

Ujivan Small Finance Bank

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Price Band: Rs36-37

Issue Opens: 02-Dec-19

Issue Closes: 04-Dec-19

Attractively priced; listing gains in store

After raising ~Rs3bn via a pre-IPO placement and an ESPS program, Ujivan Small Finance Bank (USFB) would be raising Rs7.5bn through an IPO. USFB is a subsidiary of Ujivan Financial Services Ltd. (UFSL), the holding of which in the bank would reduce to 83.3% post this issue. By listing its shares, the bank would comply with an important licensing condition of RBI, but will have to take steps in the next couple of years towards reducing promoter holding to 40%. Notwithstanding some disruption from demonetization, USFB has demonstrated satisfactory progress on franchise development since commencing operations on Feb 1, 2017. We estimate its RoA/RoE to stabilize at 2.4%/20% in the long run. In this context, IPO pricing is attractive as it values the bank at 2.25x post-money P/BV and 1.8x FY21E P/BV.

In recent quarters, USFB's operating performance has picked-up

Growth in disbursements and gross advances has accelerated to 50%+ yoy, pace of portfolio diversification has improved (shift away from Group MFI; largely towards secured products), deposits ramp-up has been impressive (now at 74%/79% of borrowings/advances) accompanied by persistent granularization (CASA/Retail Deposits ratio at 12%/42%), moderation in opex growth has led to a material improvement in C/I ratio, and asset quality has been stable. All of this manifested in RoA/RoE improving to 2.5%/20% respectively.

Bank can sustain current profitability

We estimate USFB's RoA/RoE to stabilize around 2.4%/20% in the longer run. As further progress is achieved on balance sheet diversification/strengthening, addition of non-lending revenue streams and sweating of resources/cost, core PPOP margin will gain solidity. Volatility in credit cost should subside with franchise progression. Key risks are capricious nature of microfinance business and underwriting errors in new products.

What does this IPO mean for UFSL shareholders?

For the holding co. shareholders, the listing will remove a regulatory uncertainty and a likely higher secondary market valuation discovery will be a positive. Key thing to monitor would be the steps taken towards reducing promoter shareholding to 40% by January 2022 and RBI's stance on reverse merger after completion of bank's five years of commercial operations.

Exhibit 1: Financial summary

Y/e 31 Mar	FY17	FY18	FY19	FY20E	FY21E
NII (Rs mn)	1,077	8,610	11,064	16,730	22,355
PPOP (Rs mn)	53	3,196	3,090	6,438	9,247
PAT (Rs mn)	0	69	1,992	4,056	5,579
% Growth	-	-	-	103.6	37.5
EPS (Rs)	0.0	0.0	1.4	2.3	3.2
BVPS (Rs)	10.0	10.0	11.2	17.7	20.7
RoA (%)	-	0.1	1.7	2.4	2.4
RoE (%)	-	0.5	11.3	16.2	16.0
CAR (%)	21.1	23.0	19.0	23.4	20.4

Source: Company, YES Sec - Research

Issue details

Face value (Rs)	10
Issue Size*	~Rs7,500mn
Offer for sale	-
Fresh Issue	Rs7,500mn
Post-issue M-cap*	~Rs63.9bn
Issue type	100% Book building *At upper band

Shareholding pattern (%)

	Pre-IPO*	Post-IPO
Promoter	94.4	83.3
Non-Promoter	5.6	16.7

*Post pre-IPO allotment & ESPS

Share reservation (of net offer)

QIB	75%
Non-institutional	Not more than 15%
Retail	Not more than 10%

Issue Manager

BRLM	IIFL, Kotak, JM Financial
Registrar	Karvy Fintech Pvt. Ltd.
Listing	NSE, BSE

Company management

Nitin Chugh	Incoming MD & CEO
Upma Goel	CFO
Sanjay Kao	CBO

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AMAR AMBANI, Sr. President, Head of Research

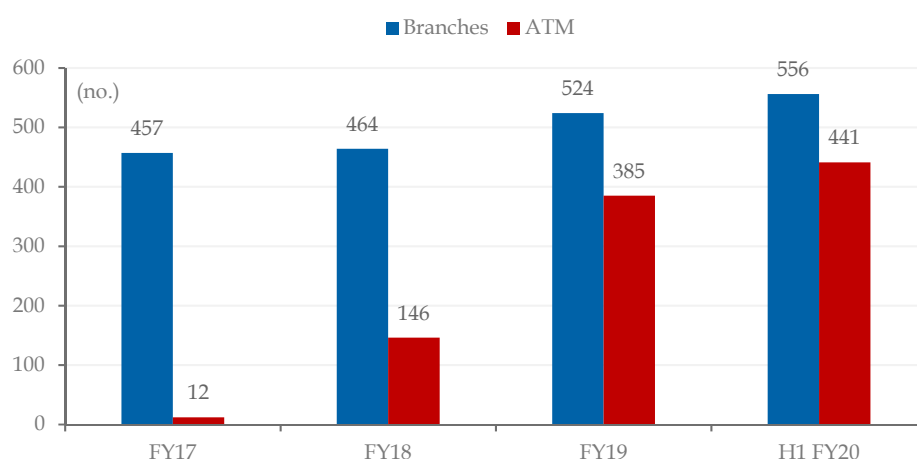
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BUSINESS OVERVIEW

The bank is a mass market focused SFB in India, catering to unserved and underserved segments and committed to building financial inclusion in the country. The promoter, UFSL commenced operations as an NBFC in 2005. 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. 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 USFB, which commenced its operations from February 1, 2017.

As of H1 FY20, USFB served 4.9mn customers and operated from 552 Banking Outlets that included 141 Banking Outlets in Unbanked Rural Centres (URCs) and additionally operated four Asset Centres. Also, it had a network of 441 ATMs (including 18 ACRs), two 24/7 phone banking units based in Bengaluru and Pune that service customers in 11 languages, and a mobile banking application that is accessible in five languages as well as internet banking facility for individual and corporate customers.

Exhibit 2: Branches and ATM ramp-up



Source: Company, YES Sec – Research

The portfolio of products and services includes various asset and liability products and services. Asset products comprise: (i) loans to the bank's micro banking customers that include group loans and individual loans, (ii) agriculture and allied loans, (iii) MSE loans, (iv) affordable housing loans, (v) financial institutions group loans, (vi) personal loans, and (vii) vehicle loans. On the liability side, USFB offers savings accounts, current accounts and a variety of deposit accounts. In addition, it also provides non-credit offerings comprising ATM-cum-debit cards, Aadhaar enrolment services, distribute third party insurance products and point of sales ("POS") terminals.

