

IPO Note

FEDBANK FINANCIAL SERVICES LIMITED

November 22, 2023





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Details of the Issue

Price Band	₹ 133 - ₹ 140
Issue Size	₹ 1,092.26 Cr
Face Value	₹ 10
Bid Lot	107
Listing on	BSE, NSE
Post Issue Mcap	₹ 5,165.06 Cr
Investment Range	₹ 14,231 - ₹ 14,980

Important Indicative Dates (2023)

Opening	22- Nov
Closing	24 - Nov
Basis of Allotment	30 - Nov
Refund Initiation	01 - Dec
Credit to Demat	04 - Dec
Listing Date	05 - Dec

No of shares (Mn)

Fresh Issue of Shares	42.91
Offer for Sales	35.16
Total No of Shares	78.07

Lead Manager

ICICI Securities Limited
BNP Paribas Limited
Equirus Capital Pvt Limited
JM Financial Limited

Offer Details

Offer Size	₹ 1,092.26 Cr
Fresh Issue	₹ 600.77 Cr
OFS	₹ 492.26 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	546	39.01	41.06	50
NIB	382	27.30	28.74	35
Retail	164	11.70	12.31	15
Em- ploy.	-	-	-	-
Total	1,092	78.02	82.12	100

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Fedbank Financial Services Limited specializes in offering a diverse range of financial products, including Gold Loans, Home Loans, Loan Against Property (LAP), and Business Loans. Positioned as a retail-focused NBFC, Fedbank boasts the second lowest cost of borrowing within its peer set in India for micro, small, and MSMEs, gold loans, and the MSME & gold loan categories in FY 2023.

It primarily serves clients from the MSME and emerging self-employed individuals (ESEI) sectors. Fedbank's product portfolio encompasses mortgage loans such as housing loans, small and medium ticket loans against property, unsecured business loans, and gold loans. Utilizing a Phygital doorstep model, which integrates digital and physical elements, the company delivers customized services to customers across all its offerings.

As of March 31, 2023, FFS maintains a widespread presence with offices in 191 districts across 16 states and union territories in India. This extensive network comprises 575 branches, with a particularly robust presence in the Southern and Western regions of India, including Andhra Pradesh (including Telangana) and Rajasthan.

[Business Highlights & Services](#)

FFSL is a leading retail-focused NBFC, backed by The Federal Bank Limited. With the second and third lowest cost of borrowing among MSMEs, gold loan, and MSME & gold loan peers in India in Fiscal 2023, it boast the third fastest AUM growth among NBFCs, with a 33% three-year CAGR between Fiscals 2020 and 2023. As of June 30, 2023, FFSL AUM has experienced a remarkable 42% year-on-year growth. Specializing in gold loans, company is the fastest-growing NBFC in this segment, holding the top position as of March 31, 2023. An impressive 86.24% of Loan Assets are secured against tangible assets, reinforcing commitment to the MSMEs and ESEIs sector. FFSL well-crafted product suite, including mortgage loans, unsecured business loans, and gold loans, addresses the unique needs of customers. Notably, it have achieved the third-highest growth in disbursements among peers, with a 35% three-year CAGR between Fiscals 2020 and 2023, according to the CRISIL Report. As of June 30, 2023, mortgage loans, gold loans, and unsecured business loans have reached AUMs of ₹47,024.46 million, ₹31,241.72 million, and ₹14,872.49 million, respectively.

Fedfina holds a consistent "AA" rating for its non-convertible debentures from CARE since 2022 and an "AA-" rating from India Ratings and Research Pvt Ltd for both NCDs and bank loans since 2018. As a company promoted by Federal Bank, the association instills a heightened level of trust among stakeholders. With Federal Bank maintaining ownership of over 51% of their outstanding share capital post the Offer, Fedfina leverages its extensive operating history, proven track record, management expertise, and the reputable "Federal Bank" brand to establish a competitive position in their markets, fostering trust among customers, lenders, regulators, and investors.

As of June 30, 2023, Fedfina has presence in 17 states and union territories across India with a strong presence in Southern and Western regions of India. As of June 30, 2023, they covered 190 districts in 17 states and union territories in India through 584 branches. Their branches are located in states, such as Andhra Pradesh (including Telangana) and Rajasthan, which have better asset quality than other states as of Fiscal 2023. Additionally, they have dedicated micro-sites on their website for each of their branches, which focus solely on customer engagement for the branch customers.

