



SMC Ranking
 ★★☆☆☆ (2/5)

Issue Highlights

Industry	NBFC
Offer for sale (Shares)	35,161,723
Fresh Issue (Shares)	42,912,087
Net Offer to the Public	78,073,810
Issue Size (Rs. Cr.)	1038-1093
Price Band (Rs.)	133-140
Offer Date	22-Nov-23
Close Date	24-Nov-23
Face Value	10
Lot Size	107

Issue Composition

	In shares
Total Issue for Sale	78,073,810
QIB	39,036,905
NIB	11,711,072
Retail	27,325,834

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	72.28%	62.39%
QIB	25.40%	24.98%
NIB	2.33%	5.23%
Retail	0.00%	7.41%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company intends to utilize the net proceeds from the issue towards the funding of the following objects:

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.

Book Running Lead Manager

- ICICI Securities Limited
- BNP Paribas
- Equirus Capital Private Limited
- JM Financial Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Fedbank Financial Services Limited provides Gold Loans, Home Loans, Loan Against Property (LAP) and Business Loan Services. Fedbank is a retail-focused non-banking finance company (NBFC), with the second lowest cost of borrowing among the micro, small, and medium enterprises (MSMEs), gold loan, and MSME & gold loan peer set in India in Fiscal 2023. The company's clientele comes mainly from the MSME and emerging self-employed individuals (ESEI) sectors. The company's product range includes mortgage loans such as housing loans; small ticket loans against property (LAP); and medium ticket LAP, unsecured business loans, and gold loans. The company also has a Phygital doorstep model, a combination of digital and physical initiatives, for providing customized services to customers across all the products.

Strength

Present in large, underpenetrated markets with strong growth potential: The Indian retail credit market grew at a strong pace over the last few years from Rs. 30 trillion in Fiscal 2018 to Rs. 60 trillion in Fiscal 2023, and it constituted 32% of total systemic credit in India. Retail credit is expected to further grow at a CAGR of 14- 15% between Fiscals 2023 and 2025. The credit gap is much larger in case of ESEIs and Fedfina has focuses on catering to the financial needs of such ESEIs. Given that the market is large, has good growth prospects, is under penetrated and profitable, retail credit is expected to continue to remain a key focus area for banks and NBFCs. This gives the company with an opportunity for growth. Due to increasing awareness about benefits of availing gold loans from the organized segment, the share of organized gold loan financiers has increased from 56-58% in Fiscal 2017 to approximately 61-63% (in terms of value) in Fiscal 2023. Fedfina is well positioned to take advantage of the opportunity this presents for growing their gold loan business. As of June 30, 2023 the company is present in 17 states and union territories across India with a strong presence in Southern and Western regions of India. As of June 30, 2023, it covered 190 districts in 17 states and union territories in India through 584 branches.

Focused on retail loan products with a collateralized lending model targeting individuals and the emerging MSME sector: Fedbank is largely focused on a collateralized lending model for retail finance segment, targeting ESEI consumers and the emerging MSME sector. As on June 30, 2023, 86.24% of its total Loan Assets are secured against tangible assets, namely its customer's gold or property. The average ticket size was Rs. 0.013 crore in the three-months period ended June 30, 2023. Out of the collateral for medium ticket LAP and small ticket LAP, 77.37% of collateral is self-occupied residential or commercial property as of June 30, 2023. As on June 30, 2023, average LTV on total Loan Assets with property collateral at the time of sanctioning the loan was 51.37%. In its experience, the value of collateral property generally appreciates over time. In addition, its LTV at the time of sanction further reduces over the term of the loan as the loan is serviced.

Strong underwriting capability and presence in select customer segment: Fedfina has an effective underwriting capability, built on its experienced underwriting team and established processes, which assess the quality of their potential customers' business and collaterals, and then reasonably estimate the possibility of defaults, prior to disbursal of loans. The percentage of its retail installment loans, which are underwritten, is represented by the sanction to login ratio, which was 40.05%, 44.01%, 45.30%, 45.83% and 43.51% for the 3-months periods ended June 30, 2023 and June 30, 2022, and Fiscals 2023, 2022 and 2021, respectively. As on June 30, 2023, Fedfina had an independent quality assurance team of 219 employees for mortgage loans, gold loans and unsecured business loans.

Also, As June 30, 2023, 2.22% of its employees were in internal audit function and such personnel conduct periodic audits across sales, operations, credit, customer service, branch operations and other support functions. While the company focuses on the underserved category of the Indian retail loan market, it follows prudent customer selection policies with 86.71% of its customers having an established credit history, and 77.94% of its credit rated borrowers rated with a CIBIL score greater than 650 or CMR score less than or equal to 6 as on June 30, 2023.

