

FEDERAL BANK

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	196
12 month price target (INR)	225
52 Week High/Low	220/173
Market cap (INR bn/USD bn)	482/5.5
Free float (%)	99.6
Avg. daily value traded (INR mn)	1,847.6

SHAREHOLDING PATTERN

	Jun-25	Mar-25	Dec-24
Promoter	0.0%	0.0%	0.0%
FII	26.9%	26.3%	26.3%
DII	48.2%	49.1%	48.9%
Pledge	0.0%	0.0%	0.0%

FINANCIALS

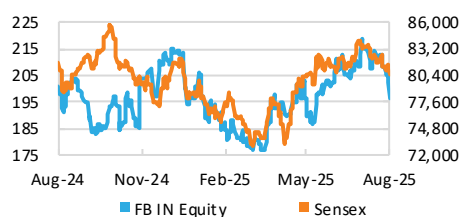
(INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	113728	132692	146856	176352
PPoP	51745	61011	66276	83419
Adjusted profit	37206	40519	38964	49835
Diluted EPS (INR)	15.3	16.5	15.9	20.3
EPS growth (%)	7.4	8.0	(3.8)	27.9
RoAE (%)	14.7	13.0	11.1	12.7
P/E (x)	12.8	11.9	12.4	9.7
P/BV (x)	1.5	1.4	1.2	1.1

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	1,46,856	1,76,352	-2.2%	-4.0%
PPOP	66,276	83,419	-3.1%	-5.3%
Adjusted profit	38,964	49,835	-11.8%	-11.3%
Diluted EPS (INR)	15.9	20.3	-11.8%	-11.3%

PRICE PERFORMANCE



Sharp spike in credit cost led by MFI/BUB

Federal posted a soft Q1FY26 showing with NIM down 18bp QoQ, slippage up 34% QoQ to 1.1% from 0.9% and a sharp rise in credit cost to 66bp from 24bp QoQ. The sharp rise in credit cost is largely driven by MFI and partly by BUB/CV. Core PPOP rose 0.7% QoQ/fell 2.5% YoY.

Management guides for a 5–10bp NIM decrease in Q2FY26 and credit cost of 55bp for FY26E. MFI slippage peaked in May-25 (20% exposure to Karnataka) while the CEO does not see any major stress build-up in BUB, which is secured. Credit cost shall remain elevated in Q2 and then fall. We are cutting FY26E/27E EPS by 11% each and reduce TP to INR225/1.5x FY26E BV from INR230. Federal is the safest mid-sized bank with potential to deliver strong growth; maintain 'BUY'.

NIM decreases 18bp QoQ; credit cost rises sharply

Gross customer assets grew 0.8% QoQ/9% YoY. Retail rose 8% YoY, corporate grew 6% YoY while commercial rose 27% YoY. Gold grew 14% YoY, cards rose 19% YoY, CV/CE grew 17% YoY and small business loans rose 30% YoY while MFI grew 4% YoY. Deposits grew 8% YoY/1% QoQ with CA rising 17% YoY and SA 11% YoY. CASA ratio improved YoY/QoQ to 30.3%. Other income ex trading gains grew 12% YoY/3% QoQ. TWO recovery income surged 25% QoQ. Ex-recovery income, fees expanded 21% YoY/decreased 2% QoQ. NII fell 2% QoQ/rose 2% YoY. Reported NIM decreased 18bp QoQ. Reported yield fell 27bp QoQ as the company reprices its EBLR loans on a T+1 basis, which is faster than peers. CoD decreased 20bp QoQ with a cut in savings rate. Opex grew 11% YoY/1% QoQ. Credit cost rose to 66bp from 24bp QoQ. Core PPOP fell 2.5% YoY/rose 0.7% QoQ. PAT decreased 15% YoY/16% QoQ.

