

Suryoday Small Finance Bank Ltd.



Suryoday Small Finance Bank Ltd.

Issue Opens On

Wednesday, 17th March 2021

Issue Closes On

Friday, 19th March 2021

Price Band (INR)

303-305

Issue Size (INR Cr.)

582

Rating
AVOID

Company Overview

Formerly recognized Suryoday Micro Finance Ltd (NBFC-MFI), incorporated on November 10, 2008 at Chennai, Tamil Nadu. Currently headquartered at Navi Mumbai, Maharashtra, Suryoday Small Finance Bank started its operations on January 23, 2017 after the RBI's approval. As on Dec'20, the bank operates through its 554 banking outlets spread across India's 13 States and Union Territories; mainly concentrated in Maharashtra, Tamil Nadu and Odisha. As on Dec'20, micro finance book stood at ~70% of Gross Loan Portfolio (GLP). Besides, it offers diverse asset products of commercial vehicle loans, affordable home loans, micro business loans, secured and unsecured business loans to MSME/SME and corporates and Financial Intermediary Groups (FIGs) loans. It operates with 4,770 and 1.44 mn of employee and customer base as on Dec'20, respectively.

OFFER STRUCTURE

Particulars	IPO Details	Indicative Timetable	
Fresh Issue (INR cr)	246.9 - 248.6	Offer Closing Date	19 th March, 2021
No. of shares (#)	81,50,000	Finalization of Basis of Allotment with Stock Exchange	24 th March, 2021
Offer for Sale (INR cr)	331.6 - 333.8	Initiation of Refunds/ unblocking of funds from ASBA Account	24 th March, 2021
OFS No. of shares (#)	1,09,43,070	Credit of Equity Shares to Demat accounts	25 th March, 2021
Price band (INR)	303 - 305	Commencement of Trading of Eq.shares on stock exchanges	30 th March, 2021
Face Value (INR)	10		

Issue break-up	% of shares	Book Running Lead Managers (BRLMs)	Registrar to the issue
QIB	50%	Axis Capital	Kfin Technologies Private Limited
Non- Institutional	15%	ICICI Securities Limited	
Retail	35%	IIFL Securities Limited	
		SBI Capital Markets Ltd	

Objects of the issue

to augment bank's tier 1 capital for future capital requirements

Source: KRChoksey Research, Suryoday Small Finance Bank RHP

Valuation

Fundamental performance of the bank was progressive over the years with a robust growth in advances/deposits at 50%/95% CAGR during Fy18-20. It has well managed its operations maintaining lowest Cost/Income ratio amongst SFBs. It is a well capitalised bank with 41.2% of capital adequacy ratio without holding company structure. Post issue, promoters holding should reduce up to ~28%. Higher pro-forma GNPA ratio of 9.3% amid COVID-19 pandemic situation may require higher provisioning which will negatively impact bank's profitability in the near to medium term. Large MFI book with 70% of overall portfolio is also one of the key concern. As on Dec'20, bank's CASA was at 13.3% and overall business stood at INR 71 bn; lowest among all SFBs. The issue is valued at 2.28x P/BV at upper price band of INR 305 which is expensive compared with listed peers. **We recommend 'AVOID' to the issue of Suryoday SFB; however, post listing we will monitor bank's financial performance for the upcoming quarters.**

Peer Comparison	Face Value	CMP (INR)	Market Cap (INR mn)	TTM BPS	TTM P/BV
Suryodaya SFB Ltd	10	303-305*	32158-32369*	133.4	2.3
ESAF SFB	10	NA	NA	28.4	NA
Equitas SFB Ltd	10	58	66,236	29.3	1.9
Ujjivan SFB Ltd	10	34	58,330	17.8	1.9
AU SFB Ltd	10	1,230	3,77,736	176.1	7.0
DCB Bank Ltd	10	114	35,368	110.0	1.0
RBL Bank Ltd	10	235	1,40,583	210.5	1.1
Bandhan Bank Ltd	10	339	5,46,713	107.4	3.2

Source: KRChoksey Research, Factset

*Issue Price band for the issue and valuation is based on upper price band; NA - Not Available

ANALYST

Priyanka Baliga, priyanka.baliga@krchoksey.com, +91-22-6696 5408

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

www.krchoksey.com

Suryoday Small Finance Bank Ltd.

