November 25, 2020

FINO Payments Bank Limited: [ICRA]BBB-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Bank Facilities	150.00	[ICRA]BBB-(Stable); Assigned
Total	**150.00**	

** Instrument details are provided in Annexure-1*

Rationale

The assigned rating reflects FINO Payments Bank Limited's (FPBL) steadily improving throughput volumes (gross value of transactions), which helped it turned profitable in the last two quarters. Its throughput volume increased to ~Rs. 1,00,200 crore in FY2020 (~Rs. 46,840 crore in 5M FY2021) from ~Rs. 50,400 crore in FY2019. Further, the rating factors in the entity's pan-India presence with a network of around 2.75 lakh merchants/agents as on August 31, 2020. It offers services including micro-ATM services, Aadhaar enabled payment system (AePS) transactions, business correspondent (BC) banking for its banking partners, remittances, current and savings accounts (CASA), cash management services (CMS) and third-party products like insurance, etc.

ICRA notes that FPBL became profitable in Q4 FY2020 and remained profitable in Q1 FY2021 though the sustainability of the same remains to be seen. It reported a return on average total assets (RoA) of -4.90% and a return on average net worth (RoNW) of -24.63% in FY2020 (1.02% and 5.65%, respectively, in Q1 FY2021) compared to -10.21% and -38.48%, respectively, in FY2019.

The rating is however, constrained by FPBL's weak profitability as it is yet to achieve an adequate scale of operations. FPBL has been incurring losses since inception and its accumulated losses have depleted the majority of its net worth. Further, ICRA notes that FPBL had a net worth of ~Rs. 130 crore as on March 31, 2020 against the minimum requirement of Rs. 100 crore. Given the limited cushion, FPBL would need to raise capital in case of any adverse scenario/sizeable losses and its ability to do the same in a timely manner remains to be seen. The rating also factors in the high operational risk associated with high cash handling activities and the entity's external merchant/agent-driven model. Moreover, intense competition and the increasing digitisation of the payment infrastructure pose a challenge for the entity for retaining and adding merchants/agents and customers.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's view that FPBL has crossed its operational breakeven level of throughput volume and will continue to benefit from its improving scale of operations.

Key rating drivers and their description

Credit strengths

Steady improvement in throughput volume, albeit on a relatively lower scale – FPBL, which commenced operations in FY2018, provides services like micro-ATM services, BC banking, remittance, CASA deposits, insurance, etc., for self and BC partners. It has witnessed a healthy growth in its throughput volume, albeit on a relatively lower scale of operations. In August 2020, it reached a monthly throughput of around Rs. 11,200 crore (Rs. 10,600 crore in February 2020; Rs. 8,520 crore in March 2020 on account of the pandemic situation) compared to around Rs. 6,350 crore in March 2019. In 5M FY2021, FPBL's monthly average throughput was around Rs. 9,300-9,400 crore compared to the monthly average of Rs.

8,300-8,400 crore in FY2020. The healthy improvement in the throughput volumes and account opening has helped FPBL achieve profitability in recent quarters and the trend is expected to continue.

Healthy product diversification with geographical reach – FPBL provides a variety of products/services including CASA, remittance services, micro-ATMs, AePS, third-party products like insurance, etc., cash management services (CMS), etc., through merchants, BC agents and the API[1] channel. Its major source of net revenue is micro-ATMs, which contributed around 36% to the total net revenue in FY2020, followed by 28% from BC banking, 16% from remittances and the remaining 20% from other products and services. It has a presence in 28 states/Union Territories (UTs) with Maharashtra accounting for the majority share of revenue (non-API channel[2]).

Credit challenges

Weak profitability – FPBL commenced operations in FY2018 and had been reporting losses till Q3 FY2020. In Q4 FY2020 it turned profitable and maintained the momentum in subsequent quarters.. The entity reported an RoA of -4.90% and RoNW of -24.63% in FY2020 (1.02% and 5.65%, respectively, in Q1 FY2021) compared to -10.21% and -38.48%, respectively, in FY2019. Going forward, FPBL's ability to further improve its profitability on a sustainable basis shall remain a key factor for its credit profile.

High operational risk, given high cash handling activities and external merchant/agent-driven business model – FPBL operates through external merchants and agents who are involved in cash handling activities like CMS, remittances, CASA, etc. The management has stated that the same is mitigated by taking security deposits from these external merchants/agents and capping their transactional limits up to the amount of such security deposit. However, ICRA believes such risk shall persist, given the nature of operations, heavy dependence on external merchants, and challenges in keeping a continuous check on the activities of all the merchants.

