IPO Note

October 28, 2021

Fino Payments Bank Limited

Issue Snapshot:

Issue Open: Oct 29 – Nov 02 2021

Price Band: Rs. 560 – 577

Issue Size: 20,802,306 eq sh (Fresh issue of Rs.300 crs + offer for sale of 15,602,999 eq sh)

*Issue Size –Rs 1200.3 cr

Reservation for:

QIB	atleast	75% eq sh
Non Institutional	Upto	15% eq sh
Retail	Upto	10%eq sh
*Employee	Upto	51993 eq sh

Face Value: Rs 10

Book value: Rs 19.70 (June 30, 2021)

Bid size: - 25 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 78.0 cr
*Post issue Equity:	Rs. 83.2 cr

Listing: BSE & NSE

Book Running Lead Managers: Axis Capital Ltd, CLSA India Private Ltd, ICICI Securities Ltd, Nomura Financial Advisory and Securities (India) Private Ltd

Registrar to issue: KFin Technologies Private Ltd

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	100.0	75.0
Public	0.0	25.0
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Fino Payments Bank Ltd (FPBL) is a growing fintech company offering a diverse range of financial products and services that are primarily digital and have a payments focus. It offers such products and services to its target market via a Pan-India distribution network and proprietary technologies, and since 2017, it has grown its operational presence to cover over 90% of districts as of September 30, 2021. FPBL first became profitable in the fourth quarter of financial year 2020 and has been profitable in subsequent quarterly periods. It operates an asset light business model that principally relies on fee and commission based income generated from its merchant network and strategic commercial relationships. Each merchant serves the banking and financial needs of its community, which in turn forms the backbone of its assisted-digital ecosystem, referred to as its “phygital” delivery model (i.e., a combination of physical and digital). The merchant’s use of technology and its use of analytics on the data that it capture enhances the merchant’s ability to cross sell the third party products that it also offers, to its existing customers, thereby increasing potential revenue and opportunity to further customize its products and services offering.

FPBL’s products and services include various current accounts and savings accounts (“CASA”), issuance of debit card and related transactions, facilitating domestic remittances, open banking functionality (via its Application Programming Interface (“API”)), withdrawing and depositing cash (via micro-ATM or Aadhaar Enabled Payment System “AePS”) and cash management services (“CMS”). Its merchants also leverage the customer relationships within their respective communities to facilitate its cross-selling other financial products and services such as third party gold loans, insurance, bill payments and recharges. It also manages a large BC network on behalf of other banks. Income derived from all of its financial products and services in the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021 was Rs. 3,519.69 million, Rs. 6,732.67 million, Rs. 7,707.72 million and Rs. 2,001.86 million, respectively. In addition, as a condition of its RBI License FPBL is not permitted to directly provide credit products and thereby are not exposed to the credit risk associated with underwriting credit products. It has a strong leadership position within the Indian fintech industry, for instance it was ranked third among banks in facilitating digital transactions, as of February 2020 by the Ministry of Electronic & Information Technology; and had the largest network of micro-ATMs, as of August, 2021.

FPBL is also the only payments bank to offer a subscription based savings account in India (source: CRISIL). Its brand and reputation has played an important role in becoming an industry leader in fintech products and services, as well as to further developing its business and improving market position. Additionally, by remaining focused on payments business it is able to continue leveraging its deep market expertise which in turn helps it develop products and services that meet the needs of target market. Its unique framework of distribution, technology and partnership (“DTP” framework) enables to serve target market efficiently and is used to overcome and/ or achieve improvements on three key challenges associated with serving its target market, being scale, service and sustainability. The Company’s DTP framework allows to reach a vast number of customers in under-penetrated markets and keep its fixed costs low – all of which supports the sustainability and scalability of its business model. Its open banking API capability has also been an important element in the delivery of financial products and services to its customers.

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

Objects of Issue:

The Offer comprises the Fresh Issue and an Offer for Sale.

Offer for Sale

The Promoter Selling Shareholder shall be entitled to the proceeds from the Offer for Sale. FPBL will not receive any proceeds from the Offer for Sale.

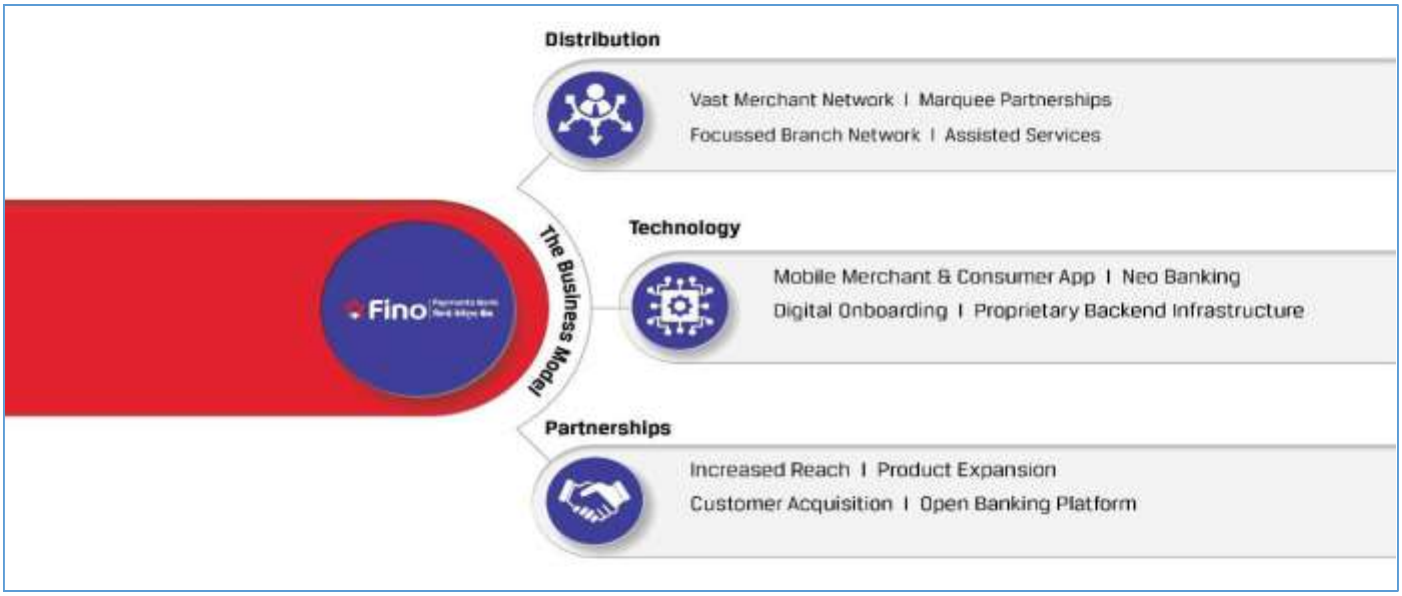
Fresh Issue

Bank proposes to utilise the Net Proceeds from the Fresh Issue towards augmenting its Tier – 1 capital base to meet its future capital requirements. Further, the proceeds from the Fresh Issue will also be used towards meeting the expenses in relation to the Offer. Additionally, Bank expects to receive the benefits of listing the Equity Shares on the Stock Exchanges.

Competitive Strengths

DTP Framework: FPBL's unique DTP framework enables it to serve target market efficiently and is designed to achieve improvements on three key challenges associated with serving such target market, being: (i) scale – the significant investment of time and capital required to develop and deploy the infrastructure needed to establish the necessary geographic reach; (ii) service – the high levels of upfront and continued customer service required to build and maintain trust among all of the communities in which it operates and target; and (iii) sustainability — the customized range of products required to meet the needs of target market. This framework creates a network effect and facilitates a seamless interplay between each of distribution, technology and partnerships. With respect to:

- **Distribution** – having access to a vast and established merchant network, the ability to draw upon their strong relationships and trust within the communities, a dedicated and focused branch network and large BC network;
- **Technology** – "phygital" model for delivering products, dedicated mobile banking applications for merchants and customers, a "neo banking" mindset, digital on-boarding, e-KYC and its in-house technology expertise and culture of application-led innovation which includes proprietary technology; and
- **Partnerships** – leveraging the increased reach of strategic commercial relationships, product portfolio expansion opportunities, greater customer sourcing and leveraging the open banking regime via API.



This framework differentiates FPBL from its competitors, is difficult to replicate, promotes effective delivery of its products, reinforces positive customer experiences, facilitates strong relationships and improves operational and strategic decision making, enabling to innovate products for customers.

Technology Focused Business Model with an Advanced Digital Platform*:* FPBL has and will continue to invest into technology throughout its business. Such investment has been made with a goal to offer an unparalleled user experience to its customers and empower its merchants to carry out more transactions. Accordingly, simplicity in its service and product design and efficient deployment are important factors for it, both of which are demonstrated in its Bpay app, the ease in which it on-board merchants through e-KYC, as well as Cash Bazzar initiative that assists in identifying merchant locations and directing customers to the nearest merchant outlet.

