ANANDRATHI

Utkarsh Small Finance Bank Limited

11-July-23

Subscribe- Long term

Kuber Chauhan
kuberchauhan@rathi.com

Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	5,000
Fresh Issue (No. of Shares in Lakhs)	2,000
Offer for Sale (No. of Shares in Lakhs)	NA
Bid/Issue opens on	12-July-23
Bid/Issue closes on	14-July-23
Face Value (₹)	10
Price Band (₹)	23-25
Minimum Lot	600

Objects of the Issue

- **Fresh issue: ₹ 5,000 million**
- To utilize the Net Proceeds from the Fresh Issue towards fully augmenting its Tier - 1 capital base to meet its future capital requirements.

Book Running Lead Managers
ICICI Securities Limited
Kotak Mahindra Bank Limited
Registrar to the Offer
KFin Technologies Limited

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	15,000
Subscribed paid up capital (Pre-Offer)	8,959
Paid up capital (post-Offer)	10,959

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	84.75	69.28
Public – Selling shareholders	13.38	29.18
Public – Others	1.88	1.53
Total	100.0	100.00

Financials

Particulars (₹ In million)	FY23	FY22	FY21
Interest Earned (A)	25,050	18,488	15,809
Other Income (B)	2,993	1,848	1,248
Total (A+B) (i)	**28,043**	**20,336**	**17,058**
Interest Expended (C)	**9,759**	**7,879**	**7,417**
Operating Expenses (D)	9,900	7,337	5,450
Provisions and Contingencies (E)	4,338	4,504	3,072
Total (C+D+E) (ii)	**23,998**	**19,712**	**15,940**
PAT (i)-(ii)	**4,045**	**615**	**1,118**
Balance in Profit and Loss account brought forward from previous year	**2,537**	**2,072**	**1,455**
EPS	4.52	0.70	1.46
Diluted EPS	4.51	0.70	1.46
Ratios	**FY23**	**FY22**	**FY21**
Interest Earned Growth (%)	35.5%	16.9%	NM
Net Interest Margin (%)	8.2%	8.7%	9.5%
PAT Growth (%)	558.4%	-45.1%	NM

Company Description

Utkarsh Small Finance Bank Limited ("Utkarsh SFB") was incorporated on April 30, 2016. Promoted by Utkarsh Core Invest Ltd ("UCL"), Utkarsh SFB is an SFB in India and recorded the 3rd fastest Gross Loan Portfolio growth between Fiscal 2019 and Fiscal 2023 among SFBs with Gross Loan Portfolio of more than ₹ 60 billion

The Bank offers a range of financial products and services that address the specific requirements of their customer segments. Their product portfolio includes asset products that they advance to customers located primarily in unbanked and underbanked areas; and liability products in the form of deposits that they source from customers across regions.

Utkarsh SFB leverages the use of technology to provide transactional ease through internet and mobile banking and as of March 31, 2023, 15,797 employees used handheld devices/digital services for onboarding 573,619 saving account customers.

Their 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. 27.35% of their Banking Outlets were located in Unbanked Rural Centres ("URCs"). As of March 31, 2023, they had 3.59 million customers (both deposit and credit) majorly located in rural and semi-urban areas primarily in the states of Bihar, Uttar Pradesh. Having arrangements with business correspondents ("BCs") and direct selling agents ("DSAs") they had tie-ups with 13 BCs to source customers and 321 DSAs to grow their asset portfolio.

Bank's Promoter, UCL, is an NBFC-CIC-NDSI in India and is backed by a number of institutional investors including British International Investment plc (previously known as CDC Group plc), RBL Bank Ltd, International Finance Corporation, NMI Frontier Fund KS, Lok Capital Growth Fund, SIDBI, HDFC Life Insurance Co Ltd, HDFC Ergo General Insurance Co Ltd, ICICI Prudential Life Insurance Ltd, Fairing Capital India Evolving Fund, Hero Enterprises Partner Ventures, responsibility Participations Mauritius, Shriram Life Insurance Co Ltd, and Aavishkaar Bharat Fund.

