

## Q1FY22 result review

## FINANCIALS

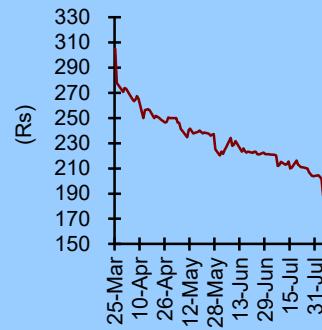
Target price: Rs310

## Shareholding pattern

	Mar '21	Jun '21
Promoters	28.0	28.0
Institutional investors	34.6	36.1
MFs and others	5.2	6.1
FIs/Banks	1.1	1.0
Insurance	10.1	10.0
FII	18.2	19.0
Others	37.4	35.9

Source: BSE

## Price chart



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## INDIA



## Suryoday Small Finance Bank

BUY

Maintained

## Business momentum improves; asset quality deteriorates

Rs188

**Suryoday SFB (Suryoday)** reported net loss of Rs477mn in Q1FY22 impacted by higher provisions at Rs1.1bn (~2.75% of AUM) vs Rs0.52bn in Q4FY21. Lower interest reversal at Rs78mn vs Rs658mn in Q4FY21 resulted in sharp >100% QoQ growth in NII. Opex was down 5% QoQ which, coupled with strong revenue recovery, led to a positive PPoP at Rs540mn vs a negative Rs52mn in Q4FY21. Disbursements fell 66% QoQ to Rs3.6bn, but revived to Rs3.6bn in Jul'21 and sustained in Aug'21. While GNPL remained flat QoQ at 9.5% (PAR 90+ at 6.4%), standard restructured book increased to 8.7% from 2.7% in Q4FY21. Collections improved to 79% in Jul'21 from 70% in Jun'21 and, notably, ~75% of delinquent customers (~34% of loans) were paying over Jun/Jul'21. Near-term asset quality concerns persist, given ~23% collections in MFI restructured loans (Rs3.3bn) in Jun'21 (~35% in Jul'21). However, adequate capital at 47.6%, cost leadership, and gradual normalisation of credit cost, its likely to revive RoA to 1.8% by FY23E. Maintain BUY with a target price of Rs310.

- **Core performance improved sequentially.** Disbursements during Q1FY22 were down >60% QoQ, but the same picked up sharply in Jul'21 to Rs3.6bn. Sustained momentum in Aug'21 improves visibility on AUM growth surpassing the FY21 level of 19%. Overall AUM fell 5% QoQ while it grew 13% YoY. The share of retail deposits further increased to 86% vs 80% in Q4FY21; similarly, CASA ratio expanded to 16.2% from 15.4% in Q4FY21. PPoP turned positive at Rs540mn vs a negative Rs52mn in Q4FY21 driven by sharp >100% QoQ growth in NII and 5% QoQ decline in total opex. Lower interest reversal at Rs78mn vs Rs658mn in Q4FY21 was the key earnings driver. However, higher write-offs at Rs785mn and provision of Rs278mn towards incremental restructuring resulted in Suryoday reporting a net loss of Rs477mn.
- **GNPL remained sequentially flat, but standard restructured portfolio increased to 8.7% vs 2.7% in Q4FY21.** Suryoday's asset quality performance remains sub-par with: a) GNPLs at 9.5%, b) incremental restructuring of ~7% (total restructured pool stands at 8.7%), and c) write-offs at Rs785mn. This however is on expected lines considering the SFB's predominantly MFI exposure and higher Maharashtra exposure. While collections fell sharply in Jun'21 to 70% from 87% in Mar'21, it improved in Jul'21 to 79% and, as per management, Aug'21 too is showing an encouraging trend. While sub-23% collections in the restructured portfolio raise concerns about future asset quality, collections from ~75% of delinquent customers (34% of loans) over Jun/Jul'21 provide some comfort on likely lower LGDs on optically higher stress.
- **Key risks:** a) Stress unfolding higher than expected, and b) further deceleration in AUM growth from Q1FY22 level.

