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### Issue Details

Issue Details	
Issue Size (Value in ` crore, Upper Band)	750.00
Fresh Issue (No. of Shares in Lakhs)	2027.03
Offer for Sale (No. of Shares in Lakhs)	0.00
Discount for UFSL shareholders	₹2
Bid/Issue opens on	2-Dec-19
Bid/Issue closes on	4-Dec-19
Face Value	Rs. 10
Price Band	36-37
Minimum Lot	400

Note: The UFSL shareholder reservation is 10% of the fresh issue.

### Objects of the Issue

#### The Fresh Issue

The Company proposes to utilize the Net Proceeds towards augmenting its Tier – 1 capital base to meet future capital requirements.

#### Offer for Sale:

The Company will not receive any proceeds from the Offer for Sale.

Book Running Lead Manager	
Kotak Mahindra Capital Company Limited	
IIFL Securities Limited	
JM Financial Limited	
Registrar to the Offer	
Karvy Fintech Private Limited	

Capital Structure (₹ Crore, at Upper Band)	Aggregate Value
Authorized share Capital	2300.0
Subscribed paid up Capital (Pre-Offer)	1525.5
Paid up capital (Post - Offer)	1728.2

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	94%	84%
Public	6%	16%
Total	<b>100%</b>	<b>100%</b>

### Financials

Particulars (₹ In Cr)	H1-FY20	FY19	FY18	FY17
Interest Earned	1259.7	1831.6	1467.9	217.0
Interest Expended	519.3	725.2	606.9	109.4
Net Interest Income	740.4	1106.4	861.0	107.7
Other Income	175.2	206.0	111.5	6.9
Total Income	915.6	1312.4	972.5	114.5
Operating Expenses	613.0	1003.4	652.9	109.2
Pre Provision Profit	302.6	309.0	319.6	5.3
Provisions & Contingencies	43.6	40.6	310.8	4.4
PBT	259.0	268.4	8.8	0.9
Tax	71.9	69.2	2.0	0.9
PAT	187.1	199.2	6.9	0.0
EPS	1.2	1.3	0.0	0.0

### Company Description

Ujjivan Small Finance Bank Limited (Ujjivan SFB) is one of the leading players in the small finance bank (SFB) space in India, catering the mass market focused on “financially unserved and underserved segments” and committed to building financial inclusion in the country.

Ujjivan Financial Services Limited (UFSL) – the promoter of Ujjivan SFB – commenced operations as an NBFC in 2005 with focus to provide a full range of financial services to the economically weaker group of people who mostly lacked services from financial institutions. UFSL's earlier business was primarily based on the joint liability group-lending model for providing collateral free, small ticket-size loans to economically active poor women and also offered individual loans to Micro and Small Enterprises (MSEs). It adopted lending approach similar to microfinance, with the technology infrastructure and related back-end support functions similar to that of a retail bank.

In Nov 2016, UFSL received final approval to establish and run business as an SFB. Consequently, UFSL transferred its business comprising of its lending and financing business to Ujjivan SFB. In Feb 2017, Ujjivan SFB commenced its operations.

The IPO of Ujjivan SFB comes primarily as an effort by the management to meet with the listing norm of the Reserve Bank of India (RBI) that calls for listing a small finance bank within three years of the launch of operations. Also, the RBI norms requires the promoter UFSL to reduce its stake in Ujjivan SFB to 40% within a period of five years (i.e. by Jan2022) from the date of commencement of business operations and thereafter required to further reduce its stake to 30% and 26% within a period of 10 years (i.e. by Jan2027) and 12 years (i.e. by Jan2029), respectively. Notably, post IPO, the promoter's stake will reduce to about 84% from its current 94.4% stake.

With presence across 24 states and union territories, Ujjivan SFB offers a diverse range of products including loans to micro banking customers (group loans and individual loans), agriculture and allied loans, micro & small enterprise (MSE) loans, affordable housing loans, financial institutions group loans, personal loans, and vehicle loans. As of Sep 30, 2019, Ujjivan SFB served 4.94 million customers and operated 552 Banking Outlets and had a network of 441 ATMs.

