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Institutional Equities

Federal Bank (FB)

Banking | Company Update

UPGRADE TO BUY

CMP: Rs227 | Target Price (TP): Rs266 | Upside: 17%

October 26, 2025

Fund raise proceeds to be deployed on credit side

Key Points

- Federal Bank has issued 273mn warrants at a price of Rs 227, aggregating Rs 62bn to Asia II Topco XIII Pte. Ltd, a Blackstone associate. These warrants are convertible into equity shares within a period of 18 months from the date of allotment. Post exercise of these warrants into equity shares, these will represent 9.99% stake in the bank.
- We have estimated the warrants to be converted into equity shares by FY26 end, which will result in 11.1% equity dilution and lead to an improvement of 280bps in the CAR to 18.5% (from 15.7% in September 2025).

We turn positive on Federal Bank due to the following reasons:

- **Loan growth to pick up:** Post this fund raise, we build in a pick up in loan growth from 8.9%/11.5% for FY26E/FY27E earlier to 10%/12% respectively. Our loan growth estimate for FY28E remains unchanged at 14.2%.
- **Strong patronage of depositors:** FB's key strength lies in its ability to raise retail and CASA deposits in its home state Kerala. The overall share of retail deposits at 83% is amongst the highest in the industry. Further, the bank is a key beneficiary of NRI remittances from GCC nations and other international geographies with NRI deposits constituting 29.8% of deposits.
- **NIM to remain stable at 3.1%:** We expect NIM to remain stable at 3.1% over FY25-FY28E due to its focus on growing the medium yield and parts of its higher yielding book and expectations of improvement in low-cost deposit ratio.
- **Visibly cleaner corporate book and low proportion of unsecured loans:** The overall rating profile of corporate book has improved with 85% of advances being in investment grade now vs. 57% in FY15. The wholesale book is Rs 1174bn, of which commercial banking (ticket size Rs 50-500mn) is 22.8%. For the past 3-4 years we have not seen any lumpy corporate slippages. Moreover, stressed book (std restructured Rs 12.1bn + NNPA Rs 11.7bn) as a % of gross advances also stands comfortable at 0.9%. The proportion of unsecured credit card, PL and microfinance book being low at 4.6% also provides comfort. Hence, we are positive that the bank is unlikely to witness any major negative surprises on the asset quality front and project the credit costs to average at 60bps over FY25-FY28E.
- **RoA drivers:** We have estimated earnings CAGR of 12.2% over FY25-FY28E which will result in RoA/RoE of 1.3%/11.4% in FY28E. In our view the key drivers of RoA will be: (1) Pick up in business growth leading to market share gains in the long term, (2) Improving efficiencies with branch light and distribution heavy model, (3) Increasing fee income and cross selling by leveraging data, (4) Maintaining asset quality, (5) Enhancing yields with focus on medium/high yielding segments, (6) Increasing CASA. We thus upgrade Federal Bank from a 'Hold' to a 'Buy' with a revised target price of Rs 266 (valued at 1.5x Sept 2027E ABV plus subsidiary value per share of Rs 11.1) as against Rs 224 earlier (valued at 1.25x Sept 2027E ABV plus subsidiary value per share of Rs 13).

Est Change	Upwards
TP Change	Upwards
Rating	Upwards

Company Data and Valuation Summary

Reuters	FED.BO
Bloomberg	FB IN Equity
Mkt Cap (Rsbn/US$bn)	559.3 / 6.4
52 Wk H / L (Rs)	232 / 173
ADTV-3M (mn) (Rs/US$)	1,764.0 / 20.1
Stock performance (%) 1M/6M/1yr	17.5 / 12.6 / 20.4
Nifty 50 performance (%) 1M/6M/1yr	1.8 / 3.9 / 6.7