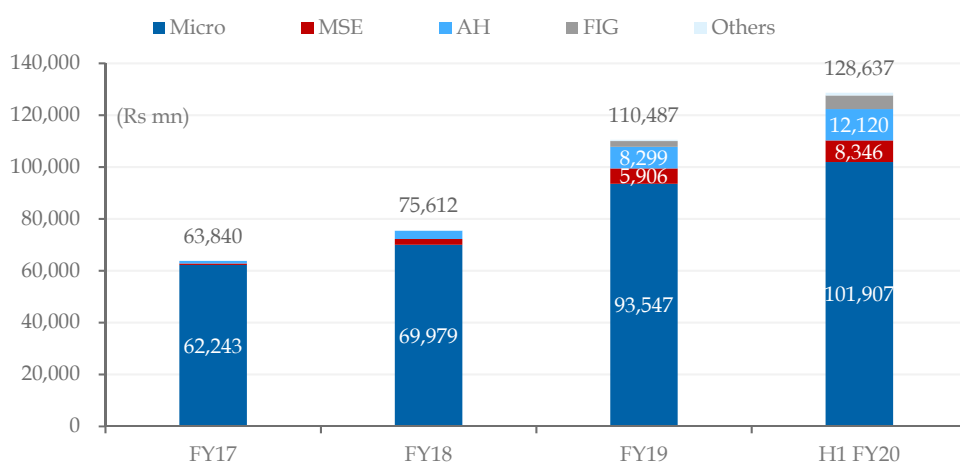
USFB offers its customers with various digital platforms including internet banking, mobile banking, SMS banking, bill payments, biometric ATMs and RuPay Platinum debit cards. It has a tablet-based loan origination system for both group and individual loans to bring down loan origination turn-around time for customers. The credit processing for these loans is also digitised and an automated collection receipt system has also been launched to enable seamless collection from customers. Customers are also able to register savings bank accounts on UPI based mobile applications. USFB also provides customers the ability to repay loans in a cashless manner through digital wallets and payment gateways.

Ujjivan Small Finance Bank

USFB's gross advances (including securitization/ IBPC) have grown from Rs63,840mn as of FY17 to Rs128,636mn as of H1 FY20. Deposits have increased from Rs2,064mn as of FY17 to Rs101,298mn as of H1 FY20. As of H1 FY20, GNPA was 0.85% while NNPA 0.33%. USFB's long term bank facilities have been rated CARE A+; Stable by CARE Ratings Limited, its certificate of deposits have been rated CRISIL A1+ by CRISIL Limited.

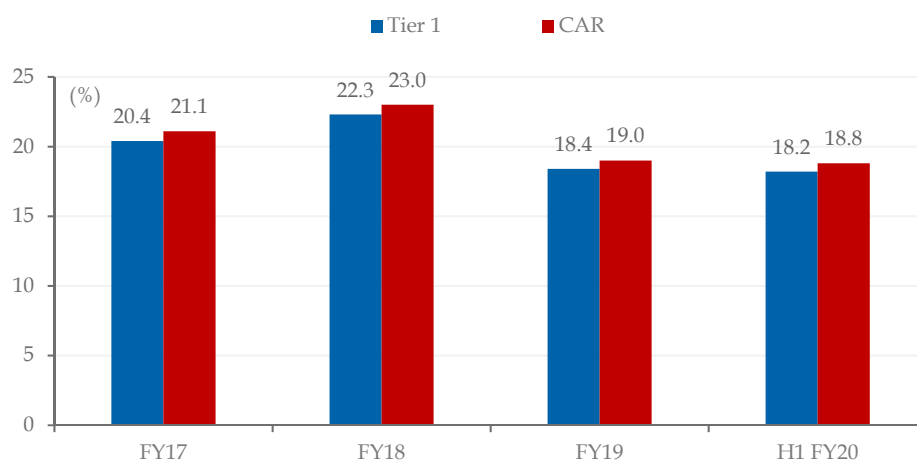
USFB's focus customers are primarily young middle-class customers across India. To achieve this, it intends to strategically invest to increase the use of technology in its operations. The bank intends to reduce costs, increase operating efficiencies and move its customers from an assisted mode to a self-service mode of digital and phone banking. It will selectively operationalize additional Banking Outlets, convert existing Asset Centres to Banking Outlets, expand its ATM and ACR network and engage more business correspondent agents to grow the customer base and increase advances and deposits.

Exhibit 3: Advances growth strong; mix tilting away from MFI



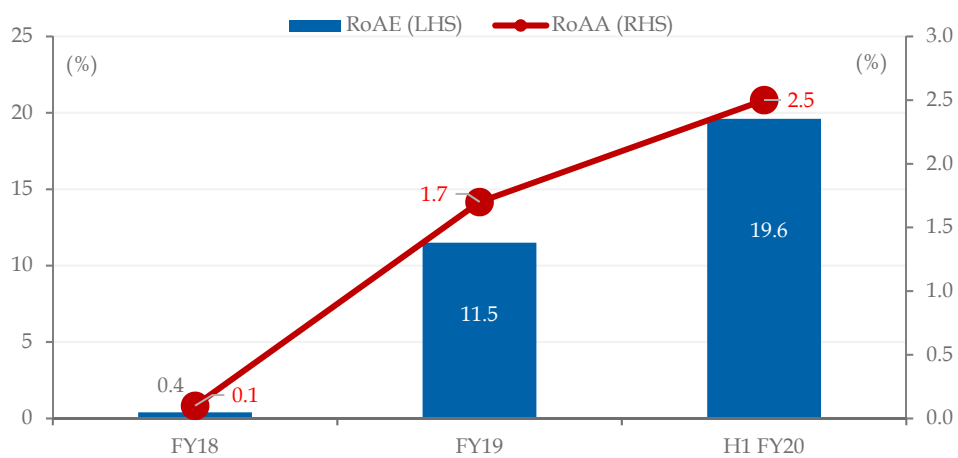
Source: Company, YES Sec - Research

Exhibit 4: Capital Adequacy at high levels



Source: Company, YES Sec - Research

Exhibit 5: Profitability metrics improve



Source: Company, YES Sec - Research

Product Portfolio - Asset Products

Micro Banking

- ✓ **Group Loans:** Group loan products are offered to economically active, unserved and underserved customers to meet various requirements. These loans range between Rs2,000 to Rs60,000, with a tenure of up to two years, at a uniform declining interest rate of 22% per annum across customers. USFB's group loan products are built on the peer-guarantee loan model (joint liability group), which enables individuals to take loans without having to provide collateral or security on an individual basis. The bank offers group loan products to groups of five to 10 members, who live in the same area and within the operating radius of the same branch, and whose annual household income is not be more than Rs100,000 in rural areas and not more than Rs160,000 in non-rural areas. While new customers become eligible for loans after they pass the group recognition test, existing customers are granted repeat loans on the basis of their prior track record.
- ✓ **Individual Loan:** Start from Rs51,000 up to Rs200,000. Rate of interest for individual loan products is a uniform declining rate of 23.25% - 24.00% per annum (governed by the bank's MCLR based pricing policy).
- ✓ **Agriculture and Allied Loan products:** specifically designed to meet the financing requirements of small and marginal farmers including those engaged in allied activities such as dairying, sericulture and purchase renovations and upgradation of farm equipment
- ✓ **Family Banking:** aim is to address the financial needs of existing micro banking customer base and their family members which include their spouses, children, parents, relatives and references from existing customers by providing them full range of affordable banking services.

