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Issue Details

Issue Details	
Issue Size (Value in ` million, Upper Band)	5,823.44
Fresh Issue (No. of Shares in Lakhs)	81.50
Offer for Sale (No. of Shares in Lakhs)	109.43
Bid/Issue opens on	17-Mar-21
Bid/Issue closes on	19-Mar-21
Face Value	Rs. 10
Price Band	303-305
Minimum Lot	49

Objects of the Issue

The Fresh Issue: ₹2,486 Million

The company proposes to utilize the Net Proceeds towards funding the Following:

- Augmenting the Banks Tier-1 capital base to meet the future capital requirements.
- General corporate purposes.
- Achieve the benefits of listing the Equity shares on the stock exchanges.

Offer for Sale: ₹3,337 Million

- The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers	
ICICI Securities	
IIFL Securities Limited	
SBI Capital Markets	
Axis Capital	
Registrar to the Offer	
KFin Technologies Private Limited	

Capital Structure (₹ Million)	Aggregate Value
Authorized share Capital	1,250.00
Subscribed paid up Capital (Pre-Offer)	979.81
Paid up capital (Post - Offer)	1,061.31

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	30.3%	28.0%
Public	69.7%	72.0%
Total	100%	100%

Financials

Particulars (Rs. In Million)	9M-FY21	9M-FY20	FY20	FY19	FY18
Interest Income	6243.5	5632.2	7666.9	5301.1	2868.8
Operating Income	6243.5	5632.2	7666.9	5301.1	2868.8
Other Income	649.2	631.4	874.5	669.2	380.4
Total Income	6892.7	6263.6	8541.4	5970.3	3249.3
Finance Costs	2710.7	2020.8	2757.8	1897.3	1210.5
Other Expense	2316.4	1883.7	2721.2	1907.4	1313.8
Total Expenses	5027.1	3904.6	5479.0	3804.8	2524.3
Provision & Contingencies	1317.0	1092.3	1950.4	1261.6	610.1
Profit after tax	548.7	1266.8	1112.0	904.0	114.9
EPS	5.6	12.9	11.3	9.2	1.2

Company Description

Suryoday Small Finance Bank Limited ("SSFB") was incorporated on November 10, 2008. SSFB is among the leading SFBs in India in terms of net interest margins, return on assets, yields and deposit growth and had the lowest cost-to-income ratio among SFBs in India in Fiscal 2020. SSFB commenced their microfinance operations in 2009 and have since expanded the operations across 13 states and union territories. As of December 31, 2020, their customer base was 1.44 million and the employee base comprised of 4,770 employees and they operated 554 Banking Outlets including 153 Unbanked Rural Centres ("URCs").

Company has set up 661 customer service points ("CSPs") as additional service or touch points during April 1, 2020 and January 31, 2021. Their delivery platform also includes partnering with business correspondents ("BCs") for sourcing both asset and liability business. In addition to the loan and deposit products, they also offer other banking facilities, products and services to generate non-interest income and cater towards the additional needs of the customers. These facilities, products and services include debit cards, internet banking, mobile banking, online bill payment services and the distribution of third-party life and general insurance products and mutual fund products.

SSFB currently offer a variety of asset and liability products and services designed for inclusive finance and general banking customers. Their asset products consist of inclusive finance portfolio (comprising loans to JLG customers), commercial vehicle loans, affordable housing loans, micro business loans, unsecured micro and small enterprise and small and medium enterprise loans, secured business loans, financial intermediary group loans and other loans. Gross Loan Portfolio has grown at a CAGR of 46.98% from ₹ 17,177.84 million as of March 31, 2018 to ₹ 37,108.42 million as of March 31, 2020 and was ₹ 39,082.29 million as of December 31, 2020.

Banks founder, Managing Director and Chief Executive Officer, Baskar Babu Ramachandran is a first generation entrepreneur with several years of experience in the financial services sector. SSFB is also backed by institutional investors since the inception. The investors include a mix of development finance institutions such as IFC and DEG, private equity investors such as Gaja Capital India AIF Trust (represented by its trustee, Gaja Trustee Company Private Limited), Gaja Capital Fund II Limited, TVS Entities, ASK Pravi Private Equity Opportunities Fund and Lok Capital Growth Fund and institutional investors including HDFC Holdings Limited, HDFC Life Insurance Company Limited, IDFC FIRST Bank Limited and Kotak Mahindra Life Insurance Company Limited.

