

Low Credit Costs Drive Beat on Earnings; Growth to Pick up FY26E Onwards!
Est. Vs. Actual for Q4FY25: NII – MISS; PPOP – MISS; PAT – BEAT
Changes in Estimates post Q4FY25
FY26E/FY27E (in %): NII: -5.4/0.4; PPOP: -6.3/0.0; PAT: -5.8/1.6
Recommendation Rationale

- **NIM improvement assumes priority:** FB's NIMs improved marginally by 1bps QoQ to 3.12%, while navigating the impact of repo rate cut (~50% book being EBLR linked). In order to enhance the stability on margins in the current rate easing scenario, the bank has introduced measures such as (1) resetting of new floating rate loans at T+90 instead of T+1, (2) shifting the car loan business to fixed rate, (3) offering fixed rate medium tenor loans to the business banking segment and (4) gradually accelerating growth in the higher-yielding segments and fixed rate segment (Credit cards, PL, CV and Gold). As policy rates continue to trend downwards, the bank will adopt a nimble approach while effectively managing yields and deposits with the aim to minimise the impact on NIMs. FB has taken a SA and TD rate cut which is expected to reflect in the CoF in the coming quarters. The management indicated that the bank will continue to remain competitive on rates and make continuous efforts to optimise CoF. **We expect FB's margins to face near-term challenges before improving, aided by multiple measures undertaken, and range between 2.9-3.1% over FY26-27E.**
- **Deposit strategy taking shape:** In line with the bank's revamped strategy to build a CASA-led deposit franchise, FB has made considerable progress in CASA balance improving. This can be partially credited to the seasonal strength seen in Q4 and some inward remittances staying with the bank at the end of the year before being remitted out. The management indicated that the CA account accretion is currently 50% higher than H1FY25, both in value and volume terms. **FB continues to eye scaling up its CASA Ratio to 36% over the next 3 years and further to ~40% over the next 5 years.**
- **Opex ratios to remain flat:** The management stated that the C-I Ratio inch-up was owing to the bank aggressively opening 39 branches (out of the total 85 opened during FY25) in Q4FY25 alone. Additionally, spends on brand campaigns, advertisement on card campaigns and other overheads resulted in an uptick in the C-I Ratio. Some of these costs incurred in Q4FY25 will be non-recurring. However, the bank plans to continue its branch expansion exercise. Thus, the **C-I Ratio is expected to be maintained at 52.5-53.5% over the medium term.**

Sector Outlook: Positive

Company Guidance: The bank's strategy re-orientation has started showing results with CASA balance improving and the bank being able to maintain NIMS with healthy growth in the mid-yielding segments. While growth in FY25 was lower than expected, the management remains committed to improving the pace of growth from FY26E onwards, thereby enabling FB to deliver credit growth of 1.2- 1.5x Nominal GDP growth or industry growth rate. We expect FB's RoA/RoE to range between 1.2-1.3%/12-14% over the medium term driven by (1) Healthy profitable risk-adjusted growth, (2) Margin improvement levers over the medium term with multiple strategic initiative undertaken, (3) Steady deposit franchise with focus on granularity, (4) Stable asset quality metrics with controlled credit costs, and (5) Strengthening Fee income profile.

Current Valuation: 1.3x FY27E ABV Earlier Valuation: 1.4x Sep'26E ABV

Current TP: Rs 230/share, Earlier TP: Rs 225/share

Recommendation: We maintain our **BUY** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage

DCB Bank (TP – Rs 160/share)

Financial Performance:

- **Operating Performance:** Federal Bank (FB) credit growth slowed down to 12/2% YoY/QoQ (vs average growth rate of ~18-20% over last few quarters). Deposit growth improved to 12/6% YoY/QoQ. CASA deposits grew by 16/7% YoY/QoQ, enabling the bank to maintain its CASA Ratio at 30.2%, flat QoQ. TDs grew by 11/6% YoY/QoQ. LDR improved to 84% vs 84.2/87.8% YoY/QoQ.
- **Financial Performance:** NII grew by 8/-2% YoY/QoQ (weaker than expected). Yields contracted by 8bps QoQ, while CoD inched up by 6bps. Reported NIMs improved by 1bp QoQ and stood at 3.12%. NIM improvement was driven by improving yield on investment and certain technical adjustments. Non-interest income growth was robust at 33/10% YoY/QoQ mainly driven by strong fee income growth (+29/6% YoY/QoQ). Opex growth was higher than expected at 2/8% YoY/QoQ, owing to certain non-recurring expenses. C-I Ratio inched up to 56.7% vs 62.3/53.1% YoY/QoQ. PPOP grew by 31% YoY/-7% QoQ. Credit costs were under control and stood at 24bps vs 51bps QoQ. Earnings growth was strong at 14/8% YoY/QoQ.
- **Asset quality** improved with GNPA/NNPA at 1.84/0.44% vs 1.95/0.49% QoQ. Slippages during the quarter stood at Rs 500 Cr vs Rs 495 Cr in Q3FY25, with the slippage ratio for the quarter standing at 0.8%, flat QoQ. Slippages were higher in the agri pool, while they remained broadly stable across other segments.

