PL Capital
PRABHUDAS LILLADHER

Federal Bank (FB IN)

Rating: BUY | CMP: Rs213 | TP: Rs235

October 19, 2025

Q2FY26 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY27E	FY28E	FY27E	FY28E
Rating	BUY		BUY	
Target Price	235		220	
NII (Rs. m)	1,17,720	1,34,564	1,15,006	1,32,114
% Chng.	*2.4*	*1.9*		
Op. Profit (Rs. m)	77,848	89,641	75,189	87,258
% Chng.	*3.5*	*2.7*		
EPS (Rs.)	19.4	22.3	18.9	22.1
% Chng.	*2.4*	*1.3*		

Key Financials - Standalone

Y/e Mar	FY25	FY26E	FY27E	FY28E
NII (Rs m)	94,680	1,00,768	1,17,720	1,34,564
Op. Profit (Rs m)	61,011	66,275	77,848	89,641
PAT (Rs m)	40,519	39,310	47,638	54,952
EPS (Rs.)	16.5	16.0	19.4	22.3
Gr. (%)	*8.0*	*(3.1)*	*21.2*	*15.4*
DPS (Rs.)	1.2	1.6	1.9	2.2
Yield (%)	*0.6*	*0.8*	*0.9*	*1.1*
NIM (%)	*3.0*	*2.9*	*3.1*	*3.1*
RoAE (%)	*13.0*	*11.2*	*12.2*	*12.5*
RoAA (%)	*1.2*	*1.1*	*1.2*	*1.2*
P/BV (x)	1.6	1.4	1.3	1.1
P/ABV (x)	1.6	1.5	1.3	1.2
PE (x)	12.9	13.3	11.0	9.5
CAR (%)	16.4	16.4	16.1	15.9

Key Data

Key Data	FED.BO | FB IN
52-W High / Low	Rs.220 / Rs.173
Sensex / Nifty	83,952 / 25,710
Market Cap	Rs.523bn/ $ 5,948m
Shares Outstanding	2,459m
3M Avg. Daily Value	Rs.1447.07m

Shareholding Pattern (%)

Promoter's	-
Foreign	25.54
Domestic Institution	49.71
Public & Others	24.75
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.0	9.2	9.9
Relative	5.4	2.2	6.1

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Balance sheet mix improving

Quick Pointers:

- Beat on core PAT due to better NII/NIM led by lower funding cost.
- Asset-liability calibration progressing well which is cushioning NIM.

FB saw a strong quarter due to 6.6% beat on NII as NIM increased QoQ despite estimate of a decline. Reported NIM did not contain any one-offs and rose by 12bps QoQ to 3.06% led by (1) reduction in higher cost liabilities over last 1-yr (2) increase in avg. CASA by 155bps QoQ and (3) better liquidity management. Balance sheet calibration is progressing well; low yielding corporate+housing share has fallen by ~100bps YoY to 49.6% and share higher cost liabilities has also reduced. Due to faster downward repricing of liabilities, NIM may improve in H2FY26. Hence, we raise NIM for FY26/27E by 14bps each to 2.9%/3.1%. Fee momentum is intact; we are watchful of opex. We raise core PAT for FY26/27E by avg. 5.8% due to increase in NIM by 14bps each. Keeping multiple at 1.3x we raise TP to Rs235 from Rs220 as we roll forward to Sep'27 ABV. Retain 'BUY'.

- **Strong quarter; beat on core PPoP due to better NII/NIM:** NII was higher at Rs25bn (PLe Rs23.4bn) due to better NIM (calc.) which was a beat at 3.04% (PLe 2.85%) as reported cost of funds declined by 24bps QoQ to 5.61%. Loan growth was 6.2% YoY (PLe 6.6%) and deposit accretion was 7.4% YoY (PLe 7.9%). CASA was 31.0% (30.3% in Q1'26); LDR rose to 84.7% (83.9% in Q1'26). Other inc./fees were largely in-line at Rs10.8bn/Rs8.8bn. Opex at Rs19.3bn met estimates. Core PPoP at Rs15.3bn was beat by 8.1%; PPoP was Rs16.4bn. Asset quality was steady; GNPA was 1.83% (PLe 1.9%). Gross slippage was Rs5.8bn (PLe Rs5.6bn) while recoveries were slower at Rs2.7bn (PLe Rs3.2bn). Provisions were a drag at Rs3.6bn (Ple Rs3.2bn) owing to std. asset provisions of Rs480mn. Core PAT was 6.6% above PLe at Rs8.7bn. PAT was Rs9.6bn.