Market Cap	Rs19.9bn/US\$268mn	Year to March	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	SURYODAY IN	NII (Rs mn)	4,905	4,101	5,230	6,143
Shares Outstanding (mn)	106.1	Net Profit (Rs mn)	1,109	119	501	1,430
52-week Range (Rs)	305/183	EPS (Rs)	12.8	1.1	4.7	13.5
Free Float (%)	72.0	% Chg YoY	20.6	(91.3)	322.7	185.2
FII (%)	6.7	P/E (x)	14.7	168.2	39.8	14.0
Daily Volume (US\$'000)	NA	P/BV (x)	1.5	1.2	1.2	1.1
Absolute Return 3m (%)	(22.3)	BVPS (Rs)	123.1	150.5	155.2	168.7
Absolute Return 12m (%)	NA	Net NPA (%)	1.7	4.7	2.9	2.7
Sensex Return 3m (%)	13.3	RoA (%)	2.4	0.2	0.7	1.8
Sensex Return 12m (%)	44.5	RoE (%)	11.4	0.9	3.1	8.3

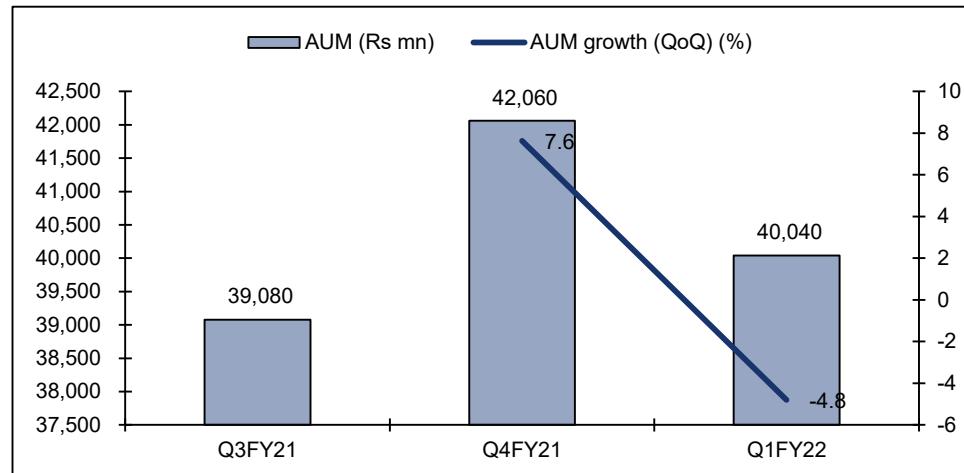
Please refer to important disclosures at the end of this report

Table 1: Q1FY22 result review

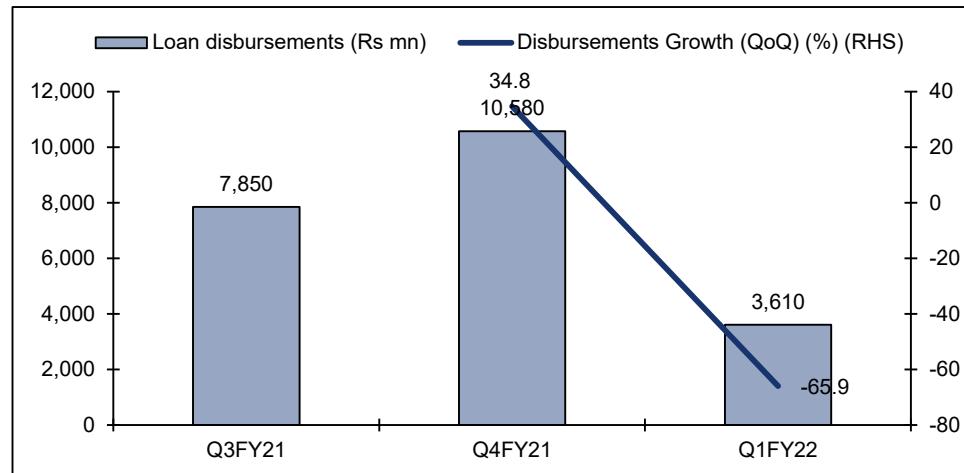
(Rs mn)

