



IPO NOTE

FEDBANK FINANCIAL SERVICES LIMITED



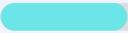
Rating:
AVOID



ISSUE OFFER

Issue Opens on	NOV 22, 2023
Issue Close on	NOV 24, 2023
Total IPO size (cr)	1,092.26
Fresh issue (cr)	600.77
Offer For Sale (cr)	492.26
Price Band (INR)	133- 140
Market Lot	107
Face Value (INR)	10
Retail Allocation	35%
Listing On	NSE, BSE

ISSUE BREAK-UP (%)

QIB Portion		50%
NIB Portion		15%
Retail Portion		35%

SHAREHOLDING (No. of Shares)

Pre Issue	Post Issue
322,477,605	365,389,692

INDICATIVE TIMETABLE

Finalisation of Basis of Allotment	30-11-2023
Refunds/Unblocking ASBA Fund	01-12-2023
Credit of equity shares to DP A/c	04-12-2023
Trading commences	05-12-2023

Fedbank Financial Services Limited is a retail-focused non-banking finance company (“NBFC”) promoted by The Federal Bank Limited. It is focused on catering to the MSMEs and the emerging self-employed individuals (“ESEIs”) sector. The Company has a well-tailored suite of products targeted to match its customers’ needs, which includes mortgage loans such as housing loans; small ticket loans against property (“LAP”); and medium ticket LAP, unsecured business loans, and gold loans.

OBJECTS OF THE ISSUE

- Augmenting the company's Tier I capital base to meet the company's future capital requirements.

OUTLOOK & VALUATION

Fedbank Financial Services is a growing NBFC with a significant presence in a vast and underserved market. The company is firmly supported by the Federal Bank, a well-established financial institution. Fedbank Financial Services has demonstrated robust financial performance, characterized by strong growth in interest income and net profit.

Despite its strengths, the company's business operations are concentrated in a limited number of states, and its loan portfolio is heavily weighted towards the ESFI and MSME sectors. Additionally, the NBFC industry faces intense regulatory scrutiny and heightened competition.

The IPO is being offered at a P/E valuation of 25x and a P/BV valuation of 3.32x, which appear to be fully priced. In light of these factors and other attractive investment opportunities available, we recommend an Avoid rating for this IPO.



KEY MANAGERIAL PERSONNEL

01

Balakrishnan Krishnamurthy

Chairman and an Independent Director of the Company. He has experience in the financial services sector. Currently, he serves as the chairman of Kriscore Financial Advisors Private Limited and director of Kriscore Ventures Private Limited. Previously, he has been associated with Lazard India Private Limited as Managing Director.

02

Anil Kothuri

Managing Director and Chief Executive Officer of the Company. He has over 28 years of experience across various asset businesses including mortgage, SME financing, auto loans, housing finance and unsecured lending. Prior to joining this Company, he has served at Edelweiss Housing Finance Limited as President, and at Citibank N.A.

03

C.V. Ganesh

Chief Financial Officer of the Company. He joined the Company with effect from July 3, 2020. He is inter alia responsible for developing financial strategies, financial reporting, budgetary management, spearheading cost leadership and heading the finance, treasury and FP&A teams. He has several years of experience in the finance industry.

04

Rajaraman Sundaresan

Company Secretary and Compliance Officer of the Company. He joined the Company with effect from May 4, 2020. He has several years of experience in secretarial and legal practice. Previously, he has been associated with Fino Payments Bank Limited for 13 years. Prior to this, he was also associated with HCL Infosystems Limited.



COMPANY PROFILE

- Fedbank has the second and third lowest cost of borrowing among the MSMEs”, gold loan, and MSME & gold loan peer set in India in Fiscal 2023 and the three months ended June 30, 2023, respectively.
- It is the fastest-growing gold loan NBFC in India among the peer set as of March 31, 2023, and had the fastest year-on-year growth among gold loan NBFCs in India as of June 30, 2023.
- It is one among five private bank-promoted NBFCs in India.
- As of June 30, 2023, it covered 190 districts in 17 states and union territories in India through 584 branches with a strong presence in Southern and Western regions of India.
- It also has a “Phygital” doorstep model, a combination of digital and physical initiatives, for providing customized services to its customers across all of the products.

COMPETITIVE STRENGTHS

- It is present in large, underpenetrated markets with strong growth potential.
- The Company is focused on retail loan products with a collateralized lending model targeting individuals and the emerging MSME sector.
- Strong underwriting capability and presence in select customer segments combined with robust risk management capabilities.
- Experienced, cycle-tested management team.
- Well-diversified funding profile with the advantage of lower cost of funds.
- Technology-driven company with a scalable operating model.

KEY STRATEGIES

- Continue to deliver consistent and one of the industry-leading return matrices.
- Focus on the performance of its large branch network and extracting operating leverage.
- Continue to invest in technology and digitization initiatives.
- Continue to invest in talent and employee training.
- Capitalize on its understanding of the customers

KEY CONCERNS

- Its operations are mainly concentrated in six states and two union territories and any adverse developments in these regions could have an adverse effect.
- It has a huge concentration of loans to emerging self-employed individuals (“ESEI”) and micro, small, and medium enterprises (“MSME”).
- The Company operates in a highly regulated industry.
- The business and its operations are dependent on its ability to access cost-effective sources of funding.
- Business is affected by volatility in interest rates.
- The company is subject to competition with commercial, regional rural, and cooperative banks

COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2023)

Name of the Company	Revenue	EPS	P/E	NAV	RONW(%)
Fedbank Financial Services Limited	12,146.80	5.60	-	42.11	13.29%
Peer Group					
Aptus Value Housing (Consolidated)	11,289.99	10.10	28.58	67.05	15.06%
IIFL Finance (Consolidated)	84,471.10	39.50	15.53	236.37	17.88%
Five Star Business Finance (Consolidated)	15,289.28	20.70	37.54	148.94	13.91%
Manappuram Finance Limited (Consolidated)	67,499.47	17.07	8.06	113.95	15.55%
Muthoot Finance Limited (Consolidated)	119,750.05	86.50	15.39	539.69	16.94%
SBFC Finance Limited	7,403.61	1.70	48.33	19.42	8.67%

FINANCIALS (RESTATED CONSOLIDATED)

PARTICULARS (RS. IN MILLIONS)	FY 2023	FY 2022	FY 2021
Equity Share Capital	3,219.12	3,215.18	2,899.23
Other Equity	10,337.70	8,320.00	5,448.11
Net Worth	13,556.82	11,535.18	8,347.34
Total Borrowings	62,649.26	42,243.46	34,759.35
Interest Earned	11,101.68	8,218.93	6,581.08
EBITDA	7,570.40	5,235.58	4,173.88
Profit before tax	2,583.90	1,392.09	769.28
NET PROFIT OF THE YEAR	1,801.33	1,034.59	616.84


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