

## Play on Bharat digitisation...

**About the Company:** Fino Payments Bank is a fintech company offering a diverse range of financial products and services that are primarily digital and have a payments focus. The bank commenced its business operations in June 2017 post RBI's approval to carry out business as payments bank.

- Key products of the bank include CASA account, debit cards, domestic remittances, micro-ATM facility among others
- As of June 2021, the bank has 724671 merchants and 17430 BCs
- The bank has an operational presence in 90% of districts

### Key triggers/Highlights:

- As of August 2021, about 51% of micro-ATM deployed in the country is from Fino Payments Bank followed by SBM Bank at 12% & SBI at 8%
- Fino had largest network with 7.2 lakh banking touchpoints, followed by Airtel Payments Bank (5 lakhs) & India Post Payments Bank (1.4 lakhs)
- The unique framework of distribution, technology and partnership (DTP) enables it to serve target market efficiently and improve on three key challenges - scale, service and sustainability
- For period between April, 2021 and August, 2021, the bank has second largest debit card outstanding at 28.8 lakh
- The bank incurs minimal capital expenditure costs in connection with on-boarding merchants, because the on-boarding & setup capital expenditure costs are borne by the merchant
- Substantial experience & deep customer understanding positions the company to seize significant opportunities. According to Crisil, target addressable market, as of March 31, 2021 is ~| 0.85 trillion by revenue

**What should investors do?** The bank turned profitable in the fourth quarter of FY20 while RoE for FY21 was at 14.6%. At the upper end of the price band, it is valued at 29x BVPS (post issue) and 5.8x Q1FY22 revenue (annualised).

- We assign **UNRATED** rating to the IPO

### Key risk & concerns

- Concentration in few northern states
- Impact of Covid-19 could impact business adversely
- Stringent regulations to be adhered by payment banks

### Key Financial Summary

Key Financial (₹ crore)	FY19	FY20	FY21	Q1FY22	2 Year CAGR (FY19-FY21)
Net Total Income	365.6	681.5	781.5	203.2	46.2
Net Profit	-62.4	-32.0	20.5	3.1	NA
EPS (₹)	-8.0	-4.1	2.6	0.4	NA
BVPS (₹)	20.8	16.7	19.3	19.7	
ROA (%)*	-9.1	-5.1	2.0	1.2	
ROE (%)*	-32.3	-21.9	14.6	8.4	
P/E*	NA	NA	220.2	360.6	
P/BVPS	27.8	34.6	29.9	29.3	

Source: RHP, ICICI Direct Research \* Figures for Q1FY22 are annualised



### IPO Details

#### Issue Details

Issue Opens	29th October 2021
Issue Closes	2nd November 2021
Issue Size	₹1174 - 1200 crore
Fresh Issue	₹300 crore
Price Band	₹560 - 577
No. of shares on offer (in crore) @ upper price band	2.1
QIB (%)	75
Retail (%)	10
Minimum lot size (no of shares)	25

### Shareholding pattern

	Pre-Issue	Post-Issue
Promoters	100	75
Public	0	25
Total	100	100

### Objects of the issue

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Augmenting Bank's Tier – 1 capital base to meet its future capital requirements and to receive the benefits of listing the Equity Shares on the Stock Exchanges

