

BUY

TP: Rs 263 | ▲ 16%

FEDERAL BANK

| Banking

| 21 October 2025

Asset quality improved; business momentum moderates

- PAT beat estimates, largely driven by NIMs surprise; asset quality improved
- Focus on medium-yielding segments and proposal for fund raising
- Maintain BUY with revised TP of Rs 263 (Rs 242 earlier), valuing the stock at 1.4x Sep'27E ABV

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PAT beat estimates, largely driven by NIMs surprise: PAT at Rs 9.6bn (+11% QoQ) was 9% above our estimates, mainly due to surprise improvement in NIMs to 3.06% (+12bps QoQ). Despite a decline in yield on advances (-18bps), NIMs improved due to higher decline in CoD (-21bps QoQ) to 5.6%. Increase in CASA ratio to 31% (+66bps QoQ) also resulted in CoD improvement. Further, earnings were supported by lower CC of 50bps vs 65bps (Q1FY26) amid the easing MFI stress. Management guided for CC of ~55bps in FY26. 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).

Asset quality improved: AQ improved with GNPA ratio declining to 1.83% (-8bps QoQ), mainly driven by lower slippages, which stood at Rs 5.8bn (-12% QoQ). Slippage came largely from MFI segment (1.6% of gross loans), which accounted for 34% of the total slippage in Q2FY26. Management stated that the MFI stress peaked last quarter and is moderating every month, yet to be fully normalised.

Focus on medium-yielding segments and proposal for fund raising: FB witnessed moderate loan growth (+6.2% YoY) as of Sep'25 and was below the system loan growth. We note that FB is recalibrating loan mix and focuses on medium-yielding segments (CV/CE, LAP, Auto, Gold) that saw a rise in its gross advances share to 43.8% (42.5% in Q2FY25). Management's strategy for loan mix and growth is to a) scale up the high-yielding MFI (-2% YoY) and personal loan (-7% YoY) segments once the external environment stabilises b) expect to grow at a high pace in LAP and BuB segments over the next few quarters. We note that the bank has scheduled a board meeting on Oct 24, 2025 to approve the proposal to raise funds subject to regulatory / statutory approvals. We await further clarity on the purpose and details of fund raise.

Maintain BUY: We expect the fruition of FB's strategic initiatives to take time and would be watchful. We model advances growth of 15% CAGR over FY25-28E with RoA/RoE of 1.3%/13.9% in FY28E. We maintain BUY and roll over valuation to 1.4x Sep'27E ABV with TP of Rs 263 (Rs 242 earlier).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FB IN/Rs 227
Market cap	US\$ 6.3bn
Free float	100%
3M ADV	US\$ 18.0mn
52wk high/low	Rs 230/Rs 173
Promoter/FPI/DII	0%/26%/50%

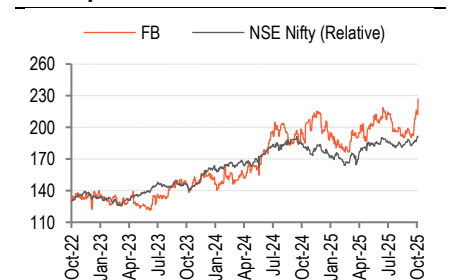
Source: NSE | Price as of 20 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	94,680	1,04,118	1,23,702
NII growth (%)	14.2	10.0	18.8
Adj. net profit (Rs mn)	40,519	39,705	50,973
EPS (Rs)	16.6	16.2	20.8
Consensus EPS (Rs)	16.6	16.0	20.2
P/E (x)	13.7	14.0	10.9
P/BV (x)	1.7	1.5	1.3
ROA (%)	1.2	1.1	1.2
ROE (%)	13.0	11.3	12.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

