

On Track to Scale RoA to ~1.4% by FY28; Growth Resumption Keenly Eyed!
Est. Vs. Actual for Q2FY26: NII – **BEAT**; PPOP – **BEAT**; PAT – **BEAT**
Changes in Estimates post Q2FY26
FY26E/FY27E/FY28E (in %): NII: +1.9/-1.4/-1.3; PPOP: +4.7/-0.1/-1.0; PAT: +3.4/-2.0/-2.3

Recommendation Rationale

- NIMs Surprise; Improving Trajectory from Hereon:** FB's NIMs surprised, expanding by 12 bps, led by sharper improvement in CoD/CoF against yield compression, CRR cut aiding margins by 1 bps, and optimisation of other assets and liabilities by ~2 bps. NIMs also benefited as the bank's advances repriced on a T+1 basis, and a larger hit was taken in Q1. **The management continues to prioritise NIM improvement through (a) Rebalancing the asset mix; (b) Shifting away from repo-linked loans (mix down to 49% vs ~50–52% YoY); (c) Realigning the liability mix with focus on CASA deposits, primarily CA deposits.** The bank's focus is on growing the medium-yielding segments, which are expected to do a bulk of the heavy lifting in NIM improvement. As asset quality challenges in the unsecured segment normalise, the bank will look to pursue growth in these segments, further supporting margin improvement. The management indicated that the bank will continue to adopt a nimble approach in managing margins and expects the upward trajectory to continue over H2, with the impact of TD repricing, improving CASA ratio, and CRR cuts being visible. **With the strategic initiatives underway, we expect NIMs to improve to 3.2–3.3% over FY27–28E from ~3.1% in FY26E. NIM improvement remains a key lever in FB's aspirational journey of delivering superior RoA.**
- MFI Stress Peaks Out, Overall Asset Quality Not Worrisome:** In Q1FY26, elevated credit costs were primarily owing to higher MFI agri slippages. However, slippages in the MFI segment peaked in May'25 and have been on an improving trend MoM thereafter. The asset quality metrics in other segments continue to behave well. During Q2, the bank proactively made an accelerated provision of Rs 46 Cr towards a standard asset for connected entities in the retail segment. **The management remains confident of containing credit costs within the guided range of 55 bps for FY26. FB also indicated that the impact of the ECL provisions is not likely to be material. With underlying asset quality remaining healthy and incremental stress from the unsecured pool on a declining trend, we expect credit costs to remain at 55 bps (+/-5 bps) over FY26–28E.**

Sector Outlook: Positive

Company Outlook: The bank's strategy reorientation under the new management is seeing green shoots across most key metrics. NIMs have started expanding earlier than expected and should continue their upward trajectory over H2. While growth has been muted in H1, the bank will look to capitalise on growth opportunities in select target segments as it intends to gradually accelerate profitable growth. Backed by expectations of impeccable strategy execution, we expect FB's RoA improvement to 1.2–1.4% over FY27–28E, supported by (1) healthy risk-adjusted credit growth; (2) margin improvement levers playing out with portfolio mix shift towards better-yielding segments and lower CoF; (3) strong deposit franchise with improving CASA mix; (4) strengthened fee income profile; (5) stable asset quality metrics keeping credit costs under control.

Current Valuation: 1.5x FY27E ABV Earlier Valuation: 1.4x FY27E ABV
Current TP: Rs 260/share Earlier TP: Rs 240/share
Recommendation: We maintain our **BUY** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage:
DCB Bank (TP – Rs 170); IDFC First Bank (TP – Rs 83)
Financial Performance

Operating Performance: Federal Bank's (FB) credit growth continued to remain muted, growing at 6/1% YoY/QoQ. Retail portfolio growth was muted (+4/1% YoY/QoQ), led by slower growth across the segments except credit cards (+19/5% YoY/QoQ). MFI book grew by 2% QoQ. Deposit growth was slower at 7/1% YoY/QoQ. In line with management's strategy to grow CASA, SA deposit growth was strong at 11/4% YoY/QoQ, while CA grew by 11%/flat YoY/QoQ. Overall, CASA deposits grew by 11/3% YoY/QoQ and TDs grew by 6%/flat YoY/QoQ. Thus, the CASA ratio improved to 31% vs 30.3% QoQ. LDR stood at 84.7% vs 83.9% QoQ.

