

# Federal Bank | REDUCE

## Limited upside amid sluggish growth

Federal Bank reported a steady set of numbers in 2QFY26 with sequential improvement in profitability with RoA/RoE of ~1.1%/11.5% (~1.0%/10.2% in 1QFY26) driven by NIM expansion of ~12bps QoQ (reported) and credit cost moderation (down 15bp QoQ). However, loan growth remained muted at ~1%/6% QoQ/YoY as management continue to focus on profitable growth. Asset quality improved with moderation in gross/net slippages by ~15/30bps QoQ (annualized). The bank, however, created an additional standard asset provision of INR 460mn on retail exposures linked to connected borrowers as a proactive buffer, which lifted credit costs to ~60bps. Adjusted for this overlay, core credit cost would have been lower at ~52bps. We build ~12% loan CAGR during FY25-27E with avg. RoA/RoE of ~1.1%/12% over FY26E-27E. Given expected growth/RoE profile, current valuation of 1.3x FY27 BVPS looks fair. Hence, we downgrade the stock to Reduce (as per our new rating system) with a revised target price of INR 210, valuing the core bank at 1.2x FY27E BVPS.

- **Portfolio realignment weighs on overall expansion:** Loan growth remained subdued as the bank continued to recalibrate its asset mix away from low-yield corporate and housing loans toward higher-yield segments. Total advances grew +6%/+1% YoY/QoQ to INR 2.45tn, while deposits rose 7.4% YoY to INR 2.89tn. Growth was primarily driven by gold loans, cards, and commercial banking, whereas MFI and personal loans were kept deliberately slow amid residual stress. Corporate growth remained tepid as the bank avoided price-led competition. Management expects the recovery in retail and business banking (LAP, auto, CV/CE) to support H2FY26 growth, but the ongoing structural shift could keep near-term loan growth below peers. **We build a 12% CAGR for net advances and deposit each over FY25-27E.**
- **Margins expand:** Profitability improved sequentially with margin recovery and robust fee income. Reported NIM expanded 12bps QoQ to 3.06%, driven by a 19bps decline in cost of funds (calc.), partially aided by balance-sheet optimisation. Fee-to-average-assets crossed 1% for the first time, led by traction in trade, forex, and wealth. However, operating costs continued to rise with ongoing investments, keeping cost-to-income at ~54%. While the bank remains confident of sustaining margin improvement, management acknowledged that repricing benefits could normalise over the next two quarters. **We factor in an average NIM of 3.0% for FY26E-27E in our estimates.**
- **Stable asset quality trends; MFI stress yet to fully normalise:** Asset quality metrics remained stable with gross/net slippages at 97bps/53bps, though the MFI segment continues to face residual stress. Credit cost moderated to ~60bps in Q2 (vs. 67bps in Q1), in line with the full-year guidance of 55bps. Management highlighted that MFI stress has likely peaked but remains cautious until collections show sustained improvement. A management overlay of INR 460mn was created on standard connected exposures as a precautionary buffer. **We build in average credit costs of ~0.57% over FY26E-27E.**
- **Valuation and view:** While Federal Bank continues to execute well on its strategic priorities of improving margins and fee income, growth remains modest and MFI asset quality is yet to fully stabilise. With limited near-term catalysts including low loan growth, we see balanced risk-reward at current levels. We build avg. RoA/RoE of 1.1%/12% over FY26E-27E and **downgrade the stock to Reduce (as per our new rating system) with a revised target price of INR 210, valuing the core bank at 1.2x FY27E BVPS.**



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### Recommendation and Price Target

Current Reco.	REDUCE
Previous Reco.	HOLD
Current Price Target (12M)	210
Upside/(Downside)	-1.1%
Previous Price Target	190
Change	10.5%

### Key Data – FB IN

Current Market Price	INR212
Market cap (bn)	INR522.2/US\$5.9
Free Float	87%
Shares in issue (mn)	2,455.8
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,447.1/US\$16.4
52-week range	220/173
Sensex/Nifty	83,952/25,710
INR/US\$	88.0

