SPARK CAPITAL

INVESTMENT BANKING NEWSLETTER
FINANCIAL SERVICES

MARCH 2018

FROM THE DIRECTOR'S DESK

Dear Reader,

Thank you for your support and feedback on our January edition of the financial services newsletter. As we look ahead for the upcoming financial year, here are some of the themes/ snippets we see playing out, based on our interactions with NBFCs, banks and insurers:

- **The PSU situation:** Even as the government tries to address the stress resolution framework and plug holes in delivery of LCs/ BGs and address the capital problem through a potential bank holding company, the bond markets will continue to drive credit and private banks/ NBFCs will continue to gain market share

- **MFIs:** We believe most SFBs have completed the transition into banks (branches, IT systems, hiring, treasury functions) and now ready to address growth in FY19. We see at least 4 IPOs from large players in FY19 led by the success of Bandhan's. Select assets in north India may go through consolidation with private banks and large NBFCs who are the keen acquirers. Growth commentary from the largest NBFC-MFI suggests "40-50% growth in the loan book for the next three years aided by the low penetration of formal credit in rural areas"

- **Borrowing rates are likely to harden over FY19 (~50bps):** G-Sec yields have risen by over c.125 bps since July 2017 and AAA borrowings at 7.8%. We see ALM, especially of long tenor products such as housing, getting tested

- **Wealth:** Surely, the asset class to watch out for next 12 months given the success of SIP and MF AUM crossing ₹ 22 Tn, driven by record inflows into equities (40% of this is equity AUM). Visible interest from large PEs and private banks given benefits of distribution, cross sell especially in B15 locations (19% of industry AUM)

- **CV lending:** Our interaction with select large players suggests pick-up in CV loans over next 2-3 years as government spending on roads ramps up ahead of the upcoming elections. Freight rates improved to ~8.0-9.0% in Feb'18 over Dec'17, driven by increased fleet demand for infrastructure projects, fresh tenders in car carriers, increase in coal movement, growing e-commerce and FMCG sectors, uptick in manufacturing activity and stronger movement of various agri-products across the country

- **LAP and unsecured retail:** Industry feedback on high ticket LAP suggests segment is getting very competitive and may test certain NBFCs and private banks. One large private bank believes "unsecured retail can become an asset quality issue for the industry. The current corporate credit issues originated around 2010 when banks pulled back from retail and moved into corporate – there is a similar trend towards unsecured retail"

- **Health Insurance:** The segment is a great opportunity with ~60% of healthcare spending not insured, 70% of the industry in 5 states of Maharashtra, Tamil Nadu, Gujarat, Delhi, and Karnataka, significant under-penetration among SMEs, and only 5% of policies being sold online. Private health contributes 42% of general insurance industry followed by private general (22%) and public sector (14%); stand alone health insurers have 5% market share in premiums in the health sector. Some estimates suggest Modi-care can expand general insurance market by USD 3-4 Bn (15% of industry premiums).

In this issue, we have covered views of 3 industry segments - MFIs, health insurance, and wholesale lending. Mr Devesh Sachdev, who has successfully built a tech-driven MFI platform – Fusion Microfinance - servicing north and east India, shares his views on the industry. Mr Gaurav Kumar and Mr Vineet Sukumar, who have built a disruptive tech-driven wholesale lending platform – Vivriti Capital - share their thoughts on how execution in this industry will change going forward. Finally, we have covered insights from Dr. P. Nandagopal - a health insurance industry veteran - on how his tech-driven health insurance platform, Jiva, will plug key holes in distribution and servicing in the sector.

We hope that you will find this newsletter insightful and look forward to your comments and support.

See you in May next! ”

Abhijit Chiripal

Director & Head – Financial Services,
Investment Banking

WHAT'S INSIDE?

EXPERT SPEAK

IN FOCUS: HEALTH INSURANCE

Thematic Interview

We interacted with Dr P. Nandagopal, a health insurance industry veteran and the founder and CEO of Insurance Inbox and Jive Health Insurance. He talks about the health insurance industry, formats of distributing insurance, and benefits of use of technology in insurance.

Dr P. Nandagopal

1. As an industry veteran with ~3 decades of experience what are your views on the best format to deliver health insurance - general insurers or stand-alone health insurers; and why?

There's a clear data trail showing that customers over the years are preferring to insure their health risks with Stand-Alone- Health-Insurers (SAHI) than GI companies. GI companies are steadily and un-mistakenly losing their market share in retail health to SAHI companies year on year. The reasons are two fold (a). The world is getting very specialized. A specialist health company can understand and provide better service as 100% of its resources are invested in a single line with sharper focus as against GI companies which deal with machinery, motor, fire, construction, engineering risks and so on and health is only one of the dozens of products they sell. (b) Health is a personal matter that needs deeper and dynamic engagement with customer. On the other hand, GI risks of motor or fire are mechanical but not deeply dynamic and personal risks from insurance point of view.