Sharp increase in slippage and credit cost driven by MFI/BUB

Slippage rose 34% QoQ to 1.1% from 0.9% QoQ. Agri/MFI slippage reported a sharp increase, up 60% QoQ. Total 20% of MFI loans are to Karnataka. Slippage in BUB, CV and retail clocked an uptick. MFI slippage peaked in May according to the CEO and is lower in May-Jun. While there was an uptick in retail/CV/BUB slippage, no major stress build-up was visible. BUB loans are secured. Due to higher slippage, specific credit cost rose sharply to 64bp from 25bp QoQ while total provisions were 66bp versus 24bp QoQ.

Guidance: Credit cost to stay elevated in Q2FY26 and then decline

Credit cost would remain elevated in Q2FY26 with MFI ageing provisions, but would decrease in H2FY26. Full year credit cost guidance retained at 55bp. NIM shall fall by 5–10bp in Q2FY26 and then stabilise. Loans shall grow 1.2x GDP in FY26E and 1.2–1.4x in the medium term. RoA has bottomed out at 1%.

Financials

Year to March	Q1FY26	Q1FY25	% Change	Q4FY25	% Change
Net Revenue	34,498	32,072	7.6%	33,834	2.0%
Pre-provisioning Profits	15,563	15,009	3.7%	14,654	6.2%
Reported Profits	8,618	10,095	-14.6%	10,302	-16.4%
EPS	3.51	4.14	-15.2%	4.20	-16.4%

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest income	82,935	94,680	1,00,127	1,20,853
Non interest income	30,793	38,013	46,729	55,499
Fee and forex income	24,570	29,930	35,916	44,895
Misc. income	2,473	5,433	5,813	6,104
Investment profits	3,750	2,650	5,000	4,500
Net revenues	1,13,728	1,32,692	1,46,856	1,76,352
Operating expense	61,983	71,681	80,580	92,932
Employee exp	28,231	30,883	33,662	38,038
Other opex	33,752	40,798	46,918	54,894
Preprovision profit	51,745	61,011	66,276	83,419
Provisions	1,961	7,331	14,186	16,795
PBT	49,784	53,681	52,090	66,624
Taxes	12,578	13,162	13,127	16,789
PAT	37,206	40,519	38,964	49,835
Extraordinaries	0	0	0	0
Reported PAT	37,206	40,519	38,964	49,835
Diluted EPS (INR)	15.3	16.5	15.9	20.3

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest margins	3.1	3.0	2.8	3.0
Cost-income	54.5	54.0	54.9	52.7
Tax rate	(25.3)	(24.5)	(25.2)	(25.2)

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted PE (x)	12.8	11.9	12.4	9.7
Price/BV (x)	1.5	1.4	1.2	1.1

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Equity capital	4,871	4,912	4,912	4,912
Reserves	2,86,073	3,29,295	3,65,042	4,11,032
Net worth	2,90,944	3,34,206	3,69,953	4,15,943
Deposits	25,25,340	28,36,475	32,33,581	37,83,290
Borrowings	1,80,264	2,37,263	2,25,400	2,14,130
Other liabilities	86,570	82,104	90,315	99,346
Total	30,83,118	34,90,048	39,19,249	45,12,709
Assets				
Loans	20,94,033	23,48,364	26,77,135	31,59,019
Investments	6,08,595	6,62,456	7,28,914	7,91,524
Cash & equi	1,89,629	3,08,592	3,24,022	3,53,184
Fixed assets	10,201	14,783	17,739	20,400
Other assets	1,80,660	1,55,853	1,71,438	1,88,582
Total	30,83,118	34,90,048	39,19,249	45,12,709
BV/share (INR)	119.5	136.1	150.6	169.4

Balance Sheet Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Credit growth	20.0	12.1	14.0	18.0
Deposit growth	18.3	12.3	14.0	17.0
C-D ratio	82.9	82.8	82.8	83.5

ROA Decomposition (%)

