

## Subscribe

### Issue Details

Price Band (Rs)	Rs. 23 - 25
Face Value (Rs)	10
Issue Size (Rs)	500 Cr
Issue Type	Book Building
Minimum lot	600 Shares
Issue Opens	July 12, 2023
Issue Closes	July 14, 2023
Listing on	BSE, NSE

### Indicative Timeline

Indicative Timeline	On or before
Finalization of Basis of Allotment	July 19, 2023
Unblocking of Funds	July 20, 2023
Credit of shares to Demat Account	July 21, 2023
Listing on exchange	July 24, 2023

### Other Detail

Book Running Lead Managers	ICICI Securities Limited and Kotak Mahindra Capital Company Limited.
Registrar	Kfin Technologies Limited.

### IPO Shareholding (%)

Category	Pre-Issue	Post-Issue
Promoters	84.74%	69.29%
Public	15.26%	30.71%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

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# Utkarsh Small Finance Bank Limited

## Company Background

Utkarsh Small Finance Bank (USFB) is a small finance bank with operations across 26 states and Union Territories in India as of March 31, 2023. The Company is offering asset products such as Micro banking loans, retail loans, wholesale lending, housing loans, commercial vehicle/construction equipment loans, and gold loans. It is also offering savings accounts, current accounts, term/recurring deposit accounts, non-credit offerings comprising ATM-cum-debit cards, bill payment systems, distribute third-party point-of-sales terminals, mutual funds and insurance products. commenced its operations as a NBFC in Fiscal 2010 and was focused on providing microfinance to unserved and underserved segments and in particular in the states of Uttar Pradesh and Bihar. The Company is having its headquarter located in Varanasi, Uttar Pradesh and have over the years expanded their SFB operations strategically in States where they have been able to leverage the prior microfinance experience of UCL. On October 7, 2015, UCL received the RBI In-Principle Approval to establish an SFB, following which it incorporated Utkarsh SFB as a wholly-owned subsidiary on April 30, 2016.

## Issue Details

Fresh Issue of Equity Shares aggregating upto ₹ 500 Cr.

## Issue Objectives

- 1) To augment the bank's Tier - 1 capital base to meet the future capital requirements.
- 2) Further, the proceeds from the Issue will also be used towards meeting the expenses in relation to the Issue.

## IPO share allotment pattern

Category	Allocation	Number of Shares at Rs. 25	Value at Upper Band (in Rs. Cr.)
<b>QIB ( Institutional)</b>	75%	14,85,00,000	371.25
<b>Non Institutional</b>	15%	2,97,00,000	74.25
<b>Retail</b>	10%	1,98,00,000	49.50
<b>Employee</b>	-	20,00,000	5.00
<b>Total</b>	-	<b>20,00,00,000</b>	<b>500.00</b>

Source: Company RHP, ACMIIL Research

## Outlook and Valuations

USFB is one of the leading small finance banks and has posted average financial performance. SFB's future prospects hinge on the monetary policy of RBI and the Government of India. The sustainability of current margins remains a major concern. Though the issue appears lucratively priced based on FY23 performance. Management's sound understanding of microfinance segment and presence in rural and semi-urban areas and growing deposits with focus on retail deposits to drive growth. At the upper price band of Rs.25/-, stock is priced at 1.12x its FY23 book value (based on fully diluted post issue equity). **We recommend subscribing to the issue from a long term perspective.**

## Business Overview

Utkarsh Small Finance Bank (USFB) is an SFB in India and recorded the 3rd fastest Gross Loan Portfolio growth between Fiscal 2019 and Fiscal 2023 among SFBs with Gross Loan Portfolio of more than ₹ 60 billion. Their Promoter, Utkarsh CoreInvest Ltd ("UCL"), commenced its operations as a NBFC in Fiscal 2010 and was focused on providing microfinance to unserved and underserved segments and in particular in the states of Uttar Pradesh and Bihar. The Company is having its headquarter located in Varanasi, Uttar Pradesh and have over the years expanded their SFB operations strategically in States where they have been able to leverage the prior microfinance experience of UCL. On October 7, 2015, UCL received the RBI In-Principle Approval to establish an SFB, following which it incorporated Utkarsh SFB as a wholly-owned subsidiary on April 30, 2016.

