

IPO ANALYSIS

Sector: Financial Services
Issue Price: INR 23 to INR 25
Issue Size: INR 500 crores
Issue Opens/Closes: July 12/ July 14

IPO Basics

Promoter: Utkarsh Coreinvest Ltd (UCL)
Lead Managers: ICICI Securities & Kotak Mahindra Capital
Registered Office: Varanasi, Uttar Pradesh
Registrar: K Fin Technologies Ltd
Listing: BSE and NSE

IPO Capital Structure

Fresh Issue	INR 500.00 Cr.
Total Issue as % of total capital (Post-Issue)	18.25%
Post Issue No. of Shares (Cr.)	109.59
Post Issue Market Cap	INR 2561-2740Cr.
Employee Reservation	Upto 20,00,000 shares
Face Value	INR 10
Issue Route	Book Build Issue
Bid Lot (Shares)	600 Shares
Minimum Bid Amount	INR 15,000
<i>All values calculated at upper band</i>	

Financial Snapshot (INR in crs)

Y/E Mar	FY21	FY22	FY23
Equity Share Capital	848.33	895.52	895.91
Reserves	520.02	676.78	1,104.42
Net Worth	1,368.35	1,572.30	2,000.32
Deposits	7,507.57	10,074.18	13,710.14
Borrowings	2,607.83	2,571.94	2,349.48
Interest earned	1,580.99	1,848.81	2,504.98
Interest earned growth	-	16.94%	35.49%
Profit Before Tax	151.44	79.71	535.81
Net Profit	111.82	61.46	404.50
Net Profit (%)	7.07%	3.32%	16.15%
Net Interest Margin	9.57%	8.75%	8.20%
Gross NPA	3.23%	6.10%	3.75%
Net NPA	0.39%	2.31%	1.33%
Basic EPS	1.46	0.70	4.52
Diluted EPS	1.46	0.70	4.51
RONW (%)	8.17%	3.91%	20.22%
CAR%	21.88%	21.59%	20.64%
NAV (₹)	16.13	17.56	22.33

Shareholding Pattern

Holders	Pre-issue	Post Issue
Promoters	84.75%	69.28%
Public	15.25%	30.72%
Total	100.00%	100.00%

Utkarsh Small Finance Bank Limited

Issue Highlights :-

- Utkarsh Small Finance Bank Limited ("Utkarsh SFB") was incorporated on April 30, 2016. Promoted by Utkarsh CoreInvest 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.
- 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
- 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.
- 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, Faering Capital India Evolving Fund, Hero Enterprises Partner Ventures, responsAbility Participations Mauritius, Shriram Life Insurance Co Ltd, and Aavishkaar Bharat Fund.

Particulars	No. of Shares (Cr.)		INR in Cr.	% of Issue
	Lower	Upper		
QIB	16.14	14.85	371.25	75%
NIB	3.23	2.97	74.25	15%
Retail	2.15	1.98	49.50	10%
Employee	0.22	0.20	5.00	-
Total Issue	21.74	20.00	500.00	100%

An Indicative Timetable Post Issue Closing

Particulars	Tentative Date
Finalization of Basis of Allotment	July 19, 2023
Refunds/un-blocking of ASBA Accounts	July 20, 2023
Credit of Equity Shares to DP Ac	July 21, 2023
Trading Commences	July 24, 2023

Investors are advised to refer disclosures made at the end of the research report.

Background

Bank and Directors

The Bank was incorporated as 'Utkarsh Small Finance Bank Limited' at Varanasi on April 30, 2016 as Utkarsh Coreinvest Ltd ("UCL") the Promoter was granted the RBI In-Principle Approval to establish an SFB on October 7, 2015. The Bank was thereafter granted the RBI Licence to carry on business as an SFB on November 25, 2016 and commenced its business operations on January 23, 2017.

UCL (formerly known as Utkarsh Micro Finance Ltd) is the sole Promoter of their Bank. Currently, the Promoter, along with its nominees, holds an aggregate of 759,272,222 Equity Shares, comprising 84.75% of the pre-issue issued, subscribed and paid-up Equity Share capital of the Bank.

