



**IPO note: Ujjivan Small Finance Bank Ltd. (USB) – “Robust play in SFB segment” - “SUBSCRIBE”**

USB is a mass market focused SFB in India, catering to unserved and underserved segments and committed to building financial inclusion in the country. As of September 30, 2019, USB served 4.94 million customers and operated from 552 Banking Outlets that included 141 Banking Outlets in Unbanked Rural Centres (“URCs”) (of which seven were business correspondent centres) and additionally operated four Asset Centres. In Fiscal 2019 alone, USB operationalized 287 Banking Outlets. As of September 30, 2019, USB had a network of 441 ATMs (including 18 ACRs), two 24/7 phone banking units based in Bengaluru and Pune.

The Company’s Promoter, Ujjivan Financial Services Ltd. (UFSL) commenced operations as an NBFC in 2005 with the mission to provide a full range of financial services to the ‘economically active poor’ who were not adequately served by financial institutions. UFSL’s erstwhile business was primarily based on the joint liability group-lending model for providing collateral-free, small ticket-size loans to economically active poor women. UFSL also offered individual loans to Micro and Small Enterprises (“MSEs”) and adopted an integrated approach to lending, which combined a customer touch point similar to microfinance, with the technology infrastructure and related back-end support functions similar to that of a retail bank. On October 7, 2015, UFSL received RBI In-Principle Approval to establish an SFB, following which it incorporated Ujjivan Small Finance Bank Limited as a wholly-owned subsidiary. UFSL, subsequent to obtaining RBI Final Approval on November 11, 2016 to establish and carry on business as an SFB, transferred its business undertaking comprising of its lending and financing business to its Bank, which commenced its operations from February 1, 2017. USB was included in the second schedule to the Reserve Bank of India Act, 1934 as a scheduled bank on July 3, 2017. In the short span of time that USB has been operational as an SFB, it is among the leading SFBs in India in terms of deposits, advances, branch count and geographical spread, as of March 31, 2019 (Source: CRISIL Report). Among the leading SFBs in India, USB had the most diversified portfolio, spread across 24 states and union territories as of March 31, 2019 (Source: CRISIL Report). The Company’s operations are well-diversified and in FY 19, no single state constituted more than 18% of its overall loan portfolio. As of March 31, 2019, the North, South, East and West regions contributed 20.09%, 34.20%, 29.80% and 15.91% of its Gross Advances (including securitization/ IBPC), respectively, and as of Sep. 30, 2019 these regions contributed 19.58%, 34.70%, 29.52% and 16.20% of its Gross Advances (including securitization/ IBPC), respectively. The concern with this SFB which RBI also highlighted is that it has significantly higher deposit contribution from Top-20 depositors. CASA also remains weak as compared to peers in SFB space which has affected its Cost/Income ratio.

**Investment recommendation and rationale**

At upper end of the price band of Rs. 37, the issue is valued at a P/BV of 2.9x (post issue: 2.25x) is at a premium but we believe is justified owing to the following factors: a) deep understanding of mass market serving unserved and underserved segments, b) customer centric organization with multiple delivery channels, c) pan – India presence, d) technology driven operating model with advanced digital platform, e) robust risk management framework, f) strong record of financial performance, g) CAR ratio of 18.8 percent which is above regulatory requirements, g) expanding CASA in overall deposits, h) controlled credit cost with declining NPAs and PCR of 65.1 percent, i) decent ROE of 10.2 percent, we recommend investors to “SUBSCRIBE” the issue.

<b>IPO note date</b>	<b>December 02, 2019</b>
<b>Issue date</b>	December 02 - 04, 2019
<b>Listing date</b>	December 12, 2019
<b>Issue type &amp; size</b>	Fresh Issue: Rs. 750 crores
<b>Issue structure</b>	QIB – 75% NIB – 15% Retail – 10% Reservation: Up to Rs. 75 crores for subscription by eligible UFSL Shareholders
<b>Price Band</b>	Rs. 35 – Rs. 37
<b>Discount for UFSL shareholders</b>	Rs. 2
<b>Face value</b>	Rs. 10
<b>Post issue Market Cap</b>	Rs. 6,390 crores
<b>Pre/Post issue Promoter holding</b>	100%/84%
<b>Bid lot</b>	400 Equity shares and in multiples thereof
<b>Book Running Lead Managers</b>	Kotak, IIFL Securities, JM Financial
<b>Registrar to the issue</b>	Karvy Fintech Pvt. Ltd.