Subsequent to them obtaining the RBI Licence on November 25, 2016, to establish and carry-on business as an SFB, UCL transferred its business of providing microfinance, as a going concern to their Bank, which commenced its operations from January 23, 2017. They were included in the 2nd schedule to the RBI Act as a scheduled commercial bank pursuant to a notification dated October 4, 2017 issued by the RBI and published in the Gazette of India (Part III - Section 4) dated November 7, 2017.

The Company's operations are spread across India and are present in 26 States and Union Territories with 830 Banking Outlets and 15,424 employees, as of March 31, 2023. As of March 31, 2023, 27.35% of their 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. Their operations are focused in rural and semi-urban areas and as of March 31, 2023, they had 3.59 million customers (both deposit and credit) majorly located in rural and semi-urban areas primarily in the states of Bihar, Uttar Pradesh that have the best asset quality but with low and moderate credit penetration.

As of March 31, 2023, these states constituted 30.88%, 25.98% of their total Gross Loan Portfolio (based on location of the Banking Outlet), respectively. They are also focused on further strengthening their presence in newer geographies in addition to existing states where they operate by entering into arrangements with business correspondents ("BCs") and direct selling agents ("DSAs") and as of March 31, 2023, they had tieups with 13 BCs to source customers and 321 DSAs to grow their asset portfolio. Given the legacy of UCL as a non-banking finance company-microfinance institutions ("NBFC-MFI"), microfinance remains a focused business segment for the Bank.

USFB have been diversifying their product portfolio to include non-micro banking loans allowing them to reduce dependence on their microfinance business and grow their secured loan portfolio. They offer a range of financial products and services that address the specific requirements of their customer segments while assessing factors including income profile and the type of security available.

### They are the category leaders in:

- Micro-banking loans that include joint liability group loans, and individual loans;
- Retail loans include unsecured loans, such as business loans and personal loans, and secured loans, such as loans against property ("LAP")
- Wholesale lending that includes short-term and long-term loan facilities to SMEs, mid and large corporates and institutional clients;
- Housing loans with a focus on affordable housing;
- Commercial vehicle/construction equipment loans; and
- Gold loans that were launched in Fiscal 2022.

## Competitive Strengths

### Sound understanding of microfinance segment and presence in rural and semi-urban areas

The erstwhile business of UCL was primarily based on the joint liability group-lending model for providing collateral-free, small ticket-size loans to economically active poor women for income generation purposes. UCL also offered micro enterprise loans to the economically poor segments. Following the commencement of their SFB operations, Utkarsh SFB has further strengthened their engagement with borrowers by continuing to focus on microfinance and by diversifying their product offerings to include savings accounts, deposit products and other loan products.

### Growing deposits with focus on retail deposits

The Company offers a variety of demand and time deposit products along with other services through which their customers can address their savings and transactional needs. Their total deposits have grown from ₹ 7,507.57 crore as of March 31, 2021, to ₹ 10,074.18 crore as of March 31, 2022, and further to ₹ 13,710.14 crore as of March 31, 2023, while their deposit-only customers have increased from 0.38 million as of March 31, 2021, to 0.86 million as of March 31, 2023. Their CASA franchise has increased from ₹ 1,326.99 crore as of March 31, 2021 to ₹ 2,253.29 crore as of March 31, 2022 and further to ₹ 2,863.74 crore as of March 31, 2023. Retail deposits offer greater opportunities for cross-selling and up-selling a variety of products which includes assets and third-party products, therefore meeting The life cycle of their customer requirements.

### **Diversified distribution network with significant cross-selling opportunities**

USFB has an extensive physical network of Banking Outlets and as of March 31, 2023, they had 830 Banking Outlets across 26 States and Union Territories covering 253 districts in India of which 522 Banking Outlets were located in rural and semi-urban areas (combined). As of March 31, 2023, 62.89% of their total Banking Outlets were located in rural and semi-urban areas. In order to further increase the financial inclusion and provide comprehensive financial services, they have also opened Banking Outlets that have been classified by the RBI as Unbanked Rural Centres ("URCs) in 69 districts.

