

11 April 2024

India | Equity Research | Company Update

## Utkarsh Small Finance Bank

### Financials

#### Decade-long experience in Bihar augurs well for growth sustainability

Utkarsh SFB (Utkarsh) kick-started its lending journey in the states of UP and Bihar, and since inception (in FY10), it has remained committed in establishing a strong niche in these states. Considering the under penetration in its core markets (Bihar's top 5 districts covered 46% of overall credit, of which Patna alone contributes 29% share), with Utkarsh having a strong market share of 56% within SFBs (overall market share at 2%), the SFB is best placed to complement the Bihar growth story. This, coupled with its enhanced product offering, proven track record of managing asset quality better than peers (write-offs during covid at 12% vs 15-20% for MFI players) and its rapidly evolving liability franchise (steady decline in cost of funds), ensure sustainability of >18% RoE and >25% growth over FY24-26E. Maintain **BUY** with an unchanged TP of INR 70, valuing the stock at 2x FY25E BVPS.

#### Deep presence in under-penetrated Bihar

Low penetration in Bihar with overall credit share of only ~1.5% indicates a huge growth potential in the state. Concentration of top 5 districts of Bihar being 46% of overall credit, with Patna alone taking 29% of the share also signals a huge opportunity for growth in the remaining districts. Notably, within SFBs, Utkarsh commands leadership position with 56% of market share in credit, whilst the overall credit market share in Bihar remained low at 2%. Further, Utkarsh remained in Top-10 amongst all banks (PSBs, pvt banks and SFBs) in terms of distribution network in Bihar with 214 branches and second highest amongst private banks and SFBs. Additionally, 85% of its branches are in rural/semi-urban areas, which remained second-highest amongst PSBs/SFBs and third-highest amongst private banks, which is the evidence of its deeply distributed network covering the state.

#### Industry-leading profitability supported by robust growth and well-managed portfolio quality

Utkarsh delivered 34% AUM CAGR between FY18-23 by diversifying its asset mix and entering new segments such as 2W, MSME, mortgage, CV/CE, etc. As on Dec'23, non-MFI book contributed 39% of total AUM. Growth has been complemented by its stable asset quality with average GNPA/credit cost of 3%/2.5% over FY19-9MFY24. Undisrupted growth, followed by tight control on cost (C/I ratio at 56.5% vs 65% for Equitas vs 60% for Suryoday vs 57% for ESAF) helped Utkarsh deliver industry-leading profitability – average RoE between FY21-23 stood at 12% vs 11% for Equitas vs 6% for Ujjivan and 0.03% for Suryoday.

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

### Financial Summary

Y/E March 23	FY23A	FY24E	FY25E	FY26E
NII (INR bn)	15.3	18.6	23.4	29.0
Op. profit (INR bn)	8.4	9.6	12.1	14.9
Net Profit (INR bn)	4.0	4.7	6.0	7.2
EPS (INR)	4.5	4.5	5.7	6.9
EPS % change YoY	560.8	(1.0)	27.5	21.3
P/E (x)	11.8	11.9	9.3	7.7
P/BV (x)	2.4	1.9	1.6	1.3
GNPA (%)	3.2	2.5	2.0	1.9
RoA (%)	2.4	2.1	2.1	2.0
RoE (%)	22.6	18.9	18.3	18.4

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#### Market Data

Market Cap (INR)	58bn
Market Cap (USD)	702mn
Bloomberg Code	UTKARSHB IN
Equity	
Reuters Code	UTKR.BO
52-week Range (INR)	68 /37
Free Float (%)	20.0
ADTV-3M (mn) (USD)	5.0

Price Performance (%)	3m	6m	12m
Absolute	(8.6)	(5.8)	0.0
Relative to Sensex	(13.2)	(18.7)	0.0

#### Previous Reports

22-03-2024: [Company update](#)30-01-2024: [Q3FY24 results review](#)

Overall CD ratio in Bihar remained significantly lower than pan-India level implying huge scope for credit penetration.

