

IPO Details	
Opening Date	Nov 22, 2023
Closing Date	Nov 24, 2023
Stock Exchange	BSE, NSE
Lot Size	107 Shares
Issue Price	₹ 133 to ₹ 140 per share
Issue Size	Aggregating up to 1,092.26 Cr.
Fresh Issue	Aggregating up to 600.77 Cr.
Offer for Sale	Aggregating up to 492.26 Cr.
Application Amount (Price at Upper Band)	Min. Inv. - ₹ 14,980 (107 shares) Max. Inv. - ₹ 1,94,740 (1,391 shares)

IPO Objective	
Augmenting the company's Tier 1 capital base to meet future capital requirements, arising from the growth of business and assets.	
Meeting offer expenses.	

Pre-Issue Shareholding		
Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	23,56,85,332	72.28%
Public	90,390,608	27.72%

Promoter of the Company	
1	The Federal Bank Limited

Competitive Strengths	
1	Larger presence, underpenetrated markets with strong growth potential.
2	Focus on retail loan products with a collateralized lending model targeting individuals and the emerging MSME sector.
3	Strong underwriting capability and presence in select customer segments combined with robust risk management capabilities focused on effective underwriting and collections.
4	Experienced, cycle tested management team.
5	Well diversified funding profile with an advantage of lower cost of funds.
6	Technology driven company with scalable operating model.

Company Background	
○	Fedbank Financial Services Limited was originally incorporated in the year 1995 and has its registered office in Mumbai, Maharashtra.
○	The company is a retail-focused non-banking finance company 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 is in the business of providing Gold Loans, Home Loans, Loan Against Property (LAP) and Business Loan Services.
○	The company's clientele comes mainly from the MSME and emerging self-employed individuals (ESEI) sectors.
○	As of 30 th June 2023, the Company had 3,732 employees on its payroll.

Market Capitalization (In Cr.)	
Pre-Issue	Post-Issue
₹ 4,565.06	₹ 5,165.83

Financial Summary (In Cr.)				
For the Period Ended	Mar-21	Mar-22	Mar-23	Jun-23
Total Assets	5,466.31	6,555.71	9,070.99	9,412.51
Net Assets	834.73	1,153.72	1,355.68	1,414.90
Total Borrowings	3,475.94	4,224.35	6,264.93	6,452.98
Total Revenue	697.57	883.64	1,214.68	367.87
Profit After Tax	61.68	103.46	180.13	53.87

Tentative Timeline	
Opening Date	Nov 22, 2023
Closing Date	Nov 24, 2023
Basis of Allotment	Nov 28, 2023
Initiation of Refunds	Nov 28, 2023
Credit of Shares to Demat	Nov 29, 2023
Listing Date	Nov 30, 2023

Company Background and Analysis

The Company was originally incorporated on April 17, 1995. The company is a retail-focused non-banking finance company 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 product range includes mortgage loans such as housing loans; small ticket loans against property (LAP); medium ticket LAP, unsecured business loans, and gold loans. The company's clientele comes mainly from the MSME and emerging self-employed individuals (ESEI) sectors. The company has developed the Phygital doorstep model, a combination of digital and physical initiatives, for providing customized services to customers across all the products.

The company focuses mainly on retail loan products with a collateralized lending model targeting individuals and the emerging MSME sector which is difficult to replicate. It has strong underwriting capability and presence in select customer segments combined with robust risk management capabilities focused on effective underwriting and collections.

The company has categorized its business into three business segments namely the distribution segment, the retail finance segment and the wholesale finance segment.

1. The distribution segment: The distribution segment comprises distributing housing loans, personal car loans, personal loans, home equity mortgage loans and retail asset products for its Promoter, Federal Bank
2. The retail finance segment: The retail finance segment comprises gold loans, medium ticket LAP, small ticket LAP, unsecured business loans, personal loans and housing loans.
3. The wholesale finance segment: The wholesale finance segment comprises construction finance to developers and loans to other NBFCs.

