



MSEARCH

INITIAL PUBLIC OFFER (IPO)

UTKARSH SMALL FINANCE BANK LTD

12th July, 2023

Recommendation: Subscribe for long term
Industry: Microfinance/Small finance bank

Price Band: ₹ 23-25
Post Implied Market Cap: ₹ 2,561 - 2,740 Cr

Key Data

Issue Size (₹ Cr)	500
Fresh	500
OFS	-
No of shares	217,391,304-
	200,000,000
Face Value (₹ /share)	10
Bid Lot	600

About Company

Varanasi headquartered, Utkarsh Small Finance Bank (Utkarsh SFB) is a 14-year-old microfinance lender-turned-small finance bank. Promoted by Utkarsh CoreInvest Ltd ("UCL") which is NBFC-CIC-NDSI in India, backed by a number of marquee institutional investors. It is believed Utkarsh SFB is one among the fastest growing SFB in India with a gross loan portfolio of more than Rs.60 Bn. The SFB operates a widespread physical network of 830 Banking Outlets across 26 States and UT in India with 522 locations spread in rural and semi-urban areas. Their 27.35% banking outlets are located in Unbanked Rural Centres ("URCs"). The SFB has diversified product portfolio like Micro-banking loans that include joint liability group (JLG) loans and individual loans, Retail Loans (Secured/Unsecured loans), Wholesale lending, Housing Loans, Commercial vehicle / construction equipment loans and Gold loan. As SFB focused majorly in rural and semi-urban areas, as of March 31, 2023 they had 3.59 million customers (both deposit and credit) with higher dependency on states like Bihar and Uttar Pradesh. As of March 31, 2023, these states constituted 30.88%, 25.98% of their total Gross Loan Portfolio. 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.

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	19-07-2023
Refunds/Unblocking ASBA Fund	20-07-2023
Credit of equity shares to DP A/c	21-07-2023
Trading commences	24-07-2023

Investment Rationale

Strong management complementing the strengths:

Utkarsh SFB is promoter by UCL, a holding NBFC-CIC-NDSI company backed by a number of institutional investors to name few like British International Investment plc (previously known as CDC Group plc), IFC, SIDBI, HDFC Life, ICICI Pru Life and many. They have built efficient management team comprising of qualified and experienced professionals lead by Mr. Govind Singh, Managing Director and Chief Executive Officer who has over 25 years of experience in the banking and financial services sector and in particular the microfinance industry.

Diversified distribution network with significant cross-selling opportunities:

Utkarsh SFB operates a widespread physical network of 830 Banking Outlets across 26 States and UT in India with a good mix in rural and semi-urban areas. As of March 31, 2023, approximately 62.89% of their total Banking Outlets were situated in rural and semi-urban regions. In addition to Banking Outlets, Utkarsh SFB offers various multi-channel delivery options, including ATMs, micro-ATMs, mobile banking, internet banking, and corporate internet banking services. Their strong relationship with micro-banking customers presents valuable opportunities to cross-sell other asset products that cater to the entire customer lifecycle. They have also established Banking Outlets classified as Unbanked Rural Centres ("URCs") in 69 districts, aiming to enhance financial inclusion and provide comprehensive services.

Growing deposits with focus on retail deposits:

Utkarsh SFB has experienced significant growth in their total deposits and deposit-only customers over the past two years. As of March 2021, their total deposits were ₹7,507.57 cr, which increased to ₹10,074.18 cr by March 2022 and further to ₹13,710.14 cr by March 2023. In the same period, the number of deposit-only customers grew from 0.38 million to 0.86 million. Additionally, Utkarsh SFB's CASA franchise showed substantial growth. As of March 2021, the CASA franchise was valued at ₹1,326.99 cr, which increased to ₹2,253.29 cr by March 2022 and further to ₹2,863.74 cr by March 2023. This growth in retail deposits provides Utkarsh SFB with increased opportunities to cross-sell and up-sell a variety of products, including assets and third-party offerings. It allows them to cater to their customers evolving needs throughout their life cycle.

New Business strategies towards increasing share of fee income:

To create a robust revenue stream, the SFB intends to further diversify their fee and non-interest based revenues. Utkarsh SFB 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.

