TRANSPARENT CAPITAL

Fincare Business Services Ltd.

Research Report

INTRODUCTION

India has a much diversified financial sector that is undergoing rapid expansion and digitalisation today. This is noted in terms of a growth in the existing financial sector space and new entrants in the market. The Financial Service industry in India contributes to about over 6% of India's GDP. In Developed economies this percentage is usually between 10-15%. Thus India has a lot of potential growth prospects.

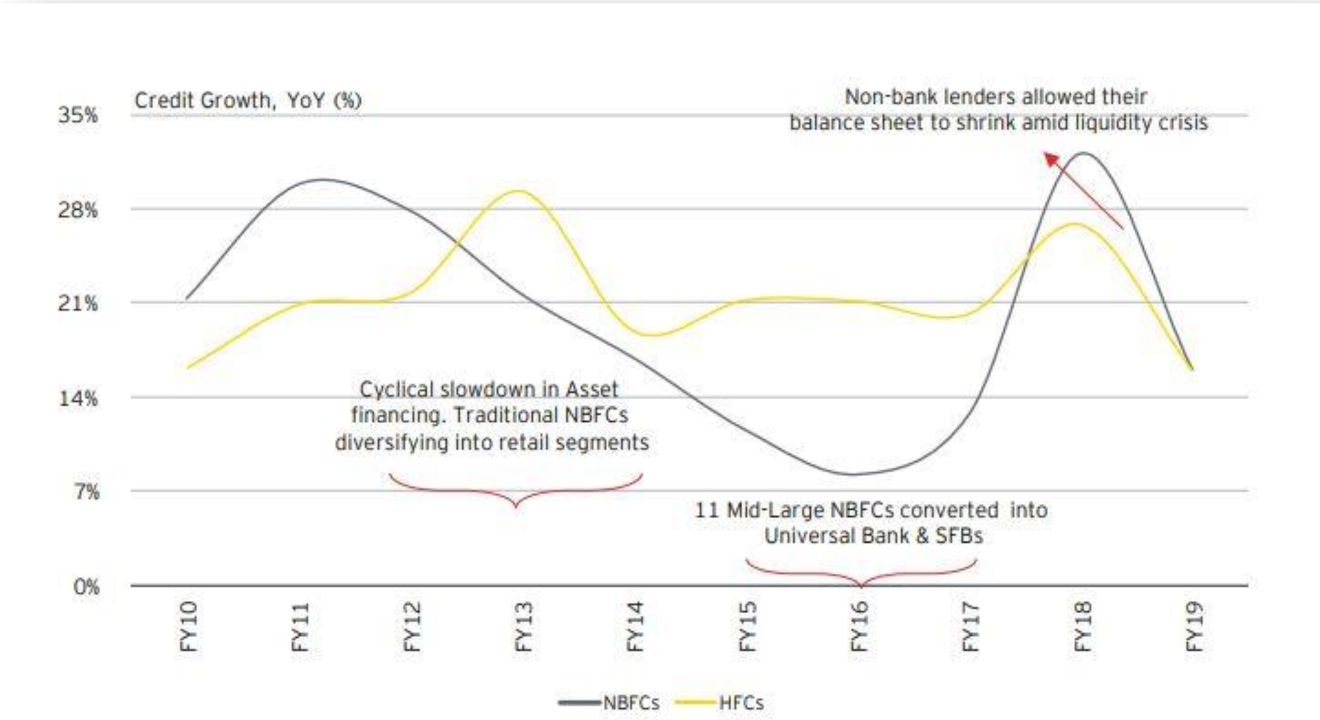
In 2019, banking and financial services witnessed 32 M&A activities worth US$ 1.72 billion.

During the FY16-20 bank credits grew at an average CAGR of 3.57%

Funding of microfinance sector grew to about ₹14,206 crore in 2019

As per the reports of Federation of Indian Chambers of Commerce & Industry of the ~9,600 non-bank lenders, 274 are classified as 'Systemically Important', 99 as HFCs and 82 as deposit taking NBFCs.

