

27 April 2024

India | Equity Research | Q4FY24 results review

Utkarsh Small Finance Bank

Financials

Sustains growth momentum with sharp improvement in asset quality

Utkarsh SFB's (Utkarsh) Q4FY24 financial performance is testimony to management's ability to deliver as per guidance with exit RoA of ~3% and RoE at 22% despite muted H1FY24 due to sector level headwinds on both growth and asset quality. However, the management had consistently highlighted that marginal asset quality deterioration during H1FY24 was transitory, and it is committed to deliver 30% YoY growth in FY24 even after subdued 7% growth during H1FY24. We also note that management maintained a balanced approach while growing business during FY24 as reflected in 31% advance growth and 27% deposit growth. LDR stood at 94% vs 99% QoQ. We continue to prefer Utkarsh SFB within the SFB space considering its balanced growth approach and sharp focus on asset quality, even while growing balance sheet and profitability. Maintain **BUY** with an unchanged TP of INR 70, valuing the stock at 2x Sep'25E BVPS.

Sharp improvement in asset quality with credit cost moderating to 1.7% vs 2.7% QoQ

Better-than-expected collection in microfinance at 98% vs guidance of 97% led to sharp improvement in asset quality during Q4FY24. Notably, management highlighted strong collection trend to sustain in FY25 given new collection structure has stabilised and has started yielding positive outcomes. Post temporary disruption in collection in previous quarters, it has built a strong collection vertical wherein it has started following up with delinquent customers right from 1+ DPD vs earlier method of following customers post 90 DPD. Owing to better collections, fresh slippages moderated sharply to 2.3% vs 3.7% and the same resulted in GNPL falling to 2.5% vs 3% QoQ with much better improvement in MFI asset quality as reflected in GNPL in MFI falling to 2.9% vs 3.8% QoQ. PAR 30+ too moderated to 4.4% vs 4.9% QoQ. Overall, it maintained FY25 credit cost guidance at 2% despite challenges at sector level.

RoA touching 3% with RoE at 22% despite capital raise via IPO

Utkarsh SFB's PAT grew strong 38% QoQ to INR 1.6bn driven by robust 12% QoQ growth in NII, higher other income (up 46% QoQ) and sharp moderation in credit cost. With higher business activities in Q4FY24, variable expenses increased and the same led to cost-income ratio increasing to 57% vs 55% QoQ. Strong net revenue drove 10% QoQ growth in operating profitability. NIM expanded 20bps QoQ to 9.9% vs 9.7% QoQ driven by 40bps QoQ asset yield expansion and only 10bps QoQ increase in the cost of funds. Asset yield expansion was mainly driven by repricing of old MFI portfolio to a revised price of 25%, as on Mar'24, blended MFI yields stand at 24.5%, implying the bulk of repricing is over. However, with AUM mix tilting towards secured products, NIM is likely to settle at 9.3-9.4% in FY25E.

Financial Summary

Y/E March 2024	FY23A	FY24A	FY25E	FY26E
NII (INR bn)	15.3	18.9	24.0	28.3
Op. profit (INR bn)	8.4	10.0	13.0	15.1
Net Profit (INR bn)	4.0	5.0	6.6	7.3
EPS (INR)	4.5	4.5	6.0	6.7
EPS % change YoY	560.8	0.2	32.0	11.8
P/E (x)	13.2	13.2	10.0	8.9
P/BV (x)	2.7	2.2	1.8	1.5
GNPA (%)	3.2	2.5	2.0	1.9
RoA (%)	2.4	2.3	2.4	2.0
RoE (%)	22.6	20.0	19.9	18.4

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Market Data

Market Cap (INR)	66bn
Market Cap (USD)	787mn
Bloomberg Code	UTKARSHB IN
Equity	
Reuters Code	UTKR.BO
52-week Range (INR)	68 /37
Free Float (%)	20.0
ADTV-3M (mn) (USD)	4.8

Price Performance (%)	3m	6m	12m
Absolute	2.5	20.0	0.0
Relative to Sensex	(1.8)	3.3	0.0

Earnings Revisions (%)	FY25E	FY26E
Revenue	2	(2)
EPS	10	1

Previous Reports

11-04-2024: [Company update](#)22-03-2024: [Company update](#)

Credit growth sustained; gradual shift towards secured portfolio is underway as per strategy; loan growth to remain at 30% in FY25E

After subdued credit growth during H1FY24 (7% YTD vs 30% growth in FY24) due to sector level headwinds in MFI, Utkarsh has been able to revive growth with easing challenges. It accelerated disbursements during H2FY24 to INR 80.3bn (~60% of full year disbursements) vs INR 52.7bn during H1FY24. More importantly, disbursement in non-MFI segment continued to be higher throughout FY24.

