

Utkarsh Small Finance Bank SUBSCRIBE

Marching forward on a strong growth path

Summary

Headquartered in Varanasi (Uttar Pradesh), Utkarsh Small Finance Bank is one of youngest SFB (in terms of vintage) to get the small banking license from RBI in FY'16. The bank focuses on providing micro finance services to unserved and underserved segments and in particular in the states of Uttar Pradesh and Bihar. Among SFBs, Utkarsh recorded the third fastest Gross Loan Portfolio (GLP) growth of 31.0% CAGR FY19-23 with GLP of more than ₹ 60 Bn. The operations of the bank are spread across 26 states/UTs with 830 banking outlets serving ~3.6Mn customers. The bank leverages the use of advance and cost effective technology to drive its operations, thereby leading to best in class operating performance. At upper price band, IPO is priced at a P/E of 5.5x and P/BV of 2.0x based on FY23 with ROA of 2.4%. We recommend SUBSCRIBE for long term.

Key Investment Rationale

- Increased use of technology leading to best in class operating performance:** Utkarsh SFB leverages the use of advance and cost effective technology to drive its operations, thereby leading to best in class operating performance (as reflected in Cost to Income ratio at 54.2% in FY23 vs. ~60% for peer SFBs and RoA at 2.4% vs. ~2% for peers).
- Niche area of operation:** While other SFBs focuses on TN, Karnataka and Maharashtra, Utkarsh mainly caters to the underserved regions on Bihar, UP and Jharkhand, thereby creating its niche area of operation. The bank has a strong understanding of the customer segment in these areas and stands strong to benefit out of the same.
- Strong Management Team:** Banks management team comprises of qualified and experienced professionals with years of experience in the banking and financial services sector and in particular the microfinance industry.

Issuer	Utkarsh Small Finance Bank Limited
Transaction Type	Fresh Issue (500 Mn shares, Face value Rs.10 each)
Issue Open / Close	12-July-2023 / 14-July-2023
Type of Offering	Fresh Issue
Total Offer Size	Rs 5,000 Mn
Price Band	Rs.23-25/Sh
Bid Lot	600 Equity Shares and in multiples thereafter
Total Offer Size as % of Post Issue Capital	18.3%
Percentage of Offer Size (Allocation)	<ul style="list-style-type: none"> • QIB: 75% • NIB: 15% • Retail & Employee: 10%
Market Cap Post IPO	Rs 27,400mn at upper price band
Objective	Augmenting Tier 1 capital base to meet its future capital requirements

Share holding pattern (%)

	Pre-Issue	Post-Issue
Promoter	84.75	69.3
Public	15.25	30.7
Total	100%	100%

Financial Snapshot

(Rs Mn)	FY21	FY22	FY23
NII	8,392	10,609	15,290
Net Profit	1,118	615	4,045
EPS (Rs)	1.5	0.7	4.5
BV (Rs)	6.1	7.6	12.3
ROE (%)	10.0	4.1	22.8
ROA (%)	1.1	0.5	2.4
GNPA (%)	3.8	6.1	3.2
NNPA (%)	1.3	2.3	0.4
CAR (%)	21.9	21.6	20.6