Shareholding	4QFY25	1QFY26	2QFY26
Promoters	0.0	0.0	0.0
DIIs	49.1	48.2	49.7
FIIs	26.3	26.9	25.5
Others	24.7	25.0	24.8
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY25	FY26E	FY27E	FY28E
NII	94,680	1,03,687	1,18,391	1,34,615
% growth	*14.2*	*9.5*	*14.2*	*13.7*
NIM %	*3.1*	*3.0*	*3.1*	*3.1*
C/I Ratio %	*54.0*	*53.6*	*52.0*	*50.0*
Operating Profit	61,011	68,127	79,397	93,537
% growth	*17.9*	*11.7*	*16.5*	*17.8*
Adjusted PAT	40,519	41,594	49,557	57,295
% growth	*8.9*	*2.7*	*19.1*	*15.6*
ABVPS (Rs /share)	135	157	173	192
P/ABV	1.7	1.5	1.3	1.2
RoA (%)	*1.2*	*1.1*	*1.2*	*1.3*
Leverage (x)	10.5	9.5	8.8	8.9
RoE (%)	*13.0*	*10.9*	*10.9*	*11.4*

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Key Links- 2QFY26 presentation

Rati J Pandit, CFA
Research Analyst
rati.pandit@nirmalbang.com
+91-22-6273-8068

Exhibit 1: SOTP Valuation

Calculation of Adj. Networth	
Sept 2027E Networth	5,03,648.7
Less: Sept 2027E NNPA	14,479.6
Less: Revaluation Reserves	50.1
Less: Cost of Investment in Subsidiaries/JV	8,926.2
Sept 2027E Adj. Networth	**4,80,192.8**

Company Name	**Stake (%)**	**Financial Parameter**		**Multiple (x)**	**Value per Share (Rs)**
Federal Bank		Sept 2027E ABV (Rs)	175.7	1.5	254.8
Fedbank Financial Services Limited	61.0%	Current Mcap (Rs mn)	52,818.0	-	11.8
Federal Operations and Services Limited	100.0%	FY25 PAT (Rs mn)	79.1	5	0.1
Ageas Federal Life Insurance Company Limited	26.0%	March 2025 Networth	11,720	1	1.1
Holding Company Discount (%)					*15*
Target Price (Rs)					**265.9**
Upside (%)					**16.9**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	Revised Estimate			**Earlier Estimate**			***% Revision***		
	FY26E	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**	***FY26E***	***FY27E***	***FY28E***
Net Interest Income (Rs mn)	1,03,687	1,18,391	1,34,615	1,03,346	1,16,201	1,31,303	*0.3*	*1.9*	*2.5*
NIM	*3.0*	*3.1*	*3.1*	*3.0*	3.1	*3.1*	*-1 bps*	*3 bps*	*5 bps*
Operating Profit (Rs mn)	68,127	79,397	93,537	67,192	77,428	91,173	*1.4*	*2.5*	*2.6*
Profit after tax (Rs mn)	41,594	49,557	57,295	40,896	47,636	55,601	*1.7*	*4.0*	*3.0*
Loan Book (Rs bn)	2,583	2,893	3,304	2,558	2,851	3,256	*1.0*	*1.5*	*1.5*
ABVPS (Rs)	157	173	192	149	166	186	*5.4*	*4.2*	*3.0*

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 3: Income statement

Y/E March (Rsmn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	2,21,883	2,63,653	2,70,857	3,01,890	3,46,700
Interest expense	1,38,948	1,68,973	1,67,170	1,83,499	2,12,086
Net interest income	**82,935**	**94,680**	**1,03,687**	**1,18,391**	**1,34,615**
Non-interest income	30,793	38,012	42,996	46,977	52,625
Net Revenue	**1,13,728**	**1,32,692**	**1,46,683**	**1,65,368**	**1,87,239**
Operating Expense	61,983	71,681	78,556	85,971	93,702
-Employee Exp	28,231	30,883	32,810	35,893	38,993
-Other Exp	33,752	40,798	45,746	50,078	54,709
Operating profit	**51,745**	**61,011**	**68,127**	**79,397**	**93,537**
Provisions	1,961	7,331	14,090	15,401	17,144
PBT	**49,784**	**53,681**	**54,038**	**63,997**	**76,393**
Taxes	12,578	13,162	12,444	14,440	19,098
PAT	**37,206**	**40,519**	**41,594**	**49,557**	**57,295**

