

## SURYODAY SMALL FINANCE BANK LTD

LKP

**Company Overview:**

SURYODAY SFB commenced operations as an NBFC and for over a decade has been serving customers in the unbanked and under-banked segments in India and promoting financial inclusion. Pursuant to receipt of the RBI Final Approval, it started operations as a “Small Finance Bank” on January 23, 2017. The 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. Prior to the operations as an SFB, it 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. Over the years, the bank has diversified the loan portfolio to include non-micro banking loans thereby reducing the dependence on micro banking business. Their average “priority sector” loans, as a percentage of average Adjusted Net Bank Credit (“ANBC”) for Fiscal 2018, 2019 and 2020 and 9MFY21 was 99.08%, 112.10%, 103.67% and 114.09%, respectively. 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 (“URCs”). The bank currently offers a variety of asset and liability products and services designed for inclusive finance and general banking customers. The bank’s asset products consist of a) Inclusive finance portfolio (comprising loans to JLG customers) b) Commercial vehicle loans c) Affordable housing loans d) Micro business loans e) Unsecured micro and small enterprise f) Small and medium enterprise loans, secured business loans, financial intermediary group loans and Other various loans. The bank’s Gross Loan Portfolio has grown at a CAGR of 46.98% from ₹17.18bn as on 31st March 2018 to ₹37.11bn as on 31st March 2020 and stood at ₹39.08bn as on 31st December 2020.

**Offer Summary:**

The promoter (30% Pre-IPO) and other shareholders (70% Pre-IPO) of Suryoday SFB are executing OFS of 10.9mn shares with an offer size of ~₹3338n and fresh issue of ₹2486mn. Post IPO the total number of shares would be 106.1mn. The issue price band stands at ₹303 – ₹305. The issue opens at 17th March – 2021 and closes on 19th March – 2021. The implied post issue market cap stood at ~₹3230mn.

**Outlook and Valuation:**

At higher price band (₹305), the stock is valued at 2.28(x) P/BVPS with current book value per share of ₹133.5. Factoring the good return ratios, FY20 ROA/ROE of 11.3%/2.5%, we believe that Suryoday Small Finance Bank Limited is worth subscribing. Thus we recommend SUBSCRIBE.

Key Financials	FY18	FY19	FY20	9MFY20	9MFY21
Advances (₹mn)	15,687	26,796	35,319	33,609	37,823
Deposits (₹mn)	7,495	15,934	28,487	24,914	33,438
CASA (%)	11.0	11.3	11.5	11.9	13.3
NIM (%)	10.4	12.8	11.9	12.3	8.5
GNPA (%)	3.5	1.8	2.8	2.8	0.8
NNPA (%)	1.9	0.4	0.6	0.5	0.3
PCR (%)	48.3	75.8	84.7	84.2	89.6
ROA (%)	0.7	3.2	2.5	4.0	1.2
ROE (%)	2.3	14.8	11.3	17.6	6.3
BVPS (₹)	79.8	107.9	123.3	124.6	133.5
CRAR (%)	43.4	40.2	35.4	40.6	41.2
RWA to assets (%)	60.4	58.6	54.9	57.4	47.6

**Issue Details**

Issue of upto 19,093,070 Equity Shares (Fresh Issue of upto 8,150,000 Equity Shares and Offer for sale of upto 10,943,070 Equity Shares)

(The issue shall constitute 17.99% of the post issue paid up equity share capital)

**Post Issue Implied Market Cap**

₹ 3,216 – 3,237 Cr

**Issue Highlights**

Issue Size:	₹ 577 - 581 Cr
No. of Shares:	19,093,070 Equity Shares
Employee Reservation:	Upto 500,000 Equity Shares
Face Value:	₹ 10
Listing:	BSE & NSE
Issue Opens On:	Wednesday, 17th Mar 2021
Issue Closes On:	Friday, 19th Mar 2021
Price Band :	₹ 303 - 305
Bid Lot:	49 Shares and in multiple thereof
Employee Discount:	₹ 30/- per share
BRLMs:	Axis Capital, ICICI Securities, IIFL Securities, SBI Capital Markets
Registrar:	KFin Technologies Pvt. Ltd.

