

BUY**TP: Rs 242 | ▲ 23%****FEDERAL BANK**

| Banking

| 04 August 2025

Structural drivers in place; MFI pain to persist in the near term

- **Credit growth guidance moderated with a focus on medium-yielding segments**
- **Asset quality moderated, mainly due to pain in MFI book; PPOP beat estimates, while higher credit costs adversely impacted PAT**
- **Maintain BUY with revised TP of Rs 242 (Rs 249 earlier), valuing the bank at 1.4x Jun'27E ABV**

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Credit growth guidance moderated with focus on medium-yielding segments:

FB witnessed moderate loan growth (+9% YoY) as of Jun'25 (20.3% YoY as of Jun'24) and was marginally below the system loan growth. Loan growth was in line with its strategy to focus on medium-yielding segments (CV/CE, LAP, auto, gold) that saw a rise in its gross advances share to 43.4% (41.5% in Q1FY25). However, the bank reduced its credit growth guidance for FY26 to 1.2x of nominal GDP vs the earlier guidance of 1.5x. Deposit growth (+8% YoY) was mainly driven by rise in CASA deposits (12% YoY). CASA share improved to 30.3% (+1.1% YoY) as of Jun'25, which was in line with its strategy.

Asset quality moderated: Asset quality moderated with GNPA ratio rising to 1.91% (+7bps QoQ), mainly driven by rise in slippages to Rs 6.6bn (+34% QoQ). Slippage came largely from MFI segment (1.6% of gross loans), which accounted for 41% of the total slippage in Q1FY26. Management stated that the MFI slippages peaked in May'25, improved in June–July'25, but stress may continue through Q2FY26, post which the MFI book will be provided entirely.

PPoP beat estimates, while higher credit costs hit PAT: At Rs 15.6bn (+6% QoQ), PPOP beat our estimates by 6%; while PAT at Rs 8.6bn (-16% QoQ) was 6% below vs our estimates. This was largely on account of higher credit costs of Rs 4bn (+2.9x QoQ; +69% from our estimates), mainly led by stress in the MFI segment.

Management guided for credit costs of ~55bps in FY26 vs 65bps in Q1FY26. NIMs declined to 2.9% (-18bps QoQ); management expects it to further decline by ~5-10bps in Q2FY26. Also, core fee income (+20% YoY) grew higher than the asset growth (8% YoY). C/I ratio was at 54.9% (+1.7% YoY). Management expects C/I ratio to remain in the mid-50s range. RoA will likely improve to 1.1-1.3% in FY26-28E, driven by its focus on fee income growth, CASA and change in loan mix (medium-yielding).

Maintain BUY: We expect FB's strategic initiatives' fruition to take time and would be watchful. We model advances growth of 15% CAGR over FY25-28E with RoA/RoE of 1.3%/14.1% in FY28E. We maintain BUY and roll over valuation to 1.4x Jun'27E ABV with TP of Rs 242 (Rs 249 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	FB IN/Rs 196
Market cap	US\$ 5.5bn
Free float	100%
3M ADV	US\$ 20.4mn
52wk high/low	Rs 220/Rs 173
Promoter/FPI/DII	0%/27%/48%

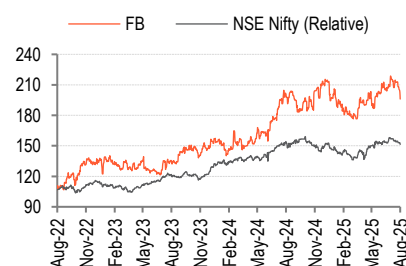
Source: NSE | Price as of 1 Aug 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	94,680	1,05,325	1,24,457
NII growth (%)	14.2	11.2	18.2
Adj. net profit (Rs mn)	40,519	40,981	52,262
EPS (Rs)	16.6	16.7	21.3
Consensus EPS (Rs)	16.6	17.4	21.2
P/E (x)	11.8	11.7	9.2
P/BV (x)	1.4	1.3	1.1
ROA (%)	1.2	1.1	1.2
ROE (%)	13.0	11.6	13.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

