

SPECIAL REPORT

TECHNO FUNDA



BP WEALTH

17th July, 2023

Technical View (Daily Chart)



Technical View

Source: TradingView

- ⇒ The private banking stock witnessed a dissipating start as the stock failed to perform since the listing day and entered into stage 4 immediately.
- ⇒ The stock pared 74% from the life-highs of 296 in 66 weeks before it entered into a brief consolidation in a relatively broader trading range. The buyers were gradually seen to lay their hands on accumulating strength from the sellers within the stage 1.
- ⇒ The buyers showed tepidness following the upmove after 3rd April, 2023 and ushered the price action to the stage 2.
- ⇒ The price action managed to surpass the next hurdle near 158 off a pivotal point with a breakaway gap.
- ⇒ The price action is observed to be forming a constructive base ahead of the major supply zone from 179-192 off a previous gap-down area which is anticipated as potential accumulation to garner bullish strength to stage another major breakthrough. The tightness in volatility within the lateral trend indicates that buyers and sellers are attempting to get into an equilibrium.
- ⇒ The breakaway gap area from 158—175 is prevised to act as immediate support to limit the drawdowns.
- ⇒ The 50 period volatility remains at lower end and hence any unruly move in the price action is less likely.
- ⇒ The stock shows strong buyer's demand and price strength and a fair EPS strength at the current market price.
- ⇒ **We reiterate a buy from CMP—172 and anticipate potential upside of 23.6% for the target of 215 and limit the risk appetite to 159.**

Fundamental View

Company Overview

Suryoday Small Finance Bank Ltd. started its journey from Micro Finance business and transitioned to a Small Finance Bank in just eight years and commenced operations on January 23, 2017. As on March 31, 2023, Suryoday SFB had operations across 15 states and Union Territories, catering to around 2.3 million customers through 577 branches with a strong presence in Maharashtra, Tamil Nadu, Karnataka, Gujarat, Delhi, and Odisha. The loan AUM stands at Rs. 6,114 crores as on March 31, 2023. The bank also has outstanding deposits aggregating Rs. 5,167 crores. It is among the ten companies and the only one from Maharashtra to obtain a 'Small Finance Bank' licence from the Reserve Bank of India (RBI). The SFB offers a credit products suite of MFI loans, Vikas Loans, Shopkeeper Loans etc. to new and current customers. It also offers digital banking as the key account differentiator to customers using the extensive seeding of the Aadhar biometric identification system, NPCI's payment systems and mobile technologies whilst continuing to explore banking through traditional channels. The SFB focuses on the unserved and the underserved through innovative banking practices and continues to expand its reach in states where they currently don't have a presence.

Key Investment Thesis

- Suryoday SFB expanded its customer base at a CAGR of 18% during the FY19-23 period. This significant growth in its customer base signifies its success with a customer-centric approach and its ability to meet its evolving financial needs.
- In terms of profitability, Suryoday SFB had a turnaround and reported a profit of Rs. 77.7 crores in FY23 as against a loss of Rs. 93 crores in FY22. This recovery reflects their concerted efforts to enhance operational efficiencies, optimize asset quality and improve overall financial performance.
- The bank's gross advances in FY23 crossed Rs. 6,000 crores mark, with Vikas Loan Portfolio crossing the Rs. 1,200 crores mark. They were able to grow their gross advances at 19.1% CAGR in FY19-23 which is remarkable as per the industry standards.
- Vikas Loan is the bank's flagship product in the unsecured business loan offering which is provided to the existing graduating JLG customers on the back of increased government impetus for nurturing MSME growth. Consequently, the AUM of the Vikas Loan grew to Rs. 1,232 crores in FY23 from Rs. 213 crores as of FY22.
- Despite the rising interest rate scenario, the bank's costs of funds were 6.7% compared to 7% in the corresponding period last year. This is nominally higher than the cost of funds for full-fledged banks.
- Suryoday SFB recorded the highest credit-to-deposit ratio at 116.4% as of FY23.
- In Q1FY24, deposits grew 42% YoY / 10% QoQ and gross advances were up 25% YoY / 5% QoQ.

