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IPO Note – Suryoday Small Finance Bank Limited

16-March-2021

RETAIL RESEARCH

Suryoday Small Finance Bank Limited

Issue Snapshot:
Issue Open: Mar 17 – Mar 19, 2021

Price Band: Rs. 303 –305 (Rs.30 discount for eligible employees)

*Issue Size: 19,093,070 eq shares
(Fresh issue 8,150,000 + Offer for sale of 10,943,070 eq sh)

*Issue Size: Rs. 578.52 – 582.34 cr

Reservation for:

QIB	Upto	9,296,534 eq sh
Non Institutional	atleast	2,788,961 eq sh
Retail	atleast	6,507,575 eq sh
Employee	Upto	500,000 eq sh

Face Value: Rs 10

Book value: Rs 133.54 (December 31, 2020)

Bid size: - 49 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:
Pre Issue Equity: Rs. 97.98 cr
Post issue Equity: Rs. 106.13 cr

Listing: BSE & NSE

Book Running Lead Manager: Axis Capital Limited, ICICI Securities Limited, IIFL Securities Limited, SBI Capital Markets Limited

Registrar to issue: Kfin Technologies Private Limited

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	30.3	28.0
Public & Employee	69.7	72.0
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Suryoday Small Finance Bank Ltd (SSFBL) was 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. It has for over a decade been serving customers in the unbanked and underbanked segments in India and promoting financial inclusion. Prior to 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. Its average "priority sector" loans, as a percentage of average ANBC for Fiscal 2018, 2019 and 2020 and nine months ended December 31, 2020 was 99.08%, 112.10%, 103.67% and 114.09%, respectively. Over the years, it has diversified its loan portfolio to include non-micro banking loans thereby reducing its dependence on micro banking business.

As of December 31, 2020, SSFBL's customer base was 1.44 million and its 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 touch points during April 1, 2020 and January 31, 2021 and intends to continue to expand its reach through the CSP model. Its delivery platform also includes partnering with business correspondents ("**BCs**") for sourcing both asset and liability business and has expanded its network and presence through its reach to promote financial inclusion. It has arrangements with various payment banks in India and has been able to leverage its relationship with such payment banks to grow its deposit base. The Company's distribution network also comprises its ATMs, phone banking, mobile banking, tablet banking, unified payment interface, CSPs, and internet banking services. Its operations are predominantly in urban and semi-urban locations due to greater income earning capabilities and employment opportunities in such areas compared with rural regions.

SSFBL currently offers a variety of asset and liability products and services designed for inclusive finance and general banking customers. Its asset products consist of its inclusive finance portfolio (comprising loans to JLG customers), commercial vehicle loans, affordable housing loans, micro business loans, unsecured micro and small enterprise and small and medium enterprise loans, secured business loans, financial intermediary group loans and other loans. In addition to its loan and deposit products, it also offers other banking facilities, products and services to generate non-interest income and cater towards the additional needs of its customers. These facilities, products and services include debit cards, internet banking, mobile banking, online bill payment services and the distribution of third-party life and general insurance products and mutual fund products. It has leveraged the use of technology across all aspects of its operations. In particular, it uses digital technology for customer acquisition and also customer lifecycle management. Its employees use tablets to service customers in the unbanked and underbanked segments which has led to greater customer convenience and improved operational efficiency. It also has a robust back-end operating system supported by its core banking system and document management system.

Going forward, SSFBL intends to strengthen its relationship with its existing customers by leveraging its inclusive finance customer base and by offering other asset and liability products based on the requirements. Its focus will be to grow its customer base by providing quality customer service. It will continue to focus on the use of technology, explore partnerships with fintech companies, undertake data analytics to better understand the requirements of its customers, improve operational efficiency and further reduce costs. As it grows its operations, it will look to selectively expand its network of Banking Outlets across newer geographies and also penetrate further into its existing markets. SSFBL also intends to engage with BC partners and payment banks to leverage its network to help expand and increase its market share.

Objects of Issue:

The Issue comprises a Fresh Issue by the Bank and an Offer for Sale by the Selling Shareholders.

Offer for Sale

Each of the Selling Shareholders will be entitled to its respective portion of the proceeds from the Offer for Sale in proportion to the Equity Shares sold by such Selling Shareholder as part of the Offer for Sale. SSFBL will not receive any proceeds from the Offer for Sale and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.

Fresh Issue

- SSFBL proposes to utilize the Net Proceeds from the Fresh Issue towards augmenting its Bank's Tier – 1 capital base to meet Bank's future capital requirements.
- It expects to receive the benefits of listing the Equity Shares on the Stock Exchanges.

The following table sets forth certain information relating to operations and financial performance in the periods specified:

Metric (Rs. million, except percentages)	As of and for the years ended March 31,			As of and for the nine months ended December 31,	
	2018	2019	2020	2019	2020
Advances	15,686.78	26,795.84	35,319.44	33,609.03	37,822.63
Disbursements	17,088.23	28,560.30	30,904.76	23,133.99	11,597.37
Deposits	7,495.22	15,934.25	28,487.15	24,913.57	33,438.40
Retail term deposit / total term deposit ratio	33.92%	35.67%	48.55%	45.30%	68.16%
Net Worth	5,384.85	8,803.65	10,662.29	10,753.13	11,909.62
CASA Ratio	11.03%	11.25%	11.45%	11.93%	13.32%
Total Debt / Total Equity	2.72	3.09	3.86	3.14	4.06
Net Interest Income	1,658.30	3,403.74	4,909.05	3,611.32	3,532.77
Net Interest Margin	10.40%	12.80%	11.92%	12.30%* [9.22%]	8.49%* [6.36%]
Profit After Tax	114.92	903.98	1,111.98	1,266.78	548.66
Return on Average Assets	0.67%	3.17%	2.53%	4.03%* [3.02%]	1.24%* [0.93%]
Return on Average Equity	2.25%	14.77%	11.27%	17.62%* [13.22%]	6.32%* [4.74%]
Yield on average interest-earning assets	17.99%	19.93%	18.62%	21.05%* [15.79%]	19.76%* [14.82%]
Cost of Funds	10.71%	8.99%	8.55%	8.83%* [6.62%]	8.05%* [6.04%]
Provision Coverage Ratio	48.33%	75.80%	84.71%	84.22%	89.58%
GNPA	3.54%	1.81%	2.79%	2.78%	0.78%
NNPA	1.86%	0.44%	0.57%	0.52%	0.33%
Book Value Per Equity Share	79.78	107.91	123.13	124.58	133.54

***Annualized, and figures in square brackets represent unannualized figures**

Competitive Strengths

Customer centric approach with a focus on financial inclusion: SSFBL is a commercial bank focused on serving customers in the unbanked and underbanked segments in India and considers its customers to be the most significant stakeholders of its operations. As of December 31, 2020, it served 1.44 million customers and in the period between Fiscal 2018 to Fiscal 2020, its customer base increased by 0.65 million. Its inclusive finance portfolio (comprising loans to JLGs) accounted for 70.35% of Gross Loan Portfolio, as of December 31, 2020. While business model has transitioned over the years, initially operating as a NBFC – MFI before commencing its SFB operations in 2017, its core focus has been to serve unbanked and underbanked customers. Given operating history as microfinance institution, a significant portion of SSFBL's portfolio continues to qualify as "priority sector lending" as mandated by the RBI and helps it promote financial inclusion in India. Its 24/7 call centre, 'Smile Centre', has been set-up to resolve customer queries and actively gathers feedback to further improve its services. In Fiscal 2021, it commenced offering digital collection facilities for all its customers to pay their loan instalments digitally. It also conduct financial literacy programmes that are designed to create financial capabilities for low-income households. In Fiscal 2020 and in the nine months ended December 31, 2020, it conducted 6,379 and 889 such training programs, respectively. These programs cover key concepts of savings, credit, insurance, pension, digital financial services and information services on various social security schemes provided by the Government of India.