As of March 31, 2018, 2019 and 2020 and as of December 31, 2020 CRAR was 43.40% (Tier I capital of 40.25%), 40.22% (Tier I capital of 38.66%), 35.44% (Tier I capital of 34.30%) and 41.17 % (Tier I capital of 36.94%) respectively and was the highest among all SFBs in India as of March 31, 2020. As of December 31, 2020, the Bank's gross NPAs were ₹ 299.13 million, 0.78 % of gross advances, and net NPAs were ₹ 128.14 million, or 0.33 % of net advances.

Valuation

At the upper end of the IPO price band, it is offered at 2.7x P/Bv and 5.8x 9MFY21 EPS, with a market cap of Rs. 3,237 crores. On comparative basis, the company is placed at a little bit higher valuation as compared to its peers. However it is expected that the company is going to get benefited from the overall growth in demand of commercial vehicle loans and affordable housing finance which results in improvement in overall return ratios.

Additionally, we also expect operating parameter to improve further at a healthy rate owing to improvement in NIM, asset quality. Hence considering the differentiated business model and with the current financials, we recommend a "**Subscribe (Long Term)**" rating to this IPO.

Business Highlights:

- Suryoday Small Finance Bank is among the leading SFBs in India in terms of net interest margins, return on assets, yields and deposit growth and had the lowest cost-to-income ratio among SFBs in India in Fiscal 2020. They have been serving customers in the unbanked and underbanked segments in India and promoting financial inclusion for over a decade. Prior to commencement of operations as an SFB, they operated as an NBFC – MFI carrying out microfinance operations and operated the joint liability group-lending model for providing collateral-free, small ticket-size loans to economically active women belonging to weaker sections.
- The average “priority sector” loans, as a percentage of average ANBC for Fiscal 2018, 2019 and 2020 and nine months ended December 31, 2020 was 99.08%, 112.10%, 103.67% and 114.09%, respectively. Over the years, they have diversified their loan portfolio to include non-micro banking loans thereby reducing the dependence on micro banking business.
- They commenced the microfinance operations in 2009 and have since expanded their operations across 13 states and union territories, as of December 31, 2020. As of December 31, 2020, the customer base was 1.44 million and the employee base comprised 4,770 employees and they operated 554 Banking Outlets including 153 Unbanked Rural Centres (“URCs”). They have set up 661 customer service points (“CSPs”) as additional service or touch points during April 1, 2020 and January 31, 2021 and intend to continue to expand their reach through the CSP model.
- Their distribution network also comprises of ATMs, phone banking, mobile banking, tablet banking, unified payment interface, CSPs, and internet banking services. Their operations are predominantly in urban and semi-urban locations due to greater income earning capabilities and employment opportunities in such areas compared with rural regions. As of December 31, 2020, 37.13%, 27.78% and 28.83% of Gross Advances were from metropolitan, urban and semi-urban areas (based on branch locations as classified by the RBI), respectively.
- Suryoday Small Finance Bank currently offer a variety of asset and liability products and services designed for inclusive finance and general banking customers. Their asset products consist of the inclusive finance portfolio (comprising loans to JLG customers), commercial vehicle loans, affordable housing loans, micro business loans, unsecured micro and small enterprise and small and medium enterprise loans, secured business loans, financial intermediary group loans and other loans. Company has leveraged the use of technology across all aspects of their operations. In particular, they use digital technology for customer acquisition and also customer lifecycle management. Their employees also use tablets to service customers in the unbanked and under-banked segments which they believe has led to greater customer convenience and improved operational efficiency.
- Gross Loan Portfolio has grown at a CAGR of 46.98% from ₹ 17,177.84 million as of March 31, 2018 to ₹ 37,108.42 million as of March 31, 2020 and was ₹ 39,082.29 million as of December 31, 2020 while deposits have grown at a CAGR of 94.95% from ₹ 7,495.22 million as of March 31, 2018 to ₹ 28,487.15 million as of March 31, 2020 and was ₹ 33,438.40 million as of December 31, 2020. As of December 31, 2020, retail deposits comprised 72.40% of total deposits. Within retail deposits, CASA as a percentage of overall deposits was 13.32%, as of December 31, 2020.

