Early Warning System

IFC-45113

Silver

Quick Facts

Countries	India
Financial Institutions	International Finance Corporation (IFC)
Status	Approved
Bank Risk Rating	A
Voting Date	2021-07-20
Borrower	THE FEDERAL BANK LIMITED
Sectors	Finance
Investment Type(s)	Equity
Investment Amount (USD)	$ 43.37 million
Loan Amount (USD)	$ 43.37 million

Project Description

According to the bank document, the proposed project comprises a primary equity investment for a 4.99 percent stake in Federal Bank Limited (FBL or the Bank), the seventh largest private sector bank in India, for approximately US$126 million, by International Finance Corporation (IFC), IFC Financial Institutions Growth Fund, LP (FIG), and IFC Emerging Asia Fund, LP (EAF). This investment seeks to strengthen the capital adequacy of the Bank's Tier 1 for growth opportunities post-COVID-19 specifically in the MSME and climate finance.

FBL is headquartered in Aluva, Ernakulam, Kerala and has 1,272 branches across India.

The proposed transaction is subject to all required approvals. To further strengthen the Bank's E&S capacity, IFC will also implement a one-year E&S technical advisory program.

IFC will provide both financial and non-financial additionality to FBL through this Project. Financial additionality will be provided in the form of: (i) Own Account Primary Equity from IFC and (ii) Resource Mobilization, derived from mobilization of additional funding from its asset management company. With respect to non-financial additionality, IFC will help the Bank in terms of: (i) Knowledge, Innovation and Capacity Building by helping the Bank develop its climate strategy and grow its green lending portfolio, and (ii) Setting standards as IFC assists the Bank to improve its environmental and social (E&S) risk management and environmental, and social governance (ESG) compliance.

The proposed Project entails an equity investment in FBL. The Bank is involved in providing long and medium-term financing to corporates, and MSMEs by way of working capital, term loans, and to a lesser extent project and structured finance, and syndications. It also provides several short-term products as well as non-funded products like bank guarantees. Given the Bank's size and diversity of operations, it has exposure to companies operating in high-risk sectors such as infrastructure, chemicals, heavy industries, and large plantations. Some of these sectors and industries, by the nature of their operations, may have high E&S risks and impacts such as those related to Occupational Health and Safety, environment, community health and safety, biodiversity, cultural heritage, involuntary resettlement, and Indigenous Peoples. Hence, the Project has been categorized as FI-1 in accordance with IFC's Environmental and Social Sustainability Policy. The Bank has exposure to coal-related projects and activities (3.5 percent of its portfolio as of March 31, 2021). This exposure will be required to be reduced by 50 percent of the current exposure percentage by 2025 and to be zero by 2030. The Bank has committed to reduce its exposure accordingly and in alignment with its focus on sustainability, agreed to terminate financing of development of any new coal-related assets, including coal-fired power plants once IFC becomes a shareholder in the Bank. In addition, the Bank has agreed to disclose in its annual reports information on Category A projects (the name, location by city, and sector) committed after IFC investment as well as the Bank's exposure to coal related projects as a percentage of its portfolio. The applicable performance requirements to manage the E&S risks of the Bank's activities will be: i) the IFC- FI Exclusion List; ii) the host country E&S laws and regulations; and iii) IFC Performance Standards.

People Affected By This Project

Stakeholders impact: Improved access to finance for MSMEs and climate: The MSME sector is extremely critical for the development of the country by way of production, employment, and exports. However, close to 11 million MSMEs remain either fully or partially excluded from the formal financial system, with an estimated financing gap of ~US$400 billion. The proposed investment will support the Bank in increasing funding to the MSME sector. Further, India requires substantial financing to meet its NDC commitments and grow climate finance. IFC expects that this Project will contribute towards a reduction of the climate financing gap in India by supporting the growth of FBL's climate finance portfolio for renewable energy, climate smart agriculture, green buildings, and waste management projects. The investment will also support FBL in reducing coal exposure.

Market impact: Beyond the Project level outcomes, IFC anticipates the investment to promote greater resilience in the market via innovation, demonstration, and replication channels. This approach is expected to demonstrate the viability of MSME lending and inspire other FIs to follow suit.

Investment Description

- International Finance Corporation (IFC)

Financial Intermediary

Financial Intermediary: A commercial bank or financial institution that receives funds from a development bank. A financial intermediary then lends these funds to their clients (private actors) in the form of loans, bonds, guarantees and equity shares. Financial intermediaries include insurance, pension and equity funds. The direct financial relationship is between the development bank and the financial intermediary.

- The Federal Bank Limited (Financial Intermediary)

Private Actors Description

FBL was established in 1931 as Travancore Federal Bank and re-branded itself as Federal Bank Limited in 1949. The Bank has a well-diversified shareholding structure. As of March 31, 2021, 30.23 percent of the Bank's shares were held by mutual funds, 24.51 percent by foreign portfolio investors, 11.81 percent by FIs (including insurance companies), 29.82 percent by individual investors, and the remaining 3.63 percent by others.

FBL has an asset base of US$28 billion as of March 2021 , equity of US$2.3 billion and a market capitalization of approximately US$2.3 billion as of June 9, 2021. The Bank has a diversified loan book comprised of retail, agricultural, MSMEs and corporate loans. FBL's branch network of 1,272 branches, and automated teller machine (ATM) network of 1,957 is spread across India with 66 percent of branches in semi-urban and rural India and the remaining in urban and metropolitan India. The Bank through its vast network reaches the underserved segments and addresses their financing needs through its diverse products and services.

Contact Information

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ACCESS TO INFORMATION

You can submit a request for information disclosure at: https://disclosures.ifc.org/#/inquiries

If you believe that your request for information from IFC has been unreasonably denied, or that this Policy has been interpreted incorrectly, you can submit a complaint at the link above to IFC's Access to Information Policy Advisor, who reports directly to IFC's Executive Vice President.

ACCOUNTABILITY MECHANISM OF IFC/MIGA

The Compliance Advisor Ombudsman (CAO) is the independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an IFC or MIGA- financed project. If you submit a complaint to the CAO, they may assist you in resolving a dispute with the company and/or investigate to assess whether the IFC is following its own policies and procedures for preventing harm to people or the environment. If you want to submit a complaint electronically, you can email the CAO at CAO@worldbankgroup.org You can learn more about the CAO and how to file a complaint at http://www.cao-ombudsman.org