



Press Release

Disclaimer: Mr. Malay Mukherjee, member of External Review rating committee in IVRPL is on the Board of this entity as Independent Director. He is not involved in the rating process in any manner and this note has not been sent to him.

Shivalik Small Finance Bank Limited

February 04, 2025

Ratings

| Instrument / Facility | Amount (Rs. crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|------------------------------------|--------------------|--|--|------------------------------------|--------------------------------------|
| Tier II Bonds (ISIN: INE0E3P08094) | 8.50 | IVR A/ Positive (IVR A; with Positive Outlook) | IVR A/ Stable (IVR A; with Stable Outlook) | Rating reaffirmed; Outlook revised | Highly complex |
| Tier II Bonds (ISIN: INE0E3P08102) | 10.15 | IVR A/ Positive (IVR A; with Positive Outlook) | IVR A/ Stable (IVR A; with Stable Outlook) | Rating reaffirmed; Outlook revised | Highly complex |
| Proposed Tier II Bonds | 31.35 | IVR A/ Positive (IVR A; with Positive Outlook) | IVR A/ Stable (IVR A; with Stable Outlook) | Rating reaffirmed; Outlook revised | Highly complex |
| Total | | | 50.00 | | |

(Rupees Fifty Crore Only)

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics rating has reaffirmed its ratings assigned to Non-Convertible Debentures/Tier II bonds as it continues to derive comfort from healthy resource profile, consistent growth in advances, comfortable capitalisation, experienced board and management team coupled with adequate risk management systems and practices adopted by the bank. However, these rating strengths are partially offset by average albeit improving asset quality and thin profitability coupled with geographical concentration of operations.

Infomerics has revised its outlook to "Positive" from "Stable" on the consistent growth in total business, capitalisation levels on account of capital raising and improvement in the asset quality. Infomerics expects that the growth momentum will continue as the bank is adequately capitalised and has an established track record of operations.



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Note on Basel-III Compliant Tier-II Instruments: The distinguishing feature of Tier-II capital instruments under Basel III is the existence of the point of non-viability (PONV) trigger, the occurrence of such situation might result in loss of principal to the investors and, henceforth, to default on the instrument by the issuer. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. IVR believes the PONV trigger is a remote possibility in the Indian context, given the robust regulatory and supervisory framework and the systemic importance of the banking sector. The inherent risk associated with the PONV feature is adequately factored into the rating on the instrument.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in the business, revenues and profitability resulting in substantial improvement in capitalisation levels.
- Substantial improvement in asset quality

Downward Factors

- Any major increase in slippages leading to weakening of asset quality, thereby impacting the profitability of the Bank below the current levels.
- Decline in overall capital adequacy ratio below 15%.
- Substantial decline in the overall business of the Bank.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced board and senior management team

Shivalik SFBs promoters have rich experience of more than 2 decades in operating the bank since its inception in 1998. Mr. Suveer Kumar Gupta was the MD and CEO of the bank from Inception till 25th April 2022. Under his leadership, the Bank has achieved several firsts including becoming the first and largest multi-state UCB in Uttar Pradesh and being the first bank in the country to be transitioning to a Small Finance Bank. He has been replaced by Mr.



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Anshul Swami, the current MD and CEO who has more than two decades of experience in the banking industry and is well supported by a team of qualified and experienced team and board of directors. They have rich domain expertise and extensive experience in the fields of microfinance and retail banking, audit and accounts, taxation, technology, and strategy.

Comfortable capitalisation

On the back of consistent capital raise from the promoters and Investors, the bank has been able to maintain comfortable capitalisation levels amidst the growth witnessed in the loan book. In FY25, the bank raised Rs 96.01 crore of fresh capital through marquee investors. Bank's Common Equity Tier-1 (CET 1) ratio, Tier-I capital adequacy ratio (CRAR) and overall, CRAR stood comfortable at 20.28%, 20.28% and 23.19%, respectively, as on 30 September 2024 (16.75%, 16.75% and 20.19%, respectively, as on 31 March 2024). The bank has flexibility to raise additional equity from the market, post conversion into an SFB.

