

**Price:** 194

**Recommendation:** Buy

**Industry:** Private Sector Bank

**Sector:** Financial Services

**Report Date:** 03-Apr-2025

The company is focused on growth and diversification, optimizing working capital for stability, and exploring high-yield segments with managed risk. It has introduced Business Installment Loans and is expanding into untapped markets, enhancing digital capabilities. Strategies include better-yield lending, digital lending for scale, and forex optimization. The company aims to become a top-tier bank, leveraging AI for efficiency and customer experience.

Sales		Profit & Loss		Profitability Matrix	
Current Year	25695 Cr	Operating Profit(Year)	18106 Cr	Operating Profit Margin	70.5 %
Previous Year	16804 Cr	Operating Profit(Quarter)	4738 Cr	EBITDA Margin	74.26 %
Current Quarter	6809 Cr	PAT (Year)	3714 Cr	Net Profit Margin	16.7 %
Previous Quarter	6577 Cr	PAT (Quarter)	955 Cr	EPS	16.0
Revenue (QYoY)	5730 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	12.2	Sales Growth	22.8 %	Sales Growth	3.53 %
PEG Ratio	0.49	PAT Growth	23.39 %	Sales Growth QYoY	18.83 %
EV/EBITDA	15.7	EPS Growth	4.58 %	PAT Growth	-9.65 %
P/B	1.51	Dividend Yield	0.62	PAT Growth QYoY	-5.16 %
Capital Allocation		Holdings		Leverage	
RoE	14.7 %	Promoter	0.00 %	Debt/Equity	9.31
RoA	1.31 %	FII	26.3 %	Debt	292855 Cr
RoCE	6.81 %	DII	48.9 %	Market Cap	47744 Cr
RoIC	6.81 %	Public	24.8 %	Enterprise value	340600 Cr
		No of Shares	246 Cr	Cash Equivalents	0.00 Cr

source : Company filings

## Company's Overview Based on Recent Concall and Performance:

In the recent meeting, the company outlined several new initiatives and strategies aimed at enhancing growth and diversification. A key focus is on optimizing the working capital mix to ensure portfolio stability and prudent underwriting with low credit costs. The company is exploring opportunities in higher-yielding segments with managed risk and has introduced Business Installment Loans to cater to key industry sectors. Geographic expansion into untapped markets is also a priority, with a particular emphasis on enhancing digital capabilities to improve efficiency and customer experience. The company is committed to strengthening its small-value loan disbursement, given its high return on equity (ROE), and improving the current account-to-asset ratio.

The business strategies include a focus on better-yield lending for profitable growth by introducing efficient smaller ticket loans and Business Installment Loans. Digital lending is being leveraged for scale and speed, with effective DIY and assisted customer journeys. The company is also focusing on forex and trade finance optimization for revenue growth, targeting new-to-bank customer acquisition with forex potential. Distribution enhancement through dedicated business banking relationship managers is aimed at driving market reach and expansion through capacity enhancement. The company is also implementing smarter decision-making processes with customized underwriting journeys based on inherent risk.

Future growth and scaling perspectives are promising, with the company aiming to become a top-tier national bank. The vision includes expanding capabilities beyond vanilla banking to fulfill customer needs, with a focus on profitable growth by prioritizing sustainable, high-quality earnings aligned with long-term profitability. The company is repositioning for the future by evolving beyond legacy perceptions to establish itself as a future-ready powerhouse. Winning the right customers by focusing on mass affluent, MSME, and next-gen customers is a key strategy to deepen relationships and enhance value. The company is leveraging AI and automation to enhance efficiency, streamline operations, and boost customer experience.

From a positive perspective, the company's strategic initiatives and focus on digital transformation are likely to drive significant growth and profitability. The emphasis on expanding into untapped markets and enhancing digital capabilities is expected to improve customer experience and operational efficiency. However, there is room for improvement in optimizing the turnaround time (TAT) to align with industry benchmarks and enhancing trade and forex revenues. The company could also benefit from further strengthening its risk management frameworks and exploring additional opportunities for cross-selling and upselling to existing customers. Overall, the company's strategic direction and initiatives position it well for future growth and success.

