

Fino Payments Bank Ltd



Fino Payment Bank Ltd

Issue Opens On
October 29th, 2021

Issue Closes On
November 2nd, 2021

Price Band (INR)
560-577

Issue Size (INR Cr)
1174-1200

Rating
Subscribe

Fino Payment Bank ("Fino Bank"), a growing fintech company, offers a diverse range of financial products and services that are primarily digital and have a payments focus. The bank offers such products and services to its target market via a pan-India distribution network and proprietary technologies. The bank operates an asset-light business model that relies on fee and commission-based income generated from its merchant network and strategic commercial relationships. Each merchant serves its community's banking and financial needs, which in turn forms the backbone of the bank's assisted-digital ecosystem, referred to as "phygital" delivery model. Through the "phygital" delivery model, the bank's merchants onboard customers and facilitate transactions, ensuring the bank's network grows and its products and services are more accessible to a broader range of customers throughout India.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	20,960,142-20,802,306
Net offer (# shares)	20,906,570-20,750,313
Price band (INR)	560-577
Post issue MCAP (INR Cr.)	4669-4801

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	Nov 2 nd , 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 09 th Nov' 2021
Initiation of Refunds	On or about 10 th Nov' 2021
Credit of Equity Shares to Demat accounts	On or about 11 th Nov' 2021
Commencement of Trading of Eq.shares on NSE	On or about 12 th Nov' 2021

Source: IPO Prospectus

Issue	# Shares	INR in Cr	%
QIB	1,55,62,735	898	75%
NIB	31,12,547	180	15%
Retail	20,75,031	120	10%
Net Offer	2,07,50,313	1,197	100%

Source: IPO Prospectus; #: Upper band

Objects of the Offer: The net proceeds will be utilized for the following purpose		
Augmenting Bank's Tier – 1 capital base to meet its future capital requirements.		
Proceeds from the fresh Issue will also be used towards meeting the expenses in relation to the offer.		
To receive the benefits of listing the Equity Shares on the Stock Exchanges.		
Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	100%	75.0%
Others	0.0%	25.0%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Cr)*	Q1FY20	Q1FY21	FY19	FY20	FY21
Interest earned	4	6	19	18	20
Non-Interest Income	147	200	352	673	771
Total Income	151	206	371	691	791
Growth (%) YoY	-	36.3	-	86.3	14.4
Net Profit/(Loss) for the period	2	3	-62	-32	20
EPS (₹)	0.2	0.4	-8.0	-4.1	2.6
Net worth as stated	132	154	162	130	151
NAV (INR)	16.9	19.7#	20.8	16.7	19.3
RONW(%) as stated	1.4	2.1#	-32.3	-21.9	14.6

Source: IPO Prospectus, * Restated Statement, # not annualised

Fino Payment Bank Ltd

Company Overview

Financial Inclusion Network Operations (FINO) started as a technology company aimed at developing technological solutions. On September 7, 2015, Fino PayTech Ltd was granted in-principle approval to set up a payments bank that led to the incorporation of FINO payment bank in April 2017. The bank commenced operations as a Payments Bank with effect from June 2017, pursuant to the receipt of the final RBI approval dated March 30, 2017. 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, the bank became profitable in Q4FY20 and since then, has been profitable in every subsequent quarter. Currently, the bank is a wholly-owned subsidiary of Fino Paytech Ltd. Their principal shareholders include marquee investors such as ICICI Bank Limited, Intel Capital Corporation, IFC, HAV3 Holdings (Mauritius) Limited, Blackstone GPV Capital Partners (Mauritius), VI-B FDI Limited, and BPCL. The bank'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 their Application Programming Interface ("API")), withdrawing and depositing cash (via micro-ATM or Aadhaar Enabled Payment System "AePS") and cash management services ("CMS").

Fino Bank has a strong leadership position within the Indian fintech industry, for instance:

- Fino payment was ranked 3rd amongst banks in facilitating digital transactions, as of February 2020 by the Ministry of Electronics & Information Technology;
- Had largest network of micro-ATMs, as of March, 2021.

Business Model

Fino Bank operates an asset-light business model underpinned by their "phygital" model and relies on their merchant network and other participants. They use their proprietary DTP framework to maximize product/service distribution, cross-sell opportunities, reach untapped areas, and keep fixed costs low. Automation and digitization of various processes is also a key to supporting their asset-light business model, where they aim to achieve higher margins across their products.

