

Utkarsh Small Finance Bank

Bank | India

IPO | 11 July 2023

One of India's Leading Small Finance Banks

About the Company

Utkarsh Small Finance Bank Ltd. (USFB) is a small finance bank which offers asset products such as micro-banking loans, retail loans, wholesale lending, housing loans, commercial vehicle/construction equipment loans, and gold loans. USFB also offers savings accounts, current accounts, term/recurring deposit accounts, non-credit offerings comprising ATM-cum-debit cards, bill payment systems, distribute third-party point-of-sales terminals, mutual funds and insurance products. As of Mar'23, USFB operates across 26 states and Union Territories in India with 830 banking outlets, 15,424 employees and 3.59mn customers. Moreover, it had 13 Business Correspondents (BC) and 321 Direct Selling Agents (DSA). USFB is coming up with an IPO consisting fully of fresh issue of 200mn shares, aggregating to ~Rs5,000mn in the upper price band.

Diversification

USFB has been diversifying its product portfolio to include non-micro banking loans reducing dependence on the microfinance business and growing its secured loan portfolio. It offers a range of financial products and services that address the specific requirements of the customer segments while assessing factors including income profile and the type of security available. USFB aims to develop and offer a comprehensive suite of assets and liabilities products that will enable it to attract new customers and deepen relationship with the existing customer base. USFB intends to continue to grow the asset portfolio by offering new products that cater to all customer segments.

Focus on Digitization

USFB leverages the use of technology to provide transactional ease through internet and mobile banking and on-boarding convenience through digital on-boarding of customers with the use of handheld devices. USFB plans to scale-up the liabilities franchise by focussing on newer geographies including targeting the top 100 cities in terms of overall deposits, in addition to tapping metropolitan and urban areas by promoting its savings accounts along with other deposit products. It expects technology to be a key enabler for its operations and will look to enhance the digital capabilities.

Financials in Brief

On the financial front, USFB has reported a total income of Rs17.06bn, Rs20.33bn and Rs28.04bn for FY21, FY22 and FY23 respectively. Net profit stood at Rs1.2bn, Rs0.6bn and Rs4.04bn for the aforementioned period. While the top-line has remained healthy, reporting a CAGR of 26% over FY21-23, there was muted growth in the FY22 in the bottom lines following the general market trends after the COVID-19 pandemic. Its Net NPAs were at 1.33%, 2.31%, and 0.39% for FY21, FY22 and FY23 respectively, while its net interest margins were 8.20%, 8.75% and 9.57% respectively for the same period.

Our View

USFB is in constant efforts to improve its business with deeper insights into customer trends, and develop customized products for its customer segments. It intends to further the growth through diversification of product offerings, customer segments and geography supported by technology, process and data analytics. With improvement in NIMS's and NPA's in declining trend over the last three years, growth in earnings remains strong. **On FY23 financials, the IPO is valued at 6.8x P/E and 1.1 times P/BV, we recommend SUBSCRIBE to this issue for the long term.**

SUBSCRIBE 

IPO Details

Price Band (Rs)	23-25
Face Value (Rs)	10
Issue Open/Closing Date	12-Jul-23/14-Jul-23
Fresh Issues (mn)	200.0
OFS (mn)	-
Total Issue (mn)	200.0
Minimum Bid Qty. (Nos)	600
Issue Size (Rs bn)*	5.00
QIB / HNI / Retail	75%/15%/10%
Implied Market Cap (Rs bn)*	27.4

*At higher band

Object of the Issue

- ▶ Augmenting its Tier - 1 capital base to meet its future capital requirements.
- ▶ Meeting the expenses in relation to the Issue.