Outlook

About 47% of India's GDP comes from rural areas. However, their share in banking credit and deposits is abysmally low with just 8% of total credit and 11% of total deposits coming from rural areas. The massive divergence in the rural areas' share of India's GDP and banking credit and deposit services compared with urban areas is an indicator of the extremely low penetration of the banking sector in rural areas. As rural areas in India have lower financial inclusion compared with urban areas and there is less competition for banking services in rural areas compared with urban areas, this presents significant growth opportunities in rural areas. CRISIL MI&A expects SFBs' loan portfolio to see a strong CAGR of approximately 22% between FY23 and FY25, as most SFBs have completed the transition phase and are likely to benefit from the operating leverage. Suryoday SFB has identified key focus areas which will act as a catalyst for growth in FY24. Operationally, their focus areas include product diversification, maintaining a GNPA level below 2% and net NPA level below 0.5%, leveraging digital initiatives across multiple apps, taking CGFMU cover for JLG and Vikas Loan, building a very strong Vikas Loan book of Rs. 2,000 crores and expanding its branch network. Due to the strategic focus on the Vikas Loan book, they have onboarded 25,000 new customers and expect the Vikas Loan product customer base will be over 4 lakh. The management of the bank has guided that they are not looking to raise any capital in the near future as they are well-capitalized for their business expansion. The bank aims to focus on growing the credit between 30% - 35% for FY24 while they expect the deposits to grow at 40% in the same period achieving a return on assets of 2.2% and the return on equity of 15% in FY24. In remote areas, informal credit channels have a major presence, thus there is a huge section of the unbanked population and Suryoday SFB has an opportunity to tap this market. With an increased focus on diversifying its portfolio and expanding its reach, Suryoday SFB is expected to log higher growth as they tap newer geographies. Thus, on the basis of the above, we remain positive on Suryoday Small Finance Bank Ltd.

Execution Data

Target (Rs)	215
Stop loss (Rs)	159
Buying Range (Rs)	CMP-172
Last Close Price (Rs)	176
% change Weekly	2.50%

Weekly Oscillator Direction

10 MMA	UPWARD
20 MMA	UPWARD
50 MMA	UPWARD
RSI	BUY MODE
MACD	BUY MODE

Sector Outlook Neutral

Stock

BSE code	543279
NSE Symbol	SURYODAY
Bloomberg	SURYODAY IN
Reuters	SURO.BO

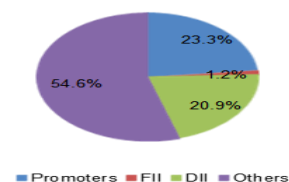
Key Data

Nifty	19,565
52WeekH/L(Rs)	183 / 79
O/s Shares (mn)	106
Market Cap (Rs bn)	19
Face Value (Rs)	10

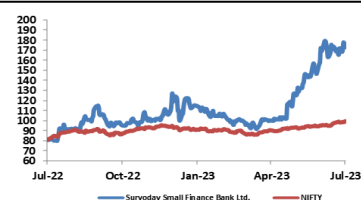
Average volume

3 months	12,68,830
6 months	8,40,690
1 year	6,89,810

Share Holding Pattern (%)



Relative Price Chart



NBFC

Key Financials

YE March (Rs. crores)	FY19	FY20	FY21	FY22	FY23
Net Interest Income	339	491	411	585	747
<i>Growth (Y-oY)</i>		44.8%	(16.3%)	42.4%	27.7%
PPOP	212	306	158	265	338
<i>Growth (Y-oY)</i>		44.2%	(48.3%)	67.3%	27.4%
PAT	150	237	12	(93)	78
<i>Growth (Y-oY)</i>		58.3%	(95.0%)	(881.5%)	(183.5%)
Gross Advances	3,024	3,655	4,206	5,063	6,114
<i>Growth (Y-oY)</i>		20.9%	15.1%	20.4%	20.8%
Deposits	1,593	2,849	3,256	3,850	5,167
<i>Growth (Y-oY)</i>		78.8%	14.3%	18.3%	34.2%
EPS	11	13	1	(9)	7
<i>Growth (Y-oY)</i>		15.6%	(91.3%)	(882.1%)	(183.6%)
Book Value per share	108	123	151	140	149
<i>Growth (Y-oY)</i>		14.1%	22.3%	(7.0%)	6.6%

Key Ratios

CASA ratio	11.20%	11.50%	15.40%	20.20%	17.10%
NIM	12.60%	11.50%	7.10%	8.60%	9.50%
GNPA	1.81%	2.79%	9.40%	11.80%	3.10%
NNPA	0.44%	0.57%	4.70%	5.90%	1.50%
RoE	14.26%	11.21%	0.90%	-6.00%	5.00%
RoA	2.98%	2.53%	0.20%	-1.30%	1.80%
P/BV	1.63	1.43	1.17	1.26	1.18
PE	15.88	13.74	157.14	-20.09	24.04

Source: Company, BP Equities Research

Research Team

Kushal Gandhi

Technical Analyst

kushalgandhi@bpwealth.com

Shreyansh V.Shah

Fundamental Analyst

shreyansh@bpwealth.com

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392