Year to March	FY24A	FY25A	FY26E	FY27E
NII/Assets	2.9	2.9	2.7	2.9
Fees/Assets	0.9	0.9	1.0	1.1
Inv profits/Assets	0.1	0.1	0.1	0.1
Net revenues/assets	4.0	4.0	4.0	4.2
Opex/Assets	(2.2)	(2.2)	(2.2)	(2.2)
Provisions/Assets	(0.1)	(0.2)	(0.4)	(0.4)
Taxes/Assets	(0.4)	(0.4)	(0.4)	(0.4)
Total costs/Assets	(2.7)	(2.8)	(2.9)	(3.0)
RoA	1.3	1.2	1.1	1.2
Equity/Assets	8.9	9.5	9.5	9.3
RoAE	14.7	13.0	11.1	12.7

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	7.4	8.0	(3.8)	27.9
RoAE (%)	14.7	13.0	11.1	12.7

Q1FY26 earnings call: Key takeaways

Commentary on loan book

- Given retail restructuring is mostly complete and with the upcoming festive season, management expects loan growth to pick up and has guided for loan growth at 1.2x of nominal.
- Gold loans for the quarter were INR313bn, growing 14.0% YoY/2.5% QoQ, mainly led by the recent change in regulatory guidelines.
- In home loan and corporate banking segments, the bank is focusing on prioritising customers with broader revenue opportunities rather than competing on rates.
- Management said the card segment is showing balanced growth with a healthy mix of organic and co-branded cards while they are waiting for the environment to stabilise in personal loans to increase the pace of growth.
- Phase one of tech developments is complete with corporate and commercial credit underwriting now being online.
- Around 20% of the MFI portfolio is from Karnataka, which was hurt by the state ordinance.
- CV/CE segments clocked marginally higher, but not alarming stress in the current quarter; to counter this, the bank will focus on the more premium retail customers.
- Amid recent SME concerns, management said that around 30% of the business banking book is contributed by Kerala and does not show any abnormal signs of stress. However, the bank remains cautious and expects to grow this book at a slower pace.
- The bank is shifting its car loan segment from a floating to a fixed rate to reduce the EBLR portion of the asset book. Currently, 48% of the book is EBLR-linked, with further scope for reduction.

Deposits

- CASA ratio for the quarter was 30.35% versus 30.23% QoQ/29.27% YoY. The bank is aiming to improve turnaround time with a focus on further improving the ratio with priority being current accounts. Currently, more than half the weightage in KRA is for liabilities.
- The current account acquisition run rate reported a 50% higher rate compared with previous periods.

Yields, cost and margins

- NIM for the quarter decreased to 2.94% from 3.12% sequentially due to rate cuts and the fast T+1 repricing policy of the bank. Management expects NIM to decline 5–10bp and bottom out in Q2FY26.
- Due to higher slippages leading to interest derecognition, NIMs for the current quarter were hurt by 4–5bp.
- Yields are likely to benefit from a steady improvement in asset mix towards medium yields as gold and retail products gain traction.

- The major focus of the bank is on improving CASA, with priority on the current accounts and driving better yield by changing the asset mix.

Asset quality and credit cost

- Provisions for the quarter were high due to higher slippages in the agri-MFI segment.
- Management guided credit cost to be at 55bp for FY26.
- Management explained that slippages in the agri-MFI segment have peaked in May-25, and they are seeing an improvement in June and July, with improving trends in the SMA book and collection efficiency. As provisions get hurt with some lag, some impact on credit cost would be seen in the current quarter.
- Other than agri-MFI, the bank is seeing a slight uptick in stress in business banking, but management claimed that it is not an alarming increase.

P&L highlights

- Non-interest income, including fees, grew 21.7% YoY/10.6% QoQ due to management's efforts to improve fee income and build a transaction banking team to grow trade and forex income. Management aspires to grow non-interest income at current levels hereon with benefits from PSLC income likely in the coming quarters.
- With continued focus on tech and expansion, the bank would stay in investment mode and expects the cost-to-income ratio to remain at mid-50% levels.
- RoA for the quarter was 1.00% versus 1.24% QoQ. Management said that RoA has bottomed out.