2. Why is health insurance largely concentrated in Maharashtra, Delhi, Gujarat, Tamil Nadu and Karnataka? How do you believe health insurance can be taken to smaller cities and towns? Do you believe there is a large enough market and demand in tier 2 towns and cities?

If you look closely, the foot print of health insurance simply followed the foot print of industrial development and corporate health ecosystem in these states. The 5 top industrial states account for bulk of organized sector which employed manpower with corporate health benefits that drove the first wave of growth in the sector. Companies chasing this segment alone, became over-competitive in the group corporate segment ignoring the vast swathes of uninsured population in most post populous states of UP, Bihar, Rajasthan, West Bengal, AP, MP and Telangana because these States lagged behind in organized employment that had embedded health insurance benefits. To reach out to newer, more potential and profitable markets we need to do two things quickly (a) from demand side, develop a distribution channel that services these markets efficiently and (b) from supply side, develop a health care ecosystem beyond corporate hospitals that provide affordable health care and covered in the policy benefits.

3. Given that there are already 6 scaled up dedicated healthcare players and general insurers are also operating in this segment, do you believe there is space for new standalone players such as Jiva, Acco, Digit, etc. to operate in this segment? How do

Spark fact file

Investment Banking

USD 5.5 Bn
Total transaction value till date

USD 3.7 Bn
Capital raised till date

USD 1.8 Bn
M&A transaction value till date

300+
Number of fund relationships globally

USD 700 Mn
Average annual deal closure value for the last 3 years

11
No. of transactions > USD 100 Mn

~USD 1.2 Bn
Current value of transactions being executed

Financial Services

USD 1.7 Bn
Total transaction value till date

USD 400 Mn+
Current value of transactions being executed

EXPERT SPEAK

Full Service, Mid-Market I-Bank

- Investment Banking (VC, PE, M&A, IPO, QIP, PIPE)
- Institutional Equities
- Fixed Income solutions
- Investment Advisory

Knowledge Banking

- Dedicated sector teams with deep domain expertise
- Ability to bring new ideas to the market
  - Manappuram (2007)
  - Equitas (2010)
  - Wildcraft (2013)
  - India Shelter (2015)

Relationship Banking

- Over 24 clients for whom we have closed multiple transactions
- Consummated ~USD 1.5 Bn of transaction value in repeat business

Deep Distribution

- Extensive reach to over 300 funds across
  - Private Equity
  - Hedge Funds
  - Family Offices
  - Sovereign Funds
  - Corporates

you believe new entrants could differentiate themselves from the existing players?

I can give a simple answer. It is not about how many companies are there in the market but how well they are reaching out and servicing the customer. If Jiva is better than others, customers prefer us, if we are not, we have no case. The fact is every time, there is competition, everyone becomes better at their game. Jiva will have to be better than the best. That's our simple success formula.

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4. What do you believe is the best format of distribution for insurance? What according to you should the insurers do to leverage unconventional channels to build scale in this business cost effectively?

My view is all formats of distribution are good provided the CAC (customer acquisition costs) are lower. But some channels costs more than others not because of their inherent cost structure, but because of the inherent deficiency of the insurance company to manage them in a low cost model. The key to successful distribution is to keep the costs low. Whoever, finds the magic formula to achieve this is going to be the winner. It may be conventional or unconventional- it could be agency, or banks- but costs have to be lower and productivity higher- It takes very deep expertise to manage this most tricky thing in insurance distribution.

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5. Given that the combined ratio of all the standalone health insurance players are consistently ~100% (or more in certain cases) as of FY17, what do you believe are the levers to improve the same? Is it ground-braking changes in distribution to reduce the expense ratio or improvements to underwriting quality or a combination of both?

Combined loss ratios of SAHI companies are much better than GI companies. The key lever is to stay focused on retail and on developing cost efficient distribution channels. If we can't do it, we lose money. Many think that claims is driver of costs. No, it's your distribution strategy (corporate or retail) and channel (low cost or high cost) that matters the most.

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6. How do you see the use of technology benefitting insurance in general, and health insurance in particular? Do you see this as disruptive to players who have hitherto built scale through old school routes or do you believe that they will be able to embrace this as easily as some of the tech focused players such as Jiva and Acco?

Not just in Health insurance or for that matter in financial services, technology everywhere will be the key disruptor. Health perhaps is the most complex phenomenon that's partly science and partly behavior. Those who can embed tech into their business models will be runners and those who transform their tech into business will be winners. By tech, I don't mean mere IT. Tech in health insurance is a far more broader and deeper subject than writing a code.