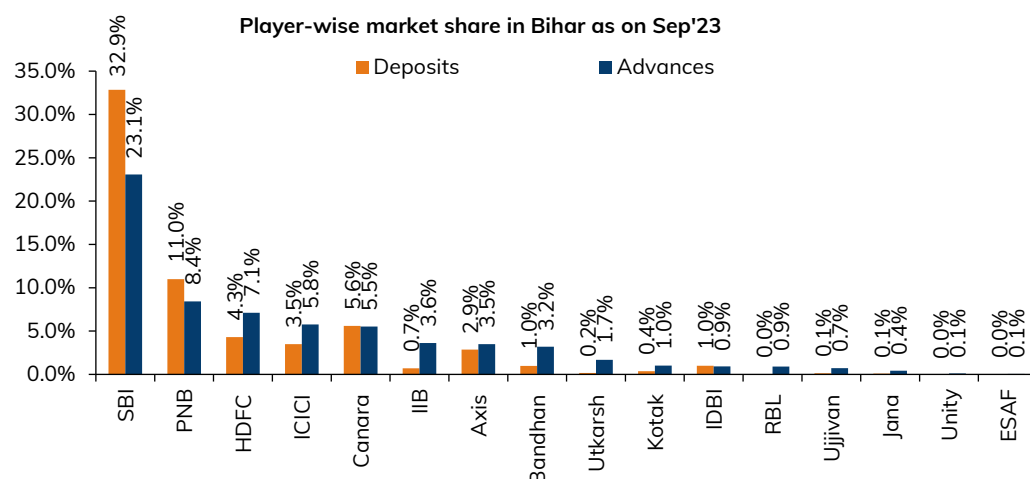
Public and private banks are appearing to be credit focused as reflected in >100% CD ratio for most, while SFBs are more credit focused.

### Exhibit 1: Financial landscape in Bihar – CD ratio at 55% suggests huge scope for credit growth

Name of the bank	Total deposit (INR bn)	% of total deposits	Total advances (INR bn)	% of total advances	CD ratio
<b>Public Sector Banks</b>	<b>3,590</b>	<b>76%</b>	<b>1,543</b>	<b>59%</b>	<b>43%</b>
State Bank of India	1,561	33%	599	23%	38%
Central Bank of India	253	5%	110	4%	43%
Punjab National Bank	523	11%	219	8%	42%
Canara Bank	266	6%	143	6%	54%
UCO Bank	106	2%	44	2%	42%
Bank of Baroda	189	4%	106	4%	56%
Union Bank of India	171	4%	60	2%	35%
Bank of India	269	6%	105	4%	39%
Bank of Maharashtra	9	0%	28	1%	312%
Indian Bank	204	4%	107	4%	52%
Indian Overseas Bank	33	1%	20	1%	59%
Punjab & Sind Bank	7	0%	3	0%	45%
<b>Private Sector Banks</b>	<b>679</b>	<b>14%</b>	<b>694</b>	<b>27%</b>	<b>102%</b>
IDBI	48	1%	24	1%	50%
ICICI Bank	166	3%	150	6%	90%
Federal Bank	7	0%	5	0%	65%
Jammu Kashmir Bank	1	0%	0	0%	16%
South Indian Bank	3	0%	0	0%	5%
Axis Bank	137	3%	91	3%	67%
HDFC Bank	205	4%	185	7%	90%
Indusind Bank	33	1%	94	4%	281%
Karnataka Bank	0	0%	0	0%	86%
Kotak Mahindra Bank	18	0%	26	1%	149%
Yes Bank	6	0%	6	0%	96%
Bandhan Bank	46	1%	83	3%	180%
RBL Bank	1	0%	23	1%	1632%
IDFC First Bank	9	0%	7	0%	84%
Karur Vysya Bank	0	0%	0	0%	88%
<b>Regional Rural Banks</b>	<b>412</b>	<b>9%</b>	<b>247</b>	<b>10%</b>	<b>60%</b>
Dakshin Bihar Gramin Bank	233	5%	116	4%	50%
Uttar Bihar Gramin Bank	179	4%	130	5%	73%
<b>Co-operative Sector Banks</b>	<b>52</b>	<b>1%</b>	<b>34</b>	<b>1%</b>	<b>66%</b>
State Co-op Bank	52	1%	34	1%	66%
<b>Small Finance Banks</b>	<b>19</b>	<b>0%</b>	<b>77</b>	<b>3%</b>	<b>409%</b>
Jana Small Finance Bank	4	0%	11	0%	273%
Utkarsh Small Finance Bank	8	0%	43	1.7%	545%
Ujjivan Small Finance Bank	6	0%	19	1%	288%
ESAF	0	0%	1	0%	329%
Unity	-	0%	3	0%	
<b>Grand total</b>	<b>4,752</b>	<b>100%</b>	<b>2,595</b>	<b>100%</b>	<b>55%</b>