Healthy resource profile

Resource profile of the Bank has remained healthy with the proportion of low-cost CASA deposits at 26.23% as on 30 September 2024 (27.98% as on 31 March 2024). The proportion remains in line with the industry average, helping the Bank maintain its cost of deposits at a manageable level. The Cost of funds stood comfortably at 6.74% as on 30 September 2024 (6.24% in FY24).

Adequate risk management systems and practices

Over its operational history, previously as an Urban Co-operative Bank and now as a Small Finance bank, Shivalik SFB has been able to develop its systems and processes according to its scale and nature of business while keeping technology in the forefront. This enabled the strengthening of the credit underwriting, monitoring and internal control systems including adoption of digital based Loan Origination system (LOS). Shivalik has been technology focused since inception with consumer centricity as a key guiding principle. The Bank is powered by Infosys Finacle Core Banking and Digital Banking Suite including internet and mobile banking. The cloud-based architecture provides the Bank with unmatched agility to cost effectively manage scale and power growth. Shivalik is live on all retail payment platforms



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and is a direct member of the National Financial Switch. The Bank is live on all retail payment platforms including UPI, IMPS, NEFT/RTGS and is a direct member of the National Financial Switch.

Key Rating Weaknesses

Average albeit improving Asset Quality

Given that the bank's majority of loans are towards vulnerable sectors like MSME, Agriculture sector and Microfinance sector (~58%), the asset quality of the Bank remains average, albeit improvement shown in FY24 and H1FY25. Bank has reported gross NPAs of 2.31% as on 30 September 2024 (2.01% as on 31 March 2024 and 2.30% as on March 31, 2023). As on 30 September 2024, Gross NPAs from the Business loans/MSME segment stood at ~2.1%, followed by micro finance (JLG) ~2.4% and Agriculture loans which stood at ~4.0%. The provision coverage ratio of the bank remained moderate at 55.05% as on 30 September 2024.

Thin profitability

The Bank's profitability remains thin given the high cost to income ratio as the Bank is geographically diversifying its presence, investing in building infrastructure, technology and human resources. Also, given the fact that the banks cost of funds has increased from 5.60% in FY23 to 6.40% in FY24 and simultaneously, the cost of deposits have also increased from 5.73% in FY23 to 6.24% coupled with higher provisions in FY24 which stood at Rs 15.40 crore in FY24 (Rs 5.27 crore in FY23) has contributed to the low profitability. Bank's PAT after deferred tax stood at Rs 2.40 crore for FY24 when compared to Rs 1.53 crore in FY23. Rota for the bank stood at 0.09% for FY24 when compared to 0.07% in FY23.

Geographical concentration of operations

SSFB was earlier operating as an Urban Co-operative bank (UCB) and hence, it was allowed to only operate in Uttar Pradesh (UP) and Madhya Pradesh (MP) and hence the operations of the bank were geographically concentrated resulting in low scale of operations despite the consistent growth. UP and MP contributes to ~42% of total advances as on 30 September 2024 down from 51% as on 31 March 2024 and 100% at the time of transition in April 2021.



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However, the bank has forayed into few other states such as Delhi, Haryana, Punjab, Uttarakhand, Gujarat, Maharashtra, Karnataka, Telangana and Tamil Nadu in the last 3 years post receipt of SFB license and plans to diversify geographically going forward.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Banks](#)

[Criteria of assigning Rating Outlook.](#)

[Complexity level of rated instruments/Facilities](#)

[Financial Ratios & Interpretation \(Financial Sector\)](#)

[Policy on Default Recognition and Post – Default Curing Period](#)

Liquidity – Adequate

The liquidity coverage ratio was healthy at 185.32% as on September 30, 2024, and the bank's structural liquidity statement as on September 30, 2024, did not have any cumulative negative mismatches across various buckets. The bank's liquidity profile is supported by its enhanced borrowing ability on account of its SFB status and the large portion of relatively shorter tenor assets. The liquidity profile is also supported by the availability of undrawn refinance lines from SIDBI and NABARD.

About the Company

Shivalik became the first Small Finance Bank (SFB) in India's history to transition from an Urban Co-operative Bank (UCB). The Bank has over 25 years of experience in offering retail banking products and services. The bank operates through 172 touchpoints through branches, and business correspondents. Shivalik SFB received in-principal approval from the RBI to transition to a Small Finance Bank on 6 January 2020, received the license to commence banking business as a Small Finance Bank on 1 January 2021, commenced operations as an SFB on April 26, 2021, and received Scheduled Bank status on 7 July 2021.



