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SURYODAY SMALL FINANCE BANK LIMITED

March 17, 2021

SURYODAY
A BANK OF SMILES

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	Small Finance Bank
Total Issue (Shares) - Offer for sale	10,943,070
Total Issue (Shares) - Fresh Issue	8,150,000
Net Offer to the Public	**19,093,070**
Employee Reservation Portion	500,000
Issue Size (Rs. Cr.)	578-583
Price Band (Rs.)	303-305
Offer Date	17-Mar-21
Close Date	19-Mar-21
Face Value	Rs.10
Lot Size	49

Issue Composition

	In shares
Net offer to public	18,593,070
QIB	9,296,535
NIB	2,788,961
Retail	6,507,575

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	30.35%	28.02%
QIB	69.65%	62.75%
NIB	0.00%	2.63%
Retail	0.00%	6.13%
Employee Reservation Portion		0.47%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Bank proposes to utilize the Net Proceeds from the Fresh Issue towards augmenting the Bank's Tier-1 capital base to meet the Bank's future capital requirements.

Book Running Lead Manager

- Axis Capital Limited
- ICICI Securities Limited
- IIFL Securities Limited
- SBI Capital Markets Limited
-

Name of the registrar

- KFin Technologies Private Limited

About the company

Incorporated in 2008, Suryoday Small Finance Bank Ltd is a leading Small Finance Bank (SFB) in India. The company started offering SFB services in 2017. It serves customers in the unbanked and under banked segments. Before SBF, the company operated as an NBFC. As of July 31, 2020, the company had 482 Banking Outlets and had a customer base of 14.3 lakh. The company operates predominantly in urban and semi-urban locations. It 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. As of December 31, 2020, the Bank's gross NPAs were Rs. 29.91 Crore , 0.78 % of gross advances, and net NPAs were Rs 12.81 Crore, or 0.33 % of net advances. The bank's outstanding deposits stood at Rs 3,344 crore, where low cost current account savings account (CASA) deposits constituted 13.32%. Overall retail deposits formed 72.4% of the total deposits as of December 31. About 73% of the bank's deposits came from Maharashtra and Tamil Nadu alone.

Strength

Customer centric approach with a focus on financial inclusion: As of December 31, 2020, it served 1.44 million customers and in the period between Fiscal 2018 to Fiscal 2020, its customer base increased by 0.65 million. Its inclusive finance portfolio (comprising loans to JLGs) accounted for 70.35% of its Gross Loan Portfolio, as of December 31, 2020. Given its operating history as microfinance institution, a significant portion of its portfolio continues to qualify as "priority sector lending" as mandated by the RBI and helps them promote financial inclusion in India. Bank's average "priority sector" loans as a percentage of average ANBC for Fiscal 2018, 2019 and 2020 and in the 9months ended December 31, 2020 was 99.08%, 112.10%, 103.67% and 114.09% , respectively. Bank's core strength is its ability to customize products that cater to the requirements of their customers. Bank's 24/7 call centre, 'Smile Centre', has been set-up to resolve customer queries and actively gathers feedback to further improve its services. In Fiscal 2021, it commenced offering digital collection facilities for all its customers to pay their loan installments digitally.

Diversified asset portfolio with a focus on retail operations: Over the years, SSFB has been able to diversify its product portfolio to ensure that the proportion of net unsecured portfolio has reduced from 94.81% of its net advances in Fiscal 2018 to 74.59% in the 9months ended December 31, 2020. Its products cater to customer segments across the board. The bank offers inclusive finance loans and micro business loans for customers that are not a part of the formal banking infrastructure they offer affordable housing loans to customers belonging to the middle and low income segment, secured business loans to SME/ MSME/ corporates, commercial vehicle loans to fleet owners and retail customers and unsecured business loans to low and middle class individuals, self-employed individuals and micro and small enterprises. It also provides commercial vehicle loans, institutional credit to NBFCs as well as various liability products to self-employed individuals, enterprises, corporates, partnership firms, banks etc. and mid-sized enterprises. In addition, it offers funds transfer facilities and distribute various general and life insurance products and mutual fund products.

Fast evolving granular deposit franchise: The bank has witnessed rapid growth in deposits between Fiscal 2018 and Fiscal 2020. Its deposit base has grown at a CAGR of 94.95% from Rs 749.52 croreas of March 31, 2018 to Rs 2,848.72 croreas of March 31, 2020 and was Rs 3,343.84 croreas of December 31, 2020. As of December 31, 2020, its deposit base represented 69.22% of its overall funding profile. Its deposit portfolio is

primarily sourced from Maharashtra and Tamil Nadu with each state contributing to 49.21% and 23.57%, respectively, of their total deposit base, as of December 31, 2020. As of December 31, 2020, it has 4BC led Banking Outlets that had a deposit balance of Rs. 209.07 crore.

