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Rating: Subscribe for Long term

Issue Offer

Fresh Issue of 200,000,000 equity shares upto INR 5000 Mn taking the total issue size at INR 5000 Mn.

Issue Summary

Price Band (INR)	23-25
Face Value (INR)	10
Implied Market Cap (INR Mn)	5000
Market Lot	600
Issue Opens on	July 12, 2023
Issue Close on	July 14, 2023
No. of share pre-issue	895,896,427
No. of share post issue	1,095,896,427
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	≥75
NIB Portion	≤15
Retail Portion	≤10

Book Running Lead Managers

ICICI Securities Limited

Kotak Mahindra Capital Company Limited

Registrar

KFin Technologies Limited

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	84.75%	69.28%
Public & Others	15.25%	30.72%

Objects of the issue

- Augmenting its Tier-1 capital base to meet its future capital requirement
- Meeting the expenses in relation to the Issue
- To support the growth plans
- Aims to maintain a capital adequacy capitalization position above the regulatory threshold

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Addhayan Bose

Incorporated in 2016, **Utkarsh Small Finance Bank** is a small finance bank in India which recorded the third fastest Gross Loan Portfolio growth between Fiscal 2019 and Fiscal 2023 among SFBs with a Gross Loan Portfolio of more than INR 60 billion. Company is headquartered in Varanasi, Uttar Pradesh, and has over the years expanded their SFB operations strategically in States where the company has been able to leverage their prior microfinance experience of Utkarsh CoreInvest Limited.

Investment Rationale

Excellent awareness of the microfinance market, as well as solid presence in rural and semi-urban locations specially in northern rural belt of the country: With a solid customer base and a commitment to microfinance, the company is well-established in Uttar Pradesh, Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, and Uttarakhand. It has also strengthened its relationship with borrowers by expanding its product line. Total customers for the company (deposit and credit) increased steadily from 3.14 million as of March 31, 2022, to 3.59 million as of March 31, 2023.

Strategically developed a robust and diverse distribution network that comprises of physical branches, digital banking platforms, and partnerships with other entities which generates tremendous cross-selling opportunities: The company has extensive physical network of 830 Banking Outlets across 26 States and Union Territories covering 253 districts in India of which 522 Banking Outlets are located in rural and semi-urban areas (combined). The company also plans to expand its branches across Western and Southern regions of the country. The company has also leveraged Business Correspondents and DSAs and their network to grow the asset portfolio. As of March 31, 2023, the company has arrangements with 13 BCs to grow asset portfolio and had tie-ups with 321 DSAs to primarily source retail loan against properties across various locations.

Established a record of stable growth with cost-efficient operational performance: The company's strength to provide products and services in a cost-efficient manner along with the industry's lowest cost-to-income ratio of 54.15% in Fiscal 2023. The company recorded the third fastest Gross Loan Portfolio growth of 31.0% CAGR between Fiscal 2019 and Fiscal 2023 among SFBs with a Gross Loan Portfolio of more than INR 60 billion and recorded a NIM of 9.57% in FY23. The company has a Gross NPA of 3.23% and Net NPA of 0.39%, this was supported by an exceptional Provision Coverage Ratio of 88.29% as the company's policy for provisioning follows more conservative norms than those prescribed by the RBI.

Strong Leadership of experienced management with a focus on growth and better cost management: The SFB industry loan book growth has been 22%, whereas the company has shown a growth of 31% in FY23. Providing microfinance loans in rural India has a high cost of reaching out to the customers, the company has been able to maintain its cost-to-income ratio at 54.15%, which is among the lowest as compared to its competitors.

Valuation and View: The company has displayed exceptional performance in FY23 and stands strong among its competitors with the highest Liquidity coverage ratio of 375.8% and second lowest net NPA of 0.39% in FY23. Going forward the company plans to expand its operations in the newer western and southern regions of the country, and it is set to benefit from the technological advancements taking place in the MFI industry. At the upper band of INR 25, the issue is valued at Price/Book Value of 0.25 and a PE of 5.53x based on FY23 EPS. We are recommending "Subscribe for Long term" for this issue.

