

Rating: Subscribe for Long Term

Issue Offer

Fresh Issue of 4,28,57,143 equity shares up to INR 12.9 bn and OFS of 3,51,61,723 shares by Promoter and Investor group taking the total issue size at INR 10.92 bn

Issue Summary

Price Band (INR)	133-140
Face Value (INR)	10
Implied Market Cap (INR Mn)	51,651
Market Lot	107
Issue Opens on	Nov, 22, 2022
Issue Close on	Nov, 24, 2022
No. of share pre-issue	32,60,75,940
No. of share post issue	36,89,33,083
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	≤50
NIB Portion	≥15
Retail Portion	≥35

Book Running Lead Managers

ICICI Securities, BNP Paribas
Equirus Capital Pvt. Ltd.
JM Financial Ltd.

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	72.28%	51%
Public & Others	27.72%	49%

Objects of the issue

- The NBFC proposes to use the proceeds from the issue to augment their Tier 1 Capital requirements as well as capital to be deployed in 2024-25 for future growth.
- General corporate purposes

Abhishek Jain

abhishek.jain@arihantcapital.com

022-422548871

Anmol Das

anmol.das@arihantcapital.com

022-67114834

Fedbank Financial Services Ltd (Fedfina) is a retail focused non-banking finance company (NBFC) promoted by The Federal Bank Limited. It has the second and third lowest cost of borrowing among the micro, small and medium enterprises (MSMEs), Gold loan and MSME peer set in India in FY23 and Q1FY24. As of March 2023, Fedfina had the third fastest AUM growth among NBFCs in the peer set in India with a three year CAGR of 33% between FY20-FY23, and the fourth fastest YoY AUM growth of 42% for Q1FY24. It is one among five private bank promoted NBFCs in India. As of Q1FY24, 86.24% of its total loan assets are secured against tangible assets, either gold or customer's property.

Investment Rationale

Growing market share in the gold loan business: Fedfina has been gaining market share in the gold loan segment, which is expected to grow at a CAGR of 7.1% between 2023 and 2028. With an LTV of 71.75% as of Q1FY24, the Gold loan business remains a high yield secured portfolio for the NBFC.

Pan India Geographical presence: As of June 30, 2023, Fedfina has operations through 584 branches, of which 237 branches located in western and northern India, in the states of Gujarat, Maharashtra and Delhi and 272 branches were located in southern India in states of Telangana, Andhra Pradesh, Tamil Nadu and Karnataka. Currently in 17 states of India in western, northern and southern region, the NBFC is expanding aggressively and see healthy business generation as newer branches start maturing to breakeven in a year's time.

Mortgage Loans comprise half the Aum of Fedfina: Mortgage loans form 49.84% of the AUM of Fedfina as of Q1FY24. The average ticket size of the mortgage loans is around INR 2.2 mn as of June 2023. Within the Mortgage Portfolio, medium ticket LAP makes half of total mortgages, while Small ticket LAP and Housing Loans form 18.25% and 6.27% of total portfolio.

Maintaining high yields and improving returns despite increased interest rates: The NBFC saw an increase in Cost of Funds resulting into squeezing of their spread over the last couple of years. However, they have been able to improve RoAE to 14.4% for FY23 against 8.1% in FY21 while RoAA increased from 1.3% in FY21 to 2.3% in FY23. The NBFCs efficiency can be seen with the fact that they have increased branchcount 4x over the last 4 years, and we expect the current Cost to Income Ratio of 58% will come down sharply as the new branches mature to break evens, which they generally do within 1 year of opening of a branch.

Valuation and View: Fedfina has shown robust growth in their AUM over the last few years of over 35% YoY annual growth of AUM. The NBFCs business is distributed pan India with some concentration in the southern states, allowing space for future expansion to continue in newer geographies. Compared to its Peers in the similar business, on an annualized basis of Q1FY24 EPS, the issue is priced at 21x P/E ratio, which is fairly priced considering the growth in number of branches being opened over the last 1 year. The NBFC proposes to utilize the proceeds of the issue towards augmenting the Tier 1 capital to meet its future capital requirements. At the upper band of INR 140, the issue is valued at a P/B of 2.6x based on Q1FY24 book value and fresh issue of INR 6 bn considering the RoAA in Q1FY24 at 2.3%. We are recommending "Subscribe for Long Term" for this issue.

