

Rating: Avoid

Issue Offer

OFS of 10,943,070 shares by shareholders and fresh issue of INR 249 cr taking the total issue size at INR 582 cr

Issue Summary

Price Band (INR)	303-305
Face Value (INR)	10
Implied Market Cap (INR Cr)	3,237
Market Lot	49
Issue Opens on	Mar 17, 2021
Issue Close on	Mar 19, 2021
No. of share pre-issue	97,980,826
No. of share post issue	1,06,130,826
Listing	NSE and BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

Axis Capital Ltd
ICICI Securities Ltd
IIFL Securities Ltd
SBI Capital Markets Ltd

Registrar

Kfin Technologies Private Limited

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	30.3%	28.0%
Public & Others	69.7%	72.0%

Objects of the offer

- To comply with listing norms
- To strengthen the capital position

Suryoday Small Finance Bank is coming with an IPO of INR 582 cr which includes fresh issue of INR 249 cr and OFS of 1.09 shares by shareholders at price band of INR 303-305. The primary purpose of the IPO is to comply with RBI's norm of listing the bank within 3 years of commencement. The bank has a strong capital position with CAR at 41.2% including Tier 1 capital at 36.9% as of Dec'20. Unlike Ujjivan/Equitas SFB, Suryoday does not have any holding company structure to meet promoter holding norms.

Bank is diversifying the portfolio but MFI share remains higher: From being a microfinance player only, Suryoday SFB has diversified its portfolio into other segment like CV, Housing and other loans. But, ~70% of the portfolio remains into microfinance (~20% for Equitas/~73% for Ujjivan) with regional concentration in Maharashtra (35%), Tamilnadu (27%) and Odisha (at 15%). The bank has gradually increased its Non-MFI portfolio share from 19% in FY19 to ~30% as on Dec'20. Given the unsecured nature of MFI business, bank needs to increase its Non-MFI share and also geographical diversification is required. As per management, bank would focus on increasing share of Non-MFI loans (Affordable housing, CV) with a share of secured non-MFI portfolio at 40% v/s current 30% in longer term.

CASA ratio lowest amongst peers: As on Dec'20, Deposits of the bank increased by 34% YoY to INR 3,344 cr with high share of bulk deposits. CASA ratio of the bank remained lowest amongst the peers at 13% (Ujjivan at 18%/Equitas at 25%). Banks needs to increase the granularity in its deposit profile as the Top 20 depositors share in the total deposits stood at 29.8%.

Asset quality of the bank deteriorated due to high stress in MFI portfolio: Proforma GNPA ratio of the bank surged to 9.3% vs. reported at 0.8%, mainly due to higher stress in MFI portfolio impacted due to Covid. The bank has created provisioning buffer including floating provisions at 5% of microfinance loans. As on Dec'20, Collection efficiency (Paying customers) of the bank stood at 82% vs. 68% in Sep'20.

Distribution Network: As of Dec' 20, Suryoday SFB has a network of 554 Banking outlets including 153 Unbanked Rural Centres (URCs) across 13 states and union territories and 25 ATMs. As of Dec'20, bank operated 101, 168, 91 and 194 banking outlets (including URCs) in the north, south, east and west regions respectively. Bank also undertake a part of operations through BCs and as of Dec'20, bank had 16 BC outlets across asset and liability businesses.

Valuation and View:

At an upper price band of INR 305, Suryoday SFB has been valued at 2.7x P/BV (post issue) which is at premium as compared to its peers (Ujjivan / Equitas). We recommend investor to Avoid this issue, given the weak liability profile (lowest CASA amongst peers), asset quality risk due to high share of MFI portfolio (Proforma GNPA at 9.3% vs. 4.2-4.8% for peers) which could pose the risk to the growth and return ratios in the near to medium term. Also, there is a high risk of regional concentration as ~35% portfolio of the bank is in Maharashtra where collection efficiency of the bank was lower at 72.3% as on Dec'20. Amongst peers, we believe, Equitas SFB is at better place due to its better liability profile, diversified loan book and reasonable valuations.

Risks: a. Increase in NPAs b. Geographical concentration risk in Maharashtra (35% of portfolio) and Tamil Nadu (27% portfolio) c. High share of unsecured advances.

Peer Group Comparison

Bank	CMP (15-03-21)	AUM (in cr.)	Deposits (in cr.)	PAT (in Cr.)	BVPS (Rs) (as on Dec'20)	Proforma GNPA (%)	Proforma NNPA (%)	NIM (%)	RoA (%)*	RoE (%)*	CRAR (%)	P/BV (x)
Suryoday SFB#	305	3,908	3344	55	113	9.3%	5.4%	8.5%	1.0%	6.3%	41.2	2.7
Equitas SFB	59	17,373	15,862	271	29	4.2%	1.7%	8.5%	1.4%	11%	21.6	2.1
Ujjivan SFB	34	13,638	11,617	-128	17	4.8%	2.1%	10.1%	-0.9%	-5.5%	26.9	2.1

All Financials are for 9MFY21.

