Jio Financial Services Ltd

Initiating Coverage

03rd January 2024

Jio Financial Services Ltd

Firing on multiple engines

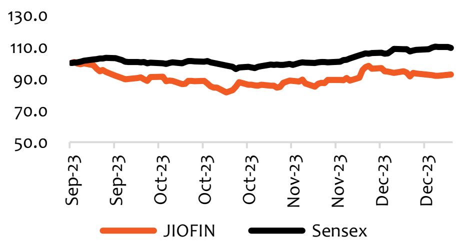
Recommendation

CMP (INR)	235
Target Price (INR)	290
Upside	23.2%
Rating	BUY
Sector	NBFC

Market Data

Mkt Cap (INR Mn)	14,95,563
52 Wk H/L (INR)	267/203
Volume Avg (3m K)	2,076
Shares outs (Mn)	6,353
Face Value (INR)	10.0

Price Chart



SENSEX	71,892
NIFTY	21,666

Shareholding Pattern (%)

Particulars	Sep-23
Promoters	46.8
FIIs	21.6
DIIs	13.8
Others	17.8
Total	100.0

Company Snapshot

Jio Financial Services Ltd., originally incorporated as Reliance Strategic Investments Private Ltd, is a systemically important non-deposit-taking Non-Banking Financial Company registered with the Reserve Bank of India. It is a holding company and will operate its financial services business through its consumer-facing subsidiaries namely Jio Finance Ltd (JFL), Jio Insurance Broking Ltd (JIBL), and Jio Payment Solutions Ltd (JPSL) and joint venture namely Jio Payments Bank Ltd (JPBL). The NBFC had reported a net profit of INR 313 Mn as of FY23. JIOFIN's comprehensive suite of products is aimed towards meeting the diverse financial needs of customers with an ability to leapfrog traditional legacy system and leverage the new age cloud-based solutions.

Outlook

Jio Financial Services Ltd. aims to increase financial services penetration with the acceleration of its strategy of being a digital-first financial solution company. The NBFC will leverage its strong brand equity, which will support building a robust customer base across all its businesses through cross-selling. The NBFC's strong capital base is sufficient to cater to the growth strategy of the Company and also act as an adequate cushion for any contingencies going ahead.

We expect the lending business to report an AUM of INR 46 Bn in FY24E, with a ramp-up in the product pipeline that is in line with consumer requirements. The increased use of mobile apps and push towards UPI-based payments will enable JIOFIN to witness robust traction in volumes given the strong customer base of the parent group, which has above 450 Mn telecom subscribers as well as ~250 Mn retail customers as of FY23. With the partnership with Blackrock for the AMC business, we expect the AUM in FY24E post-license approval and product launch to be around INR 23.3 Bn given the industry opportunities, brand equity, attraction towards the capital market, and the right choice of product basket.

We initiate coverage on JIOFIN with a BUY rating and target price of INR 290 per share, with a 23.2% upside from current levels and assigning a P/ABV multiple of 2.0x with a Holdco discount of 20.0%.

Key Financials

Particulars (INR Mn)	FY21	FY22	FY23	H1FY24
Revenues from operations	2,952	1,486	416	10,220
Pre-Provisioning Operating Profit	2,050	1,771	393	8,970
Net Profit	1,231	1,680	313	10,000
EPS	238.1	325.1	60.5	1.6
Book Value per share	3,981.3	4,310.9	179.6	182.0
*Return on Assets (ROA)	6.0%	7.5%	1.7%	1.7%

Source: Company, KRChoksey Research, *Return on Net Worth (in %) is calculated on pre-Return on Net Worth (in %) is calculated on pre–Scheme Net Worth (Average for FY 2022-23) as Appointed Date (Scheme of Arrangement) is close of business hours of March 31, 2023Scheme Net Worth (Average for FY 2022-23) as Appointed Date (Scheme of Arrangement) is close of business hours of March 31, 2023.

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Key Executive Summary

We expect JIOFIN to get all the required approvals and licenses in next 6 months which will help to ramp up the businesses faster.

We expect the lending business to see an AUM of around INR 46.0 Bn considering the expected the industry AUM of INR 38,000 Bn in FY24E. This will be led by the upcoming product pipeline of the NBFC which includes business and merchant loans for self-employed individuals, sole proprietors, and small business entities; auto loans; home loans; and loans against shares.

~250 Mn of retail customers and 459.7 Mn telecom subscribers of Reliance Group will enable a robust scale up of the businesses in medium term.

The NBFC's focus on operational execution, bolstered by its banking correspondent and merchant network will allow it to offer a wide array of financial products through various distribution channels and pursue cross-sell opportunities. Co-branding opportunities will also help JIOFIN to expand its product offering for its customers.

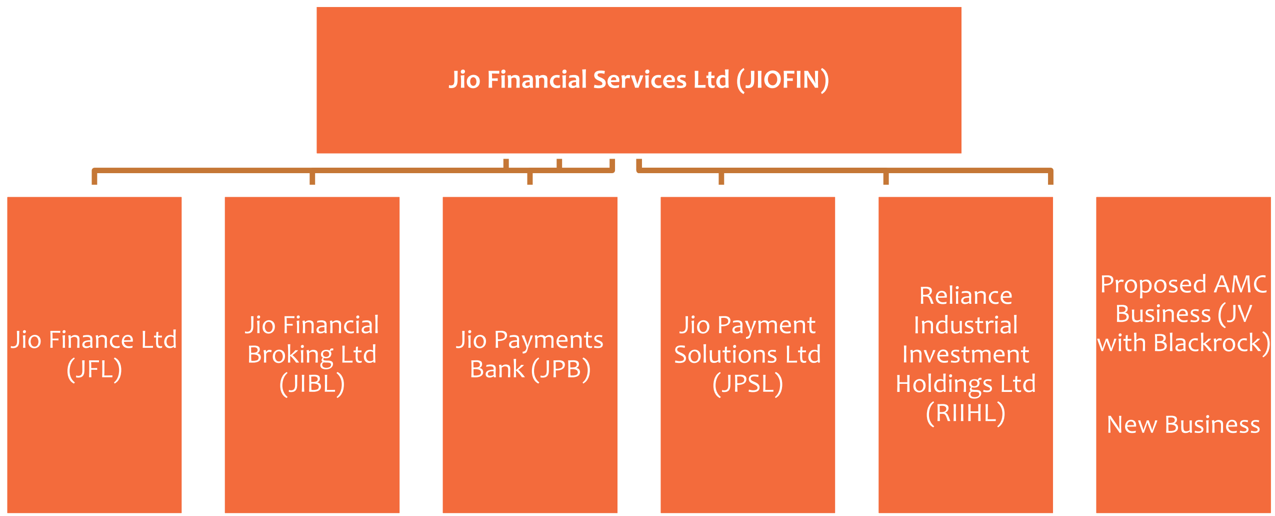
JIOFIN's tech architecture will be modular, agile, scalable and will provide a competitive edge. JIOFIN understands this will be a key to its winning proposition in an extremely competitive landscape. The NBFC's lending products will be distributed through its customer-facing app.

JIOFIN plans to democratize financial services for 1.42 Bn Indians, giving them access to simple, affordable, innovative, and intuitive products and services.

