,387	8,768	-0.6	5.7
Net Profit	4,263	4,821	3,972	4,694	5,707	-6.8	-2.6
Diluted EPS (Rs)	17.5	19.8	16.3	19.3	23.4	-6.8	-2.6



## Standalone Financials

### Profit & Loss

Y.E March (Rs cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	16,804	22,188	26,630	30,160	35,195
Interest Expense	9,571	13,895	17,005	19,222	22,228
<b>Net Int. Income</b>	<b>7,232</b>	<b>8,293</b>	<b>9,625</b>	<b>10,938</b>	<b>12,967</b>
% Change	21%	15%	16%	14%	19%
Non Int. Income	2,330	3,079	3,766	4,309	5,059
Operating Income	9,562	11,373	13,391	15,247	18,026
% Change	19%	19%	18%	14%	18%
Operating Exp.	4,768	6,198	7,276	8,285	9,626
<b>Pre Prov. Profit</b>	<b>4,794</b>	<b>5,174</b>	<b>6,115</b>	<b>6,962</b>	<b>8,399</b>
Prov. & Conting.	750	196	820	1101	1159
<b>PBT</b>	<b>4,045</b>	<b>4,978</b>	<b>5,296</b>	<b>5,861</b>	<b>7,241</b>
% Change	59%	23%	6%	11%	24%
Tax	1,034	1,258	1,324	1,465	1,810
Tax Rate	26%	25%	25%	25%	25%
Reported PAT	3,011	3,721	3,972	4,395	5,431
Adj*	-	-	-	-	-
<b>Adj. PAT</b>	<b>3,011</b>	<b>3,721</b>	<b>3,972</b>	<b>4,395</b>	<b>5,431</b>
% Change	59%	24%	7%	11%	24%
No. of shares (cr)	212	244	244	244	244
EPS (Rs)	14.1	16.1	16.3	18.0	22.3
% Change	56%	14%	1%	11%	24%
DPS (Rs)	1.8	1.0	1.8	2.0	2.0

### Balance Sheet

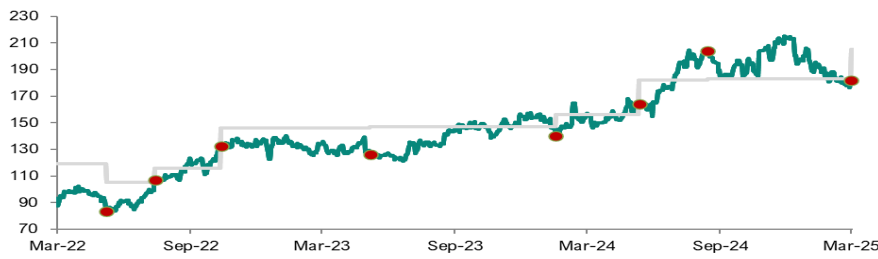
Y.E March (Rs cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash	12,591	11,494	13,885	20,347	27,253
Loans & Advances	174,447	209,403	235,531	273,216	304,244
Investments	48,983	60,860	68,231	79,148	98,442
Net Fixed Assets	934	1020	1121	1225	1281
Other Assets	23,387	25,535	31,821	36,626	45,524
<b>Total Assets</b>	<b>260,342</b>	<b>308,312</b>	<b>350,589</b>	<b>410,561</b>	<b>476,744</b>
Deposits	213,386	252,534	280,966	327,325	381,334
Debt Funds	19,319	18,026	27,040	35,151	40,073
Other Liabilities & Provision	6,130	8,657	9,955	11,548	13,858
Equity Capital	423	487	487	487	487
Reserves & Surplus	21,083	28,607	32,141	36,049	40,993
Shareholder's Funds	21,506	29,094	32,628	36,536	41,480
<b>Total Liabilities</b>	<b>260,342</b>	<b>308,312</b>	<b>350,589</b>	<b>410,561</b>	<b>476,744</b>
<b>BVPS (Rs)</b>	<b>101.6</b>	<b>119.5</b>	<b>134.0</b>	<b>150.0</b>	<b>170.3</b>
% Change	14%	18%	12%	12%	14%
Adj. BVPS (Rs)	95.9	119.5	134.0	150.0	170.3
% Change	16%	25%	12%	12%	14%

### Ratios

Y.E March	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Profitab. &amp; Return</b>					
Yield on advances (%)	8.3	9.1	9.3	9.1	9.2
Cost of funds (%)	4.5	5.5	5.9	5.7	5.7
Spread(%)	3.8	3.6	3.4	3.4	3.5
NIM (%)	3.4	3.3	3.2	3.2	3.3
ROE (%)	14.9	14.7	12.9	12.7	13.9
ROA(%)	1.3	1.3	1.2	1.2	1.2
<b>Business Growth</b>					
Loans & Advances (%)	20.1	19.9	14.2	16.0	16.5
Deposits (%)	17.4	18.3	11.3	16.5	16.5
<b>Operating Ratios</b>					
Cost to Income (%)	49.9	54.5	54.3	54.3	53.4
CASA (%)	32.9	31.8	29.5	30.0	31.0
<b>Asset Quality</b>					
GNPA (%)	2.4	2.1	2.1	2.5	2.9
NNPA (%)	0.7	0.6	0.6	0.7	0.8
<b>Capital Adequacy</b>					
CAR (%)	14.8	15.8	15.5	15.5	15.6
<b>Valuation</b>					
P/E (x)	12.6	11.7	11.0	9.9	8.0
P/B (x)	1.8	1.5	1.3	1.2	1.1
Adj. P/B (x)	1.9	1.5	1.3	1.2	1.1



## Recommendation Summary (last 3 years)



Dates	Rating	Target
13.May.22	Buy	105
19.Jul.22	Accumulate	116
18.Oct.22	Accumulate	146
12.May.23	Accumulate	147
23.Jan.24	Buy	156
17.May.24	Accumulate	182
20.Aug.24	Reduce	183
11.Mar.25	Accumulate	199

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

### Not rated/Neutral

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

**Symbols definition:** ▲ Upgrade ● No Change ▼ Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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