IF (MFI) loans contributes ~70% of overall book, as on Dec'20.

Going forward, bank is expected to be more focused towards secured lending

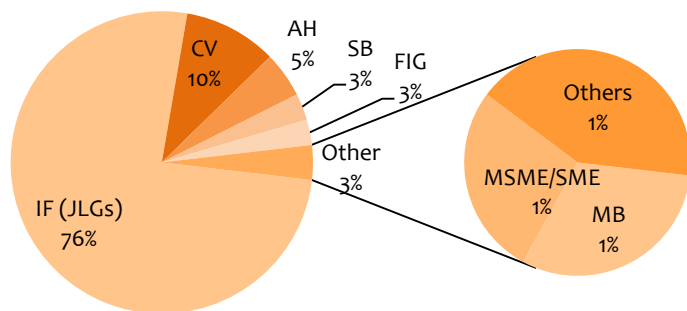
COMPANY OVERVIEW

Prior to commencement of operations as an SFB, it operated as an NBFC – MFI since 2009 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. Average “priority sector” loans, as a percentage of average ANBC for Fiscal 2018, 2019 and 2020 was 99.08%, 112.10% and 103.67%, respectively.

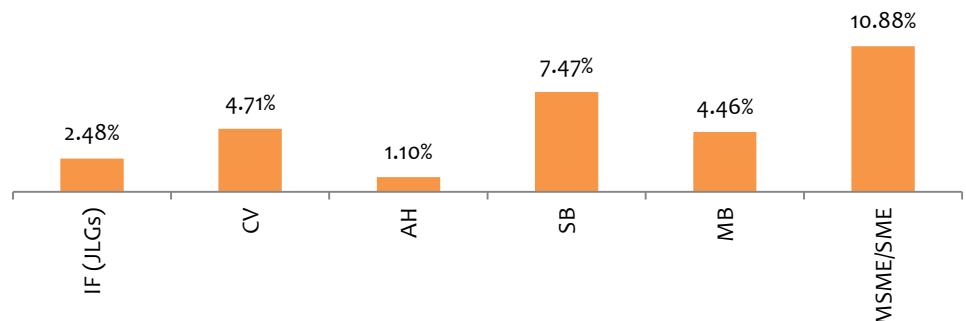
Bank's Asset Portfolio:

Currently, inclusive finance (JLGs) forms largest loan portfolio, as the bank was initially started its operations as micro finance institution. Since 2017, the bank has launched various non-micro banking asset products to reduce dependence on micro-banking business. There was a concern on asset quality of MSME/SME where GNPA stood at 10.9% in FY20.

Diversified Asset Products (FY20) (INR mn)



Asset product wise GNPA (FY20)



Source: KRChoksey Research, Suryoday Small Finance Bank RHP

Note: IF (JLGs): Inclusive Finance (Joint Lending Group), CV: Commercial Vehicles Loans, FIG: Financial Intermediary Group Loans, AH: Affordable Housing Loans, SB: Secured Business Loans, MB: Micro Business Loans (T-Nagar), Others includes overdrafts and staff loans