Y/e 31 Mar :Rs. crs	H1FY20	FY19	FY18	FY17
<b>Nil</b>	740	1,106	861	108
<b>NIM (%)</b>	10.6	10.9	10.3	8.4
<b>Operating profit</b>	303	309	320	5
<b>PAT</b>	187	199	7	-
<b>Advances</b>	12,780	10,552	7,336	1,447
<b>CASA (%)</b>	12	11	4	2
<b>Cost/Income (%)</b>	66.9	76.5	67.1	95.3
<b>Absolute GNPA</b>	109	98	276	16
<b>GNPA (%)</b>	0.9	0.9	3.7	0.3
<b>Absolute NNPA</b>	43	28	51	2
<b>NNPA (%)</b>	0.3	0.3	0.7	-
<b>Credit cost (%)</b>	0.3	0.4	4.2	0.3
<b>Equity share cap.</b>	1,440	1,440	1,440	1,440
<b>Networth</b>	1,840	1,620	1,447	1,440
<b>CAR (%)</b>	18.8	19.0	23.0	21.1
<b>Book value (BV) Rs.</b>	12.8	11.2	10	10
<b>P/BV (x)</b>	2.9	3.3	3.7	3.7
<b>RoE (%)</b>	19.6**	11.5	0.4	-
<b>RoA (%)</b>	2.5**	1.7	0.1	-

Source: RHP, P/E and P/BV calculated at upper end of price band – Rs. 37 per share, \*\* on annualized basis



## Promoters and Management background

**Ujjivan Financial Services Ltd. is the promoter of Ujjivan Small Finance Bank.**

### Mr. Samit Kumar Ghosh – MD & CEO

- MD & CEO since Jul 27, 2016 and due for retirement on Nov 30, 2019
- Prior associations with leading banks incl. Citibank, HDFC Bank, Standard Chartered Bank and the Bank Muscat Al Ahli Al Omani
- Completed bachelor's degree in arts with honours in economics from Jadavpur University and MBA from the University of Pennsylvania
- Previously served as the president of Microfinance Institutions Network and the chairman of Association of Karnataka Microfinance Institutions

### Mr. Nitin Chugh – President

- Assumed office as a President with effect from August 17, 2019 and will assume office of MD & CEO from December 01, 2019
- Experience across multiple associations including, HDFC Bank Ltd, Standard Chartered Bank, HCL Ltd. and Modi Xerox Ltd.
- Holds a bachelor's degree in technology (electrical engineering) from Kurukshetra University and a professional diploma in marketing management from All India Management Association

### Key RBI regulations for SFBs

- Min paid-up capital – Rs. 100 crores of credit risk weighted assets, Min tier 1 capital – 7.5% of credit risk weighted assets, Min CAR – 15% of credit risk weighted assets
- Shareholding of the promoter should be at least 40% within first 5 years; should be further bought down to 30% within 10 years and to 26% within 12 years from the commencement of operations;
- Required to list within a period of 3 years post achieving a net worth of Rs. 500 crores
- 75% of ANBC to be given to eligible sectors under PSL as per RBI; 40% as per PSL prescriptions and remaining 35% under PSL where SFB has a competitive advantage
- Min. 50% of loan book to constitute loans of ticket size up to Rs. 2.5mn

### Objects of the issue

- Fresh issue of Rs. 750 crores to augment the Bank's Tier – 1 capital base to meet the Bank's future capital requirements
- To comply with RBI's regulations, USB is listing through this IPO
- Commenced operations with a net worth in excess of Rs. 500 crores. Hence, required to list by 31 Jan 2020
- Written to RBI, seeking in-principle approval for a merger of UFSL with USFB upon completion of 5 years from the commencement of business
- Received clarification letter from RBI stating the proposal for merger would be examined at the relevant time (Jan 2022)
- Post IPO, the USB promoter Ujjivan Financial Services Ltd. stake will get diluted by 16 percent to touch ~84%, which will have to be further reduced to 40% by Jan 2022, 30% by Jan 2027 and eventually to 15% by Jan 2032 which requires dilution over the years and this dilution will also act as overhang on the stock post listing of shares.

### Peer comparison

Company	Ujjivan SFB	AU SFB	Equitas SFB	Jana SFB	Utkarsh SFB
AUM (FY 19 Rs. bn)	111	243	118	62	47
Deposits (FY – Rs. bn)	73	194	90	42	38
AUM growth (FY16 -19)	27%	43%	25%	(17)%	48%
CASA (% of total deposits)	12.3	21	28.3	NA	10
NIMs (%)	9.5	4.6	5.9	4.6	9.2
Cost to Income (%)	76.5	65.5	79.9	204	58.6
PCR (%)	72	37	43	NA	91
GNPA (%)	0.9	2	2.5	8.08	1.39

Source: RHP



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