Fedbank Financial Services Limited (Fedfina)

February 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities	600	**CARE AA-; Stable (Double A Minus ; Outlook: Stable)**	Reaffirmed
Non-convertible debentures	200	**CARE AA-; Stable (Double A Minus ; Outlook: Stable)**	Reaffirmed
Total	**800 (Rupees Eight Hundred Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings factor in the strong parentage (The Federal Bank Ltd.-FBL, holding 100% stake in Fedfina) in terms of financial and managerial assistance from the parent. The rating also derives comfort from the high degree of management integration & brand linkage with FBL. The ratings further factor in Fedfina's strong capitalisation levels, comfortable asset quality and overall improvement of profitability in FY16 (refers to the period of April 01 to March 31). The rating is however constrained by limited track record & modest scale of operations, geographical concentration and market risk in gold loan portfolio. Continued parentage, diversification of business operations, financial performance and asset quality are the key rating sensitivities.

Detailed description of the key rating drivers

Fedfina, being a wholly-owned subsidiary of FBL, enjoys strong parent support in terms of financial and managerial assistance which can be witnessed through FBL's capital infusion of Rs.190 crore till date and extension of credit lines of Rs.400 crore in form of cash credit and term loans. The strategic importance of Fedfina to FBL is visible from the high degree of management integration where in the MD & one more director of FBL are on the board of Fedfina. The company is also engaged in distribution of loan products for its parent.

Fedfina reported strong capitalization levels with CAR of 32.81% (Tier I CAR – 32.52%) as on March 31, 2016 and CAR of 26.09% (Tier I CAR- 25.75%) as on September 30, 2016. The asset quality is also comfortable with GNPA and NNPA ratio of 0.39% and 0.31% as on March 31, 2016 and GNPA and NNPA ratio of 0.26% and 0.21% respectively as on September 30, 2016. Considering the limited seasoning of the recently originated Loan against Property (LAP) and Wholesale loan portfolio, however which has improved, its ability to maintain the asset quality is yet to be seen. The company's overall profitability showed an improvement with PAT of Rs.12.25 crore on a total income of Rs.Rs.89.48 crore in FY16 as against a PAT of Rs.6.34 crore on a total income of Rs.79.23 crore in FY15. The PAT stood at Rs.8.77 crore on a total income of Rs.58.23 crore in H1FY17.

Fedfina has limited track record and modest scale of operations which can be witnessed from its loan portfolio size of Rs.798 crore as on September 30, 2016 (Rs.611 crore as on March 31, 2016) build over a period of 6 years which includes 40% of Gold Loan, 36% of LAP and 24% of wholesale lending. Fedfina also faces the risk of geographic concentration with a total network of 99 branches for gold loan mainly in Southern India which includes Andhra Pradesh, Karnataka, Tamil Nadu and Telangana and 8 Locations for LAP and wholesale lending spread mainly across Gujarat and Maharashtra.

Analytical approach:

CARE has analyzed standalone credit profile of Fedfina along with Fedfina's operational and managerial linkages with its parent FBL.

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

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE Policy on Default Recognition](#)
[Rating Methodology: Factoring Linkages in Ratings](#)
[Rating Methodology- Non Banking Finance Companies](#)
[Financial ratios - Financial Sector](#)

About the Company

Fedfina is a wholly-owned Non Deposit Systematically Important Non-Banking Finance Company (NBFC-ND-SI) subsidiary of FBL. Incorporated in 1995, the company received the NBFC license from RBI in August 2010, post which the company has commenced the gold loan business. The company also ventured into the LAP segment in FY13 while wholesale lending was started in Q4FY14. The four states Andhra Pradesh, Telangana, Karnataka and Tamil Nadu cumulatively accounted for 100% of the gold loan portfolio as on September 30, 2016 while the LAP and wholesale portfolios are concentrated mainly in Maharashtra and Gujarat. As on September 30, 2016, Fedfina had a tangible net-worth of Rs.213.82 crore and outstanding loan portfolio of Rs.797.56 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund Based-Long Term	-	-	13-07-2021	600.00	CARE AA-; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	200.00	CARE AA-; Stable

Annexure-2: Rating History of last three years

		Current Ratings			Chronology of Rating history			
Sr. No.	**Name of the Instrument/Bank Facilities**	**Type**	**Amount Outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2016-2017**	**Date(s) & Rating(s) assigned in 2015-2016**	**Date(s) & Rating(s) assigned in 2014-2015**	**Date(s) & Rating(s) assigned in 2013-2014**
1.	Fund Based-Long Term	LT	600.00	CARE AA-; Stable	-	1)CARE AA- (18-Feb-16)	1)CARE AA- (26-Dec-14)	1)CARE AA- (08-Jul-13)
2	Debentures-Non Convertible Debentures	LT	200.00	CARE AA-; Stable	-	1)CARE AA- (18-Feb-16)	1)CARE AA- (26-Dec-14)	-

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