



**Press Release**  
**FEDERAL OPERATIONS AND SERVICES LIMITED**  
**June 14, 2023**  
**Rating Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Non-Convertible Preference Shares</b>	5.00	ACUITE A+   Stable   Reaffirmed	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	5.00	-	-

**Rating Rationale**

Acuite has reaffirmed the long-term rating of **Acuite A+ (read as Acuite A plus)** on the Rs. 5.00 crore non-convertible preference shares of Federal Operations and Services Limited (FOSL). The outlook is '**stable**'.

**Rationale for the rating**

The rating continues to derive comfort from the fact that FOSL is strategically important to Federal Bank Limited (FBL), which holds a 99.99% stake in FOSL and is significantly aligned with FBL's banking operations. As of March 31, 2023, FOSL had taken over 127 activities, compared to 109 activities as of March 31, 2022, out of 150 activities identified from the 8 major heads of activities approved by RBI. Accordingly, FOSL's income has increased to Rs. 59.56 crore in FY2023 as against Rs. 42.67 crore in FY2022. The rating also derives strength from demonstrated capital support from FBL and expectations of continued support going forward. However, the rating remains constrained by the modest scale of operations and susceptibility to operational and regulatory risks.

**About the company**

FOSL was incorporated in October 2018 as a wholly owned subsidiary of the Kerala-based private sector bank, The Federal Bank Limited (FBL). FOSL was established with the intent of streamlining the operational and technology-driven services of FBL in line with best global practises. It works as a back-office processing unit for FBL. Currently, FOSL is handling 109 activities out of the total 150 approved activities. FOSL's operating facilities are located in Kochi (Kerala) and Vizag (Andhra Pradesh).

**About the Group**

FBL is a Kerala based private sector bank founded in 1931. The bank has a network of 1355 branches in India and abroad and 1916 ATMs and cash recyclers as on March 31, 2023. The bank has aggregate deposits of Rs. 2.13 trillion and advances of Rs. 1.74 trillion as on March 31, 2023. FBL's share holding pattern is well diversified with majority shares held by Mutual Funds (34%), Foreign Institutional Investors (27%), financial institutions & banks (10%) and Corporates & Others (31%) as on March 31, 2023. The bank is listed both on BSE and NSE.

**Standalone (Unsupported) Rating**

ACUITE BBB-/Stable

**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 The Federal

Bank Limited (FBL). The rating of FBL is central to the rating of FOSL and will remain a key monitorable.

## **Key Rating Drivers**

### **Strength**

#### **Improving financial performance, along with benefits emanating from the parentage of Federal Bank**

FOSL was incorporated in October 2018 as a wholly owned subsidiary of FBL. FOSL is strategically important to FBL and is significantly aligned with FBL's banking operations. Around 150 activities have been identified from the eight major heads of activities approved by RBI that can be outsourced to FOSL. These activities include contact centre, account opening, and trade finance activities. As of March 31, 2023, FOSL was handling 127 activities, compared to 109 activities as of March 31, 2022, and 87 activities as of March 31, 2021. It operates as a captive vehicle for FBL and is required to maintain exclusivity with FBL. It operates from its three offices located in Kochi, Bangalore, and Vizag. The financial performance of FOSL witnessed improvement in terms of an increase in revenue of 40% to Rs. 59.56 crore in FY2023 over Rs. 42.67 crore in FY2022. The net profitability margin stood at 8.02% in FY23. The increase in financial performance is due to FOSL acquiring more and more activities from its parent company (FBL) every year. FOSL has the target of acquiring all remaining activities in the near to medium term. In line with the increase in its scale of operations, FOSL is also gradually increasing its workforce. As per the arrangement with FBL, FOSL carries out several activities that are considered important from a customer service standpoint. Since the operational risks in banking are significantly high, FBL maintains considerable oversight over the operations of FOSL. FOSL has integrated with the bank's tech platform and aids the bank in improving its operating efficiency through lower costs of operations and better productivity. The Board of Directors of FOSL comprises nominees from FBL and experienced professionals. Mr. A. P. Hota, Independent Director of FBL, is the Chairman and Director of FOSL. Besides the managerial support, FBL has infused funds by way of equity and preference shares to support the business operations of FOSL. The company's operations are managed by Mr. Prashant Preman, President and full-time Executive Director. He has been associated with FedServ since August 2019. He has been appointed as Whole-Time Director (as Key Managerial Personnel) of FedServ with effect from April 16, 2021. Mr. Prashant has been key to FedServ in setting up and rolling out successful long-term and short-term strategic programmes and successfully reengineering various operations, including consumer asset products including ATMs, debit cards, contact centre operations, CASA and KYC operations, trade finance operations, and various other activities. FOSL has also received support from other key employees of FBL who are assisting in the smooth migration of systems to FOSL. Acuité believes that FOSL will continue to derive significant benefits from FBL and augment its scale of operations through the gradual migration of the processes as envisaged under their mutual arrangement. The continued support and ownership of FOSL by FBL will be central to the rating.

### **Weakness**

#### **initial stage of operations; susceptible to operational and regulatory risks**

Since FOSL was incorporated in 2018, it is in its initial stage of operations. Though the plan of activities for migration is going as planned, the gradual takeover of activities by FOSL is done in close coordination with the employees of FOSL. Around 150 activities have been identified from the 8 major heads of activities approved by RBI, out of which 127 have been migrated as of March 31, 2023, from FBL to FOSL. The operations of FOSL are dependent on FBL's systems and databases, which exposes FOSL to operational risks. The risks are expected to multiply once additional processes are added to FOSL's portfolio. Hence, continuous management of operational risks is crucial for the smooth running of this arrangement. Besides operational risks, the growth trajectory of FOSL will also depend on the regulatory

environment. Any changes in the regulatory framework restricting or curtailing banks from outsourcing their activities will impinge on the performance of FOSL. Acuité believes that the success of FOSL's business model will depend on its ability to manage the various operational aspects and enhance its linkages with FBL within the regulatory paradigm.

### Rating Sensitivity

- Support and ownership of FBL
- Regulatory framework in respect of outsourcing of activities
- Event risks in respect of Operational risks

### Material Covenants

None

### Liquidity Position

#### Adequate

As on March 31, 2023, 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 by taking over more operations thereby increasing its linkage to FBL. Conversely, the outlook may be revised to 'Negative' if FOSL faces significant challenges in scaling up of operations or in case of sharp adverse changes in the credit profile of FBL.

### Other Factors affecting Rating

None

### Key Financials - Standalone / Originator

Particulars	Unit	FY23(Actual)	FY22 (Actual)
Operating Income	Rs. Cr.	59.56	42.67
PAT	Rs. Cr.	4.78	3.46
PAT Margin	%	8.02	8.1
Total Debt/Tangible Net Worth	Times	0.32	0.45
PBDIT/Interest	Times	-	-

### Status of non-cooperation with previous CRA (if applicable):

None

### Any other information

None

### Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

### **Note on complexity levels of the rated instrument**

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Jun 2022	Preference Shares	Long Term	5.00	ACUITE A+   Stable (Reaffirmed)
18 Jun 2021	Preference Shares	Long Term	5.00	ACUITE A+   Stable (Reaffirmed)
09 Jul 2020	Preference Shares	Long Term	5.00	ACUITE A+   Stable (Upgraded from ACUITE A   Stable)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Perpetual Non-Cumulative Preference Shares	14 Nov 2019	8.5	13 Nov 2029	Highly Complex	5.00	ACUITE A+   Stable   Reaffirmed

## Contacts

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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