Expansion in retail loan portfolio with diverse products

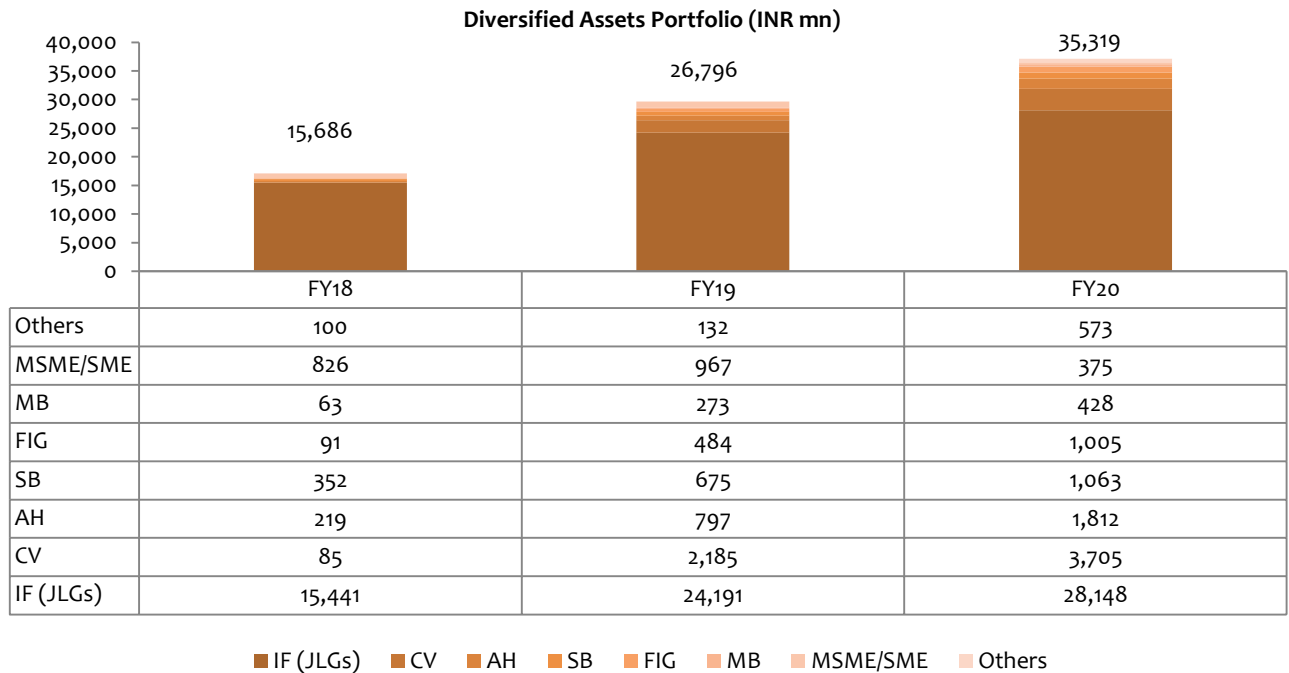
Bank's advances stood at INR 37.8 bn, as on Dec'20. Gradual expansion towards India's North, East and Central regions with diverse asset products is expected to drive retail loan book. It has observed 50% growth in advances during FY18-20.

- Bank has a strategy to be more focused towards secured lending. It is expected to witness faster growth given its small base as compared with Inclusive Finance (micro finance) book; however, it will continue to focus on its micro loan book in the future
- BS-VI transitioning is expected to drive a strong commercial vehicle financing, as transport operators are likely to shift towards cheaper BS-IV vehicles, due to surge in pricing of new BS-VI vehicles based on CRISIL report. The bank is focusing on developing new loan products for the used vehicle segment for their existing small and retail transporters with experience
- Small ticket overdraft loans are offered for potential large customer base (small and retail transporters) with digital onboarding facility
- In affordable housing finance segment, client sourcing is focused through its existing inclusive finance customer base and distribution reach for salaried and self-employed individuals

Suryoday Small Finance Bank Ltd.

Gross Advances Trend- Segment Wise (INR mn)

The bank has seen considerable growth across all segments; however reduced its MSME/SME exposure over the years.