Exhibit 1: Change in estimates

	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
	Old	Old	New	New	% Change	% Change
NII, INR mn	1,04,754	1,32,352	1,00,127	1,20,853	-4.4%	-8.7%
PAT, INR mn	44,183	56,208	38,964	49,835	-11.8%	-11.3%
EPS, INR	18.0	22.9	15.9	20.3	-11.8%	-11.3%
BVPS, INR	152.8	174.4	150.6	169.4	-1.4%	-2.9%
Target price, INR		230		225		
CMP				196		
% Upside to CMP				15%		
Rating		BUY		BUY		

Source: Company, Nuvama Research

Exhibit 2: Fresh slippages by segment

INR mn	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	YoY	QoQ
Retail	2,950	2,310	2,770	2,600	2,510	17.5%	27.7%
% of lagged loans	1.2%	1.0%	1.2%	1.2%	1.3%	-9bps	20bps
Agri	2,700	1,710	1,230	880	710	280.3%	57.9%
% of lagged loans	14.1%	9.1%	6.7%	5.0%	4.2%	985bps	495bps
BuB	770	370	450	630	620	24.2%	108.1%
% of lagged loans	1.7%	0.9%	1.1%	1.6%	1.6%	5bps	83bps
CoB	130	260	410	170	330	-60.6%	-50.0%
% of lagged loans	0.3%	0.5%	0.8%	0.3%	0.7%	-46bps	-22bps
Corporate	0	180	0	0	0	NA	NA
% of lagged loans	0.0%	0.1%	0.0%	0.0%	0.0%	0bps	-10bps
Total	6,580	4,830	4,860	4,280	4,170	57.8%	36.2%
% of lagged loans	1.1%	0.9%	0.9%	0.9%	0.9%	-25bps	-24bps

Source: Company, Nuvama Research

Exhibit 3: Movement in yield costs and margin

(%)	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	YoY (bps)	QoQ (bps)
Yield on advances (Calculated)	8.95	9.09	9.49	9.30	9.35	-40bps	-14bps
Cost of funds (Calculated)	5.66	5.67	5.96	5.80	5.79	-12bps	-1bps
Cost of deposits (Reported)	5.78	5.98	5.92	5.86	5.84	-6bps	-20bps
NIM (Reported)	2.94	3.12	3.11	3.12	3.16	-22bps	-18bps

Source: Company, Nuvama Research

Exhibit 4: Breakdown of gross loans

INR bn	Q1FY26	Q4FY25	Q1FY25	YoY (%)	QoQ (%)
Retail loans	1,003	998	929	8.0%	0.5%
- Housing	365	366	342	6.7%	-0.4%
- LAP	72	73	68	6.0%	-1.1%
- Gold	313	305	274	14.0%	2.5%
- Auto	86	86	78	10.6%	0.3%
- Personal	37	38	39	-4.9%	-1.4%
- Credit cards	39	36	32	18.8%	8.5%
- Other	92	95	95	-3.5%	-3.0%
Agri	82	82	77	7.2%	0.4%
MFI	39	41	38	3.9%	-4.2%
BuB	192	190	181	5.9%	1.2%
CV/CE	49	46	37	30.3%	4.6%
CoB	250	237	197	26.9%	5.5%
Corporate	894	894	852	4.9%	0.0%
Total gross loans	2,510	2,489	2,312	8.6%	0.8%

Source: Company, Nuvama Research

Exhibit 5: Movement in NPLs

INR mn	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	YoY (%)	QoQ (%)
Opening GNPA	43,751	45,521	48,831	47,371	45,281	-3.4%	-3.9%
Slippages	6,580	4,830	4,860	4,280	4,170	57.8%	36.2%
Increase in balances of existing NPA	30	90	120	60	70	-57.1%	-66.7%
Recoveries and upgradation	1,600	4,340	3,350	2,720	2,060	-22.3%	-63.1%
Write offs	2,070	2,350	4,940	160	90	2200.0%	-11.9%
Closing GNPA	46,691	43,751	45,521	48,831	47,371	-1.4%	6.7%