Diversified asset portfolio with a focus on retail operations: Over the years, SSFBL has been able to diversify its product portfolio to ensure that the proportion of net unsecured portfolio has reduced from 94.81% of its net advances in Fiscal 2018 to 77.49% in Fiscal 2020 and further to 74.59% in the nine months ended December 31, 2020. It commenced operations as a microfinance institution in 2009, and following its conversion to a SFB, it has been able to diversify into other products which broadly includes commercial vehicle loans, affordable home loans, micro business loans, secured and unsecured business loans to MSME/SME and corporates and financial intermediary group loans. It also provides commercial vehicle loans, institutional credit to NBFCs as well as various liability products to self-employed individuals, enterprises, corporates, partnership firms, banks etc. and mid-sized enterprises. In addition, it offers funds transfer facilities and distributes various general and life insurance products and mutual fund products. It has leveraged its Banking Outlet network that comprised 554 Banking Outlets across 13 states and union territories, as of December 31, 2020, to grow its asset portfolio. Its portfolio is focused in states with high GDP growth rates such as Karnataka and Gujarat and states such as Maharashtra, Tamil Nadu and Odisha with average GDP growth.

Fast evolving granular deposit franchise: SSFBL has witnessed rapid growth in deposits between Fiscal 2018 and Fiscal 2020. Its deposit base has grown at a CAGR of 94.95% from Rs. 7,495.22 million as of March 31, 2018 to Rs. 28,487.15 million as of March 31, 2020 and was Rs. 33,438.40 million as of December 31, 2020. As of December 31, 2020, its deposit base represented 69.22% of its overall funding profile. SSFBL is among the SFBs with the highest deposit growth rate in Fiscal 2020. It offers a variety of demand and time deposits and other services through which customers can realize their savings goals. Its focus on productivity, better customer experience and customer acquisition along with expanding operations has led to significant growth in its deposits. It also offers services such as bill pay, UPI based money transfer, safe deposit locker facilities for its customers. It offers debit cards to its customers and also make banking services available through mobile banking application and internet banking platform. Bank’s liability products are targeted primarily at retail customers and include senior citizens, upper middle-class individuals, self-employed and salaried individuals and HNIs. Its deposit portfolio is primarily sourced from Maharashtra and Tamil Nadu with each state contributing to 49.21% and 23.57%, respectively, of its total deposit base, as of December 31, 2020. Given that a significant proportion of its Banking Outlets are located in such states it has been able to leverage its understanding and experience in these states as a micro finance NBFC to grow its deposit base. SSFBL has been able to leverage the experience and network of its BCs to grow its retail liability portfolio and their expertise to expand into newer geographies. As of December 31, 2020, it has four BC led Banking Outlets that had a deposit balance of Rs. 2,090.69 million.

Leveraging emerging technologies to enhance digital footprint: SSFBL has leveraged technology to enable smooth and seamless customer experience. It has had its digital channels such as internet banking and mobile banking since commencement of its SFB operations. It extensively use digital technologies for the entire customer lifecycle in its inclusive finance business. As of December 31, 2020, 3,261 employees use tablets/ digital services for opening of savings account and for customer on-boarding. The use of handheld devices has empowered its employees to provide assisted services to unbanked and underbanked customer segments that, has led to greater customer convenience and operational efficiency. SSFBL leverage fintech partnerships to provide value added products and services to its customers. Towards this end it has built an enterprise integration layer which facilitates integration with partner entities through APIs. It continue to invest in digital technologies to drive greater customer experience and employee empowerment. In addition, t has made investments to strengthen its security infrastructure given the paramount importance of information security.

Strong credit processes and robust risk management framework: SSFBL has a strong credit function that comprises a team of 83 individuals as of December 31, 2020, each of whom has experience in the banking and financial services industry. It has implemented credit management models such as credit history checks with various bureaus, fraud verification tools/ processes on customer profile and documentation, which has enabled it to maintain a stable portfolio quality. Its credit underwriting practices include scorecard based assessment for its retail asset products, segment-based and geography-based assessment policies. It has entered into partnerships with third parties and fintech companies to implement various enterprise-wide compliance and risk management tools on its platform, enhance its product offerings and make loan processes faster and convenient for its customers.

SSFBL has an established risk management framework to identify, assess, monitor and manage risk. Its framework is driven actively by the Board through the Risk Management Committee of the Board (“**RMCB**”). The RMCB is responsible for review of emerging risks, stress scenarios and their impact on its business, assessing risk mitigation measures, reviewing CRAR and internal capital adequacy assessment processes, besides over-seeing the functioning of the Asset Liability Management Committee and Risk Management Committee of Executives and implementation of the risk management policies and processes. It also undertake continuous monitoring of delinquent accounts and take measures for portfolio improvement from time-to-time.

Track record of strong financial performance and cost efficient operations: SSFBL has been growing since its conversion as an SFB and are currently in a robust financial position that will enable it to expand its business quickly. Its Gross Loan Portfolio has grown at a CAGR of 46.98% from Rs 17,177.84 million as of March 31, 2018 to Rs 37,108.42 million as of March 31, 2020 and was Rs. 39,028.29 million as of December 31, 2020. Its profit after tax has increased from Rs 114.92 million in Fiscal 2018 to Rs. 1,111.98 million in Fiscal 2020 and was Rs. 548.66 million in the nine months ended December 31, 2020. Return on average assets was 0.67%, 3.17%, 2.53% and 1.24% (annualized) / 0.93% (unannualized) as of and for the years ended March 31, 2018, 2019 and 2020 and as of and for the nine months ended December 31, 2020, respectively, while its return on average equity was 2.25%, 14.77%, 11.27% and 6.32% (annualized) / 4.74% (unannualized) in similar periods. Operating expense ratio as percentage of its average balance of Gross Loan Portfolio has reduced from 10.72% in Fiscal 2018 to 7.99% in Fiscal 2020 and was 8.38% (annualized) / 6.29% (unannualized) in the nine months ended December 31, 2020. The relatively moderate size of Banking Outlets has led to reduction in the overall capital expenditure and operating expenditure per Banking Outlet.

SSFBL's cost efficient operations are attributable to its automation and digitization of various processes including its loan sourcing in inclusive finance business. Its average cost per employee was Rs 282,233.49 in the nine months ended December 31, 2020 that it credit to its compensation structure that includes providing stock options to employees across various levels and has led to significant reduction in overall compensation cost and resulted in employee stickiness over the years.

Multiple distribution channels: SSFBL's distribution and service channels comprise its Banking Outlets, ATMs, phone banking, mobile banking, tablet banking, CSPs and internet banking services. As of December 31, 2020, it operated 554 Banking Outlets including 153 URCs across 13 states and union territories. As of March 31, 2020, it operated 58, 150, 79 and 190 Banking Outlets (including URCs) in the north, south, east and west regions, respectively, as per RBI classification of regions while as of December 31, 2020, it operated 101, 168, 91 and 194 Banking Outlets (including URCs) in the north, south, east and west regions, respectively, as per RBI classification of regions. In addition, as of December 31, 2020, 37.13%, 27.28%, 28.83% and 6.26% of its Gross Advances were from metropolitan, urban, semi-urban and rural regions. Its deposit base is served through Banking Outlets and as of December 31, 2020, 8.15%, 34.74%, 3.18% and 53.92% of its total deposits were in the northern, southern, eastern and western regions of India, respectively. As of December 31, 2020, it also had a network of 25 owned ATMs. It has set up 661 CSPs during April 1, 2020 and January 31, 2021 as additional service points for its customers and to increase its customer base.

SSFBL also undertake a part of its operations through BCs and as of March 31, 2020, it had 18 BC outlets across its asset and liability businesses. As of December 31, 2020, it had 16 BC outlets across asset and liability businesses. Its BC partners on the asset side carry out inclusive finance business for its Bank in existing and new geographies. Its corporate BCs help promote financial inclusion including through promotion of government schemes in rural areas. It has also collaborated with payment banks in India to grow deposit base and offer customers of payment banks certain sweep account facilities.