### Price Performance

%	1M	6M	12M
Absolute	6.8	9.0	9.7
Relative*	5.1	2.0	6.1

\* To the BSE Sensex

### Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	37,206	40,519	39,916	47,570	58,415
Net Profit (YoY) (%)	23.6%	8.9%	-1.5%	19.2%	22.8%
Assets (YoY) (%)	18.4%	13.2%	9.1%	13.7%	13.6%
ROA (%)	1.3%	1.2%	1.1%	1.2%	1.3%
ROE (%)	14.7%	13.0%	11.3%	12.1%	13.2%
EPS	15.3	16.5	16.3	19.4	23.8
EPS (YoY) (%)	7.4%	8.0%	-1.5%	19.2%	22.8%
PE (x)	13.9	12.8	13.0	10.9	8.9
BV	117	132	147	165	187
BV (YoY) (%)	18.5%	13.4%	11.3%	12.1%	13.2%
P/BV (x)	1.82	1.60	1.44	1.28	1.13

Source: Company data, JM Financial. Note: Valuations as of 17/Oct/2025

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## Federal Bank 2Q26: Key quarterly trends

### Exhibit 1. FB: 2QFY26 Result update

(INR bn)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)	2QFY26E	A/E (%)
Interest Income	65.8	66.9	67.4	2.5%	0.8%		
Interest Expenses	42.1	43.5	42.5	0.9%	-2.4%		
<b>Net Interest Income</b>	<b>23.7</b>	<b>23.4</b>	<b>25.0</b>	<b>5%</b>	<b>7%</b>	<b>23.7</b>	<b>5%</b>
Non interest income	9.6	11.1	10.8	12%	-3%	10.9	-1%
<b>Total income</b>	<b>33.3</b>	<b>34.5</b>	<b>35.8</b>	<b>7%</b>	<b>4%</b>	<b>34.6</b>	<b>3%</b>
Employee Cost	7.8	8.0	8.0	3%	1%		
Other Operating Expenses	9.9	11.0	11.3	14%	3%		
<b>Total Operating Expenses</b>	<b>17.7</b>	<b>18.9</b>	<b>19.3</b>	<b>9%</b>	<b>2%</b>	<b>19.3</b>	<b>0%</b>
<b>Operating Profit</b>	<b>15.7</b>	<b>15.6</b>	<b>16.4</b>	<b>5%</b>	<b>6%</b>	<b>15.3</b>	<b>7%</b>
Provisions	1.6	4.0	3.6	129%	-9%	3.5	3%
<b>PBT</b>	<b>14.1</b>	<b>11.6</b>	<b>12.8</b>	<b>-9%</b>	<b>11%</b>	<b>11.8</b>	<b>9%</b>
Tax	3.5	2.9	3.3	-7%	11%	2.9	13%
<b>PAT</b>	<b>10.6</b>	<b>8.6</b>	<b>9.6</b>	<b>-10%</b>	<b>11%</b>	<b>8.9</b>	<b>7%</b>
Loan (Rs bn)	2,303	2,412	2,447	6%	1%	2,480	-1%
Deposit (Rs bn)	2,691	2,874	2,889	7%	1%	2,932	-1%
C/D ratio	85.6%	83.9%	84.7%	(90) bps	76 bps	84.6%	11 bps
CASA ratio	30.1%	30.3%	31.0%	94 bps	66 bps		
NIM-reported (%)	3.12%	2.94%	3.06%	(6) bps	12 bps		
Yield on IEA (Calc.%)	8.32%	8.04%	7.95%	(37) bps	(9) bps	7.85%	10 bps
Cost of funds (Calc. %)	5.75%	5.68%	5.49%	(27) bps	(19) bps	5.55%	(6) bps
Loan - deposit spread	2.57%	2.36%	2.46%	(11) bps	10 bps	2.30%	16 bps
NIM (calc. %)	2.99%	2.81%	2.94%	(5) bps	13 bps	2.76%	18 bps
Gross Slippages (INR bn)	4.3	6.6	5.8	35%	-12%	6.5	-10%
Net Slippages (INR bn)	1.6	5.0	3.2	97%	-36%	4.8	-34%
Gross Slippages (annualised)	0.79%	1.13%	0.97%	18 bps	(16) bps	1.08%	(11) bps
Net Slippages (annualised)	0.29%	0.85%	0.53%	24 bps	(32) bps	0.80%	(27) bps
O/s Restructured loan (INR bn)	16	13	12	-26%	-9%		
GNPA (%)	2.09%	1.91%	1.83%	(26) bps	(8) bps	2.0%	(14) bps
NNPA (%)	0.57%	0.48%	0.48%	(10) bps	(0) bps	0.5%	(5) bps
PCR (%)	72.9%	75.2%	74.3%	137 bps	(92) bps	73.5%	79 bps
Credit cost (%)	0.28%	0.67%	0.60%	32 bps	(7) bps	0.6%	2 bps
ROA (%)	1.27%	0.98%	1.08%	(20) bps	10 bps	1.0%	8 bps
ROE (%)	13.6%	10.2%	11.0%	(263) bps	84 bps	10.2%	78 bps

