



IPO Details:

Fedbank Financial Services Ltd (Fedbank) is coming out with an IPO of about Rs. 1,092.26 cr consisting of 7,80,18,865 shares of face value of Rs. 10 each in a price band of Rs. 133 – Rs. 140. The IPO comprises of Fresh Issue of Rs. 600.00 cr and Offer for Sale of Rs. 492.26 cr by the promoter – Federal Bank and an existing shareholder – True North Fund VI LLP. The IPO opens on 22nd November and closes on 24th November.

Company Details:

- **Retail focused NBFC** catering to the MSMEs and the emerging self-employed individual segments through **collateralized lending model**.
- **Offers well-tailored suite of products** which includes mortgage loans such as housing loans; small and medium ticket LAP, unsecured business loans and gold loans.
- **Adopted “Phygital” doorstep model**, a combination of digital and physical initiatives, for providing customized services to its customers across all its products.
- Wide distribution network which includes **584 branches** and **1,796 local channel partners** spread across **190** districts in **17** states and union territories.
- **Strong presence in Southern and Western regions** of India which significantly contribute to India's GDP.

Strength:

- Consistently **higher share (approximately 85.0%) of secured loans** in the total loan book enables to better manage asset quality risks.
- Strong underwriting capability combined with **robust risk management capabilities** with focus on effective underwriting and collections.
- Long term credit rating of **“AA”** by CARE Ratings and **“AA-”** by India Ratings & Research Pvt. Ltd., enables it to raise funds at relatively **lower cost**.
- Deployed technology stack with customized tools and application which **enhances operational efficiency**, automation and customer convenience.
- Strong parent in the form of Federal Bank and **experienced and cycle tested management team** and loan-book.



Growth Drivers:

- Retail credit growth is expected to benefit from factors such as formalization of economy, growing working population, increasing urbanization and digital adoption.
- **MSME loans** with ticket size between Rs. 10 lacs to Rs. 1 cr is expected to grow at CAGR of **14% - 16%** over FY23 – FY25, on the back of increasing lender focus and deepening penetration.
- Increasing awareness about benefits of availing gold loans from the organized segment expected to further **increase the share of organized gold loan financiers.**

Key Financial Highlights:

Fedbank Financial Services Ltd (Rs. Cr)

Particulars	FY2020-21	FY2021-22	FY2022-23	Q1 FY24
AUM	4,862	6,187	9,070	9,434
Disbursements	5,894	7,470	10,749	2,966
Net Interest Income (NII)	345	474	638	178
PPOP	148	223	307	83
PAT	62	103	180	54
Networth	835	1,154	1,356	1,415
Total Debt	4,328	5,017	7,136	7,620
<u>Key Ratios -</u>				
Average Yields	15.50%	15.62%	15.80%	4.04%
Cost of Borrowings	8.30%	7.44%	7.77%	2.22%
Spreads	7.20%	8.18%	8.03%	1.82%
NIMs	8.00%	8.92%	8.99%	2.05%
Cost/Income Ratio	61.5%	58.4%	58.6%	59.5%
Credit Cost	1.5%	1.4%	0.6%	0.1%
RoA	1.48%	1.99%	2.60%	0.65%
RoE	8.08%	10.41%	14.36%	3.89%
Debt/Equity	5.18	4.35	5.26	5.39
Gross NPAs	1.01%	2.23%	2.03%	2.26%
Net NPAs	0.71%	1.75%	1.59%	1.76%
PCR	29.88%	22.07%	22.19%	22.33%



- AUM of the Company has grown at CAGR of 36.6% between FY21 – FY23 to touch Rs. 9,070 cr as of 31st Mar' 23.
- Disbursements have grown from Rs. 5,894 cr in FY21 to Rs. 10,749 cr in FY23, translating into CAGR of 35.0%.
- Net Interest Income has grown from Rs. 345 cr in FY21 to Rs. 638 cr in FY23, translating into CAGR of 36.0%.
- Profits after Tax has grown at a higher rate (CAGR of 70.9%) vis a vis NII between FY21 – FY23 on the back of decline in provisions. Provisions have declined from Rs. 71.22 cr in FY21 to Rs. 48.90 cr in FY23.
- Asset quality has improved with Gross NPAs declining from 2.26% in FY21 to 2.23% in FY23. It has further declined to 1.01% in Q1 FY24. Similarly Net NPAs too have declined from 1.76% in FY21 to 0.71% in Q1 FY24.

Objectives of Fund Raise – Fresh Issue of Rs. 600.00 cr:

- Net Proceeds from the fresh issue will be utilized towards augmenting its Tier – 1 capital base to meet future capital requirements arising out of the growth of business and assets.

Valuations:

- At Upper end of the IPO price band of Rs. 144, Fedbank Financial Services will be valued at about Rs. 5,165.06 cr.
- On Price/Book basis, Company is valued at 2.56x its post IPO networth of Rs. 2,014.90 cr while on Price/Adjusted Book it is valued at 2.77x.
- **Investments in Fedbank Financial Services Ltd can be avoided only due to expensive valuations as the business opportunity in the collateralized lending to MSME and emerging self-employed individuals segment remains strong, company enjoying low cost of borrowing, seasoned loan book and better asset quality.**

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*Long Term Investments could range from 3-5 years.