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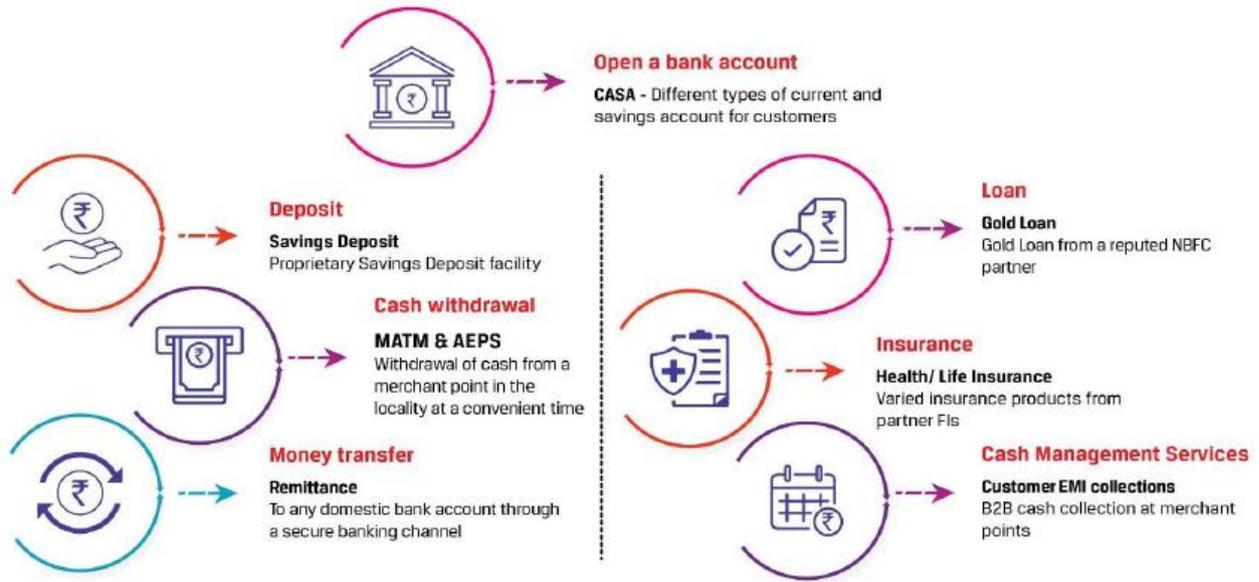
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## Company Background

Fino Payments Bank is a fintech company offering a diverse range of financial products and services that are primarily digital and have a payment focus. The bank commenced its business operations in June 2017, post RBI’s approval to carry out business as payments bank. The bank’s products and services include various current and savings accounts (CASA), issuance of debit card and related transactions, facilitating domestic remittances, withdrawing and depositing cash [via micro-ATM or Aadhaar Enabled Payment System (AePS)] and cash management services (CMS). The bank’s merchants also leverage the customer relationships within their respective communities to facilitate cross-selling of other financial products and services such as third party gold loans, insurance, bill payments and recharges. As of June 2021, about 51% of the micro-ATM deployed in the country is from the Fino Payment Bank.

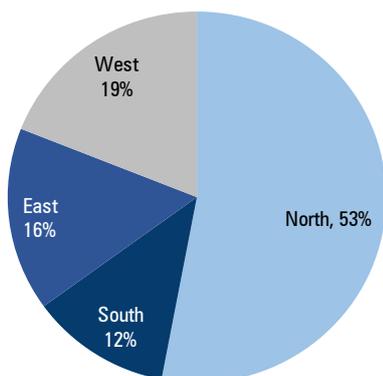
Exhibit 1: Fino Payment Bank’s product suite



Source: RHP, ICICI Direct Research

Fino Payments Bank has built a pan-India presence with 724,671 merchants as of June 30, 2021, comprising 3,66,861 “own” merchants and 3,57,810 merchants on-boarded through the API channel, which are typically located in Tier-2 and Tier-3 towns. In Q1FY22, FY21 and FY20, the bank on-boarded 82779, 364493 and 176169 merchants, respectively.

Exhibit 2: Region-wise merchant distribution



Source: RHP, ICICI Direct Research

## Revenue Model

Fino Payments Bank's product and service offering includes liabilities products and other banking products that generate fee and commission based income and cater to the needs of target customer market. Income derived primarily from its product and service offering in FY19, FY20, FY21 and Q1FY22 was ₹ 351.96 crore, ₹ 673.27 crore, ₹ 770.77 crore and ₹ 200.19 crore, respectively. This income includes miscellaneous income derived from sources such as intercompany BPCL fleet cards, certain UPI transactions, and interchange income on NACH.