- **Asset mix calibration in progress:** Loan growth was soft at 1.4% QoQ due to muted growth in lower yielding segments of housing (-0.9%) and corporate (1.0%) which contribute 36%/14% to overall loans. However, the remaining loan book saw a decent 3.0% QoQ growth driven by CoB (6.9%), gold (3.4%), BuB (2.3%), CC (4.5%) and MFI (2.1%). Balance sheet calibration is progressing well; on loans, corporate+housing share has fallen by ~100bps YoY to 49.6%. On liabilities, the bank is reducing higher cost wholesale deposits/borrowings. Share of wholesale deposits was down by 300bps YoY to 17% and borrowings to deposit ratio has also reduced from 10.8% in Q3'25 to 6.2% in Q2'26. Avg. CASA ratio has increased by 140bps QoQ to 29.1% from 27.7%.

- **NIM surprises positively; we upgrade margins:** Reported NIM increased by 12bps QoQ to 3.06% without any one-offs; while loan yields fell by 18bps to 8.86%, fall in funding cost was 24bps to 5.6% due to (1) reduction in higher cost deposits/borrowings over last 1-yr (2) rise in avg. CASA by 155/140bps QoQ/YoY and (3) better liquidity management. In the upcoming quarters, due to faster downward repricing of liabilities, NIM would improve in Q3&Q4FY26. Hence, we raise NIM (calc.) for FY26/27E by 14bps each to 2.91%/3.08% which may see further upgrade if change in asset-liability mix is faster.

Exhibit 1: PAT was higher at Rs9.6bn owing to higher NII

P&L Statement (Rs m)	Q2FY26	Q2FY25	YoY gr. (%)	Q2FY26E	% Var.	Q1FY26	QoQ gr. (%)
Interest Income	67,422	65,773	*2.5*	66,727	1.0	66,866	*0.8*
Interest Expended	42,469	42,101	*0.9*	43,315	(2.0)	43,498	*(2.4)*
Net interest income (NII)	**24,952**	**23,672**	***5.4***	**23,412**	**6.6**	**23,368**	***6.8***
Other income	10,822	9,640	*12.3*	10,753	0.6	11,130	*(2.8)*
-Fee income	8,860	7,840	*13.0*	8,803	0.6	7,860	*12.7*
-Other non-interest income	1,962	1,800	*9.0*	1,950	0.6	3,270	*(40.0)*
Total income	**35,774**	**33,312**	***7.4***	**34,165**	**4.7**	**34,498**	***3.7***
Operating expenses	19,332	17,658	*9.5*	19,390	(0.3)	18,935	*2.1*
-Staff expenses	8,034	7,777	*3.3*	8,168	(1.6)	7,976	*0.7*
-Other expenses	11,298	9,882	*14.3*	11,222	0.7	10,959	*3.1*
Operating profit	**16,442**	**15,654**	***5.0***	**14,775**	**11.3**	**15,563**	***5.6***
Core Operating Profit	**15,320**	**14,814**	***3.4***	**14,175**	**8.1**	**14,283**	***7.3***
Total provisions	3,631	1,584	*129.3*	3,201	13.4	4,002	*(9.3)*
Profit before tax	**12,811**	**14,070**	***(9.0)***	**11,574**	**10.7**	**11,561**	***10.8***
Tax	3,258	3,503	*(7.0)*	2,951	10.4	2,944	*10.7*
Profit after tax	**9,553**	**10,567**	***(9.6)***	**8,623**	**10.8**	**8,618**	***10.9***
Balance Sheet (Rs m)							
Deposits	28,89,196	26,91,066	*7.4*	29,04,439	(0.5)	28,74,360	*0.5*
Advances	24,46,571	23,03,122	*6.2*	24,54,251	(0.3)	24,12,040	*1.4*
Ratios (%)							
NIM – Calc.	**3.0**	**3.2**	***(19)***	**2.9**	**19**	**2.9**	***15***
RoaA – Calc.	1.1	1.4	*(25)*	1.0	11	1.0	*9*
RoaE – Calc.	11.5	14.7	*(319)*	10.4	114	10.6	*88*
Asset Quality							
Gross NPL (Rs m)	45,320	48,845	*(7.2)*	47,267	(4.1)	46,697	*(2.9)*
Net NPL (Rs m)	11,652	13,223	*(11.9)*	11,817	(1.4)	11,576	*0.6*
Gross NPL ratio	1.83	2.09	*(26.3)*	1.9	(7)	1.91	*(8)*
Net NPL ratio	0.48	0.57	*(9.4)*	0.5	(1)	0.48	*(0)*
Coverage ratio (Calc)	74.3	72.9	*136.2*	75.0	(71)	75.2	*(92)*
Business & Other Ratios							
Low-cost deposit mix	31.0	30.1	*94*			30.3	*66*
Cost-income ratio							
Non int. inc / total income	54.0	53.0	*103*	56.8	(271)	54.9	*(85)*
Credit deposit ratio	30.3	28.9	*131*	31.5	(122)	32.3	*(201)*
CAR	84.7	85.6	*(90)*	84.5	18	83.9	*76*
Tier-I	15.7	15.2	*51*			16.0	*(32)*

