Fino Payments Bank Ltd

29- Oct-21

Subscribe-Long Term

Research Team

Issue Details

Issue Details	
Issue Size (Value in Rs. million, Upper Band)	12,003
Fresh Issue (No. of Shares in Lakhs)	51.99
Offer for Sale (No. of Shares in Lakhs)	156.03
Bid/Issue opens on	29-Oct-21
Bid/Issue closes on	2-Nov-21
Face Value	Rs. 10
Price Band	560-577
Minimum Lot	25

Objects of the Issue

The Fresh Issue: 3,000 Million

- Augmentation of its Bank's Tier-I capital base to meet their Bank's future capital requirements.

Offer for Sale: Rs. 9,003 Million

- The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
Axis Capital Limited
CLSA India Private Limited
ICICI Securities Limited
Nomura Financial Advisory and Securities (India) Private Limited
Registrar to the Offer
KFin Technologies Private Limited

Capital Structure (` Million)	Aggregate Value
Authorised share Capital	850.00
Subscribed paid up Capital (Pre-Offer)	780.15
Paid up capital (Post - Offer)	832.14

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	100	75
Public	0	25
Total	**100.0**	**100.0**

Financials

Particulars (Rs. In Million)	Three months ended June 30, 2021	FY21	FY20	FY19
INCOME				
Interest Earned	60.6	202.6	181.3	191.5
Other Income	2001.9	7707.7	6732.7	3519.7
	2062.4	**7910.3**	**6914.0**	**3711.2**
EXPENDITURE				
Interest expended	30.6	95.4	98.7	55.3
Operating Expenses	2000.6	7569.9	7125.3	4270.4
Provision and Contingencies	0.0	40.2	10.3	9.4
	2031.2	**7705.5**	**7234.3**	**4335.1**
PROFIT/LOSS				
Net profit /(loss)	31.3	204.7	-320.4	-623.8
Profit/(loss) brought forward	(3036.2)	(3,189.8)	(2,869.4)	(2,245.6)
APPROPRIATIONS				
Transfer to statutory reserve	0.0	51.2	-	-
Balance carried over to Balance Sheet	**(3005.0)**	**(3,036.2)**	**(3,189.8)**	**(2,869.4)**
EPS	**0.4**	**2.6**	**(4.1)**	**(8.0)**

Company Description

Financial Inclusion Network Operations ("FINO") started as a technology company aimed at developing technological solutions and comprised key employees including Rishi Gupta, MD and CEO. On September 7, 2015, Fino PayTech Limited was granted an in-principle approval to set up a payments bank and, following their incorporation in April 2017, they commenced operations as a Payments Bank with effect from June, 2017, pursuant to receipt of the final RBI approval dated March 30, 2017.

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

The company operate an asset light business model that principally relies on fee and commission based income generated from their merchant network and strategic commercial relationships. Each merchant serves the banking and financial needs of its community, which in turn forms the backbone of the assisted-digital ecosystem, referred to as "phygital" delivery model (i.e., a combination of physical and digital).

The Company's products and services include various current accounts and savings accounts ("CASA"), issuance of debit card and related transactions, facilitating domestic remittances, open banking functionality (via our Application Programming Interface ("API")), withdrawing and depositing cash (via micro-ATM or Aadhaar Enabled Payment System "AePS") and cash management services ("CMS").

They first became profitable in the fourth quarter of financial year 2020 and have been profitable in subsequent quarterly periods. In addition, in the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021, their platform facilitated approximately 154.02 million, 318.56 million, 434.96 million and 123.38 million transactions, respectively and had gross transaction value of ₹456,847.97 million, ₹944,525.76 million, ₹1,329,306.90 million and ₹390,359.90 million, respectively.

Income derived from all of their financial products and services in the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021 was ₹3,519.69 million, ₹6,732.67 million, ₹7,707.72 million and ₹2,001.86 million, respectively. In addition, as a condition of their RBI License they are not permitted to directly provide credit products and thereby are not exposed to the credit risk associated with underwriting credit products.

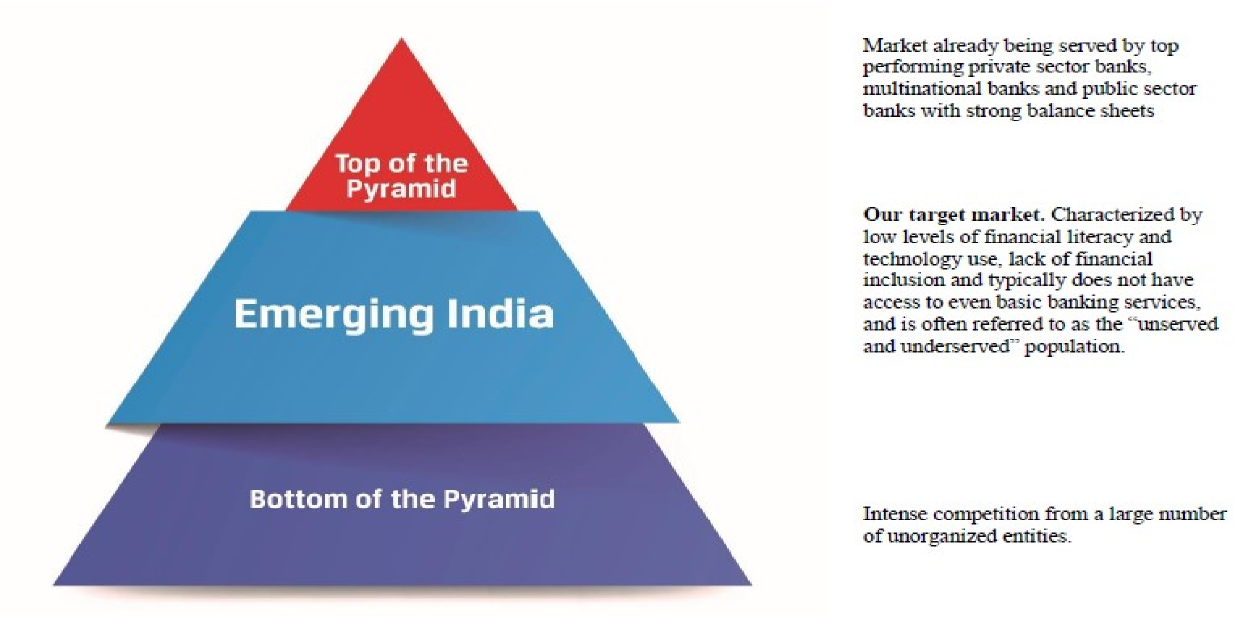
Valuation

The Company has an asset light and scalable business model with strong distribution-technology-partnership framework. The Company's target addressable market is huge with projected CAGR growth of 16% over next four years thereby opening headroom for Company's growth moving forward. The Bank turned operationally profitable in the fourth quarter of financial year 2020 and remained profitable in subsequent quarterly periods.

