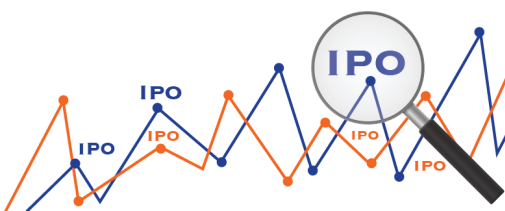




Suryoday Small Finance Bank Limited

Issue Opens	Wednesday, March 17, 2021
Issue Closes	Friday, March 19, 2021
Price Band (in Rs)	303/305
Bid Lot	49 shares and multiples thereafter



IPO UPDATE

Suryoday Small Finance Bank Limited

Small Finance Banking (SFB) Industry:

In order to promote financial inclusion, the Indian banking industry has seen several changes in recent years. NBFCs such as, Bandhan and IDFC, received permission to set up universal banks. Further, a few microfinance companies, local area banks and NBFCs have received permission to set up SFBs. SFBs are allowed to take deposits, which provide them an edge of having lower cost of funds in comparison with NBFCs. MFIs that have turned into SFBs are now diversifying their advances mix and focusing on other retail and corporate lending business.

Below are the key growth drivers for small finance banking industry:

- India has the world's second largest population
- Financial penetration to rise with increase in awareness of financial products
- Financial inclusion and key developments
- India's performance for financial inclusion is improving in comparison with other emerging economies; however, a large section of the population is still unbanked

Key steps taken by the government to improve financial inclusion

- Government initiatives, parallel support infrastructure, SFBs and fintech
- Priority sector lending aimed at facilitating financial inclusion

Evolution of SFBs

In 2013, the RBI constituted a committee that recommended differential licensing in the form of payment bank and SFB. Accordingly, on November 27, 2014, the RBI released guidelines for a new class of banking entity, 'small finance banks', to cater to the diverse needs of the low income group. Further, on September 16, 2015, the RBI awarded SFB licenses to 10 players on account of the Government's focus towards financial inclusion and inclusive banking. The objective of SFB's is to extend banking services to the underserved and unserved population through savings instruments, and providing credit to small business units, small and marginal farmers, micro and small industries, and other unorganized sector. The SFBs are technologically driven in order to reduce the cost of operations and also ensure faster reach to the untapped market. According to World Bank's Global Findex Database 2017, India's financial inclusion level has improved significantly with the adult population's bank accounts rising from 53% in 2014 to 80% in 2017 on account of various Government initiatives, institution support and increase in usage of mobile phones as a medium for distributing financial services. Technology improvements help in financial penetration, however, the primary challenge for SFBs is still the ability to generate low cost deposits. While there exists a significant opportunity, SFBs will need to innovate further in terms of introducing customized and flexible offerings to target the untapped market.

Growth drivers for SFBs

- Sizeable market opportunity and credit at affordable rates
- Customized products aided by technology and availability of information
- Availability of funds at cheaper rates
- Large target audience

SFBs have grown at a CAGR of 29% from FY17 to FY20, in terms of Assets Under Management (AUM). Top three SFBs accounted for 63% of the total SFB AUM in FY20, compared to 55% in FY17. These top three SFBs recorded a CAGR of 35% from FY17-20. Further, it is expected that the loan portfolio will grow at a CAGR of approximately 22% in the near term. New loan origination is expected to remain low as SFBs are cautious and selective in disbursements as a result of the pandemic.

SNAPSHOT

Issue Opens	Wednesday, March 17, 2021	
Issue Closes	Friday, March 19, 2021	
Price Band (Rs)	303/305	
Bid Lot	49 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Fresh issue & Offer for sale	
Offer Size (Rs Mn)	Fresh Issue	2,486
	OFS	3,338
	Total	5,823
*Implied Market Cap (Rs Mn)	32,370	
P/E (based on 9MFY21 NAV)*	2.3	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs305

Issue Allocation

Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100

Employee Reservation: Equity shares aggregating to 5mn
Employee Discount: Rs30/- per share

Object of the Offer

- Augment Bank's Tier – 1 capital base to meet the Bank's future capital requirements