Source: Company, PL

Q2FY26 Concall Highlights

Balance Sheet

- Bank is moving to organic acquisition for credit cards. 90% of portfolio is from existing customers which helps improve stickiness.
- Management intends to build ROA through a mix of organic and fintech strategy.
- LCR stood at 129% for Q2FY26.
- Management did not comment on capital raise plans however they reiterated their plan to grow in their chosen area under assets segment.

Profit & Loss

- Deposits are repriced every 12-14 months for the bank. NIM has increased QoQ on account of efficient repricing of liabilities and better than expected average CASA growth which led to reduced cost of funds.
- Marginal loss from Yes bank stake sale (earlier recorded in AFS) was taken into reserves.

Asset Quality

- Credit cost guided to be below 55bps for FY26. Credit cost excluding MFI has seen reduction.
- As per management, MFI stress has peaked out. Elevated slippages from MFI are easing however the stress is not completely over. Management is confident of seeing downward trend in MFI stress.
- Q2FY26 write offs include write offs from unsecured stress of last year.
- Management does not expect its fundamental credit cost to change on a running basis from implementation of ECL.

Retail de-grew by 0.4% YoY, while SME grew by 14.8% YoY.

Corporate credit was a tad muted at 5.3% YoY.

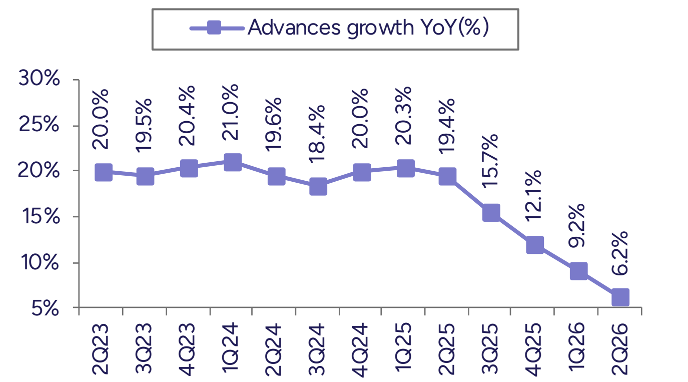
CV/CE continued to show strong growth, while PL de-grew sequentially.

