Federal Bank (FEDBAN)

ICICI Direct

CMP: ₹ 275 | Target: ₹ 310 (13%) | Target Period: 12 months | HOLD

January 19, 2026

Strong quarter with visible RoA expansion in medium term…

About the stock: Federal Bank is an old private sector bank based out of Kerala with 1,601 branches and 2,094 ATM across various states.

- Strong liability franchise with 80% of total deposit being retail amid healthy market share in remittance market at 19.7%
- Balanced loan mix with retail: wholesale mix of 55:45. FedBank Financial Services (NBFC) is a subsidiary with 60.81% stake

Q3FY26 performance: Federal Bank reported a strong performance in Q3FY26, driven by sustained margin expansion, robust fee income growth and improving asset quality. NIM expanded 12 bps QoQ to 3.18%, supported by lower funding cost, strong CASA accretion and continued shift towards mid-yield segments. Advances grew 10.9% YoY (4.5% QoQ) to ₹2,55,569 crore, led by commercial banking, business banking and gold loans, while deposits rose 11.8% YoY (3.1% QoQ) to ₹2,97,796 crore, with CASA ratio improving 106 bps QoQ to 32.07%. Credit cost moderated further to ~47 bps, as MFI stress continued to ease, while GNPA improved 11 bps QoQ to 1.72%. Consequently, PAT grew ~9% YoY to ~₹1,040 crore, reflecting steady improvement in core profitability and asset quality.

Investment Rationale

- **Margins extend upcycle, fees momentum to follow**: Federal Bank continued its momentum on margin recovery, with NIM improving 12 bps QoQ to 3.18% led by benefit from deposit repricing, improved liability mix, lower borrowings, CRR benefit and higher investment yields. Directionally, margins are expected to remain on an upward path in FY27E, supported by ongoing term-deposit repricing and CASA traction (+106 bps QoQ). Further, Management expects fees income to grow driven by scaling up of credit card business, trade and forex along with wealth management business, with product rollouts scheduled over coming quarters.
- **Balance sheet re-alignment underway, focus to shift on growth**: Pick-up in advances was seen after a relatively slower Q2, which grew 11.5% YoY (3.9% QoQ), driven by improving traction in retail, gold, and mid-corporate segment. The bank continues to target 14–15% YoY loan growth for FY27-28E, to be driven by commercial banking, LAP, CV finance, business banking, while corporate book is expected to expand with focus on mid-corporates. Asset quality remained resilient, and credit cost improved further to ~47 bps (vs 50 bps in Q2FY26). Slippages declined sequentially to 0.7% (vs 0.94% Q2FY26), as MFI stress has peaked and is trending down sequentially and Ex-MFI portfolios remains stable with no signs of stress.

Rating and Target Price

- Management continues to execute well on strategy of improving yields, liabilities mix, and fee diversification, with visible progress seen through margin recovery, healthy CASA growth, and steady asset quality.
- Further, Blackstone capital infusion strengthen banks balance sheet and enhances next leg of growth potential. Rolling to FY28E estimates, we continue to value the bank at ~1.6x FY28E BV. Assigning ₹8.5 for subsidiary, we maintain our target price at ₹310. Downgrade from Buy to Hold, given recent run-up in valuation.

FEDERAL BANK
YOUR PERFECT BANKING PARTNER

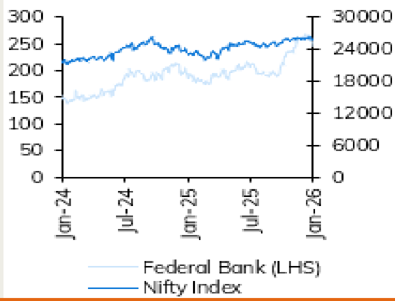
Particulars

Particulars	Amount
Market Capitalisation	₹ 68,059 crore
52 week H/L	278 / 173
Net Worth	₹ 36,267 crore
Face value	2

Shareholding pattern

(in %)	Mar-25	Jun-25	Sep-25	Dec-25
FII	26.3	26.8	25.5	24.9
DII	49.0	48.2	49.7	51.1
Others	24.7	25.0	24.8	24.0

Price Chart



Key risks

(i) Faster than anticipated growth in advances or fee income

(ii) Liabilities trajectory and pricing could impact margins

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY23	FY24	FY25	3 Year CAGR (FY22-FY25)	FY26E	FY27E	FY28E	3 Year CAGR (FY25-28E)
NII	7,232	8,293	9,468	17%	10,109	11,772	13,733	13%
PPP	4,794	5,174	6,101	18%	6,638	7,900	9,407	16%
PAT	3,011	3,721	4,052	29%	3,939	4,892	5,858	13%
ABV (₹)	96	114	130		147	163	178	
P/E	15	14	13		13	12	11	
P/ABV	2.2	1.9	1.6		1.5	1.3	1.2	
RoE (%)	14.9	14.7	13.0		11.2	11.8	11.7	
RoA (%)	1.3	1.3	1.2		1.1	1.2	1.3	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance and growth outlook