Reflecting solid growth, the company's gross advances grew from ₹6,383.9 crore as of Mar 31, 2017 to ₹11,048.6 crore as of Mar 31, 2019 and stood at ₹12,863.6 crore as of Sep 30, 2019. Also, deposits increased from ₹ 206.4 crore as of Mar 31, 2017 to ₹7,379.4 crore as of Mar 31, 2019 and came in at ₹10,129.8 million as of September 30, 2019. As of Sep 30, 2019, percentage of gross NPAs to gross advances was 0.85% and net NPAs to Net Advances was 0.33%, compared to 1.88% and 0.29%, respectively, in the previous year period.

Driven by decent loan growth, net interest income increased 28.5% yoy to ₹1,106.4 crore in FY19 while Net interest margin improved to 10.93% from 10.31% in the previous year. PAT increased significantly in FY19.

Among several strategies to drive growth, Ujjivan SFB is focused on diversifying its product portfolio, growing retail deposit base, expanding its distribution network and continued investments in technology to improve overall operational efficiencies.

### Valuation

At upper price band of ₹37, the IPO is priced at 2.1 times post issue FY20 BV and 17.1 times post issue FY20 EPS (annualized). We remain optimistic considering several positive factors such as continued growth in advances, improving asset quality, sound capital position and diversified geographic foot print. As such, we recommend **Subscribe** to this IPO.

**Business Highlights:****➤ Strong growth in advances**

Ujjivan SFB registered strong growth in gross advances which grew from ₹6,383.9 crore as of Mar 31, 2017 to ₹11,048.6 crore as of Mar 31, 2019. Further gross advances stood at ₹12,863.6 crore as of Sep 30, 2019, reflecting a year over year growth of 54.6% driven by strong growth in micro banking loans, MSE loans and affordable housing loans. Further, the company remains focused on diversifying its portfolio with contribution of micro banking loans reducing from 88.73% in Sep 30, 2018 to 79.22% to Sep 30, 2019. MSE loans and affordable housing loans constituted 6.49% and 9.42%, respectively while others contributed 4.87%. Additionally, the company intends to diversify its fee and non-fund based revenues.

(₹in million)

Loan-mix	As of Sep 30, 2019	% to Total Portfolio	As of Sep 30, 2019	% to Total Portfolio
Micro banking	73,819.16	88.73%	101,906.65	79.22%
Micro and Small Enterprise Loans	3,531.90	4.25%	8,346.31	6.49%
Affordable Housing Loans	5,332.40	6.41%	12,120.00	9.42%
Financial Institutional Group Loans	249.77	0.30%	5,213.88	4.05%
Personal Loans	0.10	0.00%	511.10	0.40%
Others	259.00	0.31%	538.51	0.42%
<b>Total</b>	<b>83,192.33</b>	<b>100.00%</b>	<b>128,636.45</b>	<b>100.00%</b>

**➤ Pan-India presence with extensive distribution network:**

Ujjivan SFB enjoys benefit from its diversified geographic footprint. As of Sep 30, 2019, the company had presence in 24 states and union territories. As of the same date, the company operated from 552 banking outlets and operated four Asset Centres. The top three Indian states accounted for 44.5% of the total portfolio in FY19. Given its well-diversified operations, in FY19, no single state constituted more than 18% of Ujjivan SFB's overall loan portfolio. As a result of the geographic spread, the company has been able to reduce concentration risk and diversify its loan portfolio. As of Mar 31, 2019, the North, South, East and West regions contributed 20.09%, 34.20%, 29.80% and 15.91% of its gross advances, respectively, and as of Sep 30, 2019 these regions contributed 19.58%, 34.70%, 29.52% and 16.20% of gross advances, respectively.