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7. What is your view on the GOI's new initiatives towards healthcare as part of our recent budget? Do you believe it could provide the most needed fillip for the health insurance sector?

Yes, Universal health care is the need of the hour. It would immensely benefit all stakeholders- the customer, the industry, the economy and the society. We need to have the grit and determination to provide healthcare to all of the humanity. Insurance companies, health care providers, Government everyone needs to collaborate in this gigantic mission.

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EXPERT SPEAK

Select Financial Services Transactions

December 2017
Advisor
To
SK Finance
Private Equity Fund Raise
From
NORWEST Venture Partners, evolvence India, Baring Private Equity Partners India
~USD 32 Mn

November 2017
Advisor
To
KINARA Visage Holdings & Finance Private Limited
Private Equity Fund Raise
From
unitus capital, Gaja Capital, GAWA Capital
~USD 15 Mn

July 2017
Exclusive Advisor
To
FIVE STAR
Private Equity Fund Raise
From
SEQUOIA, Morgan Stanley, NORWEST Venture Partners, matrix Partners India
~USD 52 Mn

March 2017
Exclusive Advisor
To
home first hffc We'll take you home
Private Equity Fund Raise
From
truenorth
USD 100 Mn

THE FINANCING-TECHNOLOGY COMBO

THE UP-AND-COMING

vivriti CAPITAL

We interviewed the founders of Vivriti Capital, one of India's up-and-coming technology-enabled marketplace and financing platform, on the debt syndication market, use of technology, and the way forward.

Gaurav Kumar
Founder & Director

Vineet Sukumar
Founder & Director

1. Tell us a little bit about your background.

Gaurav: Vineet and I have worked together for the last 8 years at IFMR Capital. I was one of the founding members of IFMR Capital. In my last role, I was the Chief Business Office of IFMR Capital and the CEO of IFMR Investment Adviser, providing capital market solutions to companies which impact low income households, responsible for building strategic partnerships with clients, business origination, credit appraisal, structuring and strategy. I was Instrumental in building the underwriting framework for underlying sectors. I built and managed more than Rs. 50,000 cr of financing with tight focus on risk management, which led to a near default-free track record over a decade. Over the last 10 years, I led a high-powered team, that built underwriting standards for the organisation, developed the client franchise, assessed credit quality, executed high volume and complex structured finance transactions and provided strategic advice to clients. I led expansion of business across asset classes. In terms of educational background, I am an MBA from IRMA and graduated from the University of Delhi.

Vineet: I joined IFMR Capital in 2010 after a stint at Standard Chartered and the TATA group. At IFMR Capital, I developed high quality businesses in financial services from start to scale; conceptualised long term strategy and business plan; disseminated to the operating teams; set business targets; built institutional capital markets coverage, both domestic and international; managed risk directly through the credit committee and participated in due diligence; structured new capital markets products and scaled them; managed and motivated high powered teams with high intensity to achieve challenging targets. In terms of education, I did MBA from IIM Bangalore and B-Tech from IIT Kharagpur.

SPARK CAPITAL

EXPERT SPEAK

Select Financial Services Transactions

March 2017

Exclusive Advisor

To

CreditAccess Asia

Private Equity Fund Raise

From

ADB

USD 32 Mn

February 2017

Co-Book Running Lead Manager

To

BSE

IPO

~USD 183 Mn

June 2016

Exclusive Advisor

To

Suryoday

Private Equity Fund Raise

From

USD 32 Mn

January 2016

Exclusive Advisor

To

CreditAccess Asia

Structured Capital Raise

From

Olympus Capital Asia

USD 30 Mn

2. How is the debt syndication/lending market evolving? Where does VC fit in this changing landscape? What gaps are you planning to address?

Gaurav: The lending and borrowing market is segmented. Investment banking desks of traditional banks and other institutions have debt syndication practices. Debt syndication in the category of NBFCs rated 'BBB' and below has been predominantly a business covered by independent professionals, chartered accountants or consultants leveraging their networks. The debt syndication market maps these segments and tries to match parties using networks. To elaborate, the lending market in India is dominated by banks and NBFCs in one category of the market; and there is a DCM play in the 'A' and above rated category of market.

Markets are evolving to consider transactions-based merit and beyond motivations like PSL across segments. Debt syndication in lower rated entities is now being done institutionally as well. The way we see the market evolving is that it needs transparency and efficiency while offering the core service. VC is a market place which addresses the requirements of all our clients. The trick is to be able to see what each of our individual client wants:

If a client wants 'speed': Given the investor coverage on the market place, the choice is provided to the client to pick and close the transaction;

If a client wants 'price': Wait for the right price. Check out all your options that are quoted and decide for yourself. The market is offering you this; now it is up to the client to decide. Yes, the client may seek our advice to change the structure of the transaction and come back again;

If a client wants an 'optimised solution': One can specify the same as well - client can toggle and see for himself what works before finalising.