Source: Company, Nirmal Bang Institutional Equities Research

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Exhibit 5: Balance sheet

Y/E March (Rsmn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	4,871	4,912	5,465	5,465	5,465
Reserves & Surplus	2,86,073	3,29,295	4,26,317	4,70,918	5,22,483
Shareholder's Funds	**2,90,944**	**3,34,206**	**4,31,781**	**4,76,382**	**5,27,948**
Deposits	**25,25,340**	**28,36,475**	**30,92,378**	**34,43,736**	**39,29,317**
Borrowings	1,80,264	2,37,263	1,99,008	2,27,078	2,59,107
Other liabilities	86,570	82,104	50,626	58,405	65,569
Total liabilities	**30,83,118**	**34,90,048**	**37,73,793**	**42,05,602**	**47,81,941**
Cash/Equivalent	1,89,629	3,08,592	2,62,852	2,92,718	3,33,992
Advances	**20,94,033**	**23,48,364**	**25,82,967**	**28,93,040**	**33,03,715**
Investments	6,08,595	6,62,456	7,42,171	8,26,497	9,43,036
Fixed Assets	10,201	14,783	14,825	15,426	16,053
Other assets	1,80,660	1,55,853	1,70,979	1,77,921	1,85,146
Total assets	**30,83,118**	**34,90,048**	**37,73,793**	**42,05,602**	**47,81,941**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Growth (%)					
NII growth	14.7	14.2	9.5	14.2	13.7
Pre-provision profit growth	7.9	17.9	11.7	16.5	17.8
PAT growth	23.6	8.9	2.7	19.1	15.6
Business (%)					
Deposit growth	18.3	12.3	9.0	11.4	14.1
Advance growth	20.0	12.1	10.0	12.0	14.2
CD	82.9	82.8	83.5	84.0	84.1
CASA	29.6	30.5	31.2	31.6	32.0
Operating efficiency (%)					
Cost/income	54.5	54.0	53.6	52.0	50.0
Cost-to-assets	2.2	2.2	2.2	2.2	2.1
Spreads (%)					
Yield on advances	9.2	9.5	8.8	8.8	8.9
Yield on investments	6.7	7.1	6.6	6.6	6.7
Cost of deposits	5.5	5.7	5.4	5.3	5.3
Yield on assets	8.4	8.5	7.9	8.0	8.1
Cost of funds	5.5	5.8	5.3	5.3	5.4
NIMs	3.1	3.1	3.0	3.1	3.1
Capital adequacy (%)					
Tier I	14.6	15.0	16.8	16.7	16.2
Tier II	1.5	1.4	1.1	1.0	0.9
Total CAR	16.1	16.4	17.9	17.7	17.1
Asset Quality (%)					
Gross NPA	2.1	1.8	1.8	1.8	1.8
Net NPA	0.6	0.4	0.5	0.5	0.5
PCR	72.3	76.2	74.3	74.3	74.3
Slippage	0.8	0.8	0.9	1.0	1.0
Credit cost	0.1	0.3	0.6	0.6	0.6
Return (%)					
ROE	14.7	13.0	10.9	10.9	11.4
ROA	1.3	1.2	1.1	1.2	1.3
RORWA	2.1	2.0	1.8	1.8	1.9
Per share					
EPS	15	16	15	18	21
BV	119	136	158	174	193
ABV	118	135	157	173	192
Valuation					
P/E	14.9	13.8	14.9	12.5	10.8
P/BV	1.9	1.7	1.4	1.3	1.2
P/ABV	1.9	1.7	1.5	1.3	1.2

