

Suryoday Small Finance Bank Ltd

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 SFBs in India in Fiscal 2020. Company has over a decade experience in serving customers in the unbanked and under-banked segments in India and promoting financial inclusion. Over the years, it has diversified loan portfolio to include non-micro banking loans thereby reducing dependence on micro banking business.

Positives: (a) Customer centric approach with a focus on financial inclusion (b) Diversified asset portfolio with a focus on retail operations (c) Fast evolving granular deposit franchise (d) Leveraging emerging technologies to enhance digital footprint (e) Strong credit processes and robust risk management framework (f) Track record of strong financial performance and cost-efficient operations. (g) Multiple distribution channels.

Investment concerns: (a) The continuing impacts of COVID-19 are highly unpredictable and could be significant, and may have an adverse effect on the company's business, operations and future financial performance. (b) Business is currently significantly dependent on advances to inclusive finance (JLG) customers and any adverse developments in the microfinance sector could adversely affect the business. (c) Banking business is vulnerable to interest rate risk, and any inability to manage interest rate risk could adversely affect the financials of the company.

Outlook & Valuation: Suryoday SFB has posted strong growth in NII of 72.1% CAGR between FY18-20 though 9MFY2021 numbers were adversely impacted due to the Covid-19 pandemic. While reported GNPA and NNPA stood at 0.8% and 0.3% at the end of Q3FY21, proforma GNPA and NNPA stood at 9.3% and 5.4% respectively. However CAR of 41.1% at the end of 9MFY2021 provides comfort. At the higher end of the price band the stock would be trading at P/BV of 2.25x fully diluted post issue book value of ₹136 per share. While we believe that valuations are reasonable asset quality will be an issue in the near to medium term and hence **have a NEUTRAL rating on the issue.**

Exhibit 1: Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020
NII	166	340	491
% chg	-	105%	44%
Net profit	11	90	111
% chg	-	687%	23%
NIM (%)	8.1%	12.1%	11.3%
EPS (₹)	1.7	11.1	12.8
P/E (x)	179.1	27.5	23.8
P/ABV (x)	77.4	106.4	123.5
RoA (%)	0.5%	3.1%	2.4%
RoE (%)	2.1%	12.7%	11.4%

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Subscribe

Issue Open: March 17, 2021

Issue Close: March 19, 2021

Issue Details

Face Value: ₹ 10

Present Eq. Paid up Capital: ₹ 98.0cr

Offer for Sale: 1.1cr sh.

Fresh issue: 0.82cr sh.

Post Eq. Paid up Capital: ₹ 106.1cr

Issue size (amount): ₹ 578-582cr

Price Band: ₹ 303-305

Lot Size: 49 shares and in multiple thereafter

Post-issue implied mkt. cap: * ₹ 3216cr - ** ₹ 3237cr

Promoters holding Pre-Issue: 30.3%

Promoters holding Post-Issue: 28.0%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	28.0%
Others	72.0%

Jyoti Roy

+022 39357600, Extn: 6842

Jyoti.roy@angelbroking.com

Company background

Company started its operations as an SFB on January 23, 2017 pursuant to receipt of the RBI Final Approval. Prior to commencement of operations as an SFB, it has operated as an NBFC – MFI carrying out microfinance operations and operated the joint liability group-lending model for providing collateral-free, small ticket-size loans to economically active women belonging to weaker sections. The average “priority sector” loans, as a percentage of average ANBC for Fiscal 2018, 2019 and 2020 was 99.1%, 112.1% and 103.7%, respectively. It has commenced microfinance operations in 2009 and has since expanded operations across 12 states and union territories, as of July 31, 2020. As of July 31, 2020, the bank has a customer base was 1.43 million and operates in 482 Banking Outlets including 137 Unbanked Rural Centres.

Issue details

IPO is a mix of OFS & issue of Fresh Equity Shares. The issue would constitute fresh issue of upto 81,50,000 shares and an OFS of upto 1,09,43,070 shares in the price band of ₹303-305 per share.

Exhibit 1: Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	29,734,732	30.3	29,734,732	28.0
Public	68,246,094	69.7	76,396,094	72.0
Total	97,980,826	100.0	106,130,826	100.0

Source: Company, Angel Research

Note: Calculated at upper price band

Objectives of the Offer

- Augmenting the Bank’s Tier – 1 capital base to meet the Bank’s future capital requirements
- To receive the benefits of listing of the Equity Shares on the Stock Exchanges.