Basically, the fundamental shift that VC marketplace has made is a mental shift of going from a controlled platform to a curative platform. We have given away the controls to the client which earlier lied with the syndicator or arranger.

Further, our intelligent platform is able to anticipate our client's requirement well in advance and suggest the options. Further, there is a significant scope in improving the efficiency everywhere. VCs addresses multiple gaps in the system namely process efficiencies and structuring efficiencies.

3. The business targets that you have laid out for the Company appears quite ambitious. How have you planned to address the multiple challenges arising from running a large marketplace + lending book, wholesale + retail customer base, etc.

Vineet: Yes, the plan has to be ambitious; otherwise, it doesn't justify the quality of team we have on board. We concentrated on the fundamentals of building the plan – growth focused and well diversified. For lending book, we will diversify across asset classes. For Institutional business, the plan is to diversify across corporate finance, across sectors by 2023. Quality people are going to be the differentiator of this organisation. Our ability to build systems, reinvent ourselves continuously to provide best customer experience in a financial institution set up is a challenge we have already taken up. We are investing heavily in infrastructure - people, technology, systems, training and security. We have invested significantly in data and tech security. We are building these in-house so that there is no compromise on this front. We have sought expert support in these matters already, looking into the future. Large part of the organization is being owned by employees to create long term wealth.

4. We understand that you are planning to use technology in a big way. What investments you have made in technology? What aspects of your business do you believe technology will have an impact on - Loan sourcing, loan underwriting, customer relationship management, or any other aspects?

EXPERT SPEAK

Select Financial Services Transactions

Sep 2015 Onwards
Exclusive Advisor
To
Select Institutional Buyers
Secondary Stake Acquisition
In
NSE
USD 403 Mn

May 2015
Exclusive Advisor
To
iSFC India Shelter Finance Corporation
Private Equity Fund Raise
From
SEQUOIA NEXUS VENTURE PARTNERS WESTBRIDGE CAPITAL
USD 43 Mn

February 2015
Exclusive Advisor
To
MANAPPURAM FINANCE LIMITED
Minority Stake Acquisition
In
ASIRVAD
USD 20 Mn

January 2015
Exclusive Advisor
To
NEWQUEST CAPITAL PARTNERS
Minority Stake Acquisition
In
Ujjivan Build a Better Life
USD 20 Mn

Gaurav: Technology is core to Vivriti Capital. We see that as a horizontal cutting across all verticals and functions. We see technology as infrastructure and have invested heavily in it - in terms of best brains to build the system. The technology platform is being built completely in-house. Venkat is leading our Technology team and has more than 20+ years of experience with Goldman Sachs and Amazon. Our learning is that the we turn things around faster and sharper if we control things ourselves. Accountability also is significantly higher. We have also reached out to the market for off the shelf products. Technology touches every aspect of our business. It starts with first step of getting to know any customer - corporate, institution - new/old/existing, triggering loan sourcing to underwriting to CRM, customer solutions and servicing to employee management to product structuring to everything that we do in this organisation. Engineering team leads the technology effort at VC and is one of the largest teams along with the Products team.

5. How has business traction been so far? What has your client/ investor feedback been?

Vineet: The business we have closed till date is the true testimony to what clients think about our model and the team. Thanks to the good wishes, we have been able to pull this off in just 6 months. Feedback on the quality of delivery and customer experience has been good. While we have sought soft feedback on demo of various versions of the marketplace, we are excited to see what kind of feedback we will get on the launch. We believe it will be a game changer. We had set ourselves a target of Rs. 3,000 Cr of business by FY 18 and we are on track to overachieve this number. We have done some landmark deals already – the first education loan securitization deal in the country with the DHFL group, one of the largest bond deals in the affordable housing space, etc.

6. What would you say have been the biggest challenges so far – Building a team, building client relationships, investor relationships or anything else?

Gaurav: Clients and investors expect highest quality and scale from this team in each and every aspect of our delivery. The biggest challenge was to uphold this goodwill. Goal ahead is to build this robust and strong business from ground zero which means not just one challenge but challenges along the journey. Right and like-minded people in the team will be the topmost internal challenge throughout. This done well, all other challenges should be secondary. Markets out there offer a lot of scope for business. If we are able to build a great team we will be the market leader, soon.

7. Where do you see the Company in 2023? What challenges do you see towards achieving this vision?

Vineet: Vivriti Capital will be the company known to offer the best customer experience in financial services. We would like to be the largest financial services marketplace in the country, with ₹ 1,00,000 Cr of volume through the marketplace. Our ability to attract the best talent and to retain them over the next 5 years is what will separate us from the rest. Secondly, the adoption of technology by all participants on our marketplace will be the key.