The company is available at the upper end of the IPO price band at Price to Book Value of 29.29x based on its NAV of Rs. 19.70 as at the end of 1QFY22, demanding a market cap of Rs. 48,015 million. The RoNW for FY21 stands at 14.6%. With Pan India operational presence in over 90% of district the company has great opportunity to strengthen its business in coming years. We recommend "**Subscribe-Long Term**" rating to this IPO.

The company operate an asset light business model that principally relies on fee and commission based income generated from their merchant network and strategic commercial relationships. Each merchant serves the banking and financial needs of its community, which in turn forms the backbone of the assisted-digital ecosystem, referred to as "phygital" delivery model (i.e., a combination of physical and digital). The merchant's use of technology and the company's use of analytics on the data that they capture enhances the merchant's ability to cross sell the third party products that they also offer, to their existing customers, thereby increasing their potential revenue and opportunity to further customize their products and services offering. Such a merchant-led distribution model requires minimal capital expenditure cost from the 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 the merchants on-board customers and facilitate transactions, ensuring their network grows and their products and services are more accessible to a broader range of customers throughout India, giving the company what they believe to be is a significant advantage compared to their competitors.

While innovation remains ever-present, technology and customer trust lies at the core of all that the company do and forms the foundation for company's entire business model. The Company have and will continue to strengthen their focus within "emerging India", catering to a population that they believe presents a large market opportunity and has typically been overlooked by the majority of the large Indian financial institutions. This section of Indian society is characterized by low levels of financial literacy and technology use, lack of financial inclusion and typically does not have access to even basic banking services, and is often referred to as the "unserved and underserved" population. The target addressable market according to CRISIL as of March 31, 2021 is approximately ₹0.85 trillion by potential revenue. Such addressable market refers to the potential revenue pool available to companies providing CASA deposit accounts in rural and semi-urban areas and also providing the entire range of payment and remittances related services across urban, semi-urban and rural areas.



The Company's products and services include various current accounts and savings accounts ("CASA"), issuance of debit card and related transactions, facilitating domestic remittances, open banking functionality (via our Application Programming Interface ("API")), withdrawing and depositing cash (via micro-ATM or Aadhaar Enabled Payment System "AePS") and cash management services ("CMS"). Their merchants also leverage the customer relationships within their respective communities to facilitate them cross-selling other financial products and services such as third party gold loans, insurance, bill payments and recharges. They also manage a large BC network on behalf of other banks. Income derived from all of the financial products and services in the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021 was ₹3,519.69 million, ₹6,732.67 million, ₹7,707.72 million and ₹2,001.86 million, respectively. In addition, as a condition of their RBI License they are not permitted to directly provide credit products and thereby are not exposed to the credit risk associated with underwriting credit products.

They have a strong leadership position within the Indian fintech industry, for instance they were 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

The Company is also the only payments bank to offer a subscription based savings account in India. They believe customer satisfaction, their brand and reputation have played an important role in them becoming an industry leader in fintech products and services, as well as to further developing their business and improving their market position. Additionally, by remaining focused on the payments business the company is able to continue leveraging their deep market expertise which in turn helps them develop products and services that meet the needs of their target market. Their significant geographic coverage and position as a large-scale, leading technology-enabled company with a diverse banking product offering also provides economies of scale that yield significant operating efficiencies, supports future growth and also helps to diversify some of their risks, such as regional or geographical risks or concentration risks.

The unique framework of distribution, technology and partnership ("DTP" framework) enables them to serve their target market efficiently and is used to overcome and/ or achieve improvements on three key challenges associated with serving their target market, being scale, service and sustainability. The Company's DTP framework allows them to reach a vast number of customers in under-penetrated markets and keep their fixed costs low – all of which they believe supports the sustainability and scalability of their business model. Their open banking API capability has also been an important element in the delivery of financial products and services to their customers. The diagram below illustrates their product and service ecosystem.

Fino PayTech Limited and their Inception and Evolution

Financial Inclusion Network Operations ("FINO") started as a technology company aimed at developing technological solutions and comprised key employees including Rishi Gupta, MD and CEO. On September 7, 2015, Fino PayTech Limited was granted an in-principle approval to set up a payments bank and, following their incorporation in April 2017, they commenced operations as a Payments Bank with effect from June, 2017, pursuant to receipt of the final RBI approval dated March 30, 2017. With the "FINO" brand being in existence before the commencement of their business operations, and Mr. Gupta being a key employee of Fino PayTech Limited, the company benefit from his operational experience and expertise gained throughout that time. The Company's business model in particular is partly a product of and, a beneficiary of such combined experience. Further, Mr. Gupta is supported by their Key Management Personnel ("KMP") which includes among others Ketan Dhirendra Merchant (Chief Financial Officer), Ashish Ahuja (Chief Operating Officer) and Shailesh Pandey (Chief Sales Officer). The Company believe that the combination of their experienced management team, as well as their Board of Directors, their Promoter and shareholder Fino Paytech Limited, and their ability to address a large number of customers across a broad geographic area, provides the company with deep industry expertise.

Since 2017, there has been a strong focus on developing innovative financial products and services tailored to suit the unique problems faced by the target market. Recently, they also became profitable in the fourth quarter of financial year 2020, and have been profitable in every subsequent quarterly period.

