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Nurturing Financial Excellence

IPO REPORT

**“Subscribe with Caution” to
Fino Payments Bank**

‘Expensive Valuation’

Salient features of the IPO:

- **Fino Payments Bank Limited (FPBL)** is a fintech company with primary focus to offers financials products & services to unserved and underserved population of Indian society.
- FPBL started operations as payment bank in 2017 after getting in-principle approval from the RBI to set up a payment bank.

Competitive Strengths

- Strong distribution-technology-partnership framework
- A technology focused business model with an advance digital platform
- Customer centricity and innovation at the core of business
- An assets light and scalable business model
- Socially inclusive model with positive social impact

Valuation: At the higher price band of Rs577, the issue is valued at P/BV of 9.9x to its post issue BVPS.

Below are few key observations of the issue: (continued in next page)

- Fino Payments Bank Limited (FPBL) started payment banking operations in Jun 2017 after receiving in-principal approval to set up a payment bank. The company offers a diverse range of financial products and services that are primarily digital in nature and have a payment focus. FPBL targets unserved & underserved population which typically does not have access to basic banking services. In order to cater the banking requirements of target population, FPBL has grown its operational presence to 90% of the district as of Sep 30' 2021.
- FPBL operates an assets light model that relies on the merchant network. The company provides its digital financial services to target community through merchant network which is referred as 'phygital' delivery model by the company due to combination of digital and physical. As of Aug 31' 2021, the company has 7,77,010 merchants (own & API) which are typically located in Tier 2 and Tier 3 cities. As the company adopts assets light model, all on-boarding cost are handled by merchants including acquisition costs related to the micro-ATMs and AePS devices. Besides the company has 17,430 active BC agents providing services on the behalf of other banks.
- Through the merchant network, the company provides financial services such as CASA accounts, debit card transactions, facilitating domestic remittances, open banking functionality (via API), withdrawing and depositing cash (via micro-ATM or AePS), BC banking and CMS.
- As per the RBI's payment banks guidelines, FPBL cannot provide credit. The company generates revenue by charging fee & commission on products & services. In Q1FY22, fees & commissions accounted for 97% of the total income. Business is variable in nature with high revenue & variable cost linked to volume of transactions.
- Owing to its deeper presence across geographies, the company holds 55% share in micro ATMs and AePS. FPBL has opened 3.23 mn CASA a/c and has set 0.26 mn micro-ATM devices.

Recommendation	Subscribe with Caution
Price Band	Rs560- Rs577 per share
Face Value	Rs10 per share
Fresh Issue Size	Rs300 cr
Share for Fresh Issue (at higher price band)	0.52 cr
OFS Issue Size (at higher price band)	Rs900 cr
Total Issue Size	Rs1,200 cr
Bidding Date	Oct 29' 2021 - Nov 02' 2021
MCAP (at higher price band)	Rs 4,801 cr

Book Running Lead Manager	Axis Capital Limited, CLSA India Private Limited, ICICI Securities Limited, Nomura Financial Advisory and Securities (India) Private Limited
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Registrar	KFin Technologies Private Limited
Industry	Payment Banks & Fintechs

Retail application money at higher cut-off price per lot	
Number of shares per lot	25
Application Money	Rs14,425 per lot

Allocation Detail	
Qualified Institutional Buyers (QIB)	75%
Non-Institutional Investors (NII)	15%
Retail Individual Investors (RIIs)	10%

Shareholding Pattern		
	Pre-Issue	Post Issue
Promoters & promoters group	100.0%	75.0%
Public	0.0%	25.0%
Total	100.0%	100.0%