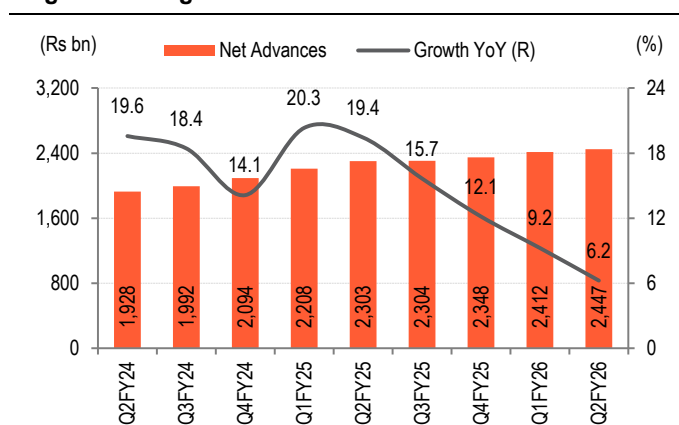
(Rs mn)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	52,420	54,637	52,848	53,229	53,834	2.70	1.14
Income on investments	11,357	11,474	11,504	11,346	11,684	2.88	2.98
Int. on bal. with RBI & inter-bank funds & Others	1,996	1,976	2,131	2,291	1,904	(4.63)	(16.92)
Interest income	65,773	68,087	66,484	66,866	67,422	2.51	0.83
Interest expense	42,101	43,773	42,709	43,498	42,469	0.88	(2.37)
Net interest income	23,672	24,314	23,774	23,368	24,952	5.41	6.78
Growth YoY (%)	15.1	14.5	8.3	2.0	5.4		
Non-interest income	9,640	9,162	10,060	11,130	10,822	12.26	(2.77)
Growth YoY (%)	32.0	6.2	33.4	21.6	12.3		
Total income	33,312	33,476	33,834	34,498	35,774	7.39	3.70
Growth YoY (%)	19.5	12.1	14.7	7.6	7.4		
Staff expenses	7,777	7,832	7,838	7,976	8,034	3.31	0.73
Other operating expenses	9,882	9,949	11,342	10,959	11,298	14.33	3.09
Operating expenses	17,658	17,781	19,180	18,935	19,332	9.48	2.10
Pre-Provisioning Profit (PPoP)	15,654	15,696	14,654	15,563	16,442	5.03	5.65
Growth YoY (%)	18.2	9.2	32.0	3.7	5.0		
Provisions	1,584	2,923	1,381	4,002	3,631	129.30	(9.26)
Growth YoY (%)	260.7	220.5	(246.0)	177.4	129.3		
PBT	14,070	12,772	13,273	11,561	12,811	(8.95)	10.81
Tax	3,503	3,217	2,971	2,944	3,258	(6.99)	10.68
PAT	10,567	9,555	10,302	8,618	9,553	(9.60)	10.85
Growth YoY (%)	10.8	(5.1)	13.7	(14.6)	(9.6)		
Per Share							
FV (Rs)	2.0	2.0	2.0	2.0	2.0	-	-
EPS (Rs)	4.3	3.9	4.2	3.5	3.9	(9.74)	10.83
Book Value (Rs)	127	131	135	138	142	11.60	2.33

Source: BOBCAPS Research, Company

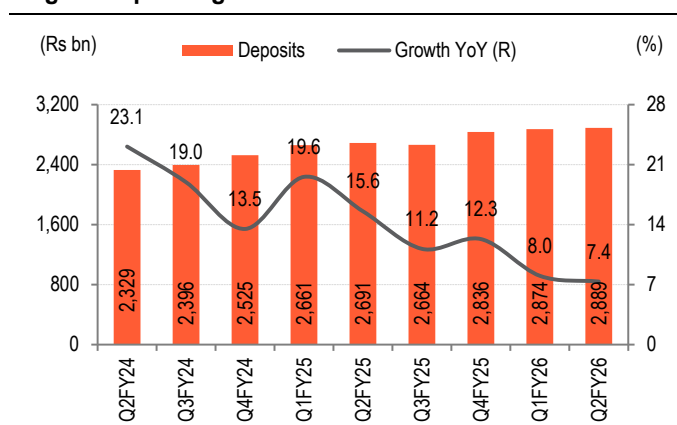
Fig 2 – Quarterly snapshot: Key balance sheet parameters & ratios

