Equity Research

January 3, 2022
BSE Sensex: 59183

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Initiating coverage

Financials

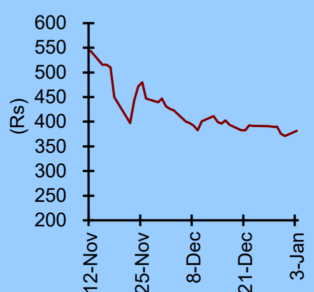
Target price Rs475

Shareholding pattern

	Sep '21
Promoters	75.0
Institutional investors	21.5
MFs and others	-
FI/Banks	0.7
FIIs	20.8
Others	3.5

Source: NSE

Price chart



Research Analysts:

Renish Bhuva
renish.bhuva@icicisecurities.com
+91 22 6807 7465

Kunal Shah
kunal.shah@icicisecurities.com
+91 22 6807 7572

Chintan Shah
chintan.shah@icicisecurities.com
+91 22 6807 7658

INDIA

ICICI Securities

Fino Payments Bank Limited

BUY

A unique business model; niche position in untapped rural India

Rs382

We initiate coverage on Fino Payments Bank (Fino) with BUY rating and TP of Rs475. Fino is uniquely positioned to capture growing opportunities in rural India, led by deep-rural products like MATM (~51% market share as on Aug'21) & AEPS, tailor-made CASA accounts for under-served population, and payment app called "FinoPay" targeting rural population. Further on B2B2C side, it offers CMS service (110 partners) and distribution of gold / business loans. Diversified revenue stream, merchant-led asset-light distribution model and deep rural network with operational presence in over 90% districts are key features of its unique business model and also the primary reason behind Fino turning profitable within 12 quarters. Notably, unlike other players, Fino is rapidly building organic customer base (~3.4mn) and merchant base (~0.8mn) without burning cash; annualised PAT margin stands at 4% with total annualised throughput of ~Rs1.7trn as on Sep'21.

- **Unique business model – omni-channels and phygital ecosystem for emerging India.** Fino has built a unique business model with a perfect blend of physical and digital infrastructure. Unlike conventional way of branch-led-business sourcing, it has strategically built network via merchants - these merchants provide Fino's banking products and services to the end customers. It has develop in-house app called "Fino Mitra" which facilitate & process banking transactions for customers at merchant point. Digital savvy customers can directly avail banking services from FinoPay, a digital solution that utilises the Unified Payments Interface ("UPI") for secure and fast personal banking and merchant payments, among other functions, and targets retail customers.

- **Superior management execution reflects 70%+ / 45%+ throughput / revenue CAGR driven by timely product launch.** Fino's growth journey, as a payments bank, has been characterised by timely launch of new products, and scaling those aggressively to become one of the top 5 players in most categories. Total throughput CAGR of 70%+ and revenue CAGR of 45%+ between FY18-21 have been driven by launch of MATM (currently enjoys ~51% market share) & AEPS in FY18, CMS (~110 partners) in FY19, subscription-based CASA products in FY20 (2.5mn+ CASA accounts) and gold loan distribution in FY21. Fino enjoys strong cost flexibility with ~70% variable cost, given it incurs minimal capital expenditure costs in connection with merchant on-boarding, because setup capital expenditure costs are borne by the merchant. Further, it purely acts as loan distributor, and hence, we believe does not hold any credit risk.

Market Cap	Rs31.7bn/US$427mn
Bloomberg	FINOPB IN
Shares Outstanding (mn)	83.2
52-week Range (Rs)	577/371
Free Float (%)	25.0
FII (%)	20.8
Daily Volume (US$/'000)	NA
Absolute Return 3m (%)	NA
Absolute Return 12m (%)	NA
Sensex Return 3m (%)	0.9
Sensex Return 12m (%)	24.9

Year to Mar	FY21	FY22E	FY23E	FY24E
Revenue (Rs bn)	7.9	9.8	11.5	13.7
% Chg YoY	14.4	22.5	17.1	18.4
Net Income (Rs bn)	0.2	0.3	0.8	1.2
EPS (Rs)	4.5	4.1	10.0	14.7
% Chg YoY	nmf	(8.7)	142.6	48.1
P/E (x)	83.3	91.2	37.6	25.4
RoE (%)	14.3	10.6	15.4	19.2
Gross Profit margin (%)	32.6	29.7	31.6	32.3
PAT margin (%)	2.6	3.6	7.5	9.4
Revenue per emp. (Rs mn)	2.9	3.1	3.6	3.9

- **Pioneering neighbourhood banking; taking banking to the last mile.** Key challenge faced by rural population is lack of banking channel in neighbourhood and assisted banking services. Fino's merchant-led model addresses this and also offers second source of income to merchants. Its model creates a network effect and facilitates a seamless interplay amongst distribution, technology and partnerships. This framework differentiates it from its competitors and is difficult to replicate.

- **Key risk.** A) Increasing competition could result in higher merchant pay-outs, which in turn could dent margins and B) Faster adoption of UPI payments via feature phone could impact Remittance volumes.

- **Valuation:** Fino's unique non-lending business model – combination of digital and physical – puts it in a separate bucket from traditional lending entities like banks, NBFCs etc. and non-lending entities like insurance, AMCs etc. Also, Fino is first-of-its kind company to go public. Hence, due to absence of apple-to-apple peers set, we look at similar growth and profitability entities within financial service space.

  Fino is likely to deliver 20% revenue CAGR over FY21-24E with PAT margin of 10% and RoE of ~20%. When we look at entities having similar financial outlook, we observe these companies command P/E ratio of 30-50x. **Given, Fino's limited history of profitability and scale, we are assigning 32x (lower end of P/E band) and arrive at TP of Rs475/share based on FY24E.** While we assign P/E at lower band, market may tend to value higher considering – a) successful execution of strategies since inception as reflected in its diversified revenue stream & turning profitable within 12 quarters, b) likely revenue CAGR in excess of 20% if new products scale up faster than expectations, c) margin surprise driven by greater merchant stickiness (hence scope for commission rationalisation) and d) increase in MATM per transaction interchange fees by regulator which is currently capped at Rs15 per transaction; regulator has recently hiked ATM interchange fees by Rs1-2 per transaction from Rs15 (Link).

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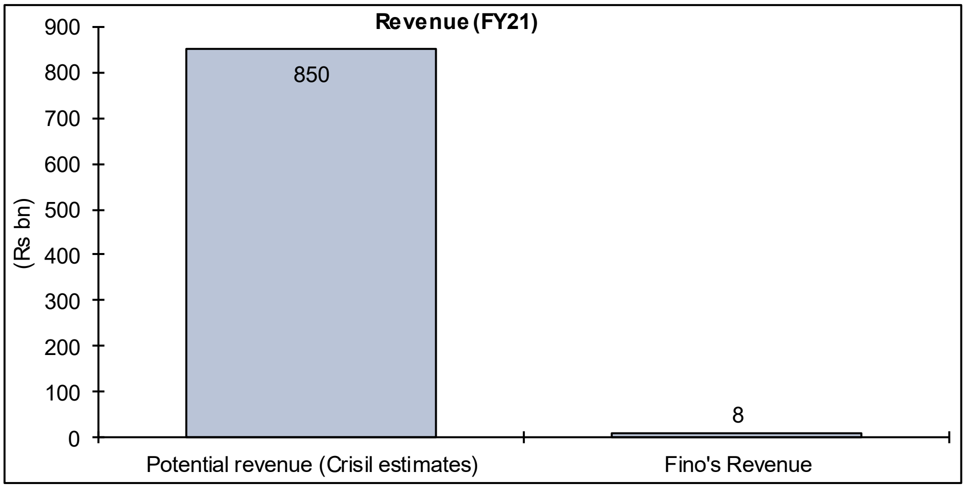
Investment rational

Unique business model – omni-channels and phygital ecosystem for emerging India

Target addressable market as on March'21 is ~Rs0.85trn by potential revenue, based on CRISIL estimates. Fino's total revenue stands at Rs7.9bn or <1% of total potential revenue in FY21, reflecting huge growth opportunities going ahead. It is a perfect blend of "phygital" business model to ensure sustainability of high growth in coming years.

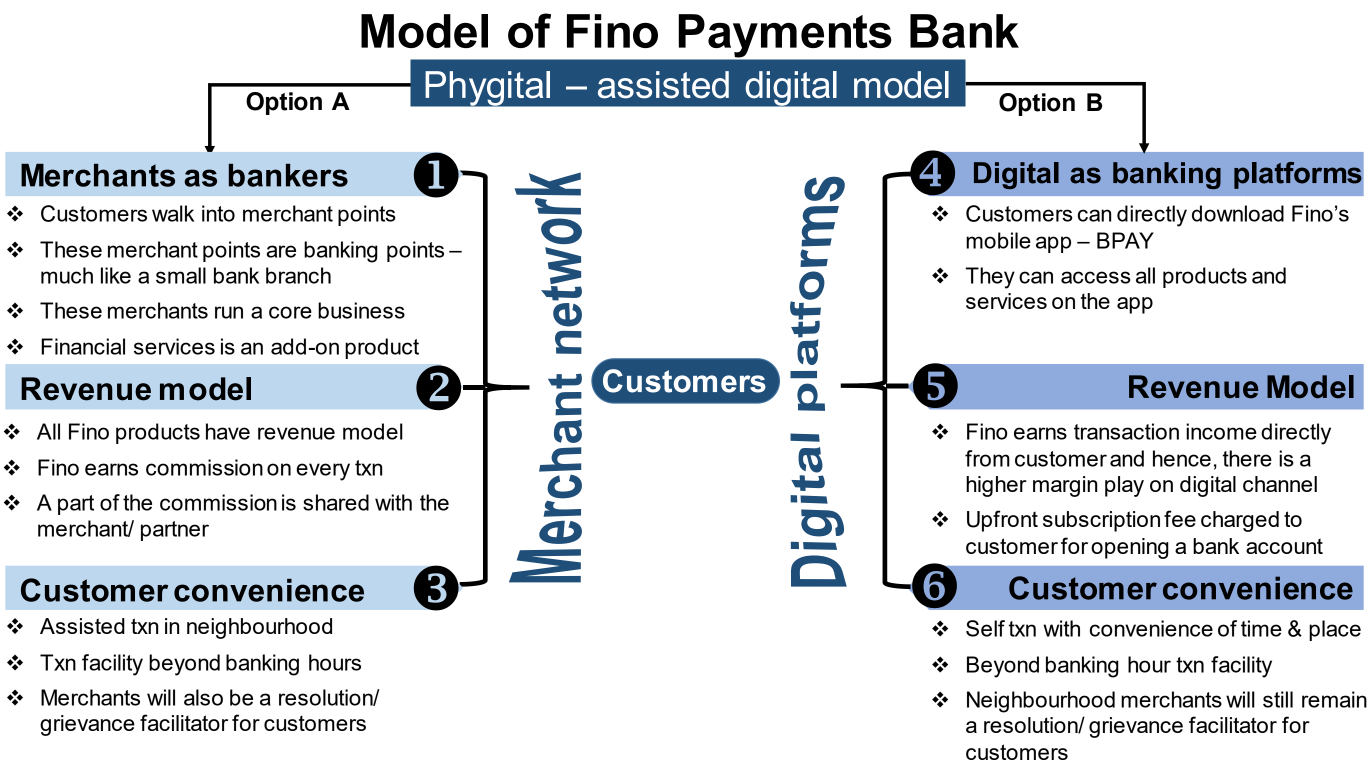
Chart 1: Fino's total revenue in FY21 was <1% of total potential revenue



Source: Company data, I-Sec research.

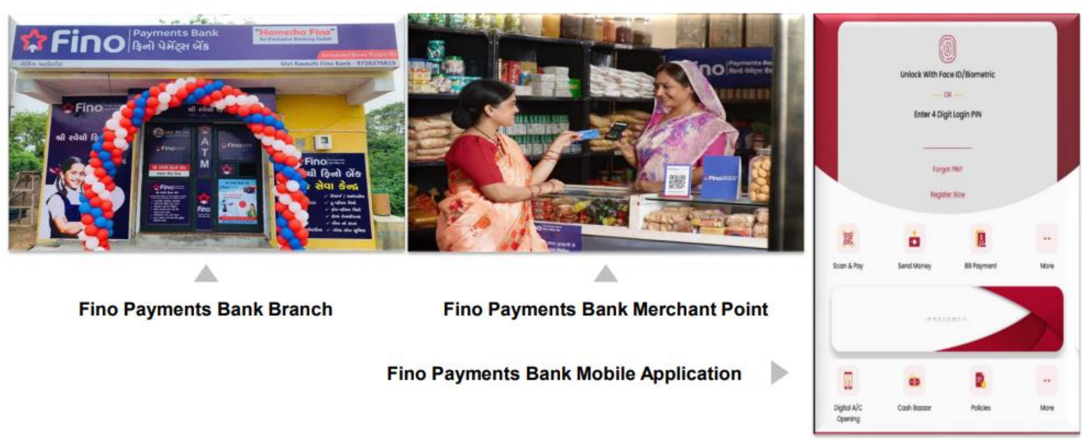
Fino has built a unique business model with a perfect blend of physical and digital infrastructure. Unlike conventional way of branch-led-business sourcing, it has strategically built network via merchants - these merchants provide Fino's banking products and services to the end customers. It has develop in-house app called "Fino Mitra" which facilitate & process banking transactions for customers at merchant point. Currently, it operates via ~8mn merchant network covering ~90% of total India's districts. Notably, it has built an entire merchant network organically, as it does not enjoy any existing distribution network like some of its peers in payments bank space.

Chart 2: Phygital – assisted digital model



Source: Company data, I-Sec research.

Chart 3: Phygital distribution network



Source: Company data, I-Sec research.

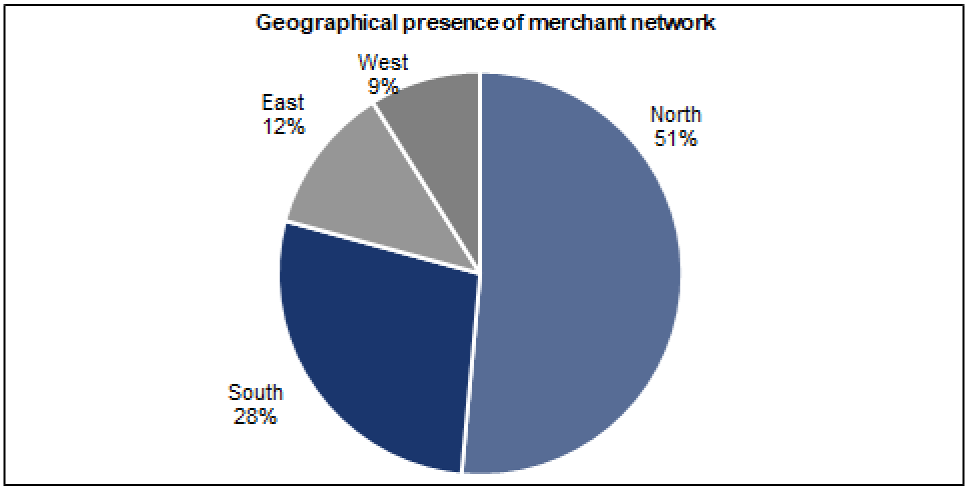
Daily merchants on-boarded in Sep-21 stand at 1,052 vs 999 in FY21.

Table 1: Distribution network

Metric	FY19	FY20	FY21	1HFY22
Merchants	**101,230**	**277,399**	**641,892**	**808,563**
Own	96,843	192,464	335,359	413,234
API	4,387	84,935	306,533	395,329
Branches	125	100	54	NA
BCs	9,187	12,459	17,269	NA
Client Service Points (CSPs)	95	258	143	NA
Fino Mitra: savings accounts opened (in mn)	0.16	0.55	1.07	NA
Fino Mitra: app downloads	**71,397**	**119,050**	**197,876**	**NA**
Fino Mitra: transactions (in mn)	15	14	11	NA
Fino Mitra: throughput (Rs mn)	53,986	54,421	49,286	NA

Source: Company, I-Sec research

Chart 4: Extensively present in North; scope to improve penetration in rest of India



Source: Company, I-Sec research

Merchant network

Fino's merchant network best illustrates the interplay of its asset-light business model, DTP framework and "phygital" approach. The merchant-led distribution model is relatively low cost, compared to product distribution via traditional bank branches, allowing it to scale up quickly and also facilitate deeper penetration in and around locations where it has an existing presence and can expand to newer regions where it intends to operate. Its merchants are typically neighbourhood shops such as kirana stores, mobile repair shops, photocopying outlets, dairy outlets, amongst others, where owners of such outlets are from local community and open for extended periods of the day.

It enables each merchant with appropriate technology and knowhow to attract new, and service existing customers. Merchants are typically small neighbourhood shops and businesses, where owners are from local community and therefore, benefit from a pre-existing familiarity with the people who frequent their outlets. **As a result, its merchants become "trusted bankers" for customers within their communities and often have leverage to increase sales of their existing products and other financial products from their partner institutions.**

Merchant retention

Merchant retention is the key to focus for Fino as they are the primary source to facilitate banking platform to customer. Hence, it tries to ensure each merchant receives instant commission on the products they sell or facilitate and that technology and administration requirements are simple and easy to navigate. Merchants operate on an incentive-based model and are offered a commission on every transaction which in effect creates an additional source of income and an increase in footfalls at their locations. Its retention efforts also include telephone calls or messaging via Fino Mitra so its relationship teams can discuss issues with merchants and solve their issues, prompt for assistance or training, and its 'feet-on-street' team also meets merchants face-to-face.

Customer retention

Branch penetration in India beyond tier-2 cities is very low and branches in tier 3 & below are generally very crowded and far away. Further, they are open during limited banking hours on weekdays. Thus, emerging India customers struggle to get banking services at ease and Fino is bridging this gap by providing a bank account at the doorstep of the customer.

On B2C side, it launched 'FinoPay', a digital solution that utilises the Unified Payments Interface ("UPI") for secure and fast personal banking and merchant payments, among other functions, and targets retail customers.