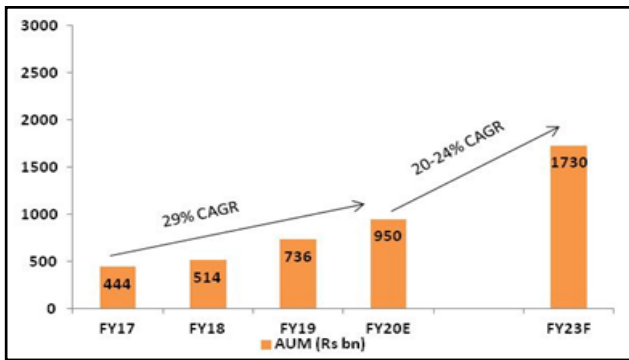


IPO UPDATE
Suryoday Small Finance Bank Limited

Industry (contd.):

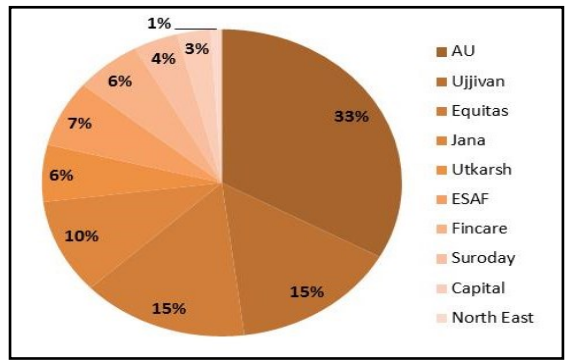
However, as the economy revives and business operations normalize, growth is likely to recover from the 2HFY21 due to support from (i) significant market opportunity in rural segment; (ii) presence of informal credit channels; (iii) geographic diversification; (iv) ability to manage local stakeholders, (v) access to low cost funds (vi) loan recovery and control on aging NPAs.

Exhibit 01: Expected Growth in AUM Over Next 3 Years Owing to Huge Opportunities



Source: Company RHP, Progressive Research

Exhibit 02: Top 3 players accounted for 63% of Industry AUM in FY20

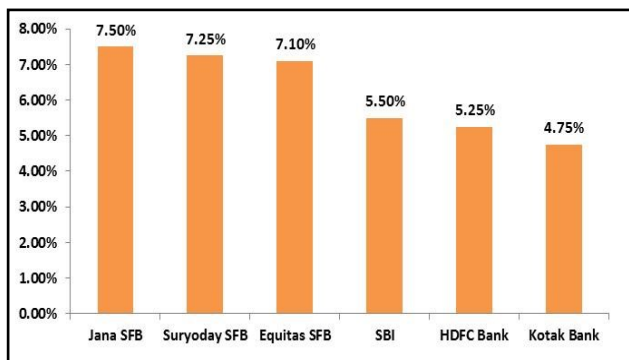


Source: Company RHP, Progressive Research

SFBs continue to diversify their portfolio beyond microfinance business

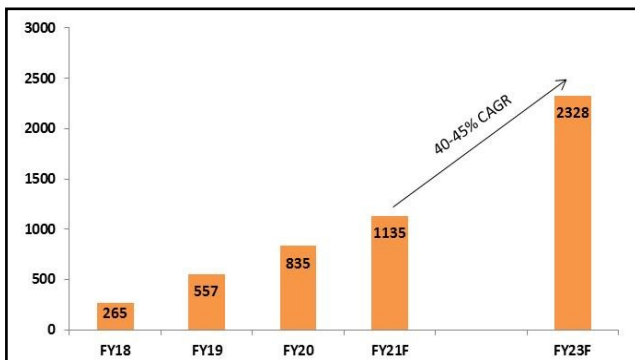
SFBs have significant growth potential as most of them were functioning as NBFCs/ MFIs previously. On commencement of their operations, all SFBs focused on increasing their deposit base. The overall deposit base doubled to around Rs557bn as of FY19. It further increased by approximately 48% to reach Rs835bn in FY20. The increase could be attributed to the higher interest rates. Before converting into SFB, most players did not have access to deposits and their deposit as a percent of AUM was negligible at the time of conversion. This rose to 87%. However, proportion of CASA deposits reduced marginally from 19.2% in FY19 to 18.5% in FY20, as customers sought higher interest in term deposits. SFBs deposit growth is a sharp contrast to the shrinking deposit base of private banks. SFBs have witnessed strong growth in deposits despite the lockdown and have seen addition in online customers driven by higher interest rate they offer. For instance, Jana SFB, Suryoday SFB and Equitas SFB offer 7.5%, 7.25% and 7.10%, respectively, for a one-year deposit while established players such as SBI, HDFC and Kotak Mahindra Bank offer 5.5%, 5.25% and 5.15% on deposits of a similar tenure. SFBs also provide monthly interest scheme in case of which interest is calculated for the quarter and paid monthly at discounted rate over the standard FD rates. These higher rates help in attracting the depositors, especially the ones looking for steady cash flows from these, such as senior citizens.