Key Financials (Standalone)

(Rs Cr)	Q2FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income (NII)	2,495	+6.8	+5.4	2,345	+6.4
PPOP	1,644	+5.6	+5.0	1,482	+10.9
Net Profit	955	+10.9	-9.6	847	+12.7
NNPA (%)	0.5	0 bps	-9 bps	0.5	-1 bps
RoA (%)	1.1	+10 bps	-20 bps	0.9	+14 bps

Source: Company, Axis Securities Research

 (CMP as of 17th October, 2025)

CMP (Rs)	212.4
Upside /Downside (%)	22%
High/Low (Rs)	220/173
Market cap (Cr)	52,240
Avg. daily vol. (6m) Shrs.	84,53,495
No. of shares (Cr)	246.0

Shareholding (%)

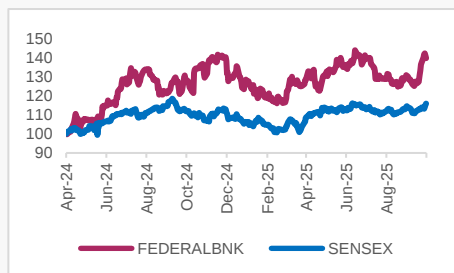
	Mar-25	Jun-25	Sep-25
Promoter	0.0	0.0	0.0
FII's	26.3	26.9	25.5
MF's / FI's	35.9	35.4	37.5
Others	37.8	37.7	37.0

Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	10,332	12,517	14,994
PPOP	6,836	8,538	10,582
Net Profit	4,094	5,222	6,564
EPS (Rs)	16.7	21.3	26.7
ABV (Rs)	146.7	165.2	188.2
P/ABV (x)	1.4	1.3	1.1
RoA (%)	1.1	1.2	1.4
NNPA (%)	0.6	0.6	0.6

Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
NII	+1.9	-1.4	-1.3
PPOP	+4.7	-0.1	-1.0
PAT	+3.4	-2.0	-2.3

Relative Performance


Source: Ace Equity, Axis Securities Research

Results Gallery
[Q1FY26](#)
[Q4FY25](#)
[Q3FY25](#)
[Q2FY25](#)
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Financial Performance(Cont'd):

- **Financial Performance:** NII grew by 5/7% YoY/QoQ, with NIMs improving sharply by 12 bps QoQ despite yield compression of 14 bps driven by lower CoF. Yields declined sharply by 18 bps QoQ, while CoD/CoF improved by 21/24 bps. Reported NIMs stood at 3.06% vs 2.94%. Non-interest grew by 12% YoY/-3% QoQ, led by strong fee income (+13% YoY/QoQ each). Treasury gains were muted and decreased by 57% QoQ. Opex growth was controlled at 9/2% YoY/QoQ, led by lower employee expenses. C-I Ratio improved to 54.0% vs 54.9% QoQ, largely driven by strong NII growth. PPOP grew by 5/6% YoY/QoQ. Provisions tapered QoQ with credit costs at 60 bps vs 28/67 bps YoY/QoQ. PAT declined by 10% YoY, but grew by 11% QoQ.
- **Asset quality** improved marginally with GNPA/NNPA at 1.83/0.48% vs 1.91/0.48% QoQ. Slippages during the quarter tapered to Rs 579 Cr vs Rs 658 Cr QoQ. Slippage ratio for the quarter stood at 0.9% vs 1.1% QoQ.