Well diversified funding profile with an advantage of lower cost of funds: The company's ability to access diversified sources of funding is a key contributor to its growth. Its average cost of borrowing was 2.22%, 1.86%, 7.77%, 7.44% and 8.30% for the 3-months periods ended June 30, 2023 and June 30, 2022, and Fiscals 2023, 2022 and 2021, respectively. It has the 2nd and 3rd lowest cost of borrowing among the MSME, gold loan and MSME & gold loan peer set in India in Fiscal 2023 and 3-months period ended June 30, 2023, respectively. The company has been rated "AA-" by CARE for its NCDs since 2022, and "AA-" by India Ratings and Research Pvt Ltd for their NCDs and bank loans since 2018.

Technology driven company with scalable operating model: Fedfina is a technology driven company using systems with digital infrastructure to manage a scalable and sustainable operating model. During the 3-months period ended June 30, 2023, and Fiscals 2023, 2022 and 2021, it has invested an aggregate amount of Rs.25.59 crore in their information technology and digital systems. Fedfina leverages its information technology platforms to drive economies of scale through increase in productivity, reduce turnaround time in processing and reduce transaction costs. As of June 30, 2023, its customer application has over 495,000 downloads and a 4.1 star rating on Google Play Store. As of June 30, 2023, more than 500 branches have a presence on microsites as well as search engines for easy access of potential customers. As of June 30, 2023, its social media had an aggregate of over 416,000 followers with presence across Facebook, YouTube, LinkedIn and Instagram channels. As of June 30, 2023, active customers on digital portals are 125,636 representing approximately 64.31% of their total customer base for gold loans. The company had over 0.676 crore page views and more than 180,000 transactions conducted through their digital portals which constitute 43.32% of total transactions for the 3-months period ended June 30, 2023.

Strategy

Continue to deliver consistent and one of the industry leading return matrices building on past performance: Fedfina has delivered consistent and one of the industry leading performances across various benchmarks, such as AUM Growth and cost of funds. It is one of only 2 long term AA rated players among the peer set which have cost of borrowings less than 8.5% between Fiscals 2019 and 2023. As a result of the various initiatives, the company will be in a position to reduce their GNPA and NNPA levels, improve their credit ratings for new fund raising, further reduce the cost of their borrowing and deliver better return ratios.

Continue to invest in technology and digitization initiatives: Fedfina has invested Rs. 0.48 crore, Rs. 0.98 crore, Rs. 8.27 crore, Rs. 12.84 crore and Rs. 4.01 crore in its information technology and digital systems, in the 3-months periods ended June 30, 2023, and June 30, 2022, and Fiscals 2023, 2022 and 2021, respectively, constituting 0.13%, 0.40%, 0.70%, 1.48% and 0.58% of its revenue from operations during the same periods. The company has implemented automated, digitized technology-enabled services to increase our customer offerings. The company plans to continue investing in technology and digitization and to ensure its information technology systems continue to help them with several functions.

Capitalize on understanding of the customer as a foundation for customer retention and customer acquisition: Fedfina has a customer centric model and accordingly, their products and services are designed and customized to meet the requirements of their customers and their target markets. The company is focused on catering to the ESEI and the MSME segment. It has a "Phygital" doorstep model, and has been using technology, people and all the other resources to improve customer experience. The company is also exploring registering with the Insurance Regulatory and Development Authority of India under the Insurance Regulatory and Development Authority of India (Registration of Corporate Agent) Regulation, 2015, to act as a composite corporate agent for distributing life, general and health insurance products.

Risk factor

- The company may face asset-liability mismatches, which could affect its liquidity and consequently may adversely affect its operations and profitability.
- The company had negative cash flows in the past and may continue to have negative cash flows in the future.
- Its inability to maintain its capital adequacy ratio could adversely affect its business, results of operations and its financial performance.
- Any deterioration in the performance of any pool of receivables securitized and assigned to banks and other institutions may adversely impact its financial performance.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcaps
Manappuram Fin.	7764.30	1859.80	21.97	7.03	1.24	124.90	2	154.35	13064.72
Five-Star Bus.Fi	1833.95	702.98	24.10	32.82	4.87	162.36	1	790.85	23070.48
IIFL Finance	9324.92	1690.70	44.36	13.71	2.34	260.03	2	608.05	23174.93
Muthoot Finance	13469.48	3982.90	99.21	13.40	2.33	569.99	10	1328.95	53351.77
Aptus Value Hou.	1262.52	551.15	11.05	26.36	4.11	70.96	2	291.30	14532.20
SBFC Finance	879.50	181.65	1.41	64.39	3.82	23.76	10	90.79	9668.15
Fedbank Financial Services Limited	1326.50	190.25	5.16	27.15	2.56	54.63	10	140.00	5165.83

*Peer companies financials and Fedbank Financials are TTM based.