The bank is led by their Managing Director and chief executive officer Govind Singh, who has over 25 years of experience in the banking and financial services sector. Their Board comprises of individuals having diverse experience across industries and their Independent Directors provide strategic guidance to help improve and grow their operations. Their senior management team has significant experience in the banking and financial services industry.

Valuation & Outlook

USFB is one of the leading small finance banks and has posted decent financial performance. Although, SFB's future prospects hinge on the monetary policy of RBI and the Government of India. The bank's ability to provide their products and services in a cost-efficient manner is among their core strengths and their cost-to-income ratio was the lowest among SFBs with Gross Loan Portfolio of more than ₹ 60 billion

At the upper price band company is valuing at P/B of 1.39x with a market cap of ₹ 27,400 million post issue of equity shares and return on net worth of 20.22%.

We believe that company is fairly priced and recommend a "**Subscribe- Long term**" rating to the IPO.

Company's Operations

Utkarsh Small Finance Bank ("Utkarsh SFB") is an SFB in India and recorded the 3rd fastest Gross Loan Portfolio growth between Fiscal 2019 and Fiscal 2023 among SFBs with Gross Loan Portfolio of more than ₹ 60 billion. Their Promoter, Utkarsh CoreInvest Ltd ("UCL"), commenced its operations as a NBFC in Fiscal 2010 and was focused on providing microfinance to unserved and underserved segments and in particular in the states of Uttar Pradesh and Bihar. They have their headquarter located in Varanasi, Uttar Pradesh and have over the years expanded their SFB operations strategically in States where they have been able to leverage the prior microfinance experience of UCL.

Their 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. As of March 31, 2023, 27.35% of their Banking Outlets were located in Unbanked Rural Centres ("URCs") as against the regulatory requirement of 25% of banking outlets of SFBs to be located in URCs. Their operations are focused in rural and semi-urban areas and as of March 31, 2023, they had 3.59 million customers (both deposit and credit) majorly located in rural and semi-urban areas primarily in the states of Bihar, Uttar Pradesh that have the best asset quality but with low and moderate credit penetration. As of March 31, 2023, these states constituted 30.88%, 25.98% of their total Gross Loan Portfolio (based on location of the Banking Outlet), respectively. They are also focused on further strengthening their presence in newer geographies in addition to existing states where they operate by entering into arrangements with business correspondents ("BCs") and direct selling agents ("DSAs") and as of March 31, 2023, they had tie-ups with 13 BCs to source customers and 321 DSAs to grow their asset portfolio.

Given the legacy of UCL as a non-banking finance company-microfinance institutions ("NBFC-MFI"), microfinance remains a focused business segment for the Bank. They have been diversifying their product portfolio to include non-micro banking loans allowing them to reduce dependence on their microfinance business and grow their secured loan portfolio. They offer a range of financial products and services that address the specific requirements of their customer segments while assessing factors including income profile and the type of security available.

Their asset products includes:
• Micro-banking loans that include joint liability group loans, and individual loans;
• Retail loans that includes unsecured loans, such as business loans and personal loans, and secured loans, such as loans against property ("LAP")
• Wholesale lending that includes short term and long-term loan facilities to SMEs, mid and large corporates and institutional clients;
• Housing loans with a focus on affordable housing;
• Commercial vehicle / construction equipment loans; and
• Gold loans that was launched in Fiscal 2022.

Utkarsh SFB leverages the use of technology to provide transactional ease through internet and mobile banking and on-boarding convenience through digital on-boarding of customers with the use of handheld devices and as of March 31, 2023, 15,797 employees used handheld devices/ digital services for onboarding 573,619 saving account customers.
The bank is led by their Managing Director and chief executive officer Govind Singh, who has over 25 years of experience in the banking and financial services sector. Their Board comprises of individuals having diverse experience across industries and their Independent Directors provide strategic guidance to help improve and grow their operations. Their senior management team has significant experience in the banking and financial services industry.

