Federal Bank (FEDBAN)

ICICI Direct

CMP: ₹ 349 | Target: ₹ 332 (-5%) | Target Period: 12 months | HOLD

July 19, 2026

Fundamentals in-tact, while upside appears priced in...

About the stock: Federal Bank is an old private sector bank based out of Kerala with 1,650 branches and 2,135 ATM across various states.

- Strong liability franchise with ~85% of total deposit being retail amid healthy market share in remittance market at 19.7%
- Balanced loan mix with retail: wholesale mix of 50:50. FedBank Financial Services (NBFC) is a subsidiary with 60.7% stake

Q1FY27 performance: Federal Bank reported sustained Q1FY27 with focus on balanced growth and gradual improvement in RoA. Gross advances grew ~13.4% YoY (~3.6% QoQ), led by commercial banking, CV/CE, gold loans, cards and LAP, while deposits rose ~11.4% YoY (~2% QoQ), supported by avg CASA accretion (23% YoY). NIM expanded 13 bps QoQ to 3.33%, aided by lower funding cost, continued deposit repricing and an improving asset mix. Fee income remained healthy at ₹957 crore (+22% YoY), while cost-to-income ratio improved to 52.5% (vs 54.9% in Q1FY26), reflecting better operating leverage despite annual wage revision. Asset quality improved, with GNPA/NNPA at 1.52%/0.18% and credit cost moderating to 41 bps. Consequently, PAT grew 36.6% YoY to ₹1,177 crore, with RoA at 1.22%, supported by strong execution across the core franchise.

Investment Rationale

- **Growth momentum improving; asset mix transformation underway**: Management continues to guide for mid-teen+ loan growth, led by higher-yielding segments such as commercial banking (+23% YoY), CV/CE (+21% YoY), gold loans (+33% YoY), cards (+36% YoY) and LAP (+21% YoY), while maintaining a selective approach towards corporate lending with 75–80% of new customer acquisition focused on mid-market segment, supporting gradual yield improvement. On liabilities front, the bank expects to strengthen its funding franchise through CASA improvement and leverage its ~29.9% NRI deposit base, investment-grade S&P rating, GIFT City platform and FCNR(B) over medium term.

- **Product mix and benign credit cost to support earnings**: While incremental margin tailwinds from liability repricing are likely to diminish after Q2FY27, Federal Bank's earnings profile is expected to remain supported by a favourable portfolio mix and benign asset quality. Management aspires to increase the share of higher-yielding businesses, which should partly offset the moderation in funding cost benefits. Additionally, the proposed acquisition of Standard Chartered India's credit card portfolio is expected to enhance fee income and strengthen the unsecured retail franchise. Credit cost is guided to remain at the lower end of 50–60 bps, with slippages expected to stay under control, while the bank's GNPA at 1.52%, NNPA at 0.18% and healthy provision buffers provide confidence in sustaining asset quality.

Rating and Target Price

- Despite a healthy operating performance and improving execution across key business segments, we believe the recent run-up in the stock price largely factors in near-term positives, while incremental catalysts remain limited. Accordingly, we value Federal Bank at 1.75x FY28E ABV, implying a target price of ₹332, and maintain our HOLD rating.

Key Financial Summary

₹ crore	FY24	FY25	FY26	3 Year CAGR (FY23-FY26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
NII	8,293	9,468	10,657	14%	12,048	14,109	15%
PPP	5,174	6,101	7,206	15%	8,229	9,905	17%
PAT	3,721	4,052	4,117	11%	5,082	6,104	22%
ABV (₹)	114	130	147		164	180	
P/E	14	13	21		11	10	
P/ABV	1.9	1.6	2.4		1.3	1.2	
RoE (%)	14.7	13.0	11.4		12.3	12.1	
RoA (%)	1.3	1.2	1.1		1.2	1.3	

Source: Company, ICICI Direct Research

FEDERAL BANK
YOUR PERFECT BANKING PARTNER

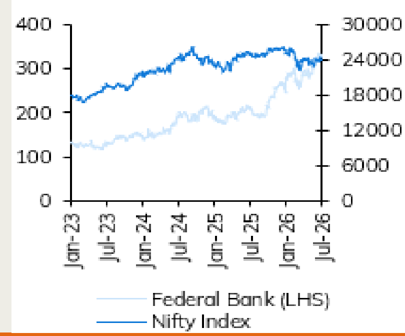
Particulars

Particulars	Amount
Market Capitalisation	₹ 86,165 crore
52 week H/L	₹ 351 / 185
Net Worth	₹ 40,044 crore
Face value	2

Shareholding pattern

(in %)	Jun-25	Sep-25	Dec-25	Mar-26
FII	26.8	25.5	24.9	26.0
DII	48.2	49.7	51.1	50.4
Others	25.0	24.8	24.0	23.6

