

BSE SENSEX 84,212
 S&P CNX 25,795



Bloomberg	FB IN
Equity Shares (m)	2458
M.Cap.(INRb)/(USDb)	559.1 / 6.4
52-Week Range (INR)	232 / 173
1, 6, 12 Rel. Per (%)	15/6/15
12M Avg Val (INR M)	1841
Free float (%)	100.0

Financials & Valuation (INR b)

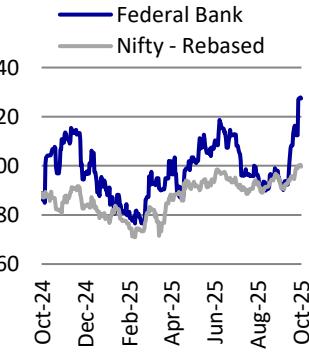
Y/E Mar	FY25	FY26E	FY27E
NII	94.7	101.6	124.9
OP	61.0	67.9	85.4
NP	40.5	40.2	51.6
NIM (%)	3.2	3.1	3.3
EPS (INR)	16.6	16.4	19.9
EPS Gr. (%)	1.3	-1.2	21.6
BV/Sh. (INR)	136	151	176
ABV/Sh. (INR)	129	143	168
Ratios			
ROA (%)	1.2	1.1	1.2
ROE (%)	13.0	11.4	12.1
Valuations			
P/E(X)	13.7	13.9	11.4
P/BV (X)	1.7	1.5	1.3

Shareholding pattern (%)

As On	Sep-25	Jun-25	Sep-24
Promoter	0.0	0.0	0.0
DII	49.2	47.7	46.7
FII	26.3	27.6	28.5
Others	24.5	24.7	24.8

FII Includes depository receipts

Stock performance (one-year)



CMP: INR227 **TP: INR260 (+14%)**

Buy

Growth outlook getting stronger; RoA trajectory to improve
FY26-28E earnings to clock 29% CAGR

- Federal Bank's pivot toward margin-accretive growth, strengthening its liability profile and improving fee intensity is now further bolstered by the proposed ~INR62b preferential capital infusion from Blackstone.
- This capital enhances the bank's balance sheet flexibility and supports its journey toward structurally higher RoA. We estimate ~17% loan CAGR over FY26-28E, with the mix shifting towards better-yielding assets.
- With CASA-led liability improvement, calibrated build-out of high-yielding segments, and credit cost discipline, Federal Bank is progressing on a clear profitability path enabling RoA expansion over coming years.
- We estimate NIMs to improve gradually as the Blackstone infusion boosts capital ratios, which, along with the benefits from CRR cuts, enables higher LDR with a focus on high-yield segments like LAP, CV/CE, BB and gold loans.
- We estimate RoA to improve to 1.2%/1.4% over FY27/28E, with exit RoA potential of ~1.5%. We estimate ~29% PAT CAGR over FY26-28, supported by improving NIMs, fee intensity and stable asset quality.
- India's policy shift is boosting foreign participation in the banking segment. Approvals for higher strategic ownership and marquee deals (Warburg-IDFCB, ADIA-IDFCB, Emirates NBD-RBL) reflect rising investor confidence and a more facilitative regulatory approach.
- We reiterate BUY with a revised TP of INR260, valuing the bank at 1.5x FY27E BV, factoring in enhanced capital strength, a steady earnings outlook and the sector-wide rerating potential from rising strategic foreign ownership in mid-size private banks.

Capital infusion to boost growth

Federal Bank has strategically prioritized profitable growth by accelerating its shift toward medium- and high-yielding lending segments while maintaining asset quality discipline. Core retail and commercial engines such as LAP, CV/CE, gold and business banking continue to scale well while providing better yields for the bank. Gold loans are likely to remain a key growth driver, now forming 12.6% of the book, supported by healthy demand and branch-led distribution. The bank remains conservative in unsecured credit but has indicated a calibrated re-entry as the risk-reward now seems favorable. The proposed Blackstone capital infusion will materially enhance growth headroom. We thus estimate FB to deliver a robust ~17% CAGR over FY27-28E, led by a continued mix shift toward higher-yield products.