Key Strategies:

- **Expand our asset portfolio while focusing on secured lending:** The bank aims to grow within their existing geographies as well as in new geographies in a calibrated manner based on their analytics and intelligence on industry growth. Their focus will continue to be on the inclusive finance segment in line with industry growth. They also intend to grow their secured portfolio which will grow at a faster pace as compared to inclusive finance portfolio due to its comparatively small base currently. Amongst their retail asset products, they are focusing on lending for commercial vehicles, home loans, secured business loans, and micro business loans. They also intend to continue to advance commercial vehicle loans to large fleet operators and OEM’s to maintain and strengthen their existing relationships with these key customers. They intend to digitally on-board a potentially large customer base by offering small ticket overdraft loan facilities, in particular to their targeted customer segment, i.e., small and retail transporters. Bank’s affordable housing finance segment will be a key focus going forward. They anticipate growth in this segment from areas where they have an existing presence. Their micro unsecured business loan portfolio will also be key focus to grow in the future. Their focus will be to disburse loans to self-employed and salaried individuals for non-agricultural properties and in particular in the affordable housing segment and leverage their existing inclusive finance distribution reach and customer base to source home loan customers
- **Strengthen the retail liability franchise:** The bank intends to strengthen their liability franchise growing their CASA and retail deposit base in a steady manner. In order to grow their retail deposits, they have set up a dedicated team for acquisition of retail deposits across regions and a product development team to enhance the features of their existing products and develop new products. Their strategy will be to build relationships across various customer segments including with senior citizens, NRIs, educational institutions, NBFCs, corporates and co-operative banks. As of December 31, 2020, senior citizens and NRI deposits formed 20.78% of their deposit base and ensure long-term relationship with the Bank. Bank’s focus will be to drive productivity and add more relationships. They intend to deepen relationships with their asset customers over the next few years. They intend to leverage their existing customer base of over 1.44 million customers as of December 31, 2020, to promote their inclusive finance products which will result in a sustained and deeply penetrated deposit base. In addition to expansion of their Banking Outlets that they intend to open to enhance their asset base, and in order to fund those assets, they will also seek to selectively open Banking Outlets specifically focused on generating deposits in urban areas where there is a large potential deposit base.
- **Continue to focus on technology and data analytics to grow operations:** Bank’s strategic focus is to use technology to become an agile and data-driven SFB. The use of advanced, cost-effective technology has been a significant factor contributing to the growth of their operations. By enhancing their digital and technology platform further, their endeavour is to empower customers to access various facilities, products and services on their own, reduce their costs and thereby increase operating efficiencies. They have built an enterprise integration layer that will facilitate integration with fintech organizations through APIs including open banking API framework. They are in the process of automating their business origination system (“BOS”) for products other than their Inclusive Finance products by engaging with fintech partners. They will continue to invest in digital technologies to drive greater customer centricity and employee empowerment. Bank’s focus will be on the use of data analytics to perform customer segmentation and understand their evolving requirements leading to new product development, faster and better credit decisions and pro-active risk management.
- **Expand geographic presence and penetrate further into existing geographies:** As of December 31, 2020, they conducted their operations through 554 Banking Outlets in India. They intend to continue expanding their network of Banking Outlets to drive greater and deeper penetration in these states while focusing on low and middle-income individuals and small businesses that have limited or no access to formal banking channels, spread across urban and semi-urban markets. They also intend to open targeted Banking Outlets in urban/ semi-urban areas. All such decisions would be based on data analytics of the particular

region in terms of growth, customer behaviour and delinquency. Bank's expansion also caters to their risk management for Banking Outlets with higher advances per branch that can be split into two or more branches to take care of collection and potential growth in nearby regions.

