

The Federal Bank Limited

October 17, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Issuer rating	0.00	CARE AA+; Stable	Reaffirmed
Infrastructure Bonds	1,500.00	CARE AA+; Stable	Reaffirmed
Tier-II bonds ^{&}	200.00	CARE AA+; Stable	Reaffirmed
Tier-II bonds ^{&}	500.00	CARE AA+; Stable	Reaffirmed
Tier-II bonds ^{&}	1,000.00	CARE AA+; Stable	Reaffirmed

Details of instruments in Annexure-1.

[&]Tier-II bonds under Basel-III are characterised by a 'point of non-viability' (PONV) trigger due to which the investor may suffer a loss of principal. The PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus, enable it to continue as a going concern. In addition, difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier-I (CET I) capital of the bank should be considered the most appropriate way to prevent the bank from turning non-viable.

Rationale and key rating drivers

The rating reaffirmation to debt instruments of The Federal Bank Limited (FBL) takes into account the bank's strong liability franchise and its diversified deposit base. The bank's retail deposits dominate its total deposits with a sizable portion of non-resident deposits. The bank has also diversified its advances with focus on few retail products, steadily improved its geographic diversification, and maintained stable profitability and asset quality. The rating also factors in the comfortable capitalisation levels supported by periodic capital infusion and accretion of profits.

The rating is, however, constrained by the geographical concentration with Kerala contributing a major portion of both, advances and deposits, notwithstanding the fact that the share of the state has seen gradual reduction over the years. The bank's CASA deposits as a percentage of total deposit also remains lower compared to peer private sector banks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating actions/upgrade:

- Significant scale up of business, while increasing CASA proportion and maintaining asset quality parameters, and capitalisation in line with larger private sector banks.
- Significantly diversifying advances in terms of products and geography

Negative factors: Factors that could individually or collectively lead to negative rating actions/downgrade:

- Declining profitability with return on total assets (ROTA) remaining less than 1% on a sustained basis.
- Weakening in capitalisation levels with capital cushion over minimum regulatory requirement remaining less than 2.5% on a sustained basis.
- Higher-than-expected deterioration in asset quality, with gross non-performing assets (GNPA) level increasing to above 5%.

Analytical approach:

Standalone

Outlook: Stable

The stable outlook factors in the expectation that the bank will continue its growth in advances and deposits with diversification in the loan book while maintaining comfortable capitalisation and steady asset quality and profitability.

¹Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:

Key strengths

Long track record of operations with an established franchise

FBL is one of the oldest private sector banks in India with a long operating track record of more than 90 years and has established itself as a strong franchise with a total network of 1,591 banking outlets as on June 30, 2025. The bank also has significant volumes of inward remittances from overseas, which generates stable fee income and deposits from non-resident Indian (NRI) customers. The bank's total business has been increasing year-on-year (y-o-y) to reach ₹5.29 lakh crore including ₹2.87 lakh crore of deposits and ₹2.41 lakh crore of advances as on June 30, 2025. As on June 30, 2025, the bank's advances book grew 9% year-on-year, with the retail to wholesale mix at 56:44. Wholesale advances consist of corporate and commercial banking, whereas retail includes segments such as gold loans, agriculture, business banking (MSME), CV/CE financing, MFI, and retail loans, with subsegments such as housing loans, loan against property (LAP), auto loans, credit cards, and personal loans. FBL has made several tie-ups with fintech companies and has entered high yielding products such as credit cards, personal loans, CV/CE, and MSME, among others, which have seen faster growth, though on a small base. Going forward, the bank will continue to focus on retail loans with unsecured loans being capped at 10% of advances.

The bank's deposits grew 8% y-o-y as on June 30, 2025. The bank's CASA deposits as a percentage of the total deposits, remain low when compared to peers (as on June 30, 2025: 30.35% March 31, 2025: 30.23%; March 31, 2024: 32.68%). The bank's retail plus term deposits upto ₹3 crore of the bank constituted 82% of total deposits as on June 30, 2025; and the CASA deposits are low cost, which provides a cost advantage over mid-sized peers who have been increasing the CASA deposits by offering higher interest rates. Moreover, a sizeable portion of the bank's total deposits are non-resident deposits, constituting around 29.38% of the total deposits as on June 30, 2025. Going forward, the bank's ability to sustain its low-cost retail deposit franchise will remain a key monitorable.

CareEdge notes that veteran banker K.V.S. Manian was appointed as MD & CEO in September 2024 for a three-year term, following which the bank has been strengthening its management team with several seasoned hires across key functions.

