

SD/190/2022-23

November 01, 2022

The Manager Listing Department The National Stock Exchange of India Limited Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051	The Manager Department of Corporate Services BSE Limited Phiroze Jeejeebhoy Towers, Floor 25, Dalal Street, Mumbai – 400 001
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Re: Scrip Symbol: FEDERALBNK/Scrip Code: 500469

Sub: Intimation regarding Assignment & re-affirmation of Credit Rating

Dear Sir/Madam,

Pursuant to Regulation 30 of the Listing Regulations, we wish to inform you that CRISIL Ratings Ltd has assigned its 'CRISIL AA+/Stable' rating to Rs 1,00,000 crore of fixed deposit programme of The Federal Bank Limited (Federal Bank). The ratings on the short-term debt programmes have been reaffirmed at 'CRISILA1+'.

Please find enclosed the press release issued by CRISIL on October 31, 2022.

Kindly take the above information on record.

Thanking you,

Yours faithfully,

For The Federal Bank Limited

Samir P Rajdev
Company Secretary

Rating Rationale

October 31, 2022 | Mumbai

The Federal Bank Limited

'CRISIL AA+/Stable' assigned to Fixed Deposits

Rating Action

Rs.100000 Crore Fixed Deposits	CRISIL AA+/Stable (Assigned)
Short Term Fixed Deposits	CRISIL A1+ (Reaffirmed)
Rs.15000 Crore Certificate of Deposits	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its 'CRISIL AA+/Stable' rating to Rs 1,00,000 crore of fixed deposit programme of The Federal Bank Limited (Federal Bank). The ratings on the short-term debt programmes have been reaffirmed at 'CRISIL A1+'.

The rating continues to reflect the comfortable capitalisation of the bank, healthy resource profile, and strong brand among non-resident Indians (NRIs). These strengths are partially offset by average, albeit improving, profitability, a relatively modest scale of operations, and geographical concentration.

Federal bank's FDs are granular, with ticket size of below Rs 2 crore accounting for 90% of the overall FDs as on September 30, 2022. Also, the FD renewable rates were comfortable at around 65%. Please refer to [CRISIL's criteria for rating fixed deposit programmes](#) for further details.

Asset quality has been improving steadily after the inch up witnessed during the pandemic. Gross non-performing assets (GNPAs) improved to 2.78% as on March 31, 2022, from 3.35% as on March 31, 2021, and a further to 2.45% as on September 30, 2022. This was supported by lower slippages and higher recoveries, apart from sale of Rs 275 crore to an asset reconstruction company, which positively impacted GNPAs by 18 basis points. The asset quality of the corporate segment (35% of the loan book) improved the most, with segment GNPA declining to 0.9% as on March 31, 2022, from 2.06% a year ago.

The bank had 1.9% (Rs 3,206 crore) of its loan book as standard restructured book as on September 30, 2022, of which majority was retail and secured. While majority of the restructured book is well collateralised, its performance as well as overall asset quality will remain monitorable.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Federal Bank and its subsidiaries and associate concerns on a proportionate basis.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- Comfortable capitalisation**

Overall capital adequacy ratio (CAR, under Basel III) was 14.30% as on September 30, 2022 (16.33% as on March 31, 2022) against 15.19% as on March 31, 2021. Networth increased to Rs 19,256 crore as on March 31, 2022, from Rs 16,502 crore as on March 31, 2021, supported by higher internal accrual and infusion of Rs 916 crore from the World Bank arm, International Finance Corporation, in fiscal 2022. Additionally, the bank raised Rs 700 crore through Tier 2 bond in fiscal 2022. Networth was Rs 20,274 crore as on September 30, 2022.

Networth coverage of net non-performing assets improved to 15 times as on September 30, 2022 (13 times as on March 31, 2022), from 10 times as on March 31, 2021. Capitalisation is expected to remain comfortable for the proposed scale-up in business over the medium term.

- Healthy resource profile with strong brand equity in Kerala**

Resource profile is backed by the strong market position of the bank among NRIs, especially in Kerala. Deposits increased 5.5% on-year to Rs 1,81,678 crore as on March 31, 2022, out of which NRIs accounted for 40.0%; deposits were Rs 1,89,111 crore as on September 30, 2022. The bank had a market share of 7% among NRI deposits; and 21.1% in India's inward remittances in fiscal 2022, up from 18.2% in the previous fiscal. These factors lend stability to resource base and fee income.