The NBFC (Non-Banking Financial Company) sector was \ passing through a critical juncture up until recently. Certain failures of large NBFC, liquidity constraints confronting the sector and consequent financial stability concerns had brought back NBFC regulations into focus. The liquidity crisis however was a good opportunity for the NBFCS to pull up their socks. Had the COVID-19 crisis occurred before the crisis, many NBFCS would have had to re-consider their continuity. The non-banking financial company (NBFC) sector has rebounded in the first six months of FY21.



ABOUT THE COMPANY

fincare

Fincare Business Services Limited (FBSL) is a Non- Banking Financial Company- Non Deposit taking Core Investment Company (NBFC-CIC-ND). It is registered with the Reserve Bank of India and was incorporated on 01 August 2014. It is registered at Registrar of Companies, Bangalore. FBSL's operations and activities are limited to investing in and providing loans to group companies.

The Company is the promoter of Fincare Small Finance Bank (FSFB) .The same is licensed under Section 22 of the Banking Regulations Act, 1949 to carry on the business of a Small Finance Bank.

FSFB has a range of smart banking products:

Savings Accounts	**NRI Fixed Deposits**	**Cash Overdrafts**
Current Accounts	**Recurring Deposits**	**Loan against Gold**
Fixed Deposits	**Micro Loans**	**Loan against Property**
Institutional Finance	**Two Wheeler Loans**	

Authorized share capital is:
₹ 1,155,000,060
Paid up capital is:
₹ 328,417,440.

Fincare Small Finance Bank Limited has been successful in adopting the very same objectives of creating long term success and sustainability.

Through FSFB, the mission of the company is to serve the unbanked and underbanked sections of the society.

As per the Companies Act, 2013, the company falls under the category of "Company Limited by Shares"

Address of the registered office:

79/7, 3rd Floor, K. No.1202, Bellandur, Varthur Hobli,
Bengaluru, Bangalore KA 560102 IN
Phone: +91-80 42504444
Email Id: compsecfbsl@fincare.com

KMP AND SHAREHOLDING PATTERN

Below are few of the Key Managerial Personnel(KMP):