Exhibit 2: Gross loan growth at 6.4% YoY

Advances break-up (Rs m)	Q2FY26	Q2FY25	*YoY gr. (%)*	Q1FY26	*QoQ gr. (%)*
Gross Advances					
Retail	6,88,370	6,80,210	*1.2*	6,90,850	*(0.4)*
SME	4,63,790	4,04,110	*14.8*	4,42,220	*4.9*
CV/CE	50,480	39,320	*28.4*	48,580	*3.9*
Corporate	9,06,540	8,61,260	*5.3*	8,94,120	*1.4*
Total	**25,56,130**	**24,03,330**	***6.4***	**25,10,170**	***1.8***
Retail Loans break-up					
Housing	3,61,200	3,54,200	*2.0*	3,64,590	*(0.9)*
LAP	72,060	70,420	*2.3*	71,180	*1.2*
Auto	85,720	82,560	*3.8*	86,290	*(0.7)*
Personal	36,580	39,250	*(6.8)*	37,370	*(2.1)*
Others	1,32,810	1,27,890	*3.8*	1,30,230	*2.0*

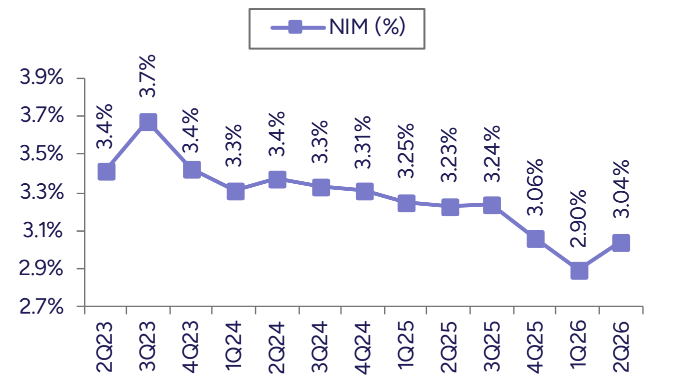
Source: Company, PL

Exhibit 3: Loan growth was lower at 6.2%YoY



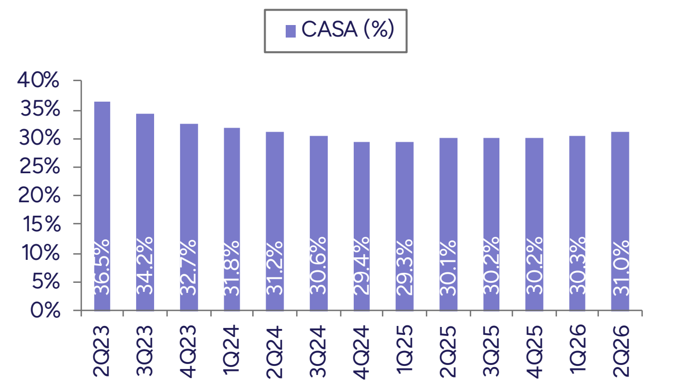
Source: Company, PL

Exhibit 4: NIM increased from 2.90% to 3.04%



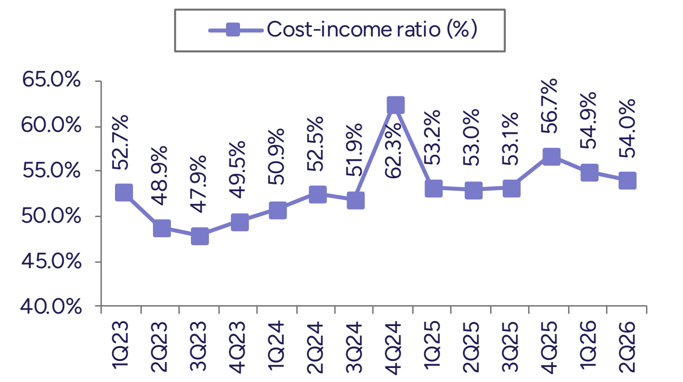
Source: Company, PL

Exhibit 5: CASA ratio increased to 31%



