April 30, 2024

Fino Payments Bank Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term fund based – Overdraft	294.54	294.54	[ICRA]BBB+ (Stable)/[ICRA]A2+; reaffirmed
Total	**294.54**	**294.54**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Fino Payments Bank Limited's (FPBL) expanding merchant network and scale of operations, which support its profitability. FPBL's throughput volumes (gross value of transactions) and current and savings account (CASA) deposits have been growing consistently on a quarter-on-quarter basis, leading to transactional, subscription and renewal-based fee income. The bank's profitability is further aided by the increasing net interest income (NII) from its treasury operations, wherein it deploys funds raised via deposits and other borrowings in Government securities (G-Secs)/Treasury bills (T-bills).

The ratings also factor in FPBL's comfortable capitalisation profile vis-à-vis the regulatory requirement, supported by internal capital accretion. Though the gearing is expected to rise with the anticipated increase in its borrowings (including deposits), the same will be deployed in G-Secs/T-bills. The capital adequacy ratio is expected to remain at a comfortable level.

FPBL's need for external funding is limited to short-term funding (typically overnight funding) and with growing treasury operations, its borrowings have been increasing, which are invested to earn additional NII. The ratings also consider FPBL's healthy product diversification, including third-party products.

The ratings are, however, constrained by the significant operational risk, given the bank's external merchant/agent-driven model and the risks associated with high cash handling activities. ICRA takes note of FPBL's checks and systems, which help mitigate the risk to some extent, though the aforementioned risks persist. Moreover, competition and the increasing digitisation of the payment infrastructure pose a challenge to FPBL for retaining and continuously adding merchants/agents and customers. Additionally, despite registering robust growth, the overall scale of operations remains moderate. Also, the credit profile could be impacted by any adverse regulatory change.

The Stable outlook on the rating reflects ICRA's opinion that FPBL will be able to maintain its credit profile, while registering healthy growth in its scale and reporting adequate profitability.

Key rating drivers and their description

Credit strengths

Improving scale and diversification – FPBL has reported consistent growth in its throughput volumes and deposit base over the past few years, though it is operating on a relatively low scale. The bank reported throughput volumes of Rs. 2.55 lakh crore in 9M FY2024 (Rs. 2.55 lakh crore in FY2023) against Rs. 1.87 lakh crore in 9M FY2023, translating into a YoY growth of ~37%. It offers a variety of products and services including MATMs and AePS transactions, business correspondent (BC) banking for its banking partners, remittances, CASA, cash management services (CMS), and third-party products like insurance, loan referrals, deposit referrals, etc. Its major source of net revenue in 9M FY2024 was remittance, which contributed around 31% to the total net revenue, followed by 20% from CASA, 14% from MATM & AePS, 10% from CMS and the remaining 25% from other products and services including BC, NII and digital transactions. It carries out its operations via a vast network of merchants and BC agents as well as through its application programming interface (API) channel. As on December 31, 2023, FPBL had a merchant network (including BC agents) of 16.9 lakh merchants[1] spread across India.

Adequate profitability – FPBL reported a net profit of Rs. 61 crore in 9M FY2024, translating into a return on average total assets (RoTA) of 2.9% and a return on net worth (RoNW) of 13.2% against a net profit of Rs. 65 crore in FY2023 with RoTA of 3.1% and RoNW of 11.8%. The improvement in the net profit was supported by the increase in the NII from treasury operations and the rise in subscription and renewal income on account of the growing depositor base. ICRA notes that while the CMS throughput volumes have been increasing, the net revenue (after commission to merchants) has declined. ICRA also notes that FPBL's tax expenses have remained nil till now, due set off of brought forward losses and unabsorbed depreciation of previous years, which has also supported its net profitability. While the bank is slated to start incurring tax expenses from FY2025, the overall profitability is expected to remain adequate driven by the likely increase in throughput volumes and depositors. Nevertheless, it remains important for the bank to maintain its net yield on transactions while further scaling up its operations and transaction volumes.

Credit challenges

Significant 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 risk associated with 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 the operations, heavy dependence on external merchants, and the challenges in keeping a continuous check on the activities of all the merchants.

Further, FPBL's ability to retain its merchants/agents and customers, given the high competition and the expanding digital infrastructure space, shall be a key factor for its credit profile. ICRA notes the bank has been able to consistently add to its merchant network and transaction volumes so far. Nevertheless, its ability to retain merchants and expand the network further while maintaining the net revenues and profitability shall remain a monitorable.

Risk of adverse regulatory changes and actions – The financial inclusion industry is highly dependent on the regulatory policies framed by the Reserve Bank of India (RBI) and the Government of India (GoI). Hence, any adverse policy change by the RBI/GoI pertaining to payments banks and/or the financial inclusion industry/activities could impact the business of payments banks and entities operating in this space, including FPBL. Further, regulated entities, including FPBL, are prone to adverse regulatory actions, which could impact their ability to continue one or more business segments/product lines.

Environmental and social risks

Environmental – While payments banks like FPBL do not face material physical climate risks, they are exposed to environmental risks indirectly through their network of merchants operating in different geographies. If the merchant, with which such banks are operating, faces livelihood disruption because of physical climate adversities, the same could translate into operational risks for the bank. However, such risk is not material for FPBL as it benefits from adequate geographical diversification of its operations.

Social – With regard to social risks, data security and customer privacy are among the key sources of vulnerability for payments banks as any material lapse could be detrimental to their reputation and invite regulatory censure. FPBL has not faced such lapses over the years, which highlights its sensitivity to such risks. It is seen to be operating responsibly with no major instances of fines imposed in the near past by regulatory authorities because of misconduct. Further, FPBL contributes to promoting financial inclusion by operating largely in rural areas.