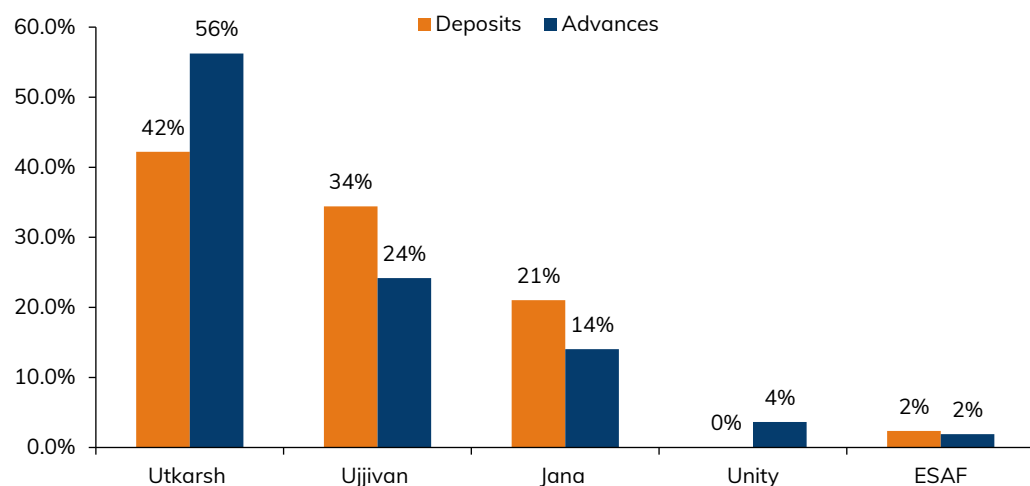
Source: State Level Bankers' Committee (Bihar)

**Exhibit 2: While Utkarsh delivered >30% loan CAGR during the past 5 years, its overall credit market share in Bihar remains low at ~200bps as on Sep'23...**



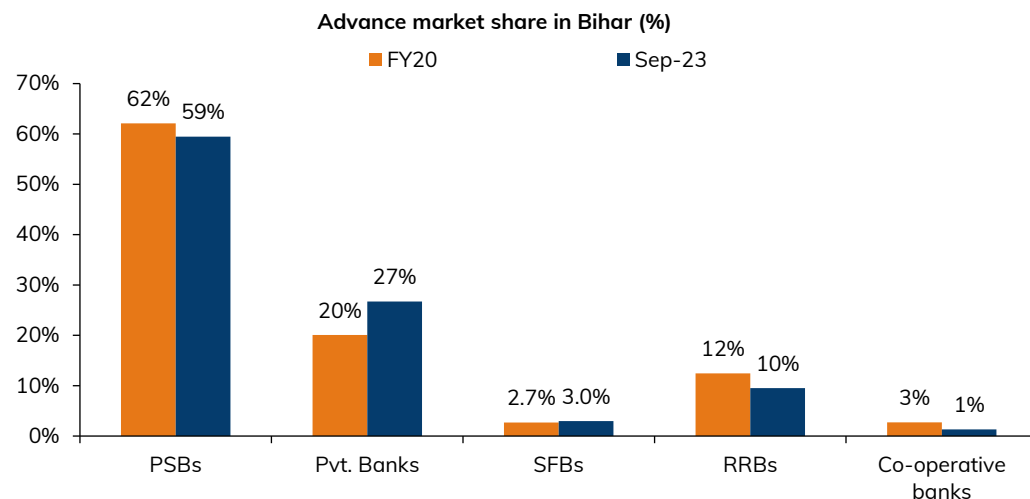
Source: State Level Bankers' Committee (Bihar)