FPBL's in-house technology expertise and culture of application-led innovation, provides an attractive value proposition to its stakeholders. Currently, it is equipped with reporting process automation based processes at the back-end, SAS dashboards for analytics and demand forecasting, fraud risk management system for fraud detection, and other security systems and a network of servers. It has made significant investments in its technology infrastructure, having designed and digitized large portions of its technology processes, risk management protocols, data analytics capabilities and honed its "phygital" approach. Bank has a dedicated business technology team with approximately 110 technical staff as of June 30, 2021, to research, test and develop technology. This team is led by its Head Business Technology and its CIO who are each responsible for driving its technology solutions. Its customer focused product offering through self-assisted channels such as the web portal, hand held devices and other channels like mobile wallets, internet banking, AePS, micro-ATMs and others drive significant operating efficiencies.

Customer Centricity and Innovation at the core of business*:* FPBL place the customer at the centre of all that it does and as such, its products and services are designed and customized to meet the needs and requirements of its customers and its target market.

Further, its focus on understanding the needs, behaviors and desires of customers is reflected in brand commitment of FPBL is "*hamesha*" (i.e., we are "*always*") there for its customers' banking and financial needs. This understanding informs every single product and service that it develops and demonstrates its culture toward improving the customer experience.

Subscription CASA accounts – Bank introduced this because many individuals in its target market expressed concern about transaction-linked fees that are charged at the time of each transaction.

Micro-ATMs –Deployed micro-ATMs (as opposed to ATMs) because cash remains extremely popular within the Indian economy and especially in rural India.

AePS IRIS technology –Introduced this functionality because FPBL initially observed high authentication failure rates using fingerprints, due to worn-out fingerprints or quality of capture at the time of transaction.

Cash bazzar (Latlong) –Introduced this so that individuals needing to use banking services could more easily locate and be directed to one of its merchants, branches or CSPs.

An Asset Light and Scalable Business Model: FPBL's merchant-led model is a capital light business strategy in respect of network expansion and except for referrals of third party loan providers, it does not offer any lending products and do not hold credit risk for loans. In addition, its well established technology platform and consistent investment in further improvements, allows it to service a wide pool of customers and cater to their diversified requirements. In addition, its focus on and use of technology throughout business assists in expanding its reach throughout India without incurring the relatively higher costs associated with traditional bricks and mortar branch presence.

In addition to merchant network which, as of June 30, 2021 was 724,671 (comprising of 366,861 "own" merchants and 357,810 merchants on the open banking network via API channel), FPBL leverage 17,430 active BCs to reach the underserved and unserved populations in hard to reach locations (referred to the "last mile" of delivery). It also uses strategic commercial relationships with corporate entities, most notably with BPCL, to expand its operational reach, improve brand awareness and acquire new customers. Its focus on operational execution in connection with its merchant and BC networks and strategic commercial relationships, its drive to offer a broad range of products through each of these distribution channels and the significant capital already invested into its technology infrastructure, has resulted in a highly scalable business.

Operational Experience and Expertise*:* With the "FINO" brand being in existence for approximately 14 years (i.e., before the commencement of business operations in June 2017), and Mr. Gupta being a key employee of FINO, it benefits from his operational experience and expertise gained throughout that time. Business model in particular is partly a product of and, a beneficiary of such experience. It now leverages this to better understand how the digitization of its products and services can shape customer behavior into the future and in conjunction with tech enabled processes and strong team, aim for operational excellence on a regular basis. Such experience has played a central role in its ability to turn profitable in the fourth quarter of financial year 2020, approximately three years since commencement of the business operations.

Socially inclusive model with positive social impact*:* Business model and operations, as well as FPBL's mission and vision, benefit Indian society by bringing India's unserved and underserved population into the main stream banking system and accordingly, improving their access to financial products and services and in turn quality of life. In delivering financial products and services it also empowers women. In particular, as part of Business Alliance Initiative, it has engaged with two state level rural livelihood missions to grow the number of women acting as merchants and BCs. As a result of such initiative, the number of female merchants ("own") has recently nearly doubled, increasing from 18,191 as of March 31, 2020 to approximately 35,928 as of June 30, 2021. Since February 2021, it has been working with the Uttar Pradesh State Rural Livelihood Mission to train and on-board 10,000 women from self-help groups as BC "Sakhis", for a period of five years. This initiative aims to improve banking access in rural Uttar Pradesh and enhance the household income of the participating self-help group members. These new BCs will be in addition to ots 54,501 merchants already located within Uttar Pradesh as of June 30, 2021. In addition, it is also working with the Bihar State Rural Livelihood Mission and have on-boarded 831 women as BCs as of June 10, 2021 and provide banking products and services in the rural areas of Bihar.

Highly Experienced and Committed Leadership Team, Marquee Investor Base in Promoter and Shareholder: FPBL is led by a highly experienced and committed leadership team with a diverse and deep level of expertise, particularly in the financial services and technology industries. This is supplemented by its Board of Directors which includes individuals with a diverse mix of experience in various sectors, including the financial services industry and who benefit from senior level experience in some of India's most respected organisations. Its Board of Directors includes five Independent Directors, which is a key factor in ensuring strong and clear corporate governance standards. It also has low attrition rates throughout its KMP, with 5 of its KMP having been with it since inception in 2017 and, on average, it's KMP and Board members have been associated with the "FINO" brand for approximately 5.3 years as of March 31, 2021. Having a diverse management team with such breadth and depth of experience allows it to leverage the competitive strengths of its business as well as allowing management to identify and act quickly in connection with new opportunities for business. This creates an internal expert network with a strong operational mindset and accountability.

Business Strategy:

Leverage Market Position to Capture Industry Opportunities*:* In addition to benefiting from the overall growth in India's economy and financial service industry, FPBL can increase its market position and capture industry opportunities by continuing to focus on its competitive strengths and leveraging its business model. Specifically, it can continue expanding its customer base by focusing on the large under-penetrated market represented by the target market, being the unserved and underserved population. This segment of the Indian population poses unique challenges such as low levels of literacy, lack of financial inclusion and low awareness, for which bespoke and customized financial products and services are required – solutions that it provides. It has substantial experience of operating in this market and has a deep understanding of its customer's needs.

In addition, FPBL continues to apply an innovative approach to its DTP framework so as to expand its distribution network of merchants and BCs, expand and improve its digital offering and foster new and existing strategic commercial relationships. By continuing to do so, it expects that its merchants, BCs and strategic commercial relationships will facilitate cross-selling product opportunities and maximise its ability to offer customized and complimentary products, therefore better meeting the needs and demands of the customers.

Continued Innovation Leading to High Growth Products and Diversified Revenue Streams*:* FPBL operates in an industry that is continuously evolving, necessitating it to innovate by improving its technology platform, developing new products and/ or exploring new distribution methodologies. The optimum use of well designed, cost-effective technology has significantly driven its operations, and going forward, it aims to empower customers to access the most suitable products on their own, reduce its operating costs and increase efficiencies. In addition, it open banking platform (i.e., its API capability) has led to more and more transactions getting fulfilled on these platforms by its customers and merchants.

It has identified and expect that CASA and micro-ATMs have high growth potential. It is also actively exploring the potential of tie-ups with third party financial institutions such as Non-Banking Financial Companies ("NBFCs") for referral credit products designed for customers, where it will earn fees on such referrals. Currently, its third party referral credit products are only business based credit products offered to its merchants. With digital adoption gaining momentum within Indian society, customers will increasingly use its digital platforms, which is expected will lead to direct customer engagement and improved margins.

Expand and Deepen Customer Sourcing Capabilities: As of September 30, 2021, FPBL had an operational presence in over 90% of districts, and during the last three financial years and three months ended June 30, 2021, it acquired 696,513 new merchants across its network (including "own" and API channel merchants). In addition, it also had a number of strategic relationships with businesses/organisations across the country, including with a State Road Transport Corporation (the "SRTC") where it introduced a near field communication ("NFC") based contactless payments solutions for the mass transit system. With a goal to acquire more customers, FPBL intends to continue expanding its network to drive deeper penetration and sustainable operations in these regions and communities, focusing on underserved and unserved individuals and micro businesses that has limited or no access to formal banking channels. It also intends to focus on increasing the adoption of its CASA offering by customers as this acts as a key customer sourcing gateway for certain of its other products.

Growth will come via further expansion of geographic footprint and deeper penetration in the regions FPBL currently operates in. This is likely to be achieved by ensuring that more merchants are on-boarded, departure rates of existing merchants remain low, continuing to provide merchants with opportunities to cross-sell various products and also ensuring that its merchant commission paid per transaction increases.