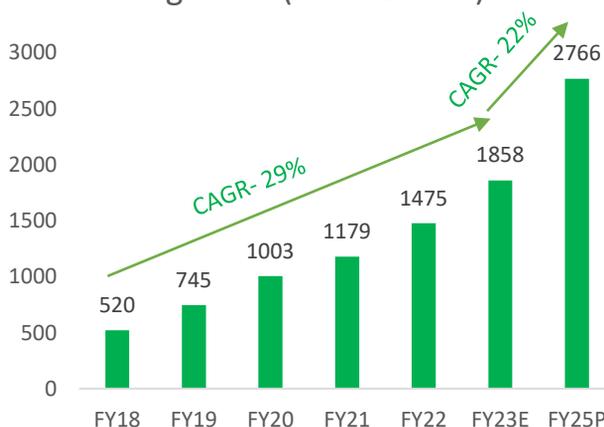
Key Managerial Personnel	Details
Parveen Kumar Gupta	Mr. Parveen Kumar Gupta is the part time non – executive chairman and Independent Director of the Bank. He holds a bachelor’s degree of commerce from Guru Nanak Dev University. He has been an associate member of The Institute of Company Secretaries of India since 1986. He is also a certified associate of the Indian Institute of Bankers. Prior to joining the Bank, he was associated with State Bank of India as their managing director (retail & digital banking) till his retirement on superannuation and Bank of Baroda as its senior advisor.
Govind Singh	Mr. Govind Singh is the Managing Director and chief executive officer of the Bank. He holds a bachelor’s degree in commerce from Delhi University. He is a certified associate of the Indian Institute of Bankers. He was previously the assistant general manager at ICICI Bank Limited. He has received an award of excellence for Apy Big Believers (ABB) 4.0 by Pension Fund Regulatory and Development Authority in Fiscal 2022. He was the managing director and chief executive officer of the promoter group i.e. Utkarsh CoreInvest Limited. He has also been associated with Surya Fincap Limited, UTI Bank Limited, Allahabad Bank, State Bank of Patiala and Bank International Indonesia.
Sarjukumar Pravin Simaria	Mr. Sarjukumar Pravin Simaria is the Chief Financial Officer of the Bank with effect from October 31, 2022. He is responsible for the financial affairs of the Bank. He holds a bachelor’s degree in commerce from the University of Bombay and is an associate of the ICAI. He received the ‘CA CFO- for Large Corporates-BFSI Award’ from the Committee for Members in Industry of Business (CMI&B), ICAI in the year 2022 and ‘CFO Lifetime Achievement Award’ at the CFO Vision & Innovation Summit & Awards in the year 2022. He has experience in the field of financial management and has previously worked at SUN F&C Asset Management (I) Pvt. Ltd., Edelweiss Tokio Life Insurance Company Limited, Fino Payments Bank Limited, ECL Finance Limited and Edelweiss Financial Services Limited as their chief financial officer and at Canbank Investment Management Services Ltd., HDFC Asset Management Company Limited, AIG Global Asset Management Company (India) Private Limited and American International Group, Inc. During Fiscal 2023, he received a remuneration of INR 7.28 million from the Bank.
Muthiah Ganapathy	Mr. Muthiah Ganapathy is the Company Secretary and Compliance Officer of the Bank. He joined the Bank with effect from March 22, 2022. He is responsible for managing the secretarial affairs of the Bank. He has been an associate member of The Institute of Company Secretaries of India since 2001 and became a fellow in the year 2008. He holds a bachelor’s degree in law from the University of Bombay. He has experience in the field of secretarial affairs and has previously worked at Aditya Birla Housing Finance Limited, Fortune Financial Services (India) Limited, S. Anantha & Co., Suresh Surana & Associates and Sky Industries Limited. During Fiscal 2023, he received a remuneration of INR 4.70 million from the Bank.
Abhijeet Bhattacharjee	Mr. Abhijeet Bhattacharjee is the chief information officer of the Bank and joined the Bank with effect from April 1, 2022. He is responsible for implementation of IT applications and projects in the Bank. He holds a bachelor’s degree in science from University of Calcutta and a master’s degree in information management from University of Mumbai, Maharashtra. He has experience in the field of information technology. He has previously worked at RBL Bank Limited as its head of digital channels, UTI Bank Limited as its deputy manager and Royal Bank of Scotland N.V. as its vice president. During Fiscal 2023, he received a remuneration of INR 9.38 million from the Bank.
Alok Pathak	Mr. Alok Pathak is the chief risk officer of the Bank. He is responsible for leading the risk-based supervision team within the Bank. He holds a bachelor’s degree in science from Shri Shahu Ji Maharaj University, Kanpur and a diploma in information and systems management from Aptech. He has passed the Certified Banking Compliance Professional Examination and the CAIIB Examination conducted by the Indian Institute of Banking and Finance. He has experience in the fields of risk management and treasury management. He has previously worked at Yes Bank Limited as an executive vice president – risk management, Axis Bank Limited as a deputy vice president in the risk department and State Bank of Mysore as the deputy manager (dealer in treasury). He joined the Bank as the head - risk with effect from May 5, 2016. During Fiscal 2023, he received a remuneration of INR 11.36 million from the Bank.

