

Company Overview

Financial Inclusion Network Operations (“FINO”) started as a technology company aimed at developing technological solutions and services related to financial inclusions. In 2015, Fino PayTech Limited was granted in-principle approval to set up payments bank and today their products and services are widespread including various current accounts and savings accounts (“CASA”), open banking functionality (via Application Programming Interface “API”). The company’s merchants facilitate them in cross-selling their other financial products and services such as third-party gold loans, insurance, bill payments and recharges. Fino Payments also manages a large BC (Business Correspondents) network on behalf of other banks. As of 2021, they have 641,892 merchants spread across 94% districts in India making them the 3rd largest bank for facilitating digital transactions in India. Their unique framework of distribution, technology and partnership (“DTP” framework) enables them to serve their target market efficiently and is used to overcome and/ or achieve improvements on three key challenges associated with serving their target market, being scale, service and sustainability.

Objects of the issue

The IPO proceed will be used towards the following purposes;

- ⇒ Augmenting its Tier – 1 capital base to meet its future capital requirements
- ⇒ General Corporate Purposes

Investment Rationale

Profitable growing FinTech with a mass reach

Fino Payments serves the underserved population in India which is the “Emerging India”, a rural focused mass market, giving it a Pan-India presence which is moving towards a digital economy. Digital payments in India are expected to have a CAGR of 25%-27% in FY 21 to FY25E. As of 2021, Fino has a digital presence over 17000 active business correspondents, 50 plus branches and 130 customer service points. They have successfully opened 1.1 million savings account in FY21 and has enabled 249,851 micro-ATMs in India, giving FINO a 55% share in the overall market. Fino is the only scheduled payments bank which is profitable, with a profit of INR 205 million and has a 15% Return on Equity.

Technology driven Omni Channel backed by an Asset Light highly scalable model

The technology based business model of Fino is innovative and customer centric. Their philosophy of “phygital delivery model” uses technology to bridge the digital and the physical worlds with the aim of providing enhanced customer experience as well as reach out to more people in emerging India. Their core technology coupled with their technology enablers such as “Fino BPay”, “Fino Mitra”, help customers transact at convenience, builds trust and provides a bank at doorstep. The asset light business model keeps the risks at bay and even their books show zero credit risk. The 15 years of rich experience has helped them create a platform which is intuitive, innovative and scalable. As of FY21, Fino has had over INR 1.3 trillion worth of transactions.

Valuation and Outlook

Fino Payments has a highly experienced Board and management, and their framework provides seamless interplay between distributors, Technology and Partnerships. The company has even entered into a massive untapped opportunity, “the Emerging India”, which has a massive scope of growth, but its profitability has only been recently achieved. However, on the upper end of the price band, the issue is valued at a P/Bv of 31.89x based on FY21 book value. The Company exists in a stiff competitive environment where companies like PayTM Payments Bank and India Post Payments bank exist and outperform many aspects. We thus believe that the current growth momentum is difficult to sustain in the long term. Hence we give an “**AVOID**” rating to this IPO.

Issue Details

Offer Period	29 th Oct– 2 nd Nov, 2021
Price Band	INR.560 to INR.577
Bid Lot	25
Listing	BSE&NSE
Issue Size (no. of shares in mn)	20.80
Issue Size (INR. in bn)	12
Face Value	10

Issue Structure

QIB	75%
NIB	15%
Retail	10%
BRLM	Axis Capital, CSLA India Private Limited, ICICI Securities, Nomura Financial Advisory & Securities
Registrar	KFin Technologies Pvt. Ltd.

Particulars Pre Issue % Post Issue %

Promoter	100%	75%
Public	0%	25%
Total	100%	100%

(Assuming issue subscribed at higher band)



Income Statement (In mn)

Particulars (Rs in million)	FY19	FY20	FY21	Q1FY22
Revenue				
Interest Income	192	181	203	61
Total Revenue from Operations	192	181	203	61
Other Income	3,520	6,733	7,708	2,002
Total Income	3,711	6,914	7,910	2,062
Expenses				
Interest Expended	55	98.68	95	31
Operating Expenses	4,270	7,125	7,570	2,001
Provisions and Contingencies	9	10	40	-
Total Expenses	4,335	7,234	7,706	2,031
PAT	(624)	(320)	205	31
Profit/(loss) brought forward	(2,246)	(2,869)	(3,190)	(3,036)
Total PAT	(2,869)	(3,190)	(2,985)	(3,005)
Diluted EPS	(8.0)	(4.1)	2.6	0.4

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	Q1FY22
Cash Flow from operating activities	286	(837)	(322)	(641)
Cash flow from investing activities	(136)	(305)	(689)	(227)
Cash flow from financing activities	350	279	700	305
Net increase/(decrease) in cash and cash equivalents	500	(863)	(312)	(563)
Cash and cash equivalents at the beginning of the period	3,383	3,883	3,020	2,708
	-	-	-	
Cash and cash equivalents at the end of the period	3,883	3,020	2,708	2,145

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	Q1FY22
Liabilities				
Share Capital	446	446	446	446
Reserves & Surplus	1,175	855	1,060	1,091
Net worth	1,621	1,301	1,505	1,537
Deposits	475	1,175	2,428	2,513
Borrowings	829	1,108	1,808	2,113
Other liabilities and provisions	3,915	2,656	4,361	4,039
Total Liabilities	6,841	6,240	10,103	10,202
Assets				
Fixed Assets	422	495	642	801
Other Assets	1,803	1,442	1,716	1,676
Advances	1	1	1	1
Investments	732	1,283	5,036	5,578
Cash and balances with RBI	1,574	1,308	883	478
Balances with banks and moneys at call and short notice	2,309	1,712	1,825	1,668
Total Assets	6,841	6,240	10,103	10,202

Source: RHP, BP Equities Research

Key Risks

- ⇒ *Uncertainty in relation to the continuing effects of the COVID-19 pandemic and associated responses in their business.*
- ⇒ *Company's inability to undertake fee and commission based activities owing to external factors such as general macro economic conditions, regulatory instructions and competitive factors among others.*
- ⇒ *Adverse changes in states of Uttar Pradesh, Bihar and Madhya Pradesh, where their significant portion of merchant distribution network is located, can adversely affect their business, financial condition and results of operations.*
- ⇒ *Disruption, weakness, failure of our information technology systems, breach of data, cyber threats, inability to innovate, upgrade and respond to new technological advances.*

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

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