Key Strengths:

- **Customer centric approach with a focus on financial inclusion:** Suryoday Small Finance bank is a commercial bank focused on serving customers in the unbanked and under-banked segments in India and consider their customers to be the most significant stakeholders of their operations. As of December 31, 2020, they served 1.44 million customers and in the period between Fiscal 2018 to Fiscal 2020, their customer base increased by 0.65 million. The inclusive finance portfolio (comprising loans to JLGs) accounted for 70.35% of Gross Loan Portfolio, as of December 31, 2020. Given their operating history as microfinance institution, a significant portion of the portfolio continues to qualify as "priority sector lending" as mandated by the RBI and helps them to promote financial inclusion in India. Their average "priority sector" loans as a percentage of average ANBC for Fiscal 2018, 2019 and 2020 and in the nine months ended December 31, 2020 was 99.08%, 112.10%, 103.67% and 114.09%, respectively. Significant portion of the inclusive finance loans, T-Nagar loans, commercial vehicle loans, affordable housing loans and secured and unsecured business loans and some portion of the commercial vehicle loans classify as "priority sector" loans based on the criteria notified by the RBI.
- **Diversified asset portfolio with a focus on retail operations:** Over the years, the Bank has been able to diversify its product portfolio to ensure that the proportion of net unsecured portfolio has reduced from 94.81% of the net advances in Fiscal 2018 to 77.49% in Fiscal 2020 and further to 74.59% in the nine months ended December 31, 2020. They commenced operations as a microfinance institution in 2009, and following the conversion to a SFB, they have been able to diversify into other products which broadly include commercial vehicle loans, affordable home loans, micro-business loans, secured and unsecured business loans to MSME/SME and corporates and financial intermediary group loans. As of December 31, 2020, commercial vehicle loans, affordable housing loans, micro business loans, unsecured MSME/SME loans, secured business loans, financial intermediary group loans and other loans represented 9.42%, 6.30%, 0.99%, 1.02%, 3.63%, 4.78%, and 3.51%, respectively of Gross Loan Portfolio. Inclusive finance loans constitute a significant portion of the Gross Loan Portfolio and as of March 31, 2018, 2019 and 2020 and as of December 31, 2020, these loans represented 89.89%, 81.44%, 75.85% and 70.35%, respectively, of Gross Loan Portfolio as of such dates. They have leveraged their Banking Outlet network that comprised 554 Banking Outlets across 13 states and union territories, as of December 31, 2020, to grow their asset portfolio.
- **Fast evolving granular deposit franchise:** Company has witnessed rapid growth in deposits between Fiscal 2018 and Fiscal 2020. Their deposit base has grown at a CAGR of 94.95% from ₹ 7,495.22 million as of March 31, 2018 to ₹ 28,487.15 million as of March 31, 2020 and was ₹ 33,438.40 million as of December 31, 2020. As of December 31, 2020, the deposit base represented 69.22% of our overall funding profile. They are among the SFBs with the highest deposit growth rate in Fiscal 2020. Company also offer a variety of demand and time deposits and other services through which their customers can realize their savings goals. The retail deposit base has grown at a CAGR of 124.07% from ₹ 3,088.90 million as of March 31, 2018 to ₹ 15,508.89 million as of March 31, 2020 and was ₹ 24,210.69 million as of December 31, 2020, while the ratio of retail deposits to total deposits as of March 31, 2018, 2019 and 2020 and as of December 31, 2020 was 41.21%, 42.91%, 54.44% and 72.40 %, respectively. The number of CASA accounts and term deposit accounts have grown from 9,295 and 7,645 as of March 31, 2018, respectively, to 65,676 and 63,399 as of March 31, 2020, respectively and were 3,40,588 and 75,018 as of December 31, 2020, respectively.