### **Focus on risk management and effective operations**

Risk management is at the core of their operations, and they have over the years focused on robust and comprehensive credit assessment and risk management framework. They also have an IT system in place to monitor and control operational risk including fraud detection and incident reporting. Credit management is crucial to the business since a significant number of their customers are from the unserved and /or underserved financial segment and primarily first-time purchasers of financial products. They have implemented credit management models such as decentralized loan sanctioning for certain segments and stringent credit history checks. They continually use technology and data analytics to manage credit risks and follow a risk-based lending approach. Their Risk Containment Unit ("RCU") ensures that all loan accounts, other than micro-banking loans, are vetted and thoroughly checked prior to any disbursement.

### **Stable growth with cost efficient operational performance**

USFB has a comfortable liquidity profile that is backed by shorter tenure micro-banking lending and sufficient liquidity buffer and as of March 31, 2023, their Liquidity Coverage Ratio ("LCR") was 375.82% as against regulatory requirement of maintaining LCR of 90%. They are well above the regulatory capital requirements, having a SLR, CRR and CAR of 31.53%, 5.33% and 20.64%, respectively, as of March 31, 2023. Their ability to provide their products and services in a cost-efficient manner is among their core strengths and their cost-to-income ratio was the lowest among SFBs with Gross Loan Portfolio of more than ₹ 60 billion. Their cost-efficient operations are attributable to their automation and digitization of various processes including disbursements of loans in the micro-banking business.

### **Leadership complementing the strengths**

Bank's promoter, UCL, has a number of institutional investors and the diversified shareholding of their Promoter lends credibility to their business operations. They have a management team comprising of qualified and experienced professionals. Their Managing Director and Chief Executive Officer, Govind Singh, has over 25 years of experience in the banking and financial services sector and in particular the microfinance industry. They are also led by a professional senior management team each of whom have significant experience in the banking and financial services industry. Their group heads of functional groups, such as accounts and finance, operations, technology, compliance, internal audit, risk and human resources, enhance the quality of their management with their specific and extensive industry experience..

## **Key Business Strategies**

### **Continue diversifying the retail asset portfolio**

Bank's primary focus will be to continue to diversify its asset portfolio. They intend to leverage their wide base of existing customers in the unserved and underserved segments by developing a range of asset products based on their vintage and creditworthiness to create a sustainable livelihood. Therefore, they intend to extend the offering from JLG loans to individual loans to micro-enterprise loans, affordable housing loans, and other new products. They will also seek to increase the visibility and penetration of their other assets products to achieve a well-diversified lending book along with a continued focus on financial inclusion.

### **Grow retail deposits mix across geographies and customer segments to build stable funding source**

USFB intends to strengthen their liability franchise by continuing their focus on CASA and retail deposit base in a steady manner. In order to strengthen their deposit base, increase their CASA ratio and to offer multi-channel customer experience, they intend to enhance their digital offering at various touch points of customer life cycle, for instance, digital onboarding, self-onboarding, internet and mobile banking, corporate internet banking, micro-ATMs and customer relationship management.

### **Increase share of fee income and capitalize on cross-selling opportunities**

In order to create a robust revenue stream, the bank intends to further diversify their fee and non-interest based revenues. They intend to achieve this by generating fee income from their own products and cross-selling third-party products such as distribution of mutual funds, life insurance and general insurance products, Atal Pension Yojana, National Pension Scheme, for additional information & risk factors please refer to the Red Herring Prospectus - 11 - micro-insurance and by introducing newer products and services. They are engaged with various partners in offering these products and intend to continue to develop newer partnerships.

### Increasing use of technology and digital offerings for last mile delivery to customers

The optimum use of advanced, cost-effective technology has significantly driven their operations, and going forward, they intend to strategically invest their resources for leveraging technology for efficient operations as they scale up. Key initiatives they have launched towards this objective include implementation of data-lake, master data management, next generation internet and mobile banking, digital on-boarding and micro-banking platform. Further, they have enhanced systems for cashless collections through QR code and UPI.