MSE Loans

USFB's MSE products are intended to facilitate the establishment, expansion and modernization of businesses, including acquiring fixed assets and meeting working capital needs. Loans range from Rs1mn to 20mn and rate of interest ranges from 12% to 19% across products.

Affordable Housing Loans

Offerings are targeted towards informal and semi-formal income segments. Loan are provided for purchase of plots or house, construction of house, improvement/ restoration/ extension of home. The loan amount ranges from Rs0.3mn to Rs7.5mn with the rate interest ranging from 12.75-17.75% across different products.

Loans Against Property

Loans range from Rs0.3mn to Rs1mn. A variant of the Ujjivan Bank Loan Against Property product was introduced in September 2019 known as 'LAP Imperfect Collateral' targeted towards semi-formal customer segments.

Personal Loans

The minimum net income criteria is Rs15,000 per month for open market customers while it is Rs12,000 per month for USFB's existing salary account customers in non-metro regions. Unsecured loans range from Rs50,000 to Rs1.5mn. The pricing ranges from uniformly declining rates of 18% per annum to 23% per annum. The repayment tenor for such loans ranges from 12 to 60 months. As of H1 FY20, it offered personal loans in 70 towns and cities.

Financial Institutions Group (“FIG”) Loans

USFB extends term loans to credit acceptable NBFCs and micro finance institutions. In the NBFC sector, focus is on NBFCs that lend to retail customers in the form of small and micro enterprise loans, microfinance, vehicle finance and similar sectors. The bank typically lends to NBFCs that have at least a BBB rating. Average ticket size of loans is in the range of Rs100mn to Rs250mn. The prescribed single entity level cap per entity is at Rs500mn and single group level cap across multiple entities at Rs750mn. Average tenor for the loan ranges from two to three years with a cap at five years. The FIG lending is capped at 10% of the bank’s overall lending portfolio.

Vehicle Loans

One of the newest offerings of the bank. It offers two-wheeler loans and electric three-wheeler loans. The ticket size for two-wheeler loans ranges between Rs26,000 to Rs85,000 and have a tenor of 12 to 36 months with a rate of interest of 22% to 27% per annum. The ticket size for electric three-wheeler loans ranges between Rs50,000 to Rs250,000 and have a tenor of 12 to 36 months with a rate of interest of 20% to 25% per annum.

Product Portfolio - Liability Products

Current Accounts

USFB offers 4 types of current accounts that provide customers with the ability to manage their business transactions with higher daily transaction limits and access to funds at a wide network of Banking Outlets, ATMs and via net banking, mobile applications and SMS banking channels. The bank does not pay interest on its current accounts.

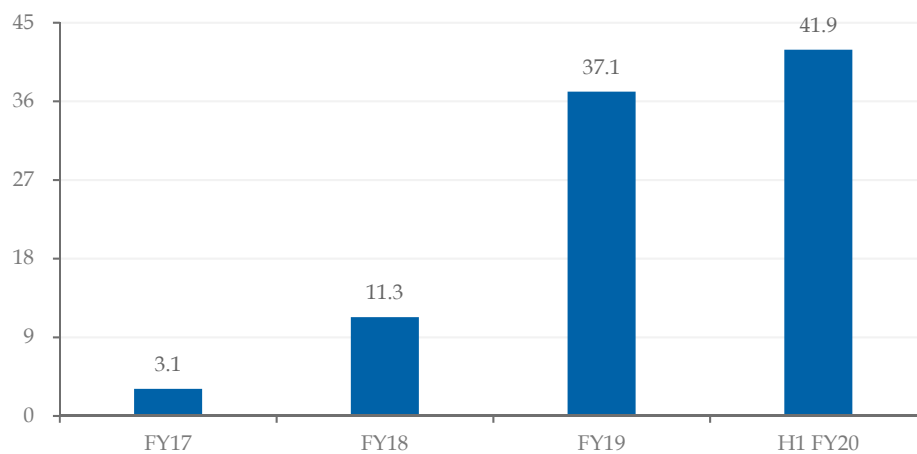
Savings Accounts

Interest rate for domestic savings accounts ranges between 4% to 7% per annum. Few types of accounts don’t require any average monthly balance is required to be maintained.

Term Deposits

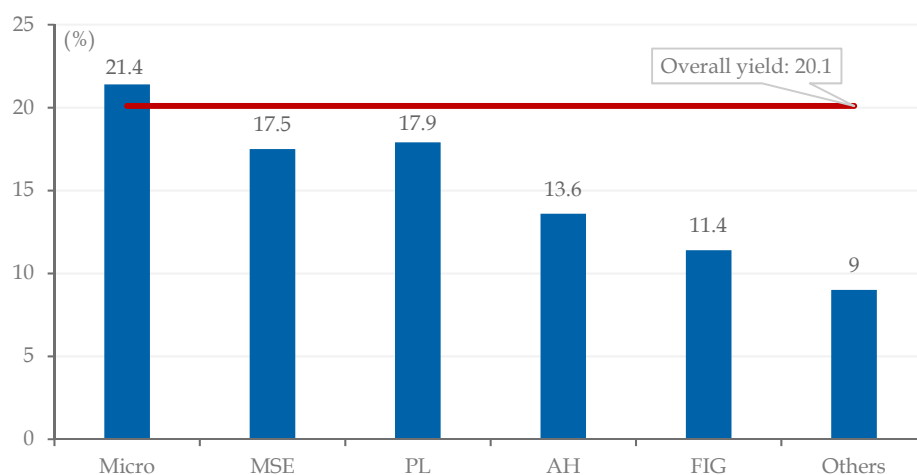
The minimum amount that can be deposited is Rs1,000 for certain fixed deposits and Rs100 for recurring deposits. Fixed deposits can be opened for a minimum period of seven days to a maximum of 10 years. Recurring deposits can be opened for a minimum period of six months to a maximum of 10 years