Key Risk

- ▶ Subject to inspections by regulatory authorities, including the RBI.
- ▶ Significant portion of advances in the microbanking segment are towards customers located in Bihar and UP.
- ▶ Dependent on key managerial personnel and senior management.
- ▶ Deposits depend on a limited number of customers.
- ▶ Weakness or failures of internal control systems.
- ▶ Insurance coverage may be inadequate to cover claims.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	84.8	69.3
Others	15.3	30.7

Key Financials

(Rs mn)	FY21	FY22	FY23
Revenue	15,810	18,488	25,050
Net Profit	1,118	615	4,045
Net Profit Margin (%)	7.1	3.3	16.1
EPS (Rs)	1.0	0.6	3.7
P/E (x)	24.5	44.6	6.8
Net Worth	13,684	15,723	20,003
RoE (%)	8.2	3.9	20.2
Gross Debt	1,01,154	1,26,461	1,60,596
Net Block	1,812	2,865	3,033
Net Asset Turnover (x)	8.7	6.5	8.3

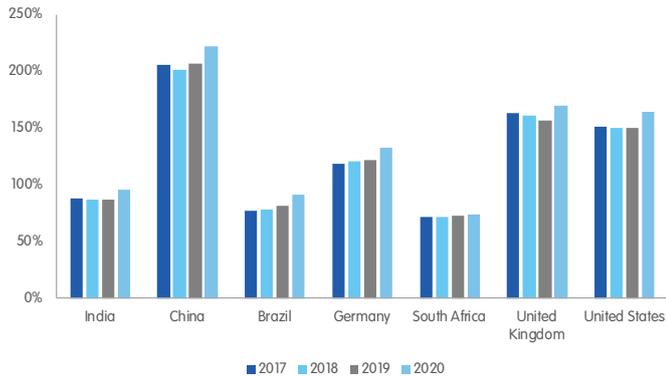
Source: RHP

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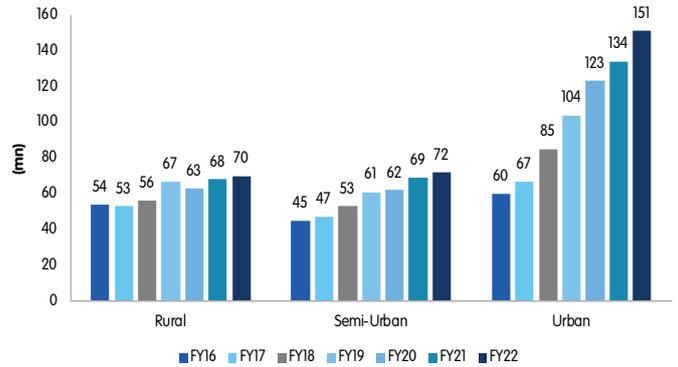
Industry Data

Exhibit 1: Credit to GDP Ratio (%)



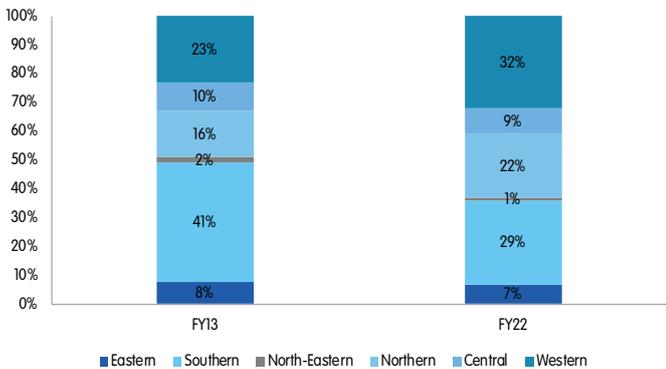
Source: RHP, Bank of International Settlements, CRISIL MI&A