Bifurcation of AUM for the Financial Year ended 2021, 2022, 2023, and the Period ended Sep 2023 are as follows –

(Amount in Cr.)

Particulars	Financial Year 2021		Financial Year 2021		Financial Year 2021		Period Ended June 30, 2023	
	Amount	%	Amount	%	Amount	%	Amount	%
Mortgage Loans	2,150.61	44.23	2,932.45	47.40	4,506.38	49.69	4,702.45	49.84
Medium Ticket LAP	1,332.41	27.40	1,525.85	24.66	2,288.40	25.23	2,389.20	25.32
Small Ticket LAP and Housing Loan -	818.20	16.83	1,406.60	22.73	2,217.98	24.46	2,313.22	24.52
i) Small Ticket LAP and Housing Loan	676.86	13.92	1,086.41	17.56	1,666.16	18.37	1,721.93	18.25
ii) House Loans	141.34	2.91	320.19	5.18	551.82	6.08	591.29	6.27
Gold Loans	1,917.79	39.44	2,247.53	36.33	2,986.03	32.92	3,124.17	33.12
Unsecured Business Loans	497.89	10.24	901.02	14.56	1,454.28	16.03	1,487.25	15.76
Others	296.14	6.09	106.21	1.72	122.91	1.36	120.34	1.28
Total	4,862.43	100.00	6,187.20	100.00	9,069.60	100.00	9,434.21	100.00

To conclude, the company was incorporated in the year 1995. The company is raising total gross proceeds of Rs. 1,092.26 Cr.

Business Strategies

- 1. Continue to deliver consistent and one of the industry-leading return matrices building on past performance -**
The company has delivered consistent and one of the industry-leading performances across various benchmarks, such as AUM Growth and cost of funds. The company believes that its performance is a result of its business model and the implementation of different initiatives across its business. Further, as a result of these various initiatives, it believes that it will be in a position to reduce its GNPA and NNPA levels, improve credit ratings for new fundraising, further reduce the cost of borrowing and deliver better return ratios.
- 2. Focus on the performance of the company's large branch network and extracting operating leverage -**
Since there is a huge demand-supply gap in the MSME loan segment, especially in lower ticket size segments, the company intend to continue to focus on its branch-level AUMs to increase its total number of customers and total AUM. Further, it has adopted a contiguous strategy wherein it aims to expand across regions in India where it has a presence and expand to adjacent geographies by evaluating areas with an established credit culture.
- 3. Continue to invest in technology and digitization initiatives -**
The company has implemented automated, digitized technology-enabled services to increase its customer offerings. It plans to continue investing in technology and digitization to ensure its information technology systems continue to help with several functions, including loan origination, credit underwriting, risk management, collections, customer service and retention which helps the company to improve recoveries and reduce its operating expenses, cost of customer acquisition and credit costs over time.
- 4. Continue to invest in talent and employee training to achieve industry-leading productivity parameters -**
The company's business model requires them to hire a large number of sales employees and undertake comprehensive onboarding training as well as ongoing training initiatives so that the employees are equipped to deal with business and regulatory requirements. Further employees are trained periodically on the company's products, processes, incentives and training related to the company's core systems to enable them to operate systems with minimum Intervention.
- 5. Capitalize on an understanding of customer segment as a foundation for customer retention and customer acquisition -**
The company's engagement with its target customer segments and understanding of related socio-economic dynamics allows it to establish effective credit and operational procedures, identify potential market demand, and leverage its existing operating network to streamline and customize its product portfolio by offering products which offer better returns and increase company's customer base. In particular, the company's credit analysis and valuation methodology along with market knowledge and practical experience developed over a period of time allows the company to continue to grow and service its customers.

Competitive Scenario and Peer Mapping

Competition

The company faces significant competition in this Industry. The company operates in a highly competitive environment, coupled with a large number of players. The company has moderate entry barriers. The bargaining power with the customers is low in the sector in which the company operates.

