

CMP: ₹ 212

Target: ₹ 215 (1%)

Target Period: 12 months

HOLD

October 19, 2025

**Healthy revival in Q2; further recovery expected in H2FY26...**

**About the stock:** Federal Bank is an old private sector bank based out of Kerala with 1,595 branches and 2,082 ATM across various states.

- Strong liability franchise with 80% of total deposit being retail amid healthy market share in remittance market at 21.06%
- Balanced loan mix with retail: wholesale mix of 56:44. FedBank Financial Services (NBFC) is a subsidiary with 60.88% stake

**Q2FY26 performance:** Federal Bank delivered a healthy revival in Q2FY26, on the back of margin recovery, healthy fees income, and steady credit cost. NIM expanded 12 bps sequentially to 3.06% aided by lower funding costs and a better loan mix towards mid-yield segments. Advances rose 6% YoY (2% QoQ) to ₹2,55,613 crore, with traction in commercial banking while deposits rose 11% YoY (2.5% QoQ) to ₹2,88,920 crore, with CASA ratio improving 66 bps QoQ to 31.01%. Fees income surged 13% QoQ to ₹886 crore. Credit cost moderated to ~50 bps, in line with guidance, as MFI-led stress continued to ease. GNPA improved by 8 bps sequentially to 1.83%. PAT stood at ₹955 crore, down 9.6% YoY (up 11% QoQ).

**Investment Rationale**

- Margins rebound; asset quality trends improving:** Federal Bank regained momentum after a soft Q1FY26, with NIM improving 12 bps QoQ to 3.06% led by 19 bps reduction in deposit cost, lower borrowing rates, and a better asset mix toward mid-yield segments such as gold loans, LAP, CV finance, and commercial banking. Directionally, margins are expected to remain on an upward path, supported by ongoing term-deposit repricing and CASA traction, though further rate cut could increase sensitivity. Slippages declined sequentially to 0.94% (vs 1.11% Q1FY26), as MFI stress peaked in May and has been easing month-on-month. Asset quality remained resilient, and credit cost guidance was maintained at ~55 bps for FY26E.
- Balance sheet re-alignment underway, focus to shift on growth:** Moderation was seen in advances, which grew 6% YoY (2% QoQ), though management is confident of acceleration in H2FY26 led by improving traction in retail, gold, and mid-corporate segment. The bank continues to target 14–15% YoY loan growth for FY26E, supported by steady performance in commercial banking, LAP, CV finance, and business banking, while the corporate book is expected to expand 8–10% YoY with a focus on mid-corporates. On the liabilities front, CASA ratio improved by ~66 bps QoQ to 31.01%, owing to branch-level focus on low-cost deposits. Fee-to-assets improved to 1.01% (vs 0.92% Q1FY26), aiding profitability and RoA.

**Rating and Target Price**

- Management continues to execute well on its strategy of improving yields, liability mix, and fee diversification, with visible progress in Q2FY26 through margin recovery, healthy CASA growth, and steady asset quality. Margin pressure and slower growth in 1HFY26 is seen to impact FY26 performance, however, anticipating recovery in H2FY26, we maintain our multiple at ~1.25x FY27E BV. Assigning ₹9.5 for subsidiary, we broadly maintain our target price at ₹215 (earlier ₹210) and Hold rating on the stock.

**Key Financial Summary**

₹ crore	FY23	FY24	FY25	3 Year CAGR (FY22-FY25)	FY26E	FY27E	2 Year CAGR (FY25-27E)
NII	7,232	8,293	9,468	17%	9,898	11,580	11%
PPP	4,794	5,174	6,101	18%	6,542	7,855	13%
PAT	3,011	3,721	4,052	29%	3,861	4,853	9%
ABV (₹)	96	114	130		140	155	
P/E	15	14	13		14	11	
P/ABV	2.2	1.9	1.6		1.5	1.4	
RoE (%)	14.9	14.7	13.0		11.2	13.0	
RoA (%)	1.3	1.3	1.2		1.1	1.2	

Source: Company, ICICI Direct Research

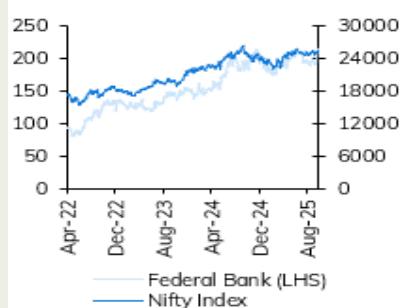
**FEDERAL BANK**  
YOUR PERFECT BANKING PARTNER

**Particulars**

Particulars	Amount
Market Capitalisation	₹ 52,235 crore
52 week H/L	220 / 173
Net Worth	₹ 36,266 crore
Face value	2

