

October 01, 2021

Fino Payments Bank Limited: Rating upgraded to [ICRA]BBB (Stable), [ICRA]A2 assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities long term (fund based)#	127.80	-	-
Bank facilities long term (unallocated)#	22.20	-	-
Bank facilities long term/short term (fund based)#	-	150.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable) [ICRA]A2; Assigned
Total	150.00	150.00	

*Instrument details are provided in Annexure-1

#Rated amount of Long-term bank facility has been reduced to zero and correspondingly increased for long-term/short-term bank facility due to change of rated limits

Rationale

The rating revision factors in the steady growth in Fino Payments Bank Limited's (FPBL) scale of operations as reflected in the increasing throughput volumes (gross value of transactions), which supports its profitability given the nature of operations. FPBL reported throughput volumes of Rs. 1.38 lakh crore in FY2021 against ~Rs. 1.00 lakh crore in FY2020. Though the entity witnessed a decline in its net yield¹, the growth in volumes negated the impact to some extent and helped it turn profitable. FPBL reported a net profit of Rs. 20.5 crore in FY2021 (Rs. 3.1 crore in Q1 FY2022; provisional) against a net loss of Rs. 32.0 crore in FY2020. Consequently, FPBL's net worth increased to Rs. 150.6 crore as on March 31, 2021 from Rs. 130.1 crore in FY2020 against the regulatory requirement of Rs. 100 crore.

ICRA also notes FPBL's comfortable leverage profile, given that the need for external funding is limited to the extent of working capital requirements to cover the timing mismatch in the payment cycles. The rating also factors in the diverse set of products/services offered by FPBL, which includes micro-ATM (MATM) 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), third-party products like insurance, gold loan referrals, etc. The rating further factors in the entity's expanding merchant network and geographically diversified operations. It had a merchant/agent network of 3.34 lakh as on March 31, 2021 against 1.92 lakh as on March 31, 2020.

The rating is, however, constrained by the high operational risk given entity's external merchant/agent-driven model and the risks associated with high cash handling activities. ICRA takes note of the checks and systems put in place by the bank, which help mitigate the risk to some extent, however, the same is not eliminated completely and the risk persists. Moreover, competition and the increasing digitisation of the payment infrastructure pose a challenge for FPBL for retaining and adding merchants/agents and customers. Also, the credit profile could be impacted by any adverse regulatory change.

ICRA notes that FPBL has filed a draft red herring prospectus (DRHP) with the Securities and Exchange Board of India (SEBI) for an initial public offer (IPO) to raise fresh equity of Rs. 300 crore. The proposed capital raise will help the entity improve its

¹ Net yield = (Gross revenue – Commission to merchants/agents) / Throughput volumes

capital profile. Also, FPBL was granted scheduled commercial bank (SCB) status by the Reserve Bank of India (RBI) in February 2021, which allows it to raise funds directly from the RBI at the bank rate.

Key rating drivers and their description

Credit strengths

Steady improvement in throughput volumes, albeit on a relatively lower scale – FPBL, which provides products and services like MATM services, BC banking, remittance, CASA, insurance, loan referrals, etc, has displayed consistent growth in its throughput volumes, albeit operating on a relatively lower scale as reflected by company achieving a scale commensurate with the costs incurred in FY2021. . In FY2021, it reported throughput volumes of Rs. 1.38 lakh crore vis-à-vis Rs. 1.00 lakh crore in FY2020. In 2M FY2022, it reported throughput volumes of Rs. 25k² crore.

An increase in throughput volumes was seen among all products/services, except remittance volumes in FY2021, which were impacted due to the reverse migration of labour on account of the Covid-19 pandemic. The steady improvement in the throughput volumes has helped FPBL achieve and sustain profitability since Q4 FY2020 with the trend expected to continue.

Improvement in profits, though yield declined – The improvement in the throughput volumes has helped FPBL improve its profitability. FPBL reported a net profit of Rs. 20.5 crore in FY2021, translating into a return on average total assets (RoTA) of 2.5% and a return on net worth (RoNW) of 13.6% against a net loss of Rs. 32.0 crore in FY2020 with RoTA of -4.9% and RoNW of -24.6%. Further, in Q1 FY2022, FPBL reported a net profit of Rs. 3.1 crore.

The improvement in the profitability was on account of growth in high margin³ products and growing throughput volumes. ICRA notes that the net yield declined to 0.19% in FY2021 from 0.22% in FY2020 due to the change in the product mix as different products/services have different yields. ICRA expects the net yield to stabilise around the current level and profits are expected to improve going forward with the expected increase in throughput volumes.