Experienced leadership team, professional management and strong corporate governance: SSFBL is a professionally managed bank led by Baskar Babu Ramachandran, its founder, Managing Director and Chief Executive Officer. A first generation entrepreneur, he has several years of experience in the financial services sector and has held leadership positions in companies like HDFC Bank Limited, GE Capital Transportation Financial Services Limited amongst others. The members of its senior management team has experience and relevant expertise in banking and financial sectors, corporate laws, sales, technology and operations and has been instrumental in scaling up business operations.

Business Strategy:

Expand asset portfolio while focusing on secured lending: The Indian market for inclusive finance and general banking to continue to grow in the foreseeable future. The micro finance industry grew by 16% year-on-year to reach ₹ 3.3 trillion as of March 31, 2020. The overall growth of microfinance sector in the current fiscal is expected to reach ₹ 3.5 trillion owing to high sensitivity of the sector towards external shocks. The growth in micro finance is expected to come from increasing presence in the newer states, expanding the client base and increasing the ticket size gradually. SSFBL aims to grow within its existing geographies as well as in new geographies in a calibrated manner based on its analytics and intelligence on industry growth. Its focus will continue to be on the inclusive finance segment in line with industry growth. It intends to continue to grow its inclusive finance portfolio in line with the projected growth in the industry. It also intends to grow its secured portfolio which will grow at a faster pace as compared to inclusive finance portfolio due to its comparatively small base currently. Amongst retail asset products, SSFBL is focusing on lending for commercial vehicles, home loans, secured business loans, and micro business loans. Its focus will be to develop loan products for the used vehicle segment targeted at small and retail transporters with existing operations and experience. It also intends to continue to advance commercial vehicle loans to large fleet operators and OEM's to maintain and strengthen its existing relationships with these key customers. It intends to digitally onboard a potentially large customer base by offering small ticket overdraft loan facilities, in particular to its targeted customer segment, i.e., small and retail transporters.

SSFBL's affordable housing finance segment will be a key focus going forward. It anticipates growth in this segment from areas where it has an existing presence. Its focus will be to disburse loans to self-employed and salaried individuals for non-agricultural properties and in particular in the affordable housing segment and leverage its existing inclusive finance distribution reach and customer base to source home loan customers. Its micro unsecured business loan portfolio will also be key focus to grow in the future. Its secured business loans are financed to MSMEs/ SMEs and to corporates for business purposes including funding their growth and expansion. It plans to deepen its relationship with such customers by opening liability accounts and selling third party products.

Strengthen retail liability franchise: SSFBL intends to strengthen liability franchise growing its CASA and retail deposit base in a steady manner. In order to grow retail deposits, it has set up a dedicated team for acquisition of retail deposits across regions and a product development team to enhance the features of its existing products and develop new products. Its strategy will be to build relationships across various customer segments including with senior citizens, NRIs, educational institutions, NBFCs, corporates and co-operative banks. It intends to deepen relationships with its asset customers over the next few years and intends to develop products and services designed for rural and urban retail customers, as well as continue to actively promote its accounts and deposits. It intends to leverage its existing customer base of over 1.44 million customers as of December 31, 2020, to promote inclusive finance products which will result in a sustained and deeply penetrated deposit base.

SSFBL intends to undertake the expansion of deposit base through measured expansion of Banking Outlets in metropolitan and semi-urban areas. In addition to expansion of Banking Outlets that it intends to open to enhance asset base, and in order to fund those assets, bank will also seek to selectively open Banking Outlets specifically focused on generating deposits in urban areas where there is a large potential deposit base. SSFBL will also continue to engage with BCs to act as a channel for sourcing additional deposits. It will focus on entering into partnerships with individuals with prior banking experience for its urban Banking Outlets and intends to continue to strengthen its BC network in rural areas. It intends to continue its partnership with payment banks that allows it to source deposits from the customers of such payment banks.

Continue to focus on technology and data analytics to grow operations: SSFBL's strategic focus is to use technology to become an agile and data-driven SFB. The use of advanced, cost-effective technology has been a significant factor contributing to the growth of its operations. By enhancing its digital and technology platform further, its endeavor is to empower customers to access various facilities, products and services on its own, reduce costs and thereby increase operating efficiencies. As part of digital roadmap, SSFBL plans to also leverage partnerships with technology service providers and fintech companies to improve productivity of its field force, accuracy and quality of data captured, and reduce turnaround time. Its endeavour going forward will be to ensure that customer onboarding and deposit sourcing will be paperless through the use of 'e-KYC' and 'video-KYC'. Bank's focus will be on the use of data analytics to perform customer segmentation and understand their evolving requirements leading to new product development, faster and better credit decisions and pro-active risk management. It is investing into an analytics platform for enhancing analytical capability and automating various analytical output. The platform will also help improve sales productivity of its employees and provide detailed insights for growth and risk management. SSFBL is in the process of ensuring integration of information pertaining to its customers, its geographies of operation and competitors for different product segments and customer segments on a single platform, which will enable it to perform analysis pertaining to customer segmentation, better and more targeted cross-selling and up-selling analysis and review market behavior for risk-based monitoring.

Expand geographic presence and penetrate further into existing geographies: As of December 31, 2020, SSFBL conducted its operations through 554 Banking Outlets in 13 states and union territories in India. While historically its operations were focused in Maharashtra, Tamil Nadu and Odisha, it has expanded its operations to Gujarat, Karnataka, Madhya Pradesh, Rajasthan, Chhattisgarh, Puducherry, Telangana, Uttar Pradesh and Delhi. It intends to continue expanding its network of Banking Outlets to drive greater and deeper penetration in these states while focusing on low and middle-income individuals and small businesses that has limited or no access to formal banking channels, spread across urban and semi-urban markets. It also intends to open targeted Banking Outlets in urban/ semi-urban areas in order to grow its business amongst mass market customers in these areas. It will also continue to penetrate further into existing geographies that has significant growth opportunities and also into newer states to mitigate risk.

While SSFBL will selectively open additional Banking Outlets and expand its BC network, it also intends to strengthen its alternate delivery channels such as its ATM, mobile and internet banking and increase their adoption by its customers. It will evaluate the offerings at its Banking Outlets to customize products to the needs and demands of its customers in the region in which Banking Outlets are located and correspondingly update existing operations and resources utilized in a territory.

Industry

Small Finance Banking Industry

In order to promote financial inclusion, the Indian banking industry has seen several changes in recent years. NBFCs such as, Bandhan and IDFC, received permission to set up universal banks. Further, a few microfinance companies, local area banks and NBFCs have received permission to set up SFBs. SFBs are allowed to take deposits, which provide them an edge of having lower cost of funds in comparison with NBFCs. MFIs that have turned into SFBs are now diversifying their advances mix, and focusing on other retail and corporate lending business.

Key growth drivers

India has the world's second largest population

India's population was approximately 1.2 billion, comprising almost 246 million households. The population, which grew at approximately 1.8% every year between 2001 and 2010, is expected to increase by around 1% every year between 2010 and 2024, to reach approximately 1.44 billion. As of 2020, India has one of the largest young populations in the world, with a median age of 28 years. About 90% of Indians will still be below the age of 60 by calendar 2020.

Financial penetration to rise with increase in awareness of financial products

With increasing financial literacy, mobile penetration, awareness and the Prime Minister's Jan Dhan Yojana (PMJDY) bank accounts (scheme aimed at bringing the unbanked under the formal banking system), there has been a rise in the participation of individuals from non-metro cities in banking. With more people attached to formal banking sector, the demand for financial products in smaller cities has seen a major increase in recent years.

Going forward, CRISIL Research expects financial penetration to increase on account of increasing financial literacy. Technology is expected to play an important role by progressively reducing the cost of reaching out to smaller markets. India has seen a tremendous rise in fintech adoption in the last few years, and among them, Unified Payments Interface (UPI) is playing a pivotal role towards financial inclusion. It provides a single click digital interface across all system for smartphones linked to bank accounts and facilitates easy P2P transactions using simple authentication method. The volume of digital transactions has also seen a surge in the past few years driven by increased adoption of UPI.

