

Retail Research	IPO Note
Sector: Small Finance Bank	Price Band (Rs): 23 - 25
11th July 2023	Recommendation: Subscribe for listing gains

Utkarsh Small Finance Bank Limited

Company Overview:

Utkarsh Small Finance Bank Limited (Utkarsh SFB), promoted by Utkarsh CoreInvest Ltd (UCL), is a small finance bank incorporated in 2016. It achieved the third-highest growth rate in Gross Loan Portfolio among small finance banks with a portfolio exceeding Rs 60 bn, during the period from FY19 to FY23. The company is headquartered in Varanasi, Uttar Pradesh. Over the years, Utkarsh SFB strategically expanded its operations in states where it could leverage the prior microfinance experience of Utkarsh CoreInvest Limited.

Key Highlights:

Diversify Product Portfolio: The product portfolio includes Micro banking loans (joint liability group loans and individual loans), retail loans (unsecured loans, and secured loans) wholesale lending (short term and long-term loan), housing loans with a focus on affordable housing, commercial vehicle/construction equipment loans, and gold loans.

Pan India Presence: The bank has a widespread presence in India, operating in 26 States and Union Territories. The bank has extensive network of 830 Banking Outlets and a workforce of 15,424 employees, as of Mar'23. Notably, 27.35% of their Banking Outlets are strategically located in Unbanked Rural Centres (URCs). With a customer base of 3.59 million individuals as of Mar'23, Utkarsh primarily serves customers in rural and semi-urban areas, particularly in Bihar and Uttar Pradesh. Additionally, the bank has established partnerships with 13 business correspondents (BCs) and utilizes the services of 321 direct selling agents (DSAs) to drive growth in their asset portfolio.

Business Highlight: As of Mar'23, the bank has a Gross loan portfolio of Rs 13,957.1 cr up 32% YoY during FY23. Gross loan portfolio registered growth of 29% CAGR (FY21-FY23). The disbursement grew 38% YoY to Rs 12,442.9 while Deposit grew 36% YoY to Rs 13,710.1 cr as of Mar'23. The bank has 95% credit-to-deposit ratio (C/D) along with a CASA ratio of 21%. The Bank has reported PAT of Rs 404.5 cr (up 5.4x YoY in FY23) along with Net Interest Margin of 9.5%. The bank is well capitalized with CRAR of 20.6% and a liquidity coverage ratio of 375%. The Bank's gross NPA is 3.23% along with PCR of 88% excluding technical write-off.

Valuation: Utkarsh, at the Upper / Lower price band of Rs 25/ Rs 23 is valued at 1.1x/1.0x of its FY23 book on post-issue capital. While compared with its close peers on similar valuation parameters, the Bank is fairly priced. We recommend investors to subscribe the IPO for listing at CUT-OFF price.

Issue Details	
Date of Opening	12 th July 23
Date of Closing	14 th July 23
Price Band (Rs)	23 – 25
Issue Size (Rs cr)	500
No. of shares	21,73,91,304 – 20,00,00,000
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	2,561 – 2,740
BRLMs	ICICI Securities Ltd, Kotak Mahindra Capital Company Limited
Registrar	KFin Technologies Limited
Bid Lot	600 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB (HNI) shares	15%
Employee Reservation	20,00,000 Equity shares

Objects of Issue	
	(Rs Cr.)
Gross proceeds of the issue	500
(Less) Issue expenses*	-
Net proceeds	-

* To be finalised upon determination of the Issue Price and updated in the Prospectus prior to filing with the RoC

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	75,92,72,222	84.7
Public & Others	13,66,32,441	15.3
Total	89,59,04,663.0	100.0

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	75,92,72,222	68.2
Public & Others	35,40,23,745	31.8
Total	1,11,32,95,967	100.0

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	75,92,72,222	69.3
Public & Others	33,66,32,441	30.7
Total	1,09,59,04,663	100.0

Source: RHP, SSL Research

Risk Factors

- The Bank's business is subject to inspections by regulatory authorities, including by the RBI. Non-compliance with RBI inspection/ observations or other regulatory requirements or any adverse observations from such regulators may have a material adverse effect on the business.
- A significant portion of the advances in the microbanking segment are towards customers located in the states of Bihar and Uttar Pradesh, and any adverse changes in the conditions affecting the region can adversely impact the business.
- The Bank is dependent on the Key Managerial Personnel and Senior Management and the loss of, or inability to attract or retain, such persons could adversely affect the business, financial condition, results of operations, and cash flows.
- The Bank's deposits depend on a limited number of customers and a loss of such customers could materially and adversely affect the deposit portfolio, funding sources, financial condition, results of operations and cash flows.
- The Bank has a high proportion of bulk deposits. A partial or complete withdrawal of such deposits by any of the customers could adversely affect the business, results of operations and financial condition.