State	Percentage share in total portfolio in FY19
Tamil Nadu	17.3%
West Bengal	14.3%
Karnataka	12.9%
Maharashtra	8.4%
Bihar	6.1%
Gujarat	5.9%
Haryana	5.1%
Others	30%
<b>Total</b>	<b>100%</b>

**➤ Improving Asset Quality:**

Ujjivan SFB remains focused on improving its asset quality. As of Mar 31, 2017, 2018 and 2019 and as of Sep 30, 2019, percentage of gross NPAs to its gross advances was 0.28%, 3.65%, 0.92% and 0.85%, respectively, while percentage of net NPAs to Net Advances was 0.03%, 0.69%, 0.26% and 0.33%, respectively. The company's asset quality had deteriorated post demonization and also been affected by farm loan waiver in Maharashtra. However, management remains focused on maintaining asset quality with cautiously adjusting exposures in different regions. Additionally, among SFBS in India, the company's provision coverage ratio (including technical write-offs) has been healthy which stood at 81.87% and 71.90% in FY18 and FY19, respectively, and was 61.12% in the six months ended Sep 30, 2019.

**➤ Sound Capital Position:**

Ujjivan SFB has been able to maintain a sound capital position. As per RBI norm, the company is required to maintain a minimum Capital Adequacy Ratio (CAR) of 15.00%, based on the total capital to risk-weighted assets. As of Mar 31, 2017, 2018 and 2019, the company's CAR was 21.07%, 23.04%, and 18.95%, respectively, and stood 18.84% as of Sep 30, 2019, comfortably exceeding the regulatory requirement. Notably, the IPO should further boost its capital ratios as Ujjivan SFB intends to utilize the net proceeds towards augmenting its Tier - 1 capital base.

**➤ Experienced Promoter and Management team:**

Ujjivan SFB has strong management team with significant experience in the financial industry. The company's Managing Director and Chief Executive Officer, Samit Kumar Ghosh has previously worked at Citibank N.A., Standard Chartered Bank, HDFC Bank and Bank Muscat Al Ahli Al Omani. In the past, he has also served as president of the Microfinance Institutions Network as well as the chairman of Association of Karnataka Microfinance Institutions. President, Nitin Chugh, who will be taking over as the MD and CEO of Ujjivan SFB with effect from Dec 1, 2019 following the retirement of Samit Kumar Ghosh, has previously worked with HDFC Bank Ltd, Standard Chartered Bank, HCL Hewlett Packard and Modi Xerox Limited. Further, the independent directors, who constitute a majority of the company's board and heads of functional groups, such as finance, financial planning and analysis, risk and human resources, enrich the quality of management with their respective industry experience.

**Key Strategies:**➤ **Diversify product offerings to enable multiple customer relationships:**

Ujjivan SFB have identified the retail and MSE segments as key areas for increasing credit portfolio. Currently, its group loan customers with positive repayment track record graduate to becoming individual loan customers. The company aims to capitalize on this trend by increasing the penetration of its individual loan products, and by innovating and designing need-specific products and services. Currently, the micro banking customer base largely comprises women. Ujjivan SFB intends to offer MSE loans, vehicle finance and micro-loans against property to family members of its customers. We believe these efforts should boost overall loan portfolio growth.

➤ **Leveraging Technology:**

Ujjivan SFB is thrusting on technology and data analytics to boost overall operational efficiency, product innovation and lower costs. To enhance customer experience, the company has technology at the front-end, such as mobile banking application, internet banking, missed call services, SMS banking, ATMs and ACRs. Among several initiatives, the company is currently exploring the use of robotic process automation technology for reconciliation of ATMs and UPI transactions.

➤ **Strengthen liability franchise and focus on increasing retail base**

Ujjivan SFB intends to strengthen its liability franchise with strong focus on growing the retail deposit base as it would provide the company with a stable, low-cost source of funding. As of Sep 30, 2019, the company's deposit base of ₹10,129.8 crore comprised 74.48 % of its overall funding profile. Retail deposits formed 3.15% of total deposits as of Mar 31, 2017 and have grown to 37.07% total deposits as of March 31, 2019 and were 41.93% of total deposits as of Sep 30, 2019. As a result, the cost of funds has been 9.01% and 8.33% in FY18 and 2019, respectively, and was 8.43% in the six months ended Sept 30, 2019. The company intends to meet a majority of its funding requirements through CASA deposits and recurring and fixed deposits by building a sticky deposit base and targeting new customers whose primary avenues of savings and capital building currently include the unorganized sector and other high risk savings schemes.