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Financials (Standalone):

| For the year ended* / As on | (Rs. crore) | |
|-----------------------------|-------------|------------|
| | 31-03-2023 | 31-03-2024 |
| | Audited | Audited |
| Total Income | 218.72 | 309.38 |
| PAT | 1.53 | 2.40 |
| Total Advances | 1407.37 | 2095.38 |
| Total Deposits | 1894.26 | 2409.66 |
| Total Business | 3301.63 | 4505.03 |
| Ratios | | |
| NIM (%) | 4.71 | 5.95 |
| ROTA (%) | 0.07 | 0.09 |
| CET I CRAR (%) | 18.64 | 20.28 |
| Total CRAR (%) | 23.46 | 23.19 |
| Gross NPA (%) | 2.30 | 2.01 |
| Net NPA (%) | 1.16 | 0.84 |
| PCR (%) | 50.20 | 58.71 |
| CASA (%) | 31.10 | 27.98 |

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: As provided above

Rating History for last three years:

| Sr. No. | Name of Security/Facilities | Current Ratings (2024-25) | | | Rating History for the past 3 years | | |
|---------|-----------------------------|-----------------------------|--------------------------------|----------------|---|---|---|
| | | Type (Long Term/Short Term) | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2023-24 | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in 2021-22 |
| | | | | | | 7 Feb 2023 | 8 Feb 2022 |
| 1. | Tier II bonds | Long Term | 18.65 | IVR A/Positive | IVR A/Stable (11 Dec 2023) IVR A/Stable (5 Feb 2024) | IVR A/Stable | - |
| 2. | Proposed Tier II bonds | Long term | 31.35 | IVR A/Positive | IVR A/Stable (11 Dec 2023) IVR A/Stable (5 Feb 2024) | IVR A/Stable | IVR A-/Stable |



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Analytical Contacts:

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|---|---|
| Name: Sree Harsha | Name: Amey Joshi |
| Tel: (022) 62396023 | Tel: (022) 62396023 |
| Email: sree.harsha@infomerics.com | Email: amey.joshi@infomerics.com |

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.



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Annexure 1: Instrument/Facility Details

| Name of Facility/Security | ISIN | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Listing status | Rating Assigned/ Outlook |
|--|--------------|------------------|------------------|---------------|------------------------------|----------------|--------------------------|
| Shivalik Small Finance Bank Tier II Debt Series IV (Non-Convertible Debenture) | INE0E3P08094 | 27-Mar-22 | 8.75% | 26-Mar-29 | 8.50 | Unlisted | IVR A/ Positive |
| Shivalik Small Finance Bank Tier II Debt Series V (Non-Convertible Debenture) | INE0E3P08102 | 01-Sep-23 | 9.55% | 31-Aug-30 | 10.15 | Unlisted | IVR A/ Positive |
| Proposed Tier II bonds | - | - | - | - | 31.35 | Unlisted | IVR A/ Positive |

Annexure 2: Facility wise lender details – Not applicable

Annexure 3: Detailed explanation of covenants of the rated Security/facilities:

Terms of the issue: Tier II Bonds: Rs 8.50 crore (ISIN: INE0E3P08094)

| | |
|-----------------------------|--|
| Issue name | Shivalik Small Finance Bank Tier II Debt Series IV |
| Issuer name | Shivalik Small Finance Bank Limited |
| Type of Instrument | Rated, Unlisted, Taxable, Tier II Bonds in the form of Non-convertible Debenture |
| Nature of Instrument | Unsecured |
| Seniority | <p>Claims of the Investors in the instruments shall be: Senior to the claims of investors in instruments eligible for inclusion in Tier I Capital</p> <p>Subordinate to the claims of all depositors, general creditors of the bank, but shall rank pari passu with the other Tier II capital instruments of the Bank (whether present or future), and Neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors</p> |
| Objects of the Issue | Enriching Lower Tier II Capital of the bank (as defined in the RBI guidelines) and over all capital of the Issuer for strengthening its capital adequacy ratio and for enhancing its long-term resources. This will be subject to the discount applied in |



