



IPO Report

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29th Oct '21

Snapshot

Fino Payments Bank Ltd (Fino) is a growing fintech company offering a diverse range of financial products and services that are primarily digital and have a payments focus. Fino offer such products and services to its target market via a pan-India distribution network and proprietary technologies, and since 2017, company have grown its operational presence to cover over 90% of districts as of September 30, 2021

VALUATION

Fino have a strong leadership position within the Indian fintech industry, as it was ranked third among banks in facilitating digital transactions, as of February 2020 by the Ministry of Electronic & Information Technology; and had the largest network of micro-ATMs, as of August, 2021 .

Company is bringing the issue at price band of Rs 560-577 per share at p/s multiple of 6x on post issue FY21 basis at upper band. Company with its strong brand , capital light & merchant led distribution model along with strong promoter base is a profitable concern which is looking good to us.

Hence we recommend “Subscribe” on issue .

Price Band (Rs./Share)	560-577
Opening date of the issue	29th Oct 2021
Closing Date of the issue	02nd Nov 2021
No of shares pre issue	78014996 Eq Shares
Issue size	Rs1174-1200 Cr
Fresh Issue	Rs 300 Cr
Offer For Sale	15,602,999 Eq Shares
Face Value (Rs/ share)	10
Bid Lot	25

BIDDING DETAILS

QIBs (Including Anchor)	75% of the offer (Approx 15562735 Cr Eq Shares)
Non-Institutional	15% of the offer (Approx 3112546 Cr Eq Shares)
Retail	10 % of the offer (Approx 2075031 Cr Eq Shares)
Lead managers	Axis Capital Ltd, CLSA , ICICI Securities, Nomura Financial Advisory
Registrar to the issue	KFin Technologies Pvt. Ltd.

WHAT WE LIKE

An Asset Light and Scalable Business Model

Fino’s merchant-led model is a capital light business strategy in respect of network expansion and except for referrals of third party loan providers, company do not offer any lending products and do not hold credit risk for loans. Fino incur minimal capital expenditure costs in connection with on-boarding its merchants, because the on-boarding and setup capital expenditure costs are borne by the merchant, such as any existing physical premises, laptop, mobile based phone, internet connectivity, micro-ATM and AePS devices and fingerprint and/or IRIS scanners, and Fino’s technology significantly simplifies its merchant on-boarding and training process, making it cost effective for the merchant and efficient for both parties. This approach presents opportunities of high operating leverage by allowing Fino to improve gross margins and limit variable costs. Further, once a merchant has been on-boarded, it is possible for Fino to offer additional products through the same merchant.

Highly Experienced and Committed Leadership Team, Marquee Investor Base in Promoter and Shareholder

Fino’s Managing Director & CEO, Rishi Gupta was a key employee of FINO and was instrumental in the formation of business and operations. Mr. Gupta is also the 2021 Co-Chairman of the National Council on Banking and Financial Services, within the Associated Chambers of Commerce and Industry of India, a non-governmental trade association and advocacy group based in New Delhi. Fino also have low attrition rates throughout its KMP, with 5 of its KMP having been with Fino since inception in 2017 . In addition, the principal shareholders of Fino Paytech Limited, company’s Promoter and shareholder, include marquee investors such as ICICI Bank Limited, Intel Capital Corporation, International Finance Corporation, HAV3 Holdings (Mauritius) Limited, Blackstone GPV Capital Partners (Mauritius) VI-B FDI Limited and BPCL.