Company Overview

Jio Financial Services Limited (JIOFIN) is a systemically important non-deposit taking Non-Banking Financial Company (NBFC) registered with the Reserve Bank of India (RBI). The RBI while granting its approval for change in the shareholding pattern and control of the Company, pursuant to the Scheme, has stipulated that the Company shall meet eligibility criteria for CIC and apply to RBI for conversion to NBFC-CIC within six months of the date of the Scheme becoming effective or three months of the date of listing of its Equity Shares, whichever is earlier. As a CIC, the Company will be a holding company and will operate its financial services business through its consumer facing subsidiaries. JIOFIN plans to primarily target key customer segments – unserved and underserved individuals and small-sized businesses in urban, semi-urban and rural India to offer sustainable, and comprehensive range of financial services. JIOFIN will be a holding company and will operate its financial services business through its consumer-facing subsidiaries namely Jio Finance Limited (JFL), Jio Insurance Broking Limited (JIBL), and Jio Payment Solutions Limited (JPSL) and joint venture namely Jio Payments Bank Limited (JPBL).

JIOFIN plans to offer simple transparent financial services products catering to rapidly evolving customer needs. Its payments platform helps merchants grow their business by giving them solutions which allows them to accept payments, acquire and retain consumers, improve their business operations, and access financial services. The payments bank will provide a comprehensive suite of digital payment banking solutions, to both individuals and small business (including merchants). Its insurance broking business offers insurance led solutions to the walk-in customers at retail store outlets servicing them both digitally and with dedicated sales associates and trained staff. It also focuses on providing insurance solutions to corporate customer, vendor partners and small businesses.



Source: Company Presentation, KR Choksey Research

Product Suite

JIOFIN's primary offerings include retail lending, merchant lending, payments bank operations, payments solutions and insurance broking.

➢ Reliance Retail Finance Limited (RRFL):

RRFL is a NBFC-ND-SI engaged in consumer lending. RRFL is uniquely positioned to capture the fragmented credit lending market opportunity by adopting a digital-first, tech-led business model to capitalize on the opportunities in the lending space and offer lending solutions to the entire spectrum of consumers and merchants. With secular growth drivers, the Indian financial services sector is poised to undergo a digital transformation. The sector presents a large, under penetrated and growing addressable market, especially for retail and small-business focused product categories. JFSL and its subsidiaries (JFS) will leverage the technology capability of Reliance and focus on digital delivery of financial products to democratize financial services access for 1.4 Bn Indians.

Reliance has been developing and fostering a vibrant digital led-financial services platform through various digital applications. Reliance has developed best-in class applications having high customer engagement metrics and differentiated value propositions in their respective categories. The current footprint touches more than 20 Mn consumers.

The product offering are broadly included under the below three segments:

- **Consumer lending offering:**

The portfolio is a combination of both secured and unsecured loan, giving due consideration to customer risk profile and business dynamics. This includes providing financing options for consumer durables and devices sold through retail stores to begin with. In the medium term, JIOFIN will enhance its product suite to include secured loans. The customer journey for consumer lending will be facilitated through various channels facilitating end to end digital journey. Considering the rise of digital payments in the country, Jio Financial is offering personal and consumer durable loans through online channels. JIO Financial will be a direct beneficiary of the expanding footprint of Reliance Retail and JioMart. Reliance Retail has a presence of 18,650 stores in India with consumer electronics being a strong driver for growth.

- **Merchant lending offering:**

This includes providing financing options for merchants in grocery, digital, fashion and pharma formats. The products offered in this segment would include trade credit, personal loans, store improvement loans, and unsecured business loans, with entire service offering digitally. Under its Jio Finance Merchant Trade Credit Facility, the company offers credit line for registered merchants of JioMart Partner – B2B Wholesale. It provides unsecured credit to finance inventory purchases. Reliance Industries has also been expanding JIOMART as a cross-category platform.

- **MSME (micro, small and medium enterprises):**

JIOFIN's digital-first approach allows a deeper geographic penetration, addressing the borrowing needs of small businesses who often resort to high interest informal channels for small-ticket loans. Its approach, amongst others, will offer working capital funding needs for suppliers and distributors, which would enable them to increase their revenue and improve access to financial services.

JIOFIN aspires to be a leading NBFC by focusing on five critical pillars: product portfolio, customer strategy, technological capabilities, liability strategy and people strategy.

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Product Suite

➢ Reliance Payments Solutions Limited (RPSL):

RPSL is a payments platform which helps merchants grow their business by giving them solutions which allows them to accept payments, acquire and retain consumers, improve their business operations, and access financial services. RPSL will drive its business predominantly via the payment aggregator business, using the payment gateway and UPI for both larger enterprise and smaller retail merchants.

Merchants will be able to access its full suite of payment products and services (i) in-store, using its QR code, or Point of Sale (POS) devices and (ii) online, using the all-in-one payment gateway infrastructure.

RPSL's merchant offering solutions for enterprise and retail and delivery merchants are listed below:

- **Enterprise Merchants:** RPSL's offerings includes payment gateway, payment aggregator and payment router designed for online merchants to collect payments digitally (app and web-based). Its payment gateway product facilitates medium to large ticket digital transactions processed by its payment gateway - JioPay and will enable digital payment acceptance from multiple payment methods.
- **Retail and Delivery Merchants:** RPSL's offerings includes UPI QR codes (static/dynamic/invoice), 'Pay with 1 QR', digital UPI standee (in stores) designed for store-based merchants and delivery merchants to execute online transactions in stores or during delivery fulfilment. 1QR allows merchants to accept payments from a broader choice of payment methods basis the choice of the customer.

➢ Jio Payments Bank Limited (JPBL) – Joint Venture :

JPBL provides digital payment banking solutions, to both individuals and small business (including merchants). A subscription and shareholders' agreement dated June 30 , 2016 has been entered into between Reliance Industries Limited (RIL) and State Bank of India (SBIN) for establishing a joint venture company for carrying on the business of payments bank. Pursuant to the agreement, RIL and SBI had agreed to establish Jio Payments Bank Ltd (JPBL) and regulate their respective rights and obligations in JPB on the terms and conditions set out in the agreement.

The services provided cover a range of basic banking services digitally, such as savings accounts, current accounts, AePS (Aadhar enabled Payment Services), remittances and transaction banking offerings via UPI, NEFT, IMPS & RTGS. JPB differentiates itself by providing banking services through a combination of various initiatives such as digital and assisted banking rendering the proposition via App/card/wallet.

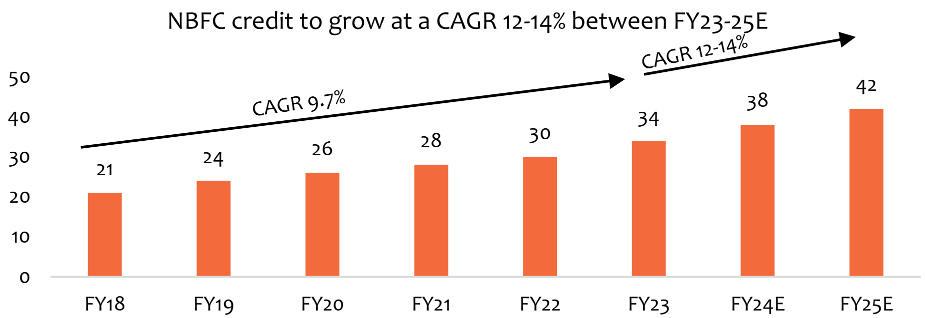
JPBL will also focus on introducing new products (such as Debit Cards, Cash Management Solutions (CMS)), scaling existing products, and curating product propositions with a fit for purpose technology platform. It will also focus on rapid expansion of its digital footprint to serve its customers across the country.