Exhibit 6: Retail deposits picked up tremendously in recent quarters



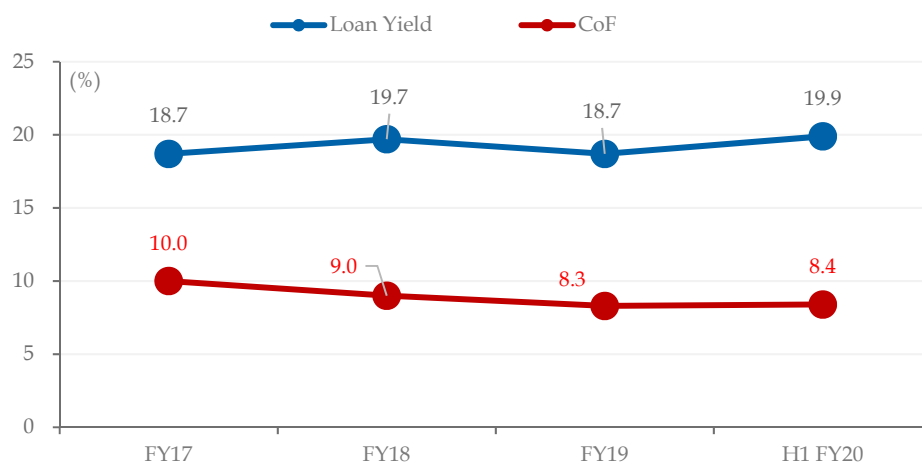
Source: Company, YES Sec - Research

Exhibit 7: Yield to be impacted by diversification of portfolio



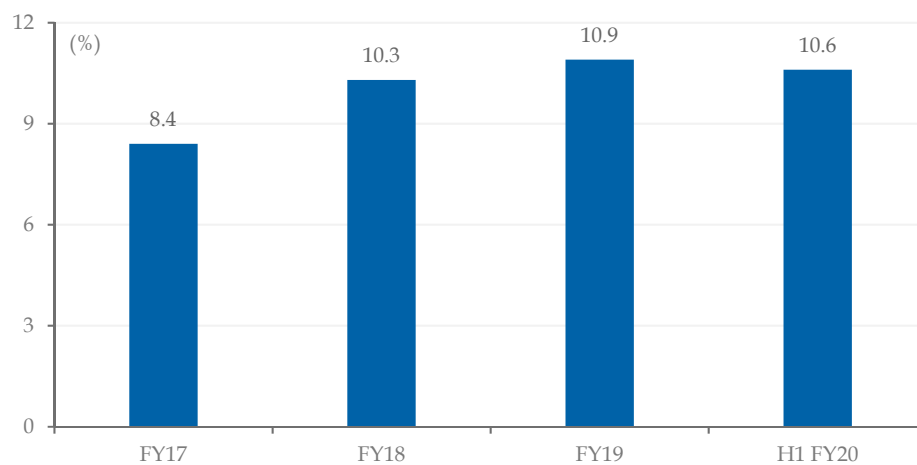
Source: Company, YES Sec - Research

Exhibit 8: Spreads improving; driven by CoF reduction



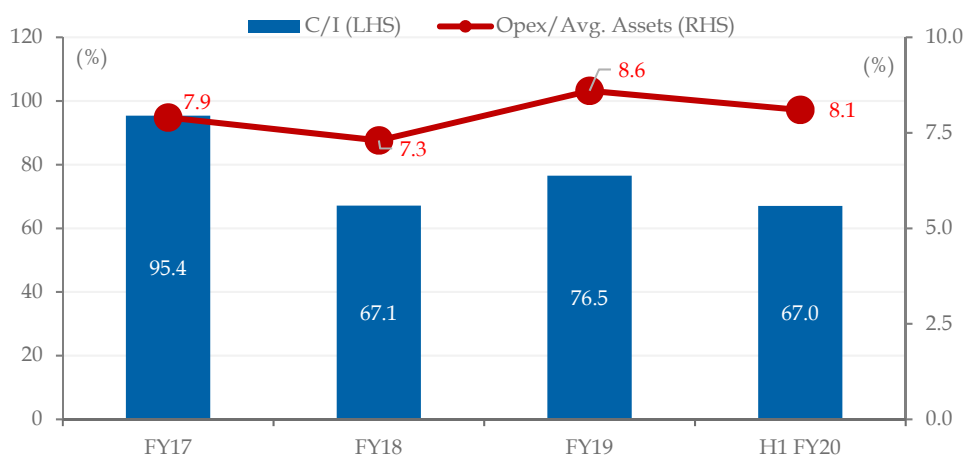
Source: Company, YES Sec - Research

Exhibit 9: NIMs compress a little as secured lending increases



Source: Company, YES Sec - Research

Exhibit 10: Cost ratios improve significantly



Source: Company, YES Sec - Research

KEY STRENGTHS

Deep understanding of mass market serving unserved and underserved segments

USFB's focus on the financially unserved and underserved segments enables the bank to comply with RBI's requirements that: (i) small finance banks locate at least 25% of their banking outlets in URCs, and (ii) at least 75% of adjusted net bank credit ("ANBC") be made to "priority sectors". As of H1 FY20, 25.5% of its banking outlets were located in URCs and 'priority sector advances' net of PSLC and IBPC were 77% of ANBC.

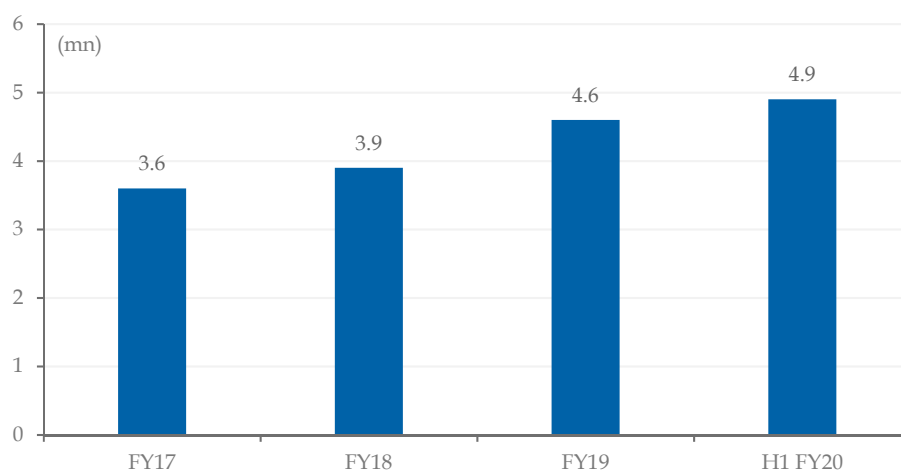
USFB continues to focus on lending to micro banking customers with deposits from its micro banking customers constituting 6.8% of total deposits as of H1 FY20. The bank is particularly focused on serving senior citizens and offer them differential interest rates, doorstep banking services, unlimited free ATM transactions along with free accidental insurance cover of up to Rs100,000 and no minimum balance maintenance requirements in savings accounts. USFB also offers such customers with priority service and life event-based services. The bank undertakes constant research on various segments within the mass market to understand the financing requirements of potential customers and accordingly, is able to customize and develop products and services to address their needs. For instance, the bank has introduced a differentiated current account product for traders, overdraft facility for MSEs, loans for agriculture and allied activities, corporate internet banking for non-individual customers with current accounts and fund transfers in an open loop system through UPI.