"Phygital" doorstep approach blends digital and physical methods, providing tailored services and constant customer engagement. Technology is integral to underwriting, combining electronic and physical data collection. In Fiscal 2020, it secured a five-year agreement for records management and document preservation.

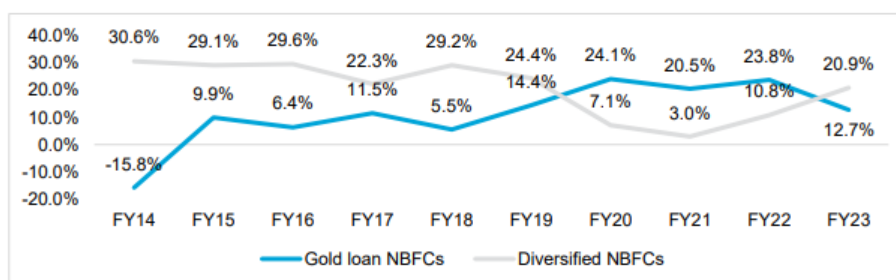


When underwriting, it has gathered diverse customer data in digital and physical formats, validated it meticulously, and assessed creditworthiness. This information is then verified through APIs integrated into the loan origination system. For the gold loan portfolio, a decision engine processes the data to determine the final loan amount sanctions.

FFSL Business segment

Retail Finance Segment: FFSL retail finance focuses on ESEI and MSMEs with gold loans, mortgage loans, and unsecured business loans. Operating on a "small business lending model," gold loans act as a countercyclical hedge, stabilizing during economic downturns. This approach, highlighted by CRISIL, ensures resilience by providing quick and convenient funding during challenging economic periods. The counter-cyclical nature of gold loans, exemplified by strong growth during Fiscals 2020 and 2021, serves as a key asset, actively hedging overall NBFC growth.

Y-o-Y growth trend of gold loans NBFCs vs diversified NBFCs



Gold Loan: FFSL gold loan products target individual customers with quick processing, transparency, and flexible repayment options. As of June 30, 2023, it had 0.32 million gold loan accounts, AUM ₹31.24 billion, accounting for 33.12% of total Loan Assets. Door-step gold loans, offered through 13 hubs, saw 10,707 customers in Fiscal 2023, with disbursements reaching ₹1.26 billion, a 104.79% YoY increase. The introduction of the 'Prototype Sec Box' in Fiscal 2023 enhances security with a digital locking system and multiple features.

Mortgage Loans: FFSL mortgage loans are tailored for the emerging MSME sector, offering customized credit solutions based on customer needs and documentation. Utilizing multiple income evaluation methods, FFSL sanctions loans for working capital purposes. As of June 30, 2023, 98.30% of mortgage loans qualify for priority sector lending.

- Small ticket LAP and housing loans target self-employed and salaried customers in Tier 1, Tier 2, and Tier 3 cities. Customers typically have an annual income of ₹0.50 million, irregular financial records, but healthy cash flow and unencumbered property ownership. As of June 30, 2023, these loans collectively have an ATS of ₹1.23 million, an average disbursement yield of 16.54%, and an average LTV of 52.49%. Small ticket LAPs (₹1.00 million to ₹2.00 million) cater to business expansion, while housing loans (₹1.00 million to ₹2.00 million) fulfill construction or acquisition needs. FFSL approach involves understanding customers' businesses through on-site visits and in-depth discussions, providing customized solutions without strict formal documentation requirements. As of June 30, 2023, small ticket LAPs have an ATS of ₹1.18 million with a disbursement yield of 17.68%, and housing loans have an ATS of ₹1.36 million with a disbursement yield of 13.95%.
- Medium ticket LAP targets MSMEs, including traders, wholesalers, distributors, retailers, and small manufacturing companies. Loans, ranging from ₹2.50 million to ₹10.00 million, serve various purposes such as capital infusion, business expansion, working capital, asset acquisition, and capital expenditure. Operating in 11 key locations, these loans are collateralized against completed residential and commercial properties, with an average LTV ratio of 51.16% as of June 30, 2023. FFSL approach involves multiple income evaluation methods, in-depth discussions, and technology to ensure a fast turnaround. As of June 30, 2023, medium ticket LAPs have an ATS of ₹4.79 million and an average disbursement yield of 12.51%.