Financial Statements

Income statement summary (INR Mn)	FY21	FY22	FY23
Interest Incomes	6,918	8,693	11,788
Interest Expenses	3,132	3,477	4,722
Net Interest Income	3,786	5,217	7,066
Other Income	57	143	359
Total Income	3,844	5,360	7,425
Employee Cost	1,316	1,754	2,476
Other Operating Expenses	1,046	1,375	1,876
Pre Provisioning Operating Profit	1,482	2,231	3,073
Provisions/Impairment Expenses	712	839	489
PBT	769	1,392	2,430
Taxes	152	358	629
Net profit	617	1,035	1,801
EPS (INR)	2.18	3.31	5.59

Balance Sheet (INR Mn)	FY21	FY22	FY23
Financial Assets			
Cash and cash equivalents	5,260	660	940
Bank Balance	1,548	766	7
Trade Receivables	44	157	196
Loans	45,521	56,448	79,997
Other Financial Assets	460	5,261	7,451
Total Financial Assets	52,833	63,292	88,590
Non-Financial Assets			
Tax Assets	302	434	338
Plant Property & CWIP	1,317	1,512	1,431
Other Non-Financial Assets	211	319	351
Total Non-Financial Assets	1,830	2,265	2,120
Total Assets	54,663	65,557	90,710
Equity Share	2,899	3,215	3,219
Reserves & Surplus	5,448	8,320	10,338
Networth	8,347	11,535	13,557
Financial Liabilities			
Debt Securities	5,937	5,334	6,112
Borrowings	34,759	42,244	62,649
Other Financial Liabilities	5,455	6,135	7,754
Total Financial Liabilities	46,152	53,713	76,516
Non-Financial Liabilities			
Provisions	30	31	62
Other Non-Financial Liabilities	134	278	576
Total Non-Financial Liabilities	164	309	638
Total Equity & Liabilities	54,663	65,557	90,710

Financial Statements

Key Financials (INR Mn)	Q1FY24	Q1FY23	FY21	FY22	FY23
Scale					
AUM	94,342	66,644	48,624	61,872.04	90,696
AUM Growth (%)	4.02%	7.71%	26.68%	27.25%	46.59%
Capital					
Total Borrowings to Shareholder Equity ratio	5.39	4.57	5.18	4.35	5.26
Cost of Borrowings	2.22%	1.86%	8.30%	7.44%	7.77%
Profitability					
Yield on Average Net Advances	3.94%	3.81%	15.47%	15.59%	15.17%
Spread	1.81%	1.94%	7.17%	8.15%	7.40%
NPA / Asset Quality					
Provision Coverage Ratio	22.33%	23.72%	29.88%	22.07%	22.19%
Return Ratio					
Net Interest Income to Average AUM	1.92%	2.11%	7.93%	8.58%	8.36%
Net Interest Margin	1.92%	2.00%	7.22%	7.89%	8.17%
Operating Expenses to Average AUM	1.31%	1.41%	5.40%	5.66%	5.71%
Credit cost to Average AUM	0.12%	0.15%	1.64%	1.52%	0.64%
PAT to Average AUM	0.58%	0.68%	1.42%	1.87%	2.36%
Return on Total Average Assets (%)	0.58%	0.65%	1.29%	1.72%	2.31%
Return on Average Equity (%)	3.89%	3.71%	8.08%	10.41%	14.36%
Distribution					
States and Uts	16	15	15	15	16
Branches	584	516	359	516	575
Productivity					
AUM/Branch	161.54	129.16	135.44	119.91	157.73
AUM/Employee	25.28	21.81	22.83	21.69	25.41
Capital					
Shareholder Equity	14,149	12,025	8,347	11,535	13,557
Capital Adequacy Ratio	19.71%	20.90%	23.52%	23.04%	17.94%
Profitability					
Total Revenue	3,679	2,560	6,976	8,836	12,147
Net Interest income	1,776	1,358	3,449	4,742	6,380
Fee and Other income	207	208	375	572	919
Profit After Tax	539	438	617	1,035	1,801
Profit After Tax (%)	14.65%	17.09%	8.84%	11.71%	14.83%
NPA / Asset Quality					
Gross NPA (%)	2.26%	2.05%	1.01%	2.23%	2.03%
Net NPA (%)	1.76%	1.57%	0.71%	1.75%	1.59%
Earning per share					
Basic	1.67	1.36	2.19	3.32	5.60
Diluted	1.67	1.36	2.18	3.31	5.59

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
Building No. 10, 1st Floor
Andheri Ghatkopar Link Road
Chakala, Andheri (E)
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
Registration No.****Contact****Website****Email Id**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.com

instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880