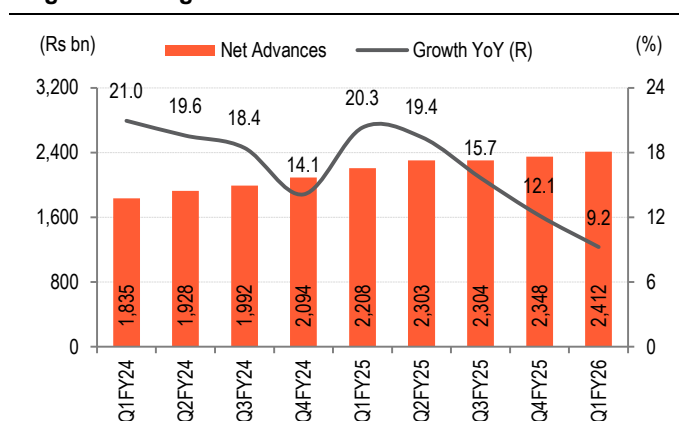
(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	50,261	52,420	54,637	52,848	53,229	5.90	0.72
Income on investments	11,083	11,357	11,474	11,504	11,346	2.38	(1.37)
Int. on bal. with RBI & inter-bank funds & Others	1,965	1,996	1,976	2,131	2,291	16.61	7.51
Interest income	63,309	65,773	68,087	66,484	66,866	5.62	0.58
Interest expense	40,389	42,101	43,773	42,709	43,498	7.70	1.85
Net interest income	22,920	23,672	24,314	23,774	23,368	1.96	(1.71)
Growth YoY (%)	19.5	15.1	14.5	8.3	2.0		
Non-interest income	9,152	9,640	9,162	10,060	11,130	21.61	10.64
Growth YoY (%)	25.0	32.0	6.2	33.4	21.6		
Total income	32,072	33,312	33,476	33,834	34,498	7.57	1.96
Growth YoY (%)	21.0	19.5	12.1	14.7	7.6		
Staff expenses	7,380	7,777	7,832	7,838	7,976	8.07	1.76
Other operating expenses	9,682	9,882	9,949	11,342	10,959	13.19	(3.37)
Operating expenses	17,063	17,658	17,781	19,180	18,935	10.98	(1.28)
Pre-Provisioning Profit (PPoP)	15,009	15,654	15,696	14,654	15,563	3.69	6.20
Growth YoY (%)	15.2	18.2	9.2	32.0	3.7		
Provisions	1,443	1,584	2,923	1,381	4,002	177.37	189.74
Growth YoY (%)	(7.3)	260.7	220.5	(246.0)	177.4		
PBT	13,566	14,070	12,772	13,273	11,561	(14.78)	(12.90)
Tax	3,471	3,503	3,217	2,971	2,944	(15.19)	(0.90)
PAT	10,095	10,567	9,555	10,302	8,618	(14.64)	(16.35)
Growth YoY (%)	18.2	10.8	(5.1)	13.7	(14.6)		
Per Share							
FV (Rs)	2.0	2.0	2.0	2.0	2.0	-	-
EPS (Rs)	4.1	4.3	3.9	4.2	3.5	(15.22)	(16.43)
Book Value (Rs)	124	127	131	135	138	11.75	2.58

Source: BOBCAPS Research, Company

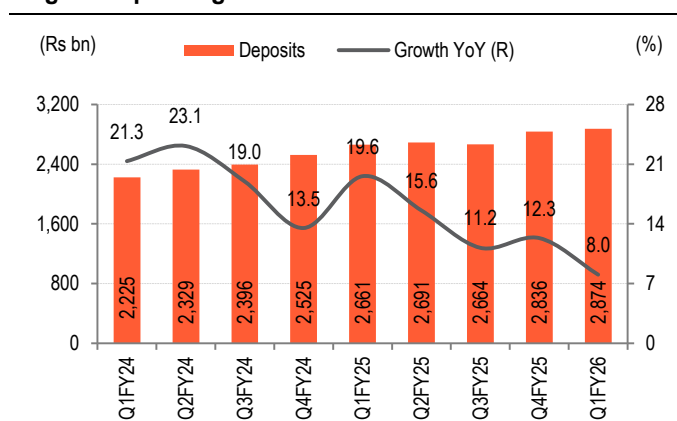
Fig 2 – Quarterly snapshot: Key balance sheet parameters & ratios

(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)
Deposits	26,60,650	26,91,070	26,63,750	28,36,475	28,74,360	8.03	1.34
Growth YoY (%)	19.6	15.6	11.2	12.3	8.0		
Advances	22,08,070	23,03,120	23,03,700	23,48,364	24,12,040	9.24	2.71
Growth YoY (%)	20.3	19.4	15.7	12.1	9.2		
Investment	6,38,320	6,46,620	6,64,410	6,62,456	6,85,010	7.31	3.40
Equity	3,05,650	3,14,560	3,23,340	3,34,206	3,44,194	12.61	2.99
Assets	32,79,720	33,55,420	33,99,050	34,90,048	35,32,980	7.72	1.23
Growth YoY (%)	19.6	16.7	14.8	13.2	7.7		
Yield (%)							
Yield on Funds	8.46	8.39	8.50	8.12	8.02	(44bps)	(10bps)
Cost of Funds	5.79	5.80	5.96	5.67	5.66	(12bps)	(1bps)
Spread	2.67	2.59	2.54	2.45	2.35	(32bps)	(10bps)
Net Interest Margin (calc.)	3.06	3.02	3.04	2.90	2.80	(26bps)	(10bps)
Ratios (%)							
Other Income / Net Income	28.5	28.9	27.4	29.7	32.3	373bps	253bps
Cost to Income ratio	53.2	53.0	53.1	56.7	54.9	169bps	(180bps)
CASA ratio	29.3	30.1	30.2	30.2	30.3	108bps	12bps
C/D ratio	83.0	85.6	86.5	82.8	83.9	93bps	112bps
Investment to Assets	19.5	19.3	19.5	19.0	19.4	(7bps)	41bps
Assets Quality							
GNPA	47,384	48,845	45,530	43,755	46,697	(1.45)	6.72
NNPA	13,304	13,223	11,312	10,404	11,576	(12.99)	11.27
Provision	34,079	35,622	34,218	33,352	35,120	3.05	5.30
GNPA (%)	2.11	2.09	1.95	1.84	1.91	(20bps)	7bps
NNPA (%)	0.60	0.57	0.49	0.44	0.48	(12bps)	4bps
PCR (%)	71.9	72.9	75.2	76.2	75.2	329bps	(101bps)
Others (nos)							
Branches	1,518	1,533	1,550	1,589	1,591	73	2
ATMs	2,041	2,052	2,054	2,080	2,094	53	14