Peer Analysis

The comparison of the key performance indicators of the listed peers as of Mar-23 is given below -

Particulars	Fedbank Financial Services Limited	Aptus Value Housing (Consolidated)	IIFL Finance (Consolidated)	Five Star Business Finance (Consolidated)
P/E	5.72	24.05	12.38	26.10
P/B	0.10	4.35	2.59	5.36
RONW	17.69	15.06%	17.88%	13.92%
NAV per share	42.37	13.75	18.42	8.03

Particulars	Manappuram Finance Limited (Consolidated)	Muthoot Finance Limited (Consolidated)	SBFC Finance Limited
P/E	6.98	11.33	0.00
P/B	1.36	2.54	-
RONW	15.55%	16.49%	8.68%
NAV per share	78.16	21.49	-

The comparison of the key performance indicators of the listed peers as of Mar-22 is given below -

Particulars	Fedbank Financial Services Limited	Aptus Value Housing (Consolidated)	IIFL Finance (Consolidated)	Five Star Business Finance (Consolidated)
P/E	9.67	43.46	8.88	0.00
P/B	0.10	4.98	3.60	-
RONW	3.89	12.69%	18.38%	12.24%
NAV per share	36.05	9.01	23.25	-

Particulars	Manappuram Finance Limited (Consolidated)	Muthoot Finance Limited (Consolidated)	SBFC Finance Limited
P/E	7.29	13.27	0.00
P/B	1.57	2.92	-
RONW	15.88%	21.55%	5.05%
NAV per share	73.15	14.03	-

The comparison of the key performance indicators of the listed peers as of Mar-21 is given below -

Particulars	Fedbank Financial Services Limited	Aptus Value Housing (Consolidated)	IIFL Finance (Consolidated)	Five Star Business Finance (Consolidated)
P/E	14.68	0.00	13.76	0.00
P/B	0.11	0.00	4.31	-
RONW	7.8	13.48%	14.12%	15.48%
NAV per share	26.09	-	19.51	-

Particulars	Manappuram Finance Limited (Consolidated)	Muthoot Finance Limited (Consolidated)	SBFC Finance Limited
P/E	7.42	13.32	0.00
P/B	1.80	3.51	-
RONW	23.61%	24.42%	7.05%
NAV per share	48.37	12.33	-

Industry Overview

Exhibit 1: Systemic growth to grow by 10- 12% over Fiscals 2023- 2025.