Growth Strategy

- Continue diversifying asset portfolio
- Grow retail deposits mix across geographies and customer segments to build stable funding source
- Increase share of fee income and capitalize on cross-selling opportunities
- Increasing use of technology and digital offerings for last-mile delivery to customers

Key Operational and Financial Information

Metric (Rs cr)	Year ended March 31		
	FY21	FY22	FY23
Gross Loan Portfolio	8,415.66	10,630.73	13,957.11
Disbursements	5,914.01	9,046.28	12,442.89
Deposits	7,507.57	10,074.18	13,710.14
Credit to Deposit Ratio	109.45%	101.53%	95.32%
Capital & Reserves	1,368.35	1,572.30	2,000.32
Net Interest Income	839.25	1,060.85	1,529.03
Net Interest Margin	8.20%	8.75%	9.57%
Profit before taxes	151.44	79.71	535.81
Net profit for the year	111.82	61.46	404.50
Return on Average Assets	1.05%	0.48%	2.42%
Return on Average Equity	9.99%	4.14%	22.84%
Average Yield	15.46%	15.24%	15.67%
Cost of Funds	8.27%	7.47%	6.96%
CASA+Retail Term Deposit Ratio (as % of total deposits)	57.51%	59.64%	61.55%
CASA Ratio	17.68%	22.37%	20.89%
Provision Coverage Ratio (including technical write off)	80.42%	72.82%	95.78%
Cost to Income Ratio	56.54%	59.11%	54.15%
Gross NPA as a percentage of Gross Advances (%)	3.75%	6.10%	3.23%
Net NPA as a percentage of Net Advances (%)	1.33%	2.31%	0.39%

Source: RHP, SSL Research

Key Financial and Operational Matrics

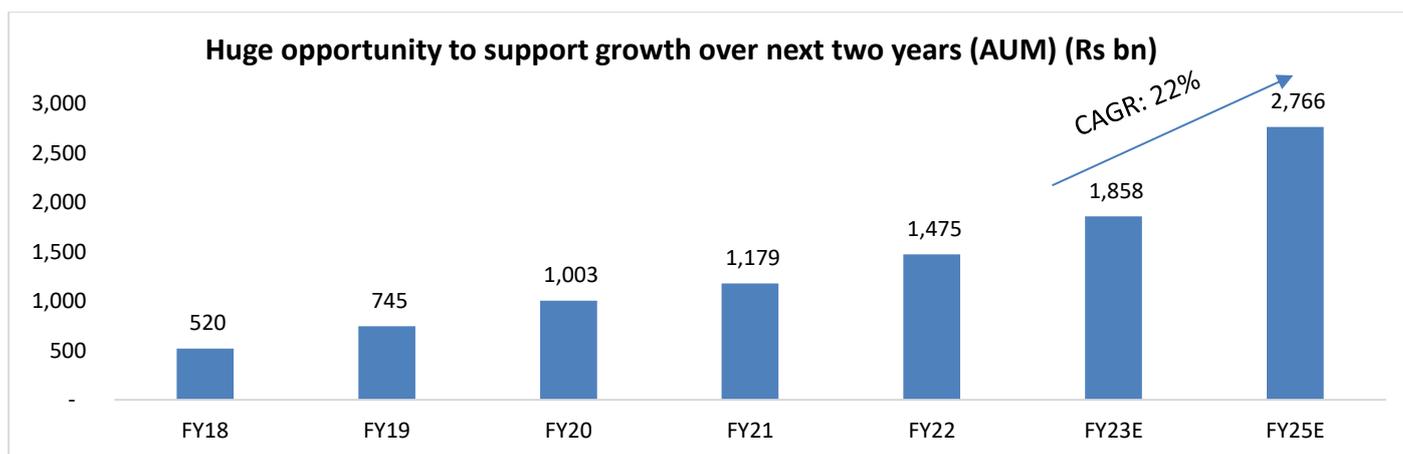
Yield, Spreads and Margins (Rs cr)	Year ended March 31		
	2021	2022	2023
Interest on advances	1,385.74	1,646.13	2,278.12
Interest earned	1,580.99	1,848.81	2,504.98
Interest expense on interest bearing liabilities	741.74	787.96	975.95
Total Average Interest Earning Assets	10,229.06	12,128.91	15,982.71
Average Balance of Advances	6,715.17	8,411.24	11,460.39
Total Average Interest-Bearing Liabilities	8,972.86	10,546.67	14,022.73
Total Average Assets	10,690.01	12,703.25	16,716.37
Net Interest Income	839.25	1,060.85	1,529.03
Average Balance of Advances as a % of Total Average Assets	62.82%	66.21%	68.56%
Total Average Interest-Bearing Liabilities as a % of Total Average Assets	83.94%	83.02%	83.89%
Average Balance of Advances as a % of Total Average Interest-Bearing Liabilities	74.84%	79.75%	81.73%
Yield	15.46%	15.24%	15.67%
Yield on Advances	20.64%	19.57%	19.88%
Cost of Funds	8.27%	7.47%	6.96%
Spread	12.37%	12.10%	12.92%
Net Interest Margin	8.20%	8.75%	9.57%
Other income to Total income Ratio	8.36%	9.09%	10.67%
Credit Cost	266.85	420.10	298.79
Credit Cost Ratio	3.97%	4.99%	2.61%
Cost of Borrowings	9.06%	9.52%	8.22%

