

Retail Research	IPO Note
Sector: Small Finance Bank	Price Band (Rs): 23 - 25
11 th July 2023	Recommendation: Subscribe for listing gains

Utkarsh Small Finance Bank Limited

Company Overview:

Utkarsh Small Finance Bank Limited (Utkarsh SFB), promoted by Utkarsh CoreInvest Ltd (UCL), is a small finance bank incorporated in 2016. It achieved the third-highest growth rate in Gross Loan Portfolio among small finance banks with a portfolio exceeding Rs 60 bn, during the period from FY19 to FY23. The company is headquartered in Varanasi, Uttar Pradesh. Over the years, Utkarsh SFB strategically expanded its operations in states where it could leverage the prior microfinance experience of Utkarsh CoreInvest Limited.

Key Highlights:

Diversify Product Portfolio: The product portfolio includes Micro banking loans (joint liability group loans and individual loans), retail loans (unsecured loans, and secured loans) wholesale lending (short term and long-term loan), housing loans with a focus on affordable housing, commercial vehicle/construction equipment loans, and gold loans.

Pan India Presence: The bank has a widespread presence in India, operating in 26 States and Union Territories. The bank has extensive network of 830 Banking Outlets and a workforce of 15,424 employees, as of Mar'23. Notably, 27.35% of their Banking Outlets are strategically located in Unbanked Rural Centres (URCs). With a customer base of 3.59 million individuals as of Mar'23, Utkarsh primarily serves customers in rural and semi-urban areas, particularly in Bihar and Uttar Pradesh. Additionally, the bank has established partnerships with 13 business correspondents (BCs) and utilizes the services of 321 direct selling agents (DSAs) to drive growth in their asset portfolio.

Business Highlight: As of Mar'23, the bank has a Gross loan portfolio of Rs 13,957.1 cr up 32% YoY during FY23. Gross loan portfolio registered growth of 29% CAGR (FY21-FY23). The disbursement grew 38% YoY to Rs 12,442.9 while Deposit grew 36% YoY to Rs 13,710.1 cr as of Mar'23. The bank has 95% credit-to-deposit ratio (C/D) along with a CASA ratio of 21%. The Bank has reported PAT of Rs 404.5 cr (up 5.4x YoY in FY23) along with Net Interest Margin of 9.5%. The bank is well capitalized with CRAR of 20.6% and a liquidity coverage ratio of 375%. The Bank's gross NPA is 3.23% along with PCR of 88% excluding technical write-off.

Valuation: Utkarsh, at the Upper / Lower price band of Rs 25/ Rs 23 is valued at 1.1x/1.0x of its FY23 book on post-issue capital. While compared with its close peers on similar valuation parameters, the Bank is fairly priced. We recommend investors to subscribe the IPO for listing at CUT-OFF price.

Issue Details	
Date of Opening	12 th July 23
Date of Closing	14 th July 23
Price Band (Rs)	23 – 25
Issue Size (Rs cr)	500
No. of shares	21,73,91,304 – 20,00,00,000
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	2,561 – 2,740
BRLMs	ICICI Securities Ltd, Kotak Mahindra Capital Company Limited
Registrar	KFin Technologies Limited
Bid Lot	600 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB (HNI) shares	15%
Employee Reservation	20,00,000 Equity shares

Objects of Issue	
	(Rs Cr.)
Gross proceeds of the issue	500
(Less) Issue expenses*	-
Net proceeds	-

* To be finalised upon determination of the Issue Price and updated in the Prospectus prior to filing with the RoC

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	75,92,72,222	84.7
Public & Others	13,66,32,441	15.3
Total	89,59,04,663.0	100.0

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	75,92,72,222	68.2
Public & Others	35,40,23,745	31.8
Total	1,11,32,95,967	100.0

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	75,92,72,222	69.3
Public & Others	33,66,32,441	30.7
Total	1,09,59,04,663	100.0