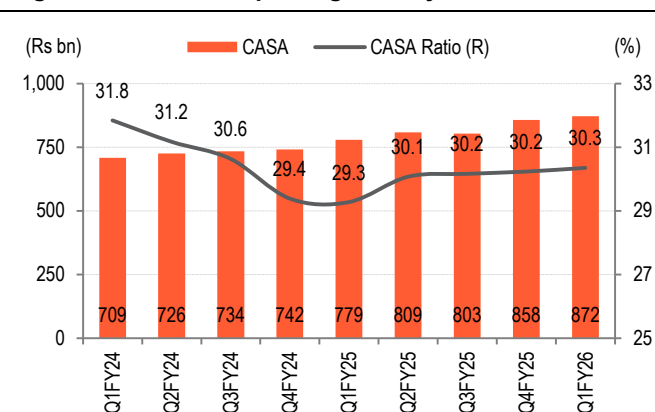
Source: Company, BOBCAPS Research

Fig 3 – Credit growth moderated to 9.2%

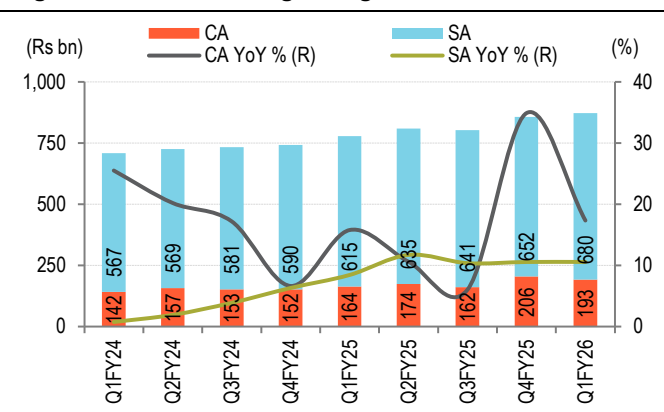
Source: Company, BOBCAPS Research

Fig 4 – Deposits grew 8% YoY

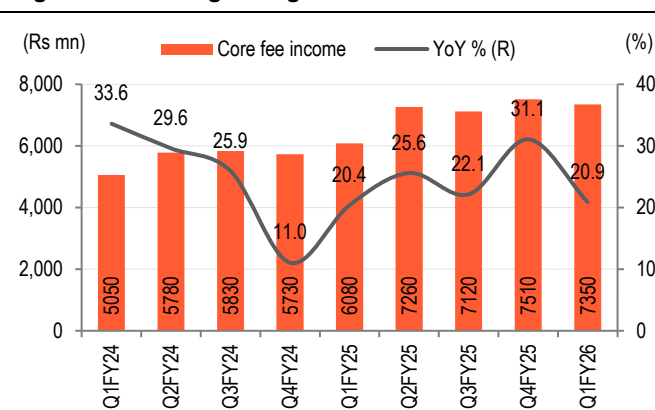
Source: Company, BOBCAPS Research

Fig 5 – CASA ratio improving steadily...