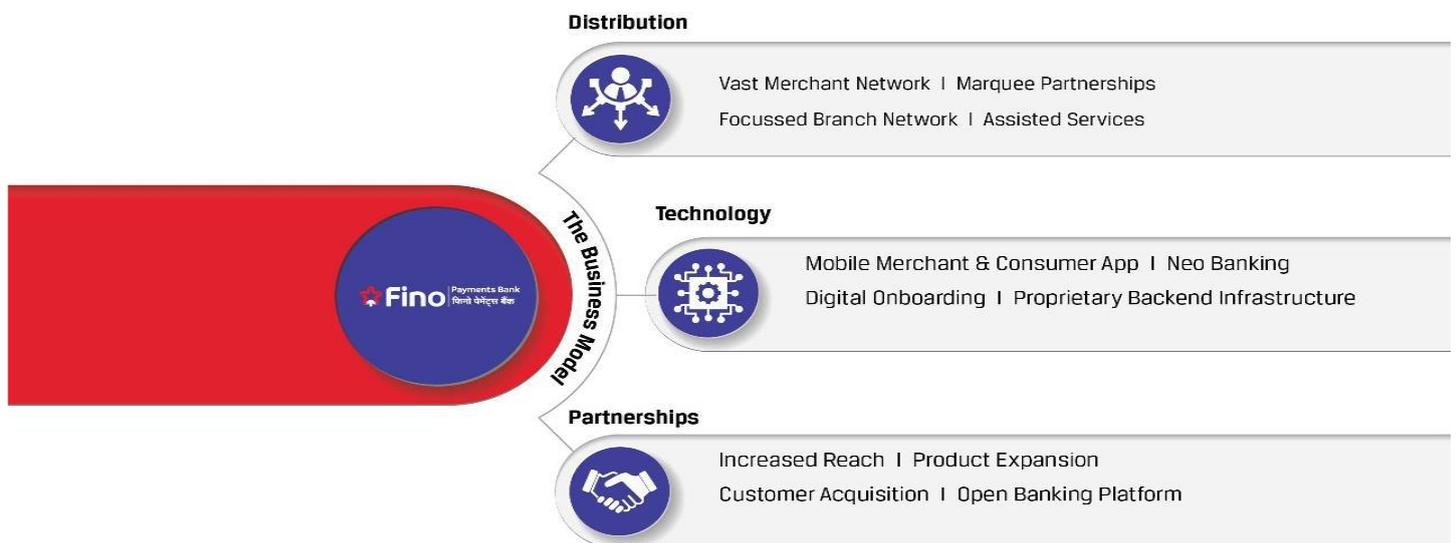
Strong Merchant Base

In addition to Fino’s merchant network which, as of June 30, 2021 was 724,671 (comprising of 366,861 “own” merchants and 357,810 merchants on the open banking network via banks’ API channel), Fino leverage 17,430 active BCs to reach the underserved and unserved populations in hard to reach locations (referred to the “last mile” of delivery). Fino also use strategic commercial relationships with corporate entities, most notably with BPCL, to expand its operational reach, improve brand awareness and acquire new customers.



COMPANY BACKGROUND

Fino operate an asset light business model that principally relies on fee and commission based income generated from its merchant network and strategic commercial relationships. Each merchant serves the banking and financial needs of its community, which in turn forms the backbone of Fino’s assisted-digital ecosystem, referred to as bank’s “phygital” delivery model (i.e., a combination of physical and digital). A merchant-led distribution model requires minimal capital expenditure cost from company because the on-boarding and setup capital expenditure costs are borne by the merchant, and accordingly, allows for operating leverage and efficient expansion in a timely manner. Through the “phygital” delivery model Fino’s merchants on-board customers and facilitate transactions, ensuring its network grows and its products and services are more accessible to a broader range of customers throughout India, giving Fino what it believe to be is a significant advantage compared to its competitors.



Recent Development

The below table lists Fino’s key performance indicators with respect to Fino’s business and operations:

Metric	Five Months Ended Aug 31,2021
Merchants	777010
CASA Accounts (in millions)	3.23
Total transactions (in Million)	217.40
Total throughput (Rs millions)	643750.93
Cash withdrawals via micro-ATM & AePS (Rs millions)	234923.29