Brief Biographies of Directors

Parveen Kumar Gupta is the part time Non - Executive Chairman and Independent Director of the Bank. Prior to joining the Bank, he was associated with State Bank of India and Bank of Baroda.

Govind Singh is the Managing Director and Chief Executive Officer of the Bank. He was previously the assistant general manager at ICICI Bank Ltd. He was the managing director and chief executive officer of UCL. He has also been associated with Surya Fincap Ltd, UTI Bank Ltd, Allahabad Bank, State Bank of Patiala and Bank International Indonesia.

Kajal Ghose is the Independent Director of the Bank. He previously worked as the chief general manager at State Bank of India, as a consultant with PayU Payments Pvt Ltd and at Stratosphere IT Services Pvt Ltd and Kovid Group Analytics India Pvt Ltd.

Kalpana Prakash Pandey is the Independent Director of the Bank. She has previously served as the managing director and chief executive officer of CRIF High Mark Credit Information Services Pvt Ltd, an RBI licensed credit bureau. Additionally, she has also been associated with IDBI Principal Asset Management Company, State Bank of India and HDFC Bank Ltd.

Chandra Shekhar Thanvi is the nominee Director of the Bank, being a nominee of SIDBI on the Board. Prior to joining the Bank, he was associated with Hindustan Zinc Ltd. He has been associated with SIDBI since 1994.

Nagesh Dinkar Pinge is the Independent Director of the Bank. He was previously associated with Tata Motors Ltd, JSW Energy Ltd, Reliance Retail Ltd, ICICI Bank Ltd and NKGSB Co-op Bank Ltd.

Muralidharan Rajamani is the Non-Executive Director of the Bank. He was previously associated with Edelweiss Tokio Life Insurance Co Ltd, Leadership Centre Pvt Ltd, ICICI Bank Ltd, Dhanlaxmi Bank Ltd and L&T Finance Ltd.

Ajay Kumar Kapur is the Independent Director of the Bank. He was previously associated with Punjab Tractors Ltd, IDBI, India SME Technology Services Ltd and SIDBI.

Key Managerial Personnel

Muthiah Ganapathy is the Secretary and Compliance Officer of the Bank. He joined the Bank with effect from March 22, 2022. He has experience in the field of secretarial affairs and has previously worked at Aditya Birla Housing Finance Ltd, Fortune Financial Services (I) Ltd, S. Anantha & Co., Suresh Surana & Associates and Sky Industries Ltd.

Sarjukumar Pravin Simaria is the Chief Financial Officer of the Bank with effect from October 31, 2022. He has experience in the field of financial management and has previously worked at SUN F&C Asset Management (I) Pvt. Ltd., Edelweiss Tokio Life Insurance Co Ltd, Fino Payments Bank Ltd, ECL Finance Ltd and Edelweiss Financial Services Ltd and at Canbank Investment Management Services Ltd., HDFC Asset Management Co Ltd, AIG Global Asset Management Co (I) Pvt Ltd and American International Group, Inc.

Offer Details

The Offer	Amount	No. of Shares
Fresh Issue	₹ 500 Cr	Upto 217,391,304 [^] - 200,000,000 [~] Equity Shares

([^] at upper price band and [~] lower price band)

Shareholding Pattern

Shareholders	Pre-offer		Fresh Issue(No. of Shares)^	Post-offer	
	Number of Equity Shares	% of Total Equity Share Capital		Number of Equity Shares	% of Total Equity Share Capital
Promoter	759,272,222	84.75%	-	759,272,222	69.28%
Total for Promoter and Promoter Group	759,272,222	84.75%	-	759,272,222	69.28%
Total for Public Shareholder	136,632,441	15.25%	200,000,000	336,632,441	30.72%
Total Equity Share Capital	895,904,663	100.00%	200,000,000	1,095,904,663	100.00%

(^ at upper price band)

Business Overview

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.