Exhibit 03: Depositors Chase Higher Interest rates, Prefer SFBs (1 Year Deposit Rates)



Source: Company RHP, Progressive Research

Exhibit 04: SFBs Deposits are Expected to Grow Robustly (Rs bn)



Source: Company RHP, Progressive Research



IPO UPDATE

Suryoday Small Finance Bank Limited

About the Company:

Suryoday Small Finance Bank Limited (SSFB) started operations as an SFB on January 23, 2017, pursuant to receipt of the RBI's final approval. Prior to commencement of operations as an SFB, SSFB 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, it has diversified its loan portfolio to include non-micro banking loans thereby reducing dependence on micro banking business.

SSFB's distribution network comprises of ATMs, phone banking, mobile banking, tablet banking, unified payment interface, CSPs, and internet banking services. Its operations are predominantly in urban and semi-urban locations due to greater income earning capabilities and employment opportunities in such areas compared with rural regions. Its focus on urban and semi-urban locations enables it to meet the financing requirements of economically graduating customers including the provision of housing finance and working capital loans for small businesses. SSFB currently offer a variety of asset and liability products and services designed for inclusive finance and general banking customers. Asset products consist of inclusive finance portfolio (comprising loans to JLG customers), commercial vehicle loans, affordable housing loans, micro business loans, unsecured micro and small enterprise and small and medium enterprise loans, secured business loans, financial intermediary group loans and other loans.

Competitive Strengths:

- Customer centric approach with a focus on financial inclusion
- Diversified asset portfolio with a focus on retail operations
- Fast evolving granular deposit franchise
- Leveraging emerging technologies to enhance digital footprint
- Strong credit processes and robust risk management framework
- Track record of strong financial performance and cost efficient operations
- Multiple distribution channels
- Experienced leadership team, professional management and strong corporate governance

Strategies:

- Expand asset portfolio while focusing on secured lending
- Strengthen retail liability franchise
- Continue to focus on technology and data analytics to grow operations
- Expand geographic presence and penetrate further into existing geographies

Product Portfolio:

Asset Side Products: Below table sets forth the Bank's Gross Loan Portfolio by product

	As of March 31						As of December 31, 2020	
	2018		2019		2020		Rs mn	% of total
	Rs mn	% of total	Rs mn	% of total	Rs mn	% of total		
Inclusive Finance (JLGs)	15441.32	89.89%	24191.24	81.44%	28147.75	75.85%	27495.76	70.35%
Commercial Vehicle Loans	85.48	0.50%	2185.14	7.36%	3705.49	9.99%	3680.09	9.42%
Affordable Housing Loans	219.00	1.27%	796.76	2.68%	1811.84	4.88%	2460.30	6.30%
Secured Business Loans	351.56	2.05%	675.34	2.27%	1062.51	2.86%	1420.32	3.63%
Micro Business Loans (T-Nagpur)	63.23	0.37%	273.12	0.92%	428.13	1.15%	386.72	0.99%
MSME/SME Loans	826.32	4.81%	966.79	3.25%	375.05	1.01%	399.46	1.02%
Financial Intermediary Group Loans	90.80	0.53%	484.43	1.63%	1004.88	2.72%	1866.96	4.78%
Others	100.13	0.58%	131.60	0.44%	572.77	1.54%	1372.68	3.51%
Gross Loan Portfolio	17177.84	100.00%	29704.42	100.00%	37108.42	100.00%	39082.29	100.00%

