Suryoday Small Finance Bank Limited

March 01, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Certificate of deposit programme	130.00	130.00	[ICRA]A1+; upgraded from [ICRA]A1
Long-term bank lines	105.12	-	[ICRA]A (Stable); withdrawn
Non-convertible debenture	80.50	-	[ICRA]A (Stable); withdrawn
Fixed deposit programme	500.00	500.00	MA+ (Stable); outstanding
Non-convertible debenture	60.00	60.00	[ICRA]A (Stable); outstanding
Subordinated debt programme	50.00	50.00	[ICRA]A (Stable); outstanding
Total	**925.62**	**740.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has upgraded the short-term rating for the Rs. 130-crore[1] certificate of deposit programme of Suryoday Small Finance Bank Limited (SSFB)[2] to [ICRA]A1+ (pronounced ICRA A one plus) from [ICRA]A1 (pronounced ICRA A one). ICRA has also withdrawn the long-term rating of [ICRA]A(Stable) (pronounced ICRA A with a Stable outlook) on SSFB's Rs. 105.12-crore bank lines and Rs. 80.50-crore non-convertible debenture programme. The ratings have been withdrawn in accordance with ICRA's policy on withdrawal and suspension.

The rating upgrade factors in SSFB's comfortable liquidity profile, supported by healthy deposit mobilisation, considerable excess SLR investments and interbank lines, and sizeable long-term funding lines from financial institutions (NABARD, SIDBI and MUDRA). Further, SSFB's traction on deposit mobilisation has been healthy, with Rs. 1,090 crore of deposits till December 31, 2018 of which 54% were retail[3] in nature. Being a scheduled bank, SSFB's deposits are also covered by deposit insurance in accordance with RBI regulations. The ratings factor in the bank's established track record in the microfinance industry, experienced senior management team and good progress on product diversification. SSFB commenced banking operations in FY2017 and has introduced new products like home loans, loan against property (LAP) and loans to micro, small and medium enterprises (MSMEs), which comprised 15% of the assets under management (AUM) as on December 31, 2018.

The ratings take into account the experienced board and strong investor support, and the bank's comfortable capitalisation supported by regular capital infusion by the investors and promoters. ICRA takes comfort from the capital infusion by the promoters and investors (Rs. 290 crore in FY2017 and Rs. 27 crore in FY2018), which has helped SSFB meet the increased operating expenses on account of its conversion to a small finance bank and the elevated credit costs due to deterioration in the asset quality post demonetisation. ICRA expects the capitalisation to remain comfortable over the medium term, given the investor support and regular capital infusions. SSFB was able to report an improvement in its asset quality indicators with the 90+dpd declining to 3.6% as on December 31, 2018 from 6.8% as on March 31, 2018

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website (www.icraindia.com) or other ICRA rating publications*

[3] *Deposits of less than Rs. 1 crore*

with continuous recovery efforts and write-offs. Further, SSFB's strong capitalisation and good collection efficiency for post-demonetisation disbursements provide comfort in this regard.

The ratings are, however, constrained by SSFB's moderate profitability indicators (return on average net worth (RoE) of 13.7% in H1 FY2019 and 1.95% in FY2018) on account of high operating expenses and elevated credit costs. The ratings factor in the risks associated with the microfinance portfolio and the political and operational risks arising out of cash handling. Going forward, SSFB's ability to further diversify the product offering, increase its retail deposit base and improve the profitability indicators would remain a key rating monitorable.

Outlook: Stable

ICRA believes SSFB will continue to benefit from the experienced board and strong management team, comfortable capitalisation and liquidity position. The outlook may be revised to Negative if the asset quality or capitalisation indicators deteriorate sharply, or if there is a stretch in the bank's liquidity position.

Key rating drivers

Credit strengths

Experienced board and management team and good systems enabled SSFB to scale up operations profitably – SSFB has a seven-member board with good representation by independent directors. The bank has an experienced senior management team and has developed strong second and third lines of management. SSFB has robust loan origination, monitoring and collection systems. Internal audits are conducted regularly, and the scope and coverage are in line with industry practices. The bank has a strong risk management team, which prepares the guidelines for credit risk, geographical concentration, introduction of cross-sell products, assessment of the various businesses and operating risks. SSFB has also recruited key managerial personnel, with experience in the banking sector, to strengthen its team further.