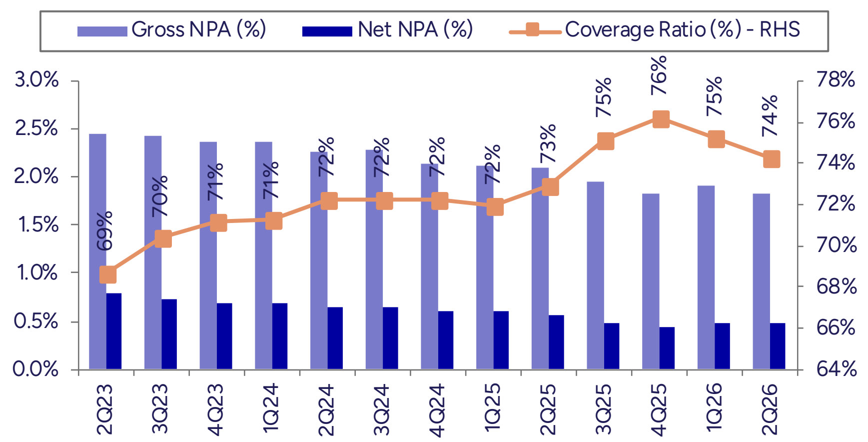
Source: Company, PL

Exhibit 6: C/I decreased to 54.0%



Source: Company, PL

Exhibit 7: GNPA improved QoQ at 1.83% with steady NNPA; PCR fell to 74.3%



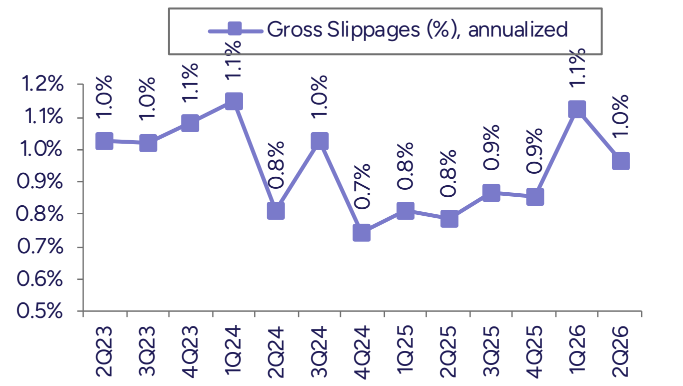
Source: Company, PL

Exhibit 8: Fresh slippages moderated QoQ; write-offs were higher

Movement of NPL	Q2FY26	Q2FY25	YoY gr. (%)	Q1FY26	QoQ gr. (%)
Opening	46,700	47,385	*(1.4)*	43,757	*6.7*
Additions	5,840	4,340	*34.6*	6,610	*(11.6)*
Reduction	7,220	2,880	*150.7*	3,670	*96.7*
Closing	**45,320**	**48,845**	*(7.2)*	**46,697**	*(2.9)*
Slippages (%)	***0.99***	***0.83***	***17***	***1.13***	***(13)***
Segmental fresh slippages:					
Retail	2,300	2,490	*(7.6)*	2,730	*(15.8)*
Agri	1,950	880	*121.6*	2,700	*(27.8)*
SME	1,540	910	*69.2*	1,150	*33.9*
Retail (% annualized)	**1.07**	**1.50**	***(44)***	**1.13**	***(6)***
SME (% annualized)	**0.82**	**1.04**	***(22)***	**0.75**	***7***