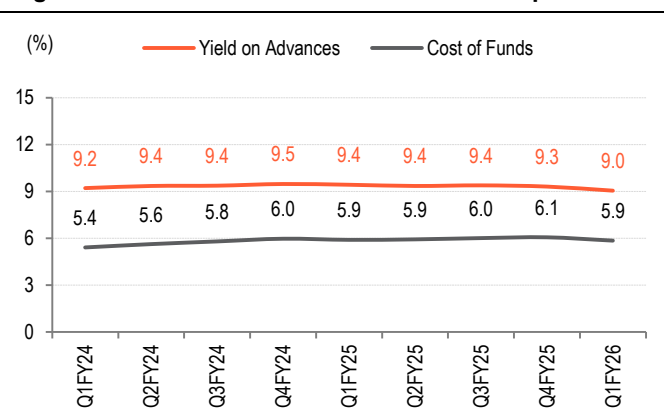
Source: Company, BOBCAPS Research

Fig 6 – ...with focus on growing CA

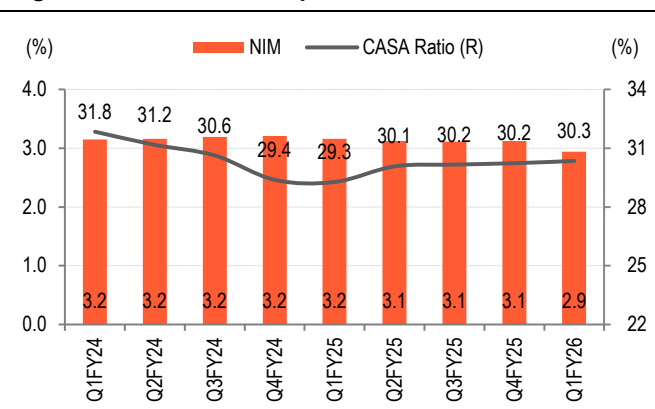
Source: Company, BOBCAPS Research

Fig 7 – Focus on growing core fee income

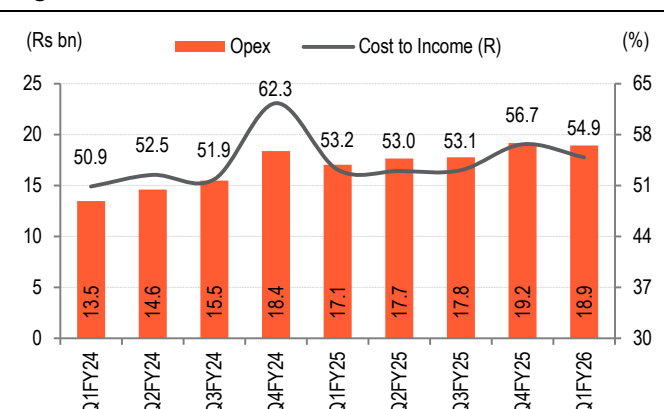
Source: Company, BOBCAPS Research

Fig 8 – Yields moderated while cost of funds improved

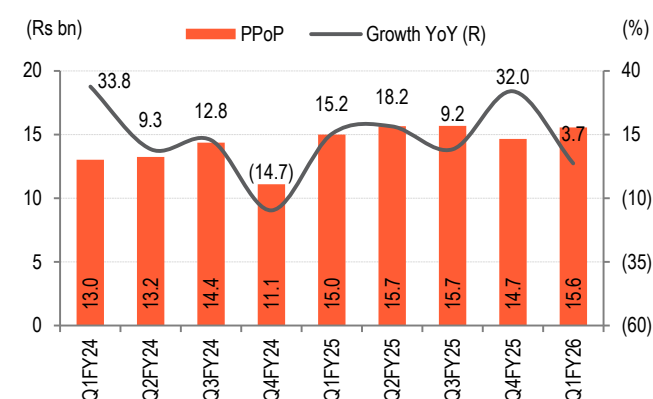
Source: Company, BOBCAPS Research

Fig 9 – NIMs declined 18bps QoQ

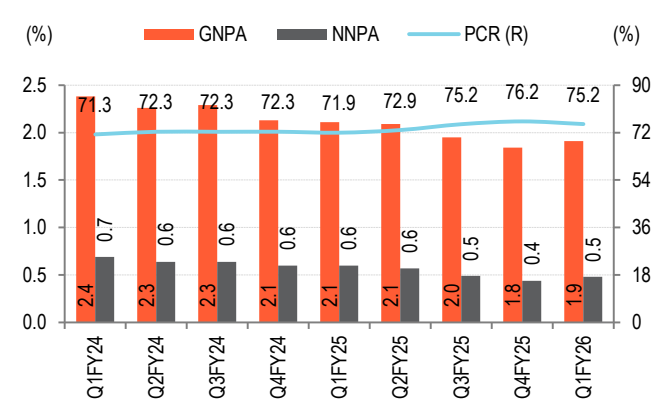
Source: Company, BOBCAPS Research

Fig 10 – C/I ratio to remain elevated

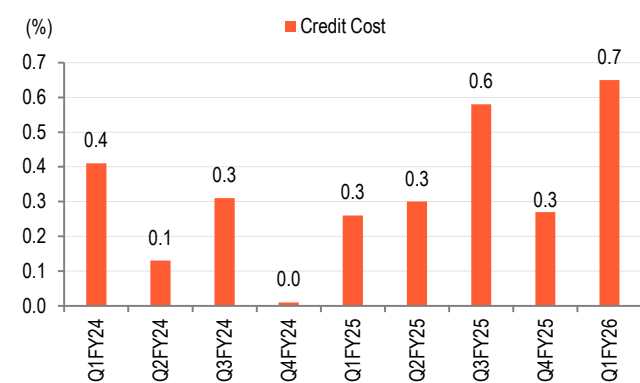
Source: Company, BOBCAPS Research

Fig 11 – PPOp improved steadily

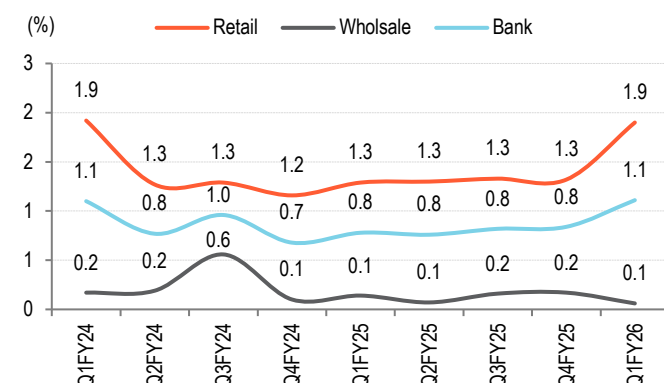
Source: Company, BOBCAPS Research

Fig 12 – Asset quality moderated

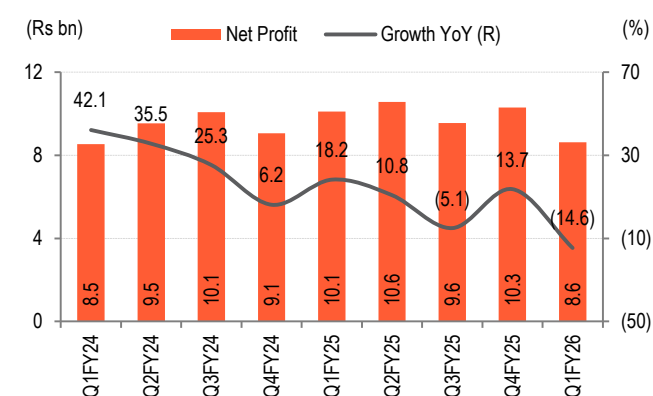
Source: Company, BOBCAPS Research

Fig 13 – Credit cost rose mainly on higher provisions for unsecured MFI NPAs

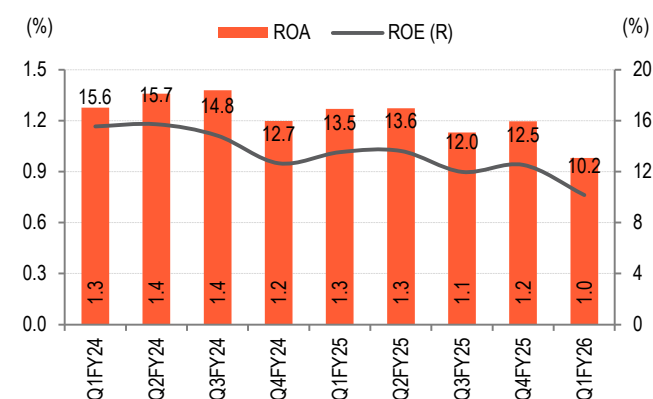
Source: Company, BOBCAPS Research

Fig 14 – Higher slippages largely driven by MFI book

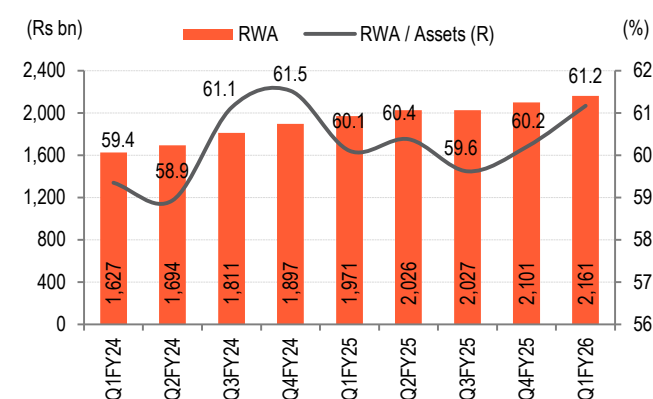
Source: Company, BOBCAPS Research

Fig 15 – Net profit lower on account of higher provisions

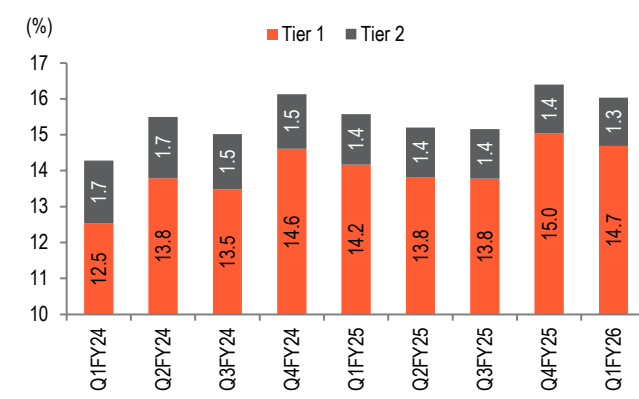
Source: Company, BOBCAPS Research

Fig 16 – Return ratios moderated

Source: Company, BOBCAPS Research

Fig 17 – RWAs expected to stay ~60-62% range

Source: Company, BOBCAPS Research

Fig 18 – Healthy capital position

Source: Company, BOBCAPS Research

Earnings call highlights

Guidance

- Aiming for a 1.2x nominal GDP growth rate in FY26 vs the earlier guidance of 1.5x, driven by focus on high/medium yielding segments.
- Management expects C/I ratio to remain in the mid-50s range; while credit costs of ~55bps in FY26.