Key Ratios

Ratios	FY23	FY22	FY21
AUM (Rs. In crores)	90696.04	61872.04	48624.31
NIM (%)	8.17	7.89	7.22
ROE (%)	14.36	10.41	8.08
ROA (%)	2.31	1.72	1.29
GNPA (%)	2.03	2.23	1.01
Net NPA (%)	1.59	1.75	0.71
Provision Coverage Ratio (%)	22.19	22.07	29.88

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.140, the stock is priced at pre issue P/E of 24x on TTM EPS of Rs.5.83. Post issue, the stock is priced at a P/E of 27.15x on its EPS of Rs.5.16. Looking at the P/B ratio at Rs. 140, pre issue, book value of Rs. 43.39 of P/Bvx 3.23x. Post issue, book value of Rs. 54.63 of P/Bvx 2.56x.

Considering the P/E valuation, on the lower end of the price band of Rs.133, the stock is priced at pre issue P/E of 22.80x on TTM EPS of Rs.5.83. Post issue, the stock is priced at a P/E of 25.80x on its EPS of Rs.5.16. Looking at the P/B ratio at Rs. 133, pre issue, book value of Rs. 43.39 of P/Bvx 3.07x. Post issue, book value of Rs. 54.63 of P/Bvx 2.43x.

Industry Overview

Housing finance and gold loans cover 46% and 12% of the retail loans industry, respectively, in India in Fiscal 2023. As of March 2023, CRISIL MI&A estimates the outstanding value of loans given out by organised financiers' – banks and non-banking financial companies – to be Rs. 6.1 trillion, with non-banking financial companies accounting for one-quarter of the market.

Outlook

The company enjoys a competitive advantage with the second and third lowest cost of borrowing among peers, showcasing financial efficiency. It demonstrates robust financial performance, ranking third in AUM growth among NBFCs in India. Focusing on the underserved MSME and ESEI segment, the company has a diverse product portfolio, including secured loans against tangible assets. With strong financial ratings, promotion by Federal Bank, a broad geographical presence, and innovative “Phygital” customer engagement, the company is strategically positioned for sustained growth. On the flip side, the company faces the risk of asset-liability mismatches affecting liquidity, potentially impacting operations and profitability. Historical negative cash flows and concentration of operations in specific regions pose challenges.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	22-November-23
BID/ISSUE CLOSES ON	24-November-23
Finalisation of Basis of Allotment with the Designated Stock Exchange	30-November-23
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	01-December-23
Credit of Equity Shares to demat accounts of Allottees	04-December-23
Commencement of trading of the Equity Shares on the Stock Exchanges	05-December-23

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-23 (3 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Interest Earned	341.24	1110.17	821.89
Interest Expended	163.59	472.15	347.65
Net interest income	177.65	638.02	474.24
Other Income	26.63	104.51	61.74
Total Income	204.28	742.53	535.99
Operating Exps	132.23	484.14	396.78
Operating profit	72.05	258.39	139.21
Exceptional item	0.00	15.37	0.00
PBT	72.05	243.02	139.21
Provision for tax	18.18	62.89	35.75
PAT	53.87	180.13	103.46

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	29.40	30.67	30.86
Capital work-in-progress	1.16	0.52	0.66
Intangible assets	2.83	3.20	3.06
Right -Of- Use Assets	111.28	111.94	119.70
Other Non- Financial Assets	42.03	31.85	28.80
Current Tax Assets (Net)	8.60	11.97	11.92
Deferred Tax Assets (Net)	21.01	21.84	31.50
Financial Assets			
Investments	554.31	680.63	514.33
Loans	8296.61	7999.70	5644.81
Other Financial assest	68.10	64.45	11.77
Total non-current assets	9135.32	8956.76	6397.41
Current assets			
Trade Receivables	20.24	14.85	11.84
Other Receivables	9.18	4.76	3.86
Cash and Cash Equivalents	247.77	93.96	65.96
Bank Balances other than (ii) above	0.00	0.66	76.64
Total current assets	277.18	114.23	158.30
Total Assets	9412.51	9070.99	6555.71
Non-current liabilities			
Financial liabilities			
Debt securities	698.77	611.23	533.42
Provisions	7.41	6.20	3.13
Other non financial Liabilities	42.52	57.54	27.78
Total non-current liabilities	748.71	674.97	564.33
Current liabilities			
Financial Liabilities			
Borrowings	6452.98	6264.93	4224.35
Lease liabiilites	128.62	134.04	137.04
Trade Payables - other than MSME	36.13	26.09	6.43
Other financial Liabilities	160.03	350.79	210.97
subordinate liabilites	467.76	259.67	259.07
Derivative financial liabilities	3.37	4.82	0.00
Total current liabilities	7248.90	7040.34	4837.86
Total	7997.60	7715.31	5402.19
Net worth represented by:			
Equity Share Capital	321.91	321.91	321.52
Other Equity	1092.99	1033.77	832.00
Net Worth	1414.90	1355.68	1153.52

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★★
EXCELLENT	★★★★★

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