➢ Reliance Retail Insurance Broking Limited (RRIBL):

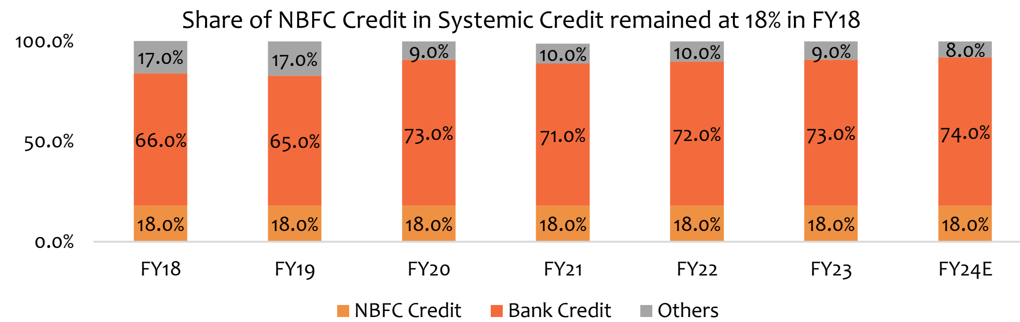
RRIBL is registered as an insurance broker with IRDA. RRBIL acts as an insurance broker to meet the insurance needs of consumers and new merchants. RRIBL also offers insurance led solutions to the walk-in customers at retail store outlets servicing them both digitally and with dedicated sales associates and trained staff. It also focuses on providing insurance solutions to corporate customer, vendor partners and small businesses.

NBFC Industry Overview

NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than INR 2 Tn AUM at the turn of the century to INR 34 Tn at the end of FY23. Thus, going ahead, NBFC credit is expected to grow at 12.0% to 14.0% over FY23-FY25E. The credit growth will be driven by the retail vertical, including housing, auto, and microfinance segments. Rapid revival in the economy is expected to drive consumer demand in FY24E, leading to healthy growth NBFCs. Moreover, organic consolidation is underway with larger NBFCs gaining share. Further, growth of the non-banking industry will be driven mainly by NBFCs with strong parentage who have funding advantage over other NBFCs. Their share in the overall credit pie has increased from 12.0% in FY08 to 18.0% in FY23 and projected to be remained stable in FY24E. NBFCs will remain a force to reckon within the Indian credit landscape, given their inherent strength of providing last-mile funding and catering to customer segments that are not catered by Banks.



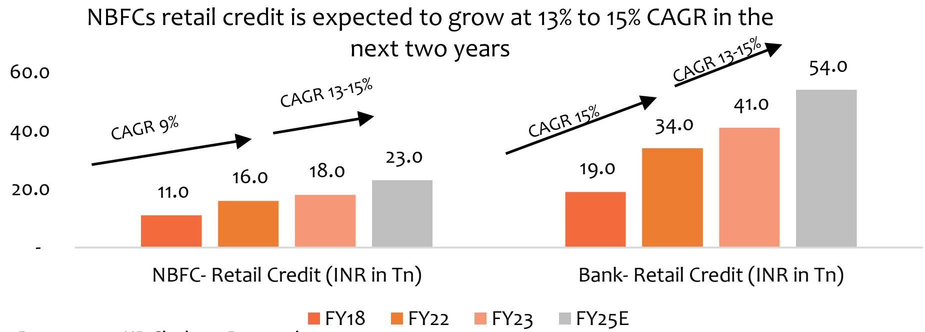
Source: Prospectus, KR Choksey Research



Source: Prospectus, KR Choksey Research

Retail segment to support NBFCs overall credit growth

Reflecting the growing importance of NBFCs in the financial services landscape and their ability to offer differentiated solutions to meet the requirement of target customers, the market share of NBFCs in overall systemic credit has increased from approximately 16.0% in FY17 to approximately 18.0% in FY23. The retail credit given out by NBFCs is forecast to grow at a pace of 13.0% to 15.0% CAGR over the same time. The share of retail segment has seen a gradual improvement from 54.0% in FY18 to 55.0% in FY23 and further is expected to reach 56.0% by end of FY25E.



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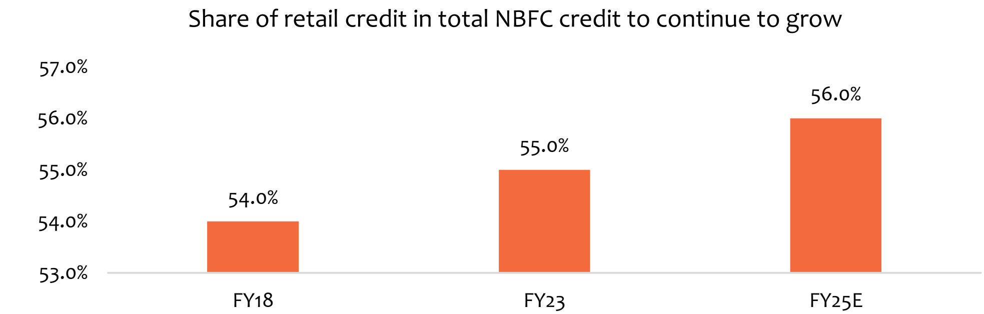


Source: Prospectus, KR Choksey Research

NBFC Industry Overview

Banks continue to gain share in borrowing mix of NBFCs

In FY23, NBFCs' borrowings from banks witnessed high growth resulting in an increase in share to 36.0% of total funding up from 29.0% at the end of FY22. The share of bank's lending to NBFCs have almost doubled during last 10 years. In FY23, with interest rate tightening and repo increasing by 250 bps to 6.50%, the cost of debt market borrowing increased leading to high-risk premium for lower rates NBFCs, leading to banks term loans becoming the preferred source of borrowing. This was also supported by improved credit growth during FY23 across all segments leading to higher demand of bank credit from NBFC.

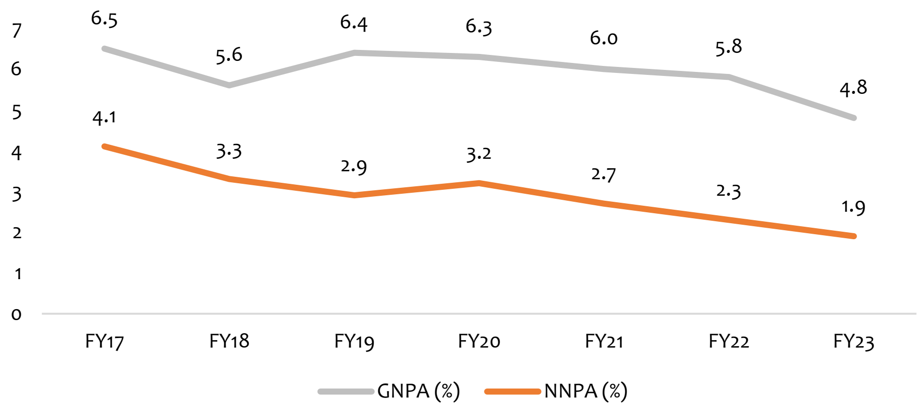
Asset quality improved on account of efficiency in collection process and improvement in economic activity in FY23

Asset quality for NBFCs is influenced by various factors such as economic cycle, target customer segment, geographical exposure, and local events. Within the NBFC universe itself, it is observed that various asset classes tend to exhibit heterogeneous behavior. Asset quality metrics improved in FY23 for two reasons. The first reason is the RBI's follow-up circular dated February 15, 2022, deferring the implementation of the NPA upgradation norm till September 30, 2022. This provides a reasonable transition time for NBFCs to recalibrate processes, revamp their collection infrastructure and teams, and persuade borrowers to align with the new dispensation. The second reason is the expected improvement in macro-economic activity, which will act as a tailwind. The behaviour of loans restructured post-COVID-19 will, however, need to be closely watched, in light of cost push being felt by industries across the board.