Chart 5: FinoPay app for retail customers…

Source: Company, I-Sec research

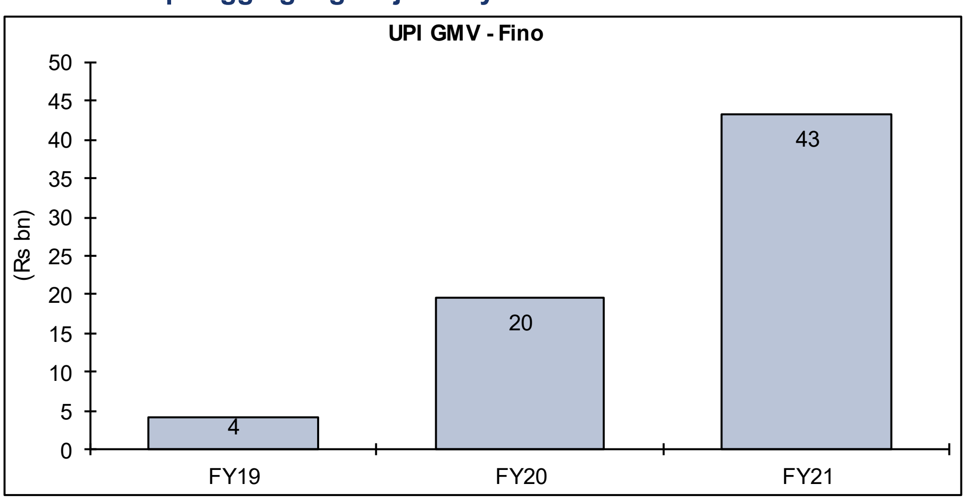
Table 2: … gaining traction at accelerated pace

Metric	FY19	FY20	FY21
FinoPay: registration	**89,691**	**569,718**	**769,794**
FinoPay: transactions (in mn)	0.39	2.37	2.35
FinoPay: throughput (Rs mn)	1,071.47	7,192.21	5,798.48

Source: Company, I-Sec research

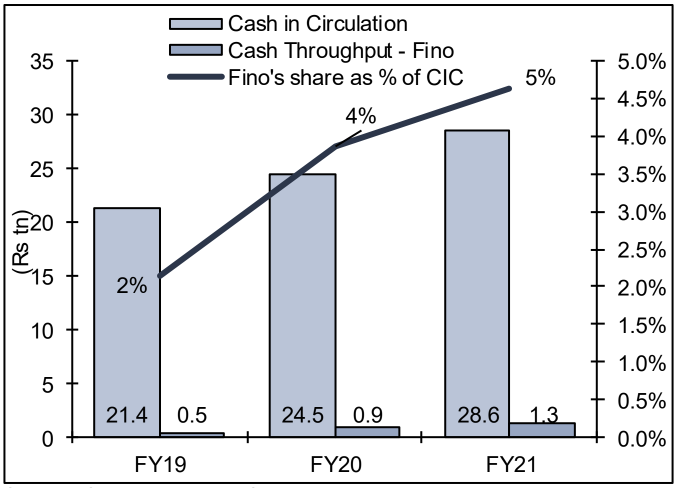
(1) Merchant throughput includes throughput for domestic remittance, micro-ATMs and AePS

Chart 6: Leapfrogging digital journey on B2C side



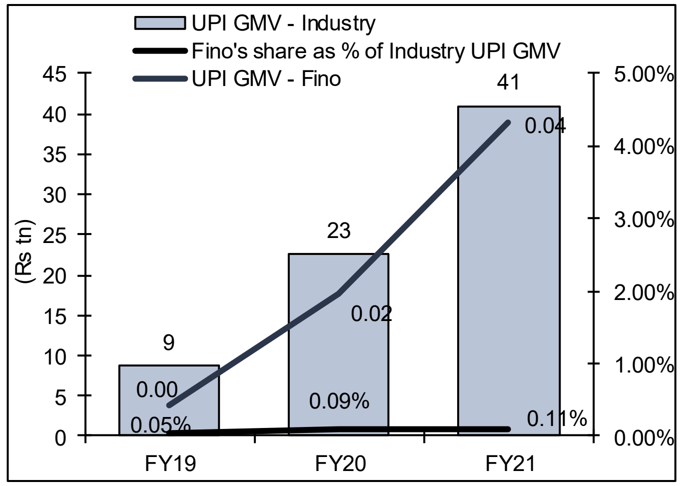
Source: Company, I-Sec research

Chart 7: Unique business model capturing both cash economy…



Source: Company data, I-Sec research.

Chart 8: …as well as increasing digitisation of economy



Source: Company data, I-Sec research.

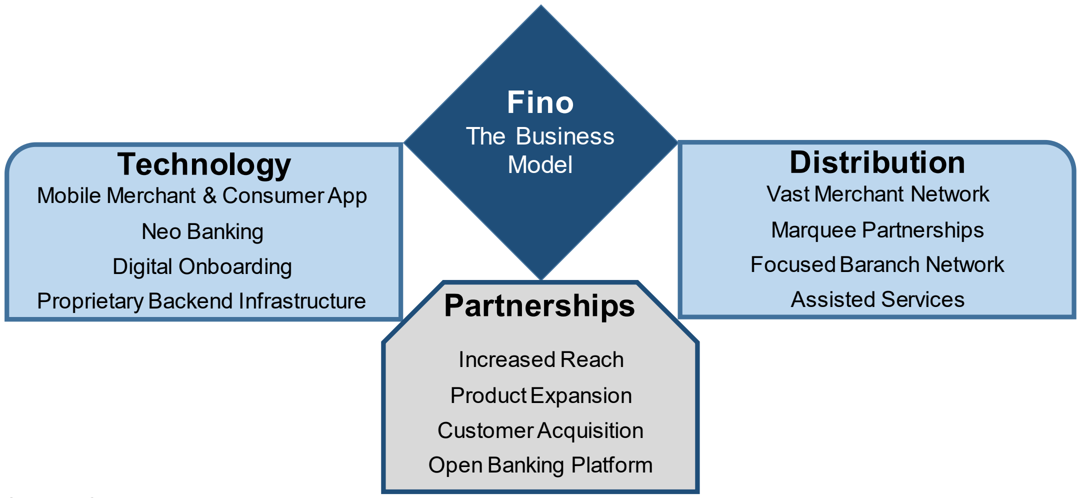
DTP framework

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

Its unique DTP framework enables it to serve its 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 communities in which it operates and targets; and (iii) sustainability –– the customised range of products required to meet the needs of its target market. This framework creates a network effect and facilitates a seamless interplay amongst 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*** – its "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 its strategic commercial relationships, product portfolio expansion opportunities, greater customer sourcing and leveraging the open banking regime via its API.

Chart 9: DTP framework



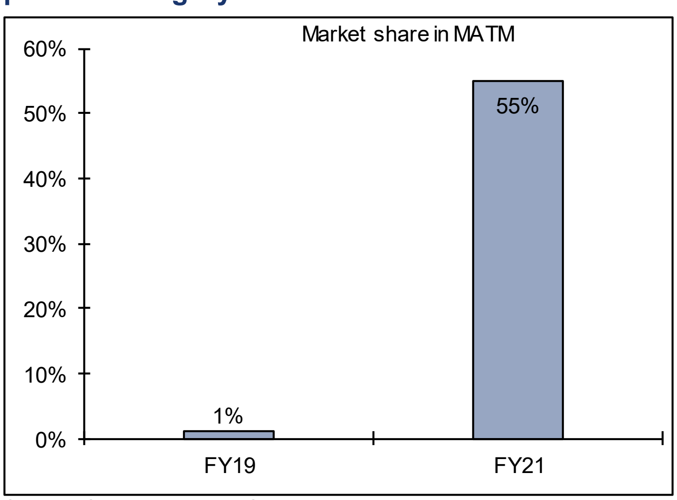
Source: Company

Fino's growth journey has been driven by timely product launch and its ability to scale at ease

Fino's growth journey, as a payments bank, has been characterised by timely launch of new products and scaling it aggressively to become one of the top 5 players in most categories. Total throughput CAGR of 70%+ and revenue CAGR of 45%+ between FY18-21 have been driven by launch of MATM (currently enjoy ~51% market share) & AEPS in FY18, CMS (~110 partners) in FY19, subscription-based CASA products in FY20 (2.5mn+ CASA accounts) and gold loan distribution in FY21.

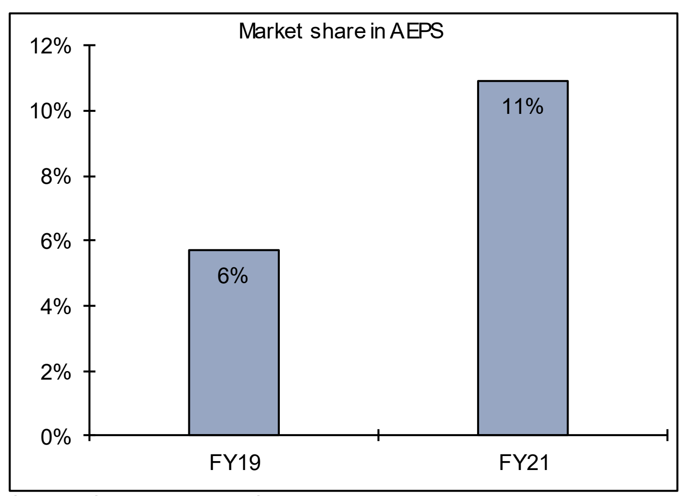
One of the key reasons behind Fino's success in payments bank space is not only its ability to identify right products for emerging India, but also scale it up quickly with ease and command leadership position in respective product category.

Chart 10: Fino's market share journey in its key product category…



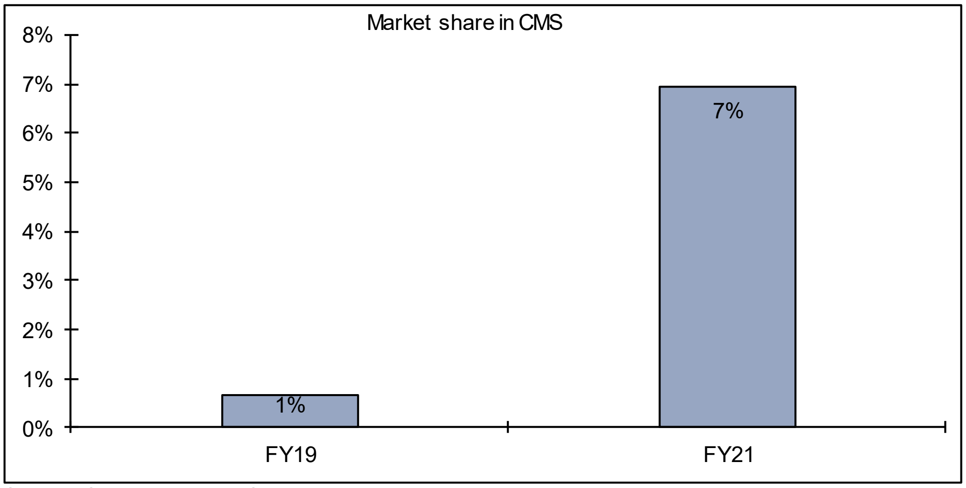
Source: Company data, I-Sec research.

Chart 11: … has been scaling up successfully



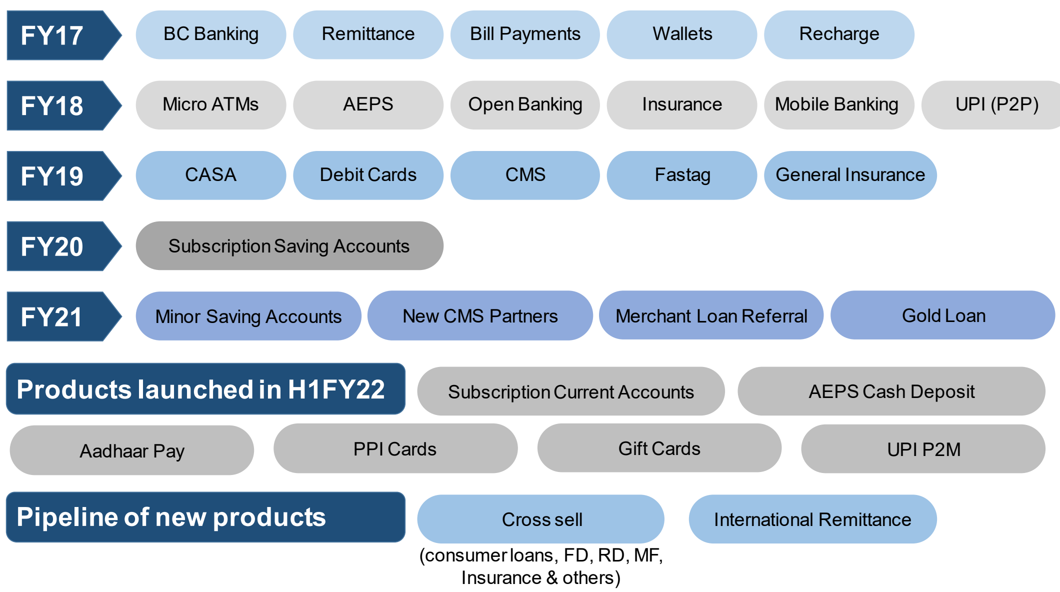
Source: Company data, I-Sec research.

Chart 12: Within 2 years of launch, Fino commands ~7% market share in cash collection via CMS vertical



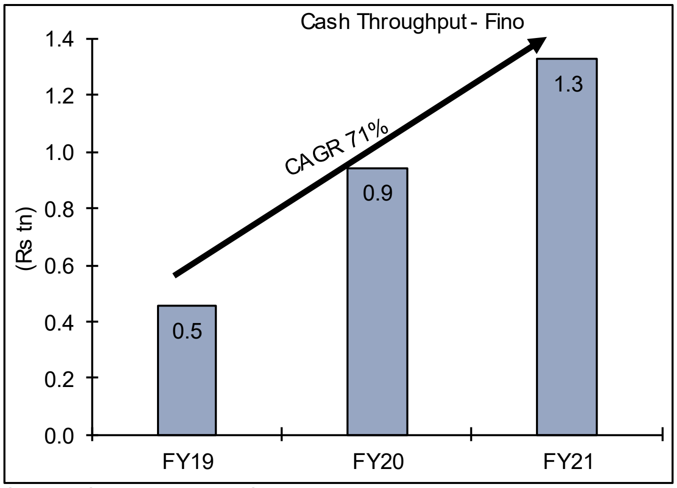
Source: Company data, I-Sec research.
Note: Market share in CMS is calculated as cash repayment (NBFC+MFI) in denominator for FY18 & FY20 (Crisil estimates) and CMS throughput of Fino in numerator for FY19 & FY21.

Chart 13: Product evolution journey – on an average it launches 4-5 products per year



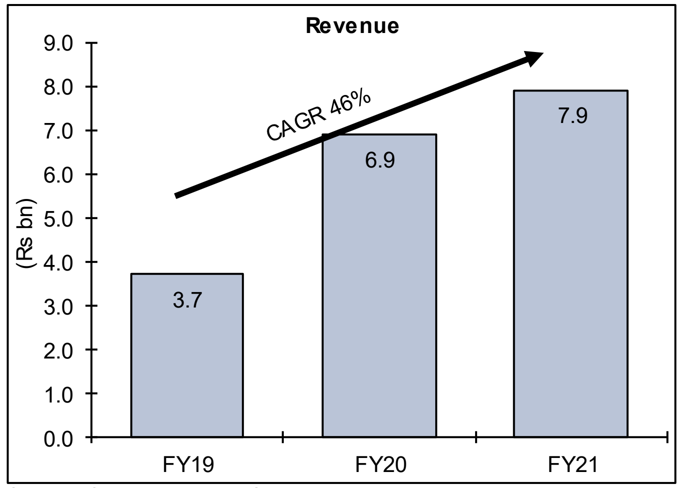
Source: Company data, I-Sec research.

Chart 14: MATM & AEPS have been key growth drivers launched in FY18



Source: Company data, I-Sec research.

Chart 15: Fino delivered 46% revenue CAGR over FY19-21, despite FY21 impacted by covid lockdown



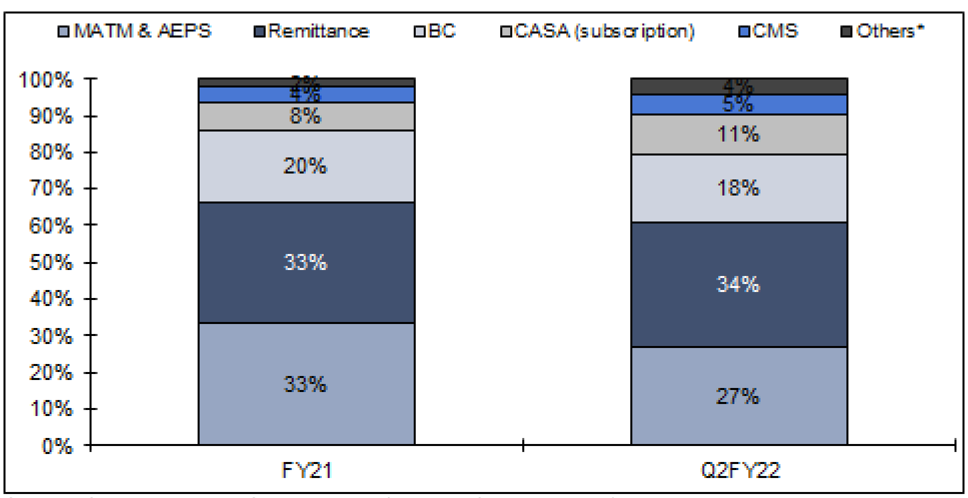
Source: Company data, I-Sec research.

Diversified revenue stream, greater cost flexibility and no credit risk driving profitability

Fino's unique business feature lies in its diversified revenue stream, which provides the much-needed stability to revenue in challenging times. For ex: total cash throughput registered strong 41% YoY growth in FY21 despite throughput from remittance business falling 28% YoY due to labour migration. Over the years, it has built robust product portfolio and pipeline also appears strong with expected launch of international remittance and distribution of consumer loans, FD, RD MF etc.

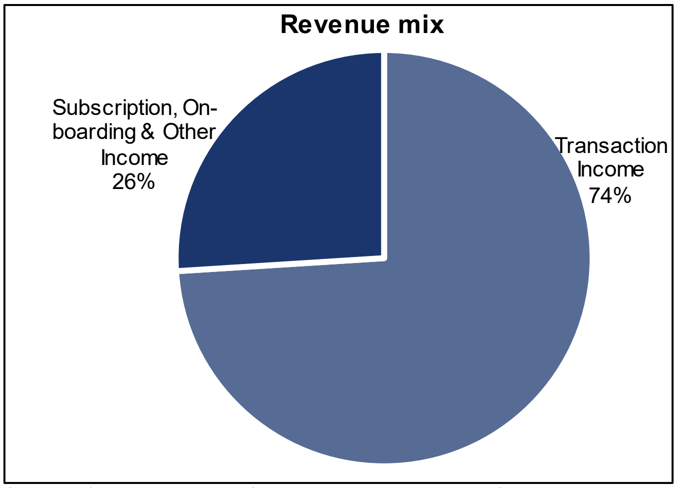
Further, source of revenue is also diversified between own channel and business partners through API integration.

Chart 16: The share of high-margin products like CASA, CMS, distribution of loans is increasing at faster pace; combined share now stands at ~21% vs 14% in FY21



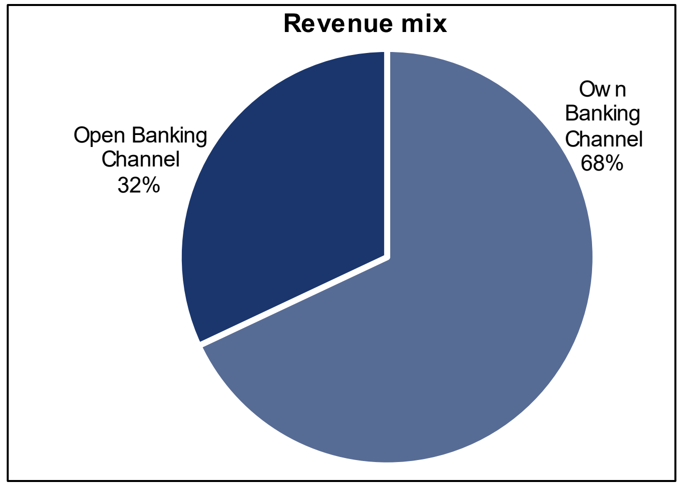
Source: Company data, I-Sec research. * Income from treasury & third-party distribution

Chart 17: Stickiness of revenue stream improving with increasing share of subscription revenue



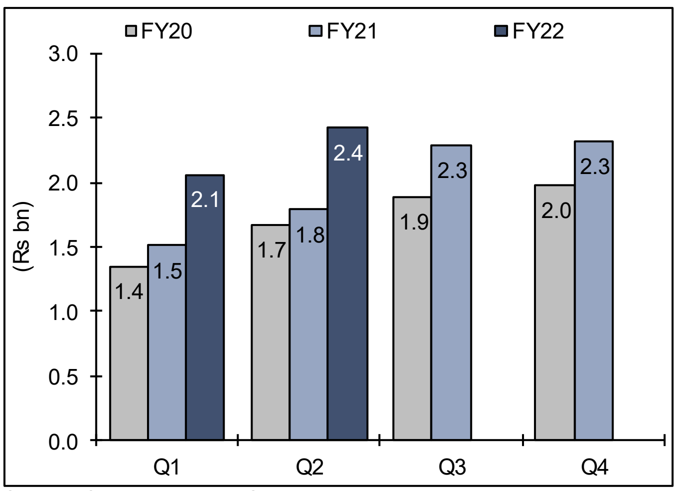
Source: Company data, I-Sec research. Data as on Sep'21.

