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Initial Public Offer of Fino Payments Bank Limited

Issue Opens on: October 29, 2021 | Issue Closes on: November 02, 2021

Price Band - ₹. 560 to ₹. 577 per equity share

The Floor Price is 56 times the face value of the Equity Shares and the Cap Price is 57.7 times the face value of the Equity Shares

Minimum Bid Lot of 25 shares; Bids in multiples of 25 shares thereafter

Initial public offer of up to [●] equity shares of face value of ₹10 each (“equity shares”) of Fino Payments Bank Limited (“Bank”) for cash at a price of ₹[●] per equity share (including a share premium of ₹[●] per equity share) aggregating up to ₹[●] million (the “Offer”) comprising a fresh issue of up to [●] equity shares aggregating up to ₹ 3,000 million (the “Fresh Issue”) and an offer for sale of up to 15,602,999 equity shares by Fino Paytech Limited (“Promoter Selling Shareholder”, and such equity shares the “Offered Shares”) aggregating up to ₹[●] million (the “Offer for Sale”). The offer includes a reservation of up to [●] equity shares, aggregating up to ₹30 million (constituting up to 5% of the post-offer paid-up equity share capital), for subscription by eligible employees (the “Employee Reservation Portion”). The employee reservation portion shall not exceed 5% of our post-offer paid-up equity share capital. The offer less the Employee Reservation Portion is hereinafter referred to as the “Net Offer”. The Offer and the Net Offer shall constitute [●]% and [●]%, respectively, of the post-offer paid-up equity share capital of our bank.

Overview of the Company

Business Overview

- A growing fintech company offering a diverse range of financial products and services that are primarily digital and have a payments focus.
- Offers such products and services to its target market via a pan-India distribution network and proprietary technologies, and since 2017, it has grown operational presence to cover over 90% of districts as of September 30, 2021. It first became profitable in the fourth quarter of financial year 2020 and has been profitable in subsequent quarterly periods.
- In addition, in the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021, the platform facilitated approximately 154.02 million, 318.56 million, 434.96 million and 123.38 million transactions, respectively and had gross transaction value of ₹456,847.97 million, ₹944,525.76 million, ₹1,329,306.90 million and ₹390,359.90 million, respectively
- Bank operates an asset light business model that principally relies on fee and commission based income generated from its merchant network and strategic commercial relationships.
- Each merchant serves the banking and financial needs of its community, which in turn forms the backbone of the assisted-digital ecosystem, referred to as its “phygital” delivery model (i.e., a combination of physical and digital).
- Bank’s target addressable market according to CRISIL as of March 31, 2021 is approximately ₹0.85 trillion by potential revenue.
- Such addressable market refers to the potential revenue pool available to companies providing CASA deposit accounts in rural and semi-urban areas and also providing the entire range of payment and remittances related services across urban, semi-urban and rural areas. Products and services include various current accounts and savings accounts (“CASA”), issuance of debit card and related transactions, facilitating domestic remittances, open banking functionality (via its Application Programming Interface (“API”)), withdrawing and depositing cash (via micro-ATM or Aadhaar Enabled Payment System “AePS”) and cash management services (“CMS”). Merchants also leverage the customer relationships within their respective communities to facilitate cross-selling other financial products and services such as third party gold loans, insurance, bill payments and recharges.
- It also manages a large BC network on behalf of other banks. Income derived from all of its financial products and services in the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021 was ₹3,519.69 million, ₹6,732.67 million, ₹7,707.72 million and ₹2,001.86 million, respectively. In addition, as a condition of its RBI License it is not permitted to directly provide credit products and thereby are not exposed to the credit risk associated with underwriting credit products

- It is also the only payments bank to offer a subscription based savings account in India (source: CRISIL)
- Strong leadership position within the Indian fintech industry, for instance it:
 - was ranked third among banks in facilitating digital transactions, as of February 2020 by the Ministry of Electronic & Information Technology; and
 - had the largest network of micro-ATMs, as of August, 2021 (source: CRISIL)
- Bank is currently a wholly-owned subsidiary of Fino Paytech Limited, whose principle shareholders include marquee investors such as ICICI Bank Limited, Intel Capital Corporation, International Finance Corporation, HAV3 Holdings (Mauritius) Limited, Blackstone GPV Capital Partners (Mauritius) VI-B FDI Limited and Bharat Petroleum Corporation Limited

