Federal Bank

Q2FY26 Result Update | BFSI

DALAL & BROACHA STOCK BROKING PVT. LTD.

Equity Research Desk

Margin outperformance to continue…

October 21, 2025

Q2FY26 PAT came in at INR 955 cr, up by 11% qoq/-9.6% yoy led by moderated asset growth and margin expansion. Total gross advances growth was lower at 6.4% yoy (1.8% qoq) to INR 2.55 trillion vs. ~20% growth seen in previous 7-8 quarters. Management has highlighted that going forward, loan growth of the bank is projected to grow by 1.2-1.3x of the industry average growth. Quarterly reported margins improved by 12 bps qoq to 3.06% led by faster repricing of funding cost than assets yields. Management believes margin outperformance to continue given deposit repricing is yet to fully play out. This resulted in NII grew by 5.4% yoy (6.8% qoq) to INR 25 bn. Additionally, average CASA balances have increased meaningfully by 6% qoq which resulted in decline in overall cost of funds. Further, asset quality was maintained – reported GNPA/NNPA stood at 1.8%/0.5% vs. 1.9%/0.5% qoq. The bank expects credit cost to be at 55 bps for FY26 year. We maintain ACCUMULATE rating on the stock with revised TP of INR 270, giving us upside potential of 18% from current levels.

Valuations

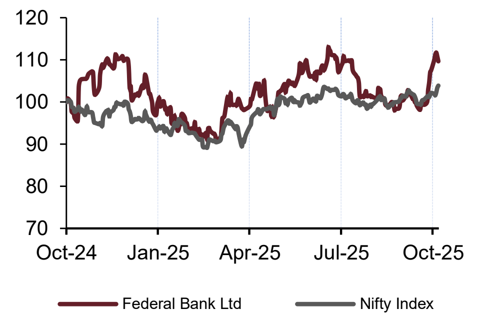
The bank's PAT is projected to grow at a 18% CAGR over FY25-28e, driven by the new management's ambitious targets, including product portfolio expansion, branch transformation, margin improvement, and renewed digital focus. These initiatives are expected to improve ROA from 1.2% in FY25 to 1.3% by FY27, eventually reaching around 1.5% by FY28. ROE is also forecasted to rise from 13% to 14.9% during FY25-27.

Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	270	27

Market data		
Current price	Rs	212
Market Cap (Rs.Bn)	(Rs Bn)	522
Market Cap (US$ Mn)	(US$ Mn)	5,945
Face Value	Rs	2
52 Weeks High/Low	Rs	220 / 172.66
Average Daily Volume	('000)	5,913
BSE Code		500469
Bloomberg		FB.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-25	Mar-24
Promoters	-	-
Public	100	100
Total	100	100

Source: BSE

Financial Summary

Y/E Mar (Rs Bn)	FY24	FY25	FY26E	FY27E	FY28E
NII	82.9	94.7	112.1	133.1	158.5
Net profit	37.2	40.5	44.7	54.6	66.8
Networth	291	334	372	419	475
Adj BVPS	113	132	148	168	193
EPS (Rs)	15.1	16.5	18.2	22.2	27.2
P/ABV (x)	2.0	1.7	1.5	1.4	1.2
P/E (x)	15.1	13.8	12.6	10.3	8.4

Source: Dalal & Broacha Research, Company

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CASA improvement is visible in this quarter, though sustaining this growth remains crucial. Under strong leadership, successful implementation of the roadmap could lead to a structural re-rating compared to the current valuation typically accorded to old private sector bank.

The stock trades at 1.5x/1.4x/1.2x on FY26e/FY27e/FY28e ABV. We are rolling forward our target price on FY28 estimates. Hence, we assign ACCUMULATE rating with revised TP of INR 270, giving us upside of 19% from current levels which can be delivered over the next 12-18 months time (assigning target multiple of 1.4x on FY28e ABV).

Results Highlights Q2FY26

- Q2FY26 PAT came in at INR 955 cr, up by 10.9 % qoq /-9.6% qoq led by moderated asset growth, margin expansion & stable asset quality
- **Total advances growth moderated**
  - Total gross advances growth was lower at 6.4% yoy (1.8% qoq) to INR 2.55 trillion vs. ~20% growth seen in previous 7-8 quarters led by moderated growth seen in the retail (54% share) & corporate loans (35.5% share). Management has highlighted that going forward, loan growth of the bank is projected to grow by 1.2-1.3x of the industry average growth.
  - Restructure of asset book from low-yielding & repo rate linked book to high-yielding asset book has resulted in muted asset growth
  - Retail loans grew by hardly 4% yoy (1.2% qoq) to INR 1.38 trillion. Within retail loans, housing loans reported strong growth of 23% yoy to INR 361 bn (53% share). While other loans like LAP, personal loans & other loans are witnessing negative growth. And credit cards showed 18.5% yoy growth (5.8% share).
  - We have projected 15% CAGR growth over FY25-28e period.
  - Management has said advances growth will be to the tune of ~1.2x GDP for FY26 period