Source: Company Report, Arihant Capital Research

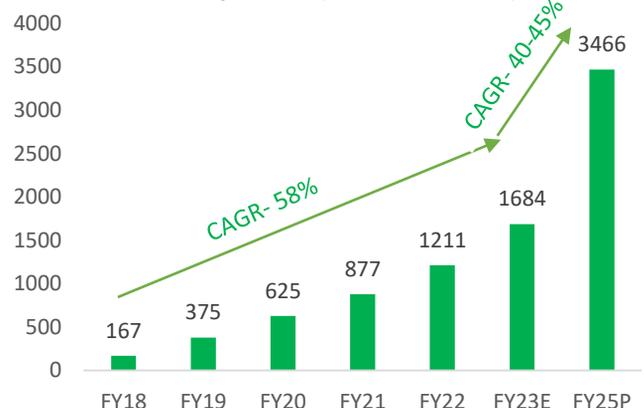
Industry Overview

- The small finance banking industry in India refers to a segment of the banking sector that focuses on providing financial services to underserved and unbanked sections of society, particularly in rural and semi-urban areas. Small finance banks are regulated by the Reserve Bank of India (RBI) and are designed to promote financial inclusion and cater to the banking needs of previously excluded segments. As of March 2023, the RBI has awarded SFB licenses to 12 players keeping in with the government's focus on financial inclusion and inclusive banking.
- Key players in the SFB industry in India are: -
 - Au Small Finance Bank
 - Equitas Small Finance Bank
 - Ujjivan Small Finance Bank
 - Jana Small Finance Bank
 - Utkarsh Small Finance Bank
 - Suryoday Small Finance Bank
 - ESAF Small Finance Bank
- SFBs' AUM is estimated to have clocked 29% CAGR from Fiscal 2018 to Fiscal 2023, CRISIL estimates that the top six players accounted for approximately 89% of the market share as of Fiscal 2023.
- As of Fiscal 2023, SFBs AUM is estimated to have crossed INR 1,800 billion growing at 26%- 27% y-o-y. CRISIL expects SFB's loan portfolio to see a strong CAGR of approximately 22% between Fiscal 2023 and Fiscal 2025, as most SFBs have completed the transition phase and are likely to benefit from the operating leverage.
- SFBs have significant growth potential as most of them were functioning as NBFCs/MFIs previously, their overall deposit base doubled to around INR 375 billion as of Fiscal 2019. Deposit growth for SFBs continued to grow at a strong pace of 36% in the nine months ended December 31, 2022, y-o-y, and is estimated to have reached INR 1,684 billion at the end of Fiscal 2023.
- **Growth Drivers for the Industry: -**
 - **Huge market opportunity in the rural segment-** Despite its larger contribution to GDP of 47%, the rural segment's share in credit remains fairly low at approximately 8% of the overall credit outstanding. This provides a huge market opportunity for MFI players present in the segment.
 - **Geographic diversification-** With an increased focus on diversifying their portfolio and expanding their reach, MFI players are expected to log higher growth as they tap newer geographies.
 - **Availability of funds at cheaper rates-** CASA and other retail deposits are a cheap source of funds for SFBs, which help them expand their product portfolio. They can provide lower rates in the market to compete with NBFCs.
- **Challenges for SFBs in the Industry: -**
 - **High cost of reaching customers-** Providing microfinance loans in rural India requires reaching people in remote and sparsely populated regions, where deploying manpower and requisite infrastructure for disbursing loans and for recovery can often be expensive.
 - **Lack of financial awareness-** Lack of financial and product awareness is a major challenge for institutions in rural areas. They are faced with the task of educating people about the benefits of financial inclusion, about the product and services offered by them, and establish trust before selling the product.
 - **Vulnerability of household's income to local developments-** Uncertainty and unpredictability faced by low-income households, and vulnerability of their incomes to local developments can make it difficult for the borrowers to make repayments on time.