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| | calculating the CRAR as per the extant guidelines of the RBI for such instruments. |
| Coupon Rate | 8.75% p.a. Coupon interest will be paid on the paid-up value of the securities only (i.e pro rata basis) The coupon shall be non-cumulative Coupon shall be paid as per the per terms and condition prescribed in Reserve Bank of India Master Circular – Basel II capital guidelines |
| Coupon frequency | Quarterly |
| Tenor | 7 years |
| ISIN | INE0E3P08094 |
| Issue date | 27 March 2022 |
| Maturity date | 26 March 2029 |
| Covenants | |
| Grant of advances against bonds | Banks should not grant advances against the security of their own bonds. |
| Compliance with Reserve Requirements | The total amount of raised by issuance of Shivalik Small Finance Bank Tier II Debt Series IV has to be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will attract CRR/SLR requirements |

Terms of the issue: Tier II Bonds (ISIN: INE0E3P08102): Rs 10.15 Crores.

| | |
|-----------------------------|---|
| Issue name | Shivalik Small Finance Bank Tier II Debt Series V |
| Issuer name | Shivalik Small Finance Bank Limited |
| Type of Instrument | Subordinated, Rated, Unlisted, Unsecured, Taxable, Tier II Bonds in the form of Non-convertible Debenture |
| Nature of Instrument | Unsecured |



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| Seniority | Claims of the Investors of NCD Series - V in the instruments shall be: <ul style="list-style-type: none">• Senior to the claims of investors in instruments eligible for inclusion in Tier I Capital and Upper Tier II Capital of the Bank; and,• Subordinate to the claims of all depositors, other creditors of the bank, free of restrictive clauses and should not be redeemable at the initiative of the holder or without the consent of the Reserve Bank of India. but shall rank pari passu with the other Tier II capital instruments of the Bank (whether present or future), and• Neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors. |
| Listing | Unlisted |
| Objects of the Issue | Enriching Tier II Capital of the bank (as defined in the RBI guidelines) and overall capital of the Issuer for strengthening its capital adequacy ratio and for enhancing its long-term resources and for the regular business activities of the Issuer. This will be subject to the discount applied in calculating the CRAR as per the extant guidelines of the RBI for such instruments. |
| Coupon Rate | 9.55% p.a.payable Quarterly Coupon interest will be paid on the paid-up value of the securities only (i.e pro rata basis) The coupon shall be non-cumulative Coupon shall be paid as per the per terms and condition prescribed in Reserve Bank of India Master Circular – Basel II capital guidelines |
| Coupon frequency | Quarterly |
| Tenor | 7 years |
| ISIN | INE0E3P08102 |
| Issue date | 01 Sep 2023 |
| Maturity date | 31 Aug 2030 |
| Covenants | |
| Grant of advances against bonds | Banks should not grant advances against the security of their own bonds. |
| Compliance with Reserve Requirements | The total amount of raised by issuance of Shivalik Small Finance Bank Tier II Debt Series V has to be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will attract CRR/SLR requirements |



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Term sheet for proposed NCDs

| | |
|--|--|
| Security Name | Shivalik Small Finance Bank Tier II Debt |
| Issuer Name | Shivalik Small Finance Bank Ltd. |
| Issue Size | Rs 31.35 crores |
| Type of Instrument | Rated, unlisted, Taxable, Tier II Bonds in the form of fully paid Non-convertible Debentures. |
| Nature of Instrument | Unsecured |
| Seniority | Claims of the Investors in the instruments shall be: Senior to the claims of investors in instruments eligible for inclusion in Tier I Capital, Subordinate to the claims of all depositors, general creditors of the bank, but shall rank pari passu with the other Tier II capital instruments of the Bank (whether present or future), and Neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors |
| Mode of Issue | Private Placement |
| Eligible Investors | Banks, Financial Institutions, Insurance Company, Mutual Fund, Non-Banking Financial Companies, Corporate Investors, Individual. This Issue is restricted only to the above investors. Prospective subscribers must make their own independent evaluation and judgment regarding their eligibility to invest in the issue. |
| Objects of the Issue / Details of the utilization of the proceeds | Enriching Lower Tier II Capital of the bank (as defined in the RBI guidelines) and over all capital of the Issuer for strengthening its capital adequacy ratio and for enhancing its long-term resources. This will be subject to the discount applied in calculating the CRAR as per the extant guidelines of the RBI for such instruments. |
| Coupon Rate | TBD - (YTD Quarterly/Semi-Annual/Annually) (As Decided by Board) Coupon interest will be paid on the paid-up value of the securities only (i.e pro rata basis) The coupon shall be non-cumulative Coupon shall be paid as per the per terms and condition prescribed in Reserve Bank of India Master Circular - Basel II capital guidelines |
| Step UP / Step Down Coupon Rate | NA |
| Coupon Type | Fixed |
| Tenor | TBD |
| Redemption Amount | The face value of the NCD, plus interest accrued but not paid till the date of redemption. |