Stable profitability parameters

The yield on advances for FBL is lower than some peer private banks due to composition of its advances book, which consists of 44% of wholesale book, which in turn comprises high rated corporates. The bank's retail advances too have lower proportion of high yielding unsecured book resulting in moderate net interest margin (NIM) despite having relatively lower cost of funds. The bank also has relatively modest fee income as it offers limited number of products and services than the larger private banks. Nevertheless, FBL has been consistently profitable over a long period.

The bank's net interest income (NII) and pre-provisions operating profit (PPOP) for FY25 stood at ₹9,468 crore and ₹6,101 crore with y-o-y growth of 14% and 18%, respectively. FBL's NIM and PPOP to average total assets for FY24 were 2.88% (P.Y.: 2.92%) and 1.86% (P.Y.: 1.82%), respectively. For FY25, the bank reported a reduction in the NIM due to the lag effect of repo rate increase in FY24 on the cost of funds/ cost of deposits as compared to yield on advances. Operating expenses rose by 16%, however, cost to income ratio improved marginally from 54.50% for FY24 to 54.05% due to increased efficiency. The bank's provisions normalised during FY25 from lows of FY24 (due to reversals). The credit cost increased from 0.07% of the average total assets in FY24 to 0.22% for FY25 resulting in marginal decline of ROTA for FY25 at 1.23% for FY25 as against 1.31% for FY24. FBL reported ROTA of 0.98% for Q1FY26 compared to 1.27% in Q1FY25. The fall was primarily due to compression in NIM which was affected by impact of repo rate reduction and high credit cost due to ongoing stress in microfinance segment although its proportion in the overall advances remains low.

FBL is increasing focus on relatively higher yielding secured retail segments (such as gold loans, MSME, and commercial vehicle/construction equipment finance) to improve the NIM as well as to improve the fee income. Hence, the bank's ability to manage risks, grow high-yielding advances, and mobilize low-cost deposits will remain critical to improving its return ratios.

Comfortable capitalisation levels

The bank continues to be adequately capitalised by maintaining adequate cushion over the minimum regulatory requirement supported by consistent internal accruals and equity infusions. The bank had raised equity capital twice in FY24, ₹3,040 crore in July 2023 through QIP and ₹959 crore in October 2023 through preferential allotment to IFC to augment its capital base. FBL reported a total capital adequacy ratio (CAR) at 16.03% (March 31, 2025: 16.40% and March 31, 2024: 16.13%) and Tier-I CAR/CET I Ratio of 14.17% (March 31, 2025: 15.04% and March 31, 2024: 14.61%), as on June 30, 2025. CareEdge Ratings expects the bank to maintain a Tier-I CAR over 12% and a total CAR over 13% and raise the equity capital as and when required.

Stable asset quality

FBL has stringent underwriting standards which has helped the bank to maintain stable asset quality over period of time. The bank's GNPA ratio and NNPA ratio stood at 1.91% and 0.48% as on June 30, 2025 (March 31, 2025: 1.84% and 0.44%) as compared to 2.13% and 0.60% as on March 31, 2024. The slippages ratio largely remained stable (Q1FY26: 1.13%, FY25: 0.89%, FY24:1.01%). Segment-wise, GNPA's were higher in the agriculture and microfinance (4.09%), business banking (SME loans below ₹10 crore) (4.00%) followed by retail (2.31%). The bank's PCR (excluding two) stood at 75% as on June 30, 2025. NNPA to net worth ratio stood at 3.38% as on June 30, 2025 (March 31, 2025: 3.31%) as compared to 4.32% as on March 31, 2024. Gross stressed assets and net stressed to net worth stood at 2.93% and 5.55% as on June 30, 2025 as compared to 3.86% and 12.67% as on March 31, 2024. CARE Ratings observes, the bank's ability to maintain stable asset quality as it undertakes significant growth in its advances and its entry in new products such as credit cards, CV finance and others, will be key rating monitorable.

Key weaknesses

Geographic concentration in advance and deposits portfolio

The bank has an established presence in South Indian states with almost 70% banking outlets, Kerala being the highest with 39% of overall banking outlets strength as on June 30, 2025. CARE Ratings notes that the majority of incremental banking outlets additions are outside Kerala to improve on geographical diversification front.