(Rs mn)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Deposits	26,91,070	26,63,750	28,36,475	28,74,360	28,89,196	7.36	0.52
Growth YoY (%)	15.6	11.2	12.3	8.0	7.4		
Advances	23,03,120	23,03,700	23,48,364	24,12,040	24,46,571	6.23	1.43
Growth YoY (%)	19.4	15.7	12.1	9.2	6.2		
Investment	6,46,620	6,64,410	6,62,456	6,85,010	7,03,469	8.79	2.69
Equity	3,14,560	3,23,340	3,34,206	3,44,194	3,59,468	14.28	4.44
Assets	33,55,420	33,99,050	34,90,048	35,32,980	35,60,802	6.12	0.79
Growth YoY (%)	16.7	14.8	13.2	7.7	6.1		
Yield (%)							
Yield on Funds	8.39	8.50	8.12	8.02	8.01	(38bps)	0bps
Cost of Funds	5.80	5.96	5.67	5.66	5.53	(27bps)	(13bps)
Spread	2.59	2.54	2.45	2.35	2.48	(11bps)	12bps
Net Interest Margin	3.12	3.11	3.12	2.94	3.06	(6bps)	12bps
Ratios (%)							
Other Income / Net Income	28.9	27.4	29.7	32.3	30.3	131bps	(201bps)
Cost to Income ratio	53.0	53.1	56.7	54.9	54.0	103bps	(85bps)
CASA ratio	30.1	30.2	30.2	30.3	31.0	94bps	66bps
C/D ratio	85.6	86.5	82.8	83.9	84.7	(90bps)	76bps
Investment to Assets	19.3	19.5	19.0	19.4	19.8	49bps	37bps
Assets Quality							
GNPA	48,845	45,530	43,755	46,697	45,320	(7.22)	(2.95)
NNPA	13,223	11,312	10,404	11,576	11,652	(11.88)	0.65
Provision	35,622	34,218	33,352	35,120	33,669	(5.48)	(4.13)
GNPA (%)	2.09	1.95	1.84	1.91	1.83	(26bps)	(8bps)
NNPA (%)	0.57	0.49	0.44	0.48	0.48	(9bps)	0bps
PCR (%)	72.9	75.2	76.2	75.2	74.3	136bps	(92bps)
Others (nos)							
Branches	1,533	1,550	1,589	1,591	1,595	62	4
ATMs	2,052	2,054	2,080	2,094	2,082	30	(12)

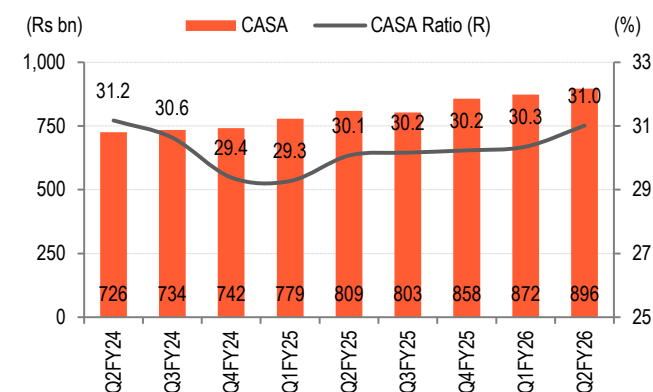
Source: Company, BOBCAPS Research

Fig 3 – Credit growth moderated to 6.2% YoY

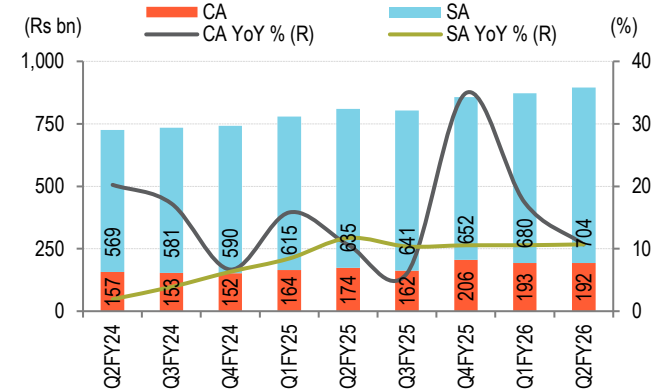
Source: Company, BOBCAPS Research

Fig 4 – Deposits grew 7.4% YoY

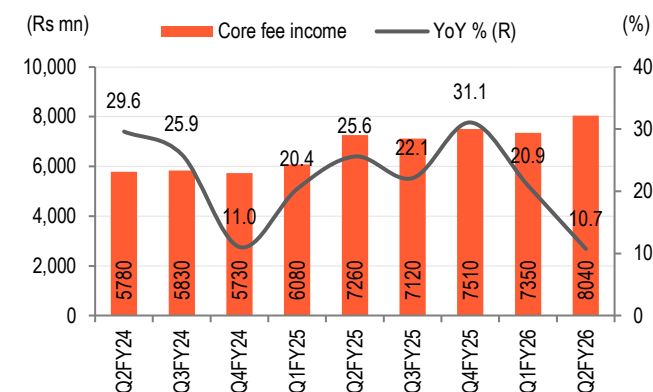
Source: Company, BOBCAPS Research

Fig 5 – CASA ratio improving steadily...