Product Portfolio

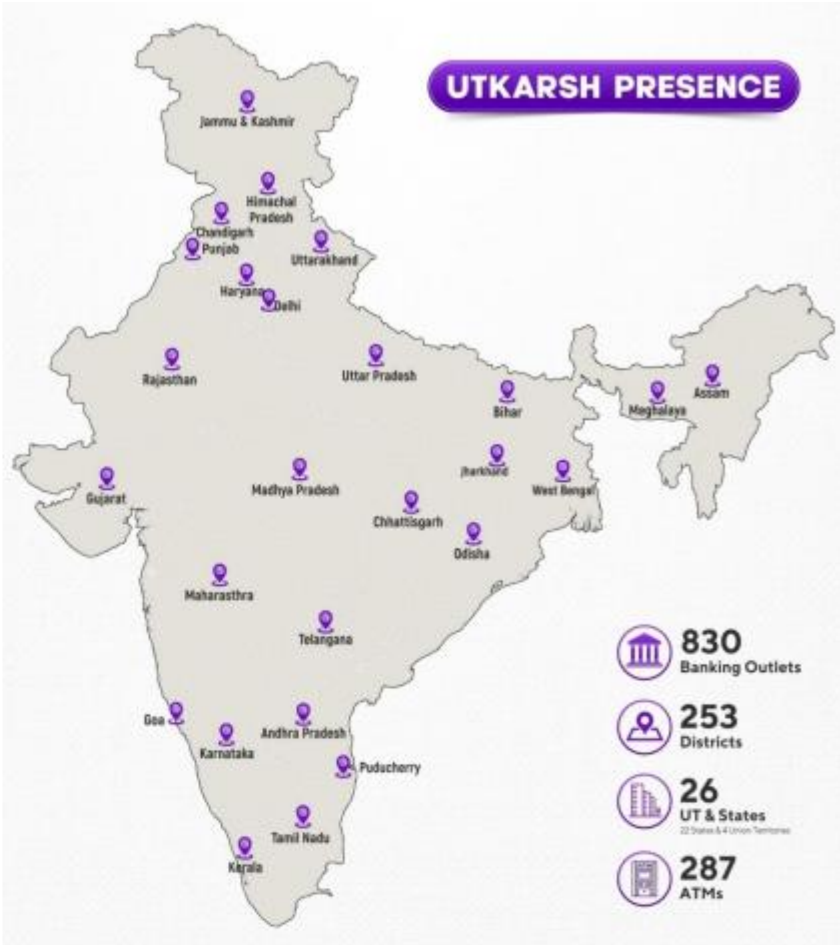
The Bank offers a range of financial products and services that address the specific requirements of their customer segments. Their product portfolio includes asset products that they advance to customers located primarily in unbanked and underbanked areas; and liability products in the form of deposits that they source from customers across regions.

Asset Products
The Bank categorizes their asset products into (i) micro-banking loans that include joint liability group loans, individual loans and 2-wheeler loans; (ii) retail loans that includes unsecured loans, such as business loans and personal loans, and secured loans, such as loans against property ("LAP") and vehicle loans; (iii) wholesale lending that includes short term and long-term loan facilities to SMEs, mid and large corporate and institutional clients; and (iv) housing loans with a focus on affordable housing. Categorization is largely determined by customer profile, type of security and end-use.

Micro-banking Loans
Micro-banking provides a comprehensive package of financial inclusion products and business development services to underprivileged or low-income individuals or groups who have limited access to financial services. Micro-banking loans are provided with tenor of 12 to 24 months. The interest rates on their micro-banking loans are fixed and currently the rate of interest is 23% per annum. In the micro-banking loan segment, the Bank offers loans through the 'joint liability group' ("JLG") model. The Bank provides cashless disbursement in the micro-banking segment and disburses all the loans in the bank account of the customer. They also provide micro-banking loans through BC partners and as of March 31, 2023, the Bank was serving JLG customers through a network of 6 BC partners. They intend to move towards digital modes of collections in the micro-banking segment which will significantly reduce the operational risk pertaining to physical cash as well as improve the efficiency of the field staff.