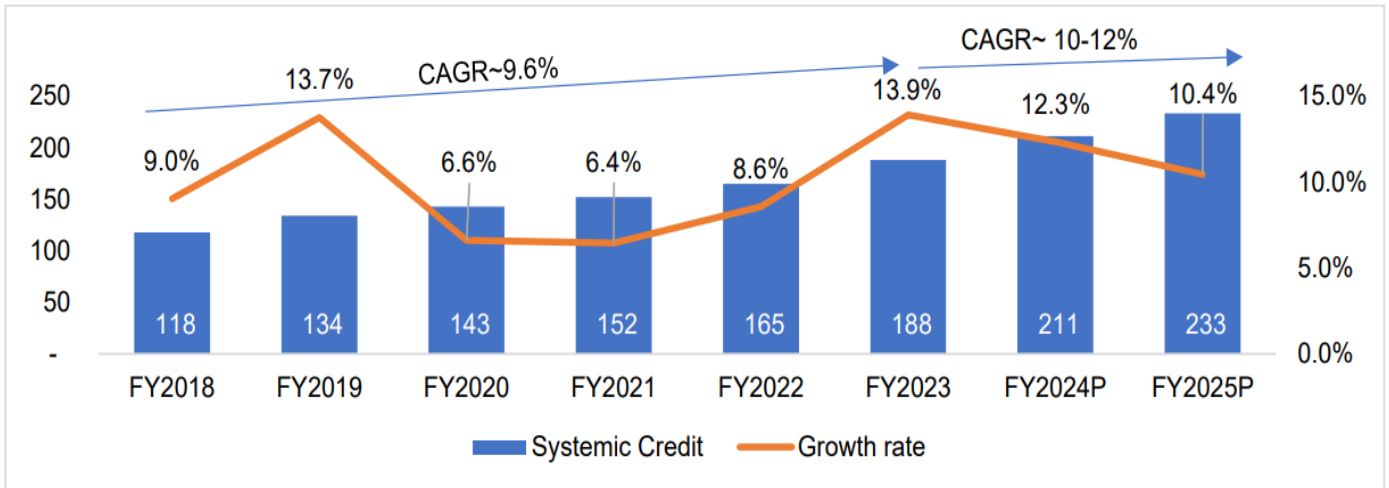
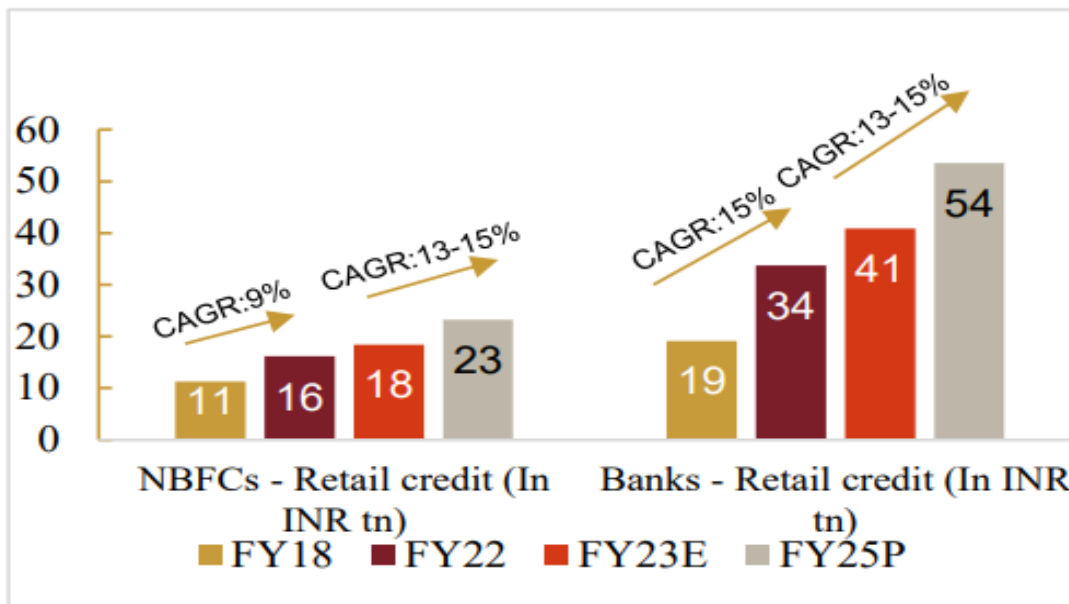


Exhibit 2: NBFCs retail credit -



(Source: prospectus)

Non-Banking Financial Company Overview -

The Indian financial system includes banks and NBFCs. Though the banking system dominates financial services, NBFCs have grown in importance by carving a niche for themselves by catering to customers in underbanked regions or those who would not be catered to by traditional financial institutions, due to absence of credit history or lack of proper collateral records.

Key regulations for NBFC: Over the past three decades, NBFCs have become part and parcel of formal credit system. RBI, on its part, has been continuously refining the regulations with a view to improve regulatory oversight as well as to be in tune with business dynamics of NBFC segment.

Here are a few key legislative and regulatory developments:

Amendments to the RBI Act in 1997 bestowed comprehensive powers on RBI to regulate and supervise NBFCs. Prominent features of the amendments include:

- Making it mandatory for NBFCs to obtain certificate of registration from RBI and maintain a minimum level of net owned funds (“NoF”).
- Requiring deposit taking NBFCs to maintain a certain percentage of assets in unencumbered approved securities.
- Empowering RBI to determine policy and issue directions with respect to income recognition, accounting standards, etc. Empowering RBI to order special audit of NBFCs.
- Asset Liability management guidelines.
- Corporate governance framework.

