

Company Overview

On October 7, 2015, Utkarsh CoreInvest Limited received the RBI in-principle approval to establish a Small Finance Bank (SFB), following which it incorporated Utkarsh Small Finance Bank Limited as a wholly-owned subsidiary on April 30, 2016. Subsequent to obtaining the RBI license on November 25, 2016, to establish and carry on business as an SFB, Utkarsh CoreInvest Limited transferred its business of providing microfinance, as a going concern into the bank, which commenced operations from January 23, 2017, and expanded its SFB operations strategically in states where they have been able to leverage the prior microfinance experience of Utkarsh CoreInvest Limited. Utkarsh SFB, headquartered in Varanasi, Uttar Pradesh, is the third fastest-growing SFB with a gross loan portfolio of more than Rs. 60 billion. The bank's operations are spread across India and are present in 26 States and Union Territories with 830 banking outlets and 15,424 employees. As of March 31, 2023, it has 3.59 million customers (both deposit and credit), majorly located in rural and semi-urban areas in the states of Bihar and Uttar Pradesh.

Objects of the issue

The IPO proceeds will be used towards the following purposes:

- ⇒ To utilize the Net Proceeds from the Fresh Issue towards fully augmenting its Tier - 1 capital base to meet its future capital requirements

Investment Rationale

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

Utkarsh CoreInvest Limited commenced operations as a NBFC in FY10 and later converted to an NBFC - MFI. Utkarsh CoreInvest Limited has a history of serving customers in the microfinance segment with a particular focus on financial inclusion for unserved and underserved customer segments in rural and 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 its SFB operations, the bank has further strengthened its engagement with borrowers by continuing to focus on microfinance and diversifying the product offerings to include savings accounts, deposit products and other loan products. The bank's focus on rural areas of Uttar Pradesh and Bihar, the most populous states in India, offer them the potential for growth on account of being under-penetrated and their understanding of the customer segments in rural and semi-urban areas in these geographies.

Diversified distribution network with significant cross-selling opportunities

Utkarsh SFB has an extensive physical network of banking outlets and as of March 31, 2023, they have 830 banking outlets across 26 states and Union Territories covering 253 districts in India. The company has 522 banking outlets located in rural and semi-urban areas (combined). The network of banking outlets allows them to service their existing customers and attract new customers as a result of relationships cultivated through proximity and frequent interaction by their employees. As of March 31, 2023, 62.89% of its total banking outlets are located in rural and semi-urban areas. In order to further increase financial inclusion and provide comprehensive financial services to the underserved and unserved customer segments, they have also opened banking outlets that have been classified by the RBI as Unbanked Rural Centres ("URCs") in 69 districts. As of March 31, 2023, 27.35% of their banking outlets are located in URCs against the minimum requirement of 25% as stipulated by the RBI. Besides their banking outlets, their multi-channel delivery includes ATMs, micro-ATMs, mobile and internet banking, and corporate internet banking services. As of March 31, 2023, they have a network of 280 on-site and seven off-site ATMs. As of March 31, 2023, the bank has also set up 546 micro-ATMs. To facilitate ease of transaction for account holders, they offer a range of transaction and payment channels that include domestic and international ATM cum debit cards (RuPay and Mastercard), payment gateways, integrated bill payment system facility, money transfer service scheme and door-step banking services.

Issue Details

Offer Period	12 th July - 14 th July, 2023
Price Band	Rs. 23 to Rs. 25
Bid Lot	600
Listing	BSE & NSE
Issue Size (no. of shares in mn)	217 - 200

Issue Size (Rs. in bn)	5
Face Value	10

Issue Structure

QIB	75%
NIB	15%
Retail	10%
BRLM	ICICI Securities Ltd. Kotak Mahindra Capital Ltd.
Registrar	KFin Technologies Limited

Particulars Pre Issue % Post Issue %

Promoter	84.75%	69.28%
Public	15.25%	30.72%
Total	100%	100%

(Assuming issue subscribed at higher band)