Select Financial Services Transactions

August 2014
Exclusive Advisor
To
DCB BANK
QIP
USD 42 Mn

August 2014
Exclusive Advisor
To
Karur Vysya Bank
QIP
USD 65 Mn

August 2014
Exclusive Advisor
To
shubham
Private Equity Fund Raise
From
Motilal Oswal Private Equity
USD 20 Mn

July 2014
Exclusive Advisor
To
Chola
QIP
USD 83 Mn

More Power To Rural Women

INSIGHTS FROM AN INDUSTRY VETERAN

Fusion Microfinance

We interacted with Mr Devesh Sachdev, Founder & CEO of Fusion Microfinance on his journey and the way forward. Fusion Microfinance is an RBI-registered NBFC-MFI, operating under the JLG lending model. It provides financial services to women entrepreneurs belonging to the economically and socially deprived sections of the society.

Devesh Sachdev
Founder & CEO

1. What made you start Fusion in 2010 and describe the journey to it becoming one of the top 10 NBFC MFI players?

In 2009-10, almost 60% of the population was financially unserved. Fusion was formed to become a medium that could bridge this gap. We wanted to create opportunities for the unserved women clients enabling them to channelize their true potential and help them contribute to uplift their household livelihood. The commercially sustainable model of the Microfinance Sector was a good medium to reach out to these women entrepreneurs. These women entrepreneurs had the potential to further create employment opportunities through their ventures. This helped inculcate a formal structure in the lives of the economically active women while making them financially literate. The rural and semi-urban areas in India have always witnessed a dearth of jobs with agriculture being the chief occupation. Fusion opened the door of employment for the women in these areas giving them an opportunity to become self-reliant and live with pride. This was the primary goal behind setting up Fusion.

It has been an excellent journey since inception. We have been steadfast in our goals due to a highly committed Fusion family of 3,000+ members, support of our shareholders and all the stakeholders.

2. What has been your mantra for success?

I am extremely passionate about the work we do at Fusion and this is what I look for in my team members too. 'Walking the talk' on serving rural women customers in a responsible manner is reflective of the ethos of brand Fusion. We have an extremely dedicated and a committed team who has helped us grow 10x from where we were in 2014.

Fusion is a board governed company with professionals running the day to day operations. We at Fusion are highly transparent and follow the highest standards of corporate governance, which helps us to maintain good dynamics and aids in decision making with all stakeholders.

3. Where do you believe is the MFI industry headed, in terms of Growth and Potential for consolidation?

The key reason for the growth of the sector has been adaptability to change, resilience in the face of challenges and an ability to maintain high repayment rates of almost 99+%. Currently, the sector touches only around 10-12 % of the households in India and there is enough head room to grow further. Focus on financial literacy drives, increased enablement of cash-in, cash-out points in remote areas using biometric authentication, growth in

EXPERT SPEAK

Select Financial Services Transactions

June 2014
Advisor
To
City Union Bank Ltd
QIP
USD 100 Mn

December 2013
Exclusive Advisor
To
equitas
Private Equity Fund Raise
From
CDC FMO
USD 38 Mn

July 2013
Exclusive Advisor
To
Hinduja Leyland Finance
Private Equity Fund Raise
From
EVERSTONE
USD 33 Mn

October 2012
Exclusive Advisor
To
equitas
Private Equity Fund Raise
From
IFC International Finance Corporation, IIFL
USD 31 Mn

digital transaction infrastructure will all be key drivers of growth.

The growing demand for microfinance in India and the increasing number of players in the industry have created a need for inorganic growth through mergers and acquisitions. Consolidation through mergers and acquisitions has several advantages including lower cost of funds, shared resources, faster client acquisition, better synergy, increased market share and economies of scale.

4. What in your mind are the key success factors for an MFI to succeed in the industry?

Efficient and effective operating model, long term strategy focusing on clients, solid IT framework in place with each field level employee using technology, dependable low-cost source of funds and adherence to internal and external policy guidelines.

5. Fusion is one of the few rural focused MFIs, while a majority of the market is Urban focused. Why did you decide to go rural?

Our mission has always been to reach out to the unbanked / underbanked section of the society. When we started Fusion, rural India was entering a phase where it was driving a new consumption revolution in the Indian economy. Both men & women aspired to grow through non-agriculture occupation. The enabling environment, be it in terms of new government focused rural policies leading to increased job creation to extensive use of technology in channelling bank transfers helped companies like Fusion reach the hitherto unserved.

6. The Industry is replete with examples of how players have grown aggressively but have often been materially impacted by external events. What is Fusion's approach to growth and risk mitigation strategy?

