

CMP: ₹ 196

Target: ₹ 210 (7%)

Target Period: 12 months

HOLD

August 4, 2025

RoA impact amid NIM & credit cost hiccup; eyes on H2 recovery

About the stock: Federal Bank is an old private sector bank based out of Kerala with 1,591 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 18.42%
- Balanced loan mix with retail: wholesale mix of 56:44. FedBank Financial Services (NBFC) is a subsidiary with 60.97% stake

Q1FY26 performance: Federal Bank reported a muted performance in Q1FY26, with PAT declining 15% YoY to ₹862 crore, due to elevated credit cost at ~65 bps, largely from MFI slippages and pressure on margins. Advances growth at 9% YoY, witnessed moderation, while deposits rose 8% YoY (1% QoQ) to ₹2,87,436 crore, supported by an improving CASA mix and retail deposit mobilisation. Resultantly, NII grew 2% YoY to ₹2,337 crore, with 18 bps QoQ compression in margins to 2.94%, owing to repo-linked repricing (T+1 basis). Non-interest income surged to ₹1,113 crore (22% YoY), aided by strong fee income and treasury gains. Operating efficiency improved, with C/I ratio down 180 bps QoQ to 54.9%, as opex remained flat sequentially. GNPA/NNPA inched up 7 bps/4 bps to 1.91%/0.48%, while PCR stood at 74.4%; slippages were elevated at ₹658 crore.

Investment Rationale

- Strategy focussing on liabilities on track:** Management expects overall credit growth of 14–15% in FY26E, with momentum led by mid-yield segments such as commercial banking, gold loans, CV/CE, and business banking. Retail growth is likely to accelerate in H2FY26, supported by festive season demand and completed restructuring. Corporate loan growth is guided at 8–10%, with a shift towards mid-corporate clients and deeper geographies. On liabilities front, focus remains on retail deposits and CASA mobilisation, aided by revised branch scorecards and improved traction in CA balances (17% YoY).
- Margin recovery in sight, credit cost normalisation key :** Margins are expected to bottom out in Q2FY26 and recover in H2, aided by : (1) lagged benefit of deposit repricing (2) savings rate cut, and (3) favourable shift in loan mix towards higher-yielding segment. The T+1 repricing of repo-linked loans led to immediate NIM compression of 18 bps QoQ, but easing cost of funds should support a gradual rebound to ~3%. On asset quality, slippages remained elevated at ₹658 crore (vs ₹483 crore in Q4FY25), largely from MFI and agri segment, though trends from June and July indicate recovery. GNPA/NNPA stood at 1.91%/0.48%, with PCR at 74.4%. Credit cost guidance reiterated at ~55 bps for FY26E.

Rating and Target Price

- Management on track with strategy focussing on yields, liabilities mix and fee income, though sustained change will be visible only after few quarter. Moderation in business growth, volatility in margin and MFI related credit cost may weigh on profitability in FY26E and thus keep valuations under pressure. Thus, we maintain our target price at ₹210, valuing the stock at 1.25x FY27E and ₹8.5 for subsidiary. Maintain Hold rating.

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%	9,953	11,703	11%
PPP	4,794	5,174	6,101	18%	6,498	7,871	14%
PAT	3,011	3,721	4,052	29%	3,908	5,016	11%
ABV (₹)	96	114	130		137	152	
P/E	15	14	13		13	10	
P/ABV	2.2	1.9	1.6		1.6	1.4	
RoE (%)	14.9	14.7	13.0		11.3	13.4	
RoA (%)	1.3	1.3	1.2		1.1	1.2	

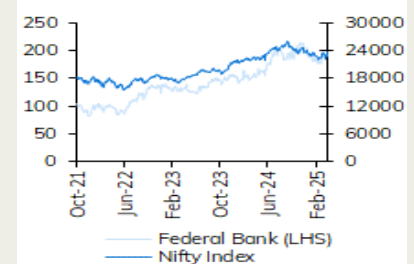
Source: Company, ICICI Direct Research

FEDERAL BANK
YOUR PERFECT BANKING PARTNER**Particulars**

Particulars	Amount
Market Capitalisation	₹ 48,187 crore
52 week H/L	220 / 173
Net Worth	₹ 34,539 crore
Face value	2