- **Leveraging emerging technologies to enhance digital footprint:** Company has leveraged technology to enable smooth and seamless customer experience. They have had their digital channels such as internet banking and mobile banking since commencement of our SFB operations. They extensively use digital technologies for the entire customer lifecycle in the inclusive finance business. As of December 31, 2020, 3,261 employees use tablets/ digital services for opening of savings account and for customer on-boarding. The use of handheld devices has empowered our employees to provide assisted services to the unbanked and under-banked customer segments that has led to greater customer convenience and operational efficiency.
- **Strong credit processes and robust risk management framework:** Company has a strong credit function that comprises a team of 83 individuals as of December 31, 2020, each of whom have experience in the banking and financial services industry. They have implemented credit management models such as credit history checks with various bureaus, fraud verification tools/ processes on customer profile and documentation, which have enabled them to maintain a stable portfolio quality. Their credit underwriting practices include scorecard based assessment for the retail asset products, segment-based and geography-based assessment policies. The introduction of a credit risk unit to focus on underwriting errors has led to uniformity in policy implementation. As a part of risk management process, Company has maintained a higher capital adequacy ratio than the regulatory requirement. As of March 31, 2018, 2019 and 2020 and as of December 31, 2020, our CAR was 43.40%, 40.22%, 35.44% and 41.17% against the stipulated regulatory requirement of 15.00% and was the highest amongst SFBs in India as of March 31, 2020.
- **Track record of strong financial performance and cost efficient operations:** Company has been growing tremendously since the conversion as an SFB and are currently in a robust financial position that, will enable them to expand their business quickly. The Gross Loan Portfolio has grown at a CAGR of 46.98% from ₹ 17,177.84 million as of March 31, 2018 to ₹ 37,108.42 million as of March 31, 2020 and was ₹ 39,028.29 million as of December 31, 2020. Net Interest Income was up from ₹ 1,658.30 million in Fiscal 2018 to ₹ 3,403.74 million in Fiscal 2019 and to ₹ 4,909.05 million in Fiscal 2020 and was ₹ 3,532.77 million in the nine months ended December 31, 2020. Profit after tax has increased from ₹ 114.92 million in Fiscal 2018 to ₹ 1,111.98 million in Fiscal 2020 and was ₹ 548.66 million in the nine months ended December 31, 2020. The return on average assets was 0.67%, 3.17%, 2.53% and 1.24% (annualized) / 0.93% (unannualized) as of and for the years ended March 31, 2018, 2019 and 2020 and as of and for the nine months ended December 31, 2020, respectively.
- **Experienced leadership team, professional management and strong corporate governance:** They have a professionally managed bank led by Baskar Babu Ramachandran, their founder, Managing Director and Chief Executive Officer. A first generation entrepreneur, who has several years of experience in the financial services sector and has held leadership positions in companies like HDFC Bank Limited, GE Capital Transportation Financial Services Limited amongst others. The members of senior management team have experience and relevant expertise in banking and financial sectors, corporate laws, sales, technology and operations and have been instrumental in scaling up business operations. The Board comprises of individuals from various fields of finance with varied and diverse experience. Their operations are also funded by growth capital provided by a diverse group of investors, including development finance institutions such as International Finance Corporation and DEG, private equity investors including Lok Capital Growth Fund, Gaja Capital India AIF Trust (represented by its trustee, Gaja Trustee Company Private Limited), Gaja Capital Fund II Limited, ASK Pravi Private Equity Opportunities Fund and Jhelum Investment Fund I, institutional investors such as HDFC Life Insurance Company Limited, IDFC FIRST Bank Limited and Kotak Mahindra Life Insurance Company Limited and family offices such as Kiran Vyapar Limited and Polaris Banyan Holding Private Limited.