Credit growth in Q4FY24 (12% QoQ) was led by sustained recovery in MFI book, which grew 13% QoQ in Q4FY24 against 1% growth in H1FY24. Notably, incremental growth in MFI was largely driven by new customer acquisition as reflected in yearly increase in ticket size, standing at only 4% between Mar'23-24. The growth in non-MFI book, on the other hand, remained robust as it grew 47% YoY during FY24 vs 23% YoY growth in MFI book. Within non-MFI portfolio, MSME (14% of AUM) and wheels segments (5% of AUM) contributed the most to incremental growth as they grew 67% and 69% YoY, respectively. Even housing and wholesale segments continued to grow in a calibrated manner at 30% and 22% YoY, respectively. As a result, the share of secured portfolio increased to 38% by Mar'24 from 34% in Mar'23.

In line with Utkarsh's strategy towards building a diversified retail portfolio, the bank has been gradually increasing its secured portfolio over the years. It forayed into retail lending in FY16 and then gradually expanded its product portfolio by introducing affordable home loans, CV/CE loans, OD against FD, Gold loans etc. It further highlighted that it has started building blocks for rural housing and micro LAP and over the next 2-3 months the same will be up and running. Going forward, in next three years, the bank envisages 45:55 secured vs unsecured mix, with MFI contributing 50% of overall portfolio.

Deposits up 16% QoQ with CASA ratio remaining flat QoQ at 20%, reflecting its focus on building granular liability franchise

Deposits grew strong after a muted growth in H1FY24 as reflected in 8% QoQ growth during Q3FY24, accelerating to 16% QoQ during Q4FY24. The bank continued to build its retail deposit franchise with both CASA and retail term deposits growing at 16% and 11% QoQ, respectively, in Q4FY24. As a result, retail term deposits + CASA of the bank further increased to 66% in Mar'24 vs 62% in Mar'23, with CASA remaining stable at 20%. The share of Top-20 depositors steadily fell to 18% in Mar'24 vs 21% in Mar'23 vs 29% in Mar'22, reflecting its focus on building granular retail liability franchise.

The growth in deposits, albeit comfortable, remained marginally lower than the growth in advances, resulting in elevated CD ratio at 94% as on Mar'24. However, the same moderated sharply during Q4FY24 to 94% from 99% QoQ. Management is cognisant of this and envisages 3-4% higher deposit growth in FY25 and would continue the same strategy until CD ratio moderates to 85%.

The management expects to sustain its deposit growth momentum at ~35% by (i) achieving full branch potential with 55% of liability branches having <2-year vintage and (ii) other initiatives such as – digital on boarding, e-KYC and fintech partnerships.

Key risks: 1) Sharper margin deterioration due to stiff competition in secured lending; and 2) higher than expected credit costs.

Exhibit 1: Q4FY24 result review

(INR mn)	Q4FY24	Q4FY23	% chg YoY	Q3FY24	% chg QoQ
Interest Income	8,956	6,911	29.6	8,060	11.1
Interest Expended	3,557	2,815	26.3	3,237	9.9
Net interest income (NII)	5,399	4,096	31.8	4,823	12.0
Other income	1,207	691	74.5	827	46.0
Total income	6,606	4,787	38.0	5,650	16.9
Operating expenses	3,784	2,704	39.9	3,088	22.5
-Staff expenses	2,104	1,590	32.4	1,797	17.1
-Other expenses	1,680	1,115	50.7	1,291	30.1
Operating profit	2,822	2,083	35.5	2,562	10.2
Total provisions	739	341	116.6	1,041	-29.0
Profit before tax	2,083	1,742	19.6	1,520	37.0
Tax	487	404	20.5	360	35.3
Profit after tax	1,597	1,338	19.3	1,161	37.6

Balance sheet (INR mn)