Source: RHP. Company

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Exhibit 1: Peer Comparison

Particulars	Utkarsh SFB			Suryoday SFB			Ujjivan SFB			Equitas SFB		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
Growth												
Advances (Gross)	26.3	26.3	31.3	13.3	20.4	20.8	16.3	6.2	32.6	16.7	14.9	35.3
Deposits	43.4	34.2	36.1	14.3	18.2	34.2	21.9	39.3	39.6	52.0	15.6	33.9
CASA Ratio	17.7	22.4	20.9	15.4	18.8	17.1	20.6	27.3	26.4	34.3	52.0	42.3
Margins (%)												
NIMs	8.2	8.8	9.6	6.8	7.9	8.3	8.9	8.1	9.5	8.2	7.9	8.2
Yield on Advances	20.6	19.6	19.9	17.7	18.7	19.0	18.2	16.7	19.7	19.0	17.3	16.7
RoA	1.1	0.5	2.4	0.2	(1.3)	0.9	0.0	(1.9)	3.9	1.8	1.1	1.9
RoE	10.0	4.1	22.8	0.9	(6.0)	5.0	0.3	(14.0)	31.4	12.2	7.4	12.5
Operating Efficiencies												
No of Branches	558	686	830	556	565	519	575	575	644	861	869	938
Gross Loan Portfolio-In Mn (Per Branch)	151	155	168	76	90	118	286	304	374	208	237	297
Cost to Income Ratio	56.5	58.9	54.1	64.4	60.9	60.0	60.3	71.7	54.8	60.0	66.1	63.4
Cost of Funds	8.3	7.5	7.0	8.1	6.3	6.1	6.9	5.7	6.1	7.7	6.8	6.5
Asset Quality												
GNPA	3.8	6.1	3.2	9.4	11.8	3.1	7.1	7.1	2.6	3.7	4.2	2.6
NNPA	1.3	2.3	0.4	4.7	6.0	1.5	2.9	0.6	0.0	1.6	2.5	1.1
PCR	65.5	63.6	88.3	63.7	69.8	51.4	60.3	92.2	98.0	58.6	42.7	56.9
Credit Cost	4.0	5.0	2.6	4.5	9.0	2.6	5.6	7.4	0.1	2.5	2.7	1.3

Particulars	Utkarsh SFB			Suryoday SFB			Ujjivan SFB			Equitas SFB		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
Valuation												
Equity Capital (In Mn)	8,483	8,955	8,959	1,061	1,062	1,062	19,283	19,283	21,547	11,393	12,520	11,106
Net Worth (In Mn)	5,200	6,768	11,044	15,969	15,051	15,847	32,187	28,026	42,091	33,963	42,462	51,579
Face Value	10.0	10.0	10.0	10	10	10	10.0	10.0	10.0	10.0	10.0	10.0
No of Shares o/s (In Mn)	848	896	896	106	106	106	1,928	1,928	2,155	1,139	1,252	1,111
Book Value	6.1	7.6	12.3	150	142	149	16.7	14.5	19.5	29.8	33.9	46.4
CMP*	25.0	25.0	25.0	170.5	170.5	170.5	42.1	42.1	42.1	93.7	93.7	93.7
P/B	4.1	3.3	2.0	1.1	1.2	1.1	2.5	2.9	2.2	3.1	2.8	2.0
Secured Loan Book (as % of Total Advances)	13.8	22.0	33.1	Na	Na	Na	27.4	26.2	27.0	80.4	80.8	Na
Gross Loan Portfolio (In Mn)	84,157	106,307	139,571	42,060	50,630	61,140	164,631	174,877	240,850	179,250	205,970	278,610
Micro Finance Loans (In Mn)	68,994	80,024	92,156	29,230	33,860	37,430	106,470	104,460	142,250	32,360	39,070	52,250
MF Loans (as a % of Gross Loans)	82	75	66	69	67	61	65	60	59	18	19	19
Capital Position												
CRAR	21.9	21.6	20.6	51.5	37.9	33.7	26.4	19.0	25.8	24.2	25.2	23.8
Tier 1	20.0	18.1	18.3	47.2	34.4	30.8	25.1	17.7	22.7	23.2	24.5	23.1

Source: RHP, IDBI Capital Research; Note: * based on closing price of 11th July'23

Key Investment Rationale

■ Increased use of technology leading to best in class operating performance

Utkarsh SFB leverages the use of advance and cost effective technology to drive its operations, thereby leading to best in class operating performance (as reflected in Cost to Income ratio at 54.2% in FY23 vs. ~60% for peer SFBs and RoA at 2.4% vs. ~2% for peers). Utkarsh SFB ability to provide products and services in a cost-efficient manner is among one of its core strengths resulting in cost-to-income ratio being the lowest among SFBs (with GLP of more than ₹ 60 billion in FY23). The cost-efficient operations are attributable to automation and digitization of various processes including disbursements of loans in the micro banking business. The bank has also appointed KPMG and PWC for its technology transformation project which it believes would further help the bank to improve its efficiencies.