Joint Liability Group Loans ("JLG")
The Bank provides group loans built on the peer-guarantee loan model (JLG), which enables individuals to take loans without having to provide collateral or security on an individual basis, while promoting credit discipline through mutual support within the group, prudent financial conduct among the group, and prompt repayment of their loans. Group loan products are offered to economically active, unserved and underserved customers to meet various requirements. The primary target customer segment for their micro-banking business are women in households who are engaged in income generating activities, or who intend to begin new income generating activity on their own. As of March 31, 2023, all of their customers in the JLG loans segment are women.

Banks Outlets as on Mar'23



Region-wise Banking Outlets:

Region	Banking Outlets	No.of states/union territories
North	339	11
West	84	3
South	28	6
East	379	6
Total	**830**	**26**

Northern region comprises Chandigarh, Chhattisgarh, Haryana, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, New Delhi, Punjab, Rajasthan, Uttar Pradesh and Uttarakhand.
Western region comprises Gujarat and Maharashtra.
Southern region comprises Andhra Pradesh, Puducherry, Telangana, Tamil Nadu, Karnataka and Kerala
Eastern region comprises Assam, Bihar, Jharkhand, Meghalaya, Odisha and West Bengal.

Strengths:

- **Growing deposits with focus on retail deposits**

Utkarsh SFB offers a variety of demand and time deposit products along with other services through which their customers can address their savings and transactional needs. Their total deposits have grown from ₹ 7,507.57 crore as of March 31, 2021, to ₹ 10,074.18 crore as of March 31, 2022, and further to ₹ 13,710.14 crore as of March 31, 2023, while their deposit-only customers have increased from 0.38 million as of March 31, 2021, to 0.86 million as of March 31, 2023.Their CASA franchise has increased from ₹ 1,326.99 crore as of March 31, 2021 to ₹ 2,253.29 crore as of March 31, 2022 and further to ₹ 2,863.74 crore as of March 31, 2023. Retail deposits offer greater opportunities for cross-selling and up-selling a variety of products which includes assets and third-party products, therefore meeting the life cycle of their customer requirements.

- **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 had 830 Banking Outlets across 26 States and Union Territories covering 253 districts in India of which 522 Banking Outlets were located in rural and semi-urban areas (combined). As of March 31, 2023, 62.89% of their total Banking Outlets were located in rural and semi-urban areas. In order to further increase the financial inclusion and provide comprehensive financial services, they have also opened Banking Outlets that have been classified by the RBI as Unbanked Rural Centres ("URCs) in 69 districts. Besides their Banking Outlets, their multi-channel delivery includes ATMs, micro-ATMs, mobile and internet banking, corporate internet banking services. Their relationship with the micro-banking customers presents significant opportunities to cross sell their other asset products that cater to the entire customer lifecycle.

- **Stable growth with cost efficient operational performance**

Utkarsh SFB has a comfortable liquidity profile that is backed by shorter tenure micro-banking lending and sufficient liquidity buffer and as of March 31, 2023, their Liquidity Coverage Ratio ("LCR") was 375.82% as against regulatory requirement of maintaining LCR of 90%. They are well above the regulatory capital requirements, having a SLR, CRR and CAR of 31.53%, 5.33% and 20.64%, respectively, as of March 31, 2023. Their ability to provide their products and services in a cost-efficient manner is among their core strengths and their cost-to-income ratio was the lowest among SFBs with Gross Loan Portfolio of more than ₹ 60 billion. Their cost-efficient operations are attributable to their automation and digitization of various processes including disbursements of loans in the micro-banking business.

- **In-house design to delivery capabilities**

The company designs, develops, engineers, and manufactures their UAVs in-house with a focus on performance, reliability and autonomy. Their own in-house product development centre allows them to design, develop and engineer their UAVs in line with the needs of their customers, which includes the software stack required for their UAVs.
With their integrated operations i.e., from design and development to manufacturing, assembly and testing and to providing software solutions, they strive to be able to meet all their customer needs under a single roof as well as control and maintain the quality of their UAVs thereby maintaining the overall reliability and durability of their UAVs. Their manufacturing facility is in compliance with ISO 9001:2015 requirements. Company's products are easily portable as the packaging is designed in such a way that all the components can be carried as a backpack.