- CASA ratio is expected to improve in the coming years, largely aided by focus on CA deposits.
- NIMs expected to bottom out in Q2 and recover thereafter, being supported by deposit repricing.

Performance

- FB reported advances growth of 9% YoY (+3% QoQ), while deposits rose 8% YoY (+1% QoQ). Retail growth is expected to accelerate from H2FY26, due to festive demand, recent gold loan circular, among others.
- Other income grew 22% YoY (+11% QoQ), largely supported by higher fee income growth (+20% YoY).
- NII came in at Rs 23.4bn, up 1% YoY (-2% QoQ). Yield on advances declined by 27bps QoQ. CoF decreased by 21bps QoQ. This led to a decrease in NIMs by 18bp QoQ to 2.94%. Management stated that NIMs can drop 5-10bps more in Q2, but likely to improve from there on, due to savings rate cut in June'25.
- FB focuses on ramping up the share of medium-yielding segments such as LAP (up 6% YoY), Auto (rose 11% YoY), among others. Within the high-yielding segments, credit cards increased by 19% YoY, while PL declined by 5% YoY.
- Opex was up 11% YoY and down 1% sequentially. Cost to income ratio came down to 54.9% in Q1FY26. Management has realigned the existing staff instead of hiring heavily, which is going to support C/I ratio going forward.
- PPOP increased 4% YoY and 6% sequentially.

- Provisions at Rs 4bn vs Rs 1.4bn in Q4FY25. Most of the incremental provisions came from MFI segment. Hence, credit cost went up to 65bps vs 27bps in Q4FY25. PAT came in at Rs 8.6bn, down 15% YoY and 16% QoQ.

Deposits

- Deposits grew by 8% YoY (current and savings accounts grew 17% YoY and 11% YoY respectively).
- CASA ratio stood at 30.3%, 1bps higher than Q4FY25. However, the average CASA ratio grew 3% QoQ, reflecting improving operational focus on sustainable deposit growth.
