

Company Overview

Incorporated in 1995 in Kerala, Fedbank Financial Services Ltd. (FFSL) is a retail-focused NBFC, targeting MSMEs and emerging self-employed individuals (ESEIs) sector. The company has a well-tailored suite of products to match customer needs, including housing loans, small ticket loans against property (LAP), medium ticket LAP, unsecured business loans, and gold loans. The NBFC has registered third fastest AUM growth among NBFCs in the peer set in India, with a three-year CAGR of 33% during FY20-23 period and the fourth fastest annual AUM growth of 42% for three months ended June 30, 2023. As of June 30, 2023, the company's AUM across various products stood at: 33.1% for gold loans, 25.3% for medium ticket LAP, 24.5% for small ticket LAP and housing loans and 15.8% for unsecured business loans. Additionally, FFSL is the fastest-growing gold loan NBFC in India among the peer set as of March 31, 2023, and had the fastest annual growth among gold loan NBFCs in India as of June 30, 2023. Its operations are spread across 17 states and union territories across India, with a strong presence in the southern and western regions. As of June 30, 2023, they covered 190 districts in 17 states and union territories in India through 584 branches. Due to its "Phygital" doorstep model, a combination of digital and physical initiatives for providing customised services to its customers across all products, the company can validate data and analyse the customers' creditworthiness. Furthermore, their underwriting process has allowed them to manage defaults and NPAs across all its products.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Towards augmenting the company's capital base to meet future capital requirements and on-ward lending.
- ⇒ The selling shareholders will receive the offer proceeds.

Investment Rationale

Focus on retail loan products with a collateralised lending model targeting individuals and emerging MSME sector

FFSL focuses on a collateralised lending model for its retail finance segment, targeting ESEI consumers and the emerging MSME sector. As of June 30, 2023, 86.2% of its total loan assets were secured against tangible assets. Its average ticket size was Rs. 0.13 million in the three months ended June 30, 2023. Out of the collateral for the medium ticket LAP and small ticket LAP, 77.4% of the collateral is self-occupied residential or commercial property as of June 30, 2023. As of June 30, 2023, the average LTV on its total loan assets with property collateral at the time of sanctioning the loan was 51.4%. The ESEI and MSME segment is largely unaddressed by lending institutions in India and FFSL's products meet the specific requirements of its target customers with quick turnaround times and customised services for each customer's unique needs.

Diversified funding profile with the advantage of lower cost of funds

FFSL's ability to access diversified funding sources is a key contributor for their growth. They intend to continue diversifying their funding sources, identify new sources and pools of capital, and implement robust asset liability management policies to optimise their borrowing costs further and help expand the net interest margin. Their average cost of borrowing was 8.8% (annualised), 7.8%, 7.4%, and 8.3% for 1QFY24, FY23, FY22 and FY21, respectively. The company can access borrowings at a competitive cost due to their stable credit history, credit ratings, conservative risk management policies and strong brand equity. The NBFC has been rated "AA-" by CARE for its NCDs since 2022 and "AA-" by India Ratings and Research Private Limited for its NCDs and bank loans since 2018. FFSL is one of the only two long-term AA- rated players among the peer set, with a cost of borrowing less than 8.5% between FY19 and FY23. Its rating of "AA" and "AA-" indicates resilient liability origination despite challenges faced by the Indian economy due to varied factors and the failure of other NBFC companies in India.

Issue Details

Offer Period	22 nd Nov, 2023 - 24 th Nov, 2023
Price Band	Rs. 130 to Rs. 140
Bid Lot	107
Listing	BSE & NSE
Issue Size (no. of shares in mn)	78
Issue Size (Rs. in bn)	10.92
Face Value (Rs.)	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	ICICI Securities, BNP Paribas, Equirus Capital, JM Financial
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Registrar	Link Intime India Pvt. Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter	72.28%	62.40%
Public - Investor Selling	25.40%	14.40%
Public - Others	2.33%	23.20%
Total	100.00%	100.00%

(Assuming issue subscribed at higher band)

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Fedbank Financial Services Ltd.

Valuation and Outlook

NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than Rs. 2 trillion assets under management (AUM) at the turn of the century to Rs. 34 trillion at the end of FY23. Their share in the overall credit pie has increased from 12% in FY08 to 18% in FY23 and is projected to remain stable in FY24. By catering to under-banked, lower-income and mass-market customers who are unserved or underserved by banks, NBFCs have enhanced financial inclusion and expanded the market for formal financial services. FFSL has an edge over its peers as it has access to capital from its Promoter, Federal Bank. Additionally, they have grown their liability relationships from 23 lending institutions as of March 31, 2021, to 27 institutions as of June 30, 2023. Additionally, as of June 30, 2023, they have borrowed from 12 private sector banks (including its Promoter, Federal Bank), nine public sector banks, one NBFC, one foreign bank and four other entities (such as the Small Industries Development Bank of India). It has logged the third-fastest AUM growth amongst NBFC peers set in India, with a three-year CAGR of 33% during FY20-23 period. FFSL has also marked steady growth in its top and bottom lines over the last three years. Moreover, the NBFC has an effective underwriting capability due to its experienced underwriting team and established processes, which is likely to keep asset quality issues at bay going forward. **On the valuation front, the issue is valued at a P/BV of 3.3x on the upper price band based on the FY23 book value. With most of the positives seemingly priced in, we advise investors to "SUBSCRIBE" to the issue for the benefit of listing gains.**

Key Risks

- ⇒ The NBFC derives a significant portion of its assets under management from gold loan products and the loss of business in relation to such gold loan products could adversely affect its business and prospects.
- ⇒ They have a huge concentration of loans to ESEIs and MSMEs and the risk of non-payment or default by its borrowers may adversely affect the business, results of operations and financial condition.
- ⇒ The NBFC may be unable to maintain the quality of its loan portfolio or manage the growing loan portfolio which may result in significantly larger non-performing assets and provisions.