Deposits	1,74,730	1,37,100	27.4	1,51,110	15.6
Advances	1,63,650	1,30,690	25.2	1,49,860	9.2
Gross NPL (INR mn)	4,176	4,320	-3.3	4,644	-10.1
Gross NPL (%)	3	3	(69)	3.0	(53)
Net NPL (INR mn)	45	510	-91.2	289	-84.5
Net NPL (%)	0.03	0.40	(37)	0.2	(16)
Coverage ratio	98.8	87.5	1,130	93.8	505

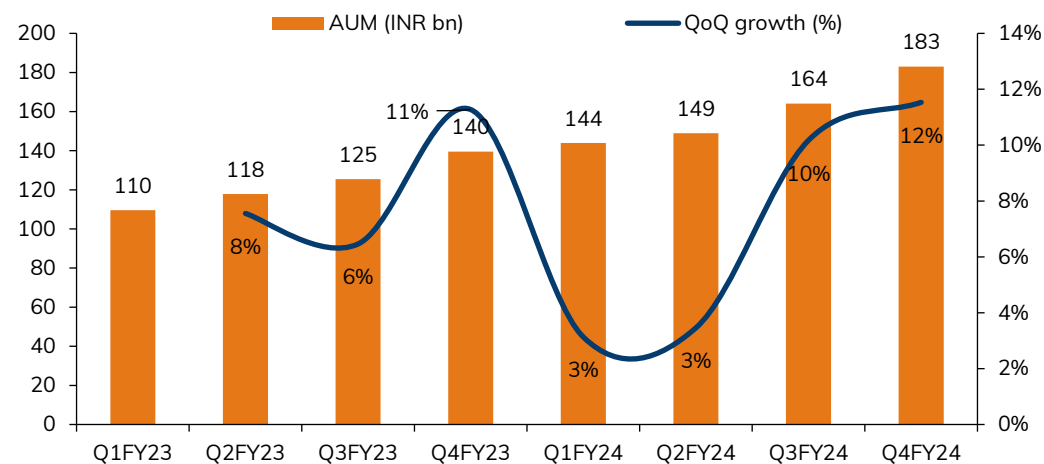
Ratios (%)**Profitability ratios**

Yield on Advances	19.5	19.1	40	19.1	40
Cost of Funds	8.0	7.4	60	7.9	10
NIM	9.9	9.4	50	9.7	20
RoaA	2.9	2.9	-	2.3	60
RoaE	22.3	28.3	(600)	16.9	540

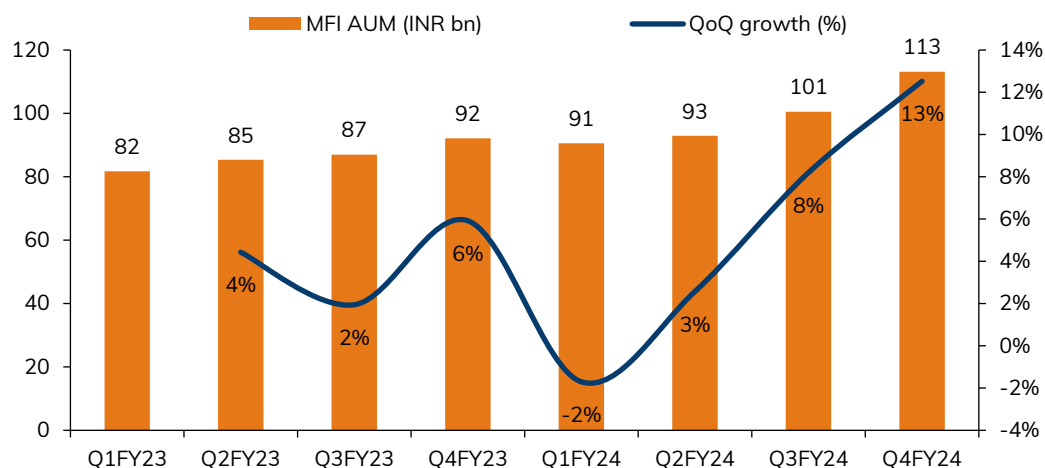
Business & Other Ratios

CASA ratio	20.0	21.0	(100)	20.0	-
Cost-income ratio	57.3	56.5	80	54.7	260
CAR	22.6	20.6	192	23.2	(62)