At Fusion, we have a holistic approach towards growth – augmenting our support verticals i.e. risk (extremely high focus), audit, IT and compliance with regulations and credit bureau. Our business is diversified across 14 states (one of the highest in the industry). We got our risk diagnostic assessment done in 2013. Risk mitigation has become a part of our DNA as we continue to grow in a very responsible manner.

Strengthening/ restoring the credit discipline and culture of repayment, operating cost optimization through IT enablement, a stronger self-regulatory commitment, safeguarding of the business model from natural calamities and external activism and mainstreaming of the business within the larger financial services sector in the country are the key constituents of our strategy.

7. What are some of the learnings for the industry in general and Fusion in specific from demonetization? How has the recovery been for the industry and Fusion?

We have ensured increased engagement with both clients and front staff enhancing communication channels. We have worked towards strengthening the capabilities of our front line staff. This increased focus on human capital has helped in de-risking on one hand and acted as a motivating catalyst on the other hand.

The sector has bounced back strongly and has handled the crisis in a matured manner. The support of external stakeholders like RBI on one hand and lenders / equity investors on the other has helped the sector to come out of the crisis and demonstrate resilience. We have also had our share of learnings – like moving towards digital and cashless disbursements – today we are operating at 55+% cashless disbursement on increased volumes v/s almost no cashless disbursement in early parts of 2017. The portfolio post demon is behaving similar to pre-demon levels.

8. The MFI industry has time and again gone through certain external shocks but demonstrated resilience and bounced back. What do you think players can do to prepare for / mitigate risk from potential macro events e.g. upcoming central elections?

EXPERT SPEAK

Select Financial Services Transactions

April 2012
Exclusive Advisor
To
Select Institutional Buyers
Secondary Stake Acquisition
In
Karur Vysya Bank
USD 55 Mn

March 2012
Exclusive Advisor
To
Select Institutional Buyers
Secondary Stake Acquisition
In
MANAPPURAM FINANCE LIMITED
USD 32 Mn

March 2010
Exclusive Advisor
To
equitas
Private Equity Fund Raise
From
helion CLSA AQUARIUS
USD 46 Mn

February 2010
Exclusive Advisor
To
MANAPPURAM FINANCE LIMITED
QIP
USD 55 Mn

- Having a well-diversified portfolio
- Strong motivated and skilled workforce
- Strong risk management, audit and IT platform to support business center
- Invest in digitization of disbursement and collection processes
- Focus on close engagement with customers via social initiatives
- Strong focus on collections and operational costs
- Sectoral level advocacy

9. How do you see the competition between SFBs and NBFC MFIs playing out in the medium term?

In time, SFBs will have to venture into diversified products and reduce their exposure to MFI. This means they will either reduce or not grow MFI books which will eventually lead to higher opportunity for NBFC-MFIs to grow their MFI books.

SFBs have a high penetration in urban area and their diversified products are also targeted towards urban customers. This creates tremendous opportunities for NBFC-MFIs in semi-urban and rural areas. Another factor is the scale at which the SFBs operate which leads to high operating costs due to infrastructure, technology, compliance & regulation. This is a major area of competency for NBFC MFIs as they can leverage on low cost distribution model with a comparatively shorter return window.

10. Demonetization has proved that the closer the customer association, the better the propensity to emerge stronger from an event led crisis (e.g. companies with higher customer engagement through CSR activities, weekly / monthly collections have emerged stronger post demonetization than others). What are your thoughts on this and how is Fusion driving customer engagement?

Fusion has taken various steps to drive customer engagement, including imparting focused training to our front-end staff on dealing with women customers. We have also tried to understand the client ecosystem and introduced important intervention in the life cycle of our clients, like conducting Digital Literacy and Financial Literacy Programs to make women aware of the importance of financial management. We also provide livelihood trainings and encourage them to inculcate these learnings in their day to day lives.

11. Across financial institutions, there is an increasing focus on the role of technology for better controls, higher productivity and ensuring efficient and scalable operations. How is Fusion adapting to and implementing technology across functions to drive tangible growth?

The overall technical architecture has improved as Aadhaar based, eKYC, introduction of tablets, etc. have helped us to relook the customer life cycle helping us to bring technology to the lives of the clients. We have moved to cloud based real time software platform way back in 2014, automated various processes to improve controls leading to higher efficiency. Currently, we are working on the next phase of digital conversion to further improve client interaction and handle scale.

12. With an AUM of ₹ 1,500cr. in sight for FY18, what are your future growth targets and what are the key pillars of this growth strategy going to be?

