



Press Release

Shivalik Small Finance Bank Limited (SSFBL)

Feb 05, 2024

Ratings

Facilities	Amount (Rs. crore)	Current Ratings	Previous Rating	Rating Action	Complexity Indicator
Tier II Bonds (ISIN: INE0E3P08094)	8.50	IVR A/ Stable (IVR Single A with Stable outlook)	IVR A/ Stable (IVR Single A with Stable outlook)	Re-affirmed	Highly Complex
Tier II Bonds (ISIN: INE0E3P08102)	10.15	IVR A/ Stable (IVR Single A with Stable outlook)	IVR A/ Stable (IVR Single A with Stable outlook)	Re-affirmed	Highly Complex
Proposed Tier II Bonds	31.35	IVR A/ Stable (IVR Single A with Stable outlook)	IVR A/ Stable (IVR Single A with Stable outlook)	Re-affirmed	Highly Complex
Total			50.00 (Rs Fifty Crores Only)		

Mr. Malay Mukherjee who is a member of the Review Rating Committee of INFOMERICS is on the Board of Shivalik Small Finance Bank Limited. He did not participate in the rating exercise for this Company, including the rating decision. Also, the rating note was not sent to Mr. Malay Mukherjee.

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has re-affirmed the long-term rating of Tier – II Bonds to IVR A with a Stable outlook of Shivalik Small Finance Bank Limited (SSFBL).

The rating continues to draw comfort from the established track record of operations and



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experienced management, improvement in scale of operations and operating profit, comfortable collection efficiency, capital adequacy ratio and low levels of GNPA's. However, these strengths are partially offset by portfolio and geographic concentration risk, intense competition in the industry.

IVR believes SSFBL will continue benefit from its operational track record in the business, controlled NPA level, adequate capital adequacy, availability of fund for further growth and higher acceptability of the company in the market.

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 Factor:

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

Downward Factor:

- 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

Detailed Description of Key Rating Drivers



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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 (Founder Director) of the bank and 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 bank in the country to be transitioning to a Small Finance Bank. He 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 self-help groups, 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 and his team.

Adequate capitalisation:

Capitalisation of the bank is adequate, with Common Equity Tier-1 (CET 1) ratio, and overall, CAR at 18.64% and 23.46%, respectively, as on March 31, 2023 (15.42% and 21.69%, respectively, as on March 31, 2022). 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.

Healthy resource profile:

Resource profile of the Bank has remained healthy with the proportion of low-cost CASA deposits at 28.06% as on December 31, 2023. 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 was 6.10% as on 31 December 2023 (5.40% in FY23).

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



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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 ability 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 Asset Quality

Asset quality of the Bank, with reported gross NPAs of 2.41% as on December 31, 2023 (2.30% as on March 31, 2023), remains moderate with marginal increase. Though the Net NPA has improved from 1.16% in FY23 to 1.05% in 9MFY24. This GNPA was mainly because fresh slippages from Microfinance portfolio which is expected to run down in the next 24 months. As on December 31, 2023, Gross NPAs from the Personal loans/MSME segment stood at ~42.73%, followed by micro finance ~32.53%. The provision coverage ratio of the bank remained moderate at 57.07% as on December 31, 2023.

Low 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. UP and MP contributes majority of total advances. However, the bank has forayed into few other states such as Delhi, Haryana, Punjab, Uttarakhand, and Jharkhand post receipt of SFB license and plans to diversify geographically going forward.

Thin profitability

The profitability of the bank has been on a very small scale albeit improved in FY23. The Net profitability of the Bank has stood at Rs. 1.53 Crore (after Deferred Tax) in FY23 against Rs. 0.74



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Crore (after Deferred Tax) in FY22.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Banks](#)

[Criteria of assigning rating outlook](#)

Liquidity - Adequate

The liquidity coverage ratio was healthy at 168.34% as on September 30, 2023, and the bank's structural liquidity statement as on December 31, 2023 did not have any major cumulative 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 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 operates through 190 touchpoints through branches, ATMs and business correspondents. As on 31 December 2023, the total deposit base of the bank stood at Rs 2,169.17 Crores and total advances stood at Rs 1,786.80 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*	31-03-2022	31-03-2023	9MFY24
	(Audited)	(Audited)	(Un-audited)
Total Income	146.04	218.72	220.00
PAT	0.74	1.53	0.45



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Total Advances	1108.60	1407.37	1,786.80
Total Deposits	1592.91	1894.26	2,169.17
Total Business	2701.51	3301.63	3,955.90
Total Assets	1890.02	2249.85	NM
NIM (%)	4.20	4.71	5.90%
ROTA (%)	0.05	0.07	NM
Tier I CRAR (%)	15.42	18.64	13.40
Total CRAR (%)	21.69	23.46	17.60
Gross NPA (%)	2.89	2.30	2.40
Net NPA (%)	1.33	1.20	1.10
CASA (%)	29.20	31.00%	28.10

*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. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Tier II Bonds (ISIN: INE0E3P08094)	Long Term	8.50	IVR A/Stable	Feb 07, 2023	IVR A-/Stable	-
2	Tier II Bonds (ISIN: INE0E3P08102)	Long Term	10.15	IVR A/Stable	Feb 08, 2022	IVR A-/Stable	
3	Proposed Tier II Bonds	Long Term	31.35	IVR A/Stable	IVR A/Stable	IVR A-/Stable	



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Name and Contact Details of the Rating Analyst:

Name: Mr. Om Prakash Jain

Tel: (011) 45579024

Email: opjain@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 visit www.infomerics.com.

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Annexure 1: Details of Facilities



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Name of Facility	ISIN	Date of Issuance	Coupon Rate	Tenor/ Maturity	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Tier II Bonds	INE0E3P0809 4	27 March 2022	8.75%	26 March 2029	8.50	IVR A/ Stable
Tier II Bonds	INE0E3P0810 2	01 Sept 2023	9.55%	31 Aug 2030	10.15	IVR A/ Stable
Proposed Tier II Bonds	-	-	-	-	31.35	IVR A/ Stable

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

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Shivalik-5feb24.pdf>

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

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	Claims of the Investors in the instruments shall be: Senior to the claims of investors in instruments eligible for inclusion in Tier I Capital



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	<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</p> <p>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 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

Tier II Bonds (ISIN: INE0E3P08102): Rs. 10.15 Crore

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



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	Bonds in the form of Non-convertible Debenture
Nature of Instrument	Unsecured
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



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	for the purpose of reserve requirements and, as such, will attract CRR/SLR requirements
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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.