Continued focus on use of technology to improve operating leverage*:* FPBL's focus on and use of technology throughout its business is a significant factor in improving its operating leverage, as it allows to improve gross margins and limit variable costs. It plays a key role in its ability to expand its reach throughout India without incurring the relatively higher costs associated with traditional bricks and mortar branch presence. In the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021, it recorded Rs.139.33 million, Rs.228.68 million, Rs.669.30 million and Rs.224.97 million, respectively, of capital expenditure in connection with technology infrastructure, including its core technology platform and in building brand new proprietary applications. It intends to continue to improve its operating leverage by focussing on its use of technology and in particular in connection with the on-boarding and training of its merchants and also to enhance its "phygital" delivery model.

Industry:

Retail spending in India

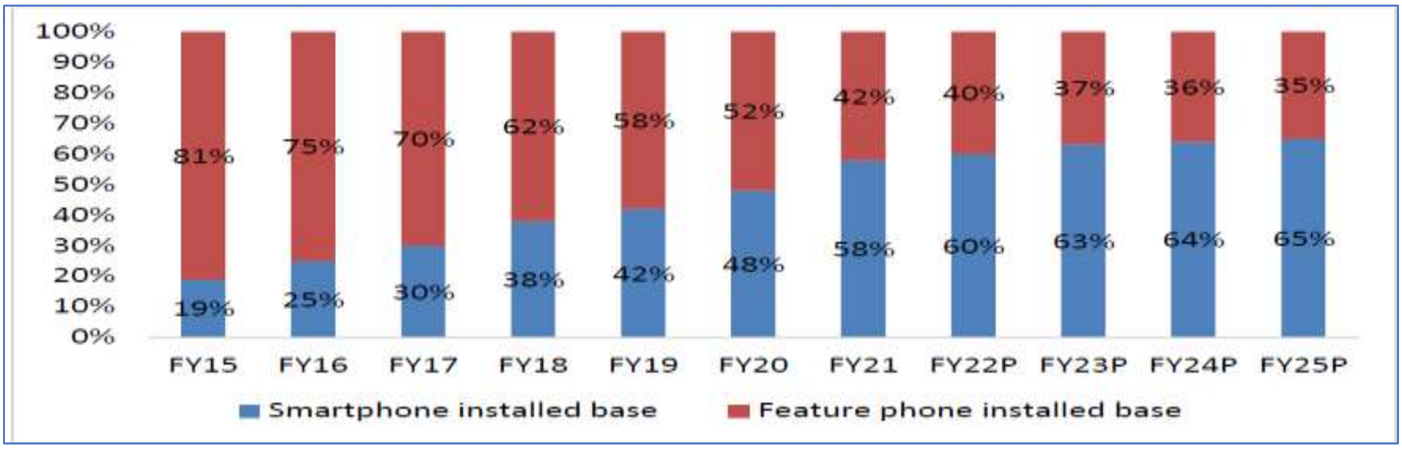
Projected to touch Rs. 91 trillion by financial year 2025; smaller stores and organised retail to co-exist

Payments banks and fintechs have been increasing their presence and reach by increasing touch points through retails outlets which have a widespread presence in India. In India, the private final consumption expenditure (PFCE) was 58% of GDP in financial year 2021 at Rs. 116 trillion and India's retail spending on goods was at ~50% of its private consumption. For large swathes of the Indian population, particularly lower middle class customers and customers in the semi urban and rural areas, small mom and pop stores remain the primary outlet for retail spending. There are about 12 million mom and pop (kirana) stores spread throughout the country, which are estimated to account for almost 90% of the FMCG sales in the country. These merchants provide a huge potential for payment banks and fintechs to grow.

Digitisation: Catalyst for the next growth cycle

Mobile and internet penetration: Higher mobile penetration, improved connectivity and faster and cheaper data speed, supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one.

Data-savvy and younger users to drive adoption of smartphones

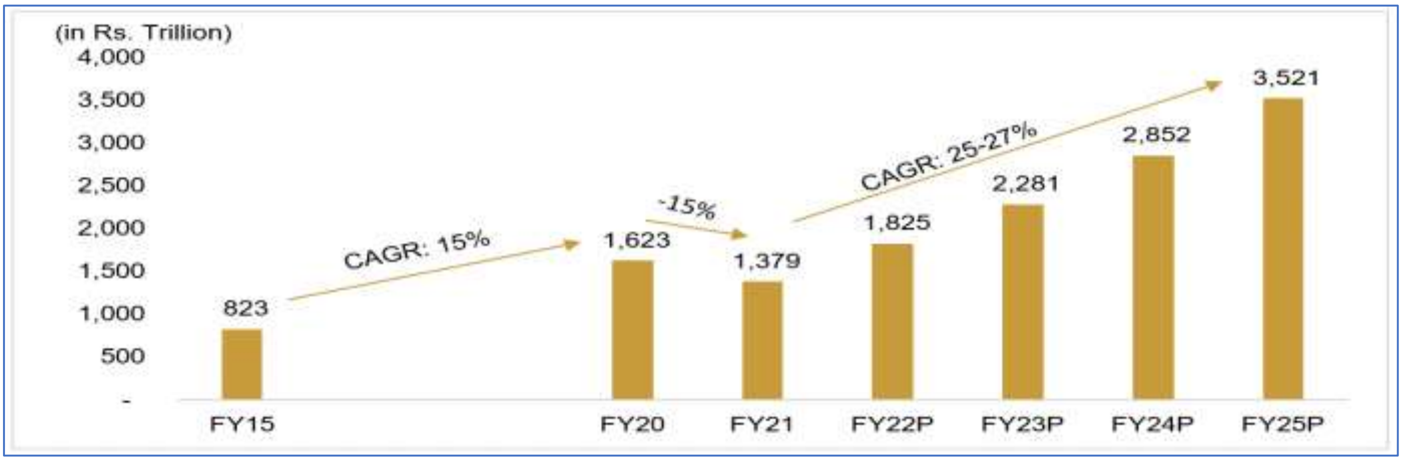


Data subscribers as a proportion of wireless subscribers to increase significantly through FY25

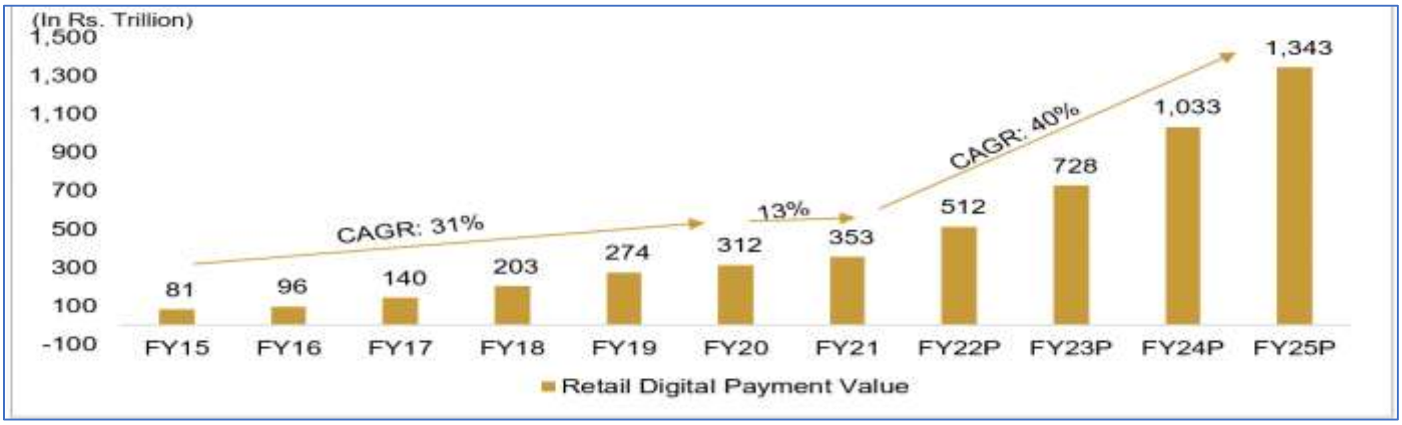
Retail digital payments forecast to grow at 25-27% CAGR during FY21 to FY25

CRISIL Research forecasts the digital payments value in India to reach Rs. 3,500 trillion in financial year 2025 from Rs. 1,379 trillion in FY21, translating into CAGR of 25-27% between financial year FY21 and FY25. The growth in the digital transaction can be attributed to rise in smart phones and mobile internet adoption, convenience offered by digital payments, and ubiquitous availability of payment solutions.

Digital payments value to cross Rs. 3,500 trillion by FY25



Retail digital payments value to quadruple; to reach Rs. 1,343 trillion by financial year 2025



Ecommerce spending to drive digital transactions

The Indian e-commerce sector has had a phenomenal run in the recent past. The sector has managed to attract consumers and has grown at a ~35% CAGR from Rs. 0.38 trillion financial years 2015 to Rs. 1.72 trillion in financial year 2020 on the back of rising internet penetration, increasing awareness of online shopping, penetration into tier 2 and tier 3 with the help of assisted model (where e-commerce firms tie up with merchants to cater customers) and lucrative deals offered by well-established players and start-ups.