Customer centric organization with multiple delivery channels

USFB believes that customers prefer one source for multiple financial products and services and that its spectrum of products and services and allocating each customer with a relationship officer helps in customer acquisition and retention. It launched "Sampoorna Banking" in April 2019 that extends full banking services including education loans, vehicle loans, deposits, funds transfer facilities and distribution of insurance to families of the bank's existing micro banking customers. USFB is authorized to run Aadhaar Enrolment Centres ("AECs") where customers and members of the general public can enroll for Aadhaar or get their Aadhaar data updated. USFB has a dedicated service quality department to focus on customer retention, customer protection and grievance redressal. Customer satisfaction scores of banking outlets have improved from 77.1% in FY18 to 78.5% in FY19.

USFB offers 'missed call' and SMS banking services. In FY19, it witnessed significant growth in phone banking, 'missed call' and SMS banking volumes. The "Digi-buddy" service, offered by a dedicated and specifically trained employee at certain banking outlets, aims at assisting and educating customers on the use of various digital platforms.

Exhibit 11: Steady growth in customer base



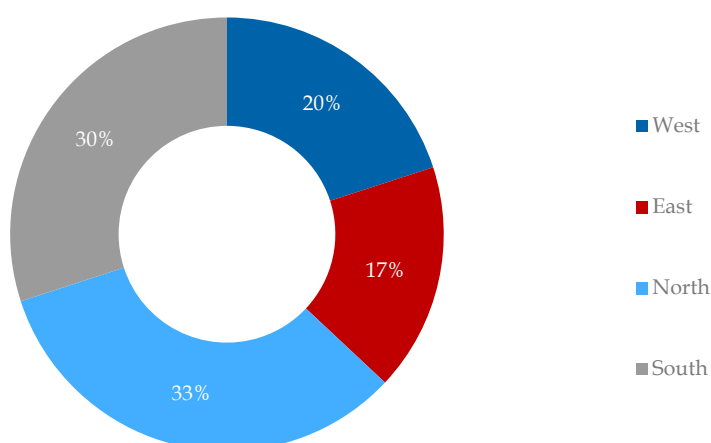
Source: Company, YES Sec - Research

Pan-India presence

As of FY19, USFB was among the leading SFBs in terms of branch count and geographical spread across India (Source: CRISIL Report). As of H1 FY20 it was present in 24 states and union territories encompassing 232 districts in India.

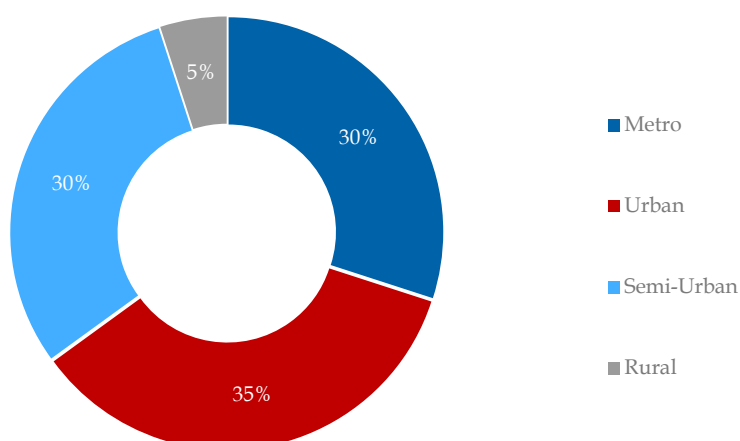
As of H1 FY20, the bank operated from 552 Banking Outlets that included 141 Banking Outlets in URCS (of which seven were business correspondent centres) and additionally operated four Asset Centres. The diversified operations also allow the bank to de-risk its business by mitigating political and state-specific risks. As of H1 FY20, it operated 131, 167, 173 and 81 Banking Outlets (including in URCS) in the North, South, East and West regions, respectively. Operations are well-diversified and in FY19, no single state constituted more than 18% of the overall loan portfolio. As of H1 FY20, the North, South, East and West regions contributed 19.6%, 34.7%, 29.5% and 16.2% of its gross advances (including securitization/ IBPC), respectively. Metropolitan, urban, semi-urban and rural areas accounted for 29.7%, 34.8%, 29.9% and 5.6% of gross advances (including securitization/ IBPC), respectively, as of H1 FY20.

Exhibit 12: Deposit mix shows geographical diversification across India



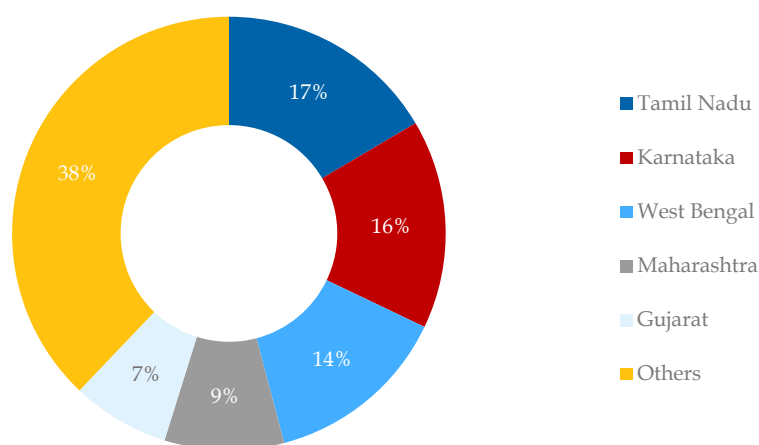
Source: Company, YES Sec – Research

Exhibit 13: Urban areas contribute one-third of the book



Source: Company, YES Sec – Research

Exhibit 14: No single state comprises more than 18% of the book



Source: Company, YES Sec – Research

Technology driven operating model with advanced digital platform

USFB manages the entire life cycle of its customers' banking transactions, from onboarding to customer management, through various technology platforms. The number of banking transactions through its digital channels were 0.6% of overall transactions in FY18 and such transactions accounted for 18.3% of its overall transactions as of H1 FY20.

With its digital platform, USFB has enabled paperless and handheld device based loan origination and cashless disbursements for customers with remittances directly to their accounts. As of H1 FY20, 71.1% of its advances have originated through handheld devices. Use of handheld devices has reduced turn-around time to service customers. Turn-around time in group loans has reduced from 8 days in FY17 to 4.1 days in FY19. USFB's customers are able to register savings bank accounts on mobile applications to perform financial and non-financial transactions. The bank also provides customers the ability to repay loans in a cashless manner and through digital wallets and payment gateways.

The bank creates and manages its data security infrastructure in-house and has systems in place to prevent security breaches and cyber-attacks. It has also introduced a remote monitoring system to manage security at its banking outlets. The bank also undertakes periodic audits of its systems through an external 'information security auditor'.