- **NII grew by 5.4% yoy (6.8% qoq) due to moderated asset growth and margin expansion**
  - Quarterly reported margins improved by 12 bps qoq to 3.06% led by faster repricing of funding cost than assets yields. Management believes margin outperformance to continue given deposit repricing is yet to fully play out.
  - Reported advances yields was down by 18 bps qoq to 8.86%, mainly due to impact of lending rate cuts & slowdown in high-yielding unsecured retail assets. Retail assets +

corporate loans should ideally pick-up in H2FY26 which can have positive rub-off on advances yields on overall basis

- Reported cost of funds has dropped by 24 bps yoy to 5.61% which can be partially attributed to faster repricing of bulk deposits at lower rates (17% share, -8.7% yoy decline) and lower growth in retail term deposits (6.8% growth, 21.4% share). Going forward, CP/CD rates has fallen in line with improved liquidity & repo rate cuts, bulk deposits which contribute 17% of the overall deposits, should get reprice faster at lower rates resulting in lower funding costs. While at the same time, management believes margin outperformance to continue given deposit repricing is yet to fully play out.
- Current account deposits reported decent growth of 10.7% yoy (savings deposits too grew by 10.7% yoy) - this remains one of the key strategies of the new management to focus on growth of CASA deposits. While total deposits growth was lower at 7.4% yoy/0.5% qoq to INR 2889 bn
- CASA share in total deposits improved to 31% in the overall deposits vs. 30.3% in Q1FY26 and 30.1% in Q2FY25

- **Other income growth was strong at 33.4% yoy**
  - Core fee income grew by 22% yoy to INR 886 cr. This fee income includes loan processing fees, cards, para banking, banking & commission & exchanges and general banking services
  - On the other hand, recoveries from written-off assets was healthy at INR 150 cr vs. INR 199 cr qoq
  - Treasury income was at INR 113 cr vs. INR 127 cr in Q1FY26

- **Asset quality maintained with marginal uptick in the MFI slippages**
  - Incremental slippages were at INR 579 cr in Q2FY26 vs. INR 658 cr qoq and INR 428 cr yoy.
  - Reported GNPA/NNPA stood at 1.8%/0.5% vs. 1.9%/0.5% qoq
  - Total provisioning cost for the quarter was at 15 bps vs. 17 bps qoq.

Concall Highlights – Q2FY26

- The bank is likely to grow loan book by 1.2-1.3x of the industry average growth for the period FY26
- On the asset side, incremental focus is on gaining traction on high-yielding mid-market segment loans like gold loans/credit cards which can be margin accretive for the bank.
- Also, it highlighted that personal loans is likely to resume growth once the macro economic situation stabilizes
- Average CASA balances have increased meaningfully by 6% qoq which resulted in decline in overall cost of funds.
- Margins have outperformed the guidance given by the bank earlier
- Fee income growth is likely to sustain due to resilience of the franchise
- Credit cost guidance is maintained at 55 bps. H2FY26 will have lower credit cost than H1FY26 but management has retained the guidance of 55 bps.
- Restructure of asset book from low-yielding & repo rate linked book to high-yielding asset book has resulted in muted asset growth
- Margin outperformance is likely to continue given deposit repricing is yet to fully reflect in funding cost
- ECL transmission to have minimal impact on the capital. Additionally, ECL also will not result in higher credit cost.
- MFI slippages have peaked out in May 2025 and incremental outlook is better