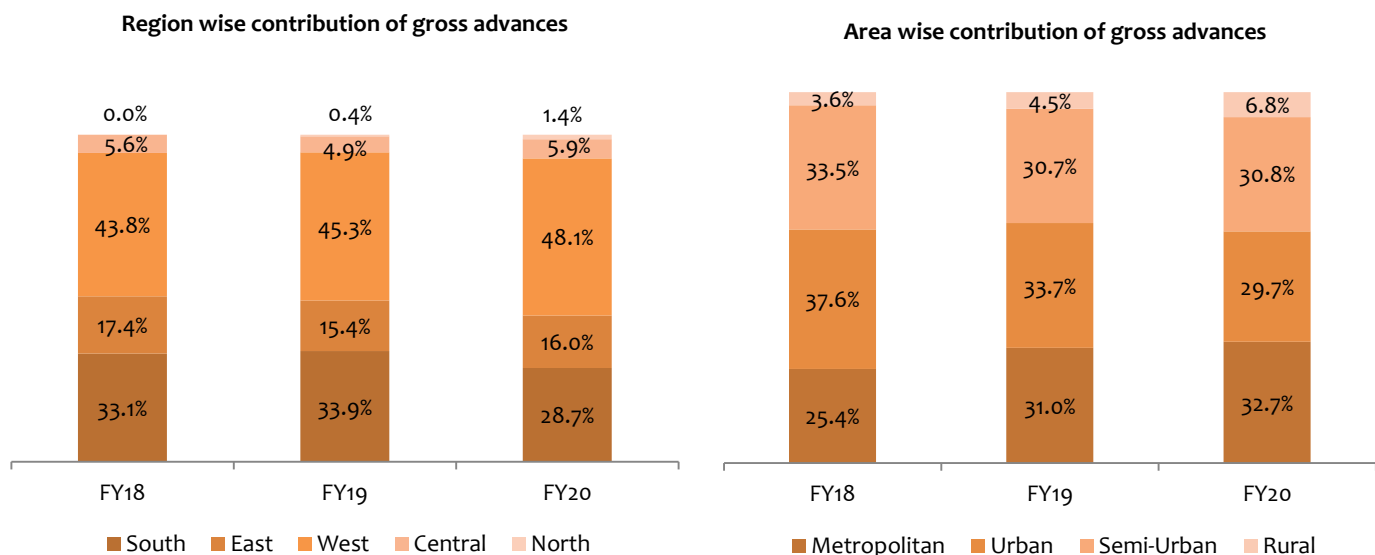


Source: KRChoksey Research, Suryoday Small Finance Bank RHP, Investor Presentation

Note: IF (JLGs): Inclusive Finance (Joint Lending Group), CV: Commercial Vehicles Loans, FIG: Financial Intermediary Group Loans, AH: Affordable Housing Loans, SB: Secured Business Loans, MB: Micro Business Loans (T-Nagar), Others includes overdrafts and staff loans

Change in business trend: Region/Area wise

It has a strategy to source deposits from metro and urban areas to serve the rural unbanked segment. Gradual expansion is expected in East, North and Central India.



Source: KRChoksey Research, Company reports, Suryoday Small Finance Bank RHP

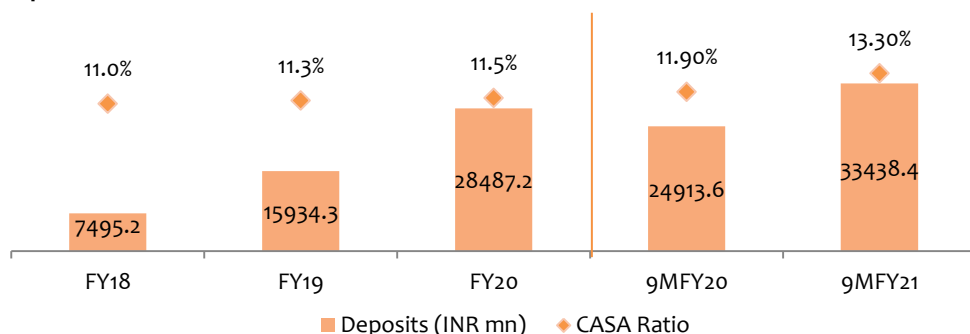
Suryoday Small Finance Bank Ltd.

Upward trend in deposit base

As on Dec'20, bank's deposit growth has been faster at 34% YoY as compared with advances of 13% YoY. Deposits have been grown at 95% CAGR during FY18-20.