Key Takeaways

- **Growth Momentum to Pick-up Pace from H2 Onwards:** At the start of the bank's strategic transformation, FB's portfolio mix was skewed (~50% mix) towards lower-yielding corporate and home loans. With the strategic intent to boost NIMs, the bank is consciously not pursuing accelerated growth in these lower-yielding segments. **FB continues to remain selective in growing segments that contribute positively towards its NIM expansion goals.** Furthermore, while the MFI and PL segments have been witnessing an easing of asset quality headwinds, the bank will look to adopt a calibrated approach in growing the book. On the other hand, the higher-yielding credit card book continues to remain a key growth lever for the bank. Presently, **FB has identified Commercial Banking, Retail Gold Loans, and Credit Cards as key growth drivers. LAP and Business Banking have resumed their growth trajectory and are expected to gradually contribute to overall growth.** The management indicated that the bank's focus remains on pursuing profitable growth to build a strong franchise. While the corporate book is lower-yielding, the bank has been selective in growing this portfolio as it does not intend to dilute its yields. However, with corporate demand bouncing back, FB will not shy away from growing the corporate book. Currently, FB's focus within the corporate segment remains on mid-corporates. **FB has reiterated its guidance of growing the book at 1.2x of nominal GDP in FY26. However, supported by improving consumption demand and favourable macros, FB will aim at growing the book at 1.2–1.5x nominal GDP on a steady-state basis. We expect FB to deliver a healthy ~16% CAGR credit growth over FY26–28E.**
- **Fee Income Profile Strengthening Underway:** FB's fee-to-assets stands at >1%, reflecting steady scaling of its fee income franchise and improved competitiveness. Hereon, the bank intends to strengthen the trade, forex, wealth management, and cards segments to drive healthy and sustainable fee income growth. These segments are gradually gaining momentum and should ensure sustainably strong core fee income growth in the coming quarters. Para-banking and insurance have also been contributing healthily to fee income growth.

Outlook

We expect credit growth to pick up healthily, and the strategy around the deposit franchise to deliver, thereby driving strong 16% CAGR credit/deposit growth each over the medium term. The strategic and conscious shift towards mid-yielding segments and the ability to gradually scale up the higher-yielding segments augur well from a margin perspective over the medium term. With a better-than-expected performance on margins, we revise our NII estimates upwards by 2% for FY26E. Similarly, factoring in better fee income and contained credit costs, we revise our EPS estimates upwards by ~3% for FY26E. While we await better clarity on the margin trajectory with growth in higher-yielding segments yet to pick up, we revise our FY27/28E NII/EPS estimates marginally downwards by 1–2% each. **We factor in robust Credit/Deposit/NII/Earnings growth of 16%/16%/20%/27% CAGR over FY26–28E.**

Valuation & Recommendation

We value the stock at 1.5x FY27E ABV vs. current valuations of 1.3x FY27E ABV and value the subsidiary at Rs 11/share to arrive at a TP of Rs 260/share, implying an upside of 22% from CMP. **We recommend a BUY on the stock.**

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum, which could potentially derail earnings momentum for the bank.

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	10,332	12,517	14,994	10,141	12,701	15,185	1.9	-1.4	-1.3
PBP	6,836	8,538	10,582	6,532	8,544	10,692	4.7	-0.1	-1.0
Provisions	1,377	1,576	1,830	1,252	1,441	1,736	10.0	9.4	5.4
PAT	4,094	5,222	6,564	3,960	5,328	6,717	3.4	-2.0	-2.3

Source: Company, Axis Securities Research

Results Review (Standalone)