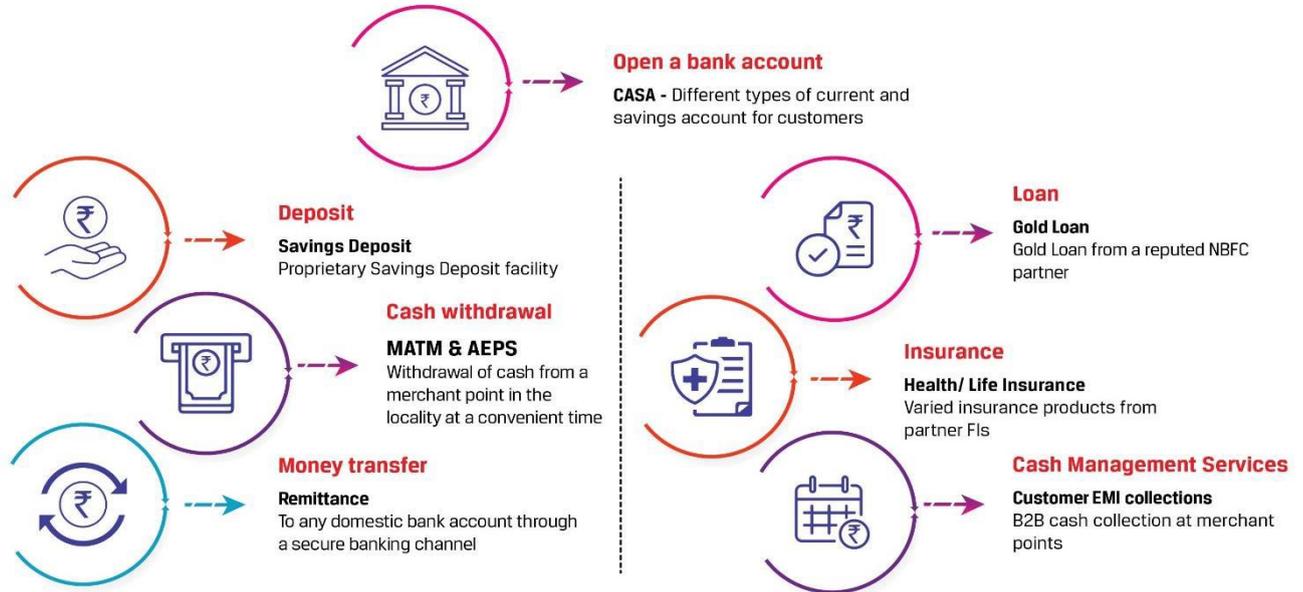


INVESTMENT RATIONALE

<p><i>A Technology Focused Business Model with an Advanced Digital Platform</i></p>	<p>Since 2017, Fino have made significant investments in its technology infrastructure, having designed and digitized large portions of its technology processes, risk management protocols, data analytics capabilities and honed Fino’s “phygital” approach. In the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021 bank recorded ₹139.33 million, ₹228.68 million, ₹669.30 million and ₹224.97 million, respectively, of capital expenditure in connection with technology infrastructure. Fino have also focused on providing a more intuitive and personalised experience both at the customer and merchant levels. During the financial year 2021 and the three months ended June 30, 2021, 9% and 8%, respectively, of requests made through Fino BPay, were converted to savings bank account customers. In addition, company’s ‘Fino Mitra’ app serves as a one-stop-shop solution for its merchants by providing banking and payments related services such as account opening whereby merchants can on-board CASA customers and navigate e-KYC requirements on behalf of Fino.</p>
<p><i>Socially inclusive model with positive social impact</i></p>	<p>In delivering bank’s financial products and services Fino also empower women. In particular, as part of bank’s Business Alliance Initiative, bank have engaged with two state level rural livelihood missions to grow the number of women acting as merchants and BCs. As a result of such initiative, the number of female merchants (“own”) has recently nearly doubled, increasing from 18,191 as of March 31, 2020 to approximately 35,928 as of June 30, 2021. Since February 2021, bank have been working with the Uttar Pradesh State Rural Livelihood Mission to train and on-board 10,000 women from self-help groups as BC “Sakhis”, for a period of five years. This initiative aims to improve banking access in rural Uttar Pradesh and enhance the household income of the participating self-help group members. These new BCs will be in addition to bank’s 54,501 merchants already located within Uttar Pradesh as of June 30, 2021. In addition, bank is also working with the Bihar State Rural Livelihood Mission and have on-boarded 831 women as BCs as of June 10, 2021 and provide banking products and services in the rural areas of Bihar.</p>
<p><i>Distribution – pan-India network</i></p>	<p>Bank have built a pan-India presence with 724,671 merchants (own and API) as of June 30, 2021 which are typically located in Tier-2 and Tier-3 towns (based on population). Fino incur minimal capital expenditure costs in connection with on-boarding its merchants, because the merchant typically bears all costs (including acquisition costs related to the micro-ATMs and AePS devices), therefore supporting bank’s asset-light business model and providing it with the potential agility required to proactively meet changing customer needs and geographic demands and competitive pressures. Fino currently have approximately 17,430 active BCs across India. Additionally, bank operate 54 branches and 130 Customer Service Points (“CSPs”) as of June 30, 2021.</p>