- Focus on building relationships across various customer segments i.e. educational institutions, NRIs, NBFCs, corporates and co-operative banks etc. and development of new products and existing product's features enhancement
- 14.6% of deposits from senior citizens and NRIs as on Mar'20 ensures long term relationship with the bank
- Measured expansion of banking outlets in metro and semi-urban areas to support growth in deposits
- The bank has strengthened its deposits sourcing from rural and urban areas through partnerships with BCs, individuals having prior banking experience and payment banks

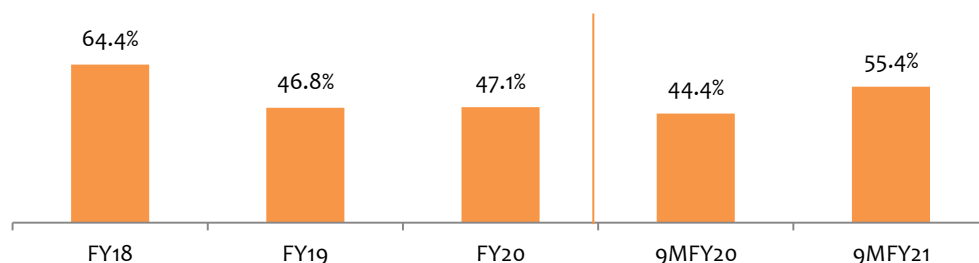
Deposits and CASA trend:



Source: KRChoksey Research, Company reports, Suryoday Small Finance Bank RHP

Operationally efficient bank amongst listed SFBs

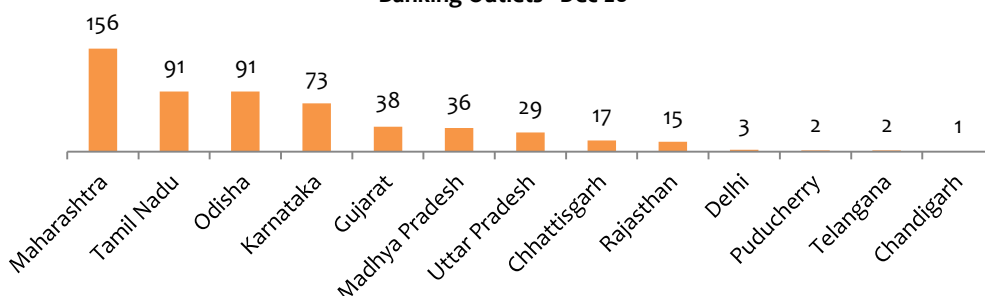
Cost to income ratio (%)



Broadening geographic network:

The bank is expected to expand its domestic reach in northern and eastern regions.

Banking Outlets - Dec'20



Source: KRChoksey Research, Company reports, Suryoday Small Finance Bank RHP

Lowest CASA ratio amongst listed peers

One of the lowest cost to income ratio amongst listed SFBs

Maharashtra, Tamil Nadu and Odisha has highest number of outlets as on Dec'20

Suryoday Small Finance Bank Ltd.

The bank will continue to focus on the use of technology, explore partnerships with fintech companies, undertake data analytics to better understand the requirements of our customers, improve operational efficiency and further reduce costs

Early FinTech adoption, multiple distribution channels to support business growth

- Since commencement of SFB operations, the bank has leveraged technology and adopted digital channels (internet/mobile banking) which enabled smooth and seamless customer experience. Bank's employees have provided assisted services to its inclusive finance customers with the use of handheld devices which has led to greater customer experience and operational efficiency. Turn-around time for processing inclusive finance loans has reduced to five days in FY2020. The bank is expected to invest in technology in order to drive greater customer experience, employee empowerment and strengthen its security infrastructure given the importance of information security.
- The bank operated 554 banking outlets mainly concentrated in southern and western regions as on Dec 2020. Also, it had a network of 26 owned ATMs. It undertakes part of its operations through BCs where it has 18 BC outlets across asset and liability businesses. The bank has tried to eliminate manpower challenges prevailing in remote locations with the help of its arrangements with BCs where it leverages their network to serve the customers. This generally supports to open URCs in rural areas. It has operated through 137 URCs of which 45 were operated through BCs. Collaboration with payments banks in India to grow its deposits base where it offers customers of payment bank certain sweep account facilities.

