

Press Release

Federal Operations And Services Limited

July 31, 2019



Rating Assigned

Instruments Rated*	Rs.5.00 Cr.
Long Term Rating	ACUITE A/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long-term rating of '**ACUITE A**' (**read as ACUITE A**) on the Rs. 5.00 Cr proposed Preference Share programme of FEDERAL OPERATIONS AND SERVICES LIMITED (FOSL). The outlook is '**Stable**'.

Kerala based, FOSL was incorporated in October, 2018. The company is a wholly owned subsidiary of The Federal Bank Limited (FBL). FOSL acts as a back office processing unit for FBL and was established to streamline the operational and technology driven services of FBL, in line with best global practices. FOSL has its facilities located at Kochi (Kerala) and Visakhapatnam (Andhra Pradesh).

About The Federal Bank Limited (FBL)

FBL is a Kerala based old private sector bank founded in 1931. The bank has a sizeable network of 1251 branches and 1610 ATMs as on March 31, 2019. It has a net worth of Rs. 13,273 Cr. as on March 31, 2019, with a CRAR of 14.14% (TIER 1 OF 13.38%). The bank has aggregate deposits of Rs. 1,34,954 Cr and net advances of Rs. 1,10,223 Cr. It has a healthy level of CASA at 32% as on March 31, 2019. FBL registered a net profit of Rs. 1244 Cr. on a total income of Rs. 12,770 Cr and reported a net interest margin (NIM) of 3.14% in FY2019. FBL's Gross non-performing assets stood at Rs. 3261 Cr which is moderate at 2.92% of gross advances as on March 31, 2019.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of FOSL and has notched-up the standalone rating to factor in the expectation of support from Federal Bank, the parent.

Key Rating Drivers

Strengths

- Strong parent support:**

FOSL is strategically important to FBL and complements the bank's financial service offerings to the customers. FBL's transactions are operationally intensive like that of other banks and the continuity of its banking services is linked to FOSL. The company can help the bank improve its operating efficiency through lower costs of operations and better productivity. Additionally, banks need to manage operational risks in their services and therefore FBL's management would need to monitor the performance of FOSL on an ongoing basis.

FOSL is a wholly owned subsidiary of FBL and benefits significantly from its association with FBL. The Board of Directors of FOSL comprises nominees from FBL and experienced professionals. Mr. Chandrashekhar Balagopal, Director of FBL, is on the Board of FOSL. In addition to the significant equity contribution (Rs. 5 Cr as on March 31, 2019), FBL is also expected to support FOSL by way of subscription to its preference shares of Rs.5.00 Cr, to support its business growth and working capital requirements. FBL is expected to provide further funding support to the company, should the need arise.

Acuité believes that FBL will continue to hold majority stake in FOSL along with significant managerial and operational control on the company, given the criticality of the latter's operations to the bank's ability to offer uninterrupted client services. FOSL shall also continue to benefit from the shared brand name with FBL. In Acuité's opinion, FOSL will continue to receive significant support from the bank due to the strong managerial, business and operational linkages between them.

- **Experienced management:**

The company's operations are managed by Mr. Johnson K Jose, President and Executive Director. Mr. Jose has vast experience in information technology and security and has in the past helped FBL in successfully implementing the cyber security for its operations. He is currently supporting FBL in migration of its operations to FOSL. FOSL has also support from other key employees of FBL who are assisting in smooth migration of systems to FOSL.

Acuité believes that FOSL will benefit from the experienced management of the bank.

Weaknesses

Nascent stage of operations:

FOSL was established in October, 2018 with a view to take over the back-end operations from FBL. FBL has over 150 activities approved by RBI which can be taken over by FOSL. In its 7 months of operations, the company registered a revenue of Rs. 1.29 Cr and has successfully migrated 43 operations (as on March 31, 2019). The company is still dependent on FBL for operational support and still in the process of migration of these activities.

Acuité believes that successful migration and implementation of the identified processes will remain a rating monitorable over the near to medium term.

Liquidity Position – Adequate

As on March 31, 2019, FOSL had no external borrowings. The company is expected to be adequately supported by FBL for its working capital requirements as and when necessary.

Outlook: Stable

Acuité believes that FOSL will maintain 'Stable' outlook over the medium term owing to its strong association and linkages with FBL. The outlook may be revised to 'Positive' if the company scales up operations while improving operating profitability leading to better generation of net cash accruals. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability and profitability or there is a significant dilution of stake by FBL.

About the Rated Entity - Key Financials

Particulars	Unit	FY19 (Actual)
Operating Income	Rs. Cr.	1.29
EBITDA	Rs. Cr.	(0.25)
PAT	Rs. Cr.	(0.29)
EBITDA Margin	(%)	(19.72)
PAT Margin	(%)	(22.21)
ROCE	(%)	(14.66)
Total Debt/Tangible Net Worth	Times	-
PBDIT/Interest	Times	-
Total Debt/PBDIT	Times	-
Gross Current Assets (Days)	Days	1045

Any other information

Not Applicable

Applicable Criteria

- Group and parent support - <https://www.acuite.in/view-rating-criteria-24.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Preference Shares	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A/Stable (Assigned)

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About Acuité Ratings & Research:

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