Key Management Personnel

Baskar Babu Ramachandran is the Managing Director and Chief Executive Officer of our Bank. He holds a bachelors degree in mechanical engineering from the University of Madras and a master’s degree in business administration from the Pondicherry University. Prior to co-founding Suryoday Micro Finance Private Limited, he was associated with various companies including GE Capital Transportation Financial Services Limited as the vice-president- quality and operations and HDFC Bank Limited as assistant vice president.

Ramachandran Rajaraman is the Part-time Chairperson and Independent Director of Bank. He holds a bachelor’s degree in science from the University of Madras, master’s degree in science from the University of Madras and a post graduate diploma in financial management from the University of Madras. He has over 38 years of experience in commercial banking and finance.

Exhibit 2: Income Statement

Y/E March (₹ cr)	FY18	FY19	FY20	9MFY20	9MFY21
Net Interest Income	166	340	491	361	353
- YoY Growth (%)	-	105%	44%	-	-2%
Other Income	38	67	87	63	65
- YoY Growth (%)	-	76%	31%	-	3%
Operating Income	204	407	578	424	418
- YoY Growth (%)	-	100%	42%	-	-1%
Operating Expenses	131	191	272	188	232
- YoY Growth (%)	-	45%	43%	-	23%
Pre - Provision Profit	72	217	306	236	187
- YoY Growth (%)	-	199%	41%	-	-21%
Prov. & Cont.	55	74	152	58	117
- YoY Growth (%)	-	35%	106%	-	102%
Profit Before Tax	18	143	154	178	70
- YoY Growth (%)	-	700%	8%	-	-61%
Prov. for Taxation	6	52	43	52	15
- as a % of PBT	36%	37%	28%	29%	22%
PAT	11	90	111	127	55
- YoY Growth (%)	-	687%	23%	-	-57%

Source: Company, Angel Research

Exhibit 3: Balance Sheet

Y/E March (₹ cr)	FY18	FY19	FY20	9MFY20	9MFY21
Equity	67	82	87	86	89
Reserve & Surplus	471	799	980	989	1,102
Networth	538	880	1,066	1,075	1,191
Deposits	750	1,593	2,849	2,491	3,344
- Growth (%)	-	113%	79%	-	34%
Borrowings	718	1,124	1,265	887	1,487
Other Liab. & Prov.	150	163	185	136	329
Total Liabilities	2,156	3,761	5,365	4,589	6,350
Cash Balances	31	48	61	74	89
Bank Balances	176	228	777	108	744
Investments	311	664	808	893	1,511
Advances	1,569	2,680	3,532	3,361	3,782
- Growth (%)	-	71%	32%	-	13%
Fixed Assets	14	19	39	31	43
Other Assets	55	122	148	122	180
Total Assets	2,156	3,761	5,365	4,589	6,350

Source: Company, Angel Research

Exhibit 4: Key Ratios

Y/E March	FY2018	FY2019	FY2020
Profitability ratios (%)			
NIMs	8.1%	12.1%	11.3%
Cost to Income Ratio	64.4%	46.8%	47.1%
RoA	0.5%	3.1%	2.4%
RoE	2.1%	12.7%	11.4%
B/S ratios (%)			
CASA Ratio	11.0%	11.2%	11.4%
Credit/Deposit Ratio	-	131.6%	67.9%
CAR	43.4%	40.2%	35.4%
Tier I	40.2%	38.6%	34.3%
Asset Quality (%)			
Gross NPAs	3.5%	1.8%	2.8%
Net NPAs	1.9%	0.4%	0.6%
Slippages	3.3%	1.2%	3.0%
Loan Loss Prov. /Avg. Assets	2.5%	2.5%	3.3%
Provision Coverage	47.4%	75.5%	79.4%
Per Share Data (₹)			
EPS	1.7	11.1	12.8
BVPS	79.8	107.9	123.1
ABVPS (70% cover.)	77.4	106.4	123.5
DPS	0.0	0.0	0.0
Valuation Ratios			
PER (x)	179.1	27.5	23.8
P/ABVPS (x)	3.9	2.9	2.5

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager and investment advisor with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.