Source: RHP, SSL Research

Risk Factors

- The Bank's business is subject to inspections by regulatory authorities, including by the RBI. Non-compliance with RBI inspection/ observations or other regulatory requirements or any adverse observations from such regulators may have a material adverse effect on the business.
- A significant portion of the advances in the microbanking segment are towards customers located in the states of Bihar and Uttar Pradesh, and any adverse changes in the conditions affecting the region can adversely impact the business.
- The Bank is dependent on the Key Managerial Personnel and Senior Management and the loss of, or inability to attract or retain, such persons could adversely affect the business, financial condition, results of operations, and cash flows.
- The Bank's deposits depend on a limited number of customers and a loss of such customers could materially and adversely affect the deposit portfolio, funding sources, financial condition, results of operations and cash flows.
- The Bank has a high proportion of bulk deposits. A partial or complete withdrawal of such deposits by any of the customers could adversely affect the business, results of operations and financial condition.

Growth Strategy

- Continue diversifying asset portfolio
- Grow retail deposits mix across geographies and customer segments to build stable funding source
- Increase share of fee income and capitalize on cross-selling opportunities
- Increasing use of technology and digital offerings for last-mile delivery to customers

Key Operational and Financial Information

Metric (Rs cr)	Year ended March 31		
	FY21	FY22	FY23
Gross Loan Portfolio	8,415.66	10,630.73	13,957.11
Disbursements	5,914.01	9,046.28	12,442.89
Deposits	7,507.57	10,074.18	13,710.14
Credit to Deposit Ratio	109.45%	101.53%	95.32%
Capital & Reserves	1,368.35	1,572.30	2,000.32
Net Interest Income	839.25	1,060.85	1,529.03
Net Interest Margin	8.20%	8.75%	9.57%
Profit before taxes	151.44	79.71	535.81
Net profit for the year	111.82	61.46	404.50
Return on Average Assets	1.05%	0.48%	2.42%
Return on Average Equity	9.99%	4.14%	22.84%
Average Yield	15.46%	15.24%	15.67%
Cost of Funds	8.27%	7.47%	6.96%
CASA+Retail Term Deposit Ratio (as % of total deposits)	57.51%	59.64%	61.55%
CASA Ratio	17.68%	22.37%	20.89%
Provision Coverage Ratio (including technical write off)	80.42%	72.82%	95.78%
Cost to Income Ratio	56.54%	59.11%	54.15%
Gross NPA as a percentage of Gross Advances (%)	3.75%	6.10%	3.23%
Net NPA as a percentage of Net Advances (%)	1.33%	2.31%	0.39%