**Indicative Timetable**

Activity	On or about
Finalisation of Basis of Allotment	24-03-2021
Refunds/Unblocking ASBA Fund	24-03-2021
Credit of Equity Shares to DP A/c	25-03-2021
Trading Commences	30-03-2021

**Issue Break-up**

	No. of Shares	₹ In Cr	% of Issue
QIB	9,296,534	281.68 – 283.54	50%
NIB	2,788,961	84.51 – 85.06	15%
Retail	6,507,575	197.18 – 198.48	35%
Employee	500,000	13.65 – 13.75	
<b>Total</b>	<b>19,093,070</b>	<b>577.02 – 580.84</b>	<b>100%</b>

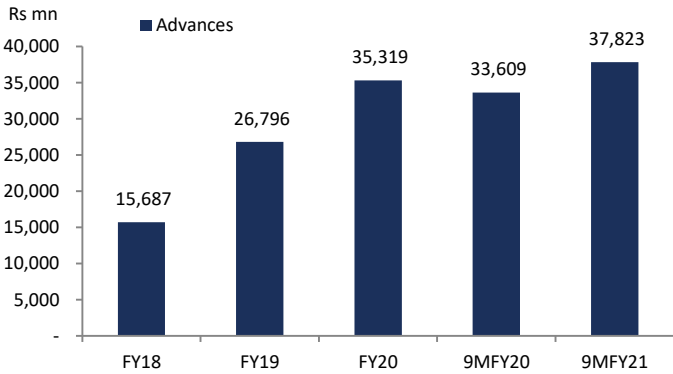
**Shareholding ( In No. of shares)**

	Pre Issue	Post Issue
	97,980,826	106,130,826
Shareholding (%)	Pre Issue	Post Issue
Promoters & Promoter Grp.	30.35%	28.02%
Public	70.09%	71.98%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Key Person	Designation	Descriptions
<b>Ramachandran Rajaraman</b>	Part-time Chairman	Ramachandran Rajaraman is the Part-time Chairperson and Independent Director of the Bank. He has over 38 years of experience in commercial banking and finance. He has served as a part time non-official director of Deposit Insurance and Credit Guarantee Corporation and a member of the Advisory Board on Banks, Commercial and Financial Frauds of Central Vigilance Commission. Previously, he was associated with SIDBI as a director, Andhra Bank as its chairperson and managing director, Syndicate Bank as an executive director and Indian Bank as a general manager.
<b>Baskar Babu Ramachandran</b>	MD & CEO	Baskar Babu Ramachandran is the Managing Director and Chief Executive Officer of the Bank. He has several years of experience in the banking and finance sector. Prior to co-founding Suryoday Micro Finance Pvt. Ltd., he was associated with various companies including GE Capital Transportation Financial Services Ltd. as the vice-president quality and operations and HDFC Bank Ltd. as assistant vice president.
<b>Mrutunjay Sahoo</b>	Independent Director	Mrutunjay Sahoo is the Independent Director of the Bank. He is a retired IAS officer and has several years of experience in public administration. Previously, he was a special chief secretary to the Government of Andhra Pradesh and has been associated with several Maharatna and Miniratna public sector undertakings as a nominee director of the Government of India ("GoI") for Maharatna companies and non-official independent director of GoI for a Miniratna company. He has been principal secretary to government of Andhra Pradesh (energy department) and associated with Transmission Corporation of Andhra Pradesh Ltd., Andhra Pradesh Power Finance Corporation Ltd. and The Singareni Collieries Co. Ltd.
<b>Bhavin Damania</b>	CFO	Bhavin Damania is the Chief Financial Officer of the Bank. He has over 14 years of experience in the banking and financial services sector. He has been associated with the Bank since January 25, 2016.
<b>Geeta Krishnan</b>	Company Secretary	Geeta Krishnan is the Company Secretary and Compliance Officer of the Bank. She has over 24 years of experience in secretarial matters and corporate governance. She has been associated with the Bank since April 3, 2017.
<b>Narayan Rao</b>	Chief Service Officer	Narayan Rao is the Chief Services Officer of the Bank. He has over 30 years of experience in sales, operations, and information technology. He has been associated with the Bank since March 1, 2009.
<b>Sominder Singh</b>	Chief Business Officer - Retail	Sominder Singh is the Chief Business Officer-Retail Assets of the Bank. He started his corporate career in May 1994 and has several years of experience in sales, marketing and general management. He has been associated with the bank since May 12, 2017.
<b>Vaman Ramesh Kamat</b>	Chief Credit Officer	Vaman Ramesh Kamat is the Chief Credit Officer of the Bank. He has over 18 years of experience in the banking sector. He has been associated with the Bank since May 17, 2019.