Scale based approach proposed for NBFC’s: RBI in January 2021 had proposed a tighter regulatory framework for NBFCs by creating a four-tier structure with a progressive increase in intensity of regulation in a discussion paper titled “Revised Regulatory Framework for NBFCs – A Scale-based Approach”. Based on the inputs received, in October 2021, RBI put in place a revised regulatory framework for NBFCs which is slated to be effective from October 2022.

RBI has said the regulatory and supervisory framework of NBFCs should be based on a four-layered structure based on their size, activity, and perceived riskiness: Base Layer, Middle Layer, Upper Layer and Top Layer. NBFCs in lower layer are expected to be known as NBFC-Base Layer (“NBFC-BL”). NBFCs in middle layer are expected to be known as NBFC-Middle Layer (“NBFC-ML”). An NBFC in the Upper Layer is expected to be known as NBFC-Upper Layer (“NBFC-UL”) and is expected to invite a new regulatory superstructure. There is also a Top Layer, ideally supposed to be empty.

Retail segment to support NBFCs overall credit growth: The NBFC sector has, over the years, evolved considerably in terms of size, operations, technological sophistication and entry into newer areas of financial services and products. The number of NBFCs as well as the size of the sector have grown significantly, with a number of players with heterogeneous business models starting operations. Over the last few years, CRISIL MI&A has seen a transformation in the Indian financial services landscape. The increasing penetration of neo-banking, digital authentication and mobile phone usage as well as mobile internet has resulted in the modularization of financial services, particularly credit.

(Source: prospectus)

Key Managerial Personnel

Balakrishnan Krishnamurthy, aged 64, is the Chairman and an Independent Director of the Company. He holds a bachelor's degree in commerce (honours). He is a qualified chartered accountant and company secretary. He has experience in the financial services sector. He is currently the chairman of Kriscore Financial Advisors Private Limited and director of Kriscore Ventures Private Limited.

Anil Kothuri, aged 52, is the Managing Director and Chief Executive Officer of the company. He holds a bachelor's degree of technology in computer science engineering and a post-graduation diploma in management. He has twenty-eight years of experience across various asset businesses including mortgage, SME financing, auto loans, housing finance and unsecured lending.

Shyam Srinivasan, aged 61, is a Non-Executive Director of the company. He has completed a bachelor's degree in engineering and post-graduation diploma in management. He currently serves as director of Ageas Federal Life Insurance Company Limited and managing director and chief executive officer of The Federal Bank Limited.

Maninder Singh Juneja, aged 57, is a Non-Executive Nominee Director of the company. He holds a bachelor's degree in civil engineering and post-graduation diploma in management. He has over twenty-five years of experience in the banking and finance industry. He is currently associated with True North Managers LLP as a partner.

Ashutosh Khajuria, aged 63, is a Non-Executive Nominee director of the company. He has a bachelor's degree in law and master's degree in arts. He is currently the Chief Mentor at The Federal Bank Limited and oversees the functions of treasury, credit underwriting, credit monitoring and collections, ESG, and the IFSC banking unit (IBU) in GIFT City, Gujarat.

Gauri Rushabh Shah, aged 50, is an Independent Director of the company. She holds a bachelor's degree in commerce. She has passed the final examination held by the Institute of Chartered Accountants of India. She secured the 44th rank in the intermediary examination held by the Institute of Chartered Accountants of India.

To conclude, the company's Promoter is The Federal Bank Limited. The Directors of the company have good knowledge and experience in their respective fields.