Strengths:

- **Company's DTP Framework.**

  The Company's unique DTP framework enables them to serve their target market efficiently and is designed to achieve improvements on three key challenges associated with serving such target market, being: (i) scale – the significant investment of time and capital required to develop and deploy the infrastructure needed to establish the necessary geographic reach; (ii) service – the high levels of upfront and continued customer service required to build and maintain trust among all of the communities in which the company operate and target; and (iii) sustainability –– the customized range of products required to meet the needs of their target market. This framework creates a network effect and facilitates a seamless interplay between each of distribution, technology and partnerships. With respect to:

  - **Distribution** : having access to a vast and established merchant network, the ability to draw upon their strong relationships and trust within the communities, a dedicated and focused branch network and large BC network;
  - **Technology** : "phygital" model for delivering products, dedicated mobile banking applications for merchants and customers, a "neo banking" mindset, digital on-boarding, e-KYC and in-house technology expertise and culture of application-led innovation which includes proprietary technology;
  - **Partnerships** : leveraging the increased reach of strategic commercial relationships, product portfolio expansion opportunities, greater customer sourcing and leveraging the open banking regime via their API.

  This framework differentiates the company from their competitors, is difficult to replicate, promotes effective delivery of their products, reinforces positive customer experiences, facilitates strong relationships and improves their operational and strategic decision making, enabling them to innovate products for their customers.

- **A technology Focused Business Model with an Advanced Digital Platform.**

  The Company have and will continue to invest into technology throughout their business. Such investment has been made with a goal to offer an unparalleled user experience to their customers and empower their merchants to carry out more transactions. Accordingly, simplicity in the company's service and product design and efficient deployment are important factors for the company, both of which they believe are demonstrated in their Bpay app, the ease in which they on-board merchants through e-KYC, as well as their Cash Bazzar initiative that assists in identifying merchant locations and directing customers to the nearest merchant outlet.

Since 2017, the company have made significant investments in their technology infrastructure, having designed and digitized large portions of their technology processes, risk management protocols, data analytics capabilities and honed their “phygital” approach. In the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021 they recorded ₹139.33 million, ₹228.68 million, ₹669.30 million and ₹224.97 million, respectively, of capital expenditure in connection with technology infrastructure. They have also focused on providing a more intuitive and personalised experience both at the customer and merchant levels. For instance, the company provide their customers with the ability to originate their savings bank accounts through their mobile application, ‘Fino BPay’, which is a digital solution that utilizes the Unified Payments Interface (“UPI”) for secure and fast personal banking and merchant payments, among other functions and targets retail customers. 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, the company’s ‘Fino Mitra’ app serves as a one-stop-shop solution for their 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 them.

They have a dedicated business technology team with approximately 110 technical staff as of June 30, 2021, to research, test and develop technology. This team is led by their Head Business Technology and their CIO who are each responsible for driving their technology solutions.

- **Customer Centricity and Innovation at the core of business.**

The Company place the customer at the centre of all that they do and as such, their products and services are designed and customized to meet the needs and requirements of their customers and their target market.

The Company’s focus on understanding the needs, behaviors and desires of their customers is reflected in their brand commitment of “we are “hamesha” (i.e., we are “always”) there for our customers” banking and financial needs. This understanding informs every single product and service that they develop and demonstrates their culture toward improving the customer experience. For instance, the following illustrates how their customer knowledge is integral to their product/service development:

- Subscription CASA accounts: They introduced this because many individuals in their target market expressed concern about transaction-linked fees that are charged at the time of each transaction. Accordingly, they created a product that has no transaction-linked fees up to certain limit, but instead requires the customer to pay an annual fee.
- Micro-ATMs: The Company deployed micro-ATMs (as opposed to ATMs) because cash remains extremely popular within the Indian economy and especially in rural India. With lower capital expenditure required as compared to ATMs, micro-ATMs are simpler to set up, have lower operating costs and have no requirement for cash top-up related logistics, they are able to more easily and effectively reach a greater number of people by deploying micro-ATMs than if they used the larger, more cumbersome and costly ATMs.
- AePS IRIS technology: The Company introduced this functionality because they initially observed high authentication failure rates using fingerprints, due to worn-out fingerprints or quality of capture at the time of transaction. In addition, the device required to conduct IRIS authentication is simpler to use (i.e., plug and play) for their merchants and there is a lower risk of fraud compared to fingerprint scanners which are susceptible to clone prints.
- Cash bazzar (Latlong): The Company introduced this so that individuals needing to use banking services could more easily locate and be directed to one of their merchants, branches or CSPs.

- **An Asset Light and Scalable Business Model**

The merchant-led model is a capital light business strategy in respect of network expansion and except for referrals of third party loan providers, they do not offer any lending products and they do not hold credit risk for loans. In addition, their well established technology platform and consistent investment in further improvements, allows the company to service a wide pool of customers and cater to their diversified requirements.

In addition, their focus on and use of technology throughout their business assists them in expanding their reach throughout India without incurring the relatively higher costs associated with traditional bricks and mortar branch presence. For instance, the company incur minimal capital expenditure costs in connection with on-boarding their 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, microATM and AePS devices and fingerprint and/or IRIS scanners, and their technology significantly simplifies their 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 them to improve gross margins and limit variable costs. Further, once a merchant has been onboarded, it is possible for the company to offer additional products through the same merchant. Over time, the merchant develops relationships with the customers and is able to leverage such relationships to cross-sell new or third party products, which typically increases the revenue per customer at minimal to no cost to them, which in turn improves the operating leverage and ability to achieve profitability.

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

- **Operational Experience and Expertise**

With the “FINO” brand being in existence for approximately 14 years (i.e. before the commencement of the business operations in June 2017), and Mr. Gupta being a key employee of FINO, they benefit from his operational experience and expertise gained throughout that time. The Company's business model in particular is partly a product of and, a beneficiary of such experience. They now leverage this to better understand how the digitization of their products and services can shape customer behavior into the future and in conjunction with their tech enabled processes and strong team, aim for operational excellence on a regular basis. They also believe that such experience has played a central role in their ability to turn profitable in the fourth quarter of financial year 2020, approximately three years since commencement of their business operations.

- **Socially inclusive model with positive social impact.**

  The business model and operations, as well as their mission and vision, benefit Indian society by bringing India's unserved and underserved population into the main stream banking system and accordingly, improving their access to financial products and services and in turn quality of life.

  In delivering their financial products and services they also empower women. In particular, as part of their Business Alliance Initiative, they 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 ("Company's") 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, they 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 selfhelp group members. These new BCs will be in addition to their 54,501 merchants already located within Uttar Pradesh as of June 30, 2021. In addition, the company 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.