Key Financials (Standalone)

(Rs Cr)	Q4FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income (NII)	2,377	-2.2	+8.3	2,446	-2.8
PPOP	1,465	-6.6	+32.0	1,533	-4.4
Net Profit	1,030	+7.8	+13.7	951	+8.3
NNPA (%)	0.4	-5 bps	-16 bps	0.5	-4 bps
RoA (%)	1.2	+6 bps	-2 bps	1.1	+9 bps

Source: Company, Axis Securities Research

(CMP as of 30th April, 2025)

CMP (Rs)	197
Upside /Downside (%)	17%
High/Low (Rs)	217/148
Market cap (Cr)	48,265
Avg. daily vol. (6m) Shrs.	92,10,700
No. of shares (Cr)	245.6

Shareholding (%)

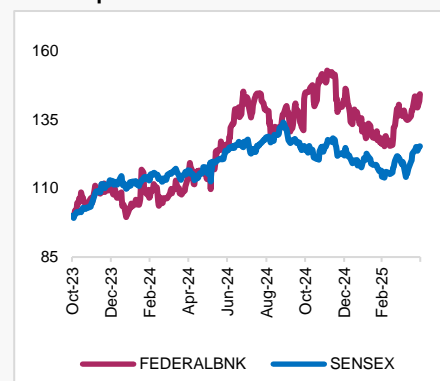
	Sep-24	Dec-24	Mar-25
Promoter	0.0	0.0	0.0
FIs	27.7	26.3	26.3
MFs / FIs	34.3	35.9	35.9
Others	38.0	37.8	37.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
NII	9,468	10,446	13,118
PPOP	6,101	6,772	8,844
Net Profit	4,109	4,354	5,674
EPS (Rs)	16.7	17.7	23.1
ABV (Rs)	131.8	147.6	167.8
P/ABV (x)	1.5	1.3	1.2
RoA (%)	1.3	1.2	1.3
NNPA (%)	0.4	0.4	0.4

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	-5.4	+0.4
PPOP	-6.3	+0.0
PAT	-5.8	+1.6

Relative performance


Source: Ace Equity, Axis Securities Research

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Key Takeaways

Growth momentum to pick up meaningfully: In Q4FY25, the bank was able to deliver a strong 19% YoY growth in its **mid-yielding segment**, despite subdued growth in certain sub-segments. The management has indicated that the growth in the gold portfolio which faced challenges in Q4FY25 owing to regulatory issues. However, with clarity from the regulatory body, **FB will look to accelerate growth in the gold financing segment.**

In the **low-yielding segment**, FB is consciously adopting a nuanced approach to growth. The bank does not intend to compete amid pricing pressures in the Home loan book and will focus on risk-return tradeoffs, prioritising customers who offer a broader revenue opportunity and relationship. Similarly, in the corporate segment, FB is focusing on acquiring new clients from the mid-market segment to ensure profitable growth.

In the **higher-yielding segment**, the cards business is growing at a healthy pace with strong card acquisitions and a balanced mix of organic and co-branded cards. The bank will look to push growth in the credit card segment going into FY26. Moreover, as the **credit environment in the Personal Loan (PL) book stabilises gradually, the bank will push for growth in FY26.** However, the MFI book continues to exhibit stress, and the bank will continue to adopt a cautious approach at least in the next couple of quarters.

The management has indicated that growth will pick up meaningfully in FY26. We expect FB to deliver a strong ~17% CAGR growth over FY25-27E.

Asset Quality to remain pristine: The inch-up in agri slippages is primarily owing to the stress in the MFI pool. Apart from this portfolio, the bank does not expect any major asset quality challenges and remains confident of containing credit costs between 40- 50 bps on a steady-state basis.

Outlook

We expect credit growth to pick up in a healthy way, and the strategy around the deposit franchise to deliver, driving a strong 17/18% CAGR credit/deposit growth over the medium term. The multiple strategic initiatives taken by the bank should help FB navigate the rate cut cycle and minimise the impact on NIMs. However, we cannot rule out the near-term impact on margins with the benefits from the initiatives panning out gradually. Assuming near-term margin headwinds, we trim our NII/Earnings estimates by ~5/6% for FY26E, while broadly maintaining our FY27E estimates, factoring in steady improvement in margins.

