Suryoday Small Finance Bank

CMP Rs 206 | Target Rs 280 | Upside 36%

26 Apr 2024

- Suryoday SFB serves unbanked & underbanked clients through products such as Micro (58%), Home (8%), CV (8%), Small Business (8%), NBFCs (11%) and Others (7%). Its advances of Rs. 7600 Cr are spread across Maharashtra (29%), TN (26%), Gujarat (12%), Odisha (12%), Karnataka (7%), MP (6%), Others (8%).
- Like all other MFIs and SFBs, Suryoday also bore the brunt of high defaults owing to Covid. However, the bank's peak GNPA was at 12%, much higher compared to a range of 6-8% for SFBs like Jana, Utkarsh and Ujjivan. Thus it took a longer period to provide for the bad book compared to peers, which led to depressed return ratios as well as sluggisg stock price performance during FY23.
- However, credit costs are now expected to normalise to 2.2% from 4.4% in FY23 on the back of –

(i) Revamped business architecture with a separate collection team v/s outsourced model earlier.

(ii) Overhauling of the credit underwriting process which has been made more stringent.

(iii) Trend of rising mix of secured products from 32% in FY22 to 42% today infuses confidence.

(iv) Rising mix of Vikas Loans (Individual) within Micro loans as compared to JLG model. (VL offers higher ticket size, higher yield, better asset quality). VL now forms 45% of total Micro Loans.

(v) Suryoday has made it a practice to cover 80% of Micro loan portfolio under CGFMU (Credit Guarantee Fund for Micro Units) which lends sustainability to its business model.

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Peer Comparison

Q3FY24 Metrics	Ujjivan	Utkarsh	Jana	Avg.	Suryoday
Loan Book (Rs cr)	25,620	14,986	23,610	21,405	7,179
Growth YoY	31%	22%	28%	27%	35%
<u>Loan Mix</u>					
Unsecured (Mainly MI	72%	65%	40%	59%	58%
Secured	28%	35%	60%	41%	42%
Cost/Income	56%	55%	57%	56%	62%
GNPA	2.2%	3.0%	2.2%	2.5%	3.1%
NNPA	0.2%	0.2%	0.7%	0.4%	1.4%
Credit Cost	0.9%	2.8%	2.7%	2.1%	2.1%
CASA	25.5%	20.0%	18.8%	21.4%	18.5%
Yields	19.3%	19.1%	19.5%	19.3%	20.2%
Cost of Funds	7.5%	7.9%	7.6%	7.7%	7.5%
Spread	11.8%	11.2%	11.9%	11.6%	12.7%
NIM	8.8%	9.7%	7.9%	8.8%	9.8%
Tier 1	22.0%	21.5%	14.9%	19.5%	25.7%
<u>FY26E Metrics</u>					
ROA	2.7%	2.0%	2.0%	2.2%	2.1%
ROE	22.0%	18.0%	23.7%	21.2%	16.3%
P/BV (x)	1.3	1.6	1.2	1.4	0.9
P/E (x)	6.6	9.3	5.6	7.2	6.0

Source: NBRR

With AQ issues settled and a lower base, we expect Suryoday to grow faster than larger peers

C/I is higher as 80% of the Micro loan portfolio is covered under CGFMU (which acts as an insurance expense). Excl. CGFMU, C/I would be at 58%

High Tier-1 has also resulted in lower leverage; thus ROA is a better metric v/s ROE

Valuation gap of 35% is unwarranted given the business restructuring w.r.t. AQ and faster growth

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- A key aspect which is underappreciated by the market is that Suryoday is one of the few banks that has availed the CGFMU scheme which safeguards it in case of any black swan event. Most of the MFIs/SFBs have ignored this scheme sighting it as an unnecessary expense in the short term, while ignoring the longer term stability it adds to the business model.
- Post the comprehensive restructuring exercise done by Suryoday with respect to its asset quality over FY20-23, we expect the bank to shift its focus on growth. We expect advances to grow at 31% CAGR over FY24-26E driven by faster growth in secured book at 35% CAGR led by affordable housing, CV and Small Business; while Micro loans shall grow at 29% CAGR.
- We expect the gap in ROA between Suryoday and peers to close down from 160 bps in FY23 to just 15 bps by FY26E. Accordingly, we believe the current valuation gap of 35% is unwarranted and expect it to narrow down to 25%. Upon valuing Suryoday at 1.2x FY26E BVPS, at a 25% discount to our target multiple for peers of 1.6x FY26E, we arrive at a fair value of Rs. 280.

Figures in Rs Cr

Year	NII	Growth	PAT	Growth	EPS	PE	BVPS	P/BV	ROA	ROE
FY23	747	28%	78	-184%	7.3	28.1	149	1.4	0.9%	5.0%
FY24E	975	31%	217	179%	20.4	10.1	170	1.2	1.9%	12.8%
FY25E	1,262	29%	292	35%	27.6	7.5	197	1.0	2.1%	15.0%
FY26E	1,575	25%	372	27%	35.0	5.9	232	0.9	2.1%	16.3%

RESEARCH TEAM

FUNDAMENTAL TEAM

Name	Sectors	E-mail	Numbers
Sunil Jain	Head Equity Research – Retail	sunil.jain@nirmalbang.com	6273 8195/96
Jehan Bhadha	Banks & NBFC, Auto, Capital Goods	jehankersi.bhadha@nirmalbang.com	6273 8174
Priyanka Ghadigaonkar	Chemicals, FMCG	priyanka.g@nirmalbang.com	6273 8177
Kavita Vempalli	IT, Telecom, Logistics, Textile	kavita.vempalli@nirmalbang.com	6273 8034
Yashodhan Kabra	Associate	yashodhan.kabra@nirmalbang.com	6273 8171
Devendra Pawar	Associate	devendra.pawar@nirmalbang.com	6273 8149
Shivani Walam	Database Management	Shivani.walam@nirmalbang.com	6273 8091
Saurav Motivaras	Database Management	Saurav.Motivaras@nirmalbang.com	6273 8054
Darxit Jain	Database Management	darxit.jain@nirmalbang.com	6273 8054

TECHNICAL AND DERIVATIVES TEAM

Vikas Salunkhe	Sr. AVP-Technical Analyst	vikas.salunkhe@nirmalbang.com	6273 8254
Swati Hotkar	AVP - Technical Analyst	swati.hotkar@nirmalbang.com	6273 8255
Nirav Chheda	AVP- Derivatives & Technical Analyst	nirav.chheda@nirmalbang.com	6273 8199
Amit Bhuptani	Sr.Derivatives & Technical Analyst	amit.bhuptani@nirmalbang.com	6273 8242
Ayush Mehta	Technical Analyst	ayush.mehta@nirmalbang.com	6273 8061

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Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)
B-2, 301/302, Marathon Innova,
Opp. Peninsula Corporate Park
Off. Ganpatrao Kadam Marg
Lower Parel (W), Mumbai-400013
Board No. : 91 22 6723 8000/8001
Fax. : 022 6723 8010