Gunnamreddy Dasarath Reddy

Managing Director

Bhavya Gulati

Nominee Director

Dhiraj Poddar

Nominee Director

Divya Sehgal

Nominee Director

Maninder Singh Juneja

Nominee Director

Nandini Parekh

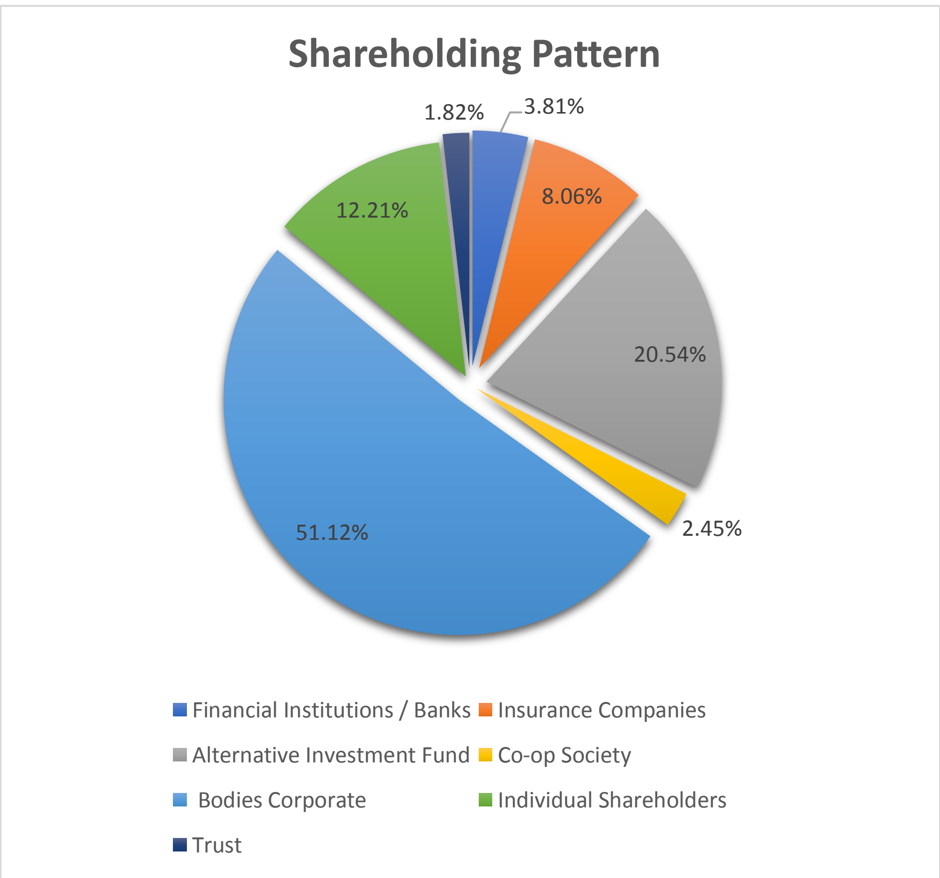
Nominee Director

Nandini Parekh

Nominee Director

The shareholding pattern of the company as per the latest annual report is as below:

Shareholder	No of shares held (31-03-2020	%Shareholding
Financial Institutions / Banks	1,25,17,880	3.81%
Insurance Companies	2,64,58,200	8.06%
Alternative Investment Fund	6,74,47,330	20.54%
Co-op Society	80,36,520	2.45%
Bodies Corporate	16,78,88,510	51.12%
Individual Shareholders	4,00,96,190	12.21%
Trust	59,72,810	1.82%



TOP TEN SHAREHOLDERS	% OF TOTAL SHARES
TRUE NORTH FUND V LLP	19.99%
WAGNER LIMITED	17.82%
INDIUM IV (MAURITIUS) HOLDINGS LIMITED	16.47%
OMEGA TC HOLDINGS PTE. LTD	8.46%
LEAPFROG RURAL INCLUSION (INDIA) LIMITED	4.94%
EDELWEISS TOKIO LIFE INSURANCE CO LTD	3.86%
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)	3.81%
KOTAK MAHINDRA LIFE INSURANCE CO LTD	3.66%
G. DASARATHAREDDY	2.84%
ACTS MAHILA MUTUALLY AIDED CO OP THRIFT SOCIETY	2.45%

SWOT ANALYSIS

Strengths

Fincare offer a range of products comprising savings and credit, as well as third party products such as insurance, pension, mutual funds payment/remittance facilities and access to ATMs. Small Finance Banks have perfected the art of low cost operations. In addition to this .The Bank expanded geographical reach across

Weakness

Micro Loans are tagged as low-ticket-size product catering to the base of the pyramid segment. This comes with a greater chance of default owing to lower financial credibility. The segment is prone to high NPAs if left unchecked. Owing to the clutter and fight at the bottom of the pyramid, there is heavy competition. There are approximately 10,000 NBFCs registered in India with the Reserve Bank of India (RBI) as of 2020.

Opportunities

Financial inclusion got further impetus with the Pradhan Mantri Jan Dhan Yojana (PMJDY) which aims to provide at least one bank account for every household. As statistics speak, in India, approximately 1/3rd of the adult population has an account with a formal financial institution. SFBs lapping up the opportunity to get a foothold in the ₹ 30 Lakh Crore market, or roughly 40% of the Indian banking sector.

Threats

In FY19, most of the Small Finance Banks (SFBs) had sharpened their efforts to expand their banking network for garnering retail deposits, diversified their loan book and leveraged technology to reduce operational cost and bring in customer delight. Successful transformation to Small Finance Banks (SFBs) has allowed these players to operate in a different regulatory regime.

FINANCIAL HIGHLIGHTS

Being a pure investment company, the financials of Fincare Business Services Ltd are driven by that of its subsidiary, ie Fincare Small Finance Bank.