The revenue models for Fino's products are as follows:

- **Micro-ATMs:** Fino generates interchange commission for every transaction that is conducted through micro-ATMs on its system. This commission is ~0.5% of the transaction amount or ₹ 15, whichever is lower. Income derived from Micro-ATMs for Q1FY22 and FY21, was ₹ 38.9 crore and ₹ 173.1 crore, respectively
- **Aadhaar Enabled Payment System (AePS):** Fino generates interchange commission for every AePS transaction that is conducted through its system. This commission is ~0.5% of the transaction amount or ₹ 15, whichever is lower. Income derived from AePS for Q1FY22 and FY21, was ₹ 24.8 crore and ₹ 83.3 crore, respectively
- **Remittances (money transfer):** Fino earns a commission for every domestic remittance transaction facilitated. The revenue it earns through domestic remittance is based on a percentage of transaction value after accounting for costs and depends upon whether the remittance is carried out through its own channel or on the API channel. Income derived from Remittances for Q1FY22 and FY21, was ₹ 63.8 crore and ₹ 255.4 crore, respectively
- **CASA:** Fino earns revenue on CASA accounts by charging: 1) an annual subscription fee on Shubh Savings Account, Jan Savings Account and Bhavishya Savings Account; 2) fees where the customer is unable to maintain the MAB on Pratham Savings Account & Pragati current account; 3) for fund transfers made from CASA accounts (i.e., account to account transfers and IMPS); 4) for cash transactions such as cash deposits and cash withdrawals; and 5) other miscellaneous fees in connection with certain SMS alerts and physical account statements. Income derived from CASA for Q1FY22 and FY21, was ₹ 17.8 crore and ₹ 59.4 crore, respectively
- **Debit cards (classic and platinum):** Fino earns revenue on debit cards by charging one-time issuance fees and an annual maintenance charge per card. It also earns revenue on financial and non-financial transactions that occur through micro-ATMs and which exceed set 'free' limits. Debit cards outstanding for Q1FY22 were ₹ 27.1 lakh, for FY21 it was at ₹ 23.3 lakh
- **Cash Management Services (CMS):** Fino earns revenue from CMS on a commission basis according to throughput volumes. Income derived from CMS for Q1FY22 and FY21, was ₹ 12.8 crore and ₹ 30.5 crore, respectively
- **Third party gold Loans:** Fino generates revenue on a commission basis, charged to the credit service provider, calculated as between percentage of total throughput value of gold loans transacted with customers on a monthly basis. Income derived from facilitating gold loans for Q1FY22 and FY21, was ₹ 1.2 crore and ₹ 10.3 crore, respectively
- **Third Party Insurance Products:** Fino generates revenue in the form of commission on every insurance policy that it cross-sell, the commission varies according to the type of policy. For Q1FY22 and FY21, it cross sold 5,263 and 80,774 insurance policies, respectively, deriving ₹ 11.8 lakh and ₹ 95.5 lakh in income, respectively.
- **Bill payments and recharge facilities:** Fino generates revenue in the form of commission charged to the service provider. Income derived from facilitating bill payments and recharges in Q1FY22 and FY21 was ₹ 1.6 lakh and ₹ 104.5 lakh, respectively
- **FASTags:** The FASTag can be obtained by the customer from Fino's merchants for a flat fee of ₹ 99. The merchant registers the customer's vehicle and issues the tag by linking it to the customer's account. Fino also shares in the interchange income of 1.5% for every toll transaction. Income

derived from FASTags in Q1FY22 and FY21 was ₹ 0.9 lakh and ₹ 4.8 lakh, respectively.

- **Nearfield-based contactless pre-paid card payments:** Fino generate revenues by charging the customer a “convenience” fee every time the customer accesses its touch-points over the entire customer life cycle, including at card registration. Fino also generates revenue as the customer recharges, charged as a percentage of the recharge amount. Income derived from facilitating the NFC payments in Q1FY22 and FY21 was ₹0 and ₹8.7 lakh, respectively
- **Third party business loans:** Fino generates revenue in the form of commission received from the service provider, which may differ depending on whether the loan is new or being renewed, and also as to the amount being loaned, where for greater amounts it will receive a high percentage commission. Income derived from third party business loans in Q1FY22 and FY21 was ₹ 5.8 lakh and ₹ 6.6 lakh, respectively