KEY RISKS AND CONCERNS

- Indian banking industry is highly competitive and bank's growth strategy will depend on its ability to compete effectively.
- The bank rely extensively on continuous upgradation of its information technology systems and any disruptions in such systems, or breach of data, could adversely affect their operations and reputation.
- Changes in RBI policy rates may affect bank's rate on interest earning assets and interest bearing liabilities.
- Credit availability or liquidity in the market may get affected due to global or Indian economic conditions.

Suryoday Small Finance Bank Ltd.

Peer Comparison based on 9MFY21 Data

Company Name	Advances (INR Cr)	Deposits (INR Cr)	CASA	Proforma GNPA	PCR	CRAR	ROA	ROE
Suryodaya SFB Ltd	3,782	3,344	13.3%	9.3%	89.6%	41.2%	1.2%	6.3%
Equitas SFB Ltd	16,816	15,862	25.0%	4.2%	59.9%	12.6%	1.6%	12.3%
Ujjivan SFB Ltd	13,638	11,617	18.0%	4.8%	95.0%	26.9%	-0.7%	-4.2%
AU SFB Ltd	33,222	29,708	22.0%	3.1%	76.0%	18.8%	1.7%	15.1%
Bandhan Bank Ltd	80,255	71,188	42.9%	7.1%	76.6%	26.2%	2.4%*	14.6%*

Company Name	NIM	Cost to income (%)	Branches	Cost of funds (%)	Yield
Suryodaya SFB Ltd	8.5%	55.4%	554	8.0%	20.4%
Equitas SFB Ltd	8.5%*	59.9%	861	7.4%	18.9%
Ujjivan SFB Ltd	10.1%	58.0%	575	7.1%	19.0%
AU SFB Ltd	5.4%	49.2%	728	7.0%	14.3%
Bandhan Bank Ltd	8.3%	28.1%	5,197 [#]	6.0%	13.3%

Source: KRChoksey Research, Company reports, Suryoday Small Finance Bank RHP
*Based on Q3FY21 data
#including banking outlets

Management of the Suryoday Small Finance Bank:

Board of Directors	Designation
Ramachandran Rajaraman	Part-Time Chairperson and Independent Director
Baskar Babu Ramachandran	Managing Director and Chief Executive Officer
Mrutunjay Sahoo	Independent Director
Jyotin Kantilal Mehta	Independent Director
Meena Hemchandra	Independent Director
John Arunkumar Diaz	Independent Director
Venkatesh Natarajan	Investor Director
Ranjit Shah	Investor Director
Aleem Remtula	Investor Director

Source: KRChoksey Research, Suryoday Small Finance Bank RHP

Suryoday Small Finance Bank Ltd.

KEY FINANCIALS

Profit and Loss statement:

Income Statement (INR mn)	Annuals					Semi-Annuals	
	FY2016	FY2017	FY2018	FY2019	FY2020	9MFY20	9MFY21
Interest Income	1987.9	2437.0	2868.8	5301.1	7666.9	5632.2	6243.5
Interest Expense	948.0	1152.1	1210.5	1897.3	2757.8	2020.8	2710.7
Net Interest Income	1039.9	1285.0	1658.3	3403.7	4909.1	3611.3	3532.8
Non Interest Income	12.2	110.9	380.4	669.2	874.5	631.4	649.2
Net Total Income	1052.0	1395.9	2038.7	4073.0	5783.6	4242.8	4182.0
Operating Expenses	588.7	1017.9	1313.8	1907.4	2721.2	1883.7	2316.4
Pre-provision Profit	463.4	378.0	725.0	2165.5	3062.4	2359.0	1865.7
Provisions	45.3	139.5	546.6	738.3	1518.6	575.4	1165.1
Pre tax Profit	418.1	238.5	178.4	1427.2	1543.8	1783.6	700.6
Tax Expenses	143.7	87.5	63.4	523.3	431.8	516.9	151.9
Net Profit	274.4	151.0	114.9	904.0	1112.0	1266.8	548.7
Basic EPS	7.59	3.01	1.76	13.35	13.41	15.49	6.19
Diluted EPS	7.52	2.90	1.76	13.16	13.30	15.43	6.05