Source: Company, JM Financial

### Exhibit 2. FB: Deposits composition

Deposits Composition (INR bn)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
Current	174	193	192	10.7%	-0.2%
Saving	635	680	704	10.7%	3.5%
<b>CASA</b>	<b>809</b>	<b>872</b>	<b>896</b>	<b>10.7%</b>	<b>2.7%</b>
Time	1,882	2,002	1,993	5.9%	-0.4%
<b>Total Deposits</b>	<b>2,691</b>	<b>2,874</b>	<b>2,889</b>	<b>7.4%</b>	<b>0.5%</b>
<b>Mix (%)</b>					
Current	6.5%	6.7%	6.7%	0.2%	0.0%
Saving	23.6%	23.6%	24.4%	0.7%	0.7%
<b>CASA</b>	<b>30.1%</b>	<b>30.3%</b>	<b>31.0%</b>	<b>0.9%</b>	<b>0.7%</b>
Time	69.9%	69.7%	69.0%	-0.9%	-0.7%
<b>Total Domestic Deposits</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

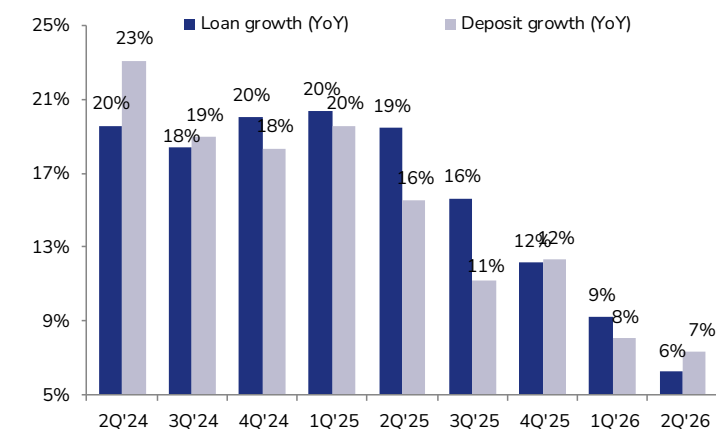
Source: Company, JM Financial

**Exhibit 3. FB: Loan mix and growth**

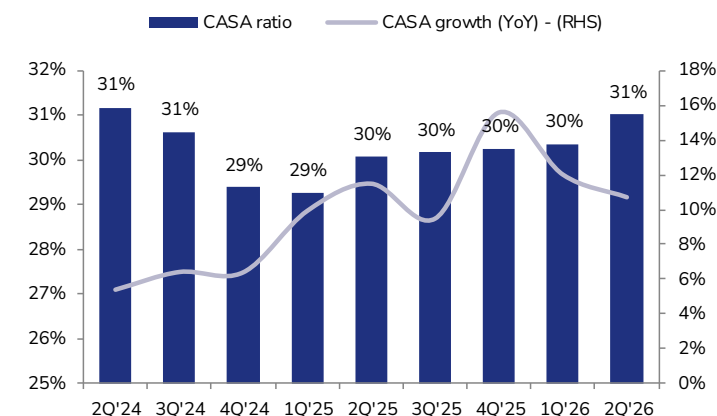
Gross advances Break-up (INR bn)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
Corporate	851	894	907	6%	1%
SME & Agri	782	837	871	11%	4%
SME	404	442	464	15%	5%
Business Banking - retail nature	190	192	196	3%	2%
Commercial Banking - wholesale nature	214	250	267	25%	7%
Agri	377	395	407	8%	3%
CV/CE	39	49	50	28%	4%
Agri (new)	80	82	83	4%	1%
Gold (retail+agri)	297	313	323	9%	3%
Retail (new)	721	730	729	1%	0%
Retail	721	730	729	1%	0%
Retail, housing	354	365	361	2%	-1%
Retail, mortgage/LAP	70	71	72	2%	1%
Retail, auto	83	86	86	4%	-1%
Retail, personal	39	37	37	-7%	-2%
Retail, other	175	171	173	-1%	1%
Retail, Credit cards	34	39	40	19%	5%
Retail, MFI	100	93	93	-7%	0%
<b>Total gross advances</b>	<b>2,393</b>	<b>2,510</b>	<b>2,556</b>	<b>7%</b>	<b>2%</b>
<b>Mix (%)</b>					
Corporate	36%	36%	35%	0%	0%
SME & Agri	33%	33%	34%	1%	1%
SME	17%	18%	18%	1%	1%
Business Banking - retail nature	8%	8%	8%	0%	0%
Commercial Banking - wholesale nature	9%	10%	10%	2%	0%
Agri	16%	16%	16%	0%	0%
CV/CE	2%	2%	2%	0%	0%
Agri (new)	3%	3%	3%	0%	0%
Gold (retail+agri)	12%	12%	13%	0%	0%
Retail (new)	30%	29%	29%	-2%	-1%
Retail	30%	29%	29%	-2%	-1%
Retail, housing	15%	15%	14%	-1%	0%
Retail, mortgage/LAP	3%	3%	3%	0%	0%
Retail, auto	3%	3%	3%	0%	0%
Retail, personal	2%	1%	1%	0%	0%
Retail, other	7%	7%	7%	-1%	0%
Retail, Credit cards	1%	2%	2%	0%	0%
Retail, MFI	4%	4%	4%	-1%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Source: Company, JM Financial