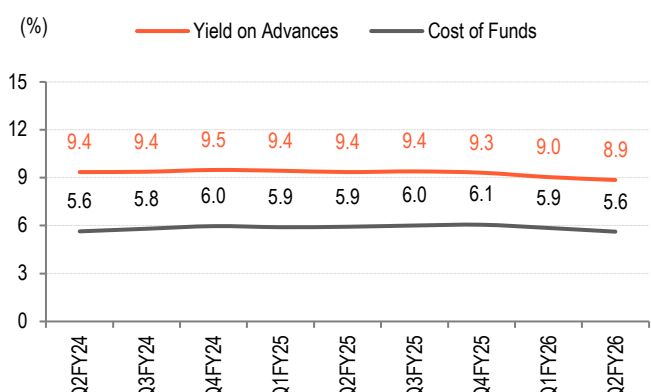
Source: Company, BOBCAPS Research

Fig 6 – ...CA and SA both grew 11% YoY

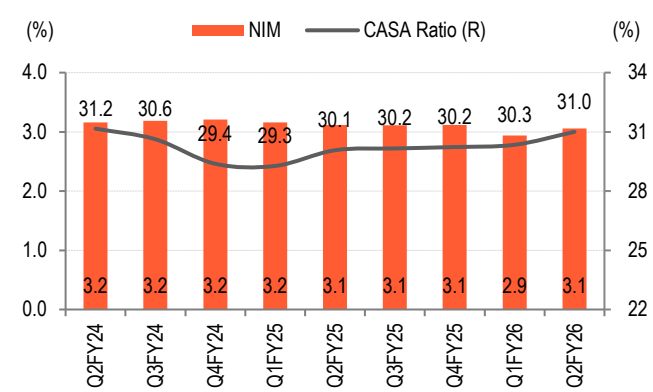
Source: Company, BOBCAPS Research

Fig 7 – Focus on growing core fee income

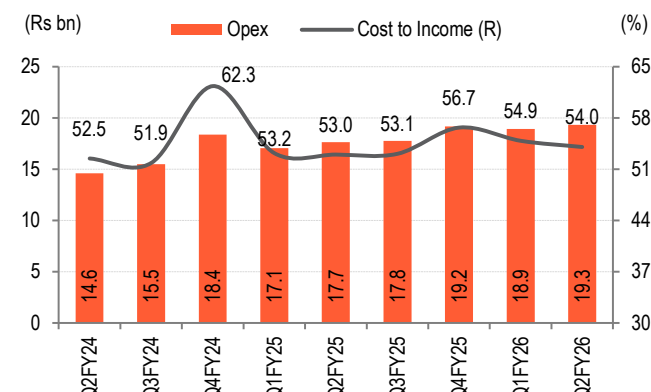
Source: Company, BOBCAPS Research

Fig 8 – Yields moderated while CoF improved

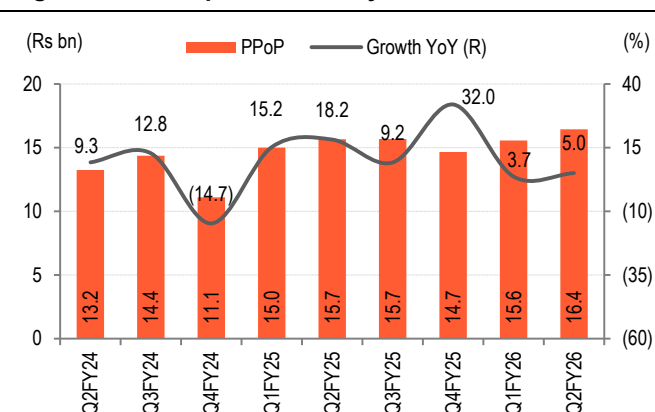
Source: Company, BOBCAPS Research

Fig 9 – NIMs improved 12bps QoQ

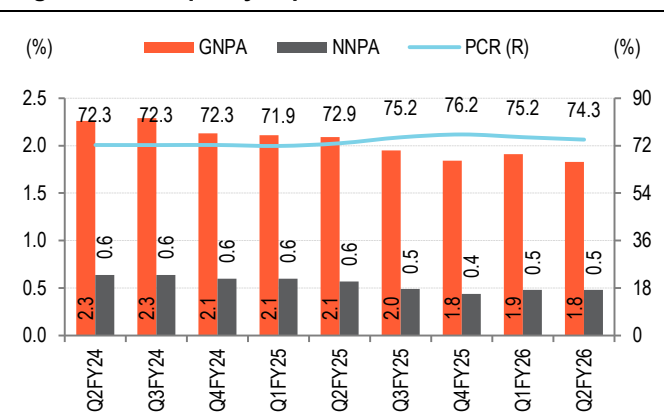
Source: Company, BOBCAPS Research

Fig 10 – C/I ratio improved

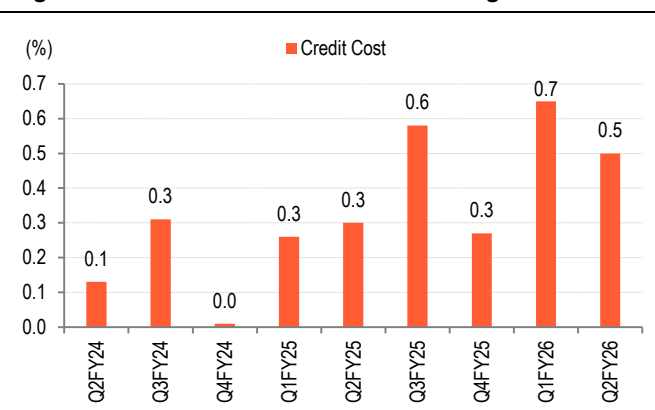
Source: Company, BOBCAPS Research

Fig 11 – PPOP improved steadily

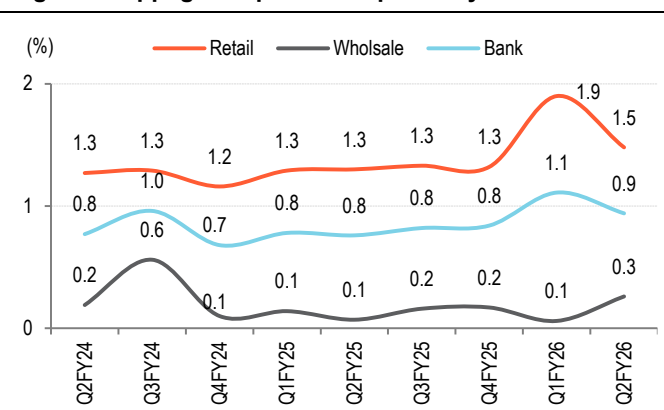
Source: Company, BOBCAPS Research

Fig 12 – Asset quality improved

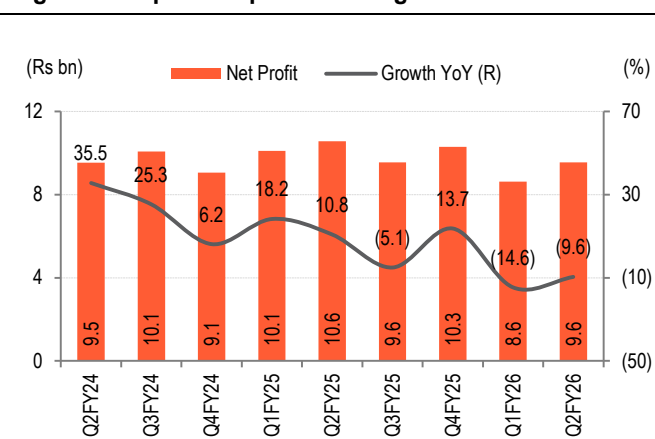
Source: Company, BOBCAPS Research

Fig 13 – Credit cost moderated with easing of MFI stress

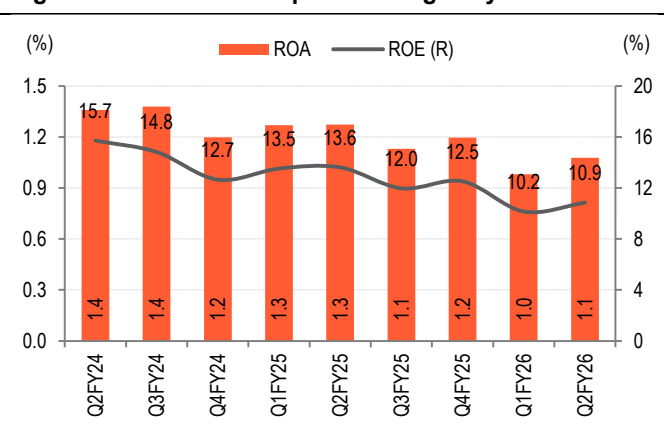
Source: Company, BOBCAPS Research

Fig 14 – Slippages improved sequentially

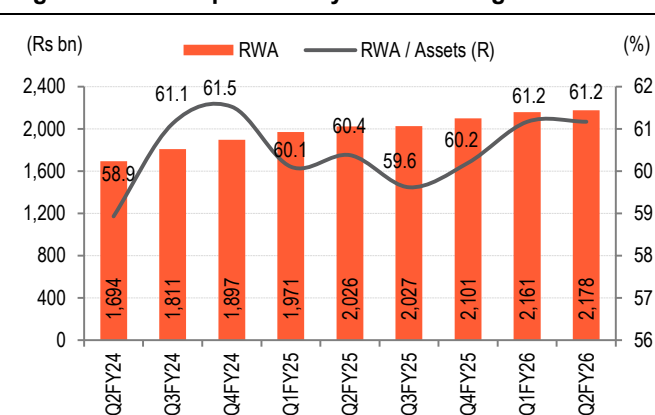
Source: Company, BOBCAPS Research

Fig 15 – Net profit improved on higher NIMs and low CC

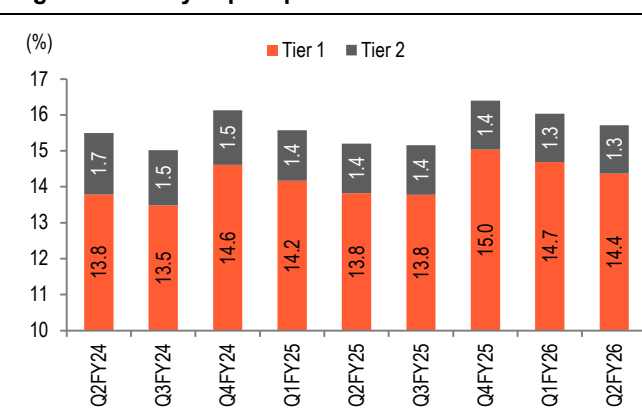