Robust risk management framework

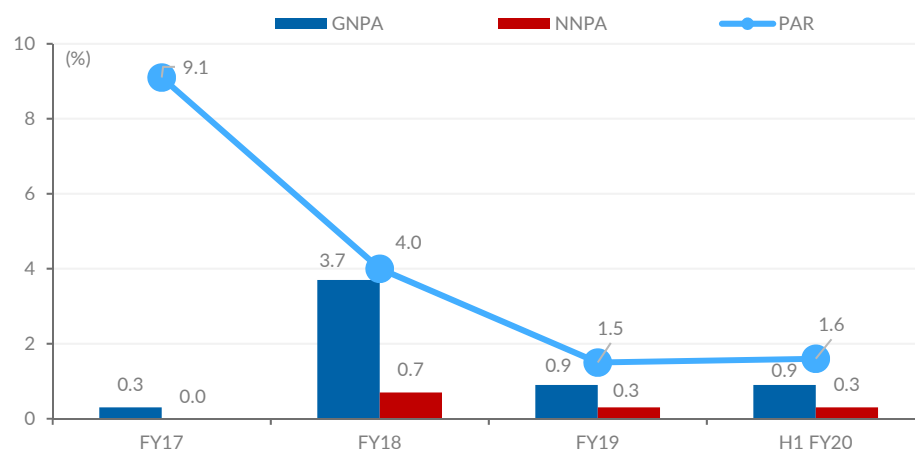
USFB's Risk Management Committee is responsible for the review of prudential risks while the Credit Risk Management Committee is responsible for overseeing implementation of credit risk management framework.

The bank has implemented credit management models such as decentralized loan sanctioning and stringent credit history checks. It continually uses technology and data analytics to manage credit risks and the in-house analytics team has developed a credit application scorecard to make informed decisions on lending. The bank has implemented SaaS for measuring capital adequacy, asset liability management and preventing money laundering.

USFB's effective credit risk management is also reflected in its portfolio quality indicators such as robust repayment rates, stable portfolio at risk and low gross and net NPAs. The bank's GNPA was the lowest among the small finance banks in India, as of FY19 (Source: CRISIL Report). The effective risk management framework is also evident from low portfolio at risk ratio that was 1.64% as of H1 FY20. The bank manages operational risks at a granular level, through an internal scoring mechanism and through a 'Key Risk Indicator' program for monitoring critical industry-specific risks. The KRIs effectively monitor liquidity risk and interest rate risk, and ensure diversified funding as prescribed by the RBI.

In FY19, the bank designed an initial framework for enterprise risk management which seeks to move away from a silo-based risk approach to a comprehensive and holistic approach. The framework is designed around risk adjusted return on capital based decision making.

Exhibit 15: Robust asset quality



Source: Company, YES Sec - Research

FUTURE STRATEGIES

Diversify product offerings to enable multiple customer relationships

USFB intends to develop and offer a comprehensive suite of asset and liability products that will help it attract new customers and deepen its relationship with the existing customer base. The bank also intends to expand its range of third party products and services in order to serve customers better.

The bank has identified the retail and MSE segments as key areas for increasing its credit portfolio. Currently, group loan customers with positive repayment track record graduate to becoming individual loan customers. USFB proposes to capitalize on this trend by increasing the penetration of individual loan products, and by innovating and designing need-specific products and services.

USFB intends to collaborate with State Housing Boards for properties built by them for providing housing loans to the beneficiaries of such housing projects, as well as online aggregators to reach out to a larger potential customer base.

In the vehicle finance segment, USFB intends to expand its offerings to finance the purchase of two-wheelers, three-wheelers, small commercial vehicles and used cars. The bank also intends to lend to financial institutions such as other NBFC that are engaged in the business of financing micro loans, MSE loans and affordable housing loans. The bank also intends to expand the range of third party products and services such as life insurance, general insurance, cash management, POS terminals, debit cards and fee collection solutions for educational institutions.

Continue to focus on technology and data analytics to grow operations

By furthering its digital and technology platform, USFB's endeavour is to empower the customers to access various products and services on their own, reduce operating costs and increase efficiencies. To achieve this, USFB has put in place technology at the front-end, such as its mobile banking application, internet banking, missed call services, SMS banking, ATMs and ACRs which allow the customers to access the banking services round the clock from the convenience of their homes and neighbourhoods. USFB intends to automate the operational processes by adopting robotic processes in order to become faster and efficient. The bank is currently exploring the use of robotic process automation technology for reconciliation of ATMs and UPI transactions.

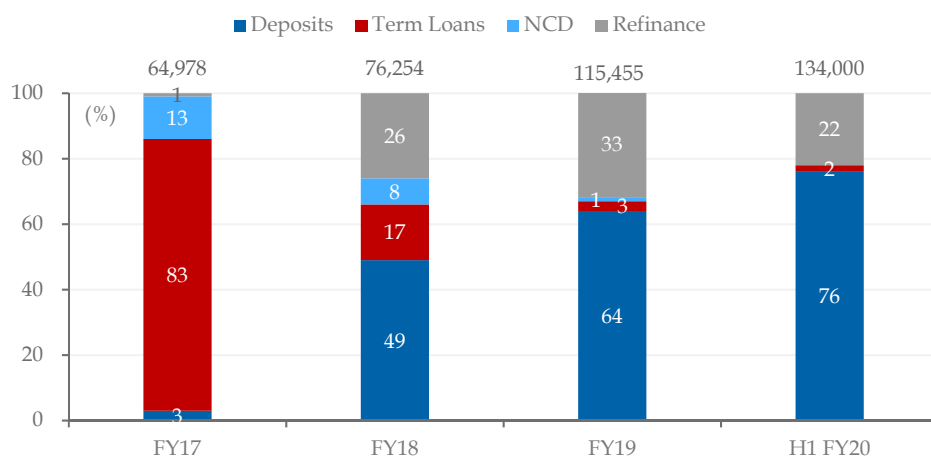
To enhance adoption of digital channels among the underserved segment, the bank has undertaken measures to improve its mobile application by activating voice-enabled and gesture enabled interfaces in regional languages. The focus will be on the use of data analytics to do customer segmentation and understand their evolving requirements leading to new product development, faster and better credit decisions and pro-active risk management. Going forward, USFB intends to work with fintech companies for programmes focused at specific customer segments.

Strengthen liability franchise and focus on increasing the retail base

The retail deposits formed 3.2% of total deposits as of FY17 and have grown to 41.9% of total deposits as of H1 FY20. USFB intends to further expand its retail deposit base through measured expansion of its Banking Outlets and offer digital savings and deposit products through internet and mobile banking to acquire new customers and also providing existing customers with a convenient banking experience to meet the needs of their particular demographics. This shift will enable the bank to access diversified, short term, low cost funds.

