



Fedbank Financial Services Ltd



Not Rated

Fedbank Financial Services stands out as a retail-centric non-banking finance company (NBFC) recognized for its low borrowing costs. In Fiscal 2023, Fedbank secured the second-lowest borrowing costs among its peer set in India, encompassing micro, small, and medium enterprises (MSMEs), gold loan providers, and MSME & gold loan NBFCs. The company's clientele primarily comprises MSMEs and emerging self-employed individuals (ESEIs), reflecting its focus on serving these dynamic sectors.

Fedfina's impressive growth trajectory continued in 2023, demonstrating its strong position in the Indian NBFC landscape. As of March 31, 2023, Fedfina emerged as the third fastest-growing NBFC among its peers in India, achieving a remarkable 3-year CAGR of 33% between Fiscals 2020 and 2023. This momentum extended to the three-month period ending June 30, 2023, where Fedfina secured the fourth fastest year-on-year AUM growth of 42%. These achievements underscore Fedfina's ability to attract and retain customers, solidifying its position as a leading player in the Indian NBFC sector.

Fedfina has a robust nationwide presence, spanning 17 states and union territories as of June 30, 2023. With a strong foothold in Southern and Western India, Fedfina operates through an extensive network of 584 branches, covering 190 districts across the country. Their physical presence is complemented by a "Phygital" doorstep model, which seamlessly integrates digital and physical initiatives to provide customized services and maintain constant customer engagement.

Fedfina originally planned a larger initial public offering (IPO) in February 2022 but later withdrew the application. In July 2023, they filed again for a smaller IPO, and now they are finally going public with an even smaller IPO. This delay has raised concerns among investors.

Company has an AUM of 9400 cr. Secured portfolio forms 86% of the overall loan book (Jun-23). Gross NPA for the Company stands at 2.3% and Net NPA of 1.8%

As on June 2023 ROAA stood at 2.3% and ROAE of 14.4%

Key Financial Data (INR Cr, unless specified)

	Interest earned	NII	Net Profit	NIM (%)	EPS (₹)	BVPS (₹)	RoAA (%)	RoAE (%)	P/E (X)	P/BV (X)
FY21	658.1	345.1	61.9	6.3	2.1	28.8	6.40	14.40	66.7	4.9
FY22	821.8	474.2	103.5	7.9	3.3	35.8	7.20	15.10	42.42	3.9
FY23	1,110.1	638.0	180.4	8.2	5.5	42.0	7.80	16.00	25.45	3.3

Industry	NBFC
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Issue Details

Listing	BSE & NSE
Open Date	22 ND NOV 2023
Close Date	24 TH NOV 2023
Price Band	INR 133-140
Face Value	INR 10
Market Lot	107 SHARES
Minimum Lot	1 LOT

Issue Structure

Offer for Sale	45%
Fresh Issue	55%
Issue Size (Amt)	INR 1092cr
Issue Size (Shares)	78073810
QIB Share (%)	50%
Non-Inst Share (%)	15%
Retail Share (%)	35%
Pre issue sh (nos)	322,477,605
Post issue sh (nos)	365,389,692
Post issue M Cap	INR 5165cr

Shareholding (%)	Pre (%)	Post (%)
Promoter	72.2%	62.4%
Public - Investor Selling S/h	25.4%	14.4%
Public	2.3%	23.2%
TOTAL	100	100

Growth Strategies

- The company has a significant presence in underserved markets with high growth potential, allowing it to tap into a large and growing customer base.
- The company specializes in retail loan products, which are typically characterized by lower credit risk and higher yields compared to other loan types.
- The company's target customer segments, including individuals and the emerging MSME sector, represent a significant and underserved market opportunity.
- The company has developed a strong underwriting capability that enables it to effectively assess creditworthiness and minimize risk.
- The company leverages technology to streamline its operations and enhance efficiency.
- The company has a well-diversified funding profile, which minimizes its reliance on any single funding source and reduces its overall funding risk.
- The company's leadership team has extensive experience in the financial industry and has successfully navigated through various economic cycles.

Key Risks and Concerns

- Fed Fina is heavily concentrated in six states and two union territories, with 93.65% of gross AUM located in these regions. As a result, any adverse developments in these areas could have a significant impact on their performance.
- Company has negative cash flow and may continue to have negative cash flow in the future.
- Company handles high volume of cash and gold jewellery across branches which exposes them to employee negligence, fraud, petty theft, burglary, and embezzlement.
- Company needs to maintain their capital adequacy ratio.
- Company needs to maintain their debt obligations.