Shareholding pattern

(in %)	Sep-24	Dec-24	Mar-25	Jun-25
FII	27.7	26.3	26.3	27.7
DII	47.0	48.9	49.0	48.2
Others	25.3	24.8	24.7	24.1

Price Chart**Key risks**

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

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

CA Parth Chintkindi
parth.chintkindi@icicisecurities.com

Concall highlights and outlook

Performance and growth outlook

- Overall loan book to grow at 1.2x nominal GDP, implying ~14–15% YoY growth for FY26.
- Growth to be driven by mid-yield segments: commercial banking, CV, LAP, gold loans, and business banking.
- Corporate loan book expected to grow at 8–10% YoY, with a focus on mid-corporate client and deeper geographies.
- Retail momentum expected to pick up sharply in H2FY26, aided by festive season demand and completed business restructuring.
- Branch-level scorecards aligned to push low-cost deposit mobilization.
- Retail term deposits gaining traction; deposit growth to remain calibrated.
- Expect stronger disbursement momentum in H2FY26, particularly in mortgages, LAP, and auto loans.

Margins outlook

- NIM stood at 2.94% in Q1FY26 and is expected to bottom out in Q2FY26 due to full impact of June repo cut.
- Management expects a rebound in H2FY26, with NIM recovering to ~3% levels, assuming no further repo cuts.
- Drivers for margin recovery:
 - Lower cost of funds due to repricing of term deposits (avg. maturity ~12–14 months).
 - Savings rate cuts starting to reflect in funding cost.
 - Improving loan mix towards higher-yielding segment.
- Fee income and treasury gains are being actively leveraged to offset NII pressure in the current rate environment.

Asset quality and credit cost

- Q1FY26 credit cost was elevated at ~65 bps due to MFI slippages. Slippages at ₹658 crore, bulk from MFI/agri; other segments either flat or improving.
- Full-year credit cost guidance maintained at ~55 bps, as slippages expected to normalize from Q2 onwards.
- Asset quality in non-MFI/agri segments remains stable.
- MFI slippages peaked in May; improving trend seen in June–July. Cautious approach to MFI growth to continue in near term.
- MFI book will remain under tight filters and cautious stance for at least one more quarter.
- MSME segment (commercial banking) remains a key growth area; no alarming stress observed.

Other updates

- Full transition to Retail Loan Service Centers (RLSC) and Retail Business Service Centers (RBSC) to boost efficiency and scalability.
- Cost-to-income ratio to remain steady, with efforts to further drive efficiencies.
- Management is closely monitoring export-linked MSMEs due to potential impact of recent tariff impositions. No panic signs yet, but it remains a key monitorable for FY26.

Exhibit 1: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	2,336.8	2,292.0	2.0	2,377.4	-1.7	Moderation in credit off-take and margin pressure impacted momentum
NIM (%)	2.94	3.16	-22 bps	3.12	-18 bps	Largely led by repricing effect
Other Income	1,113.0	915.2	21.6	1,006.0	10.6	Strong traction in fee income coupled with treasury gains
Net Total Income	3,449.8	3,207.2	7.6	3,383.4	2.0	
Staff cost	797.6	738.0	8.1	783.8	1.8	
Other Operating Expenses	1,095.9	968.2	13.2	1,134.2	-3.4	Branch expansion, marketing and re-alignment expense kept CI ratio at 54.89%
PPP	1,556.3	1,500.9	3.7	1,465.4	6.2	
Provision	400.2	144.3	177.4	138.1	189.7	Elevated slippages in MFI and agri segment
PBT	1,156.1	1,356.6	-14.8	1,327.3	-12.9	
Tax Outgo	294.4	347.1	-15.2	297.1	-0.9	
PAT	861.8	1,009.5	-14.6	1,030.2	-16.4	De-growth amid margin pressure and higher provision
Key Metrics						
GNPA	4,669.7	4,738.4	-1.4	4,375.5	6.7	Slippages at 1.11%, led by MFI segment
NNPA	1,157.6	1,330.4	-13.0	1,040.4	11.3	
Gross advances	245,286.0	225,160.0	8.9	242,773.0	1.0	Growth seen in CV/CE, gold, and SME
Deposit	287,436.0	266,065.0	8.0	283,647.0	1.3	CASA improvement of 12 bps sequentially

