

Recommendation	Subscribe	
Price Band	Rs. 23 - 25	
Bidding Date	12 th – 14 th July	
Book Running Lead Manager	ICICI, Kotak	
Registrar	KFin Technologies	
Sector	Banks	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares	600	
Minimum Application Money	Rs. 15000	
Payment Mode	ASBA	
Consolidated Financials (Rs Cr)	FY22	FY23
Total Income	1246	1828
Profit Before Provisioning	513	838
Adj PAT	61	405
Valuations (FY23)	Upper Band	
Market Cap (Rs Cr)	2740	
Adj EPS (post issue)	3.7	
P/E (post issue)	6.8x	
BVPS (post issue)	22.8	
P/B (post issue)	1.1x	
Post Issue Shareholding Pattern		
Promoters	69.3%	
Public	30.7%	
Offer structure for different categories		
QIB (Including Mutual Fund)	75%	
Non-Institutional	15%	
Retail	10%	
Post Issue Equity (Rs. in Cr)	1095.9	
Issue Size (Rs in Cr)	500	
Face Value (Rs)	10	
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BACKGROUND

Utkarsh SFB was incorporated as an NBFC in FY10 with core focus on micro finance loans to underserved segments and in particular in the states of Uttar Pradesh and Bihar. Over the years Utkarsh expanded its SFB operations strategically in states where it has been able to leverage its prior microfinance experience. Utkarsh has 830 banking outlets with a total loan portfolio of Rs. 13,957 Cr as on FY23. Micro banking constitutes 66% of total loans with the balance constituting housing, auto, gold, LAP, unsecured personal, wholesale and others.

Objects and Details of the Issue:

The public issue consists of fresh Issue of equity shares aggregating upto Rs. 500 Cr. The company proposes to utilise the net proceeds of the fresh issue towards augmentation of the bank's Tier-1 capital base to meet the bank's future capital requirements which are expected to arise out of growth in its advances.

Investment Rationale:

- Sound understanding of microfinance segment and presence in rural and semi-urban areas
- Significant cross-selling opportunities
- Strong track record of growth and profitability
- Sound management and investor pedigree

Valuation and Recommendation:-

Utkarsh is favorably placed with presence in low ticket segments having strong industry tailwinds. Further, Utkarsh has managed to reduce its exposure to the unsecured micro banking segment from 82% in FY21 to 66% in FY23 which has de-risked its business model. We expect this trend to continue. Over FY21-23 period, Utkarsh has outperformed its peers on all fronts - loan growth, return ratios and asset quality. It's valuation on P/B basis is at a significant discount compared to peers, at 1.1x FY23 post issue BVPS. Considering that the micro finance industry has come out of severe crisis over 2020-22, with most of the bad loans having weeded out of the system, we expect growth and healthy profitability to resume for the sector as well as for Utkarsh. We recommend subscribing to the issue.

Financials (Rs Cr.)	FY21	FY22	FY23
Net Interest Income	839	1061	1529
Growth	NA	26%	44%
PAT	112	61	405
Growth	NA	-45%	558%
ROA	1.1%	0.4%	2.5%
ROE	10.0%	4.1%	22.8%
EPS	1.0	0.6	3.7 #
P/E	24.5x	44.6x	6.8x #
BVPS	12.5	14.3	22.8 #
P/B	2.0x	1.7x	1.1x #