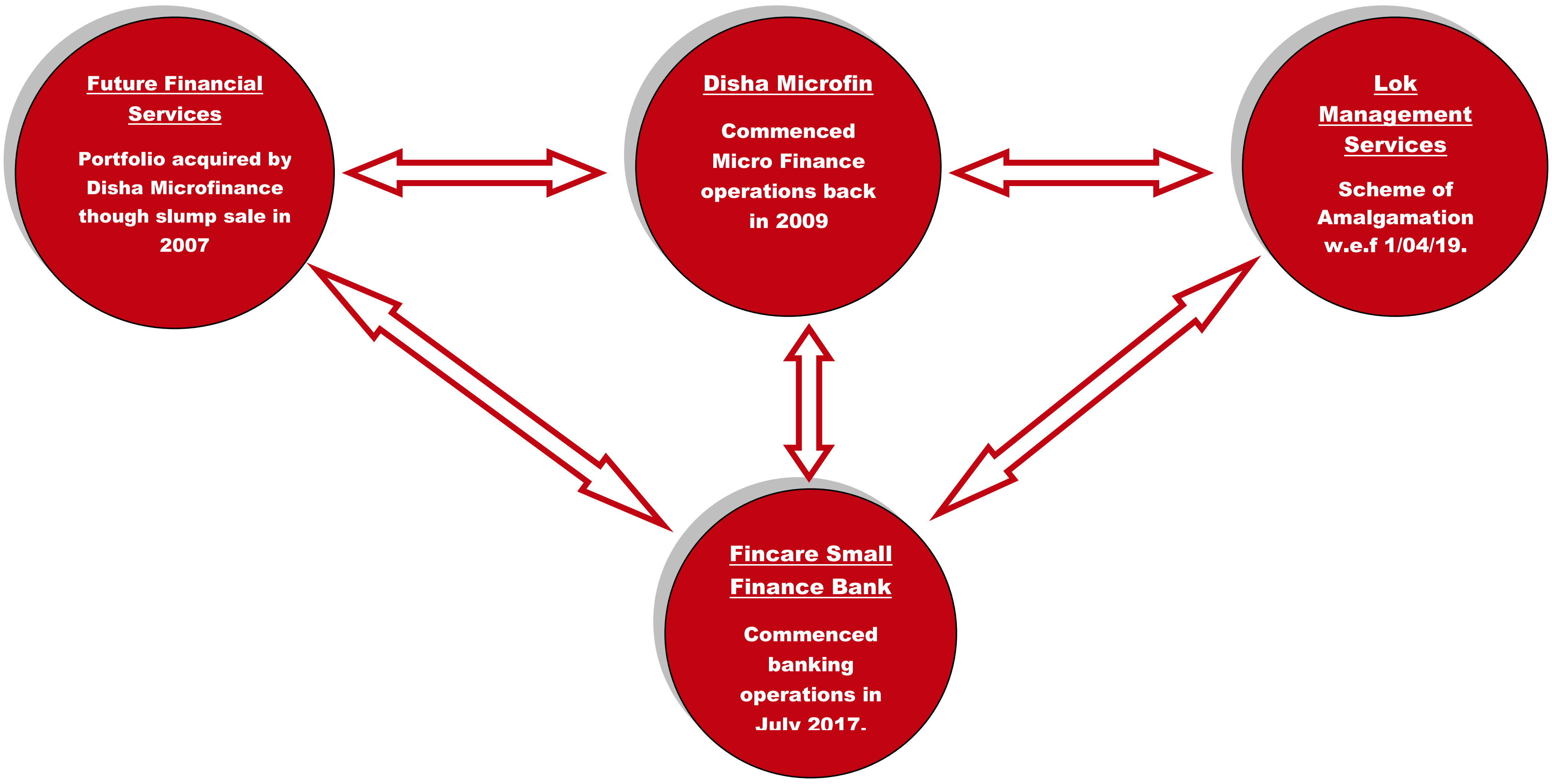
<u>Some of the financial highlights are:</u>