Source: RHP, SSL Research

Industry Overview

Huge opportunity to support growth over next two years (AUM)

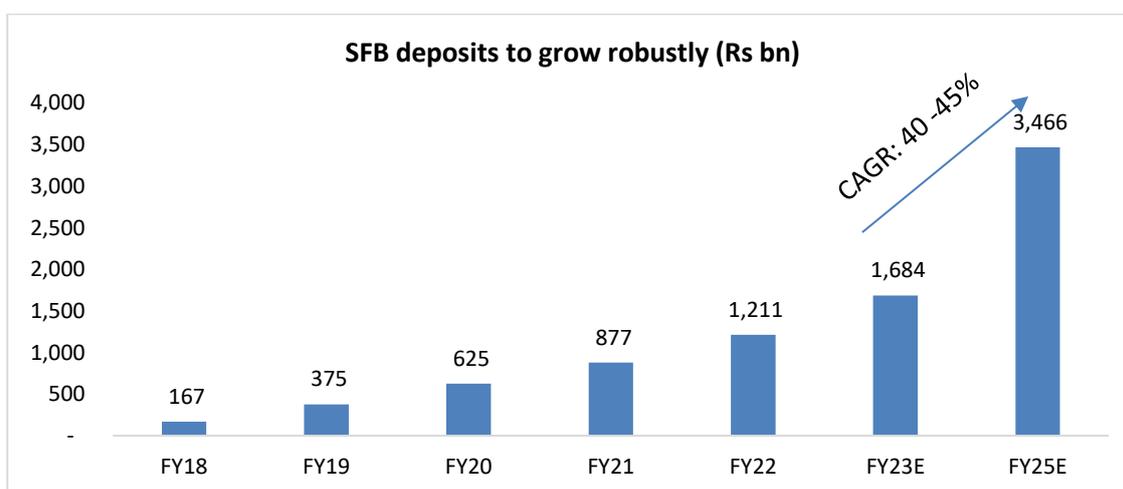
SFBs' AUM is estimated to have clocked 29% CAGR from FY18 to FY23. CRISIL MI&A estimates that the top three SFBs accounted for approximately 62% of the aggregate AUM as of FY23, compared to 55% as of FY17, indicating the rising concentration and expansion of the top three players within the SFBs. CRISIL MI&A also estimates that the top six players accounted for approximately 89% of the market share as of Fiscal 2023. In FY21 and FY22, new loan origination remained low as SFBs turned cautious and selective in disbursements due to the pandemic. However, as the economy revived and business operations normalised, SFBs' AUM witnessed strong growth following the pandemic. As of FY23, SFBs' AUM is estimated to have crossed Rs 1,800, bn growing at 26% - 27% year-on-year. CRISIL MI&A expects SFBs' loan portfolio to see a strong CAGR of approximately 22% between FY23 and FY25, as most SFBs have completed the transition phase and are likely to benefit from the operating leverage.