[1] *Active merchants would be lower*

Liquidity position: Strong

As per FPBL's provisional structural liquidity statement (SLS) for December 2023, there are no negative cumulative mismatches in any bucket. Its operations do not require long-term debt/borrowing. Hence, it only avails short-term working capital lines in the form of overdraft (OD) facilities, which are required to fund the short-term mismatches due to the difference in the settlement cycles for incoming and outgoing funds. FPBL has increased its borrowing, which has been completely invested in G-Secs to earn additional NII. As per the RBI's regulations for payments banks, FPBL is required to maintain at least 75% of its demand deposit balances (DDB) in G-Secs on T+3 days and a maximum of 25% with other scheduled commercial banks (SCBs), which it has been adhering to.

Rating sensitivities

Positive factors – Significant growth in its scale of operations while maintaining adequate profitability on a sustained basis.

Negative factors – FPBL witnesses a decline in its scale, leading to the weakening of its profitability on a sustainable basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating methodology for non-banking finance companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

FPBL is a 2017-licensed payments bank with 16.9 lakh merchant points across India as on December 31, 2023. It provides products and services including account opening, CASA deposits, insurance, remittance services, cash withdrawal via MATM & AePS, loan refer, etc, to self and BC partners. It reported a net profit of Rs. 61 crore in 9M FY2024 against a net profit of Rs. 43 crore in 9M FY2023 (Rs. 65 crore in FY2023). 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.

Key financial indicators (audited)

Fino Payments Bank Limited	FY2022	FY2023	9M FY2024*
Total income	1,009	1,230	1,078
PAT	43	65	61
Total assets	1,680	2,467	3,160
CET-I	125.6%	82.1%	71.5%
CRAR	125.6%	86.1%	76.0%
PAT/ATA	3.2%	3.1%	2.9%
Gross NPAs	NA	NA	NA
Net NPAs	NA	NA	NA

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations or estimates; Amount in Rs. crore*
NA – Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2024 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
					Apr-30-24	NA	Feb-21-23	Dec-30-22	Oct-01-21
1	Long-term fund based	Long term	-	-	-	NA	-	-	-[#]
2	Long-term/Short-term fund based – OD	Long term/Short term	294.54	144.27^	[ICRA]BBB+ (Stable)/ [ICRA]A2+	NA	[ICRA]BBB+ (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2+	[ICRA]BBB (Stable)/ [ICRA]A2[#]

^Sanctioned amount

[#]Change in limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term fund based – OD	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term/Short-term fund based – Overdraft**	NA	NA	NA	294.54	[ICRA]BBB+ (Stable)/ [ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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.

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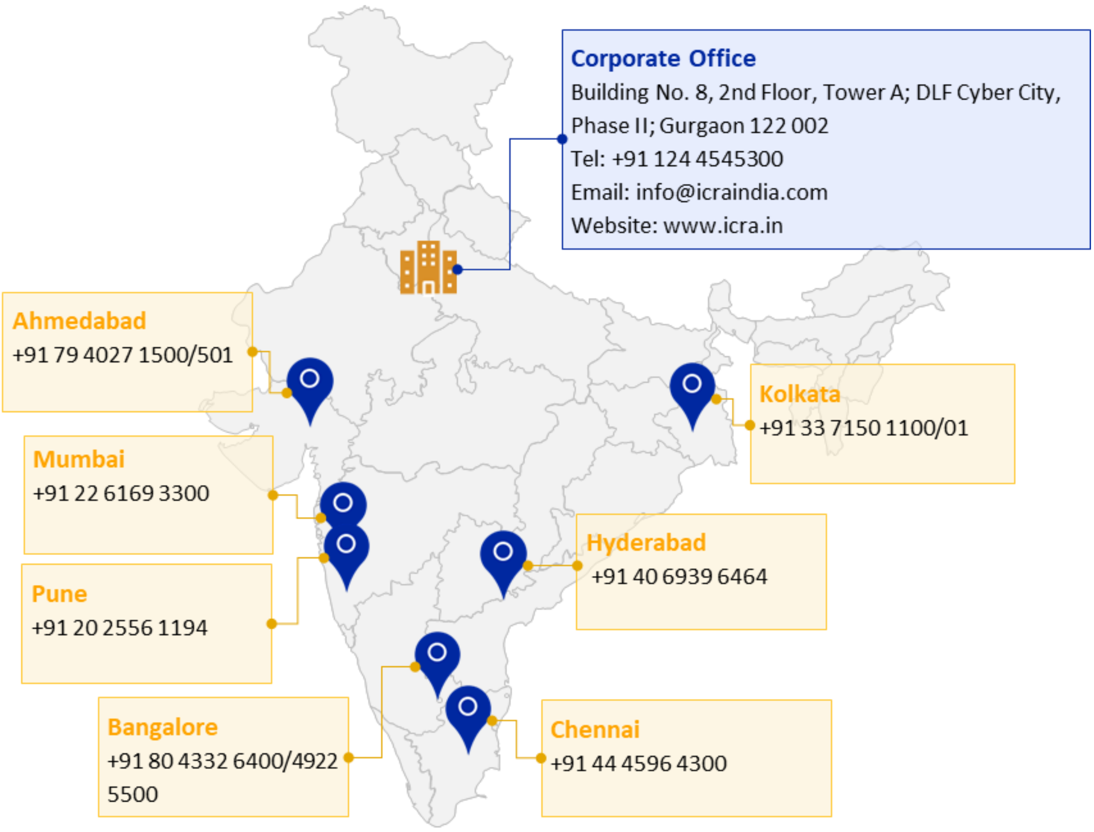

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