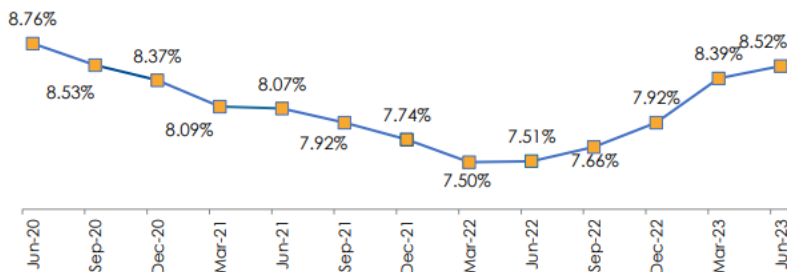
Unsecured business loans: This loan caters to the credit needs of self-employed professionals, non-professionals, and salaried doctors with a turnover of approximately ₹10.00 million per annum and a minimum of five years of business experience. As of June 30, 2023, these loans have an ATS of ₹2.31 million and an average disbursement yield of 17.37%. Constituting less than 15.00% of Gross Loan Book in the last three Fiscals and the three-month period ended June 30, 2023, quick underwriting is achieved through financial assessments, cash flows, GST, turnover, and personal discussions.



Revenue Breakdown

Particulars	AUM as at June 30,				AUM as at March 31,					
	2023		2022		2023		2022		2021	
	₹ in million	% of total AUM	₹ in million	% of total AUM	₹ in million	% of total AUM	₹ in million	% of total AUM	₹ in million	% of total AUM
Mortgage Loans	47,024.46	49.84%	31,550.06	47.34%	45,063.78	49.69%	29,324.50	47.40%	21,506.12	44.23%
Medium Ticket LAP	23,892.28	25.33%	15,925.68	23.90%	22,884.02	25.23%	15,258.50	24.66%	13,324.13	27.40%
Small Ticket LAP and Housing Loan	23,132.17	24.52%	15,624.38	23.44%	22,179.76	24.46%	14,066.00	22.73%	8,181.99	16.83%
Small Ticket LAP	17,219.25	18.25%	11,940.28	17.92%	16,661.56	18.37%	10,864.10	17.56%	6,768.62	13.92%
House Loan	5,912.92	6.27%	3,684.10	5.53%	5,518.20	6.08%	3,201.90	5.18%	1,413.37	2.91%
Gold Loans	31,241.72	33.12%	24,247.85	36.38%	29,860.34	32.92%	22,475.30	36.33%	19,177.87	39.44%
Unsecured Business Loans	14,872.49	15.76%	9,892.28	14.84%	14,542.80	16.03%	9,010.18	14.56%	4,978.89	10.24%
Other⁽¹⁾	1,203.42	1.28%	954.03	1.43%	1,229.12	1.36%	1,062.06	1.72%	2,961.43	6.09%
Total	94,342.08	100.00%	66,644.22	100.00%	90,696.04	100.00%	61,872.04	100.00%	48,624.31	100.00%

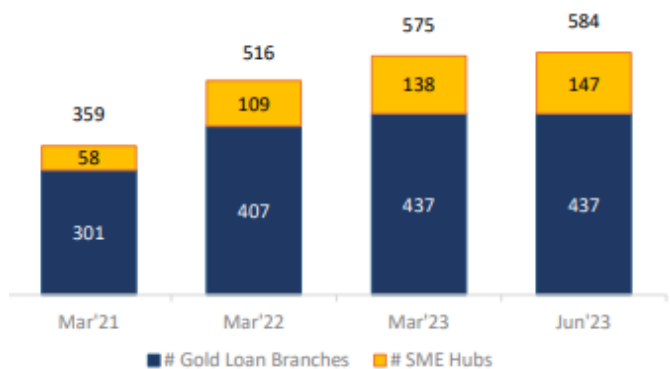
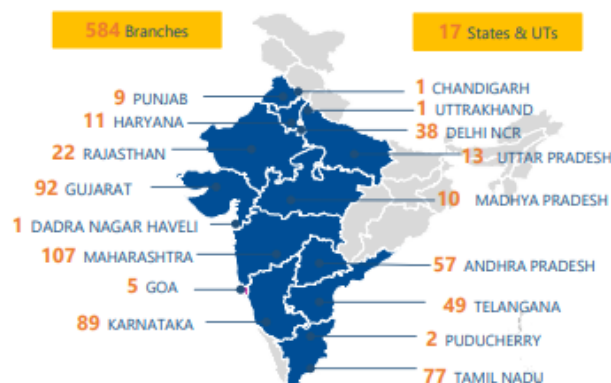
FFSL Average Monthly Cost of Borrowing



