



Press Release

Shivalik Small Finance Bank Limited

February 8, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Proposed Tier-II Bonds	50.00	IVR A-/Stable (IVR A Minus with Stable Outlook)	Assigned	Highly Complex
Total	50.00 (Rs fifty Crores Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment of Ratings to the proposed Tier-II Bonds of Shivalik Small Finance Bank Ltd (Shivalik SFB) takes into consideration the experienced promoters, management and board, adequate capitalisation, adequate risk management practices and systems, diversified loan book and robust growth plans. However, the ratings are constrained by a moderate asset quality and low scale of operations given the geographical concentration risk.

Key Rating Sensitivities:

Upward Factors

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

Downward Factors

- Any major increase in slippages leading to weakening of asset quality, thereby impacting the earnings profile.
- Any material decline in overall capital adequacy ratios below the current level.
- Any deterioration in the profitability of the Bank below the current levels

List of Key Rating Drivers with Detailed Description

Key Rating Strengths



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Experienced promoters 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, Managing Director and CEO who is also the co-founder of the bank, is with the bank since inception. 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 co-operative bank in the country to transition to a Small Finance Bank. He is well supported by a team of qualified and experienced team who have rich domain expertise and extensive experience in the fields of retail mortgages and gold loans, audit and accounts, taxation, technology, and strategy.

Adequate capitalisation:

Capitalisation of the bank is adequate, with Common Equity Tier-1 (CET 1) ratio and overall capital adequacy ratio (CAR) at 15.35% and 17.93%, respectively, as on September 30, 2021 (11.87% and 13.08%, respectively, as on March 31, 2021). The bank has flexibility to raise additional equity from the market, post conversion into an SFB. It is also in the process of raising additional capital in the coming quarters.

Well Diversified and secured loan book

Shivalik focus has always been on small ticket lending and building a secured, well diversified loan book. Shivalik has a well-diversified loan book of Rs 830 Crores as on September 30, 2021. Out of total advances, 91% are secured loans and the rest are unsecured. Retail loans incl. secured business loans, LAP and Housing Loans contribute ~63% of total advances followed by Cash Credit/overdraft (~15%), Microfinance loans (~8%), gold loans (~7%) and other secured loans (7%).

Shivalik has a deposit base of Rs 1,400 Crores with CASA of ~30% as on 30 September 2021. Cost of funds has decreased to 5.63% in H1FY22 to 6.1% in FY21 post receipt of SFB license.

Adequate risk management systems and practices



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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 digitally customised 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. 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 Asset Quality

Asset quality of the Bank, with reported gross NPAs of 3.71% as on September 30, 2021 (3.95% as on March 31, 2021), remains modest, albeit with an improving trend. The Net NPA has improved from 2.41% in FY21 to 1.90% during the same period. As on September 30, 2021, Of the Gross NPA of the bank, 28.74% have arisen from Personal loans segment, 28.34% from MSME, 26.71% from Micro Finance while balance from other segments. The provision coverage ratio of the bank remained moderate at 49.67% as on September 30, 2021.

Low scale of operations given the geographical concentration

SSFB was earlier operating as an Urban Co-operative bank (UCB), 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. UP and MP contributes to ~82% and ~11% respectively, of total advances and hence the operations are regionally concentrated. However, the bank has forayed into few other states such as Delhi,



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Haryana, Punjab, Uttarakhand, and Jharkhand post receipt of SFB license and plans to diversify geographically going forward.

Analytical Approach: Standalone

Applicable Criteria (Please add Hyperlink to the respective criteria):

Rating Methodology for Banks: [Banks | Infomerics Ratings](#)

Liquidity –Adequate

The liquidity coverage ratio was healthy at 235% as on September 30, 2021, and the bank's structural liquidity statement as on September 30, 2021, did not have any major cumulative mismatches across various buckets. As on September 30, 2021, SSFB was carrying on-book liquidity (including mandatory investments) of Rs. 90.03 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. The liquidity profile is also supported by the availability of lines from FIs.

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 has over 4.5 lakh unique customers including 15,000 self-help groups and operates through 31 branches and over 250 banking agents across Uttar Pradesh, Madhya Pradesh, Delhi and Uttarakhand. As on March 31, 2021, the total deposit base of the bank stood at Rs 1245 Crores and total advances stood at Rs 805 Crores.

Shivalik SFB received in-principle 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):

(Rs. Crore)

For the year ended/As on*	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Income	130.01	135.48
PAT	2.25	3.31
Total Advances	718.60	804.86
Total Deposits	1,139.82	1,244.46
Total Business	1,858.42	2,049.32
Total Assets	1,255.27	1,391.43
NIM (%)	4.06	4.16
ROTA (%)	0.18	0.25
CET I CRAR (%)	11.34	11.87
Tier I CRAR (%)	11.34	11.87
Overall CRAR (%)	13.09	13.08
Gross NPA (%)	2.83	3.95
Net NPA (%)	1.87	2.41
CASA (%)	28.01	31.25

*Classification as per Infomerics standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Proposed Tier II Bonds	Long Term	50.00	IVR A- /Stable (IVR A Minus with	-	-	-



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				Stable Outlook)			

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Tier II Bonds	-	-	-	50.00	IVR A-/Stable (IVR A Minus with Stable Outlook)

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:

Name of the Instrument	Detailed Explanation
Proposed Tier II Bonds	Rated, Listed Taxable, Tier II Bonds in the form of fully paid Non-convertible Debenture.
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	Not Available
Tenor	Seven (7) years from the deemed date of allotment with a call option available to the issuer after the expiry of five (5) years from the date of issue.
	Financial Covenant
	i. Call option
	Applicable after five years post approval of RBI
	ii. Issuer Call
	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.
	Non-financial Covenant
	Not Available

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.