Key Strategies

- **Grow retail deposits mix across geographies and customer segments to build stable funding source**

Utkarsh SFB intends to strengthen their liability franchise by continuing their focus on CASA and retail deposit base in a steady manner. In order to strengthen their deposit base, increase their CASA ratio and to offer multi-channel customer experience, they intend to enhance their digital offering at various touch points of customer life cycle, for instance, digital onboarding, self-onboarding, internet and mobile banking, corporate internet banking, micro-ATMs and customer relationship management.

- **Increase share of fee income and capitalize on cross-selling opportunities.**

In order to create a robust revenue stream, the bank intends to further diversify their fee and non-interest based revenues. They intend to achieve this by generating fee income from their own products and cross-selling third-party products such as distribution of mutual funds, life insurance and general insurance products, Atal Pension Yojana, National Pension Scheme micro-insurance and by introducing newer products and services. They are engaged with various partners in offering these products and intend to continue to develop newer partnerships.

- **Continue diversifying the retail asset portfolio**

Bank's primary focus will be to continue to diversify their asset portfolio. They intend to leverage their wide base of existing customers in the unserved and underserved segments by developing a range of asset products based on their vintage and credit worthiness to create sustainable livelihood. Therefore, they intend to extend the offering from JLG loans to individual loans to micro enterprise loans, affordable housing loans and other new products. They will also seek to increase visibility and penetration of their other assets products to achieve a well-diversified lending book along with a continued focus on financial inclusion.

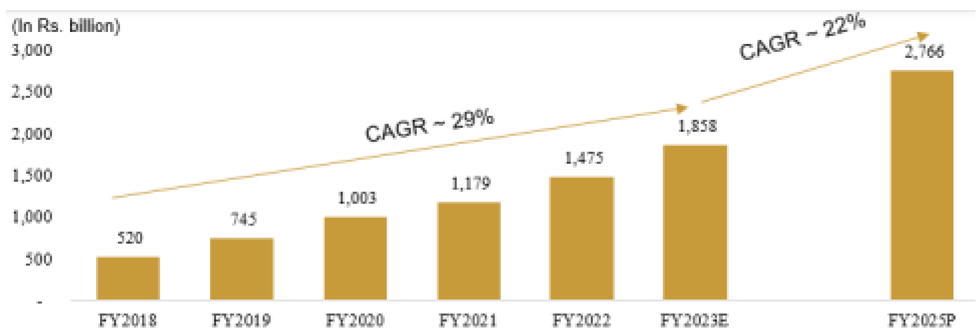
- **Increasing use of technology and digital offerings for last mile delivery to customers**

The optimum use of advanced, cost-effective technology has significantly driven their operations, and going forward, they intend to strategically invest their resources for leveraging technology for efficient operations as they scale up. Key initiatives they have launched towards this objective include implementation of data-lake, master data management, next generation internet and mobile banking, digital on-boarding and micro-banking platform. Further, they have enhanced systems for cashless collections through QR code and UPI.

Industry Snapshot

Small Finance Bank Industry

SFBs' AUM is estimated to have clocked 29% CAGR from Fiscal 2018 to Fiscal 2023. CRISIL MI&A estimates that the top three SFBs accounted for approximately 62% of the aggregate AUM as of Fiscal 2023, compared to 55% as of Fiscal 2017, 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 Fiscal 2021 and Fiscal 2022, new loan origination remained low as SFBs turned cautious and selective in disbursals due to the pandemic.

