

SD/180 /2021-22

December 01, 2021

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 Re-affirmation of Credit Rating to Short Term Fixed Deposits and Rs.12000 Crore Certificate of Deposits of The Federal Bank Limited('Bank').

Dear Sir/Madam,

Pursuant to Regulation 30 and 51(2) of the Listing Regulations, we wish to inform you that CRISIL Ratings has re-affirmed 'CRISIL A1+' Rating in respect of Bank's Short-Term Fixed Deposits and Rs.12000 Crore Certificate of Deposits.

Rating Rationale of the aforesaid re-affirmation of Credit Rating/ Outlook is enclosed herewith.

Kindly take the above information on record.

Thanking you,

Yours faithfully,

For The Federal Bank Limited

Samir P Rajdev
Company Secretary

Rating Rationale

November 30, 2021 | Mumbai

The Federal Bank Limited

Rating Reaffirmed

Rating Action

Short Term Fixed Deposits	CRISIL A1+ (Reaffirmed)
Rs.12000 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 reaffirmed its 'CRISIL A1+' rating on the short-term debt programmes of The Federal Bank Limited (Federal Bank).

The rating continues to reflect the bank's comfortable capitalisation, healthy resource profile, and strong brand among non-resident Indians (NRIs). These strengths are partially offset by average asset quality and profitability, and relatively small scale of operations with geographic concentration in business.

In-line with the Covid-19 relief measures announced by the Reserve Bank of India (RBI), Federal Bank had provided moratorium to its borrowers. Though collections declined during the initial months of the first wave, they improved subsequently. However, intermittent lockdowns and localised restrictions amid the second wave of the pandemic impacted collections once again. Although the impact was moderate during this phase, any adverse change in the payment discipline of borrowers may lead to higher delinquencies.

Under the schemes announced by the RBI dated January 1, 2019; February 11 and August 6, 2020; and May 5, 2021, the bank had restructured 2.9% of gross advances as on September 30, 2021, of which 2.5% was covid related. Retail (including CV/CE¹ financing) accounted for 62% of the covid-related restructuring, small and medium enterprise (SME) 29%, agriculture 5% and corporate 4%. While majority of the restructured book is well collateralised, its performance as well as overall asset quality will remain monitorables.

¹CV: commercial vehicle, CE: construction equipment.

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

Capitalisation is comfortable and should remain stable over the medium term. The overall capital adequacy ratio (under Basel III) and networth were adequate at 15.6% and Rs 18,121 crore, respectively, as on September 30, 2021. Networth coverage for net non-performing assets (NPAs) was ~11.4 times. The bank raised Rs 916 crore from World Bank's arm International Finance Corporation in the first six months of the fiscal 2022.

* Healthy resource profile with strong brand equity in Kerala

Resource profile is healthy with a strong position among NRIs, especially in Kerala. Deposits from NRIs, accounted for 38.0% of the total deposits as on September 30, 2021, and the bank's market share in India's inward remittances improved to 20.5% for the three months ended June 30, 2021, from 18.2% in fiscal 2021. These factors lend stability to the bank's resource base and fee income. Moreover, current account and savings account (CASA) deposits accounted for 36.2% of total deposits as on September 30, 2021. Resource profile is granular with retail deposits contributing 94% to total deposits. Cost of deposit declined to 4.3% in the quarter ended September 30, 2021, from 5.0% in fiscal 2021, in-line with the industry trend.

Weakness:

*Average asset quality

Asset quality is average with gross NPA ratio of 3.2% as on September 30, 2021, compared with 3.4% as on March 31, 2021. The bank had restructured 2.9% of gross advances (2.5% is Covid-specific) as on September 30, 2021. Of the Covid-specific restructured book, 73% has security cover of over-100%.

The bank focuses on growing its retail and SME book, and has strengthened its credit appraisal and risk management systems to improve its underwriting practices. It has adopted a conservative approach to grow its corporate book and has been lending to better rated corporates, over the past few years. Ability to manage asset quality in SME and agriculture loan portfolios will remain a key rating sensitivity factor.

*Average profitability

Return on assets was 0.80% (annualised) for the half year ended September 30, 2021, and 0.86% in fiscal 2021 (0.92% in fiscal 2020). The provision cover for NPAs was 65% (excluding technical write-offs) as on September 30, 2021. Earnings should remain average over the medium term. Nevertheless, ability to manage credit cost and maintain net interest margin will be closely monitored.

* Modest, albeit growing, scale of operations with regional concentration

Although advances and deposits rose at a five-year compound annual growth rate of 18.3% and 16.8% till fiscal 2021, respectively, the bank's scale remains modest. Advances grew 10.1% on-year in the half year ended September 30, 2021, driven by growth in gold loans, retail loans, and business banking loans, while deposits grew 9.9%. The bank had a market share of 1.21% and 1.07% in advances and deposits, respectively, as on September 30, 2021.

The bank's business continues to be concentrated in southern India, with Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana accounting for 75% of its deposits and 59% of advances as on September 30, 2021. Kerala alone accounted for 63% and 33% of deposits and advances, respectively. The concentration risk is mitigated by the relatively better economic performance of this region. The deposits in Kerala include NRI deposits which are diverse based on the location of the customers. Nonetheless, asset quality in the retail and SME portfolios in Kerala will continue to be monitored.

Liquidity: Strong

Liquidity is supported by a healthy retail deposit base. Average liquidity coverage ratio was 234.8% for the three months ended September 30, 2021, 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.

Rating Sensitivity Factors

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 net advances of Rs 1,38,583 crore and deposits of Rs 1,71,925 crore as on September 30, 2021. Its head office is in Aluva, Kerala. It has a strong NRI customer base in the Middle East. The bank had 1,272 branches and 1,874 automated teller machines/cash recyclers as on September 30, 2021.

The bank is focused on increasing the retail book share and improving granularity in wholesale book. The wholesale (including corporate and commercial banking) and retail segments (including retail, agriculture, and business banking) constituted a mix of 46:54 as on September 30, 2021, compared with 51:49 as on March 31, 2020.

In fiscal 2021, profit after tax (PAT) was Rs 1,664 crore and total income (net of interest expenses) was Rs 7,745 crore, against Rs 1,580 crore and Rs 6,794 crore, respectively, the previous fiscal.

For the half year ended September 30, 2021, PAT was Rs 842 crore and total income (net of interest expenses) was Rs 4,103 crore, against Rs 725 crore and Rs 3,774 crore in the corresponding period of the previous fiscal.

Key Financial Indicators

As on/for the period ended March 31	Unit	2021	2020
Total assets	Rs crore	204,967	183,353
Total income (net of interest expenses)	Rs crore	7,745	6,794
Reported PAT	Rs crore	1,664	1,580
Gross NPA	%	3.35	2.82
Overall capital adequacy ratio	%	15.19	14.63
Return on assets (calculated)	%	0.86	0.92

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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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	Certificates of deposits	NA	NA	7-365 days	12,000	Simple	CRISIL A1+
NA	Short-term fixed deposit programme	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 known as IDBI Federal Life Insurance Co Ltd)	Proportionate	Associate
Equirus Capital Pvt Ltd	Proportionate	Associate

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST	12000.0	CRISIL A1+		--	23-11-20	CRISIL A1+	05-12-19	CRISIL A1+	28-09-18	CRISIL A1+	CRISIL A1+
			--		--		--	30-09-19	CRISIL A1+		--	--
Short Term Fixed Deposits	ST	0.0	CRISIL A1+		--	23-11-20	CRISIL A1+	05-12-19	CRISIL A1+	28-09-18	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 short term debt
CRISILs Criteria for Consolidation

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