Financial inclusion and key developments

The COVID-19 lockdown in India of nearly 1.3 billion people and a large number of businesses is leading to disruption and dislocation. To provide some relief to the customers, the RBI has introduced measures that allows lending institutions to allow a moratorium of six months on repayment of instalments for term loans outstanding as on March 1, 2020. Lending institutions are permitted to defer interest payments on working capital facilities outstanding as on March 1, 2020, by a period of six months until August 31, 2020. However, banks are instructed to provide 10% additional provisioning for availing of this benefit, which could be later adjusted against the provisioning requirements for actual slippage. These measures are required to boost confidence in the economy.

In India, banks are required to maintain a capital adequacy ratio, which is higher (by 1%) than the mandatory requirement of Basel III norms. SFBs are required to maintain 15% capital adequacy ratio under Basel II norms. According to the RBI, this is done to make the financial sector resilient towards any shocks. The central bank believes that credit growth higher than nominal GDP expansion due to supply push could result into a sharp rise in bad loans. In addition, given the insolvency regime in the country that is still not matured, lower capital norms will create a notion of banks being strong and hence it is necessary to guard against any such vulnerability that could put stress on the financial system.

In these times of crisis, financial inclusion becomes more crucial than before for vulnerable households and businesses to navigate the crises and recover after the pandemic. In terms of the credit to non-financial sector, India has a low credit penetration compared with other developing countries, such as China and Brazil, indicating that the existing gap needs to be bridged.

India’s performance for financial inclusion is improving in comparison with other emerging economies; however, a large section of the population is still unbanked.

According to the World Bank’s Global Findex Database 2017, the global average of adult population with an account (with a bank, financial institution, or mobile money providers) was about 69% in 2017. India’s financial inclusion has improved significantly in the past three years, with the adult population with bank accounts rising from 53% (as per Global Findex Database 2014) to 80% (2017) with concentrated efforts from the government and the rise of various supporting institutions. Although the rise in the number of bank accounts has not translated into a corresponding increase in the number of transactions.

To tackle financial exclusion, the Indian government introduced the PMJDY, a scheme that facilitates opening bank accounts by the unbanked. However, the effective use of these new accounts and availability of credit remain key challenges, which need to be effectively addressed as borrowings from the formal source still remains low.

Key steps taken by the government to improve financial inclusion

Government initiatives, parallel support infrastructure, SFBs and fintech

To improve financial inclusion, especially in rural areas, the government is focusing on improving the overall and rural infrastructure for penetration of financial services as well as empowering the development of parallel supporting institutions. This has provided an opportunity for small-finance banks and other financial institutions to cater to the unserved population or act as a channel between the larger financial institutions and other service providers to the underserved customers. The RBI has awarded SFB licenses to 10 institutions, which aim to service the underserved through savings instruments, and supplying credit to small business units, small and marginal farmers, micro and small industries, and other unorganised, sector/lending through informal channels. SFBs are also required to dedicate 75% of their ANBC towards priority sector. For the SFBs, nearly 23% of their deposits arise from the rural areas, whereas the credit view shows a geographic skew with 35% of the advances in rural and semi-urban areas. This has led to increasing credit penetration in the rural areas, thereby ensuring financial inclusion.

Priority sector lending aimed at facilitating financial inclusion

The definition of 'priority sector' was formalised in 1972, based on a report submitted by the Informal Study Group on Statistics, relating to advances to priority sectors, constituted by the RBI in May 1971. The requirement was set at 33.3% for SCBs in 1979, and raised to the current 40% in 1985. Targets and sub-targets for banks were further classified under the priority sector; and revised at intervals. As per the latest regulations, medium enterprises, social infrastructure and renewable energy are part of the priority sector, in addition to the existing categories. Also, non-achievement of priority sector targets has been assessed on a quarterly average basis at the end of the respective year, from fiscal 2017 onwards, instead of annually.

Considering the differentiated nature and focus of small finance banks and the role they can play in supply of credit to unbanked regions, SFBs have a target of 75% for priority sector lending (PSL) of their adjusted net bank credit (ANBC). With 40% of ANBC to be allocated under different sub sector under PSL as mentioned below, the remainder 35% can be allocated to any one or more sector where the SFBs have a competitive advantage.

As per the RBI, these sub-divisions include: (i) agriculture; (ii) social infrastructure; (iii) renewable energy; (iv) microcredit; (v) advances to weaker sections; (vi) education loans; and (vii) housing.

INDIAN BANKING INDUSTRY

Evolution of SFBs

Despite various measures taken by the Government to increase financial penetration in India, a significant percentage of India's population does not have access to basic financial services. In 2013, the RBI constituted a committee that recommended differential licensing in the form of payment bank and SFB. Accordingly, on November 27, 2014, the RBI released guidelines for a new class of banking entity, 'small finance banks', to cater to the diverse needs of the low income group. Further, on September 16, 2015, the RBI awarded SFB licenses to 10 players on account of the Government's focus towards financial inclusion and inclusive banking. Out of the 10 SFBs, there were eight microfinance players, one local area bank and one NBFC. The objective of SFB's is to extend banking services to the underserved and unserved population through savings instruments, and providing credit to small business units, small and marginal farmers, micro and small industries, and other unorganized sector.

The SFBs are technologically driven in order to reduce the cost of operations and also ensure faster reach to the untapped market. According to World Bank's Global Findex Database 2017, India's financial inclusion level has improved significantly with the adult population's bank accounts rising from 53% in 2014 to 80% in 2017 on account of various Government initiatives, institution support and increase in usage of mobile phones as a medium for distributing financial services. Technology improvements help in financial penetration, however, the primary challenge for SFBs is still the ability to generate low cost deposits. While there exists a significant opportunity, SFBs will need to innovate further in terms of introducing customized and flexible offerings to target the untapped market.

SFBs, NBFCs – Digitalization

The financial services sector is evolving with increasing digital disruptions. Customers are also witnessing enhanced experience as lenders offer personalised products and services using analytics. In order to expand their reach quickly, SFBs and NBFCs are moving beyond physical branches and using alternative electronic delivery channels

Asset side: SFBs and NBFCs have mobile/tab-based applications to automate loan processing in the field. These apps help sales staff to assess a customer's credit worthiness in real time by accessing credit bureau information. Such credit appraisals are key in order to reduce delinquencies. Cashless disbursements have also increased in the industry. Financial institutions are also partnering with various fintech companies and payment gateway services to ensure collections.

Digitalisation and usage of technology have had the biggest impact on customer acquisition and on-boarding, followed by credit assessment to some extent. Documentation and collection and monitoring are other processes experiencing digitalisation, however, it is relatively lower. Technology is progressively being applied in these processes through digital monitoring of portfolio using dashboards and analytics.

Liability side: Digitalisation helps SFBs lower their operational cost by eliminating repetitive and time-consuming processes in account opening through increased front-end support. Use of mobile/tab-based paperless on-boarding has significantly reduced the turnaround time to a maximum of one hour from one-two days traditionally.
For instance, During the Covid-19 lockdown, Suryoday SFB launched a working capital product with a small overdraft facility to help microfinance customers meet their urgent liquidity requirements. Equitas SFB recently launched Selfe Fixed Deposit and Selfe Savings Account which allow users to open an FD by registering their Aadhaar and PAN and other basic details from the comfort of their homes, thereby removing hassles of visiting the branch. AU SFB on-boarded approximately 88% of its savings account customers through tab-based paperless process. Suryoday SFB has tied up with Razorpay in order to bring about a shift in the way microfinance customers transact and enable them to go digital to repay their loans.

