

## Subscribe for Long Term

### Issue Detail

Price Band (Rs)	Rs. 303 - 305
Face Value (Rs)	10
Issue Size (Rs)	580.84 Cr
Issue Type	Book Building
Minimum lot	49
Issue Opens	March 17, 2021
Issue Closes	March 19, 2021
Listing on	BSE, NSE

### Indicative Timeline

On or before	
Finalization of Basis of Allotment	March 24, 2021
Unblocking of Funds	March 24, 2021
Credit of shares to Demat Account	March 25, 2021
Listing on exchange	March 30, 2021

### Other Detail

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

## Suryoday Small Finance Bank Limited

### Company Background

Suryoday Small Finance Bank Ltd is a leading Small Finance Bank (SSFB) in India. The company started offering SFB services in 2017. They serve customers in the unbanked and underbanked segments. Before SBF, the company operated as an NBFC. 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.

### Issue Details

The offer comprises fresh issue of equity shares to raise ~Rs.247 Cr and Offer for sale of equity shares aggregating up to Rs.334Cr

### Issue Objectives

- To augment the bank's Tier-1 capital base to meet the future capital requirements.
- To meet the RBI's listing requirement within three years from bank launch.

### IPO Share Allotment Pattern

Category	Allocation	Number of Shares	Issue Size at Rs.303 (Rs.Cr)	Issue Size at Rs.305 (Rs.Cr)
QIB	50%	9,296,535	281.69	283.54
Non-Institutional	15%	2,788,960	84.51	85.06
Retail	35%	6,507,575	197.18	198.48
Employee		500,000	13.65	13.75
<b>Total</b>		<b>19,093,070</b>	<b>577.02</b>	<b>580.84</b>

\* Discount of Rs.30 for Employee

### Outlook and Valuations

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 Small Finance Banks in India in Fiscal 2020. Suryoday Small Finance Bank is good investment avenue owing to its pan-India presence, Sustainable growth and earnings, robust risk management system, equipped with basic retail banking infrastructure and sizeable market to grow. At the upper price band of Rs.305, stock is valued at 2.28x December 2020 Book Value. **We recommend to subscribe the issue from a long-term prospective.**

### Investment Rationale

#### Customer centric approach with a focus on financial inclusion

As of December 31, 2020, SSFB served 1.44 million customers and in the period between Fiscal 2018 to Fiscal 2020, their customer base increased by 0.65 million. Their inclusive finance portfolio (comprising loans to Joint Liability Group ("JLG"s) accounted for 70.35% of their Gross Loan Portfolio, as of December 31, 2020. Given their operating history as microfinance institution, a significant portion of their portfolio continues to qualify as "priority sector lending" as mandated by the RBI and helps them promote financial inclusion in India.

#### Diversified asset portfolio with a focus on retail operations

Over the years, SSFB has been able to diversify its product portfolio to ensure that the proportion of net unsecured portfolio has reduced from 94.81% of their net advances in Fiscal 2018 to 74.59% in the 9 months ended December 31, 2020. 2020. Their products

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cater to customer segments across the board. The bank offers inclusive finance loans and micro business loans for customers that are not a part of the formal banking infrastructure they offer affordable housing loans to customers belonging to the middle and low income segment, secured business loans to SME/ MSME/ corporates, commercial vehicle loans to fleet owners and retail customers and unsecured business loans to low and middle class individuals, self-employed individuals and micro and small enterprises.

Industry	2018		2019		2020	
	Amt (In Cr)	% to Total	Amt (In Cr)	% to Total	Amt (In Cr)	% to Total
Inclusive Finance Loans	1544	89.89%	2419	81.44%	2815	75.85%
Commercial Vehicle Loans	9	0.5%	219	7.4%	371	9.99%
Affordable Housing Loans	22	1.27%	80	2.68%	181	4.88%
Micro Business Loans (T-Nagar)	6	0.37%	27	0.92%	43	1.15%
Unsecured MSME/SME Loans	83	4.81%	97	3.25%	38	1.01%
Secured Business Loans	35	2.05%	68	2.27%	106	2.86%
Financial Intermediary Group Loans	9	0.53%	48	1.63%	101	2.72%
Others	10	0.58%	13	0.44%	57	1.54%
<b>Total Gross Loans</b>	<b>7937</b>	<b>100%</b>	<b>11703</b>	<b>100%</b>	<b>15367</b>	<b>100%</b>

Source: Company RHP, ACMIIL Research

### Fast evolving granular deposit franchise

The bank has witnessed rapid growth in deposits between Fiscal 2018 and Fiscal 2020. Their deposit base has grown at a CAGR of 94.95% from ₹ 749.52 crore as of March 31, 2018 to Rs.2,848.72 crore as of March 31, 2020 and was Rs.3,343.84 crore as of December 31, 2020. As of December 31, 2020, their deposit base represented 69.22% of their overall funding profile.

### Strong credit processes and robust risk management framework

The bank 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 their retail asset products, segment-based and geography-based assessment policies.