➤ **Expand distribution network to increase customer penetration**

Ujjivan SFB aims to expand its banking outlets and infrastructure by focusing on rural and semi-urban areas as it sees significant opportunity in these areas for continued growth. The company intends to selectively open additional banking outlets as well as strengthen alternate delivery channels As part of its efforts to enhance non-branch delivery channels to encourage cashless transactions, the company intends to improve existing internet banking system and mobile banking platform, including UPI integration.

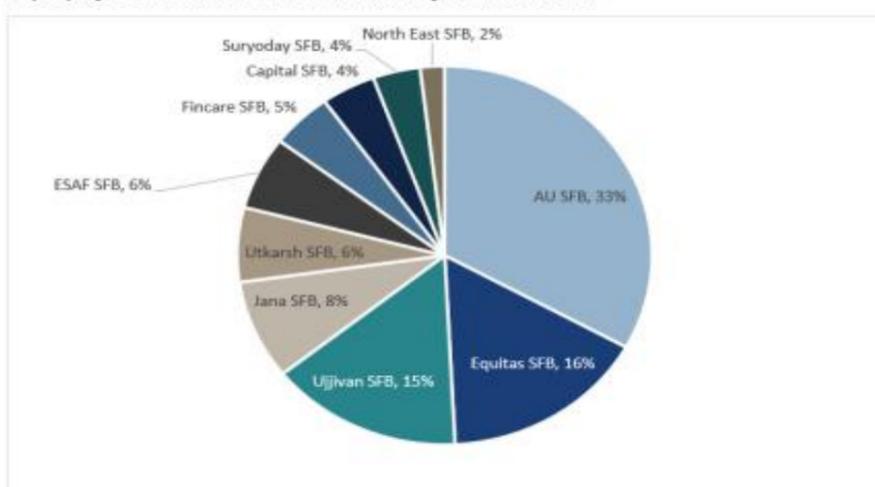
**Key Risks:**

- Ujjivan SFB largely depends on micro banking business, particularly group loans, and any adverse developments in this segment could adversely affect its business, results of operations, financial condition and cash flows.
- The company also faces risks from high concentration of deposits from limited number of customers. As of Sep 30, 2019, Top 20 depositors contributed to 35% of the total deposits. This has been highlighted by RBI as well during its recent inspection.
- The company is subject to stringent regulatory environment which may impact growth.

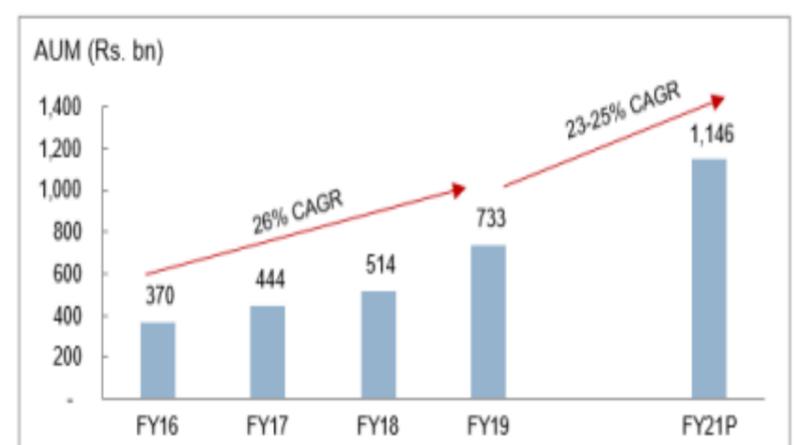
**Industry –Snapshot**

SFB's aim to cater to the low-income segment and have an opportunity to offer them with various products and services. SFBs have grown at a CAGR of 26% from FY16 to FY19, in terms of assets under management (AUM). Top three SFBs accounted for 64% of the total SFB AUM in FY2019, compared to 53% in Fiscal 2016. These top three SFBs recorded a CAGR of 34% from FY16 to Fiscal 2019.