Source: Company data, NBRR

Note: FY23 EPS, P/E, BVPS & P/B, are calculated on Post Issue basis

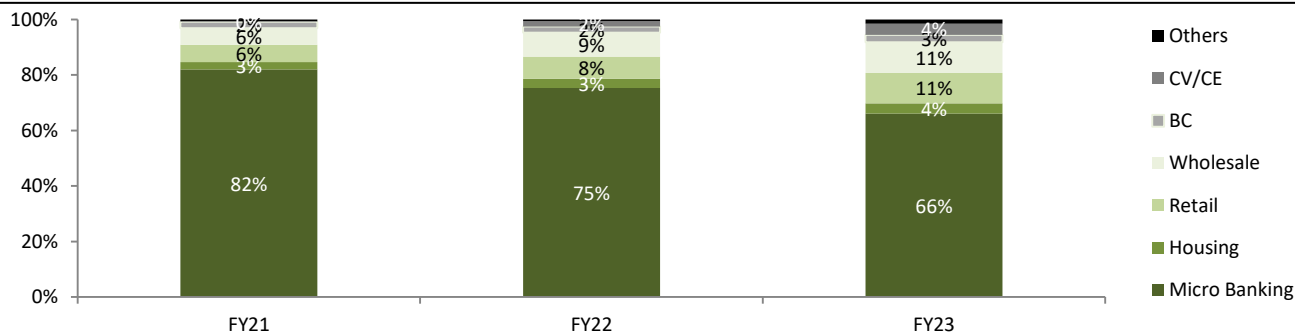
Company Background

Utkarsh recorded the third fastest Gross Loan Portfolio growth between FY19-23 (among SFBs with GLP > Rs. 6,000 Cr). Its promoter, Utkarsh CoreInvest Limited, commenced its operations as a NBFC in FY10 and was focused on providing microfinance to unserved and underserved segments and in particular in the states of Bihar and Uttar Pradesh. Over the years Utkarsh expanded its SFB operations strategically in states where it has been able to leverage the prior microfinance experience of Utkarsh CoreInvest Limited. The NBFC was converted to SFB in Nov 2016.

The SFB's operations are spread across India and it is present in 26 states and union territories with 830 banking outlets and 15,424 employees, as of March 31, 2023. 27% of its banking outlets are located in Unbanked Rural Centres as against the regulatory requirement of 25% of banking outlets of SFBs. Its operations are focused in rural and semi-urban areas primarily in the states of Bihar and Uttar Pradesh which are among the states with the best asset quality but with low and moderate credit penetration. As of March 31, 2023, these states constituted 31% and 26% of its total Gross Loan Portfolio (based on location of the Banking Outlet), respectively. Utkarsh is also focused on further strengthening its presence in newer geographies in addition to existing states where it operates by entering into arrangements with business correspondents and direct selling agents and as of March 31, 2023, it had tie-ups with 13 BCs to source customers and 321 DSAs to grow its asset portfolio.

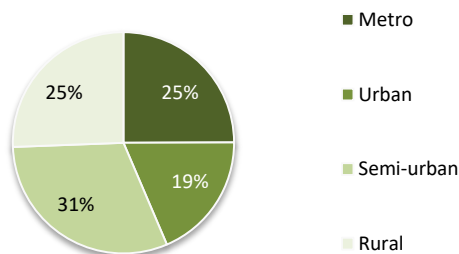
Its asset products include (i) microbanking loans that include joint liability group loans, and individual loans; (ii) retail loans that includes unsecured loans, such as business loans and personal loans, and secured loans, such as loans against property (LAP) (iii) wholesale lending that includes short term and long-term loan facilities to SMEs, mid and large corporates and institutional clients; (iv) housing loans with a focus on affordable housing; (v) commercial vehicle / construction equipment loans; and (vi) gold loans that was launched in FY22. On the liabilities side, its retail term deposits comprised 41% of its total deposits, as of FY23, while CASA as a percentage of overall deposits was 21%.

Product-wise loan mix



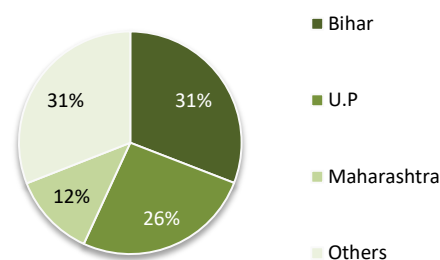
Source: RHP

Rural/semi-urban together form 56% mix



Source: RHP

Exposure to major states



Source: RHP

Investment Rationale

Sound understanding of microfinance segment and presence in rural and semi-urban areas

Prior to becoming a SFB, Utkarsh CoreInvest Limited had a history of serving customers in the microfinance segment with a particular focus on financial inclusion for unserved and underserved customer segments in rural/ semi-urban areas of Uttar Pradesh, Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh and Uttarakhand. The erstwhile business of Utkarsh CoreInvest Limited was primarily based on the joint liability group-lending model for providing collateral-free, small ticket-size loans to economically active poor women for income generation purposes. Utkarsh CoreInvest Limited also offered micro enterprise loans to the economically poor segments. Following the commencement of its SFB operations, it further strengthened its engagement with borrowers by continuing to focus on microfinance and by diversifying its product offerings to include savings accounts, deposit products and other loan products.