Source: Choice Broking Research, RHP

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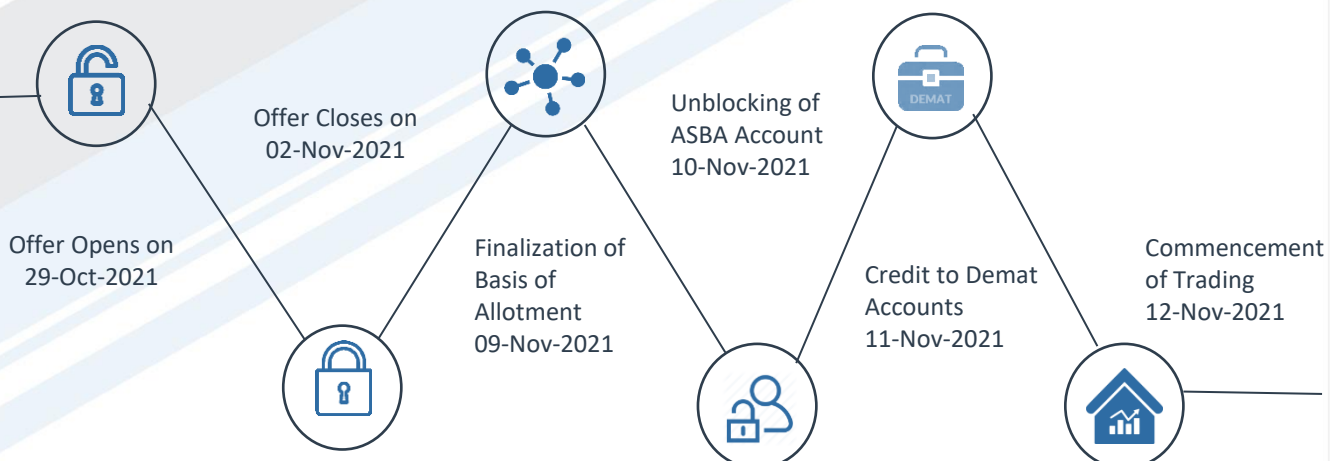
- Product wise revenue break up: ~30% of revenue came from micro ATM & AePS, ~30% from domestic remittances, 20% from BC banking, 8% from CASA, 4% from CMS and balance from third party cross sell. The company earns by interchange commission on micro-ATM & AePS transactions, while in remittance segment, it put commission on the transaction value. FPBL put annual subscription fee for opening CASA a/c with no minimum balance requirement in most categories of CASA a/c. Other revenue streams are commission on BC banking, fee income from third party products such as gold loans, insurance products.
- **Since commencing the payment services, the company has significantly enhanced its operation presence across the country and is generating fee & commission income through high transactions volume. Total income (fee income + interest income) grew at a CAGR of 46% to Rs791 cr in FY21 from Rs371 cr in FY19. FPBL reported PAT of Rs20.5 cr in FY21 and Rs3.1 cr in Q1FY22 as compared to loss of Rs-32 cr in FY20 and -Rs62.4 cr in FY19. As the company turned into the profitability, RoE improved to 14.6% in FY21.**
- **Since payment banks are barred from lending activity due to regulation, FPBL does not bear credit risk while the regulation also keeps its business away from core banking lending activity. The company is leveraging the opportunities arising from low financial penetration in country, however the business is highly exposed to competitions due to its assets light model with other payment banks and fintech players can easily replicate transaction based payment model.**
- **Total issue size is Rs1,200 cr comprises fresh issue size of Rs300 cr. The fresh issue proceed will be utilised towards augmentation of Bank's Tier-I capital base to meet future capital requirements.**
- **At the higher price band of Rs577, FPBL's demanding valuation is stood at Rs4,801 cr. Post issue book value per share is calculated at Rs58.5 translating to P/BV of 9.9x at higher price band which looks very expensive. There are no listed peer in the market with same business profile.**
- **Digital payments value in India is expected to grow at CAGR of 25-27% to Rs3,500 tn during FY21-FY25, which presents ample growth opportunities for digital payment focus businesses like FPBL. However volatile nature of fees & commission business and risk of high competitions due to assets light model are key concerns to business. Additionally, demanding valuation of FPBL seems extremely expensive.**

Considering all these parameters, we assign '**Subscribe with Caution**' rating to the issue.

About the issue:

- Fino Payments Bank Limited (FPBL) is coming out with initial public offering of Rs1,200 cr.
- IPO comprises fresh issue of Rs300 cr and offer for sale (OFS) of 1.56 cr shares
- Price band is fixed at Rs560-Rs577 per share.
- At the higher price band of Rs577, fresh number of shares are stood at 0.52 cr. While OFS size comes at Rs900 cr.
- The issue constitutes 25% of the post issue paid-up capital of the company.
- The objective of the fresh issue to augment company's Tier-I capital to meet the future capital requirements.
- Promoter Fino Paytech Ltd. is participating in the OFS. Average cost of acquisition of equity shares of the promoter selling shareholder is namely Fino Paytech Ltd. is Rs57.7 per equity share.
- Post issue promoter stake will reduce to 75% from 100%.
- Rs 3 cr of the total issue is reserved for eligible employees.
- Issue will open for subscription on Oct 29' 2021 and close on Nov 02' 2021
- Not less than 75% of the net offer shall be available for allocation on a proportional basis to a qualified institutional investors (QIIs).
- Further not more than 15% shall be available for allocation on a proportional to non-institutional investors (NIIs) and not more than 10% of net offer shall be available for allocation to Retail Institutional Investors (RIIs).
- The fresh issue proceed of Rs300 cr will be utilised towards augmentation of Bank's Tier-I capital base to meet future capital requirements.
- Marquee investors invested in parent Fino Paytech Ltd. ICICI Group (include ICICI Bank, ICICI Lombard and ICICI Prudential hold 17.6% stake in Fino Paytech. Other investors include BPCL at 22.9%, Blackstone GPV Capital at 14.7%, HAV3 Holdings of 11.2%, Intel Capital of 5.6%, Union Bank of India of 3.5% among others.