Distribution – pan-India network: The bank delivers financial products and services to its customers through a variety of distribution channels, primarily merchants, strategic commercial relationships, branches, CSPs and digital channels such as mobile banking applications. Fino Bank has 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. They currently have approximately 17,430 active Business Correspondents (BCs) across India. Additionally, the bank operate 54 branches and 130 Customer Service Points ("CSPs") as of June 30, 2021. Besides, it also use strategic relationships with companies to expand its operational reach, improve brand awareness and acquire new customers.

Technology – scalable platform: The bank uses technology to reach its target market cost-effectively and enhance its product and service offering through data capture and analytics. The use of technology allows it to avoid the traditional brick and mortar bank branch network to interface with customers and instead engage with them directly through its mobile applications and rely on its comparably vast network of merchants and strategic commercial relationships, and BCs. The bank's unique technological capabilities include the "phygital" delivery model for its products, use of its dedicated mobile banking applications for merchants and customers, a "neo banking" mindset, digital on-boarding, e-KYC, its in-house technology expertise and culture of application-led innovation, which includes proprietary technology.

Fino payment offer two mobile applications tailored to the needs of its retail customers and merchants:

- 'Fino BPay' app is a digital solution that utilizes UPI for secure and fast personal banking, merchant payments, among other functions and is targeted at retail customers. The app also includes their "Cash Bazaar" service.
- Fino Mitra' app serves as a one-stop-shop solution for their merchants by providing banking and payments related services (utilizing the UPI).

In the financial year 2021, the bank added 197,876 (Q1FY22: 23,861) active users via the app and transaction throughput amounted to INR 4,928.7 crore (Q1FY22: INR 1,488.20 crore).

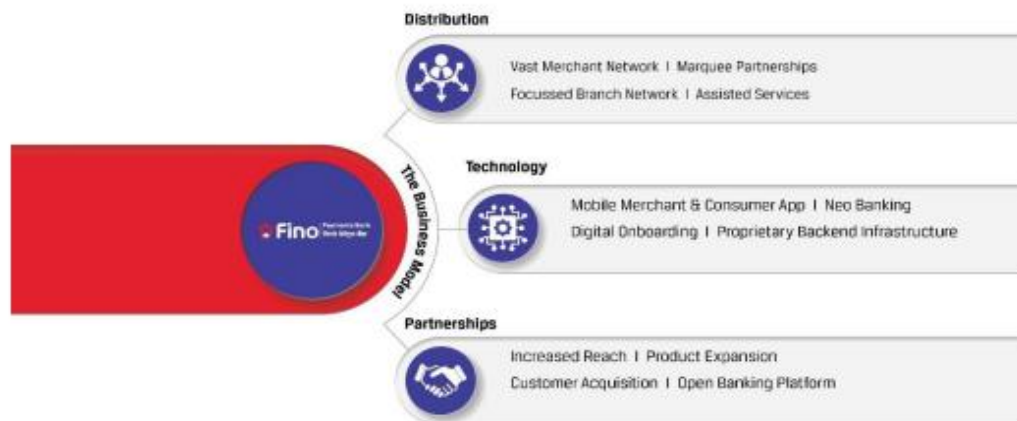
Strategic commercial Relationships – expanding customer reach and increasing brand recognition: Fino Bank has established strategic commercial relationships with a wide variety of Indian companies, including ICICI Bank Ltd, Union Bank of India, BPCL, and new and upcoming fintech companies to provide value-added products. The bank has an agreement with BPCL whereby it has created a digital banking and payment ecosystem around BPCL's pan India network of fuel stations. The ecosystem includes CASA services, AePS transactions, and debit card-based transactions and provides Fino access to BPCL's extensive network of fuel locations across India. In addition to strategic commercial relationships, the bank has also entered into agreements with companies to offer their products, such as insurance and gold loans.

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INVESTMENT RATIONALE

DTP Framework

The unique DTP framework enables the bank to serve the target market efficiently and is designed to achieve improvements on three key challenges associated with serving such target market, e.g. (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 they operate and target; and (iii) sustainability – the customized range of products required to meet the needs of the target market.



