

UTKARSH SMALL FINANCE BANK LIMITED

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Company Overview

UTKARSH SMALL FINANCE BANK recorded the second fastest AUM growth between FY2019 and FY2022 among SFBs with AUM of more than ₹50 bn. The promoter, Utkarsh CoreInvest commenced operations as an NBFC in FY2010 and was focused on providing microfinance to unserved and underserved segments and in particular in the states of Uttar Pradesh and Bihar. The company's headquarters is located in Varanasi, Uttar Pradesh and has over the years expanded operations strategically in States where they have been able to leverage the prior microfinance experience of Utkarsh CoreInvest. On October 7, 2015, Utkarsh CoreInvest received the RBI In-Principle Approval to establish an SFB, following which it incorporated Utkarsh Small Finance Bank as a wholly-owned subsidiary on April 30, 2016.

Subsequent to obtaining the RBI Licence on November 25, 2016, to carry-on business as an SFB, Utkarsh CoreInvest transferred its business of providing microfinance as a going concern to Utkarsh Small Finance Bank, which commenced its operations from January 23, 2017. The bank's operations are spread across India and are present in 22 States and Union Territories with 686 Banking Outlets and 12,617 employees, as of March 31, 2022. As of March 31, 2022, 27.70% of the Banking Outlets were located in Unbanked Rural Centres ("URCs") as against the regulatory requirement of 25% of banking outlets of SFBs to be located in URCs. The bank's operations are focused in rural and semi-urban areas and as of March 31, 2022, the bank had 3.14 million customers (both deposit and credit) majorly located in rural and semi-urban areas primarily in the states of Bihar, Uttar Pradesh and Jharkhand that have the best asset quality among other states but with low and moderate credit penetration. As of March 31, 2022, these states constituted 34.27%, 26.53% and 7.10% of total Gross Loan Portfolio (based on location of the Banking Outlet), respectively. The Bank leverages technology to provide transactional ease through internet and mobile banking and on-boarding convenience through digital on-boarding of customers with the use of handheld devices and as of March 31, 2022, 9,466 employees used handheld devices/ digital services for on boarding 4,80,714 saving account customers.

Key Financials (₹ mn)	FY23	FY22	FY21
Gross Loan Book	139,571	106,307	84,157
Deposits	137,101	100,742	75,076
CASA (%)	20.9	22.4	17.7
NNPA (%)	0.4	2.3	1.3
GNPA (%)	3.2	6.1	3.8
NIM (%)	9.6	8.8	8.2
Credit cost (%)	2.6	5.0	4.0
ROAE (%)	22.8	4.1	10.0
ROAA (%)	2.4	0.5	1.1

Source: Bank's RHP, LKP Research

Issue Details

Fresh Issue of Equity Shares aggregating upto ₹500 Cr

Issue Highlights

Issue Size:	₹500 Cr
No. of Shares:	217,391,304 - 200,000,000
Face Value:	₹10
Price Band:	₹23 - 25
Bid Lot:	600 Shares & in multiple thereof
Employee Reservation:	Upto 2,000,000 [^] Shares
Post Issue Implied MCap:	₹2,561 – 2,740 Cr
Issue Opens On:	12th July'2023
Issue Closes On:	14th July'2023
BRLMs:	ICICI Securities, Kotak Mahindra Capital
Registrar:	KFin Technologies Ltd
Listing :	BSE & NSE

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	19-07-2023
Refunds/Unblocking ASBA Fund	20-07-2023
Credit of equity shares to DP A/c	21-07-2023
Trading commences	24-07-2023

Issue break-up

	No. of Shares		₹ In Cr	% of Issue
	@Lower	@upper		
QIB	161,413,044	148,500,000	371.25	75%
NIB	32,282,608	29,700,000	74.25	15%
-NIB1	10,760,869	9,900,000	24.75	
-NIB2	21,521,739	19,800,000	49.50	
Retail	21,521,739	19,800,000	49.50	10%
EMP	2,173,913	2,000,000	5.00	
Total	217,391,304	200,000,000	500.00	100%

NIB-1=NII Bid between ₹ 2 to 10 Lakhs, NIB-2 =NII Bid Above ₹ 10 Lakhs

Shareholding (No. of Shares)

Pre issue	Post issue [~]	Post issue [^]
895,904,663	1,113,295,967	1,095,904,663

[~]@Lower price Band [^]@ Upper Price Band

Shareholding (%)

	Pre issue	Post issue
Promoters	84.75%	69.28%
Public - Investor S/h	13.38%	10.93%
Public - Other S/h	1.88%	19.78%
Total	100.00%	100.00%

Offer Summary

The promoter (84.75% Pre-IPO) and other shareholders (15.25% Pre-IPO) of Utkarsh SFB are executing fresh issue of ₹5bn. Post IPO the total number of shares would be ~1113mn. The issue price band stands at ₹23 - ₹25. The issue opens on 12th July 2023 and closes on 14th July 2023.

