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**IPO Report**

15<sup>th</sup> Sept'24

**Snapshot**

Company is a diversified financial services platform set up primarily with the mission of catering to the diverse retail credit requirements of the under-served households and businesses in India. Over the last 15 years, company's approach has been to create a differentiated and comprehensive play on the retail credit ecosystem in India spread across sectors. Since 2009, when company entered the financial inclusion space, company have facilitated financing of over ₹1.73 trillion that has impacted over 101.82 million lives across India, as of March 31, 2024. According to the CRISIL Report, company is one of the leading players amongst India's diversified NBFCs in terms of Assets under Management ("AUM") as of March 31, 2024, with a business model diversified across offerings, sectors, products, geographies and borrower categories.

**VALUATION**

Company is bringing the issue at price band of Rs 249-263 per share at p/b multiple of 1.40x on post issue book value basis. Company has large addressable and underpenetrated market with strong sectoral expertise that improves efficiencies and decreases costs. Also company has large ecosystem of partners and data and technology platform creating strong network effects. Company has diversified sources of funding for its own deployment and proactive liquidity management has strong ESG framework integrated into the business model with focus on creating sustainable impact and climate-smart lending. Hence, we have given "Subscribe" recommendation to issue.

<b>Price Band (Rs./Share)</b>	249-263
Opening date of the issue	16 <sup>th</sup> Sept '2024
Closing Date of the issue	19 <sup>th</sup> Sept '2024
No of shares pre issue	142,314,010 Eq Shares
Issue Size	Rs 762-777 Cr
Fresh issue	Rs 500 Cr
Offer For Sale	10,532,320 Eq Shares
No of shares	30,669,592-29,697,646 Eq Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	24
Employee Discount	Rs 24/share

**BIDDING DETAILS**

QIBs (Including Anchor)	50% of the offer (Approx 15,039,358 Eq Shares)
Non-Institutional	15% of the offer (Approx 45,11,808 Eq Shares)
Retail	35 % of the offer ( Approx 10,527,552 Eq Shares)
Employee Reservation	5,90,874 Equity Shares
Lead managers	Axis Capital, ICICI Securities, Citigroup Global Markets
Registrar to the issue	KFin Technologies Ltd

**WHAT WE LIKE**

**Large addressable and underpenetrated market with strong sectoral expertise**

In terms of the credit to GDP ratio, India has a low credit penetration compared with other developing countries, such as, China, indicating a significant untapped potential. Further, according to the World Bank's Global Findex Database 2021, 230 million unbanked adults live in India. Rural areas, which accounted for 47% of GDP, received only 9% of the overall banking credit, as of March 31, 2024, which also shows the vast market opportunity for banks and NBFCs to lend in these areas. Under-served households and businesses represent a significant proportion of India's population that faces challenges in obtaining credit due to reasons such as a lack of credit history and the inability to provide collateral.

**Large ecosystem of partners and data and technology platform creating strong network effects**

Company have, over the last 15 years, by serving the Indian retail credit market and facilitating financing of over ₹1.73 trillion since 2009, that has impacted over 101.82 million lives, created an ecosystem of 328 Originator Partners, 50 Retail Lending Partners and 1,158 Investor Partners, as of March 31, 2024, multi-channel offerings comprising Lending, Placements and Fund Management channels, proprietary technology solutions and a substantial data repository of over 35.17 million data points, as of March 31, 2024.

**Strong ESG framework integrated into the business model with focus on creating sustainable impact and climate-smart lending**

Company enforce ESG parameters as part of its corporate governance commitment to its shareholders including through an adherence to the LeapFrog group's 'Responsible Investment Code', with the objective of delivering both financial and social results by incorporating best practices across environmental, social and governance impact management. Company also has an ESG officer along with an extended ESG team to oversee company's ESG practices.



## COMPANY BACKGROUND

Company have developed domain expertise in enabling credit across its focused sectors in India, namely, micro, small and medium enterprises (“MSMEs”) financing, microfinance (“MFI”), consumer finance, vehicle finance, affordable housing finance and agricultural finance. Company have been operating in the MSME, MFI and consumer finance sectors for over 14 years, 15 years and nine years, respectively. The retail credit market (includes housing finance, vehicle financing, gold loans, education loans, consumer durables, personal loans, credit cards and microfinance) in India was ₹75.2 trillion, as of Fiscal 2024 and has rapidly grown at a CAGR of 16.0% during Fiscals 2020 and 2024 .