- CA mobilisation remains a top strategic priority under its Federal 4.0 transformation. FB has revamped branch KRAs and realigned relationship managers to drive a focused CA growth.
- FB registered 10% YoY growth in NRE deposits, showcasing its popularity among non-resident customers.

Asset quality

- GNPA ratio increased by 7bps QoQ to 1.91% and NNPA by 4bps QoQ to 0.48% in Q1FY26. PCR falls to 75.21% vs 76.22% in Q4FY25.
- Slippage ratio increased to 1.11% vs. 0.84% in Q4FY25 largely due to MFI book. MFI book is diversified across India with ~20% share from Karnataka, which is causing asset quality pain. Management stated that SMA book and collection efficiency in MFI portfolio seem to be improving.

Valuation Methodology

FB's strategy to position itself closer to top private sector banks, driven by changes in its assets and liabilities profile, is expected to result in steady business growth and improved return profile. We expect these strategic initiatives' fruition to take time and would be watchful. We model advances growth of 15% CAGR over FY25-28E with RoA/RoE of 1.3%/14.1% in FY28E. We maintain BUY and roll over valuation to 1.4x Jun'27E ABV with TP of Rs 242 (Rs 249 earlier)

Fig 19 – Actuals vs BOBCAPS Estimates

(Rs mn)	Q1FY26A	Q1FY26E	Variance (%)
Loan	24,12,040	23,98,847	0.5
Deposits	28,74,360	28,86,805	(0.4)
Assets	35,32,980	35,46,350	(0.4)
NII	23,368	23,481	(0.5)
PPoP	15,563	14,647	6.3
Provision	4,002	2,374	68.6
PAT	8,618	9,181	(6.1)

Source: Company, BOBCAPS Research

Fig 20 – Key operational assumptions

(%)	FY25	FY26E	FY27E	FY28E
Advances growth	12.1	12.5	16.0	17.0
NII growth	14.2	11.2	18.2	17.9
PPoP growth	17.9	10.7	19.6	18.3
PAT growth	8.9	1.1	27.5	21.9
NIM	3.1	3.0	3.1	3.2
GNPA	1.8	1.9	1.8	1.6
CAR	16.4	16.0	15.7	15.5