Outlook and Valuation

At higher price band (₹25), the stock is valued at 1.8(x) P/BVPS with current book value per share of ₹18. Factoring the superlative return ratios, FY23 ROAA/ROAE of 2.42%/22.84%. We believe that Utkarsh Small Finance Bank is worth subscribing. We recommend to **SUBSCRIBE**.

Key Management Personnel

Key Person	Designation	Descriptions
Govind Singh	MD & CEO	He was previously the assistant general manager at ICICI Bank Ltd. He was the managing director and chief executive officer of UCL. He has also been associated with Surya Fincap Ltd, UTI Bank Ltd, Allahabad Bank, State Bank of Patiala and Bank International Indonesia.
Sarjukumar Pravin Simaria	CFO	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 Co Ltd, Fino Payments Bank Ltd, ECL Finance Ltd and Edelweiss Financial Services Ltd and at Canbank Investment Management Services Ltd., HDFC Asset Management Co Ltd, AIG Global Asset Management Co (I) Pvt Ltd and American International Group, Inc.
Muthiah Ganpathy	Compliance officer	He joined the Bank with effect from March 22, 2022. He has experience in the field of secretarial affairs and has previously worked at Aditya Birla Housing Finance Ltd, Fortune Financial Services (I) Ltd, S. Anantha & Co., Suresh Surana & Associates and Sky Industries Ltd.
Praveen Kumar Gupta	Non - Executive Chairman	Parveen Kumar Gupta is the part time Non - Executive Chairman and Independent Director of the Bank. Prior to joining the Bank, he was associated with State Bank of India and Bank of Baroda.

Financial Performance

Yields and Margins

(₹ mn)	FY23	FY22	FY21
Interest Earned	25,050	18,488	15,810
Interest Expenses	9,760	7,880	7,417
Net Interest Income	15,290	10,609	8,393
Yields (%)	15.7	15.2	15.5
Yields and Advances (%)	19.9	19.6	20.6
Cost of Fund (%)	7.0	7.5	8.3
Spread (%)	12.9	12.1	12.4
NIM (%)	9.6	8.8	8.2
Credit cost (%)	2.6	5.0	4.0

Source: Bank's RHP, LKP Research

Important Ratios

(%)	FY23	FY22	FY21
ROAE (%)	22.8	4.1	10.0
ROAA (%)	2.4	0.5	1.1
Opex. To Assets (%)	5.9	5.8	5.1
CDR (%)	95.3	101.5	109.5
CASA (%)	20.9	22.4	17.7
C/I (%)	54.2	59.1	56.5

Source: Bank's RHP, LKP Research

Credit & Deposits

(₹ mn)	FY23	FY22	FY21
Gross Loan Book	139,571	106,307	84,157
Net Advances	130,688	102,282	82,169
Deposits	137,101	100,742	75,076
CASA Deposits	28,637	22,533	13,270
Term Deposits	108,464	78,209	61,806
Borrowings	23,495	25,719	26,078

Source: Bank's RHP, LKP Research

Capital Adequacy

(₹ mn)	FY23	FY22	FY21
CET - 1 (%)	18.2	18.1	20.0
Tier 1 (%)	18.3	18.1	20.0
Tier 2 (%)	2.4	3.5	1.9
CRAR (%)	20.6	21.6	21.9
RWA (₹ mn)	101,059	78,571	62,877
RWA to assets (%)	20.6	21.6	21.9

Source: Bank's RHP, LKP Research

NPA Numbers

(₹ mn)	FY23	FY22	FY21
GNPA Amount (Period end)	4,315	6,782	3,153
NNPA Amount	505	2,358	1,088
GNPA (%)	3.23	6.10	3.75
NNPA (%)	0.39	2.31	1.33
PCR (%)	88.29	63.62	65.49
PCR (%), Inc. TWO)	95.78	72.82	80.42

Source: Bank's RHP, LKP Research

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