AUM growth (in Rs. Billion)



SFB Deposits (in Rs. Billion)



Source: Company Report, Arianth Capital Research

Company's Business Snapshot

Particulars	Details
Business Background	The company offers a range of financial products and services that address the specific requirements of the company's customer segments, with their primary focus on the microfinance segment. The product portfolio includes asset products that the company advances to customers located primarily in unbanked and underbanked areas; and liability products in the form of deposits that the company source from customers across regions.
Product Portfolio	<p>Asset Products</p> <ul style="list-style-type: none"> • Microbanking Loans that include joint liability group loans and, individual business loans to customers within the joint liability group based on their creditworthiness and past behavior in relation to repayment of their earlier loans, with a tenor of 12 to 48 months and a fixed interest rate of 25% per annum currently. • Retail loans that includes unsecured loans, such as business loans and personal loans, and secured loans, such as LAP (Loan against Property). The average yield for the retail loan segment was 12.26% in Fiscal 2023. • Wholesale lending that includes short-term and long-term loan facilities to SMEs, mid and large corporates, and institutional clients. The wholesale facilities range between INR 10 million and INR 500 million and are sanctioned at an interest rate ranging between 8.00% to 14.50% per annum with a tenor of upto seven 7 years. • Housing loans with a focus on affordable housing. The loan amounts range between INR200,000 and INR 10,000,000, and the repayment tenures for these loans range between three years and 30 years. These loans are offered at interest rates between 9.00% and 14.50% per annum. • Business Correspondents (BC) acquire, manage and service customers as an extended arm of the bank by following all the policies and procedures laid out by the internal governance structure of the company. As of March 31, 2023, the BCs were responsible for sourcing and/or servicing customers for 2.67% of the Gross Loan Portfolio.
Asset Product-wise Contribution	<p>FY23 Gross Loan Portfolio contribution :-</p> <ul style="list-style-type: none"> • Microbanking Loans- 66.03% • Retail Loans- 10.99% • Wholesale lending- 11.08% • Housing Loans- 3.72% • BC- 2.67% • Others- 5.51%
	<p>Liability Products</p> <ul style="list-style-type: none"> • Saving Accounts are demand deposits for customers that accrue interest. The company had 1,966,985 savings accounts in FY23. Interest rate for the domestic savings account ranged from 4.25% upto 7.50% per annum, currently. • Current Accounts are demand deposits for customers that do not accrue interest. As of March 31, 2023, the company had 48,898 current accounts. • Term Deposits these include fixed deposits, bulk deposits, and recurring deposits. Interest rates for these vary based on the tenure and amount. <p>Other Products and Services</p> <ul style="list-style-type: none"> • Sale of third-party products which include insurance and mutual fund products, and the company has tie-up with established insurance companies like HDFC Life Insurance Company Limited, Bharti Axa Life Insurance, ICICI Prudential Life Insurance Company Limited, and Aditya Birla Health Insurance Company Limited. • Safe Deposit/Locker facilities • Money Transfer Services- Inward Remittances • Bharat bill payment system- It is an interoperable and accessible bill payment service for utility services and other categories, such as school/ university fees, insurance and municipal taxes. • Distribution and facilitation of accounts under certain Government Schemes