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|--|--|
| Call Option | Applicable |
| Call Option Date | Five years from the date of allotment |
| Call Option | Applicable after five years post approval of RBI |
| Issuer Call | <p>The Issuer may at its sole discretion and having notified the debenture holders not less than 21 calendar days prior to the date of exercise of such Issuer Call (which notice shall specify the date fixed for exercise of the Issuer Call (the "Issuer Call Date"), may exercise a call on the outstanding Bonds.</p> <p>The Issuer Call, which is discretionary, may or may not be exercised on the fifth anniversary from the Deemed Date of Allotment i.e., the fifth Coupon Payment Date or on any Coupon Payment Date thereafter.</p> |
| Tax Call or Variation | <p>If a Tax Event (as described below) has occurred and continuing, then the Issuer may, and having notified the debenture holders not less than 21 calendar days prior to the date of exercise of such Tax Call or Variation (which notice shall specify the date fixed for exercise of the Tax Call or Variation "Tax Call Date"), may exercise a call on the Bonds or substitute the Bonds or vary the terms of the Bonds so that the Bonds have better classification.</p> <p>A Tax Event has occurred if, as a result of any change in, or amendment to, the laws affecting taxation (or regulations or rulings promulgated thereunder) of India or any change in the official application of such laws, regulations or rulings the Issuer will no longer be entitled to claim a deduction in respect of computing its taxation liabilities with respect to coupon on the Bonds.</p> <p>RBI will permit the Issuer to exercise the Tax Call only if the RBI is convinced that the Issuer was not in a position to anticipate the Tax Event at the time of issuance of the Bonds</p> |
| Regulatory Call or Variation | <p>If a Regulatory Event (as described below) has occurred and continuing, then the Issuer may, and having notified the debenture holders not less than 21 calendar days prior to the date of exercise of such Regulatory Call or Variation (which notice shall specify the date fixed for exercise of the Regulatory Call or Variation (the "Regulatory Call Date")), may exercise a call on the Bonds or substitute the Bonds or vary the terms of the Bonds so that the Bonds have better classification.</p> <p>A Regulatory Event is deemed to have occurred if there is a downgrade of the Bonds in regulatory classification i.e., Bonds is excluded from the consolidated Tier II Capital of the Issuer</p> |
| Call Option Amount | The face value of the NCD, plus interest accrued but not paid till the date of Call Option. |
| Face Value | Rs. 10,00,000/- (Rupees Ten lakhs) per NCD |
| Settlement Mode of the Instrument | Payment of interest and repayment of principal shall be made by way of direct credit NECS/ RTGS/ NEFT etc. |



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|-----------------------------------|---|
| Depositories | National Securities Depository Limited (NSDL) / Central Depository Services (India) Limited (CDSL) |
| Record Date | Reference date for payment of coupon or of principal which shall be the date falling 15 days prior to the relevant Coupon Payment Date, Issuer Call Date, Tax Call Date or Regulatory Call Date (each as defined later) on which interest is due and payable. In the event the Record Date falls on a day which is not a business day, the next business day will be considered as the Record Date. |
| Conditions for call option | The Issuer shall not exercise a call option unless: in the case of exercise of call option, the Issuer has demonstrated to the satisfaction of the RBI that its capital position is well above (in the opinion of the RBI) the minimum capital requirements, the prior written approval of the RBI shall have been obtained. the Issuer has not created any expectation that such call or variation or repurchase shall be exercised; and any other pre-conditions specified in the Basel II Guidelines at such time have been satisfied. |

Annexure 4: List of companies considered for consolidated/Combined analysis:

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.