Source: Company, BOBCAPS Research

Fig 16 – Return ratios improved marginally

Source: Company, BOBCAPS Research

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

Source: Company, BOBCAPS Research

Fig 18 – Healthy capital position

Source: Company, BOBCAPS Research

Earnings call highlights

Guidance

- Credit cost guided around 55bps for full year with gradual easing of MFI stress.
- CASA ratio is expected to improve in the coming years, largely aided by focus on CA deposits.
- NIM is anticipated to trend upwards from the current 3.06%, contingent on further rate movements and continued improvements in asset-liability mix.
- Capital raising plans remain under discussion, with decisions pending board approval. The bank aims to balance growth ambitions with prudent risk and capital management.

Performance

- FB reported growth of 6% YoY (+1% QoQ) in advances, while deposits rose 7% YoY (+1% QoQ).
- Loan book restructuring continues, with the bank reducing its low-yielding corporate and home loan exposure (~50% of book) and focusing on higher-yield segments like cards, commercial banking, CVs, retail gold loans, and a recently piloted tractor loan product.
- Share of medium-yielding segments increases such as LAP (up 2.3% YoY), Auto (rose 3.9% YoY), among others. Within high-yielding segments, credit cards rose by 18.5% YoY, while PL grew by 3.8% YoY.
- Other income grew 12% YoY (-3% QoQ), largely supported by higher fee income growth (+13% YoY).
- NII came in at Rs 25bn, up 5% YoY (+7% QoQ). Yield on advances declined by 18bps QoQ. CoF decreased by 24bps QoQ. This led to a rise in NIMs by 12bps QoQ to 3.06%.
- Opex was up 9% YoY and down 2% sequentially. Cost to income ratio came down to 54% in Q2FY26.

- PPop increased 5% YoY and 6% sequentially. Provisions at Rs 3.6bn vs Rs 4bn in Q1FY26. Most of the incremental provisions came from MFI segment. Hence, credit cost improved by 15bps to 0.5%. PAT came in at Rs 9.6bn, down 10% YoY and +11% QoQ.

Deposits

- Deposits grew by 7% YoY (current and savings accounts grew 11% YoY each)
- CASA ratio stood at 31%, 66bps higher than Q1FY26.
- Average CASA ratio improved by 120 bps YoY and 100 bps QoQ, reflecting strong growth in current accounts and NRI savings, as well as 2.5% increase in remittance market share (from 18.5% to 21%).
- FB registered 10% YoY growth in NRE deposits, showcasing its popularity among non-resident customers.