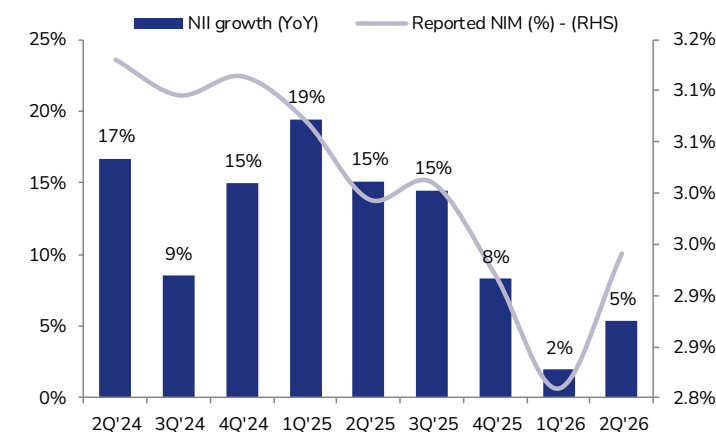
## Federal Bank 2Q26: Key charts

**Exhibit 4. FB: Portfolio realignment weighs on overall growth**


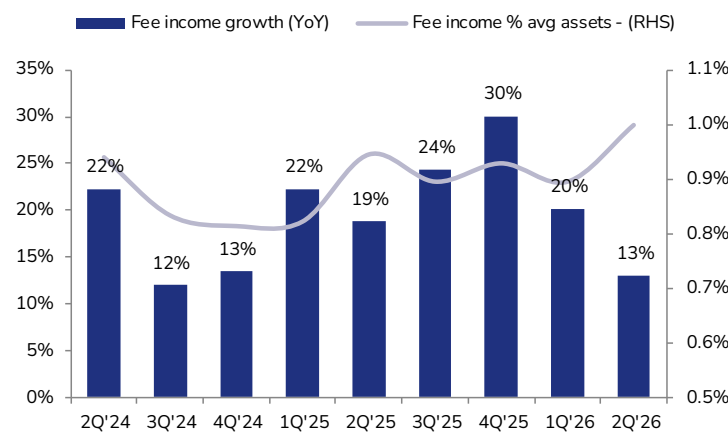
Source: Company, JM Financial

**Exhibit 5. FB: CASA ratio improves sequentially**


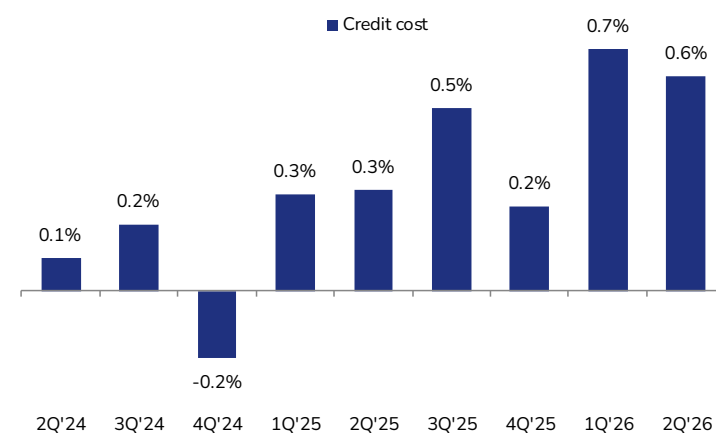
Source: Company, JM Financial

**Exhibit 6. FB: Margin reversal in 2Q**


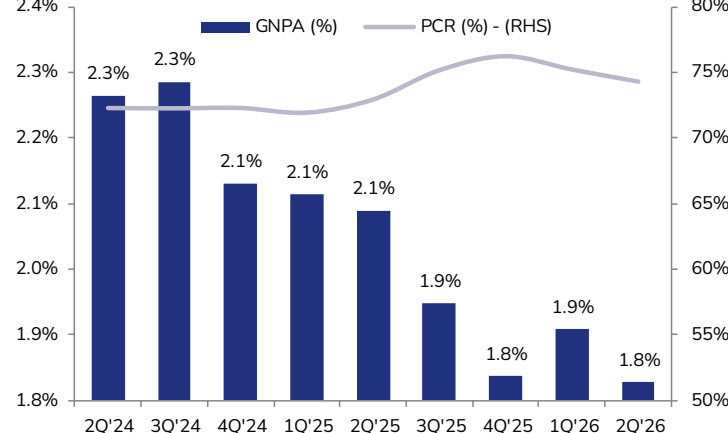
Source: Company, JM Financial

**Exhibit 7. FB: Fee income growth remains strong**


Source: Company, JM Financial

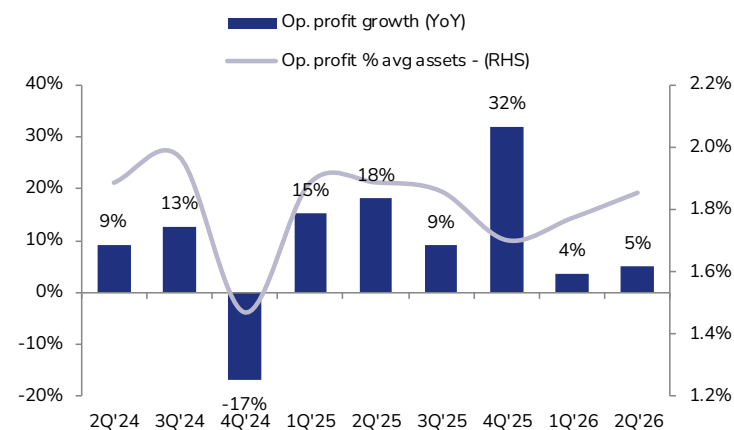
**Exhibit 8. FB: Credit costs improves sequentially**


Source: Company, JM Financial