Shareholding (No. of shares)

Pre-Issue	89,59,04,663
Post Issue (Lower price band)	1,11,32,95,967
Post Issue (Higher price band)	1,09,59,04,663

Shareholding Pattern

Promoters:	
Pre Issue	84.75%
Post Issue	69.28%
Promoters Group:	
Pre Issue	0
Post Issue	0
Public - Other Selling S/h:	
Pre Issue	13.38%
Post Issue	10.93%
Public - Others:	
Pre Issue	1.88%
Post Issue	19.78%

Issue Breakup

QIB	75%
NIB	15%
Retail	10%

Other Details:

BRLMs: ICICI Securities, Kotak Mahindra Capital

Registrar: Kfin Technologies Ltd

Listing: BSE & NSE

Research Analyst

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Risk

- Higher Business Dependency on Bihar and Uttar Pradesh.
- Loans are unsecured and not supported by any collateral.
- Any change in regulations microfinance and small finance banks.

MVeiw

We believe UTKARSH SFB IPO offer gives an opportunity to invest in one of the fastest growing micro finance businesses in north eastern belt of India. We have seen sentiment towards microfinance and small finance banks have turned better on the back of improved asset quality, growth and profitability in past years. UTKARSH would become the fifth SFB to be listed on the exchange which echoes the demand and growth in the sector with increased significant contribution from the microfinance industry. We like the way UTKARSH has diversified its product portfolio along with a strong pan India network of 830 banking outlets out of which 522 are located in rural and semi urban areas gives an ample opportunity to cross sell and up sell a variety of products. We think the company would continue to deliver steady growth in coming years with a healthy liquidity profile and cost efficient risk management with improving asset quality after taking a hit during the pandemic.

By looking at the financials company has shown a growth of 38%/558% in total revenue and Net Profit for FY 2023 with Gross NPA and Net NPA around 3.23%/0.39% for FY 2023 from 6.10%/2.31% in previous year which improved significantly. On valuation parse at upper band of ₹25/- the issue is asking for a Market Cap of ₹ 2740 Cr with the price to book value at around 1.37x which is very reasonable compared to industry average trading above 2x. Hence considering long term growth rationales with strong management leadership, we recommend investors "SUBSCRIBING" to the UTKARSH SFB IPO with a long term perspective as well as healthy listing gains. With optimistic market sentiments if investors get any listing gains over and above 25%, we recommend booking profits on the listing day.

CONSOLIDATED FINANCIAL TABLES

BASIC FINANCIAL DETAILS

Particulars ₹. (in Crs)	2021	2022	2023
Equity Share Capital	848.33	895.52	895.91
Reserve as stated	520.02	676.78	1,104.42
Reserve as stated	1,368.35	1,572.30	2,000.32
Deposits	7,507.57	10,074.18	13,710.14
Borrowings	2,607.83	2571.94	2349.48
Interest Earned	1,580.99	1,848.81	2,504.98
Profit Before Tax	151.44	79.71	535.81
Net Profit for the period	111.82	61.46	404.5
Net Interest Margin (%)	9.57%	8.75%	8.20%
Gross NPAs	3.23%	6.10%	3.75%
Net NPAs	0.39%	2.31%	1.33%
EPS	1.46	0.7	4.52
RONW (%)	8.17%	3.91%	20.22%
NAV(₹)	16.13	17.56	22.33

COMPARISON WITH INDUSTRY LISTED PEERS ₹ (IN CR)

Companies	Mcap (₹ in Cr)	Consolidated /Standalone	FV	Total Income (₹ in Cr)	EPS	NAV	P/E	P/BV	RONW
Utkarsh Small Finance Bank Ltd	2740	Consolidated	10	2,804.29	4.52	22.33	6.8	1.37	20.22%
Equitas Small Finance Bank	10,219.47	Consolidated	10	4,831.46	5.15	46.44	17.82	1.98	11.12%
Ujjivan Small Finance Bank Ltd	8,122.43	Consolidated	10	4,754.19	5.63	20.25	7.38	2.05	27.79%
Credit Access Grameen Ltd	19,849.67	Consolidated	10	3,550.79	52.82	326.89	24.03	3.89	16.18%
Spandana Sphoorty Financial Ltd	5,037.33	Consolidated	10	1,477.03	1.74	436.58	408.31	1.66	0.40%
Bandhan Bank Ltd	36,824.18	Consolidated	10	18,373.25	13.62	121.58	16.78	1.88	11.21%
AU Small Finance Bank Ltd	50,943.30	Consolidated	10	9,239.87	21.41	164.64	35.68	4.66	13.01%
Suryoday Small Finance Bank	1,786.68	Consolidated	10	1,281.10	7.32	149.28	22.99	1.13	4.90%
Fusion Micro Finance Ltd	6,105.77	Consolidated	10	1,799.97	38.47	230.74	15.77	2.63	16.67%

Source: Company RHP



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Msearch's Recommendation (Absolute Performance) Buy: > 20% within the next 12 Months

Accumulate: 5% to 20% within the next 12 Months Sell : < -20% within the next 12 Months

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