* On annualized basis.,

P/BV is on post issue basis

Advances Break-up

Advances (in cr.)	FY18	FY19	FY20	Dec'20
Inclusive Finance (JLGs)	1,544	2,419	2,815	2,750
% of total Advances	90%	81%	76%	70%
Commercial Vehicle Loans	9	219	371	368
% of total Advances	0%	7%	10%	9%
Affordable Housing Loans	22	80	181	246
% of total Advances	1%	3%	5%	6%
Secured Business Loans	35	68	106	142
% of total Advances	2%	2%	3%	4%
Micro Business Loans	6	27	43	39
% of total Advances	0%	1%	1%	1%
MSME/SME Loans	83	97	38	40
% of total Advances	5%	3%	1%	1%
Financial Intermediary Group Loans	9	48	100	187
% of total Advances	1%	2%	3%	5%
Others	10	13	57	137
% of total Advances	1%	0%	2%	4%
Total Gross Advances	1,718	2,970	3,711	3,908
Advances growth (YoY)	NA	73%	25%	-

Liability Profile of the Bank

Deposits (in cr.)	FY18	FY19	FY20	Dec'20
Demand Deposits	15	46	59	50
Savings Bank Deposits	68	133	267	396
Term Deposits	667	1,414	2,523	2,898
- Retail Term Deposits	226	505	1,225	1,976
- Bulk Deposits	441	910	1,298	923
Total Deposits	750	1,593	2,849	3,344
Deposits growth	NA	113%	79%	34%

Break-up of Advances as per geography

State	FY18		FY19		FY20		Dec'20	
	in cr.	% Share	in cr.	% Share	in cr.	% Share	in cr.	% Share
Maharashtra	498	31%	889	32%	1,212	33%	1,339	35%
Tamilnadu	516	32%	909	33%	1,004	28%	1,057	27%
Odisha	278	17%	422	15%	579	16%	582	15%
Gujarat	136	9%	234	9%	281	8%	299	8%
Karnataka	66	4%	118	4%	250	7%	253	7%
MP	83	5%	124	5%	196	5%	230	6%
UP	-	-	12	0%	36	1%	46	1%
Chhattisgarh	7	0%	12	0%	17	0%	20	1%
Puducherry	12	1%	20	1%	16	0%	13	0%
Delhi	-	-	-	-	14	0%	14	0%
Telangana	-	-	-	-	22	1%	1	0%
Total	1,596	100%	2,741	100%	3,626	100%	3,853	100%

Income Statement					Balance Sheet				
(Rs. Cr)	FY18	FY19	FY20 9M	FY21	(Rs. cr)	FY18	FY19	FY20 9M	FY21
Interest Income	287	530	767	624	LIABILITIES				
Interest Expenses	121	190	276	271	Capital	67	82	87	89
Net Interest Income	166	340	491	353	Reserves & Surplus	471	799	980	1102
Other Income	38	67	87	65	Deposits	750	1593	2849	3344
Operating Income	204	407	578	418	Borrowings	718	1124	1265	1487
Operating Expenses	131	191	272	232	Other liabilities & provisions	150	163	185	329
Operating Profit	72	217	306	187	Total Liabilities	2156	3761	5365	6350
Provisions and Contingencies	61	126	195	132	ASSETS				
Profit After Taxes	11	90	111	55	Cash and Balance with RBI	31	48	61	89
					Balance with Banks	176	228	777	744
					Investments	311	664	808	1511
					Net Advances	1569	2680	3532	3782
					Fixed assets	14	19	39	43
					Other assets	55	122	148	180
					Total Assets	2156	3761	5365	6350

Ratio Analysis				
Particulars	FY18	FY19	FY20	9MFY21
Per Share Data (Rs.)				
EPS	1.8	13.2	13.3	8.1*
Book Value per share	79.8	107.9	123.1	113^
Adjusted Book Value	75.4	106.4	120.8	112^
Asset Quality				
Gross NPAs (in cr)	56.6	49.6	101.3	29.9
Net NPAs (in cr)	29.2	12.0	20.4	12.8
Gross NPAs (%)	3.54%	1.81%	2.79%	0.78%
Net NPAs (%)	1.86%	0.44%	0.57%	0.33%
PCR (%)	48.30%	75.80%	84.70%	89.60%
Other ratios (%)				
Yield	21.4%	21.8%	20.9%	19.8%*
Borrowing cost	11.8%	9.9%	9.2%	8.6%*
NIM	10.4%	12.8%	11.9%	8.5%*
Cost to Income	64.4%	46.8%	47.1%	55.4%
CD-ratio (%)	209.3%	168.2%	124.0%	113.1%
CRAR (%)	43.4%	40.2%	35.4%	41.2%
Return Ratios (%)				
ROE	2.3%	14.8%	11.3%	6.3%*
ROA	0.7%	3.2%	2.5%	1.2%*
Valuation (x) @ upper price band				
P/E	173.3	23.2	22.9	37.8
P/ABV	3.8	2.8	2.5	2.7
P/BV	4.0	2.9	2.5	2.7

Note: * on annualized basis.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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