Exhibit 2: Cost efficiencies leading to improved ratios

Peer Comparison(%)	Utkarsh			Equitas			Suryoday			Ujjivan		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
NIMs	8.2	8.8	9.6	8.2	7.9	8.2	6.8	7.9	8.3	8.9	8.1	9.5
Cost to Income	56.5	58.9	54.1	60.0	66.2	63.4	64.4	60.9	60.0	60.3	70.7	54.8
RoA	1.1	0.5	2.4	1.8	1.1	1.9	0.2	(1.3)	0.9	0.0	(1.9)	3.9
RoE	10.0	4.1	22.8	12.5	7.4	12.2	0.9	(6.0)	5.0	0.3	(14.0)	31.4

By furthering its digital and technology platform, Utkarsh aims at reducing its operating costs, increasing efficiencies as well as encouraging customers to migrate from an assisted model to a self-service delivery model. Key initiatives undertaken by the bank includes implementation of data-lake, master data management, next generation internet and mobile banking, digital on-boarding and micro-banking platform.

■ Niche area of operation

While other SFBs focus on TN, Karnataka and Maharashtra, Utkarsh mainly caters to the underserved regions on Bihar, UP and Jharkhand, thereby creating its niche area of operation. The bank has a strong understanding of the customer segment in these areas and stands strong to benefit out of the same.

Exhibit 3: Geographical concentration of loan portfolio (In %)

SFB	Top State	Top 3 States	Top 5 States	Top 7 States	Top 7 States Name
Utkarsh	31	69	81	88	Bihar, Uttar Pradesh, Maharashtra, Jharkhand, Haryana, NCT of Delhi and Madhya Pradesh
Equitas	53	76	85	90	Tamil Nadu, Maharashtra, Karnataka, Rajasthan, Gujarat, Madhya Pradesh and Delhi
Ujjivan	16	41	58	72	Tamil Nadu, Karnataka, West Bengal, Maharashtra, Gujarat, Bihar and Uttar Pradesh
Suryoday	31	70	87	93	Maharashtra, Tamil Nadu, Odisha, Gujarat, Karnataka, Madhya Pradesh and Uttar Pradesh

Source: RHP, IDBI Capital Research

Historically, Utkarsh operations were focused in the states of Uttar Pradesh, where it was headquartered, and also in Bihar and Jharkhand. As of 31st Mar'23, around 63.11% of banks GLP were generated from 95 districts in Bihar, Uttar Pradesh and Jharkhand, respectively. A large number of Utkarsh's banking outlets (374 out of 830 Banking Outlets) were located in the states of Bihar and Uttar Pradesh, which reflects the kind of presence the bank, has in states of Bihar and UP.

Further, Bihar, Uttar Pradesh, and Jharkhand has the best asset quality amongst the other states and has PAR>30 days and PAR>90 days lower than that at a Pan India level but with low and moderate credit penetration which presents a strong growth opportunity for Utkarsh to grow its operations.

■ Strong Management Team

Banks management team comprises of qualified and experienced professionals with years of experience in the banking and financial services sector and in particular the microfinance industry. Mr. Govind Singh, Managing Director and chief executive officer, has over 25 years of experience in the banking and financial services sector and in particular the microfinance industry and had been associated with leading financial services organizations in India including ICICI Bank Limited, Surya Fincap Limited, UTI Bank Limited, Bank Internasional Indonesia, Allahabad Bank and State Bank of Patiala in various capacities. Group heads of various functional such as accounts and finance, operations, technology, compliance, internal audit, risk and human resources, enhance the quality of its management with their specific and extensive industry experience which the bank believes has been instrumental in implementing its business strategy and commitment to fair and transparent business practices.

Further, Utkarsh CoreInvest Limited (Promoter Group) is backed by a number of institutional investors including British International Investment PLC (formerly, CDC Group PLC), RBL Bank Limited, International Finance Corporation, NMI Frontier Fund KS, Lok Capital Growth Fund, SIDBI, HDFC Life Insurance Company Limited, HDFC Ergo General Insurance Company Limited, ICICI Prudential Life Insurance Company Limited, Faering Capital India Evolving Fund, Hero Enterprises Partner Ventures, responsAbility Participations Mauritius, Shriram Life Insurance Company Limited, Aavishkaar Bharat Fund, and the bank believes that the diversified shareholding of its Promoter lends credibility to the banks business operations.