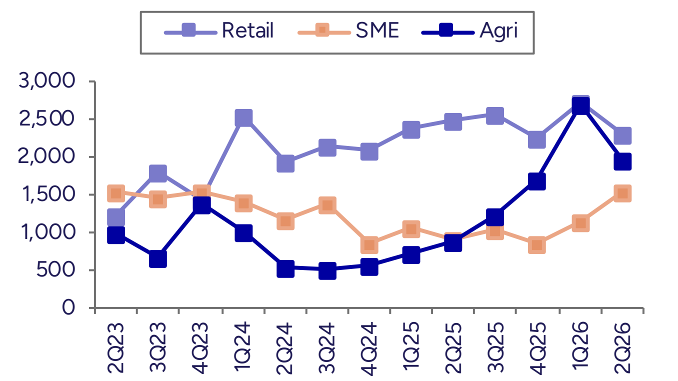
Source: Company, PL

Exhibit 9: Slippages were lower QoQ at 1.0%



Source: Company, PL

Exhibit 10: Slippages were lower QoQ due to lower Agri



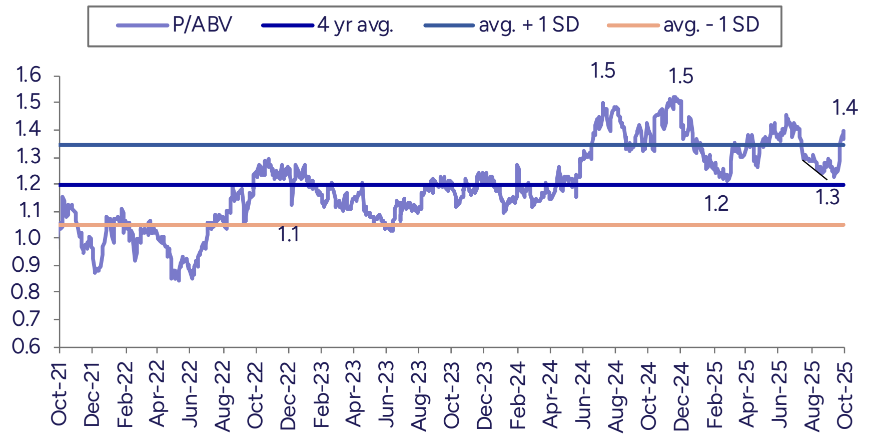
Source: Company, PL

Exhibit 11: Return ratios to range from 11-12.5% in FY26-28E

DuPont Analysis	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
NII/Assets	**2.9**	**2.8**	**3.0**	**2.9**	**2.9**	**2.8**	**2.9**	**2.9**
Other inc./Assets	1.0	1.0	1.0	1.1	1.2	1.2	1.2	1.2
Net revenues/Assets	**3.9**	**3.8**	**4.0**	**4.0**	**4.0**	**4.0**	**4.1**	**4.2**
Opex/Assets	1.9	2.0	2.0	2.2	2.2	2.2	2.2	2.2
Provisions/Assets	0.9	0.6	0.3	0.1	0.2	0.4	0.3	0.3
Taxes/Assets	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
ROA (%)	**0.8**	**0.9**	**1.3**	**1.3**	**1.2**	**1.1**	**1.2**	**1.2**
ROE (%)	10.4	10.8	14.9	14.7	13.0	11.2	12.2	12.5

Source: Company, PL

Exhibit 12: One-year forward P/ABV trades at 1.4x



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY25	FY26E	FY27E	FY28E
Int. Earned from Adv.	2,10,166	2,16,476	2,32,186	2,61,487
Int. Earned from invt.	45,418	47,032	49,388	53,783
Others	3,638	3,216	3,475	3,762
Total Interest Income	2,63,653	2,71,681	2,89,101	3,22,957
Interest Expenses	1,68,973	1,70,913	1,71,382	1,88,392
Net Interest Income	**94,680**	**1,00,768**	**1,17,720**	**1,34,564**
Growth(%)	*14.2*	*6.4*	*16.8*	*14.3*
Non Interest Income	38,012	44,196	48,966	55,467
Net Total Income	1,32,692	1,44,964	1,66,686	1,90,031
Growth(%)	*19.4*	*4.7*	*7.0*	*11.9*
Employee Expenses	30,883	32,810	36,549	41,020
Other Expenses	38,126	45,880	52,289	59,370
Operating Expenses	71,681	78,690	88,838	1,00,390
Operating Profit	**61,011**	**66,275**	**77,848**	**89,641**
Growth(%)	*17.9*	*8.6*	*17.5*	*15.1*
NPA Provision	8,041	12,479	12,400	14,156
Total Provisions	7,331	13,527	13,904	15,881
PBT	**53,681**	**52,748**	**63,944**	**73,761**
Tax Provision	13,162	13,438	16,306	18,809
Effective tax rate (%)	*24.5*	*25.5*	*25.5*	*25.5*
PAT	**40,519**	**39,310**	**47,638**	**54,952**
Growth(%)	*8.9*	*(3.0)*	*21.2*	*15.4*