The following table sets forth certain information relating to its operations and financial performance in the periods specified

Metric	Financial year			Three months ended June 30, 2021
	2019	2020	2021	
Merchants	1,01,230	2,77,399	6,41,892	724,761
CASA Accounts (in millions)	0.84	1.43	2.57	2.90
Total transactions (in millions)	154.02	318.56	434.96	123.38
Total throughput (₹ millions)	4,56,847.97	9,44,525.76	13,29,306.90	390,359.90
Cash withdrawals via micro-ATM and AePS (₹ millions)	73,836.51	3,01,386.93	5,61,869.43	146,545.21
Debit Cards outstanding (mn)	0.44	1.15	2.33	2.71

DTP framework

Unique DTP framework enables to serve target market efficiently and is designed to achieve improvements on three key challenges associated with serving such target market, being: (i) scale (ii) service and (iii) sustainability

- Distribution - having access to vast and established merchant network, the ability to draw upon their strong relationships and trust within the communities, a dedicated and focused branch network and large BC network;
- Technology - “phygital” model for delivering products, dedicated mobile banking applications for merchants and customers, a “neo banking” mindset, digital on-boarding, e-KYC and in-house technology expertise and culture of application-led innovation which includes proprietary technology; and
- Partnerships - leveraging the increased reach of its strategic commercial relationships, product portfolio expansion opportunities, greater customer sourcing and leveraging the open banking regime via API

A technology focused business model with an advanced digital platform

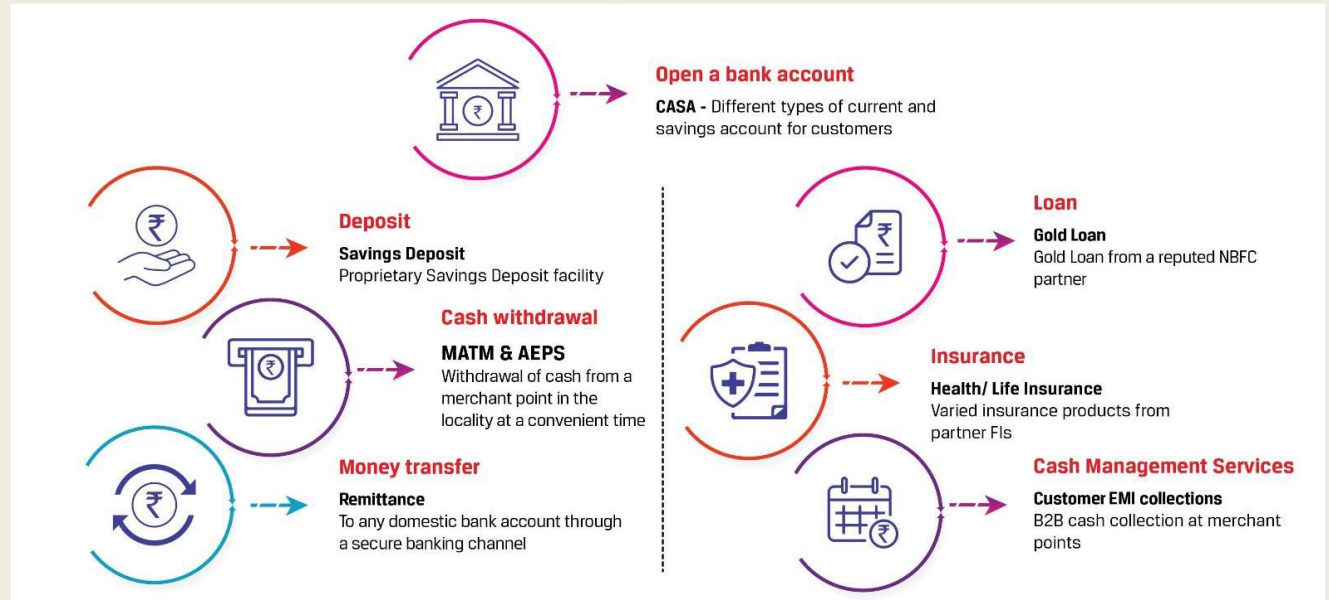
- Bank has and will continue to invest into technology throughout its business
- Its in-house technology expertise and culture of application-led innovation, provides an attractive value proposition to its stakeholders
- Currently, it is equipped with reporting process automation based processes at the back-end, SAS dashboards for analytics and demand forecasting, fraud risk management system for fraud detection, and other security systems and a network of servers.
- Since 2017, it has made significant investments in technology infrastructure, having designed and digitized large portions of its technology processes, risk management protocols, data analytics capabilities and honed its “phygital” approach. In the financial years 2019, 2020 and 2021 and the three months ended June 30, 2021 it recorded ₹139.33 million, ₹228.68 million, ₹669.30 million and ₹224.97 million, respectively, of capital expenditure in connection with technology infrastructure
- Bank has a dedicated business technology team with approximately 110 technical staff as of June 30, 2021, to research, test and develop technology