Source: Company, Nuvama Research

Exhibit 6: Gross NPLs by segment

INR mn	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	YoY (%)	QoQ (%)
Retail	18,680	17,960	17,600	18,410	17,230	8.4%	4.0%
Agri	12,880	11,000	10,140	9,690	9,300	38.5%	17.1%
BuB	7,680	7,410	7,770	9,480	9,540	-19.5%	3.6%
CV/CE	960	770	810	660	590	62.7%	24.7%
CoB	5,590	5,690	5,670	6,130	6,200	-9.8%	-1.8%
Corporate	910	930	3,540	4,470	4,520	-79.9%	-2.2%
Total Gross NPA	46,700	43,760	45,530	48,840	47,380	-1.4%	6.7%

Source: Company, Nuvama Research

Exhibit 7: Breakdown of non-interest income

INR mn	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	YoY (%)	QoQ (%)
Cards	2,080	2,150	2,080	2,080	1,910	8.9%	-3.3%
Para banking	730	870	620	740	460	58.7%	-16.1%
Banking Commissions & Exchanges	840	810	770	750	720	16.7%	3.7%
Processing Fees & charges on Loans	1,550	1,770	1,810	1,930	1,740	-10.9%	-12.4%
General Service Charges	2,150	1,920	1,840	1,760	1,250	72.0%	12.0%
Profit on Forex	510	490	440	580	440	15.9%	4.1%
Net Profit on Sale of Investments	1,270	460	1,000	840	350	262.9%	176.1%
Other receipts	1,990	1,590	600	960	2,270	-12.3%	25.2%
Total	11,120	10,060	9,160	9,640	9,140	21.7%	10.5%

Source: Company, Nuvama Research

Exhibit 8: Income statement summary

INR mn	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	YoY (%)	QoQ (%)
Interest on advances	53,229	52,848	54,637	52,420	50,261	5.9%	0.7%
Income on investments	11,346	11,504	11,474	11,357	11,083	2.4%	-1.4%
Interest on balances with RBI	1,506	1,198	1,126	1,079	1,027	46.7%	25.7%
Others	785	933	851	917	938	-16.3%	-15.9%
Interest Income	66,866	66,484	68,087	65,773	63,309	5.6%	0.6%
Interest expended	43,498	42,709	43,774	42,101	40,389	7.7%	1.8%
Net Interest Income	23,368	23,774	24,313	23,672	22,920	2.0%	-1.7%
Other Income	11,130	10,060	9,162	9,640	9,152	21.6%	10.6%
Employee expenses	7,976	7,838	7,832	7,777	7,380	8.1%	1.8%
Other Operating expenses	10,959	11,342	9,949	9,882	9,682	13.2%	-3.4%
Total Operating expenses	18,935	19,180	17,781	17,658	17,063	11.0%	-1.3%
Operating Profit	15,563	14,654	15,695	15,654	15,009	3.7%	6.2%
Provisions	4,002	1,381	2,923	1,584	1,443	177.4%	189.7%
PBT	11,561	13,273	12,771	14,070	13,566	-14.8%	-12.9%
Tax	2,944	2,971	3,217	3,503	3,471	-15.2%	-0.9%
Net Profit	8,618	10,302	9,554	10,567	10,095	-14.6%	-16.4%

Source: Company, Nuvama Research

Company Description

Federal Bank (FB) is a Kerala-based regional private sector bank incorporated on April 23, 1931 as the Travancore Federal Bank Limited. Today, the bank has a presence in most of the states and union territories in the country. FB also has exposure to insurance and the NBFC business. The bank has been proactively managing its strategy of being a branch-light distribution-heavy franchise with an eye on operational improvements. The push towards digital banking is also likely to reap benefits in the future.

Investment Theme

Management guides for 5–10bp NIM decline in Q2FY26 and credit cost of 55bp for FY26E. MFI slippage peaked in May-25 (20% exposure to Karnataka) while the CEO does not see any major stress build-up in BUB, which is secured. Credit cost would remain elevated in Q2 and then fall. We are cutting FY26E/27E EPS by 11% each and TP to INR225/1.5x FY26E BV from INR230. Federal is the safest mid-sized bank with potential to deliver strong growth; maintain **'BUY'**.