Comfortable capitalisation and gearing; regular capital infusions – SSFB's capital adequacy remains comfortable with a capital to risk weighted assets ratio (CRAR) of 26.17% (Tier I: 23.80%) as on December 31, 2018 compared to the regulatory requirement of 15% (Tier I: 7.5%). With regular equity infusion by the promoters and investors (Rs. 290 crore in FY2017 and Rs. 27 crore in FY2018), the gearing remained low at 3.97 times as on September 30, 2018. ICRA expects the capitalisation to remain comfortable over the medium term, given the investor support and regular capital infusions.

Comfortable liquidity position and financial flexibility; strong ability to raise funds from diverse sources – SSFB's liquidity position remains comfortable owing to a conservative liquidity policy, high cash balances and continued funding from promoters and investors. Also, with the commencement of banking operations, SSFB has started raising funds through deposits with Rs. 1,090 crore as of December 31, 2018. The asset-liability management statement, as on December 31, 2018, had no cumulative mismatches even at 90% collection efficiency over a period of 1 year. The bank's liquidity profile is also supported by its enhanced borrowing ability on account of receiving 'scheduled' status and its relatively shorter-tenor assets. Additionally, considerable excess SLR investments and lines from SIDBI, NABARD and other banks provide comfort.

Geographically diversified portfolio – SSFB has a presence in eight states and one Union Territory (UT) covering major regions in the southern, western and eastern parts of the country. Initially focused on Maharashtra, SSFB has actively brought down the share of Maharashtra to ~31% of the portfolio as on December 31, 2018 from 77% as on March 31, 2012 while focusing on new states and geographies. Over the past three years, SSFB has ventured into Chhattisgarh, Puducherry and Madhya Pradesh, which together accounted for ~6% of the portfolio as on December 31, 2018. As on

December 31, 2018, SSFB was operating through 285 branches serving 12.1 lakh customers. Also, with the commencement of banking operations, SSFB has introduced new products like home loans, LAP, loans to MSMEs and deposits. Consequently, the share of joint liability group (JLG) loans declined to 85% of the AUM as on December 31, 2018 from 99% as on March 31, 2017.

Credit challenges

Ability to diversify product mix and increase share of retail deposits – With the commencement of banking operations, SSFB has introduced new products like home loans, LAP, MSME loans and deposits. While the share of the new products on the asset side stood at 15% of the portfolio as on December 31, 2018, the bank had deposits of Rs. 1,090 crore against an AUM of Rs. 2,570 crore as of that date. While the bank reported share of retail deposits at 54% of total deposits[4] as on December 31, 2018, its ability to further increase this share while successfully diversifying its product mix remains a key rating monitorable.

Asset quality indicators could exhibit more volatility given the high share of microfinance loans – Microfinance (85% as on December 31, 2018) still accounts for a large portion of the bank's portfolio. Given the risks associated with the marginal borrower profile and unsecured lending business, the portfolio remains vulnerable to asset quality shocks as witnessed post demonetisation. SSFB's strong capitalisation and good collection efficiency for post-demonetisation disbursements provide comfort in this regard. The bank reported gross and net non-performing assets (NPAs) of 3.07% and 0.87%, respectively, as on December 31, 2018. The ratings factor in the risks associated with the marginal borrower profile, unsecured lending business, political risks, and operational risks arising out of cash handling, along with the challenges associated with the high pace of growth and the significant attrition rate.

Liquidity position

SSFB's liquidity position remains comfortable owing to a conservative liquidity policy, high cash balances and continued funding from promoters and investors. Also, with the commencement of banking operations, SSFB has started raising funds through deposits with Rs. 1,090 crore outstanding as on December 31, 2018. The ALM as on December 31, 2018 had no cumulative mismatches even at 90% collection efficiency over a period of 1 year. The bank's liquidity profile is also supported by its enhanced borrowing ability on account of receiving 'scheduled' status and its relatively shorter-tenor assets. Further, the bank has considerable excess SLR, access to call money market and lines from SIDBI, NABARD and other banks, which provide comfort.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies ICRA's Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	NA
Consolidation/Standalone	Standalone

[4] *Deposits of less than Rs. 1 crore*

About the company

Suryoday Small Finance Bank (SSFB), which started as Suryoday Micro Finance Limited, was set up in October 2008 as a non-banking finance company (NBFC) for providing loans to women in urban and semi-urban areas under the Grameen Bank Joint Lending Model. SSFB received a licence from the Reserve Bank of India in FY2016 to commence operations as a small finance bank. Subsequently, it commenced operations as a small finance bank on January 23, 2017.