Source: Company Report, Aриhant Capital Research

Key Risk to Business

Key Risks	Details
Regulatory and Compliance Risk	The Bank is subject to stringent regulatory requirements and prudential norms of RBI and its inability to comply with such laws, regulations, and norms can result in penalties, and reputational damage and may have an adverse effect on the business, results of operations, financial condition, and cash flows.
Interest Rate Risk	The Bank's business is vulnerable to interest rate risk, and any volatility in interest rates or inability to manage interest rate risk could adversely affect the Net Interest Margins, income from treasury operations, business, financial condition, results of operations, and cash flows.
Credit Risk	The Bank primarily caters to underserved and unbanked segments in rural and semi-urban areas of the country, which may involve lending to customers with limited credit histories or higher credit risks. There is a risk of default or non-repayment of loans, leading to potential asset quality deterioration.
Liquidity Risk	The Bank typically rely on short-term deposits for funding their lending activities. If there is a sudden withdrawal of deposits or difficulty in accessing additional funding sources, it can lead to liquidity constraints and challenges in meeting their obligations.

Source: Company Report, Arihant Capital Research

Key Strategies

Key Strategies	Details
Maintaining the diversification of the retail asset portfolio.	To generate sustainable living, the company wants to use the large network of existing clients in unserved and underserved areas by offering a range of asset solutions based on their vintage and creditworthiness. The company focuses on providing working capital and term loans to MSMEs, small and medium-sized corporates, institutional clients such as NBFCs, and other retail assets such as housing loans with a focus on affordable housing, business loans, personal loans, loan against property, loans for commercial property purchase, and commercial vehicle and construction equipment loans.
Seeks to diversify its retail deposit base across several geographies and client categories in order to develop a secure and reliable source of funding.	Continuous focus on CASA and retail deposit base in a steady manner. The company's Retail term deposits were raised to 51.40% of total term deposits as of March 31, 2023. As a result of the continued diversification of deposits across geographies and customer segments, the average cost (interest expense divided by the average of balance for the relevant period) of savings bank deposits was 5.88%, and the average cost of term deposits was 7.10% as of March 31, 2023. The company intends to follow a two-pronged strategy to expand its footprint (i) further penetration in the existing geographies, (ii) expand the reach into newer states in Western and Southern India, through additional Banking Outlets and BC partnerships
Increasing share of fee income and capitalize on cross-selling opportunities	The company intends to further diversify the fee and non-interest-based revenues by generating fee income from their own products and cross-selling third-party products such as the distribution of mutual funds, life insurance and general insurance products. Revenue stream for non-individual segment would comprise of processing fees for advances, commission on issuance of letters of credit, bank guarantees, cash management services and other banking transaction services
Increasing use of technology and digital offerings for last mile delivery to customers	The goal is to minimize operational costs, boost efficiencies, and encourage consumers to move from an assisted approach to a self-service delivery model by expanding the company's digital and technological platform. With an aim to minimize operational costs, boost efficiencies, and encourage consumers to move from an assisted approach to a self-service delivery model by expanding the digital and technological platform. Using data analytics to target specific consumer profiles, creating products that are tailored to the needs of the customer base, and increase customer satisfaction.

Source: Company Report, Arihant Capital Research

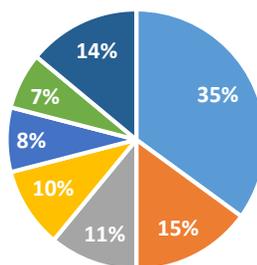
Peer Comparison

(in Billions)	Performance Indicators for FY23									
	GLP*	Deposits	CAR *(%)	CASA*(%)	NIMs* (%)	Cost to Income	EPS	P/Bv	P/E	Net NPA (%)
Utkarsh Small Finance Bank	139.6	137.1	20.64%	20.90%	9.57%	54.15%	INR 4.52	0.25	5.53	0.39%
Equitas Small Finance Bank	278.6	253.8	23.80%	42.30%	8.22%	63.41%	INR 4.71	2.76	19.61	1.14%
Ujjivan Small Finance Bank	240.9	255.4	25.81%	26.40%	9.48%	54.82%	INR 5.88	2.05	6.93	0.04%
Bandhan Bank	1091.2	1080.7	19.76%	39.30%	6.30%	39.50%	INR 13.62	2.06	16.51	1.20%
Au Small Finance Bank	591.6	693.7	23.59%	38%	5.56%	63.01%	INR 21.86	6.42	35.36	0.42%
Suryoday Small Finance Bank	61.1	51.7	33.70%	56%	8.28%	60.02%	INR 7.32	1.21	22.90	1.55%