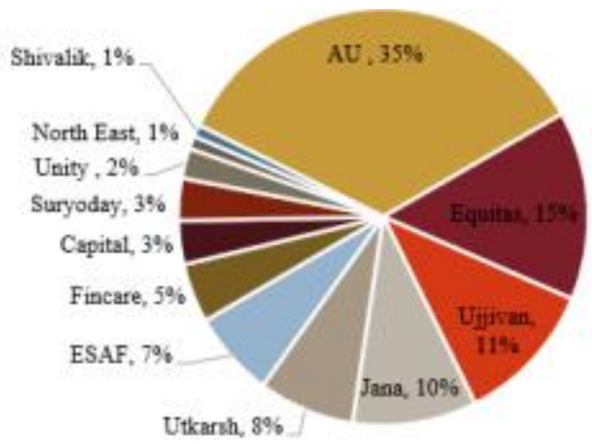


However, as the economy revived and business operations normalised, SFBs' AUM witnessed strong growth following the pandemic. As of Fiscal 2023, SFBs' AUM is estimated to have crossed ₹ 1,800, billion growing at 26% - 27% year-on-year. CRISIL MI&A expects SFBs' loan portfolio to see a strong CAGR of approximately 22% between Fiscal 2023 and Fiscal 2025, as most SFBs have completed the transition phase and are likely to benefit from the operating leverage.

Drivers for growth in SFBs' AUM are as folllows :

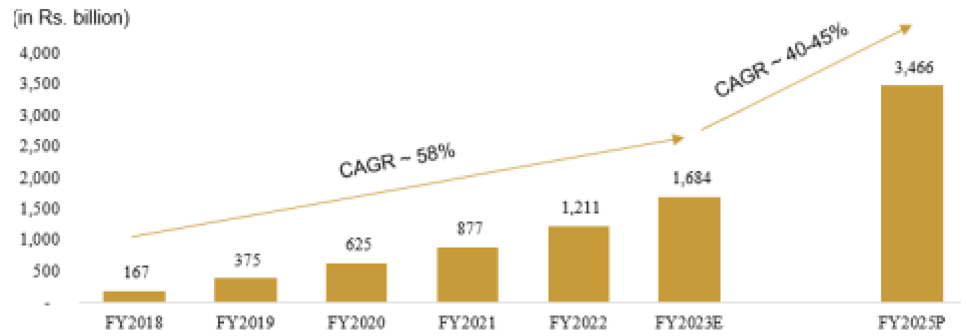
- **Huge market opportunity in the rural segment –** Despite its larger contribution to GDP of 47%, the rural segment's share in credit remains fairly low at approximately 9-10% of the overall credit outstanding as of Fiscal 2022. This provides a huge market opportunity for SFBs and other players present in the segment.
- **Presence of informal credit channels –** In remote areas, informal credit channels have a major presence. In other words, there is a huge section of unbanked population. SFBs have an opportunity to tap this market.
- **Geographic diversification –** With increased focus on diversifying their portfolio and expanding their reach, SFBs are expected to log higher growth as they tap newer geographies.
- **Loan recovery and control on aging NPAs –** SFBs are experienced in collection and monitoring of defaultrisk. This will help them keep asset quality under check.
- **Ability to manage local stakeholders –** With their microfinance experience, SFBs have the ability to manage local stakeholders and maintain operational efficiency.
- **Access to low-cost funds & huge cross sell opportunity–** SFBs' cost of funds is low substantially as they are allowed to raise CASA deposits. This will also help them lend at more reasonable rates to its customers, hence enhancing their cross-sell opportunity in terms of asset products, insurance etc

Top six players estimated for 84% of industry advances as of December 31, 2022.