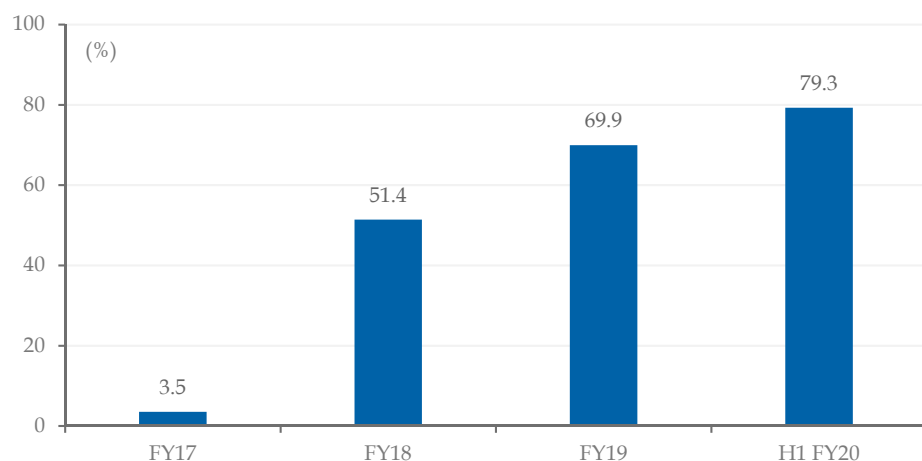
The bank proposes to meet a majority of its funding requirements through CASA deposits and recurring and fixed deposits by building a sticky deposit base and attracting new customers. USFB believes that the existing Banking Outlets, as they become more mature, will continue to be a source of additional new deposits and hence strengthen its funding base.

Exhibit 16: Deposits now form majority of funding



Source: Company, YES Sec - Research

Exhibit 17: Deposits/Advances Ratio improving



Source: Company, YES Sec - Research

Expand the bank's distribution network to increase customer penetration

USFB intends to expand Banking Outlets and infrastructure by focusing on rural and semi-urban areas. It believes these areas represent a significant opportunity for continued growth as the bank expands banking services to those areas which have traditionally been underserved. The bank intends to operationalize additional Banking Outlets, convert existing Asset Centres to Banking Outlets, expand ATM network and business correspondent agent network to grow advances and deposits.

The bank intends to set up a network of e-kiosks to provide round the clock access to customers in their neighbourhoods. The bank's focus will be to target new-to-bank customers through digital acquisition channels such as mobile banking platforms and offer them digital banking products. USFB also intends to explore strategic partnerships with fintech companies to increase customer acquisition, lower processing and on-boarding costs, reduce turnaround time and improve overall customer experience.

Diversify the bank's revenue streams

An important strategic focus for the bank is to diversify its fee and non-fund based revenues. For MSE customers, the aim is to market fee and non-fund based products such as letters of credit, bank guarantees, foreign exchange remittance services and third-party insurance products. For USFB's retail customers, it intends to follow a relationship based approach by providing and expanding third-party product offerings including insurance products, mutual funds, wealth management services, money transfer and foreign exchange services. The bank also proposes to focus on bancassurance, Gol business, fee and processing charges from loan and advances, foreign exchange business, credit and debit card business. The inherent nature of the bank's assets business gives it an opportunity to build priority sector advances in surplus of the targets mandated by the RBI. USFB believes trading of priority sector lending certificates will continue to be an important source of fee income.

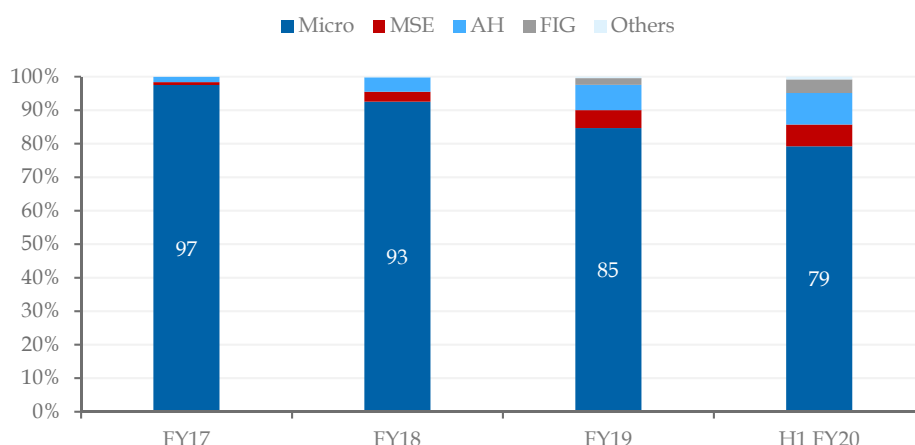
KEY MANAGEMENT PERSONS

- ✓ **Samit Kumar Ghosh** is the Managing Director and Chief Executive Officer of the bank. He holds a bachelor's degree in arts with honours in economics from Jadavpur University and a master of business administration degree from the University of Pennsylvania. He was associated with First National City Bank in 1975 and later worked with Standard Chartered Bank, HDFC Bank, Citibank N.A., and the Bank Muscat Al Ahli Al Omani. He was the president of Microfinance Institutions Network and the chairman of Association of Karnataka Microfinance Institutions.
- ✓ **Nitin Chugh** shall assume office as Managing Director and Chief Executive Officer with effect from December 1, 2019. He assumed office as President of the bank with effect from August 17, 2019. He holds a bachelor's degree in technology (electrical engineering) from Kurukshetra University and a professional diploma in marketing management from All India Management Association. He has previously worked with HDFC Bank Limited, Standard Chartered Bank, HCL Hewlett Packard Limited and Modi Xerox Limited.
- ✓ **Sanjay Kao** is the Chief Business Officer of USFB. He holds a bachelor of technology degree in chemical engineering from Banaras Hindu University and a post-graduate diploma in management from the Indian Institute of Management, Calcutta. He was previously employed with Lipton India Limited, Dunia Finance LLC, Citibank, N.A. and ABN AMRO Bank, N.V. He was appointed as the Chief Business Officer of USFB with effect from February 12, 2018.
- ✓ **Carol Furtado** is the Head - Human Resources of the bank. She holds a bachelor of science degree from Bangalore University and post-graduate diploma in business administration from Mount Carmel Institute of Management. She has previously worked in ANZ Grindlays Bank, Bank Muscat S.A.O.G. and Centurion Bank Limited.
- ✓ **Upma Goel** is the Chief Financial Officer of USFB. She is a chartered accountant from the Institute of Chartered Accountants of India. She was previously employed with L&T Finance Holdings Limited, Ujjivan Financial Services Limited and Escorts Securities Limited. She joined the bank as the Chief Financial Officer with effect from February 1, 2017.
- ✓ **Jaya Janardanan** is the Chief Operating Officer of USFB. She holds a master's degree in commerce from Bombay University. She was previously employed with Alpica Finance Ltd., JP Morgan Chase Bank N.A., ICICI Bank Limited, ING Vysya Bank, Bank of America, Mashreq Bank, Dhanlaxmi Bank and Aditya Birla Group. She was appointed as the Chief Operating Officer with effect from October 22, 2018.
- ✓ **Jolly Zachariah** is the Head - Channels of USFB. He holds a bachelor's degree in commerce from Bombay University. He was the chief operating officer (west) of Ujjivan Financial Services Limited and was previously employed with Citigroup. He joined the bank as the Head - Channels with effect from February 1, 2017.
- ✓ **Arunava Banerjee** is the Chief Risk Officer. He holds a master's degree in arts (economics) from Calcutta University and is an associate of the Indian Institute of Bankers. He was previously employed with State Bank of India, Standard Chartered Bank and Bahraini Saudi Bank. He is the past chief financial officer of Remza Investment Company W.L.L. He was appointed as the Chief Risk Officer of the bank with effect from February 1, 2017.
- ✓ **Rajat Singh** is the Business Head - Micro Banking and Rural Banking. He has a bachelor's degree in agricultural and food engineering from Indian Institute of Technology, Kharagpur. He joined Ujjivan Financial Services Limited in 2007 as a financial analyst. He was appointed as the Head - Strategy and Planning of the bank with effect from February 1, 2017 and was subsequently re-designated as the Head - Micro Banking and Rural Banking on February 21, 2019.