- We aspire to serve more than 5 million clients in the next 3-4 years and become a pan-India player. We aim to be a 5,000+ member firm with a strong field force
- Technology will be both the back bone and the face of our growth over the next 3 years as we will be bringing in mobility solutions, reduced usage of paper and cash through technology to cater to customer demands for convenience and turn-around time
- We will be also investing in a new vertical to focus on a robust Learning and Development framework that will have a combination of Digital and Physical architecture to cater to our field force across the country
- By focusing on People, Process and Technology, we look forward to realizing steady, profitable growth.

RECENT BFSI TRANSACTIONS IN INDIA

Select Financial Services Transactions

November 2008
Exclusive Advisor
To
MANAPPURAM FINANCE LIMITED
Private Equity Fund Raise
From
Ashmore SEQUOIA
USD 23 Mn

April 2008
Exclusive Advisor
To
TVS Finance & Services Ltd.
Delisting
From

Undisclosed

December 2007
Exclusive Advisor
To
MANAPPURAM FINANCE LIMITED
Private Equity Fund Raise
From
SEQUOIA
USD 18 Mn

December 2006
Exclusive Advisor
To
SHRIRAM City
Private Equity Fund Raise
From
Merrill Lynch Global Private Equity, ChrysCapital, Cambridge Place Investment Management
USD 55 Mn

A Private Equity Transactions

Target	Investor(s)	Amount (~₹ Cr)
Banks		
HDFC Bank	GIC, KKR	11,104
NBFCs		
Poshika Advisory Services	PAG, NewQuest, ADV Partners, Indgrowth Capital	650
Janalakshmi	HarbourVest (+ other investors)	600 - 700
SK Finance	Norwest Venture Partners, Evolvence India, Baring Private Equity Partners India	193
Samunnati	Accel, Elevar Equity, responsAbility	150
HFCs		
Repco Home Finance	Apax Partners	39
Diversified		
Religare	Bay Capital	916
FinTech		
Lendingkart	Temasek Holdings	566
credy	khosla ventures, Vy Capital	9
eduvanz	BLinC	3

For the period Jan-Feb 2018

B M&A Transactions

Target	Acquirer(s)	Amount (~₹ Cr)
Banks		
Catholic Syrian Bank	Fairfax India	1,180
NBFCs		
Capital First*	IDFC Bank	9,750

Source: Public sources
* Not completed/announced

RECENT BFSI TRANSACTIONS IN INDIA

Select Non-BFSI Transactions

December 2017
Advisor
To
Specsmakers
Private Equity Fund Raise
From
EIGHT ROADS
~USD 10 Mn

October 2017
Advisor
To
Yellow Diamond
IPO
~USD 74 Mn

September 2017
Exclusive Advisor
To
intellect Design for Digital
Rights Issue
USD 31 Mn

November 2016
Exclusive Advisor
To
Apollo
Private Equity Fund Raise
From
IFC International Finance Corporation World Bank Group
USD 68 Mn

Target	Acquirer(s)	Amount (~₹ Cr)
NBFCs		
Shriram	CarTrade.com	159
TRC Financial Services	Jupiter Capital	6
Asset Management		
PNB Principal Asset Management	Principal	NA
Others		
Transcorp Forex / Money Transfer	Ebix On-Demand Insurance Solutions	48
Chokhani Securities	Poshika Advisory Services	NA

For the period Jan-Feb 2018

C Equity Capital Market Transactions

Date	Company	Amount (~₹ Cr)
QIPs		
30-Jan-18	JM Financial	663
Rights Issue		
11-Jan-2018	Capital India Finance Ltd	780

For the period Jan-Feb 2018

LATEST NEWS AND ANNOUNCEMENTS

Select Non-BFSI Transactions

August 2016
Exclusive Advisor
To
Qwikcilver
Private Equity Fund Raise
From
SISTEMA, helion, ACCEL PARTNERS, amazon
USD 10 Mn

July 2016
Exclusive Advisor
To
CORONA Remedies Pvt. Ltd.
Private Equity Fund Raise
From
Creador
USD 17 Mn

May 2016
Exclusive Advisor
To
RAMESH HOSPITALS
Majority Stake Acquisition
By
Aster
USD 28 Mn

March 2016
Exclusive Advisor
To
UNBXD
Private Equity Fund Raise
From
NIRVANA, ICP INVENTUS CAPITAL PARTNERS, Indian Angel Network, IDG Ventures India
Undisclosed

Banks

BANKS HAVE RAISED DEPOSIT RATES

Various public and private sector banks have raised their deposit rates and MCLRs. Total rise in MCLR in 2018 ranges from 0.05% (Kotak) to 0.25% (IndusInd).

Deal

HDFC, BARING EYE CANARA'S STAKE IN CAN FIN HOMES

HDFC and Baring PE are in the final talks to acquire Canara Bank's 30% stake in the housing finance company Can Fin Homes. Baring's all-cash offer is said to have matched HDFC's cash-cum-share-swap proposal by value.