As on FY23, there are about 640,000 villages in India, inhabited by close to 90 crore people, comprising about 66% of the country's population. About 47% of India's GDP comes from rural areas. But their share in banking credit and deposits is low with just 8% of total credit and 11% of total deposits coming from rural areas. The massive divergence in the rural areas' share of India's GDP and banking credit and deposit services compared with urban areas is as an indicator of the low penetration of the banking sector in rural areas. Uttar Pradesh and Bihar are the most populous states in India, accounting for 17% and 9% respectively of overall population in India, but their share in overall credit outstanding is only 5% and 1% respectively which shows the large variation in credit. Further, in FY23, Bihar, Uttar Pradesh, and Jharkhand have the best asset quality amongst the other states and have portfolio at risk greater than 30 days and portfolio at risk greater than 90 days lower than that at a pan-India level. These areas offer potential for growth on account of being under penetrated and Utkarsh's understanding of the customer segments in rural and semi-urban areas in these geographies coupled with its significant presence in these areas allows it to cater to the financing requirements of potential customers.

As of FY23, its microbanking portfolio constituted 66% of its total Gross Loan Portfolio primarily in rural and semi urban states. As of FY23, Utkarsh generated 56% of its Gross Loan Portfolio from rural and semi-urban areas. The total customers (both deposit and credit) have been continuously increasing and the customer base has grown from 29 lac as of FY21 to 35.9 lac as of FY23.

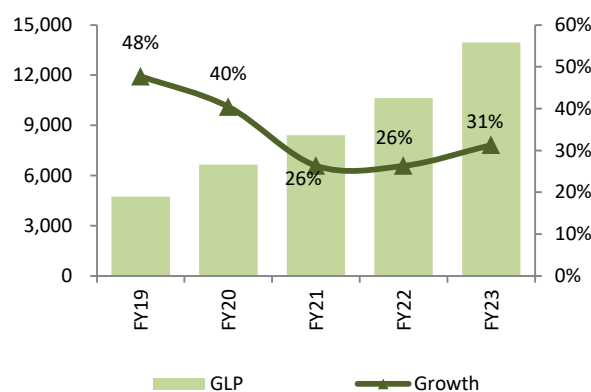
Significant cross-selling opportunities

The bank's relationship with its microbanking customers presents significant opportunities to cross sell its other asset products that cater to the entire customer lifecycle. For instance, in FY20 it launched individual loans for such customers. It offers its graduating customers with a variety of asset products including individual loans and micro-enterprise loans. Given its large base of microbanking customers, it has initiated opening of savings accounts for these customers as a result of which, as of FY23, 45% of its JLG loan accounts had savings accounts with the bank. This helps inculcate savings behaviour through the savings products the bank offers, including recurring deposits and fixed deposits.

Strong track record of growth and profitability

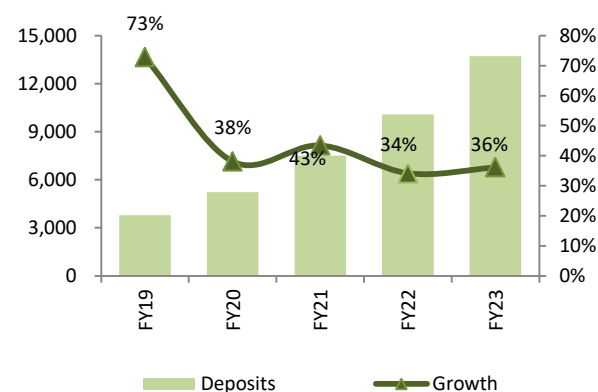
Utkarsh's Gross Loan Portfolio grew by 34% CAGR between FY18-23. The GLP stands at Rs. 13,957 Cr as on FY23. The deposits have grown at a CAGR of 44% over FY18-23 and stood at Rs. 13,710 Cr as of FY23. Post the clean-up of asset quality over FY21-22, ROA/ROE have recovered sharply to 2.4%/22.8% in FY23.