Focus remains on improving CASA mix

Deposit momentum is likely to remain modest in the near term as the bank continues to prioritize granularity over volume, consciously pruning high-cost wholesale deposits. CASA, particularly current accounts, remains the focus area but accretion will be gradual and led by productivity rather than pricing for SA deposits. Consequently, we expect the bank to sustain overall deposit growth at ~15% CAGR over FY26-28E. This capital cushion allows the bank to stay focused on structurally improving the CASA mix, scaling CA toward 10%+ through SME, NR and branch realignment and thereby easing funding costs more sustainably rather than chasing transient bulk flows.

NIMs to improve led by better asset mix, LDR optimization and capital raise

Federal Bank's NIM trajectory is set to improve gradually as the bank consciously improves its asset mix in favor of higher-yielding assets while focusing on improving its liability profile. With capital buffers strengthening, the bank can comfortably raise its LDR (the phased reduction in CRR will nevertheless enable the bank to operate on higher LDR), allowing a more efficient balance sheet mix while maintaining liquidity prudence. This supports greater participation in high-yield segments such as LAP, CV/CE, gold and business loans. As CA mobilization and liability repricing gains compound in parallel, the twin tailwinds of stronger asset yields and improved funding efficiency should drive a visible NIM uplift from FY27E onward. We expect NIMs to improve to 3.27% by FY27E and to 3.55% by FY28E.

Estimate RoA to recover to 1.35% by FY28E

Federal Bank is entering a clear RoA upgrade cycle, backed by four reinforcing levers — 1) margin expansion from FY27E supported by an improved asset mix and controlled deposit costs as CASA mix increases, 2) improvement in fee intensity as the bank scales up business banking, 3) mid-corporate segment along with improved run-rates in credit card portfolio, and 4) improvement in operating leverage from scale efficiencies. The stable asset quality outlook will control the credit cost and enable healthy growth in profitability. While MFI-related stress is yet to get over, trends in asset quality are already normalizing, and management has reiterated its 55bp credit cost guidance for FY26 with a stronger 2H. We estimate RoA to improve meaningfully and scale toward ~1.35% by FY28E (exit RoA ~1.5%), marking a stable improvement in return ratios vs. its historical 0.9-1.3% band. Our projected RoA implies 29% earnings CAGR over FY26-28E.

Changing stance from regulatory conservatism to facilitative expansion

India's long-term policy direction is now unambiguously aligned with its Viksit Bharat vision by 2047. The government remains committed to its stated ambition to make India the world's third largest economy by 2030. To accelerate this growth ambition and to further strengthen/diversify the global ties the policymakers and the RBI are adopting a more enabling stance to facilitate such large foreign capital participation in the banking system. This signals a calibrated shift from regulatory conservatism to facilitative expansion. Regulator has thus signaled a more pragmatic view that well-capitalized shareholders will strengthen the banking system and support systemic resilience. This policy posture will enable large cross-border deals and expedite the path from commitment to capital

deployment. These transactions thus set interesting precedents and pave the way for many more such meaningful transactions over the coming years.

Mid-size Pvt banks: Investment thesis getting stronger; sentiment positive

The spate of recent marquee transactions has opened up a new chapter in the Indian banking space, with the mid-size private banking space witnessing renewed investor interest. Many private banks are looking to shore up their capital base to capitalize on the next leg of growth as the unsecured stress is now showing signs of abatement and the recent policy and government measures will drive consumption and aid consumer loan demand. Global financial investors and sovereign funds have participated in some of the recent fund raises via sizeable preferential issues (Warburg Pincus and ADIA in IDFCFB; Emirates NBD's proposed majority investment in RBL, SMBC in Yes Bank, Fairfax in CSB Bank, DBS bank merger with Lakshmi Vilas Bank). We curiously look forward to potential divestment of government stake in IDBI Bank as well, which will be another large deal in the sector. These transactions reflect growing investor confidence in India's growth story as the fastest-growing economy, offering a strong balance of government stability, healthy corporate governance and a more predictable and transparent policy framework.

Valuation and view

- Federal Bank's pivot toward margin-accretive growth, strengthening the liability profile and improving fee intensity is now further strengthened by the proposed ~INR62b preferential capital infusion from Blackstone. This enhances the bank's balance sheet flexibility and supports its journey toward structurally higher RoA.
- With CASA-led liability improvement, calibrated build-out of high-yield segments, and credit cost discipline, the bank is progressing on a clear profitability path. The bank's digital-led sourcing, branch productivity unlock, and scale-driven operating leverage provide RoA expansion visibility from FY27 onward.
- We estimate RoA to improve to 1.2% in FY27, with a further rise toward ~1.4% in FY28 and exit RoA potential of ~1.5%. We estimate ~29% PAT CAGR over FY26-28, supported by improving NIMs, fee intensity and continued asset quality stability.
- **We reiterate BUY with a revised TP of INR260, valuing the bank at 1.5x FY27E BV, factoring in enhanced capital strength, steady earnings outlook and the sector-wide re-rating potential from rising strategic foreign ownership in high-quality private banks.**