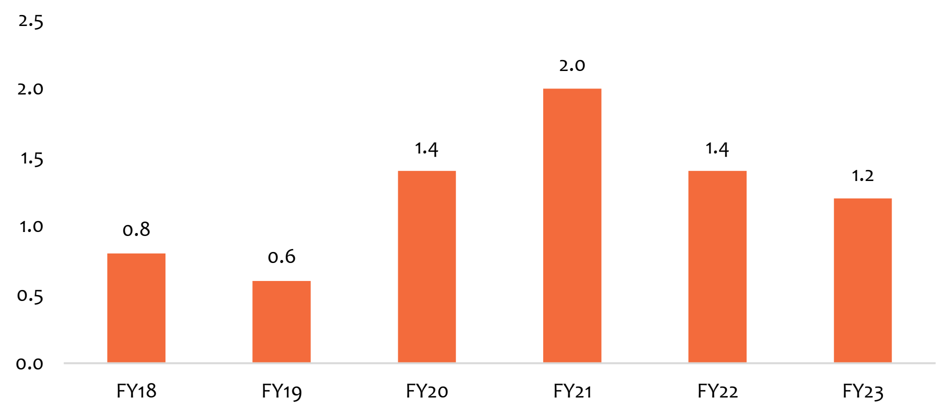
Credit cost further declines, and profitability improved in FY23 despite increase in borrowing costs

In FY23, credit cost further declined on account of gradual recovery across sectors with the waning impact of pandemic and improving collection efficiency aiding it. Despite the increase in borrowing costs, the overall profitability of NBFCs improved in FY23, primarily on account of lower credit costs due to contingency provisioning buffers created over the course of the previous two FYs.

NBFCs' GNPA ratio improved significantly at the end of FY23



Reduction in credit costs for NBFCs in FY23



Source: Prospectus, KR Choksey Research

NBFC Industry Overview

Key market players in consumer loans among NBFCs:

Some of the key market players in consumer loans among NBFCs include Bajaj Finance Limited, Tata Capital Financial Services, Home Credit India Finance Private Limited, HDB Financial Services and TVS Credit. The revenue of a consumer durables financier includes processing fees and subventions given by the manufacturer. Thus, a financier typically generates annualized returns of 23.0% to 25.0%. The operating expenses i.e., employee costs, point of presence for loan origination, in-house processing or outsourcing business process costs is approximately 6.0% to 7.0%, but can vary widely based on the scale of business of the financier. Credit cost and other expenses normalised in FY23, thus no significant change in operating costs is expected going forward. Post credit costs, key players RoAs to be range bound to around 2.2% to 2.5% in FY24E.

Overall MSME lending has grown at a CAGR of 10.0% in the past decade

The total size of MSME lending market across ticket sizes and various player groups (banks, NBFCs, small finance banks, and other formal lenders) to be around INR 24 Tn as of March 2023. This market size includes loans taken by MSMEs across various constitution types (sole proprietorships, partnership firms, private and public limited companies, and co-operatives). In FY24E, the MSME overall industry growth is expected to be at 13.0% to 15.0% owing to budgetary push and rise in entrepreneurship in India. Over the years, the MSME portfolio of NBFCs have grown at a faster rate than the overall MSME portfolio at a systemic level. Going forward, the competitive positioning of NBFCs is expected to remain strong, given their strong target customer and product focus.

Impact of the new RBI norm to reduce concentration of unsecured loans from the portfolio

The Reserve Bank of India (RBI) tightened norms around an unsecured lending portfolio of NBFCs and Banks amid concerns of abnormally high growth in the loan category. The consumer credit exposure for banks and NBFCs will attract a risk weight of 125.0% from 100.0% earlier. Consumer credit exposure excludes housing, education, vehicle, and gold-backed loans. The risk weight for credit card loans by banks was fixed at 150.0% versus 125.0% earlier. Those by NBFCs will see a risk weight of 125%, up from 100%. For NBFCs, the risk weight is extended to retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery, and microfinance/self-help group (SHG) loans. RBI's move to adjust risk weights across loan categories will lead to some pain for the NBFC sector.

In the past, personal unsecured loan growth has remained immune to interest rate hikes and the growth momentum is expected to continue but with some caution. Some impact to loan portfolio of NBFCs like Bajaj Finance, Aditya Birla Finance, etc. having a large unsecured book. Thus, minor slowdown in these portfolios expected in near term. The cost of bank borrowing to rise for NBFCs which is currently hard to quantify.

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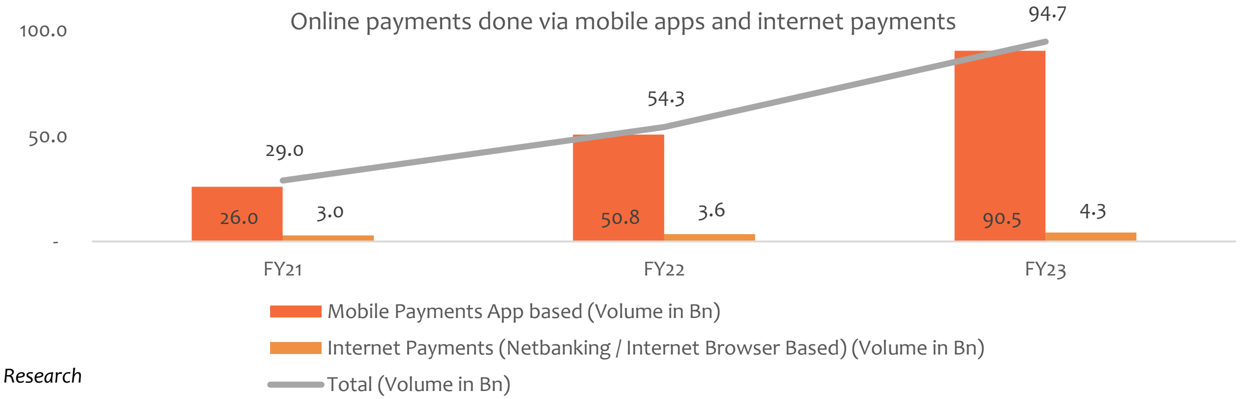
Payment Gateway Industry Overview

The global payment gateway market size was valued at USD 26.79 Bn in CY22 and is expected to expand at a Compound Annual Growth Rate (CAGR) of 22.2% from CY22 to CY30E, reaching USD 132.24 Bn by CY30E. The payment gateway market can be segmented based on type (hosted and non-hosted), enterprise size (large enterprises and small and medium-sized enterprises), and end-use (retail, BFSI, media & entertainment, and others). The Indian payment gateway ecosystem comprises a mix of bank payment gateways and third-party payment gateways. Between FY21 and FY23, the CAGR of internet payments in terms of volumes and values has been 15.0% and 48.0%, respectively. At the same time, mobile-based payments have logged a strong CAGR of 59.0% in value and 87.0% in volumes. This transition shows the growth of mobile app-based payments that use a greater number of gateways to execute transactions. An estimated CAGR of online transactions at 43.0% in volume terms and 37.0% in value terms between FY23 and FY26E. The factors affecting this increase will primarily depend on the increased use of mobile based applications that uses multiple payment gateways. UPI will further increase the volume of mobile based applications as users continue to increasingly opt for UPI towards small value transactions leading to decrease in overall average ticket size of transaction.

