

## Company Overview

Incorporated in 2017, Ujjivan Small Finance Bank Limited (USFB) offers small finance to underserved & unserved segments in India. The bank aims to work for the financial inclusion of the country. USFB Bank is promoted by Ujjivan Financial Services Limited (UFSL) which is an NBFC into providing financial services to the economically active poor, who are not served by the Financial Institutions. UFSL offers small size loan products to economically poor women, individual loans to Micro and Small Enterprises (MSEs). It follows the integrated lending approach where the company considers technology infrastructure and back-end support functioning before lending. USFB has a wide presence across 24 states and union territories in India. As on 30 June 2019, it had 4.72 million customers, 474 Banking Outlets, 387 ATMs, two 24/7 phone banking units (in Bangalore and Pune) and 50 additionally operated Asset Centres. Customers can use USFB mobile banking application in 5 languages.

## Objects of Issue

(a) Augmenting the Bank's Tier - 1 capital base to meet Bank's future capital requirements (b) Meeting the expenses in relation to the Issue (c) Receive the benefits of listing the Equity Shares on the Stock Exchanges.

## Investment Rationale

### Robust risk management framework

They have implemented credit management models such as decentralized loan sanctioning with stringent credit history checks. They continually use technology and data analytics to manage credit risks and their in-house analytics team have developed a credit application scorecard to make informed decisions on lending. An effective credit risk management is also reflected in portfolio quality indicators such as robust repayment rates, stable portfolio at risk and low gross and net NPAs. As of September 30, 2019, gross NPAs accounted for 0.85% of gross advances, while net NPAs accounted for 0.33% of Net Advances. Their effective risk management framework is also evident from low portfolio at risk ratio that was 1.49% and 1.64% as of March 31, 2019 and September 30, 2019, respectively.

### Professional management along with experienced leadership

The bank is professionally managed and the senior management team has a diversified track record in the financial services industry. The Board consists of Directors with a diverse mix of experience in various sectors, in particular, the financial services industry and technology. 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 Managing Director and Chief Executive Officer of the Bank with effect from December 1, 2019 following the retirement of Samit Kumar Ghosh, has previously worked with HDFC Bank Limited, Standard Chartered Bank, HCL Hewlett Packard and Modi Xerox Limited.

### Customer centric organization with multiple delivery channels

Besides their Banking Outlets and Asset Centres, its delivery channels also include ATMs, ACRs, mobile and internet banking services. As of September 2019, they had a network of 441 ATMs that accept RuPay, Visa and MasterCard. As of September 30, 2019, they had two 24/7 phone banking units based in Bengaluru and Pune which service customers in 11 languages while the mobile banking application is accessible in five languages. They offer 'missed call' and SMS banking services as well. In Fiscal 2019, they witnessed significant growth in phone banking, 'missed call' and SMS banking volumes. It served 4.94 million customers as of September 30, 2019.

## Valuation and Outlook

Ujjivan SFB has posted good results in 6MFY20 and has improved its operational and financial performance. We believe the bank should do well with the recent capital raise and its strong risk management frameworks. On valuation front, at the upper end of the price band, Ujjivan SFB is valued at a 2.29 P/BV and 15.29 P/E. Taking into account its growth prospects and its comfortable asset quality, stock looks attractive. We give 'SUBSCRIBE' rating for the IPO.

## Issue Details

Offer Period	Dec 02 - Dec 04 2019
Price Band	INR.36 to INR.37
Bid Lot	400
Listing	BSE&NSE
Issue Size (no. of shares in mn)	203.86
Issue Size (Rs. in bn)	7.50
Face Value	10

## Issue Structure

QIB	75%
Retail	15%
HNI	10%
BRLM	IIFL Holdings, JM Financial, Kotak Mahindra Capital
Registrar	Karvy Computer-share Private Limited

## Particulars Pre Issue % Post Issue %

Promoter	94.4%	85%
Public	5.6%	15%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



## Income Statement (Millions)

Particulars	FY18	FY19	6MFY20
<b>INCOME</b>	16,478.75	18,316.11	12,596.99
Interest Earned	1,114.80	2,059.64	1,751.58
Other Income	<b>17,593.55</b>	<b>20,375.75</b>	<b>14,348.57</b>
<b>TOTAL</b>			
<b>EXPENDITURE</b>	6,068.64	7,251.99	5,192.78
Interest Expended	6,528.70	10,033.54	6,129.56
Operating Expenses	3,127.58	1,098.04	1,155.13
Provisions and Contingencies	<b>15,724.92</b>	<b>18,383.57</b>	<b>12,477.47</b>
<b>TOTAL</b>			
<b>PROFIT</b>	68.63	1,992.18	1,871.10
Net Profit/ (Loss) for the period/year	0.26	51.73	1,183.63
Profit/ (Loss) bought forward	<b>68.89</b>	<b>2,043.91</b>	<b>3,054.73</b>
<b>TOTAL</b>			
<b>Earnings per Equity Share (Face value of Rs. 10 per share)</b>	0.05	1.20	1.21
Basic (Rs.)	0.05	1.20	1.21
Diluted (Rs.)			

## Cash Flow Statement (Millions)

Particulars	FY18	FY19	6MFY20
Cash Flow from operating activities	23,137.09	4,777.17	3,359.86
Cash flow from investing activities	(1,005.94)	(1,478.60)	(478.72)
Cash flow from financing activities	(24,385.59)	2,867.23	(6,732.57)
<b>Net increase/(decrease) in cash and cash equivalents</b>	(2,254.44)	6,165.80	(3,851.43)
<b>Cash and cash equivalents at the beginning of the period</b>	6,865.12	4,610.68	10,776.48
<b>Cash and cash equivalents at the end of the period</b>	4,610.68	10,776.48	6,925.05

Source: Company, BP Equities Research

## Balance Sheet (Millions)

Particulars	FY18	FY19	6MFY20
<b>Capital and Liabilities</b>			
Capital	16,400.37	16,400.37	16,400.37
Share Application Money pending allotment	-	-	359.24
Employees Stock Options and Purchase outstanding	-	-	107.01
Reserves and Surplus	68.98	1,795.94	3,534.43
Deposits	37,725.18	73,794.40	101,298.49
Borrowings	38,528.45	41,660.90	34,701.70
Other Liabilities and Provisions	2,005.75	3,770.54	4,677.72
<b>Total</b>	<b>94,728.73</b>	<b>137,422.15</b>	<b>161,078.96</b>
<b>Assets</b>			
Cash and Balances with Reserve Bank of India	2,496.34	4,464.64	4,872.54
Balances with banks and money at Call and Short Notice	2,452.01	6,479.96	2,220.63
Investments	12,324.79	15,266.22	20,183.90
Advances	73,362.11	105,524.55	127,803.99
Fixed Assets	1,983.45	2,844.50	2,962.09
Other Assets	2,110.03	2,842.28	3,035.81
<b>Total</b>	<b>94,728.73</b>	<b>137,422.15</b>	<b>161,078.96</b>
Contingent Liabilities	195.09	308.96	255.92
Bills for Collection	-	-	-

Source: Company, BP Equities Research

**Key Risks**

- ☐ Inability to raise funds from banks and financial institutions may impact the growth
- ☐ The cost of funds are not expected to further decline unless the CASA deposits increase.
- ☐ The financial ratios may decline if the company is not able to expand its loan book in the given environment.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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