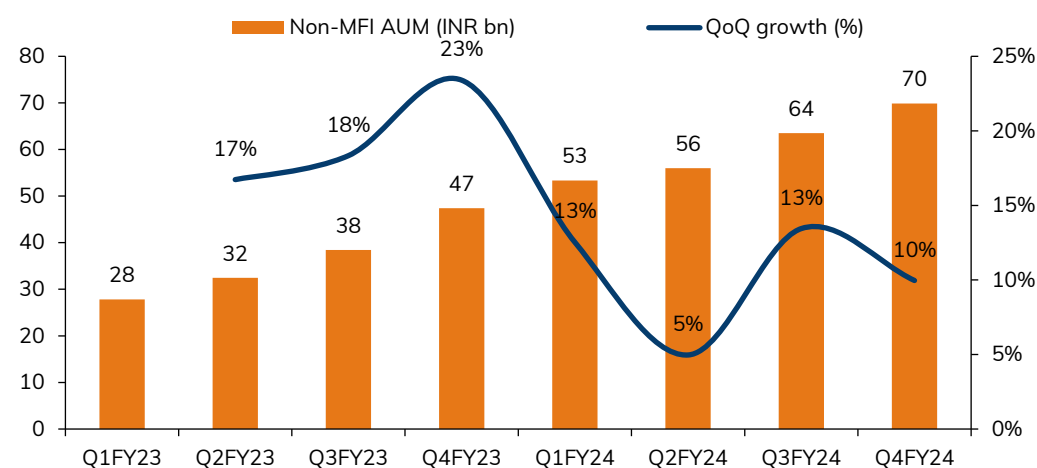
Source: Company data, I-Sec research

Exhibit 2: Sustained growth momentum as AUM grew 12% QoQ...