Source: RHP, SSL Research

SFB deposits to grow robustly

Deposit growth for SFBs continued to grow at a strong pace of 36% in the nine months ended December 31, 2022 year-on-year and is estimated to have reached Rs 1,684 billion at the end of FY23. Going forward, CRISIL MI&A expects SFBs' deposit to grow at 40% - 45% CAGR over FY23 – FY25 as players focus on popularising convenient banking habits to cover the last mile and widen financial inclusion by deepening their penetration in untapped geographies.



Source: RHP, SSL Research

Financial Snapshot

Utkarsh Small Finance Ltd			
(Rs. Cr)	Pre Issue	Post Issue	
	FY22	FY23	
Particulars		Price Band	
		23	25
Net Interest Income	1,060.9	1,529.0	1,529.0
Total Income	1,245.7	1,828.3	1,828.3
PAT	61.5	404.5	404.5
Equity Share Capital	895.5	1,112.9	1,095.5
No of Equity Shares	89.6	111.3	109.6
Face Value	10.0	10.0	10.0
EPS	0.7	3.6	3.7
CMP	25.0	23.0	25.0
Cash and Bank	1,871.6	2,516.4	2,516.4
Borrowings & Deposits	7,502.2	11,360.7	11,360.7
Net Worth	1,572.3	2,500.3	2,500.3
Loan Book	10,228.1	13,068.8	13,068.8
Cash and Investment	4,219.6	5,375.8	5,375.8
Interest Earning Assets	14,447.7	18,444.6	18,444.6
Total Asset	15,063.8	19,117.5	19,117.5
Market Cap	2,238.8	2,561.0	2,740.0
BV per share (Rs)	17.6	22.5	22.8
PE(x)	36.4	6.3	6.8
P/BV (x)	1.4	1.0	1.1
NIM (%)	8.1	9.3	9.3
ROA (%)	0.5	2.4	2.4
Cost of fund (%)	12.7	10.3	10.3
Yield on Assets (%)	14.1	15.2	15.2
Spread (%)	1.4	4.9	4.9
Cost to Income Ratio (%)	55.6	50.9	50.9
RoE (%)	4.2	22.6	22.6
GNPA (%)	6.1	3.2	2.0
NNPA (%)	2.3	0.4	0.4

Source: RHP, SSL Research (Post Issue)

Profit and Loss Account Particulars (Rs cr)	Standalone		
	FY21	FY22	FY23
Interest Income	1,581.0	1,848.8	2,505.0
Interest & Other Financial Charges	741.7	788.0	975.9
Net Interest Income	839.2	1,060.9	1,529.0
Other Operating Income	-	-	-
Other Income	124.8	184.8	299.3
Total Income	964.1	1,245.7	1,828.3
Operating Expenditures	515.9	692.9	931.4
Employee Exps	326.2	429.8	570.1
Other Exps.	189.7	263.0	361.3
Operation Profit before Provision	448.2	552.8	897.0
Provisions	247.1	397.5	308.1
Operating Profit After Provision	201.0	155.3	588.9
Depreciation & Amortisation	29.6	40.9	58.7
Profit Before Tax	171.4	114.4	530.2
Provision for Tax	60.1	52.9	125.7
Current Tax	60.1	52.9	125.7
Provision Related to Earlier Year	-	-	-
Deferred Tax	-	-	-
Profit After Tax	111.4	61.5	404.5

Source: RHP, SSL Research (Post Issue)

Peer Comparison

Particulars.	Utkarsh Small Fin. Bank		Equitas Small Fin. Bank	Credit Access Grameen	AU Small Fin.	Suryoday Small Fin. Bank
	Lower	Upper				
CMP (Rs)	23.0	25.0	91.5	1,269.3	763.8	168.3
M. Cap (Rs C)	2,559.7	2,738.8	10,219.0	20,171.0	50,943.0	1,786.0
P/BV (x)	1.0	1.1	2.0	3.9	4.7	1.1
P / E (x)	6.3	6.8	17.8	24.0	35.7	23.0
NIM (%)	9.3	9.3	9.1	11.6	6.1	9.5
ROA (%)	2.4	2.4	1.4	4.2	1.8	2.2
NNPA %	0.4	0.4	1.7	0.4	0.4	1.5
CAR %	20.6	20.6	23.6	20.0	23.6	33.7

(Source: RHP, SSL Research)

CMP as on 10th July, 2023

For Utkarsh Small Finance bank: The data is based on FY23 post-issue market cap. For all others, the data is based on FY23.

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