March 18, 2025

Suryoday Small Finance Bank Limited: Ratings reaffirmed

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
Total	**230.00**	**230.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in Suryoday Small Finance Bank Limited's (Suryoday) comfortable capitalisation profile along with the gradual improvement in its scale and diversification of the portfolio. As on December 31, 2024, the bank's reported capital adequacy ratio (CAR) of 26.9% (Tier I: 25.3%) was well above the regulatory requirement of 15.0% (Tier I: 7.5%). In ICRA's opinion, Suryoday is comfortably capitalised to support its envisaged growth in the near to medium term. It has been scaling up its secured retail loans, such as commercial vehicles, loans to micro, small and medium enterprises (MSMEs) and housing loans, and loans to non-banking financial companies (NBFCs)/institutions. Consequently, the share of the microfinance segment has been declining gradually and stood at 53% of the portfolio as on December 31, 2024 (59% as on March 31, 2024) compared to 58% as on December 31, 2023 (61% as on March 31, 2023; 67% as on March 31, 2022); ICRA expects the trend to continue.

The rating also factors in the deterioration in Suryoday's asset quality and profitability profile in 9M FY2025. The gross non-performing assets (GNPAs) increased to 5.5% as on December 31, 2024 from 2.9% as on March 31, 2024. This was primarily on account of higher slippages in the microfinance portfolio due to various factors including, but not limited to, overleveraging by borrowers, worsened credit discipline, adverse climatic conditions and other operational challenges like employee attrition. However, Suryoday has taken a guarantee cover under Credit Guarantee Fund for Micro Units (CGFMU), covering around 95% of the microfinance portfolio as of December 2024, thereby mitigating the credit risk to a certain extent. Nonetheless, the decline in the operating efficiency due to higher employee benefit expenses and the payment of the CGFMU guarantee premium impacted the bank's earnings profile in 9M FY2025. The return on average total assets and return on average net worth declined to 1.5% and 10.5%, respectively, in 9M FY2025 (1.9% and 12.7%, respectively, in FY2024). ICRA expects the asset quality and profitability to remain under pressure in the near term.

ICRA takes note of the healthy traction in deposit mobilisation by the bank. Nevertheless, the share of current account savings account (CASA) remained relatively low at 19.5% as on December 31, 2024 (20.1% as on March 31, 2024). 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.

The Stable outlook reflects ICRA's expectation that the bank would be able to maintain a steady credit profile while gradually scaling up its operations and maintaining a comfortable capitalisation profile.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – The bank's CAR of 26.9% (Tier I: 25.3%), as on December 31, 2024, was well above the regulatory requirement of 15.0% (Tier I: 7.5%). Although the gearing increased to 5.9 times as on December 31, 2024 from 5.7 times as on March 31, 2024 (5.0 times as on March 31, 2023), it remains comfortable. The bank's last equity capital raise was in FY2021 (~Rs. 522 crore of equity capital through initial public offering and private placement), which helped it maintain a comfortable capitalisation profile while scaling up its portfolio. In ICRA's opinion, Suryoday is comfortably capitalised to support its envisaged growth in the near to medium term.

Increasing share of non-microfinance portfolio – The bank's assets under management grew by 26% YoY to Rs. 9,563 crore as on December 31, 2024 (Rs. 8,650 crore as on March 31, 2024) from Rs. 7,600 crore as on December 31, 2023 (Rs. 6,114 crore as on March 31, 2023). It has been scaling up its relatively newer products, such as commercial vehicles, loans to MSMEs, housing loans, financial intermediary groups and others. Consequently, the share of the microfinance segment has been declining gradually and stood at 53% of the portfolio as on December 31, 2024 (59% as on March 31, 2024) compared to 58% as on December 31, 2023 (61% as on March 31, 2023; 67% as on March 31, 2022); ICRA expects the trend to continue. Nonetheless, Suryoday's ability to maintain the asset quality in the relatively newer product segments remains monitorable.

Credit challenges

Weakening in asset quality and earnings profile; coverage under guarantee scheme mitigates risk to an extent – Suryoday's asset quality deteriorated in 9M FY2025 with the GNPAs increasing to 5.5% as on December 31, 2024 from 2.9% as on March 31, 2024. This was primarily on account of higher slippages in the microfinance portfolio due to various factors including, but not limited to, adverse climatic conditions, operational challenges, worsening of credit discipline and overleveraging of borrowers. ICRA notes that the bank has taken certain corrective measures including tightening of customer selection criteria, strengthening of the collections team, etc. Further, Suryoday has taken a guarantee cover under CGFMU, covering around 95% of the microfinance portfolio as of December 2024, which mitigates the credit risk to a certain extent. Nevertheless, its ability to arrest further slippages and recover from delinquent customers remains important.

Despite the deterioration in the asset quality, the bank's credit costs remained stable at 1.5% in 9M FY2025 (1.5% in FY2024) because of limited incremental provisioning owing to the CGFMU guarantee cover and low write-offs. However, operating expenses rose on account of higher employee benefit expenses and the payment of the CGFMU guarantee premium. This adversely impacted the earnings profile in 9M FY2025. The return on average total assets and return on average net worth declined to 1.5% and 10.5%, respectively, in 9M FY2025 (1.9% and 12.7%, respectively, in FY2024). ICRA expects the asset quality and profitability to remain under pressure in the near term.