Leveraging emerging technologies to enhance digital footprint: The bank has leveraged technology to enable smooth and seamless customer experience. As of December 31, 2020, 3,261 employees use tablets/ digital services for opening of savings account and for customer on-boarding. It has leveraged fintech partnerships to provide value added products and services to its customers. Towards this end it has built an enterprise integration layer which facilitates integration with partner entities through APIs. It continues to invest in digital technologies to drive greater customer experience and employee empowerment.

Strong credit processes and robust risk management framework: The bank has a strong credit function that comprises a team of 83 individuals as of December 31, 2020, each of whom have experience in the banking and financial services industry. It has also streamlined its internal processes for credit evaluation, internal scoring and credit decision and have integrated them with its technology platform. It has an established risk management framework to identify, assess, monitor and manage risk. The certificate of deposit programme has the highest rating of A1+ by CRISIL and ICRA and its non-convertible debentures and subordinated debt programmes have both been rated A (Stable) by ICRA.

Track record of strong financial performance and cost efficient operations: The bank has been growing since its conversion as an SFB and is currently in a robust financial position that will enable them to expand its business quickly. Its cost to-income ratio has reduced from 64.44% in Fiscal 2018 to 47.05% in Fiscal 2020 and was 55.39% in the nine months ended December 31, 2020. Its cost efficient operations are attributable to its automation and digitization of various processes including its loan sourcing in inclusive finance business.

Multiple distribution channels: Bank's distribution and service channels comprise of its Banking Outlets, ATMs, phone banking, mobile banking, tablet banking, CSPs and internet banking services. As of December 31, 2020, it operated 554 Banking Outlets including 153 URCs across 13 states and union territories. As of December 31, 2020, it operated 101, 168, 91 and 194 Banking Outlets (including URCs) in the north, south, east and west regions, respectively. In addition, as of December 31, 2020, 37.13%, 27.28%, 28.83% and 6.26% of its Gross Advances were from metropolitan, urban, semi-urban and rural regions.

Strategy

Expand its asset portfolio while focusing on secured lending: The company intends to continue to grow its inclusive finance portfolio in line with the projected growth in the industry. It also intends to grow its secured portfolio which it believes will grow at a faster pace as compared to inclusive finance portfolio due to its comparatively small base currently. Amongst its retail asset products, it is focusing on lending for commercial vehicles, home loans, secured business loans, and micro business loans. It intends to continue to advance commercial vehicle loans to large fleet operators and OEM's to maintain and strengthen its existing relationships with these key customers.

Strengthen its retail liability franchise: The bank intends to strengthen its liability franchise growing its CASA and retail deposit base in a steady manner. In order to grow its retail deposits, it has set up a dedicated team for acquisition of retail deposits across regions and a product development team to enhance the features of its existing products and develop new products. Its strategy will be to build relationships across various customer segments including with senior citizens, NRIs, educational institutions, NBFCs, corporates and co-operative banks. As of December 31, 2020, senior citizens and NRI deposits formed 20.78% of its deposit base and ensure long-term relationship with the Bank. The company intends to leverage its existing customer base of over 1.44 million customers as of December 31, 2020, to promote its inclusive finance products which will result in a sustained and deeply penetrated deposit base.

Continue to focus on technology and data analytics to grow operations: The Bank's strategic focus is to use technology to become an agile and data-driven SFB. The use of advanced, cost-

effective technology has been a significant factor contributing to the growth of its operations. By enhancing its digital and technology platform further, its endeavor is to empower customers to access various facilities, products and services on their own, reduce their costs and thereby increase operating efficiencies. The company has built an enterprise integration layer that will facilitate integration with fintech organizations through APIs including open banking API framework. It is in the process of automating its business origination system ("BOS") for products other than its Inclusive Finance products by engaging with fintech partners. The company will continue to invest in digital technologies to drive greater customer centricity and employee empowerment.

Expand geographic presence and penetrate further into existing geographies: As of December 31, 2020, the bank has conducted its operations through 554 Banking Outlets in India. It intends to continue expanding its network of Banking Outlets to drive greater and deeper penetration in these states while focusing on low and middle-income individuals and small businesses that have limited or no access to formal banking channels, spread across urban and semi-urban markets. It also intends to open targeted Banking Outlets in urban/ semi-urban areas.

Risk factors

- Bank significantly depends on advances to inclusive finance customers. Any adverse development in micro finance sector can heavily impact its business
- Bank business is vulnerable to interest rate risk. Any volatility in interest rates and its inability to manage it can impact bank business.
- A significant portion of its advances is towards customers from Tamil Nadu, Maharastra and Odisha. Any adverse changes in these states can impact bank financial condition and results of operations.