Top 3 players account for 64% of the industry AUM as of FY19



Huge opportunity to support growth over the next two years



Source: RHP

## Competition Scenario

### Metrics as of FY19

Player as s	Yield on Advances (%)	NIM (%)	Other Income (% of avg. assets)	Cost of Funds (%)	Cost to Income Ratio (%)	PCR (%)	GNPA	ROE	Post Tax-ROA
SFB									
AU SFB	15.5	4.6	1.8	7.4	65.5	37	2	14	1.5
Equitas SFB	19	5.9	1.9	8.2	79.9	43	2.5	10	1.4
Ujjivan SFB	20.5	9.5	1.7	7.6	76.5	72	0.9	12	1.7
Jana SFB	20.4	4.6	1.2	10.2	204	91	8.08	-177	-20.3
Utkarsh SFB	22.6	9.2	1.1	8.3	58.6	30	1.39	16	1.75
ESAF SFB	26.8	9.7	1.8	9	66.4	23.5	1.61	15	1.5
Fincare SFB	27.5	11.7	2.2	8.9	66.4	27	1.3	20	3.2
Capital SFB	15.6	3.5	0.8	5.9	79.4	58	1.3	8	0.5
Suryoday SFB	24.7	11.4	2.3	9.1	48	50	1.81	12	2.9
Micro finance									
BFIL	19	11.9	0	12.1	65.7	NA	0.8	26.7	8.9
Credit Access Grameen	20.6	12.9	0.03	10	35.6	NA	0.6	16.9	5.2
Satin Creditcare	18.2	8.3	0	13.5	67.5	NA	2.9	19.1	3
Arohan	20.3	20.2	0.12	18.9	29	NA	NA	21.1	3.6

Source: RHP

- Ujjivan SFB's gross NPAs amounted to 0.90% in Fiscal 2019, which was the least among SFBs. Overall, CreditAccess Grameen had the lowest gross NPA levels among all the peer set as of Mar 31, 2019, while Jana SFB had the highest GNPA among the peer set as of Mar 31, 2019. Fincare had the highest return on assets as of Mar 31, 2019, followed by Suryoday SFB. Further, Ujjivan SFB had fourth highest return on assets among the SFBs.
- Provision coverage ratio has been highest for Utkarsh SFB among SFBs, followed by USFB. Higher the provision coverage ratio, higher is the covering of prospective losses due to bad loans. Capital SFB has the lowest provision coverage ratio among SFBs.
- Capital SFB has a large existing customer deposit base as it functioned as a local area bank before receiving the SFB license, whereas other SFBs are gradually increasing their deposit base. Accordingly, Capital SFB has the highest proportion of deposits in its total borrowing and the highest CASA ratio among SFBs. Ujjivan SFB's CASA ratio remains lower than Capital SFB and Equitas SFB.

## Outlook

It is expected the loan portfolio of SFBs will grow at a CAGR of approximately 25% in the near term due to support from (i) significant market opportunity especially in the rural segment (ii) presence of high informal credit channels, (iii) geographic diversification, (iv) ability to understand local markets, (v) access to low cost funds, and (vi) loan recovery and control on NPAs. In the next couple of years, SFBs are expected to focus on gradually building up their banking business and complying with more stringent regulatory norms. On the other hand, access to stable and granular public deposits over the long run will bring down their cost of funds. However, SFBs are expected to face near-term challenges in increasing deposits amid intense competition and maintaining profitability in the initial few years after transformation.

## Our Take:

Apart from favorable macro traits in the domestic SFB space, we believe Ujjivan SBB is well positioned for continued growth given its sustained growth in advances, improving asset quality, sound capital position and diversified geographic foot print. Also, the company's several strategies including diversifying its product portfolio, growing retail deposit base, expanding distribution network and continued investments in technology to improve overall operational efficiencies, creates further optimism. We recommend **Subscribe** to this IPO.

### Deposit % and CASA Ratio as of FY19

SFB	Proportion of Deposits in total borrowing (%)	CASA (% of Deposits)
AU SFB	69	21
Equitas SFB	69	28.3
Ujjivan SFB	64	12.3
Jana SFB	51	NA
Utkarsh SFB	73	10
ESAF SFB	72	13.6
Fincare SFB	61	11
Capital SFB	91	38.4
Suryoday SFB	59	11.2

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