Exhibit 4: Financial and Operational Snapshot of the bank for last 3 years.

Metrics	FY21	FY22	FY23
Gross Loan Portfolio (In Mn)	84,157	106,307	139,571
Disbursements (In Mn)	59,140	90,463	124,429
Deposits (In Mn)	75,076	100,742	137,101
CASA Ratio (In %)	17.7	22.4	20.9
CASA + Retail Term Deposit Ratio (In %)	57.5	59.6	61.6
Credit to Deposit Ratio (In %)	109.5	101.5	95.3
NII (In Mn)	8,392	10,609	15,290
PAT (In Mn)	1,118	615	4,045
NIMs (In %)	8.2	8.8	9.6
Return on Average Assets (In %)	1.1	0.5	2.4
Return on Average Equity (In %)	10.0	4.1	22.8
Average Yield (In %)	15.5	15.2	15.7
Cost of Funds (In %)	8.3	7.5	7.0
Cost to Income Ratio (In %)	56.5	58.9	54.2
GNPA (In %)	3.8	6.1	3.2
NNPA (In %)	1.3	2.3	0.4
PCR (In %)	80.4	78.1	95.8

Source: RHP, IDBI Capital Research

About the Company

Headquartered in Varanasi (Uttar Pradesh), Utkarsh Small Finance Bank is one of the youngest (in terms of vintage) to get the small banking license from RBI in FY2016. The bank was incorporated on 30th April'2016 (post Utkarsh CoreInvest Limited received the RBI In-Principle Approval to establish an SFB), started its operation from 23rd Jan'2017 and focused on providing micro finance services to unserved and underserved segments and in particular in the states of Uttar Pradesh and Bihar. The bank has recorded the third fastest Gross Loan Portfolio (GLP) growth between FY21-23. The operations of the bank are spread across 26 states/UTs with 830 banking outlets and more than 100 BC partners serving its customer (3.59Mn as on 31st Mar'23) through 15,424 employees.

The operations of the bank are focused on rural and semi urban areas of the country. As on 31st Mar'23, ~27.35% of the bank's outlets were located in Unbanked Rural Centres (URCs) as against regulatory requirement of 25% for SFBs.

The bank offers a host of financial products and services that address the specific requirements of its customer segments while assessing several factors including income profile and the type of security available. The Asset Side products portfolio includes (a) Micro banking Loans (including JLG Loans and individual loans); (b) Retail Loans (including unsecured business and personal loans, and secured LAP); (c) Wholesale Lending (including short term and long-term loan facilities to SMEs, mid and large corporate and institutional clients); (d) Housing loans (focus on affordable housing); (e) CV/CE Loans; and (f) Gold Loans. In the liability side, the bank offers products such as savings accounts, current accounts and a variety of term and recurring deposit accounts. Utkarsh as a bank also provides non-credit offerings services comprising ATM-cum-debit cards, bill payment system and distributes third party point of sale terminals, mutual funds and insurance products.

Product Portfolio

The bank offers host of financial product and services (both on asset and liability side) that addresses the specific requirements of its customer segments while assessing several factors including income profile and the type of security available.

Asset Side products portfolio includes (a) Micro banking Loans (including JLG Loans and individual loans); (b) Retail Loans (including unsecured business and personal loans, and secured LAP; (c) Wholesale Lending (including short term and long-term loan facilities to SMEs, mid and large corporate and institutional clients); (d) Housing loans (focus on affordable housing); (e) CV/CE Loans; and (f) Gold Loans.

