

NOVEMBER 29, 2019

IPO Note

**UJJIVAN SMALL FINANCE BANK LTD****NOT RATED****Background**

Ujjivan Small Finance Bank (USFB) is a mass market focused SFB in India, catering to unserved and underserved segments and committed to building financial inclusion in the country. Its Promoter, Ujjivan Financial Services Limited (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. 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 the Bank, which commenced its operations from February 1, 2017.

Among the leading SFBs in India, USFB had the most diversified portfolio, spread across 24 states and union territories as of March 31, 2019. As of September 30, 2019, it 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, it operationalized 287 Banking Outlets. As of September 30, 2019, 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.

Its portfolio of products and services includes various asset and liability products and services. Its asset products comprise: (i) loans to 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, it offers savings accounts, current accounts and a variety of deposit accounts.

**Details of Offer**

Particulars	Details
Price band (Rs/share)	36-37 (Rs.2 discount for UFSL shareholders)
Opening date of the Issue	2nd December, 2019
Closing date of the issue	4th December, 2019
No. of shares pre-issue (nos. mn)	1,526
No. of shares post-issue (nos. mn)*	1,728
Fresh Issue (nos. mn)*	202.7
Offer for sale (nos. mn)	Nil
Issue size (Rs bn)*	7.5 (include Shareholder reservation upto Rs.750 mn for eligible shareholders of Ujjivan Financial Services Limited)
Bid Lot	400 Equity share & multiple of 400 Equity share thereafter
<b>Book Building</b>	
QIBs	75%
Non-Institutional	15%
Retail	10%
Lead managers	Kotak Investment banking, IIFL Securities, JM Financial

Source: Company RHP, \* Based on upper price band

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**(Note: All the information in this note is taken from RHP)**

### Shareholding pattern

	Pre issue	Post issue
Promoter holding (%)	94.4	83.3
Public shareholding (%)	5.6	16.7
Total (%)	100	100

Source: Company RHP

### Objects of the offer

	Utilization of proceeds (Rs Mn)
Augment Bank's TIRE-I capital base	N.A
Ensure compliance with Basel III and other RBI guidelines	N.A

Source: Company RHP

### Management Background

Name	Age	Designation	Background
Sunil Vinayak Patel	70	Part – time Chairman and Independent Director	He holds a bachelor's degree in commerce from Bombay University and a master of business administration degree from the Wharton School, University of Pennsylvania. He is a chartered accountant from the Institute of Chartered Accountants of India. He is a certified management consultant from the Institute of Management Consultants' of India. He was previously associated with A.F. Ferguson & Co. and A.F. Ferguson Associates. He was previously a director on the boards of L&T Investment Management Limited and Ujjivan Financial Services Limited.
Samit Kumar Ghosh	69	Managing Director and Chief Executive Director	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.
Jayanta Kumar Basu	54	Non – executive Director	He holds a bachelor's degree in arts (economics) from Delhi University and a post graduate diploma in management from the Indian Institute of Management, Ahmedabad. He is currently a partner at CX Advisors LLP. He was previously a senior vice president at Citibank.
Mona Kacchwaha	47	Non – executive Director	She holds a post graduate diploma in business management from XLRI Jamshedpur and has completed a private equity programme from Oxford University. She was previously employed with Citibank N.A. and Caspian Impact Investment Adviser Private Limited.

Source: Company RHP

## Strengths

### Deep understanding of mass market serving unserved and underserved segments

UFSB is an SFB providing a variety of banking services in mass market customer segments with a focus on serving the financially unserved and underserved segments in India. A large section of the Indian population lacks access to formal banking services or is served by informal providers. Accordingly, financial inclusion has always been a key priority for the Indian government. The banking system and 'priority sector' lending have been the most explored channels to bring majority of the population under the ambit of formal credit institutions. The RBI granted 'small finance banks' licenses in 2015 with the objective of making banking services accessible and affordable to the unserved and underserved segments through saving instruments, and providing credit to small business units, small and marginal farmers, micro and small industries, and other unorganized sector.

Company believes that the experience of its Promoter, UFSL, as an erstwhile microfinance institution, coupled with its ability to address mass market customer segments has allowed it to become among the leading small finance banks in India in terms of deposits, branch count and geographical spread, as of March 31, 2019. It continues to focus on lending to micro banking customers with deposits from its micro banking customers constituting 6.75% of its total deposits as of September 30, 2019. It is particularly focused on serving senior citizens and offer them differential interest rates, 107 doorstep banking services, unlimited free ATM transactions along with free accidental insurance cover of up to ₹ 100,000 and no minimum balance maintenance requirements in savings accounts. It also offers such customers with priority service and life event-based services at its Banking Outlets.