Source: RHP, KRChoksey Research

Technology focused business model with advanced digital platform

Since 2017, the bank has made significant investments in the technology infrastructure, having designed and digitized large portions of the technology processes, risk management protocols, data analytics capabilities and honed the “phygital” approach. In FY19, FY20, FY21 and Q1FY22, the bank incurred capital expenditure of INR 139.33 mn, INR 228.68 mn, INR 669.30 mn and INR 224.97 mn, respectively, in connection with technology infrastructure. Fino payment is focused on providing a more intuitive and personalised experience both at the customer and merchant levels. The customer focused product offering through self-assisted channels such as the web portal, hand held devices and other channels like mobile wallets, internet banking, AePS, micro-ATMs and others drive significant operating efficiencies. The technology-led approach also provides various benefits like ownership of the systems and applications enabling to adapt or create new product features and deploy them to market quickly. End-to-end visibility and control of various technology functions and applications have contributed to high levels of core platform availability.

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, the bank do not offer any lending products and do not hold credit risk for loans. In addition, the well established technology platform and consistent investment in further improvements, allows it to service a wide pool of customers and cater to its diversified requirements. Use of technology throughout the business assists in expanding the reach across India without incurring the relatively higher costs associated with traditional brick and mortar branch presence. They incur minimal capital expenditure in connection with on-boarding the 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 the technology significantly simplifies the merchant on-boarding and training process, making it cost effective for the merchant and efficient for both parties. In addition to the 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 its API channel), the bank leverage 17,430 active BCs to reach the underserved and unserved populations in hard to reach locations (referred to the “last mile” of delivery). It also uses strategic commercial relationships with corporate entities, most notably with BPLC, to expand its operational reach, improve brand awareness and acquire new customers.

Customer centricity and innovation at the core of business

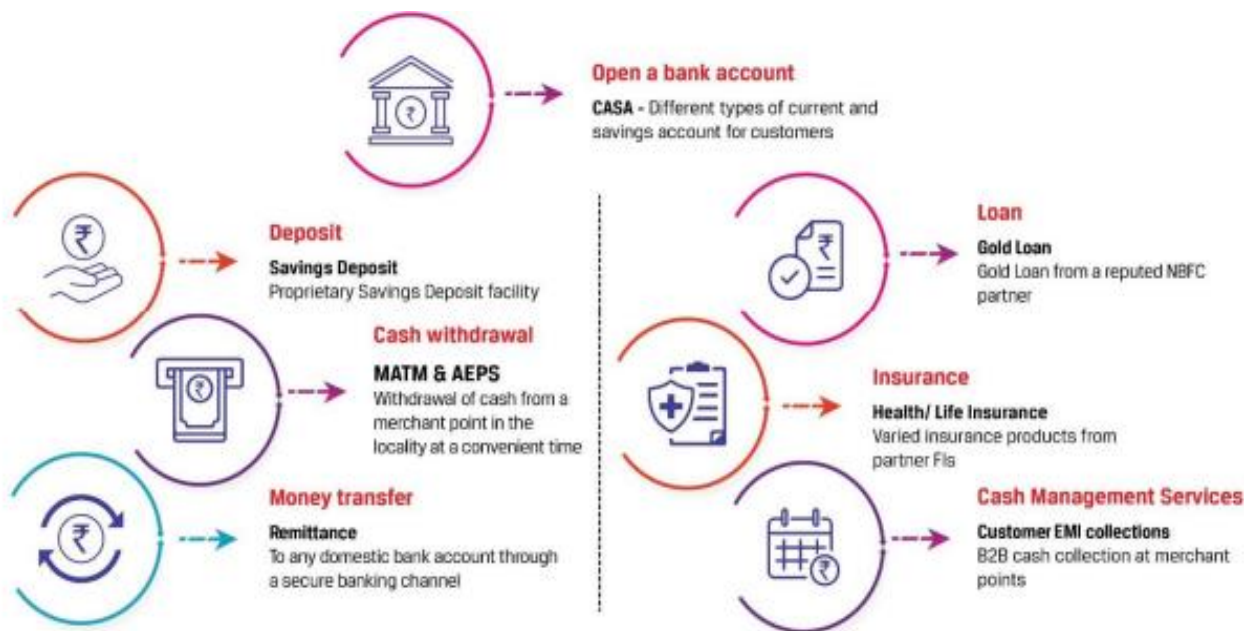
The bank place the customer at the centre of all that they do and as such, the products and services are designed and customized to meet the needs and requirements of the customers and the target market. The bank’s focus on understanding the needs, behaviours and desires of the customers is reflected in the brand commitment of we are “hamesha” (i.e., we are “always”) there for its customers’ banking and financial needs. This understanding informs every single product and service that the bank develops and demonstrates the culture towards improving the customer experience.