The growth of the payment gateway industry in India is driven by several factors, including:

- **Government Initiatives:** The Indian government has been actively promoting the use of digital technologies through various initiatives, including the Digital India program, which aims to transform India into a digitally empowered society.
- **Increasing Internet and Smartphone Penetration:** The increase in internet and smartphone penetration in India has played a significant role in the growth of the digital payments' ecosystem.
- **E-commerce Expansion:** The rise of e-commerce in India has been a major driver of the growth of the digital payments' ecosystem. The e-commerce market in India is expected to grow at a CAGR of 31.0% and reach USD 200 Bn by FY26E, leading to an increase in the number of online shoppers in India. This growth in e-commerce has driven the demand for secure and convenient payment processing solutions, driving the growth of the payment gateway industry.
- **Increasing Awareness and Adoption of Digital Payment Methods:** The increasing awareness and adoption of digital payment methods among consumers and businesses in India have driven the growth of the payment gateway industry.
- **Favorable Regulatory Environment:** The Indian government has implemented several policies and regulations to promote digital payments and ensure the security of online transactions, creating a favorable regulatory environment for the payment gateway industry.



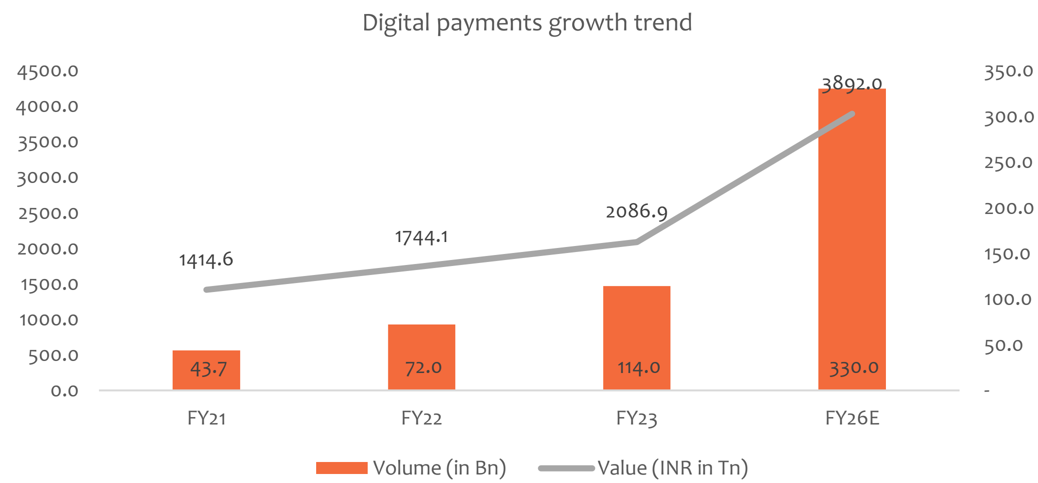
Source: Prospectus, KR Choksey Research

Payment Bank Industry Overview

India remains a global leader in the digital payments landscape, accounting for 46% of global real-time payments. In CY22, India recorded INR 89.5 Mn real-time payment transactions. India's dominance in digital payments is evident as its transactions surpass the combined total of the next four leading countries. India's digital payments market is poised to expand more than threefold from USD 3 Tn to USD 10 Tn by CY26E. This unprecedented surge will lead to a significant shift, with digital payments (non-cash) accounting for two-thirds of all payment transactions by CY26E. India's fintech market is experiencing attractive growth, positioning itself as one of the world's fastest-growing sectors and is projected to reach a market size of approximately USD 150 Bn by CY25E. The Indian fintech industry encompasses sub-sectors such as Payments, Lending, Wealth Technology WealthTech, Personal Finance Management, Insurance Technology (InsurTech), Regulation Technology (RegTech), and others. By CY23E, the fintech sector in India is expected to reach USD 1 Tn in Assets Under Management (AUM) and generate USD 200 Bn in revenue.

Payments Banks are regulated entities operating in the larger fintech and payments space. Their main objective is to widen access of payments and deposit facilities to emerging businesses, low-income but increasingly aspirational households, peripatetic workers and other unorganized entities by enabling high volume low value transactions. Thus, covering segments not adequately covered by conventional banking. In order to confine its activities within the gamut of objectives for which it was incepted, payments banks are allowed to set up their own branches, ATMs and business correspondents.

Given that the primary role is to offer payments, remittance and harmonize bank account access, the maximum account balance of customers was initially restricted to INR 0.1 Mn at the end of the day. This was subsequently raised to INR 0.2 Mn by the regulator. Within the regulatory contours, payments banks have been able to set up a vast network of banking points either through an own business correspondent channel or by leveraging any existing branch infrastructure of parent or core business, if any. Fino Payments Bank, for instance, has more than 1.37 Mn banking points pan-India (including open banking channel).



Source: Prospectus, KR Choksey Research

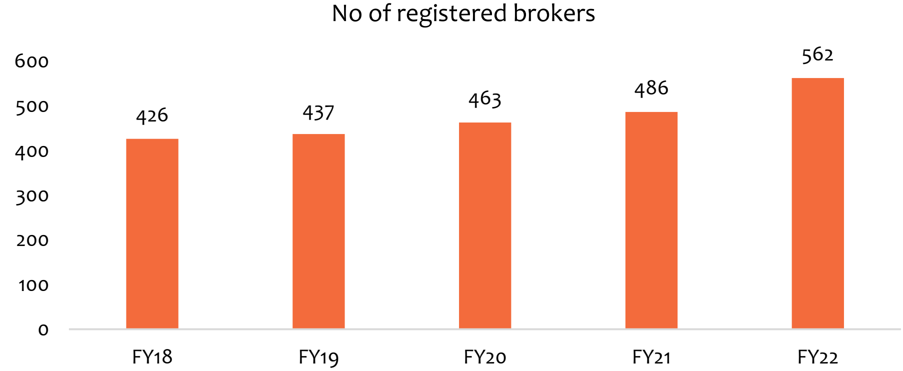
Insurance brokers and their role in the Indian insurance industry

The role of insurance brokers is, essentially, one of making insurance – and other risk management products –widely available. Thereby, they increase the positive effects of insurance in terms of risk-taking, investment, provision of basic societal needs, and economic growth. The role of an insurance broker is varied, and it ranges from bringing innovative marketing practices to the insurance marketplace, reducing the search costs of insurance buyers looking for the right coverage and the right insurer, and to provide customers with the necessary information required to make educated purchases/ informed decisions.

The number of licensed insurance brokers grew 16.0% in FY22, i.e., from 486 brokers to 562. The brokers are further estimated to have increased to 637 as of June 2023, a 13% rise over March 2022. Overall gross direct premium earned via brokers grew at 23.0% CAGR between FY18 and FY22. Brokers are more active in the individual business segment as compared with the group business segment. However, from FY20, the share of insurance brokers in group policies increased significantly to 47.0% in FY21 and further to 48.0% in FY22. This was primarily on account of group premium growing 29.0% in FY21 and 49.0% in FY22. Total life insurance premium has grown at a healthy CAGR of 11.0% between FY18-23 peaking during FY20 at 12.7% and attaining the pre-covid growth in FY23. Over the past year the regulatory support has also aided the growth of Insurance sector in India with one of the major pushes being the increase in limit of foreign direct investment (FDI) in insurance sector from 49% to 74% in March 2022.