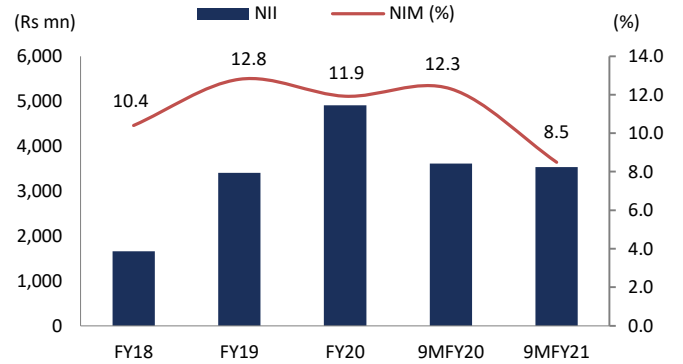
Story in Charts

Advances Trend

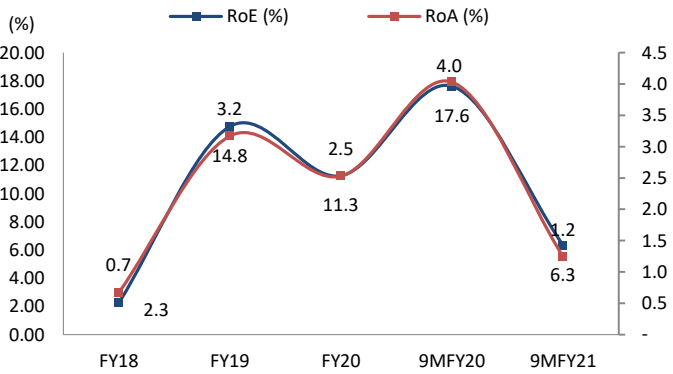


Source: Company RHP and LKP Research

NII and NIM Trend

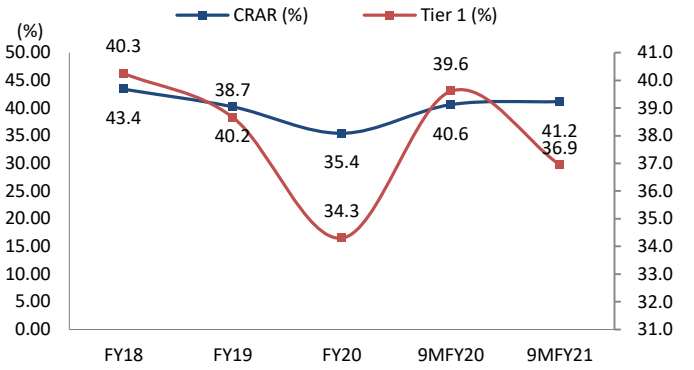


Return Ratio Trend

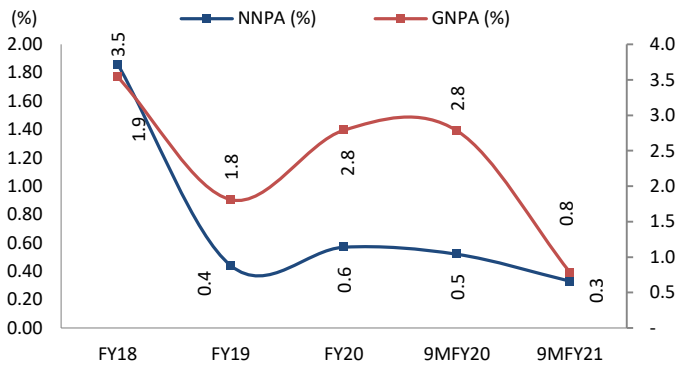


Source: Company RHP and LKP Research

Capital Adequacy

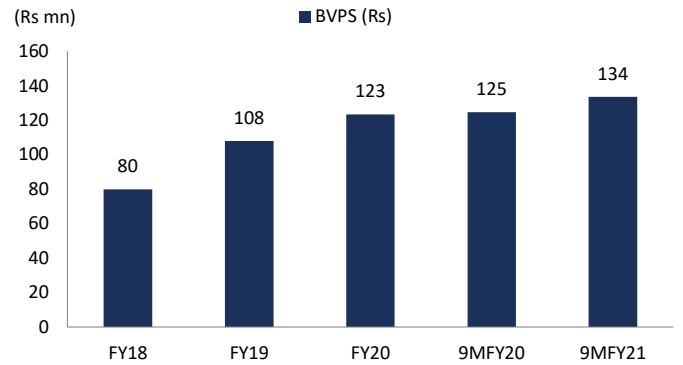


Asset Quality



Source: Company RHP and LKP Research

Book Value Per Share



**Balance Sheet Summary**

(₹ mn)	FY18	FY19	FY20	9MFY20	9MFY21
Share capital	675	816	866	863	892
Reserves & Surplus	4,710	7,988	9,796	9,890	11,018
<b>Net worth</b>	<b>5,385</b>	<b>8,804</b>	<b>10,662</b>	<b>10,753</b>	<b>11,910</b>
Deposits	7,495	15,934	28,487	24,914	33,438
Borrowings	7,178	11,242	12,646	8,869	14,871
Other liabilities & Provisions	1,501	1,632	1,850	1,356	3,285
<b>Total Liabilities</b>	<b>21,560</b>	<b>37,612</b>	<b>53,645</b>	<b>45,892</b>	<b>63,504</b>
Cash & Balances with RBI	308	483	605	742	889
Balance with Banks & Money at call	1,763	2,281	7,771	1,083	7,443
Investments	3,113	6,644	8,082	8,928	15,114
Advances	15,687	26,796	35,319	33,609	37,823
Fixed Assets	135	190	387	307	434
Other Assets	552	1,218	1,481	1,222	1,802
<b>Total Assets</b>	<b>21,560</b>	<b>37,612</b>	<b>53,645</b>	<b>45,892</b>	<b>63,504</b>

Source: Company RHP and LKP Research

**Income Statement Summary**

(₹ mn)	FY18	FY19	FY20	9MFY20	9MFY21
Interest Income	2,869	5,301	7,667	5,632	6,243
Interest Expenses	1,211	1,897	2,758	2,021	2,711
<b>NII</b>	<b>1,658</b>	<b>3,404</b>	<b>4,909</b>	<b>3,611</b>	<b>3,533</b>