- **Highly Experienced and Committed Leadership Team, Marquee Investor Base in Company's Promoter and Shareholder**

  The Company is led by a highly experienced and committed leadership team with a diverse and deep level of expertise, particularly in the financial services and technology industries. This is supplemented by their Board of Directors which includes individuals with a diverse mix of experience in various sectors, including the financial services industry and who benefit from senior level experience in some of India's most respected organisations. Their Board of Directors includes five Independent Directors, which they believe is a key factor in ensuring strong and clear corporate governance standards.

<u>Key Strategies:</u>

- **Leverage the Market Position to Capture Industry Opportunities.**

  In addition to benefiting from the overall growth in India's economy and financial service industry, the company believe they can increase their market position and capture industry opportunities by continuing to focus on their competitive strengths and leveraging their business model. Specifically, the company believe they can continue expanding their customer base by focusing on the large under-penetrated market represented by the target market, being the unserved and underserved population.

  This segment of the Indian population poses unique challenges such as low levels of literacy, lack of financial inclusion and low awareness, for which bespoke and customized financial products and services are required – solutions that they provide. The Company have substantial experience of operating in this market and have a deep understanding of their customer's needs. They believe this combination of track record and customer knowledge positions them well to seize upon the significant opportunity for their future growth. The target addressable market as of March 31, 2021 is approximately ₹0.85 trillion by potential revenue. Such addressable market refers to the potential revenue pool available to companies providing CASA deposit accounts in rural and semi-urban areas and also providing the entire range of payment and remittances related services across urban, semi-urban and rural areas.

  In addition, the company continue to apply an innovative approach to their DTP framework so as to expand their distribution network of merchants and BCs, expand and improve their digital offering and foster new and existing strategic commercial relationships. By continuing to do so, they expect that their merchants, BCs and strategic commercial relationships will facilitate cross-selling product opportunities and maximise their ability to offer customized and complimentary products, therefore better meeting the needs and demands of the customers.

- **Continued Innovation Leading to High Growth Products and Diversified Revenue Streams.**

  The Company operate in an industry that is continuously evolving, necessitating them to innovate by improving their technology platform, developing new products and/ or exploring new distribution methodologies. The optimum use of well designed, cost-effective technology has significantly driven their operations, and going forward, they aim to empower customers to access the most suitable products on their own, reduce their operating costs and increase efficiencies. In addition, their open banking platform (i.e., API capability) has led to more and more transactions getting fulfilled on these platforms by their customers and merchants.

  Specifically, the company is committed to establishing themselves as a modern technology-enabled bank that offers a comprehensive suite of products to their target market via a range of touch-points. They also intend targeting high growth products with high margins within their existing offering, as well as exploring new and/ or improved products, in each case with a focus towards products offered through their "own" channel. Typically, the "own" channel products generate higher margins and they will aim to further expand this channel through new products and additional merchants. However, the company's API channel will continue to remain important for their ability to expand.

  The Company have identified and expect that CASA and micro-ATMs have high growth potential. They are also actively exploring the potential of tie-ups with third party financial institutions such as Non-Banking Financial Companies ("NBFCs") for referral credit products designed for customers, where they will earn fees on such referrals. Currently, their third party referral credit products are only business based credit products offered to their merchants.

With digital adoption gaining momentum within Indian society, they believe that customers will increasingly use their digital platforms, which they expect will lead them to direct customer engagement and improved margins.

- **Expand and Deepen their Customer Sourcing Capabilities**

As of September 30, 2021, the company had an operational presence in over 90% of districts, and during the last three financial years and three months ended June 30, 2021, they acquired 696,513 new merchants across their network (including "own" and API channel merchants). In addition, they also had a number of strategic relationships with businesses/organisations across the country, including with a State Road Transport Corporation (the "SRTC") where they introduced a near field communication ("NFC") based contactless payments solutions for the mass transit system. With a goal to acquire more customers, they intend to continue expanding their network to drive deeper penetration and sustainable operations in these regions and communities, focusing on underserved and unserved individuals and micro businesses that have limited or no access to formal banking channels. The Company also intend to focus on increasing the adoption of their CASA offering by customers as they believe this acts as a key customer sourcing gateway for certain of their other products.

They expect that growth will come via further expansion of their geographic footprint and deeper penetration in the regions they currently operate in. This is likely to be achieved by ensuring that more merchants are on-boarded, departure rates of existing merchants remain low, continuing to provide merchants with opportunities to cross-sell various products and also ensuring that their merchant commission paid per transaction increases.

- **Continued focus on use of technology to improve operating leverage.**

The Company's focus on and use of technology throughout their business is a significant factor in improving their operating leverage, as it allows them to improve gross margins and limit variable costs. It plays a key role in their ability to expand their reach throughout India without incurring the relatively higher costs associated with traditional bricks and mortar branch presence. Since 2017, the company have made significant investments in their technology infrastructure, though primarily in the early stages from which they are now benefiting. In the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021, the company recorded ₹139.33 million, ₹228.68 million, ₹669.30 million and ₹224.97 million, respectively, of capital expenditure in connection with technology infrastructure, including their core technology platform and in building brand new proprietary applications.

The Company intend to continue to improve their operating leverage by focussing on their use of technology and in particular in connection with the on-boarding and training of their merchants and also to enhance their "phygital" delivery model.

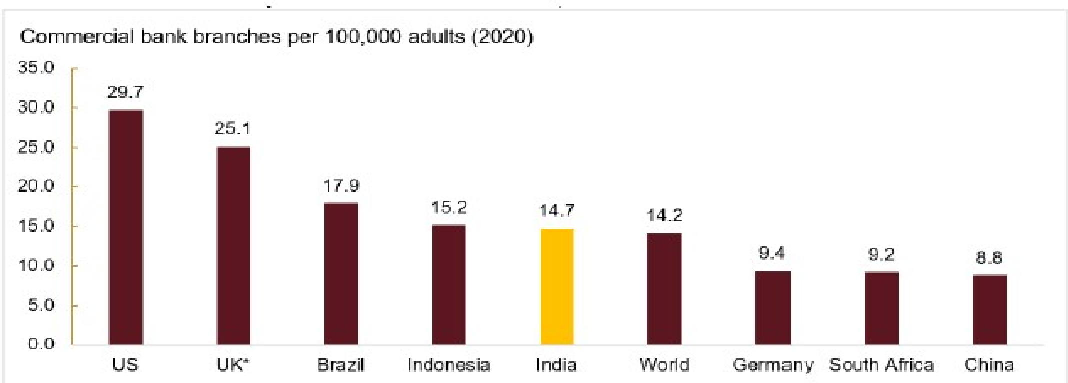
Industry Snapshot:

- **India's focus on financial inclusion is increasing; however, a large section of the population is still unserved.**

India's financial inclusion has improved significantly in the past three years, with the adult population with bank accounts rising from 53% (as per Global Findex Database 2014) to 80% (in 2017) with concentrated efforts from the government and the rise of various supporting institutions.