On October 7, 2015, UCL received the RBI In-Principle Approval to establish an SFB, following which it incorporated Utkarsh SFB as a wholly-owned subsidiary on April 30, 2016. Subsequent to them obtaining the RBI Licence on November 25, 2016, to establish and carry-on business as an SFB, UCL transferred its business of providing microfinance, as a going concern to their Bank, which commenced its operations from January 23, 2017. They were included in the 2nd schedule to the RBI Act as a scheduled commercial bank pursuant to a notification dated October 4, 2017 issued by the RBI and published in the Gazette of India (Part III - Section 4) dated November 7, 2017.

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.

On the liabilities side, Utkarsh SFB offers savings accounts, current accounts and a variety of term and recurring deposit accounts. In addition, they also provide non-credit offerings comprising ATM-cum-debit cards, bill payment system and distribute third party point of sales terminals, mutual funds and insurance products.

Bank's 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. The total number of deposit customers, that include micro-banking customers to whom they also offer 'joint liability group' ("JLG") loans, were 0.88 million, 1.50 million and 2.04 million, as of March 31, 2021, 2022 and 2023, respectively. The retail term deposits comprised 39.83%, 37.28% and 40.66% of their total deposits, as of March 31, 2021, 2022 and 2023, respectively, while CASA as a percentage of overall deposits was 17.68%, 22.37% and 20.89% as of March 31, 2021, 2022 and 2023, respectively. They have been focusing on growing a stable and sustainable CASA base and their CASA was ₹ 2,863.74 crore as of March 31, 2023.

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.

Bank's certificate of deposits programme and subordinated non-convertible tier II bonds are rated by credit rating agencies; their certificate of deposit programme has a rating of "[ICRA] A1+" by ICRA and non-convertible tier II bonds have a rating of "CARE A (Stable)" by CARE and "[ICRA] A (Positive)" from ICRA.

Key Operations and Financial Performance (₹ in Cr, except %)

Metric	As of and for the year ended March 31		
	2023	2022	2021
Gross Loan Portfolio	13,957.11	10,630.73	8,415.66
Disbursements	12,442.89	9,046.28	5,914.01
Deposits	13,710.14	10,074.18	7,507.57
Credit to Deposit Ratio	95.32%	101.53%	109.45%
Capital & Reserves	2,000.32	1,572.30	1,368.35
Net Interest Income	1,529.03	1,060.85	839.25
Net Interest Margin	9.57%	8.75%	8.20%
Profit before taxes	535.81	79.71	151.44
Net profit for the year	404.50	61.46	111.82
Return on Average Assets	2.42%	0.48%	1.05%
Return on Average Equity	22.84%	4.14%	9.99%
Average Yield	15.67%	15.24%	15.46%
Cost of Funds	6.96%	7.47%	8.27%
CASA+Retail Term Deposit Ratio (as % of total deposits)	61.55%	59.64%	57.51%
CASA Ratio	20.89%	22.37%	17.68%
Provision Coverage Ratio (including technical write off)	95.78%	72.82%	80.42%
Cost to Income Ratio	54.15%	59.11%	56.54%
Gross NPA as a percentage of Gross Advances (%)	3.23%	6.10%	3.75%
Net NPA as a percentage of Net Advances (%)	0.39%	2.31%	1.33%

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")

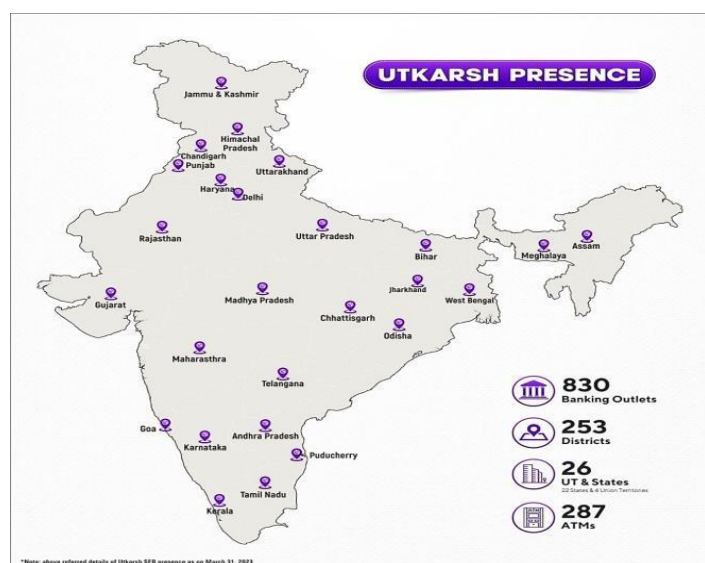
The Bank provides group loans built on the peer-guarantee loan model (JLG), which enables individuals to take loans without having to provide collateral or security on an individual basis, while promoting credit discipline through mutual support within the group, prudent financial conduct among the group, 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.