Increase in cards and POS terminal to augment digital transactions

Over the last decade, the usage of debit and credit cards in India has increased substantially. Between financial year 2011 and 2021, the number of debit cards issued in the country has increased from 230 million to 898 million, while issued credit cards has increased from 20 million to 62 million. As more cards are getting issued, there has been a growth in the acceptance infrastructure as well. As of March 2020, the POS infrastructure in the country has more than doubled over the past 5 years to reach 4.4 million terminals, which further increased to 4.7 million terminals at the end of financial year 2021. CRISIL expects this trend to continue, resulting in an increase in digital transactions.

Low penetration of per-capita digital payments transactions

According to Bank of International Settlements (CY 2019), non-cash payments transactions volume per capita in India is the lowest compared to other countries; which presents a strong headroom for growth. The government has taken multiple initiatives to give a fillip to digitalisation in the country. This includes biometric identification of all Indian citizens through the Aadhaar programme, financial inclusion initiatives, launch of UPII and other digital payment systems and giving a push to online tax filings.

Payments Bank by RBI

In 2015, the Reserve Bank of India laid down the framework and licensed 'vertically differentiated banking systems', such as Payments Bank (PBs) and Small Finance Banks (SFBs) with the objective of extending the reach and availability of financial services to hitherto unserved or underserved sections of the society.

RBI granted in-principle approval to 11 players to launch payment banks. Three players subsequently withdrew their application. Of the remaining eight, seven institutions – India Post Payments Bank Ltd, Airtel Payments Bank Ltd, PayTM Payments Bank Ltd, Fino Payments Bank, Aditya Birla Idea Payments Bank Ltd, NSDL Payments Bank and Jio Payments Bank had commenced operations. The objective of a payments bank is to provide a small-savings account facility, and payment and remittance services to the migrant labour force, low-income households, small businesses and other unorganised sector entities.

Financial inclusion

According to the World Bank's Global Findex Database 2017, the global average of adult population with an account (with a bank, financial institution, or mobile money providers) was ~69% in 2017. India's financial inclusion has improved significantly between 2014 and 2017, with the adult population with bank accounts rising from 53% (as per Global Findex Database 2014) to 80% in 2017 with concerted efforts by the government to promote financial inclusion and the proliferation of supporting institutions.

Fintech industry in India

Fintechs today are on top of the mind of traditional financial institutions as they watch traditional business models change, and increasingly deliberate whether to collaborate or compete with fintech. Digital payments landscape has the highest number of fintechs in India and now other financial segments like lending, insurance, wealth are also attracting fintechs.

In India, growth of fintech has been driven by a confluence of factors:

Favourable demographics – India has a population of close to 500 million Generation Z or Gen Zers– defined as those born after 2001. Increasing technology adoption by the millennials (Generation Y), who also form a major proportion of the population, will also drive the growth of technology-oriented platforms and fintechs in India.

Rising Internet penetration – The wireless internet subscriber base has grown at a CAGR of 20% from 300 mn in financial year 2015 to touch 720 mn in financial year 2020. The wireless internet subscriber base is estimated to be 772 million as of financial year 2021. CRISIL expects over 900 million subscribers to be using the mobile internet by financial year 2025 due to the ubiquitous availability of high-speed internet services and increasing affordability of services and handsets.

Availability of low cost infrastructure – Payment service providers such as NPCI, Mastercard and Visa and other infrastructure providers such as mobile phone manufacturers and internet service providers have been continuously working towards lowering the cost of digital infrastructure. This has helped support fintech solutions.

Changing customer expectations: With rising incomes and awareness, and development of technology, consumer behaviour and expectations are changing rapidly. Consumers, used to an instant experience, whether for making purchases (through e-commerce websites) or for travelling (through cab hiring firms), are demanding a superior experience from other service providers such as lenders as well – paperless, faster, seamless and convenient.

Availability of huge amount of data and related intelligence – Increased use of smartphones coupled with rising internet penetration, use of wearables, telematics, Internet of Things (IoT) and other connected devices is helping players to capture customer data from alternate sources and build social and psychological profiles of customers, thereby enabling accurate and faster decision making. Using big data analytics, AI and ML, technologies, firms can process the data more efficiently and provide personalized offerings to customers.

Key government initiatives – One of the key initiatives by RBI has been the launch of United Payment Interface (UPI), bringing multiple payments service providers on to a single platform and enabling swift payment. IndiaStack has lowered the cost of consumer on-boarding and transactions significantly.

Key technologies shaping fintech
Technological developments and continuous progress in the maturity of technologies has helped shape up the fintech market. Application Programming Interface (API) standards, for instance, have enabled different pieces of software from different financial players to interact and exchange data in a secure environment, enabling comparisons and more competition. APIs are the main reason that startups are able to build their products faster.

Going forward, India presents a huge opportunity for growth of fintechs owing to high potential in the underpenetrated customer segments. To attract mid-to-low-income customers and the rural population, there is a need to develop tailor-made solutions and adequate use-cases by overcoming challenges posed by low literacy, lack of trust, low awareness and behavioural factors. Given the improvement in support infrastructure (electricity and internet connectivity and IndiaStack), this segment provides huge potential to grow.

Financial services sector in India
Among services, the financial sector is growing with increasing presence and size of the banking industry leading to higher banking penetration in the country.

In 2015, the Reserve Bank of India laid down the framework and licensed 'vertically differentiated banking systems', such as Payments Banks and SFBs with the objective of extending the reach and availability of financial services to hitherto unserved or underserved sections of society.

SFB licences were initially granted to 10 institutions (11 institutions as of March 2021) with the aim to service the underserved through savings instruments, and supplying credit to small business units, small and marginal farmers, micro and small industries, and other unorganised sectors. RBI also granted in-principle approval to 11 players to launch payment banks. Three players subsequently withdrew their application. Of the remaining eight, seven institutions – India Post Payments Bank Ltd, Airtel Payments Bank Ltd, PayTM Payments Bank Ltd, Fino Payments Bank, Aditya Birla Idea Payments Bank Ltd, NSDL Payments Bank and Jio Payments Bank – had commenced operations. The objective of a payments bank is to provide a small-savings account facility, and payment and remittance services to the migrant labour force, low-income households, small businesses and other unorganised sector entities. As of March

2020, all banks and NBFCs in India cumulatively had deposits of Rs. 147 trillion and outstanding loans of Rs. 137 trillion, translating into a 10-year CAGR of 11% in deposits and 13% in credit.

Retail spending in India is projected to reach Rs. 91 trillion by financial year 2025; smaller stores and organised retail to co-exist

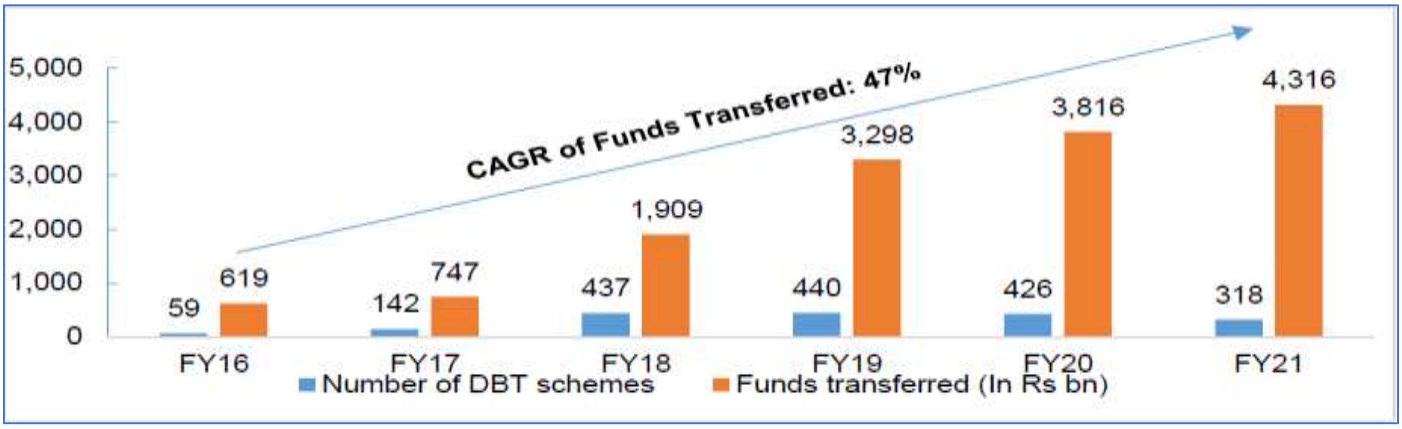
Payments banks and fintechs have been increasing their presence and reach by increasing touchpoints through retails outlets which have a widespread presence in India. In India, the private final consumption expenditure was 58% of GDP, or Rs.116 trillion, in financial year 2021 and India's retail spending on goods was approximately 50% of its private consumption. For large swathes of the Indian population, particularly lower middle class customers and customers in the semi urban and rural areas, small "mom-and-pop" (kirana) stores remain the primary outlet for retail spending. There are about 12 million such stores spread throughout the country, which are estimated to account for almost 90% of the fast moving consumer goods sales in the country. These merchants provide a huge potential market for payment banks and fintechs to grow.