STORY IN CHARTS

Exhibit 1: Foreign equity deals in Indian banks (2019-2025) and their % in acquisition

Stake (Post dilution)	Blackstone (US PE)	Emirates NBD (Dubai)	Warburg Pincus (US PE)	ADIA (Abu Dhabi)	DBS Bank (Singapore)	SMBC (Japan)
Federal Bank	9.99%					
RBL Bank		60-74%				
IDFC First Bank			9.97%	5.1%		
LVB					Merger	
Yes Bank						24.22%**

**13.2% stake acquired from SBI, 6.8% from other banks, 4.22% from Carlyle, Source: MOFSL, Company

Exhibit 2: Current shareholding for the banks

	Federal Bank	RBL Bank	IDFC FB	Yes Bank
Promoter	0.0	0.0	0.0	0.0
DII	49.7	35.3	30.2	20.8
FII	25.5	15.5	32.1	44.9
Others	24.8	49.2	37.7	34.3

Source: MOFSL, Company

Exhibit 3: Change in key metrics post capital infusion by Blackstone

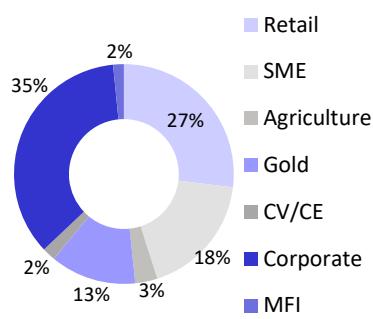
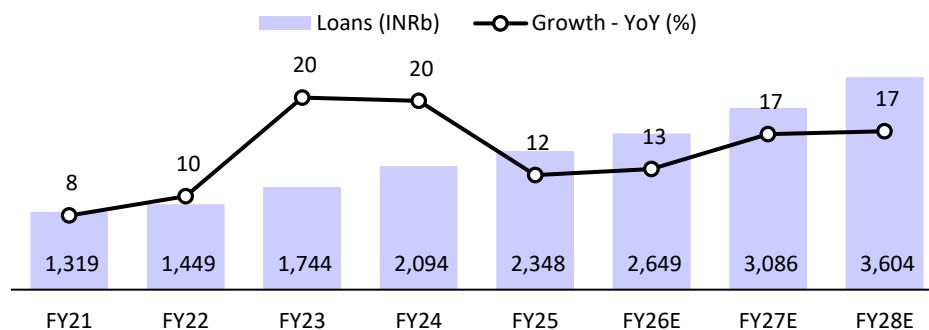
	Existing			Post Infusion			Change in metrics		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NIMs (change in bp)	3.06	3.20	3.47	3.06	3.27	3.55	(0)	8	8
RoA (change in bp)	1.08	1.19	1.33	1.08	1.21	1.35	(0)	2	2
RoE (change in bp)	11.43	12.83	14.49	11.41	12.14	13.02	(2)	(69)	(148)
BVPS (change in %)	150.9	169.9	194.6	150.8	175.9	198.5	0%	4%	2%
Tier-1 (change in bp)	15.29	14.72	14.27	15.45	17.04	16.36	17	232	209
CRAR (change in bp)	16.67	15.89	15.25	16.85	18.22	17.35	18	232	211

Source: MOFSL, Company

Exhibit 4: Change in Estimates, factoring capital infusion by Blackstone in FY27E

