

## Suryoday Small Finance Bank Ltd.

SSIS IPO GRADE 3/5 (Average Fundamentals)

16<sup>th</sup> March, 2021

### Rating Overview

Suryoday Small Finance Bank Limited ("SSFB") was incorporated on November 10, 2008. SSFB is among the leading SFBs in India in terms of net interest margins, return on assets, yields and deposit growth and had the lowest cost-to-income ratio among SFBs in India in Fiscal 2020.

SSFB commenced their microfinance operations in 2009 and have since expanded the operations across 13 states and union territories. As of December 31, 2020, their customer base was 1.44 million and the employee base comprised 4,770 employees and they operated 554 Banking Outlets including 153 Unbanked Rural Centres ("URCs"). They have set up 661 customer service points ("CSPs") as additional service or touch points during April 1, 2020 and January 31, 2021 and intend to continue to expand their reach through the CSP model.

The annualized EPS on post-issue equity works out to Rs 6.9 for 9MFY2021. At the price band of Rs 303 to Rs 305, P/E works out to 44.0 to 44.2 times of 9MFY2021 EPS. Post-issue, the book value (BV) will be Rs 155.8, while adjusted BV (ABV) net of proforma net non-performing assets works out to Rs 136.1 per share at upper price band. The scrip is being offered at price to Adj BV multiple of 2.2 times at the upper price band. Among peers, AU Small Finance Bank is trading at P/ Adj BV multiple of 7.4 times, while Ujjivan Small Finance Bank is trading at P/ Adj BV multiple of 2.3 times and recently listed Equitas Small Finance Bank is trading at P/ Adj BV multiple of 2.4 times. In terms of PE, Equitas Small Finance Bank is trading at 18.6 times and AU Small Finance Bank is trading at 27.3 times its annualised EPS for 9MFY2021.

The bank exposure to microfinance segment is higher at over 70% of loan book end December 2020. Among peers, Ujjivan Small Finance Bank too has exposure to microfinance at 73.2%, but Equitas and AU Small Finance Banks have more diversified loan books.

Our overall rating of Suryoday Small Finance Bank is average fundamentals. The issue is richly valued, given the adverse impact of covid on microfinance. Risk savvy investors may apply for long term, others can avoid.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.



## Business Overview

Suryoday Small Finance Bank Ltd. (SSFBL) is among the leading SFBs in India in terms of net interest margins, return on assets, yields and deposit growth and had the lowest cost-to-income ratio among SFBs in India in Fiscal 2020. (Source: CRISIL Report).

It has for over a decade been serving customers in the unbanked and underbanked segments in India and promoting financial inclusion. Pursuant to receipt of the RBI Final Approval, it started operations as an SFB on January 23, 2017. SSFBL were included in the second schedule to the RBI Act, as a scheduled bank pursuant to a notification dated July 24, 2017, issued by the RBI and published in the Gazette of India dated September 2, 2017.

Prior to the commencement of operations as an SFB, it operated as an NBFC - MFI carrying out microfinance operations and operated the joint liability group lending model for providing collateral free, small ticket-size loans to economically active women belonging to weaker sections

As of December 31, 2020, its customer base was 1.44 million and employee base comprised 4,770 employees and it operated 554 Banking Outlets including 153 Unbanked Rural Centres ('URCs'). It has set up 661 customer service points ('CSPs') as additional service or touchpoints during April 1, 2020, and January 31, 2021, and intend to continue to expand its reach through the CSP model.

## Financial Performance

On the financial performance front, SSFBL has posted a total income/net profit of Rs. 324.93 cr. / Rs. 11.49 cr. (FY18), Rs. 597.03 cr. / Rs. 90.40 cr. (FY19) and Rs. 854.14 cr. / Rs. 111.20 cr. (FY20). For the first nine months ended on December 31, 2020, of FY21, it has earned a net profit of Rs. 54.87 cr., on a total income of Rs. 689.27 cr. SSFBL posted growth in its business from FY18 to FY20, but due to pandemic, it suffered a setback for FY21-9M.