**Exhibit 9. FB: Asset quality begins to stabilise**


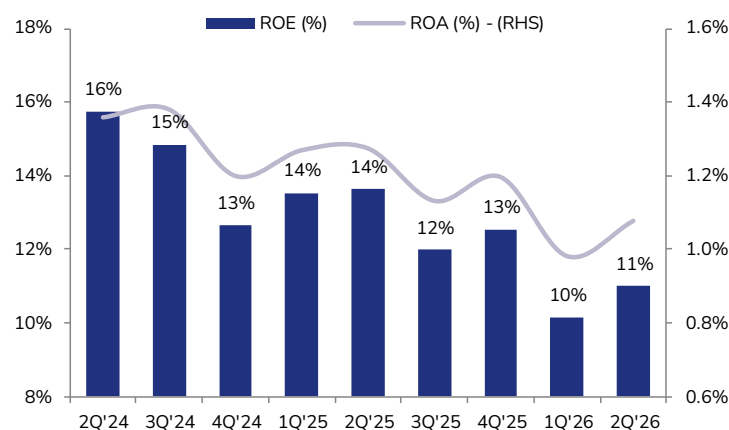
Source: Company, JM Financial

Exhibit 10. FB: Operating profit growth picking up



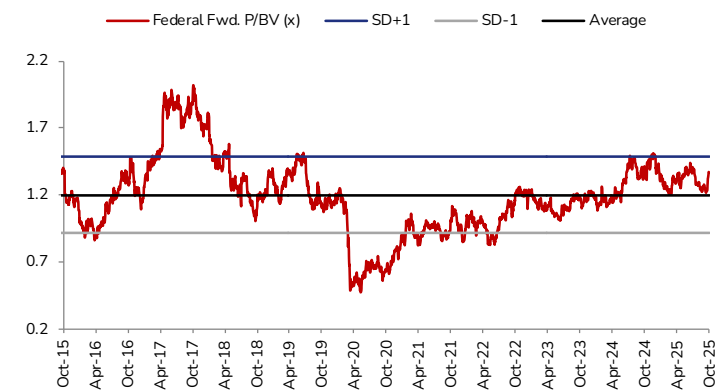
Source: Company, JM Financial

Exhibit 11. FB: Trends in RoA / RoE



Source: Company, JM Financial

Exhibit 12. FB: One-year forward P/BV



Source: JM Financial, Company

Exhibit 13. FB: Change in our estimates

New Estimates				Old Estimates			Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Recommendation	REDUCE			HOLD					
Target price (Rs)	210			190			5.4%		
Assumptions									
YoY loan growth	10.6%	12.8%	13.7%	12.8%	13.8%	14.0%	(219) bps	(109) bps	(34) bps
Net interest margins (calculated)	2.9%	3.1%	3.1%	2.8%	2.9%	3.05%	15 bps	14 bps	7 bps
Core fee income to assets	1.0%	1.1%	1.1%	1.0%	1.0%	1.11%	2 bps	4 bps	4 bps
Cost to assets	2.2%	2.2%	2.2%	2.1%	2.1%	2.12%	4 bps	6 bps	4 bps
Credit cost	0.56%	0.58%	0.55%	0.53%	0.54%	0.52%	4 bps	5 bps	3 bps
Outputs (INR bn)									
NII	102	118	136	98	116	138	3%	2%	-0.9%
Operating profit	67	79	95	64	77	95	4.7%	2%	-0.8%
Net Profit	40	48	58	38	47	59	4%	1%	-1.5%
EPS (Rs)	16	19	24	16	19	24	4%	1%	-1%
ROA (%)	1.1%	1.2%	1.3%	1.0%	1.1%	1.25%	6 bps	5 bps	2 bps
ROE (%)	11.3%	12.1%	13.2%	10.9%	12.0%	13.5%	46 bps	10 bps	(25) bps