**Exhibit 3: ...however, within SFBs, Utkarsh commands strong 56% market share**

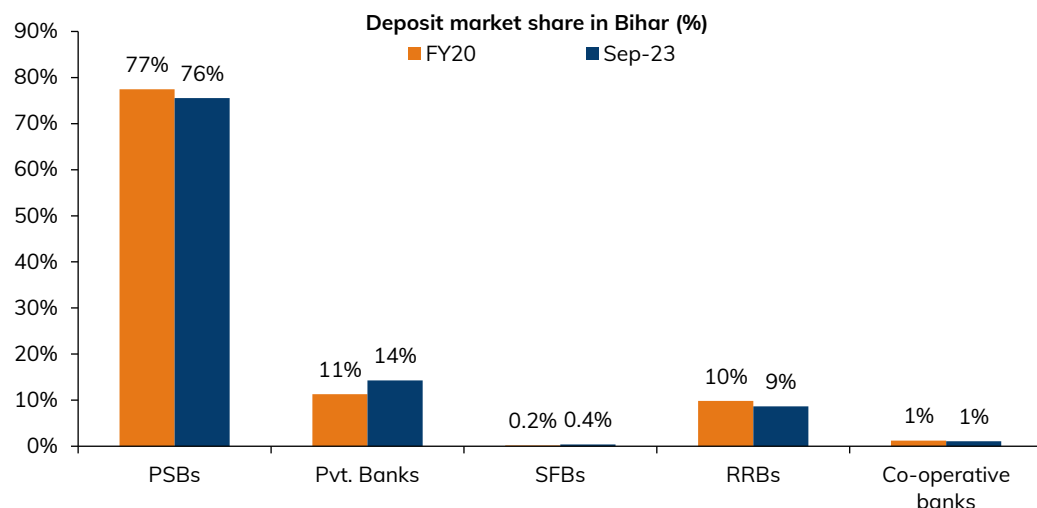


Source: State Level Bankers' Committee (Bihar)

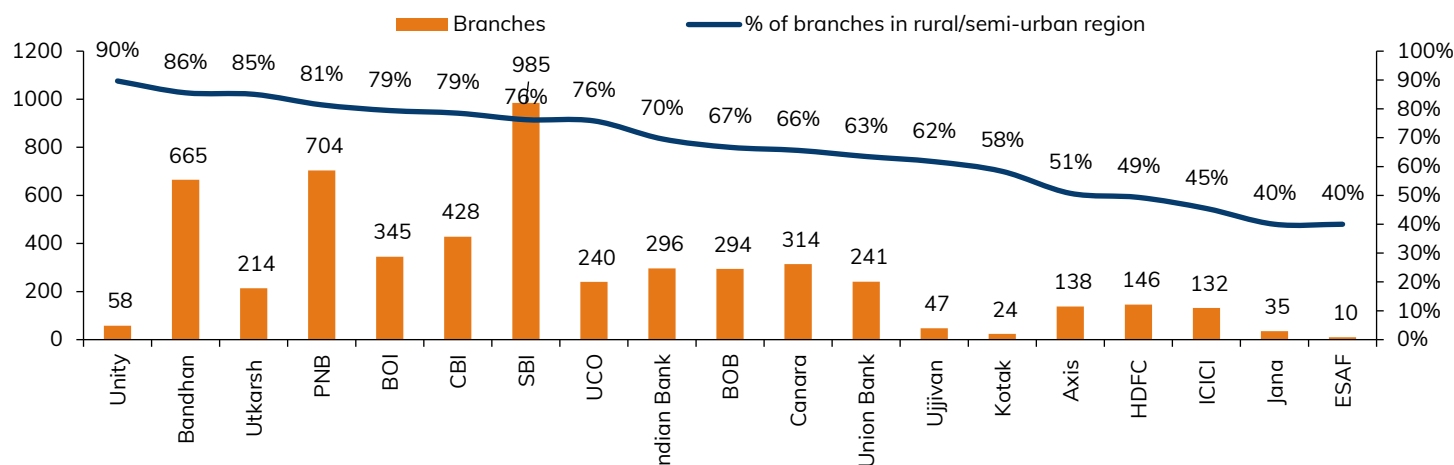
**Exhibit 4: SFBs command 3% market share in total Bihar credit market – private banks and SFBs are gaining market share at the cost of PSBs...**



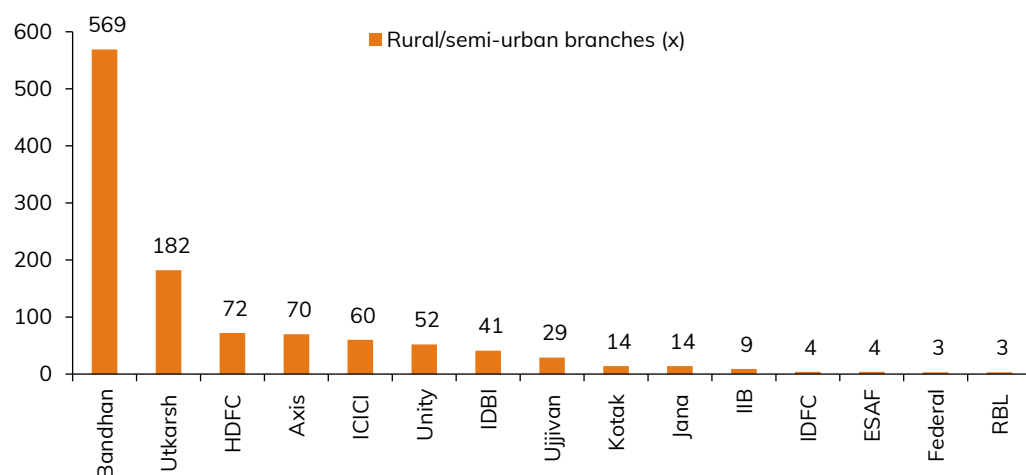
Source: State Level Bankers' Committee (Bihar)