Fedbank Financial Services Ltd.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
Revenue from operations			
(a) Interest income	6,581	8,219	11,102
(b) Fee and commission income	317	429	560
(c) Net gain on fair value changes	20	45	126
Total Revenue from operations	6,918	8,693	11,788
Other income	57	143	359
Total Revenue	6,976	8,836	12,147
Expenses			
(a) Finance costs	3,132	3,477	4,722
(b) Fees and commission expenses	120	147	233
(c) Impairment on financial instruments	712	839	489
(d) Employee benefits expenses	1,316	1,754	2,476
(e) Depreciation, amortisation and impairment	273	367	419
(f) Other expenses	653	861	1,225
Total expenses	6,206	7,444	9,563
Profit before exceptional items and tax	769	1,392	2,584
Exceptional items	-	-	-154
Profit before tax	769	1,392	2,430
Tax expenses:			
Current tax			
(1) Current tax	292	471	574
Deferred tax			
(2) Deferred tax (net)	-140	-114	55
Profit After Tax	617	1,035	1,801
Other Comprehensive Income/(Loss)			
(a) Items that will not be reclassified to profit or loss	0	0	0
(i) Remeasurement gain / (loss) on defined benefit plans (OCI)	4	9	2
(ii) Tax effect on Remeasurement gain / (loss) on defined benefit plans (OCI)	-1	-2	0
Total	3	7	1
(b) Items that will be reclassified to profit or loss			
(i) Fair value gain - OCI - Loans	Nil	Nil	163
(ii) Fair value gain - OCI - Investment in Government Securities	Nil	Nil	1
(iii) Tax effect on fair value gain - OCI - Loans	Nil	Nil	-41
Total	Nil	Nil	123
Other Comprehensive Income/(Loss)	3	7	124
Total Comprehensive Income	620	1,041	1,925
Earnings per equity share (EPS)			
(1) Basic (INR)	2.19	3.32	5.60
(2) Diluted INR)	2.18	3.31	5.59

Source: RHP, BP Equities Research



Fedbank Financial Services Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23
Assets			
Financial assets			
(a) Cash and cash equivalents	5,260	660	940
(b) Bank balances other than cash and cash equivalents	1,548	766	7
(c) Receivables			
(i) Trade receivables	12	118	149
(ii) Other receivables	32	39	48
(d) Loans	45,521	56,448	79,997
(e) Investments	325	5,143	6,806
(f) Other financial assets	135	118	645
Total Financial Assets	5,2833	63,292	88,590
Non-financial assets			
(a) Current tax assets (net)	99	119	120
(b) Deferred tax assets (net)	204	315	218
(c) Property, Plant and Equipment	189	309	307
(d) Right Of Use Assets	1,118	1,197	1,119
(e) Capital work in progress	10	7	5
(f) Other Intangible assets	23	31	32
(g) Other non- financial assets	188	288	318
Total Non Financial Assets	1,830	2,265	2,120
Total Assets	54,663	65,557	90,710
Liabilities and Equities			
Financial liabilities			
(a) Derivative financial instruments	0	0	48
Trade payables			
(i) total outstanding dues of micro enterprises and small enterprises	0	0	0
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	43	64	261
Other payables			
(i) total outstanding dues of micro enterprises and small enterprises	0	0	0
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	0	0	0
(b) Debt securities	5,937	5,334	6,112
(c) Borrowings (other than debt securities)	34,759	42,243	62,649
(d) Subordinated Liabilities	2,585	2,591	2,597
(e) Lease Liability	1,246	1,370	1,340
(f) Other financial liabilities	1,581	2,110	3,508
Total Financial Liabilities	46,152	53,713	76,516
Non-financial liabilities			
(a) Current tax liabilities (net)	0	0	0
(b) Provisions	30	31	62
(d) Other non-financial liabilities	134	278	575
Total Non Financial Liabilities	164	309	637
Equity			
(a) Equity share capital	2,899	3,215	3,219
(b) Other equity	5,448	8,320	10,338
Total Equity	8,347	11,535	13,557
Total Liabilities and Equities	54,663	65,557	90,710

Source: RHP, BP Equities Research

**Fedbank Financial Services Ltd.****Cash Flow Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23
Cash Flow from operating activities	-3,712	-5,779	-14,740
Cash flow from investing activities	-705	-4,169	-1,295
Cash flow from financing activities	8,255	5,347	16,315
Net increase/(decrease) in cash and cash equivalents	3,837	-4,601	280
Cash and cash equivalents at the beginning of the period	1,423	5,260	660
Cash and cash equivalents at the end of the period	5,260	660	940

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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