Chart 18: Own banking channel remains key driver of top-line



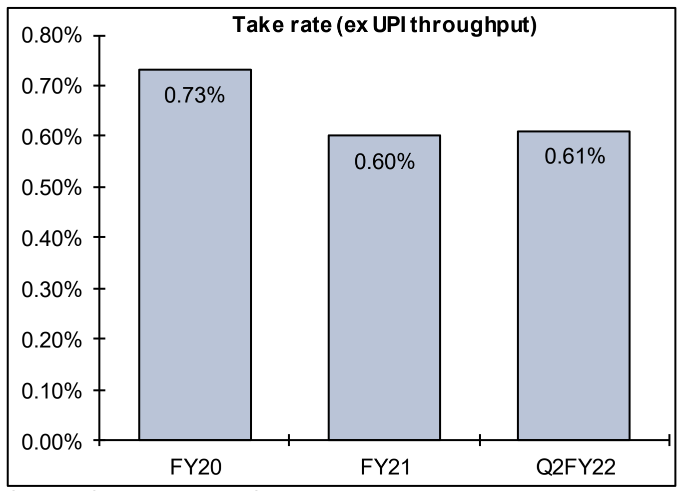
Source: Company data, I-Sec research. Data as on Sep'21.

Chart 19: FY22 started on a very strong footing with strong sequential growth in revenue



Source: Company data, I-Sec research.

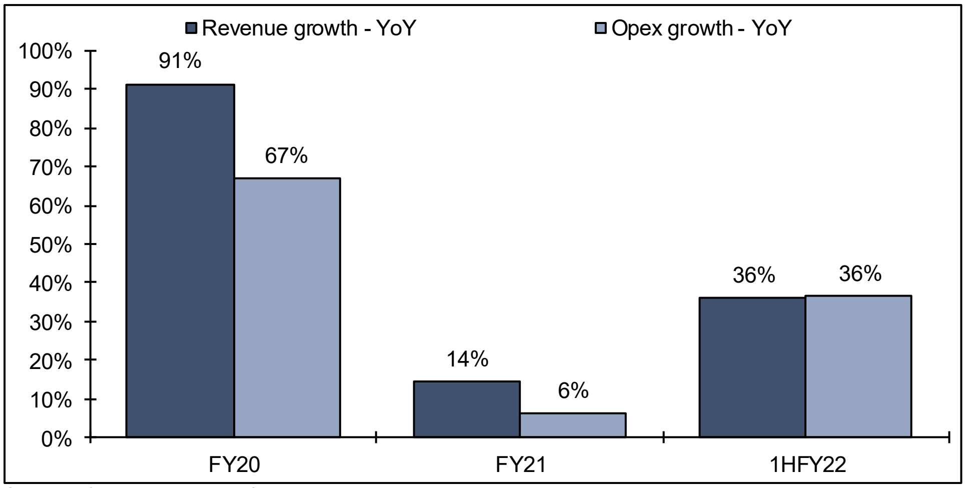
Chart 20: Diversified revenue stream ensuring steady take rate at ~60bps



Source: Company data, I-Sec research.

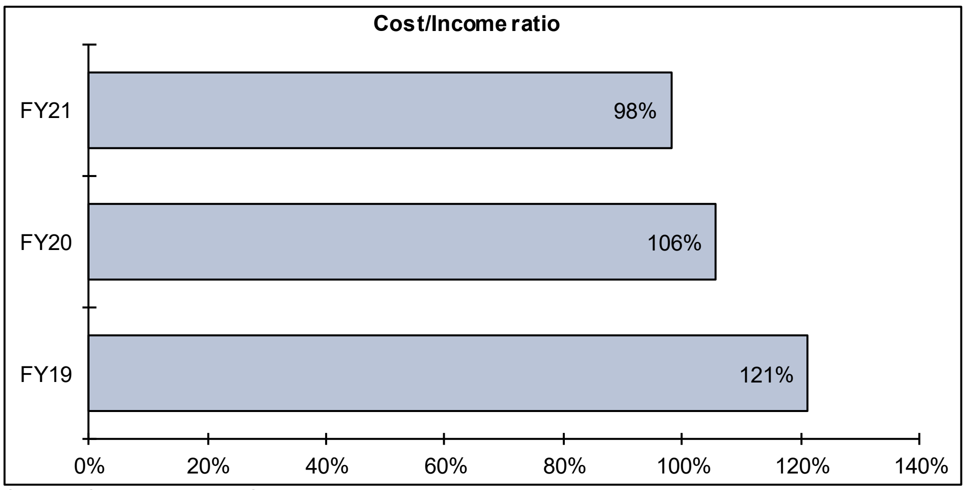
Merchant-led-distribution provides strong cost flexibility with ~70% variable cost, given it incurs minimal capital expenditure costs in connection with merchant on-boarding, because the setup capital expenditure costs are borne by the merchant. Further, it purely acts as loan distributor, and hence, does not hold any credit risk.

Chart 21: Strong cost flexibility: ~70% of total expense is variable cost



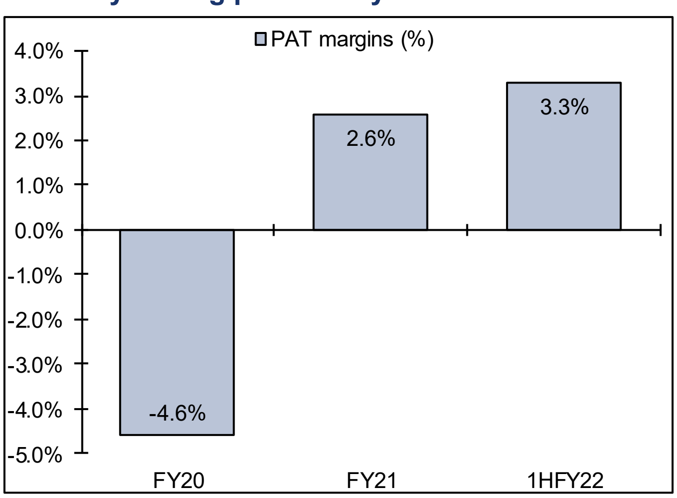
Source: Company data, I-Sec research.

Chart 22: Steady decline in cost/income ratio; still a long way to go



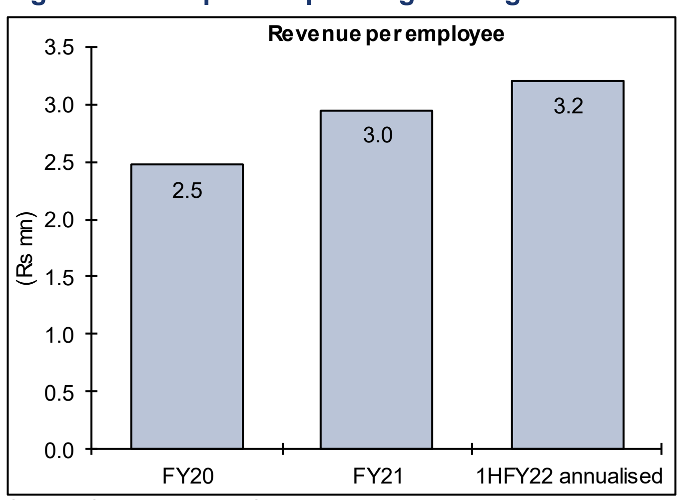
Source: Company data, I-Sec research.

Chart 23: Diversified revenue stream and cost flexibility driving profitability



Source: Company data, I-Sec research.

Chart 24: Merchant-led business model offers significant scope for operating leverage



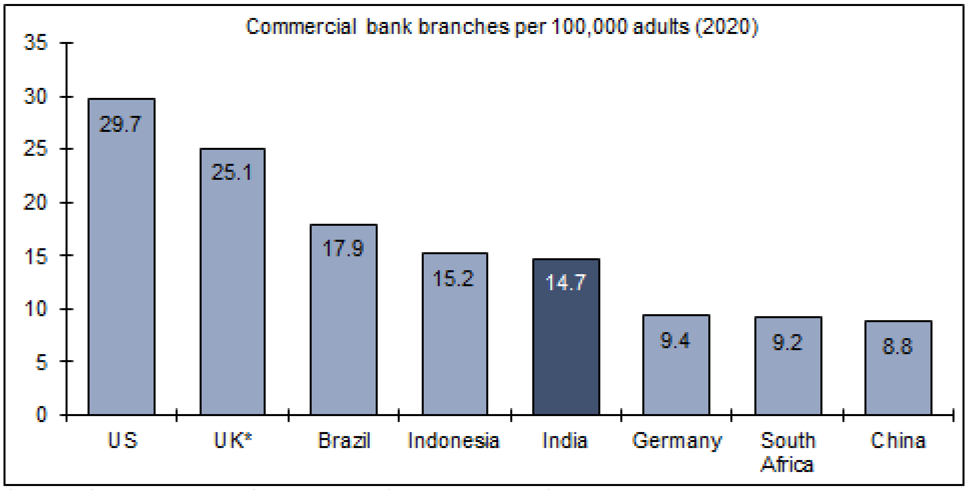
Source: Company data, I-Sec research.

Pioneering neighbourhood banking; taking banking to the last mile

Fino, taking cognisance of lower branch & ATM penetration in India, has strategically built its business model to facilitate "banking services" in remote areas, especially in rural and semi-urban locations. India has only 14.7 branches and 21 ATMs for every 100,000 adults, according to World Bank data (2020), which is relatively lower than other developing and developed countries.

Key challenges faced by rural population: a) Lack of banking channel in neighbourhood and b) scattered branch presence often results in significantly higher footfalls and lacks personalised / assisted banking services. Fino's merchant-led model addresses these two key challenges and also offers second source of income to merchants. Its model creates a network effect and facilitates a seamless interplay amongst distribution, technology and partnerships. This framework differentiates it from its competitors and is difficult to replicate.

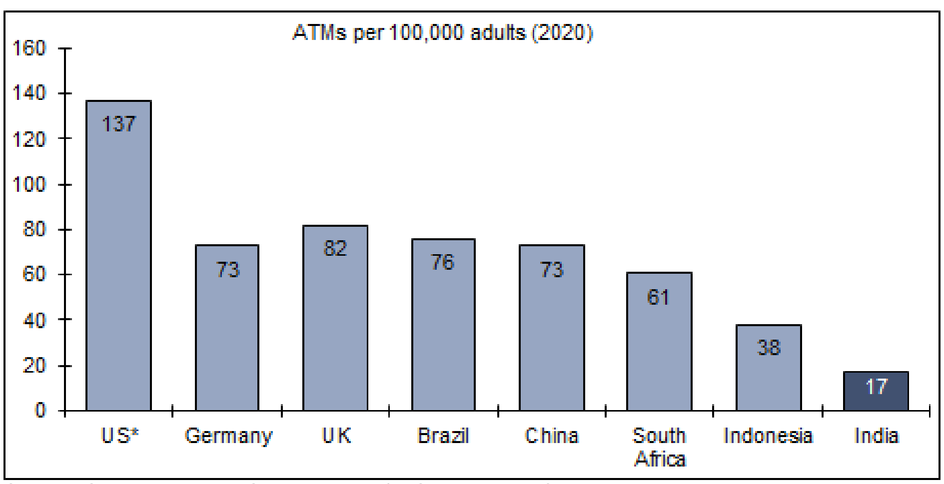
Chart 25: Bank branch penetration remains low in India



Source: Company data, I-Sec research. * UK data is as of 2013 calendar year.

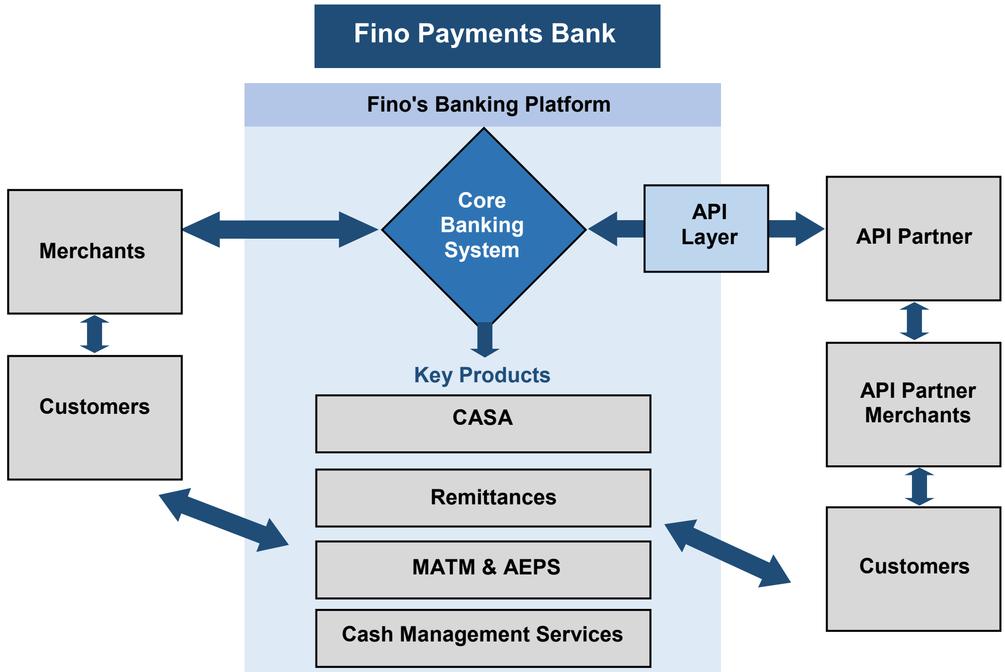
Notably, countries like Germany, South Africa and China have higher ATM penetration unlike branch under penetration, while in India ATM penetration remains low despite branch under-penetration.

Chart 26: In India, ATM per 100,000 adults stands at only 17



Source: Company data, I-Sec research. * US data is as of calendar year 2009.

Chart 27: Fino's product and service ecosystem



Source: Company, I-Sec Research

Table 3: Key performance indicators with respect to its business and operations

Metric	FY19	FY20	FY21
Merchants	101,230	277,399	641,892
CASA Accounts [1] (in mn)	0.84	1.43	2.57
Total transactions (in mn)	154.02	318.56	434.96
Total throughput[2] (Rs mn)	456,847.97	944,525.76	1,329,306.90
Cash withdrawals via micro-ATM and AePS (Rs mn)	73,836.51	301,386.93	561,869.43

Source: Company, I-Sec Research

Notes:

(1) CASA account data based on reported information lodged with RBI

(2) Total throughput comprises throughput data from the following products and services: micro-ATM, AePS, CASA, Remittance, CMS and BC Banking.

Table 4: Its financial products and services offerings, showing retail and corporate categorisations, as well as B2C, B2B2C and B2B focus

Retail/ Corporate	Focus	Products / Services	Overview	Key Highlights	Revenue basis: Transaction	Revenue basis: Subscription / One-time fee	Revenue basis: On-boarding
Retail	B2C	CASA	• Offers basic current account and saving account opening and related services	• 100% CASA Ratio		✓	
Retail	B2C	micro-ATM	• Offers basic banking services like cash withdrawal through handheld device similar to PoS machine • Debit card required	• had the largest network of micro-ATMs, as of March, 2021 (source: CRISIL)	✓		
Retail	B2C	AePS	• Offers basic banking services like cash withdrawal, balance enquiry, mini statement, fund transfer (Aadhaar to Aadhaar) • Aadhaar biometric authentication • Debit card not required.		✓		
Retail	B2C	Remittances	• Offers domestic money transfer services	• Key customer acquisition point	✓		
Retail	B2C	Debit Cards	• Offers classic and platinum Rupay cards • accepted across all ATMs and POS terminal deployed throughout India	Classic Cards: • Daily ATM withdrawal limit of Rs10,000 • Daily POS transaction limit of Rs5,000 Platinum Cards: • Free Insurance cover of Rs0.2mn in case of accidental death / permanent disability due to accident. • Daily ATM withdrawal limit of Rs15,000 • Daily POS transaction limit of Rs5,000.		✓	
Retail	B2B2C	Third party cross sell	• Cross-sell products such as gold loans, consumer loans, business loans and insurance / MFs etc.		✓		
Retail	B2B2C	Cash Management Services (CMS)	• Offers cash collection services and cash payment services across traditional physical channels and digital channels to corporate clients	• 85 clients as of March 31, 2021	✓		
Corporate	B2B	BC Banking	• Cash withdrawal and deposit is facilitated to the customers of other banks	• Currently have ~17,269 active BCs pan-India	✓	✓	✓

Source: Company, I-Sec research

Strong back-end technological support provides resiliency to business

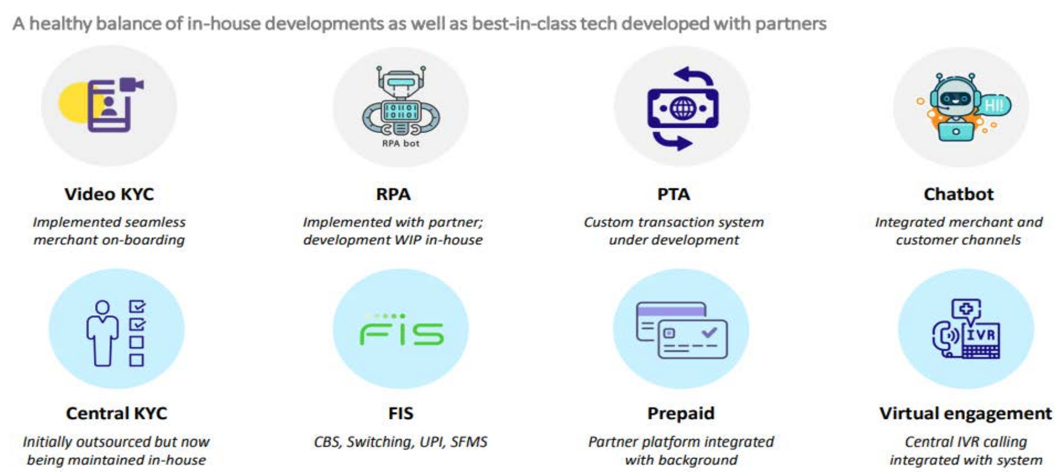
Since Fino's business model is predominantly dependent on merchant network (uses Fino's interface to facilitate transaction), technological support in an uninterrupted manner becomes a critical aspect of its entire ecosystem. Fino has understood this well and is always on top of it when it comes to back-end technological support to merchant. As per our channel check, downtime for "Fino Mitra" app is negligible. Seamless integration between merchant's business account and cash in & out settlement on real-time basis ensures lower working capital requirements for its business partners which helps them maximise returns.

Since 2017, it has made significant investments in technology infrastructure, having designed and digitised large portions of its technology processes, risk management protocols, data analytics capabilities and honed its "phygital" approach. It has a dedicated business technology team with approximately 101 technical staff as of March'21, 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 web portal, hand-held devices and other channels like mobile wallets, internet banking, AePS, micro-ATMs and others drive significant operating efficiencies. Its technology-led approach also provides it the following benefits:

- Ownership of its systems and applications enables it to adapt or create new product features and deploy them to market quickly;
- End-to-end visibility and control of its various technology functions and applications have contributed to high levels of core platform availability;
- Minimal reliance on third-party systems;
- In-house technology expertise and ownership of its proprietary technologies enable it to integrate into other systems and services to enhance competitive position; and
- Coupling in-house knowledge with its ability to customise technology increases its ability to innovate for customers and merchants.

Chart 28: Core technology strengths



Source: Company data, I-Sec research.