Deposit base is granular with retail deposits accounting 92% of total deposits as on September 30, 2022. Furthermore, CASA (current account and savings account) deposits accounted for 36.4% of total deposits (standalone) as on September 30, 2022 (36.9% as on March 31, 2022), up from 33.8% as on March 31, 2021. Cost of deposit improved to 4.3% in fiscal 2022 (4.36% for the three months ended September 30, 2022) from 5.0% in the previous fiscal. While the current deposit rates have inched up in-line with rising interest rate environment, the impact on cost of deposit is expected to be gradual.

Weaknesses:

- **Average, albeit improving, profitability**

Profit after tax (PAT) improved to Rs 1,970 crore in fiscal 2022 from Rs 1,664 crore previous fiscal due to lower credits cost, which reduced to Rs 1,305 crore from Rs 1,638 crore. In fiscal 2022, bank absorbed upfront cost of pension obligation of Rs 177 crore, and after adjusting for it, PAT was Rs 2,040 crore. Return on assets (RoA) improved to 0.91% in fiscal 2022 from 0.86% in fiscal 2021. Adjusting for the excess pension costs, RoA was 0.99%. The PAT was Rs 1,367 crore and RoA was 1.16% (annualised) for the six months ended September 30, 2022. Credit costs to average total assets declined to 0.61% in fiscal 2022 (0.39% in the six months ended September 30, 2022) from 0.84% in fiscal 2021, in line with steady improvement in asset quality. Gross non-performing assets (GNPAs) improved to 2.78% as on March 31, 2022, from 3.35% as on March 31, 2021, and a further to 2.45% as on September 30, 2022. This was supported by lower slippages and higher recoveries, apart from sale of Rs 275 crore to an asset reconstruction company, which positively impacted GNPAs by 18 basis points. The bank had 1.9% of its loan book as standard restructured book as on September 30, 2022, of which majority was retail and secured. Nevertheless, provision cover for GNPAs was healthy at 67.3% (excluding technical write-offs) as on September 30, 2022.

Going ahead, the bank plans to grow its credit card and personal loan portfolio. Improved mix of loan book should support better net interest margin (NIM). However, ability to sustainably improve NIM and manage credit cost will be closely monitored.

- **Scale remains relatively modest with regional concentration**

Although advances and deposits increased at a compound annual growth rate of 16.6% and 14.8%, respectively, during fiscals 2016 and 2022, scale remains relatively small. Advances grew 10.7% on-year in fiscal 2022, driven by growth in gold loans^[1] (12% of the book), retail loans (33% of the book), and business banking loans (8% of the book), while deposits grew 5.5%. Market share was 1.28% and 1.08% in advances and deposits, respectively, as on September 30, 2022.

While Federal Bank operates across the country, business continues to have sizeable presence in southern India, with Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana accounting for 75% of deposits and 59% of advances, respectively, as on March 31, 2022. Its home state, Kerala, alone accounted for 65% and 33% of deposits and advances, respectively. The concentration risk is mitigated by the relatively better economic performance of this region. NRI deposits (majorly part of deposits in Kerala) are diversified by the location of the NRI customers.

^[1] Gold loan book is spread over the retail and agriculture segments

Liquidity: Strong

Liquidity is supported by a healthy retail deposit base. Average liquidity coverage ratio was 141% as on September 30, 2022, against the statutory minimum of 100%. Liquidity also benefits from access to systemic sources of funds such as the liquidity adjustment facility from the RBI and access to the call money market.

Outlook: Stable

CRISIL Ratings believes Federal Bank will maintain comfortable capitalisation and healthy resource profile.

ESG Profile

CRISIL Ratings believes that Federal bank' Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile.

The ESG profile of financial institutions typically factors in governance as a key differentiator between them. The sector has reasonable social impact because of its substantial employee and customer base, and it can play a key role in promoting financial inclusion. While the sector does not have a direct adverse environmental impact, the lending decisions may have a bearing on environment and other sustainability related factors.

Federal bank has demonstrated an ongoing focus on strengthening various aspects of its ESG profile.

Federal bank' key ESG highlights:

- Federal Bank received Rs 916 crore from Washington headquartered IFC in Greening Equity Approach, in fiscal 2022.
- The bank has stated the target to grow the green financing book to Rs 13,000 crore by 2025 from Rs 2,502 crore as on March 31, 2022. Bank introduced green deposits, which are fixed deposits for 2,222 days at specialized interest rates, funds from which will be deployed to financing renewable energy, green building, smart agriculture and water or waste management projects among others. As of March 31, 2022, these amounted to Rs 265 crore in 3,674 accounts.
- Federal banks' green loans meet the international standards of IFC through a Climate Assessment for Financial Institution (CAFI) tool, which helps assess the Green House Gas (GHG) reduction achieved through financing such proposals which for FY22 was 486,467 tCO₂e.
- It targets to increase its in-house solar power generation capacity to 500kW by 2025 from 170kW as on March 31, 2022. The bank targets to build in-house rain-water harvesting capacity to conserve 1 lakh liters of water by 2025, from 75k liters as on March 31, 2022.