Strengths

Customer centricity and innovation at the core of business

Bank places the customer at the centre of all that they do and as such, its products and services are designed and customized to meet the needs and requirements of its customers and target market

Key Products & Services



An asset light and scalable business model

- Its merchant-led model is a capital light business strategy in respect of network expansion and except for referrals of third party loan providers, it does not offer any lending products and do not hold credit risk for loans.
- In addition, its well established technology platform and consistent investment in further improvements, allows it to service a wide pool of customers and cater to their diversified requirements.
- In addition, focus on and use of technology throughout its business assists in expanding its reach throughout India without incurring the relatively higher costs associated with traditional bricks and mortar branch presence.
- In addition to merchant network which, as of June 30, 2021 was 724,671 (comprising of 366,861 “own” merchants and 357,810 merchants on the open banking network via its API channel), it leverages 17,430 active BCs to reach the underserved and unserved populations in hard to reach locations (referred to the “last mile” of delivery).
- It also uses strategic commercial relationships with corporate entities, most notably with BPCL, to expand its operational reach, improve brand awareness and acquire new customers

Operational experience and expertise

- With the “FINO” brand being in existence for approximately 14 years (i.e., before the commencement of its business operations in June 2017), and Mr. Gupta being a key employee of FINO, it benefits from his operational experience and expertise gained throughout that time
- Bank now leverage this to better understand how the digitization of products and services can shape customer behavior into the future and in conjunction with its tech enabled processes and strong team, aim for operational excellence on a regular basis

A socially inclusive model with positive social impact

- Bank’s business model and operations, as well as its mission and vision, benefit Indian society by bringing India’s unserved and underserved population into the main stream banking system and accordingly, improving their access to financial products and services and in turn quality of life
- According to the National Financial Literacy and Inclusion Survey 2019, only approximately 27% of the Indian population is financially literate (being a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing), indicating a significant gap and potential for the financial services industry (source: CRISIL)
- As such, it tries to ensure that “phygital” model is utilized in nearly every community in which it operates

Highly experienced and committed leadership team, supported by a marquee investor base in its Promoter and shareholder

- Bank is led by a highly experienced and committed leadership team with a diverse and deep level of expertise, particularly in the financial services and technology industries.
- Managing Director & CEO, Rishi Gupta was a key employee of FINO and was instrumental in the formation of business and operations. His initial vision to create a business model around inclusive financial services for Indian society

	<p>evident in the performance of Fino PayTech Limited and Bank's business.</p> <ul style="list-style-type: none">• In addition, the principal shareholders of Fino Paytech Limited, Bank's Promoter and shareholder, include marquee investors such as ICICI Bank Limited, Intel Capital Corporation, International Finance Corporation, HAV3 Holdings (Mauritius) Limited, Blackstone GPV Capital Partners (Mauritius) VI-B FDI Limited and BPCL
Strategies	<ul style="list-style-type: none">• Leverage its Market Position to Capture Industry Opportunities• Continued Innovation Leading to High Growth Products and Diversified Revenue Streams• Expand and Deepen its Customer Sourcing Capabilities• Continued focus on use of technology to improve operating leverage
Objects of the Offer	<ul style="list-style-type: none">• The Issue comprises a Fresh Issue by the Bank and an Offer for Sale by the Selling Shareholders<ul style="list-style-type: none">– Bank proposes to utilize the Net Proceeds from the Fresh Issue towards augmenting Bank's Tier - 1 capital base to meet its future capital requirements and– expects to receive the benefits of listing the Equity Shares on the Stock Exchanges

Investors are requested to refer to the Red Herring Prospectus (available at <https://www.icicisecurities.com/Upload/ArticleAttachments/Fino%20Payments%20Bank%20Limited%20RHP.pdf>) dated October 22, 2021 for details regarding the Offer, the Company and the risk factors before taking any investment decision.