



Press Release

Shivalik Small Finance Bank Limited (SSFB)

February 07, 2023

Ratings

Facilities	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Tier II Bonds	8.50	IVR A/ Stable (IVR Single A with Stable outlook)	Revised	Highly Complex
Proposed Tier II Bonds	41.50 (Decreased from 50.00)	IVR A/ Stable (IVR Single A with Stable outlook)	Revised	Highly Complex
Total		50.00 (Rs Fifty Crores Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating revision for the Bonds of Shivalik Small Finance Bank Limited (SSFB) is on account of consistent improvement in the financial and business risk profile of the bank, experienced promoters, board of directors and management team, comfortable capitalisation, adequate risk management practices and systems and diversified loan book and robust growth plans. However, ratings are constrained by moderate, albeit improving asset quality indicators, low profitability and moderate scale of operations given the geographical concentration risk.

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.



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The inherent risk associated with the PONV feature is adequately factored into the rating on the instrument.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in the overall business of the bank resulting in improved Income and profitability.
- Substantial improvement in asset quality and capitalization

Downward Factor:

- Any major increase in slippages resulting in weakening of asset quality, thereby impacting the earnings profile and profitability of the bank.
- Any material decline in overall capital adequacy ratios below the current level.

Detailed Description of Key Rating Drivers

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. Under their 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. The promoters are 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 MSME lending, audit and accounts, taxation, technology, and strategy. The Bank's operations are spearheaded by Mr. Anshul Swami, Managing Director and CEO, a seasoned banker with 2 decades of experience in Product & Portfolio management, driving lending initiatives in the digital space, deal evaluation, business planning & implementation, operations, sales and underwriting alongwith his team.



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Consistent improvement in financial risk profile

On the back of improving branch network and the business correspondence partnerships, the total business of the bank has consistently improved. Total business of the bank has increased from Rs 2,049 Crores in FY21 to Rs 2,702 Crores in FY22 and to Rs 3,059 Crores in 9MFY22. Advances have grown by 38% in FY22, from Rs 805 Crores in FY21 to Rs 1127 Crores in FY22 and further to Rs 1297 Crores in 9MFY23. Deposits of the bank has grown by 28% in FY22 from Rs 1245 Crores in FY21 to Rs 1593 Crores in FY22 and further to Rs 1762 Crores in 9MFY23.

Adequate capitalisation

Capitalisation of the bank is adequate, with Common Equity Tier-1 (CET 1) ratio, Tier-I capital adequacy ratio (CAR) and Total CAR at 21.02%, 21.02% and 26.12%, respectively, as on December 31, 2022. The bank has flexibility to raise additional equity from the market, post conversion into an SFB. Bank has raised Rs 111 Crores fresh capital from Accel, Quona (US based Private Equity funds) and Bharti Axa Life (one of the leading life insurance players in the country) in FY23 and has received Rs 50 Crores from FIs in H1FY23 and the remaining is expected to be received in Q4FY23.

Healthy resource profile

Resource profile of the Bank has remained healthy with the proportion of low-cost CASA deposits at 30.35% as on September 30, 2022. 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 of the bank stood comfortably at 5.40% as on 30 September 2022 (5.60% in FY22).

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



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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 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

Moderate, albeit improving asset quality indicators:

Given the impact of COVID 19, the GNPA & NNPA had increased to 3.95% & 2.41% respectively in FY21 as against 2.83% & 1.85% respectively in FY20 due to higher delinquencies in the MFI portfolio. However, the asset quality has improved in FY22 with GNPA and NNPA decreasing to 2.89% and 1.33% respectively on account of higher write offs/provisions. As of 31 December 2022, the GNPA and NNPA of the bank stood at 3.05% and 1.74% respectively. This was on account of higher slippages in the MFI portfolio which is currently ~4% of total advances and is expected to be run down in next 24-36 months. The ability of the bank to control incremental slippages and improve its asset quality over the near to medium term will be a key monitorable.

Moderate scale of operations given the geographical concentration

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. However, the bank has forayed into few other states such as Delhi, Haryana, Rajasthan, Uttarakhand, and Karnataka post receipt of SFB license. It has increased its branch network



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from 31 to 47, has opened 50 exclusive Business Correspondent branches, tied up with other NBFC/FIs to diversify geographically.

Low profitability

Given that the bank is growing, its operation expenses are higher as the bank is yet to achieve operational efficiency coupled with higher slippages in the MFI portfolio, the profitability of the Bank remains low with operating profit margin of 3.21% and net profit margin of 0.51% for FY22. However, NIM has increased from 3.90% in FY21 to 4.16% in FY22. Return on networth (RONW) and return on total assets (ROTA) stood at 0.77% and 0.05% respectively for FY22. Going forward, the ability of the bank to improve its profitability will be a key rating monitorable.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Banks](#)

[Criteria of assigning rating outlook](#)

Liquidity - Adequate

The liquidity coverage ratio was healthy at 192.77% as on September 30, 2022, and the bank's structural liquidity statement as on September 30, 2022, did not have any major cumulative mismatches across various buckets. As on September 30, 2022, SSFB holds total high quality liquid assets of Rs. 397.61 crores. 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.

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 23 years of experience in offering retail banking products and services. The bank operates through 101 touchpoints through



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branches, ATMs and business correspondents. As on 31 December 2022, the total deposit base of the bank stood at Rs 1,762 Crores and total advances stood at Rs 1,298 Crores.

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.

Financials (Standalone):

(Rs. Crore)

For the year ended/As on*	31-03-2021	31-03-2022
	(Audited)	(Audited)
Total Income	135.48	146.04
PAT	3.26	0.74
Total Advances	804.86	1108.60
Total Deposits	1244.46	1592.91
Total Business	2049.32	2701.51
Total Assets	1391.43	1890.02
NIM (%)	3.90	4.16
ROTA (%)	0.25	0.05
Tier I CRAR (%)	11.87	15.42
Total CRAR (%)	13.08	21.69
Gross NPA (%)	3.95	2.89
Net NPA (%)	2.41	1.33
CASA (%)	31.25	29.20

*Classification as per Infomerics standards

Details of Non-Co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr.	Name	of	Current Ratings (Year 2022-23)	Rating History for the past 3 years
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No.	Instrument/Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 Feb 08, 2022	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Tier II Bonds (Proposed/Existing)	Long Term	50.00	IVR A/Stable	IVR A-/Stable	-	-

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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.

Annexure 1: Details of Facilities

Name of Facility	ISIN	Date of Issuance	Coupon Rate	Tenor/ Maturity	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Tier II Bonds	INE0E3P080 94	27 March 2022	8.75%	26 March 2029	8.50	IVR A/ Stable
Proposed Tier II Bonds	-	-	-	-	41.50	IVR A/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details : Not Applicable.

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

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



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	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	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

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.