Source: Company, BOBCAPS Research

Fig 21 – Valuation summary

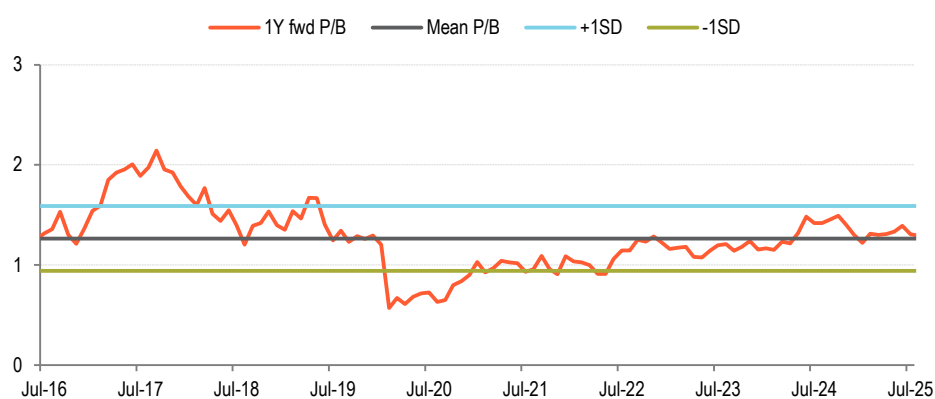
Business	Valuation	Holdings (%)	Value (Rs/sh)
Federal Bank	1.4x Jun'27E ABV	100	230
Fed Financial Services	Market cap	60.97	12
Total			242

Source: Company, BOBCAPS Research

Fig 22 – Valuation assumptions

Gordon Growth Model	Assumptions
Cost of equity (%)	11.8
Blended ROE (%)	13.1
Initial high growth period (years)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	5
Long term dividend payout ratio (%)	60
Justified P/BV (x)	1.4

Source: BOBCAPS Research

Fig 23 – PB band chart

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates:

- reversal in credit cycle, which can lead to higher deterioration in asset quality and thereby overall profitability, owing to higher provisions
- inability to manage CoF, which may drag NIM as well as overall profitability
- inability of management to implement the new strategy

Glossary

Glossary of Abbreviations			
AUCA	Advance Under Collection Account	MTM	Mark to Market
CASA	Current Account and Savings Account	NII	Net Interest Income
CAR	Capital Adequacy Ratio	NIM	Net Interest Margin
CET1	Common Equity Tier 1	NNPA	Net Non-Performing Assets
CD	Credit-Deposit Ratio	NRE	Non-Resident (External) Account
C/I	Cost-Income Ratio	NRO	Non-Resident Ordinary Account
CV/CE	Commercial Vehicle/Construction Equipment	PCR	Provision Coverage Ratio
EBLR	External Benchmark-based Lending Rate	PPOP	Pre-Provision Operating Profit
ECL	Expected Credit Loss	PSU	Public Sector Unit
FCNR	Foreign Currency Non-Resident Account	RWA	Risk-weighted Assets
GNPA	Gross Non-Performing Assets	SA	Savings Account
LCR	Liquidity Coverage Ratio	SLR	Statutory Liquidity Ratio
LDR	Loan to Deposit Ratio	SMA	Special Mention Account
MCLR	Marginal Cost of Funds-based Lending Rate	SME	Small and Medium-sized Enterprises
MFI	Microfinance Institution		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	82,935	94,680	1,05,325	1,24,457	1,46,783
NII growth (%)	14.7	14.2	11.2	18.2	17.9
Non-interest income	30,793	38,013	43,095	49,932	58,330
Total income	1,13,728	1,32,692	1,48,419	1,74,389	2,05,113
Operating expenses	61,983	71,681	80,862	93,588	1,09,537
PPOP	51,745	61,011	67,558	80,802	95,576
PPOP growth (%)	7.9	17.9	10.7	19.6	18.3
Provisions	1,961	7,331	12,476	10,557	9,975
PBT	49,784	53,681	55,082	70,245	85,601
Tax	12,578	13,162	14,101	17,983	21,914
Reported net profit	37,206	40,519	40,981	52,262	63,687
Adjustments	0	0	0	0	0
Adjusted net profit	37,206	40,519	40,981	52,262	63,687

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	4,871	4,912	4,912	4,912	4,912
Reserves & surplus	2,86,074	3,29,295	3,67,284	4,15,940	4,75,487
Net worth	2,90,944	3,34,206	3,72,196	4,20,852	4,80,399
Deposits	25,25,340	28,36,475	31,54,160	35,95,742	41,53,082
Borrowings	1,80,264	2,37,263	2,91,833	3,61,874	4,48,723
Other liab. & provisions	86,570	82,104	1,21,862	1,44,547	1,98,188
Total liab. & equities	30,83,118	34,90,048	39,40,051	45,23,015	52,80,392
Cash & bank balance	1,89,629	3,08,592	3,53,447	4,04,994	4,64,929
Investments	6,08,595	6,62,456	7,39,989	8,14,397	9,41,536
Advances	20,94,033	23,48,364	26,41,909	30,64,615	35,85,599
Fixed & Other assets	1,90,860	1,70,636	2,04,705	2,39,009	2,88,327
Total assets	30,83,118	34,90,048	39,40,051	45,23,015	52,80,392
Deposit growth (%)	18.3	12.3	11.2	14.0	15.5
Advances growth (%)	20.0	12.1	12.5	16.0	17.0