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Highly experienced and committed leadership team, marquee investor base in promoter and shareholder

The bank 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 the 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. The Board of Directors includes five Independent Directors, which we believe is a key factor in ensuring strong and clear corporate governance standards.

Some of the key products of the bank



Source: RHP, KRChoksey Research

Product wise comparison

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

Source: RHP, KRChoksey Research

Fino Payment Bank Ltd

Future Growth Strategies

Leverage market position to capture industry opportunities

The bank continues to apply an innovative approach to the DTP framework so as to expand the distribution network of merchants and BCs, expand and improve its digital offering and foster new and existing strategic commercial relationships. By continuing to do so, the bank expect that the merchants, BCs and strategic commercial relationships will facilitate cross-selling opportunities and maximise the 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 bank operates in an industry that is continuously evolving, necessitating it to innovate by improving the technology platform, developing new products and/ or exploring new distribution methodologies. Specifically, Fino payment are committed to establishing The bank as a modern technology-enabled bank that offers a comprehensive suite of products to the target market via a range of touch-points. They are also intend targeting high growth products with high margins within the existing offering, as well as exploring new and/ or improved products, in each case with a focus towards products offered through their “own” channel.

Expand and deepen the customer sourcing capabilities

At the end of FY21, the bank had an operational presence in over 94% of districts, and during the last three financial years, it acquired 613,734 new merchants across its network. With a goal to acquire more customers, the bank intend to continue expanding the 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. It also intend to focus on increasing the adoption of CASA offering as The bank believe this will acts as a key customer sourcing gateway for certain other products.

Continued focus on use of technology to improve operating leverage:

Focus on and use of technology throughout the business is a significant factor in improving the operating leverage, as it allows to improve gross margins and limit variable costs. It plays a key role in the ability to expand the reach throughout India without incurring the relatively higher costs associated with traditional bricks and mortar branch presence.

Key Strengths

- The unique DTP framework enables them to serve the target market efficiently and help improve the scale, service and sustainability.
- The bank have a technology focused business model with an advanced digital platform
- The main focus is on customer and innovation remains the core focus
- The business model is socially inclusive with positive social impact
- The bank has a strong franchise with a highly experienced Management and Investment team.

Key Risks

- The bank undertakes fees and commissions-based activities, and the financial performance may be adversely affected by an inability to generate income from such activities
- Payment Banks in India, are subject to stringent regulatory requirements and prudential norms and our inability to comply with such laws, regulations and norms may have an adverse effect on the business, results of operations, financial condition and cash flows.
- A significant portion of the merchant distribution network is located in the states of Uttar Pradesh, Bihar and Madhya Pradesh, and accordingly any adverse changes in the conditions affecting these regions can adversely affect the business, financial condition and results of operations.
- There is a dependability on the brand recognition, and failure to maintain and enhance awareness of the brand would adversely affect the ability to retain and expand the base of customers.
- The industry is subject to supervision and inspection by authorities such as the RBI. Any adverse observations from such regulators could have an adverse effect on the business, financial condition, results of operation and cash flows.

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Outlook and Valuation

Over 95% of the bank's revenue comes from commission, exchange, and brokerage fees, with the remaining 5% coming from interest income. The bank's total income was INR 791 cr in FY21, up 14.4% YoY, from INR 673 cr in FY20. This surge was mainly due to an increase in the transaction for micro-ATM, AePS, CMS, and CASA accounts. In FY21, the bank turned profitable, recording a PAT of INR 20.4 cr against losses of INR 32.0 cr and INR 62.4 cr in FY20 and FY19, respectively. In Q1FY22, total income was up by 36.2% YoY to INR 206.3 cr. The bank's total income has grown at a CAGR of 14.4% between FY19 and FY21. Return on net worth has been 14.6%, -21.9% and -32.3% for FY21, FY20, and FY19, respectively. The objective of the offer is primarily to augment its Tier – 1 capital base to meet its future capital requirements and reap the benefits of listing on stock exchanges, which will enhance the visibility and brand image while also providing a public market for the equity shares.