<u>SFB deposits to grow faster than private and public-sector banks</u>

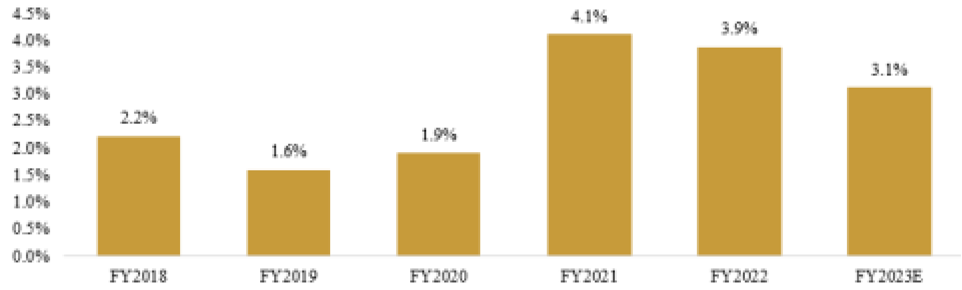
<u>SFB deposits to grow robustly</u>



SFBs have significant growth potential as most of them were functioning as NBFCs/MFIs previously. Immediately after commencement of their operation, all SFBs focused on increasing their deposit base. Their overall deposit base doubled to around ₹ 375 billion as of Fiscal 2019. Further, proportion of CASA deposits has short up from nearly around 20% as of Fiscal 2020 to approximately 39% as of December 31, 2022. The increase could be attributed to the higher interest rates they offer and increase in their branch network. 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 ₹ 1,684 billion at the end of Fiscal 2023. Going forward, CRISIL MI&A expects SFBs' deposit to grow at 40% - 45% CAGR over Fiscal 2023 – Fiscal 2025 as players focus on popularising convenient banking habits to cover the last mile and widen financial inclusion by deepening their penetration in untapped geographies.

<u>Asset quality for SFBs to marginally improve after pandemic-related stress</u>

GNPA trend of overall SFB Industry



GNPA of SFBs improved to 1.6% as of Fiscal 2019 from 2.2% as of Fiscal 2018, which was significant impacted by demonetization and residual asset quality issues. This could be attributed to diversification of product mix into relatively less risky assets, write-off of legacy loans and reduction in microfinance loans due to better collection mechanism and deep understanding of their local geographies and customers. In Fiscal 2021, SFBs faced severe asset quality issues, as near-term collections saw disruptions on account of COVID-19. However, RBI in March 2020 announced the moratorium on term loans/ working capital for instalments falling due between March 1, 2020 and May 31, 2020. This was subsequently extended in May 2020 by another three months to August 31, 2020. A stand-still in asset classification for accounts availing the moratorium was provided from March 1, 2020 to August 31, 2020. For all accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted, was to be excluded by the lending institutions from the number of days past-due for the purpose of asset classification. Recently, Government of India and RBI has announced various measures to support the stability of the financial service sector. These measures are likely to contain the impact of COVID-19 and economic slowdown.

Despite government measures, the lockdown impacted the low- and middle-income segments the most. They also happened to be the target audience of SFBs. While banks offered moratorium period to borrowers, SFBs' asset quality deteriorated due to difficulties faced by their borrowers. In Fiscal 2022, GNPAs improved marginally to 3.9%. In Fiscal 2023, the asset quality of SFBs improved on account of lower slippages, write-offs and improved collection efficiencies. GNPA for SFBs is estimated at 3.1% at the end of Fiscal 2023. The asset quality of SFBs is expected to improve further. However, it will vary depending on efficiency in credit underwriting, monitoring and collection over the long term.

- **Accounting ratios**

Particulars	FY 2021	FY 2022	FY 2023
Gross Loan Portfolio	84,157	1,06,307	1,39,571
Disbursements	59,140	90,463	1,24,429
Deposits	75,076	1,00,742	1,37,101
Credit to Deposit Ratio (%)	109.5	101.5	95.2
Capital & Reserves	13,684	15,723	20,003
Net Interest Income	8,392	10,609	15,290
Net Interest Margin (%)	8.2	8.8	9.6
PBT	1,514	797	5,358
PAT	1,118	615	4,045
ROAA (%)	1.1	0.5	2.4
ROAE (%)	10.0	4.1	22.8
Average Yield (%)	15.5	15.2	15.7
Cost of Funds (%)	8.3	7.5	7.0
CASA Ratio + Retail term deposits (%)	57.5	59.6	61.6
CASA Ratio (%)	17.7	22.4	20.9
Provision Coverage Ratio (%)	80.4	78.1	95.8
Cost to Income Ratio (%)	56.6	58.9	54.2
GNPA (%)	3.8	6.1	3.2
NNPA (%)	1.3	2.3	0.4