Key Risks:

- The key risks that Company is exposed to include: (i) credit risk; (ii) liquidity risk; (iii) operational and cash management risk; (iv) market and interest rate risk.
- If Company is not able to control the level of non-performing assets in their portfolio or any increase in NPA portfolio, RBI mandated provisioning requirements could adversely affect the business, financial conditions, results of operations and cash flows.

Company Portfolio:

Suryoday Small Finance Bank commenced operations as an SFB on January 23, 2017, pursuant to receipt of the RBI Final Approval. Prior to commencement of operations as an SFB, they operated as an NBFC – MFI carrying out microfinance operations. They were included in the second schedule to the RBI Act as a scheduled bank pursuant to a notification dated July 24, 2017, issued by the RBI and published in the gazette of India dated September 2, 2017.

Their product portfolio includes asset products, largely advanced to customers in unbanked and under-banked segment and liability products in the form of deposits.

Company categorize their asset products into (i) inclusive finance loans, primarily comprising loans to joint liability groups (“JLGs”); (ii) commercial vehicle loans; (iii) affordable housing loans; (iv) secured business loans (“SBL”); (v) micro business loans (T-Nagar); (vi) MSME/ SME loans (unsecured); (vii) loans to financial intermediary groups (“FIGs”); and (viii) other loans. Categorization is largely determined by customer profile, type of security and end-use.

The table below sets forth the Bank’s Gross Loan Portfolio by product as of the dates indicated:

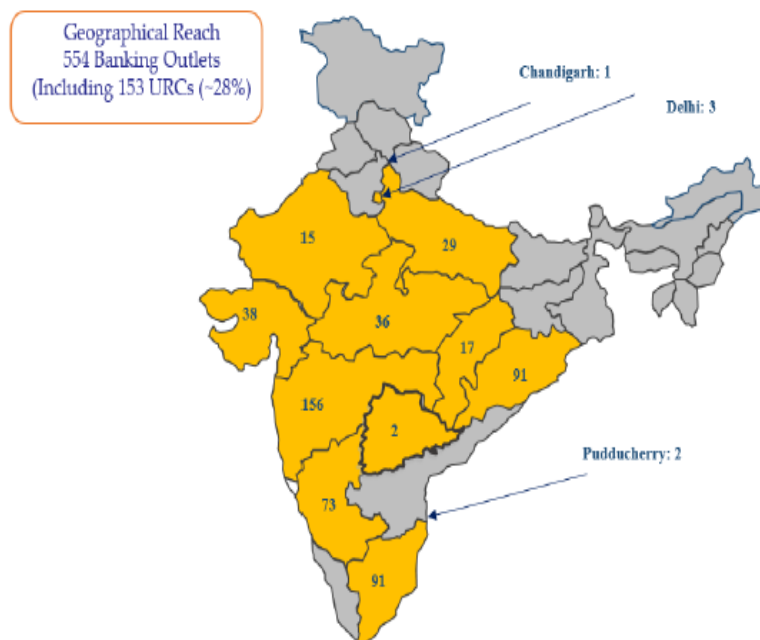
Particulars	2018		2019		2020		As of 31 December 2020	
	Rs. Million	% of total	Rs. Million	% of total	Rs. Million	% of total	Rs. Million	% of total
Inclusive Finance (JLG)	15,441.32	89.89%	24,191.24	81.44%	28,147.75	75.85%	27,495.76	70.35%
Commercial Vehicle	85.48	0.50%	2,185.14	7.36%	3,705.49	9.99%	3,680.09	9.42%
Affordable Housing Loans	219	1.27%	796.76	2.68%	1,811.84	4.88%	2,460.30	6.30%
Secured Business Loans	351.56	2.05%	675.34	2.27%	1,062.51	2.86%	1,420.32	3.63%
Micro Business (T-Nagar)	63.23	0.37%	273.12	0.92%	428.13	1.15%	386.72	0.99%
MSME/SME Loans	826.32	4.81%	966.79	3.25%	375.05	1.01%	399.46	1.02%
Financial Intermediary Group	90.8	0.53%	484.43	1.63%	1,004.88	2.72%	1,866.96	4.78%
Others	100.13	0.58%	131.6	0.44%	572.77	1.54%	1372.68	3.51%
Gross Loan Portfolio	17,177.84	100%	29,704.42	100%	37,108.42	100%	39,082.29	100%

- **Inclusive Finance (JLGs):** Under the inclusive finance (JLG) business, they provide group loans built on the peer-guarantee loan model (joint liability group), which enables individuals to take loans without having to provide collateral or security on an individual basis, while promoting credit discipline through mutual support within the group, prudent financial conduct among the group, and prompt repayment of their loans. Customers of the inclusive finance (JLG) business are typically located in unbanked and under-banked locations predominantly across urban and semi-urban areas. The target customer segment for inclusive finance (JLG) loans are micro-entrepreneurial women with limited access to formal financing sources. These loans are provided essentially for use in their income generating activities such as eateries, retail trading shops like vegetable vendors and animal husbandry. As of December 31, 2020, Gross Loan Portfolio in this segment was ₹ 27,495.76 million, representing 70.35 % of total Gross Loan Portfolio.