Operational experience and expertise

With "FINO" brand being in existence for approximately 14 years (i.e., before the commencement of business operations in June 2017), and Mr. Rishi Gupta being a key employee of FINO (co-founding member of Fino), it benefits from his operational experience and expertise gained throughout that time. Its business model in particular is partly a product of and, a beneficiary of such experience. It now leverages this to better understand how digitisation of its products and services can shape customer behaviour into the future and in conjunction with its tech-enabled processes and strong team, aim for operational excellence on a regular basis.

It is led by a highly experienced and committed leadership team with diverse and deep level of expertise, particularly in financial services and technology industries. Its Board of Directors includes five Independent Directors, which it believes is a key factor in ensuring strong and clear corporate governance standards. Fino's Managing Director & CEO, Rishi Gupta, was instrumental in the formation of its business and operations. His initial vision to create a business model around inclusive financial services for Indian society is evident in the performance of Fino PayTech Limited and business of Fino Payments Bank. His persistence in aiming for right services/ products, balancing technology innovations with strengthening distribution and building a strong core team is key to its performance. Mr. Gupta is also the 2021 Co-Chairman of the National Council on Banking and Financial Services, within the Associated Chambers of Commerce and Industry of India, a non-governmental trade association and advocacy group based in New Delhi, India. Currently, Mr. Gupta is supported by the bank's KMP which includes, but not restricted to, its Chief Financial Officer, Chief Operating Officer, Head Human Resources, Chief Information Officer, Chief Sales Officer, Head Business Technology, Head Secretarial and Legal, Chief Marketing Officer and Head Business Alliances.

It also had low attrition rate throughout its KMP, with 5 of its KMP having been with Fino since inception in 2017 and, on average, its KMP and Board members have been associated with "FINO" brand for approximately 5.3 years as of March 31, 2021. In addition, the principal shareholder of Fino PayTech Limited including its promoter such as ICICI Bank Limited, Intel Capital Corporation, International Finance Corporation, HAV 3 Holdings (Mauritius) Limited, Blackstone GPV Capital Partners (Mauritius) VI-B FDI Limited and BPCL.

Valuation

Fino's unique non-lending business model – combination of digital and physical – puts it in a separate bucket from traditional lending entities like banks, NBFCs etc. and non-lending entities like insurance, AMCs etc. Also, Fino is first-of-its kind company to go public. Hence, due to absence of apple-to-apple peers set, we look at similar growth and profitability entities within financial service space.

Fino is likely to deliver 20% revenue CAGR over FY21-24E with PAT margin of 10% and RoE of ~20%. When we look at entities having similar financial outlook, we observe these companies command P/E ratio of 30-50x. **Given, Fino's limited history of profitability and scale, we are assigning 32x (lower end of P/E band) and arrive at TP of Rs475/share based on FY24E.** While we assign P/E at lower band, market may tend to value more considering – a) successful execution of strategies since inception as reflected in its diversified revenue stream & turning profitable within 12 quarters, b) likely revenue CAGR in excess of 20% if new products scale up faster than expectations, c) margin surprise driven by greater merchant stickiness (hence scope for commission rationalisation) and d) increase in MATM per transaction interchange fees by regulator which is currently capped at Rs15 per transaction; regulator has recently hiked ATM interchange fees by Rs1-2 per transaction from Rs15 (Link).

Table 5: Peer comparison

	RoE (%)			P/E (x)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Lending						
Aavas	13.4	15.2	16.2	59.0	45.0	35.7
Bajaj Finance	17.4	21.3	22.5	59.3	40.7	31.7
AU SFB	12.4	16.5	N/A	39.1	25.8	N/A
HomeFirst	10.7	12.8	N/A	47.3	34.9	N/A
AMCs						
NAM	23.0	25.0	N/A	30.6	25.0	N/A
HDFC	28.0	27.0	N/A	38.2	34.9	N/A
Life Insurance						
SBI Life	11.8	15.4	N/A	87.1	57.1	N/A
HDFC Life	17.5	21.7	N/A	87.8	62.2	N/A
ICICI Prudential	9.9	10.5	N/A	103.1	90.6	N/A

Source: I-Sec research

Company overview

Financial Inclusion Network Operations ("FINO") started as a technology company aimed at developing technological solutions with key employees including Rishi Gupta, its current MD and CEO. On September 7, 2015, Fino PayTech Limited was granted an in-principle approval to set up a payments bank and, following its incorporation in April 2017, Fino Payments Bank Limited ("Bank") commenced operations as a payments bank with effect from June, 2017, pursuant to receipt of the final RBI approval dated March 30, 2017. With "FINO" brand being in existence before the commencement of its business operations, and Mr. Gupta being a key employee of Fino PayTech Limited, it benefitted from his operational experience and expertise gained throughout that time.

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 analytics on the data it captures enhances its ability to cross-sell third party products that it also offers to existing customers, thereby, increasing its potential revenue and opportunity to further customise its products and services offerings. Such a merchant-led distribution model requires minimal capital expenditure cost from it because the on-boarding and setup capital expenditure costs are borne by the merchant, and accordingly, allows for operating leverage and efficient expansion in a timely manner. Through the "phygital" delivery model, its merchants on-board customers and facilitate transactions, ensuring its network grows and its products and services are more accessible to a broader range of customers throughout India, giving Fino what it believes to be a significant advantage compared to its competitors.

According to Fino, while innovation remains ever-present, technology and customer trust lie at the core of all that it does and forms the foundation of its entire business model. It believes it has and will continue strengthening focus within "emerging India", catering to a population that it believes presents a large market opportunity and has typically been overlooked by majority of large Indian financial institutions. This section of Indian society is characterised by low levels of financial literacy and technology use, lack of financial inclusion and typically does not have access to even basic banking services, and is often referred to as the "unserved and underserved" population.

Chart 29: Target market

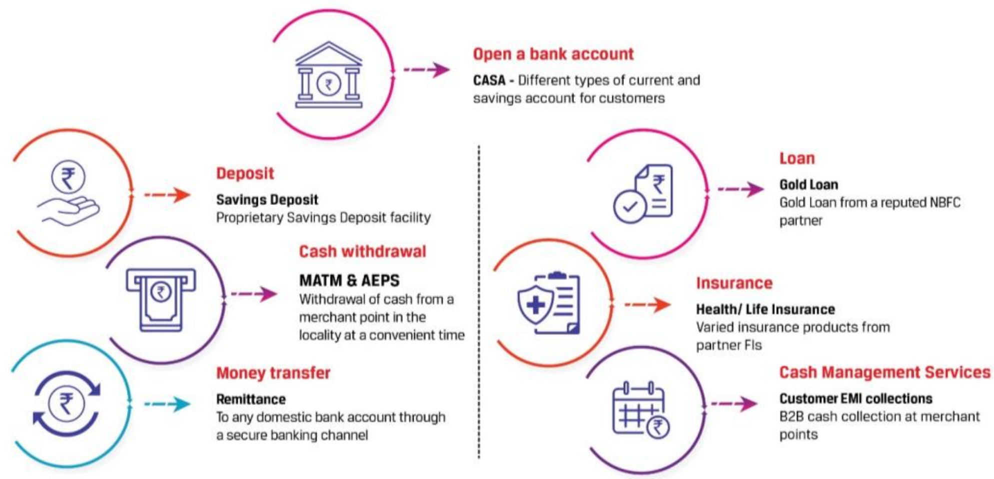
Source: Company, I-Sec Research

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;
- had the largest network of micro-ATMs, as of March, 2021 (source: CRISIL); and
- had the third highest deposit growth rate in FY21 (source: CRISIL).

It is also the only payments bank to offer a subscription-based savings account in India (source: CRISIL). It believes in customer satisfaction, its brand and reputation have played an important role in it becoming an industry leader in fintech products and services, as well as to further develop its business and improve its market position.

Chart 30: Its products and services are targeted at meeting its customers' needs throughout their banking and financial lifecycle



Source: Company data, I-Sec research.

Product positioning

Micro-ATMs & AEPS

Micro-ATM, AEPS combined contribute ~33% of the company's total revenue (in FY21) and act as funnel to customer acquisition for Fino. Since the launch in 2018, MATM throughput has jumped 9x from Rs33bn in FY19 to Rs311bn in FY21 and Fino currently commands ~51% market share in MATM (as per issued devices). Similarly, AEPS throughput jumped 6x from Rs40bn in FY19 to Rs251bn in FY21. While MATM has been in existence for a long time, many players have tested & tried to set-up model around MATM service, but no other player, except Fino, has successfully scaled up this product. AEPS is relatively more competitive as reflected in lower than MATM, but industry leading market share at ~11% as on March'21.

India underpenetrated with respect to ATM presence…: India has relatively lower penetration of bank branches and ATMs compared to other developing and developed countries - 14.6 branches (in 2019) and 21 ATMs (in FY21) for every 100,000 adults (Source: World Bank). Rural India has 6.2 ATMs per 100,000 population and ATMs are estimated to be present in <10% villages. Nearly, 47% and 40% of households do not have access to bank branches and ATMs, respectively, within 2kms of their homes.

…still deployment lower due to commercial viability: After growing at 22% CAGR over FY12-16, growth of installed ATMs has slowed down significantly to 2.4% CAGR over FY16-21. Primary reasons being: 1) Banks slowing down on incremental ATM deployments; and 2) low interchange fee makes it commercially unattractive to run ATMs. RBI, in Jun-21, announced an upward revision in ATM interchange fee and customer charges (by Rs1-2) considering the rising cost of ATM deployment and maintenance (link).

Table 6: Comparison between ATMs and micro-ATMs

	ATMs	**Micro-ATMs**
Services	Cash withdrawals, checking account balance, Cash deposit in some advanced ATMs (with cash dispenser)	Cash in and cash out facility through a BC agent, facilitating funds transfer and bill payments
Authentication and Verification	Customers are authenticated through debit/credit card PIN	Customers are authenticated using AADHAAR-based system and Biometrics
Set-up costs	Set up cost is higher owing to land clearances requirement and rentals and cost of machines	Devices are hand-held and have a lower cost of deployment
Deployment	Are generally deployed on-side (inside Banks) or off-site (high footfall areas like shopping malls, petrol pumps and airports)	Can be deployed at local retail shops to act as a touchpoint on behalf of banks

Source: India1 payment DRHP, CRISIL Research

Table 7: Fino - Key performance indicators with respect to micro-ATMs…

Metric	FY19	FY20	FY21
Income - micro-ATMs (Rs mn)	-	-	1,731
micro-ATM devices*	51,192	153,597	249,841
micro-ATM transacting merchants (average monthly)	11,891	51,714	99,984
micro-ATM throughput (Rs mn)	**33,901**	**166,509**	**311,096**
micro-ATM transactions (in mn)	8.37	47.01	86.37
micro-ATM Market share* (%)	-	-	55%

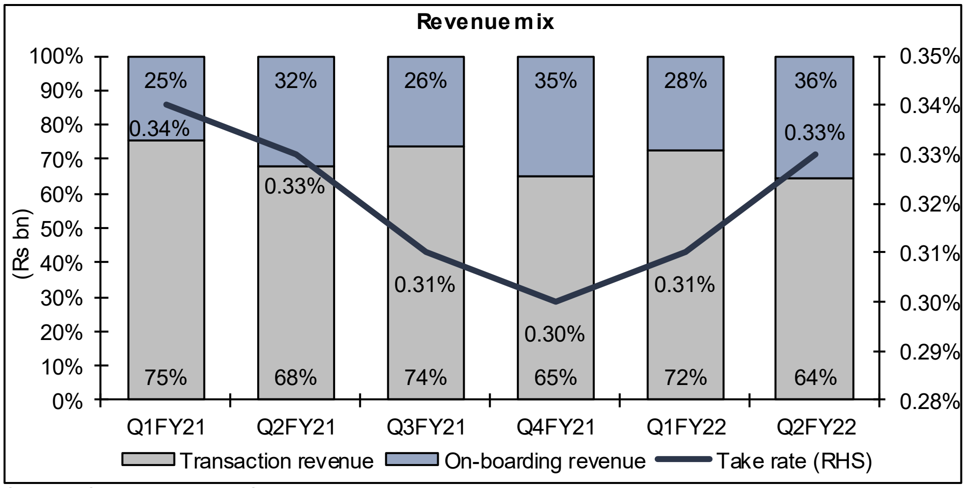
Source: Company, I-Sec Research
Notes: * denotes as at end of relevant period

Table 8: … and AEPS

Metric	FY19	FY20	FY21
Income - AePS (Rs mn)	-	-	832.87
AePS transacting merchants (average monthly)	17,339	53,252	153,147
AePS throughput (Rs mn)	**39,934**	**134,877**	**250,772**
AePS transactions (in mn)	13.34	47.02	104.87

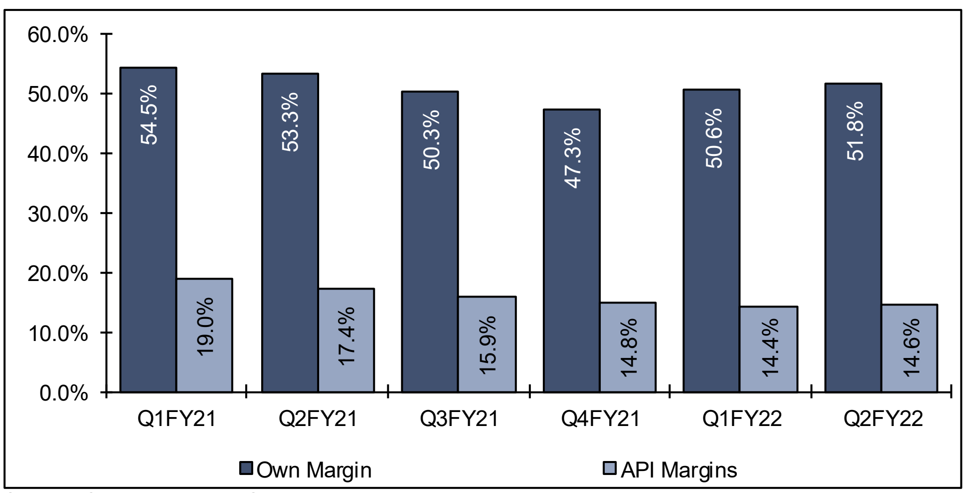
Source: Company, I-Sec Research

Chart 31: Increasing on-boarding revenue mix reflects accelerated merchant acquisition; take rate broadly ranges between 30-34bps



Source: Company data, I-Sec research.

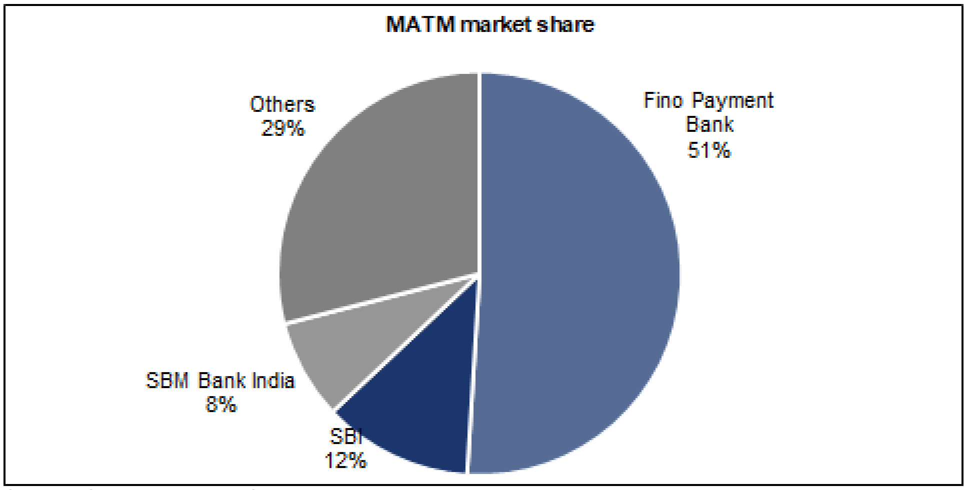
Chart 32: Margins have bottomed out in Q4FY21; since then margins (via own channel) are improving steadily



Source: Company data, I-Sec research.

As of August 2021, ~0.49mn micro-ATMs were deployed in the country. With 0.25mn devices being deployed by Fino, it has the largest network of micro-ATMs in India. As of August 2021, '51% of micro-ATMs deployed in the country are from Fino followed by SBI at 12% and SBM Bank at 8%.

Chart 33:Player-wise share of micro-ATM market share (as of March 2021)

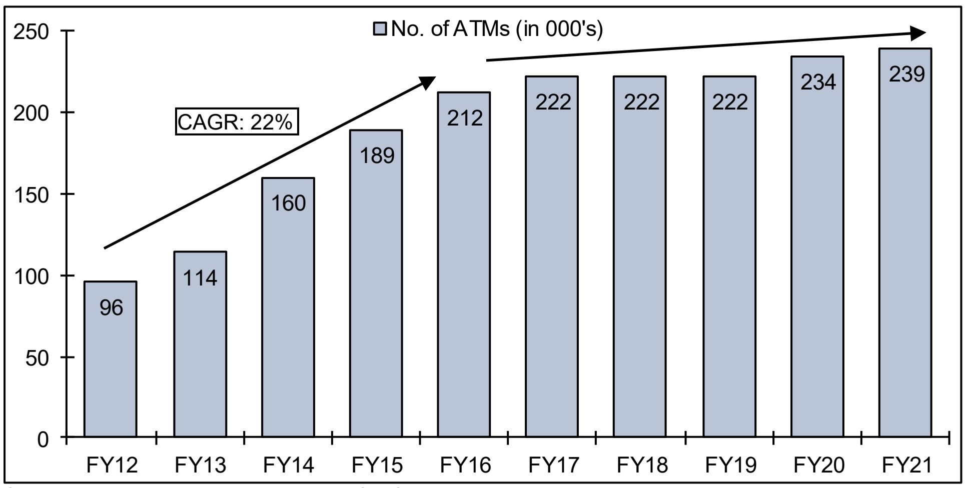


Source: Company data, I-Sec research.

As of FY21, rural India has 6.2 ATMs per 100,000 people, which is much lower than pan-India average of ~21 ATMs. It is estimated that only one in ten villages has reasonable access to an ATM.

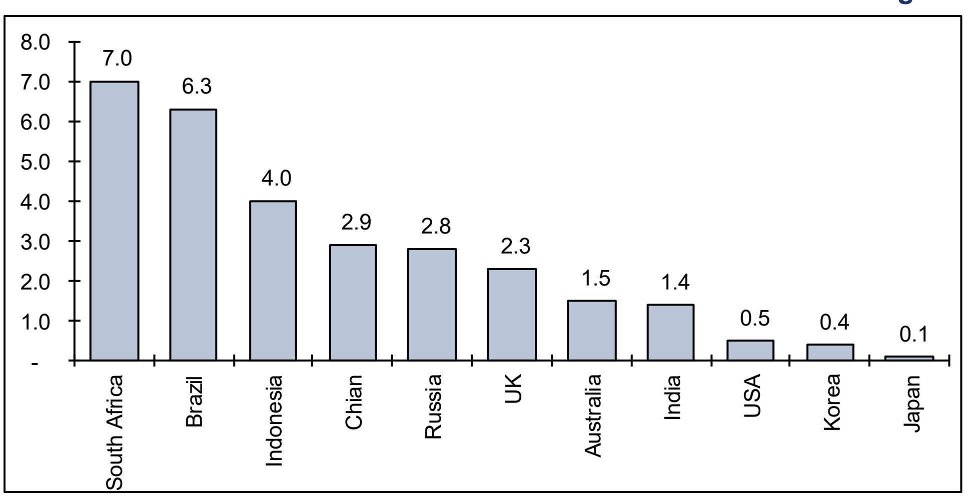
At least 90 to 100 transactions are required per day to allow the business to be commercially viable.