Exhibit 5: Gross Loan Portfolio Mix

Gross Loan Portfolio Mix (In Mn)	FY21		FY22		FY23	
	Amount	(%)	Amount	(%)	Amount	(%)
Micro Banking Loans	68,993.84	82.0	80,024.07	75.3	92,155.82	66.0
Housing Loans	2,195.85	2.6	3,592.51	3.4	5,192.45	3.7
Retail Loans	5,311.36	6.3	8,400.39	7.9	15,340.92	11.0
Wholesale Lending	5,031.09	6.0	9,261.15	8.7	15,468.11	11.1
BC	1,947.11	2.3	2,244.16	2.1	3,728.42	2.7
CE and CV	127.82	0.2	2,121.59	2.0	5,603.60	4.0
Others	549.53	0.7	663.38	0.6	2,081.76	1.5
Total	84,156.60	100	106,307.25	100	139,571.08	100

Source: RHP, IDBI Capital Research

- Micro Finance Loans:** Under the micro banking loans, the bank 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 for a tenor of 12-48 months (at fixed interest rate which currently is at ~25%). Utkarsh offers loans through the JLG model and business loans to individuals from the JLG model based on their credit worthiness and past behavior in relation to repayment of their earlier loans.

Exhibit 6: Micro Banking Operation of Utkarsh

Micro Banking Operation	FY21	FY22	FY23
Micro Banking Loan Accounts	2,510,257	2,435,770	2,600,762
Number of States	11	12	12
Number of micro banking outlets	420	493	579
Total number of Centre's	164,555	163,809	177,540

Source: RHP, IDBI Capital Research

- Retail Loans:** Under the retail loan, the bank offers a combination of secured (such as commercial vehicle loans and loan against property) and unsecured loans (business and personal loans) to individuals and non-individual entities such as MSMEs which are engaged in business activities in the manufacturing and services sector, with flexible security requirements to make credit more accessible to the retail borrowers. The range of loan under the retail segment stood between 300,001 and 250,000,000 with an ATS of ~1.91Mn (based on loans outstanding). The outstanding retail loans stood at around 15,340.92 Mn (~11% of the GLP) on 31st Mar'23 with GNPA of ~207.9Mn (~1.36% of retail loan).
- Gold Loan:** Utkarsh offers short term loans against pledge of gold ornaments (with a purity of 18 karat to 22 karat) used for agricultural, educational, business, medical and other personal needs. The bank launched its gold loan facility (pilot) on 8th Nov'21 from four general banking outlets. As on 31st March '23, gold loans outstanding stood at ~70.09Mn with portfolio average loan to value (LTV) of 74.66%.
- Wholesale Lending:** The bank provides short term and long-term loan facilities to SMEs, small and mid-corporates and institutional clients. The loans are offered to meet their on-lending, working capital and business expansion requirements. The bank also provides a non-fund based product in the form of a bank guarantee.

Exhibit 7: Wholesale Lending products portfolio offered along and their nature and purpose

Product	Nature	Purpose
Overdraft	Short Term	Working Capital
Drop Line Overdraft	Long Term	Working Capital, Business Expansion
Term Loan	Short Term and Long Term	On-lending, Business Expansion
Bank Guarantee	Short Term and Long Term	Customer's specific requirement

Source: RHP, IDBI Capital Research

Wholesale Loan facilities are provided in the range between 10 Mn and 500Mn at an interest rate ranging between 8.00% to 14.50% per annum with a tenor of up to seven (7) years. During FY23, the ATS of these loans stood at 66.67Mn (at the time of disbursement) for an average tenure of 46.47 months. As of 31st Mar23, the outstanding wholesale loans portfolio stood at 15,468.11Mn with nil GNPA.

- Housing Loans:** Utkarsh focuses on providing affordable housing loans to self-employed and salaried individuals, mainly targeting formal, informal and semi-formal income segments, for purchase/ construction of plots, purchase/ construction of house, improvement/ restoration/ extension of home. The loan amounts range between 200,000 and 10,000,000 with repayment tenures for these loans range between 3 years and 30 years. The loans are offered at interest rates between 9.00% and 14.50% per annum. During FY23, In Fiscal 2023, the ATS of these loans was 1.68 million (based on loans outstanding) with an average tenure of 221.51 months. As of 31st Mar23, the outstanding housing loans portfolio stood at 5,192.45Mn (~4% of GLP) with GNPA of ~264.33Mn (~5.09% of Gross Home Loan Portfolio).
- Others:** This loan includes Overdraft Facilities and Staff Loans. The Bank extends OD facility to individuals, proprietorships, private limited companies that have open fixed deposits with the bank for meeting their short-term liquidity requirements. OD limit is renewed annually unless specified otherwise and are offered at interest spread of up-to 2.00% above fixed deposit rates. Staff loans on the other hand are extended to individuals employed with the Bank and/ or their immediate relatives to meet their short-term liquidity requirements, typically at an interest rate of 7% to 10% per annum. As of 31st Mar23, the outstanding other loans portfolio stood at 2,081.76Mn (~1.5% of GLP).