Price Chart



Key risks

(i) Higher than anticipated business growth or fee income

(ii) Higher credit cost amid changes in asset mix

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

CA Parth Chintkindi
parth.chintkindi@icicisecurities.com

Result Update

ICICI Securities – Retail Equity Research

Concall highlights and outlook

Performance and growth outlook

- Gross advances grew ~13.4% YoY (~3.6% QoQ), led by commercial banking, CV/CE, gold loans, cards and LAP, while deposits rose ~11.4% YoY (~2% QoQ), supported by avg CASA accretion (23% YoY). Management retained its mid-teens-plus growth guidance with a positive bias, subject to the macro environment.
- Corporate growth was partly opportunistic and may not sustain at the current pace; management will continue to deploy capital where spreads and counterparty quality remain attractive.
- Within CIB, focus continues to shift toward mid-market corporates, which accounted for ~75–80% of new customer acquisitions, supporting better yields and cross-sell opportunities.
- Business Banking/small business loans: Management expects growth to improve after strengthening underwriting, credit processes and portfolio quality; branch focus on small-ticket lending is also being increased.
- Auto loans: Execution lagged the industry due to internal organisational changes; management expects traction to improve as the revised structure stabilises.
- Gold loans: Management expects strong growth trajectory to continue, with portfolio LTV at ~60% and pricing based on the lower of recent market benchmarks, alongside additional buffers during volatility.
- CV/CE: No material stress is currently visible despite higher diesel prices and geopolitical risk; the bank operates mainly in the medium-sized fleet-operator segment rather than vulnerable single-truck operators.
- Credit cards: The portfolio continues to scale rapidly, with Standard Chartered portfolio acquisition seen to accelerate organic card strategy.
- MFI: Growth remains measured, though management sees scope to increase activity if the external environment and portfolio behaviour remain supportive.
- Management did not set a formal FCNR mobilisation target but expects to secure its - fair share. Federal Bank's normal FCNR market share is around 2.5%.
- The bank has multiple avenues to fund growth, including FCNR deposits, ECB/OFCB borrowings, wholesale deposits and refinancing window from SIDBI and NABARD, which were not used aggressively in FY26.
- The cost attractiveness of FCNR funding will depend on base rates, dollar-rupee swap cost, rupee liquidity and market timing; management will participate only where economics remain accretive.
- The low-yielding book increased marginally to ~50.1% due to higher corporate growth, though management reiterated that the medium-term mix shift remains intact as commercial banking, gold, cards and CV/CE continue to grow faster.

Margins outlook

- NIM (ex-off) improved ~13 bps QoQ to 3.33%, driven primarily by lower deposit cost, improving average CASA and continued asset-mix optimisation.
- The apparent ~22 bps decline in cost of deposits included ~11 bps reinvestment-deposit denominator effect in Q4.
- A limited residual benefit from deposit repricing is expected in Q2FY27, while further margin improvement should increasingly come from:
    - Sustained CASA growth;
    - Mix shift toward mid/high-yield assets;
    - Better corporate pricing through mid-market focus;
    - RAROC-led pricing discipline.
- Average LCR stood at ~117%, within range preferred at 15–120%; management views excess liquidity beyond this range as margin dilutive.

Asset quality and Opex

- Credit cost moderated to ~41 bps (vs 47 bps in Q4FY26); management indicated that FY27 credit cost is likely to be toward the lower end of the 50–60 bps guidance but refrained from formally revising it due to monsoon and geopolitical risks.
- Asset quality improved:
  - GNPA declined to 1.52% (down 10 bps QoQ);
  - NNPA improved to 0.18% (down 2 bps QoQ);
  - PCR at 87.37%
- Under the ECL framework effective April 1, 2027, the one-time transition impact is estimated at ~1.5–2% of net worth, while no material recurring P&L impact is expected.

Other updates

- The acquisition of Standard Chartered India's credit-card portfolio is expected to be completed before the end of calendar 2026 and will accelerate Federal Bank's organic, non-co-branded card strategy.
- Federal Bank secured an investment-grade international rating from S&P, improving access to global funding pools through bonds, ECBs and IBU borrowings at potentially competitive rates.

