



Secretarial Department

Ref: FEDFINA/CS/169/2024-25

Date: October 4, 2024

<p>The Manager Listing Department The National Stock Exchange of India Limited Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051</p> <p>SYMBOL - FEDFINA</p>	<p>The Manager Department of Corporate Services BSE Limited Phiroze Jeejeebhoy Towers, Floor 25, Dalal Street, Mumbai – 400 001</p> <p>Scrip code: 544027 BSE NCD Company Code: 12337, ISINs : INE007N08023, INE007N07041, INE007N08015, INE007N07058 and INE007N07033</p>
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Subject: Intimation of upgrade in credit rating under Regulations 30 and 51 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Dear Sir/Madam,

Pursuant to the provisions of the Regulations 30 and 51 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other applicable regulations, if any, please find below the details of the upgradation in credit ratings of the Company by CRISIL Rating:

Name of the Credit Rating Agency	Facilities/ Instruments	Amount (Rs. In crores)	Existing Rating	Revised Rating
CRISIL Ratings	Non Convertible Debentures	1250	CRISIL AA+/Stable	Upgraded to CRISIL AA/ Positive
CRISIL Ratings	Commercial Paper	1000	CRISIL A1+	CRISIL A1+ (Reaffirmed)

The report from the credit rating agency covering the rationale for credit rating is enclosed.

The above is submitted for your kind information and appropriate dissemination.

Thanking you,

For Fedbank Financial Services Limited

Rajaraman Sundaresan
Company Secretary & Compliance Officer
Mem. No: F3514

Encl – As above

Rating Rationale

October 04, 2024 | Mumbai

Fedbank Financial Services Limited

Long-term rating upgraded to 'CRISIL AA+/Stable'; Short term rating reaffirmed

Rating Action

Rs.1250 Crore Non Convertible Debentures	CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')
Rs.1000 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the non-convertible debentures of Fedbank Financial Services Ltd (Fedfina) to 'CRISIL AA+/Stable' from 'CRISIL AA/Positive' while reaffirming its 'CRISIL A1+' rating on the commercial paper (CP).

The rating action follows similar rating action on the parent The Federal Bank Ltd (Federal Bank; 'CRISIL AAA/Stable/CRISIL A1+'). The ratings continue to factor in the strong support that Fedfina receives from its parent, Federal Bank. Majority ownership, strategic importance and shared brand imply a strong moral obligation on Federal Bank to support Fedfina both on an ongoing basis as well as in the event of distress. The rating also factors in Fedfina's comfortable capitalisation. These strengths are partially offset by moderate, albeit growing, scale of operations and limited seasoning of the portfolio.

The company's assets under management (AUM) grew by 34% over fiscal 2024, to Rs 12,192 crore as of March 31, 2024, and further increased to Rs 13,188 crore as at the close of Q1 2025. Along this growth, the segmental mix has remained broadly stable across medium ticket loans against property (LAP), unsecured business loans, affordable mortgage (comprising housing loans and small ticket LAP), and others. Given the retail and secured nature of portfolio, asset quality has remained range bound – reflected in gross non-performing assets (GNPA) of 1.7% on March 31, 2024, and 2.0% on June 30, 2024. Nonetheless, as the portfolio seasons, the company's ability to maintain sound asset quality will remain critical.

Overall financial risk profile remains supported by comfortable capitalisation metrics. On June 30, 2024, overall capital adequacy ratio (CAR) was 22.8%. This is aided by stable internal accretions to networth, apart from ability to raise capital from external sources. For fiscal 2024, the company reported a profit after tax (PAT) of Rs 245 crore, higher than Rs 180 crore for the previous fiscal, although return on managed assets (RoMA) was flat at 2.1% for fiscal 2024 and 2023 largely due to reduction in net interest margins (NIMs) from 7.5% in fiscal 2023 to 7.1% in fiscal 2024.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has assessed the standalone credit risk profile of Fedfina and factored in strong managerial and financial support from the parent, Federal Bank. The parent will continue to provide strong support to Fedfina, considering the strategic importance of the entity and the high moral obligation on account of majority shareholding and shared name.