KEY PRODUCTS & SERVICES



Source : RHP

OBJECTS OF ISSUE

Offer for Sale

The Promoter Selling Shareholder shall be entitled to the proceeds from the Offer for Sale. Bank will not receive any proceeds from the Offer for Sale.

Objects of the Offer

Bank proposes to utilise the Net Proceeds from the Fresh Issue towards augmenting its Tier – 1 capital base to meet its future capital requirements. Further, the proceeds from the Fresh Issue will also be used towards meeting the expenses in relation to the Offer.

RISKS

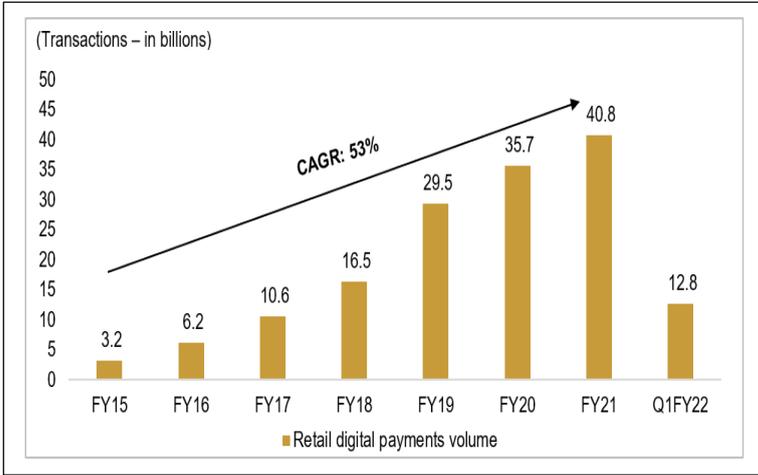
Bank operate in a highly competitive environment, and it face competition across all of its product and service segments from other payments banks, certain fintech companies, micro finance institutions (“MFIs”), small finance banks (“SFBs”), as well as from scheduled commercial banks, public sector banks, private sector banks, non-banking financial companies (“NBFCs”) and foreign banks with branches in the country. Bbank’s most direct competitors are currently other Payments Banks, being India Post Payments Bank Ltd, Airtel Payments Bank Ltd, PayTM Payments Bank Ltd, Jio Payments Bank and NSDL Payments Bank.