Peer comparison

Company name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Spandana Sphoort	1465.09	178.87	27.81	22.07	1.44	427.52	10	613.9	3948.33
CreditAcc. Gram.	2222.01	102.76	6.61	107.31	3	236.82	10	709.35	11034.12
Bandhan Bank	14191.82	2619.71	16.27	20.85	3.28	103.49	10	339.3	54647.09
Ujjivan Small	3191.39	-55.03	(-ve)	(-ve)	1.88	18.04	10	33.9	5858.97
Suryoday Small Fin. Bank Ltd**	471.04	73.15	6.89	44.25	2.22	137.36	10	305.00	3236.99

** Financials are estimated annualised Fy21

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 305, the stock is priced at pre issue P/E of 40.85x on its estimated annualised FY21 EPS of Rs. 7.47. Post issue, the stock is priced at a P/E of 44.25x on its EPS of Rs. 6.89. Looking at the P/B ratio at Rs. 305 the stock is priced at P/B ratio of 2.51x on the pre issue book value of Rs.121.55 and on the post issue book value of Rs. 137.36 the P/B comes out to 2.22x.

On the lower end of the price band of Rs.303 the stock is priced at pre issue P/E of 40.58x on its estimated annualised FY21 EPS of Rs. 7.47.Post issue, the stock is priced at a P/E of 43.96x on its EPS of Rs. 6.89. Looking at the P/B ratio at Rs.303, the stock is priced at P/B ratio of 2.49x on the pre issue book value of Rs. 121.55 and on the post issue book value of Rs. 137.36 , the P/B comes out to 2.21x.

Industry overview

SFBs have grown at a CAGR of 29% from Fiscal 2017 to Fiscal 2020, in terms of assets under management (AUM). Top three SFBs accounted for 63% of the total SFB AUM in Fiscal 2020, compared to 55% in Fiscal 2017. These top three SFBs recorded a CAGR of 35% from Fiscal 2017 to Fiscal 2020. Further, it is expected 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

disbursals as a result of the pandemic. However, as the economy revives and business operations normalize, growth is likely to recovery from the second half of Fiscal 2021 due to support from (i) significant market opportunity in the rural segment; (ii) presence of informal credit channels; (iii) geographic diversification; (iv) ability to manage local stakeholders, (v) access to low cost funds, and (vi) loan recovery and control on aging NPAs.

Outlook

Suryoday Small Finance Bank is the leading small finance bank in India. It gives a major thrust to the "priority sector" for its lending business. However, the priority sector lending has its own sets of demerits. The bank has a concentration of gross loans in three states -- Maharashtra, Tamil Nadu and Odisha. These three states account for 77% of the bank's lending businesses. Any adverse changes in the conditions affecting these regions can adversely impact its business, financial condition and results of operations. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	March 17, 2021
Bid/Offer Closing Date	March 19, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about March 24, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about March 24, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about March 25, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about March 30, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-20 (9 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Interest Earned	624.35	766.69	530.11
Interest expended	271.07	275.78	189.73
Operating Income	**353.28**	**490.91**	**340.37**
Operating expenses	231.64	272.12	190.74
Operating Profit	**121.64**	**218.78**	**149.63**
OPM%	19.48	28.54	28.23
Other Income	64.92	87.45	66.92
PBDIT	**186.57**	**306.24**	**216.55**
Provisions and contingencies	131.70	195.04	126.16
PBT	**54.87**	**111.20**	**90.40**
Tax	0.00	0.00	0.00
Profit after tax	**54.87**	**111.20**	**90.40**

Balance sheet is on next page

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Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-20	As on 31-Mar-20	As on 31-Mar-19
Assets			
Cash and Balances with Reserve Bank of India	88.902	60.527	48.304
Balances with Banks and Money At Call and Short Notice	744.26	777.07	228.06
Investments	1,511.44	808.20	664.39
Advances	3,782.26	3,531.94	2,679.58
Fixed Assets	43.358	38.73	18.977
Other Assets	180.19	148.05	121.89
Total Assets	**6350.41**	**5364.52**	**3761.20**
Liabilities			
Deposits	3,343.84	2,848.72	1,593.43
Borrowings	1,487.08	1,264.62	1,124.23
Other Liabilities and Provisions	328.53	184.96	163.19
Total	**5159.45**	**4298.29**	**2880.84**
NET Worth	**1190.96**	**1066.23**	**880.37**
Net worth represented by:			
Share capital	89.185	86.594	81.582
Reserves and surplus	1,101.78	979.64	798.78
Net Worth	**1190.96**	**1066.23**	**880.37**

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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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