

# Fino Payments Bank Ltd.

BFSI | India

IPO | 27 October 2021

## Huge Opportunity from Digital Payments; Valuations Appear Pricey

### About the Company

Fino Payments Bank Ltd (FPBL), incorporated in 2017, is a growing fintech company, offering a wide portfolio of digital financial products and services in India. The company has a pan-India distribution network and its major products and services include: 1) current accounts and savings accounts (CASA), 2) issuance of debit card and related transactions, 3) facilitating domestic remittances, 4) open banking functionality (through their Application Programming Interface), 5) withdrawing and depositing cash (via micro-ATM or Aadhaar Enabled Payment System (AePS), and 6) cash management services (CMS). FPBL's merchants facilitate it in cross-selling other financial products and services such as third-party gold loans, insurance, bill payments and recharges. FPBL also manages a large BC (Business Correspondents) network on behalf of other banks. For revenue generation, the company relies on fees and commissions from its merchant network and strategic commercial relationships. FPBL is looking to target a population of India, which has low levels of financial literacy and technology use and typically does not have access to even basic banking services. It 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. Additionally, FPBL has 54 branches, 130 Customer Service Points (CSPs) and 17,430 active BCs across India as of June 30, 2021.

### Financials in Brief

FPBL's financial performance has been consistently improving for the last two years, mainly led by a consistent increase in geographical reach, which is also evident with the fact that its BCs have recorded 37% CAGR over FY19-FY21. While income has seen a strong 46% CAGR during FY19-FY21, it turned profitable in FY21. While its common equity Tier- I (CET-1) ratio has been deteriorating for the last two years, CET-1 at 56% as of FY21 continues to look healthy. Further, RoE and RoA stood at 13.3% and 2% respectively, as of FY21, which look encouraging.

### Our View

The IPO is valued at 31.9x FY21 book value, which looks to be stretched. Notably, FPBL being a fintech, generates over 95% of its income through fees and commissions, and future growth is primarily dependent on incremental wallet share digital payment opportunity in the country. Given, digital payments are expected to cross Rs3,500tn in FY25E, recording a sharp 25-27% CAGR over FY21-FY25E, FPBL is poised to see healthy business opportunity in subsequent years in the backdrop of strong digital platform and resources built in the last couple of years. However, we believe current valuations do not leave much on the table for investors in the medium-term perspective.

#### IPO Details

Pice Band	Rs560-577
Face Value (Rs)	10
Issue Open/Closing Date	29th Oct / 2nd Nov'21
Fresh Issues (mn)	5.2
OFS (mn)	15.6
<b>Total Issue (mn)</b>	<b>20.8</b>
Minimum Bid Qty. (Nos)	25
<b>Issue Size (Rs bn)</b>	<b>12.0</b>
QIB / HNI / Retail	75% / 15% / 10%
<b>Implied Market Cap (Rs bn)</b>	<b>48.0</b>

#### Object of the Issue

- ▶ To augment Tier-I capital base for future capital requirements

#### Key Risk

- ▶ Stringent regulatory requirements
- ▶ Intensive competition

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	100	75
Public	0.0	25.0

#### Key Financials

(Rs bn)	FY19	FY20	FY21
Total Assets	6.8	6.2	10.1
Income	3.7	6.9	7.9
EBITDA	(0.2)	(0.1)	0.7
NIM (%)	5.4	5.2	4.0
Adj. PAT	(0.33)	(0.32)	0.20
PAT Margin (%)	(8.9)	(4.6)	2.5
EPS (Rs)	(8.0)	(4.1)	2.6
P/E (x)	(145.5)	(150.0)	240.1
EV/EBITDA (x)	(243.0)	(542.4)	63.7
P/B (x)	29.6	36.9	31.9
Capital Ratio (CRAR) %	65.5	60.9	56.3
CET I Ratio (%)	65.5	60.9	56.3
Net Worth	1.6	1.3	1.5
RoA (%)	(4.8)	(5.1)	2.0
RoE (%)	(20.4)	(24.6)	13.3
OCF	0.3	(0.8)	(0.3)
OCF Yield (%)	0.6	(1.7)	(0.7)
FCF	0.1	(1.1)	(1.0)
Gross Debt	0.8	1.1	1.8
Net Debt/Equity (x)	(1.88)	(1.5)	(0.60)
Gross Block	0.79	1.10	1.77
Asset Turnover (x)	4.7	6.3	4.5
Bank Correspondents ('000)	9.2	12.3	17.3

Source: RHP

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