As of December 2018, SSFB had operations in nine states and one UT, catering to a client base of 12.1 lakh customers through 285 branches. It reported a net profit of Rs. 10.13 crore on a total income of Rs. 324.93 crore in FY2018 vis-à-vis a net profit of Rs. 15.10 crore on a total income of Rs. 254.79 crore in FY2017. SSFB reported a return on managed assets (RoMA) of 0.50% in FY2018 compared to 1.01% in FY2017. SSFB's net profit was Rs. 38.44 crore on a total income of Rs. 268 crore in H1 FY2019.

Key financial indicators (Audited)

In Rs. crore	FY2017	FY2018	H1 FY2019
Total income	254.79	324.93	267.91
Operating profit	37.80	75.99	100.65
PAT	15.10	10.13	38.44
Net interest margin / AMA	8.72%	8.33%	11.56%
Operating profit / AMA	2.48%	3.66%	7.35%
PAT / AMA	1.01%	0.50%	2.85%
PAT / Average net worth	4.33%	1.95%	13.71%
Net worth	500.57	539.76	581.67
Gearing	2.11	2.74	3.97
CRAR	53.62%	37.94%	27.04%
Gross NPA	6.15%	3.54%	2.96%
Net NPA	3.80%	1.86%	0.84%

PAT – Profit after tax; AMA – Average managed assets; Source: SSFB & ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Sl No	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years											
						FY2109		FY2018		FY2017				FY2016			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Feb-19	Sep-18	May-18	Mar-18	Feb-18	Oct-16	Sep-16	Aug-16	May-16	Oct-15	Jun-15	May-15	Apr-15
1	Certificate of deposit programme	Short Term	130.00	NA	[ICRA]A1+; upgraded	[ICRA]A1	[ICRA] A1	[ICRA] A1	-	-	-	-	-	-	-	-	-
2	Fixed deposit programme	Medium Term	500.00	NA	MA+ (Stable)	MA+ (Stable)	MA (Stable)	MA (Stable)	MA (Stable)	-	-	-	-	-	-	-	-
3	Long-term bank lines	Long Term	105.12	-	[ICRA]A(Stable); withdrawn	[ICRA]A(Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA]A- (Stable); reallocated to long term	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB (Stable) / [ICRA]A3+
4	Non-convertible debenture	Long Term	80.50	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA]A- (Stable	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
5	Non-convertible debenture	Long Term	60.00	60.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
6	Subordinated debt programme	Long Term	50.00	50.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed Deposit Programme	NA	NA	NA	500.00	MA+ (Stable)
NA	Long-term Bank Lines	2015-2016	NA	2018-2019	105.12	[ICRA]A (Stable); withdrawn
INE428Q07059	Non-convertible Debenture	6/23/2014	13.5 -14% P.A.	5/28/2019	35.00	[ICRA]A (Stable)
INE428Q07083	Non-convertible Debenture	4/6/2015	14.90%P.A.	12/18/2020	5.00	[ICRA]A (Stable)
INE428Q07109	Non-convertible Debenture*	6/1/2015	14.10% P.A.	7/13/2018	41.50	[ICRA]A (Stable); withdrawn
INE428Q07117	Non-convertible Debenture*	9/30/2015	13.1011%P.A.	9/30/2020	39.00	[ICRA]A (Stable); withdrawn
INE428Q08040	Non-convertible Debenture	10/27/2016	11.55% P.A.	10/28/2019	20.00	[ICRA]A (Stable)
INE428Q08016	Subordinated Debt Programme	3/31/2015	17.50% P.A.	12/18/2020	10.00	[ICRA]A (Stable)
INE428Q08024	Subordinated Debt Programme	9/22/2015	15.85% P.A.	4/23/2021	15.00	[ICRA]A (Stable)
INE428Q08032	Subordinated Debt Programme	9/21/2016	12.70% P.A.	7/26/2022	25.00	[ICRA]A (Stable)
NA	Certificate of Deposit Programme	NA	NA	7-365 days	130.00	[ICRA]A1+

**Instrument matured/redeemed; Source: SSFB*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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