The global insurance brokerage market was valued at USD 259.7 Bn in FY22 and is projected to reach USD 628.3 Bn by FY32E, growing at a CAGR of 9.3%. The market is driven by increased awareness of insurance products, regulatory changes, and the need for risk management. The Indian insurance broking industry has experienced significant growth in recent years and is expected to continue expanding at a rapid pace. As of July 2020, the number of insurance brokers in India has increased substantially. The industry's total revenues reached USD 0.1 Bn in 2020, representing a CAGR of 5.9% between FY16 and FY20. It is projected to be worth USD 144.66 Bn by 2025 and USD 300 Bn by FY32E.

The market is highly competitive, with key players such as Marsh & McLennan Companies Asia, Pacific, Aon Plc, and Aditya Birla Capital Advisors Pvt Ltd. The insurance brokerage market is expected to grow due to the rise of online insurance marketplaces and InsurTech firms, which offer customers easy access to compare and buy insurance policies, creating new competition for traditional brokers.



Source: Prospectus, KR Choksey Research

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Investment Rationale

Focus on offering a holistic lending product suite to its customers:

Jio Finance Limited has worked towards the launch of two products in a sandbox environment. JIOFIN has launched an end-to-end digital journey by offering personal loans for salaried and self-employed individuals. This product has been launched through the MyJio app. It has also launched consumer durable loans in H1FY24 across pan-India. The product pipeline for the NBFC is robust, which includes business and merchant loans for self-employed individuals, sole proprietors, and small business entities; auto loans; home loans; and loans against shares. Jio Finance Ltd. (JFL) will leverage best-in-class technology with no legacy book or technology debt, being born in 2023, and this will provide a cost-effective, modern back-end and front-end technology stack. JIOFIN's product roadmap for the lending business will provide for a full stack of unsecured loans and secured loan products. In addition to the technology edge and the advantage of the Jio brand, pedigree, underwriting, and risk management will be very critical, and they will be centered on the principle of risk-adjusted return on capital. The NBFC will work towards employing cutting-edge machine learning techniques to arrive at optimal models that can be used to generate risk scores on an account-level basis and define cut-off thresholds for customer selection. JIOFIN aims to maintain the credit cost at a minimum by undertaking appropriate customer selection and superior underwriting. The risk management functions will leverage alternate data points, which will operate within the guardrails of the new Digital Protection Data Act of 2023. Jio Financial Services will need to differentiate itself through innovation and customer-centric offerings to remain competitive.

Deepening its penetration by scaling up all its segments:

The financial services sector in India remains largely untapped, serving only tens of millions of individuals, presenting a significant growth opportunity for new entrants like Jio Financial Services. Jio Financial Services' foray into lending, insurance, and payments businesses allows for diversification of its revenue streams and the integration of financial services to cater to diverse customer needs. The wide customer base of Reliance Jio (the telecom arm of Reliance Industries) and Reliance Retail provides a substantial advantage to Jio Financial Services. With millions of Jio & retail mart users which are already onboard, the financial services arm has a vast potential customer base to tap into. This synergy between telecom and finance is likely to fuel Jio Financial Services' growth in the long run. The broader strategy of Jio financial services aims to democratize financial services across the country by offering simple, innovative and intuitive products which will be delivered digitally.

Penetration of mobile data provides a significant opportunity to serve the transacting needs of JIOFIN's customers through its digital products. These payment capabilities are expected to provide vital fulfilment tools for all its products across all subsidiaries. The payment industry is expected to double by FY26E which will benefit JIOFIN's payment business considering the strong brand equity, new strategic partnerships and the large customer base of the parent company.

In the payments bank business, The NBFC has relaunched its savings account and current account products through digital platform. It has also relaunched its bill payment segment and has plans to launch debit cards. The NBFC has an on-ground network of approximately 2,400 business correspondents.

JIOFIN will also continue to offer insurance products through its insurance broking business to meet the needs of consumers and merchants. It will offer solutions for corporate customers, vendor partners and small businesses in this way.

In July 2023, JIOFIN has announced a joint venture with its partner BlackRock and has committed an initial investment of up to USD 150 Mn each towards this joint venture. Thereafter over the last couple of months along with its partner, JIOFIN will be focusing on the preparatory work towards this business launch, including all new regulatory approvals.

Investment Rationale

Drive strong user engagement and expand customer and merchant network

JIOFIN, through its operative subsidiaries, will expand its network, and establish a strong presence in customer segments which have limited access to banking and other financial services channels. The NBFC's focus on operational execution, bolstered by its banking correspondent and merchant network will allow it to offer a wide array of financial products through various distribution channels and pursue cross-sell opportunities. By executing these strategies, the NBFC aims to establish its presence as a prominent player in the financial services segment. We believe the NBFC also benefits from being a part of Reliance Group, in terms of synergies derived from various businesses and cross-selling opportunities to the entire Reliance ecosystem.

Reliance Industries Limited (RIL) plays a significant role in JIOFIN as its parent company. RIL's strategic leadership and vast resources have enabled JIOFIN to leverage its payment bank and non-banking financial firm licenses to potentially revolutionize consumer and merchant lending, as well as tap into the insurance sector. RIL's vast resources, extensive retail and telecom user base, and strategic collaborations position JIOFIN to carve a niche for itself in the financial services sector. The company aims to disrupt several key fintech segments and pose a significant threat to existing players. Leveraging on the parent company's relationships, JIOFIN aims to generate repeat business and effectively cross-sell its offerings. The NBFC believes that diverse customer segments and product offerings will allow the NBFC to mitigate volatility in its businesses.

Healthy Liquidity and diversified funding sources

JIOFIN will leverage its strong lineage, business and financial profile in tapping the capital markets for expanding funding sources and implementing a well-diversified funding plan. Its long-term sources of funds may include debentures, term loans and external commercial borrowings. Its short-term sources of funds may include commercial paper, working capital loans. The NBFC will strive to achieve the highest credit rating as this will ensure cost-effective access to capital, improvement in its net interest margins and competitive pricing of its loans.

The NBFC is well capitalized to fund its growth strategy, meet regulatory solvency requirements, and provide adequate buffer for any contingencies. JIOFIN will continue to explore multiple avenues to access liquidity and optimize balance sheet to fund its growth aspirations. Its consolidated net worth as on March 31, 2023, was INR 11,41,203 Mn.

Technology to be the key differentiator for the Company:

JIOFIN's digital first, scalable platforms (present and future) will enable it to offer a wide variety of products to its customers and merchants. Its business will be technology-driven built on cloud native platforms, underpinned by modern AI/ML solutions. The NBFC's tech architecture will be modular, agile, scalable and will provide a competitive edge. JIOFIN understands this will be a key to its winning proposition in an extremely competitive landscape. The NBFC's lending products will be distributed through its customer-facing app.

JIOFIN will be capitalizing on the new entrant advantage in absence of legacy systems resulting in significant cost efficiencies and enhanced computing capabilities. The AI and Analytics driven businesses will create an enriched customer profiles for its tailored offerings. The NBFC will have a power to leverage alternate data to facilitate non-linear growth. JIOFIN has an agile approach to quickly adapt to the market dynamics and changing customer needs which includes use of open-source technology. Thus, JIOFIN will leverage best in class technology with no legacy book or technology debt, being born in 2023 and this provides a cost-effective, modern back end and front-end technology stack.

Investment Rationale

Favorable industry trends and market opportunities:

The financial services industry in India is a vital component of the country's economy, contributing significantly to its growth and development. Demand for financial services is led by favorable demographics, rising affluence, finalization of savings and robust public digital infrastructure. There has been continuous progress on digital adoption, which is visible through rapid growth of online engagement with increasing user activity across the entire funnel of smartphone-led, online usage of commerce and services.