**Exhibit 5: ...similar trends have been witnessed in deposit market as well**

Source: State Level Bankers' Committee (Bihar)

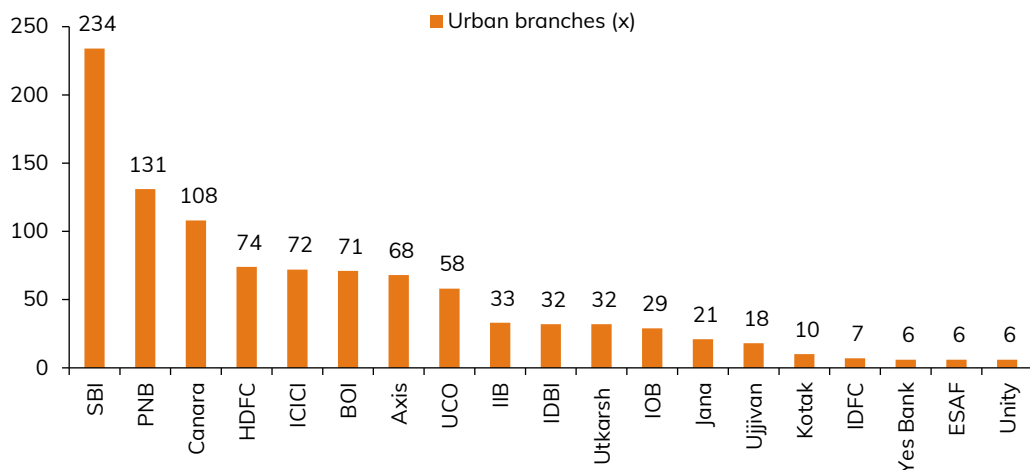
**Exhibit 6: Utkarsh had the third highest proportion of rural/semi urban presence amongst its overall branches as compared to other banks (PSBs, private banks and SFBs)**

Source: State Level Bankers' Committee (Bihar)

**Exhibit 7: Utkarsh's rural/semi-urban branch network in Bihar remained one of the highest amongst private banks and SFBs**

Source: State Level Bankers' Committee (Bihar)

**Exhibit 8: Private banks are having deeper presence in urban pockets but Utkarsh is not far behind and its network is highest within SFB space**

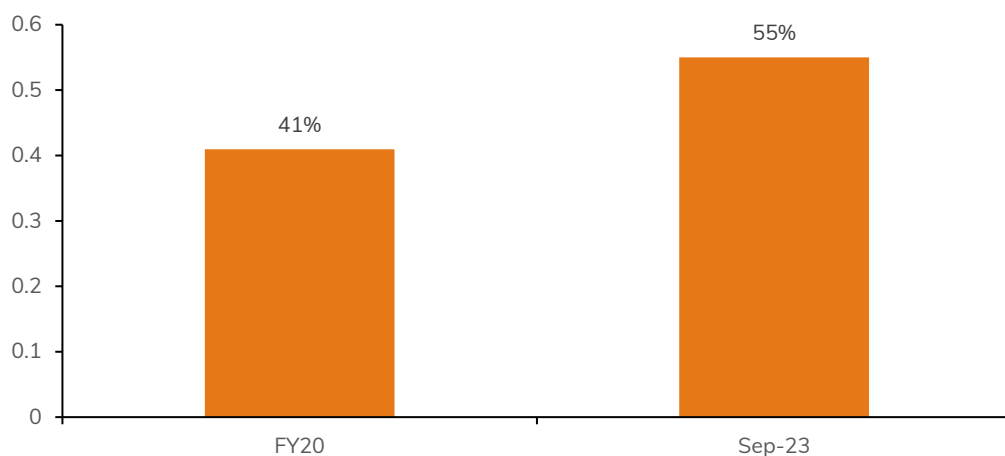


Source: State Level Bankers' Committee (Bihar)