Company cater to this retail credit market through a multi-channel approach that includes: (i) extending financing from company’s balance sheet (“Lending”), to Originator Partners in the form of loans or investment in their debt to enable on-lending to the retail customer (“Intermediate Retail Lending”) and directly to under-served households and businesses (“Direct to Customer Lending”) either in collaboration with its Retail Lending Partners or through company’s branch network to offer rural finance and MSME lending, with AUM of ₹117,100.19 million across 671 districts, 28 states and seven union territories in India, as of March 31, 2024; (ii) enabling credit for company’s Originator Partners through various financing products (“Placements”), with aggregate Placements volume of ₹1,019,038.92 million, as of March 31, 2024; and (iii) managing debt funds and providing portfolio management services (“Fund Management”), with aggregate fund deployed of ₹120,785.58 million across 10 alternate investment funds (“AIFs”) and three portfolio management service (“PMS”) funds, as of March 31, 2024. Company have built an efficient and scalable business model, supported by company’s proprietary end-to-end integrated technology product suite customised to multiple sectors.

Company’s in-house technology stack consists of: (i) Nimbus, a curated debt platform that enables end-to-end processing of debt transactions; (ii) nPOS, a co-lending and co-origination technology solution based on application programming interfaces (“API”); (iii) Nu Score, a customised machine learning based analytical module designed to assist company’s Originator Partners in the loan underwriting process; and (iv) Altifi, an alternative retail debt investment platform. Company’s differentiated credit underwriting processes and risk models have helped company deliver strong asset quality and risk adjusted returns consistently across business cycles and macro events. Company’s risk models are supported by a substantial data repository comprising over 35.17 million data points, as of March 31, 2024, on portfolios across multiple sectors that company have assessed throughout its journey, and qualitative field-level insights that aid credit assessment and monitoring. According to the CRISIL Report, company had one of the lowest gross non-performing assets (“GNPA”) of 0.45% and net nonperforming assets (“NNPA”) of 0.08%, as of Fiscal 2024.

### What company do

#### **Multi-channel approach to enable access to debt capital**

Company’s three primary channels: (i) Lending; (ii) Placements; and (iii) Fund Management, delivered through its proprietary technology stack, enable streamlined and efficient digital financing solutions, and provide access to credit to the underserved categories of India across company’s focused sectors.

**Lending:** Company is a systemically important non-deposit taking non-banking finance company registered with the RBI. From company’s balance sheet, company extend financing in the following manner:

• **Intermediate Retail Lending:** Company lend to and guarantee the borrowings of its large network of financial institution partners, technology platforms (such as financial technology businesses (“Fintechs”)) and other entities that act as business correspondents to originate financial exposure (collectively, “Originator Partners”). Company finance Originator Partners in a variety of ways depending on their specific needs, such as: (i) lending to and investing in debt securities issued by Originator Partners primarily for the purpose of retail onlending by them. Such products include loans, non-convertible debentures (“NCDs”), market-linked debentures and commercial papers (“CPs”). (ii) providing guarantees for borrowings by Originator Partners; and (iii) investing in retail portfolios originated by Originator Partners through portfolio financing transactions such as rated securitization and direct assignment. These transactions involve a hypothecation of the borrower’s assets by the Originator Partner to ensure fulfilment of the debt obligation upon default in payment by the borrower to minimise exposure. • **Direct to Customer Lending:** Company extend loans directly to under-served households and businesses (“Direct to Customer Borrowers”) in the MSME, MFI, consumer and vehicle finance sectors through a ‘phygital’ (physical plus digital) approach which is a combination of leveraging company’s technology platforms and data-first approach with infrastructure network of 316 physical branches across India and 50 select Originator Partners who enable company to lend directly to its Direct to Customer Borrowers (“Retail Lending Partners”), as of March 31, 2024, and from whom company avail services such as loan origination, KYC verification and validation, loan servicing, data collection, primary borrower interface, collection and recoveries, customer service and grievance redressal.

**Placements:** Through company’s technology platform, Nimbus, company work with a large network of investors across different investor classes who use company as a platform to access opportunities to invest in under-served sectors in India (“Investor Partners”), including through company’s Placements channel which includes structure and syndicate financing through a variety of debt, credit-enhanced debt and portfolio financing products for its Originator Partners and company also credit enhance/ co-invest in transactions as required to achieve the target credit rating and/or provide comfort to its Investor Partners. This differentiates company from other facilitators in the market.

**Fund Management:** Company’s Fund Management channel is operated through its subsidiary, NAIM. Based on contributions received from Investor Partners, NAIM manages debt funds that invest largely in the sub-set of Originator Partners and mid-market companies in line with the investment mandate of the respective funds. Company has also made capital contributions to the funds managed by NAIM, in addition to the sponsor contribution by NAIM in each of its funds. Further, in August 2021, NAIM obtained its registration as a portfolio manager from SEBI to conduct PMS and launched its first PMS fund in Fiscal 2023. As of March 31, 2024, company had raised ₹37,450.00 million in investor commitments across 10 AIFs and three PMS funds, out of which company have facilitated successful exits for Investor Partners in four AIFs and one PMS fund.