FFSL Capital Adequacy

Particulars	As of and for the three-months period ended June 30,		As of and for Fiscal		
	2023	2022	2023	2022	2021
	(₹ in million, except percentages)				
Tier I Capital	12,809.46	10,999.50	12,279.30	10,868.68	8,043.26
Tier II Capital	4,371.18	2,930.80	2,323.80	2,752.24	3,019.40
Total Capital	17,180.64	13,930.30	14,603.10	13,620.92	11,062.66
Risk Weighted Assets	87,163.54	66,659.00	81,401.60	59,129.76	47,042.90
Capital Adequacy Ratio (%)	19.71%	20.90%	17.94%	23.04%	23.52%
Tier I Capital (%)	14.70%	16.50%	15.09%	18.38%	17.10%
Tier II Capital (%)	5.01%	4.40%	2.85%	4.65%	6.42%
Total Borrowings⁽¹⁾ to Equity ratio⁽²⁾	5.39	4.57	5.26	4.35	5.18

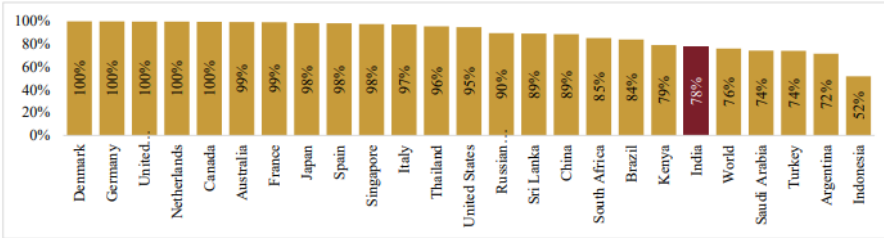
Geographic Spread



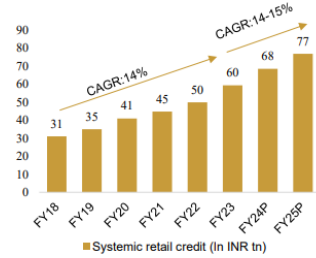


Industry Outlook

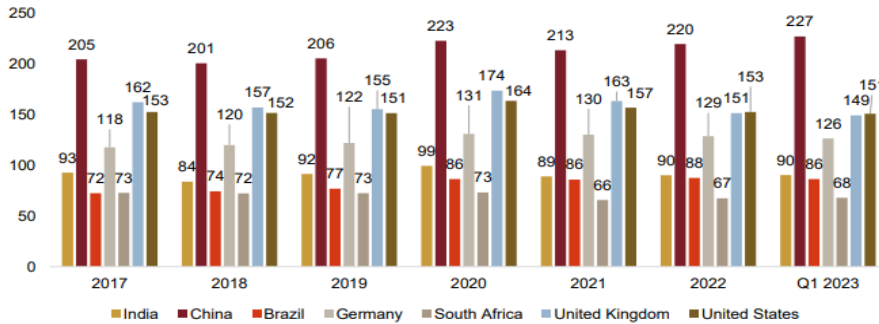
Adult population with a bank account (%): India vis-à-vis other countries



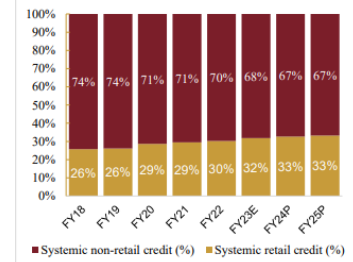
Retail credit growth to continue on a strong footing in Fiscal 2024 and 2025