### **Customer centric organization with multiple delivery channels**

USFB served 4.94 million customers as of September 30, 2019, and consider its customers to be the most significant stakeholder at the core of its operations. It 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. The company 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 its existing micro banking customers. Customer satisfaction scores of its Banking Outlets have improved from 77.11% in Fiscal 2018 to 78.53% in Fiscal 2019.

Besides Banking Outlets and Asset Centres, its delivery channels also include ATMs, ACRs, mobile and internet banking services. As of September 30, 2019, it had a network of 441 ATMs that accept RuPay, Visa and MasterCard. As of September 30, 2019, its two 24/7 phone banking units based in Bengaluru and Pune service customers in 11 languages while its mobile banking application is accessible in five languages.

USFB’s customer focused approach has been widely recognized in the industry and is evident from the awards received. In 2019, it received the 6th SMEs Excellence Award for ‘Excellent Service (Small Finance Bank)’ from ASSOCHAM India, and were awarded ‘Best HR Practice in Finance Sector’ at the Banking, Financial Services and Insurance Awards.

### **Pan-India presence**

As of March 31, 2019, USFB was among the leading SFBs in terms of branch count and geographical spread across India. As of September 30, 2019 it was present in 24 states and union territories encompassing 232 districts in India.

As of September 30, 2019, it operated 131, 167, 173 and 81 Banking Outlets (including in URCs) in the North, South, East and West regions, respectively. In Fiscal 2019 alone, it operationalized 287 Banking Outlets. Its operations are well-diversified and in Fiscal 2019, no single state constituted more than 18.00% of its overall loan portfolio. As a result of its geographic spread, it has been able to reduce its concentration risk and diversify its loan portfolio.

### **Technology driven operating model with advanced digital platform**

Company leverages technology to serve its customers better, identify opportunities, deliver innovative products and services and advance on its goal of facilitating financial inclusion in India. It manage the entire life cycle of its customers' banking transactions, from onboarding to customer management, through its various technology platforms. The number of banking transactions through its digital channels were 0.60% and 8.31% of its overall transactions in Fiscal 2018 and 2019, respectively and such transactions accounted for 18.29% of its overall transactions in the six months ended September 30, 2019.

As of September 30, 2019, 71.09% of its advances have originated through handheld devices. Processing of its loans is digitized and loans can be approved within minimal time post sourcing. Its use of handheld devices has reduced the turn-around time to service its customers. Turn-around time in group loans has reduced from 8.00 days in Fiscal 2017 to 4.06 days in Fiscal 2019. In Fiscal 2019, company has enabled UPI on its digital platforms.

USFB has received numerous awards in relation to its IT operations. These include Special Jury Recognition for 'Security Practices in Small Finance Bank' at the DSCI Excellence Awards, 2018, Recognition of the Outstanding Spirit of Innovation for the group loan origination system 'Glow" by Banking Frontiers Finnoviti 2019 and the 'Best IT Risk Management and Cyber Security Initiatives' under the small bank category at the Indian Banks' Association Banking Technology Conference, Expo and Awards 2019.

### **Robust risk management framework**

USFB has an established risk management framework to identify, measure, monitor and manage credit, market, liquidity, IT and operational risks. It has implemented credit management models such as decentralized loan sanctioning and stringent credit history checks. It has implemented SaaS for measuring capital adequacy, asset liability management and preventing money laundering. Its credit risk monitoring policies seek to monitor and control performance of both its loan assets at account and portfolio levels, with account monitoring designed to identify and facilitate corrective action for weak accounts, and portfolio monitoring aimed at identifying credit stress in specific sectors and geographies. As of September 30, 2019, its gross NPAs accounted for 0.85% of its gross advances, while its net NPAs accounted for 0.33% of its Net Advances.

In Fiscal 2019, company 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. Other risk management measures adopted by the Bank include implementation of enterprise governance risk and compliance modules and risk control self-assessment techniques.

### **Professional management, experienced leadership with focus on employee welfare**

USFB is professionally managed and its senior management team has a diversified track record in the financial services industry. Its Board consists of Directors with a diverse mix of experience in various sectors, in particular, the financial services industry and technology. Its 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. Its 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.