The percentage of business in the form of advances coming from Kerala continues to remain high at 30%, followed by Maharashtra at 20%, and Tamil Nadu at 15%, with top three states combined contributing around 65% of advances as on June 30, 2025. In the last few years, the bank has been expanding geographically outside its home state and going forward it plans to add 80-100 new mainly in Gujarat, Maharashtra, Tamil Nadu, and Karnataka, the concentration of loans will gradually reduce. On the deposits side, around 58% of the total deposits are from Kerala, followed by Maharashtra (14%) and Karnataka (5%). With the bank's presence increasing in other Indian states, the deposit's profile is expected to improve gradually.

Liquidity: Adequate

The liquidity profile of FBL remained adequate with no negative cumulative mismatches in time buckets up to 3 months as per asset liability maturity (ALM) statement as on June 30, 2025. Also, FBL had excess SLR investment of ₹5,174 crore (1.82% of NDTL) as on June 30, 2025. FBL's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remained comfortable at 132.45% and 129.05%, respectively, for quarter ended June 30, 2025, against the minimum regulatory requirement of 100%. Furthermore, the bank has access to systemic liquidity by way of RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) schemes.

Environment, social, and governance (ESG) risks

Although FBL's service-oriented business model limits its direct exposure to environmental risks, credit risk may arise if operations of asset class of the portfolio are adversely impacted by environmental factors. The bank has a board approved ESG policy and is expanding its green portfolio, which stood at ₹9,678 crore as on June 30, 2025.

Social risks in the form of cybersecurity threat or customer data breach or mis-selling practices can affect FBL's regulatory compliance and reputation, and hence, remain a key monitorable. Cybersecurity and customer data protection remain key operational focus areas for the bank.

The board comprises eleven directors, eight of whom are independent.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Banks](#)

[Financial Ratios - Financial Sector](#)

[Rating Basel III - Hybrid Capital Instruments issued by Banks](#)

[Issuer Rating](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Private sector bank

FBL is a mid-sized private sector bank with a wide distribution network of 1,518 banking outlets and 2,041 ATMs/recyclers as of June 30, 2024. The bank's share holding pattern is well diversified with shares held by mutual funds (35%), financial institutions, and banks (13%), foreign institutional investors (27%), corporate (2%), and others (23%) as on June 30, 2025. FBL's total business stood at ₹5.29 lakh crore with advances of ₹2.41 lakh crore and deposits of ₹2.87 lakh crore as on June 30, 2025.

FBL Standalone

Brief Financials (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)	Q1FY26 (UA)
Total income	25,268	30,167	7,800
PAT	3,721	4,052	862
Total assets	3,08,307	3,49,000	3,53,293
Net NPA (%)	0.60	0.44	0.48
ROTA (%)	1.31	1.23	0.98
Interest coverage (times)	NM	NM	NM

A: Audited UA: Unaudited; NM: Not meaningful; Note: these are latest available financial results

Net worth and total assets are net of intangible assets, revaluation reserve and deferred tax

All calculations per CareEdge Ratings.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Issuer ratings	-	-	-	-	0.00	CARE AA+; Stable
Bonds-Infrastructure Bonds	INE171A08057	12-Nov-24	7.76	12-Nov-34	1500.00	CARE AA+; Stable
Tier-II Bonds	INE171A08032	20-Jan-22	8.20	20-Jan-32	700.00	CARE AA+; Stable
Tier-II Bonds	INE171A08040	29-Mar-23	8.84	29-Mar-33	995.00	CARE AA+; Stable
Tier-II Bonds	Proposed	-	-	-	5.00	CARE AA+; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Bonds-Tier II Bonds	LT	200.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Oct-24) 2)CARE AA+; Stable (05-Aug-24)	1)CARE AA+; Stable (06-Oct-23)	1)CARE AA; Positive (23-Feb-23) 2)CARE AA; Positive (13-Sep-22)
2	Bonds-Tier II Bonds	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Oct-24) 2)CARE AA+; Stable (05-Aug-24)	1)CARE AA+; Stable (06-Oct-23)	1)CARE AA; Positive (23-Feb-23) 2)CARE AA; Positive (13-Sep-22)
3	Bonds-Tier II Bonds	LT	1000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Oct-24) 2)CARE AA+; Stable (05-Aug-24)	1)CARE AA+; Stable (06-Oct-23)	1)CARE AA; Positive (23-Feb-23)
4	Issuer Rating-Issuer Ratings	LT	0.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Oct-24) 2)CARE AA+; Stable (05-Aug-24)	-	-
5	Bonds-Infrastructure Bonds	LT	1500.00	CARE AA+; Stable	-	1)CARE AA+; Stable	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
						(21-Oct-24)		

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Infrastructure Bonds	Simple
2	Bonds-Tier II Bonds	Complex

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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