Growth drivers

Sizeable market opportunity and credit at affordable rates

Due to the size of India's population and the lack of formal banking services for a significant section of India's population, financial inclusion has been a key priority for the Government. The banking system and PSL have been the most popular channels to bring the majority under formal credit institutions. Financial inclusion is a comprehensive exercise that constitutes several products and services, such as provision of bank accounts, insurance facilities, payment and remittance mechanisms, financial counselling and affordable credit. Further, various initiatives have been undertaken by the Government to widen financial inclusion. These initiatives are planned by NABARD and executed through entities such as regional rural banks, cooperatives and commercial banks. In addition, in 1970s, such lenders achieved significant reach and an increasing number of individuals availed credit facilities. However, major delinquencies in repayment severely impaired their financial health. Further, despite the rapid expansion in the scale of banks, several households continued to face difficulties in accessing credit facilities. Within the large range of products and services under financial inclusion, credit has particular significant and financial institutions have a major role to play in making credit available. The key growth drivers for SFB include the size of the India market in terms of financially excluded households offers sustainable credit to the poor at affordable rates. SFBs are also diversifying their product portfolio beyond microfinance into unsecured loans, auto loans, housing loans and MSME loans.

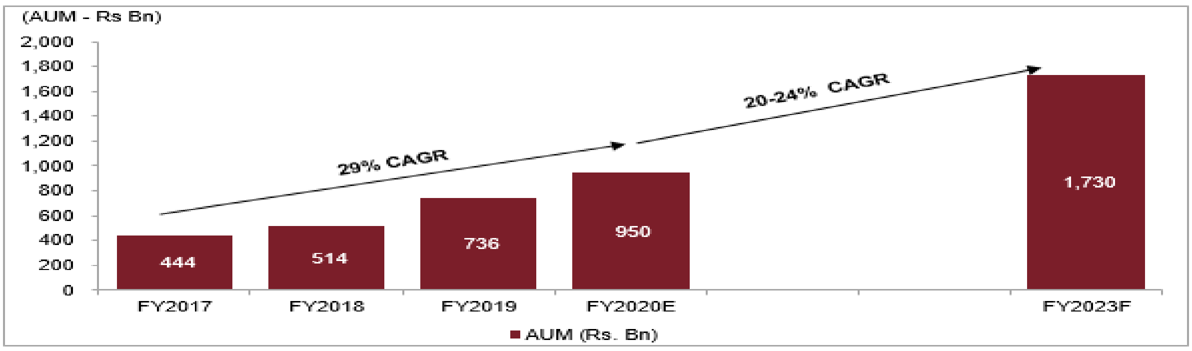
Customized products aided by technology and availability of information
Increase in the use of technology has enabled lenders to provide customized products at much lower turnaround times. Multiple data points are available to lenders that facilitates quick lending decisions by firms within a few minutes by using data-driven automated models. These models help in the supply of credit to small business units and the unorganized sector at low cost. Use of technology also enables such players in expanding their reach to under penetrated population in remote areas at a lower operating cost.

Availability of funds at cheaper rates
CASA and other retail deposits provide SFBs cheap source of funding which would help them expand their product portfolio and provide lower rates to compete with NBFCs. In addition, with further expansion of SFBs in the underserved regions, the deposit base is expected to further widen and will help in expanding their asset side portfolio. Accordingly, SFBs will hold an advantage over NBFCs.

Large Target audience
SFB's aim to cater to the low-income segment. Further, unlike NBFCs which expand horizontally with special focus product, SFBs have the chance to expand vertically and deep which will enable them to have a good range of medium and low value customers and as a result, help in increasing their business. Further, rural and microfinance borrowers have low credit penetration and migrate less between credit providers, therefore enabling SFBs to build a loyal customer base. In addition, factors, such as, lack of awareness of financial services, illiteracy and poverty will result in a challenge for SFBs from the demand side. However, the government's focus on increasing financial literacy and awareness is expected to help overcome this challenge. Although SFBs will fare better in terms of product and service quality due to their focused approach, SFBs will have to create convenient touchpoints to initiate customers into saving regularly and also invest in human capital to equip their staff into mobilizing deposits.

SFBs' growth and outlook

Huge opportunity to support growth over next three years (AUM)



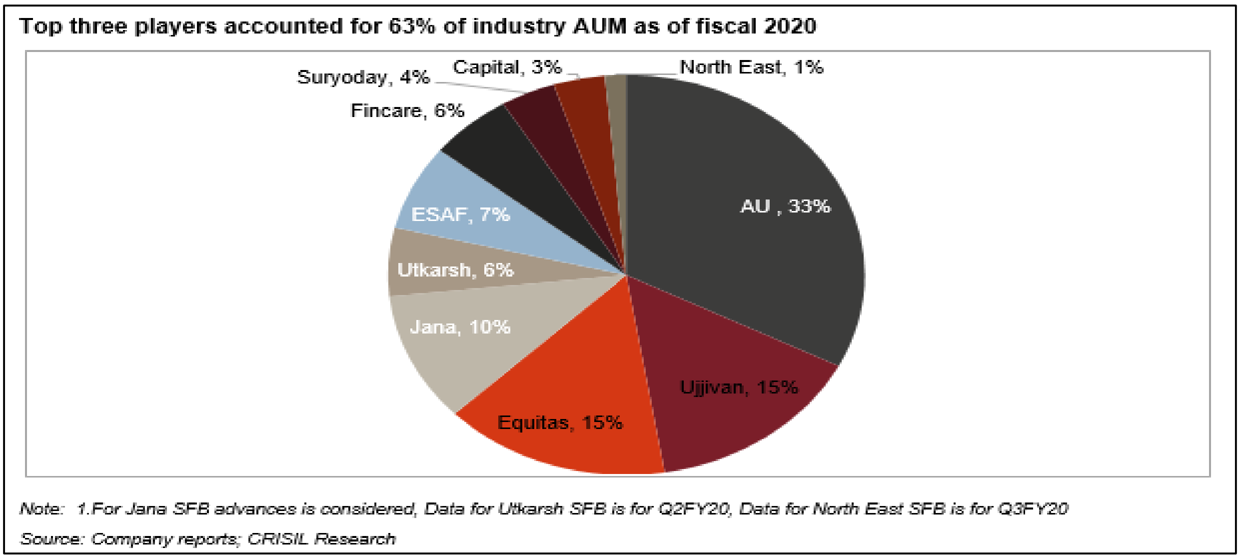
Note: 1) Advances considered are of Jana SFB, Utkarsh SFB, North East SFB; 2) Utkarsh SFB data is as of Q2 FY20 and that of North East SFB Q3 FY20; 3) AUM considered for other players, the amounts are as of the end of the fiscal indicated

E: Estimated; F: Forecast

Source: Company reports, CRISIL Research

SFBs have grown at a CAGR of 29% from Fiscal 2017 to Fiscal 2020, in terms of assets under management (AUM). Top three SFBs accounted for 63% of the total SFB AUM in Fiscal 2020, compared to 55% in Fiscal 2017. These top three SFBs recorded a CAGR of 35% from Fiscal 2017 to Fiscal 2020.

Further, it is expected the loan portfolio will grow at a CAGR of approximately 22% in the near term. New loan origination is expected to remain low as SFBs are cautious and selective in disbursals as a result of the pandemic. However, as the economy revives and business operations normalize, growth is likely to recovery from the second half of Fiscal 2021 due to support from (i) significant market opportunity in the rural segment; (ii) presence of informal credit channels; (iii) geographic diversification; (iv) ability to manage local stakeholders, (v) access to low cost funds, and (vi) loan recovery and control on aging NPAs.