Bank's No. of Outlets, Bank's Gross Loan Portfolio and Bank Deposits (₹ in Cr, except No of Banking outlets)

Asset Product/Channels	No. of Banking Outlets as on March 31,			Gross Loan Portfolio as of March 31,			Bank's Deposits as of March 31,		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
Andhra Pradesh	3	1	-	0.06	0.12	-	10.86	47.48	-
Assam	2	2	1	46.89	2.66	-	151.75	96.61	51.36
Bihar	206	153	128	4,309.31	3,643.58	3,308.94	881.45	660.24	503.65
Chandigarh	2	2	2	6.22	0.72	0.67	244.30	82.00	37.90
Chhattisgarh	18	18	18	145.64	127.60	103.42	112.16	85.43	65.55
Goa	1	-	-	-	-	-	0.39	-	-
Gujarat	15	8	4	190.69	123.53	68.56	580.99	413.68	204.54
Haryana	32	30	30	761.85	567.20	515.32	1,122.02	1,075.85	1,114.30
Himachal Pradesh	2	2	1	9.77	9.46	9.21	201.68	0.69	0.50
Jammu and Kashmir	1	-	-	-	-	-	2.46	-	-
Jharkhand	75	61	49	872.82	755.01	599.22	632.37	425.21	351.33
Karnataka	8	5	-	63.20	55.98	-	199.94	113.18	-
Kerala	4	2	-	18.28	0.85	-	62.85	34.64	-
Madhya Pradesh	35	35	35	487.66	402.92	340.61	325.82	245.02	258.76
Maharashtra	68	60	49	1,702.49	1,009.93	605.49	1,969.93	1,691.03	1,710.22
Meghalaya	1	-	-	-	-	-	0.13	-	-
NCT of Delhi	28	23	18	491.76	280.51	178.71	2,018.67	1,507.65	1,080.59
Odisha	80	71	53	396.28	291.83	144.65	340.60	96.35	50.53
Puducherry	1	-	-	-	-	-	15.62	-	-
Punjab	7	6	4	70.71	26.53	4.23	598.28	470.33	75.90
Rajasthan	25	14	3	144.29	106.32	45.81	356.69	190.95	57.42
Tamil Nadu	9	6	-	17.16	29.40	-	348.59	223.07	-
Telangana	3	3	1	254.99	136.31	43.95	81.25	55.99	86.94
Uttar Pradesh	168	152	138	3,626.54	2,820.24	2,239.28	2,231.82	1,489.10	1,078.26
Uttarakhand	21	21	20	216.09	159.80	139.61	842.04	870.79	640.50
West Bengal	15	11	4	124.41	80.25	67.99	377.48	198.90	139.34
Total	830	686	558	13,957.11	10,630.73	8,415.66	13,710.14	10,074.18	7,507.57

Banking Outlets

Banking Outlets across the country



Region-wise Banking Outlets:

Region	As of March 31, 2023	
	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.

Key Financial and Operational Metrics

Yield Spread and Margins (₹ in Cr, except %)

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

Financial Ratios of the Bank (₹ in Cr, except %)

Particulars	As of and for the year ended March 31,		
	2023	2022	2021
Net profit as a percentage of Average Shareholders' Equity	22.84%	4.14%	9.99%
Return on Total Average Assets	2.42%	0.485	1.05%
Operating Expenses to Total Average Assets	5.92%	5.80%	5.10%
Average Shareholders' Equity to Total Average Assets	10.59%	11.69%	10.47%
Credit to Deposit Ratio	95.32%	101.53%	109.45%
Retail Term Deposit to Total Term Deposit Ratio	51.40%	48.02%	48.39%
CASA Ratio	20.89%	22.37%	17.68%
Cost to Income Ratio	54.15%	59.11%	56.54%