Valuation & Recommendation

We value the stock at 1.3x FY27E ABV vs. current valuations of 1.2x FY27E ABV and valuing the subsidiary at Rs 9/share to arrive at a target price of Rs 230/share, implying an upside of 17% from CMP. **We recommend a BUY on the stock.**

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum, which could potentially derail earnings momentum for the bank.

Change in Estimates

Rs Cr	Revised		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
NII	10,446	13,118	11,043	13,060	-5.4	0.4
PBP	6,772	8,844	7,225	8,840	-6.3	0.0
Provisions	967	1,279	1,042	1,371	-7.2	-6.7
PAT	4,354	5,674	4,624	5,586	-5.8	1.6

Source: Company, Axis Securities Research

Results Review (Standalone)

Rs Cr	Q4FY25	Q4FY24	% YoY	Q3FY25	% QoQ	FY25	FY24	YoY %
Net Interest Income	2,377	2,195	8.3	2,431	-2.2	9,468	8,293	14.2
Non-Interest Income	1,006	754	33.4	916	9.8	3,801	3,079	23.4
Operating expenses	1,918	1,839	4.3	1,778	7.9	7,168	6,198	15.6
Staff Cost	784	887	-11.6	785	-0.2	3,085	2,823	9.3
Pre-provision profits	1,465	1,110	32.0	1,569	-6.6	6,101	5,174	17.9
Provisions and contingencies	138	-95	-246.0	292	-52.8	733	196	273.8
PBT	1,327	1,205	10.2	1,277	3.9	5,368	4,978	7.8
Provision for Tax	297	299	-0.5	322	-7.7	1,316	1,258	4.6
PAT	1,030	906	13.7	955	7.8	4,052	3,721	8.9
Deposits	2,83,647	2,52,534	12.3	2,66,375	6.5	2,83,647	2,52,534	12.3
Advances	2,38,134	2,12,559	12.0	2,33,749	1.9	2,38,134	2,12,559	12.0
C/D Ratio	84.0	84.2		87.8		84.0	84.2	
Yield on Advances (%)	9.31	9.48	-17bps	9.39	-8bps	9.37	9.35	4bps
Cost of Deposits (%)	5.98	5.90	8bps	5.92	6bps	5.90	5.62	28bps
Spreads (%)	3.33	3.58	-25bps	3.47	-14bps	3.47	3.74	-26bps
NIM (%)	3.12	3.21	-9bps	3.11	1bps	3.13	3.21	-8bps
Cost-Income ratio (%)	56.7	62.3	-566bps	53.1	357bps	54.0	54.4	-39bps
Asset Quality								
Gross NPA (%)	1.8	2.1	-29bps	2.0	-11bps	1.8	2.1	-29bps
Net NPA (%)	0.4	0.6	-16bps	0.5	-5bps	0.4	0.6	-16bps
PCR (%)	76.2	72.3	394bps	75.2	107bps	76.2	72.3	394bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
Net Interest Income	8,293	9,468	10,446	13,118
Other Income	3,079	3,801	4,536	5,277
Total Income	11,373	13,269	14,982	18,395
Total Operating Exp	6,198	7,168	8,210	9,551
PPOP	5,174	6,101	6,772	8,844
Provisions & Contingencies	196	733	967	1,279
PBT	4,978	5,368	5,805	7,565
Provision for Tax	1,258	1,259	1,451	1,891
PAT	3,721	4,109	4,354	5,674

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
SOURCES OF FUNDS				
Share Capital	487	491	491	491
Reserves	28,607	32,929	36,848	41,954
Shareholder's Funds	29,094	33,421	37,339	42,446
Total Deposits	2,52,534	2,83,647	3,33,494	3,92,948
Borrowings	18,026	23,726	26,621	29,236
Other Liabilities & Provisions	8,657	8,210	9,575	11,194
Total Liabilities	3,08,312	3,49,005	4,07,029	4,75,823
APPLICATION OF FUNDS				
Cash & Bank Balance	18,963	30,859	34,995	39,269
Investments	60,860	66,246	77,887	91,773
Advances	2,09,403	2,34,836	2,73,839	3,21,041
Fixed Assets & Other Assets	19,086	17,064	20,308	23,740
Total Assets	3,08,312	3,49,005	4,07,029	4,75,823