Asset Quality

- GNPA ratio improved by 8bps QoQ to 1.83% and NNPA remained flat QoQ at 0.48% in Q2FY26. PCR falls to 73.45% vs 74.41% in Q1FY26.
- Slippage ratio improved to 0.97% vs 1.11% in Q1FY25. Management stated that SMA book and collection efficiency in MFI portfolio seem to be improving.
- FB provided a management overlay of ~Rs 460mn in Q2FY26 for some standard accounts, wherein the stress is witnessed in connected exposures. This was mainly in retail segment and was a proactive precautionary measure.

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 the fruition of these strategic initiatives to take time and would be watchful. We model advances growth of 15% CAGR over FY25-28E with RoA/RoE of 1.3%/13.9% in FY28E. We maintain BUY and roll over valuation to 1.4x Sep'27E ABV with TP of Rs 263 (Rs 242 earlier).

Fig 19 – Actuals vs BOBCAPS Estimates

(Rs mn)	Q2FY26A	Q2FY26E	Variance (%)
Loan	24,46,571	24,75,854	(1.2)
Deposits	28,89,196	29,54,795	(2.2)
Assets	35,60,802	36,13,732	(1.5)
NII	24,952	23,418	6.6
PPoP	16,442	14,859	10.6
Provision	3,631	3,116	16.5
PAT	9,553	8,784	8.7

Source: Company, BOBCAPS Research

Fig 20 – Revised estimates

Key Parameters (Rs mn)	New			Old Estimates			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Loan	26,41,909	30,64,615	35,85,599	26,41,909	30,64,615	35,85,599	0.0	0.0	0.0
Deposits	31,54,160	35,95,742	41,53,082	31,54,160	35,95,742	41,53,082	0.0	0.0	0.0
Assets	39,40,051	45,23,015	52,80,392	39,40,051	45,23,015	52,80,392	0.0	0.0	0.0
NII	1,04,118	1,23,702	1,46,554	1,05,325	1,24,457	1,46,783	(1.1)	(0.6)	(0.2)
PPoP	67,090	79,925	95,203	67,558	80,802	95,576	(0.7)	(1.1)	(0.4)
Provision	13,723	11,413	11,638	12,476	10,557	9,975	10.0	8.1	16.7
PAT	39,705	50,973	62,173	40,981	52,262	63,687	(3.1)	(2.5)	(2.4)

Source: Company, BOBCAPS Research

Fig 21 – Key operational assumptions

(%)	FY25	FY26E	FY27E	FY28E
Advances growth	12.1	12.5	16.0	17.0
NII growth	14.2	10.0	18.8	18.5
PPoP growth	17.9	10.0	19.1	19.1
PAT growth	8.9	(2.0)	28.4	22.0
NIM	3.1	3.0	3.1	3.2
GNPA	1.8	1.9	1.8	1.6
CAR	16.4	15.9	15.7	15.4

Source: Company, BOBCAPS Research

Fig 22 – Valuation summary

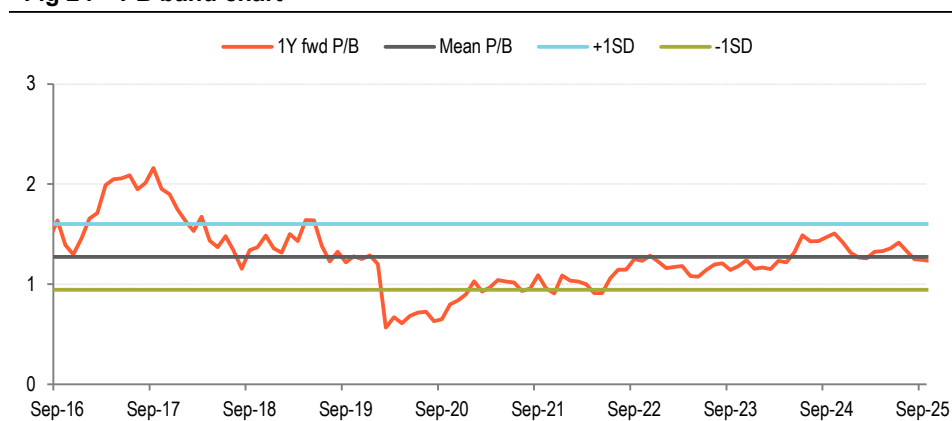
Business	Valuation	Holdings (%)	Value (Rs/sh)
Federal Bank	1.4x Sep'27E ABV	100	252
Fed Financial Services	Market cap	61	11
Total			263

Source: Company, BOBCAPS Research

Fig 23 – Valuation assumptions

Gordon Growth Model	Assumptions
Cost of equity (%)	12.6
Blended ROE (%)	14.2
Initial high growth period (years)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	6
Long term dividend payout ratio (%)	60
Justified P/BV (x)	1.4