Return on Equity and Assets (₹ in Cr, except %)

Particulars	Fiscal		
	2023	2022	2021
Net profit for the year	404.50	61.46	111.82
Average Shareholders' Equity	1,770.81	1,485.44	1,119.41
Total Average Assets	16,716.37	12,703.25	10,690.01
Net profit as a percentage of Total Average Assets	2.42%	0.48%	1.05%
Net profit as a percentage of Average Shareholders' Equity	22.84%	4.14%	9.99%
Average shareholders' equity as a percentage of Total Average Assets	10.59%	11.69%	10.47%
Gross Loan Portfolio	13,957.11	10,630.73	8,415.66
Advances	13,068.77	10,228.15	8,216.86
Net profit as a percentage of Gross Loan Portfolio	2.90%	0.58%	1.33%
Net profit as a percentage of advances	3.10%	0.60%	1.36%

Deposits (₹ in Cr, except %)

Particulars	Year ended March 31,					
	2023		2022		2021	
	(₹ Cr)	% to Total	(₹ Cr)	% to Total	(₹ Cr)	% to Total
Demand Deposits	384.00	2.80%	362.48	3.60%	159.77	2.13%
Saving Bank Deposits	2,479.73	18.09%	1,890.81	18.77%	1,167.22	15.55%
CASA Deposits	2,863.73	20.89%	2,253.29	22.37%	1,326.99	17.68%
Term Deposits	10,846.41	79.11%	7,820.90	77.63%	6,180.58	82.32%
- Retail Deposits	5,575.13		3,755.37	-	2,990.52	-
- Bulk Deposits	5,271.27		4,065.54	-	3,190.06	-
Total Deposits	13,710.14	100.00%	10,074.18	100.00%	7,507.57	100.00%

Funding (₹ in Cr, except %)

Particulars	Year ended March 31,		
	2023	2022	2021
Deposits	13,710.14	10,074.18	7,507.57
Average Balance of Deposits	11,693.31	8,317.11	6,078.66
Interest on deposits	784.36	575.67	479.55
Average interest rate	6.71%	6.92%	7.89%

Borrowing (₹ in Cr, except %)

Particulars	Year ended March 31,		
	2023	2022	2021
Borrowings	2,349.48	2,571.94	2,607.83
Average Balance of Borrowings	2,329.41	29.56	2,894.20
Interest on RBI/inter-bank borrowings and other interest	191.59	212.30	262.20
Cost of Borrowings	8.22%	9.52%	9.06%
Average cost of subordinated debt (including perpetual debt)	13.04%	12.11%	11.45%
Cost of average refinance borrowings	7.81%	8.47%	8.48%

Loan Portfolio

Particulars	As of March 31,					
	2023		2022		2021	
	Amount (₹ Cr)	% to Total	Amount (₹ Cr)	% to Total	Amount (₹ Cr)	% to Total
Micro-banking Loans	9,215.58	66.03%	8,002.41	75.28%	6,899.38	81.98%
Housing Loans	519.25	3.72%	359.25	3.38%	219.58	2.61%
Retail Assets (MSME)	1,534.09	10.99%	840.04	7.90%	531.14	6.31%
Wholesale Lending	1,546.81	11.08%	926.12	8.71%	503.11	5.98%
BC	372.84	2.67%	224.42	2.11%	194.71	2.32%
CE and CV	560.36	4.01%	212.16	2.00%	12.78	0.15%
Others	208.18	1.50%	66.34	0.62%	54.95	0.65%
Gross Loan Portfolio	13,957.11	100.00%	10,630.73	100.00%	8,415.66	100.00%

