

Fino Payments Bank Limited

Fino payment Bank Ltd was incorporated in 2017 and offers a wide portfolio of digital financial products and services in India. It offers such products and services to 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. The bank's products and services includes various current accounts and savings accounts ("CASA"), issuance of debit card and related transactions, facilitating domestic remittances, open banking functionality via their Application Programming Interface, withdrawing and depositing cash (via micro-ATM or Aadhaar Enabled Payment System "AePS") and Cash Management Services ("CMS"). It operates an asset light business model that principally relies on fee and commission based income generated from merchant network and strategic commercial relationships.

Positives: (a) Unique DTP (Distribution, Technology, Partnership) network helps in better customer servicing (b) Focus on technology development and in-house technological expertise (c) Customer centric and innovative business model (d) Highly experienced management team.

Investment concerns: (a) Inability to generate income from fee and commission-based activities. (b) Rely extensively on IT systems, success depends on ability to innovate, upgrade and respond to new technological advances. (c) Subject to stringent regulatory requirements and prudential norms. (d) Cyber threats attempting to exploit network may cause damage to reputation.

Outlook & Valuation: Fino payments bank has posted strong a 46.0% CAGR in total revenues between FY2019-21 and has also turned around its operations and reported profits of ₹20 crore for the first time in FY2021. At the higher end of the price band the stock would be trading at P/E of 220x FY2021 fully diluted EPS of ₹2.6 which is expensive. Despite strong growth prospects, we believe that valuations do not justify the premium and hence we have a **NEUTRAL** recommendation to the IPO.

Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021
Total Revenues	371.1	691.4	791.0
% chg	-	86.3	14.4
Net Profit	-62.4	-32.0	20.5
% chg	-	-48.6	-163.9
EPS (₹)	(8.0)	(4.1)	2.6
P/E (x)	(72.2)	(140.5)	219.9
P/BV (x)	27.8	34.6	29.9
ROE (%)	(38.5)	(24.6)	13.6
ROA (%)	(9.1)	(5.1)	2.0
Mkt cap/Total Revenue	12.1	6.5	5.7

Source: Company, Angel Research.

Note: Valuation ratios at upper price band.

NEUTRAL

Issue Open: Oct 29, 2021
Issue Close: Nov 02, 2021

Issue Details

Face Value: ₹10
Present Eq. Paid up Capital: ₹78.0 cr
Offer for Sale: ₹900 cr
Fresh issue: ₹300 cr
Post Eq. Paid up Capital: ₹83.2cr
Issue size (amount): ₹1,200 cr
Price Band: ₹560-577
Lot Size: 25 shares and in multiple thereafter
Post-issue mkt. cap: * ₹4,660 cr - ** ₹4,801 cr
Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 75%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	75.0%
Others	25.0%

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Company background

Fino payments Bank was incorporated as 'Fino Fintech Foundation' dated June 23, 2007. The company operates an asset-light business model that is underpinned by the "phygital" model and relies on merchant networks and other participants. It has built a Pan-India presence with 724,671 merchants (own and API) as of June 30, 2021, which are typically located in Tier-2 and Tier-3 towns (based on population). Additionally, FPBL 54 branches and 130 Customer Service Points ("CSPs") as of June 30, 2021.

Issue details

The issue comprises of Fresh Issue upto ₹300 Cr and OFS of 15,602,999 Eq Shares amounting upto ₹ 900.29 Cr only.

Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter & Promoter Gp.	78,014,996	100.0%	62,411,997	75.0%
Public	0	0.0%	20,802,305	25.0%
Total	78,014,996	100%	83,214,303	100.0%

Source: Company, Angel Research & RHP.

Objectives of the Offer

- Augmenting Bank's Tier – 1 capital base to meet its future capital requirements.
- To meet the expenses in relation to the offer.

Key Management Personnel

Rishi Gupta is the Managing Director and CEO of the Bank. He holds a bachelor's degree in commerce from University of Delhi. He is also a qualified chartered accountant and cost and works accountant and member of ICAI and ICWAI respectively.

Mahendra Kumar Chouhan is a part time chairman and an independent director in the Bank. He has previously served on policy making and regulatory committees such as SEBI Committee on Corporate Governance as well as the Ministry of Corporate Affairs Committee for the National Policy on Corporate Governance.

