March 19, 2024

Suryoday Small Finance Bank Limited: Ratings reaffirmed and withdrawn for Rs. 200 crore Certificate of deposit programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	100.00	100.00	[ICRA]A (Stable); reaffirmed
Certificate of deposit programme	130.00	130.00	[ICRA]A1+; reaffirmed
Certificate of deposit programme	200.00	0.00	[ICRA]A1+; reaffirmed and withdrawn
Total	**430.00**	**230.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmed ratings factor in Suryoday Small Finance Bank Limited's (Suryoday) comfortable capitalisation profile, as well as improvements in its asset quality and profitability profile. As on December 31, 2023, the bank's reported capital adequacy ratio (CAR) of 27.8% (Tier I: 25.7%) was well above the regulatory requirement of 15.0% (Tier I: 7.5%). In ICRA's opinion, the bank is comfortably capitalised to support its envisaged growth in the near to medium term.

Further, Suryoday reported an improvement in its asset quality in FY2023 and 9M FY2024, aided by write-offs/sales to asset reconstruction companies (ARC), recoveries and a decline in slippages. The bank reported gross non-performing assets (GNPA) at 3.1% as on December 31, 2023 (3.1% as on March 31, 2023) compared to 11.8% as on March 31, 2022. Consequently, its credit costs moderated leading to an improvement in its earnings profile. The bank reported a net profit of Rs. 155 crore in 9M FY2024 (Rs. 78 crore in FY2023), translating to a return of 2.0% on average total assets and 12.4% on average net worth (0.9% and 5.0%, respectively, in FY2023). ICRA expects the bank to maintain a healthy earnings profile, with improvement in operating efficiencies as the bank continues to scale up its operations.

The ratings also factor in the high share of microfinance loans in the bank's portfolio (58% as on December 31, 2023). ICRA notes that the bank has been scaling up its newer products, such as commercial vehicles, loans to micro, small and medium enterprises (MSMEs), housing loans, financial intermediary groups and others. Nevertheless, the performance of these products remains a monitorable.

ICRA takes note of the healthy traction in deposit mobilisation by the bank. Nevertheless, the share of current account savings account (CASA) remains relatively low at 19% as on December 31, 2023 (17% as on March 31, 2023). Going forward, Suryoday's ability to sustainably diversify its asset mix and improve the share of CASA in the deposit profile while scaling up its operations will be important from a credit perspective.

Given the high share of microfinance, the ratings continue to factor in the political and operational risks associated with microlending and the marginal profile of the borrowers, which may lead to high volatility in the asset quality indicators.

The Stable outlook reflects ICRA's expectation that the bank would be able to maintain a steady credit profile while expanding its scale of operations, maintaining a healthy profitability and a comfortable capitalisation profile.

ICRA has reaffirmed and simultaneously withdrawn the rating outstanding for Rs. 200.00-crore certificate of deposit programme, at the request of the bank, as there is no amount outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – The bank's CAR of 27.8% (Tier I: 25.7%) as on December 31, 2023, was well above the regulatory requirement of 15.0% (Tier I: 7.5%). Although the gearing increased to 5.2 times as on December 31, 2023 from 5.0 times as on March 31, 2023 (4.3 times as on March 31, 2022), it remains comfortable. The bank's latest equity capital raise was in FY2021 (~Rs. 522 crore of equity capital through initial public offering and private placement), which helped it to maintain a comfortable capitalisation profile while scaling up its portfolio. In ICRA's opinion, the bank is comfortably capitalised to support its envisaged growth in the near to medium term.

Improving asset quality and profitability – As on December 31, 2023, the GNPA improved to 3.1% from 11.8% as on March 31, 2022 due to write-offs/sales to asset reconstruction companies (ARC), recoveries and a decline in slippages. The bank's asset quality deteriorated in FY2022 due to the pandemic. Further, its standard restructured portfolio declined to 0.5% of gross advances as on December 31, 2023 from 10.4% as on March 31, 2022. Nevertheless, the asset quality remains a monitorable, given the high share of microfinance and the limited seasoning of the non-microfinance portfolio.

With an improvement in asset quality, the bank's credit costs have moderated, resulting in an enhanced earnings profile over 9M FY2024. Further, the net interest margin improved during FY2023 and 9M FY2024, aided by increasing lending rates in the secured book and an increased share of relatively higher-yielding Vikas loan segment. Nevertheless, operating expenses increased to 6.6% of ATA in 9M FY2023 from 5.6% in FY2022 due to branch expansion, leading to increased employee and administrative costs. With the improvement in margin and reduction in credit costs, the bank's return on average total assets and return on average net worth improved to 2.0% and 12.4%, respectively, in 9M FY2024 (0.9% and 5.0% respectively in FY2023). ICRA expects the bank to maintain a healthy earnings profile, with further moderation in credit costs and improvement in operating efficiencies as it continues to scale up its operations.