Competitive Strength

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

Utkarsh CoreInvest Limited (which commenced its operations as NBFC in FY2010) 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/ semi-urban areas of Uttar Pradesh, Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh and Uttarakhand. These areas offer potential for growth on account of being under penetrated and the bank believes that its understanding of the customer segments in rural and semi-urban areas in these geographies coupled with the significant presence in these areas allows to cater to the financing requirements of potential customers.

■ Growing deposits with focus on retail deposits

The bank offers a variety of demand and time deposit products along with other services (including saving accounts, salary accounts, current accounts, recurring and fixed deposits as well as locker facilities) through which its customers can address their savings and transactional needs. The bank also offers diversified liabilities products at competitive rates targeted primarily at retail customers from all segments led by senior citizens, middle-class individuals and self-employed and salaried individuals. Further, deposit base comprises customers across segments and geographies.

Exhibit 8: Granularity in Retail Deposits

Peer Comparison(%)	Utkarsh			Equitas			Suryoday			Ujjivan		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
CASA	17.7	22.4	20.9	34.3	52.0	42.3	15.5	18.8	17.1	20.6	27.3	26.4
CASA + Retail TD Ratio	57.5	59.6	61.6	70.1	89.4	77.5	80.0	78.1	73.1	47.5	54.2	66.0

Source: RHP, IDBI Capital Research

Exhibit 9: Composition of Term Deposits

Term Deposit Mix	FY21		FY22		FY23	
	Amount	(%)	Amount	(%)	Amount	(%)
Retail	29,905.18	48.4	37,553.56	48.0	55,751.33	51.4
Bulk	31,900.58	51.6	40,655.42	52.0	52,712.72	48.6
Total	61,805.76	100.0	78,208.98	100.0	108,464.05	100.0

Source: RHP, IDBI Capital Research

■ **Diversified distribution network with significant cross-selling opportunities**

The bank has an extensive physical network of Banking Outlets (830 Banking Outlets as on 31st Mar'23) spread 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). Also in order to further increase the financial inclusion and provide comprehensive financial services to the underserved and unserved customer segments, Utkarsh has also opened Banking Outlets that have been classified by the RBI as Unbanked Rural Centres ("URCs) in 69 districts. Further, the banks relationship with its micro banking customers presents significant opportunities to cross sell its other asset products that cater to the entire customer lifecycle. The bank has initiated opening of savings accounts for its micro banking customers and as a result of which around 21.10% (FY21), 35.16%(FY22) and 44.74%(FY23) of banks JLG loan accounts had savings accounts with Utkarsh.

Exhibit 10: Branch Network as on 31st Mar'23

Region	Banking Outlets	No of States/ UT
North	339	11
West	84	3
South	28	6
East	379	6
Total	830	26

Source: RHP, IDBI Capital Research

■ Stable growth with cost efficient operational performance

Among SFBs, Utkarsh recorded the third fastest Gross Loan Portfolio (GLP) growth of 31.0% CAGR FY19-23 with GLP of more than ₹ 60 billion. The banks NII improved from 8,392.46Mn in FY21 to 15,290.31Mn in FY23 (supported by improved NIMs, 9.57% in FY23 vs. 8.20% in FY21), leading to improved RoA at 2.42% in FY23 (vs. 1.05% in FY21). Further, the bank has one of the lowest cost to income ratio among its peer SFB, well supported by ability of the bank to provide its products and services in a cost-efficient manner.