Suresh Kumar Jain is an independent director in the Bank. He has been a banker for over 36 years and was a General Manager on Bank of India, He was selected by Government of India as Executive Director of Union Bank of India and retired in May 2014.

Punita Kumar Sinha is an independent director in the Bank. She holds a bachelor's degree in chemical engineering from IIT Delhi, MBA (Finance) from Drexel University and Ph.D. from University of Pennsylvania. She is also a qualified CFA. She has experience in investment management and financial markets. Previously she has worked as a senior managing director of Blackstone – Asia Advisory Group.

Exhibit 1: Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY2022
Total operating income	371.1	691.4	791.0	206.2
% chg	-	86.3	14.4	36.3
Total Expenditure	428.0	713.6	761.0	200.1
Operating expenses	427.0	712.5	757.0	200.1
Provisions and contingencies	0.9	1.0	4.0	-
Operating Profit	-56.9	-22.2	30.0	6.2
% chg	-	-61.0	-	29.7
(% of Net Sales)	-15.3	-3.2	3.8	3.0
Interest expended	5.5	9.9	9.5	3.1
Recurring PBT	-62.4	-32.0	20.5	3.1
% chg	-	-48.6	-	69.0
Exceptional item	-	-	-	-
Tax	-	-	-	-
PAT (reported)	-62.4	-32.0	20.5	3.1
% chg	-	-48.6	-	69.0
(% of Net Sales)	-16.8	-4.6	2.6	1.5
Basic & Fully Diluted EPS (Rs)	-8.0	-4.1	2.6	0.4

Source: Company, Angel Research

Exhibit 2: Consolidated Balance Sheet

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY2022
SOURCES OF FUNDS				
Equity	44.6	44.6	44.6	44.6
Reserve & Surplus	117.5	85.5	106.0	109.1
Net worth	162.1	130.1	150.5	153.7
Borrowings	82.9	110.8	180.8	211.3
Deposits	47.5	117.5	242.8	251.3
Other Liab. & Prov.	391.5	265.6	436.1	403.9
Total Liabilities	684.1	624.0	1010.3	1020.2
Cash Balances	157.4	130.8	88.3	47.8
Bank Balances	230.9	171.2	182.5	166.8
Investments	73.2	128.3	503.6	557.8
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
Total Assets	684.1	624.0	1010.3	1020.2

Source: Company, Angel Research

Exhibit 3: Consolidated Cash flows

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY2022
Operating profit before changes	-40.3	-4.5	81.5	10.5
Net changes in working capital	63.6	-86.0	-123.2	-72.7
Cash generated from operations	23.3	-90.5	-41.7	-62.2
Direct taxes paid (net of refunds)	5.3	6.8	9.5	-1.8
Net cash flow operating activities	28.6	-83.7	-32.2	-64.1
Addition to fixed assets	-13.8	-30.9	-69.0	-22.7
Sale of Fixed assets	0.2	0.4	0.1	-
Cash Flow from Investing	-13.6	-30.5	-68.9	-22.7
Net proceeds from borrowings	35.0	27.9	70.0	30.5
Cash Flow from Financing	35.0	27.9	70.0	30.5
Inc./ (Dec.) in Cash	50.0	-86.3	-31.2	-56.3
Opening Cash balances	338.3	388.3	302.0	270.8
Exchange effect	0.0	0.0	0.0	0.0
Closing Cash balances	388.3	302.0	270.8	214.5

Source: Company, Angel Research

Key Ratios

Y/E March	FY2019	FY2020	FY2021
Valuation Ratio (x)			
P/E (on FDEPS)	(72.2)	(140.5)	219.9
P/BV	27.8	34.6	29.9
Mkt cap/Total Revenue	12.1	6.5	5.7
Per Share Data (Rs)			
EPS (Basic)	(8.0)	(4.1)	2.6
EPS (fully diluted)	(8.0)	(4.1)	2.6
Book Value	20.8	16.7	19.3
Returns (%)			
ROE	(38.5)	(24.6)	13.6
ROA	(9.1)	(5.1)	2.0

Source: Company, Angel Research

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