There is a genuine shift towards digitization of the economy, which today represents untapped opportunity. And as a result, cash usage is expected to come down further as proliferation in digital infrastructure (UPI, QR, POS) continues to encourage the use of digital payments. This specific target market, comprises of individuals and small businesses who have been underserved or have limited access to financial services. While there is immense opportunity in Tier 3 and Tier 4 cities, large cities also remain untapped as increase in the rate of urbanization will also offer opportunities in the new to credit segment.

JIOFIN expects a 450 Mn working population with favorable demographics and the 12th largest HNI population to drive digital financial services adoption. The financial services industry presents a large digital financial offering by FY26E, which includes a credit opportunity of ~INR 60 Tn, a gross written premium of INR 15 Tn, an AUM of INR 79 Tn for mutual funds, and INR 3,892 Tn in digital payment. JIOFIN aims to offer personalized financial products and services to cater to needs of this segment. Additionally, its partners will act as a catalyst for its growth due to the varied business interests which could assist the NBFC in running various pilot programs and customized service offerings to meet the diverse requirements of each sector.

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Management

Mr. Hitesh Kumar Sethia, Managing Director and Chief Executive Officer: Mr. Hitesh Kumar Sethia is the President and Chief Executive Officer of the Company. He is a fellow member of the Institute of Chartered Accountants of India. He has completed the advanced management program from Harvard Business School. He is a financial services executive with over two decades of experience across Europe, Asia (India and Greater China) and North America. He has spent most of his career at ICICI Bank Limited gaining functional experience and handling leadership roles across various departments. He has an extensive experience in the areas of strategy formulation, market development, compliance, risk management and team building across multiple countries. He has also been involved with setting up and scaling operations as a key member of the set-up team for ICICI Bank Limited, Canada, and as the first employee of ICICI Bank Limited in Germany.

Mr. Charanjit Attra, Group Chief Operating Officer: Mr. Charanjit Surindra Singh Attra is the Group Chief Operating Officer of the Company. He has been associated with the Company since July 3, 2023. He is a fellow member of the Institute of Chartered Accountants of India and a certified public accountant from Denver, Colorado. Prior to this role he was the Chief Financial Officer of State Bank of India wherein his portfolio included accounting, capital planning & investor relations. Prior to State Bank of India, he was a partner with Ernst and Young Associates, a member firm of EY Global. He has also worked with ICICI Bank Group in different functional departments including Operations, IFRS, USGAAP & SOX implementation.

Mr. Manish Kumar Singh, Group Chief Human Resources Officer: Mr. Manish Kumar Singh is the Group Chief Human Resources Officer of the Company. He has been associated with the Company since July 1, 2023. He holds a master's degree in human resources and organizational development from Delhi School of Economics. Prior to this role, he was working with the Abu Dhabi Department of Economic Development, as CHRO, to establish a new financial institution in the United Arab Emirates. He has also worked with ICICI Bank Group in various leadership roles in Human Resources across the country and in international geographies.

Mr. Abhishek Pathak, Group Chief Financial Officer: Mr. Abhishek Haridas Pathak is the Group Chief Financial Officer of the Company. He has been associated with the Company since February 24, 2023. He is a fellow member of the Institute of Chartered Accountants of India. He also holds a master's degree in business administration from Babson College, Boston, USA. He was part of the setup team for the New Development Bank (also known as the BRICS Bank – Multilateral Development Bank) headquartered in Shanghai, China. The bank was established by Brazil, Russia, China, India, and South Africa. He was involved in setting up the core finance function of the bank and availing the bank's international credit rating and mobilizing resources, raising funds through the inaugural Green RMB Bond. Prior to his role at the New Development Bank, he worked with ICICI Group in different functional departments.

Ms. V Mohana, Group Company Secretary and Compliance Officer: Ms. Mohana V is the Group Company Secretary and Compliance Officer of the Company. She has been associated with the Company since March 21, 2023. She holds a bachelor's degree in commerce and a bachelor's degree in law from Bangalore University. She is also a fellow member of the Institute of Company Secretaries of India and has over 28 years of experience in corporate legislations, compliances and corporate due diligence. She has been associated with Reliance Industries Limited since 2016. Prior to joining Reliance Industries Limited, she has worked with Biocon Limited and GMR Group.

Board of Directors

Mr. Kundapur Vaman Kamath, Independent Director and Non-executive Chairman: Mr. Kamath is an Indian banker having started his career in 1971 at ICICI. In 1988, he moved to the Asian Development Bank and spent several years in Southeast Asia before returning to the ICICI as its Managing Director and CEO in 1996 and post its merger into ICICI Bank, was Managing Director and CEO of ICICI Bank. Under his leadership, ICICI Bank transformed itself into a diversified, technology-driven financial services group across banking, insurance, and asset management in India with a global presence. He is currently the Chairman of the National Bank for Financing Infrastructure and Development (NaBFID). Mr. Kamath was awarded the Padma Bhushan, one of India's highest civilian honours in 2008. Mr. Kamath is a mechanical engineer and completed his Post-Graduation in Business Administration from the Indian Institute of Management, Ahmedabad.

Ms. Isha M. Ambani, Non-Independent and Non-Executive Director: Isha M. Ambani is an Indian business leader. She is part of the executive leadership teams as a Member of the Board at Reliance Industries Limited, Reliance Retail Venture Limited, Reliance Jio Infocomm Limited, Jio Platforms Limited and Reliance Foundation (RF), Reliance Foundation Institution of Education and Research, and Dhirubhai Ambani International School. Isha M. Ambani is driving the expansion of Reliance Retail into new categories, geographies and formats and is focused on enhancing the overall customer experience. Isha M. Ambani has led the expansion of the digital footprint for Reliance Retail and launched new formats such as the eCommerce business Ajio, and the online beauty platform Tira.

Mr. Rajiv Mehrishi, Independent Director: Mr. Mehrishi holds a degree in B.A. (Hons.) History, M.A. (History) from St. Stephen's College, Delhi and MBA from the University of Strathclyde, Glasgow, U.K. He has a wide experience of over four decades in various fields including corporate law, audit and corporate governance. He was also involved in the important reforms relating to setting up of the Monetary Policy Committee, and enactment of the Indian Bankruptcy Code. Mr. Mehrishi also held the position of Union Home Secretary in the Central Government and as the 13th Comptroller and Auditor General of India, he was involved in auditing various transactions of both State and Central Government across all Departments and Ministries. He is also a recipient of Padma Bhushan, one of the highest civilian honors of India, in the year 2022.

Mr. Sunil Mehta, Independent Director: Mr. Mehta holds Master's degree in Agronomy, MBA in Finance and is a Certified Associate of Indian Institute of Bankers. He is the Chief Executive of Indian Banks' Association which acts as a representative of over 236 member banks and associate members operating in India and plays a collaborative role between banks, regulators and government in improving customer service with a focus on digital banking.

Mr. Bimal Manu Tanna, Independent Director: Mr. Tanna is a Chartered Accountant having more than 35 years varied experience in practice and in industry. He has been part of a highly reputed domestic as well as a professional services MNC firm and has served some of the largest domestic and overseas MNC clients primarily across tax, due diligence and valuation services.

Mr. Anshuman Thakur, Non-Independent and Non-Executive Director: Mr. Anshuman Thakur has 24 years of experience in corporate strategy and investment banking and has worked across diverse Industries. Currently he is Senior Vice President at Jio Platforms Limited and responsible for strategy and planning functions. He joined the Reliance Group in 2014 and has ever since been closely involved with the Jio and retail businesses.