Financial Snapshot

P&L Statement				(Amt in Cr.)
Particulars	FY 21	FY 22	FY 23	Jun 23
Revenue from operations				
Interest income	658.11	821.89	1,110.17	341.24
Fees and Commission Income	31.74	42.89	56.01	14.256
Net gain/(loss) on fair value changes on derivatives	1.98	4.537	12.622	5.901
Total Revenue from Operations	691.83	869.32	1,178.80	361.39
Other Income	5.74	14.322	35.88	6.476
Total Income	697.57	883.64	1,214.68	367.87
Expenses				
Finance Cost	313.19	347.65	472.15	163.59
Fees and commission expenses	12.037	14.702	23.282	4.598
Impairment on financial instruments	71.22	83.88	48.904	10.66
Employee Benefits Expenses	131.59	175.41	247.60	69.234
Depreciation, amortization and impairment	27.269	36.697	41.87	8.66
Other Expenses	65.329	86.09	122.48	39.083
Total Expenses	620.64	744.43	956.29	295.82
Profit before exceptional items and tax	76.93	139.21	258.39	72.05
Exceptional Items	-	-	-15.37	-
Profit Before Tax	76.93	139.21	243.02	72.05
Tax Expenses				
Current Tax	29.24	47.10	57.38	18.70
Deferred Tax	-13.992	-11.352	5.505	-0.523
Share of Profit /(Loss) in Associate	-	-	-	-
Profit after tax	61.68	103.46	180.13	53.87

Balance Sheet				(Amt in Cr.)
Particulars	FY 21	FY 22	FY 23	Jun 23
Assets				
Financial Assets				
Cash and Cash Equivalents	526.03	65.96	93.96	247.77
Bank Balance other than above	154.76	76.64	0.663	0.00
Receivables	-	-	-	0.00
(i)Trade Receivables	1.17	11.84	14.85	20.235
(ii)Other receivables	3.20	3.86	4.76	9.175
Loans	4,552.14	5,644.81	7,999.70	8,296.61
Investments	32.49	514.33	680.63	554.31
Other financial assets	13.53	11.77	64.45	68.1
Total Assets	5,283.32	6,329.20	8,859.01	9,196.19
Non-Financial Assets				
Current Tax Assets (Net)	9.86	11.92	11.97	8.60
Deferred Tax Assets (Net)	20.38	31.50	21.84	21.01
Property, Plant and Equipment	18.86	30.86	30.67	29.40
Capital work-in-progress	0.963	0.66	0.52	1.162
Right of use asset	111.85	119.70	111.94	111.28
Other Intangible assets	2.314	3.064	3.201	2.83
Other non-financial assets	18.77	28.80	31.85	42.03
Total Non-Financial Assets	182.99	226.50	211.99	216.31
Total Assets	5,466.31	6,555.71	9,070.99	9,412.51
Liabilities				
Financial Liabilities				