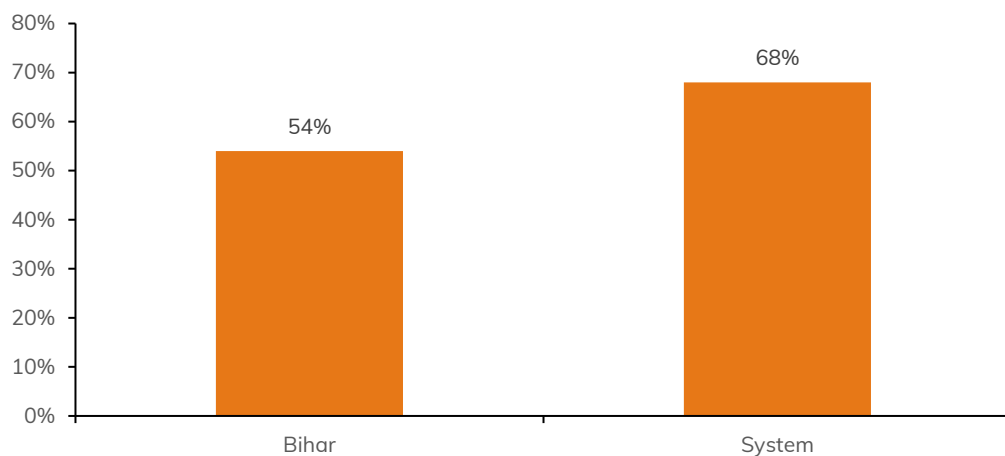
**Exhibit 9: Of total 38 districts, Patna is the only one with >20% market share; rest of the districts had a single-digit market share**

Name of district	Total deposit (INR bn)	% of overall deposits	Cumulative % of overall deposits	Total advances (INR bn)	% of overall advances	Cumulative % of overall advances	CD ratio
Patna	1,575	33%	33%	754	29%	29%	48%
Muzaffarpur	221	5%	38%	159	6%	35%	72%
Gaya	196	4%	42%	102	4%	39%	52%
Vaishali	125	3%	45%	94	4%	43%	75%
East Champaran	115	2%	47%	87	3%	46%	75%
Purnea	86	2%	49%	78	3%	49%	91%
Bhagalpur	163	3%	52%	77	3%	53%	48%
Begusarai	108	2%	54%	77	3%	56%	72%
Samastipur	122	3%	57%	74	3%	58%	60%
Darbhanga	143	3%	60%	69	3%	61%	48%
Siwan	138	3%	63%	69	3%	64%	50%
Saran	148	3%	66%	62	2%	66%	42%
West Champaran	75	2%	68%	57	2%	68%	76%
Katihar	76	2%	69%	56	2%	71%	74%
Rohtas	111	2%	72%	55	2%	73%	50%
Madhubani	103	2%	74%	54	2%	75%	52%
Aurangabad	83	2%	75%	53	2%	77%	65%
Bhojpur	124	3%	78%	51	2%	79%	41%
Nalanda	122	3%	81%	49	2%	81%	40%
Gopalganj	92	2%	83%	45	2%	83%	49%
Araria	54	1%	84%	44	2%	84%	82%
Sitamarhi	72	2%	85%	43	2%	86%	60%
Saharsa	50	1%	86%	30	1%	87%	60%
Nawada	61	1%	88%	30	1%	88%	50%
Madhepura	42	1%	88%	30	1%	89%	72%
Buxar	69	1%	90%	30	1%	91%	43%
Supaul	47	1%	91%	30	1%	92%	63%
Kishanganj	37	1%	92%	27	1%	93%	73%
Munger	83	2%	93%	26	1%	94%	32%
Khagaria	42	1%	94%	26	1%	95%	62%
Kaimur	44	1%	95%	25	1%	96%	57%
Jamui	49	1%	96%	25	1%	97%	50%
Banka	46	1%	97%	22	1%	98%	48%
Jehanabad	42	1%	98%	17	1%	98%	42%
Lakhisarai	35	1%	99%	15	1%	99%	44%
Sheikhpura	23	0%	99%	11	0%	99%	47%
Sheohar	12	0%	100%	9	0%	100%	77%
Arwal	20	0%	100%	8	0%	100%	42%