SFBs continue to diversify their portfolio beyond microfinance business

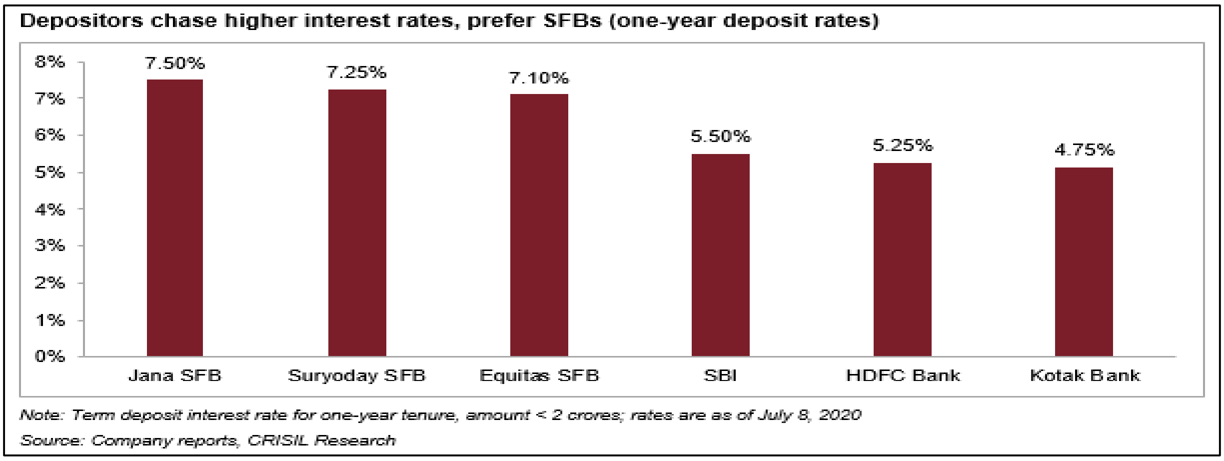
Eight of the 10 firms that were granted SFB license had been MFIs and for most of them microfinance is the central product. The microfinance segment accounted for 38% (including Capital and AU SFB) of overall business of SFBs in Fiscal 2020. From Fiscal 2016 to Fiscal 2019, SFBs shifted their focus from microfinance to other products. However, due to regulatory norms, the core customer base is unlikely to change significantly. After the conversion of NBFC-MFIs to SFBs, the focus is on diversifying the product portfolio. As a result, the share of their MFI portfolio in total advances reduced to 69% as of March 2019 from 90-95% as of Fiscal 2016.

SFBs will have to focus on small-ticket size lending to financially under-served and unserved segments (loans below Rs.2.5 million will have to form at least 50% of their loan book). MFIs that converted to SFBs to further diversify and focus on allied segment loans, such as MSME loans, affordable housing finance, gold loans, CV/non-CV loans and two-wheeler loans, is expected to reduce the dominance of microfinance in their overall loan portfolio.

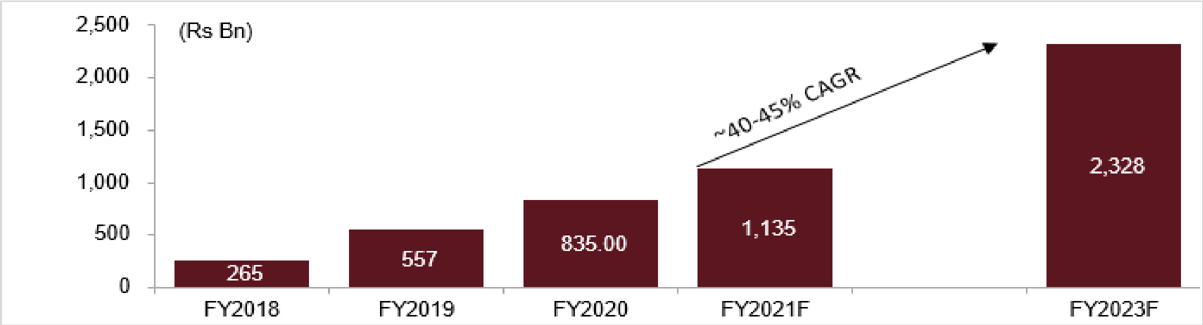
SFB deposits to grow faster than private, public sector banks

SFBs have significant growth potential as most of them were functioning as NBFCs/ MFIs previously. On commencement of their operations, all SFBs focussed on increasing their deposit base. The overall deposit base doubled to around Rs. 557 billion as of Fiscal 2019. It further increased by approximately 48% to reach Rs. 835 billion in Fiscal 2020. The increase could be attributed to the higher interest rates. Before converting into SFB, most players did not have access to deposits and their deposit as a percent of AUM was negligible at the time of conversion. This rose to 87%. However, proportion of CASA deposits reduced marginally from 19.2% in Fiscal 2019 to 18.5% in Fiscal 2020, as customers sought higher interest in term deposits.

On account of the recent crisis with Yes Bank, several private banks are finding it challenging to convince depositors to maintain deposits. However, SFBs deposit growth is a sharp contrast to the shrinking deposit base of private banks. SFBs have witnessed strong growth in deposits despite the lockdown and have seen addition in online customers driven by higher interest rate they offer. For instance, Jana SFB, Suryoday SFB and Equitas SFB offer 7.5%, 7.25% and 7.10%, respectively, for a one-year deposit while established players such as SBI, HDFC and Kotak Mahindra Bank offer 5.5%, 5.25% and 5.15% on deposits of a similar tenure. SFBs also provide monthly interest scheme in case of which interest is calculated for the quarter and paid monthly at discounted rate over the standard FD rates. These higher rates help in attracting the depositors, especially the ones looking for steady cash flows from these, such as senior citizens.



SFB deposits to grow robustly



Note: Amounts are as at the end of fiscal year indicated

F: Forecast

Source: Company reports, CRISIL Research

Profitability of SFBs to decline in Fiscal 2021, improve thereafter

Newly converted SFBs had a challenging beginning in Fiscal 2018, as many players experienced decline in profitability due to losses in the second half of the financial year on account of stressed microfinance accounts. The main reasons for the sharp increase in non-performing assets in the microfinance portfolio of SFBs was demonetization and loan waivers, and demonetization also increased credit cost in Fiscal 2018.

Profitability revived in Fiscal 2019 as credit costs on newly originated loans disbursed post demonetization was lower. Further, due to a rapid growth in deposit base and a consequent reduction in cost of funds NIMs also increased in Fiscal 2019 compared to the previous year. Profitability however remained partly constrained by high operating expenses representing approximately 5.50% to 6.00% of average assets.

In Fiscal 2020, profitability for SFBs is estimated to have declined on account of increased provisioning in the pandemic-weakened economy, which affected the daily wage earners and self-employed individuals who are the target customer base for SFBs. In Fiscal 2021, interest income growth is expected to be lower with fewer disbursements and increasing pressure on margins. CRISIL Research also expects lenders to spread their credit cost over couple of years, as and when the impact of COVID-19 becomes more apparent, hence the credit cost is expected to remain elevated in coming two fiscals. Going forward, it is expected that the ability to maintain sound asset quality in lending while managing growth will be key for profitability.

Affordable housing loan (Ticket size < Rs. 2.5 million)

Affordable Housing Loan is expected to increase at a CAGR of approximately 8% to 9% till Fiscal 2023

Despite the enormous unmet demand in the affordable housing finance market, the segment recorded growth at a CAGR of 9% from Fiscal 2017 to 2020. At the end of Fiscal 2020, outstanding loans amounted to Rs. 9.1 trillion growing at 8% from Rs. 8.6 trillion at the end of Fiscal 2019. The momentum in the affordable housing loans slowed down in the fourth quarter of Fiscal 2020 amid the turbulence due to the pandemic.

The economic slowdown due to pandemic-led lockdown and consequent social distancing measures are likely to impact the demand for home loans. Demand for under-construction projects is likely to be hit the most due to labour migration during the lockdown and uncertainty of project execution. Limited income and unemployment of the target customers could impact property purchase decisions in Fiscal 2021. Affordable housing segment is expected to grow at a CAGR of 8% to 9% till the end of Fiscal 2023.

Impact of liquidity crisis on HFCs

With tightened liquidity post the IL&FS situation in September 2018, HFCs have encountered structural challenges in the form of increased refinancing risk and asset-liability mismatch, which slowed down housing loan disbursements. HFCs access to funds from the debt capital markets has also declined considerably, especially for those companies with high negative ALM mismatches. These HFCs are dependent on banks for funding, which has led to a rise in the cost of funds. SFBs, on the other hand, have access to deposits, resulting in lower cost of funds, which allows them to compete with HFCs on pricing in underpenetrated regions and take away some share from HFCs, resulting in the growth of overall business for SFBs.