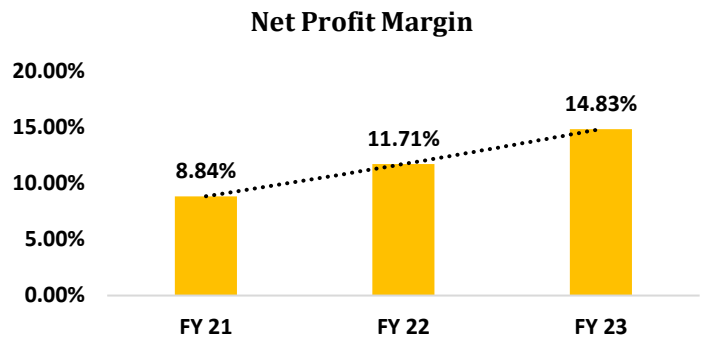
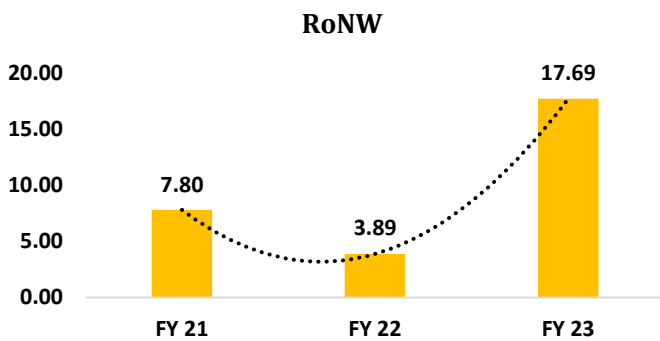
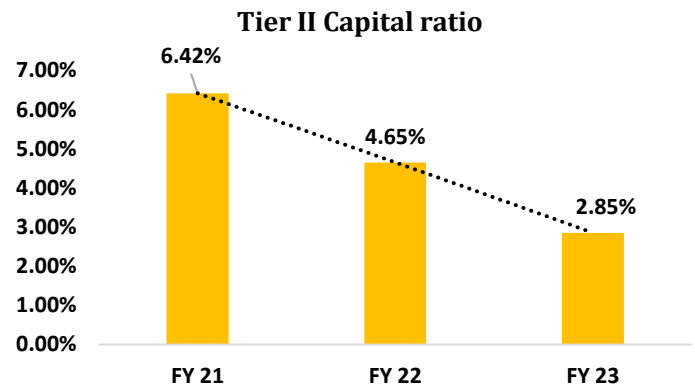
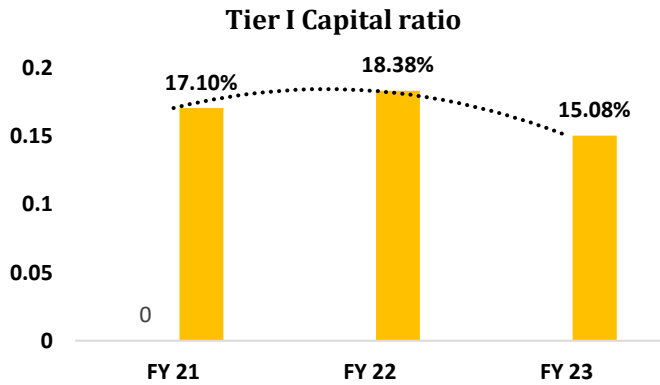
Balance Sheet				(Amt in Cr.)
Derivative financial instruments	-	-	4.82	3.37
Trade Payables	-	-	-	-
(i)total outstanding dues of micro enterprises and small enterprises	-	-	-	0
(ii)total outstanding dues of creditors other than micro enterprises and small enterprises	4.32	6.43	26.09	36.127
Debt Securities	593.70	533.42	611.23	698.77
Borrowings (Other than Debt Securities)	3,475.94	4,224.35	6,264.93	6,452.98
Subordinated Liabilities	258.46	259.07	259.67	467.76
Lease Liability	124.63	137.04	134.04	128.62
Other financial liabilities	158.11	210.97	350.79	160.03
Total Financial Liabilities	4,615.15	5,371.28	7,651.57	7,947.67
Non-Financial Liabilities				
Provisions	3.03	3.13	6.20	7.41
Other non-financial liabilities	13.39	27.78	57.54	42.52
Total Non-Financial Liabilities	16.42	30.91	63.74	49.93
Equity				
Equity Share Capital	289.92	321.52	321.91	321.91
Other Equity	544.81	832.00	1,033.77	1,092.99
Total Equity	834.73	1,153.52	1,355.68	1,414.90
Total Liabilities and Equity	5,466.30	6,555.71	9,070.99	9,412.51

Cash Flow Statement				
Particulars	FY 21	FY 22	FY 23	Jun 23
Cash Flow from Operating Activities	-371.23	-577.89	-1,474.00	-292.26
Cash Flow from Investing Activities	-70.52	-416.92	-129.53	136.00
Cash Flow from Financing Activities	825.50	534.74	1,631.52	-5.86

Ratio Analysis			
Particulars	FY 21	FY 22	FY 23
Banking ratios			
Tier I Capital ratio	17.10%	18.38%	15.08%
Tier II Capital ratio	6.42%	4.65%	2.85%
Total Capital ratio (CRAR) (%)	23.52%	23.04%	17.94%
Return Ratios (%)			
RoNW	7.80	3.89	17.69
RoA	1.13	1.58	1.99
Valuation Ratios			
P/E	64.22	42.30	25.04
P/B	0.47	0.42	0.42
Leverage Ratios			
Leverage Ratio	14.71%	16.58%	13.54%
Debt-to-Equity Ratio	4.16	3.66	4.62
Debt-to-Capital Ratio	3.14	3.10	4.29
Net Interest Margin	52.41%	57.70%	57.47%