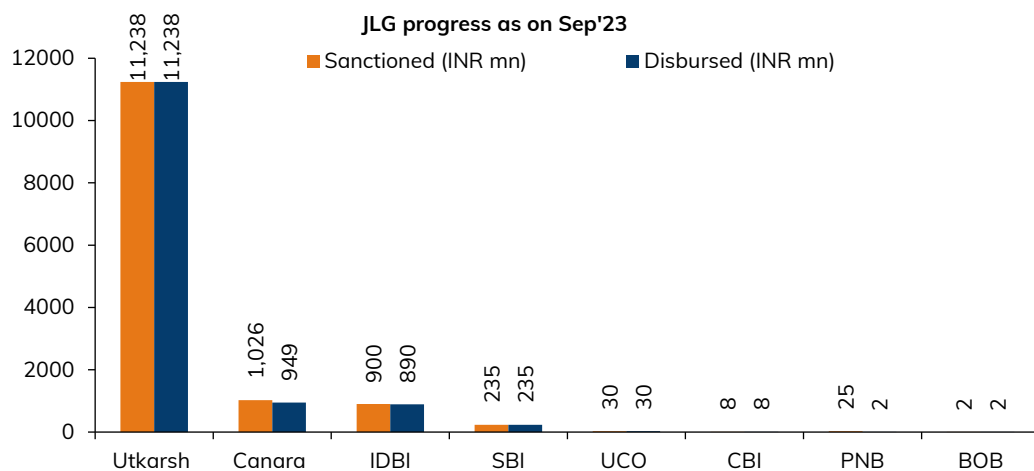
Source: State Level Bankers' Committee (Bihar)

**Exhibit 10: CD ratio in Bihar accelerated to 55% by Sep'23...**

Source: State Level Bankers' Committee (Bihar)

**Exhibit 11: ...however, the same is still below national average of 68%**

Source: Company data, I-Sec research, State Level Bankers' Committee (Bihar)

**Exhibit 12: Utkarsh had the highest JLG sanction and disbursements in Bihar**

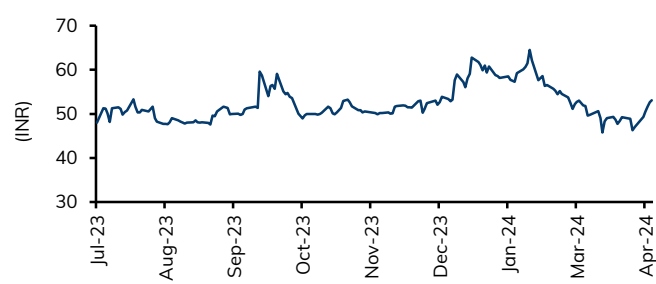
Source: State Level Bankers' Committee (Bihar)

Exhibit 13: Shareholding pattern

%	Jul'23	Sep'23	Dec'23
Promoters	69.3	69.3	69.2
Institutional investors	15.9	15.1	12.0
MFs and others	6.9	8.9	6.5
FIs/Banks	1.5	0.0	0.0
Insurance	4.4	4.1	3.4
FIIIs	3.1	2.1	2.1
Others	14.8	15.6	18.8

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 15: Profit & Loss

(INR mn, year ending March 23)

	FY23A	FY24E	FY25E	FY26E
Interest income	25,050	32,244	40,411	50,133
Interest expense	(9,759)	(13,691)	(16,970)	(21,149)
<b>Net interest income</b>	<b>15,290</b>	<b>18,553</b>	<b>23,441</b>	<b>28,984</b>
Non interest income	2,993	3,525	4,444	5,582
<b>Operating income</b>	<b>18,283</b>	<b>22,079</b>	<b>27,885</b>	<b>34,566</b>
Operating expense	(9,900)	(12,464)	(15,782)	(19,646)
- Staff expense	(5,701)	(7,326)	(9,357)	(11,696)
<b>Pre-provisions profit</b>	<b>8,383</b>	<b>9,615</b>	<b>12,103</b>	<b>14,920</b>
<b>Core operating profit</b>	<b>8,383</b>	<b>9,615</b>	<b>12,103</b>	<b>14,920</b>
Provisions & Contingencies	(3,081)	(3,350)	(4,113)	(5,230)
<b>Pre-tax profit</b>	<b>5,302</b>	<b>6,265</b>	<b>7,991</b>	<b>9,690</b>
Tax (current + deferred)	(1,257)	(1,579)	(2,014)	(2,442)
<b>Net Profit</b>	<b>4,045</b>	<b>4,686</b>	<b>5,977</b>	<b>7,248</b>
<b>% Growth</b>	<b>561.0</b>	<b>15.9</b>	<b>27.5</b>	<b>21.3</b>