Key Rating Drivers & Detailed Description

Strengths:

- **Strategic importance to, and strong expectation of support from, the parent:** Fedfina is a subsidiary of Federal Bank and an integral part of its business strategy and will therefore remain strategically important to the bank. Till date, Federal Bank's cumulative equity contribution towards Fedfina is Rs 471 crore, and the bank holds 61.7% stake in the company as on June 30, 2024. Being a subsidiary of Federal Bank, Fedfina enjoys the benefits of shared brand name along with financial and operational support from its parent. Further, the bank exercises high degree of strategic oversight over Fedfina and there is visible management integration between the entities, denoted by senior management representation of Federal Bank on the board of Fedfina.

Over the medium term, the expectation of financial, operational and managerial support from the parent, towards Fedfina, remains intact. And the latter will remain strategically important to the bank.

- **Comfortable capitalization:** The company's capital position is comfortable, evidenced by an overall CAR of 22.84%, as on June 30, 2024. Tier 1 and overall CAR stood at 19.72% and 23.46%, respectively, as on March 31, 2024. Networth stood at Rs 2,261 crore as on March 31, 2024 (Rs 2,322 crore as on June 30, 2024) and has increased from Rs 1,356 crore as on March 31, 2023, supported by initial public offering (IPO) proceeds of Rs 600 crore and internal

accruals. The company had earlier raised capital through rights issue of Rs 79.20 crore in fiscal 2021, and Rs 200 crores in fiscal 2022. The two largest shareholders (Federal Bank and True North), both participated in all these right issues.

Gearing was 4 times as on June 30, 2024, having risen marginally from 3.6 times as on March 31, 2024 (5.3 times as on March 31, 2023). While expected to inch up as operations gain scale, gearing is expected to remain below 6.5 times over the medium term.

Weaknesses:

- **Moderate, albeit growing, scale of operations:** The company primarily operates in the retail loan segments such as gold loan (38% of AUM as on June 30, 2024), medium ticket LAP (22%), unsecured business loans (13%), affordable mortgage (27%; comprising housing loans [7%] and small ticket LAP [20%]), and others (1%). Over fiscal 2024, the AUM increased by 33% from Rs 9,069 crore as on March 31, 2023 to Rs 12,192 crore as on March 31, 2024 and further to Rs 13,188 crore as on June 30, 2024. Growth was driven by healthy traction in gold loan portfolio, affordable mortgage loans, and unsecured business loans. While the AUM growth is expected to be broad based, Fedfina is likely to remain a small player in the non-banking financing space in the near term. Over the near to medium term, the company intends to increase the share of co-lending business specifically in the LAP and Gold Loan portfolio. Also, the share of gold loan portfolio in the overall AUM is expected to decline, being partly replaced by segments like small ticket LAP which may increase to form ~45% of the overall AUM.

In terms of regional presence, top three states, Karnataka, Tamilnadu, and Maharashtra, accounted for around 51% of the AUM, with Maharashtra leading at 20.5% as on June 30, 2024. The management plans to expand its branch network in the next few fiscals. However, ability to scale up while maintaining controlled delinquency levels will be closely monitored.

- **Limited portfolio seasoning:** Most of the asset portfolios constituting Fedfina's overall AUM have a longer tenure (average tenure of 3 years), except gold loans (average tenure of 9 months). Also, many of these segments cater primarily to self-employed borrowers. Fedfina began offering a few of these products only recently, and given the significant growth observed in the past two years – most of these portfolios have not witnessed a complete credit cycle. Thus far, overall GNPA has remained stable and as of March 31, 2024, it was 1.7% as compared to 2.0% as on March 31, 2023. This metric inched up to 2.0 % as on June 30, 2024 owing to seasonality of the business, however, still remains range bound. Also, given the high growth rate (3 year CAGR) of 36% through fiscal 2024, majority of the portfolio remains unseasoned. As the book gains more vintage, the company's ability to maintain sound asset quality metrics across business cycles while scaling the business, remains to be tested.