Government initiatives that have driven digital payments in India

The payments space has seen rapid innovation in the past few years, led by government and regulatory initiatives and changing consumer preferences. JAM (Jan Dhan, Aadhaar and Mobile), demonetisation of high-value currency notes in November 2016, implementation of GST and unveiling of the UPI, are some of the notable regulatory initiatives that have spurred growth in the space.

Aadhaar: Aadhaar, which literally means foundation, is a 12-digit unique identity number issued to Indians based on their biometric and demographic data. It is the world's largest biometric ID system, with over 1.2 billion enrolled members as of June 19, 2018. Over 99% of the citizens aged 18 and above are now enrolled. Data collection for Aadhaar is done by the Unique Identification Authority of India under the Ministry of Electronics and Information Technology. Application programming interfaces (APIs) have been developed using Aadhaar to launch payment systems that allow real-time transactions with just a mobile phone. It also enables the completion of an electronic KYC (know your customer) and the download of digital signatures. \

JAM Trinity: Government on its side introduced JAM Trinity (Jan Dhan, Aadhaar and Mobile) in financial year 2014 to integrate these infrastructure and digital financial inclusion. With this, the government improved its focus to provide easy access of banking facilities and enhance ability to digitize transactions. This expanded use of digital payments by the government for welfare and served as the biggest launchpad of Direct Benefit Transfer ("DBT"). The government has transferred more than Rs. 3.8 trillion in financial year 2020 through 426 schemes. As of February 2021, total amount transferred through DBT has reached Rs. 14.2 trillion.



Demonetisation: On November 8, 2016, the Government of India announced the demonetisation of Rs. 500 and Rs. 1,000 notes in order to curb black money, corruption, counterfeit currency and terror funding. This has led to increase in transparency, formalisation and digitisation in the country. Customer preference has shifted from cost factors to convenience and ease of performing transactions.

UPI: A crucial contributor to the Indian digital payments market was the introduction of India's real-time payments platform, UPI. In 2016, National Payments Corporation of India (NPCI), the country's umbrella organization for payments and the central infrastructure that was created by the RBI and Indian Banks Association (IBA), introduced UPI. This collaborative effort was focused on making India a cashless economy and driving digital payment inclusion.

Indian banking Industry

Banking industry overview

The Indian banking system currently consists of 12 public sector banks, down from 26 owing to the merger of some public sector units to make them more relevant, 22 private sector banks, 46 foreign banks, 43 regional rural banks, 11 SFBs, six payment banks, 2,550 cooperative banks. All the banks fall under the purview of the RBI.

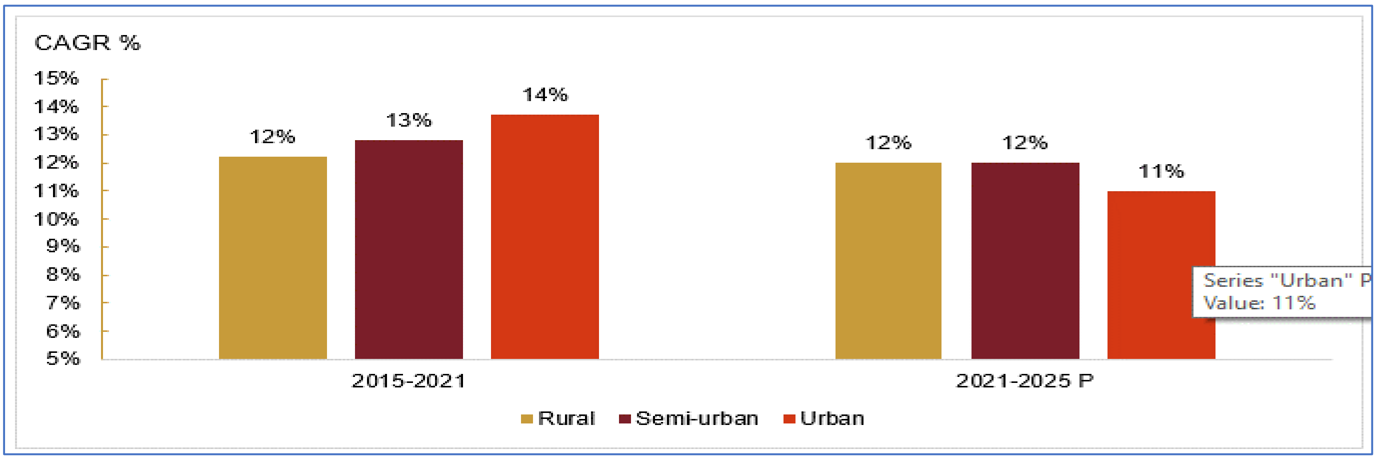
Licencing of Payments Banks and SFBs

In September 2013, Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by Nachiket Mor, was formed by the RBI. In January 2014, the Nachiket Mor Committee submitted various recommendations, among which it recommended the formation of two new categories of bank called Payments Banks and Small Finance Banks. In November 2014, RBI released the final guidelines for Payments Banks and SFBs. In 2015, RBI gave "in-principle" licences to 11 entities to launch Payments Banks and awarded SFBs licences to 10 players. However, of the 11 in-principle payment licensees, three withdrew their application subsequently. Aditya Birla Idea Payments Bank also closed their operations in September 2019. The payments bank which are currently operational include Airtel Payments Bank, India Post Payment Bank (IPPB), Fino Payments Bank, PayTM Payments Bank, NSDL Payments Bank and Jio Payments Bank.

RBI, in December 2019, released the final Guidelines for 'on-tap' licensing of small finance banks in the private sector and opened the window for applicants to approach the regulator at any point in time for on-tap licensing of SFBs. Additionally, existing Payments Banks (PBs) which are controlled by residents and have completed five years of operations will also be eligible to apply for SFB licence. The minimum paid-up voting equity capital for small finance banks shall be Rs. 2 billion. In case of an existing NBFC/MFI/LAB/PB, the entity shall have a minimum net worth of Rs. 2 billion or it shall infuse additional paid-up voting equity capital to achieve net worth of Rs. 2 billion within 18 months from the date of in-principle approval or as on the date of commencement of operations, whichever is earlier. For cooperative banks, the entity shall have a minimum net worth of Rs. 1 billion, which should be increased to Rs. 2 billion within five years from the date of commencement of operations. Listing of the small finance bank will be mandatory within three years after it reaches the net worth of Rs. 5 billion for the first time.

With increasing financial penetration and access to financial services in the rural and semi-urban areas, the share of deposits in these areas have also increase over the last ten years. While the share of metropolitan areas in the deposits distribution has reduced over the years, share of urban areas has remained stable and semi-urban areas have seen an increase in share of deposits.

CASA deposits to grow faster in rural and semi-urban areas



Digitization of transactions and payments in India
Overview and Trends

The Indian digital payment space has seen extraordinary growth in the last few years. The growth has been driven by multiple factors like launch of new payment products, increasing smartphone penetration, increasing mobile internet users driven by lower data charges and a strong push from the government in order to increase adoption of digital channels.

Over the last decade, NPCI has launched various innovative products like UPI, National Electronic Toll Collection (NETC) and Bharat Bill Pay Service (BBPS), AePS and other retail payment and settlement systems. The convenience of these payments systems along with ubiquitous availability of mobile broadband has ensured acceptance as they provided consumers an alternative to the use of cash and paper for making payments. The participation of non-bank fintechs in the payment ecosystem in the form of Prepaid Payment Instruments (PPI) issuers, Bharat Bill Payment Operating Units (BBPOUs) and other third-party application providers in the UPI platform has furthered the adoption of digital payments in India.

These innovations have led to the emergence of various players such as Payments Bank (such as PayTM Payments Bank and Fino Payments Bank), Fintechs (such as Razorpay, PayU, and PayTM) and incumbent banks (such as Axis, HDFC Bank, ICICI Bank) too have launched their own digital payment platforms. Consumer apps provided by Google (Google Pay), Amazon (Amazon Pay) and Walmart (PhonePe) have created a strong presence in UPI payments to strengthen their foothold in the digital payments space These fintechs and usage of their application for payments is also helping the consumers create formal transaction records, which will ease access to credit in times to come.

Digital & Cash Transactions

Surge in digital transaction volumes reflected in rising share

While usage of cash remains high, particularly in person-to-merchant transactions in India, CRISIL has observed a surge in digital transactions in the past few years, led by government and regulatory initiatives and changing consumer preferences. JAM (Jan Dhan, Aadhaar and Mobile), demonetisation of high-value currency notes in November 2016, implementation of GST in July 2017 and the unveiling of the Unified Payments Interface, or UPI, are some of the notable regulatory initiatives that have spurred growth in the space. Digital payment volumes (digital transactions includes, Retail Electronic Clearing, Prepaid Payment Instruments, RTGS – excluding interbank clearing, ECS, NEFT, IMPS, NACH and card transactions at ATM) have more than tripled in the last three years ending financial year 2020.