### Multiple distribution channels

Bank's distribution and service channels comprise their Banking Outlets, ATMs, phone banking, mobile banking, tablet banking, CSPs and internet banking services. As of December 31, 2020, they operated 554 Banking Outlets including 153 URCs across 13 states and union territories.

Productivity Indicator	FY 18	FY 19	FY20
Banking Outlets (Nos.)	240	382	477
Banking Correspondents (Nos.)	0	6	14
ATMs (Nos.)	24	24	26
Total number of employees (Nos.)	2883	3931	4695
Gross Advances per employee (Rs.Cr)	0.55	0.70	0.77
Gross Advances per Banking Outlet (Rs. Cr)	6.65	7.17	7.6
Total Accounts (Nos.)	909,222	1,375,472	1,695,230
Disbursements per Banking Outlet (Rs. Cr)	7.12	7.48	6.48
Disbursements per employee (Rs.Cr)	0.59	0.73	0.66
Deposits per employee (₹ Cr)	0.26	0.41	0.61
Deposits per Banking Outlet (₹ Cr)	3.12	4.17	5.97

Source: Company RHP, ACMIIL Research

## Strong track record of financial performance

Key Financial Indicator (Amt in Mn)	FY18	FY19	FY20	9MFY21
Total Income	3249	5970	8541	6893
Net Interest Income	1658	3404	4909	3533
Net Interest Margin	10.4%	12.8%	11.92%	8.49%
Net Profit	115	904	1112	549
Cost to income ratio	64.4%	46.8%	47.1%	55.4%
Advances	15,687	26,796	35,319	37,823
Deposits	7,495	15,934	28,487	33,438
GNPA	3.54%	1.81%	2.79%	0.78%
NNPA	1.86%	0.44%	0.57%	0.33%
Total Capital Adequacy Ratio	43.4%	40.2%	35.4%	41.2%
CASA Customer	4,803	12,336	43,451	84,823
CASA ratio	11.03%	11.25%	11.45%	13.32%
ROE	2.13%	10.27%	10.43%	4.61%*
ROA	0.67%	3.17%	2.53%	0.93%*
Book Value Per Equity Share	79.78	107.91	123.13	133.54
*Not annualized, Source: Company RHP, ACMIIL Research				

The Bank has not classified any borrower's account which has not been declared as NPA as at August 31, 2020 as per the RBI Prudential Norms on Income Recognition, Asset Classification, Provisioning and Other Related Matters as NPAs after August 31, 2020. However, if bank had classified borrower accounts as NPA after August 31, 2020, the Bank's gross NPA ratio as on December 31, 2020 would have been 9.28%, on a proforma basis, of this 8.49% pertains to new proforma GNPA (i.e., excluding the pre-COVID GNPA). After considering, the specific NPA provisions and floating provisions, net NPAs would have been 5.38%, on a proforma basis.

SSFB overall collection efficiency was 111% in December comparable to other industry players. Their One-EMI collection efficiency was 82% in December for microfinance though no restructuring was done or any holiday period given for the microfinance customers. In microfinance, SSFB has nearly 89% customers paying to them considering only two months including December 2020. Hence collection efficiency is nearly 89%. In other products such as Commercial Vehicle, Affordable Home Loans, Secured Business Loans and FIG Loans, collection efficiency varies from 89-100% in December 2020, hence the improvement in collection efficiency will lead to normalisation of credit cost over the next couple of quarters.

## Comparison With Listed Peers: (As on 31st March 2020)

Company	Standalone/ Consolidated	Total Income (Rs.Mn)	EPS	NAV	P/B	ROE(%)
Suryoday Small Finance Bank Ltd	Restated	8541	13.30	123.13	2.28^	10.43
Ujjivan Small Finance Bank Ltd	Consolidated	30,258	2.18	18.32	1.93	14.79
CreditAccess Grameen Ltd	Consolidated	17,055	23	189.9	3.80	12.27
Spandana Sphoorty Financial Ltd	Consolidated	14,695	55.74	408.29	1.67	13.4
Bandhan Bank Ltd.	Consolidated	124,347	18.76	94.37	3.57	41.08
AU Small Finance Bank Ltd	Consolidated	49,919	22.32	142.2	7.73	51.95
* All the financial information for listed industry peer mentioned above is on a consolidated basis and is sourced from the annual report of the company for the year ended March 31, 2020. P/B Ratio has been computed based on the closing market price as on February 12, 2021. ^P/B Ratio has been computed based on the Issue price and December 2020 Book value.						

## Risk and Concern

- SSFB business is currently significantly dependent on advances to inclusive finance (Joint Liability Group) customers and any adverse developments in the microfinance sector including any regulatory changes could adversely affect their business, financial condition, results of operations and cash flows.

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RBI Monetary Policy	Techno-Funda
Union Budget Report	Top Mutual Fund Schemes
Weekly Derivative Synopsis	Portfolio Review
Rollover Snapshot	Stock Basket
Rollover Analysis	

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