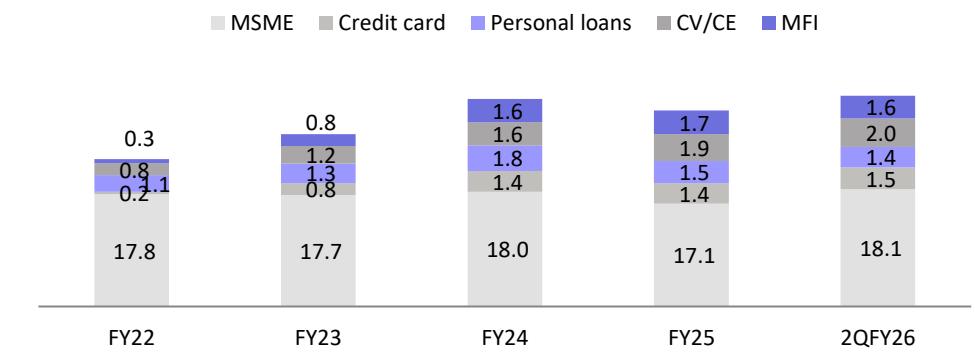
(INR b)	Old Estimates			Revised Estimates			Change (%)/bps		
	FY26	FY27	FY28	FY26	FY27	FY28	FY26	FY27	FY28
Net Interest Income	101.7	121.6	152.9	101.6	124.9	157.2	-0.1	2.7	2.8
Other Income	45.2	53.4	63.0	45.2	53.4	63.0	0.0	0.0	0.0
Total Income	147.0	175.0	215.9	146.9	178.3	220.2	-0.1	1.9	2.0
Operating Expenses	79.0	92.0	108.6	79.0	92.9	111.1	0.0	0.9	2.3
Operating Profits	68.0	82.9	107.3	67.9	85.4	109.0	-0.2	2.9	1.6
Provisions	14.2	15.5	20.7	14.2	16.5	20.3	0.0	6.6	-2.1
PBT	53.8	67.5	86.6	53.7	68.9	88.8	-0.2	2.1	2.5
Tax	13.5	16.9	21.7	13.5	17.3	22.3	-0.2	2.1	2.5
PAT	40.3	50.5	64.9	40.2	51.6	66.5	-0.2	2.1	2.5
Loans	2,649	3,057	3,564	2,649	3,086	3,604	0.0	1.0	1.1
Deposits	3,185	3,638	4,198	3,185	3,631	4,198	0.0	-0.2	0.0
Margins (%)	3.06	3.20	3.47	3.06	3.27	3.55	0	8	8
Credit Cost (%)	0.54	0.50	0.58	0.54	0.53	0.56	0	3	-2
RoA (%)	1.08	1.19	1.33	1.08	1.21	1.35	0	2	2
RoE (%)	11.4	12.8	14.5	11.4	12.1	13.0	-2	-69	-148
EPS	16.4	20.6	26.4	16.4	19.9	24.4	-0.2	-3.3	-7.7
BV	150.9	169.9	194.6	150.8	175.9	198.5	0.0	3.5	2.0
ABV	143.0	160.8	184.3	143.0	167.7	189.2	0.0	4.3	2.7

Source: MOFSL, Company

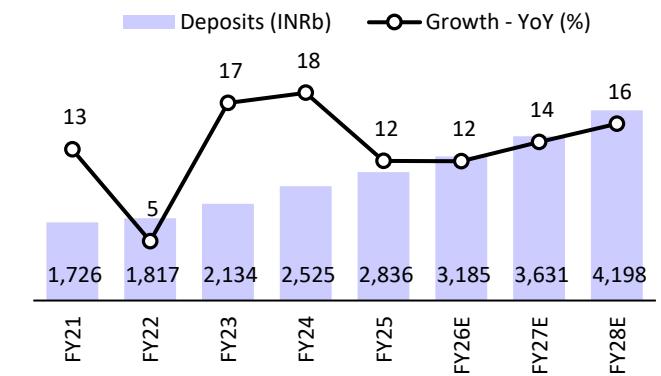
Loan mix

Exhibit 5: Estimate healthy ~15% loan CAGR over FY25-28


Source: MOFSL, Company

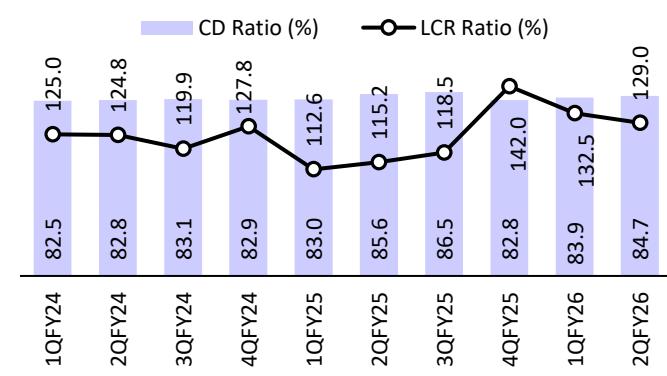
Federal Bank has been expanding its better-yielding product portfolio with a focus on both existing and new product lines.