For the last three fiscals, SSFBL has posted an average EPS of Rs. 11.33 and an average RoNW of 8.99%. The issue is priced at a P/BV of 2.28 based on its NAV of Rs. 133.54 as of December 31, 2020, and at a P/BV of 1.96 based on its post-issue NAV of Rs. 155.98. (at the upper price band).

With fully diluted post IPO equity, based on FY20 earnings, the asking price is at a P/E of around 29.10 whereas on the basis of annualized FY21-9M working it is at a P/E of 44.27 against the industry average of 25.15 (based on FY20 workings as per offer documents). Thus, on both counts, the issue is aggressively priced.

<b>Summary of financial Information (Restated Consolidated)</b>				
<b>Particulars</b>	<b>For the year/period ended (₹ in millions)</b>			
	<b>30-Sep-20</b>	<b>31-Mar-20</b>	<b>31-Mar-19</b>	<b>31-Mar-18</b>
<b>Total Assets</b>	7,986.55	7,768.29	5,145.83	4,707.59
<b>Total Revenue</b>	2,070.06	2,621.46	1,860.98	1,819.40
<b>Profit After Tax</b>	(101.07)	(266.15)	67.13	10.23

## Issue Details

To part finance its plans for augmenting Tier-I capital of the bank and achieve listing benefits, SSFBL is coming out with a maiden IPO of 19093070 equity share of Rs. 10 each with a price band of Rs. 303 - Rs. 305 This composite issue has 8150000 fresh equity issue and an offer for sale (OFS) of 10943070 shares. At the upper price band, the bank mulls raising Rs. 582.34 cr. The issue opens for subscription on March 17, 2021, and will close on March 19, 2021. Minimum application is to be made for 49 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. The issue constitutes 18% of the post issue paid-up capital of the company.

The Book Running Lead Managers (BRLMs) to this issue are Axis Capital Ltd., ICICI Securities Ltd., IIFL Securities Ltd., and SBI Capital Markets Ltd., while KFin Technologies Pvt. Ltd. Is the registrar to the issue.

Having issued initial equity at par, SSFBL has issued further equity in the price range of Rs. 15.00 to Rs. 291.75 between May 2009 and March 2021. The average cost of acquisition of shares by the promoters/ selling shareholders is Rs. 58.77, Rs. 81.01, Rs. 83.13, Rs. 84.40, Rs. 96.25, Rs. 97.12, Rs. 107.00, Rs. 120.73, Rs. 122.30, Rs. 169.22, Rs. 172.79 and Rs. 200.57 per share.

Post issue, SSFBL's current paid-up equity of Rs. 97.98 cr. Will stand enhanced to Rs.106.13 cr. Based on the higher price band of the issue; the bank is looking for a market cap of Rs. 3237 cr.

<b>Application Dates</b>	<b>Mar 17, 2021 – Mar 19, 2021</b>
<b>Issue Type</b>	Book Built Issue FPO
<b>Face Value</b>	₹10 per equity share
<b>IPO Price</b>	₹303 to ₹305 per equity share
<b>Market Lot</b>	49 Shares
<b>Listing At</b>	BSE, NSE
<b>Issue Size</b>	[.] Eq Shares of ₹10 (Up to ₹ 582.34Cr)

### Issue Timeline

<b>Basis of Allotment Date</b>	Mar 24, 2021
<b>Initiation of Refunds</b>	Mar 24, 2021
<b>Credit of Shares to Demat Account</b>	Mar 25, 2021
<b>IPO Listing Date</b>	Mar 26, 2021

## Investment Strategy

Except for FY21-9M, SSFBL posted growth in its top and bottom lines. Due to the pandemic scare, it suffered a setback for the first nine months working for the current fiscal. However, management is confident of speedy recovery going forward. Considering aggressive pricing, cash surplus-risk savvy investors may consider investment at their own risks.