MSME FINANCE

Brief overview of MSMEs in India

MSMEs complement large corporates as suppliers and directly cater to end users. The MSME sector contributes to the India's socioeconomic development by providing vast employment opportunities in rural and backward areas, reducing regional imbalances, and assuring equitable distribution of national wealth and income. The segment currently contributes to 28% of the GDP, over 40% of exports and creates employment for approximately 110 million people in India, thus supporting economic development and growth.

The RBI has adopted the definition of MSMEs in line with the Micro, Small and Medium Enterprises Development Act, 2006 ("**MSMED Act**"). This definition is based on investments in plant and machinery in the manufacturing and services sectors. However, the Government has proposed an amendment to the MSMED Act, to have a single definition for manufacturing and services.

MSME credit growth declined sharply in Fiscal 2020

The nationwide lockdown in India has disrupted economic activity, impacted working capital needs, supply chain, future investments and expansions. Domestic supplies and supplies from imports have also suffered. Contractual, wage labour have been impacted and are expected to get impacted even further, leading to layoffs, unrest and lowering of purchasing power and thus, hindering MSMEs' businesses. With risk of COVID-19 pandemic remaining strong in many parts of India, prolonged lockdown has already adversely impacted the loan growth substantially. Further, once the lockdown is lifted, the businesses would take a while to return to normalcy. Therefore, growth recovery could be expected only in the second half of Fiscal 2021. Therefore, it is estimated that the overall MSME growth will be approximately 3% to 4% in Fiscal 2020 and approximately 2% to 3% in Fiscal 2021 as already slowing economy is further worsened by COVID-19 pandemic. However, with the Government's increased focus towards manufacturing in India and easing of loan process for MSMEs, the MSME segment is expected to experience faster growth rates in Fiscal 2022 and Fiscal 2023, leading to a CAGR of approximately 5% to 6% through Fiscal 2023.

NBFCs outperform banks' MSME lending over Fiscal 2017 and Fiscal 2020

Though banks account for a majority share (approximately 89%) of lending to this segment, NBFCs gained approximately 4% of market share over Fiscal 2017 and Fiscal 2020, owing to their aggressive approach, higher risk taking ability, and better leveraging of their property appraisal capabilities, despite slowing down post the IL&FS default. Banks are also losing share as some have triggered the RBI's 'prompt corrective action', which restricts lending. However, in the future, with NBFCs finding it difficult to raise funds and public sector banks turning cautious, SFBs have a good opportunity to tap into this segment and increase their share. '

Government initiatives

GST to increase demand in MSME lending

It is expected that transparency in MSME operations will improve as GST compliance will compel them to record their transactions. This will improve the quality of their books of accounts, thus increasing their creditworthiness. For financial institutions, this will ease the credit appraisal process and lower credit risk. Due to improvement in the quality of books of accounts, financial institutions will be able to lend to MSMEs in the unorganised sector that were previously unable to get credit due to their books of accounts not being maintained properly or not maintained at all. This will open up previously untapped credit demand for financial institutions, leading to a robust expansion of the MSME credit market.

Credit Guarantee Fund Scheme extended to cover NBFCs

One of the major reasons why MSMEs are short of credit is the insistence by banks or financial institutions for the provision of collateral against loans. Collaterals are not easily available with such enterprises, leading to a high risk perception and higher interest rates for these MSMEs. In order to address this issue, the Government launched the Credit Guarantee Fund Scheme, in order to make collateral-free credit available to micro and small enterprises. In January 2017, the Credit Guarantee Fund Scheme was extended to cover systemically important NBFCs as well. Key eligibility criteria for this scheme are: (i) the NBFC should have made a profit for the three preceding Fiscals at the time of enrolment; and (ii) it should have long-term credit rating of at least BBB. There are a few other performance-related parameters too. The overall limit under the scheme has also been enhanced to Rs. 20 million.

Lower tax rates to increase MSME lending

Cut in corporate tax rates for MSMEs will increase investment in the MSME segment. MSMEs and retail borrowers are expected to witness higher credit flow as large corporates tap the bond market to meet the 25% target. The Government support in the form of capital allocation, interest subsidies and tax rate cuts will increase credit demand from the MSME segment

COMMERCIAL VEHICLE FINANCE

Commercial vehicles (CV) sales down in Fiscal 2020 owing to introduction of new axle norms

CV sales volume witnessed a slowdown in growth in Fiscal 2019. Sales volumes grew by 18.6% as against 25.3% in the previous fiscal. In July 2018, the central government revised axle norms, wherein the gross vehicle weight for 2-axle and 3-axle vehicles was increased from 16.2 tonnes to 18.5 tonnes and from 25.0 tonnes to 28.5 tonnes, respectively. This aided an increase in the freight carrying capacity of existing CVs, thereby reducing the demand for purchase of additional CVs, impacting sales. In Fiscal 2020, sales reduced by approximately 29% due to dual impact of increasing freight capacity and limited support from freight demand. Within the segment, sales of medium and heavy commercial vehicles (MHCVs) declined by approximately 48% whereas the sales of light commercial vehicles (LCVs) declined by approximately 21% due to slower private consumption and weak financing availability via lower LTVs due to NBFC liquidity constraints.

Disbursements to remain subdued over the coming two fiscals

New CV loan disbursement amounted to Rs. 820 billion over the five Fiscals ending 2019, recording a CAGR of 18%. The overall disbursements of the CVs is estimated to have de-grown by 35% to 40% in Fiscal 2020, with MHCV disbursements declining further as compared to LCV.

In Fiscal 2021, the demand challenges are expected to continue as a result of the macroeconomic challenges in view of the pandemic. In addition, the weakened financial profile of the fleet operators and price rise resulting from transition to BS-VI will further impact revenue of CV OEMs, thereby affecting disbursements. Over the fiscal, loan-to-value offered by the financiers is expected to reduce by 4% to 5%, further impacting overall disbursements. As a result of these developments, disbursements are expected to decrease by 38% to 40% over the fiscal, the sharpest decline in the past five fiscals. Any recovery in this segment will depend on construction activity which is expected to drive CV financing growth in Fiscals 2022 and 2023 to a limited extent.

MHCV segment to drive growth for used commercial vehicle market

The used-CV finance market recorded strong growth till Fiscal 2015, supported by demand from small-fleet operators and first-time users, and rising need for freight transport, healthy profitability and availability of finance. However, in Fiscals 2016 and 2017, the growth was muted due to low demand, resulting in slower disbursement growth. Also, the replacement cycle of large-fleet operators has stretched to almost five years from an average of four years owing to lack of visibility on contracts and existing unutilized capacities.

In Fiscal 2018 and Fiscal 2019, the loan disbursement for purchase of used commercial vehicle bounced back. The used medium and heavy commercial vehicle segment has witnessed a faster growth than light commercial vehicles because of increasing demand from road and mining sector along with a stricter implementation of overloading ban.

In Fiscal 2020 and the first quarter of Fiscal 2021, The demand for used commercial vehicle saw a decline on account of weak fleet demand from customers, owing to the nationwide lockdown to curb the pandemic. The pandemic has resulted in a slowdown in economic growth, leading to low capacity utilization of existing fleets of the transport operators. However, on expectations of recovery in economic growth in the second half of Fiscal 2021, recommencement of stalled real estate and infrastructure projects, the demand for used CVs is expected to bounce back faster than the new CV segment. In the backdrop of BS-VI transition, financing is expected to be stronger in case of used MHCV as transport operators are likely to shift towards cheaper BS-IV vehicles because of a jump in prices of new BS-VI vehicles.

Key Concerns:

- The continuing impacts of COVID-19 are highly unpredictable and could be significant, and may have an adverse effect on the business, operations and future financial performance.

- Business is currently significantly dependent on advances to inclusive finance (JLG) customers and any adverse developments in the microfinance sector including any regulatory changes could adversely affect the business, financial condition, results of operations and cash flows.