Source Company data, I-Sec research

### Exhibit 16: Balance sheet

(INR mn, year ending March 23)

	FY23A	FY24E	FY25E	FY26E
Capital	8,959	13,959	13,959	13,959
Reserve & surplus	11,044	15,730	21,707	28,956
Deposits	1,37,101	1,89,530	2,44,608	3,16,760
Borrowings	23,495	15,531	15,149	10,512
Other liabilities	10,576	17,058	22,015	28,508
<b>Total equity and liabilities</b>	<b>1,91,175</b>	<b>2,51,809</b>	<b>3,17,438</b>	<b>3,98,695</b>
Cash and Bank balance	25,164	24,607	25,976	32,727
Investments	28,594	39,801	51,368	66,520
Advances	1,39,571	1,79,446	2,31,821	2,91,207
Fixed assets	3,033	4,257	4,577	4,544
Other assets	3,697	3,697	3,697	3,697
<b>Total assets</b>	<b>1,91,175</b>	<b>2,51,809</b>	<b>3,17,438</b>	<b>3,98,695</b>
<b>% Growth</b>	<b>26.9</b>	<b>31.7</b>	<b>26.1</b>	<b>25.6</b>

Source Company data, I-Sec research

### Exhibit 17: Key ratios

(Year ending March 23)

	FY23A	FY24E	FY25E	FY26E
<b>No. of shares and per share data</b>				
No. of shares (mn)	896	1,048	1,048	1,048
Adjusted EPS (INR)	4.5	4.5	5.7	6.9
Nominal Book Value per share (INR)	22	28	34	41
Adjusted BVPS (INR)	22	28	34	40
Subs Value per share (INR)	-	-	-	-
<b>Valuation ratio</b>				
PER (x)	11.8	11.9	9.3	7.7
Price/ Nominal Book (x)	2.4	1.9	1.6	1.3
Price/ Adjusted book (x)	-	-	-	-
Dividend Yield (%)	-	-	-	-
<b>Profitability ratio</b>				
Yield on advances (%)	18.5	18.8	18.2	17.7
Yields on Assets	15.2	15.1	14.6	14.3
Cost of deposits (%)	6.6	7.2	7.1	7.1
Cost of funds	6.8	7.5	7.3	7.2
NIMs (%)	9.3	8.7	8.5	8.3
Cost/Income (%)	54.1	56.5	56.6	56.8
<b>Dupont Analysis (as % of Avg Assets)</b>				
Interest Income	14.7	14.6	14.2	14.0
Interest expended	(5.7)	(6.2)	(6.0)	(5.9)
Net Interest Income	8.9	8.4	8.2	8.1
Non-interest income	1.8	1.6	1.6	1.6
<b>Total Income</b>	<b>10.7</b>	<b>10.0</b>	<b>9.8</b>	<b>9.7</b>
Staff costs	(3.3)	(3.3)	(3.3)	(3.3)
Non-staff costs	-	-	-	-
<b>Total Cost</b>	<b>(5.8)</b>	<b>(5.6)</b>	<b>(5.5)</b>	<b>(5.5)</b>
<b>PPoP</b>	<b>4.9</b>	<b>4.3</b>	<b>4.3</b>	<b>4.2</b>
Non-tax Provisions	(1.8)	(1.5)	(1.4)	(1.5)
<b>PBT</b>	<b>3.1</b>	<b>2.8</b>	<b>2.8</b>	<b>2.7</b>
Tax Provisions	(0.7)	(0.7)	(0.7)	(0.7)
<b>ROA (%)</b>	<b>2.4</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>
Leverage (x)	9.6	8.9	8.7	9.1
<b>ROE (%)</b>	<b>22.6</b>	<b>18.9</b>	<b>18.3</b>	<b>18.4</b>
<b>Asset quality ratios</b>				
Gross NPLs (%)	3.2	2.5	2.0	1.9
Net NPLs (%)	0.4	0.2	0.2	0.2
PCR (%)	88.3	90.0	90.0	90.0
Gross Slippages (% of PY loans)	4.9	2.3	1.9	1.8
Credit cost as a % of AUM	2.5	2.1	2.0	2.0
Net NPLs / Networth (%)	2.5	1.5	1.3	1.3
<b>Capitalisation ratios</b>				
Core Equity Capital (%)	-	-	-	-
Tier I cap.adequacy (%)	18.3	20.7	19.4	18.8
Total cap.adequacy (%)	20.6	22.0	20.5	19.6

Source Company data, I-Sec research



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