Gross NPAs by Product/Channel

Product /Channel	As of March 31,					
	2023		2022		2021	
	Amount (₹ Cr)	% to Total	Amount (₹ Cr)	% to Total	Amount (₹ Cr)	% to Total
Micro-banking Loans	376.84	4.09%	602.75	7.53%	284.82	4.13%
Retail Loans	20.79	1.36%	15.57	1.85%	17.08	3.22%
Housing Loans	26.43	5.09%	16.58	4.61%	1.59	0.72%
Wholesale Lending	-	-	-	-	-	-
BC	4.48	1.20%	12.85	5.73%	11.60	5.96%
CE and CV	1.74	0.31%	0.40	0.19%	-	-
Others	1.23	0.59%	0.01	0.01%	0.20	0.36%
Gross NPA	431.50	3.23%	648	6.10%	315.29	3.75%

Capital Adequacy (₹ in Cr, except %)

Particulars	As of and for the year ended March 31,		
	2023	2022	2021
Common Equity Tier I Capital	1,844.82	1,420.76	1,256.52
Tier I Capital	1,844.82	1,420.76	1,256.52
Tier II Capital	241.23	275.70	119.25
Total Capital	2,086.05	1,696.46	1,375.77
Total Risk Weighted Assets	10,105.89	7,857.05	6,287.72
Capital Adequacy Ratio			
Common Equity Tier I Capital Ratio (as a % of Credit Risk Weighted Assets)	18.25%	18.08%	19.98%
Tier I Capital (as a % of Credit Risk Weighted Assets (%))	18.25%	18.08%	19.98%
Tier II Capital (as a % of Credit Risk Weighted Assets (%))	2.39%	3.51%	1.90%
Total Capital to Risk Weighted Asset Ratio (CRAR) (as a % of Credit Risk Weighted Assets)	20.64%	21.59%	21.88%

Banks' Non-Performing Assets Portfolio (₹ in Cr, except %)

Particulars	As of March 31,		
	2023	2022	2021
Gross NPAs as at the period end	431.50	648.16	315.29
Closing balance of provision for NPAs (excluding floating provision)	288.34	402.58	198.80
Closing balance of floating provisions	92.65	9.78	7.67
Net NPAs	50.51	235.80	108.81
Advances	13,068.77	10,228.15	8,216.86
Gross Advances	13,357.11	10,630.73	8,415.66
Gross NPAs / Gross Advances (%)	3.23%	6.10%	3.75%
Net NPAs / Advances (%)	0.39%	2.31%	1.33%
Provision for NPA as a percentage of Gross NPAs	88.29%	63.62%	65.49%
Provision coverage ratio (including technical write offs)	95.78%	72.82%	80.42%

Productivity and Other Ratios

Particulars	As of March 31,		
	2023	2022	2021
Banking Outlets) (Nos.)	830	686	558
Banking Correspondents (Nos.)	13	10	9
ATMs (Nos.)	287	215	210
Total number of employees (Nos.)	15,424	12,617	10,361
Gross Loan Portfolio per employee (₹ Cr)	9.05	0.84	0.81
Gross Loan Portfolio per Banking Outlet (₹ Cr)	16.82	15.50	15.08
Total Accounts (Nos.)	4,950,000	4,160,000	3,670,000
Disbursements per Banking Outlet (₹ Cr)	14.99	13.19	10.60
Disbursements per employee (₹ Cr)	0.81	0.72	0.57
Deposits per employee (₹ Cr)	0.89	0.80	0.73
Deposits per Banking Outlet (₹ Cr)	16.52	14.69	13.45

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

The erstwhile business of UCL 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. UCL also offered micro enterprise loans to the economically poor segments. Following the commencement of their SFB operations, Utkarsh SFB has further strengthened their engagement with borrowers by continuing to focus on microfinance and by diversifying their product offerings to include savings accounts, deposit products and other loan products.

Bank's understanding of the customer segments in rural and semi-urban areas in these geographies coupled with their significant presence in these areas allows them to cater to the financing requirements of potential customers. As of March 31, 2021, 2022 and 2023, their micro-banking portfolios constituted 81.98%, 75.28% and 66.03% of their total Gross Loan Portfolio and were to their micro-banking loan customers primarily present in rural and semi-urban areas across 159 districts, as of March 31, 2023.