NPA Analysis					(Amt in Cr.)
Particulars	FY 21	FY 22	FY 23	Jun 23	
Gross NPA	46.808	128.58	164.50	189.77	
Gross NPA (%)	1.01	2.23	2.03	2.26	
Net NPA	32.822	100.21	127.99	147.39	
Net NPA (%)	0.71	1.75	1.59	1.76	

Financial Charts



Key Risk Factors

1. There are pending litigations against the Company and Promoter amounting to Rs. 3,707.01 Crores. Any adverse decision in such proceedings may render them liable to liabilities/penalties and may adversely affect the business, cash flows and reputation.
2. The company's contingent liabilities amounted to Rs. 0.695 Crores, if materialized, may adversely affect the financial condition, cash flows and results of operations of the company.
3. The company had negative operating cash flow for all FYs ended 2021, 2022, and 2023 and period ended June-2023.

Track Record of Lead Manager

The lead managers to the issue are ICICI Securities Limited, BNP Paribas, Equirus Capital Private Limited and JM Financial Limited. A table has been set below highlighting the details of the IPO of the recent companies handled by the Lead Manager in recent times –

ICICI Securities Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	ASK Automotive Limited	834.00	282.00	November 15, 2023	299.00
2.	Protean eGov Technologies Limited	490.33	792.00	November 13, 2023	1,124.00
3.	ESAF Small Finance Bank Limited	463.00	60.00	November 10, 2023	69.40

The company has had 26 mandates in the past three years (including the current year).

BNP Paribas -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	TVS Supply Chain Solutions Limited	880.00	197.00	August 23, 2023	214.00
2.	Adani Wilmar Limited	3,600.00	230.00	February 08, 2022	321.00
3.	Anand Rathi Wealth Limited	660.00	550.00	December 14, 2021	2,309.00

The company has had 3 mandates in the past three years (including the current year).

Equirus Capital Private Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Protean eGov Technologies Limited	490.33	792.00	November 13, 2023	1,124.00
2.	Zaggle Prepaid Ocean Services Limited	563.38	164.00	September 22, 2023	244.00
3.	TVS Supply Chain Solutions Limited	880.00	197.00	August 23, 2023	214.00

The company has had 14 mandates in the past three years (including the current year).

JM Financial Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	ASK Automotive Limited	834.00	282.00	November 15, 2023	299.00
2.	Honasa Consumer Limited	1,701.44	324.00	November 07, 2023	363.00
3.	Cello World Limited	1,900.00	648.00	November 06, 2023	786.00

The company has had 40 mandates in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 21st November 2023.

As per the offer document, of the above-mentioned mandates for all the Lead Managers, 1 have opened at discount, and the remaining have opened at premiums on the listing day.

Recommendation

The company has been in the industry since 1995 and has vast experience in the industry in which the company operates. The top line of the company and the bottom line have seen consistency in their increase over the years. The company's competition is moderate. The management overview is satisfactory.

The P/E on a post-IPO basis is 25.04 times which seems to be slightly highly priced by looking at the performance of the company.

The company operates in a competitive segment with significant competitors in the industry. The company has seen an increase in its financials. The company's financial outlook of the company is good and can expect the same growth in the future years. The company has a good Net Interest Margin and is sustainable going forward. The company also has a good Net NPA % indicating that the company has a good recovery rate. The company has a good loan book. The company has negative operating cash flow majorly due to the increase in their loans and we believe this can provide them a good growth in the interest income earned in the future and it may have an impact on the NPA. Thus, we recommend **APPLY** to this IPO keeping in mind the above-mentioned points.

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