Exhibit 2: Bank Credit Accounts in Rural, Semi-Urban, Urban



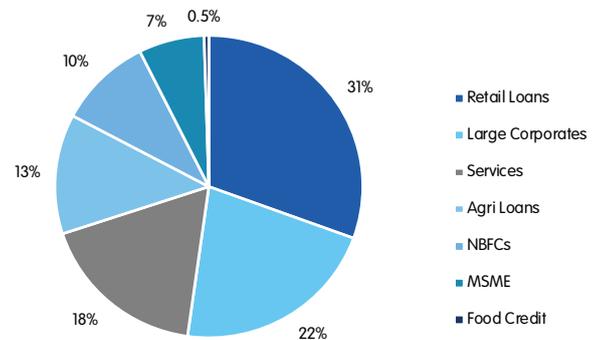
Source: RHP, RBI, CRISIL MI&A

Exhibit 3: Region-Wise Share of Banking Credit & Total Deposits



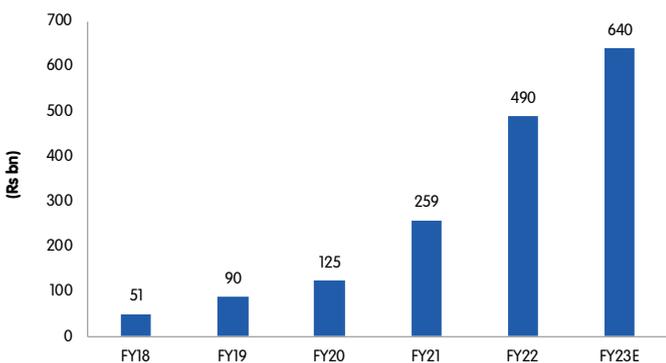
Source: RHP, RBI, CRISIL MI&A.