Exhibit 6: Share of better-margin products (excl. MSME) increased to 7% in 2QFY26


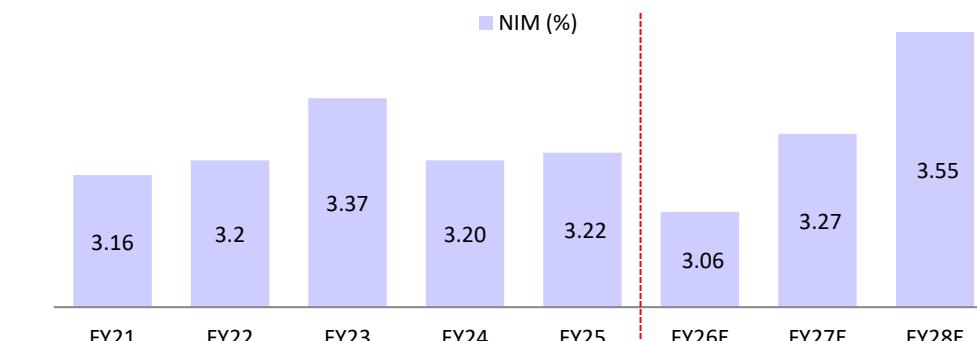
Source: MOFSL, Company

Exhibit 7: Estimate deposit CAGR at ~14% over FY25-28


Source: MOFSL, Company

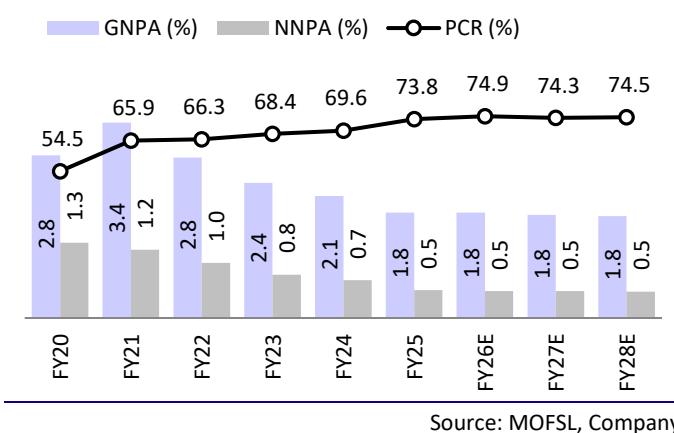
Exhibit 8: CD ratio stable at 85%; LCR ratio at 129%


Source: MOFSL, Company

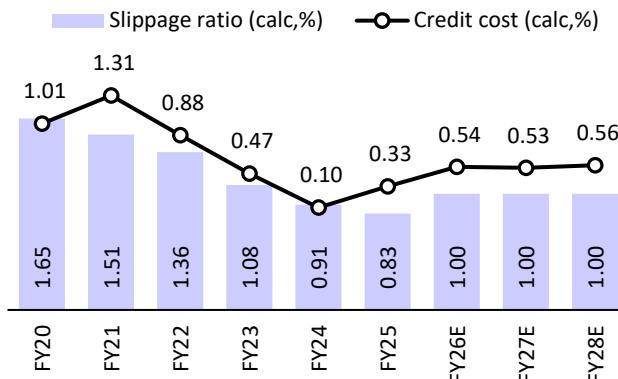
Exhibit 9: Estimate NIMs to bottom out in FY26E; recover thereafter to 3.55% by FY28E