Source: RHP, SSL Research

Key Financial and Operational Metrics

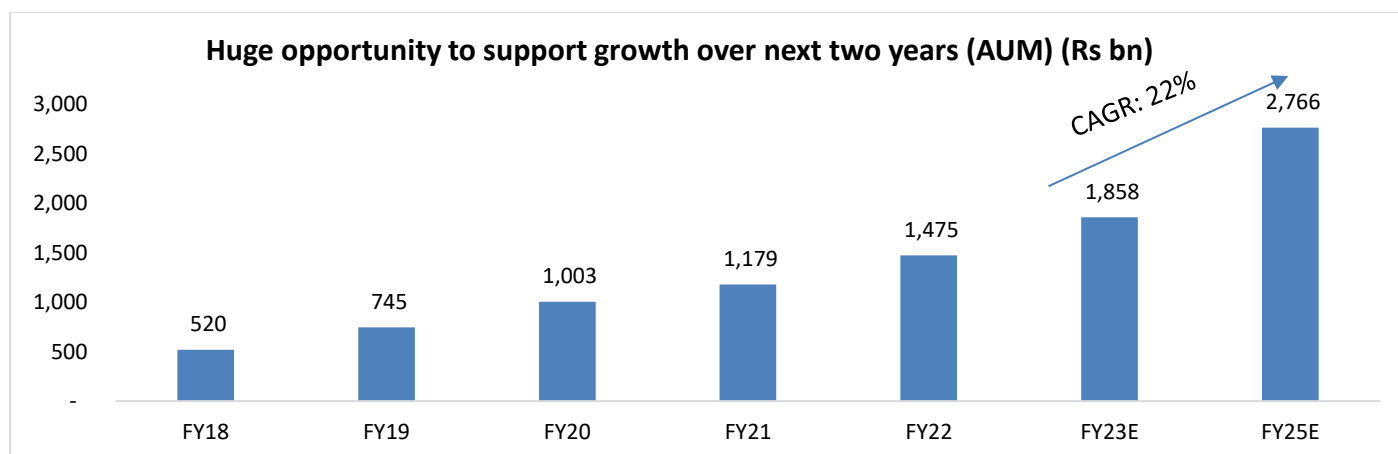
Yield, Spreads and Margins (Rs cr)	Year ended March 31		
	2021	2022	2023
Interest on advances	1,385.74	1,646.13	2,278.12
Interest earned	1,580.99	1,848.81	2,504.98
Interest expense on interest bearing liabilities	741.74	787.96	975.95
Total Average Interest Earning Assets	10,229.06	12,128.91	15,982.71
Average Balance of Advances	6,715.17	8,411.24	11,460.39
Total Average Interest-Bearing Liabilities	8,972.86	10,546.67	14,022.73
Total Average Assets	10,690.01	12,703.25	16,716.37
Net Interest Income	839.25	1,060.85	1,529.03
Average Balance of Advances as a % of Total Average Assets	62.82%	66.21%	68.56%
Total Average Interest-Bearing Liabilities as a % of Total Average Assets	83.94%	83.02%	83.89%
Average Balance of Advances as a % of Total Average Interest-Bearing Liabilities	74.84%	79.75%	81.73%
Yield	15.46%	15.24%	15.67%
Yield on Advances	20.64%	19.57%	19.88%
Cost of Funds	8.27%	7.47%	6.96%
Spread	12.37%	12.10%	12.92%
Net Interest Margin	8.20%	8.75%	9.57%
Other income to Total income Ratio	8.36%	9.09%	10.67%
Credit Cost	266.85	420.10	298.79
Credit Cost Ratio	3.97%	4.99%	2.61%
Cost of Borrowings	9.06%	9.52%	8.22%

Source: RHP, SSL Research

Industry Overview

Huge opportunity to support growth over next two years (AUM)

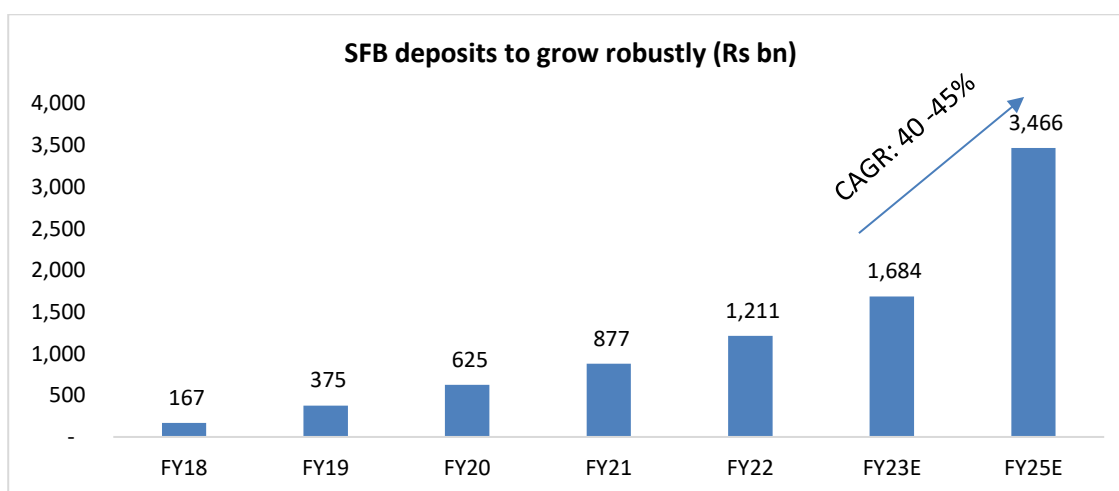
SFBs' AUM is estimated to have clocked 29% CAGR from FY18 to FY23. CRISIL MI&A estimates that the top three SFBs accounted for approximately 62% of the aggregate AUM as of FY23, compared to 55% as of FY17, indicating the rising concentration and expansion of the top three players within the SFBs. CRISIL MI&A also estimates that the top six players accounted for approximately 89% of the market share as of Fiscal 2023. In FY21 and FY22, new loan origination remained low as SFBs turned cautious and selective in disbursements due to the pandemic. However, as the economy revived and business operations normalised, SFBs' AUM witnessed strong growth following the pandemic. As of FY23, SFBs' AUM is estimated to have crossed Rs 1,800, bn growing at 26% - 27% year-on-year. CRISIL MI&A expects SFBs' loan portfolio to see a strong CAGR of approximately 22% between FY23 and FY25, as most SFBs have completed the transition phase and are likely to benefit from the operating leverage.