Chart 34: Pace of growth in ATM deployment has reduced over years



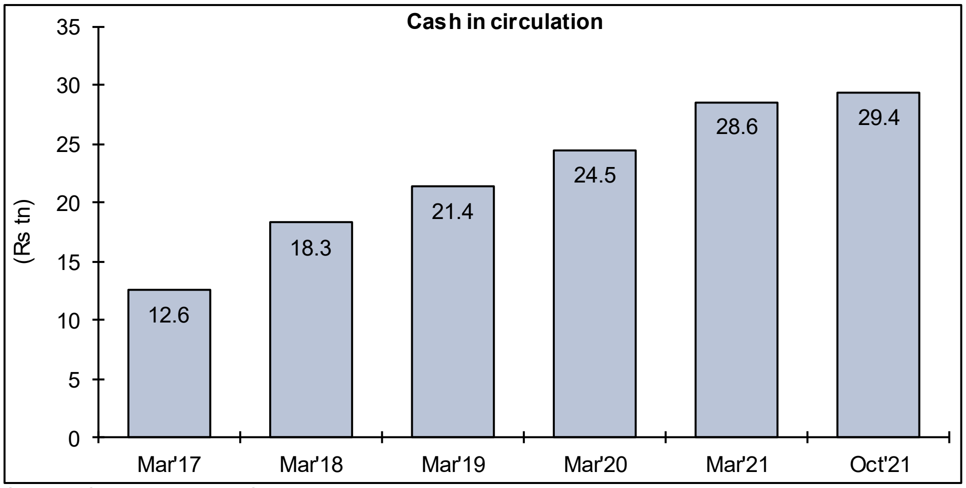
Source: India1 payment DRHP, RBI, CRISIL Research

Chart 35: India's ATM withdrawals to cash in circulation ratio among the lowest



Source: India1 payment DRHP, RBI, CRISIL Research.

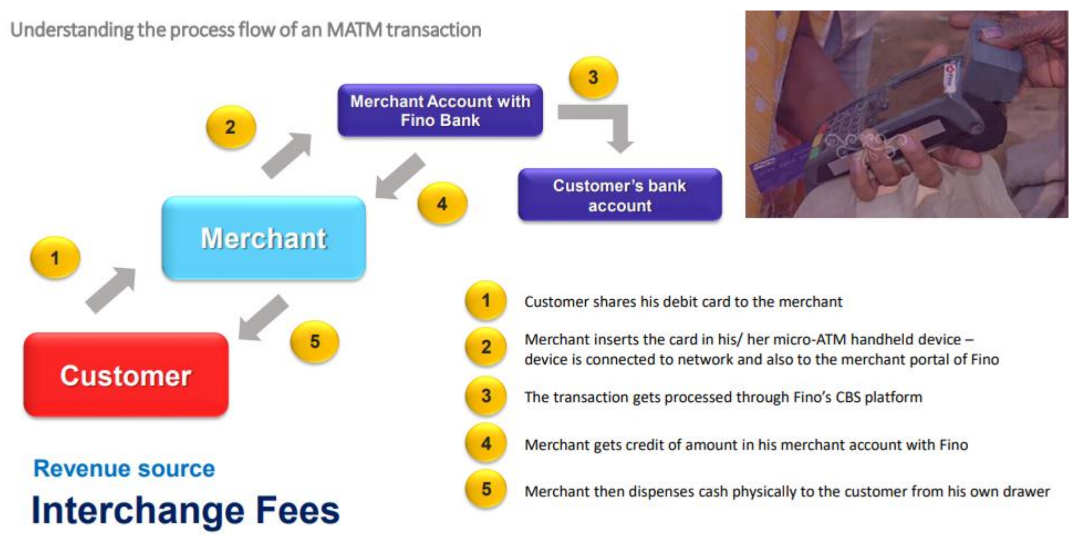
Chart 36: Cash in circulation continues to rise



Source: Company data, I-Sec research.

MATM transactions are hand-held terminals (similar to a point of sale ("POS") terminal) that typically require a card to be swiped or dipped by the customer, rely on mobile phone / internet connections and are most often used in geographies where it is not practical for the relevant bank to locate a physical bank branch and/ or facilitate doorstop mobile banking by BCs. Customers use its micro-ATMs to deposit cash, withdraw cash, check account balances and request mini-statements. The micro-ATM has a minimum transaction amount of Rs100 and a maximum limit of Rs10,000 (regulated limit).

Chart 37: Transaction flow of withdrawal on MATM device



Source: Company data, I-Sec research.

Micro-ATM transactions are either conducted on its "own" channel or on the API channel where it interfaces with third party financial services entities with whom the merchant is registered. It refers to such third party financial services entities as API Partners and as of March 31, 2021, it has arrangements with 45 API Partners, including BankIT, RNFI, Mobisafar and Spice Money. API Partners are unable to handle the remittance end-to-end as they do not have a banking license, and accordingly require assistance of a bank and its core banking system infrastructure such as its, to complete transactions. API Partner entities typically focus on geographies that are not serviced or have limited service from banking entities that hold a bank license (such as it) and offer customer services such as remittance, Aadhaar banking, doorstep cash delivery, utility and bill payments and insurance.

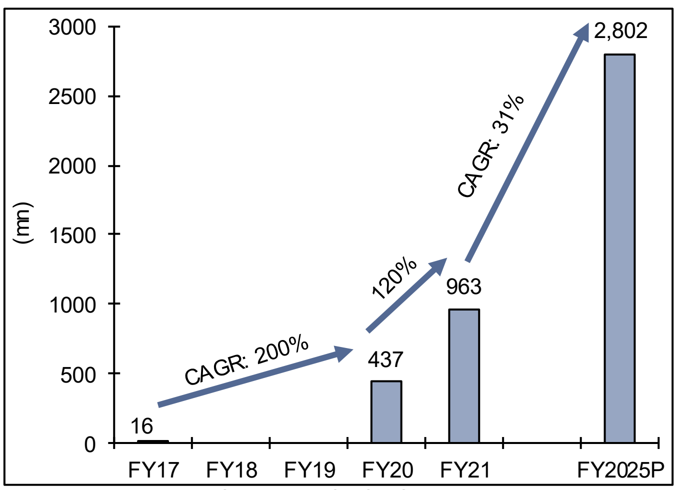
Revenue model

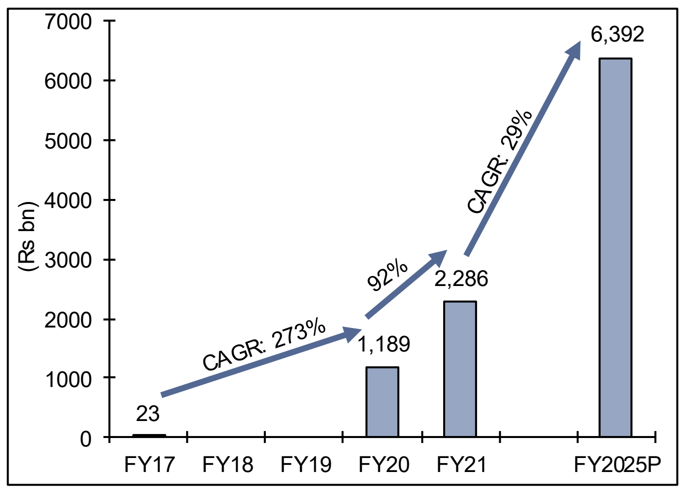
It generates interchange commission for every transaction conducted through micro-ATMs on its system, regardless of whether the user has a bank account with it or is a customer of another bank. This commission is 0.5% of the transaction amount or Rs15.00, whichever is lower. The revenue it earns through its micro-ATMs, whether via its "own" channel or on the API channel, remains same. However, Gross margin differs as on its "own" channel, the transaction commission is split between the merchant and Fino, whereas on the API channel, the transaction commission is split among three parties, including the merchant, Fino and an API Partner.

Key performance indicators:

It first used micro-ATMs as a product to be utilised by its merchants in FY18 and as of August'21 it has a market share of 51% on micro-ATMs deployed basis.

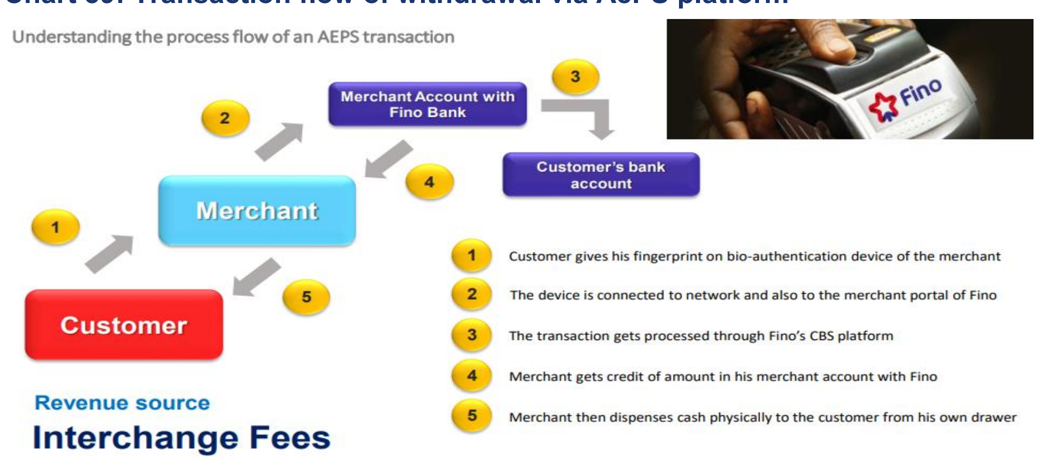
Chart 38: AePS transaction volume and value to grow at 31% and 29% CAGR, respectively, between FY21 and FY25





Note: P: Projected Source: NPCI, CRISIL Research

Chart 39: Transaction flow of withdrawal via AePS platform



Source: Company data, I-Sec research.

AePS uses Aadhaar biometric authentication through fingerprint or demographic information, linked to the Aadhaar database with the Unique Identification Authority of India as the basis for a transaction. Unlike a typical micro-ATM, Aadhaar authentication does not require a signature or debit card to be swiped or dipped by the customer and instead uses account details as the basis for an AePS transaction. Customers primarily use AePS to deposit cash, withdraw cash, check account balances and Aadhaar-to-Aadhaar remittances that are interbank or intra bank in nature.

Together with biometric reader, AePS transactions are conducted using a transaction application or a PoS device that has inbuilt biometric sensors and is AePS compatible and allows customers to carry out AePS transactions.

AePS transactions also require internet connections and are most often used in geographies where it is not practical for the relevant bank to locate a physical bank branch and/ or facilitate doorstop mobile banking by BCs.

Revenue model:

It generates interchange commission for every AePS transaction conducted through its system, regardless of whether the user has a bank account with it or is a customer of another bank. This commission is 0.5% of the transaction amount or Rs15.00, whichever is lower. Similar to the commission split for its micro-ATMs, on its “own” channel, the transaction commission is split between the merchant and Fino, whereas on the API channel, the transaction commission is split among three parties, including the merchant, Fino and an API Partner.

59% / 42% of FY21 throughput in AEPS / MATM has already been achieved in H1FY22.

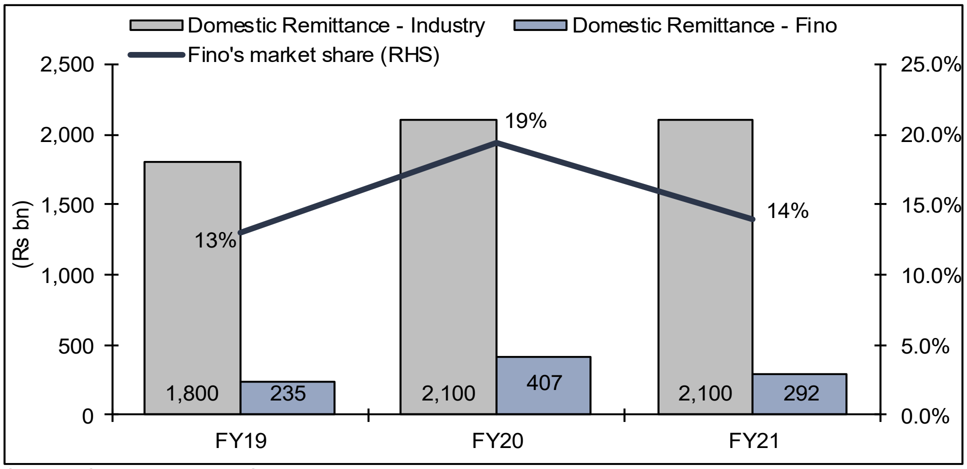
Combination of a) significant under-penetration of ATM infrastructure in rural India, b) commercial unattractiveness to run ATMs will lead to lower deployment, c) rising cash-in-circulation and d) lowest ATM withdrawals to cash in circulation ratio in India would drive MATM / AEPS volumes in medium term, in our view.

Remittances (money transfers)

Fino started its journey as technology company with remittance (money transfer) business and it commands ~14% market share in domestic remittance market as of FY21. Revenue contribution stood at ~33% in FY21. Since the bulk of throughput is sourced via API partners, it is one of the lowest margin products in its entire product portfolio. Remittance product act as an entry product for the customer into the Fino funnel, which opens an up-sell potential for the merchants to open a Fino’s subscription base savings account for those customers.

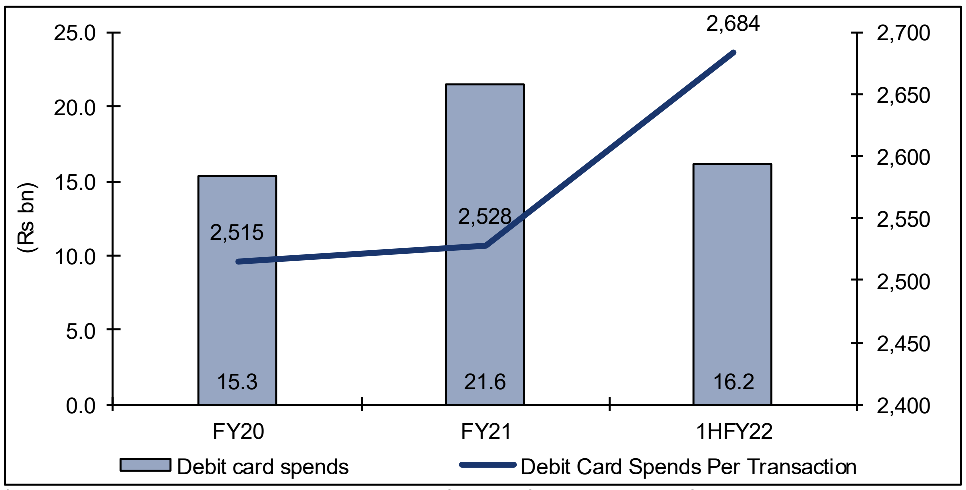
While domestic remittance is relatively more competitive than MATM, Fino with its cutting-edge technology and strategic distribution network in urban / metro centres near industrial zone & construction sites helped it command leadership position in domestic remittance market.

Chart 40: Fino commands strong 14% market share in domestic remittance market, despite dip in market share in FY21 due to covid…



Source: Company data, I-Sec research.

Chart 41: … however, H1FY22 witnessed sharp comeback with processing ~58% of FY21 throughput



*1HFY22 throughput is annualized number Source: Company data, I-Sec research.

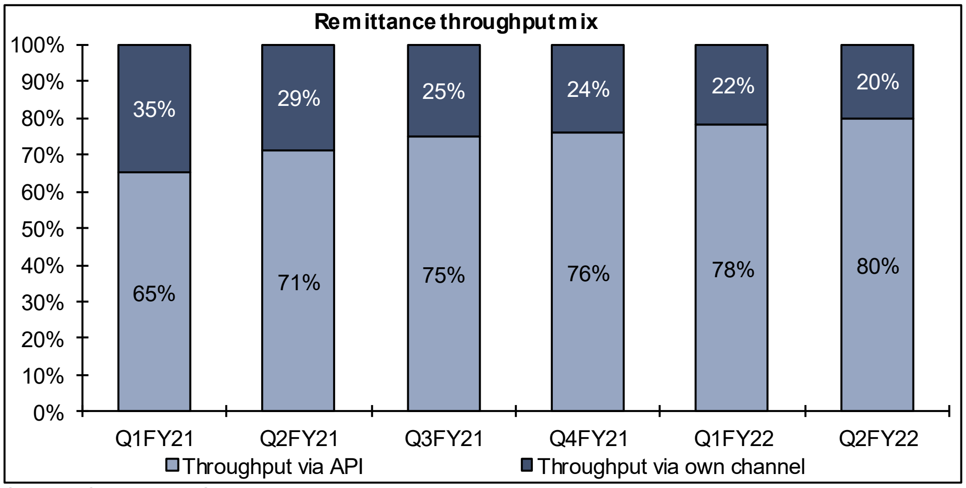
Customer segment - Emerging India customers at the middle of the pyramid, with income range of Rs10,000-40,000 per month, is Fino's target segment. Remittance predominantly refers to domestic transfers by migrant workers who are sending money from the location of their employment, to their homes which are often in other states/regions, for meeting the needs and day-to-day expenses of their family members. It provides the requisite infrastructure and services to facilitate such domestic remittances primarily through its merchant network, branches, CSPs and BC network.

Table 9: Its key performance indicators with respect to remittances

Metric	FY19	FY20	FY21
Income - Remittance (Rs mn)			
Own	-	-	705.84
API	-	-	1,848.34
Remittance throughput (Rs mn)			
Own	75,211.72	98,306.47	77,416.52
API	159,712.36	308,521.23	214,452.99
Remittance transactions (in mn)			
Own	27.61	37.03	30.41
API	58.58	122.20	76.41

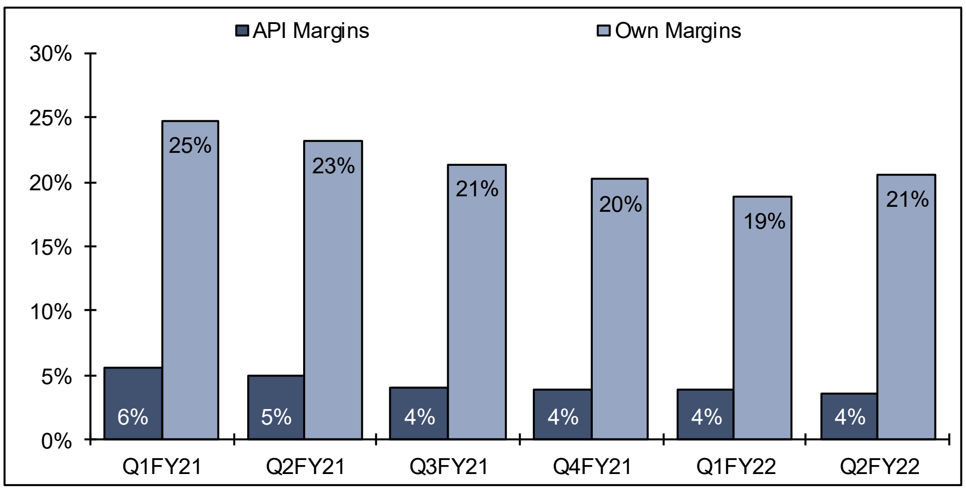
Source: Company, I-Sec Research

Chart 42: Remittance: Throughput from API partners to remain at current level of 80%



Source: Company, I-Sec Research

Chart 43: Increased competition has resulted in decline in margin trajectory over past 1 year



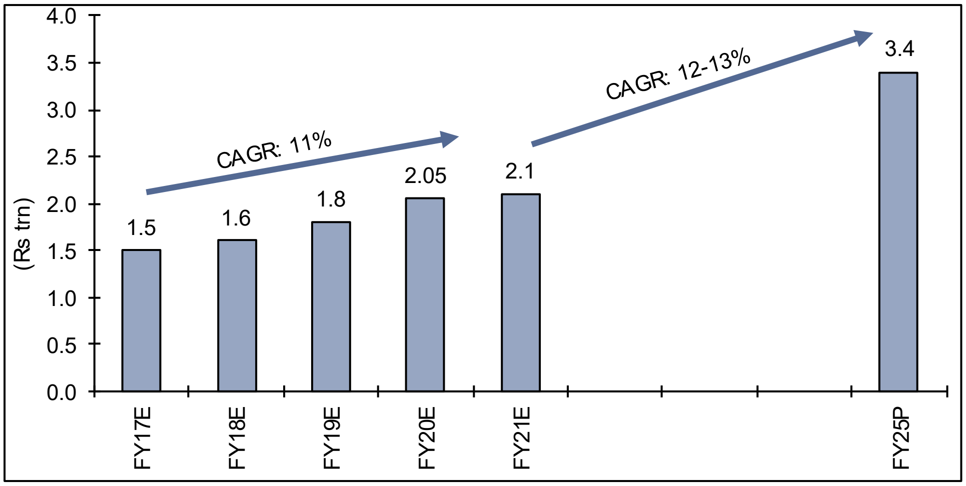
Source: Company, I-Sec Research

Overall market size

As the urban population in India has been increasing consistently, CRISIL noted an increasing trend of migration from villages and smaller semi-urban areas to larger cities and towns. As per the census 2011 data, India had 456mn migrants (38% of the total population) as compared to 307mn migrants (30% of the total population) in 2001. The number of migrants who moved from rural to urban areas also increased from 52mn in 2001 to 78mn in 2011, leading to a rise in share of rural to urban migrant in the population from 5.1% in 2001 to 6.5% in 2011. The number of migrants in total population is expected to have further increased over the last decade, leading to strong growth in domestic remittances market.