In volume terms, digital payments transactions have logged a CAGR of 49% from financial year 2015 to financial year 2021 owing to factors such as a younger population, rising smartphone penetration, increasing mobile internet users, convenience of transacting digitally, and booming ecommerce sector. The transaction value of digital payments witnessed a CAGR of 9% to reach Rs. 1,379 trillion in financial year 2021 from Rs. 823 trillion in financial year 2015. The growth rate came down slightly in the immediate aftermath of changes in KYC norms, including voluntary use of Aadhaar identification, being made applicable to prepaid payment instrument (PPI) companies in March 2018, but has bounced back since then. In financial year 2021 as well, while digital payments transaction volume grew by 14%, transaction value declined by ~15% mainly owing to a sharp contraction of RTGS payments as a result of COVID-19.

In the first quarter of financial year 2022, transaction volumes for digital payments reached 12.8 billion as compared to 7.2 billion in the first quarter of financial year 2021, thereby registering a growth of 77% on year. The transaction value of digital payments also witnessed a growth of 27% to reach Rs. 365 trillion in the first quarter of financial year 2022 as compared to Rs. 286 trillion in the first quarter of financial year 2021. Going forward, the trend is expected to continue as digital payments gain in popularity and become more ubiquitous.

Retail digital payments forecast to grow at a 34% CAGR during financial year 2020 to financial year 2025

CRISIL forecasts the digital payments value in India to reach Rs. 3,500 trillion in financial year 2025 from Rs. 1,623 trillion in financial year 2020, translating into CAGR of 16-18% between financial year financial year 2020 and financial year 2025. The growth in the digital transaction can be attributed to rise in smart phones and mobile internet adoption, convenience offered by digital payments, and ubiquitous availability of payment solutions.

Enablers for growth in digital transactions

Overall retail spending grew at 10% CAGR from Rs. 39 trillion in financial year 2015 to Rs. 62 trillion in financial year 2020 and after contracting by approximately 6% in financial year 2021, is expected to grow at a CAGR of 11-13% between financial year 2021 and financial year 2025 to Rs. ~91 trillion.

E-commerce spending to drive digital transactions

The Indian e-commerce sector has had a phenomenal run in the recent past. The sector has managed to attract consumers and has grown at a ~35% CAGR from Rs. 3.8 trillion financial year 2015 to Rs. 17.2 trillion in financial year 2020 on the back of rising internet penetration, increasing awareness of online shopping, penetration into tier 2 and tier 3 with the help of assisted model (where e-commerce firms tie up with merchants to cater customers) and lucrative deals offered by well-established players and start-ups.

Increase in cards and POS terminal to augment digital transactions

Over the last decade, the usage of debit and credit cards in India has increased substantially. Between financial year 2011 and 2021, the number of debit cards issued in the country has increased from 230 million to 898 million, while issued credit cards has increased from 20 million to 62 million. As more cards are getting issued, there has been a growth in the acceptance infrastructure as well. As of March 2020, the POS infrastructure in the country has more than doubled over the past 5 years to reach 4.4 million terminals, which further increased to 4.7 million terminals at the end of financial year 2021. CRISIL expects this trend to continue, resulting in an increase in digital transactions.

Regulatory moves to also spur gradual shift from cash to digital payments

Digital financial services lie at the heart of financial inclusion in India. Despite the government's effort to create interconnected digital infrastructure, the adoption of digital financial services, especially in rural India, is marred by digital literacy, which has a direct impact on the acceptance of digital products. The lack of trust in technology, limited awareness, inadequate payment infrastructure, and poor network connectivity has restricted digital transactions and discouraged people from using these payment modes. As a result, cash is still a preferred mode of payment in rural India. In the past, lack of documents has been a big deterrent in weaning rural customers away from traditional banking services. However, AePS has helped address this and rural citizens are now carrying out basic digital transactions using their biometric ID and AADHAR.

Offline payments mechanism to drive the push for digital transactions

Offline payments are transactions that are either processed without a data connection or where the transaction is recorded offline & processed at a later point of time. In the offline mode using cards, the card details of the transaction are stored at the terminal which is used to generate a transaction response for receipt. Later, when the internet connection is established, the stored payment data is processed. In the offline mode using cards, the card details of the transaction are stored at the terminal which is used to generate a transaction response for receipt. Later, when the internet connection is established, the stored payment data is processed.

In August 2020, the RBI proposed to allow a pilot scheme for small value payments in offline mode with built-in features for safeguarding the interest of users. Under this scheme, authorised Payment System Operators (PSOs) – banks and non-banks – were allowed to provide offline payment solution using cards, wallets or mobile devices for remote and proximity payments. Post the pilot scheme, the Central bank will decide on formalising the system based on the experience gained.

Digital payment instruments

Unified Payment Interface (UPI)

UPI is a mobile based payment system, wherein users can send and receive money instantly using a Virtual Payment Address (VPA). The unique feature of VPA-based transaction is the secure aspect of UPI architecture as it obviates the need for sharing account or bank details to the remitter. It supports person to person (P2P) and person to merchant (P2M) payments and can be used over smart phone (app based), feature phone (USSD based) and at merchant location. Since its launch in 2016, UPI, has witnessed an exponential growth of 495% CAGR in terms of volumes to reach 22.3 billion in financial year 2021 from 0.02 billion in financial year 2017. Similarly, the value of transactions has increased from Rs. 0.07 trillion to reach Rs. 41 trillion between financial year 2017 and financial year 2020; growing at a CAGR of 393% during the same time. The outbreak of COVID-19 was a minor blip in the growth story as transactions saw a minor drop in early months of financial year 2020-21; however, the shift towards digital transactions through the UPI platform has seen an acceleration since then. UPI recorded the highest number of transactions of 2,234 million and 2,303 million, amounting to Rs. 4.1 trillion and Rs. 4.3 trillion in the month of December 2020 and January 2021 respectively.

The launch of UPI 2.0 in 2018 saw expansion of its use cases. Invoice verification, linking of overdraft account, additional security through signed intent and QR code were some of the features that were introduced. In July 2020, NPCI also allowed customers to set a recurring mandate with UPI to pay for mobile bills, EMIs, insurance premiums and make mutual fund investments. This is expected to provide a major push to the volumes and revenue of UPI transactions.

AADHAR Enabled Payment System (AePS)

AePS is a bank led model that uses AADHAR authentication to allow interoperable transactions at POS terminals. It was launched with an objective to facilitate banking services in the underserved regions of the country. Since its launch in 2016, AePS has seen a strong growth in its transaction volume; volumes increased at a CAGR of 178% between financial year 2017 and financial year 2021. In terms of value, it has increased at a CAGR of 216% during the same period. Post-COVID, the usage of AePS has jumped manifold, indicating the increasing convenience of this channel as also the change in customer behaviour. In first half of financial year 2022, the AePS transactions volume has witnessed a growth of 2% compared to the same time in fiscal 2021.

Payment Banks have led to proliferation of non-branch type touchpoints

After granting of the Payments Banks licences, it is seen that the payment banks have set up a vast network of touchpoints by leveraging established nature of some of their parent network and through collaboration. For instance, the Bank has widened its network through collaboration and partnerships with BPCLto use their outlets as digital banking points. The Bank’s digital kiosk acts as a last mile service point in the underpenetrated regions of the country. This extensive alternative banking channel has brought about a paradigm shift in the way people used to avail banking services. Now, the customers need not travel long to go to a traditional bank branch, instead, they can visit the local banking touchpoint at their convenience and avail assisted digital banking services such as new account opening, deposit, withdrawal, money transfer and utility bill payments.

Airtel Payments Bank, on the other hand, has leveraged its parent’s network of retailers and Kirana shops and India Post Payment Bank has enabled the post offices in India to provide payment banks services. Rural areas have the least presence of payments bank functioning offices, whereas urban areas have the highest number of functioning offices as of FY2020. However, these functioning offices form a very small proportion of total number of touchpoints of payments banks, as they leverage on their vast network of merchants and doorstep service providers to provide banking and related services in the last mile. Payments Banks are looking to increase their footprints and are continuously deepening their penetration across various states and regions. Going forward, CRISIL expects Payments Banks will continue to increase their touchpoints and collaborate with other players as required to cater to the needs of customers through their ecosystem.

Addressable market (revenue from CASA, payment services, remittance and cash collection and management) expected to grow at 16% CAGR between financial year 2021 and financial year 2025

Addressable market refers to the potential revenue pool available for an entity focused on providing CASA deposit accounts in rural and semi-urban areas and the entire range of payment and remittances related services across urban, semi-urban and rural areas. CRISIL estimates the addressable market to be approximately Rs. 0.85 trillion in financial year 2021. CRISIL projects this market to grow at a CAGR of 16% over the next four years to reach Rs. 1.57 trillion by financial year 2025, largely driven by strong growth in the payments space due to technology and changing consumer behavior.