Exhibit 4: Credit Break-up in FY22



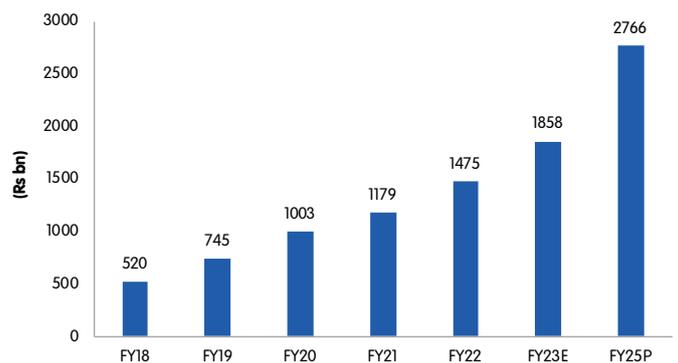
Source: RHP, RBI, CRISIL MI&A Estimates

Exhibit 5: CASA Deposits for SFBs



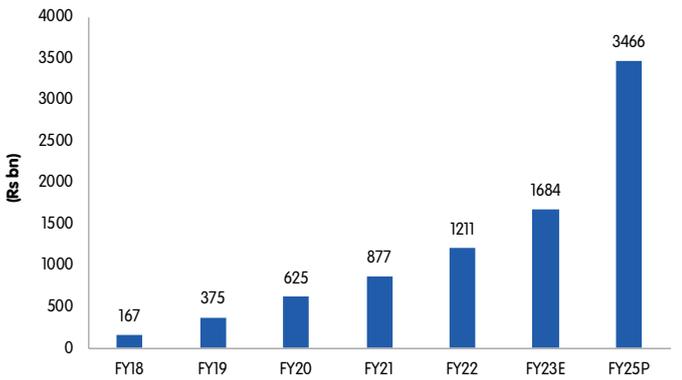
Source: RHP, RBI, CRISIL MI&A

Exhibit 6: AUM Growth Opportunities



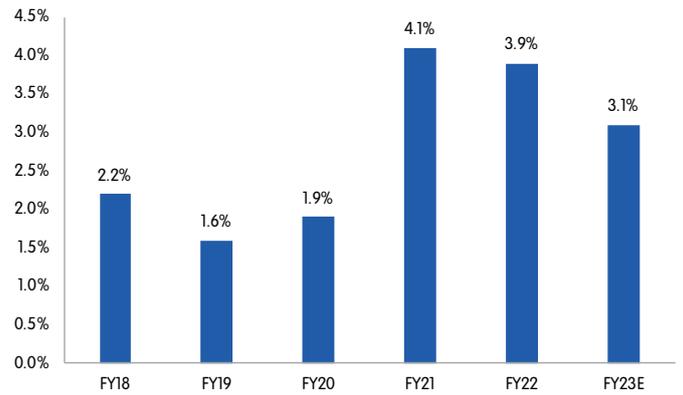
Source: RHP, CRISIL MI&A

Exhibit 7: SFB Deposits



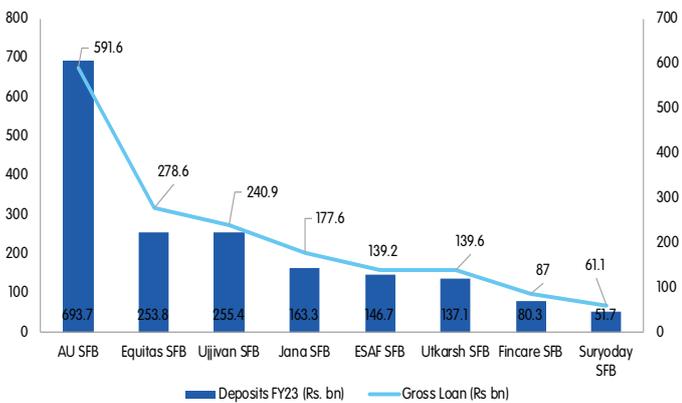
Source: RHP, CRISIL MI&A

Exhibit 8: GNPA Trend in SFB Industry (%)



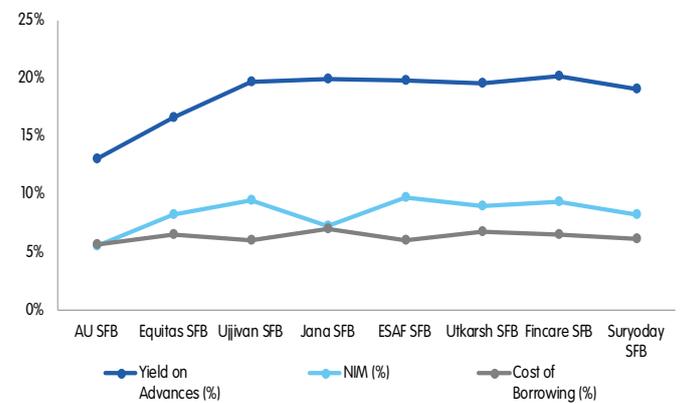
Source: RHP, CRISIL MI&A

Exhibit 9: SFB Peer Deposits & Gross Loans FY23 (Rs bn)



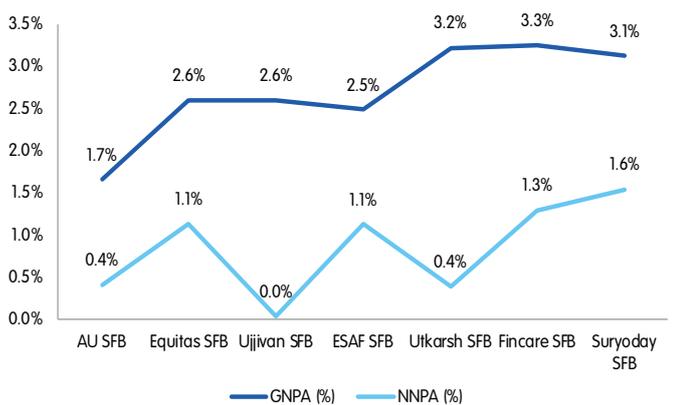
Source: RHP, CRISIL MI&A

Exhibit 10: SFB Peer Profitability FY22 (%)