CRISIL projects the market to touch Rs3.4trn by FY25, translating into ~12-13% CAGR in remittances during FY20-FY25, notwithstanding the small blip in growth in FY21 wherein the market was expected to be Rs2.10trn.

Chart 44: Domestic remittance market to grow at 12% CAGR between FY20 and FY25



Note: E: Estimated, P: Projected
Source: Economic Survey 2017, CRISIL Research

Growth drivers

Urbanisation and migration of population to urban regions to drive growth: Based on the 2018 revision of World Urbanization Prospects, the proportion of urban population in India was estimated at 34% as of 2020. This is expected to reach 37% by 2025, which would likely drive growth in domestic remittances market in times to come.

Improvement in financial system infrastructure to drive remittances: According to the G20 National Remittance Plans of 2019, India is committed to increase remittances' market competitiveness, improve financial infrastructure and pursue policies to reduce remittance rates. Thus, the government is expected to continue to focus towards deepening of financial infrastructure in the remote parts of the countries through product innovation and harnessing of new technologies, which is expected to enhance the outreach of payments systems.

Emphasis on DBT by the government: The transfer of government subsidies and payments directly into the bank accounts of beneficiaries has helped cut out middlemen and enable better targeting of subsidies. The DBT scheme has achieved greater effectiveness with the help of *Jan Dhan* accounts. The government is targeting to bring all government schemes gradually under the ambit of DBT, which will cut leakages and improve the transparency in the system. Customers availing government subsidies, on their part, will be required to avail remittance services to withdraw funds deposited into their accounts instead of relying on unorganised middlemen.

Growing BC penetration and emergence of newer channels for remittance: The channels use for remittance vary largely as companies use channels like NEFT, IMPS, RTGS, PPIs and new modes of payments like NPCI-enabled AePS. Much of domestic remittance in India currently happens through agents or touchpoints who act as BCs for banks and provide a range of basic banking services. As more and more payment-based fintechs are entering the industry, digital wallets are increasingly becoming popular for P2P transactions.

Revenue model:

It earns a commission for every domestic remittance transaction facilitated. The revenue it earns through domestic remittance is based on percentage of transaction value after accounting for costs and depends on whether the remittance is carried out through its "own" channel or on the API channel (which typically attracts a lower margin than its "own" channel).

58% of FY21 throughput has already been achieved in H1FY22.

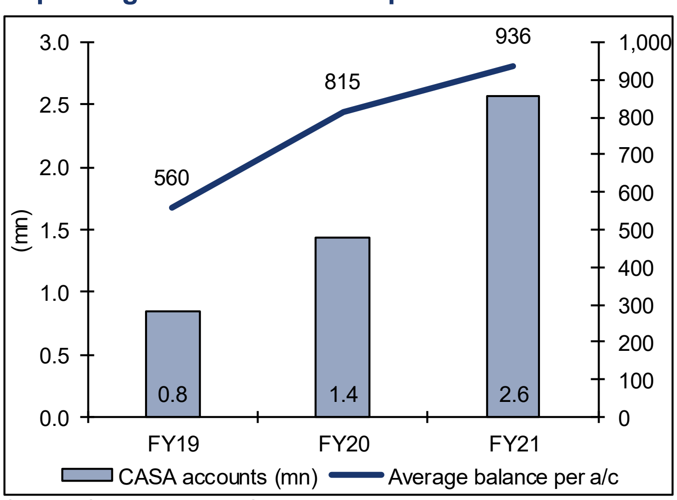
While we believe migration from rural to urban continues, we also expect gradual shift from cash-based payouts to digital payouts to workers with increasing formalisation / digitisation of the Indian economy. Hence, we expect remittance throughput to grow in single digit in medium term.

CASA

Taking cognisance of branch under-penetration in tier 3 cities & beyond, limited banking hours and lack of provision for assisted banking service due to higher footfalls, Fino launched first-of-its-kind subscription-based CASA accounts in FY19. Notably, while keeping account features identical to traditional CASA accounts, it changed the fee structure from variable / complicated (to reconcile charges) "General banking charges" to "flat fee" model. The success of its subscription based CASA products reflects in total CASA accounts at ~3.4mn as on Sep'21, within 2.5 years of its launch, higher than some of its peers (players entering deposit market in similar time frame) like Suryoday and Ujjivan.

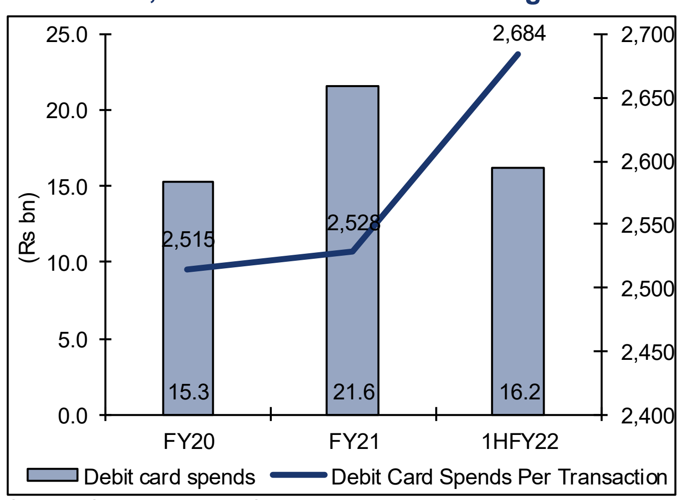
Subscription based fee model provides stickiness and also offers benefits of operating leverage. CASA is one of the highest margin products for Fino. It is scaling up CASA product at an accelerated pace as reflected in, within 2.5 years of launch, CASA (only subscription revenue) already contributes 11% to total revenue as on Sep'21.

Chart 45: CASA customer acquisition has been robust; increasing average balance reflects improving utilisation of Fino platform



Source: Company data, I-Sec research.

Chart 46: Improving average balance and debit card spends reflect increasing activity of CASA customers; the same would result in higher floats



Source: Company data, I-Sec research.

Table 10: Number of "active accounts"[1] as on March'21

CASA Account	Number of active accounts as of March 31, 2021
Pragati Current Account	2,532
Shubh Savings Account	1,265,136
Pratham Savings Account	166,487
Saral Salary Account	181,152
Jan Savings Account	64,304
Sanchay Account [2]	816
Bhavishya Savings Account	84,290
Suvidha Account	21,999
Total	**1,786,716**

Source: Company, I-Sec Research

Notes:

(1) As per RBI guidelines, an "active account" is an account that has had at least one customer induced transaction in past 12 months.

(2) Sanchay Account is no longer offered to its customers. However, it has 816 active accounts as of March 31, 2021.

Table 11: Lists its key performance indicators with respect to CASA

Metric	FY19	FY20	FY21
Income - CASA (Rs mn)	-	-	594.59
CASA Account Deposits (Rs ms)	470.00	1,165.30	2,406.30
CASA Accounts* [1] (in mn)	**0.84**	**1.43**	**2.57**
CASA New Accounts (in mn)	-	0.59	1.13
CASA Ratio (%)	100	100	100

Source: Company, I-Sec Research

Notes:

(1) CASA account data based on reported information lodged with RBI

* denotes as at end of relevant period

Table 12: Key performance indicators with respect to debit cards

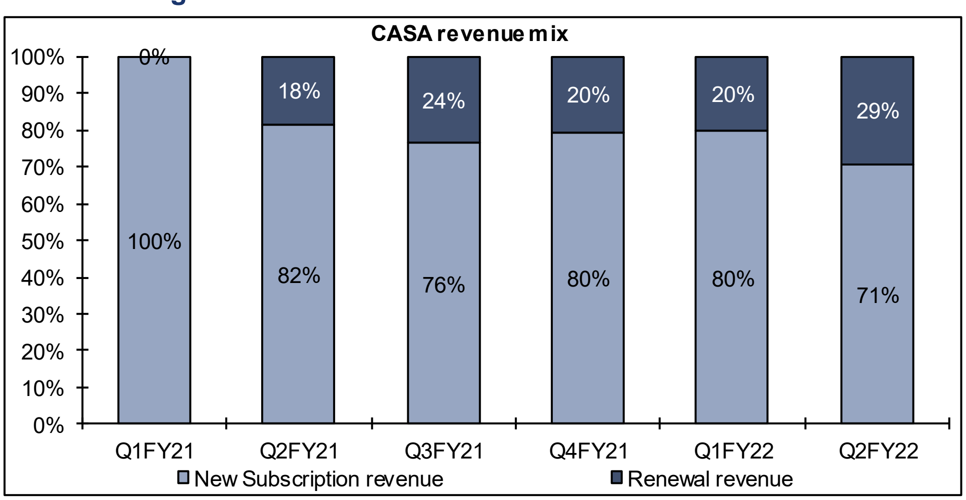
Metric	FY19	FY20	FY21
Debit cards outstanding* (in mn)	0.44	1.15	2.33
Debit cards outstanding - CAGR (%)	-	163%	103%
Debit cards issuance (in mn)	0.15	0.71	1.18
Debit cards issuance - CAGR (%)	-	379%	66%
Debit cards transaction count (in mn)	2.75	6.10	8.53
Debit card transaction throughput (Rs mn)	6,467.73	15,342.91	21,563.54

Source: Company, I-Sec Research

Notes:

* denotes as at end of relevant period

Chart 47: Increasing revenue share from renewal reflects higher acceptance of Fino's CASA products (despite upfront fees) which also results in higher blended margin



Source: Company, I-Sec Research

Opening of CASA accounts and activating debit card functions occur in minimal time and access to the account can be made via its mobile banking application, FinoPay. Access to the account is also available from all its branches, merchants and CSPs. Further, all six of its savings accounts are interest-bearing and all CASA accounts except the accounts held by minors in the Bhavishya Savings Account have a sweep account facility. These accounts may be used with a debit card and offer a range of functions such as deposits, withdrawals (free at its branches), bill payments, free UPI transactions, free monthly e-mail statements, provision of SMS facility, transfers and receipt of funds. These accounts also have an instant fund transfer facility that leverages the Immediate Payment Service ("IMPS") system at nominal charges to any bank account within India.

Table 13: Sets forth each account and its respective characteristics as of March 31, 2021

CASA Account	MAB[1]	Key Features
Current Account		
Pragati Current Account	- Rs5,000 in urban locations - Rs2,500 in rural locations	- low cost account for business requirements - free cash deposits for an amount up to five times the MAB maintained in previous month - Sweep account [2]
Savings Account		
Shubh Savings Account	- None	- has an annual subscription fee of Rs399.00 (inclusive of GST) free cash deposits up to Rs25,000.00 per month, thereafter 0.5% of transaction amount or Rs5.00 - Sweep account [2]
Pratham Savings Account	- Rs1,000	- free cash deposits up to Rs25,000 per month, thereafter 0.5% of transaction amount or Rs5.00, whichever is higher
Saral Salary Account	- None	- offered to organizations who have registered with it for processing of employee salaries - Sweep account [2]
Jan Savings Account	- None	- has an annual subscription fee of Rs249.00 (inclusive of GST) - free cash deposits up to Rs25,000.00 per month, thereafter 0.5% of transaction amount or Rs5.00, whichever is higher - withdraws (four free per month; thereafter 0.5% of transaction amount) - Sweep account [2]
Bhavishya Savings Account	- None	- Subscription based account tailored for minors in an effort to make them banking ready and instilling a savings habit - annual subscription fee is Rs349.00 (inclusive of GST) - a maximum account limit of Rs50,000.00 - a maximum daily cash withdrawal limit of Rs10,000.00
Suvidha Account	- None	- Account designed for customers who require higher fund transfer limits for domestic remittance purposes. - No initial Funding - No Cash Deposit Charges - Sweep account [2]

Source: Company, I-Sec research
Notes:
(1) Monthly Average Balance.
(2) Customers may opt-in to the sweep facility offered by it or to the sweep facility with Suryoday SFB, pursuant to its arrangement with Suryoday SFB.

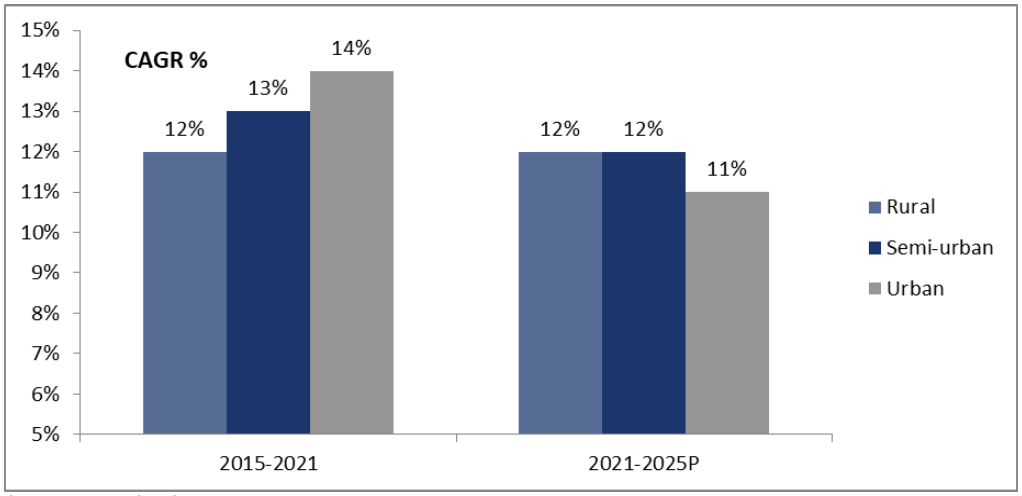
Revenue model:

It earns revenue from its CASA accounts by charging:

- an annual subscription fee on its Shubh Savings Account, Jan Savings Account and Bhavishya Savings Account;
- fees where the customer is unable to maintain the MAB on its Pratham Savings Account & Pragati Current Account;
- for fund transfers made via CASA accounts (i.e., account to account transfers and IMPS);
- for cash transactions such as cash deposits and cash withdrawals; and

- other miscellaneous fees in connection with certain SMS alerts and physical account statements.
- It offers its customers either a "classic" or "platinum" RuPay debit card that is accepted on online platforms and across ATMs and PoS terminals deployed throughout India. These are typically offered when a customer opens a CASA account with it. Its "classic" debit card has a typical daily ATM withdrawal limit of Rs10,000 and a daily PoS transaction limit of Rs20,000, while its "platinum" debit card has a daily ATM withdrawal limit of Rs15,000 and a daily PoS transaction limit of Rs35,000, certain insurance cover and a concierge service.

Chart 48: CASA deposits to grow faster in rural and semi-urban areas (vs urban areas) over FY21-25E



Source: RBI, CRISIL Research

Under-penetration of banking in rural India (Crisil estimates 12% CAGR in CASA deposits), Fino's simpler & easily accessible CASA products, banking outlets (via merchants) at closer vicinity & extended banking hours would likely help it sustain current customer acquisition run-rate over the medium term.

Cash Management Services (CMS)

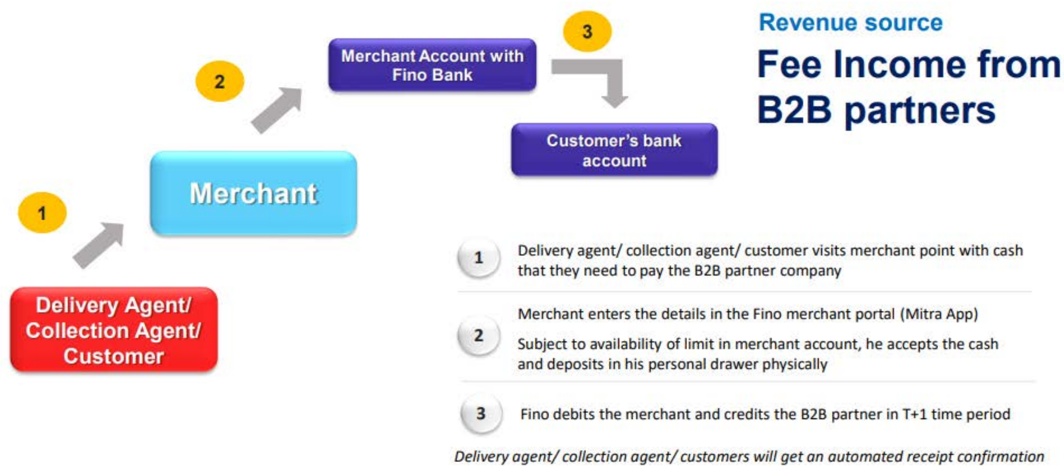
Fino's excellent management execution and hunger on leveraging its robust technology platform reflect in a series of tailor-made products launch over the years. CMS is one such product (launched in FY19) that complements Fino's overall ecosystem and adds to product offering at merchant level. Given the cash received under CMS is used for MATM / AEPS withdrawal at merchant end thus lowering cash's further movement, it is a high margin and most focused product for Fino.

Its CMS offering principally includes cash collection services and cash payment services across traditional physical channels and helps digitise physical cash to clients who manage significant volumes of cash. The service involves providing physical locations where agents of its corporate CMS customers can attend and deposit the cash collected from their customers, acceptance of EMI payments, the provision of acknowledgement of the collection/payment transaction through SMS and providing live dashboard (i.e., web portal) for viewing real time transactions. Its current clientele is spread across industries, including banking and financial services ("BFSI"), logistics, e-commerce and retail industries.

A typical CMS transaction involving a loan with equated monthly installments ("EMI") requires the borrower to visit its dedicated deposit point within the community (which is typically at a merchant location) to deposit his/her EMI, at which point Fino takes its commission and its client receives the net proceeds.

NBFCs, MFIs, logistics, retail & B2B ecommerce, cab aggregators, agritech, retail, among others are the clients or CMS partners for Fino – they collect cash either for loan EMIs or on COD orders from their retail customers.