FY26 and FY27 are on a calculated basis

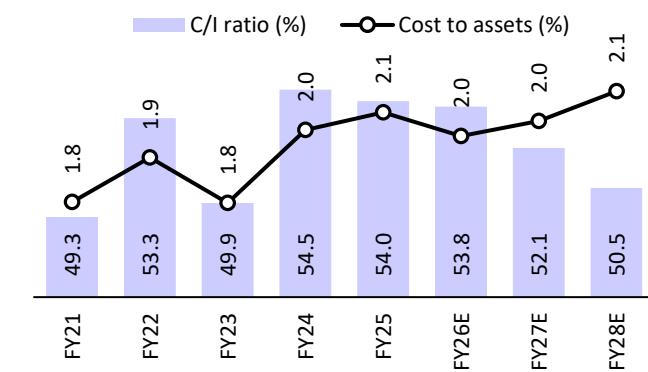
Source: MOFSL, Company

Exhibit 10: Estimate GNPA/NNPA ratios at 1.8%/0.5% by FY28


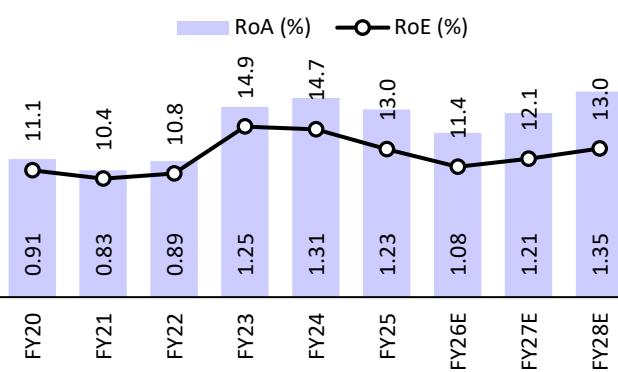
Source: MOFSL, Company

Exhibit 11: Estimate credit costs to remain stable at 33-56bp over FY25-28


Source: MOFSL, Company

Exhibit 12: Estimate C/I ratio to moderate to ~50.5% by FY28


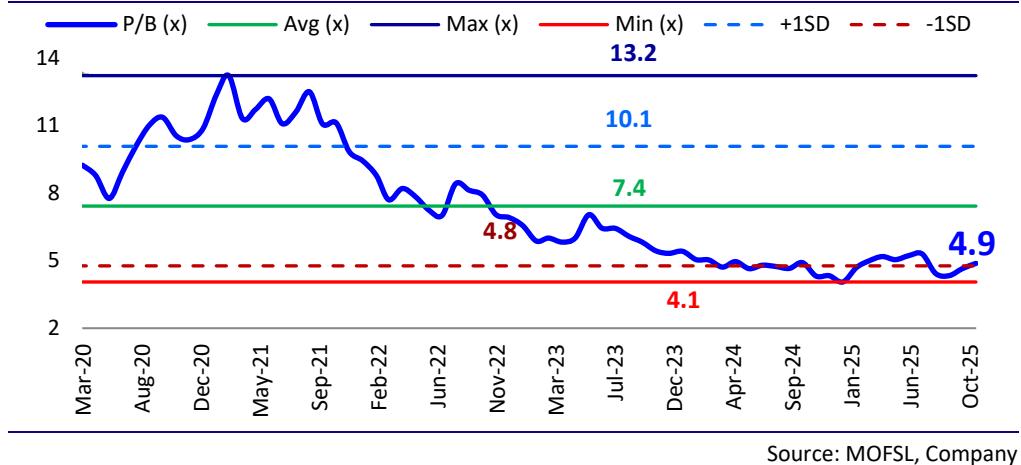
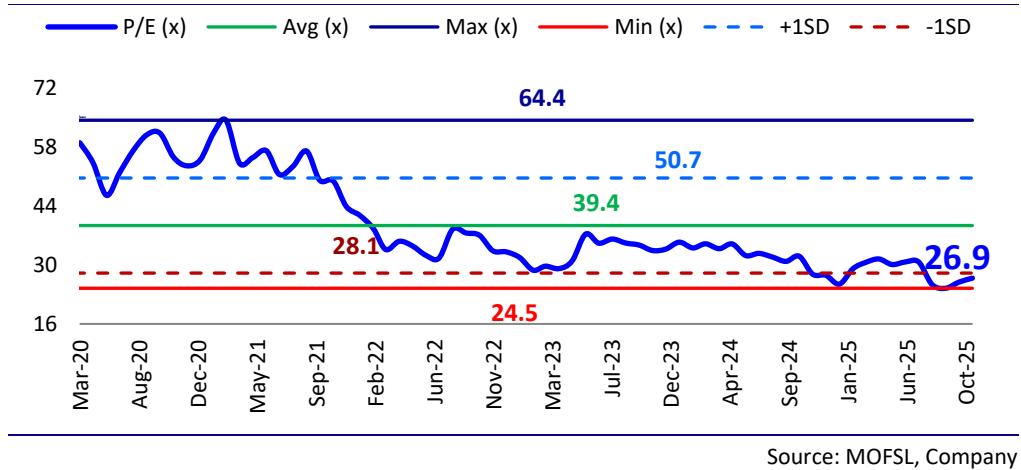
Source: MOFSL, Company