Source:RHP

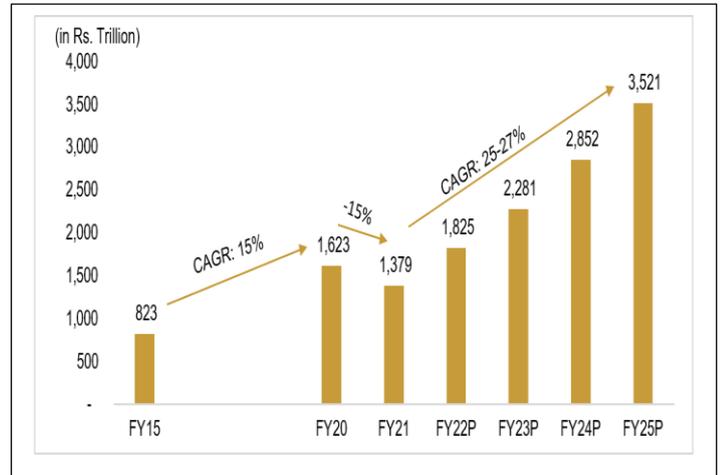


INDUSTRY OVERVIEW

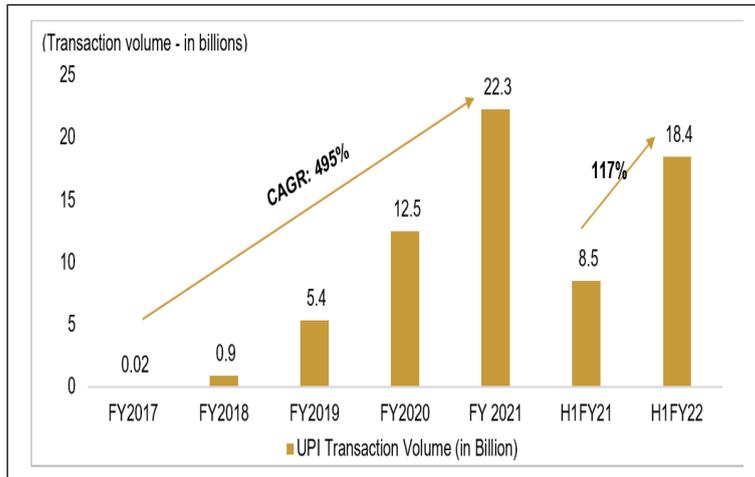
Retail digital payment transaction volumes



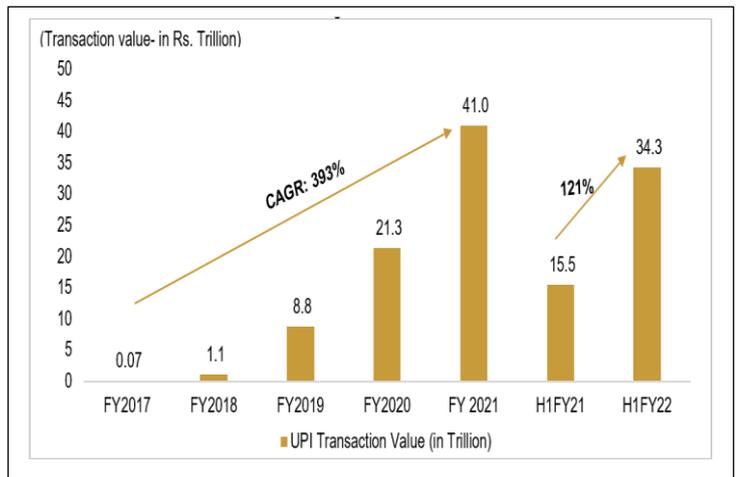
Digital payments value to cross ₹ 3,500 trillion by FY22



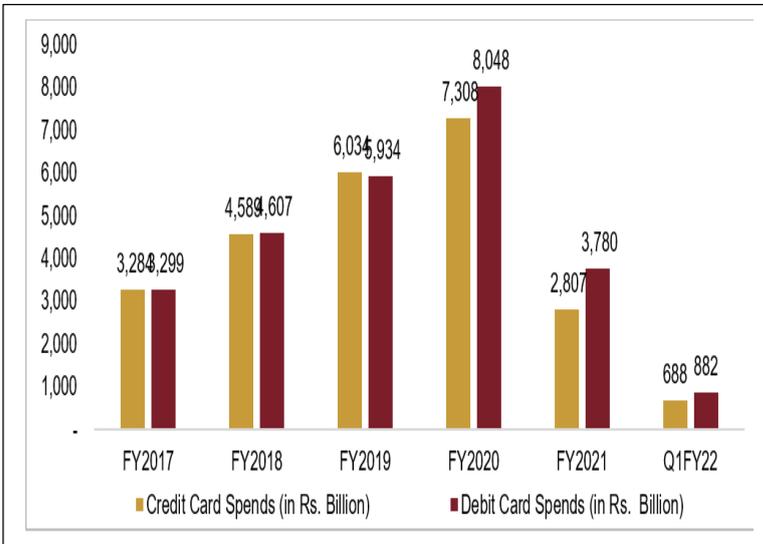
UPI transactions volumes have surged between financial year 2017 and financial year 2021