Source: RHP, SSL Research

SFB deposits to grow robustly

Deposit growth for SFBs continued to grow at a strong pace of 36% in the nine months ended December 31, 2022 year-on-year and is estimated to have reached Rs 1,684 billion at the end of FY23. Going forward, CRISIL MI&A expects SFBs' deposit to grow at 40% - 45% CAGR over FY23 – FY25 as players focus on popularising convenient banking habits to cover the last mile and widen financial inclusion by deepening their penetration in untapped geographies.



Source: RHP, SSL Research

Financial Snapshot

Utkarsh Small Finance Ltd			
(Rs. Cr)	Pre Issue	Post Issue	
	FY22	FY23	
Particulars		Price Band	
		23	25
Net Interest Income	1,060.9	1,529.0	1,529.0
Total Income	1,245.7	1,828.3	1,828.3
PAT	61.5	404.5	404.5
Equity Share Capital	895.5	1,112.9	1,095.5
No of Equity Shares	89.6	111.3	109.6
Face Value	10.0	10.0	10.0
EPS	0.7	3.6	3.7
CMP	25.0	23.0	25.0
Cash and Bank	1,871.6	2,516.4	2,516.4
Borrowings & Deposits	7,502.2	11,360.7	11,360.7
Net Worth	1,572.3	2,500.3	2,500.3
Loan Book	10,228.1	13,068.8	13,068.8
Cash and Investment	4,219.6	5,375.8	5,375.8
Interest Earning Assets	14,447.7	18,444.6	18,444.6
Total Asset	15,063.8	19,117.5	19,117.5
Market Cap	2,238.8	2,561.0	2,740.0
BV per share (Rs)	17.6	22.5	22.8
PE(x)	36.4	6.3	6.8
P/BV (x)	1.4	1.0	1.1
NIM (%)	8.1	9.3	9.3
ROA (%)	0.5	2.4	2.4
Cost of fund (%)	12.7	10.3	10.3
Yield on Assets (%)	14.1	15.2	15.2
Spread (%)	1.4	4.9	4.9
Cost to Income Ratio (%)	55.6	50.9	50.9
RoE (%)	4.2	22.6	22.6
GNPA (%)	6.1	3.2	2.0
NNPA (%)	2.3	0.4	0.4

Source: RHP, SSL Research (Post Issue)

Profit and Loss Account	Standalone		
Particulars (Rs cr)	FY21	FY22	FY23
Interest Income	1,581.0	1,848.8	2,505.0
Interest & Other Financial Charges	741.7	788.0	975.9
Net Interest Income	839.2	1,060.9	1,529.0
Other Operating Income	-	-	-
Other Income	124.8	184.8	299.3
Total Income	964.1	1,245.7	1,828.3
Operating Expenditures	515.9	692.9	931.4
Employee Exps	326.2	429.8	570.1
Other Exps.	189.7	263.0	361.3
Operation Profit before Provision	448.2	552.8	897.0
Provisions	247.1	397.5	308.1
Operating Profit After Provision	201.0	155.3	588.9
Depreciation & Amortisation	29.6	40.9	58.7
Profit Before Tax	171.4	114.4	530.2
Provision for Tax	60.1	52.9	125.7
Curent Tax	60.1	52.9	125.7
Provision Related to Earlier Year	-	-	-
Deferred Tax	-	-	-
Profit After Tax	111.4	61.5	404.5