INVESTMENT RATIONALE	
<i>Proprietary technology product suite transforming the debt market ecosystem.</i>	Company is a technology driven financial services platform supported by in-house technology solutions and architecture driving a scalable and sustainable business model that enables company to expand and scale company’s business and drive growth in revenue. Company’s digital initiatives have earned it the ‘Best Digital NBFC of the Year’ award at the ETBFSI Excellence Awards in 2020, “Excellence in Digital Execution for Process Innovation” at the MINT   TechCircle Business Transformation Awards 2021, Jury’s Choice Award at the Elets 2nd NBFC 100 Leader of Excellence Awards under the category ‘Outstanding name in Digital Transformation’ in 2023, ET and the Times Group ‘BFSI Best Brands’ award in 2024 and the ‘Preferred NBFC of the year’ award at the 4th edition of the Smart CX Summit & Awards, 2024.
<i>Robust risk management based on domain expertise, proprietary risk models and data repository driving asset quality</i>	Company consider risk monitoring as a central aspect of company’s operations, extending across all sectors, channels, and borrower categories. Risk management forms the core of company’s business, and over time, company have developed and deployed a tailored risk management system. Company have customized its risk management systems for each of the focused sectors and channels in which it operate and these systems which are specific to each offering, enable it to develop a diversified portfolio and address both risks. Company leverage its own expertise and data to develop customized and proprietary risk models that suit company’s offerings, products and markets, and enhance its capital efficiency. Most of company’s credit risk management processes are enhanced through deep analytical models built on Nimbus, which leverages internal and external data sources to create in-depth risk analytics and modelling, and also has early warning systems that help company to be proactive in dealing with and minimising risks. With additional data points and sources being added every year to Nimbus, the risk models continue to become more robust. Company’s quantitative analysis is based on over 35.17 million data points which includes: (a) loan pools company have evaluated and invested in for its Originator Partners from its Investor Partners through securitisations and direct assignments, as of March 31, 2024, and (b) over 18.58 million Direct to Customer Lending loans disbursed by company, as of March 31, 2024. Moreover, secondary data from external data sources such as credit bureaus and economic research portals is used for analysing pin code level borrower characteristics such as indebtedness, collection efficiencies and sector growth trends.
<i>Diversified sources of funding for company’s own deployment and proactive liquidity management</i>	Company maintain a well-diversified funding profile that is underpinned by its established relationships with its lenders and investors, proactive liquidity management system and strong credit rating. Company’s diversified base of lenders (including various banks, offshore financial institutions and NBFCs) and investors provide company a strong base for increased funding. In addition, its credit rating is a key enabler for company’s diversified funding profile. Company’s credit rating was also upgraded to AA- (Stable) credit rating by ICRA and India Ratings in March 2023 and September 2023, respectively, from A+ credit rating for all of company’s long-term facilities and non-convertible debentures, respectively. ICRA further re-affirmed the AA- (Stable) credit rating for all its long -term facilities and non-convertible debentures in July 2024. For short-term bank facilities and commercial papers, A1+ rating was re-affirmed by ICRA and CARE Edge in March 2024 and further reaffirmed in July 2024. Since 2015, Company’s commercial paper program has been rated A1+



## OBJECTS OF OFFER

The Offer consists of the Fresh Issue of Equity Shares aggregating up to ₹5,000.00 million and the Offer for Sale of up to 10,532,320 Equity Shares of face value ₹10 each.

### **Objects of the Fresh Issue**

Company proposes to utilize the Net Proceeds to meet future capital requirements towards onward lending.

## RISKS

Company operate a diversified business model that exposes it to various risks and an inability to manage such risks may have an adverse effect on company's business, results of operations, cash flows and financial condition.

Source:RHP

## INDUSTRY OVERVIEW

### **NBFCs have a reasonable market share across segments**

Under-served households and businesses represent a significant proportion of India's population that faces challenges in obtaining credit due to reasons such as a lack of credit history and the inability to provide collateral. Government initiatives such as Pradhan Mantri Jan-Dhan Yojana (PMJDY), Aadhaar, and widespread digitization (referred collectively as the 'JAM Trinity') have expanded the formal financial inclusion for underserved Indian population. Additionally, the widespread availability of affordable data and digital disruption has transformed the financing landscape in India. NBFCs have generally been able to address this opportunity on account of their strong origination skills, extensive reach, better customer service, faster processing, streamlined documentation requirements, digitization of customer on-boarding process, customized product offerings, local knowledge, and differentiated credit appraisal methodology. The rapid evolution of fintechs over the last few years has added another dimension to the market served by NBFCs and has fuelled rapid growth across the landscape.