KEY RISKS

- ✓ **The bank's promoter is required to reduce its shareholding in the bank to 40%** of its paid-up Equity Share capital within a period of five years from the date of commencement of business operations and thereafter required to reduce its shareholding in the bank to 30% and 26% of paid-up Equity Share capital within a period of 10 years and 12 years, respectively, from the date of commencement of business operations;
- ✓ **USFB significantly depend on its micro banking business, particularly group loans.** As of H1 FY20, advances in micro banking business accounted 79.2% and the percentage of micro banking gross NPAs to total micro banking advances was 0.7%. USFB's financial performance significantly depends on the micro banking business, which in turn depends on various factors, including the ability of borrowers to repay their loan, the results of operations of such borrowers and their business, changes in regulations and policies, natural disasters, calamities, political and social risks, including any adverse publicity or litigation relating to the microfinance sector (such as a public interest litigation filed against all microfinance institutions in Maharashtra), public criticism of the microfinance sector and religious beliefs relating to loans and interest payments. Microfinance loan customers are also susceptible to event-based risks, such as, demonetization and natural calamities like the Kerala floods and cyclone 'Gaja'.

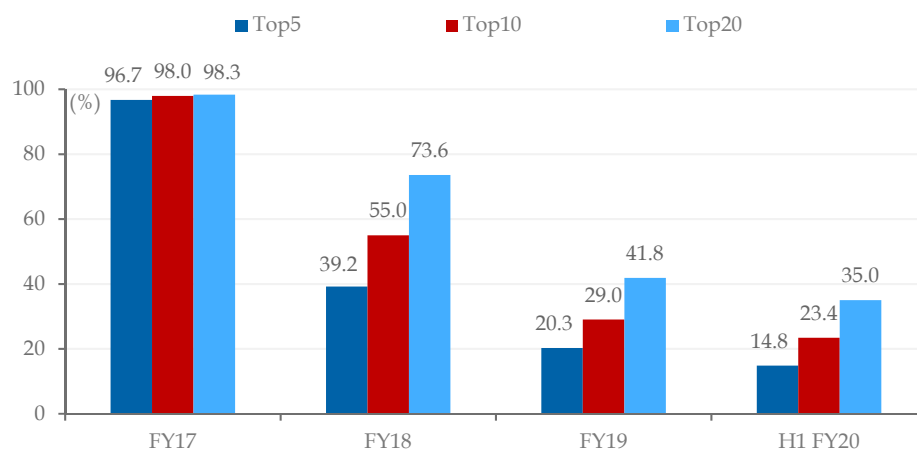
Exhibit 18: Although Micro Banking contribution has reduced, it still accounts for a lion's share of the portfolio



Source: Company, YES Sec – Research

- ✓ **USFB's deposits depend on a limited number of customers** and a loss of such customers could materially and adversely affect the deposit portfolio, funding sources, financial condition and results of operations. As of H1 FY20, Top 5 depositors represented 14.8% and Top 20 represented ~35% of total deposits.

Exhibit 19: Depositor concentration has reduced significantly over the years; yet high



Source: Company, YES Sec - Research

- ✓ **Business is dependent on operations in certain regions of India.** A large number of banking outlets are located in the southern and eastern states of India, particularly, Karnataka, Tamil Nadu and West Bengal. Consequently, a majority of advances are from customers in these states (45.8% as of H1 FY20). In the event of a regional slowdown in the economic activity in Karnataka, Tamil Nadu or West Bengal, or any other developments including political unrest, disruption or sustained economic downturn in these regions that make USFB's products in these states less beneficial, the bank may experience an adverse impact.

FINANCIALS

Exhibit 20: Balance Sheet

Y/E March 31 (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Equity and Liabilities					
Equity Capital	14,400	14,400	14,400	17,282	17,282
Reserves	0	69	1,796	13,225	18,539
Net worth	14,401	14,469	16,196	30,507	35,822
Preference Capital	2,000	2,000	2,000	2,000	2,000
Borrowings	62,914	38,528	41,661	42,702	46,973
Deposits	2,064	37,725	73,794	119,916	182,872
Other liab & Provisions	2,980	2,006	3,771	4,902	6,372
Total Liabilities + Equity	84,359	94,729	137,422	200,027	274,038
Assets					
Cash and cash equivalent	7,628	4,948	10,945	14,959	20,394
Advances	58,610	73,362	105,525	153,011	206,564
Investments	14,467	12,325	15,266	24,808	37,832
Fixed & tangible assets	1,398	1,983	2,845	3,556	4,445
Other assets	2,256	2,110	2,842	3,695	4,803
Total Assets	84,359	94,729	137,422	200,027	274,038

Exhibit 21: Income statement

Profit & Loss Account	FY17	FY18	FY19	FY20E	FY21E
Interest earned	2,170	14,679	18,316	27,950	37,555
Interest expenses	(1,094)	(6,069)	(7,252)	(11,262)	(15,404)
Net interest income	1,077	8,610	11,064	16,688	22,151
Other income	69	1,115	2,060	3,295	4,366
Total income	1,145	9,725	13,124	19,983	26,518
Total operating expenses	(1,092)	(6,529)	(10,034)	(13,545)	(17,270)
Pre-provision profit	53	3,196	3,090	6,438	9,247
Total Provisions	(44)	(3,108)	(406)	(1,015)	(1,788)
Profit before tax	8.9	89	2,684	5,423	7,459
Tax	(9)	(20)	(692)	(1,367)	(1,880)
Net Profit	0	69	1,992	4,056	5,579

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