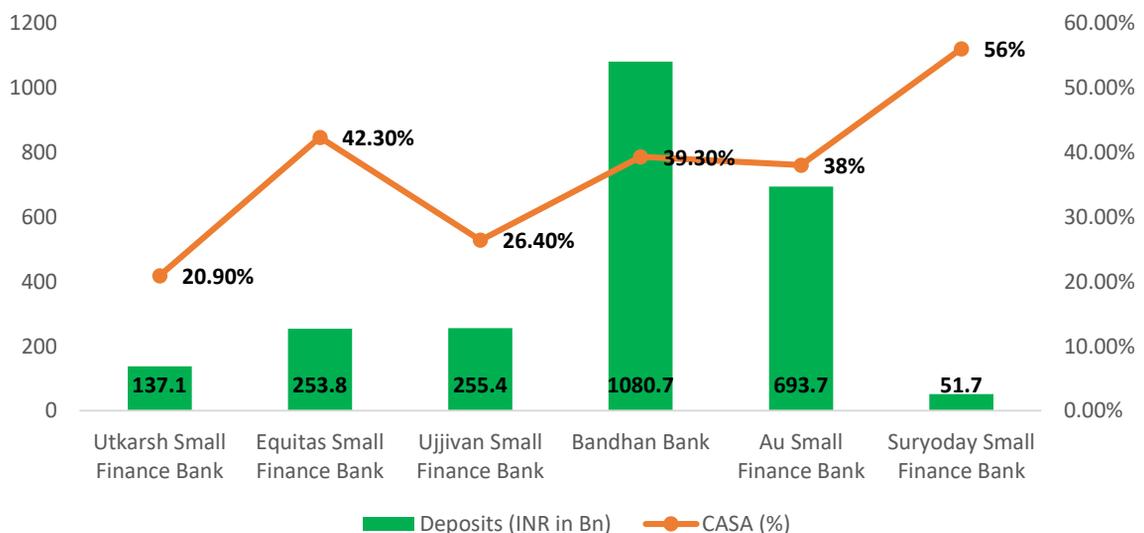
GLP*- Gross Loan Portfolio
 CAR*- Capital Adequacy Ratio
 CASA*- Current Account Saving Account
 NIM*- Net Interest Margin

Top 6 players estimated for 84% of the industry advances

Market Share as of Dec 31, 2022



■ AU ■ Equitas ■ Ujjivan ■ Jana ■ Utkarsh ■ ESAF ■ Others



Source: Company Report, Arianth Capital Research

P&L Statement

Particulars (INR Mn)	FY21	FY22	FY23
Total Revenue	17,058.36	20,336.46	28,042.86
Interest Expended	7,417.41	7,879.62	9,759.49
Operating Expenses	5,450.57	7,337.49	9,900.13
Provisions and Contingencies	3,072.23	4,504.73	4,338.22
EBITDA	1,810.13	1,205.97	5,944.70
EBITDA Margin (%)	11%	6%	21%
Depreciation	295.77	408.84	586.55
EBIT	1,514.36	797.13	5,358.15
Other income	1,248.49	1,848.33	2,993.06
Interest expense	7,417.41	7,879.62	9,759.49
Exceptional items	-	-	-
Profit before tax	1,514.36	797.13	5,358.14
Taxes	396.21	182.51	1,313.12
PAT	1,118.15	614.62	4,045.02
PAT Margin %	7%	3%	14%
Net profit	1,118.15	614.62	4,045.02
Basic EPS	1.46	0.70	4.52