### Region-wise banking outlets:

Region	As of March 31, 2023	
	Banking Outlets	No. of States/ Union Territories
North	339	11
West	84	3
South	28	6
East	379	6
Total	830	26

Source: Company RHP, ACMIIL Research

### Financial Snapshot (Consolidated):

Particulars (Rs. Cr.)	As at Mar' 31,		
	FY2021	FY2022	FY2023
Equity Share Capital	848.33	895.52	895.91
Reserves as stated	520.02	676.78	1,104.42
Net worth as stated	1,368.35	1,572.30	2,000.32
Deposits	7,507.57	10,074.18	13,710.14
Borrowings	2,607.83	2,571.94	2,349.48
Interest Earned	1,580.99	1,848.81	2,504.98
Interest Earned Growth (%)	-	16.94%	35.49%
Profit Before Tax	151.44	79.71	535.81
Net Profit for the Year	111.82	61.46	404.50
Net Profit (%) as stated	7.07%	3.32%	16.15%
Net Interest Margin (%)	9.57%	8.75%	8.20%
Gross NPAs	3.23%	6.10%	3.75%
Net NPAs	0.39%	2.31%	1.33%
EPS – Basic (₹)	1.46	0.70	4.52
EPS – Diluted (₹)	1.46	0.70	4.51
RoNW (%)	8.17%	3.91%	20.22%
NAV (₹)	16.13	17.56	22.33

Source: Company RHP, ACMIIL Research

## Key Financial Ratios

Particulars (In Cr.)	FY21	FY22	FY23
Gross Loan Portfolio	8,41.57	1,063.07	1,395.71
Disbursements	591.40	904.63	1,244.29
Deposits	750.76	1,007.42	1,371.01
Credit to Deposit Ratio	109.45%	101.53%	95.32%
Capital & Reserves	136.84	157.23	200.03
Net Interest Income	83.93	106.09	152.90
Net Interest Margin	8.20%	8.75%	9.57%
Profit before taxes	15.14	7.97	53.58
Net profit for the year	11.18	6.15	40.45
Return on Average Assets	1.05%	0.48%	2.42%
Return on Average Equity	9.99%	4.14%	22.84%
Average Yield	15.46%	15.24%	15.67%
Cost of Funds	8.27%	7.47%	6.96%
CASA+Retail Term Deposit Ratio (as % of	57.51%	59.64%	61.55%
CASA Ratio	17.68%	22.37%	20.89%
Provision Coverage Ratio (including	80.42%	72.82%	95.78%
Cost to Income Ratio	56.54%	59.11%	54.15%
Gross NPA as a percentage of Gross	3.75%	6.10%	3.23%
Net NPA as a percentage of Net Advances	1.33%	2.31%	0.39%

Source: Company RHP, ACMIIL Research,

## Comparison with Listed Peers FY23:

Name of the Bank/Company	Consolidated/ Standalone	Total Income (₹ in Cr)	Face Value	EPS		NAV (₹)	P/E	P/B
				Basic	Diluted			
Utkarsh Small Finance Bank Ltd	Restated	2,804.29	10	4.52	4.51	22.33	5.54	1.12
Equitas Small Finance Bank	Consolidated	4,831.46	10	4.71	4.67	46.44	19.61	1.97
Ujjivan Small Finance Bank Ltd	Consolidated	4,754.19	10	5.88	5.87	20.25	6.93	2.01
Credit Access Grameen Ltd	Consolidated	3,550.79	10	52.04	51.82	326.89	24.13	3.82
Spandana Sphoorty Financial Ltd	Consolidated	1,477.03	10	1.74	1.74	436.58	403.33	1.61
Bandhan Bank Ltd	Consolidated	18,373.25	10	13.62	13.62	121.58	16.51	1.85
AU Small Finance Bank Ltd	Consolidated	9,239.87	10	21.86	21.74	164.64	35.36	4.67
Suryoday Small Finance Bank	Consolidated	1,281.10	10	7.32	7.32	149.28	22.90	1.12
Fusion Micro Finance Ltd	Consolidated	1,799.97	10	43.29	43.13	230.74	13.50	2.52

Source: Company RHP, ACMIIL Research

## Risks and concerns

1. Any adverse developments in the segments the company operate in, such as retail, wholesale, and housing, could adversely affect their business and results of operations.
2. USFB inability to grow their CASA deposits and CASA ratio may result in higher cost of deposits and impact Company's financial condition and cash flows.
3. The SFB model is relatively new to India, and such operations pose various business and financial challenges.
4. The company business concentrated in few states. Bihar and Uttar Pradesh contribute nearly 57% to the gross loan book.
5. USFB can face asset-liability mismatches, which could affect their liquidity and consequently and adversely affect their operations and profitability.
6. Any kind of slowdown in credit growth due to slowdown in economy may affects overall business and subsequently profitability of the company.

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