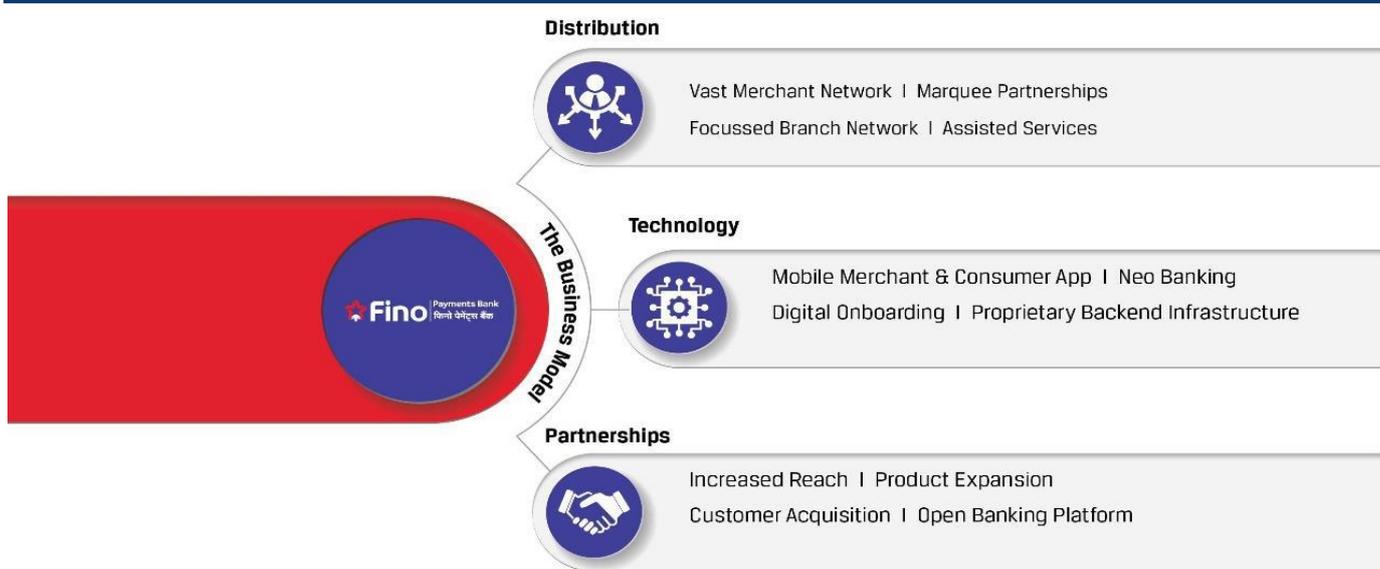
## Investment rationale

### Unique Distribution, Technology & Partnership (DTP) network

Unique DTP framework enables 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 level of upfront and continued customer service required to build and maintain trust among all of the communities in which the company operate and target; and (iii) sustainability — the customized range of products required to meet the needs of the target market.

Substantial experience of operating in such market and deep understanding of customer’s needs, coupled with combination of track record and customer knowledge positions the company well to seize upon significant opportunity in future growth. According to Crisil, target addressable market, as of March 31, 2021 is ~₹ 0.85 trillion by revenue potential.

Exhibit 3: Fino’s Business Model



Source: RHP, ICICI Direct Research

### Technology focused business with advanced digital platform

Investment in technology has been made with a goal to offer an unparalleled experience to customers and empower merchants to carry out more transactions. Accordingly, simplicity in service and product design and efficient deployment are important factors, which are demonstrated in the bank’s Bpay app. In FY19, FY20, FY21 and Q1FY22, the company recorded ₹ 13.9 crore, ₹ 22.8 crore, ₹ 66.9 crore and ₹ 22.5 crore, respectively, of capital expenditure in connection with technology infrastructure. The bank has a dedicated business technology team with approximately 110 technical staff as of June 30, 2021, to research, test and develop technology.