Exhibit 13: Estimate RoA to recover to 1.35% by FY28


Source: MOFSL, Company

Exhibit 14: DuPont analysis

Y/E March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	6.98	7.80	8.02	7.33	7.31	7.43
Interest Expense	3.98	4.89	5.14	4.60	4.38	4.23
Net Interest Income	3.01	2.92	2.88	2.73	2.93	3.19
Core Fee Income	0.96	0.99	1.03	1.08	1.12	1.14
Trading and others	0.01	0.10	0.12	0.13	0.14	0.14
Non Interest income	0.97	1.08	1.16	1.21	1.25	1.28
Total Income	3.97	4.00	4.04	3.94	4.18	4.47
Operating Expenses	1.98	2.18	2.18	2.12	2.18	2.26
-Employee cost	0.90	1.00	0.94	0.93	0.94	0.96
-Others	1.08	1.18	1.24	1.19	1.24	1.29
Operating Profits	1.99	1.82	1.86	1.82	2.00	2.21
Core Operating Profits	1.98	1.72	1.73	1.69	1.87	2.07
Provisions	0.31	0.07	0.22	0.38	0.39	0.41
PBT	1.68	1.75	1.63	1.44	1.62	1.80
Tax	0.43	0.44	0.40	0.36	0.41	0.45
RoA	1.25	1.31	1.23	1.08	1.21	1.35
Leverage (x)	11.9	11.2	10.5	10.6	10.0	9.6
RoE	14.9	14.7	13.0	11.4	12.1	13.0

Exhibit 15: One-year forward P/B ratio

Exhibit 16: One-year forward P/E ratio


Financials and valuations

Income Statement						(INRb)
Y/E March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	168.0	221.9	263.7	272.9	311.8	365.6
Interest Expense	95.7	138.9	169.0	171.3	186.9	208.4
Net Interest Income	72.3	82.9	94.7	101.6	124.9	157.2
-growth (%)	21.3	14.7	14.2	7.3	22.9	25.9
Non Interest Income	23.3	30.8	38.0	45.2	53.4	63.0
Total Income	95.6	113.7	132.7	146.9	178.3	220.2
-growth (%)	18.8	18.9	16.7	10.7	21.4	23.5
Operating Expenses	47.7	62.0	71.7	79.0	92.9	111.1
Pre Provision Profits	47.9	51.7	61.0	67.9	85.4	109.0
-growth (%)	27.6	7.9	17.9	11.2	25.8	27.7
Provisions (excl tax)	7.5	2.0	7.3	14.2	16.5	20.3
PBT	40.4	49.8	53.7	53.7	68.9	88.8
Tax	10.3	12.6	13.2	13.5	17.3	22.3
Tax Rate (%)	25.6	25.3	24.5	25.1	25.1	25.1
PAT	30.1	37.2	40.5	40.2	51.6	66.5
-growth (%)	59.3	23.6	8.9	-0.8	28.4	28.9
Balance Sheet						
Y/E March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share Capital	4.2	4.9	4.9	4.9	5.5	5.5
Equity Share Capital	4.2	4.9	4.9	4.9	5.5	5.5
Reserves & Surplus	210.8	286.1	329.3	365.6	474.4	536.3
Net Worth	215.1	290.9	334.2	370.5	479.9	541.7
Deposits	2,133.9	2,525.3	2,836.5	3,185.4	3,631.3	4,197.8
-growth (%)	17.4	18.3	12.3	12.3	14.0	15.6
- CASA Dep	701.2	746.5	863.8	1,006.6	1,227.4	1,486.0
-growth (%)	3.9	6.5	15.7	16.5	21.9	21.1
Borrowings	193.2	180.3	237.3	311.4	351.9	404.7
Other Liabilities & Prov.	61.3	86.6	82.1	91.1	107.5	132.3
Total Liabilities	2,603.4	3,083.1	3,490.0	3,958.4	4,570.6	5,276.5
Current Assets	176.9	189.6	308.6	323.1	356.5	386.6
Investments	489.8	608.6	662.5	788.3	904.2	1,033.5
-growth (%)	25.0	24.2	8.9	19.0	14.7	14.3
Loans	1,744.5	2,094.0	2,348.4	2,649.0	3,086.0	3,604.5
-growth (%)	20.4	20.0	12.1	12.8	16.5	16.8
Fixed Assets	9.3	10.2	14.8	17.3	19.5	21.9
Other Assets	182.9	180.7	155.9	180.7	204.4	230.0
Total Assets	2,603.4	3,083.1	3,490.0	3,958.4	4,570.6	5,276.5
Asset Quality						
GNPA	41.8	45.3	43.8	49.5	56.4	65.0
NNPA	13.2	13.8	11.5	12.4	14.5	16.6
Slippages	17.2	17.4	18.5	25.0	28.7	33.5
GNPA Ratio (%)	2.4	2.1	1.8	1.8	1.8	1.8
NNPA Ratio (%)	0.8	0.7	0.5	0.5	0.5	0.5
Slippage Ratio (%)	1.1	0.9	0.8	1.0	1.0	1.0
Credit Cost (%)	0.5	0.1	0.3	0.5	0.5	0.6
PCR (Excl Tech. write off) (%)	68.4	69.6	73.8	74.9	74.3	74.5

