



Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
193	213	10%

**MARKET DATA**

No. of Shares	245.58 Cr
Market Cap	47,490 Cr
52-week High / Low	217/148
BSE Code	500469
NSE Code	FEDERALBNK

**Why Federal Bank Ltd?**

- ✓ **Renewed Focus on Liability Franchise, particularly CASA**
- ✓ **NIM Improvement Levers Assume Priority**
- ✓ **Steady Growth Trajectory**
- ✓ **RoA Improvement Drivers Present**

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**About the Company**

**Federal Bank Ltd. (FB)** is a Kerala-based private sector bank with a pan-India presence. It has exposure to Insurance and NBFC business through its joint venture with IDBI and wholly-owned subsidiary FedFina. The bank continues to execute its strategy of a branch-light and distribution-heavy franchise proactively.

**Investment Rationale**

- A. Building a Granular Deposit Franchise with Increased Focus on CASA:** The re-orientation of branch strategy towards CASA Deposits, particularly CA deposits, remains a key focus area for the bank. The bank has taken several measures to improve the CA portfolio through product innovation and has seen strong traction in the past 3 months. FB's strength of the CA franchise in the core state of Kerala remains largely untapped and offers the potential to grow. Similarly, the bank will look to improve the CA efficiency metrics at the branch and employee levels. Additionally, improving the segmental proposition to strengthen its customer engagement by becoming the customer's primary banker through customized product offerings would also help CASA accretion. Anticipating strong execution of the strategy, we expect FB to deliver a healthy 16% CAGR deposit growth over FY25-27E while maintaining a steady LDR (84-85%).
- B. Near-Term Focus on Mid-Yielding Segment:** Amidst macro uncertainties and asset quality challenges in the unsecured segments, FB has managed to drive healthy credit growth better than systemic growth. Hereon, the bank will adopt a calibrated approach to reshaping its advances mix, with the near-term focus on mid-yielding secured retail assets to help improve NIMs, especially with uncertainties persisting. However, as better clarity on growth trends emerges (likely from FY26E) and the private capex cycle picks up, FB will look to accelerate growth by expanding unsecured, high-yield credit to optimize portfolio returns.
- C. NIM Improvement Remains Priority:** The bank's re-aligned strategy on CASA deposits, particularly CA deposits, to optimize CoF and gradual improvement in yields with accelerating growth in the higher yielding segments should help FB gradually improve its NIMs. Near-term challenges on margins would be visible with the EBLR-linked loans re-pricing given the rate cut, while the downward repricing of CoF would be with a lag, especially with intense competition on deposit mobilization and tighter liquidity conditions. NIM improvement over the medium term would be largely driven by a sharper improvement in the CoF rather than yield enhancement.
- D. Outlook:** With the new management at the helm, the bank's strategy re-orientation revolves around ensuring sustainable, profitable growth while maintaining strong asset quality metrics. A clear focus on improving profitability with better NIMs and strengthening the fee profile should enable FB to deliver RoA/RoE of 1.2-1.3%/13-15% over the medium term with a scope of further gradual improvement, on the back of impeccable strategy execution.
- E. Recommendation:** We recommend a **BUY** rating on the stock with a target price of Rs 213/share, implying an upside of 10% from the CMP.

**Financial Summary**

Y/E	NII (Rs Cr)	PPOP (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoA (%)	NNPA (%)
March								
FY24	8,293	5,174	3,721	15.3	114.3	1.7	1.3	0.6
FY25E	9,565	6,177	4,029	16.4	127.7	1.5	1.2	0.5
FY26E	11,043	7,225	4,624	18.8	143.1	1.4	1.2	0.5
FY27E	13,060	8,840	5,586	22.8	161.4	1.2	1.2	0.5

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