

October 31, 2025

Capital infusion and margin revival supports valuations...

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

Key Development: Federal Bank Board has approved the preferential issuance of up to 27.3 crore warrants to Blackstone affiliate Asia II Topco XIII Pte. Ltd., raising ₹6,197 crore. Each warrant, priced at ₹227, is convertible into one equity share with a face value of ₹2 and a premium of ₹225. Upon full conversion, the investor will hold a 9.99% stake and gain the right to nominate one non-executive director to the bank's board. The warrants have an 18-month exercise period, with 25% payment due at subscription and the remaining 75% at conversion. The proposal is subject to approvals from shareholders, RBI, and CCI.

Investment Rationale

- **Infusion strengthens balance sheet and unlocks growth potential:** The proposed Blackstone capital infusion is expected to be a key catalyst, boosting CET-1 by ~287 bps by end-FY27E and significantly enhancing growth visibility and balance-sheet strength. This infusion provides ample headroom for accelerated loan growth and selective investments in new non-lending and inorganic opportunities, aligning with management's disciplined capital allocation framework. While the ongoing portfolio mix shift may continue in the near term, loan growth appears to have bottomed out, and the bank's strategy to grow 1.5–2x the industry average remains on track, led by traction in mid- and high-yield segments such as commercial banking, CV, and LAP. The launch of wealth management products in Q3FY26 and improving asset quality further strengthen the medium-term outlook, with FY27E BV expected to rise by ~4.5%.
- **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. 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.

Rating and Target Price

- Blackstone capital infusion strengthen banks balance sheet and enhances next leg of growth potential. Margin pressure and slower growth in 1H FY26 is seen to impact FY26 performance, however, anticipating recovery in H2FY26 and with current development of capital infusion, we revise our multiple upwards ~1.6x (earlier 1.25x) FY27E BV. Assigning ₹8.8 for subsidiary, we upgrade target price to ₹275 (earlier ₹215). Recommend BUY 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	11,798	12%
PPP	4,794	5,174	6,101	18%	6,542	8,073	15%
PAT	3,011	3,721	4,052	29%	3,861	5,016	11%
ABV (₹)	96	114	130		146	162	
P/E	15	14	13		14	12	
P/ABV	2.2	1.9	1.6		1.5	1.3	
RoE (%)	14.9	14.7	13.0		11.0	12.1	
RoA (%)	1.3	1.3	1.2		1.1	1.2	

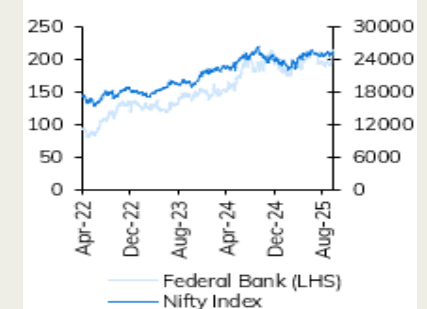
Source: Company, ICICI Direct Research

FEDERAL BANK
YOUR PERFECT BANKING PARTNER**Particulars**

Particulars	Amount
Market Capitalisation	₹ 57,798 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**

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

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Financial Summary

Exhibit 1: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	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 2: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
<u>Valuation</u>				
No. of Equity Shares (Crores)	243.5	245.6	245.6	272.9
EPS (₹)	15.3	16.5	15.7	18.4
BV (₹)	119.4	136.1	150.9	167.4
ABV (₹)	114.3	130.0	145.9	162.3
P/E	13.9	12.9	13.5	11.6
P/BV	1.8	1.6	1.4	1.3
P/ABV	1.9	1.6	1.5	1.3

Yields & Margins (%)

Net Interest Margins	3.3	3.2	3.0	3.2
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

Quality and Efficiency (%)

Cost to income ratio	54.5	54.0	54.6	52.9
Credit/Deposit ratio	82.9	82.8	82.8	83.5
GNPA	2.2	2.1	1.8	1.6
NNPA	0.6	0.6	0.5	0.5
RoE	14.7	13.0	11.0	12.1
RoA	1.3	1.2	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
<u>Sources of Funds</u>				
Capital	487.1	491.2	491.2	545.8
Reserves and Surplus	28,607.3	32,929.4	36,572.3	45,129.7
Networth	29,094.4	33,420.6	37,063.4	45,675.5
Deposits	252,534.0	283,647.5	312,304.5	356,139.1
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	11,231.8
Total	308,311.8	349,004.8	380,982.9	433,842.8
<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	16,529.0	11,966.4
Cash with RBI & call money	18,962.9	30,859.2	31,034.4	38,026.7
Total	308,311.8	349,004.8	380,982.9	433,842.8

Source: Company, ICICI Direct Research

Exhibit 4: 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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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