**Shareholding pattern**

(in %)	Dec-24	Mar-25	Jun-25	Sep-25
FII	26.3	26.3	26.8	25.5
DII	48.9	49.0	48.2	49.7
Others	24.8	24.7	25.0	24.8

**Price Chart****Key risks**

- Faster than anticipated growth in advances or fee income
- Asset quality hiccups amid exposure to MSME and MFI sector

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## Concall highlights and outlook

### Performance and growth outlook

- **Loan growth trajectory:** Management reaffirmed its medium-term goal of growing the loan book at 1.2x nominal GDP, translating to ~14–15% YoY growth for FY26.
- **Growth mix:** Incremental growth to be led by mid-yield segments — Commercial Banking, CV finance, LAP, gold loans, and business banking — while maintaining a calibrated stance on MFI and personal loans.
- **Corporate segment:** Expected to grow at 8–10% YoY, with focus on mid-corporate clients, improved wallet share, and expansion into underpenetrated geographies.
- **Retail momentum:** Anticipated to accelerate in H2FY26 post internal restructuring, aided by festive demand and renewed focus on auto, gold, and mortgage disbursements.
- Gold loans grew ~7% QoQ (retail component), while the DGB/wholesale gold portfolio continues to be deliberately run down as per RBI's revised guidelines.
- Stronger disbursement momentum expected in H2FY26, especially in mortgages, LAP, and auto loans, as mix transformation stabilizes.
- **Fee income:** Core fee income grew ~13% QoQ, with fee-to-assets ratio crossing 1% for the first time — driven by trade, FX, and distribution businesses.
- **Wealth management business** yet to fully launch; expected to provide incremental upside to fees in FY26–27E.

### Margins outlook

- NIM improved to 3.06% (vs 2.94% Q1FY26), driven by:
  - Deposit cost ↓ ~19 bps, borrowing cost ↓ ~3 bps.
  - Yield on advances ↓ ~14 bps, but offset by CRR (+1 bp) and asset-liability optimization (+2 bps).
  - Lower savings rate (cut in mid-June) and higher CASA share aided funding cost reduction.
- T+1 repricing on repo-linked book ensures quick transmission benefit.
- Management expects further improvement as deposit repricing continues over next 6–8 months (12–14-month repricing cycle).
- Directionally, NIMs expected to remain on an upward trajectory, though sensitive to future rate cuts.

### Asset quality and credit cost

- Credit cost moderated to ~50 bps in Q2FY26 (from 65 bps in Q1), in-line with guidance; FY26E guidance retained at ~55 bps.
- Slippages declined sequentially; MFI-led stress peaked in May and is now trending down month-on-month.
- **MFI book:**
  - BC-driven exposure <1.7% of total loans (~₹3,300 crore).
  - Growth remained flat and tightly monitored with strict borrower filters.
  - Management continues a cautious stance for another quarter, awaiting full normalization.
- **Non-MFI segments:** Asset quality in corporate, MSME, and retail portfolios remain resilient, with recoveries exceeding slippages in key categories.
- **Provisioning:**
  - Proactive management overlay of ₹46 crore, created on standard retail exposures showing early signs of stress in connected accounts.
  - No change in write-off policy; higher write-offs reflect older unsecured book clean-up.
- **Management view:** Asset quality normalization to continue through H2FY26, with credit cost likely below full-year guidance if MFI recoveries sustain.

**Other updates**

- ECL impact: Preliminary assessment indicates one-time capital impact <2%, with no structural rise in credit costs expected under the new framework.
- Capital and liquidity:
  - CET-1 ratio: 15.71% (excl. interim profits).
  - LCR: ~129%, ensuring ample liquidity buffer.
  - Capital raise proposal to be deliberated by the board on 24 Oct 2025; rationale linked to growth in higher-RWA portfolios and potential new businesses including wealth management.

**Exhibit 1: Variance Analysis**

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
NII	2,495.2	2,367.2	5.4	2,336.8	6.8	Slower momentum amid continued moderation in credit off-take
NIM (%)	3.06	3.12	-6 bps	2.94	12 bps	Higher growth in commercial segment and steady repricing of liabilities aided margins
Other Income	1,082.2	964.0	12.3	1,113.0	-2.8	Fee income traction healthy at ~13% YoY
Net Total Income	3,577.4	3,331.2	7.4	3,449.8	3.7	
Staff cost	803.4	777.7	3.3	797.6	0.7	
Other Operating Expenses	1,129.8	988.2	14.3	1,095.9	3.1	
PPP	1,644.2	1,565.4	5.0	1,556.3	5.6	
Provision	363.1	158.4	129.3	400.2	-9.3	Credit cost in-line with guidance of 55-60 bps. ₹46 crore of management overlay parked in Q2
PBT	1,281.1	1,407.0	-9.0	1,156.1	10.8	
Tax Outgo	325.8	350.3	-7.0	294.4	10.7	
PAT	955.3	1,056.7	-9.6	861.8	10.9	Muted business growth and YoY higher provision impact earnings momentum
<b>Key Metrics</b>						
GNPA	4,532.0	4,884.5	-7.2	4,669.7	-2.9	Slippages at ~1%
NNPA	1,165.2	1,322.3	-11.9	1,157.6	0.6	
Gross advances	255,613.0	240,333.0	6.4	251,018.0	1.8	Growth seen in CV/CE, gold, and SME
Deposit	288,920.0	269,107.0	7.4	287,436.0	0.5	CASA improvement of 66 bps sequentially