- **The Bank's net NPAs stood at 0.41% in FY19-20 showcasing the effectiveness of the Bank's robust processes and business practices**
- **The Bank remained well-capitalised with CRAR being maintained well above the regulatory requirement of 15% for Small Finance Banks**
- **The Bank's net worth, as on 31st March, 2020, was ₹904 Crore with a CRAR of 29.3%**
- **The total business of the Bank grew 97% Y-o-Y from ₹4,808 Crore as on 31st March, 2019 to ₹9,470 Crore as on 31st March, 2020**
- **Gross advances rose to ₹4,841 Crore as on 31st March 2020 from ₹2,791 Crore as on 31st March, 2019, registering a growth of 73%**
- **The Bank's microloans portfolio grew by 80% Y-o-Y to reach ₹3,796 Crore as on 31st March, 2020 from ₹2,109 Crore as on 31st March, 2019**

ICRA ratings for Fincare:

Bank Facilities -	**A (Stable)**
Fixed Deposits -	**MA+ (Stable)**
Financial Instruments - (Withdrawn)	**AA (SO) & A (SO)**

ICRA



FINANCIAL ANALYSIS

Fincare Business Services Ltd (Consolidated)

(All amounts in ₹ Millions except otherwise stated)

Balance Sheet	Consolidated	
Particulars	**FY2020**	**FY2019**
Capital and liabilities		
Equity		
Equity share capital	328.42	328.42
Other equity	7,910.98	6,577.58
Equity attributable to equity holders of the	8,239.40	6,906.00
Non-controlling interest	607.96	452.58
Total equity	8,847.36	7,358.58
Financial Liabilities		
Payables	202.72	111.85
Debt securities	766.64	424.47
Borrowings (Other than debt securities)	17,410.66	18,432.69
Deposits	46,539.86	20,378.82
Subordinated liabilities	1,806.58	710.64
Other financial liabilities	374.35	743.11
Total	67100.81	40801.58
Non-Financial Liabilities		
Current tax liabilities (net)	1.35	3.78
Provisions	126.55	99.69
Contract liabilities	189.22	119.27
Other non-financial liabilities	96.57	72.01
Total	413.69	294.75
Total equity and liabilities	**76,361.86**	**48,454.91**
Assets		
Financial Assets		
Cash and cash equivalents	10,763.01	4,971.33
Bank Balances other than above	104.27	474.12
Trade receivables	1.12	28.51
Loans	51,671.92	33,986.84
Investments	10,408.43	7,025.40
Other financial assets	1,112.12	600.22
Total	**74,060.87**	**47,086.42**
Non-financial Assets		
Current tax assets (net)	33.82	78.34
Deferred tax assets (net)	510.28	364.96
Property, plant and equipment	1,095.95	307.84
Capital work in progress		0.34
Goodwill	418.33	418.33
Other intangible assets	27.1	28.87
Other non-financial assets	215.51	169.81
Total	**2300.99**	**1368.49**
Total Assets	**76,361.86**	**48,454.91**

Being a holding company primarily, the assets and liabilities are primarily driven by the financials of the Fincare Small Finance Bank. The balances kept with the RBI are presented under 'Cash and cash equivalents', whereas term deposits are covered under 'Bank Balances other than above'.

The company has mutual fund investments and government securities as well under investments. All the company's investments are within India itself. In addition, most of the addition of its assets are that of fixtures, and equipments.

The company does have Goodwill, although the estimation of the recoverable amount from its cash generating units exceed the carrying cost. Thus no impairment has been triggered.

The debt securities are of the company are unsecured.

All the borrowings of the company are from within the country itself. The company has no foreign debt. Nearly ₹3.36 crores of deposits sitting in the company are from KMP, or from relatives of the same.