Its employee base has grown from 10,167 employees as of March 31, 2017 to 14,752 employees as of March 31, 2019 and had 16,776 employees as of September 30, 2019. Its holistic approach towards employee welfare initiatives, in addition to its emphasis on professional development of employees has allowed it to be ranked 6th among 'India's Best Company to Work For 2019' awarded by the Great Places to Work Institute India in partnership with the Economic Times and being awarded the "Best HR Practice in Finance Sector" award at the Banking, Financial Services and Insurance Awards in 2019.

## Strategies

### **Diversify product offerings to enable multiple customer relationships**

USFB's endeavour is to be a one-stop-shop for financial services, delivering quality products and solutions, along with a personalized customer experience to a diversified customer base. It intends to develop and offer a comprehensive suite of asset and liability products that will help them attract new customers and deepen its relationship with its existing customer base. It also intends to expand its range of third party products and services in order to serve its customers better. It 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. It proposes to capitalize on this trend by increasing the penetration of individual loan products, and by innovating and designing need-specific products and services.

It offers a range of loan and overdraft facilities to the customers in the MSE segment and intend to introduce bill discounting and non-fund based credit facilities. In order to help its customers to meet their housing needs, it has an affordable housing finance program with products ranging from small ticket size home improvement loan to larger loans for purchase of ready housing units. It intends to grow its MSE and affordable housing portfolios which will also increase the proportion of secured to unsecured products, thereby further enhancing the quality of its credit portfolio. It intends to increase the ticket size of the products, while relying on its established credit assessment procedures and risk management framework to ensure a high quality and balanced portfolio. In the vehicle finance segment, it has entered into memoranda of understanding with certain original equipment manufacturers to provide customers with financing facilities for electric vehicles. It intends to expand its offerings to finance the purchase of two-wheelers, three-wheelers, small commercial vehicles and used cars.

### **Continue to focus on technology and data analytics to grow operations**

The optimum use of advanced, cost-effective technology has significantly driven the company's operations, and going forward, it intends to strategically invest its resources for further integration of technology into its operations. By furthering its digital and technology platform, its endeavour is to empower the customers to access various products and services on their own, reduce their operating costs and increase efficiencies. To achieve this, it has to 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 work further on developing various digital platforms in order to establish themselves as a modern technology enabled bank. In order to enhance adoption of digital channels among the underserved segment, it has undertaken measures to improve its mobile application by activating voice-enabled and gesture enabled interfaces in regional languages. Its 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.

### **Strengthen liability franchise and focus on increasing its retail base**

Currently the company has a strong customer base and as of September 30, 2019, it served 4.94 million customers. It intends to strengthen its liability franchise with a focus on growing its retail deposit base to provide them with a stable, low-cost source of funding. It believes that with simple, flexible products, which are accessible through assisted and self-serviced channels, it can position themselves as a reliable alternative to informal players. As of September 30, 2019, its deposit base of Rs. 101,298.49 million comprised 74.48 % of its overall funding profile. Its retail deposits formed 3.15% of its total deposits as of March 31, 2017 and have grown to 37.07% of its total deposits as of March 31, 2019 and were 41.93% of its total deposits as of September 30, 2019. As a result, its Cost of Funds has been 9.01% and 8.33% in Fiscal 2018 and 2019, respectively, and was 8.43% in the six months ended September 30, 2019. It 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 whose primary avenues of savings and capital building currently include the unorganized sector and other high risk savings schemes.

### **Diversify revenue streams**

An important strategic focus for the company is to diversify its fee and non-fund based revenues. It intends to leverage on its Banking Outlet network, digital channels and its increasingly diversified product and service portfolio to develop its fee and commission-based business. For MSE customers, it aims to market fee and non-fund based products such as letters of credit, bank guarantees, foreign exchange remittance services and third-party insurance products. It also intend to offer POS terminals to MSE customers in partnership with third party providers. For retail customers, it intends to follow a relationship based approach by providing and expanding its third-party product offerings including insurance products, mutual funds, wealth management services, money transfer and foreign exchange services.