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	2,945.9	2,336.8	26.1	3,172.6	-7.1	Driven by healthy loan growth and deposit repricing
NIM (%)	3.33	2.94	39 bps	3.74	-41 bps	Aided by lower funding cost and favorable asset mix
Other Income	1,048.4	1,113.0	-5.8	1,145.0	-8.4	Benign treasury gains and lower recoveries impacted momentum
Net Total Income	3,994.3	3,449.8	15.8	4,317.6	-7.5	
Staff cost	921.7	797.6	15.6	775.7	18.8	Increased on account of annual wage revision
Other Operating Expenses	1,175.3	1,095.9	7.2	1,265.5	-7.1	Steady opex
PPP	1,897.3	1,556.3	21.9	2,276.4	-16.7	
Provision	317.7	400.2	-20.6	741.0	-57.1	Credit cost at ~41 bps (vs 47 bps in Q4FY26)
PBT	1,579.6	1,156.1	36.6	1,535.4	2.9	
Tax Outgo	402.7	294.4	36.8	276.3	45.8	
PAT	1,176.9	861.8	36.6	1,259.1	-6.5	Aided by core operating performance and lower provisions
Key Metrics						
GNPA	4,282.3	4,669.7	-8.3	4,335.3	-1.2	GNPA improved 10 bps to 1.52%
NNPA	506.1	1,157.6	-56.3	529.3	-4.4	
Gross advances	278,466	245,634	13.4	268,798	3.6	Led by commercial banking, CV/CE, gold loans, cards and LAP
Deposit	320,118	287,436	11.4	313,909	2.0	CASA accretion of 23% YoY

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	26,365.2	27,695.4	31,306.4	35,923.9
Interest Expended	16,897.3	17,038.0	19,258.1	21,814.5
Net Interest Income	9,468.0	10,657.4	12,048.3	14,109.4
growth (%)	14.2	12.6	19.2	17.1
Non Interest Income	3,801.2	4,440.4	5,039.2	5,944.9
Net Income	13,269.2	15,097.8	17,087.5	20,054.3
Staff cost	3,088.3	3,225.4	3,644.5	3,936.4
Other operating Expense	4,079.8	4,666.2	5,214.3	6,213.1
Operating Profit	6,101.1	7,206.2	8,228.7	9,904.8
Provisions	733.1	1,836.7	1,428.4	1,737.6
PBT	5,368.1	5,369.5	6,800.3	8,167.2
Taxes	1,316.2	1,252.2	1,718.1	2,063.4
Net Profit	4,051.9	4,117.3	5,082.2	6,103.7
growth (%)	8.9	1.6	29.0	20.1
EPS (₹)	16.5	16.7	18.6	20.3

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares (Crores)	245.6	246.4	272.9	300.2
EPS (₹)	16.5	16.7	18.6	20.3
BV (₹)	136.1	157.1	167.8	184.1
ABV (₹)	130.0	146.5	164.3	180.3
P/E	12.9	20.8	11.4	10.5
P/BV	1.6	2.2	1.3	1.2
P/ABV	1.6	2.4	1.3	1.2
Yields & Margins (%)				
Net Interest Margins	3.2	3.1	3.3	3.3
Yield on assets	8.9	8.5	8.5	8.5
Avg. cost on funds	5.9	5.6	5.5	4.3
Yield on average advances	9.6	9.3	9.3	9.3
Avg. Cost of Deposits	5.9	5.6	5.4	5.5
Quality and Efficiency (%)				
Cost to income ratio	54.0	52.3	51.8	50.6
Credit/Deposit ratio	82.8	82.2	84.6	85.8
GNPA	2.1	1.7	1.5	1.4
NNPA	0.6	0.4	0.3	0.3
RoE	13.0	11.4	12.3	12.1
RoA	1.2	1.1	1.2	1.3

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	491.2	492.9	545.8	600.4
Reserves and Surplus	32,929.4	38,212.2	45,243.3	54,660.7
Networth	33,420.6	38,705.1	45,789.1	55,261.1
Deposits	283,647.5	313,909.4	354,703.5	402,778.2
Borrowings	23,726.3	21,159.1	21,546.2	23,592.3
Other Liabilities & Provisions	8,210.4	13,747.9	11,245.8	13,284.7
Total	349,004.8	387,521.5	433,284.7	494,916.3
Application of Funds				
Fixed Assets	1,478.3	1,472.5	1,532.9	1,597.9
Investments	66,245.6	76,676.2	83,525.5	95,021.3
Advances	234,836.4	264,594.4	300,153.5	345,559.8
Other Assets	15,585.3	19,050.8	19,160.3	21,873.7
Cash with RBI & call money	30,859.2	25,727.6	28,912.5	30,863.6
Total	349,004.8	387,521.5	433,284.7	494,916.3

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	13.2	11.0	11.8	14.2
Advances	12.1	12.7	13.4	15.1
Deposit	12.3	10.7	13.0	13.6
Total Income	16.7	13.8	13.2	17.4
Net interest income	14.2	12.6	13.1	17.1
Operating expenses	17.3	12.6	10.5	16.1
Operating profit	17.9	18.1	14.2	20.4
Net profit	8.9	1.6	23.4	20.1
Net worth	14.9	15.8	18.3	20.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Vishal Narnolia, MBA, Parth Parmeshwar Chintkindi, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

ICICI Securities Limited has not used any Artificial Intelligence tools for preparation of this Research Report