- The bank targets to reduce coal-related sub project financing to nil by December 2030 from 1.87% of gross advances as on March 31, 2022. It offers attractive interest rate to buy electric vehicles, and to corporates to build green building, renewable energy, and climate projects. Further, the bank switched to LED lights and energy-efficient air conditioners (ACs) across branches, which lead to saving of 712 MWh (380 MWh from LEDs and 332 MWh from ACs).
- Digital channels account for 88% of all the transactions, which lead to an estimated saving of 93.75 lakh sheets of paper, and 132 lakh liters of fuel, by eliminating the need to travel to branches.
- Women comprised 41% of the total workforce and 21% of bank's 1,282 general banking branches are headed by women. Two out of 11 board members are female.
- The company has 73% of the board members are independent directors, with split in chairman and executive position, investor grievance redressal mechanism and disclosures are extensive.

There is growing importance of ESG among investors and lenders. Federal bank' commitment to ESG will play a key role in enhancing stakeholder confidence, given substantial share of foreign investors as well as access to domestic capital markets.

Rating Sensitivity factors

Upward factors:

- Improvement in earnings profile with return on assets more than 1.4% on a sustainable basis
- Substantial improvement in asset quality with adequate coverage

Downward factors:

- Deterioration in asset quality, with rising gross NPAs and credit cost crossing 1.0% on a continuous basis
- Significant reduction in profitability

About the Bank

Federal Bank is a mid-sized, private sector bank with advances of Rs 1,67,299 crore and deposits of Rs 1,89,111 crore as on September 30, 2022. It has a strong NRI customer base in the Middle East. The bank had 1,305 branches and 1,876 automated teller machines/cash recyclers as on September 30, 2022.

In fiscal 2022, PAT was Rs 1,970 crore and total income (net of interest expenses) was Rs 8,543 crore, against Rs 1,664 crore and Rs 7,851 crore, respectively, the previous fiscal.

Key Financial Indicators

As on / for the period ended March 31	Unit	2022	2021
Total assets	Rs crore	226,241	204,967
Total income (net of interest expenses)	Rs crore	8,543	7,851
Reported PAT	Rs crore	1,970	1,664
Gross NPA	%	2.78	3.35
Overall capital adequacy ratio	%	16.33	15.19
Return on assets (calculated)	%	0.91	0.86

For the six months ended September 30, 2022, PAT was Rs 1,368 crore and total income (net of interest expenses) was Rs 4,752 crore, against Rs 842 crore and Rs 4,247 crore, respectively, in the corresponding period previous fiscal.

As on / for six months ended September 30	Unit	2022	2021
Total assets	Rs crore	243,335	211,182
Total income (net of interest expenses)	Rs crore	4,752	4,247
Reported PAT	Rs crore	1,368	842
Gross NPA	%	2.45	3.22
Overall capital adequacy ratio	%	14.30	15.63
Return on assets (calculated)	%	1.16	0.81

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities – including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisil.com/complexity-levels. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Certificate of Deposits	NA	NA	7-365 days	15,000	Simple	CRISIL A1+

NA	Fixed Deposits	NA	NA	NA	1,00,000	Simple	CRISIL AA+/Stable
NA	Short Term Fixed Deposits	NA	NA	NA	NA	Simple	CRISIL A1+

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Federal Operations and Services Ltd	Full	Subsidiary
Fedbank Financial Services Ltd	Full	Subsidiary
Ageas Federal Life Insurance Co Ltd (formerly, IDBI Federal Life Insurance Co Ltd)	Proportionate	Associate
Equirus Capital Pvt Ltd	Proportionate	Associate

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST	15000.0	CRISIL A1+	23-09-22	CRISIL A1+	30-11-21	CRISIL A1+	23-11-20	CRISIL A1+	05-12-19	CRISIL A1+	CRISIL A1+
			--		--		--		--	30-09-19	CRISIL A1+	--
Fixed Deposits	LT	100000.0	CRISIL AA+/Stable		--		--		--		--	--
Short Term Fixed Deposits	ST	0.0	CRISIL A1+	23-09-22	CRISIL A1+	30-11-21	CRISIL A1+	23-11-20	CRISIL A1+	05-12-19	CRISIL A1+	CRISIL A1+
			--		--		--		--	30-09-19	CRISIL A1+	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Banks and Financial Institutions
CRISILs criteria for rating fixed deposit programmes
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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