Source: BOBCAPS Research

Fig 24 – 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 hence overall profitability, owing to higher provisions
- 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	1,04,118	1,23,702	1,46,554
NII growth (%)	14.7	14.2	10.0	18.8	18.5
Non-interest income	30,793	38,012	43,838	49,932	58,330
Total income	1,13,728	1,32,692	1,47,956	1,73,634	2,04,884
Operating expenses	61,983	71,681	80,866	93,710	1,09,681
PPOP	51,745	61,011	67,090	79,925	95,203
PPOP growth (%)	7.9	17.9	10.0	19.1	19.1
Provisions	1,961	7,331	13,723	11,413	11,638
PBT	49,784	53,681	53,367	68,512	83,566
Tax	12,578	13,162	13,662	17,539	21,393
Reported net profit	37,206	40,519	39,705	50,973	62,173
Adjustments	0	0	0	0	0
Adjusted net profit	37,206	40,519	39,705	50,973	62,173

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	3,66,101	4,13,556	4,71,688
Net worth	2,90,944	3,34,206	3,71,013	4,18,468	4,76,600
Deposits	25,25,340	28,36,475	31,54,160	35,95,742	41,53,082
Borrowings	1,80,264	2,37,263	2,91,834	3,61,874	4,48,723
Other liab. & provisions	86,570	82,104	1,23,045	1,46,931	2,01,987
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	16.2	20.8	25.3
Dividend per share	1.3	1.2	1.2	1.4	1.6
Book value per share	119.5	136.1	151.1	170.4	194.1

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	13.9	13.7	14.0	10.9	9.0
P/BV	1.9	1.7	1.5	1.3	1.2
Dividend yield (%)	0.6	0.5	0.5	0.6	0.7

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	0.4	0.3	0.2
PBT	1.8	1.6	1.4	1.6	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	11.0
ROE	14.7	13.0	11.3	12.9	13.9

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	14.7	14.2	10.0	18.8	18.5
Pre-provisioning profit	7.9	17.9	10.0	19.1	19.1
EPS	14.5	1.3	(2.4)	28.4	22.0
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	54.7	54.0	53.5
ROE	14.7	13.0	11.3	12.9	13.9
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	0.6	0.4	0.4
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	15.9	15.7	15.4
Tier-1	14.6	15.0	14.4	14.2	13.8

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

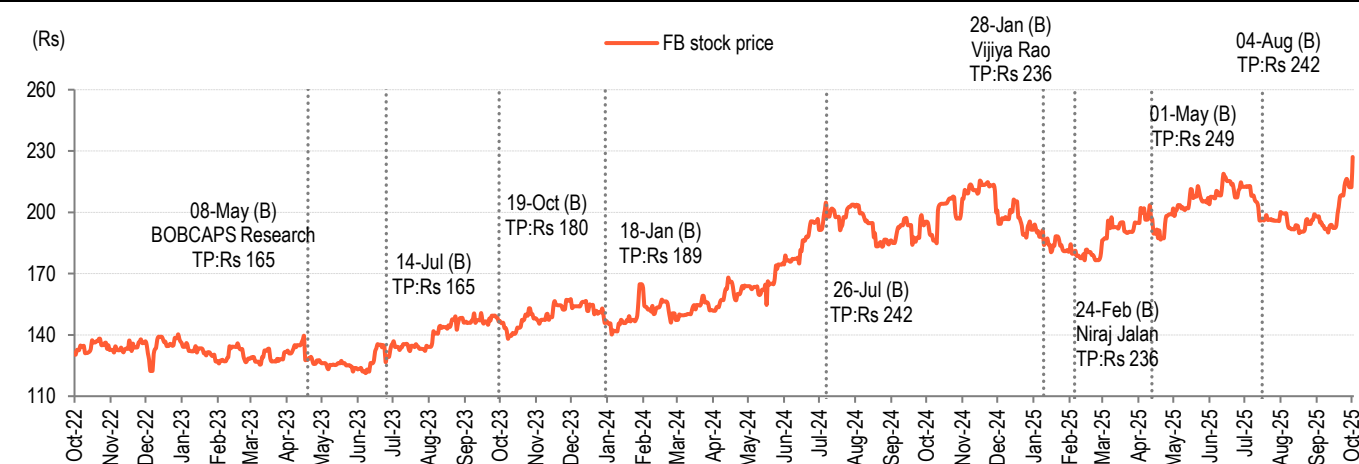
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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



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