	Q1FY22	Q1FY21	% change YoY	Q4FY21	% change QoQ
Interest Income	2,157	2,193	-1.7	1,518	42.1
Interest Expended	922	852	8.2	946	-2.5
<b>Net interest income (NII)</b>	<b>1,235</b>	<b>1,341</b>	<b>-7.9</b>	<b>572</b>	<b>115.8</b>
Other income	228	212	7.6	346	-33.9
<b>Total income</b>	<b>1,463</b>	<b>1,553</b>	<b>-5.8</b>	<b>918</b>	<b>59.4</b>
<b>Operating expenses</b>	<b>924</b>	<b>695</b>	<b>32.8</b>	<b>970</b>	<b>-4.8</b>
-Staff expenses	518	441	17.4	523	-0.9
-Other expenses	406	254	59.6	447	-9.3
<b>Operating profit</b>	<b>540</b>	<b>858</b>	<b>-37.1</b>	<b>-52</b>	<b>-1,131.7</b>
Total provisions	1,108	536	106.8	527	110.1
<b>Profit before tax</b>	<b>-568</b>	<b>322</b>	<b>-276.4</b>	<b>-580</b>	<b>-1.9</b>
Tax	-91	56	-261.5	-150	-39.1
<b>Profit after tax</b>	<b>-477</b>	<b>266</b>	<b>-279.5</b>	<b>-430</b>	<b>11.0</b>
<b>Balance sheet (Rs mn)</b>					
Deposits	33,170	28,687	15.6	32,557	1.9
Advances	37,935	34,335	10.5	39,828	-4.8
Gross NPL (Rs mn)	3,811	997	282.4	3,937	-3.2
Gross NPL (%)	9.5	2.8	668	9.4	9
Net NPL (Rs mn)	1,696	183	826.8	1,881	-9.8
Net NPL (%)	4.5	0.5	397	4.7	(23)
Coverage ratio	52.6	81.2	(2,857)	49.7	290
<b>Ratios (%)</b>					
<b>Profitability ratios</b>					
Yield on Advances	18.1	22.0	(390)	12.1	600
Cost of Funds	7.4	8.0	(60)	7.8	(40)
<b>NIM</b>	<b>7.6</b>	<b>10.0</b>	<b>(240)</b>	<b>3.7</b>	<b>390</b>
RoaA	-2.8	1.9	(470)	-2.6	(20)
RoaE	-12.1	9.6	(2,170)	-12.3	20
<b>Business &amp; Other Ratios</b>					
CASA ratio	16.2	NA		15.4	80
Cost-income ratio	63.1	44.8	1,835	105.7	(4,258)
CAR	52.1	NA		51.5	60
<b>AuM mix</b>					
Inclusive Finance Business	27,180	N/A	N/A	29,230	-7.0
Commercial Vehicles (CV)	3,300			3,550	-7.0
Affordable Housing Finance	3,250			3,110	4.5
Secured Business Loan (SBL)	1,590			1,590	0.0
FIG	2,120			2,140	-0.9
Others	2,600			2,430	7.0
<b>Total</b>	<b>40,040</b>			<b>42,050</b>	<b>-4.8</b>