Issue Structure and Offer Details

The proposed offer for sale size is INR 492cr and the price band for the issue is in the range of INR 133-140 and the bid lot is 107 shares and multiples thereof. The size of fresh Issue is INR 600cr.

The company intends to utilize the net proceeds from the issue towards the funding of the following objects:

1. Augmenting the company's Tier I capital base to meet the company's future capital requirements, arising from the growth of the business and assets.
2. Meeting offer expenses.

Issue Structure	
Investor Category	Allocation
QIB	Not more than 50% of the Offer
NIB	Not less than 15% of the Offer
Retail	Not less than 35% of the Offer

Number of shares based on a higher price band of INR 140

Source: Company Reports

Details of the selling shareholders		
Promoter Selling shares	Amount offered(cr)	No of shares
The Federal Bank Ltd	76	5,474,670
Other Selling Shareholders		
True North Fund VI LLP	415	29,687,053

The amount is based on a higher price band of INR 140

Source: Company Report

FINANCIAL SUMMARY AND ANALYSIS

Y/E March (INR crore)	FY21	FY22	FY23	Y/E March (Rs crore)	FY21	FY22	FY23
Income Statement				Ratio Analysis			
Interest Income	658.1	821.8	1,110.1	Int Expended / Int Earned	47.6	42.3	42.5
Interest Expense	313.0	347.6	472.1	Int Income / Total Funds	12.0	12.5	12.2
Net Interest Income	345.1	474.2	638.0	NII / Total Income	49.5	53.7	52.5
YoY change (%)		37.4	34.5	Other Inc. / Total Income	5.6	7.0	8.6
Other income	39.3	61.6	104.4	Ope. Exp. / Total Income	44.0	44.9	39.8
Total Net Income	384.4	535.8	742.4	Net Profit / Total Funds	1.1	1.6	2.0
Total Operating Expenses	307.2	396.5	483.9	Credit / Deposit	1.1	1.2	1.2
Pre Provision profit	77.2	139.3	258.5	Investment / Deposit	0.0	0.1	0.1
YoY change (%)		80.4	85.6	NIM %	6.3	7.9	8.2
Provisions	0.0	0.0	0.0	Solvency			
Profit Before Tax	77.2	139.3	258.5	Gross NPA	46.8	128.5	164.5
YoY change (%)		80.4	85.6	Net NPA	32.8	100.0	128.0
Taxes	15.3	35.8	62.8	Gross NPA (%)	1.0	2.2	2.0
Net profit	61.9	103.5	180.4	Net NPA (%)	0.7	1.7	1.6
YoY change (%)		67.2	74.3	Per Share Data (`)			
Balance Sheet				EPS	2.1	3.3	5.5
Cash and Bank	680.7	142.5	94.5	NAV	28.8	35.8	42.0
Advances	4,552.1	5,644.8	7,999.6	Valuation Ratio			
Investments	32.4	514.3	680.6	Adj P/E (x)	66.7	42.4	25.5
Other financial assets	181.8	223.0	265.2	Adj P/BV (x)	4.9	3.9	3.3
Net block	18.8	30.8	30.6	Return Ratio			
Total Assets	5,465.8	6,555.4	9,070.5	RoAA (%)	6.4	7.2	7.8
Borrowings	4,069.5	4,757.7	6,875.9	RoAE (%)	14.4	15.1	16.0
Other Borrowings	383.0	396.0	393.6	Growth Ratio (%)			
Other liabilities	158.1	210.9	350.7	Interest Income	-	24.9	35.1
Networth	0.0	0.0	0.0	Interest Expenses	-	11.1	35.8
Total liabilities	4,610.6	5,364.6	7,620.2	Total Income	-	26.7	37.5
Dupont Analysis				Net profit	-	67.2	74.3
% of Average Assets				Net advances	-	24.0	41.7
Net Interest Income	6.3	7.9	8.2				
Other Income	-	1.0	1.3				
Net Income	-	8.9	9.5				
Operating Expenses	-	6.6	6.2				
Operating Profit	-	2.3	3.3				
Provisions	-	0.0	0.0				
Taxes	-	0.6	0.8				

Source: Ventura Research

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