NBFCs have consistently gained or maintained market share across most asset classes over the last few years. Though, in certain segments such as housing finance to prime customers, they have lost market share to banks due to the decline in market interest rates. In the gold loans market, NBFCs slightly lost market share in Fiscal 2022 due to increasing focus of banks (both public and private) towards gold loans as well as RBI permitting banks to offer gold loans at a higher loan-to-value amidst the COVID-19 pandemic. Nevertheless, NBFCs continue to have a healthy market share across other segments. Impact of digitization on retail credit Digital lending products such as instant loans or online personal loans have completely revolutionised retail credit due to great convenience that it offers to the customers. The underwriting process, while essential for assessing borrowers, can sometimes be time-consuming and reliant on subjective elements. Thus, there is room for improvement in leveraging all available data efficiently. Organizations may find opportunities to streamline the process, making it more agile and resource effective. Lenders are increasingly using their web platforms and creating apps to register, score, approve and disburse loans to their customers. For lenders, digitization has enabled them to make informed decision making through business insight generation and data visualization. Moreover, it has improved lead generation for lenders with faster onboarding of customers, comprehensive loan servicing, and fraud detection. For customers, it has become easier to gather information about different lenders with the help of digitization and compare them. Further, online loan application has made it convenient for borrowers to fill loan applications from remote locations, calculate EMIs, check for eligibility of loan amount and provide all documents digitally which enhances customer experience throughout the process and help them make an informed decision. Furthermore, the India Stack, a set of APIs and tools that enable the building of digital platforms for various services, has been a game-changer in the retail credit sector. The India Stack includes Aadhaar (for identity verification), e-KYC (for paperless Know Your Customer processes), eSign (for digitally signing documents), and the Unified Payments Interface (UPI) for seamless and instant fund transfers. All of these components have been seamlessly integrated into the digital lending ecosystem, making it easier for lenders to streamline their operations and offer a seamless experience to borrowers. Looking ahead, the digitization of retail credit in India is expected to continue evolving.



**Consolidated Financials**

(Rs in Mn)

<b>Financials (Mn)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
Total Income	9165.45	13112.00	19060.33
Total Expenses	6316.47	9488.88	13623.87
Pre Provision Profit	2848.98	3623.12	5436.46
Provisions	365.09	392.14	1224.38
PBT	2483.89	3230.98	4212.08
Tax	0.00	-18.73	-9.72
PAT	2483.89	3212.25	4202.36
Eq Cap	889.08	890.31	893.85
Net Worth	18,321.12	20,677.30	23,204.11
EPS	19.52	25.85	34.61
Book value	232.25	259.60	177.06
NIM %	5.53	6.48	8.33
ROE%	10.38	12.55	14.54
ROA%	2.60	2.73	2.97
Credit Cost	0.55	0.47	1.18
GNPA%	0.50	0.77	0.45
NNPA%	0.21	0.40	0.08
CRAR%	22.79	20.77	18.26

(Source: RHP)

**Peer Comparison**

<b>Company Name</b>	<b>Face value</b>	<b>EPS</b>	<b>NAV</b>	<b>P/E</b>	<b>Rev (Million)</b>	<b>RONW %</b>
<i>Northern Arc Capital Limited</i>	<i>10.00</i>	<i>34.61</i>	<i>177.06</i>	<i>.</i>	<i>18900.84</i>	<i>13.32</i>
<b>Peers</b>						
Five-Star Business Finance Limited ("Five Star")	1.00	28.64	177.68	26.76	21828.47	16.09
SBFC Finance Limited ("SBFC")	10.00	2.35	25.87	36.64	10186.40	8.53
CreditAccess Grameen Limited ("CreditAccess")	10.00	90.88	1809.93	13.12	51666.70	5.01
Fusion Micro Finance Limited ("Fusion")	10.00	50.30	281.93	6.21	23167.30	17.74
Bajaj Finance Limited ("Bajaj Finance")	2.00	236.89	1239.03	30.93	549694.90	18.84
Cholamandalam Investment and Finance Company Limited ("Cholamandalam")	2.00	41.17	233.26	36.22	191396.20	17.46
Poonawalla Fincorp Limited ("Poonawalla")	2.00	21.89	105.44	17.81	31090.10	20.60
MAS Financial Services Limited ("MAS")	10.00	15.31	108.71	18.55	12791.60	14.08



(Source: RHP)

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