## Financials

### Balance sheet (Rs mn)

Rs. mn	As at				
	30-Sep-19	30-Sep-18	31-03-19	31-03-18	31-03-17
<b>CAPITAL AND LIABILITIES</b>					
Capital	16,400	16,400	16,400	16,400	16,400
Share Application Money Pending Allotment	359	-	-	-	-
Employees Stock Options and Purchase Outstanding	107	-	-	-	-
Reserves and Surplus	3,534	970	1,796	69	0
Deposits	101,298	41,881	73,794	37,725	2,064
Borrowings	34,702	41,869	41,661	38,528	62,914
Other Liabilities and Provisions	4,678	2,717	3,771	2,006	2,980
<b>TOTAL</b>	<b>161,079</b>	<b>103,837</b>	<b>137,422</b>	<b>94,729</b>	<b>84,359</b>
<b>ASSETS</b>					
Cash and Balances with Reserve Bank of India	4,873	1,960	4,465	2,496	2,609
Balances with Banks and Money at Call and Short Notice	2,221	3,412	6,480	2,452	5,019
Investments	20,184	13,303	15,266	12,325	14,467
Advances	127,804	80,387	105,525	73,362	58,610
Fixed Assets	2,962	2,521	2,845	1,983	1,398
Other Assets	3,036	2,253	2,842	2,110	2,256
<b>TOTAL</b>	<b>161,079</b>	<b>103,837</b>	<b>137,422</b>	<b>94,729</b>	<b>84,359</b>
Contingent Liabilities	256	330	309	195	283
Bills for Collection	-	-	-	-	-

Source: Company RHP

### Profit and Loss (Rs mn)

Rs. mn	Period from April 1, 2019 to Sept 30, 2019,	Period from April 1, 2018 to Sep 30, 2018	Year ended 31 <sup>st</sup> Mar, 2019	Year ended 31 <sup>st</sup> Mar 2018	Period from 4 <sup>th</sup> Jul 2016 to 31 <sup>st</sup> Mar 2017
<b>I. INCOME</b>					
Interest Earned	12,597	8,333	18,316	14,679	2,170
Other Income	1,752	911	2,060	1,115	69
<b>TOTAL</b>	<b>14,349</b>	<b>9,245</b>	<b>20,376</b>	<b>15,794</b>	<b>2,239</b>
<b>II. EXPENDITURE</b>					
Interest Expended	5,193	3,270	7,252	6,069	1,094
Operating Expenses	6,130	4,459	10,034	6,529	1,092
Provisions and Contingencies	1,155	615	1,098	3,128	53
<b>TOTAL</b>	<b>12,477</b>	<b>8,343</b>	<b>18,384</b>	<b>15,725</b>	<b>2,238</b>
<b>III. PROFIT</b>					
Net Profit/ (Loss) for the period/year	1,871	901	1,992	69	0
Profit/ (Loss) brought forward	1,184	52	52	0	
<b>TOTAL</b>	<b>3,055</b>	<b>953</b>	<b>2,044</b>	<b>69</b>	<b>0</b>
<b>IV. APPROPRIATIONS</b>					
Transfer to					
a) Statutory Reserves	468	-	498	17	0
b) Investment Reserve	-	-	-	-	-
c) Interim Preference Dividend Paid (includes tax on dividend)	133	-	265	-	-
d) Investment Fluctuation Reserve	49		97		
e) Balance Carried over to Balance Sheet	2,405	953	1,184	52	0
<b>TOTAL</b>	<b>3,055</b>	<b>953</b>	<b>2,044</b>	<b>69</b>	<b>0</b>
<b>V. EPS (FV of Rs. 10 per share)*</b>					
Basic (Rs.)	1.21	0.63	1.2	0.05	-
Diluted (Rs.)	1.21	0.63	1.2	0.05	-

\*For six months EPS not annualized; Source: Company RHP

**Cash Flow statement (Rs mn)**

Rs. mn	Period from April 1, 2019 to Sept 30, 2019,	Period from April 1, 2018 to Sep 30, 2018	Year ended 31 <sup>st</sup> Mar, 2019	Year ended 31 <sup>st</sup> Mar 2018	Period from 4 <sup>th</sup> Jul 2016 to 31 <sup>st</sup> Mar 2017
Net Cash generated from Operating Activities (A)	3,360	(2,035)	4,777	23,137	(70,838)
Net Cash used in Investing Activities (B)	(479)	(817)	(1,479)	(1,006)	(1,611)
Net Cash generated from/(used in) Financing Activities (C)	(6,733)	3,340	2,867	(24,386)	79,314
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	(3,851)	488	6,166	(2,254)	6,865
Cash and Cash Equivalents at the beginning of the period/year	10,776	4,611	4,611	6,865	-
Cash and Cash Equivalents at the end of the period/year	6,925	5,099	10,776	4,611	6,865

Source: Company RHP



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<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
<b>SUBSCRIBE</b>	–	We advise investor to subscribe to the IPO.
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<b>NA</b>	–	<b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable
<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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