India has lower commercial bank branches and ATM penetration compared to other countries, indicating huge room for financial inclusion and banking services penetration. As of calendar year 2020, India has 14.7 branches and 17 ATMs for every 100,000 adults according to World Bank data, which is relatively lower than other developing and developed countries.

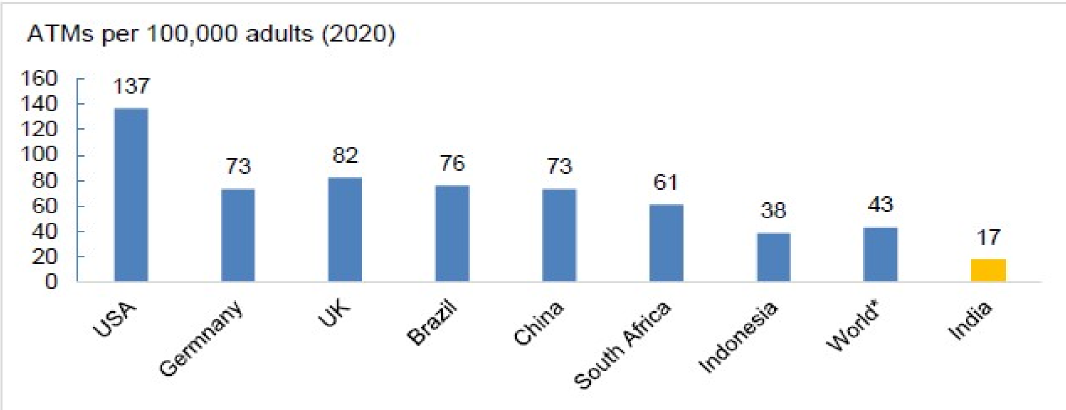
Commercial bank branch penetration across the world



Note: (*) – UK data is as of 2013 calendar year

Source: World Bank, RBI, CRISIL Research

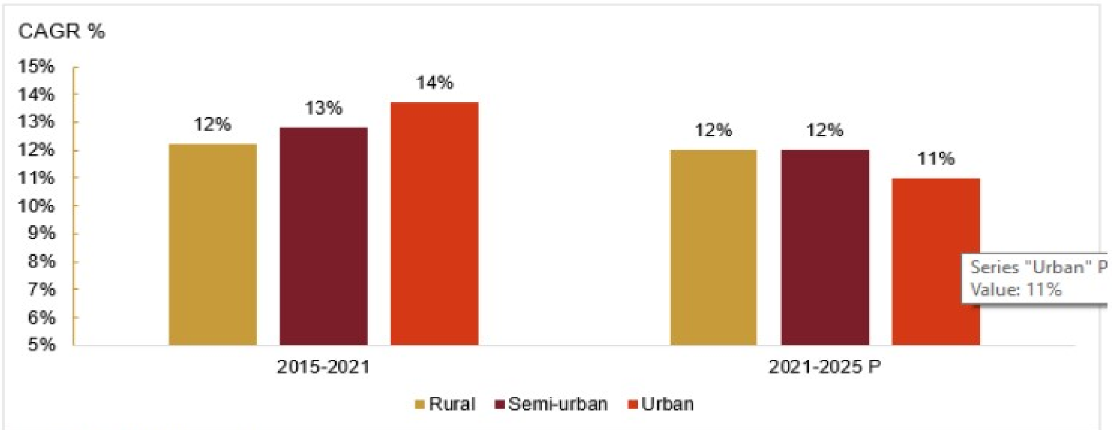
ATM penetration across the world



Note: (*) – US data is as of calendar year 2009

Source: World Bank, RBI, CRISIL Research

CASA deposits to grow faster in rural and semi-urban areas

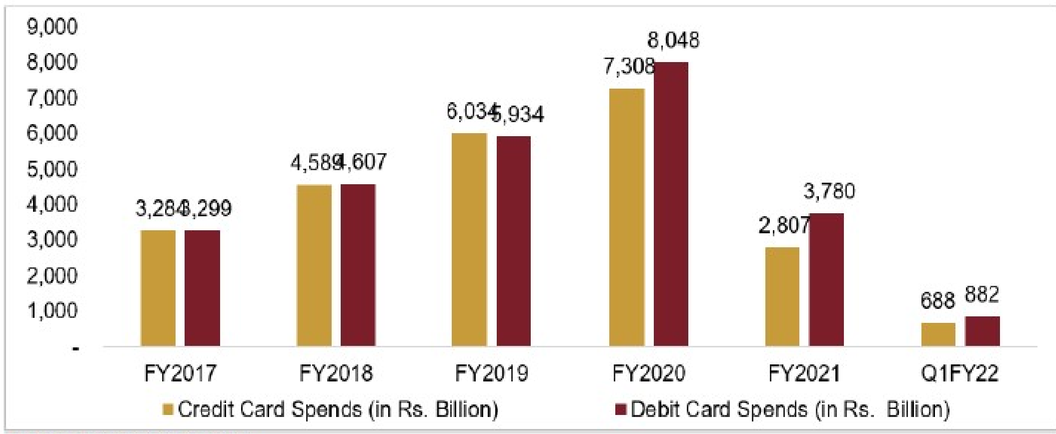


Source: RBI, CRISIL Research

- **Cards spends more than doubled during financial year 2017 to financial year 2020; trend to continue despite blip in financial year 2021**

  Credit card and debit cards spends have registered a robust growth of 31% and 35% CAGR over a period of three years to reach ₹ 7.3 trillion and ₹ 8.0 trillion respectively in financial year 2020. The transaction volumes during the same time has increased at CAGR of 26% and 29% for credit card and debit card respectively. Demonetisation was one of the significant factors that led to faster growth in transaction volume and value of cards. Further, the government's emerging vision of a cash-less society, focus on digitalisation, developments in e-commerce, and availability of point of sale infrastructure have significantly encouraged payments through credit and debit cards.