<i>NIM (%)</i>	<i>10.4</i>	<i>12.8</i>	<i>11.9</i>	<i>12.3</i>	<i>8.5</i>
Other Income	380	669	875	631	649
PPP	725	2,166	3,062	2,359	1,866
Provisions	610	1,262	1,950	1,092	1,317
PAT	115	904	1,112	1,267	549
<i>RoA (%)</i>	<i>0.7</i>	<i>3.2</i>	<i>2.5</i>	<i>4.0</i>	<i>1.2</i>
<i>RoE (%)</i>	<i>2.3</i>	<i>14.8</i>	<i>11.3</i>	<i>17.6</i>	<i>6.3</i>

Source: Company RHP and LKP Research

**Capital Adequacy**

	FY18	FY19	FY20	9MFY20	9MFY21
<i>CET - 1 (%)</i>	<i>40.3</i>	<i>38.7</i>	<i>34.3</i>	<i>39.6</i>	<i>36.9</i>
<i>Tier 1 (%)</i>	<i>40.3</i>	<i>38.7</i>	<i>34.3</i>	<i>39.6</i>	<i>36.9</i>
<i>Tier 2 (%)</i>	<i>3.2</i>	<i>1.6</i>	<i>1.1</i>	<i>1.0</i>	<i>4.2</i>
<i>CRAR (%)</i>	<i>43.4</i>	<i>40.2</i>	<i>35.4</i>	<i>40.6</i>	<i>41.2</i>
<i>RWA (₹mn)</i>	<i>13,012</i>	<i>22,035.8</i>	<i>29,461.6</i>	<i>26,363.5</i>	<i>30,256.6</i>
<i>RWA to assets (%)</i>	<i>60.4</i>	<i>58.6</i>	<i>54.9</i>	<i>57.4</i>	<i>47.6</i>

Source: Company RHP and LKP Research

Ratios					
	FY18	FY19	FY20	9MFY20	9MFY21
Debt to Equity ratio (x)	2.7	3.1	3.9	3.1	4.1
CASA (%)	11.0	11.3	11.5	11.9	13.3
Yield on Interest earning assets (%)	18.0	19.9	18.6	21.1	19.8
Cost of funds (%)	10.7	9.0	8.6	8.8	8.1
Spread	7.3	10.9	10.1	12.2	11.7
NIM (%)	10.4	12.8	11.9	12.3	8.5
GNPA (%)	3.5	1.8	2.8	2.8	0.8
NNPA (%)	1.9	0.4	0.6	0.5	0.3
PCR (%)	48.3	75.8	84.7	84.2	89.6
ROA (%)	0.7	3.2	2.5	4.0	1.2
ROE (%)	2.3	14.8	11.3	17.6	6.3
BVPS (₹)	79.8	107.9	123.3	124.6	133.5

Source: Company RHP and LKP Research

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