Source: RHP, SSL Research (Post Issue)

Peer Comparison

Particulars.	Utkarsh Small Fin. Bank		Equitas Small Fin. Bank	Credit Access Grameen	AU Small Fin.	Suryoday Small Fin. Bank
	Lower	Upper				
CMP (Rs)	23.0	25.0	91.5	1,269.3	763.8	168.3
M. Cap (Rs C)	2,559.7	2,738.8	10,219.0	20,171.0	50,943.0	1,786.0
P/BV (x)	1.0	1.1	2.0	3.9	4.7	1.1
P / E (x)	6.3	6.8	17.8	24.0	35.7	23.0
NIM (%)	9.3	9.3	9.1	11.6	6.1	9.5
ROA (%)	2.4	2.4	1.4	4.2	1.8	2.2
NNPA %	0.4	0.4	1.7	0.4	0.4	1.5
CAR %	20.6	20.6	23.6	20.0	23.6	33.7

(Source: RHP, SSL Research)

CMP as on 10th July, 2023

For Utkarsh Small Finance bank: The data is based on FY23 post-issue market cap. For all others, the data is based on FY23.

SBICAP Securities Limited

(CIN): U65999MH2005PLC155485

SEBI Registration No.: Stock Broker: INZ000200032 | DP Registration No.: IN-DP-314-2017 | Research Analyst : INH000000602

Portfolio Manager: INP000004912 | IRDA : CA0103 | PFRDA Registration No: POP 26092018

Registered & Corporate Office: Marathon Futrex, Unit No. 1201, B-Wing, 12th Floor, N M Joshi Marg,

Mafatal Mill Compound, Lower Parel East, Mumbai 400013

For any information contact us: (022) 6854 5555**E-mail: helpdesk@sbicapsec.com I Web: www.sbisecurities.in****DISCLOSURES & DISCLAIMERS:**

Analyst Certification: The views expressed in this research report ("Report") accurately reflect the personal views of the research analysts ("Analysts") employed by SBICAP Securities Limited (SSL) about any and all of the subject issuer(s) or company(ies) or securities. This report has been prepared based upon information available to the public and sources, believed to be reliable. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

The Analysts engaged in preparation of this Report or his/her relative:-

(a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report.

The Analysts engaged in preparation of this Report:-

(a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

Name	Qualification	Designation
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Harsh Vasa	C.A.	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Netra Deshpande	MMS (Finance)	Sr. Research Analyst - Currency & Commodity
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Pratik Patni	BSc (Biotech Entire)	Research Analyst- Equity Derivatives
Amit Chawda	Bcom	Research Analyst - Equity Technicals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

Other Disclosures :

SBICAP Securities Limited ("SSL") is a company engaged in diversified financial services business including securities broking, DP services,, distribution of Mutual Fund, insurance products and other financial products. SSL is a member of Stock Exchange(s). SSL is also a Depository Participant registered with NSDL & CDSL. SSL is a large broking house catering to retail, HNI and institutional clients. It operates through its branches and authorized persons spread across the country and the clients are provided online trading through internet and offline trading through branches and call & trade facility. SSL is a wholly owned subsidiary of SBI Capital Markets Limited ("SBICAP"), which is engaged into investment banking, project advisory and financial services activities and is registered with the Securities and Exchange Board of India as a "Category I" Merchant Banker. SBICAP is a wholly owned subsidiary of State Bank of India. Hence, State Bank of India and all its subsidiaries, including, SBICAP and banking subsidiaries are treated and referred to as Associates of SSL.

We hereby declare that our activities were neither suspended nor we have materially defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty for certain procedural lapses. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

SSL or its Associates, may: (a) from time to time, have long or short position in, and buy or sell the securities of the company mentioned in the Report or (b) be engaged in any other in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company discussed herein or act as an advisor or lender/borrower to such company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions (c) have any financial interests in the subject company mentioned in this Report (d) be engaged in market making activity for the subject company.