- Loan growth trajectory: Management reiterated its medium-term aspiration of growing advances at ~1.2–1.5x nominal GDP, translating into high-teens growth over the medium term, subject to opportunity and risk–reward dynamics.
- Growth mix: Incremental growth continues to be intentionally skewed toward mid-yield segments, including commercial banking, business banking, gold loans, LAP and select retail products, while maintaining caution in unsecured portfolios.
- Commercial banking: Grew ~26% YoY (5.4% QoQ), supported by strong traction in mid-market and deeper geography-led expansion.
- Business banking: Increased ~3.8% QoQ, confirming a turnaround after muted growth earlier in the year; momentum expected to sustain into Q4FY26.
- Retail banking: Expanded ~14.8% YoY (2.8% QoQ), led by gold loans and secured retail products.
- Gold loans: Grew ~12% YoY (9% QoQ), despite calibrated run-down of the wholesale/DGB book in line with RBI guidelines; retail gold loans remain a key medium-yield growth driver.
- Corporate segment: Saw strong sequential growth in Q3, aided by selective opportunities; however, management cautioned against extrapolating this run rate, with medium-term focus remaining on mid-corporates rather than low-yield AAA assets.
- Key fee growth levers include:
    - Cards (organic acquisition gaining traction)
    - Trade & forex
    - Wealth management, with product rollouts scheduled over coming quarters

Margins outlook

- NIM expanded by 12 bps QoQ to 3.18%, marking the second consecutive quarter of margin improvement despite cumulative repo rate cuts.
- Key drivers of NIM expansion:
    - CASA improvement: CASA balances grew ~6.6% QoQ / ~18.9% YoY, lifting the CASA ratio to 32.1% (+106 bps QoQ).
    - Lower cost of funds: Benefit from deposit repricing, improved liability mix, and lower borrowings.
    - CRR benefit and higher investment yields, along with ongoing balance-sheet optimisation.
- Repo-linked repricing: T+1 repricing ensured quick transmission of rate cuts; management highlighted that ~1/3rd of the latest rate cut impact was absorbed in Q3, with the balance to play out in Q4. Thus, Q4FY26 could witness some pressure on margins, though management will focus to maintain NIMs. Gradual improvement targeted in FY27E.

Asset quality and credit cost

- Credit cost moderated to ~47 bps in Q3FY26, (from 50 bps in Q2). FY26 guidance refined to ~52–53 bps (earlier 55–60 bps)
- MFI stress has peaked and is trending down sequentially; management expects further improvement in Q4 but remains cautious for at least one more quarter before accelerating growth.
- Ex-MFI portfolios (commercial banking, SME, retail secured) remain stable with no signs of stress. Management comfortable on PL, though acceleration to be gradual.
- Asset quality improved:
    - GNPA declined to 1.72% (improved 11 bps QoQ)
    - NNPA improved to 0.42% (improved 6 bps QoQ, cited as an all-time low)

   - PCR (excl. technically written-off) at 75.14%, broadly maintained around ~75%.

Other updates

- LCR stood at ~114% (quarter-end) and ~123% (average); upcoming regulatory changes may have a 5–6% negative impact, considered manageable.
- On ECL transition, management expects no material structural increase in credit cost; any one-time impact is likely to be modest and spread over time.
- Blackstone strategic investment received Board, shareholder (AGM), and CCI approvals during the quarter; final regulatory approval awaited. Management reiterated that capital position, aided by the Blackstone infusion, is adequate to support high-teens loan growth over the medium term.
- Federal Bank increased stake in Ageas Federal Life Insurance from 26% to 30% via acquisition of 3.24% stake at ₹30.45 per share; transaction completed in Nov 25 (post approvals). Management sees this as strengthening the long-term strategic partnership.