Indicative IPO process time line:



Company Introduction and Business Overview:

Fino Payment Bank is a growing fintech company offering a diverse range of financial products & services that are primarily digital and a payment focus. The company was incorporated in 2007 as a Fino Fintech Foundation with an aim to bring technology led financial products solutions to a large underpenetrated market of the country. The company got in-principle approval by the RBI on Sep 2015 to set up a payment bank and subsequently the company started operation of payment bank in 2017. The company offers such products & services to target market via a pan-India distribution network and proprietary technologies. Since 2017, the company has grown operational presence to cover over 90% of districts as of Sep 30' 2021. The company operates assets light model that principally relies on fee and commission based income generated from merchant network and strategic commercial relationship. As per the company, merchant led distribution model requires minimal capital expenditure cost because the on-boarding and setup capital expenditure costs are borne by the merchant. The company also generates fee income by selling third party products like gold loans, insurance, bill payments and recharges to customers through analysing the customer data captured by tech system.

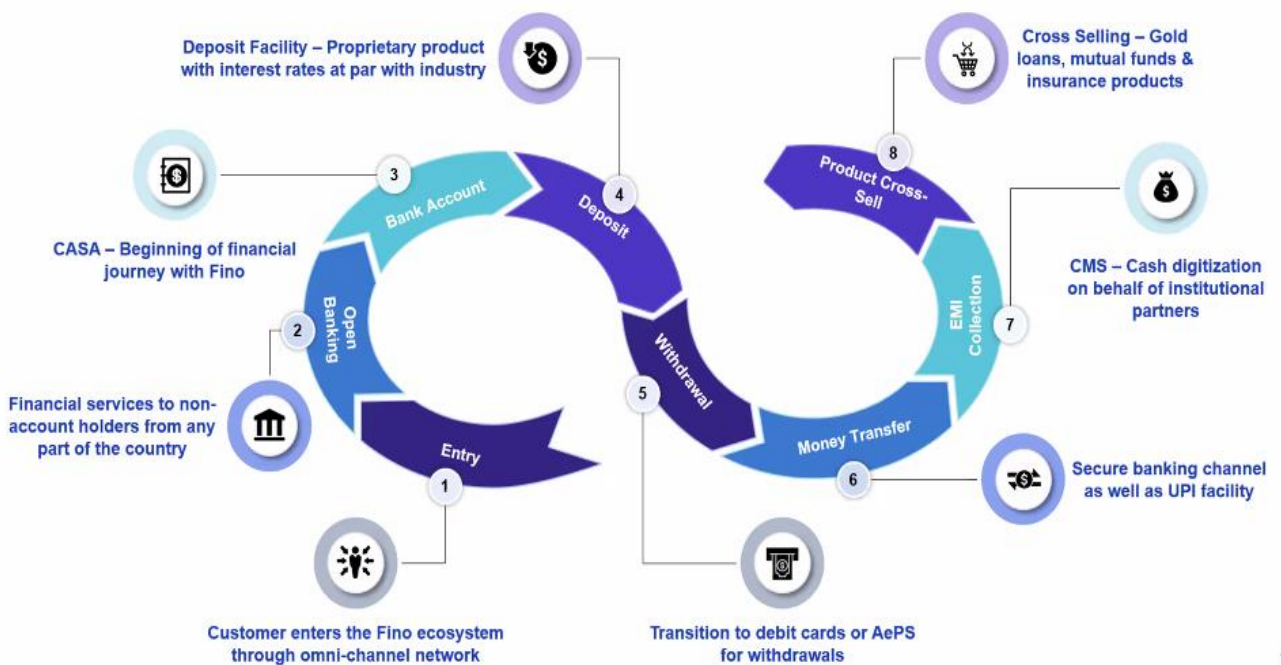
FPBL targets the rural focused mass market. Key revenue generating products are micro ATM & AePS, remittance, CASA deposits, third party cross sell, BC banking and cash management system (CMS). Product wise revenue break up include ~30% from micro-ATM & AePS, 30% from micro ATM, 20% from BC business, 8% from CASA product and 4% from CMS business activity. As per the RBI regulations for the payment banks, FPBL is not permitted to directly provide credit products and thereby the business is not exposed to credit risk. FPBL operate 54 branches and 130 Customer Service Points (CSPs) as of June 30, 2021 in the country.