Credit challenges

Diversifying the product mix – Suryoday has been scaling up its operations over the last few years, while gradually improving its product mix. Its assets under management stood at Rs. 7,600 crore as on December 31, 2023 (Rs. 6,114 crore as on March 31, 2023), with a gradually decreasing share of the microfinance portfolio. However, the proportion of microfinance loans in the bank's portfolio remains high at 58% as on December 31, 2023 (61% as on March 31, 2023; 67% as on March 31, 2022). ICRA notes that the bank has been scaling up its newer products, including commercial vehicles, loans to micro, small and medium enterprises (MSMEs), housing loans, financial intermediary group and others. Nevertheless, the performance of these products remains monitorable. Going forward, the bank's ability to ability to successfully scale up its operations while diversifying its product profile will remain important from the credit perspective.

Increasing the share of CASA in deposits – Suryoday has successfully built a large deposit base, constituting 72% of its total borrowings as on December 31, 2023, up from 65% as on March 31, 2023. The overall deposit base increased to Rs. 6,484 crore as on December 31, 2023 from Rs. 5,167 crore as on March 31, 2023. Also, Suryoday's focus has been on building a stable retail deposit franchise. However, the share of CASA remains relatively low at 19% as on December 31, 2023 (17% as on March 31, 2023). ICRA takes note of Suryoday's plan to further increase the share of CASA in deposits while further scaling up operations, which will be important from a credit perspective.

Environmental and social risks

Environmental considerations – Given Suryoday's service-oriented business, its direct exposure to environmental risks as well as those stemming from regulations or policy changes is not material. While the bank isn't materially exposed to physical climate risks, it indirectly encounters environmental risks through its portfolio of assets. Further, the bank's lending typically involves short-to-medium-term durations, enabling it to adjust and incrementally invest in less environmentally vulnerable businesses.

Social considerations – Data security and customer privacy are among the key sources of vulnerability for Suryoday, as any material lapse could be detrimental to its reputation and could invite regulatory censure. Customer preference is increasingly shifting towards digital banking, which provides an opportunity for the bank to reduce the operating costs. However, subpar execution of information technology strategies and the inability to meet the customers' requirements adequately may result in more costs than benefits. On a positive side, Suryoday contributes towards enhancing financial inclusion by providing several products and services that are specifically targeted towards the marginalised sections of society and attempts to address and cater to social concerns. Prudent lending to such under-served segments could create growth opportunities. However, such growth opportunities must be seen in conjuncture with asset quality risks that could impact the bank's credit quality.

Liquidity position: Strong

The liquidity coverage ratio was healthy at 150% for the quarter ended December 31, 2023 (157% for the quarter ended March 31, 2023) on a daily average basis for the respective quarter. The bank's asset-liability management statement as on December 31, 2023 did not show any cumulative mismatches for a period of at least one year. Its liquidity profile is supported by the strong borrowing ability on account of its 'scheduled' status and the large portion of relatively shorter-tenor assets. The liquidity profile is also supported by the availability of funding lines from financial institutions (FIs).

Rating sensitivities

Positive factors – The long-term rating will be positively impacted if Suryoday is able to further scale up its portfolio while sustainably diversifying its asset mix, improving the deposit profile and maintaining a prudent capitalisation profile and a healthy earnings profile.

Negative factors – Pressure on the bank's ratings could arise if the return on assets falls below 1% on a sustained basis. A sustained deterioration in the capitalisation profile or weakening of the liquidity profile could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Banks and Financial Institutions Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the bank

About the company

Suryoday was initially incorporated as Suryoday Micro Finance Limited, was set up in October 2008 as a non-banking financial company, with the objective of providing loans to women in urban and semi-urban areas using the joint liability group (JLG) lending model. Suryoday received a licence from the Reserve Bank of India (RBI) in FY2016 to commence operations as a small finance bank. It commenced operations as a small finance bank on January 23, 2017.

As on December 31, 2023, the bank was operating in 15 states and Union Territories (UTs) across India through its 672 branches, with a strong presence in Maharashtra, Tamil Nadu and Odisha. Suryoday catered to 26.3 lakh clients while managing a portfolio of Rs. 7,600 crore as on December 31, 2023.