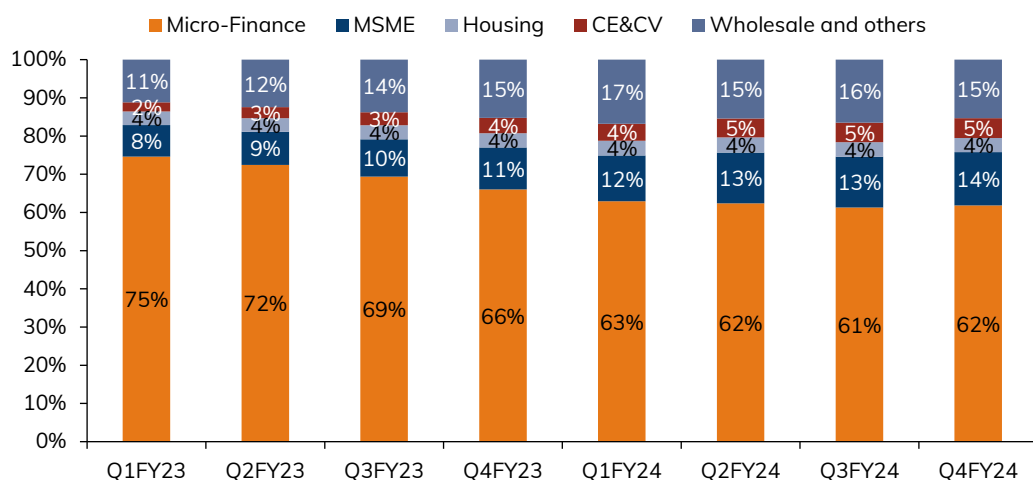
Source: Company data, I-Sec research

Exhibit 3: ...driven by strong growth in MFI segment

Source: Company data, I-Sec research

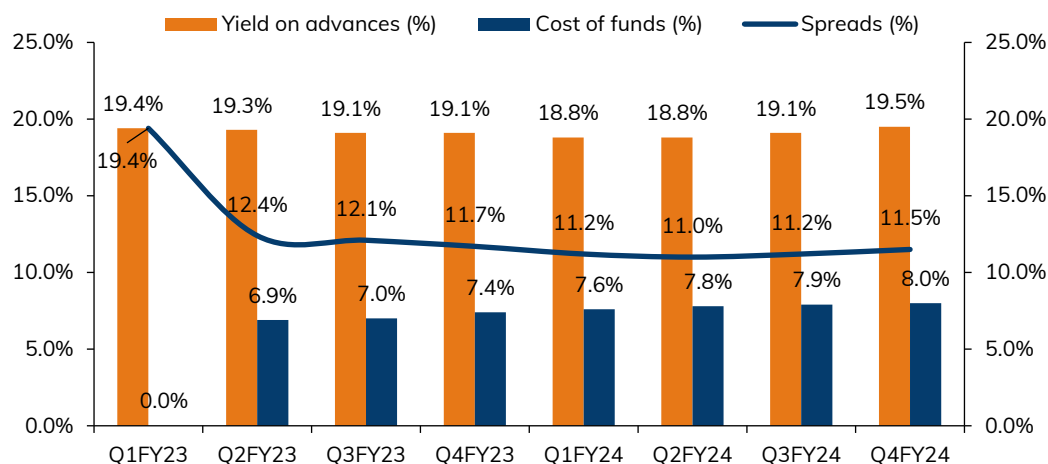
Exhibit 4: Non-MFI book grew at 10% QoQ

Source: Company data, I-Sec research

Exhibit 5: Diversification of portfolio with focus on increasing the share of retail secured book

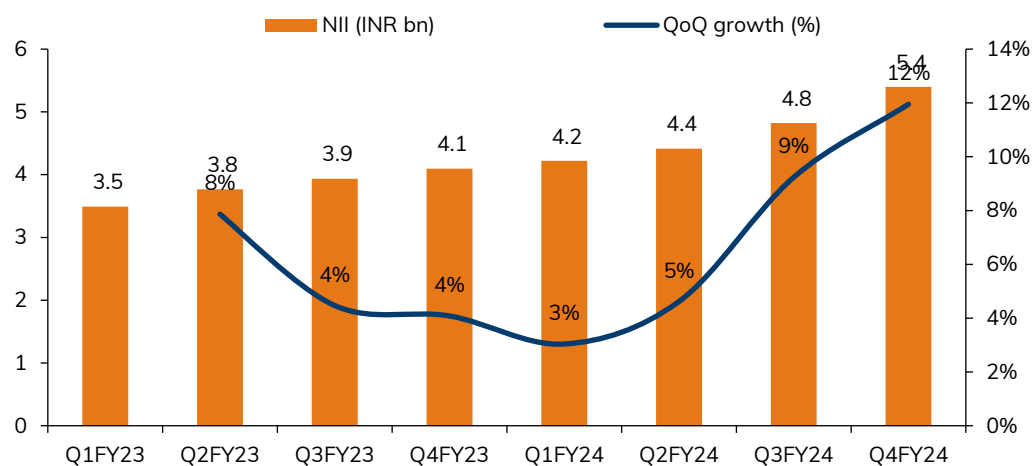
Source: Company data, I-Sec research

Exhibit 6: Spreads up 30bps QoQ, led by 40bps asset yield expansion and only 10bps increase in borrowing cost