Liquidity: Strong

The asset-liability management profile was comfortable, with positive cumulative mismatches in all the buckets as on June 30, 2024. Fedfina had Rs 9,280 crore in borrowings as on June 30, 2024, comprising bank borrowings (88%; 11% is from the parent) and capital market (10%; non-convertible debentures 8% and CPs 2%), with non-bank financing companies (NBFCs) accounting for the remaining. The company has Rs 2118 crore debt maturing over next 6 months (as on Jul'24) against which liquidity buffer of Rs 2017 crore is available in terms of unutilized bank line (Rs 1010 crore), MF investments (Rs 541 crore), other investments (Rs 224 crore) and cash & bank balances (Rs 242 crore) as on July 31, 2024. Short-term nature of gold loans (less than one year), which was 38% of the AUM as on June 30, 2024, offers healthy collections. Liquidity is cushioned by funding support extended by the parent, Federal Bank.

Outlook: Stable

CRISIL Ratings believes Fedfina will remain strategically important to Federal Bank and will continue to benefit from its strong support and high moral obligations from the parent

Rating sensitivity factors

Upward factors

- Significant improvement in market position led by increase in scale of operations while maintaining comfortable gearing
- Sustenance of improvement in earnings profile with ROMA remaining at around 3.0% on steady state basis.

Downward factors

- Decline in support from Federal Bank, either by way of decline in ownership in Fedfina below 51% or in the strategic importance of the company to the parent
- Significant and continuous increase in delinquency, impacting profitability

About the Company

Fedfina is a non-deposit accepting, systemically important non-banking finance company (NBFC-ND-SI). The company was incorporated in the state of Kerala in April 1995 and commenced operations in August 2010 after receiving the NBFC license from RBI. It is primarily engaged in the lending business with a diversified portfolio consisting of gold loans, loan against property, home loans and business loans. Fedfina is a retail-focused NBFC promoted by Federal Bank Limited (Federal Bank). Federal Bank, a commercial bank with significant presence in the private sector holds 61.6% stake in Fedfina along with True North Fund, a renowned PE firm based in Mumbai, that holds the other 8.7% stake through its fund (True North Fund VI LLP) as on June 30, 2024.

The company has 619 branches in 18 states and AUM of Rs 13188 crore as on June 30, 2024. Profit after tax (PAT) increased to Rs 244 crore in fiscal 2024 from Rs 180 crore in fiscal 2023. The company reported a PAT of Rs 70 crore for quarter ended June 30, 2024 and Rs 54 crore from same period of FY23. Return on managed assets (RoMA) remained stable at 2.1% in fiscal 2024 and 2023., driven by better lower credit cost of 0.6%. Annualised RoMA for the quarter ended June 30, 2024, was 2.0%, on the back of higher credit cost of 1.0%, it was 0.6% in fiscal 2024.

Key Financial Indicators

As on / for the fiscal year ended March 31,	Unit	Jun-24 (UA)	2024 (A)	2023 (A)
Total assets	Rs crore	11,989	10,654	9,071
Total income (net of interest expense)	Rs crore	289	943	743
PAT	Rs crore	70	244	180
Gross Stage 3 assets	%	2.0	1.7	2.0
Return on managed assets	%	2.0*	2.1	2.1

*annualised

UA: unaudited, A: audited

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.

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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 Levels	Rating Outstanding with Outlook
INE007N07058	Non Convertible Debentures	14-Aug-24	Linked to Repo	14-Aug-28	200.00	Simple	CRISIL AA+/Stable
NA	Non Convertible Debentures#	NA	NA	NA	1050.00	Simple	CRISIL AA+/Stable
NA	Commercial Paper	NA	NA	7-365 days	1000.00	Simple	CRISIL A1+

Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	1000.0	CRISIL A1+	21-05-24	CRISIL A1+	30-10-23	CRISIL A1+	30-09-22	CRISIL A1+	25-01-21	CRISIL A1+	CRISIL A1+
			--	02-01-24	CRISIL A1+	28-09-23	CRISIL A1+	28-01-22	CRISIL A1+		--	--
Non Convertible Debentures	LT	1250.0	CRISIL AA+/Stable	21-05-24	CRISIL AA/Positive		--		--		--	--
			--	02-01-24	CRISIL AA/Positive		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for rating short term debt](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)

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