Source: Company, ICICI Direct Research



## Financial Summary

### Exhibit 2: Profit and loss statement

(Year-end March)	FY24	FY25	FY26E	₹ crore	FY27E
Interest Earned	22,188.3	26,365.2	27,880.7	31,411.5	
Interest Expended	13,894.8	16,897.3	17,982.2	19,831.9	
Net Interest Income	8,293.5	9,468.0	9,898.5	11,579.6	
growth (%)	14.7	14.2	4.5	17.0	
Non Interest Income	3,079.3	3,801.2	4,498.1	5,347.0	
Net Income	11,372.8	13,269.2	14,396.6	16,926.6	
Staff cost	2,823.1	3,088.3	3,438.3	3,714.0	
Other operating Expense	3,375.2	4,079.8	4,416.8	5,357.2	
Operating Profit	5,174.5	6,101.1	6,541.5	7,855.5	
Provisions	196.1	733.1	1,374.6	1,362.3	
PBT	4,978.4	5,368.1	5,166.9	6,493.2	
Taxes	1,257.8	1,316.2	1,305.4	1,640.5	
Net Profit	3,720.6	4,051.9	3,861.5	4,852.7	
growth (%)	23.6	8.9	-4.7	25.7	
EPS (₹)	15.3	16.5	15.7	19.8	

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
<u>Valuation</u>				
No. of Equity Shares (Crores)	243.5	245.6	245.6	245.6
EPS (₹)	15.3	16.5	15.7	19.8
BV (₹)	119.4	136.1	144.6	160.2
ABV (₹)	114.3	130.0	139.6	154.6
P/E	13.9	12.9	13.5	10.8
P/BV	1.8	1.6	1.5	1.3
P/ABV	1.9	1.6	1.5	1.4
<u>Yields &amp; Margins (%)</u>				
Net Interest Margins	3.3	3.2	3.0	3.1
Yield on assets	8.8	8.9	8.5	8.5
Avg. cost on funds	5.2	5.9	5.7	5.6
Yield on average advances	9.2	9.6	9.4	9.4
Avg. Cost of Deposits	5.5	5.9	5.6	5.5
<u>Quality and Efficiency (%)</u>				
Cost to income ratio	54.5	54.0	54.6	53.6
Credit/Deposit ratio	82.9	82.8	82.8	82.0
GNPA	2.2	2.1	1.8	1.6
NNPA	0.6	0.6	0.5	0.5
RoE	14.7	13.0	11.2	13.0
RoA	1.3	1.2	1.1	1.2

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet

(Year-end March)	FY24	FY25	FY26E	₹ crore	FY27E
<u>Sources of Funds</u>					
Capital	487.1	491.2	491.2	491.2	
Reserves and Surplus	28,607.3	32,929.4	35,022.3	38,859.1	
Networth	29,094.4	33,420.6	35,513.4	39,350.3	
Deposits	252,534.0	283,647.5	312,304.5	362,645.3	
Borrowings	18,026.4	23,726.3	22,157.4	20,796.5	
Other Liabilities & Provisions	8,657.0	8,210.4	9,457.6	11,197.6	
Total	308,311.8	349,004.8	379,432.9	433,989.6	
<u>Application of Funds</u>					
Fixed Assets	1,020.1	1,478.3	1,482.5	1,532.9	
Investments	60,859.5	66,245.6	73,502.9	84,798.3	
Advances	209,403.3	234,836.4	258,434.1	297,518.5	
Other Assets	18,066.0	15,585.3	16,918.2	19,094.3	
Cash with RBI & call money	18,962.9	30,859.2	29,095.2	31,045.6	
Total	308,311.8	349,004.8	379,432.9	433,989.6	

Source: Company, ICICI Direct Research

### Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	18.4	13.2	8.7	14.4
Advances	20.0	12.1	10.0	15.1
Deposit	18.3	12.3	10.1	16.1
Total Income	18.9	16.7	8.5	17.6
Net interest income	14.7	14.2	4.5	17.0
Operating expenses	23.1	17.3	7.6	17.6
Operating profit	7.9	17.9	7.2	20.1
Net profit	23.6	8.9	-4.7	25.7
Net worth	35.3	14.9	6.3	10.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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