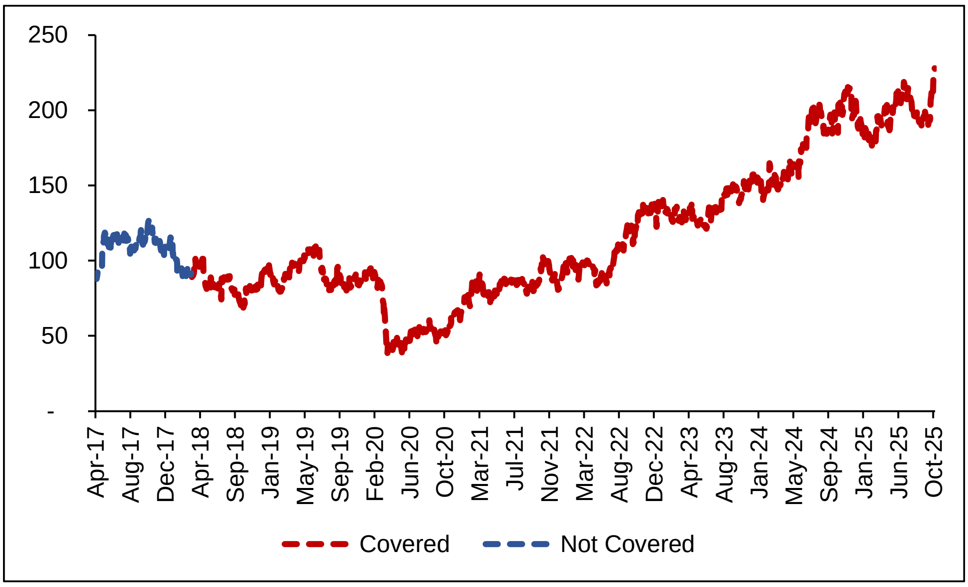
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	91	112
10 May 2018	Buy	101	116
18 July 2018	Buy	88	119
9 October 2018	Buy	70	115
17 October 2018	Buy	82	117
18 January 2019	Buy	89	122
8 April 2019	Buy	99	123
6 May 2019	Buy	98	134
8 July 2019	Buy	107	134
17 July 2019	Buy	107	135
7 October 2019	Buy	86	124
17 October 2019	Buy	82	115
8 January 2020	Buy	87	111
21 January 2020	Buy	94	109
27 March 2020	Buy	43	59
9 April 2020	Buy	41	59
29 May 2020	Buy	43	57
9 July 2020	Buy	54	65
16 July 2020	Accumulate	51	57
23 September 2020	Accumulate	49	55
7 October 2020	Accumulate	52	54
19 October 2020	Buy	52	63
26 November 2020	Buy	59	72
8 January 2021	Buy	76	89
21 January 2021	Buy	77	91
21 February 2021	Buy	83	111
17 May 2021	Buy	82	112
25 July 2021	Buy	85	111
26 September 2021	Buy	81	119
24 October 2021	Buy	103	124
26 January 2022	Buy	96	127
07 May 2022	Buy	92	120
17 July 2022	Buy	99	119
19 September 2022	Buy	122	149
16 October 2022	Buy	130	150
16 January 2023	Buy	140	166
1 March 2023	Buy	129	166
22 March 2023	Buy	129	176
7 May 2023	Buy	128	178
14 July 2023	Buy	127	184
17October 2023	Buy	148	176
17 December 2023	Buy	157	182
17 January 2024	Buy	150	178
03 May 2024	Buy	168	204
07 July 2024	Buy	186	218
25 July 2024	Buy	201	235
10 October 2024	Buy	186	236
29 October 2024	Buy	185	231
6 December 2024	Buy	215	254
10 January 2025	Buy	189	235
28 January 2025	Buy	184	226
9 April 2025	Buy	191	226
02 May 2025	Buy	197	235
10 July 2025	Buy	235	260

03 Aug 2025	Hold	196	215
10 October 2025	Hold	208	215
20 October 2025	Hold	212	224
26 October 2025	Buy	227	266

Rating track graph



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Team Details:			
Name		**Email Id**	**Direct Line**
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Seshagiri Ranganathan	Head of Sales	seshagiri.r@nirmalbang.com	+91 22 6273 8228
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park,
Lower Parel (W), Mumbai-400013.
Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010