Exhibit 11: Cost efficiencies leading to improved ratios

Peer Comparison (%)	Utkarsh			Equitas			Suryoday			Ujjivan		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
NIMs	8.2	8.8	9.6	8.2	7.9	8.2	6.8	7.9	8.3	8.9	8.1	9.5
Cost to Income	56.5	58.9	54.1	60.0	66.2	63.4	64.4	60.9	60.0	60.3	70.7	54.8
RoA	1.1	0.5	2.4	1.8	1.1	1.9	0.2	(1.3)	0.9	0.0	(1.9)	3.9
RoE	10.0	4.1	22.8	12.5	7.4	12.2	0.9	(6.0)	5.0	0.3	(14.0)	31.4

Source: RHP, IDBI Capital Research

■ Leadership complementing our strengths

Banks management team comprises of qualified and experienced professionals with years of experience in the banking and financial services sector and in particular the microfinance industry. Further, the group heads of functional groups such as accounts and finance, operations, technology, compliance, internal audit, risk and human resources, enhance the quality of its management with their specific and extensive industry experience which the bank believes have been instrumental in implementing its business strategy and commitment to fair and transparent business practices. The bank also has independent risk, compliance, internal audit and secretarial functions to meet required control and compliance and corporate governance standards.

Strategies:

■ **Continue diversifying our retail asset portfolio**

The primary focus of the bank will be to continue to diversify our asset portfolio. Utkarsh intends to leverage its 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. It intends to extend the offering from JLG loans to individual loans to micro enterprise loans, affordable housing loans and other new products. Further, the bank will also seek to increase visibility and penetration of its other assets products to achieve a well-diversified lending book along with a continued focus on financial inclusion. Among the retail asset products, the bank would focus on offering working capital and term loans to MSMEs, small and medium sized corporates, institutional clients such as NBFCs, besides other retail assets products like housing loans with a focus on affordable housing, business loans, personal loans, loan against properties, loans for purchase of commercial properties, and commercial vehicle and construction equipment loans.

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

Utkarsh intends to strengthen its liability franchise by continuing its focus on CASA and retail deposit base in a steady manner. Continuous diversification of deposits across geographies and customer segments has helped the bank improve its average cost of savings bank deposits from 6.04% in FY21 to 5.88% in FY23 and the average cost of term deposits from 8.39% in FY21 to 7.10% in FY23. Utkarsh would focus on continuing to develop the physical infrastructure by opening additional Banking Outlets in existing and newer geographies, including top 100 cities to grow its deposit base. In order to strengthen the banks deposit base, increase its CASA ratio and to offer multi-channel customer experience, the bank intends to enhance its 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**

With the aim of creating a robust revenue stream, Utkarsh intend to further diversify its fee and non-interest based revenues. Utkarsh intend to achieve this by generating fee income from its own products and cross-selling third-party products such as distribution of mutual funds, life insurance and general insurance products, Atal Pension Yojana, NPS etc. The bank intends to grow its revenue from individual retail customers to be generated primarily from distribution of third-party products in addition to debit card fees and loans to individuals and remittances. The bank aims to provide various payment solutions through mobile and internet banking to increase the fee income generated from debit cards, bill payments, and money transfers and proposes to focus on banc assurance channels to distribute various types of insurance products to existing customers. On the liability side, the bank shall continue to engage with its customers in urban and metropolitan locations to promote wealth management services such as mutual fund investments and strengthen distribution of such products to our existing customer base.

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

Optimum use of advanced and cost-effective technology has significantly driven the banks operations, and going forward, the bank intends to strategically invest its resources for leveraging technology for efficient operations as its scale up. By furthering its digital and technology platform, the bank endeavors to reduce its operating costs, increase efficiencies as well as encourage customers to migrate from an assisted model to a self-service delivery model. The bank intends to retain its focus on the unserved and underserved segment by focusing on introducing customized digital channels across all product segments such as launching tab-based account opening for savings account customers and installing micro-ATMs across its key markets.