Key financial indicators (audited)

Suryoday Small Finance Bank Limited	FY2022	FY2023	9M FY2024*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	1,035	1,281	1,299
Profit after tax	(93)	78	155
Total assets	8,180	9,861	11,122
CET - I	34.4%	30.8%	25.7%
CRAR	37.9%	33.7%	27.8%
PAT / ATA	(1.2) %	0.9%	2.0%
Gross NPAs	11.8%	3.1%	3.1%
Net NPAs	6.0%	1.5%	1.4%

*Source: Bank, ICRA Research; All ratios as per ICRA's calculations; *Limited review; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of February 28, 2024 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	
					Mar 19, 2024	Mar 21, 2023	Mar 22, 2022	Sep 02, 2021	Sep 08, 2020	May 11, 2020
1	Certificate of deposit programme	Short term	130.00	0.00	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Certificate of deposit programme	Short term	200.00	0.00	**[ICRA]A1+; withdrawn**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Subordinated debt programme	Long term	100.00	100.00	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
4	Subordinated debt programme	Long term	0.00	0.00	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Subordinated debt programme	Long term	0.00	0.00	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A	[ICRA]A
6	Non-convertible debenture	Long term	0.00	0.00	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A	[ICRA]A
7	Fixed deposit programme	Medium term	0.00	0.00	-	-	-	-	-	MA+ (Stable); withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Simple
Certificate of deposit programme	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE428Q08073	**Subordinated debt programme**	Sep 08, 2020	12.50% p.a.	Apr 07, 2027	100.00	[ICRA]A (Stable)
NA	**Certificate of deposit programme – Yet to be issued**	NA	NA	7-365 days	130.00	[ICRA]A1+
NA	**Certificate of deposit programme – Yet to be issued**	NA	NA	7-365 days	200.00	[ICRA]A1+; withdrawn

Annexure II: List of entities considered for consolidated analysis - Not applicable

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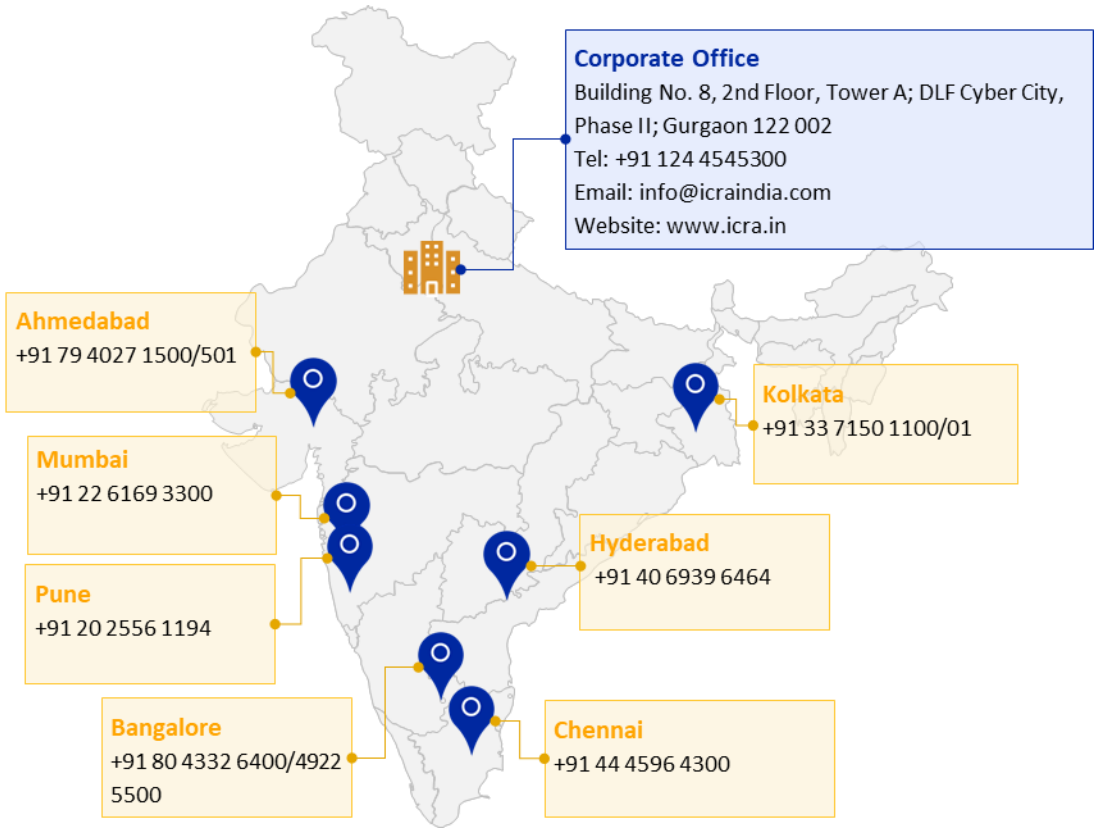

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