SSL does not have actual / beneficial ownership of one percent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the Report. However, since Associates of SSL are engaged in the financial services business, they might have in their normal course of business financial interests or actual / beneficial ownership of one percent or more in various companies including the subject company mentioned herein this Report.

SSL or its Associates might have managed or co-managed public offering of securities for the subject company in the past twelve months and might have received compensation from the companies mentioned in the Report during the period preceding twelve months from the date of this Report for services in respect of managing or co-managing public offerings/corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction.

Compensation paid to Analysts of SSL is not based on any specific merchant banking, investment banking or brokerage service transaction.

SSL or its Associate did not receive any compensation or any benefit from the subject company or third party in connection with preparation of this Report.

This Report is for the personal information of the authorized recipient(s) and is not for public distribution and should not be reproduced, transmitted or redistributed to any other person or in any form without SSL's prior permission. The information provided in the Report is from publicly available data, which we believe, are reliable. While reasonable endeavors have been made to present reliable data in the Report so far as it relates to current and historical information, but SSL does not guarantee the accuracy or completeness of the data in the Report. Accordingly, SSL or any of its Associates including directors and employees thereof shall not be in any way responsible or liable for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this Report or in connection with the use of this Report.

Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian securities market.

The projections and forecasts described in this Report should be carefully evaluated as these :

1. Are based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies.
2. Can be expected that some of the estimates on which these were based, will not materialize or will vary significantly from actual results, and such variances may increase over time.
3. Are not prepared with a view towards compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these.
4. Should not be regarded, by mere inclusion in this report, as a representation or warranty by or on behalf of SSL the authors of this report, or any other person, that these or their underlying assumptions will be achieved.

This Report is for information purposes only and SSL or its Associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Though disseminated to recipients simultaneously, not all recipients may receive this report at the same time. SSL will not treat recipients as clients by virtue of their receiving this report. It should not be construed as an offer to sell or solicitation of an offer to buy, purchase or subscribe to any securities this report shall not form the basis of or be relied upon in connection with any contract or commitment, whatsoever. This report does not solicit any action based on the material contained herein.

It does not constitute a personal recommendation and does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this Report may not be suitable for all the investors. SSL does not provide legal, accounting or tax advice to its clients and you should independently evaluate the suitability of this Report and all investors are strongly advised to seek professional consultation regarding any potential investment.

Certain transactions including those involving futures, options, and other derivatives as well as non-investment grade securities give rise to substantial risk and are not suitable for all investors. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment.

The price, value and income of the investments referred to in this Report may fluctuate and investors may realize losses on any investments. Past performance is not a guide for future performance. Actual results may differ materially from those set forth in projections. SSL has reviewed the Report and, the current or historical information included here is believed to be reliable, the accuracy and completeness of which is not guaranteed. SSL does not have any obligation to update the information discussed in this Report.

The opinions expressed in this report are subject to change without notice and SSL or its Associates have no obligation to tell the clients when opinions or information in this report change. This Report has not been approved and will not or may not be reviewed or approved by any statutory or regulatory authority in India, United Kingdom or Singapore or by any Stock Exchange in India, United Kingdom or Singapore. This report may not be all inclusive and may not contain all the information that the recipient may consider material.

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this Report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing /taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Failure to comply with this restriction may constitute a violation of laws in that jurisdiction.

Legal Entity Disclosure

Singapore: This Report is distributed in Singapore by SBICAP (Singapore) Limited (Registration No. 201026168R), an Associate of SSL incorporated in Singapore. SBICAP (Singapore) Limited is regulated by the Monetary Authority of Singapore as a holder of a Capital Markets Services License and an Exempt Financial Adviser in Singapore. SBICAP (Singapore) Limited's services are available solely to persons who qualify as Institutional Investors or Accredited Investors (other than individuals) as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") and this Report is not intended to be distributed directly or indirectly to any other class of persons. Persons in Singapore should contact SBICAP (Singapore) Limited in respect of any matters arising from, or in connection with this report via email at singapore.sales@sbicap.sgor by call at +65 6709 8651.