IPO

BANDHAN BANK CONCLUDES IPO

Bandhan Bank's ~₹ 44.7 Bn IPO has been oversubscribed by ~14.6 times, QIBs alone over-subscribe by ~38.7 times.

FinTech

RISING TRENDS IN DIGITIZATION

About 1.1 Bn digital transactions were recorded in January 2018. Among digital modes, UPI registered fastest growth this financial year, from about 7 Mn transfers in April 2017 to about 152 Mn in January 2018, translating into $2.5Bn worth of payments.

Macro

G-SEC YIELDS REMAIN HIGH IN Q3

Despite surplus liquidity prevailing in the system for the most part of the quarter, the weighted average yield of dated securities issued in Q3FY18 was up 7.04% against 6.76% in the last quarter

Banks

RBI CONTINUES TO CONTAINING THE NPA CRISIS

RBI has introduced the stressed assets resolution framework with introduction of insolvency and Bankruptcy Code under which any standard account which gets restructured shall be immediately downgraded to NPA. In case of default with any lender, all lenders shall initiate steps to implement a resolution plan.

AMC

INCREASING SHARE OF EQUITY IN TOTAL AUM OF AMCs

Share of equity in AMCs' AUM has increased to ~40% in Feb 2018, driven by net inflows of ~₹ 200 Bn in MF Equity Schemes.

Cyber Crime

CYBER CRIME COSTS FINANCIAL SERVICES FIRMS THE MOST

Firms in financial services are facing higher costs relating to cyber crimes as compared to firms in any other sector. The rate of successful breaches per firm in the financial services sector has jumped from 40 in 2012, to 125 last year.

Source: Public sources

FROM OUR EQUITIES DESK

Institutional Equities Highlights

236
Stocks under coverage

USD 1.2 Tn
Total market cap of stocks under coverage

₹ 260 Bn
Total cash market volume in H1FY18

350+
Number of fund relationships globally

"Go-to" broker for stocks in the mid-market space

THOMSON REUTERS
2017 INDIA ANALYST AWARDS
THOMSON REUTERS ANALYST AWARDS 2017 WINNER

Institutional Investor
5th position in 2017
All India research team

Financial Services

28
Stocks under coverage

~USD 330 Bn
Total market cap of Stocks under coverage

Spark Capital initiates coverage of Life Insurance Sector

Spark Equities' view on Life Insurance sector

After a period of prolonged weakness, new business growth for the life insurance industry revived strongly during FY16-18 (22% CAGR). The current growth level seems unsustainable from a medium term perspective as

- High ticket ULIPs drove growth (traditional product growth was flat), which are strongly correlated to stock market returns and any slow down in ULIPs would have a disproportionately higher impact;
- Growth was value and not volume driven; and
- Macro factors like lower interest rate on other saving products and benign inflation which favoured the sector are turning negative.

The current valuations (baring SBI Life) are building in sustenance of recent trends. The Indian Life Insurance sector is more of a cyclical story rather than the perceived structural one. Insurers with strong bancassurance due to their distribution advantage are better placed to tide over the reversal of the current cycle.

Life insurance in India is not a structural growth story: Spark does not believe that India is an under-penetrated market. Under-penetrated market, should not witness swings in their penetration level, but in India it has moved from 2.1% in FY02 to a peak of 4.1% in FY10, subsequently falling to 2.6% in FY15 (Comparable to FY04-05). Further, since FY12 no new company has applied for a life insurance license compared to seven companies applied for under-penetrated general insurance license

Bancassurance to dominate; coverage universe will benefit the most: Inherent cost advantage (variable cost model compared to 'fixed + variable' cost model of agency channel), access to easy customers and ability to sell high ticket size policies to bank customers led to increase in bancassurance contribution for private life insurers after 2010 ULIP norms. While agency channel (2nd largest channel) is struggling due to cost overruns.

Improvement in operating metric has peaked out; **further improvement hinges on growth:** Key operating metrics - persistency ratio, operating expense ratio and VNB margins improved sharply with revival in growth. Improvement in persistency was largely ULIP led, where the weighted avg. conservation ratio in ULIPs for the coverage universe improved from 70% in FY14 to 80% in FY18. Hence, sustenance of current persistency level is hinged on capital market performance.

SPARK CAPITAL

Source: SPARK Research

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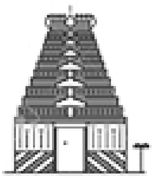

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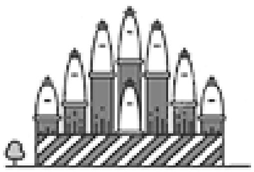

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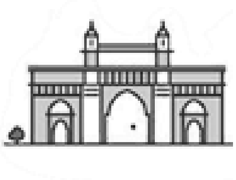

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