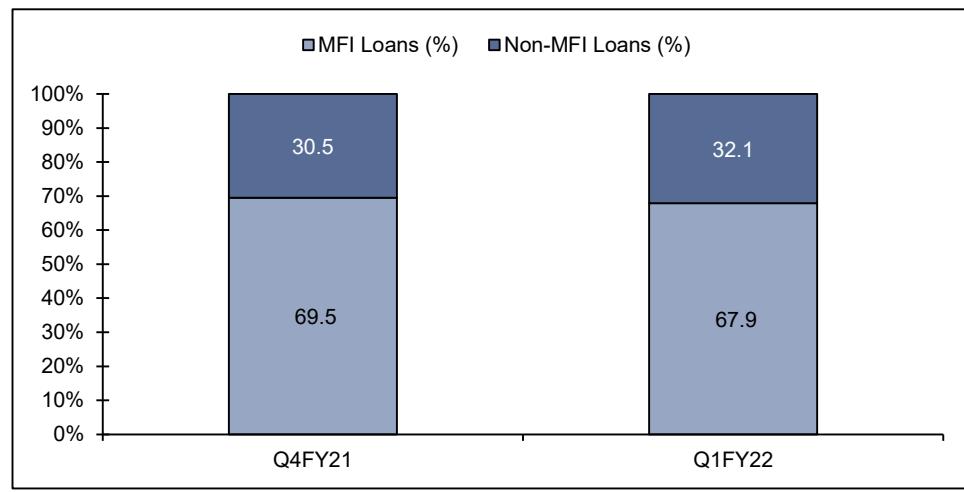
Source: Company, I-Sec research

**Chart 1: AUM fell 5% QoQ...**

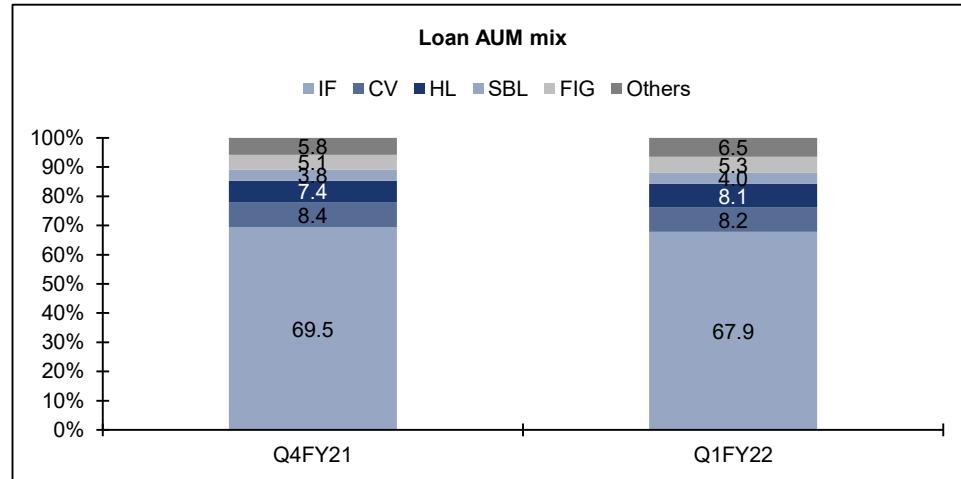
Source: Company, I-Sec research

**Chart 2: ...due to 66% QoQ fall in disbursements; however, it revived sharply in Jul'21 at Rs3.6bn**

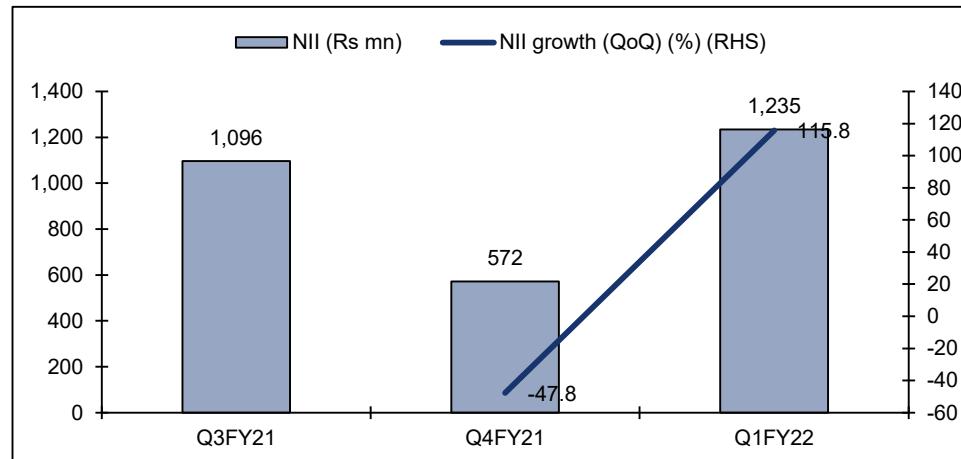
Source: Company, I-Sec research

**Chart 3: MFI loans continued to decline; its share in total loans fell to 67.9% from 69.5% in Q4FY21**

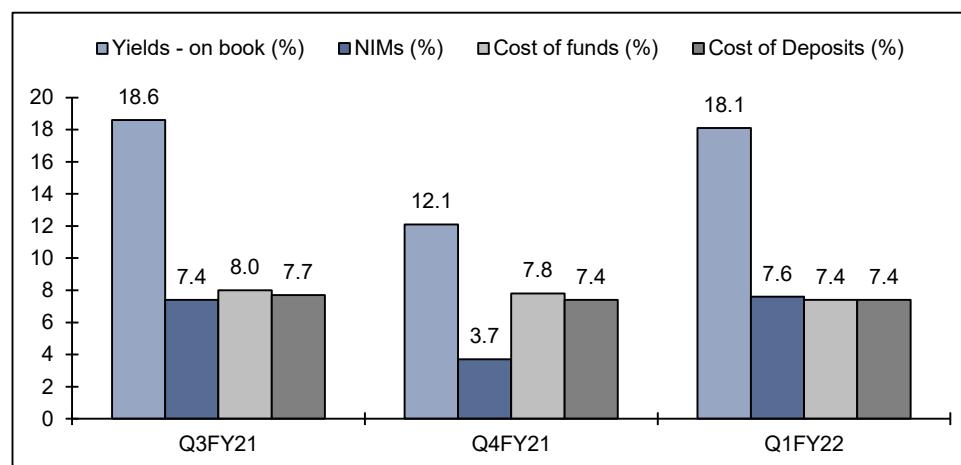
Source: Company, I-Sec research

**Chart 4: Loan mix – Non-MFI book gaining traction**

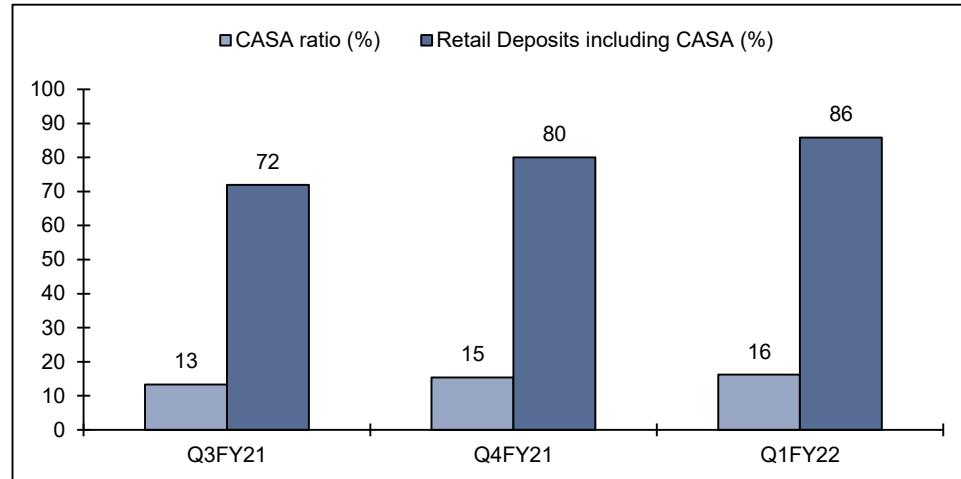
Source: Company, I-Sec research

**Chart 5: NII growth recovered sharply due to lower interest reversals**

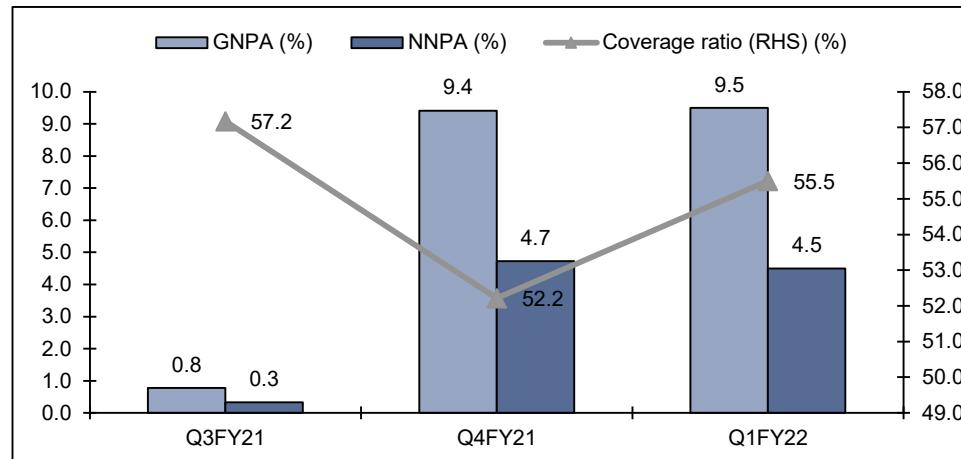
Source: Company, I-Sec research

**Chart 6: NIM expanded to 7.6% with sharp improvement in asset yields and reduction in cost of funds**

Source: Company, I-Sec research

**Chart 7: Share of retail deposits continued to increase**

Source: Company, I-Sec research

**Chart 8: Asset quality deteriorated; PCR increased to 56%**

Source: Company, I-Sec research