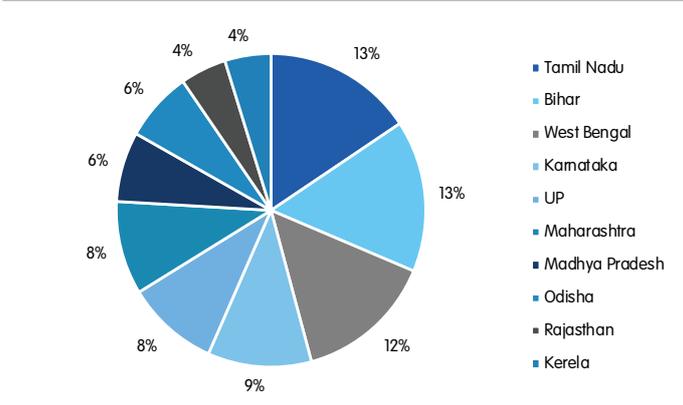
Source: RHP, CRISIL MI&A

Exhibit 11: SFB Peer Asset Quality FY23 (%)



Source: RHP, CRISIL MI&A

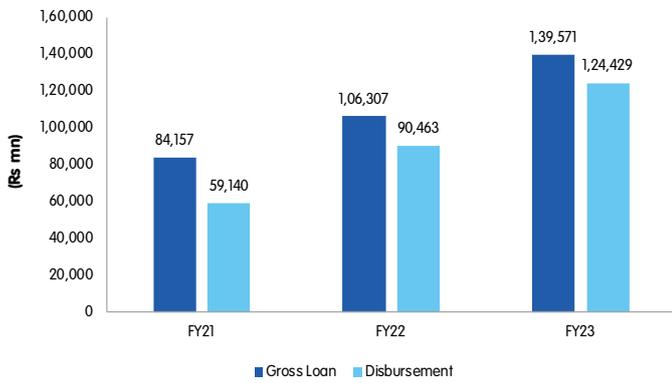
Exhibit 12: State-Wise Distribution of MFI Loans Mar'22 (%)



Source: RHP, CRIF Highmark, CRISIL MI&A

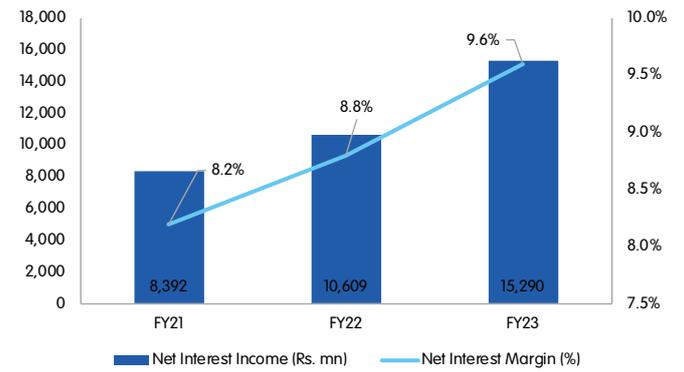
Company Data

Exhibit 13: Gross Loans & Deposits



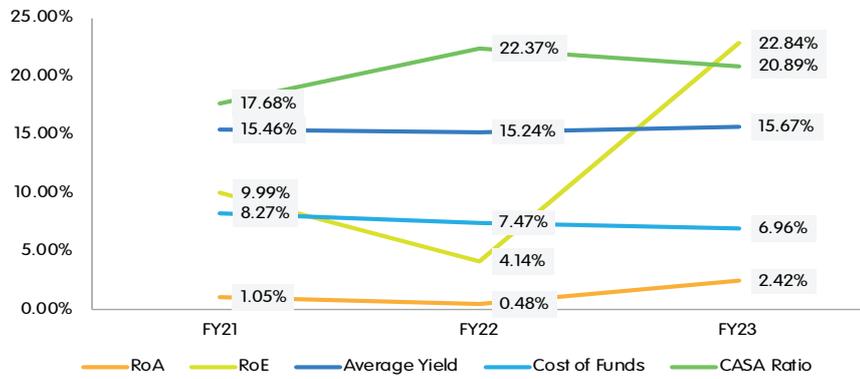
Source: RHP

Exhibit 14: Net Interest Trend



Source: RHP

Exhibit 15: RoA, RoE, Avg. Yield, CoF, CASA (%)



Source: RHP

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