Their total customers (both deposit and credit) have been continuously increasing and their customer base grew from 2.90 million customers as of March 31, 2021, to 3.14 million customers as of March 31, 2022 and further to 3.59 million customers as of March 31, 2023. As of March 31, 2021, 2022 and 2023, they generated 68.47%, 63.23% and 56.42% of their Gross Loan Portfolio from rural and semi-urban areas, respectively.

Their focus on the micro-banking segment is also reflected in their lending towards 'priority sectors'. As of March 31, 2021, 2022 and 2023, 86.15%, 83.04% and 78.38% of their gross loan portfolio qualified as 'priority sector lending', as compared to the regulatory requirement of 75% for SFBs. They also stand to benefit from the recent re-classification norms prescribed by the RBI pursuant to which, from 2022 onwards, their incremental priority sector credit to certain districts (where the credit flow is comparatively lower) is eligible for a PSL weightage of 125% and 100%, respectively. As of March 31, 2023, these districts accounted for 50.81% and 40.56% of their JLG portfolio, respectively.

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.

Focus on risk management and effective operations

Risk management is at the core of their operations, and they have over the years focused on robust and comprehensive credit assessment and risk management framework. They also have an IT system in place to monitor and control operational risk including fraud detection and incident reporting. Credit management is crucial to the business since a significant number of their customers are from the unserved and /or underserved financial segment and primarily first-time purchasers of financial products. They have implemented credit management models such as decentralized loan sanctioning for certain segments and stringent credit history checks. They continually use technology and data analytics to manage credit risks and follow a risk-based lending approach. Their Risk Containment Unit ("RCU") ensures that all loan accounts, other than micro-banking loans, are vetted and thoroughly checked prior to any disbursement.

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.

Leadership complementing the strengths

Bank's promoter, UCL, has a number of institutional investors and the diversified shareholding of their Promoter lends credibility to their business operations. They have a management team comprising of qualified and experienced professionals. Their Managing Director and Chief Executive Officer, Govind Singh, has over 25 years of experience in the banking and financial services sector and in particular the microfinance industry.

They are also led by a professional senior management team each of whom have significant experience in the banking and financial services industry. Their group heads of functional groups, such as accounts and finance, operations, technology, compliance, internal audit, risk and human resources, enhance the quality of their management with their specific and extensive industry experience.

Key Business Strategies

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.

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.

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.

COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2023)

Name of the Bank/Company	Consolidated/ Standalone	Total Income (₹ in Cr)	Face Value	EPS (Basic)		NAV (₹)	P/E	P/B	RoNW (%)
				Basic	Diluted				
Utkarsh Small Finance Bank Ltd*	Restated	2,804.29	10	4.52	4.51	22.33	[?]	[?]	20.22%
Peer Group									
Equitas Small Finance Bank	Consolidated	4,831.46	10	4.71	4.67	46.44	19.61	1.97	11.12%
Ujjivan Small Finance Bank Ltd	Consolidated	4,754.19	10	5.88	5.87	20.25	6.93	2.01	27.79%
Credit Access Grameen Ltd	Consolidated	3,550.79	10	52.04	51.82	326.89	24.13	3.82	16.18%
Spandana Sphoorty Financial Ltd	Consolidated	1,477.03	10	1.74	1.74	436.58	403.33	1.61	0.40%
Bandhan Bank Ltd	Consolidated	18,373.25	10	13.62	13.62	121.58	16.51	1.85	11.21%
AU Small Finance Bank Ltd	Consolidated	9,239.87	10	21.86	21.74	164.64	35.36	4.67	13.01%
Suryoday Small Finance Bank	Consolidated	1,281.10	10	7.32	7.32	149.28	22.90	1.12	4.90%
Fusion Micro Finance Ltd	Consolidated	1,799.97	10	43.29	43.13	230.74	13.50	2.52	16.67%

Source: RHP; P/E & P/B Ratio has been computed based on the closing market price of the equity shares (Source: BSE) on July 5, 2023.

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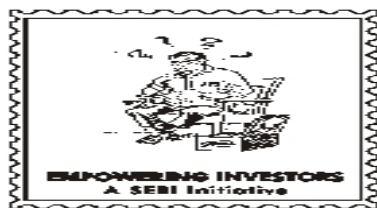
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