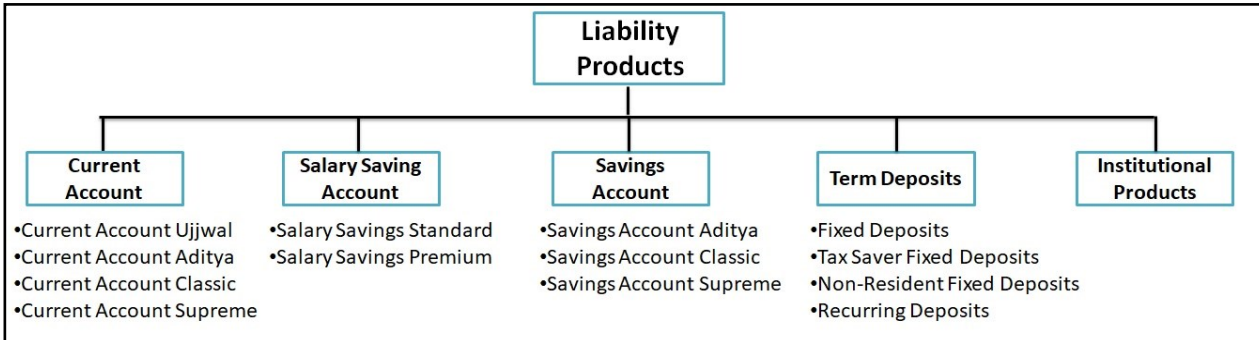


IPO UPDATE
Suryoday Small Finance Bank Limited

About the Company (contd.):

Liability Side Products:

Exhibit 5: SSFB's Liability Products



Source: Company RHP, Progressive Research

Financial and Operating Matrix:

Exhibit 6: Financials Snapshot:

Particulars (Rs mn)	FY18	FY19	FY20	Q3FY21
Share Capital	675	816	866	892
Net worth	5,385	8,804	10,662	11,910
Total Advances	15,687	26,796	35,319	37,823
Total Deposits	33,438	28,487	15,934	7,495
Net Interest Income	1,658	5,112	4,909	3,533
Profit after tax	115	904	1,112	548.7
NAV	79.78	107.91	123.13	133.54
Banking Outlets	240	382	477	554
No. of employees	2,883	3,931	4,695	4,770
Key Ratios:	FY18	FY19	FY20	Q3FY21
RoNW	2.1%	10.3%	10.4%	4.6%
RoA	0.7%	3.2%	2.5%	1.2%
Gross NPA(%)	3.5%	1.8%	2.8%	0.8%
Net NPA(%)	1.9%	0.4%	0.6%	0.3%
NIM	10.4%	12.8%	11.9%	8.5%
C/D Ratio	451.3%	276.8%	220.5%	162.5%
Provision coverage ratio	48.3%	75.8%	84.7%	89.6%
CASA	11.0%	11.3%	11.5%	13.3%
Cost of Fund	10.7%	9.0%	8.6%	8.1%

Source: Company RHP, Progressive Research

Risks & Concerns:

- The company is exposed to credit risk which is the possibility of losses associated with diminution in the credit quality of borrowers or counterparties
- SSFB could also be exposed to liquidity risk which is a function of to funding risk and market liquidity risk. Funding liquidity risk is the risk of not being able to meet the expected and unexpected current and future cash flows and collateral needs without affecting its daily operations or its financial condition. Market liquidity risk is the risk that SSFB cannot easily offset or eliminate a position at prevailing market prices because of inadequate market depth or market disruption
- Adverse change in government policies and regulations can have adverse impact on operations and growth
- Volatility in interest rates can have significant impact on NIMs, and profitability of the bank
- Any changes in the perception of the image of the bank by its customers would have adverse effect on the bank
- Breaches in information security could result into financial loss, disruption or damage to the reputation of an organization



IPO UPDATE

Suryoday Small Finance Bank Limited

Outlook and Recommendations:

Suryoday Small Finance Bank Limited is among leading SFBs in India in terms of NIM, ROA, Yields and deposit growth and had the lowest Cost-to-Income ratio among SFBs in India in FY20. SSFB's operations are predominantly in urban and semi-urban locations due to greater income earning capabilities and employment opportunities in such areas compared with rural regions. With growing intent for financial inclusion, SFBs are set for growth. SSFB has expanded its operations across 13 states and union territories however around 72.7% of its deposits is from Maharashtra and Tamil Nadu. Financially, the bank has grown in terms of revenue as well profits, however it suffered a setback in 9MFY21 due to the pandemic. It's proforma (without Supreme Court's order) Gross NPA/ Net NPA at 9.28%/5.38% are on the higher side compared to its peers. SSFB's sub-par liability profile as compared to its peers and MFI-dominant asset portfolio along with the pandemic effect could put pressure on growth in the near to medium term. At the price band of Rs305, the stock is valued at P/BV of 2.5x, while on the basis of 9MFY21 annualized earnings, it is valued at a 36.9 P/E. The offer seems to be priced aggressively as existing peers are relatively priced better with little differentiation. **The document is for information purpose. We do not have any rating on the IPO and keep it at the discretion of the investors with regard to investment in the IPO.**



IPO UPDATE

Suryoday Small Finance Bank Limited

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