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

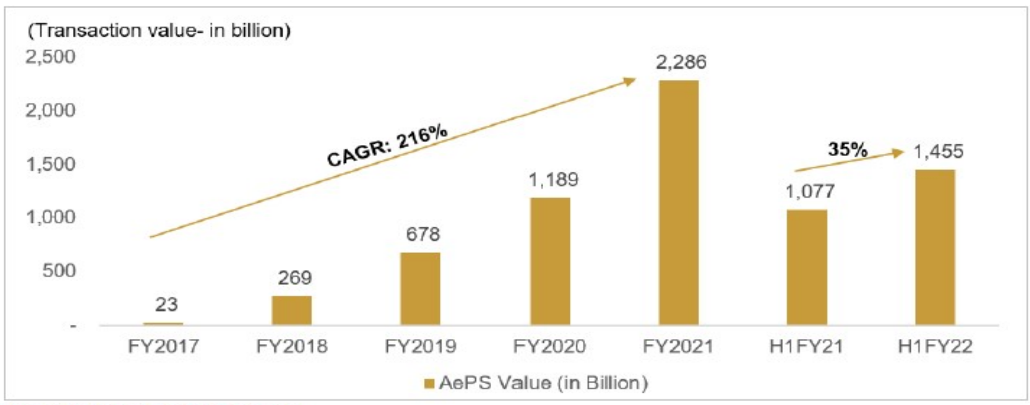


Source: RBI, CRISIL Research

- **AADHAR Enabled Payment System (AePS)**

  AePS is a bank led model that uses AADHAR authentication to allow interoperable transactions at POS terminals. It was launched with an objective to facilitate banking services in the underserved regions of the country. Since its launch in 2016, AePS has seen a strong growth in its transaction volume; volumes increased at a CAGR of 178% between financial year 2017 and financial year 2021. In terms of value, it has increased at a CAGR of 216% during the same period. Post-COVID, the usage of AePS has jumped manifold, indicating the increasing convenience of this channel as also the change in customer behaviour. In first half of financial year 2022, the AePS transactions volume has witnessed a growth of 2% compared to the same time in fiscal 2021.

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



Source: RBI, NPCI, CRISIL Research

- **Payment Banks:**

  - **Payment Banks have led to proliferation of non-branch type touchpoints**

    After granting of the Payments Banks licences, it is seen that the payment banks have set up a vast network of touchpoints by leveraging established nature of some of their parent network and through collaboration. For instance, the Bank has widened its network through collaboration and partnerships with BPCLto use their outlets as digital banking points. The Bank's digital kiosk acts as a last mile service point in the underpenetrated regions of the country. This extensive alternative banking channel has brought about a paradigm shift in the way people used to avail banking services. Now, the customers need not travel long to go to a traditional bank branch, instead, they can visit the local banking touchpoint at their convenience and avail assisted digital banking services such as new account opening, deposit, withdrawal, money transfer and utility bill payments.

    Rural areas have the least presence of payments bank functioning offices, whereas urban areas has the highest number of functioning offices as of FY2020. However, these functioning offices form a very small proportion of total number of touchpoints of payments banks, as they leverage on their vast network of merchants and doorstep service providers to provide banking and related services in the last mile

    Payments Banks are looking to increase their footprints and are continuously deepening their penetration across various states and regions. Going forward, CRISIL expects Payments Banks will continue to increase their touchpoints and collaborate with other players as required to cater to the needs of customers through their ecosystem.

  - **Addressable market (revenue from CASA, payment services, remittance and cash collection and management) expected to grow at 16% CAGR between financial year 2021 and financial year 2025**

    Addressable market refers to the potential revenue pool available for an entity focused on providing CASA deposit accounts in rural and semi-urban areas and the entire range of payment and remittances related services across urban, semi-urban and rural areas. CRISIL estimates the addressable market to be approximately ₹ 0.85 trillion in financial year 2021. CRISIL projects this market to grow at a CAGR of 16% over the next four years to reach ₹ 1.57 trillion by financial year 2025, largely driven by strong growth in the payments space due to technology and changing consumer behavior.

  - **Deposits for payment banks grew by ~64% in financial year 2020**

    Deposits collected by Payments Banks grew by 64% in financial year 2020. Cumulatively, the quantum of deposits rose from ₹ 25.7 billion as at the end of financial year 2019 to reach ₹ 42.1 billion as of financial year 2020. During this time period, Payments Banks witnessed a 46% on-year increase in their revenues.

  - **Payments Banks focusing on increasing volumes, touchpoints with customers and cross sell to turn profitable**

    While Payments Banks in India cumulatively are not profitable, PayTM Payments Bank and the Bank are having profitable operations. The Bank turned operationally profitable in the fourth quarter of financial year 2020 and remained profitable in subsequent quarterly periods. Payment banks are leveraging their strength to reach out to their core customer base, enhance volumes and turn profitable.

    With credit penetration as well as the penetration of insurance and mutual funds still at a very low level, cross sell to retail unserved and/or underserved customers remains an attractive opportunity for Payment Banks. For example, although mutual fund penetration (mutual fund AUM as a percentage of GDP) has grown from 8.7% in financial year 2002 to ~10.9% in financial year 2020 and at ~12.1% as of December 2020, penetration levels remain well below those in other developed markets, which presents an opportunity for payments banks to cross sell investment products to customers in rural and semi-urban areas. Similarly, India's insurance penetration (premium-to-GDP) is significantly low at 3.8% as compared to many developed economies such as the US (11.4%) and the UK (10.3%) and also lower with respect to key emerging economies such as Brazil (4.0%) and China (4.3%).

  - **Peer Comparison of Payments Banks**

    India Post Payments Bank had the highest number of branches (650), followed by the Bank (54). PayTM Payments Bank had the highest quantum of deposits amongst payment banks, with deposits of ₹ 34.5 billion as of March 2021, followed by India Post Payments Bank. The higher quantum deposit for India Post Payment Bank is on account of its large network of functioning offices.

Fino Payments Bank also has the second largest network of banking touchpoint at 0.72 million after PayTM Payments Bank at 21 million.