Rs Cr	Q2FY26	Q2FY25	% YoY	Q1FY26	% QoQ	H1FY26	H1FY25	YoY %
Net Interest Income	2,495	2,367	5.4	2,337	6.8	4,832	4,659	3.7
Non-Interest Income	1,082	964	12.3	1,113	-2.8	2,195	1,879	16.8
Operating expenses	1,933	1,766	9.5	1,894	2.1	3,827	3,472	10.2
Staff Cost	803	778	3.3	798	0.7	1,601	1,516	5.6
Pre-provision profits	1,644	1,565	5.0	1,556	5.6	3,200	3,066	4.4
Provisions and contingencies	363	158	129.3	400	-9.3	763	303	152.2
PBT	1,281	1,407	-9.0	1,156	10.8	2,437	2,764	-11.8
Provision for Tax	326	350	-7.0	294	10.7	620	697	-11.1
PAT	955	1,057	-9.6	862	10.9	1,817	2,066	-12.1
Deposits	2,88,920	2,69,107	7.4	2,87,436	0.5	2,88,920	2,69,107	7.4
Advances	2,47,900	2,33,820	6.0	2,44,679	1.3	2,47,900	2,33,820	6.0
C/D Ratio	85.8	86.9		85.1		85.8	86.9	
Yield on Advances (%)	8.86	9.35	-49bps	9.04	-18bps	8.95	9.39	-35bps
Cost of Deposits (%)	5.57	5.86	-29bps	5.78	-21bps	5.68	5.85	-18bps
Spreads (%)	3.29	3.49	-20bps	3.26	3bps	3.28	3.54	-27bps
NIM (%)	3.06	3.12	-6bps	2.94	12bps	3.00	3.14	-14bps
Cost-Income ratio (%)	54.0	53.0	103bps	54.9	-85bps	54.5	53.1	136bps
Asset Quality								
Gross NPA (%)	1.8	2.1	-26bps	1.9	-8bps	1.8	2.1	-26bps
Net NPA (%)	0.5	0.6	-9bps	0.5	0bps	0.5	0.6	-9bps
PCR (%)	74.3	72.9	136bps	75.2	-92bps	74.3	72.9	136bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	9,468	10,332	12,517	14,994
Other Income	3,801	4,591	5,292	6,227
Total Income	13,269	14,924	17,809	21,221
Total Operating Expense	7,168	8,088	9,271	10,639
PPOP	6,101	6,836	8,538	10,582
Provisions & Contingencies	733	1,377	1,576	1,830
PBT	5,368	5,459	6,963	8,752
Provision for Tax	1,316	1,365	1,741	2,188
PAT	4,052	4,094	5,222	6,564

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS				
Share Capital	491	491	491	491
Reserves	32,929	36,614	41,314	47,221
Shareholder's Funds	33,421	37,105	41,805	47,712
Total Deposits	2,83,647	3,21,013	3,71,419	4,31,335
Borrowings	23,726	17,432	20,761	26,832
Other Liabilities & Provisions	8,210	12,225	14,127	16,467
Total Liabilities	3,49,005	3,87,775	4,48,112	5,22,347
APPLICATION OF FUNDS				
Cash & Bank Balance	30,859	25,660	29,690	34,479
Investments	66,246	76,898	88,973	1,03,326
Advances	2,34,836	2,65,869	3,07,092	3,58,481
Fixed Assets & Other Assets	17,064	19,347	22,357	26,061
Total Assets	3,49,005	3,87,775	4,48,112	5,22,347

