PICK OF THE WEEK

12th September, 2026

Federal Bank Ltd

Sector: BFSI – Banks

BUY

CMP	Target Price	Upside
345	380	10%

CMP as on 11th September, 2026 | Time horizon: 6-9 Months

Why Federal Bank Ltd

- CASA Momentum Continues to Remain Strong
- NIM Expansion Driven by Structural Improvements
- Credit Growth Momentum Continues to Improve

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 subsidiary FedFina.

Investment Rationale

A. CASA Momentum Continues, New Funding Levers Opening Up

- Management expects CA growth to pick up through FY27 as business banking and channel business continue to scale.
- The healthy momentum on CASA has been a combination of multiple factors – (1) Near doubling of the rate of CA openings over the past year, (2) a shift toward higher-quality SA variants, and (3) recalibration of branch KPIs to reward liability mobilisation as much as asset growth.

B. NIM Expansion Driven by Structural Improvements

- Limited deposit repricing benefits are expected to flow through in Q2, while further asset-yield improvement should be driven by portfolio mix optimisation.
- FB reiterated its guidance of NIM improvement of 5-6 bps each quarter for the next 3-4 quarters (though movement would be non-linear) and continues to see some scope of further NIM improvement.

C. Credit Growth Improves; Focus Segments Continue to Shine

- Management has reiterated its guidance of pursuing mid-teens growth with a positive bias, supported by improving execution across its chosen segments. We pencil-in credit growth of 17% CAGR over FY26-29E.
- Overall, FB's growth strategy reflects a balanced approach anchored on profitability, portfolio quality, and granular expansion with multiple levers supporting a gradual yet sustainable acceleration in growth trajectory.

Outlook & Valuation

- We are seeing renewed strategy yield results with deposit franchise strengthening and credit growth momentum in focus segments building up.
- We expect FB to deliver a strong 17/15/19/26% CAGR in Advances/Deposits/NII/Earnings growth over FY26-29E, while registering RoA/RoE of 1.3-1.5%/13-14% over FY27-29E vs 1.1/11.4% in FY26, supported by benign asset quality and favourable NIM trajectory.

Valuation: Trading at 1.7x FY28E ABV

Analyst Insights

We recommend a **BUY** with a target price of Rs 380/share, implying an **upside of 10%** from the CMP.

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Financial Summary

	FY27E	FY28E	FY29E
NII (Rs Cr)	12,878	15,165	17,849
PPOP (Rs Cr)	8,849	10,779	13,076
PAT (Rs Cr)	5,543	6,682	8,170
EPS (Rs)	22.5	24.4	29.8
ABVPS (Rs)	175.7	197.7	225.0
P/ABV (x)	2.0	1.7	1.5
RoA (%)	1.3	1.4	1.5
NNPA (%)	0.2	0.2	0.2

Market Data

No. of Shares	246.9 Cr
Market Cap (Rs Cr)	85,208
52-week High	372
52-week Low	189
P/BV (x)	1.7x FY28E ABV
BSE Code	500469
NSE Code	FEDERALBNK

About Pick of the Week

| Product Objective

The Pick of the Week (POW) is our flagship high-conviction weekly investment recommendation, designed to identify companies that offer an attractive combination of **earnings visibility, strong business fundamentals, reasonable valuations, and identifiable near-to-medium-term catalysts.** The objective is to provide investors with **timely, actionable, and high-conviction investment ideas** that can generate superior risk-adjusted returns while maintaining a disciplined investment approach.

| Why Pick of the Week?

Markets constantly create opportunities through earnings upgrades, valuation mismatches, sector rotation, policy developments, and company-specific catalysts. While hundreds of listed companies compete for investors' attention, only a select few offer the right balance of quality, growth, valuation, and timing.

Our **Pick of the Week** aims to simplify this selection process by identifying those companies where:

- Earnings visibility has materially improved.
- Business fundamentals continue to strengthen.
- Valuations remain attractive relative to growth prospects.
- Multiple positive catalysts are expected over the next few quarters.
- The risk-reward profile appears favourable versus peers and the broader market.

Each recommendation is therefore intended to represent one of our **highest-conviction investment ideas** available at that point in time.

| Investment Horizon

The recommended investment horizon for **Pick of the Week** ideas is **6–9 months**, allowing sufficient time for business fundamentals and identified catalysts to be reflected in stock prices. However, depending on market conditions, earnings announcements, or company-specific developments, some recommendations may achieve their target returns over a shorter period.

| Risk–Return Profile

Pick of the Week recommendations represent our **highest-conviction research ideas** and are selected based on an attractive balance between expected returns and investment risk.

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events.
NO STANCE	We do not have any forward-looking estimates, valuations or recommendations for the stock.

Note: Returns stated in the rating scale are our internal benchmark.

UTTAM KUMAR SRIMAL

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