Exhibit 1: Variance Analysis

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
NII	2,652.7	2,431.3	9.1	2,495.2	6.3	NII was supported by margin expansion and pick up in advance momentum
NIM (%)	3.18	3.11	7 bps	3.06	12 bps	Aided by lower CoF, CASA improvement and balance-sheet optimisation, despite repo-linked repricing
Other Income	1,100.3	916.2	20.1	1,082.2	1.7	Strong traction in cards, trade & forex
Net Total Income	3,753.0	3,347.5	12.1	3,577.4	4.9	
Staff cost	848.7	783.2	8.4	803.4	5.6	
Other Operating Expenses	1,175.0	994.9	18.1	1,129.8	4.0	
PPP	1,729.3	1,569.5	10.2	1,644.2	5.2	
Provision	332.4	292.3	13.7	363.1	-8.5	Slippages declined sequentially, supported by lower MFI-related stress and stable ex-MFI portfolio
PBT	1,397.0	1,277.1	9.4	1,281.1	9.0	
Tax Outgo	355.7	321.7	10.6	325.8	9.2	
PAT	1,041.2	955.4	9.0	955.3	9.0	PAT improvement was driven by higher NII and lower provisions
Key Metrics						
GNPA	4,446.9	4,553.3	-2.3	4,532.0	-1.9	GNPA improved ~11 bps QoQ
NNPA	1,068.0	1,131.2	-5.6	1,165.2	-8.3	
Gross advances	265,662.0	238,198.0	11.5	255,613.0	3.9	Strong traction in commercial banking, gold loans and L
Deposit	297,796.0	266,375.4	11.8	288,920.0	3.1	CASA improvement of 106 bps sequentially

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Interest Earned	26,365.2	27,863.9	31,345.2	35,848.2
Interest Expended	16,897.3	17,754.6	19,572.9	22,115.4
Net Interest Income	9,468.0	10,109.3	11,772.2	13,732.7
growth (%)	14.2	6.8	16.4	16.7
Non Interest Income	3,801.2	4,498.1	5,341.9	6,354.5
Net Income	13,269.2	14,607.4	17,114.1	20,087.2
Staff cost	3,088.3	3,438.3	3,714.0	4,011.4
Other operating Expense	4,079.8	4,531.2	5,500.1	6,669.0
Operating Profit	6,101.1	6,638.0	7,900.1	9,406.8
Provisions	733.1	1,367.8	1,353.9	1,568.8
PBT	5,368.1	5,270.2	6,546.2	7,838.0
Taxes	1,316.2	1,331.5	1,653.9	1,980.3
Net Profit	4,051.9	3,938.7	4,892.3	5,857.7
growth (%)	8.9	-2.8	24.2	19.7
EPS (₹)	16.5	16.0	17.9	19.5

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Valuation				
No. of Equity Shares (Crores)	245.6	245.6	272.9	300.2
EPS (₹)	16.5	16.0	17.9	19.5
BV (₹)	136.1	151.1	167.2	182.9
ABV (₹)	130.0	146.5	162.6	178.2
P/E	12.9	13.3	11.9	10.9
P/BV	1.6	1.4	1.3	1.2
P/ABV	1.6	1.5	1.3	1.2
Yields & Margins (%)				
Net Interest Margins	3.2	3.1	3.2	3.3
Yield on assets	8.9	8.5	8.5	0.0
Avg. cost on funds	5.9	5.6	5.5	4.2
Yield on average advances	9.6	9.3	9.3	9.3
Avg. Cost of Deposits	5.9	5.6	5.5	5.6
Quality and Efficiency (%)				
Cost to income ratio	54.0	54.6	53.8	53.2
Credit/Deposit ratio	82.8	82.2	82.8	84.1
GNPA	2.1	1.7	1.5	1.3
NNPA	0.6	0.4	0.4	0.4
RoE	13.0	11.2	11.8	11.7
RoA	1.2	1.1	1.2	1.3

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Sources of Funds				
Capital	491.2	491.2	545.8	600.4
Reserves and Surplus	32,929.4	36,633.3	45,093.3	54,316.4
Networth	33,420.6	37,124.4	45,639.1	54,916.7
Deposits	283,647.5	317,259.9	359,485.0	407,380.8
Borrowings	23,726.3	19,669.4	18,472.2	18,550.9
Other Liabilities & Provisions	8,210.4	9,473.8	11,205.9	13,233.0
Total	349,004.8	383,527.5	434,802.1	494,081.4
Application of Funds				
Fixed Assets	1,478.3	1,482.5	1,532.9	1,597.9
Investments	66,245.6	73,502.9	83,525.5	95,021.3
Advances	234,836.4	260,725.4	297,610.2	342,634.9
Other Assets	15,585.3	20,660.7	23,221.1	23,963.6
Cash with RBI & call money	30,859.2	27,156.0	28,912.5	30,863.6
Total	349,004.8	383,527.5	434,802.1	494,081.4

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26E	FY27E	FY27E
Total assets	13.2	9.9	13.4	13.6
Advances	12.1	11.0	14.1	15.1
Deposit	12.3	11.9	13.3	13.3
Total Income	16.7	10.1	17.2	17.4
Net interest income	14.2	6.8	16.4	16.7
Operating expenses	17.3	10.0	17.6	17.5
Operating profit	17.9	8.8	19.0	19.1
Net profit	8.9	-2.8	24.2	19.7
Net worth	14.9	11.1	22.9	20.3

Source: Company, ICICI Direct Research

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