## Summary Financials

**Table 2: Profit and Loss statement**

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E	FY23E
Interest earned	5,301	7,667	7,758	9,284	10,612
Interest expended	1,912	2,762	3,657	4,054	4,469
<b>Net interest income</b>	<b>3,389</b>	<b>4,905</b>	<b>4,101</b>	<b>5,230</b>	<b>6,143</b>
<b>Other income</b>	<b>669</b>	<b>875</b>	<b>999</b>	<b>1,126</b>	<b>1,379</b>
<i>Staff cost</i>	1,267	1,714	1,858	2,230	2,565
<i>Other operating expenses</i>	668	1,008	1,428	1,625	1,827
<b>Total operating cost</b>	<b>1,935</b>	<b>2,722</b>	<b>3,286</b>	<b>3,855</b>	<b>4,392</b>
<b>Pre-provisioning op profit</b>	<b>2,123</b>	<b>3,058</b>	<b>1,813</b>	<b>2,501</b>	<b>3,130</b>
Provisions & contingencies	738	1,519	1,692	1,804	1,144
<b>Profit before tax &amp; exceptional items</b>	<b>1,384</b>	<b>1,540</b>	<b>121</b>	<b>696</b>	<b>1,986</b>
Exceptional items					
<b>Profit before tax &amp; exceptional items</b>	<b>1,384</b>	<b>1,540</b>	<b>121</b>	<b>696</b>	<b>1,986</b>
Income taxes	518	430	2	195	556
<b>PAT</b>	<b>867</b>	<b>1,109</b>	<b>119</b>	<b>501</b>	<b>1,430</b>