The IPO size of Fino payment is INR 1,200 cr with a price band of INR 560-577 per share. On the upper price band of INR 577 and book value of 19.7, the P/B works out to be 29.3x, which looks expensive. As there is no comparable listed peer companies for Fino Bank, it is difficult to make any valuation comparison. We believe the bank's long-term prospects are favorable, and its business model also mitigate the possibility of any major credit risk. The bank has carved out a niche for itself and is reaping the benefits of a shift in market sentiment towards such businesses. Furthermore, Fino Payments' strong merchant/BC ecosystem, technology advantage, and managerial execution should enable it to enter other emerging opportunities in the sector without taking on significant risk.

Taking into consideration of all the positives and the challenges of Fino Bank, we recommend a 'SUBSCRIBE' for the IPO from a longer term perspective, however with a caveat that investors will have to keep patience for getting returns from this IPO, and should not expect any quick listing gains as the company is here for a long haul and stretched valuation leaves little room for any listing gains.

Peer Comparison

The Bank had the largest network with 0.64 mn banking touchpoints, followed by Airtel Payments Bank and India Post Payments Bank, which had a network of 0.5 mn and 0.3 mn respectively. In addition, as of March 31, 2021, around 55% of the micro-ATMs deployed in India are from the Bank. Further, PayTM Payments Bank had the highest quantum of deposits amongst payment banks, with deposits of INR 28.70 bn as of March 2020, followed by India Post Payments Bank.

Fino payment also acts as a correspondent for partner banks and enables digital financial transactions for customers at the bottom of the pyramid on behalf of various banking partners. As of March 2020, the Bank had facilitated gold loan sourcing worth INR 10 bn. In July, 2020, the Bank also launched a new product – Bhavishya, a subscription based savings account for minors in the 10-18 years age bracket to make children banking ready and inculcate a savings habit. The Bank is the only bank to offer a subscription-based savings account in India.

We present below the comparison of metrics with industry peers:

Name of The bank	Deposits (INR Cr)	Net Worth (INR Cr)	CRAR (%)	Debit Cards outstanding (INR Cr)	Value of transaction at ATM & POS (INR Cr)	Volume of transaction at ATM & POS (INR Cr)
Fino Payment Bank	251	150	54.8	0.23	1712	0.69
PayTm Payment Bank	3,450	480	62.4	6.38	8,453	4.61
India Post Payment Bank	855	570	79.2	0.11	37	0.07
Airtel Payment Bank	596	320	90.2	0.17	269	0.45
Jio Payment Bank	17	130	2.3	-	-	-
NSDL Payment Bank	7	140	230.0	0.01	1	0.02

Source: RHP, KRChoksey Research

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Financials:

Income Statement (INR Cr)	FY19	FY20	FY21	Q1FY21
Income				
Interest Earned	19	18	20	6
Other Income	352	673	771	200
Expenditure				
Interest Expended	6	10	10	3
Operating Expenses	427	713	757	200
Provisions & Contingencies	1	1	4	-
PAT				
Net profit/ (loss)	-62	-32	20	3
EPS (INR)	-8.0	-4.1	2.6	0.4

Source: IPO Prospectus, KRChoksey Research

Balance Sheet (INR Cr)	FY19	FY20	FY21	Q1FY21
Cash and balances with RBI	157	131	88	48
Balances with banks and money at call and short notice	231	171	183	167
Investments	73	128	504	558
Advances	0	0	0	0
Fixed Assets	42	49	64	80
Other Assets	180	144	172	168
Total Assets	684	624	1010	1020
Capital	45	45	45	45
Reserves & Surplus	118	85	106	109
Deposits	46	118	243	251
Borrowings	83	111	181	211
Other liabilities & provisions	392	266	436	404
Total Liabilities & Equity	684	624	1010	1020

Source: IPO Prospectus, KRChoksey Research

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ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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