### Asset light scalable, business model

The bank’s merchant-led model is a capital light business strategy in respect of network expansion and except for referrals of third party loan providers, the company does not offer any lending products. The bank incurs minimal capital expenditure costs in connection with on-boarding merchants, because the on-boarding and setup capital expenditure cost are borne by the merchant, such as any existing physical premises, laptop, mobile based phone, internet connectivity. Further, the bank’s technology significantly simplifies merchant on-boarding and training process, making it cost effective for the merchant and efficient for both parties. In addition to merchant network which, as of June 30, 2021 was at 724,671

(comprising of 366,861 “own” merchants and 357,810 merchants on the open banking network via API channel), the bank leverages its 17,430 active BCs to reach to the underserved and unserved populations in hard to reach locations.

**Exhibit 4: Details of merchants and client servicing points**

	FY19	FY20	FY21	Q1FY22
Merchants*	101230	277399	641892	724671
Own*	96843	192464	335359	366861
API*	4387	84935	306533	357810
Merchant throughput (₹ crores)				
Own	14800.7	34730.7	46527.7	120292.7
API	16075.4	36090.7	38846.2	100369.7
Branches*	125.0	100.0	54.0	54.0
BCs*	9187.0	12459.0	17269.0	17430.0
Client Service Points* (CSPs)	95.0	258.0	143.0	130.0
Fino Mitra: savings accounts opened (in lakhs)	1.6	5.5	10.7	0.3
Fino Mitra: app downloads	71397.0	119050.0	197876.0	23861.0
Fino Mitra: transactions (Nos. crore)	1.5	1.4	1.1	0.3
Fino Mitra: throughput (₹ crore)	5398.7	5442.2	4928.7	1488.2

Source: RHP, ICICI Direct Research

## 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, the bank benefits from his operational experience and expertise gained throughout that time. The business model in particular is partly a product of and, a beneficiary of such experience. Experience has played a central role in ability to turn profitable in the fourth quarter of financial year 2020, approximately three years since commencement of business operations.

## Highly experienced and committed leadership team

The bank 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. The Board of Directors includes five Independent Directors, which is a key factor in ensuring strong and clear corporate governance standard. The bank has low attrition rate throughout KMP, with five of KMP having been with since inception in 2017 and, on average, KMP and Board members have been associated with the “FINO” brand for ~5.3 years as of March 31, 2021. In addition, the principal shareholders of Fino Paytech Ltd, promoter and shareholder, include marquee investors such as ICICI Bank Ltd, Intel Capital Corporation, International Finance Corporation, HAV3 Holdings (Mauritius) Limited, Blackstone GPV Capital Partners (Mauritius) VI-B FDI Limited and BPCL.

## Expansion & deepening of customer sourcing capabilities

As of September 30, 2021, the bank had an operational presence in over 90% of districts, and during FY19-Q1FY22, the bank has acquired 696,513 new merchants. In addition, FINO also has a number of strategic relationships with businesses/ organization across the country, including with a State Road Transport Corporation (the “SRTC”) where they introduced a near field communication (“NFC”) based contactless payments solutions for the mass transit system. With a goal to acquire more customers, they intend to continue expanding network to drive deeper penetration and sustainable operations in these regions and communities, focusing on underserved and unserved individuals and micro businesses that have limited or no access to formal banking channels.

## Key Risks

### Covid-19 pandemic has had & may continue to impact business

The Covid-19 pandemic has affected and may continue to affect business, results of operations and financial condition in a number of ways such as, significant decline in domestic remittance transactions as migrant workers relocated from urban areas to hometown locations, leading to a decline in the need to transfer money home; CASA account activity decreased during the initial period of the outbreak in 2020; CMS operations decreased during the initial period of the outbreak in 2020 as a result of government moratoriums on lending and therefore reduced cash handling requirements.

### Payment banks in India, are subject to stringent regulatory requirements

Payment banks in India, are subject to various regulations prescribed by the RBI and the Banking Regulation Act. These include, but are not limited to prudential norms specified in respect of market risk and operational risk, maintenance of regulatory ratios (such as CRR, SLR), authorization of branches, permissible exposures, requisite disclosures in financial statements, fraud classification and reporting, periodic disclosure requirements (including in presentation of financial information & financial statements), and cyber security compliance.