Source: Company data, I-Sec research

**Table 3: Balance sheet**

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E	FY23E
Capital	816	866	1,061	1,061	1,061
Reserves & surplus	7,990	9,796	14,908	15,409	16,839
<b>Networth</b>	<b>8,806</b>	<b>10,662</b>	<b>15,969</b>	<b>16,470</b>	<b>17,900</b>
<b>Total borrowings</b>	<b>11,242</b>	<b>12,646</b>	<b>16,666</b>	<b>15,767</b>	<b>15,781</b>
<b>Term Deposits &amp; CASA</b>	<b>15,934</b>	<b>28,487</b>	<b>32,557</b>	<b>39,072</b>	<b>48,840</b>
Other Liabilities and Provisions	1,634	1,850	1,928	3,107	3,728
<b>Total liabilities &amp; stockholders' equity</b>	<b>37,616</b>	<b>53,645</b>	<b>67,120</b>	<b>74,416</b>	<b>86,249</b>
<b>Loans &amp; advances</b>	<b>26,800</b>	<b>35,319</b>	<b>39,828</b>	<b>48,241</b>	<b>59,234</b>
Investments	6,644	8,081	18,737	16,372	15,525
Cash and Balance	2,762	8,380	5,966	6,697	7,762
Other assets	1,410	1,865	2,589	3,107	3,728
<b>Total Assets</b>	<b>37,616</b>	<b>53,645</b>	<b>67,120</b>	<b>74,416</b>	<b>86,249</b>

Source: Company data, I-Sec research

**Table 4: Key ratios**

(Year ending March 31)