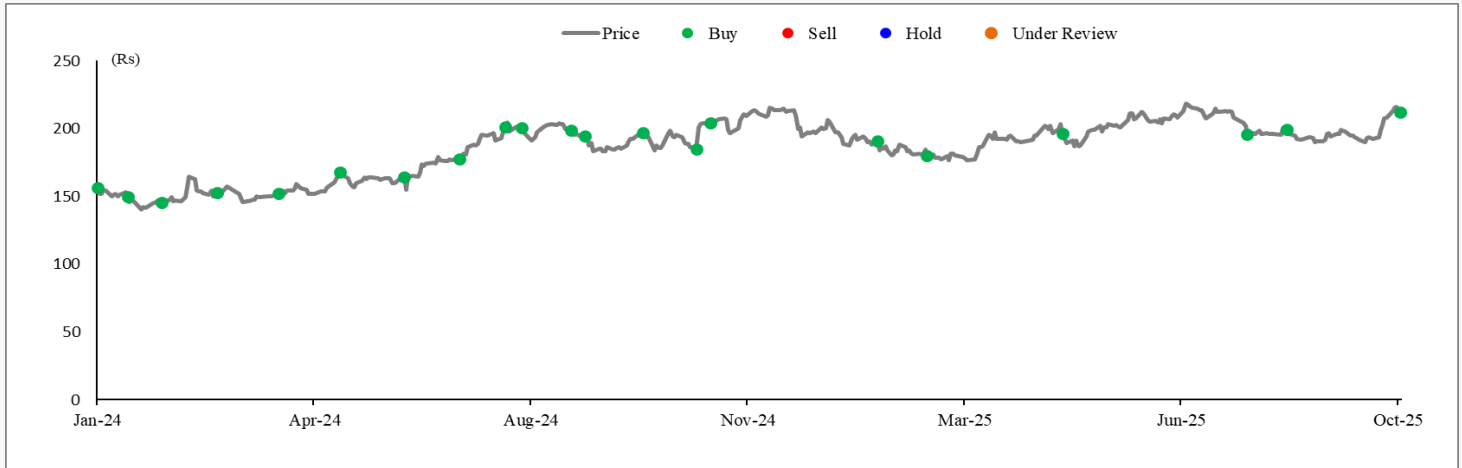
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	16.5	16.7	21.3	26.7
Earnings Growth (%)	8.0	1.0	27.6	25.7
BVPS	136.1	151.1	170.2	194.3
Adj. BVPS	131.9	146.7	165.2	188.2
ROAA (%)	1.2	1.1	1.2	1.4
ROAE (%)	13.0	11.6	13.2	14.7
P/E (x)	12.9	12.7	10.0	7.9
P/ABV (x)	1.6	1.4	1.3	1.1
PROFITABILITY				
NIM (%)	3.1	3.1	3.2	3.3
Cost-Income Ratio	54.0	55.3	52.3	50.0
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	12.1	13.2	15.5	16.7
Deposit Growth (%)	12.3	13.2	15.7	16.1
C-D Ratio	82.8	82.8	82.7	83.1
Equity/Assets (%)	9.6	9.6	9.3	9.1
Equity/Loans (%)	14.2	14.0	13.6	13.3
CAR	16.4	16.0	15.6	15.2
CAR Tier I	15.0	14.7	14.4	14.1
ASSET QUALITY				
Gross NPLs (%)	1.9	1.7	1.7	1.7
Net NPLs (%)	0.4	0.4	0.4	0.4
Coverage Ratio (%)	76.2	76.2	76.2	76.2
Credit Costs	0.3	0.6	0.6	0.6
ROAA TREE				
Net Interest Income	2.9	2.8	3.0	3.1
Non-Interest Income	1.2	1.2	1.3	1.3
Operating Cost	2.2	2.2	2.2	2.2
Provisions	0.2	0.4	0.4	0.4
Tax	0.4	0.4	0.4	0.5
ROAA	1.3	1.1	1.2	1.4
Leverage (x)	10.5	10.4	10.6	10.8
ROAE	13.1	11.6	13.2	14.7

Source: Company, Axis Securities Research

Federal Bank Price Chart and Recommendation History



Date	Reco.	TP	Research
01-Jan-24	BUY	180	Top Picks
17-Jan-24	BUY	180	Result Update
02-Feb-24	BUY	180	Top Picks
01-Mar-24	BUY	180	Top Picks
01-Apr-24	BUY	180	Top Picks
03-May-24	BUY	205	Result Update
03-May-24	BUY	205	Top Picks
01-Jun-24	BUY	205	Top Picks
01-Jul-24	BUY	205	Top Picks
24-Jul-24	BUY	230	Result Update
01-Aug-24	BUY	230	Top Picks
02-Sep-24	BUY	230	Top Picks
01-Oct-24	BUY	230	Top Picks
29-Oct-24	BUY	230	Result Update
29-Jan-25	BUY	225	Result Update
02-May-25	BUY	230	Result Update
04-Aug-25	BUY	240	Result Update
22-Aug-25	BUY	240	AAA
20-Oct-25	BUY	260	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events.
NO STANCE	We do not have any forward-looking estimates, valuations or recommendations for the stock.

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