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	22,188.3	26,365.2	28,383.1	32,622.1
Interest Expended	13,894.8	16,897.3	18,430.2	20,919.3
Net Interest Income	8,293.5	9,468.0	9,952.9	11,702.8
growth (%)	14.7	14.2	5.1	17.6
Non Interest Income	3,079.3	3,801.2	4,498.1	5,347.0
Net Income	11,372.8	13,269.2	14,451.0	17,049.8
Staff cost	2,823.1	3,088.3	3,438.3	3,714.0
Other operating Expense	3,375.2	4,079.8	4,514.4	5,464.8
Operating Profit	5,174.5	6,101.1	6,498.4	7,871.0
Provisions	196.1	733.1	1,268.9	1,159.8
PBT	4,978.4	5,368.1	5,229.5	6,711.1
Taxes	1,257.8	1,316.2	1,321.2	1,695.6
Net Profit	3,720.6	4,051.9	3,908.2	5,015.6
growth (%)	23.6	8.9	-3.5	28.3
EPS (₹)	15.3	16.5	15.9	20.4

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of Equity Shares (Crores)	243.5	245.6	245.6	245.6
EPS (₹)	15.3	16.5	15.9	20.4
BV (₹)	119.4	136.1	144.7	160.9
ABV (₹)	114.3	130.0	137.3	151.7
P/E	13.9	12.9	13.4	10.4
P/BV	1.8	1.6	1.5	1.3
P/ABV	1.9	1.6	1.6	1.4

Yields & Margins (%)

Net Interest Margins	3.3	3.2	3.0	3.1
Yield on assets	8.8	8.9	8.5	8.6
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	5.6

Quality and Efficiency (%)

Cost to income ratio	54.5	54.0	55.0	53.8
Credit/Deposit ratio	82.9	82.8	83.8	83.8
GNPA	2.2	2.1	2.2	2.2
NNPA	0.6	0.6	0.7	0.7
RoE	14.7	13.0	11.3	13.4
RoA	1.3	1.2	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	487.1	491.2	491.2	491.2
Reserves and Surplus	28,607.3	32,929.4	35,059.2	39,024.7
Networth	29,094.4	33,420.6	35,550.4	39,515.9
Deposits	252,534.0	283,647.5	321,176.6	373,114.4
Borrowings	18,026.4	23,726.3	26,960.6	30,643.1
Other Liabilities & Provisions	8,657.0	8,210.4	9,467.4	11,231.8
Total	308,311.8	349,004.8	393,155.0	454,505.1
Application of Funds				
Fixed Assets	1,020.1	1,478.3	1,163.2	1,218.7
Investments	60,859.5	66,245.6	73,502.9	84,798.3
Advances	209,403.3	234,836.4	269,180.3	312,666.6
Other Assets	18,066.0	15,585.3	14,395.8	16,049.6
Cash with RBI & call money	18,962.9	30,859.2	34,912.8	39,772.0
Total	308,311.8	349,004.8	393,155.0	454,505.1

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	18.4	13.2	12.7	15.6
Advances	20.0	12.1	14.6	16.2
Deposit	18.3	12.3	13.2	16.2
Total Income	18.9	16.7	8.9	18.0
Net interest income	14.7	14.2	5.1	17.6
Operating expenses	23.1	17.3	9.6	17.4
Operating profit	7.9	17.9	6.5	21.1
Net profit	23.6	8.9	-3.5	28.3
Net worth	35.3	14.9	6.4	11.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Vishal Narnolia, MBA, Parth Parmeshwar Chintkindi, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headsvicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

ICICI Securities Limited has not used any Artificial Intelligence tools for preparation of this Research Report