The company turn profitable in the Q4 of FY20 and have been remained profitable in the subsequent quarters thereafter. FPBL is a growing fintech company with total income (fee income + interest income) grew at a CAGR of 46% to Rs791 cr in FY21 from Rs371 cr in FY19. Primary source of revenue is the fee & commission the company charge for products & services. In Q1FY22, fees & commissions accounted for 97% of the total income. FPBL reported PAT of Rs20.5 cr in FY21 and Rs3.1 cr in Q1FY22 as compared to loss of Rs-32 cr in FY20 and -Rs62.4 cr in FY19. As the company turned into the profitability, RoE improved to 14.6% in FY21.

Customer Journey across Financial Products



Presence across the value chain with an array of products suiting customer needs





Competitive strengths:

- Strong distribution-technology-partnership framework
- A technology focused business model with an advance digital platform
- Customer centricity and innovation at the core of business
- An assets light and scalable business model
- Socially inclusive model with positive social impact

Business strategy:

- Leverage market position to capture industry opportunities
- Continued innovation leading to high growth products and diversified revenue streams
- Expand and deepen customer sourcing capabilities
- Continuous focus on use of technology to improve operating leverage



Risk and concerns:

- High competition from payment banks, fintech companies and MFIs
- Stringent regulations
- Volatile nature of fee & commission business

Financial statements:

Rs Crore

Profit And Loss Statement

Particulars (Rs cr)	FY19	FY20	FY21	Q1FY22
Interest Income	19.2	18.1	20.3	6.1
Growth (%)		-5.3%	11.7%	
Interest Expended	5.5	9.9	9.5	3.1
Growth (%)		78.5%	-3.3%	
Net Interest Income	13.6	8.3	10.7	3.0
Other Income	352.0	673.3	770.8	200.2
Total Income	365.6	681.5	781.5	203.2
Growth (%)		86.4%	14.7%	
Operating & Other expenses	427.0	712.5	757.0	200.1
Pre-Prov. Operating Profit	-61.4	-31.0	24.5	3.1
Provisions and contingencies	0.9	1.0	4.0	0.0
Operating Profit before Tax	-62.4	-32.0	20.5	3.1
Reported PAT	-62.4	-32.0	20.5	3.1
Net Profit Margin %	-17.1%	-4.7%	2.6%	1.5%
Extrordinary Income	0	0	0	0
Adjusted PAT	-62.4	-32.0	20.5	3.1
Growth (%)		-48.6%	-163.9%	

Financial Ratios

Particulars	FY19	FY20	FY21	Q1FY22
Return / Profitability Ratios (%)				
EPS (Diluted) (Rs)	-7.50	-3.85	2.46	0.38
RoA	-9.1%	-4.9%	2.5%	1.2%
RoE	-38.5%	-21.9%	14.6%	8.3%
Business Ratios (%)				
CASA (%)	100%	100%	100%	100%
CAR (%)	65.5%	60.9%	56.3%	54.8%
Equity / Assets	23.7%	20.8%	14.9%	15.1%
Cost/Income	116.8%	104.5%	96.9%	98.5%
Per Share Data (Rs)				
EPS (Diluted)	-7.5	-3.8	2.5	1.5*
BVPS	19.5	15.6	18.1	58.5*
Valuation ratios (x)				
P/E (x)	-77.0	-149.9	234.5	383.7
P/BV (x)	29.6	36.9	31.9	9.9

Balance Sheet

Particulars (Rs cr)	FY19	FY20	FY21	Q1FY22
Cash with RBI and Banks	388.3	302.0	270.8	214.5
Advances	0.1	0.1	0.1	0.1
Investment	73.2	128.3	503.6	557.8
Fixed assets	42.2	49.5	64.2	80.1
Other assets	180.3	144.2	171.6	167.6
TOTAL ASSETS	684.1	624.0	1,010.3	1,020.2
Capital	44.6	44.6	44.6	44.6
Reserves and Surplus	117.5	85.5	106.0	109.1
Deposits	47.5	117.5	242.8	251.3
Borrowings	82.9	110.8	180.8	211.3
Other financial liabilities	391.5	265.6	436.1	403.9
TOTAL CAPITAL AND LIABILITIES.....	684.1	624.0	1,010.3	1,020.2

Source: Choice Broking Research, RHP

* - Q1FY22 – post issue new worth, annualized EPS, annualized return ratios for Q1FY22

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