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Federal Bank Reports 15% Decline in Q1 Net Profit on Higher Provisions

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Federal Bank has posted a 14.6 percent year-on-year decline in net profit for the quarter ended June 2025, with earnings falling to ₹861.8 crore from ₹1,009.5 crore a year earlier. The drop was primarily attributed to a sharp rise in provisions, even as the lender reported an improvement in asset quality.

Provisions for the quarter more than doubled to ₹400 crore compared to ₹144 crore in the same period last year, driven largely by elevated slippages in agricultural and microfinance loan portfolios. Operating profit, however, grew 3.7 percent to ₹1,556 crore, supported by steady growth in net interest income and strong fee-based earnings.

Net interest income increased 2 percent to ₹2,336.8 crore, while other income rose 22 percent year-on-year to a record ₹1,113 crore, helped by higher fee income and treasury gains. The bank's total business expanded 8.6 percent to ₹5.28 lakh crore. Net advances grew 9 percent to ₹2.41 lakh crore, with retail loans rising 15.6 percent and commercial banking advances jumping 30.3 percent. Deposits rose 8 percent to ₹2.87 lakh crore.

Asset quality showed positive movement, with the gross non-performing assets ratio improving to 1.91 percent from 2.11 percent a year ago, and net NPAs easing to 0.48 percent. The provision coverage ratio remained strong at 74.41%, while the capital adequacy ratio stood at 16.03%.

Managing Director and CEO KVS Manian stated that the quarter reflected operational resilience despite stress in specific portfolios. He added that slippages in the microfinance segment are expected to moderate in the coming quarters. Executive Director Venkatraman Venkateswaran noted that net interest margins fell to 2.94 percent due to the bank's T+1 rate repricing policy, and are likely to bottom out in the next quarter before improving in the second half of the year.

Federal Bank aims to drive growth through retail and gold loan segments, with credit expansion projected at 12 to 13 percent for FY26. The bank also plans to strengthen fee-based income and treasury operations to offset margin pressures.

Despite the decline, the lender remains optimistic about the second half of the financial year, citing strong capital buffers, disciplined asset quality, and stable deposit mobilisation.