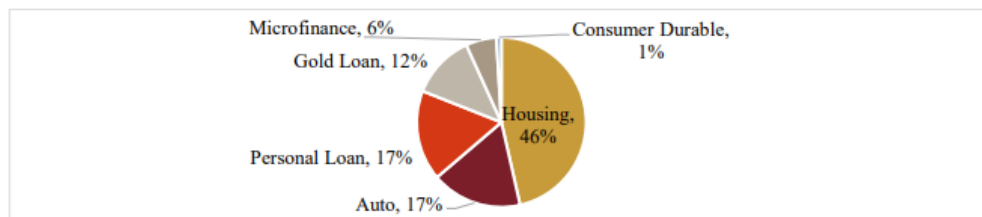
Credit to GDP ratio (%) (Q1 CY2023)



Retail segment is estimated to account for 32% of overall systemic credit as of Fiscal 2023



Retail credit mix as of Fiscal 2023



Objective of IPO

- ♦ Augmenting the company's Tier I capital base to meet the company's future capital requirements, arising from the growth of the business and assets.
- ♦ Meeting offer expenses.

Peers Comparison

Name of the company	Face Value (₹)	Total Income (₹ Cr)	EPS	NAV (₹)	P/B	RoNW(%)
FedBank Financial Services Ltd	10	1,215	5.6	42.11	NA	13.29%
Peers Group						
Aptus Value Housing Ltd	2	1,129	10.1	67	4.1	15.06%
IIFL Finance	2	8,447	39.5	236	2.3	17.88%
FlveStar Business Finance	1	1,529	20.7	148	4.91	13.91%
Manappuram Finance Ltd	2	6,450	17.07	114	1.23	15.55%
Muthoot Finance Ltd	10	11,975	86	540	2.42	16.94%
SBFC Finance Ltd	10	740	1.7	19	3.68	8.67%

**Companies Competitive Strength :**

- Track record of growth, geared towards high quality assets and diversified asset book and stable profitability.
- Strategic role in Government of India initiatives in the Renewable Energy sector.
- Established and trusted brand name operating in a rapidly expanding sector.
- Technology-driven model with a digital technology platform.
- Experienced Board and Key Managerial Personnel and Senior Management Personnel.

Key Strategies Implemented by Company

- Maintain leadership in RE sectors such as solar, wind, hydro power and biomass, biofuels and co-generation.
- Leverage industry expertise to enhance presence in new and emerging green technologies.
- Optimize borrowing costs to enhance competitiveness and profitability.
- Streamline operating model to continue to support non-linear growth.
- Continue to focus on the Environmental and Social Management System.

Particulars (Rs Cr)	2023	2022	2021
Equity Share Capital	321.91	321.52	289.92
Reserves	1,033.77	832	544.81
Net worth as stated	1,356	1,154	835
Net Interest Income	638	474	345
Net Interest Margins (%)	8.99%	8.92%	8%
Revenue from Operations	1,178.80	869	692
Revenue Growth (%)	35.60%	25.66%	-
Profit before Tax	243	139	77
Net Profit for the Period	180	104	62
Net Profit (%) as Stated	15.27%	11.97%	8.96%
EPS (₹)	5.59	3.31	2.18
RoNW (%)	13.29%	8.97%	7.39%
ROA(%)	2.3%	1.7%	1.3%
Gross NPA (%)	1.6%	1.8%	0.7%

Valuations and Recommendation:

- FFSL Ltd Book Value arrives at ₹ 2,830 Cr for FY24. At upper price band of ₹ 140, Company is looking for post issue market cap of ₹ 5,165.06 Cr, Which implies a earning multiple (P/B) of 1.8(x).
- Based on the valuation, issue appears to be fairly valued, FFSL is a part of the growing NBFC sector with AUM increasing from less than Rs. 2 trillion at the start of the century to Rs. 34 trillion by FY23. Its share in the overall credit market has risen from 12% in FY08 to 18% in FY23. By serving under-banked and lower-income customers, FFSL contributes to financial inclusion. Access to capital from its Promoter, Federal Bank, and a robust liability network further distinguishes FFSL. As of June 30, 2023, FFSL has borrowed from various institutions, exhibiting the third-fastest AUM growth among Indian NBFCs, with a three-year CAGR of 33% from FY20 to FY23. Steady top and bottom-line growth, coupled with effective underwriting capabilities and a diversified loan book, position FFSL strongly in the market. Hence, we recommend “Subscribe” rating to the stock issue.



Notes

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