Healthy product diversification with geographical reach – FPBL provides a variety of products and services including CASA, remittance services, MATMs, AePS, third-party products like insurance and loan referrals, CMS, etc, through merchants, BC agents and the API⁴ channel. Its major source of net revenue is MATM and AePS services, which contributed around 44% to the total net revenue in FY2021, followed by 25% from BC banking, 12% from CASA and the remaining 19% from other products and services. It has a presence in 28 states/Union Territories (UTs) with Maharashtra⁵ accounting for the majority share of revenue followed by Uttar Pradesh and Bihar.

Credit challenges

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 the 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. FPBL has taken steps to

² K – 1000's

³ Margin = (Net revenue) / (gross revenue)

⁴ API - Application programming interface; covers services provided online through websites and applications

⁵ Throughput volumes from Maharashtra also include throughput volumes of API transactions

retain its merchants by increasing their share in revenues, hence reducing its own net revenue share. Further, the bank has been able to consistently add to its merchant network, and hence, displayed its ability to grow so far. Its ability to retain them and expand network further while being able to maintain the net revenues (hence profitability) shall remain a monitorable.

Risk of adverse regulatory changes – The financial inclusion industry is highly dependent on the regulatory policies framed by the 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 business of payments banks and entities operating in the space including FPBL.

Liquidity position: Strong

As per FPBL’s provisional structural liquidity statement (SLS) for March 2021, there are no negative cumulative mismatches in any buckets. FPBL’s 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. As per the RBI’s regulations for payments banks, FPBL is required to maintain at least 75% of its demand deposit balances (DDB) in Government securities on T+3 days and maximum 25% with other SCBs, which FPBL has been adhering to.

Rating sensitivities

Positive factors – 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 factors – Pressure on the rating and/or outlook could emerge if FPBL witnesses a decline in its throughput volumes, leading to weakening of its profitability on a sustainable basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the entity

About the company

FPBL is a 2017-licensed payments bank, which operates through 3.34 lakh merchant points, 143 customer service points (CSP) and 54 branches as on March 31, 2021 across India. FPBL was granted scheduled commercial bank (SCB) status by the RBI in February 2021. It provides products and services including account opening, CASA deposits, insurance, remittance services, etc, for self and BC partners. In FY2021, it reported a net profit of Rs. 20.5 crore against a net loss of Rs. 32.0 crore in FY2020. 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 (standalone)	FY2019	FY2020	FY2021	Q1 FY2022 [^]
Accounting as per	I GAAP	I GAAP	I GAAP	I GAAP
Operating income (Rs. crore)	366	681	782	203
Profit after tax (Rs. crore)	-62	-32	20	3
Net worth (Rs. crore)	162	130	151	154
Operating cost to operating income ratio (%)	117%	105%	97%	98%
Return on average total assets (%)	-10.2%	-4.9%	2.5%	1.2%
Return on net worth (%)	-38.5%	-24.6%	13.6%	8.1%
Long-term debt/ net worth (times)	0.5	0.9	1.2	1.4
CRAR (%)	65.5%	60.9%	56.3%	NA

Source: Company, ICRA Research; All ratios and values as per ICRA calculations

[^] Q1 FY2022 values and ratios as per provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Oct-01-21	Nov-25-2020	NA	NA	
1 Bank facilities programme#	Long-term fund based	-	-	-	[ICRA]BBB- (Stable)	-	-	
2 Bank facilities programme#	Long-term/short-term fund based	150.00	59.89	[ICRA]BBB (Stable)/ [ICRA]A2	-	-	-	

#Change of limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank facilities	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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of Issuance	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Rating
NA	OD (unsecured)	Aug-5-2019	I-MCLR -6M + Spread 1%	NA	40.00	[ICRA]BBB (Stable)/ [ICRA]A2
NA	OD (FD)	Nov-15-2018	TDR+50 bps	NA	14.25	[ICRA]BBB (Stable)/ [ICRA]A2
NA	OD (FD)	Feb-18-2019	TDR+50 bps	NA	14.25	[ICRA]BBB (Stable)/ [ICRA]A2
NA	OD (FD)	Nov-28-2019	TDR+25 bps	NA	23.75	[ICRA]BBB (Stable)/ [ICRA]A2
NA	Unallocated	NA			57.75	[ICRA]BBB (Stable)/ [ICRA]A2

Source: Company data; TDR – Term deposit rate, bps – basis points

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

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Branches



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