Mr. Hitesh Kumar Sethia, Managing Director and Chief Executive Officer: Mr. Hitesh Kumar Sethia is the Managing Director and Chief Executive Officer of the Company. He has spent most of his career at ICICI Bank Limited gaining functional experience and handling leadership roles across various departments. He has also been involved with setting up and scaling operations as a key member of the set-up team for ICICI Bank Limited, Canada, and as the first employee of ICICI Bank Limited in Germany.

Outlook and Valuation

Outlook:

Jio Financial Services aims to democratize financial services across the country by offering simple, innovative and intuitive products which will be delivered digitally. It will aim to serve the needs of two categories customers namely, a) consumers and b) merchants. We believe the focus on the consumer lending segment will continue to dominate the entire business profile of the Company, considering a healthy trajectory in the credit offtake led by this segment.

In a phased manner, it aims to provide financial services to fulfil customer needs across the important spectrums of financial services. The expansions of products across the businesses will widen JIOFIN's product and services offering to its customers and can leverage its distribution network to cross these to its existing customer base, which will likely to expand the revenue base for the Company.

The penetration of mobile data indeed provides a strong opportunity to serve the transacting needs of its customers through its digital products. These payment capabilities are , however, expected to provide vital fulfilment tools for all its products across all subsidiaries.

JIOFIN is well-positioned to gain higher traction across all its business segments given its strong parentage and a wide customer base of its parent company. The diversified business model is well placed to fulfil the financial requirements of the customers. The lending demand moving towards consumption & unsecured finance and the current gap in addressing customer requirements are the strong triggers for the shift in the product mix.

JIOFIN is planning to build a comprehensive ecosystem to cater to various financial services. It is actively exploring partnerships which will help to offer co-branded credit cards to its customers.

Capital adequacy is expected to remain strong for the NBFC, which will support the growth aspiration of the company and also act as a provision buffer for any contingencies.

Valuation

We value the NBFC based of its September-23 Book value of INR 180.0 per share. We assign a P/BV multiple of 2.0x on to arrive at a Target Price of INR 290 per share, an upside of 23.2% over CMP. We have considered a holding company discount of 20.0% for JIOFIN’s subsidiary valuation. We Initiate Coverage on JIO Financial Services Ltd. with a BUY rating.

Risks and Concerns:

- Any delay in getting business licenses will have an impact on the overall business operations.
- The valuation of the Company may be impacted by various factors such as complex structure, lack of control, dividend taxation, etc., leading to potential variations in the Holdco discount provided to JIOFIN as an investment holding company. Thus, impacting the valuation of the Company.
- The NBFC is a holding company. As a result, the majority of the revenues that the Company will realize will be derived from the dividends that the subsidiaries, joint ventures, and associates may declare from time to time. Subsidiaries are the only entities that can undertake any new allied line of business. Currently, JIOFIN's subsidiaries are in growth mode and will primarily utilize their internal accruals for growing their respective businesses. Consequently, in the event that one or more of its subsidiaries, associates, and joint ventures are unable to or do not declare dividends for whatever reason, including any macroeconomic situation, requirement under applicable law, or other factors generally affecting the industry in which such subsidiaries, associates, and joint ventures operate, JIOFIN may have lesser, significantly lower, or no revenues.
- JIOFIN operates in various business verticals through its subsidiaries joint venture and associates, and its inability to effectively manage its diversified operations may have an adverse effect on its business.
- Various factors that are beyond JIOFIN's control, such as macro-economic factors (including a rise in unemployment, a sharp and sustained rise in interest rates, adverse developments in the Indian economy, movements in global commodity markets and exchange rates) regulatory changes and global competition as well as customer specific factors such as wilful default and mis-management of a customer's operations, give rise to and cause an increase in the level of NPAs and have an adverse impact on the quality of its loan portfolio. If the NPAs increase, the NBFC will be required to increase its provisions, which would result in its net profit being less than it otherwise would be and would adversely affect its financial position.
- Interest rates are sensitive to many factors beyond its control, including the monetary policies of the RBI, domestic and international economic and political conditions, inflation and other factors. The NBFC's ability to pass on any increase in interest rates depends on its borrowers' willingness to pay higher rates and the competitive landscape in which it operates. JIOFIN may borrow funds on both fixed and floating rates. Its loan products may comprise fixed and floating interest rates. If it is unable to match its lending portfolio with its borrowings, the NBFC would be exposed to interest rate and liquidity risks as a result of lending to customers at interest rates and in amounts and for periods that may differ from its funding sources. Any increase in the interest rates applicable to its liabilities without a corresponding increase in the interest rates applicable to its assets will result in a decline in its net interest margin.
- JIOFIN may be considered as part of the RIL group for the purpose of the large exposure framework applicable to commercial banks, as stipulated by the RBI. Its borrowings will also be counted towards exposure to the group including RIL and its subsidiaries, which limits its ability to avail debt funding from scheduled commercial banks which may adversely affect its business.
- Any downgrade in its credit ratings in future could increase interest rates for refinancing its outstanding debt, which could increase its financing costs, and could also adversely affect the future issuances of debt and the NBFC's ability to borrow on a competitive basis.
- JIOFIN's Subsidiary RRFL, which is an NBFC-ND-SI, is subject to the minimum Capital to Risk Weighted Assets Ratio (CRAR) requirements specified by RBI.

Financials

Income Statement

INR Mn	FY21	FY22	FY23
Interest Income	2,952	1,481	383
Finance Cost	1,106	0	0
Net Interest Income (NII)	**1,846**	**1,481**	**383**
Dividend Income	0	0	3
Fees and commission income			0
Net gain on fair value changes	0	5	30
Other income	156	357	32
Total Operating Income	**2,002**	**1,843**	**448**
Total Operating Expenses	**822**	**71**	**56**
Pre-Provisioning Operating Profit (PPOP)	**1,181**	**1,771**	**393**
Impairment of financial instruments	0	3	-101
Profit Before tax & share of profit of Associates and Joint venture	**1,181**	**1,769**	**493**
Share of profit of Associates and Joint Venture	0	0	0
Tax Expenses	-50	88	181
Profit After Tax	**1,231**	**1,680**	**313**
Reported Basic Earnings Per Share (EPS)	238.1	325.1	60.5

Balance Sheet

INR Mn	FY21	FY22	FY23
Cash and Cash equivalents	4	5	632
Bank Balances other than cash and cash equivalents	0	0	59,807
Loans	19,511	20,010	411
Investments	575	1,809	1,081,409
Other financial assets	0	0	3,690
Total financial assets	**20,090**	**21,824**	**1,145,950**
Current tax assets	348	404	839
Deferred tax assets	39	53	0
Property, plant and equipment		0	396
Intangible assets		0	179
Other non-financial assets	125	0	1,932
Total non-financial assets	**513**	**457**	**3,346**
Total Assets	**20,602**	**22,281**	**1,149,296**
Liabilities			
Payables	0	0	164
Borrowings	0	0	7,428
Other financial liabilities	1	1	176
Total financial liabilities	**1**	**1**	**7,767**
Deferred tax liability	0	0	66
Provisions	0	0	8
Other non-financial liabilities	2	0	251
Total non-financial liabilities	**2**	**0**	**325**
Total Liabilities	**2**	**1**	**8,092**
Equity share capital	20	20	20
Share capital pending allotment		0	63,533
Instruments entirely equity in nature	3	3	3
Other equity	20,577	22,257	1,077,647
Total Equity	**20,600**	**22,280**	**1,141,203**
Total Liabilities and equity	**20,602**	**22,281**	**1,149,296**

Source: KR Choksey Research

Rating Legend (Expected over a 12-month period)	
Our Rating	**Upside**
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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