Exhibit 12: Key Management

Management	Designation
Mr. Govind Singh	MD & CEO
Mr. Muthiah Ganapathy	Company Secretary and Compliance Officer
Mr. Sarjukumar Pravin Simaria	Chief Financial Officer

Source: RHP, IDBI Capital Research

Exhibit 13: Key Milestones

Year	Key Milestones
2017	Commenced banking operations
2018	Launched wholesale lending business and personal loans
	Launched asset business through business correspondents Deposit base crossed .20,000 million
2019	Launched cashless disbursements for microfinance loans
	Conversion of microfinance branches to Banking Outlets Crossed 500 banking outlets
2020	Launched micro-banking business and two-wheeler loans
	Customer base crossed 2.50 million
2021	Launched digital on-boarding of accounts
	Launched non-fund based facility and working capital loans Crossed one million debit card issuances
2022	Deposit base crossed ₹100,000 million
	Shifting of registered office to Utkarsh Tower in Varanasi, a property owned by Bank Launch of Utkarsh UPI application
2023	Launch of facility for cashless disbursement of JLG loan to clients
	Crossed 800,000 customers on-boarded through digital onboarding Launch of 'Utkarsh Gold Loan', a secured gold loan product

Source: RHP, IDBI Capital 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 micro banking segment are towards customers located in these regions.
- Inability to comply with or any delay in compliance with laws and regulations applicable to the Bank.
- Loss of, or inability to attract or retain, Key Managerial Personnel or Senior Management.
- Weakness or failures of internal control system which may cause significant operational errors.
- Susceptibility to operational risks, including fraud, petty theft and embezzlement on account of operations involving handling of significant amounts of cash.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23
Net interest income	8,392	10,609	15,290
<i>Change (yoy, %)</i>		26%	44%
Non-Interest Income	1,248	1,848	2,993
Operating Income	9,641	12,457	18,283
Operating expenses	5,451	7,337	9,900
Employee expenses	3,262	4,298	5,701
Other expenses	2,189	3,039	4,200
Pre-Provision Profit	4,190	5,119	8,383
<i>Change (yoy, %)</i>		22%	64%
Provision	3,072	4,505	4,338
PBT	1,118	615	4,045
Taxes	-	-	-
<i>Effective tax rate (%)</i>	0%	0%	0%
Net profit	1,118	615	4,045
<i>Change (yoy, %)</i>		-45%	558%
EPS	1.5	0.7	4.5
Return on Equity (%)	10.0	4.1	22.8
Return on Assets (%)	1.1	0.5	2.4

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23
Capital	8,483	8,955	8,959
Reserves	5,200	6,768	11,044
Networth	13,684	15,723	20,003
Deposits	75,076	100,742	137,101
Current deposits	1,598	3,625	3,840
Saving deposits	11,672	18,908	24,797
Term deposit	61,806	78,209	108,464
Borrowings	26,078	25,719	23,495
Other liabilities	6,542	8,454	10,576
Total Liab. & Equity	121,379	150,638	191,175
Cash	11,698	18,716	25,164
Advances	82,169	102,281	130,688
Investments	23,139	23,479	28,594
Fixed Assets	1,812	2,865	3,033
Other Assets	2,561	3,295	3,697
Total assets	121,379	150,638	191,175

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23
Growth			
Deposits	43.4	34.2	36.1
Advances	26.3	26.3	31.3
NII	-	0.3	0.4
Pre-Provision Profit	-	0.2	0.6
Net Profit	-	(0.5)	5.6
Spreads			
Yield on Assets	20.6	19.6	19.9
Cost of Funds	8.3	7.5	7.0
NIM	8.2	8.8	9.6
CASA	17.7	22.4	20.9
Operating Efficiency			
Cost-to-Income	56.5	58.9	54.1
Cost-to-Assets	4.5	4.9	5.2
Asset Quality			
GNPA	3.8	6.1	3.2
NNPA	1.3	2.3	0.4
Provision Coverage	64.5	62.1	87.9
Credit Cost	3.7	4.4	3.3
Capital Adequacy			
CAR	21.9	21.6	20.6
Tier I	20.0	18.1	18.3
Valuation			
EPS	1.5	0.7	4.5
BV	6.1	7.6	12.3
ROE	10.0	4.1	22.8
ROA	1.1	0.5	2.4

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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