Ability to retain merchants/agents and customers amid high competition, increasing digitisation of payment infrastructure and expansion of services by other players – FPBL's ability to retain its merchants/agents and customers, given the high competition and expanding space of digital infrastructure, shall be a key factor for its credit profile. The entity has taken steps to retain its merchants by increasing their share in revenues, hence reducing its own net revenue share. Its ability to retain them while being able to maintain the net revenues (hence profitability) shall remain a monitorable.

Ability to raise capital to meet funding requirements for growth and/or to cope with adverse scenarios – Payments banks are required to have a minimum capital of Rs. 100 crore as per the Reserve Bank of India's (RBI) guidelines. Against this, FPBL reported a net worth of Rs. 130 crore as on March 31, 2020 (Rs. 162 crore as on March 31, 2019 and Rs. 225 crore as on March 31, 2018). ICRA notes that the entity reported profits in Q4 FY2020 and Q1 FY2021, providing support to its net worth accretion. However, its ability to raise capital and provide additional cushion/buffer for uncertain adverse scenarios remains to be seen. ICRA also notes that the capitalisation profile is adequate, in terms of capital adequacy ratios, due to the absence of higher-risk assets in the balance sheet. FPBL reported a CRAR of 42.85% as on June 30, 2020 against the regulatory requirement of 15%.

[1] *API - Application programming interface; covers services provided online through websites and applications*

[2] *Non-API channel includes services provided through merchants/agents and not through websites and applications*

Liquidity position: Adequate

The entity's liquidity profile is adequate with limited committed debt servicing requirement as its debt primarily comprises revolving working capital facilities that cater to short-term liquidity gaps (occurring due to the business model). FPBL has positive mismatches in all the buckets as per its Asset-Liability Management (ALM) statement dated June 30, 2020.

Rating sensitivities

Positive triggers – The rating and/or outlook could see an upward movement if the entity witnesses a healthy growth in its scale of operations with improved profitability on a sustained basis.

Negative triggers – Pressure on the rating and/or outlook could emerge if FPBL witnesses a decline in its throughput volume, leading to further weakening of its profitability.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the standalone financial profile of the entity

About the company

FINO Payments Bank Limited (FPBL) is a 2017-licensed payments bank, which currently operates through around 2.75-lakh merchant points, 100 branches across 28 states/UTs. It provides products like account opening, CASA deposits, insurance, remittance services, etc., for self and BC partners. In FY2020, it reported a net loss of Rs. 32.04 crore against a net loss of Rs. 62.38 crore in FY2019. In Q1 FY2021, it reported a net profit of Rs. 1.85 crore.

FPBL targets the lower-income category in rural areas where financial inclusion is required, especially people with an annual income of Rs. 2-5 lakh. Further, FPBL has plans of converting into a small finance bank going forward.

Key financial indicators (audited)

As per	FY2018 I GAAP Audited	FY2019 I GAAP Audited	FY2020 I GAAP Audited	Q1 FY2021 I GAAP Provisional
Operating income (Rs. crore)	227.58	365.59	681.25	139.80
PAT (Rs. crore)	(67.34)	(62.38)	(32.04)	1.85
Operating cost to operating income ratio	133.50%	116.81%	104.59%	98.59%
Return on average total assets (RoA)	(12.52%)	(10.21%)	(4.90%)	1.02%
Return on average net worth (RoNW)	(30.00%)	(38.48%)	(24.63%)	5.65%
Long-term debt/net worth (times)	0.21x	0.51x	0.85x	0.60x
CRAR (%)	135.36%	65.45%	60.87%	42.85%
Tier 1 (%)	135.36%	65.45%	60.87%	42.85%

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					Nov-25-2020	NA	NA	NA
1	Bank Facilities	Long Term	150.00	127.80*	[ICRA]BBB-(Stable)	-	-	-

*Amount in Rs. crore; * Reflects amount of rated sanctioned overdraft (OD) lines as on September 30, 2020, Rs. 22.20 crore remains unutilised*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	OD (Unsecured)	5-Aug-19	I-MCLR -6M + Spread 1%	NA	40.00	[ICRA]BBB-(Stable)
NA	OD (FD)	15-Nov-18	7.75%	NA	14.25	[ICRA]BBB-(Stable)
NA	OD (FD)	18-Feb-19	6.45%	NA	14.25	[ICRA]BBB-(Stable)
NA	OD (FD)	27-Feb-19	7.46%	NA	10.80	[ICRA]BBB-(Stable)
NA	OD (FD)	28-Nov-19	5.50%	NA	23.75	[ICRA]BBB-(Stable)
NA	OD (FD)	24-Dec-19	6.50%	NA	24.75	[ICRA]BBB-(Stable)
NA	Unallocated	NA	NA	NA	22.20	[ICRA]BBB-(Stable)

OD (FD) – OD secured against FD
Source: FINO Payments Bank Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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