	Fiscal			As of 31 December, 2020
	2018	2019	2020	
Total Customers	789,984	1,118,578	1,386,882	1,304,085
New to Bank Customers	280,042	505,720	497,592	92,523
Customer Retention Ratio	67.97%	77.58%	79.50%	87.4%

- **Commercial Vehicles:** Company commenced advancing commercial vehicle loans in Fiscal 2018. A significant proportion of the customers of commercial vehicle portfolio comprises fleet operators engaged in road transport for various industries who have availed finance for heavy and medium commercial goods vehicles. These are used for a range of commercial purposes such as market loading operations, contract transportation and logistics services. Their customers also avail loans for purchase of buses, primarily for use as route buses, transportation as school buses and staff buses. As of December 31, 2020, Gross Loan Portfolio in this segment was ₹ 3,680.09 million, representing 9.42 % of total Gross Loan Portfolio. These commercial vehicle loans are offered at ticket sizes ranging between ₹ 250,000 and ₹ 19,666,000, for a tenure of 12 months to five years during in the nine months ended December 31, 2020. As of December 31, 2020, the Gross NPAs for the commercial vehicle finance segment were ₹ 155.29 million that represented 4.20% of our Gross Advances in this product segment. The number of customers of commercial vehicle loan portfolio as of March 31, 2018, 2019 and 2020, and as of December 31, 2020 was 4, 252, 506, and 599 respectively.
- **Affordable Housing Loans:** Company commenced providing affordable housing loans in Fiscal 2018. Their housing loan offerings are aimed at self-employed/ salaried applicants for purchase of apartments or self-construction of their property with a focus on non-agricultural town planning approved property (NATP). They primarily distribute these loans from Banking Outlets located in urban/ semi-urban areas. Loans are provided for purchase of house, construction of house, improvement/ restoration of home and also for refinancing construction, balance transfers and as top-ups of existing loans. As of December 31, 2020, Gross Loan Portfolio in this segment was ₹ 2,460.30 million, representing 6.30% of total Gross Loan Portfolio. As of December 31, 2020, the Gross NPAs for this product segment were ₹ 15.21 million, representing 0.62% of Gross Advances in this product segment

- **Micro and Small Enterprise (“MSME”), and Small and Medium Enterprise (“SME”) Finance:** Company commenced providing unsecured MSME/ SME loans in Fiscal 2017. They provide these loans to entities/ individuals engaged in business activities such as those operating small shops, traders, retail stores, small manufacturing units, service establishments that maintain some formal records for credit evaluation. As of December 31, 2020, Gross Loan Portfolio in this segment was ₹ 399.46 million, representing 1.02 % of total Gross Loan Portfolio. As of December 31, 2020, the Gross NPAs for this product segment were ₹ 37.55 million, representing 13.36% of Gross Advances in this product segment.
- **Secured Business Loans:** Company commenced providing secured business loans in Fiscal 2016. Their target customer profile for this segment has evolved over the last three years based on our experience and understanding of the various customer segments they have interacted with. As of December 31, 2020, Gross Loan Portfolio in this segment was ₹ 1,420.32 million, representing 3.63% of total Gross Loan Portfolio. As of December 31, 2020, the Gross NPAs for this product segment were ₹ 61.43 million, representing 4.32 % of Gross Advances in this product segment primarily in portfolio created under customer segment with inadequate documentation or credit history.
- **Micro Business Loans (T-Nagar):** Company commenced providing micro business loans in Fiscal 2018. They provide these unsecured loans to self-employed individuals operating small enterprises, typically in urban and semi-urban locations. As of December 31, 2020, Gross Loan Portfolio in this segment was ₹ 386.72 million, representing 0.99 % of total Gross Loan Portfolio. As of December 31, 2020, the Gross NPAs for this product segment were ₹ 18.32 million, representing 4.68% of Gross Advances in this product segment. The number of customers of our micro business loans (T-Nagar) portfolio as of March 31, 2018, 2019 and 2020 and as of December 31, 2020, was 604, 3,453, 6,270 and 5,883 respectively.
- **Financial Intermediary Group Loans (“FIG” Loans):** Company has extended debt capital support for onward lending purposes to financial intermediaries such as NBFCs, MFIs and HFCs operating in retail segments like housing finance, loans against property, microfinance, vehicle finance and other similar sectors. As of December 31, 2020, Gross Loan Portfolio in this segment was ₹ 1,866.96 million, representing 4.78% of total Gross Loan Portfolio. As of December 31, 2020, Company did not record any NPAs for this product segment. The number of financial intermediary groups they have advanced loans to as of March 31, 2018, 2019 and 2020 and as of December 31, 2020, was 4, 13, 17 and 20, respectively.