Gross Loan Portfolio

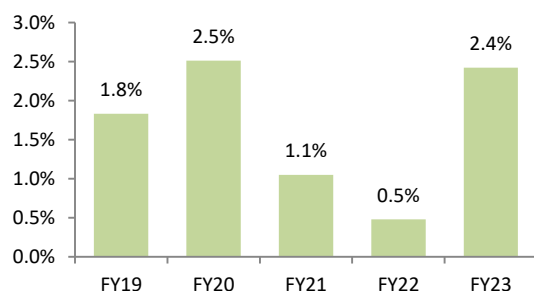


Source: Company

Deposits

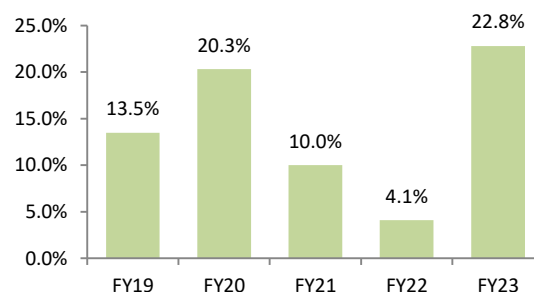


ROA



Source: Company

ROE



Sound management and investor pedigree

Utkarsh is led by its MD & CEO, Mr. Govind Singh, who has over 25 years of experience in the banking and financial services sector and in particular the microfinance industry. He has been associated with leading financial services organizations in India including ICICI Bank, Surya Fincap Limited, UTI Bank, Bank International Indonesia, Allahabad Bank and State Bank of Patiala in various capacities. The board comprises of individuals having diverse experience across industries and its independent directors provide strategic guidance to help improve and grow its operations. The senior management team has significant experience in the banking and financial services industry. The bank's promoter, Utkarsh CoreInvest Limited, is an NBFC-CIC-NDSI in India and is backed by a number of institutional investors including British International Investment PLC (formerly, CDC Group PLC), RBL Bank, International Finance Corporation, NMI Frontier Fund KS, Lok Capital Growth Fund, SIDBI, HDFC Life Insurance, HDFC Ergo General Insurance, ICICI Prudential Life Insurance, Faering Capital India Evolving Fund, Hero Enterprises Partner Ventures, Shriram Life Insurance and Aavishkaar Bharat Fund.

Concerns

Geographic concentration risk: Company's exposure to top 2 states (Bihar & U.P) together constituted 57% of loan book in FY23. Any unforeseen events like drought, floods or other natural calamities impacting these two states shall have a negative impact on Utkarsh.

Farm Loan Waivers could negatively impact micro banking book: Although previous farm loan waivers over last few years have had no impact on asset quality of MFIs/SFBs, such waivers do pose a risk in future years.

Unsecured micro banking exposure is high at 66% of loans: The micro banking loans are at higher credit risk than secured loan portfolios since they may not be supported by collateral that could help ensure an adequate source of repayment for the loan. A severe slowdown in the economy could impact the bottom of the pyramid customers which is the primary focus area for the bank.

Valuation and Recommendation

Utkarsh is favorably placed with presence in low ticket segments having strong industry tailwinds. Further, Utkarsh has managed to reduce its exposure to the unsecured micro banking segment from 82% in FY21 to 66% in FY23 which has de-risked its business model. We expect this trend to continue. Over FY21-23 period, Utkarsh has outperformed its peers on all fronts - loan growth, return ratios and asset quality. It's valuation on P/B basis is at a significant discount compared to peers, at 1.1x FY23 post issue BVPS. Considering that the micro finance industry has come out of severe crisis over 2020-22, with most of the bad loans having weeded out of the system, we expect growth and healthy profitability to resume for the sector as well as for Utkarsh. We recommend subscribing to the issue.