Valuations

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Quarterly Comparison

(in cr)	Q2FY26	Q2FY25	yoy (%)	Q1FY26	qoq (%)
Interest earned	**6742.2**	**6577.3**	***2.5***	**6686.6**	0.8
Interest expenses	4246.9	4210.1	***0.9***	4349.8	-2.4
Net Interest Income (NII)	**2495.2**	**2367.2**	***5.4***	**2336.8**	6.8
Other Income	1082.2	964.0	***12.3***	1113.0	-2.8
Total income	**3577.4**	**3331.2**	***7.4***	**3449.8**	**3.7**
Operating expenses	**1933.2**	**1765.8**	***9.5***	**1893.5**	2.1
Operating profit	**1644.2**	**1565.4**	***5.0***	**1556.3**	5.6
Provision for contigencies	363.1	158.4	***129.3***	400.2	-9.3
PBT	**1281.1**	**1407.0**	***-9.0***	**1156.1**	10.8
Provision for taxes	325.8	350.3	***-7.0***	294.4	10.7
Net profit	**955.3**	**1056.7**	***-9.6***	**861.8**	10.9
Equity	491.9	490.5	***0.3***	491.4	0.1
EPS	4.14	4.03	***2.7***	4.14	0.0
Ratios (%)					
Int. exp/Int earned (%)	63.0	64.0	-	65.1	-
Cost/Income ratio (%)	54.0	53.0	-	54.9	-
Gross NPAs (Rs)	4532.0	4884.5	***-7.2***	4669.7	-2.9
Net NPAs (Rs)	1165.2	1322.3	***-11.9***	1157.6	0.6
Gross NPAs (%)	1.8	2.1	-	1.9	-
Net NPAs (%)	0.5	0.6	-	0.5	-
ROA (%)	0.3	0.3	-	0.3	-
CAR (%)	15.7	15.2	-	16.0	-
Balance Sheet (Rs.cr)					
Deposits	2,88,920	2,69,107	***7.4***	2,87,436	0.5
Net Advances	2,44,657	2,30,312	***6.2***	2,41,204	1.4

Source: Dalal & Broacha Research, Company

Financials

Profit & Loss Account

P&L (Rs Bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest income	168.0	221.9	263.7	292.1	324.8	371.1
Interest expense	95.7	138.9	169.0	180.0	191.7	212.7
NII	**72.3**	**82.9**	**94.7**	**112.1**	**133.1**	**158.5**
Non-interest income	23.3	30.8	38.0	37.0	42.2	48.1
Net revenues	**95.6**	**113.7**	**132.7**	**149.2**	**175.3**	**206.6**
Operating expenses	47.7	62.0	71.7	82.4	94.4	108.1
PPOP	**48.0**	**51.7**	**61.0**	**66.7**	**81.0**	**98.5**
Provisions	7.5	2.0	7.3	7.6	8.7	10.0
PBT	**40.5**	**49.8**	**53.7**	**59.2**	**72.3**	**88.4**
Tax	10.3	12.6	13.2	14.5	17.7	21.7
PAT	**30.1**	**37.2**	**40.5**	**44.7**	**54.6**	**66.8**

Balance Sheet

Balance sheet (Rs.bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	4.23	4.92	4.92	4.92	4.92	4.92
Reserves & surplus	202	286	329	367	414	470
Net worth	**206**	**291**	**334**	**372**	**419**	**475**
Deposits	2,134	2,525	2,836	3,144	3,479	3,853
Borrowings	193	180	237	285	327	377
Other liability	61	87	82	92	102	113
Total liabilities	2,594	3,083	3,490	3,893	4,328	4,818
Fixed assets	9	10	15	18	23	28
Investments	490	609	662	739	818	905
Loans	1,744	2,094	2,348	2,701	3,106	3,572
Cash	177	190	309	256	177	80
Other assets	183	181	156	179	204	233
Total assets	**2,603**	**3,083**	**3,490**	**3,893**	**4,328**	**4,818**

Source: Dalal & Broacha Research, Company

Ratios	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth (%)						
NII	21.3	14.7	14.2	18.4	18.7	19.0
PPOP	29.3	7.9	17.9	9.4	21.3	21.6
PAT	63.6	23.6	8.9	10.2	22.1	22.4
Advances	20.4	20.0	12.1	15.0	15.0	15.0
Deposits	17.4	18.3	12.3	10.8	10.7	10.7
Spread (%)						
Yield on Funds	7.5	8.4	8.5	8.3	8.3	8.6
Cost of Funds	4.5	5.5	5.8	5.5	5.3	5.3
Spread	3.1	2.8	2.6	2.8	3.0	3.3
NIM	3.2	3.1	3.0	3.2	3.4	3.7
Asset quality (%)						
Gross NPAs	2.4	2.1	1.8	1.8	1.7	1.7
Net NPAs	0.8	0.6	0.4	0.3	0.2	0.0
Provisions	67	72	74	82	90	97
Return ratios (%)						
RoE	15.3	15.0	13.0	12.6	13.8	14.9
RoA	1.3	1.3	1.2	1.2	1.3	1.5
Per share (Rs)						
EPS	14	15	16	18	22	27
BV	97	118	136	151	170	193
ABV	91	113	132	148	168	193
Valuations (x)						
P/E	16.0	15.1	13.8	12.6	10.3	8.4
P/BV	2.3	1.9	1.7	1.5	1.3	1.2
P/ABV	2.5	2.0	1.7	1.5	1.4	1.2
Other Ratios (%)						
Cost/Income	49.9	54.5	54.0	55.3	53.8	52.3
CD ratio	81.8	82.9	82.8	85.9	89.3	92.7
CASA ratio	32.7	29.6	30.5	30.2	30.0	29.8

Source: Dalal & Broacha Research, Company

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