	As of 31 December, 2020	
	Number of States/ Union Territories	Banking Outlets
North	6	101
West	2	194
South	4	168
East	1	91
Total	13	554

Company typically deploy onsite ATMs and cash recyclers at their Banking Outlets for the convenience of our customers. A customer can perform cash withdrawal, fast cash services, mini-statements, balance enquiry, PIN change at ATMs. Bank has deployed 25 ATMs as of December 31, 2020, and in nine months ended December 31, 2020, they recorded an average number of 2,471.28 transactions per month per ATM.

Capital Adequacy Ratios: Company CRAR was 43.40%, 40.22%, 35.44%, and 41.17%, as of March 31, 2018, 2019 and 2020 and as of December 31, 2020, respectively. Their Tier I capital ratio was 40.25%, 38.66%, 34.30% and 36.94 % as of March 31, 2018, 2019 and 2020 and as of December 31, 2020, respectively.

Comparison with Listed Industry Peers:

	Total income (₹ in million)	Face Value per equity share (₹)	EPS (Basic) (₹)	EPS (Diluted) (₹)	RoNW (%)	NAV per equity share (₹)
Suryoday Small Finance Bank	8,541	10	13	13	10.43	123.13
Ujjivan Small Finance Bank	30,258.14	10	2.19	2.18	14.79	18.32
CreditAccess Grameen	17,054.80	10	23.2	23	12.27	189.9
Spandana Sphoorty Financial	14,695	10	56.21	55.74	13.4	408.29
Bandhan Bank Limited	1,24,346.91	10	18.78	18.76	41.08	94.37
AU Small Finance Bank	49919.76	10	22.78	22.32	51.95	142.2

As of end-Fiscal 2020, Suryoday and Ujjivan SFB had a total capital adequacy ratio of 29.57% and 28.80%, respectively, compared with Capital SFB's 17.47% and Jana SFB's 19.30%. Suryoday SFB has the third highest proportion of retail term deposits to total deposits at 43% among its peers.

Key Growth Drivers:

- Going forward, Company should strengthen their relationship with their existing customers by leveraging their inclusive finance customer base and by offering other asset and liability products based on their requirements. Their focus should also be to grow their customer base by providing quality customer service. Company should continue to focus on the use of technology, explore partnerships with fintech companies, undertake data analytics to better understand the requirements of the customers, improve operational efficiency and further reduce costs. As Company will grow their operations, they should look to selectively expand their network of Banking Outlets across newer geographies and also penetrate further into the existing markets. Company should also intend to engage with BC partners and payment banks to leverage their network which will help them to expand and increase the market share

Valuation:

At the upper end of the IPO price band, it is offered at 2.7x P/Bv and 5.8x 9MFY21 EPS, with a market cap of Rs. 3,237 crores. On comparative basis, the company is placed at a little bit higher valuation as compared to its peers. However it is expected that the company is going to get benefited from the overall growth in demand of commercial vehicle loans and affordable housing finance which results in improvement in overall return ratios.

Additionally, we also expect operating parameter to improve further at a healthy rate owing to improvement in NIM, asset quality. Hence considering the differentiated business model and with the current financials, we recommend a "**Subscribe (Long Term)**" rating to this IPO.

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Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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