Source: Company, JM Financial

Valuation

We value Federal Bank on an SOTP basis as summarised below:

Exhibit 14. FB: SOTP valuation				
Federal Bank SOTP	Holding (%)	Valuation Methodology	Value per Share	Contribution to TP (%)
Federal Bank - Parent	100%	1.2x FY27 BVPS	191	91%
Fedbank Financial Services Ltd.	74%	Market cap	14	7%
AGEAS Federal Life Insurance	26%	4x EV to Current AUM	5	2%
Total (INR)			210	100%

Source: Company, JM Financial

## Financial Tables (Standalone)

Profit & Loss (INR bn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income	83	95	102	118	136
Profit on Investments	2	3	5	3	2
Exchange Income	2	2	3	3	4
Fee & Other Income	22	28	33	40	49
<b>Non-Interest Income</b>	<b>31</b>	<b>38</b>	<b>44</b>	<b>50</b>	<b>58</b>
<b>Total Income</b>	<b>114</b>	<b>133</b>	<b>146</b>	<b>168</b>	<b>194</b>
Operating Expenses	62	72	79	89	100
<b>Pre-provisioning Profits</b>	<b>52</b>	<b>61</b>	<b>67</b>	<b>79</b>	<b>95</b>
Loan-Loss Provisions	2	8	14	16	17
Provisions on Investments	0	0	0	0	0
Others Provisions	0	0	0	0	0
<b>Total Provisions</b>	<b>2</b>	<b>7</b>	<b>14</b>	<b>16</b>	<b>17</b>
<b>PBT</b>	<b>50</b>	<b>54</b>	<b>53</b>	<b>63</b>	<b>77</b>
Tax	13	13	13	15	19
<b>PAT (Pre-Extraordinaries)</b>	<b>37</b>	<b>41</b>	<b>40</b>	<b>48</b>	<b>58</b>
Extra ordinaries (Net of Tax)	0	0	0	0	0
<b>Reported Profits</b>	<b>37</b>	<b>41</b>	<b>40</b>	<b>48</b>	<b>58</b>
Dividend paid	5	6	3	4	5
<b>Retained Profits</b>	<b>32</b>	<b>35</b>	<b>37</b>	<b>44</b>	<b>54</b>

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Growth (YoY) (%)</b>					
Deposits	18.3%	12.3%	10.6%	13.6%	14.8%
Advances	20.0%	12.1%	10.6%	12.8%	13.7%
Total Assets	18.4%	13.2%	9.1%	13.7%	13.6%
NII	14.7%	14.2%	7.4%	16.0%	15.6%
Non-interest Income	32.2%	23.4%	16.5%	12.4%	16.8%
Operating Expenses	30.0%	15.6%	10.4%	12.0%	12.8%
Operating Profits	7.9%	17.9%	9.5%	18.3%	19.5%
Core Operating profit	-0.4%	17.2%	9.7%	24.7%	22.6%
Provisions	-73.8%	273.8%	90.5%	15.1%	6.7%
Reported PAT	23.6%	8.9%	-1.5%	19.2%	22.8%
<b>Yields / Margins (%)</b>					
Interest Spread	2.85%	2.64%	2.52%	2.65%	2.74%
NIM	3.13%	3.05%	2.93%	3.06%	3.11%
<b>Profitability (%)</b>					
Non-IR to Income	27.1%	28.6%	30.3%	29.7%	29.9%
Cost to Income	54.5%	54.0%	54.2%	52.8%	51.4%
ROA	1.31%	1.23%	1.09%	1.17%	1.26%
ROE	14.7%	13.0%	11.3%	12.1%	13.2%
<b>Assets Quality (%)</b>					
Slippages	1.01%	0.89%	1.00%	1.00%	1.00%
Gross NPA	2.13%	1.84%	1.69%	1.68%	1.68%
Net NPAs	0.60%	0.44%	0.44%	0.43%	0.42%
Provision Coverage	72.3%	76.2%	74.0%	75.0%	75.0%
Specific LLP	0.21%	0.36%	0.51%	0.52%	0.48%
Net NPAs / Network	4.3%	3.1%	3.1%	3.0%	3.0%
<b>Capital Adequacy (%)</b>					
Tier I	14.61%	15.04%	15.19%	14.78%	14.77%
CAR	16.13%	16.40%	15.69%	15.21%	15.16%