Fincare Small Finance Bank

(All amounts in ₹ Lakh except otherwise stated)

Balance Sheet				
Particulars	**FY2020**	**FY2019**	**FY2018**	**FY2017**
Capital and liabilities				
Equity				
Equity share capital	6,361	5,644	3,746	3,746
Reserves and surplus	84,016	60,956	30,009	39,764
Total equity	**90,377**	**66,600**	**33,755**	**43,510**
Deposits	4,65,393	2,04,321	72,710	-
Borrowings	1,36,816	1,28,307	1,06,898	63,110
Other liabilities and provisions	19,041	17,946	14,049	13,158
Total equity and liabilities	**7,11,627**	**4,17,174**	**2,27,412**	**1,19,778**
Assets				
Cash and balances with Reserve Bank of India	1,05,853	14,191	4,765	73
Balances with banks and money at call and short notice	2,437	37,967	20,386	30,914
Investments	1,00,696	70,086	27,271	-
Advances	4,81,558	2,76,469	1,62,960	77,720
Fixed assets	4,036	3,307	2,230	880
Other assets	17,047	15,154	9,800	10,191
Total Assets	**7,11,627**	**4,17,174**	**2,27,412**	**1,19,778**

During the year FY2020, 7174500 shares (FV ₹10) were issued and subscribed, representing a value of ~₹ 7.17 crore.

Demand Deposits have more than tripled. Savings Deposits over the FY202 have more than doubled. The company has no branches outside of India. The company also borrowed from the central bank(RBI) ~₹103 crore.

The bank's provision towards it's standards assets grew almost 11 times. This is due to the moratorium on the payment of instalments and/or interest provided by RBI guidelines relating to COVID-19 Regulatory Package.

The bank's cash balances kept with the RBI also have grown, owing to the increased deposits. The bank's investments in government securities have grown by ~₹ 300 crore.

The bank has approximately doubled its lending for priority sectors. The bank's term loans grew by an impressive 74.12% during the period.

(All amounts in ₹ Lakh except otherwise stated)

Profit and Loss Account					
Particulars	**FY2020**	**FY2019**	**FY2018**	**FY2017**	**CAGR**
I. Income					
Interest earned	1,07,026	60,515	31,408	16,739	85.60%
Other income	14,546	6,973	3,653	1,815	100.12%
Total Income	**1,21,572**	**67,488**	**35,061**	**18,554**	87.13%
II. Expenditure					
Interest expended	45,150	22,907	11,891	6,559	90.23%
Operating expenses	42,613	29,581	17,805	10,234	60.88%
Provision and contingencies	19,464	4,802	15,120	893	179.34%
Total Expenditure	**1,07,227**	**57,290**	**44,816**	**17,686**	82.34%
III. Profit/(loss)					
Net profit for the year	14,345	10,198	-9,755	868	154.72%
(Loss) brought forward	-618	-7,955	1,800	1,106	-
Total Profit	**13,727**	**2,243**	**-7,955**	**1,974**	90.87%
IV. Appropriation/transfers					
Transfer to statutory reserves	3,587	2,550	-	174	
Transfer to other reserves	433	311	-	-	
Transfer to Government/proposed dividend	-		-	-	
Total	**4,020**	**2,861**	**0**	**174**	
Balance carried over to the balance sheet for next FY	**9,707**	**-618**	**-7,955**	**1,800**	