Chart 49:Transaction flow on CMS platform



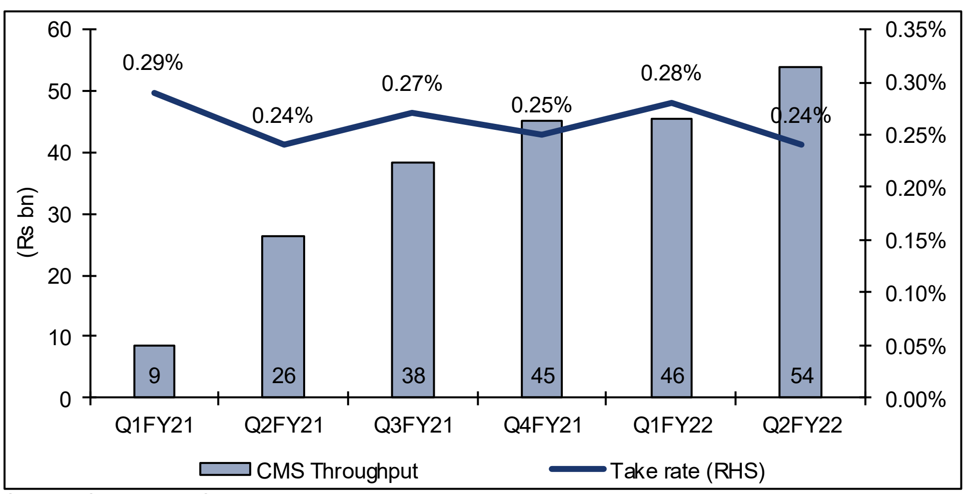
Source: Company data, I-Sec research.

Table 14: Key performance indicators with respect to CMS

Metric	FY19	FY20	FY21
Income – CMS (Rs mn)	-	-	305.10
CMS throughput (Rs mn)	8,523.00	43,010.00	118,284.00
CMS transaction count (in mn)	2.30	3.28	4.26
CMS Clients*	19	39	85
Throughput per Client (Rs mn)	448.58	1,102.82	1,391.58

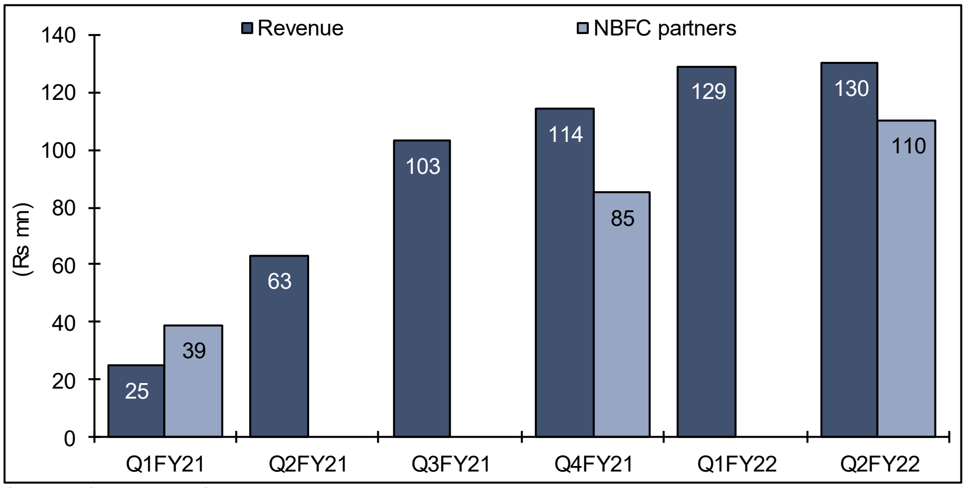
Source: Company, I-Sec Research
Notes:
*denotes as at end of relevant period

Chart 50: Steady increase in throughput with stable take rate between 24-29bps



Source: Company, I-Sec Research

Chart 51: Robust traction in CMS revenue since launch driven by accelerated CMS partner addition

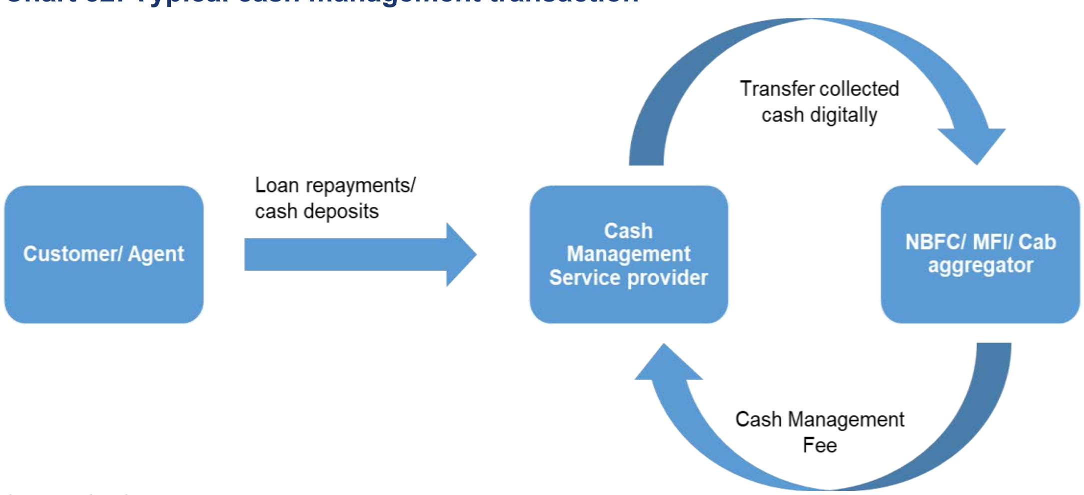


Source: Company, I-Sec Research

CMS market overview

A CMS is an automated cash management solution that helps 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 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, CMS providers balance their cashflow. In an ideal model, cash-in equals cash-out and cashflow are perfectly balanced. For example, for Fino, 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.

Chart 52: Typical cash management transaction

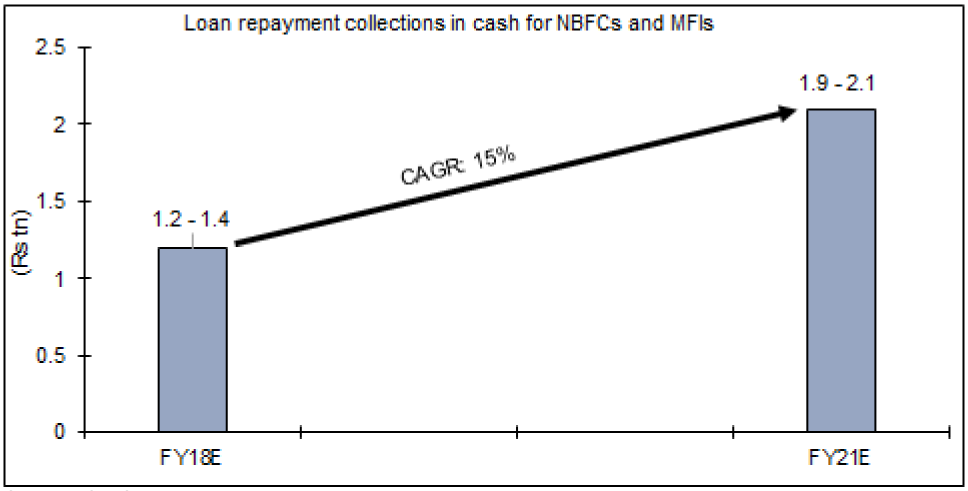


Source: CRISIL Research

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, 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.

Chart 53: Loan repayment collections in cash for NBFCs and MFIs (Rs trn)



Source: CRISIL estimates

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 50-55% of the retail credit of NBFCs as of FY20. These top 50 districts contribute 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 would likely support 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 to also drive growth for CMS providers

Bank branch penetration is low in India compared to other countries. This causes 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 adults is only six compared to 23 in urban areas. CMS providers, through wide reach and presence, are trying to capture this untapped potential.

BC banking

BC banking describes the BCs that are engaged in providing banking products and services on behalf of other banks (such as Union Bank of India and Canara Bank) and are authorised to perform a variety of activities. As of March 31, 2021, Fino has approximately 17,269 active BCs across India and derives revenue through commissions on each transaction they process. Income derived from its BCs in FY21 was Rs1,512.15mn. It considers BC banking and its BCs primarily as a part of its distribution network.

Other products

As it operates under its RBI license, it is restricted from directly offering credit products and services such as gold loans (as well as business loans, personal loans, vehicle loans and other types of credit). As such, in order to supplement its revenue streams and diversify its revenue base, it has entered into contracts with third parties to cross-sell such products.

A. Third party gold loans

Offering

Gold loans are cash loans made against the gold jewellery of a customer. It has entered into strategic business relationships (i.e., agency agreements) with an NBFC to cross-sell gold loans via its BCs. Such third parties are incentivised to offer products through it due to its extensive retail network.

Revenue model

It generates revenue on a commission basis, charged to the credit service provider, calculated as a percentage of the total throughput value of gold loans transacted with customers on a monthly basis. Income derived from facilitating gold loans in FY21 was Rs102mn.

B. Third party insurance products

Offering

It offers its customers the opportunity to purchase third party insurance products through its distribution network. Currently, it offers general insurance, life insurance and health insurance (comprising medical insurance, family medical insurance, accident insurance and dengue and malaria insurance). To provide such insurance products, it has obtained registration to act as a corporate agent from IRDAI and has entered into corporate agency arrangements with ICICI Lombard General Insurance, ICICI Prudential Life Insurance, Exide Life Insurance and Reliance General Insurance to distribute certain insurance products. It engages with each of these entities on a regular basis to also advise them on new products or changes to existing products that may be offered based on interactions of its own in-field teams and data insights received from end-customers. In addition, it only cross-sells such products to customers that hold a CASA account or a digital wallet account with it.

Revenue model

It generates revenue in the form of commission on every insurance policy that it cross-sells, the commission varies according to the type of policy. In FY21, it cross-sold 80,774 insurance policies, deriving Rs9.55mn in income.

C. Bill payments and recharge facilities

Offering

It facilitates the payment of bills and direct-to-home ('DTH") recharges (of television connections, prepaid mobile phone connections and FASTag) via its branch network or at its merchant locations. To facilitate bill payments, it operates as a Bharat Bill Payment Operating Unit under the National Payments Corporation of India Bharat Bill payment system which is a RBI-led system for payments of bills, accessible to consumers across India. Customers may pay bills relating to electricity, gas / LPG, insurance premiums, landline phones, mobile postpaid phones, municipal tax and broadband.

Revenue model

It generates revenue in the form of commission charged to the service provider. Income derived from facilitating bill payments and recharges in FY21 was Rs10.45mn.

D. FASTags

Its Fino FASTag product is a simple, reloadable tag which enables automatic deduction of toll charges, assisting customers pass-through vehicle toll stations without stopping to make a cash transaction. FASTag is linked to a wallet account or CASA account from which the applicable toll amount is deducted. The tag employs radio-frequency identification technology and is affixed on the vehicle's windscreen after the tag account is active.

Revenue model

The FASTag can be obtained by the customer from its merchants for a flat fee of Rs99. The merchant registers the customer's vehicle and issues the tag by linking it to the customer's account. It also shares the interchange income of 1.5% for every toll transaction. Income derived from FASTag in FY21 was Rs0.48mn.

E. Nearfield-based contactless pre-paid card payments

Offering

In association with City Cash, it has introduced a nearfield-based contactless ("NFC") payments solution for mass transit systems. Specifically, the NFC-based prepaid smart card framework facilitates contactless or tap-and-go payments which enables cashless ticketing for transit systems such as bus networks. It also assists transport operators such as State Road Transport Corporations ("SRTC") convert their existing ticketing hardware infrastructure into NFC compatible with minimal incremental investment.

Revenue model

It generates revenue 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. It also generates revenue as the customer recharges, charged as a percentage of the recharge amount. In June 2019, SRTC introduced the NFC smart card and since then it has issued over 3mn cards. Income derived from facilitating NFC payments in FY21 was Rs0.87mn. Income from NFC payments was adversely affected by covid-related government lockdowns from April to September in 2020.

F. Third party business loans

Offering

It has entered into strategic business relationships with third-party lenders such as Riviera Investors Private Limited to cross-sell business loans (including working capital loans) to its merchants and BCs. Such loans are for amounts between Rs0.2mn and Rs5.0mn with varying interest rates between 18.0% and 30.0% per annum, or 1.25% and 2.50% flat rates per month. The loans are offered for periods between 30 days and 36 months. Such loans are not available for retail customers.

Revenue model

It 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 on the amount being loaned, where for greater amounts it will receive a high percentage commission. Income derived from third-party business loans in FY21 was Rs0.66mn.

G. Planned new products

Its commitment to innovation and its data capture and analytics means it is constantly evolving and improving its product offering. It utilises its data analytics capability to better understand its customers and market on an ongoing basis, as well as draw upon the extensive experience and expertise within its teams, KMP and Board, and rely on detailed market research to strategise and develop its offering to the target market.

In July 2021, it launched its person-to-merchant (P2M) payment offering that operates through a QR code-based UPI solution.

It has a number of new product initiatives which are expected to be launched within the next 12 months, with the launch of each product remaining subject to its internal Product Approval Committee approval and RBI approval.

Industry overview

Table 15: Comparison of different business models

	Universal Banks	Small Finance Bank	Payments Bank
		Products	
Products offered	• Full spectrum of banking, savings, investment and insurance products	• Can offer savings and investment products apart from credit products / loans • Can act as Corporate Agent to offer insurance products • Cannot act as Business Correspondent to other banks	• Banking services - Demand deposits, ATM/Debit cards, payments and remittance services • Other ancillary services – Cash Management Services, Recharges, Bill Payments, Fast Tag etc. • Can act as Business Correspondent to another bank and offer savings, deposits, credit and investment products • Can act as Corporate Agent to offer insurance products and loan products
		Prudential norms	
Capital adequacy framework	• Minimum Tier 1 capital: 7% • Minimum capital adequacy ratio: 9%	• Minimum Tier 1 capital: 7.5% • Minimum capital adequacy ratio: 15%	• Minimum Tier 1 capital: 7.5% • Minimum capital adequacy ratio: 15%
NIM	• No Margin Cap	• No Margin Cap	• No Margin Cap
CRR / SLR	• Maintenance of CRR/SLR ratio mandatory • CRR – 4% • SLR – 18.75%	• Maintenance of CRR/SLR ratio mandatory • CRR – 4% • SLR – 18.75%	• Maintenance of CRR/SLR ratio mandatory • CRR – 4% • SLR - 75% (of its demand deposit balances)
Leverage ratio	• Minimum leverage ratio of 4%	• Minimum leverage ratio of 4%	• Minimum leverage ratio of 3%
LCR (liquidity coverage ratio)/ NSFR (net stable funding ratio)	• Mandatory requirement to maintain liquidity coverage ratio • NSFR applicable to scheduled commercial banks	• Minimum liquidity coverage ratio of 100% by Jan 1, 2021 • NSFR will be applicable to SFBs on par with scheduled commercial banks as and when finalized	• No such requirement
		Priority sector lending	
Targeted lending to sectors	• 40% for priority sector lending of their Adjusted Net Bank Credit (ANBC) or equivalent off-balance sheet exposure (whichever is higher) o 18% of ANBC to Agriculture o 7.5% of ANBC to micro-enterprises 10% of ANBC to weaker sections	• 75% for priority sector lending of their Adjusted Net Bank Credit (ANBC) o 18% of ANBC to Agriculture o 7.5% of ANBC to micro-enterprises o 10% of ANBC to weaker sections • At least 50% of loan portfolio should constitute loans and advances of upto Rs2.5mn	• Cannot undertake lending activities
Bank loans / market funding	• Access to broader array of market borrowings	• Access to broader array of market borrowings • No access to bank loans	• Access to call money and CBLO market

Source: As per Fino RHP dated Oct'21.

Payment banks

Table 16: Guidelines for payments bank licence

Parameters	Guidelines
Eligible Promoters	• The eligible entities which can set up a payment bank include an existing non-bank, prepaid instrument issuers (PPI) & other entities such as individuals / professionals; NBFCs, corporate BCs, mobile telephone companies, super-market chains, companies, real sector cooperatives; that are owned and controlled by residents; and public sector entities. • The promoter/promoter group can also enter into a joint venture with an existing scheduled commercial bank to set up a payment bank. If the promoter succeeds in obtaining a payment's bank licence, it would be required to set up the payment bank under a separate structure unless it is an existing PPI licence holder opting for conversion into a payments bank.
Scope of activities	• The payments bank shall confine its activities to further the objectives for which it is set up. Therefore, the payments bank is permitted to set up its own outlets such as branches, Automated Teller Machines (ATMs), BCs, to undertake only certain restricted activities permitted to banks under the Banking Regulation Act, 1949. • The payment banks can accept demand deposits (Non-NRI deposit), issue ATM/ debit cards/PPIs, offer remittance services (incl. cross-border remittances) and internet banking services, act as a BC for another bank and undertake non-risk sharing simple financial services activities not requiring any fund commitment, such as distribution of MFs, insurance products, pension products, etc. and undertake utility bill payments. • Given that the primary role of payments bank is to provide payments and remittance services and demand deposit products to small businesses and low-income households, payments banks were initially restricted to holding a maximum balance of Rs200,000 per individual customer.
Deployment of Funds	• The payments bank cannot undertake lending activities. Apart from amounts maintained as Cash Reserve Ratio (CRR) with RBI on its outside demand and time liabilities, it will be required to invest minimum 75% of its "demand deposit balances" in Government securities/Treasury Bills with maturity up to one year that are recognized by RBI as eligible securities for maintenance of Statutory Liquidity Ratio (SLR) and hold maximum 25% in current and time / fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.
Capital Requirement	• The minimum paid-up equity capital of the payments bank shall be Rs1bn. The payments bank shall be required to maintain a minimum CRAR of 15% on a continuous basis, subject to any higher percentage as may be prescribed by RBI from time to time. Tier-I capital should be at least 7.5% of RWAs. Tier-II capital should be limited to a maximum of 100% of total tier-I capital.
Promoter Contribution	• When the payments bank reaches the net worth of Rs5,000mn, and therefore, becomes systemically important, diversified ownership and listing will be mandatory within three years of reaching that net worth. • The promoter's minimum initial contribution to the paid-up equity capital shall be at least 40% for the first 5 years.
Foreign Shareholding	• Foreign shareholding has been allowed up to 74% (automatic route up to 49% of the paid up capital and approval route beyond that till 74%). • At all times, at least 26% of the paid-up capital will have to be held by residents. In case of Foreign Institutional Investors (FIIs) / Foreign Portfolio Investors (FPIs), individual FII / FPI holding is restricted to below 10% of the total paid-up capital, aggregate limit for all FIIs /FPIs / Qualified Foreign Investors (QFIs) cannot exceed 24% of the total paid-up capital, which can be raised to 49% of the total paid-up capital by the bank concerned through a resolution by its Board of Directors followed by a special resolution to that effect by its General Body. • In case of NRIs, individual holding is restricted to 5% of the total paid-up capital both on repatriation and non-repatriation basis and aggregate limit cannot exceed 10% of the total paid-up capital both on repatriation and non-repatriation basis. However, Non-Resident Indian (NRI) holding can be allowed up to 24% of the total paid-up capital both on repatriation and non-repatriation basis provided the banking company passes a special resolution to that effect in the General Body.
Other Conditions	• At least 25% of a payments bank's physical access points (own or others' network; not branches) have to be in rural centres.

Source: As per Fino RHP Oct'21, I-Sec research.

Payments banks have led to proliferation of non-branch type touchpoints

After granting licences to payments banks, it is seen that payments banks have set up a vast network of touchpoints by leveraging established nature of some of their parent network and through collaboration. For instance, Fino has widened its network through collaboration and partnerships with BPCL to use their outlets as digital banking points. Fino'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 post offices in India to provide payments bank services.

Rural areas have the least presence of payments bank functioning offices, whereas urban areas have the highest number of functioning offices as of FY20.

Payments banks use phygital model in rural areas

Banking transactions are largely a trust affair, and therefore, banks have traditionally relied upon a physical branch along with digital presence to be able to build trust with customers. However, physical models have not worked in rural banking due to high costs, while India's rural customers are not ready to go completely digital financially. Hence, banks are relying on the phygital model (also known as an assisted-digital model) – a combination of digital channel and human touch at the front end to assist customers – to address the pain points of a rural customer – limited accessibility, financial and digital literacy.