Balance Sheet (Rs. m)

Y/e Mar	FY25	FY26E	FY27E	FY28E
Face value	2	2	2	2
No. of equity shares	2,456	2,459	2,459	2,459
Equity	4,912	4,919	4,919	4,919
Networth	3,34,206	3,69,729	4,13,436	4,64,457
Growth(%)	*14.9*	*10.6*	*11.8*	*12.3*
Adj. Networth to NNPAs	10,404	11,106	11,495	12,313
Deposits	28,36,475	30,83,605	34,96,094	39,87,215
Growth(%)	*12.3*	*8.7*	*13.4*	*14.0*
CASA Deposits	8,63,778	9,84,181	11,64,580	13,80,008
% of total deposits	*30.5*	*31.9*	*33.3*	*34.6*
Total Liabilities	**34,90,048**	**37,95,105**	**42,68,232**	**48,59,140**
Net Advances	23,48,364	26,05,647	29,71,680	33,89,133
Growth(%)	*12.1*	*11.0*	*14.0*	*14.0*
Investments	6,62,456	7,50,805	8,04,102	9,17,060
Total Assets	**34,90,048**	**37,95,105**	**42,68,232**	**48,59,140**
Growth (%)	*13.2*	*8.7*	*12.5*	*13.8*

Asset Quality

Y/e Mar	FY25	FY26E	FY27E	FY28E
Gross NPAs (Rs m)	43,755	44,421	45,976	49,248
Net NPAs (Rs m)	10,404	11,106	11,495	12,313
Gr. NPAs to Gross Adv.(%)	*1.8*	*1.7*	*1.5*	*1.4*
Net NPAs to Net Adv. (%)	*0.4*	*0.4*	*0.4*	*0.4*
NPA Coverage %	*76.2*	*75.0*	*75.0*	*75.0*

Profitability (%)

Y/e Mar	FY25	FY26E	FY27E	FY28E
NIM	3.0	2.9	3.1	3.1
RoAA	1.2	1.1	1.2	1.2
RoAE	13.0	11.2	12.2	12.5
Tier I	15.0	14.9	14.6	14.4
CRAR	16.4	16.4	16.1	15.9

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Interest Income	68,087	66,484	66,866	67,422
Interest Expenses	43,774	42,709	43,498	42,469
Net Interest Income	**24,313**	**23,774**	**23,368**	**24,952**
YoY growth (%)	*14.5*	*8.3*	*2.0*	*5.4*
CEB	7,560	8,000	7,860	8,860
Treasury	-	-	-	-
Non Interest Income	9,162	10,060	11,130	10,822
Total Income	**77,249**	**76,543**	**77,996**	**78,243**
Employee Expenses	7,832	7,838	7,976	8,034
Other expenses	9,949	11,342	10,959	11,298
Operating Expenses	17,781	19,180	18,935	19,332
Operating Profit	**15,695**	**14,654**	**15,563**	**16,442**
YoY growth (%)	*9.2*	*32.0*	*3.7*	*5.0*
Core Operating Profits	14,695	14,194	14,293	15,312
NPA Provision	-	-	-	-
Others Provisions	2,923	1,381	4,002	3,631
Total Provisions	2,923	1,381	4,002	3,631
Profit Before Tax	**12,771**	**13,273**	**11,561**	**12,811**
Tax	3,217	2,971	2,944	3,258
PAT	**9,554**	**10,302**	**8,618**	**9,553**
YoY growth (%)	*(5.1)*	*13.7*	*(14.6)*	*(9.6)*
Deposits	**26,63,750**	**28,36,475**	**28,74,360**	**28,89,196**
YoY growth (%)	*11.2*	*12.3*	*8.0*	*7.4*
Advances	**23,03,700**	**23,48,364**	**24,12,040**	**24,46,571**
YoY growth (%)	*15.7*	*12.1*	*9.2*	*6.2*