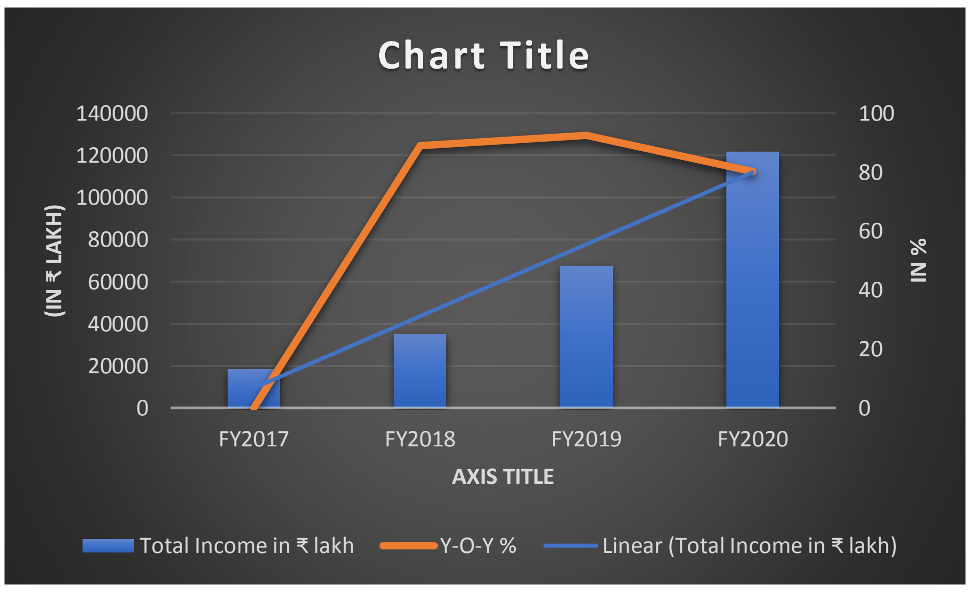
Interest earned during the period has shown a very impressive CAGR of nearly ~85%. Owing to the higher lendings during the period, their income has grown subsequently. Also due to the higher deposits with RBI, interest earned on central bank deposits more than quintupled (grew 5x).

The bank has acted as a Tri-party agent in Tri Party Repo lending arrangements and has earned interest from the same. It grew from ₹9 lakh in the previous FY to ₹7.41 crore. The company has also acted as an intermediary for investments and financial transactions, causing them to grow their commission, exchange and brokerage earnings by ~60%. The company alone earned nearly ₹35.77 crore from sale of Priority Sector Lending Certificates.

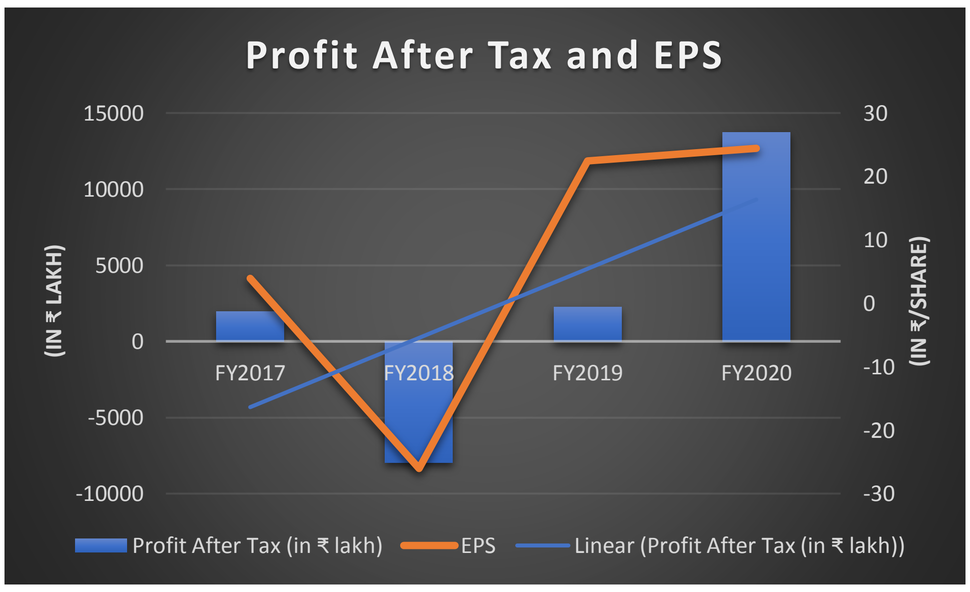
Higher deposits from the public and other banks have increased their interest expended. As of 31st March, 2020, total number of active accounts are 95,631.

KEY STATISTICS

(IN ₹ LAKH)	FY2020	FY2019	FY2018	FY2017
TOTAL REVENUE	1,21,572	67,488	35,061	18,554
Y-O-Y %	80.14%	92.49%	88.97%	-



	FY2020	FY2019	FY2018	FY2017
PROFIT AFTER TAX(IN ₹ LAKH)	13727	2243	-7955	1974
EPS (IN ₹/SHARE)	3.91	-26.04	22.41	24.43



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