CARE Ratings
Professional Risk Opinion

FEBRUARY 18, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO LONG TERM BANK FACILITIES AND NCD OF FEDBANK FINANCIAL SERVICES LTD.

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	600.00 (enhanced from Rs. 400 crore)	**CARE AA- [Double A Minus]**	**Reaffirmed**
Proposed Non-Convertible Debentures	200.00	**CARE AA- [Double A Minus]**	**Reaffirmed**
Total	(Rupee Eight hundred crore only)		

Rating Rationale

The rating factors in the strong parentage (Federal Bank Ltd.- FBL, rated CARE AA, holds 100% stake in Fedfina) and demonstrated financial and managerial assistance from the parent. The rating also derives comfort from the high degree of management integration & brand linkage with FBL. The rating further factors in Fedfina's strong capitalisation levels and comfortable asset quality parameters. The rating is however constrained by limited track record & modest scale of operations, moderate profitability, geographical concentration and market risk in gold loan portfolio. Continued parentage & parent support, diversification of business operations, financial performance and asset quality are the key rating sensitivities.

Background

Fedbank Financial Services Ltd. (Fedfina) is the wholly owned Non Deposit Accepting Non-banking Finance Company (NBFC) subsidiary of Federal Bank Ltd. (FBL rated CARE AA). In August 2010, the company received the NBFC license from RBI post which the company has commenced the gold loan business. The company also originates retail loans for its parent, FBL and is also engaged in distribution of third party products. As on March 31, 2015, the company operates through 121 gold loan branches and 4 regional hubs in Mumbai, Pune, Ahmedabad and Surat for its Loan Against Property (LAP) portfolio. The company ventured into the LAP segment in FY13 while wholesale lending was started in Q4FY14. As on March 31, 2015, Fedfina's loan portfolio comprised of Gold Loans (45.16%), LAP (44.81%) and wholesale lending (10.03%). The three states Tamil Nadu, Andhra Pradesh and Karnataka cumulatively accounted for 98% of the gold loan portfolio as on March 31, 2015 while the LAP and wholesale portfolios are concentrated entirely in Maharashtra and Gujarat. As on March 31, 2015, 98% of the company's gold loan portfolio was originated from branches in the states of Karnataka, Andhra Pradesh and Tamil Nadu.

As on September 30, 2015, Fedfina had a Tangible Net-worth of Rs.198.3 crore and loan portfolio of Rs.447.4 crore.

In FY15, the company reported PAT of Rs.6.3 crore (Loss of Rs.2.9 crore in FY14) on total income of Rs.79.2 crore (Rs.69.0 crore in FY14). In H1FY16, Fedfina reported PAT of Rs.5.4 crore on total income of Rs.41.2 crore.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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