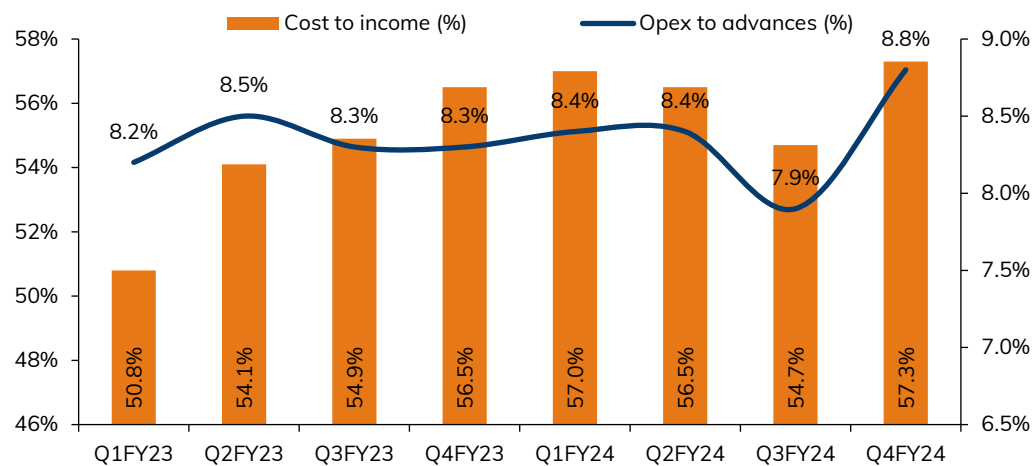
Source: Company data, I-Sec research

Exhibit 7: NII growth remained robust at 12% QoQ

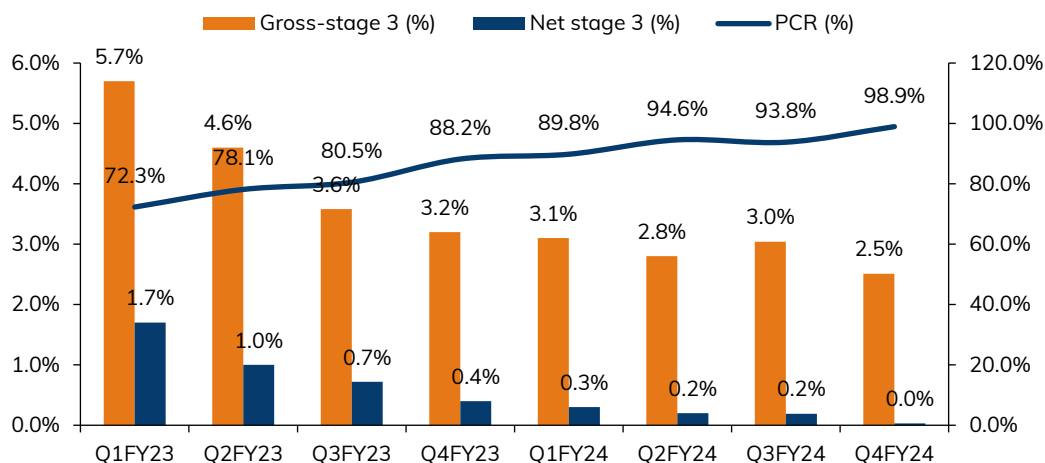


Source: Company data, I-Sec research

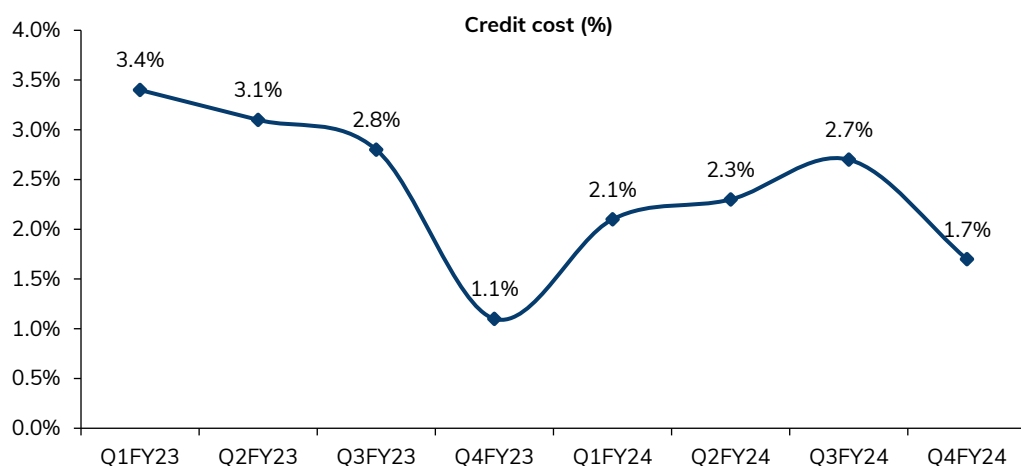
Exhibit 8: Higher business activity led to increase in variable cost, resulting in cost to income rising to 57.3% vs 54.7% QoQ