Source: KRChoksey Research, Suryoday Small Finance Bank RHP

Balance sheet:

Balance Sheet (INR mn)	Annuals					Semi-Annuals	
	FY2016	FY2017	FY2018	FY2019	FY2020	9MFY20	9MFY21
Capital	383.4	640.6	675.0	815.8	865.9	863.1	891.9
Reserves and Surplus	1592.0	4365.1	4709.9	7987.9	9796.4	9890.0	11017.8
Total Shareholder's Equity	1975.3	5005.7	5384.9	8803.7	10662.3	10753.1	11909.6
Deposits	-	220.6	7495.2	15934.3	28487.2	24913.6	33438.4
Borrowings	9560.4	10215.8	7178.3	11242.3	12646.2	8869.3	14870.8
Other Liabilities and Provisions	389.4	600.0	1501.3	1631.8	1849.6	1355.6	3285.3
TOTAL LIABILITIES	11925.2	16042.1	21559.6	37612.0	53645.2	45891.6	63504.1
Cash and Bank Balances	1725.8	1339.2	2071.6	2763.6	8376.0	1824.8	8331.6
Investments	1.2	5939.3	3113.4	6643.9	8082.0	8928.3	15114.4
Advances	9825.3	8196.5	15686.8	26795.8	35319.4	33609.0	37822.6
Fixed Assets	24.3	77.8	135.4	189.8	387.3	307.4	433.6
Other Assets	348.5	489.2	552.4	1218.9	1480.5	1222.1	1801.9
TOTAL ASSETS	11925.2	16042.1	21559.6	37612.0	53645.2	45891.6	63504.1

Source: KRChoksey Research, Suryoday Small Finance Bank RHP

Suryoday Small Finance Bank Ltd.

Ratios	Annually			Quarters	
	FY2018	FY2019	FY2020	9MFY20	9MFY21
NIM (%)	10.4%	12.8%	11.9%	12.3%*	8.5%*
Other Income to Total Income Ratio (%)	1.2%	7.9%	18.7%	16.4%	15.1%
ROAA	0.7%	3.2%	2.5%	4.0%*	1.2%*
ROAE	2.3%	14.8%	11.3%	17.6%	6.3%
Common Equity Tier 1	40.3%	38.7%	34.3%	39.6%	36.9%
Tier 1	40.3%	38.7%	34.3%	39.6%	36.9%
Tier 2	3.2%	1.6%	1.1%	1.0%	4.2%
CRAR	43.4%	40.2%	35.4%	40.6%	41.2%
Cost to Income Ratio	64.4%	46.8%	47.1%	43.6%	48.9%
Provision Coverage Ratio	48.3%	75.8%	84.7%	84.2%	89.6%
Debt/Equity (x)	2.7	3.1	3.9	3.1	4.1
Yield on average interest earning assets	18.0%	19.9%	18.6%	21.1%*	19.8*
Cost of Funds	10.7%	9.0%	8.6%	8.8%*	8.1%*
Spread	7.3%	10.9%	10.1%	12.3%	11.7%
GNPA	3.5%	1.8%	2.8%	2.8%	0.8%#
NNPA	1.9%	0.4%	0.6%	0.5%	0.3%
CASA Ratio	11.0%	11.3%	11.5%	11.9%	13.3%

Source: KRChoksey Research, Suryoday Small Finance Bank RHP
*Annualised
#Proforma GNPA was at 9.3% as on Dec'20

Suryoday Small Finance Bank Ltd.

ANALYST CERTIFICATION:

I, Priyanka Baliga (M.Com, BMS (Finance)), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd. (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vide SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.

The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Priyanka Baliga (M.Com, BMS (Finance)), research associate of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Priyanka Baliga (M.Com, BMS (Finance)), research associate do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Priyanka Baliga, priyanka.baliga@krchoksey.com, +91-22-6696 5408

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

www.krchoksey.com