Key Ratios

Y/e Mar	FY25	FY26E	FY27E	FY28E
CMP (Rs)	213	213	213	213
EPS (Rs)	16.5	16.0	19.4	22.3
Book Value (Rs)	136	150	168	189
Adj. BV (Rs)	132	146	163	184
P/E (x)	12.9	13.3	11.0	9.5
P/BV (x)	1.6	1.4	1.3	1.1
P/ABV (x)	1.6	1.5	1.3	1.2
DPS (Rs)	1.2	1.6	1.9	2.2
Dividend Payout Ratio (%)	-	-	-	-
Dividend Yield (%)	*0.6*	*0.8*	*0.9*	*1.1*

Efficiency

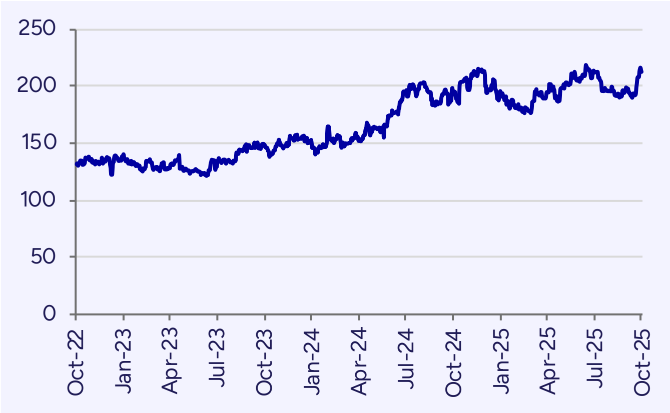
Y/e Mar	FY25	FY26E	FY27E	FY28E
Cost-Income Ratio (%)	*54.0*	*54.3*	*53.3*	*52.8*
C-D Ratio (%)	*82.8*	*84.5*	*85.0*	*85.0*
Business per Emp. (Rs m)	322	334	361	392
Profit per Emp. (Rs lacs)	25	23	27	29
Business per Branch (Rs m)	3,257	3,362	3,609	3,899
Profit per Branch (Rs m)	25	23	27	29

Du-Pont

Y/e Mar	FY25	FY26E	FY27E	FY28E
NII	2.88	2.77	2.92	2.95
Total Income	4.04	3.98	4.13	4.16
Operating Expenses	2.18	2.16	2.20	2.20
PPoP	1.86	1.82	1.93	1.96
Total provisions	0.22	0.37	0.34	0.35
RoAA	1.23	1.08	1.18	1.20
RoAE	12.96	11.17	12.17	12.52

Source: Company Data, PL Research

Price Chart	Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-25	BUY	220	199
2	02-Aug-25	BUY	220	196
3	07-Jul-25	BUY	220	215
4	23-Jun-25	BUY	220	208
5	02-May-25	BUY	220	197
6	08-Apr-25	BUY	210	191
7	24-Feb-25	BUY	210	180
8	28-Jan-25	BUY	210	184
9	08-Jan-25	BUY	220	197
10	29-Oct-24	BUY	220	185

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,925	1,672
2	Axis Bank	BUY	1,425	1,170
3	Bank of Baroda	BUY	270	262
4	Can Fin Homes	BUY	875	805
5	City Union Bank	BUY	245	219
6	DCB Bank	BUY	155	132
7	Federal Bank	BUY	220	199
8	HDFC Asset Management Company	BUY	6,175	5,764
9	HDFC Bank	BUY	1,075	983
10	ICICI Bank	BUY	1,730	1,376
11	IndusInd Bank	Hold	780	749
12	Kotak Mahindra Bank	BUY	2,350	2,127
13	LIC Housing Finance	BUY	725	567
14	Nippon Life India Asset Management	BUY	900	875
15	State Bank of India	BUY	960	865
16	Union Bank of India	BUY	150	139
17	UTI Asset Management Company	BUY	1,400	1,332

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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