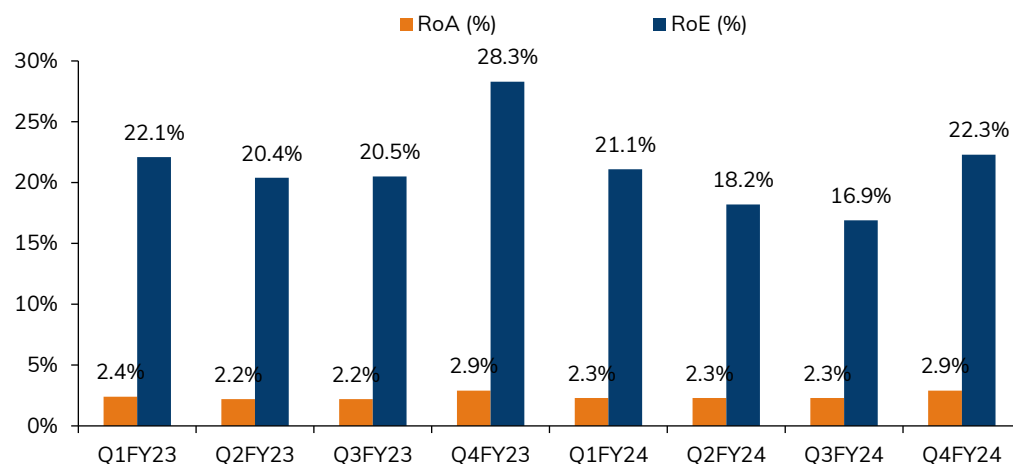
Source: Company data, I-Sec research

Exhibit 9: Sharp improvement in asset quality led by strong collection efforts

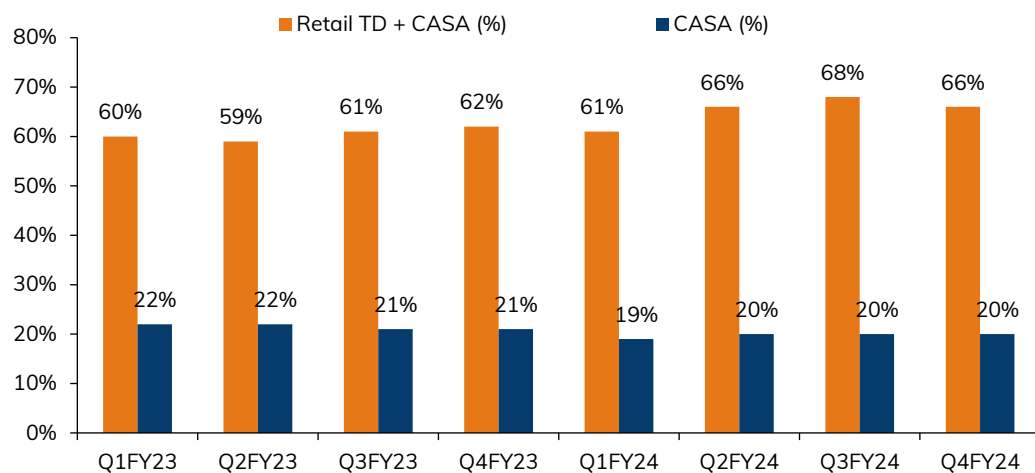
Source: Company data, I-Sec research

Exhibit 10: Credit cost down by 100bps QoQ

Source: Company data, I-Sec research

Exhibit 11: RoA reached ~3%, with RoE at 22%

Source: Company data, I-Sec research

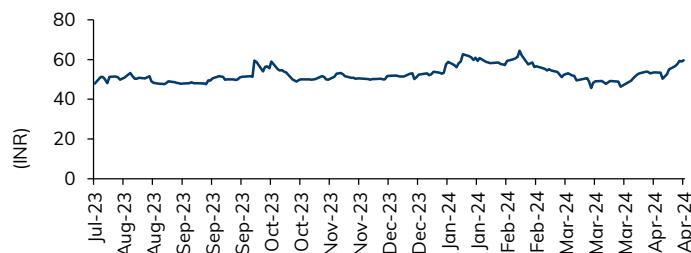
Exhibit 12: Granular deposit franchise building; retail TD + CASA at 66% in Mar'24 vs 62% in Mar'23


Source: Company data, I-Sec research

Exhibit 13: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	69.3	69.2	69.2
Institutional investors	15.1	12.0	12.0
MFs and others	8.9	6.5	6.5
FIs/Banks	0.0	0.0	0.0
Insurance	4.1	3.4	3.4
FIIIs	2.1	2.1	2.1
Others	15.6	18.8	18.8

Source: Bloomberg

Exhibit 14: Price chart


Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March 2024)