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Yield and Cost Ratios (%)						
Avg. Yield-Earning Assets	8.0	8.8	8.9	8.2	8.1	8.2
Avg. Yield on loans	8.4	9.2	9.5	8.6	8.6	8.8
Avg. Yield on Investments	6.5	6.9	7.3	6.8	6.6	6.6
Avg. Cost-Int. Bear. Liab.	4.5	5.5	5.8	5.2	5.0	4.9
Avg. Cost of Deposits	4.4	5.5	5.7	5.2	5.0	4.8
Avg. Cost of Borrowings	5.5	6.4	7.1	5.2	5.1	5.0
Interest Spread	3.6	3.2	3.1	3.0	3.1	3.4
Net Interest Margin	3.5	3.3	3.2	3.1	3.3	3.6

Capitalization Ratios (%)

CAR	14.8	16.5	16.8	16.9	18.2	17.4
Tier I	13.0	14.8	15.3	15.5	17.0	16.4
-CET-1	13.0	14.8	15.3	15.5	17.0	16.4
Tier II	1.8	1.6	1.5	1.4	1.2	1.0

Business Ratios (%)

Loans/Deposit Ratio	81.8	82.9	82.8	83.2	85.0	85.9
CASA Ratio	32.9	29.6	30.5	31.6	33.8	35.4
Cost/Assets	1.8	2.0	2.1	2.0	2.0	2.1
Cost/Total Income	49.9	54.5	54.0	53.8	52.1	50.5
Cost/Core Income	50.0	55.9	55.7	55.6	53.9	52.1
Int. Expense/Int.Income	57.0	62.6	64.1	62.8	59.9	57.0
Fee Income/Net Income	24.1	24.7	25.6	27.5	26.7	25.4
Non Int. Inc./Net Income	24.4	27.1	28.6	30.8	29.9	28.6
Empl. Cost/Op. Exps.	45.6	45.6	43.1	43.8	43.2	42.6

Efficiency Ratios (INRm)

Employee/branch (in nos)	9.8	10.1	10.1	10.0	9.9	9.9
Staff cost/employee	1.6	1.9	1.9	2.0	2.3	2.5
CASA per branch	511.1	496.3	543.6	597.6	687.5	785.2
Deposits per branch	1,555.3	1,679.1	1,785.1	1,891.2	2,033.9	2,218.1
Business per Employee	288.2	303.7	321.8	344.9	378.2	418.3
PAT per Employee	2.2	2.4	2.5	2.4	2.9	3.6

Valuation

RoE	14.9	14.7	13.0	11.4	12.1	13.0
RoA	1.3	1.3	1.2	1.1	1.2	1.4
RoRWA	1.9	1.9	1.9	1.7	1.8	2.0
Book Value (INR)	102	119	136	151	176	199
-growth (%)	13.7	17.6	13.9	10.9	16.6	12.9
Price-BV (x)	2.2	1.9	1.7	1.5	1.3	1.1
Adjusted BV (INR)	94.1	112.8	129.2	143.0	167.7	189.2
Price-ABV (x)	2.4	2.0	1.8	1.6	1.4	1.2
EPS (INR)	14.3	16.3	16.6	16.4	19.9	24.4
-growth (%)	54.8	14.5	1.3	-1.2	21.6	22.4
Price-Earnings (x)	15.9	13.9	13.7	13.9	11.4	9.3
Dividend Per Share (INR)	1.8	1.0	1.2	1.6	1.5	1.7
Dividend Yield (%)	0.8	0.4	0.5	0.7	0.7	0.7

E: MOSL Estimates

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NOTES

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BUY	>=15%
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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