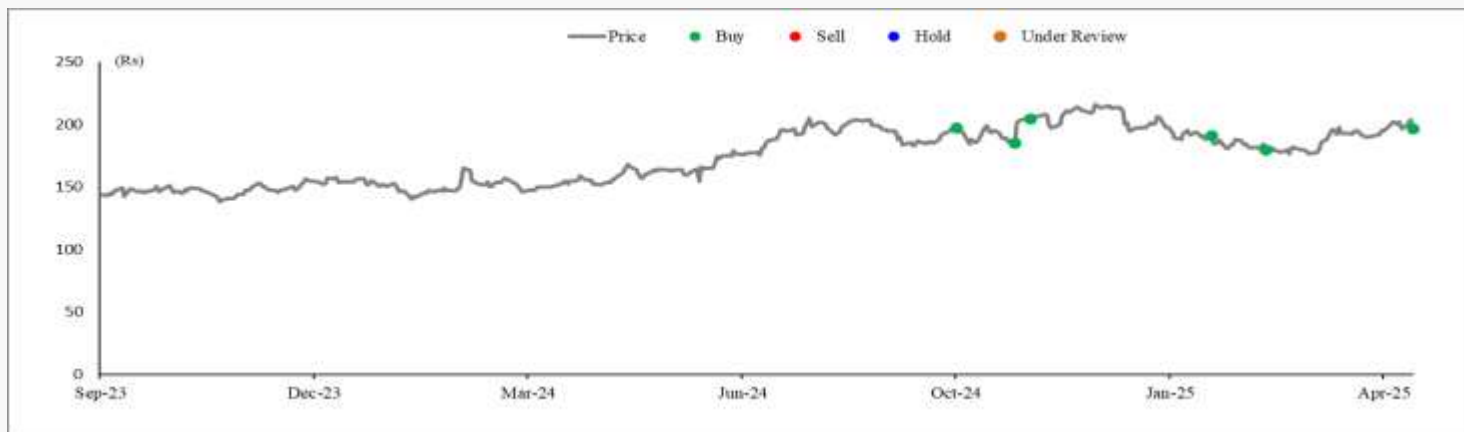
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25	FY26E	FY27E
VALUATION RATIOS				
EPS	15.3	16.7	17.7	23.1
Earnings Growth (%)	7.4	9.5	6.0	30.3
BVPS	119.5	136.1	152.0	172.8
Adj. BVPS	114.3	131.8	147.6	167.8
ROAA (%)	1.3	1.3	1.2	1.3
ROAE (%)	14.7	13.1	12.3	14.2
P/E (x)	12.9	11.7	11.1	8.5
P/ABV (x)	1.7	1.5	1.3	1.2
PROFITABILITY				
NIM (%)	3.1	3.0	2.9	3.1
Cost-Income Ratio	54.5	54.0	54.8	51.9
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	20.0	12.1	16.6	17.2
Deposit Growth (%)	18.3	12.3	17.6	17.8
C-D Ratio	82.9	82.8	82.1	81.7
Equity/Assets (%)	9.4	9.6	9.2	8.9
Equity/Loans (%)	13.9	14.2	13.6	13.2
CAR	16.1	16.4	15.7	15.2
CAR Tier I	14.6	15.0	14.4	14.0
ASSET QUALITY				
Gross NPLs (%)	2.2	1.9	1.7	1.6
Net NPLs (%)	0.6	0.4	0.4	0.4
Coverage Ratio (%)	72.3	76.2	76.2	76.3
Credit Costs	0.1	0.3	0.4	0.4
ROAA TREE				
Net Interest Income	2.9	2.9	2.8	3.0
Non-Interest Income	1.1	1.2	1.2	1.2
Operating Cost	2.2	2.2	2.2	2.2
Provisions	0.1	0.2	0.3	0.3
Tax	0.4	0.4	0.4	0.4
ROAA	1.3	1.3	1.2	1.3
Leverage (x)	11.2	10.5	10.7	11.1
ROAE	14.7	13.1	12.3	14.2

Source: Company, Axis Securities Research

Federal Bank Price Chart and Recommendation History



Date	Reco.	TP	Research
03-Oct-23	BUY	165	Top Picks
17-Oct-23	BUY	180	Result Update
01-Nov-23	BUY	180	Top Picks
01-Dec-23	BUY	180	Top Picks
01-Jan-24	BUY	180	Top Picks
17-Jan-24	BUY	180	Result Update
02-Feb-24	BUY	180	Top Picks
01-Mar-24	BUY	180	Top Picks
01-Apr-24	BUY	180	Top Picks
03-May-24	BUY	205	Result Update
03-May-24	BUY	205	Top Picks
01-Jun-24	BUY	205	Top Picks
01-Jul-24	BUY	205	Top Picks
24-Jul-24	BUY	230	Result Update
01-Aug-24	BUY	230	Top Picks
02-Sep-24	BUY	230	Top Picks
01-Oct-24	BUY	230	Top Picks
29-Oct-24	BUY	230	Result Update
04-Nov-25	BUY	230	Top Picks
29-Jan-25	BUY	225	Result Update
24-Feb-25	BUY	225	Analyst Meet Update
02-May-25	BUY	230	Result Update

Source: Axis Securities Research

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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