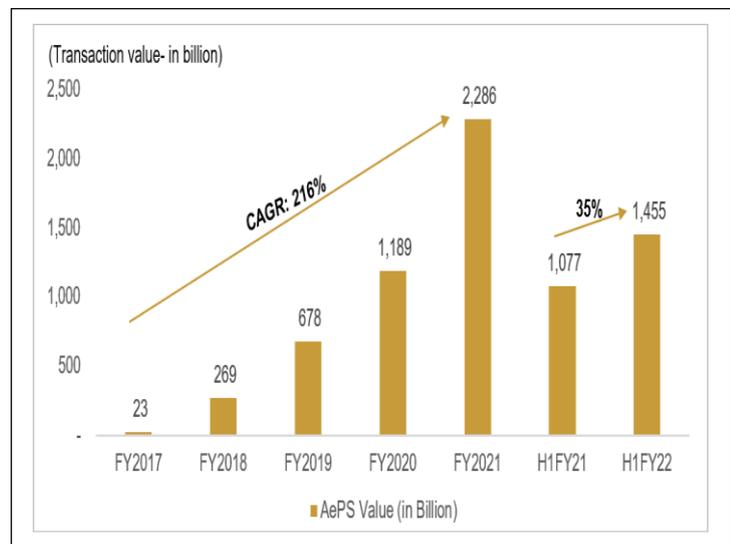
UPI transactions value have surged between financial year 2017 and financial year 2021



Credit card & debit card spends grew at 31% and 35% CAGR between financial year 2017 and 2020 (in ₹ billion)



AePS transaction value grew at a CAGR of 216% between financial year 2017 and financial year 2021



Source: RHP



(Rs in Mn)

Financials	Q1FY22	FY21	FY20	FY19
Interest Income	60.57	202.55	181.30	191.52
Other Income	2001.86	7707.72	6732.67	3519.69
Total Income	2062.43	7910.27	6913.97	3711.21
Net Income	2031.85	7814.85	6815.29	3655.93
Total Operating Expenses	2000.57	7569.89	7125.32	4270.42
Pre Provision Profit	31.28	204.74	-310.03	-623.84
Provision	0.00	40.22	10.33	9.35
PBT	31.28	204.74	-320.36	-623.84
Tax	0.00	0.00	0.00	0.00
PAT	31.28	204.74	-320.36	-623.84
NPM	1.54	2.62	-4.70	-17.06
ROE %	2.10	14.60	-21.90	-32.30
EPS	0.40	2.62	-4.11	-8.00



PEERS ANALYSIS

Following is peer group analysis:

Players	Deposits (Rs Bn)	Net Worth (Rs Bn)	CRAR(%)	Branches	Banking touchpoints(in Mn)
PayTM Bank	34.5	4.8	62.4	6	21
India Post Payments Bank	8.55	5.7	79.2	650	0.14
Airtel Bank	5.96	3.20	90.2	31	0.5
Fino Bank	2.51	1.5	54.84	54	0.72
Jio Payments Bank	0.17	1.3	2347	9	NA
NSDL Bank	0.047	1.4	230	1	NA

Volume and Value of transactions and card issued (April 2021 to August 2021)

Players	Debit cards outstanding (In Mn)	Value of transaction at ATM & POS (in ₹ billion)	Volume of transaction at ATM &POS (in million)
PayTM Bank	66.06	36.44	18.10
India Post Payments Bank	2.22	0.84	1.42
Airtel Bank	1.97	1.70	1.83
Fino Bank	2.88	11.81	4.43
NSDL Bank	0.18	0.07	0.10

Product wise comparison

Products	Fino Payments Bank	Airtel Payments Bank	India Post Payments Bank	PayTM Payments Bank	NSDL Payments Bank
Savings & Current A/C	Applicable	Applicable	Applicable	Applicable	Applicable
Sweep Account Facility	Applicable	NA	Applicable	Applicable	NA
Mobile Wallet	Applicable	Applicable	NA	Applicable	NA
Debit Card	Applicable	Applicable	Applicable	Applicable	Applicable
Payments	Applicable	Applicable	Applicable	Applicable p	Applicable
CMS	Applicable	Applicable	Applicable	NA	NA
Insurance (third party cross sell)	Applicable	Applicable	Applicable	NA	Applicable
Doorstep Banking	Applicable	Applicable	Applicable	Applicable	NA
BC Business	Applicable	NA	NA	NA	Applicable

Source: RHP



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