FEDERALBNK Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
ICICI Bank	938919.67	19.08	18.80%	1.54%	15.10%	-0.50%	16.56%
IDBI Bank	86729.50	12.03	11.77%	5.03%	19.40%	4.69%	29.14%
Yes Bank	56280.64	25.94	3.11%	1.24%	12.08%	9.32%	155.32%
IndusInd Bank	55270.06	7.65	15.25%	0.90%	10.62%	5.72%	-39.02%
Federal Bank	47744.39	12.15	14.68%	3.52%	18.82%	-9.58%	-5.10%

Aspect	Commentary
Revenue	The company shows strong revenue growth with a significant year-over-year increase, indicating robust sales performance. The quarterly growth also reflects a positive trend, suggesting effective strategies in capturing market demand and expanding customer base. This consistent growth trajectory is a positive indicator of the company's market position.
Profit & Loss	The profit and loss statement reveals a healthy operating profit margin, underscoring efficient cost management and strong operational performance. The net profit margin, while lower, still indicates profitability. The quarterly figures suggest stable earnings, though there is room for improvement in net profit growth.
Profitability Matrix	The profitability matrix highlights a strong operating profit margin, reflecting effective cost control and pricing strategies. The EBITDA margin further supports this, indicating robust earnings before interest, taxes, depreciation, and amortization. The net profit margin, while positive, suggests potential for further enhancement.
Valuation Matrix	The valuation metrics suggest the company is reasonably valued with a moderate P/E ratio, indicating market confidence in future earnings. The PEG ratio below 1 suggests potential undervaluation relative to growth. The EV/EBITDA ratio indicates a fair enterprise value, supporting investment attractiveness.
Growth (YoY)	Year-over-year growth metrics show impressive sales and PAT growth, reflecting successful strategic initiatives and market expansion. The EPS growth, though modest, indicates consistent earnings per share improvement. The dividend yield, while low, suggests a focus on reinvestment for growth.
Growth (QoQ)	Quarter-over-quarter growth shows moderate sales increase, indicating steady market demand. However, the decline in PAT growth suggests challenges in maintaining profitability. The negative PAT growth QYoQ highlights areas for operational improvement to sustain earnings momentum.
Capital Allocation	Capital allocation metrics reveal a strong return on equity, indicating effective use of shareholder funds. The return on assets and capital employed suggest efficient asset utilization. The return on invested capital aligns with strategic investments, supporting long-term value creation.
Holdings	The holdings structure shows a balanced distribution with significant institutional investor presence, indicating confidence in the company's prospects. The absence of promoter holdings suggests a diversified ownership structure. Public holdings reflect broad market interest and potential for shareholder engagement.
Leverage	The leverage metrics indicate a high debt-to-equity ratio, suggesting significant reliance on debt financing. This could pose risks if not managed prudently. The substantial debt level requires careful monitoring to ensure financial stability. The market cap and enterprise value reflect the company's market standing.

**Analyst viewpoint:** Our analysis presents a bullish outlook on the company in the short to mid-term period, driven by significant growth indicators and strategic initiatives. The recent quarter saw a solid 3.53% sales growth QoQ, maintaining an upward trajectory in market demand. This performance is bolstered by a robust operating profit margin of 70.5%, underscoring efficient cost management. In terms of valuation, the company's P/E ratio of 12.15 coupled with a PEG ratio below 0.5 signifies potential undervaluation, presenting an attractive investment proposition. Capital allocation is commendable, with a substantial RoE of 14.7%, reflecting effective use of shareholder funds. The strategic expansion into untapped markets and enhancement of digital capabilities align with their aim to boost customer experience and operational efficiency, as discussed in the recent concall.

The company faces stiff peer competition yet holds a competitive edge with innovative lending strategies and forex optimization efforts. In the financial sector, the company's commitment to optimizing working capital and leveraging technology positions it well for continued growth. The price chart indicates a promising upward trend, supporting our recommendation. However, it is essential to address the high debt-to-equity ratio, which, if not managed wisely, could pose long-term risks. Nonetheless, the company's overall strategic direction and initiatives are well-aligned for future success, reaffirming our positive recommendation.

Please read detailed disclosure on next page.