Listed Comparable Peers

FY23 Metrics	Ujjivan SFB	Bandhan Bank	Equitas SFB	Credit Access	Spandan	Suryoday SFB	Fusion Micro	Avg.	Utkarsh
Loan Book (Rs Cr)	24085	1,09,120	27,861	17,561	8,511	6,114	9,296	28,935	13,069
CASA	26%	39%	42%	NA	NA	17%	NA	36%	21%
NIM	9.5%	6.3%	8.2%	10.8%	10.0%	8.3%	11.5%	9.2%	9.6%
Cost/Income	55%	40%	63%	37%	51%	60%	38%	49%	54%
ROA FY23	3.9%	1.5%	1.9%	4.2%	0.2%	0.9%	4.7%	2.4%	2.4%
ROE FY23	31.4%	11.9%	12.2%	17.8%	0.4%	5.0%	21.2%	14.3%	22.8%
GNPA	2.6%	4.9%	2.6%	1.2%	2.0%	3.1%	3.5%	2.8%	3.2%
NNPA	0.0%	1.2%	1.1%	0.4%	1.6%	3.9%	0.9%	1.3%	0.4%
Loan CAGR FY21-23	21%	12%	25%	24%	8%	21%	42%	18%	26%
P/BV Trailing (x)	2.0	2.1	2.7	3.9	1.6	1.2	2.6	2.3	1.1

Source: NBRR

Note: Utkarsh P/BV is calculated on post issue basis

Financials

P&L (Rs. Crs)	FY21	FY22	FY23	Bal. Sheet (Rs. Crs)	FY21	FY22	FY23
Interest earned	1,581	1,849	2,505	Equity capital	848	896	896
Interest expended	742	788	976	Reserves & surplus	520	677	1,104
NII	839	1,061	1,529	Net worth	1,368	1,572	2,000
Non interest income	125	185	299	Deposits	7,508	10,074	13,710
Total income	964	1,246	1,828	<i>Growth</i>		34%	36%
<i>Growth</i>		29%	47%	Borrowings	2,608	2,572	2,349
Operating expenses	545	734	990	Other liab and prov	654	845	1,058
<i>Growth</i>		35%	35%	Total liabilities	10,770	13,491	17,117
Staff costs	326	430	570	Total liab and equity	12,138	15,064	19,118
Other Op Exp	219	304	420				
Profit before prov	419	512	838	Cash and bank bal	1,170	1,872	2,516
<i>Growth</i>		22%	64%	Investments	2,314	2,348	2,859
Provisions	268	432	303	Net Advances	8,217	10,228	13,069
<i>Growth</i>		62%	-30%	<i>Growth</i>		24%	28%
Exceptional items	0	0	0	Other assets	256	330	370
Profit before tax	151	80	536	Fixed Assets	181	287	303
Taxes	40	18	131	Total assets	12,138	15,064	19,118
Net profit	112	61	405	<i>Growth</i>		24%	27%
<i>Growth</i>		-45%	558%				

Key Ratios	FY21	FY22	FY23	Asset Quality	FY21	FY22	FY23
Yield on Advances	20.6%	19.6%	19.9%	GNPA	315	648	432
Cost of Funds	8.3%	7.5%	7.0%	GNPA ratio	3.8%	6.1%	3.2%
Spread	12.4%	12.1%	12.9%	NNPA	109	236	51
NIM	8.2%	8.8%	9.6%	NNPA ratio	1.3%	2.3%	0.4%
				PCR	65%	64%	88%
				Credit Cost	4.0%	5.0%	2.6%

Profitability Ratios	FY21	FY22	FY23	Balance Sheet Ratios	FY21	FY22	FY23
Cost / Income	56.5%	58.9%	54.1%	CASA	17.7%	22.4%	20.9%
ROA	1.1%	0.5%	2.4%	CAR	21.9%	21.6%	20.6%
ROE	10.0%	4.1%	22.8%	Tier - 1	20.0%	18.1%	18.3%

Per Share Data	FY21	FY22	FY23	Valuation Ratios	FY21	FY22	FY23
EPS	1.0	0.6	3.7	P/E	24.5	44.6	6.8
BVPS	12.5	14.3	22.8	P/BV	2.0	1.7	1.1
Adjusted BVPS	11.5	12.2	22.3	P/ABV	2.2	2.1	1.1

Source: Company data, NBRR

Note: Utkarsh EPS, P/E, BVPS & P/BV is calculated on post issue basis

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