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	16.3	16.6	16.7	21.3	25.9
Dividend per share	1.3	1.2	1.2	1.5	1.7
Book value per share	119.5	136.1	151.6	171.4	195.6

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	12.0	11.8	11.7	9.2	7.6
P/BV	1.6	1.4	1.3	1.1	1.0
Dividend yield (%)	0.7	0.6	0.6	0.7	0.9

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	2.9	2.9	2.8	2.9	3.0
Non-interest income	1.1	1.2	1.2	1.2	1.2
Operating expenses	2.2	2.2	2.2	2.2	2.2
Pre-provisioning profit	1.8	1.9	1.8	1.9	1.9
Provisions	0.1	0.2	0.3	0.2	0.2
PBT	1.8	1.6	1.5	1.7	1.7
Tax	0.4	0.4	0.4	0.4	0.4
ROA	1.3	1.2	1.1	1.2	1.3
Leverage (x)	11.2	10.5	10.5	10.7	10.9
ROE	14.7	13.0	11.6	13.2	14.1

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	14.7	14.2	11.2	18.2	17.9
Pre-provisioning profit	7.9	17.9	10.7	19.6	18.3
EPS	14.5	1.3	0.7	27.5	21.9
Profitability & Return ratios (%)					
Net interest margin	3.2	3.1	3.0	3.1	3.2
Fees / Avg. assets	0.2	0.2	0.2	0.2	0.2
Cost-Income	54.5	54.0	54.5	53.7	53.4
ROE	14.7	13.0	11.6	13.2	14.1
ROA	1.3	1.2	1.1	1.2	1.3
Asset quality (%)					
GNPA	2.1	1.8	1.9	1.8	1.6
NNPA	0.6	0.4	0.5	0.4	0.4
Slippage ratio	1.0	0.9	1.0	0.9	0.9
Credit cost	0.1	0.3	0.5	0.4	0.3
Provision coverage	71.8	75.9	74.6	75.0	75.6
Ratios (%)					
Credit-Deposit	82.9	82.8	83.8	85.2	86.3
Investment-Deposit	24.1	23.4	23.5	22.6	22.7
CAR	16.1	16.4	16.0	15.7	15.5
Tier-1	14.6	15.0	14.5	14.3	13.9

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

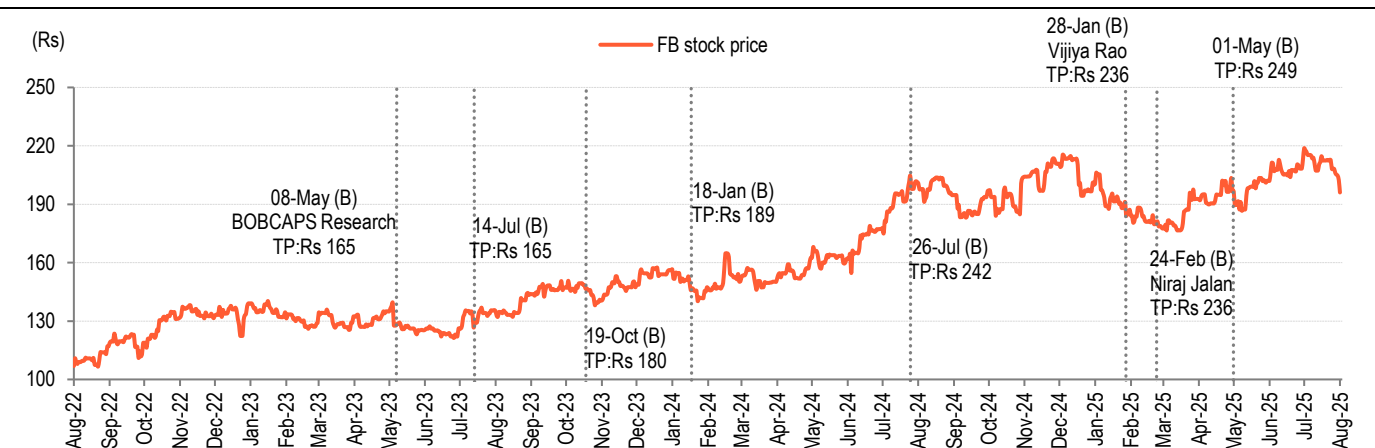
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): FEDERAL BANK (FB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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