Some of the key advantages of using phygital model include:

1. **Digitisation of customer cash:** Cash transaction is the primary reason for account dormancy in rural India. Local banks and other financial institutions, through their phygital model could digitise customer income and expenses, which could drive account primacy and encourage banking behaviour.
2. **Phygitisation of local merchants:** The financial institutions could leverage the local merchant or kirana stores as a trust point, where the customer will get assistance in adopting digital mode of using financial services i.e. helping the customer in downloading the application, checking their balances and making a fund transfer. The familiarity of the merchant and the handholding will boost customer confidence of being able to manage such a transaction on their own. The financial institutions can later elevate these local merchants to the status of a banker, thereby, establishing their touchpoint and trust-point in a scalable and cost effective manner.

However, not all payments banks operate in rural and semi-urban regions, indicating variations in their business model and target customer segments. For instance, Fino uses phygital model (assisted digital model) to drive business through scale in rural and semi-urban regions. On the other hand, PayTM Payments Bank has a stronger focus on large cities and urban areas and primarily operates through digital channels.

Table 17: Customer segment & value proposition of payments banks

Customer segment	Unserved	Underserved	Small size business	Youth in semi-urban regions
Target customers	Low income individual, domestic workers and migrant workers	Low income individual, domestic workers and migrant workers	Mobile network operator agents, small merchants and kirana stores, agri-traders & small service providers	Youth, students who are well acquainted with mobile wallets
Products	Savings A/c & mobile wallets, loan disbursements through tie-ups with banks and NBFCs and distribution of insurance & investment products	Savings A/c & mobile wallets, loan disbursements through tie-ups with banks and NBFCs and distribution of insurance & investment products	Savings A/c, current A/c, loan disbursements through tie-ups with banks and NBFC and distribution of insurance & investment products	Mobile wallets, CASA
Transaction type	Domestic money remittance, cash-in and cash-out, bill payments	Domestic money remittance, cash-in and cash-out, bill payments	Cash-in and cash-out, bill payments, money transfers	Digital transactions through wallet
Primary Channel	Agents are primary touchpoints	Agents are primary touchpoints	Agents, self-service	Self-service

Source: CRISIL Research

Peer comparison of payments banks

Table 18: Peer comparison (FY21)

Players	Deposits (in Rs bn)	Net worth (in Rs bn)	CRAR (%)	Offices**
PayTM Payments Bank*	28.70	3.9	62.4	6
India Post Payments Bank*	8.55	5.7	79.2	650
Airtel Payments Bank*	3.45	2.8	90.2	31
Fino Payments Bank	2.41	1.5	56.3	54
Jio Payments Bank*	0.20	2.1	3604	9
NSDL Payments Bank*	0.001	1.2	265.8	1

Note: * Data is for FY20, ^Data is as per 3rd March 2021, ** Data is for 9MFY21 at the end of 31st December 2020, #Reported by company, Table is arranged based in decreasing order of Deposits
Source: Company Website, Company Reports, CRISIL Research

Table 19: Volume and value of transactions and card issued (FY21)

Players	Debit cards outstanding (mn)	Value of transaction at ATM & POS (in Rs bn)	Volume of transaction at ATM &POS (in mn)
Airtel Payments Bank	1.72	2.69	4.46
Fino Payments Bank	2.33	17.12*	6.91*
India Post Payments Bank	1.11	0.37	0.70
PayTM Payments Bank	63.77	84.53	46.06
NSDL Payments Bank	0.1	0.1	0.20

Note: Data for value and volume of transactions includes transaction done through both ATM & POS
Source: RBI, CRISIL Research
* It reports value of transactions and volume of transactions at ATMs and POS to the RBI in accordance with the RBI card statistics reporting requirements. The data that it reports to the RBI differs to the data that it uses internally to understand and assess its business operations. This is because its internal data relating to debit card transaction count and volume includes all "on-us" transactions (where the Issuing bank and Acquiring bank are same) as well as "off-us" transactions (where the Issuing bank and Acquiring bank are different), whereas the data reported to the RBI only includes "off-us" transactions, which is in accordance with such requirements.

Product mix of various payments banks

Apart from offering a suite of products and services to customers in the hinterland, Fino also acts as a correspondent for partner banks and enables digital financial transactions for customers at the bottom of the pyramid on behalf of various banking partners. As of March 2020, Fino had facilitated gold loan sourcing worth Rs10bn. In July, 2020, Fino also launched a new product – Bhavishya, a subscription-based savings account for minors in 10-18 years age bracket to make children banking-ready and inculcate a savings habit. The product is targeted at capturing rural population in the early stages of their financial journey and as they become adults, account holders could plan their financial goals in a much better way. The annual subscription charges for the account stand at Rs349 annually (inclusive of GST). Fino is the only bank to offer a subscription-based savings account in India.

Table 20: Product-wise comparison

Products	Fino Payments Bank	Airtel Payments Bank	India Post Payments Bank	PayTM Payments Bank	NSDL Payments Bank
Savings & Current A/C	✓	✓	✓	✓	✓
Sweep Account Facility	✓	✗	✓	✓	✗
Mobile Wallet	✓	✓	✗	✓	✗
Debit Card	✓	✓	✓	✓	✓
Payments	✓	✓	✓	✓	✓
CMS	✓	✓	✓	✗	✗
Insurance (third party cross sell)	✓	✓	✓	✗	✓
Doorstep Banking	✓	✓	✓	✓	✗
BC Business	✓	✗	✗	✗	✓

Source: Company Website, CRISIL Research

Financial outlook

Diversified revenue stream and strong pipeline of new product launches to drive 20% revenue CAGR over FY21-24E

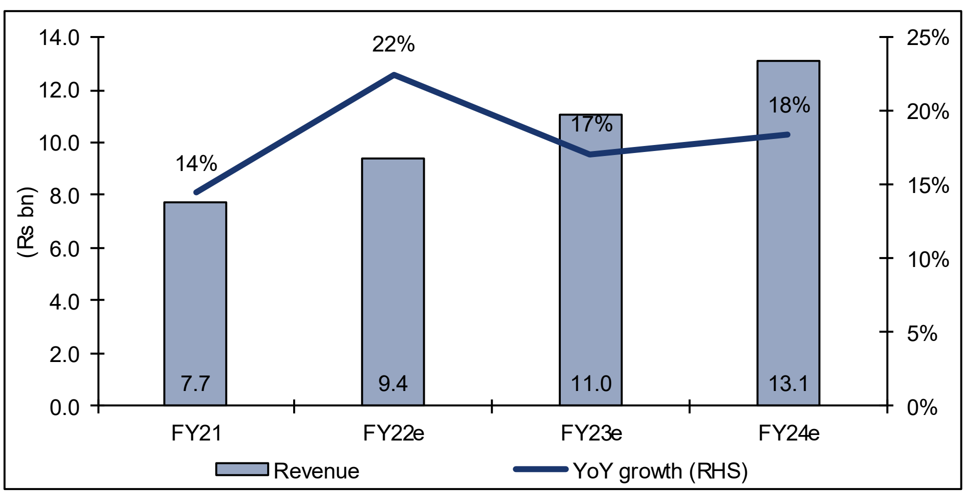
Fino delivered a strong 48% revenue CAGR between FY19-21. Series of new product launches like MATM, AePS and subscription-based CASA accounts – and successfully scaling up these products despite stiff competition – are primary drivers for its industry leading revenue growth. Seamless digital platform and increasing product bouquet resulted in higher merchant on-boarding / activation rate during FY19-21; this drove a 71% throughput CAGR during the same period. We estimate 20% revenue CAGR over FY21-24E to be driven by a) diversified revenue stream which enables one segment to offset slackness in any other cyclical product for ex. Despite a 28% YoY fall in remittance revenue due to covid, total revenue was up 14% YoY driven by 80%+ YoY growth in CASA, CMS and withdrawal business, b) a strong pipeline of high-growth products like subscription-based current accounts, AEPS cash deposit, Aadhaar Pay, PPI Cards, Gift Cards, UPI P2M, distribution of third-party products (consumer loans, FD, RD, MF, insurance) and international remittance.

Table 21: Revenue mix is likely to shift towards high margin products like CASA, CMS

Revenue mix	FY21	FY22E	FY23E	FY24E
MATM & AEPS	*33%*	*31%*	*31%*	*31%*
Remittance	*33%*	*35%*	*32%*	*29%*
CASA (subscription)	*8%*	*10%*	*11%*	*14%*
CMS	*4%*	*6%*	*8%*	*8%*
BC	*20%*	*17%*	*16%*	*14%*
Others (third party distribution)	*2%*	*2%*	*3%*	*4%*

Source: Company data, I-Sec research.

Chart 54: CASA, CMS and new products to drive 20% revenue CAGR over FY21-24E



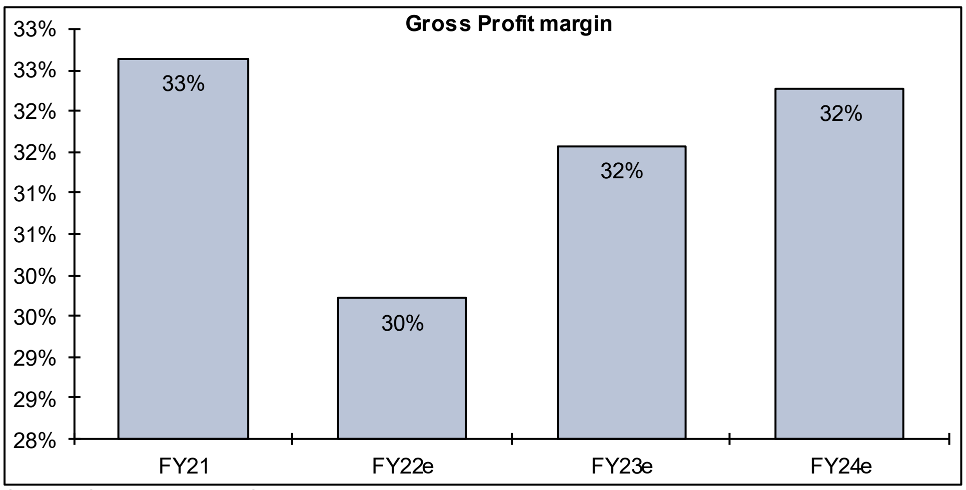
Source: Company data, I-Sec research.

Gross profit margin to improve gradually; expect 300bps expansion over FY22-24E

Fino's gross profit margin is a function of its merchant payout ratio – which has been historically in the range of 40-50% and is likely to remain at similar levels going ahead. However, a higher share of remittance throughput from API partners drags down GP margin to 32-34%. Improving merchant stickiness led by broadening product offerings, Fino's increasing brand awareness driving higher customer footfalls and higher growth in better margin products like CASA, CMS and distribution of loans are likely to result in gross margin expansion – albeit gradual – over FY21-24E.

Gross profit in early H1FY22 was impacted by new entrants which were trying to disrupt the market by offering higher payouts to merchants which forced Fino to match the commission payout in line with competition. However, by Q2FY22, it rationalised the commission structure and the GP margin is now stable at ~30%.

Chart 55: Commission rationalisation and increasing contribution from high margin products like CASA, CMS to drive GP margin expansion over FY22-24E

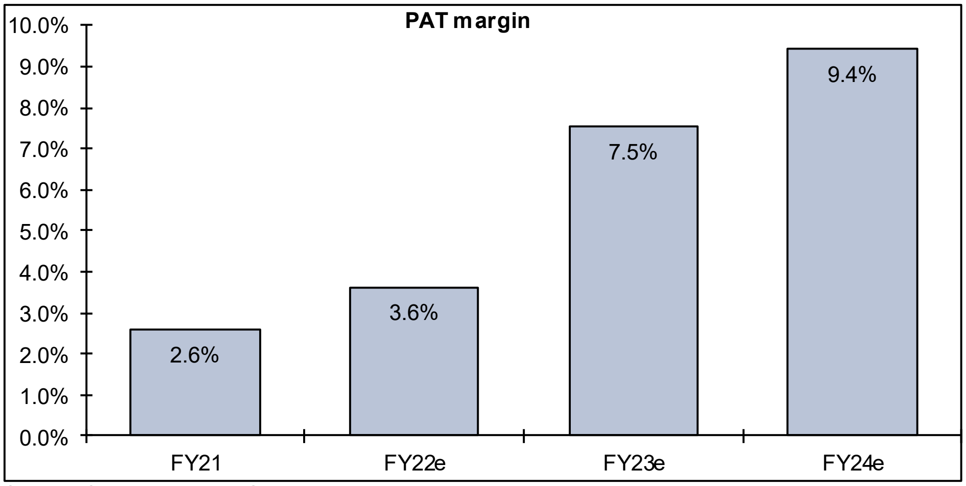


Source: Company data, I-Sec research.

Perfect blend of high growth and better margin products help it turn profitable within 12 quarters; improving trend in profitability to continue going forward

Fino's solid financial performance reflects in it turning profitable within 12 quarters, driven by a) higher cost flexibility with ~70% of cost variable in nature, and b) series of new product launches with a perfect mix of high growth & high margin products. Notably, unlike other fintechs which are burning cash to drive volume & building customer / merchant network, Fino has achieved ~Rs1.3trn throughput, built network of ~6.5mn merchants and processed ~434mn transaction in FY21 with PAT at Rs200mn in FY21. Taking cognisance of increasing share of high margin products, scope for operating leverage given ~30% fixed cost and strong pipeline of new product launches (high margin) would likely drive margins to 10% by FY24E from 2.6% in FY21, based on our estimates.

Chart 56: We expect PAT margin to reach 10% by FY24E



Source: Company data, I-Sec research.

Financial summary

Table 22: Profit and loss statement

(Rs. mn, year ending Mar 31)

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Gross Revenue					
MATM & AEPS	*1,385*	*2,564*	*2,909*	*3,396*	*4,016*
YoY growth		*85.1%*	*13.4%*	*16.8%*	*18.3%*
Remittance	*3,517*	*2,554*	*3,263*	*3,524*	*3,806*
YoY growth		*-27.4%*	*27.8%*	*8.0%*	*8.0%*
CASA (subscription)	*328*	*595*	*914*	*1,253*	*1,874*
YoY growth		*81.0%*	*53.8%*	*37.1%*	*49.5%*
CMS	*138*	*305*	*547*	*840*	*1,070*
YoY growth		*121.8%*	*79.3%*	*53.5%*	*27.4%*
BC	*1,125*	*1,512*	*1,608*	*1,720*	*1,841*
YoY growth		*34.4%*	*6.3%*	*7.0%*	*7.0%*
Others (third party distribution)		*173*	*195*	*314*	*468*
YoY growth			*12.9%*	*60.9%*	*49.3%*
Total Gross Revenue	**6,732**	**7,703**	**9,435**	**11,047**	**13,074**
YoY growth	*91.3%*	*14.4%*	*22.5%*	*17.1%*	*18.4%*
		48%			
Product cost (merchant payout)	**5,157**	**5,189**	**6,631**	**7,559**	**8,855**
Gross Profit	**1,575**	**2,514**	**2,805**	**3,488**	**4,220**
GP margin	*23.4%*	*32.6%*	*29.7%*	*31.6%*	*32.3%*
Interest Income	181	203	344	479	616
Interest exp	99	95	164	236	343
NII	**83**	**107**	**180**	**243**	**273**
Operating Expense	**1,967**	**2,381**	**2,642**	**2,899**	**3,262**
Staff cost	1,239	1,147	1,411	1,575	1,838
Other operating cost	493	698	756	825	899
Depreciation	236	536	475	500	525
Operating Profit	**-310**	**240**	**343**	**831**	**1,231**
GP margin	*-4.6%*	*3.1%*	*3.6%*	*7.5%*	*9.4%*
Provisions	10	40			
PBT	**-320**	**200**	**343**	**831**	**1,231**
Tax	0	0	0	0	0
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
PAT	**-320**	**200**	**343**	**831**	**1,231**
PAT margin	*-4.8%*	*2.6%*	*3.6%*	*7.5%*	*9.4%*
Total Opex	7,125	7,570	9,273	10,458	12,116

Source: Company data, I-Sec research.

Table 23: Balance sheet

(Rs. mn, year ending Mar 31)

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Capital	446	446	836	836	836
Reserves & Surplus	855	1,060	4,132	4,972	6,212
Net-worth	**1,301**	**1,505**	**4,967**	**5,808**	**7,048**
Deposits	1,175	2,428	4,139	6,260	10,108
Borrowings	1,108	1,808	2,198	2,886	3,604
Other liabilities	2,656	4,361	3,964	4,662	5,395
Total Liabilities	**6,240**	**10,103**	**15,268**	**19,616**	**26,155**
Cash balance with RBI	1,308	883	1,030	1,381	1,911
Balance with Banks	1,712	1,825	2,060	2,762	2,866
Investments	1,283	5,036	9,583	12,714	18,442
Advances	1	1	1	1	1
FA	495	642	706	777	855
Others assets	1,442	1,716	1,887	1,982	2,081
Total Assets	**6,240**	**10,103**	**15,268**	**19,616**	**26,155**

Source: Company data, I-Sec research.

Table 24: Key financial metrics

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Throughput					
MATM & AEPS	3,01,387	5,61,819	6,16,538	7,62,847	9,44,348
YoY growth		*86.4%*	*9.7%*	*23.7%*	*23.8%*
Remittance	4,06,831	2,91,870	3,79,430	4,09,785	4,42,568
YoY growth		*-28.3%*	*30.0%*	*8.0%*	*8.0%*
CMS	43,010	1,18,284	2,10,406	3,22,935	4,11,524
YoY growth		*175.0%*	*77.9%*	*53.5%*	*27.4%*
Revenue mix		FY21	FY22E	FY23E	FY24E
MATM & AEPS		*33%*	*31%*	*31%*	*31%*
Remittance		*33%*	*35%*	*32%*	*29%*
CASA (subscription)		*8%*	*10%*	*11%*	*14%*
CMS		*4%*	*6%*	*8%*	*8%*
BC		*20%*	*17%*	*16%*	*14%*
Others (third party distribution)		*2%*	*2%*	*3%*	*4%*
Take rate					
MATM		0.36%	0.36%	0.35%	0.34%
AEPS		0.27%	0.27%	0.26%	0.26%
Remittance - Own		0.91%	0.90%	0.90%	0.90%
Remittance - API		0.86%	0.85%	0.85%	0.85%
CMS		0.26%	0.26%	0.26%	0.26%
Margins					
Gross Margin	**23.4%**	**32.6%**	**29.7%**	**31.6%**	**32.3%**
MATM & Aeps		*44.8%*	*42.0%*	*42.4%*	*40.5%*
Remittance		*9.5%*	*6.8%*	*7.0%*	*6.5%*
CMS		*44.0%*	*45.0%*	*46.0%*	*45.0%*
PAT Margin	**-4.8%**	**2.6%**	**3.6%**	**7.5%**	**9.4%**
Per share data					
EPS	-7.2	4.5	4.1	10.0	14.7
YoY growth		*-162.5%*	*-8.7%*	*142.6%*	*48.1%*
BVPS	29.2	33.8	59.5	69.5	84.4
YoY growth		*15.7%*	*76.0%*	*16.9%*	*21.4%*
Valuation (x)					
P/E	NMF	83.3	91.2	37.6	25.4
P/BV	12.8	11.1	6.3	5.4	4.4
Return Profile					
RoA	-4.9%	2.5%	2.7%	4.8%	5.4%
RoE	-21.9%	14.3%	10.6%	15.4%	19.2%
Cost & Productivity ratio					
Cost / income ratio	106%	98%	98%	95%	93%
Revenue per employee (Rs mn)	2.4	2.9	3.1	3.6	3.9

Source: Company data, I-Sec research.

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Tables

Charts

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