- Banks in India, including SSFBL are subject to stringent regulatory requirements and prudential norms and its inability to comply with such laws, regulations and norms may have an adverse effect on its business, results of operations, financial condition and cash flows.

- SSFBL and its Directors, are involved in certain legal proceedings, any adverse developments related to which could materially and adversely affect its business, reputation and cash flows.

- Business is vulnerable to interest rate risk, and any volatility in interest rates or inability to manage interest rate risk could adversely affect the Net Interest Margins, business, financial condition, results of operations and cash flows.

- SSFBL has a limited operating history as an SFB and its future financial and operational performance cannot be evaluated on account of evolving and growing scale of operations. Accordingly, its future results may not be reflective of its past performance.

- Rely extensively on and upgrade its information technology systems and any disruptions in such systems, or breach of data, could adversely affect bank's operations and reputation.

- Exposed to operational and credit risks which may result in NPAs. If SSFBL is unable to control the level of NPAs in its portfolio or if it is unable to improve its provisioning coverage as a percentage of Gross NPAs, its business, financial conditions, results of operations and cash flows could be adversely affected.

- A significant portion of advances are towards customers located in the States of Tamil Nadu, Maharashtra and Odisha, and any adverse changes in the conditions affecting these regions can adversely impact the business, financial condition and results of operations.

- Deposits depend on a limited number of customers and a loss of such customers could materially and adversely affect bank's deposit portfolio, funding sources, financial condition, results of operations and cash flows.

- Banking companies in India, including SSFBL, are currently required to report financial statements as per Indian GAAP. However, it may be required to prepare its financial statements in accordance with Ind AS in the future. Differences exist between Ind AS and Indian GAAP, which may be material to investors' assessment of its financial condition.

- SSFBL could be subject to volatility in income from its treasury operations, which could have an adverse effect on its results of operations and cash flows

- SSFBL has entered into tie-ups with Business Correspondents and payment banks for sourcing and servicing customers.

- If these Business Correspondents prefer to promote bank's competitors' products or its agreements with them are terminated or not renewed it would adversely affect its business, financial condition, results of operations and cash flows.

- Negative cash flows from operating activities in the future could adversely affect the cash flow requirements, its ability to operate business and implement growth plans, thereby affecting financial performance.

- SSFBL has introduced new products and services and it cannot be assures that such products and services will be profitable in the future.

- SSFBL may face asset liability mismatches, which could affect the liquidity and consequently may adversely affect its operations and profitability.

- Majority of SSFBL's advances are unsecured.

- Its inclusive finance (JLG) loan portfolio, unsecured overdraft facilities, micro business loans (T-Nagar) and unsecured MSME/ SME loan portfolio are not supported by any collateral, in the event of non-payment by a borrower of one of these loans, it may not be able to recover unpaid amounts in a timely manner or at all, which may affect the financial condition, results of operations and cash flows.

- The value of collateral may decrease or it may experience delays in enforcing collateral when borrowers default on their obligations, which may result in failure to recover the expected value of collateral security exposing SSFL to potential loss.

- An inability to secure funding in an acceptable and timely manner and at competitive rates, or any disruption in the access to funds would adversely impact SSFBL's results of operations, financial condition and cash flows.

- SSFBL is subject to supervision and inspection by authorities such as the RBI. Any adverse observations from such regulators could have a material adverse effect on its business, financial condition, results of operation and cash flows.

- SSFBL's operations involve handling significant amounts of cash, making susceptible to operational risks, including fraud, petty theft and embezzlement, which could harm results of operations and financial position.

- If SSFBL is unable to implement growth strategies, its business may be adversely affected.

- Depend on brand recognition, and failure to maintain and enhance awareness of brand would adversely affect the ability to retain and expand base of customers.

- Any adverse developments in the commercial vehicle finance segment could adversely affect the business and results of operations.

- The Indian banking industry is very competitive and growth strategy depends on SSFBL's ability to compete effectively.

- An inability to obtain, renew or maintain statutory and regulatory permits and approvals required to operate business may adversely impact the business, financial condition, results of operation and cash flows.

- Required to comply with certain restrictive covenants under financing agreements. Any non-compliance may lead to, amongst others, accelerated repayment schedule and enforcement of security, which may adversely affect the business, results of operations, financial condition and cash flows.

- Operations depend on the accuracy and completeness of information about customers and counterparties which, if inaccurate or materially misleading, could adversely affect the business and results of operations.

- The success of business operations is dependent on senior management team and key management personnel as well as ability to attract, train and retain such employees.
- Inability to grow CASA deposits and CASA ratio may result in a high cost of deposits and impact financial condition and cash flows.
- SSFBL undertake certain fee and commission-based activities and its financial performance may be adversely affected by an inability to generate income from such activities.
- SSFBL may face cyber threats attempting to exploit its network to disrupt services to customers and/ or theft of sensitive internal data or customer information, which may cause damage to its reputation and adversely affect its business and financial performance.
- RBI may remove any employee, managerial person or may supersede Board of Directors in certain circumstances.
- Weaknesses, disruption or failures in IT systems could adversely impact SSFBL's business.
- A substantial portion of loans have a tenor exceeding one year, exposing SSFBL to risks associated with economic cycles and project success rates.
- Customers may engage in certain transactions in or with countries or persons that are subject to international economic sanctions.
- Business, financial condition and results of operations may be materially adversely affected by global health epidemics, including the recent COV ID-19 outbreak.
- Any deterioration in the general economic conditions in India and globally could adversely affect the business and results of operations.
- Financial difficulty and other problems in certain financial and other non-banking financial institutions in India could materially adversely affect the business and the price of Equity Shares.
- Any adverse change in India's credit rating by an international rating agency could materially adversely affect the business and profitability.
- India's existing credit information infrastructure may cause increased risks of loan defaults
- Ability to raise borrowings in foreign currencies may be constrained by Indian law.
- Fluctuation in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of Equity Shares, independent of its operating results.

Profit & Loss

Particulars (Rs in million)	9MFY21	FY20	FY19	FY18
INCOME				
Interest earned	6243.5	7,666.9	5,301.1	2,868.8
Other income	649.2	874.5	669.2	380.4
TOTAL	**6,892.7**	**8,541.4**	**5,970.3**	**3,249.3**
EXPENDITURE				
Interest expended	2,710.7	2,757.8	1,897.3	1,210.5
Operating expenses	2,316.4	2,721.2	1,907.4	1,313.8
Provisions and contingencies	1,317.0	1,950.4	1,261.6	610.1
TOTAL	**6,344.1**	**7,429.4**	**5,066.3**	**3,134.3**
Net profit for the year	548.7	1,112.0	904.0	114.9
FV	10	10	10	10
Equity	891.85	865.94	815.82	674.97
EPS	6.2	12.8	11.1	1.7

(Source:RHP)

Balance Sheet

Particulars (Rs in million)	9MFY21	FY20	FY19	FY18
CAPITAL AND LIABILITIES				
Capital	891.85	865.94	815.82	674.97
Reserves and Surplus	11,017.77	9,796.35	7,987.83	4,709.88
Deposits	33,438.40	28,487.15	15,934.25	7,495.22
Borrowings	14,870.79	12,646.15	11,242.28	7,178.32
Other Liabilities and Provisions	3,285.28	1,849.63	1,631.85	1,501.25
TOTAL	**63504.09**	**53645.22**	**37612.03**	**21559.64**
ASSETS				
Cash and Balances with Reserve Bank of India	889.02	605.27	483.04	308.22
Balances with banks and money at call and short notice	7,442.57	7,770.71	2,280.58	1,763.40
Investments	15,114.41	8,081.98	6,643.93	3,113.43
Advances	37,822.63	35,319.44	26,795.84	15,686.78
Fixed Assets	433.58	387.3	189.77	135.41
Other Assets	1,801.88	1,480.52	1,218.87	552.4
TOTAL	**63504.09**	**53645.22**	**37612.03**	**21559.64**
Contingent Liability	**48.76**	**46.23**	**285.39**	**77.92**

(Source:RHP)