Peer comparison (FY2021)

Players	Deposits (in ₹ billion)	Net worth (in ₹ billion)	CRAR (%)	Branches**	Banking touchpoints (in million)
PayTM Payments Bank*	34.5	4.8	62.4*	6	21#
India Post Payments Bank*	8.55	5.7	79.2	650	0.14
Airtel Payments Bank*	5.96	3.2	90.2*	31	0.5^
Fino Payments Bank	2.51	1.5	54.84	54	0.72
Jio Payments Bank*	0.17	1.3	2,347	9	NA
NSDL Payments Bank*	0.07	1.4	230	1	NA

*Note: * Data is for FY20; ** Data is for 9MFY21; ^ Data is for Q1FY22, #Includes in-store and online merchants, Table is arranged based in decreasing order of Deposits*
Source: Company Website, Company Reports, CRISIL Research

Volume and Value of transactions and card issued (Financial Year 2021)

Players	Debit cards outstanding (in million)	Value of transaction at ATM & POS (in ₹ billion)	Volume of transaction at ATM &POS (in million)
PayTM Payments Bank	63.77	84.53	46.06
India Post Payments Bank	1.11	0.37	0.70
Airtel Payments Bank	1.72	2.69	4.46
Fino Payments Bank	2.26	17.12	6.91
NSDL Payments Bank	0.1	0.1	0.20

Note: Data for value and volume of transactions includes transaction done through both ATM & POS
Source: RBI, CRISIL Research
* *We report value of transactions and volume of transactions at ATMs and POS to the RBI in accordance with the RBI card statistics reporting requirements. The data that we report to the RBI differs to the data that we use internally to understand and assess our business operations. This is because our internal data relating to debit card transaction count and volume includes all "on-us" transactions (where the Issuing bank and Acquiring bank are same) as well as "off-us" transactions (where the Issuing bank and Acquiring bank are different), whereas the data reported to the RBI only includes "off-us" transactions, which is in accordance with such requirements.*

Product wise comparison

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

Source: Company Website, CRISIL Research

- **Point of Sale (POS) Market**

PoS terminals are devices typically used at a retail location to capture payment information electronically and - in some cases - on paper vouchers. These terminals are setup by acquirers and may accept payment through cards, or other means. PoS terminals are also used for cash withdrawals using debit cards / open loop prepaid cards issued by banks. The limits for such withdrawal are up to ₹ 1,000 per day in Tier I and II centres and up to ₹ 2,000 per day in Tier III to VI centres. Customer charges, if any, on such cash withdrawals are not more than 1% of the transaction amount.

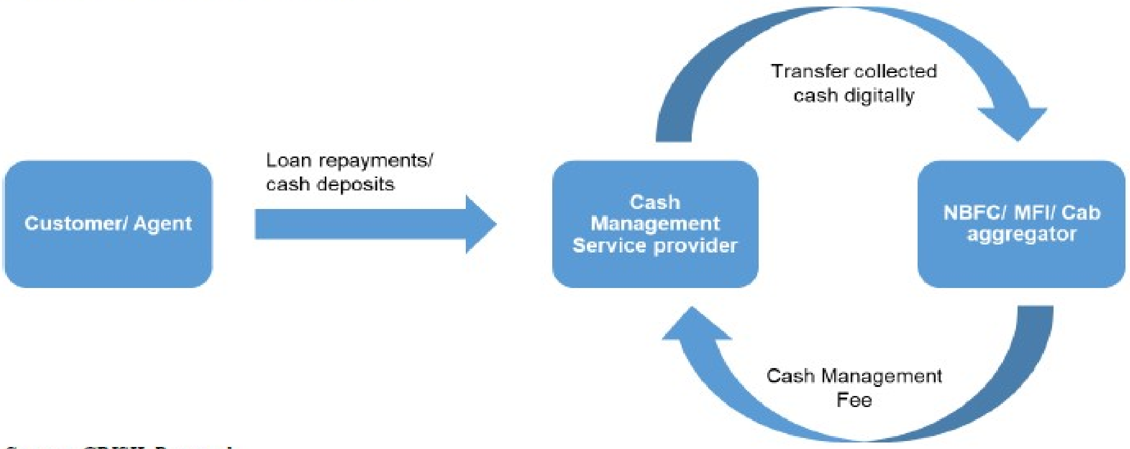
In India, there were 4.7 million PoS terminals and 0.24 million ATMs deployed across the country as on March 31, 2021. As of August 2021, there were 4.75 million POS terminals in India. ATMs and PoS terminals have grown at a CAGR of 4% and 28%, respectively over the past five years.

- **Cash Management Services (CMS)**

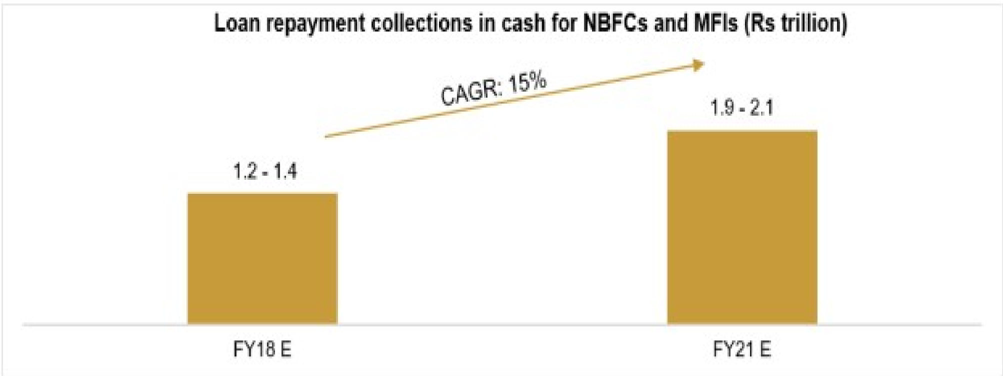
A CMS is an automated cash management solution that help in managing the inflow and outflow of cash. Players in this industry have leveraged their deep distribution network in under banked regions to develop a cash management system for periodical (e.g.: monthly / quarterly) collection of cash for NBFCs/ MFIs/ Cab aggregators. The CMS enables faster realisation of funds at a reduced cost for these NBFCs / MFIs and customers to easily deposit their periodical repayments/ EMIs. By providing additional services like cash withdrawals, remittances and payments along with cash management services, the CMS providers balance their cash flows. In an ideal model, cash-in equals cash-out and the cash flows are perfectly balanced. For example, for the Bank, the CMS business helps complement the merchant led digital banking model where micro-ATM and AePS services form the cash-out aspect of the business and CMS forms the cash-in aspect of the business.