Deposits for payment banks grew by ~64% in financial year 2020

Deposits collected by Payments Banks grew by 64% in financial year 2020. Cumulatively, the quantum of deposits rose from Rs. 25.7 billion as at the end of financial year 2019 to reach Rs. 42.1 billion as of financial year 2020. During this time period, Payments Banks witnessed a 46% on-year increase in their revenues.

Payments Banks focusing on increasing volumes, touchpoints with customers and cross sell to turn profitable

While Payments Banks in India cumulatively are not profitable, PayTM Payments Bank and the Bank are having profitable operations. The Bank turned operationally profitable in the fourth quarter of financial year 2020 and remained profitable in subsequent quarterly periods. Payment banks are leveraging their strength to reach out to their core customer base, enhance volumes and turn profitable.
The Bank is also looking to utilise its distribution network to reach customers and now cross sells third party gold loans and insurance on behalf of various third parties. It has also leveraged its capability to manage bulk and retail cash on behalf of various MFIs and NBFCs, which has increased its CMS business.

With credit penetration as well as the penetration of insurance and mutual funds still at a very low level, cross sell to retail unserved and/or underserved customers remains an attractive opportunity for Payment Banks. For example, although mutual fund penetration (mutual fund AUM as a percentage of GDP) has grown from 8.7% in financial year 2002 to ~10.9% in financial year 2020 and at ~12.1% as of December 2020, penetration levels remain well below those in other developed markets, which presents an opportunity for payments banks to cross sell investment products to customers in rural and semi-urban areas. Similarly, India's insurance penetration (premium-to-GDP) is significantly low at 3.8% as compared to many developed economies such as the US (11.4%) and the UK (10.3%) and also lower with respect to key emerging economies such as Brazil (4.0%) and China (4.3%)

Mutual fund penetration in India is lower as compared to other countries

India's mutual fund penetration (AUM-to-GDP) is significantly lower than the world average of 63% and also lower than many developed economies such as the US (120%) and the UK (67%) and key emerging economies such as Brazil (68%).

Peer Comparison of Payments Banks

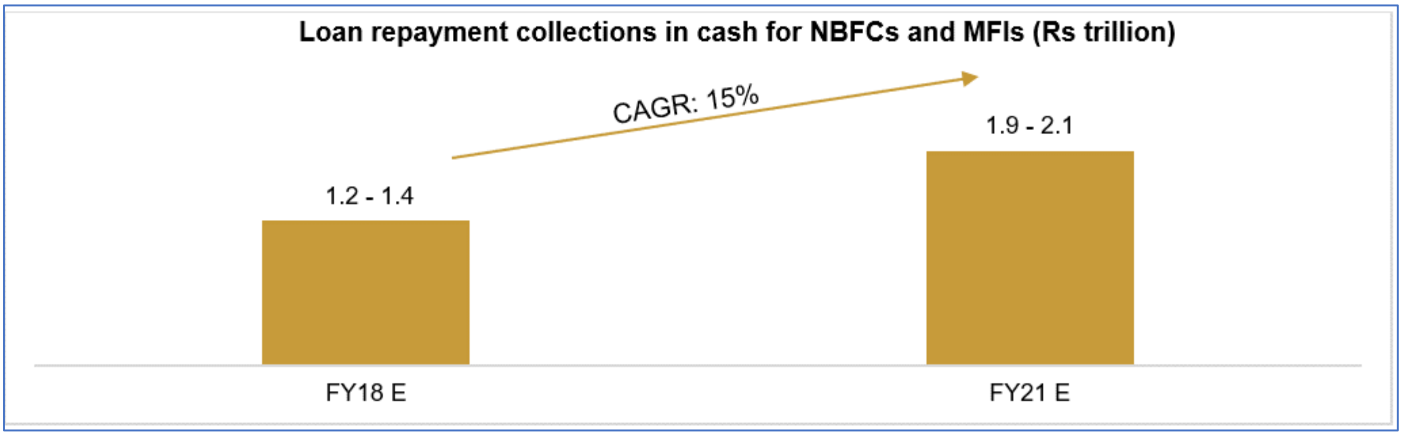
In this section, CRISIL has compared various payment banks operating in India on the basis of publicly available information.
India Post Payments Bank had the highest number of branches (650), followed by the Bank (54). PayTM Payments Bank had the highest quantum of deposits amongst payment banks, with deposits of Rs. 34.5 billion as of March 2021, followed by India Post Payments Bank. The higher quantum deposit for India Post Payment Bank is on account of its large network of functioning offices. Fino Payments Bank also has the second largest network of banking touchpoint at 0.72 million after PayTM Payments Bank at 21 million.

Cash Management Services (CMS)

CMS market overview

A CMS is an automated cash management solution that help in managing the inflow and outflow of cash. Players in this industry have leveraged their deep distribution network in under banked regions to develop a cash management system for periodical (e.g.: monthly / quarterly) collection of cash for NBFCs/ MFIs/ Cab aggregators. The CMS enables faster realisation of funds at a reduced cost for these NBFCs / MFIs and customers to easily deposit their periodical repayments/ EMIs. By providing additional services like cash withdrawals, remittances and payments along with cash management services, the CMS providers balance their cash flows. In an ideal model, cash-in equals cash-out and the cash flows are perfectly balanced. For example, for the Bank, the CMS business helps complement the merchant led digital banking model where micro-ATM and AePS services form the cash-out aspect of the business and CMS forms the cash-in aspect of the business. This cash management fee forms the revenue for CMS providers. The cash management charges are estimated to be in the range of 0.5-1.0% of the collections amount.

High proportion of cash based repayments of MFIs and NBFCs will support CMS growth
While adoption of digital payment modes has been increasing in the country, the semi-urban and rural areas are still quite underpenetrated as far as digital payment modes are concerned, owing to lack of awareness and lower literacy levels leading to higher cash intensity. NBFCs and MFIs focused towards these geographical segments and those targeting customers with relatively poor financial literacy therefore deploy collection agents and/or deploy their own teams to collect repayment of loans due from their customers.



Significant potential for CMS providers in the MFI partner segment
The microfinance industry focuses on the rural customer segment extensively. As of March 2021, 71% of the loan outstanding of MFIs was accounted for by rural customers (Source: Sa-Dhan Quarterly MF report (Q4-FY21)). Total loan outstanding of the microfinance industry was Rs. 2,593 billion (excluding SHG) as of March 2021 with NBFC-MFIs accounting for 32% of the loans. Considering the customer profile that these MFIs cater to, maintaining the asset quality of the portfolio is one of their primary focus areas and hence repayment collections is a significant area of operations. Thus, there exists significant potential for the CMS providers to process these repayment transactions digitally and cater to the requirements of MFIs.

NBFCs penetrating deeper into semi-urban and rural segments to drive CMS growth
The top 50 districts in the country, which can be considered as metro and urban areas, are estimated to account for 50-55% of the retail credit of NBFCs as of financial year 2021. These top 50 districts contribute to 24% of the population. The remaining 45-50% NBFC retail credit is across the remaining districts, which are relatively lesser penetrated in terms of financial services. Increasing penetration of financial services in rural and semi-urban areas will support the credit growth in these areas going forward. CRISIL estimates the proportion of cash repayments in the overall retail credit collections of NBFCs to be in the range of 25-30%, which provides potential for CMS providers to grow their business and cater to NBFCs focussed on these retail loan segments.

Lower bank branch penetration also to drive growth for CMS providers
Bank branch penetration is low in India compared to other countries. This causes an inconvenience to customers of MFIs and NBFCs to deposit their repayments/ EMIs to bank branches, especially in rural areas where electronic and digital modes of payments have very low penetration. CMS providers, who operate through a wide network of retailers or kirana stores, offer a convenient mode of transaction for these customers. In India, there is a huge gap in bank branches serving rural areas and urban areas. In rural areas, the number of bank branches per hundred thousand populations is only six compared to the 23 in urban areas. CMS providers, through wide reach and presence, are trying to capture this untapped potential. In India, various players in the financial services industry provide CMS including commercial banks, Payments Banks and CMS service providers who also operate as a business correspondent. Payment Banks and CMS providers acting as business correspondents are mainly involved in cash collection services for NBFCs and MFIs through EMI collection at touchpoints. Some of these players also offer cash collection services to cab aggregators or food aggregators.

Banking technology solutions
API Landscape
An API is primarily a development tool that essentially bridges a gap between digital services, thereby allowing one application to access information or capabilities of another. Organizations are increasingly using APIs to build an ecosystem involving various partners to unlock new value for their businesses.