### Geographic concentration of merchants remains a risk

A large number of bank's merchants are located in the states of Uttar Pradesh, Bihar and Madhya Pradesh. As of June 30, 2021, ~46% of merchants were located across these three states and revenue from such states in FY21 represented 43% of total revenue. In the event of a regional slowdown in the economic activity in any states of Uttar Pradesh, Bihar and Madhya Pradesh, or any other developments including political unrest, disruption or sustained economic downturn or natural calamities in those regions affecting the ability of these merchants to continue their operations within their respective communities, or that make the bank's services and/or products in these states less available or attractive and beneficial to the customer, the bank may experience an adverse effect on financial condition and results of operations.

## Financial summary

Exhibit 11: Profit and loss statement				
₹ crore				
Particulars (in crore)	FY19	FY20	FY21	Q1FY22
Interest income	19.2	18.1	20.3	6.1
Finance costs	5.5	9.9	9.5	3.1
<b>Net interest income</b>	<b>13.6</b>	<b>8.3</b>	<b>10.7</b>	<b>3.0</b>
Other income	352.0	673.3	770.8	200.2
<b>Net total income</b>	<b>365.6</b>	<b>681.5</b>	<b>781.5</b>	<b>203.2</b>
<b>Expenses</b>				
Operating expense	427.0	712.5	757.0	200.1
Provisions and Contingencies	0.9	1.0	4.0	0.0
<b>Total expenses</b>	<b>428.0</b>	<b>713.6</b>	<b>761.0</b>	<b>200.1</b>
<b>Operating profit</b>	<b>-62.4</b>	<b>-32.0</b>	<b>20.5</b>	<b>3.1</b>
<b>PBT/PAT</b>	<b>-62.4</b>	<b>-32.0</b>	<b>20.5</b>	<b>3.1</b>

Source: RHP, ICICI Direct Research

Exhibit 12: Key ratios				
₹ crore				
PARTICULARS	FY19	FY20	FY21	Q1FY22
Total capital ratio (%)	65.5	60.9	56.3	54.8
<b>Business Ratios</b>				
Interest Income as % to Working funds	5.4	5.2	4.0	0.8
Non Interest Income as % to Working funds	99.1	191.8	151.6	27.9
Operating Profit as % Working funds	-17.3	-8.8	4.8	0.4
Profit per Employee (in lakhs)	-2.4	-1.1	0.7	0.1
<b>Return Ratios</b>				
RoE (%)*	-32.3	-21.9	14.6	8.4
RoA (%)*	-9.1	-5.1	2.0	1.2
BVPS (Post Bonus Issue)	20.8	16.7	19.3	19.7

Source: RHP, ICICI Direct Research

\* Figures for Q1FY22 are annualised

Exhibit 13: Balance sheet				
₹ crore				
Particulars (in crore)	FY19	FY20	FY21	Q1FY22
Cash, Cash equivalents and Bank	388.3	302.0	270.8	214.5
Investments	73.2	128.3	503.6	557.8
Loans & Advances	0.1	0.1	0.1	0.1
Fixed Assets	42.2	49.5	64.2	80.1
Other Assets	180.3	144.2	171.6	167.6
<b>Total Assets</b>	<b>684.1</b>	<b>624.0</b>	<b>1010.3</b>	<b>1020.2</b>
<b>Equity and Liabilities</b>				
Share Capital	44.6	44.6	44.6	44.6
Other equity	117.5	85.5	106.0	109.1
<b>Net Worth</b>	<b>162.1</b>	<b>130.1</b>	<b>150.5</b>	<b>153.7</b>
Deposits	47.5	117.5	242.8	251.3
Borrowings	82.9	110.8	180.8	211.3
Other liabilities	391.5	265.6	436.1	403.9
<b>Total Equity and Liabilities</b>	<b>684.1</b>	<b>624.0</b>	<b>1010.3</b>	<b>1020.2</b>

Source: RHP, ICICI Direct Research

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Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective



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