This cash management fee forms the revenue for CMS providers. The cash management charges are estimated to be in the range of 0.5-1.0% of the collections amount.

Typical cash management transaction



Source: CRISIL Research

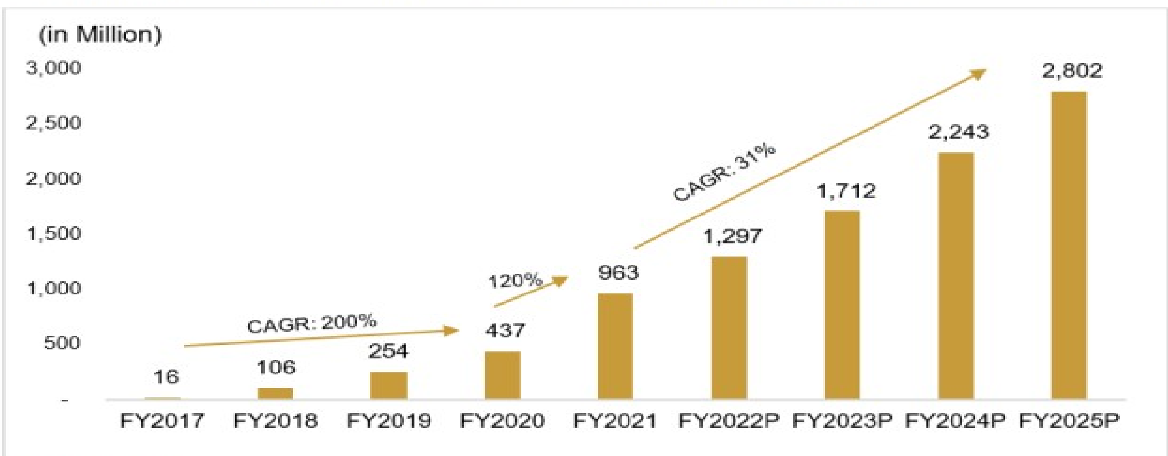


Source: CRISIL estimates

➢ **AePS / Micro-ATM**

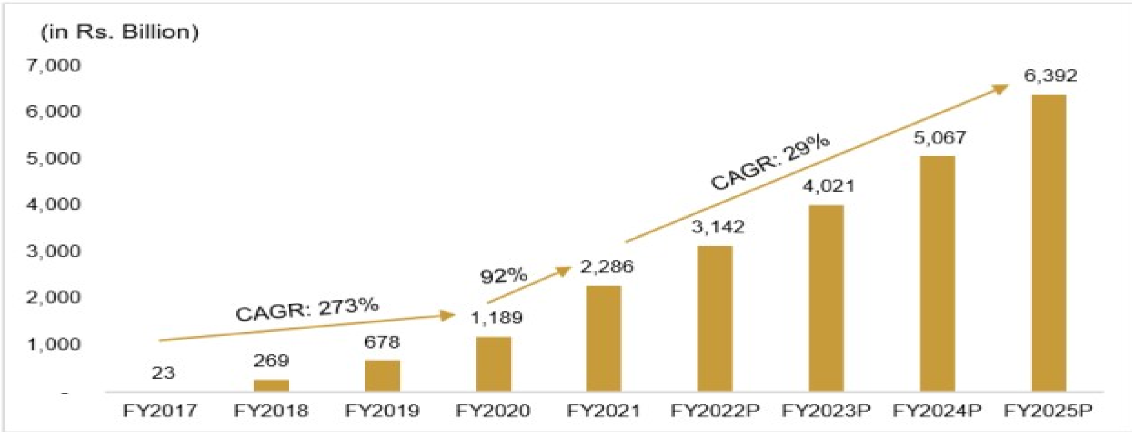
AePS transactions value to jump five-fold between financial year 2020-25 Going forward, CRISIL expects AePS transactions volume and transactions value to grow at a 31% and 29% respectively between financial year 2021 and financial year 2025. Consequently, AePS transactions value are projected to touch ₹ 6.4 trillion by financial year 2025. The growth will be driven by increasing BC and micro-ATM penetration to reach the remote regions of the country. Further, development of new use-cases and adoptions of steps such as biometric and iris authentication to curb transaction failures are also expected to drive transaction volumes and value in the coming years.

AePS transactions volume to grow at 31% CAGR between financial year 2021 and 2025



Note: P: Projected
Source: NPCI, CRISIL Research

AePS transactions value to grow at 29% CAGR between financial year 2021 and 2025



Note: P: Projected
Source: NPCI, CRISIL Research

Key Risk:

- The Company rely extensively on their information technology systems and any weakness, disruption or failure in such systems, or breach of data, could adversely affect their operations and reputation. Further, their success depends on their ability to innovate, upgrade and respond to new technological advances.

- Payment Banks in India are subject to stringent regulatory requirements and prudential norms and their inability to comply with such laws, regulations and norms may have an adverse effect on their business, results of operations, financial condition and cash flows.

- The Company is subject to supervision and inspection by authorities such as the RBI. Any adverse observations from such regulators could have an adverse effect on their business, financial condition, results of operation and cash flows.

- The Company depend on their brand recognition, and failure to maintain and enhance awareness of their brand would adversely affect their ability to retain and expand their base of customers.

- Weakness or failures of their internal control system may cause significant operational errors, which may in turn adversely affect their business.

- The Company may face difficulties and incur additional expenses in operating in rural and semi-urban markets, where infrastructure may be limited.

Valuation:

The Company has an asset light and scalable business model with strong distribution-technology-partnership framework. The Company's target addressable market is huge with projected CAGR growth of 16% over next four years thereby opening headroom for Company's growth moving forward. The Bank turned operationally profitable in the fourth quarter of financial year 2020 and remained profitable in subsequent quarterly periods.

The company is available at the upper end of the IPO price band at Price to Book Value of 29.29x based on its NAV of Rs. 19.70 as at the end of 1QFY22, demanding a market cap of Rs. 48,015 million. The RoNW for FY21 stands at 14.6%. With Pan India operational presence in over 90% of district the company has great opportunity to strengthen its business in coming years. We recommend "**Subscribe-Long Term**" rating to this IPO.

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