Source: Company, JM Financial

Balance Sheet (INR bn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	5	5	5	5	5
Reserves & Surplus	286	329	366	410	464
Deposits	2,525	2,836	3,137	3,565	4,091
Borrowings	180	237	183	219	261
Other Liabilities	87	82	116	128	94
<b>Total Liabilities</b>	<b>3,083</b>	<b>3,490</b>	<b>3,806</b>	<b>4,327</b>	<b>4,914</b>
Investments	609	662	747	851	979
Net Advances	2,094	2,348	2,598	2,929	3,329
Cash & Equivalents	190	309	266	322	348
Fixed Assets	10	15	17	19	21
Other Assets	181	156	179	206	237
<b>Total Assets</b>	<b>3,083</b>	<b>3,490</b>	<b>3,806</b>	<b>4,327</b>	<b>4,914</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	2.92%	2.88%	2.79%	2.90%	2.95%
Other Income / Assets	1.08%	1.16%	1.21%	1.22%	1.26%
Total Income / Assets	4.00%	4.04%	4.00%	4.12%	4.21%
Cost / Assets	2.18%	2.18%	2.17%	2.18%	2.16%
PBP / Assets	1.82%	1.86%	1.83%	1.94%	2.05%
Provisions / Assets	0.07%	0.22%	0.38%	0.40%	0.37%
PBT / Assets	1.75%	1.63%	1.45%	1.55%	1.67%
Tax rate	25.3%	24.5%	24.5%	24.5%	24.5%
ROA	1.31%	1.23%	1.09%	1.17%	1.26%
RoRWAs	2.15%	2.03%	1.80%	1.90%	2.04%
Leverage	10.6	10.4	10.3	10.4	10.5
ROE	14.7%	13.0%	11.3%	12.1%	13.2%

Source: Company, JM Financial

Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	2.4	2.5	2.5	2.5	2.5
EPS (INR)	15.3	16.5	16.3	19.4	23.8
EPS (YoY) (%)	7.4%	8.0%	-1.5%	19.2%	22.8%
PER (x)	13.9	12.8	13.0	10.9	8.9
BV (INR)	117	132	147	165	187
BV (YoY) (%)	18.5%	13.4%	11.3%	12.1%	13.2%
ABV (INR)	0	0	0	0	0
ABV (YoY) (%)	0.0%	0.0%	0.0%	0.0%	0.0%
P/BV (x)	1.82	1.60	1.44	1.28	1.13
P/ABV (x)	0.00	0.00	0.00	0.00	0.00
DPS (INR)	1.0	1.2	1.3	1.5	1.9
Div. yield (%)	0.5%	0.6%	0.6%	0.7%	0.9%

Source: Company, JM Financial

History of Recommendation and Target Price

Recommendation History

## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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New Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return $\geq$ 15% over the next twelve months.
ADD	Expected return $\geq$ 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return $\geq$ -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	Meaning
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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