Ability to improve the share of CASA in deposits – Suryoday has successfully built a large deposit base, constituting 83% of its total borrowings as on December 31, 2024, up from 76% as on March 31, 2024. The overall deposit base increased to Rs. 9,708 crore as on December 31, 2024 from Rs. 7,777 crore as on March 31, 2024. While Suryoday's focus has been on building a stable retail deposit franchise, its share of CASA remains relatively low at 19.5% as on December 31, 2024 (20.1% as on March 31, 2024). ICRA takes note of Suryoday's plan to further increase the share of CASA in deposits while 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 is not materially exposed to physical climate risks, it indirectly encounters environmental risks through its portfolio of assets. Further, its 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 potentially 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, potential lag in execution of information technology strategies and the inability to meet customer requirements adequately may result in more costs than benefits. On the 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 underserved 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 132% for the quarter ended December 31, 2024 (145% for the quarter ended March 31, 2024) on a daily average basis for the respective quarter. The net stable funding ratio (NSFR) stood at 152% as on December 31, 2024, remaining above the regulatory level of 100%. The bank's asset-liability management statement as on December 31, 2024 did not show any cumulative mismatches for a period of at least one year. Its liquidity profile is supported by the strong borrowing capability 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
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Suryoday was initially incorporated as Suryoday Micro Finance Limited 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. It received a licence from the Reserve Bank of India (RBI) in FY2016 to commence operations as a small finance bank. It started operations as a small finance bank on January 23, 2017.

As on December 31, 2024, the bank was operating in 15 states and Union Territories (UTs) across India through 708 branches, with a strong presence in Maharashtra, Tamil Nadu and Odisha. Suryoday catered to 33 lakh clients while managing a portfolio of Rs. 9,563 crore as on December 31, 2024.

Key financial indicators (audited)

Suryoday Small Finance Bank Limited	FY2023	FY2024	9M FY2025*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	1,281	1,808	1,640
Profit after tax	78	216	149
Total assets	9,861	12,378	13,926
CET-I	30.8%	26.5%	25.3%
CRAR	33.7%	28.4%	26.9%
PAT/ATA	0.9%	1.9%	1.5%
Gross NPAs	3.1%	2.9%	5.5%
Net NPAs	1.5%	0.9%	3.1%

*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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Mar 18, 2025	Date	Rating	Date	Rating	Date	Rating
Certificate of deposit programme	Short term	130.00	[ICRA]A1+	Mar 19, 2024	[ICRA]A1+	Mar 21, 2023	[ICRA]A1+	Sep 02, 2021	[ICRA]A1+
				-	-	-	-	Mar 22, 2022	[ICRA]A1+
Subordinated debt programme	Long term	100.00	[ICRA]A (Stable)	Mar 19, 2024	[ICRA]A (Stable)	Mar 21, 2023	[ICRA]A (Stable)	Sep 02, 2021	[ICRA]A (Stable)
				-	-	-	-	Mar 22, 2022	[ICRA]A (Stable)

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+

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Prateek Mittal
+91 33 6521 6812
prateek.mittal@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com

Chandni
+91 124 4545 300
chandni@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 2433 1084
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

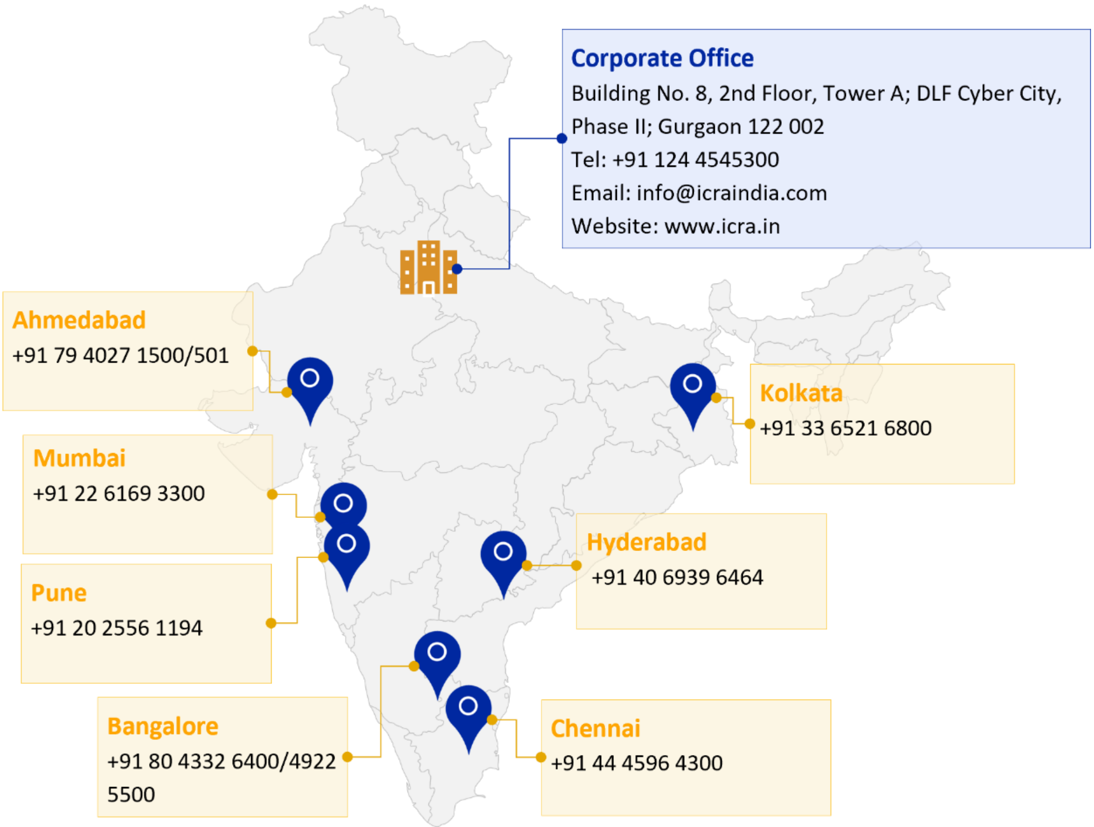
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-50

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.