

SD/154/2022-23

September 24, 2022

<b>The Manager</b> Listing Department The National Stock Exchange of India Limited Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051	<b>The Manager</b> 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 Certificate of Deposits of The Federal Bank Limited('Bank').**

Dear Sir/Madam,

Pursuant to Regulation 30 of the Listing Regulations, we wish to inform you that CRISIL Ratings Ltd has re-affirmed 'CRISIL A1+' Rating in respect of Bank's short term fixed deposits and Certificate of Deposits of Rs. 15,000 Crores (Enhanced from Rs.12000 Crore).

Detailed rating rationale for the aforesaid re-affirmation of Credit Rating is enclosed herewith.

Kindly take the above information on record.

Thanking you,

Yours faithfully,

**For The Federal Bank Limited**

**Samir P Rajdev**  
Company Secretary

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

# CRISIL

An S&P Global Company

## Rating Rationale

September 23, 2022 | Mumbai

### The Federal Bank Limited

Rating reaffirmed at 'CRISIL A1+'; rated amount enhanced for Certificate of Deposits

#### Rating Action

Short Term Fixed Deposits	CRISIL A1+ (Reaffirmed)
Rs.15000 Crore (Enhanced from 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 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.

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 2.67% as on June 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 2.1% a year ago.

The bank had 2.2% (Rs 3,366 crore) of its loan book as standard restructured book as on June 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 15.12% as on June 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 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 coverage of net non-performing assets improved to 12.9 times as on June 30, 2022 (13.0 times as on March 31, 2022), from 10.3 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 5.2% on-year to Rs 1,81,678 crore as on March 31, 2022, out of which NRIs accounted for 40.0%; standalone deposits were Rs 1,83,355 crore as on June 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 94% of total deposits. Furthermore, CASA (current account and savings account) deposits accounted for 36.8% of total deposits (standalone) as on June 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 (4.2% for the three months ended June 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 634 crore and RoA was 1.12% (annualised) for the three months ended June 30, 2022. Credit costs to average total assets declined to 0.61% in fiscal 2022 (0.31% in the three months ended June 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 2.67% as on June 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 2.2% of its loan book as standard restructured book as on June 30, 2022, of which majority was retail and secured. Nevertheless, provision cover for GNPAs was healthy at 65% (excluding technical write-offs) as on June 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<sup>[1]</sup> (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 1.21% and 1.08% in advances and deposits, respectively, as on June 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.

<sup>[1]</sup> 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 139% as on June 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.

#### **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 1,51,689 crore and deposits of Rs 1,83,355 crore as on June 30, 2022. It has a strong NRI customer base in the Middle East. The bank had 1,291 branches and 1,860 automated teller machines/cash recyclers as on June 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.

For the three months ended June 30, 2022, PAT was Rs 634 crore and total income (net of interest expenses) was Rs 2,214 crore, against Rs 357 crore and Rs 2,146 crore, respectively, in the corresponding period 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

As on / for three months ended June 30	Unit	2022	2021
Total assets	Rs crore	231,109	203,777
Total income (net of interest expenses)	Rs crore	2,214	2,146
Reported PAT	Rs crore	634	357
Gross NPA	%	2.67	3.51
Overall capital adequacy ratio	%	15.12	15.36
Return on assets (calculated)	%	1.11	0.70

**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	Certificate of Deposits	NA	NA	7-365 days	15000	Simple	CRISIL A1+
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	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST	15000.0	CRISIL A1+		--	30-11-21	CRISIL A1+	23-11-20	CRISIL A1+	05-12-19	CRISIL A1+	CRISIL A1+
			--		--		--		--	30-09-19	CRISIL A1+	--
Short Term Fixed Deposits	ST	0.0	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
<a href="#">Rating Criteria for Banks and Financial Institutions</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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