Comparison with listed entity

Name of the company	Latest FY	Face value	P/B	EPS (Basic) (₹)	EPS (Diluted) (₹)	RONW (%)	NAV per equity share (₹)
Utkarsh SFB Ltd	Consolidated	10	1.39*	4.52	4.51	20.22	22.33
Listed peers							
Equitas Small Finance Bank Ltd	Consolidated	10	2.53	4.71	4.67	11.12	46.44
Ujjivan Small Finance Bank Ltd	Consolidated	10	2.96	5.88	5.87	27.79	20.25
Credit Access Grameen Ltd	Consolidated	10	3.98	52.04	51.82	16.18	326.89
Spandana Sphoorty Financial Ltd	Consolidated	10	1.71	1.74	1.74	0.40	436.58
Bandhan Bank Ltd	Consolidated	10	2.07	13.62	13.62	11.21	121.58

AU Small Finance Bank Ltd	Consolidated	10	4.64	21.86	21.74	13.01	164.64
Suryoday Small Finance Bank	Consolidated	10	1.14	7.32	7.32	4.90	149.28
Fusion Micro Finance Ltd	Consolidated	10	2.62	43.29	43.13	16.67	230.74

Note: 1) P/B Ratio has been computed based on the closing market price of equity shares on NSE on July 11, 2023.
2) * P/B of company is calculated on BVPS of FY23 and post issue no. of equity shares issued.

Key Risks

- majority of the advances, including microbanking loan portfolio, are unsecured and are not supported by any collateral that could help ensure repayment of the loan. If they are unable to recover such advances in a timely manner or at all, its financial condition, results of operations and cash flows may be adversely affected.
- A significant portion of its advances in the microbanking segment are towards customers located in the states of Bihar and Uttar Pradesh. Any adverse changes in the conditions affecting the region will negatively impact the company.
- Exposed to operational and credit risks which may result in NPAs
- All banking outlets are on leased premises and they may enter into new lease arrangements for additional banking outlets.
- Bank is subject to stringent regulatory requirements and prudential norms of RBI and any inability to comply with such laws, regulations and norms may have an adverse effect on business, results of operations, financial condition and cash flows.
- Bank's business is vulnerable to interest rate risk, and any volatility in interest rates or inability to manage interest rate risk could adversely affect Net Interest Margins, income from treasury operations, business, financial condition, results of operations and cash flows.
- An inability to effectively manage growth and expansion may have a material adverse effect on business prospects and future financial performance.
- Changes in the regulations that govern their operations could have an adverse impact on the business, financial condition and results of operations.
- Risk management policies are ineffective, it could adversely affect business, financial condition, results of operations and cash flows.

Valuation

USFB is one of the leading small finance banks and has posted decent financial performance. Although, SFB's future prospects hinge on the monetary policy of RBI and the Government of India. The bank's ability to provide their products and services in a cost-efficient manner is among their core strengths and their cost-to-income ratio was the lowest among SFBs with Gross Loan Portfolio of more than ₹ 60 billion

At the upper price band company is valuing at P/B of 1.39x with a market cap of ₹ 27,400 million post issue of equity shares and return on net worth of 20.22%.

We believe that company is fairly priced and recommend a "**Subscribe- Long term**" rating to the IPO.

DISCLAIMER:

Analyst Certification

- The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Ratings Methodology

- Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>₹300 Bn) and Mid/Small Caps (<₹300 Bn) or SEBI definition vide its circularSEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017, whichever is higher and as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity, SEBI Regn No. INH000000834, Date of Regn. 29/06/2015) is a subsidiary of the Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX) and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged into the business of Stock Broking, Depository Participant, Mutual Fund distributor.
The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues.
General Disclaimer: - This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers.No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of we views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.
ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.
Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i. e. www.rathi.com
Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Sr. No.	Statement	Answers to the Best of the knowledge and belief of the ARSSBL/ its Associates/ Research Analyst who is preparing this report
1	ARSSBL/its Associates/ Research Analyst/ his Relative have any financial interest in the subject company? Nature of Interest (if applicable), is given against the company's name?.	NO
2	ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?.	NO
3	ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report or at the time of public appearance?.	NO
4	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months.	NO
5	ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past tus lve months.	NO
6	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.	NO
7	ARSSBL/its Associates/ Research Analyst/ his Relative have 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.	NO
8	ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report.	NO
9	ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	NO
10	ARSSBL/its Associates/ Research Analyst/ his Relative has been engaged in market making activity for the subject company.	NO