Growth (%):	FY19	FY20	FY21P	FY22E	FY23E
<b>AUM</b>	72.7	25.1	13.3	14.7	22.8
Disbursements	66.9	8.4	-28.3	95.5	34.7
Loan book (on balance sheet)	70.8	31.8	19.1	14.7	22.8
Total Assets	74.5	42.6	25.1	10.9	15.9
Total Deposits	112.4	78.8	14.3	20.0	25.0
Total NDTL	85.1	51.4	19.7	11.4	17.8
Total Investments	113.6	21.6	131.9	-12.6	-5.2
Interest Income	84.8	44.6	1.2	19.7	14.3
Interest Expenses	55.4	44.4	32.4	10.9	10.2
<b>Net Interest Income (NII)</b>	106.9	44.8	-16.4	27.5	17.5
Non-interest income	76.05	30.82	14.10	12.78	22.42
Net Income	101.09	42.45	-11.77	24.63	18.34
Total Non-Interest Expenses	47.26	40.67	20.73	17.31	13.91
Pre provisioning operating profits (PPoP)	201.58	44.08	-40.71	37.89	25.16
<b>PAT</b>	756.67	28.01	-89.31	322.71	185.16
<b>Yields, interest costs and spreads (%)</b>					
Average earning assets	36,206	51,780	64,531	71,310	82,521
Total Funds	27,176	41,133	49,223	54,839	64,621
NIM on AUM	11.9	11.1	7.1	7.7	8.0
Yield on loan assets	22.6	23.0	19.6	20.6	19.7
Average cost of funds	9.1	8.1	8.1	7.8	7.5
Interest Spread on loan assets	13.5	14.9	11.5	12.8	12.3
<b>Operating efficiencies</b>					
Non interest income as % of net income	16.5	15.1	19.6	17.7	18.3
Cost to income ratio (%)	47.69	47.09	64.44	60.66	58.39
Op.costs/avg AUM (%)	8.26	8.15	8.30	8.54	8.17
Salaries as % of non-int.costs (%)	65.5	63.0	56.5	57.8	58.4
<b>Balance Sheet Structure</b>					
Loans/ deposits (%)	168.2	124.0	122.3	123.5	121.3
Loans/ Total assets	71.2	65.8	59.3	64.8	68.7
Loans/NDTL	98.6	85.9	80.9	88.0	91.7
CA% of NDTL	1.7	1.4	2.2	2.5	2.7
SA% of NDTL	4.9	6.5	8.0	10.8	15.1
CASA% of NDTL	6.6	7.9	10.2	13.3	17.8
Total deposits as % of NDTL	58.6	69.3	66.1	71.2	75.6
<b>Capital Structure</b>					
Leverage (x)	4.27	5.03	4.20	4.52	4.82
CAR (%)	36.0	29.6	44.4	37.1	33.8
Tier 1 CAR (%)	33.7	28.6	42.7	37.1	33.8
Tier 2 CAR (%)	2.3	1.0	1.7	1.5	1.2
<b>Asset quality and provisioning</b>					
GNPA (%)	1.9	2.9	9.4	11.6	6.9
NNPA (%)	0.8	1.7	4.7	2.9	2.7
GNPA (Rs mn)	496	1,013	3,937	5,619	4,066
NNPA (Rs mn)	209	600	1,881	1,405	1,626
Coverage ratio (%)	57.9	40.7	52.2	75.0	60.0
Credit costs as % of average AUM	3.2	4.5	4.3	4.0	2.1
<b>Return ratios</b>					
RoAA (%)	2.9	2.4	0.2	0.7	1.8
RoAE (%)	12.2	11.4	0.9	3.1	8.3
<b>Valuation Ratios</b>					
EPS (Rs)	10.6	12.8	1.1	4.7	13.5
EPS fully diluted (Rs)	10.6	12.8	1.1	4.7	13.5
Price to Earnings	17.7	14.7	168.2	39.8	14.0
Price to Earnings (fully diluted)	17.7	14.7	168.2	39.8	14.0
Book Value (fully diluted)	107.9	123.1	150.5	155.2	168.7
Adjusted book value (fully diluted)	107.9	123.1	150.5	155.2	168.7
Price to Book	1.7	1.5	1.2	1.2	1.1
Price to Adjusted Book	1.7	1.5	1.2	1.2	1.1

Source: Company data, I-Sec research

**Table 5: DuPont analysis**

(%)	FY19	FY20	FY21P	FY22E	FY23E
Interest earned	17.9	16.8	12.8	13.1	13.2
Interest expended	6.5	6.1	6.1	5.7	5.6
<b>Gross Interest Spread</b>	<b>11.5</b>	<b>10.7</b>	<b>6.8</b>	<b>7.4</b>	<b>7.6</b>
Credit cost	2.50	3.33	2.80	2.55	1.42
<b>Net Interest Spread</b>	<b>9.0</b>	<b>7.4</b>	<b>4.0</b>	<b>4.8</b>	<b>6.2</b>
Operating cost	6.5	6.0	5.4	5.4	5.5
<b>Lending spread</b>	<b>2.4</b>	<b>1.5</b>	<b>-1.5</b>	<b>-0.6</b>	<b>0.8</b>
Non-interest income	2.3	1.9	1.7	1.6	1.7
<b>Operating spread</b>	<b>4.7</b>	<b>3.4</b>	<b>0.2</b>	<b>1.0</b>	<b>2.5</b>
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Final Spread</b>	<b>4.7</b>	<b>3.4</b>	<b>0.2</b>	<b>1.0</b>	<b>2.5</b>
<i>Tax rate (%)</i>	1.8	0.9	0.0	0.3	0.7
<b>ROAAUM</b>	<b>2.9</b>	<b>2.4</b>	<b>0.2</b>	<b>0.7</b>	<b>1.8</b>
Effective leverage (AAUM/ AE)	4.2	4.7	4.5	4.4	4.7
<b>RoAE</b>	<b>12.2</b>	<b>11.4</b>	<b>0.9</b>	<b>3.1</b>	<b>8.3</b>

Source: Company data, I-Sec research

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