Key Risks

- Higher pricing competition in loans.
- Slower than expected improvement in CASA.
- Credit cost remaining elevated for longer

Additional Data

Management

Chairman	Mr. A P Hota
MD & CEO	KVS Manian
CFO	Venkatraman Venkateswaran
ED	Harsh Dugar
Auditor	MSKA & Associates

Holdings – Top 10*

	% Holding		% Holding
HDFC MF	7.04	Nippon Life	2.89
IFC	3.85	HDFC Life	2.29
M.A. Yusuff Ali	3.15	Invesco India	2.14
LIC	3.02	SBI MF	2.00
Axis MF	2.99	SBI Life	1.91

*Latest public data

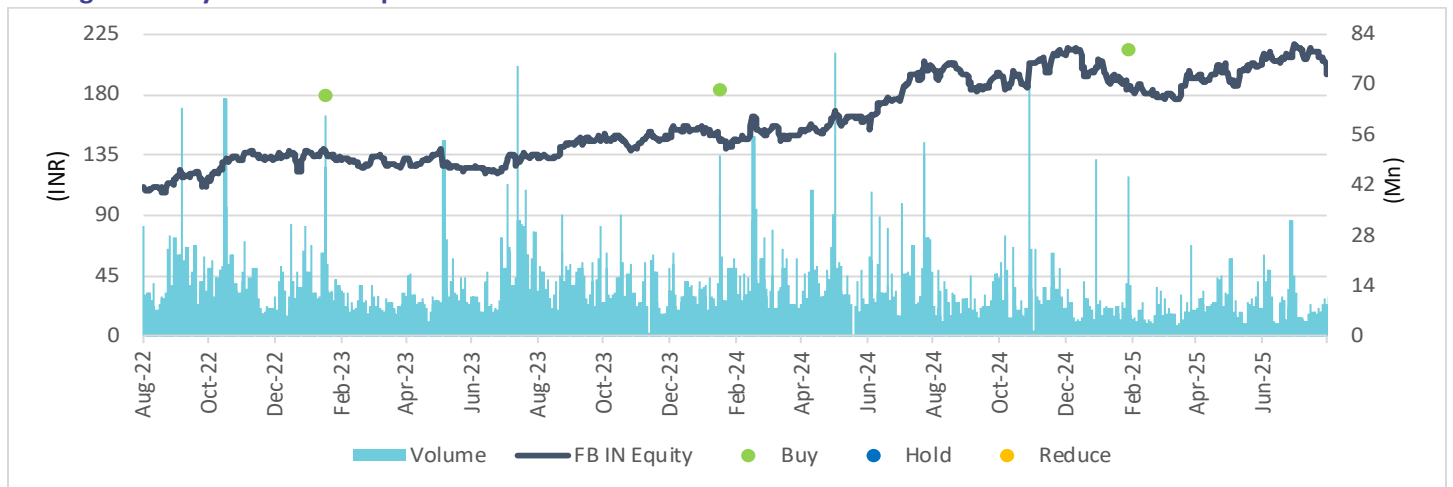
Recent Company Research

Date	Title	Price	Reco
30-Apr-25	Low credit cost drives PAT beat; <i>Result Update</i>	196	Buy
23-Feb-25	Improving RoA to level of top six ; <i>Company Update</i>	184	Buy
28-Jan-25	Reorientation slows near-term growth; <i>Result Update</i>	194	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
28-Jul-25	IndusInd Bank	Fees crash, uptick in NPL; RoA at 45bp; <i>Result Update</i>
27-Jul-25	IDFC First Bank	MFI stress reduces; good progress on C/I; <i>Result Update</i>
27-Jul-25	Bank of Baroda	Q1FY26 – A mixed bag; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	202
Hold	<15% and >-5%	66
Reduce	<-5%	36

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