

Fino Payments Bank

Recommendation: SUBSCRIBE

October 27, 2021

Details of the Issue

Price Band	₹ 560 - ₹ 577
Issue Size	₹ 1,200 Cr
Opening Date	Oct 29, 2021
Closing Date	Nov 2, 2021
Face Value	₹10
Bid Lot	25
Listing on	BSE, NSE

Objects of the Issue

Augment the Tier 1 Capital

Lead Managers

Axis Capital Limited
CLSA India Private Limited
ICICI Securities Limited
Nomura Financial Advisory And Securities (India) Pvt Ltd

Registrar

KFintech Private Limited

Investment Details

No. of shares at cut-off	325
Max. Amount to be paid	₹ 1,87,525

Offer Details

Fresh Issue	₹ 300 cr
OFS	₹ 900 cr

Company Background

Fino Payments Bank Limited ("Fino Bank") was incorporated on June 23, 2007. Fino Bank is a growing fintech company offering 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 their target market via a pan-India distribution network and proprietary technologies, and since 2017, they have grown their operational presence to cover over 90% of districts as of September 31, 2021.

Fino Bank operates an asset light business model that is underpinned by their "phygital" delivery model (i.e., a combination of physical and digital) and relies on their merchant network and other participants.

Bank's products and services includes 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").

In the financial years 2019, 2020, 2021 and the 3 months ended June 30, 2021, their platform facilitated approximately 15.40 crore, 31.86 crore and 43.50 crore and 12.34 crore transactions, respectively and had gross transaction value of ₹45,684.80 crore, ₹94,452.58 crore, ₹132,930.69 crore and ₹ 39,035.99 crore, respectively

As of June 30, 2021, Fino Banks has built a pan-India presence with 724,671 merchants (own and API) which are typically located in Tier-2 and Tier-3 towns. They currently have approximately 17,430 active BCs across India. Additionally, they operate 54 branches and 130 Customer Service Points ("CSPs").

Fino Bank is currently a wholly-owned subsidiary of Fino Paytech Ltd, whose principle shareholders include marquee investors such as ICICI Bank Ltd, Intel Capital Corporation, International Finance Corporation, HAV3 Holdings (Mauritius) Ltd, Blackstone GPV Capital Partners (Mauritius) VI-B FDI Ltd and Bharat Petroleum Corporation Ltd.

Fino Bank operates 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 their assisted-digital ecosystem, referred to as their "phygital" delivery model (i.e., a combination of physical and digital). The merchant's use of technology and their 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 them 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.

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

- were ranked 3rd among banks in facilitating digital transactions, as of February 2020 by the Ministry of Electronic & Information Technology;
- had the largest network of micro-ATMs, as of March, 2021.

Source: RHP, GEPL Capital Research

Fino Payments Bank

October 27, 2021



Fig. The Fino Banking Platform

Strengths & Strategies

The DTP Framework

Bank's unique DTP framework enables them to serve their target market efficiently and is designed to achieve improvements on 3 key challenges associated with serving such target market, being:

- Scale - the significant investment of time and capital required to develop and deploy the infrastructure needed to establish the necessary geographic reach;
- 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
- 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.

A Technology Focused Business Model with an Advanced Digital Platform

The mobile application, 'Fino BPay', which is a digital solution, utilizes the Unified Payments Interface ("UPI") for secure and fast personal banking and merchant payments, among other functions and targets retail customers. In addition, their 'Fino Mitra' app serves as a one-stop-shop solution for their merchants by providing banking and payments related services. They have a dedicated business technology team with approximately 110 technical staff as of June 30, 2021, to research, test and develop technology.

Leverage their Market Position to Capture Industry Opportunities

Fino Bank has substantial experience of operating in the market and has a deep understanding of their customer's needs. The combination of track record and customer knowledge positions them well to seize upon the significant opportunity for their future growth. 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.

Continued Innovation Leading to High Growth Products and Diversified Revenue Streams

Fino Bank operates 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. They also intend targeting high growth products with high margins within their

Fino Payments Bank

October 27, 2021

existing offering, as well as exploring new and/ or improved products, in each case with a focus towards products offered through their “own” channel.

Valuation & Recommendation

As of September 30, 2021, Fino Bank has an operational presence in over 90% of districts, and during the last 3 financial years and 3 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 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 channel.

We recommend a subscribe rating to the issue.

Financial Snapshot

Particulars	Q1FY22	Q1FY21	FY21	FY20	FY19
Equity Share Capital	44.58	44.58	44.58	44.58	44.58
Reserves	109.1	87.34	105.97	85.49	117.53
Net worth as stated	153.68	131.92	150.55	130.07	162.11
Interest earned	6.06	4.43	20.26	18.13	19.15
Non-Interest Income	200.19	146.9	770.77	673.27	351.97
Total Income	206.24	151.32	791.03	691.4	371.12
PAT	3.13	1.85	20.47	-32.04	-62.38
EPS (₹)	0.4	0.24	2.62	-4.11	-8
NAV (₹)	19.7	16.91	19.3	16.67	20.78

(in Rs cr except per share data)

Fino Payments Bank

October 27, 2021

NOTES

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