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Valuation and Outlook

About 47% of India's GDP comes from rural areas, however, their share in banking credit and deposits is abysmally low with just 8% of total credit and 11% of total deposits coming from rural areas. The massive divergence between rural and urban areas' share in the banking credit and deposit services is an indicator of the extremely low penetration of the banking sector in rural areas. It is important to note that there is less competition for banking services in rural areas compared to urban areas which presents significant growth opportunities. According to CRISIL MI&A, SFBs' deposits are expected to grow at 40-45% CAGR over the FY23-25 period as players focus on popularising convenient banking habits to cover the last mile and widen financial inclusion by deepening their penetration in untapped geographies. Utkarsh SFB recorded the third fastest growth in gross loan portfolio among its peers, which grew at a 31.0% CAGR between the FY19-23 period to reach Rs. 139.6 billion. Moreover, the bank reported the third-highest growth in total deposits among its peers, registering a 37.9% CAGR between FY19 and FY23 to reach Rs. 137.1 billion. It has the best cost-to-income ratio of 54.15% in FY23 which is the highest amongst other SFBs. Utkarsh SFB's average management experience is also at par with the industry average. In FY23, Utkarsh SFB posted the second-highest RoE of 22.64% and RoA of 2.37%. On the basis of strong asset quality, consistent financial performance and the future growth story of the Indian economy, we recommend a "SUBSCRIBE" rating for the long term. On the upper end of the price band, the issue is valued at a Price to Book Value of 1.1x (as of FY23), which we believe is to be fairly priced.

Key Ratios

Particulars	FY21	FY22	FY23
NIM (%)	9.57%	8.75%	8.20%
RoA (%)	1.1%	0.5%	2.4%
RoE (%)	8.2%	3.9%	20.2%
BV per Share (INR.)	15.3	17.5	22.3
P/E (x)	17.1	35.7	5.5
P/BV (x)	1.6	1.4	1.1
Cost to Income Ratio	56.5%	59.1%	54.2%

Source: RHP, BP Equities Research



Utkarsh Small Finance Bank Ltd.

IPO Note

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
Interest Earned	15,810	18,488	25,050
Other Income	1,248	1,848	2,993
Total Income	17,058	20,336	28,043
Interest Expended	7,417	7,880	9,759
Operating Expenses	5,451	7,337	9,900
Total Expenditure	12,868	15,217	19,660
Operating Profit (before Extra Ordinary Items and Provision & Contingencies)	4,190	5,119	8,383
Less: Provisions & Contingencies	3,072	4,505	4,338
Net Profit for the Year	1,118	615	4,045
Profit brought forward	1,455	2,072	2,537
Total Profit for the Year	2,573	2,687	6,582
Basic EPS	1.46	0.70	4.52
Diluted EPS	1.5	0.7	4.5

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars (Rs in million)	FY21	FY22	FY23
Cash Flow from operating activities	(835)	13,292	15,590
Cash flow from investing activities	(5,324)	(7,387)	(6,932)
Cash flow from financing activities	1,717	1,113	(2,211)
Net increase/(decrease) in cash and cash equivalents	(4,442)	7,018	6,447
Cash and cash equivalents at the beginning of the period	16,141	11,698	18,716
Cash and cash equivalents at the end of the period	11,698	18,716	25,164

Source: RHP, BP Equities Research



Balance Sheet (Rs. In millions)

Particulars	FY21	FY22	FY23
Capital and Liabilities			
Capital	8,483	8,955	8,959
Reserves & Surplus	5,200	6,768	11,044
Deposits	75,076	1,00,742	1,37,101
Borrowings	26,078	25,719	23,495
Other Liabilities and Provisions	6,542	8,454	10,576
Total Capital and Liabilities	1,21,379	1,50,638	1,91,175
Assets			
Cash and balances with Reserve Bank of India	2,749	5,339	11,921
Balances with Banks and Money at Call and Short Notice	8,949	13,378	13,243
Investments	23,139	23,479	28,594
Advances	82,169	1,02,281	1,30,688
Fixed Assets	1,812	2,865	3,033
Other Assets	2,561	3,295	3,697
Total Assets	1,21,379	1,50,638	1,91,175
Contingent Liabilities	621	564	3,416
Bills for Collection	0	0	0

Source: RHP, BP Equities Research

Key Risks

- ⇒ Inability to comply with RBI inspection / observations or other regulatory requirements or any adverse observations from such regulators.
- ⇒ Adverse changes in the conditions affecting the states of Bihar and Uttar Pradesh as significant portion of advances in the microbanking segment are towards customers located in these regions.
- ⇒ Loss of, or inability to attract or retain, Key Managerial Personnel or Senior Management.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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