Key technologies shaping fintech

Technological developments and continuous progress in the maturity of technologies has helped shape up the fintech market. API standards, for instance, have enabled different pieces of software from different financial players to interact and exchange data in a secure environment, enabling comparisons and more competition. APIs are the main reason that startups are able to build their products faster. These open banking integrations have also brought digital inclusiveness to smaller towns and rural regions, and enhanced the awareness and relevance of banking services and products for rural India. Given the wide market expanse and the diversity of customer base, there exists considerable opportunity for players to work on new use cases targeting specific segments – for example, unserved and underserved segments. Fino Payments Bank, for example, offers APIs to BCs that enables them to provide services to their customers in semi-urban and rural areas in a cheaper and faster manner. The banking as a service (BaaS) model begins with a third-party service provider paying a fees to a financial institution, who opens its API to the new fintech/third-party provider, thereby granting access to systems and information that will be necessary to build a new financial or banking product for the end consumer.

Growth Drivers

Focus on creating differentiated user experience to boost usage of APIs

Companies are employing responsive websites, interactive mobile applications and other user friendly digital interfaces to enhance their interactions with customers. API capabilities allow the fintechs and other partners to implement newer ideas arising from design thinking for providing services such as payments, mobile wallets and collections. This ensures they are able to provide various services under a single platform to their customers, thereby enhancing the experience and also aiding in customer stickiness. Newer business use cases and ease of access to drive growth for API provider's APIs enable companies to leverage the capabilities of other organizations, thereby reducing their cost of owning the technology and applying resources for maintenance. Continued growth of this asset light model to build businesses around APIs rather than rebuilding it from scratch will drive growth for the API service providers. Essentially, APIs can provide the rails on which fintechs and other incumbents can build new-use cases keeping in mind their target customer segment. CRISIL believes that platform centric models, which run through APIs, will continue to gain traction with potential API customers preferring agile and asset-light business models, while enhancing focus on offering relevant solutions to customers.

Key Concerns

- The COVID-19 pandemic has had and may continue to have certain adverse effects on the business, operations, cash flows and financial condition and the continuing impacts of COVID-19 are unpredictable and could be significant, and the extent to which it or the effect of outbreaks of any other severe communicable disease may continue to do so in the future, is uncertain and cannot be predicted.

- FPBL undertakes fee and commission-based activities and its financial performance may be adversely affected by an inability to generate income from such activities.

- Relies extensively on information technology systems and any weakness, disruption or failure in such systems, or breach of data, could adversely affect the operations and reputation. Further, success depends on its ability to innovate, upgrade and respond to new technological advances.

- Payment Banks in India, including FPBL, are subject to stringent regulatory requirements and prudential norms and its inability to comply with such laws, regulations and norms may have an adverse effect on its business, results of operations, financial condition and cash flows.

- FPBL has a limited operating history as a Payments Bank and its future financial and operational performance cannot be evaluated on account of its evolving and growing scale of operations.

- FPBL may face cyber threats attempting to exploit its network to disrupt products and support services to customers and/ or theft of sensitive internal data or customer information, which may cause damage to the reputation and adversely affect its business and financial performance.

- A significant portion of FPBL's merchant distribution network is located in the states of Uttar Pradesh, Bihar and Madhya Pradesh, and accordingly any adverse changes in the conditions affecting these regions can adversely affect the business, financial condition and results of operations.

- FPBL have and will continue to introduce new products and services and it cannot be assured that such products and services will be profitable now or in the future. Further, it may not be able to successfully diversify its product and services portfolio or enter into new lines of business, which may adversely affect the business prospects and future financial performance.

- Dependent on merchants and strategic commercial relationships for FPBL's service and product distribution network, as well as the relationships with the BCs that it manages on behalf of other banks. Changes in relationships with such entities, or adverse conditions that affect such entities (such as the current COVID-19 pandemic), could impair respective operations and therefore its ability to meet obligations under contracts, which in turn could have an adverse effect on the business, results of operations, financial condition and cash flows.

- Some of FPBL's operations involve handling significant amounts of cash, making susceptible to operational risks, including fraud, petty theft, negligence and embezzlement by its employees or its merchants, which could harm results of operations and financial position.

- FPBL is subject to supervision and inspection by authorities such as the RBI. Any adverse observations from such regulators could have an adverse effect on the business, financial condition, results of operation and cash flows.

- FPBL has implemented systems and procedures for "know-your-customer/ anti-money laundering/ combating financing of terrorism" ("KYC/AML/CFT") but may not be able to detect money-laundering and other illegal or improper activities in a comprehensive manner or on a timely basis, which could expose FPBL to additional liability and harm the business or reputation.

- Any non-compliance with law or unsatisfactory service by service providers engaged by FPBL for certain services could have an adverse effect on the business and results of operations.

- If FPBL is unable to implement growth strategies, its operations may suffer and performance may be adversely affected.

- Industry is very competitive and FPBL's growth strategy depends on the ability to compete effectively.

- Depends on brand recognition, and failure to maintain and enhance awareness of brand would adversely affect the ability to retain and expand base of customers.

- FPBL has permission to use brands which are owned by its Promoter, Fino PayTech Limited, such as the "FINO" and "Bpay" brands and as such are exposed to the risk that these brands may be affected by events beyond its control and that its Promoter may prevent it from using them in the future.

- An inability to obtain, renew or maintain statutory and regulatory permits and approvals required to operate the business may adversely affect the business, financial condition, results of operation and cash flows.

- An inability to secure financing in an acceptable and timely manner and at competitive rates, or any disruption in the access to funds would adversely affect the results of operations, financial condition and cash flows.

- FPBL is required to comply with certain restrictive covenants under its financing agreements. Any non-compliance may lead to, amongst others, accelerated repayment schedule and enforcement of security, which may adversely affect the business, results of operations, financial condition and cash flows.

- Operations depend on the accuracy and completeness of information about merchants, CSPs, BCs, customers and counterparties which, if inaccurate or materially misleading, could adversely affect the business and results of operations.

- Business, reputation and financial results could be impacted by adverse results in legal and arbitration proceedings.

- FPBL's risk management measures may not be fully effective in mitigating its risks in all market environments or against all types of risks, which may adversely affect the business and financial performance.

- All of FPBL's branches along with its registered office and corporate office are on leased or licensed premises and it may enter into new lease or license arrangements for additional branches. Any inability on its part to identify suitable premises or enter into or renew lease agreements on commercially reasonable terms, may have an adverse effect on its operations and profitability.

- Weakness or failures of internal control system may cause significant operational errors, which may in turn adversely affect the business.

- FPBL may face difficulties and incur additional expenses in operating in rural and semi-urban markets, where infrastructure may be limited.

- FPBL's operations could be adversely affected by strikes, work stoppages or increased wage demands by its employees, changes in labour laws, or any other change in the relationship it has with its employees.

- Financial difficulty and other problems in certain financial and other non-banking financial institutions in India could adversely affect the business and the price of Equity Shares

- FPBL engages in related party transactions with its controlling shareholder (Fino PayTech Limited), one of its fellow subsidiaries that are controlled by Fino PayTech Limited (Fino Finance Private Limited), and significant shareholders of its controlling shareholder and certain of its KMP, which may potentially involve conflicts of interest.

- Political, economic or other factors that are beyond FPBL's control may have an adverse effect on the business, results of operations, financial condition and cash flows.

- Changing laws, rules and regulations and legal uncertainties, including adverse application of corporate and tax laws, may adversely affect the business, prospects and results of operations.

- Investors may have difficulty in enforcing foreign judgments against FPBL or its management.

Profit & Loss

Particulars (Rs in million)	Q1FY22	FY21	FY20	FY19
INCOME				
Interest earned	60.6	202.6	181.3	191.5
Other income	2001.9	7707.7	6732.7	3519.7
	2062.4	7910.3	6914.0	3711.2
EXPENDITURE				
Interest expended	30.6	95.4	98.7	55.3
Operating expenses	2000.6	7569.9	7125.3	4270.4
Provisions and contingencies	0.0	40.2	10.3	9.4
	2031.2	**7705.5**	**7234.3**	**4335.1**
Net profit /(loss) for the period/year	**31.3**	**204.7**	**-320.4**	**-623.8**
Face Value	10	10	10	10
EPS	0.4	2.6	-4.1	-8.0

Balance Sheet

Particulars (Rs in million) As at	Q1FY22	FY21	FY20	FY19
CAPITAL AND LIABILITIES				
Capital	445.8	445.8	445.8	445.8
Reserves and surplus	1091.0	1059.7	854.9	1175.3
Deposits	2512.5	2428.4	1175.3	475.4
Borrowings	2112.8	1808.0	1107.9	829.0
Other liabilities and provisions	4039.5	4361.1	2656.1	3915.2
	10201.6	**10102.9**	**6240.0**	**6840.7**
ASSETS				
Cash and balances with Reserve Bank of India	477.9	883.2	1308.1	1574.5
Balances with banks and money at call and short notice	1667.5	1825.0	1711.7	2308.6

Investments	5578.3	5035.6	1282.7	732.0
Advances	0.6	1.3	1.0	0.8
Fixed assets	801.3	642.2	494.9	422.3
Other Assets	1676.0	1715.7	1441.6	1802.5
	10201.6	**10102.9**	**6240.0**	**6840.7**
Contingent liabilities	40.1	40.1	43.4	43.4