Source: Company Report, Arihant Capital Research

Balance Sheet

Particulars (INR Mn)	FY21	FY22	FY23
CAPITAL AND LIABILITIES			
Capital	8,483.34	8,955.22	8,959.05
Reserves and Surplus	5,200.19	6,767.75	11,044.16
Deposits	75,075.68	1,00,741.83	1,37,101.40
Borrowings	26,078.25	25,719.35	23,494.75
Other Liabilities and Provisions	6,541.66	8,453.55	10,576.06
TOTAL	1,21,379.12	1,50,637.70	1,91,175.42
ASSETS			
Cash and balances with Reserve Bank of India	2,749.38	5,338.97	11,920.57
Balances with banks and money at call and short notice	8,948.78	13,377.52	13,243.06
Investments	23,139.35	23,479.24	28,594.22
Advances	82,168.58	1,02,281.47	1,30,687.66
Fixed Assets	1,811.71	2,865.34	3,033.24
Other Assets	2,561.32	3,295.16	3,696.67
TOTAL	1,21,379.12	1,50,637.70	1,91,175.42
Contingent Liabilities	620.73	564.19	3,416.05

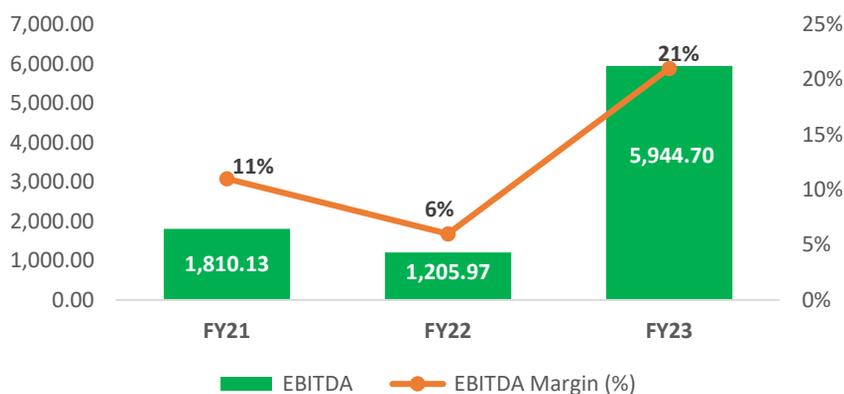
Source: Company Report, Arihant Capital Research

Key Performance Indicators

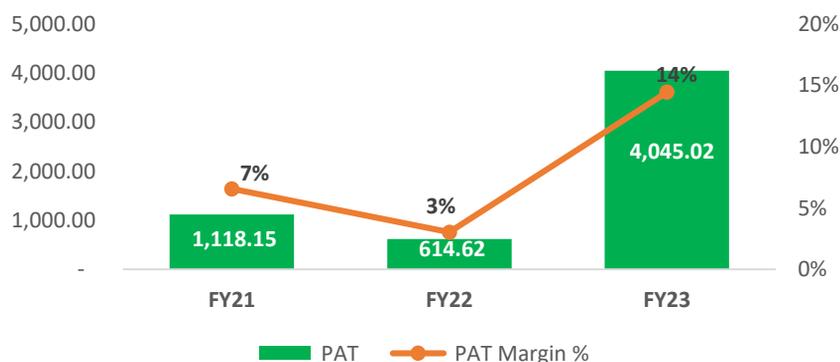
Particulars	FY23
Banking Outlets	830
Gross Loan Portfolio Growth (%)	31.29%
Total Deposits Growth (%)	36.09%
Cost of Deposits (%)	6.71%
Gross NPA (%)	3.23%
Net NPA (%)	0.39%
Credit Cost Ratio (%)	2.61%
Return on Average Equity (%)	22.84%
Basic EPS (in INR)	4.52
Net Interest Margin (%)	9.57%
Provision Coverage Ratio (%)	88.29%

Source: Company Report, Aриhant Capital Research

EBITDA witnessed a 5X growth to INR 5,944 Mn in FY23 compared to FY22, with EBITDA margins increasing from 6% in FY22 to 21% in FY23



PAT saw a multifold growth to INR 4,045 Mn in FY23 with margins improving to 14% from 3% in FY22



Source: Company Report, Aриhant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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