	FY23A	FY24A	FY25E	FY26E
Interest income	25,050	31,784	41,050	49,294
Interest expense	(9,759)	(12,926)	(17,081)	(20,977)
Net interest income	15,290	18,858	23,969	28,317
Non interest income	2,993	4,004	4,779	5,981
Operating income	18,283	22,862	28,748	34,298
Operating expense	(9,900)	(12,889)	(15,782)	(19,178)
- Staff expense	(5,701)	(7,370)	(9,357)	(11,229)
Pre-provisions profit	8,383	9,972	12,966	15,121
Core operating profit	8,383	9,972	12,966	15,121
Provisions & Contingencies	(3,081)	(3,379)	(4,185)	(5,307)
Pre-tax profit	5,302	6,594	8,782	9,814
Tax (current + deferred)	(1,257)	(1,618)	(2,213)	(2,473)
Net Profit	4,045	4,976	6,569	7,341
% Growth	561.0	23.0	32.0	11.8

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March 2024)

	FY23A	FY24A	FY25E	FY26E
Capital	8,959	10,995	10,995	10,995
Reserve & surplus	11,044	18,737	25,306	32,646
Deposits	1,37,101	1,74,726	2,24,698	2,89,870
Borrowings	23,495	19,950	37,411	39,156
Other liabilities	10,576	14,620	20,223	26,088
Total equity and liabilities	1,91,175	2,39,027	3,18,632	3,98,756
Cash and Bank balance	25,164	30,275	26,211	32,903
Investments	28,594	36,795	47,187	60,873
Advances	1,39,571	1,82,990	2,35,464	2,95,242
Fixed assets	3,033	3,116	4,577	4,544
Other assets	3,697	5,194	5,194	5,194
Total assets	1,91,175	2,39,027	3,18,632	3,98,756
% Growth	26.9	25.0	33.3	25.1

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March 2024)

	FY23A	FY24A	FY25E	FY26E
No. of shares and per share data				
No. of shares (mn)	896	1,099	1,099	1,099
Adjusted EPS (Rs)	4.5	4.5	6.0	6.7
Nominal Book Value per share (Rs)	22	27	33	40
Adjusted BVPS (Rs)	22	27	33	39
Valuation ratio				
PER (x)	13.2	13.2	10.0	8.9
Price/ Nominal Book (x)	2.7	2.2	1.8	1.5
Profitability ratio				
Yield on advances (%)	18.5	17.9	18.3	17.3
Yields on Assets	15.2	15.3	15.2	14.1
Cost of funds	6.8	7.3	7.5	7.1
NIMs (%)	9.3	9.1	8.9	8.1
Cost/Income (%)	54.1	56.4	54.9	55.9
Dupont Analysis (as % of Avg Assets)				
Interest Income	14.7	14.8	14.7	13.7
Interest expended	(5.7)	(6.0)	(6.1)	(5.8)
Net Interest Income	8.9	8.8	8.6	7.9
Non-interest income	1.8	1.9	1.7	1.7
Total Income	10.7	10.6	10.3	9.6
Staff costs	(3.3)	(3.4)	(3.4)	(3.1)
Non-staff costs	-	-	-	-
Total Cost	(5.8)	(6.0)	(5.7)	(5.3)
PPoP	4.9	4.6	4.7	4.2
Non-tax Provisions	(1.8)	(1.6)	(1.5)	(1.5)
PBT	3.1	3.1	3.1	2.7
Tax Provisions	(0.7)	(0.8)	(0.8)	(0.7)
ROA (%)	2.4	2.3	2.4	2.0
Leverage (x)	9.6	8.6	8.4	9.0
ROE (%)	22.6	20.0	19.9	18.4
Asset quality ratios				
Gross NPLs (%)	3.2	2.5	2.0	1.9
Net NPLs (%)	0.4	0.0	0.2	0.2
PCR (%)	88.3	98.9	90.0	90.0
Gross Slippages (% of PY loans)	4.9	3.1	1.9	1.8
Credit cost as a % of AUM	2.5	2.1	2.0	2.0
Net NPLs / Networth (%)	2.5	0.2	1.3	1.3
Capitalisation ratios				
Core Equity Capital (%)	-	-	-	-
Tier I cap.adequacy (%)	18.3	20.9	20.0	19.4
Total cap.adequacy (%)	20.6	22.6	21.2	20.3

Source Company data, I-Sec research

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