

# NVS Wealth Managers Pvt. Ltd.

Investment Banking | Wealth Management | Debt

## Ujjivan Small Finance Bank Limited IPO Note

### Reco: Subscribe

Issue Opens: December 2, 2019

Issue Closes: December 4, 2019

*Initial Public Offering of up to [ x ] Equity Shares of FV Rs. 10/- each, consisting of a Fresh Issue of [ x ] Equity Shares aggregating to Rs. 750 Crs. at a price band of Rs. 36 – Rs. 37 per Equity Share which includes a reservation of up to [ x ] Equity Shares for subscription by eligible Ujjivan Financial Services Ltd. (UFSL) Shareholders, aggregating up to Rs. 75 Crs. (Market Capitalization at upper band of issue price of Rs. 37 per Equity Share – Rs. 6,394 Crs.).*

- ✓ **Ujjivan Small Finance Bank (USFB)**, promoted by **UFSL** (Market Capitalization Rs. 4,100 Crs.), is a mass - market focused Small Finance Bank (SFB) in India, catering to unserved and underserved segments and committed to building financial inclusion.
- ✓ With a customer base of 4.94 Mn, **USFB is the Second - Largest SFB in India.**
- ✓ **Deposit Base ~ Rs. 10,000 Crs.** – 552 Banking Outlets and 441 ATMs operating across 24 states and UTs.
- ✓ **USFB** has one of the lowest Cost – to – Income ratios of 64% for H1FY2020.
- ✓ One of **USFB's** listed comparable – *AU Small Finance Bank* is currently trading at a P/E multiple of 53 times its FY2019 earnings.
- ✓ **USFB** has posted a strong performance in H1FY2020. We believe **USFB** has tremendous scope to play '*Catch Up*' in valuations as compared to its peer set in the SFB segment.
- ✓ At the higher end of the price band, **USFB** is likely to trade at a P/E multiple of 17 times of its FY2020E annualized EPS of Rs. 2.2 (P/E Multiple of 31 times its FY2019 earnings).

### I. USFB – Pre-IPO and Post IPO Shareholding Pattern

	Pre-IPO Shareholding		Post-IPO Shareholding *	
	No. of Shares	% Shareholding	No. of Shares	% Shareholding
Promoter	144,00,36,800	94.4 %	144,00,36,800	83.3 %
Public	8,54,83,667	5.6 %	28,93,44,670	16.7 %
<b>Total</b>	<b>152,55,20,467</b>	<b>100.0 %</b>	<b>172,93,81,470</b>	<b>100.0%</b>

\*Note: Post-IPO shareholding is calculated based on allotment at the upper end of the price band of Rs. 37 per share.

## II. USFB – Comparison with Listed Peers

Name of the Company	Total Income (Rs. in Crs.)	Face Value per Equity Share (Rs.)	P/E	EPS (Rs.)	RoNW (%)	NAV (Rs.)
Ujjivan Small Finance Bank Limited	2,037	10	30.8 <sup>2</sup>	1.2	9.5 %	12.6
<b>Listed Peers</b>						
AU Small Finance Bank Ltd	3,410	10	53.0	13.2	12.1 %	108.2
Equitas Holdings Limited	2,358	10	21.2	5.2	7.2 %	71.6
Bandhan Bank Limited	7,707	10	30.4	16.4	17.4 %	93.9
CreditAccess Grameen Ltd	1,283	10	21.9	23.7	13.2 %	164.8

1) Source: All the financial information for listed industry peers mentioned above are on consolidated basis (unless otherwise available only on standalone basis) and is sourced from the financial results of the respective company for FY2019 submitted to stock exchanges.

2) USFB FY2019 P/E based on the upper end of the price band of Rs. 37 per share.

## III. USFB – Growth Story Unfolds...

- ✓ **USFB** is perfectly ensconced in the Indian middle market segment. We believe the middle market segment which is also the target consumer segment of **USFB**, would be the fastest growing segment thereby fueling further growth at the company.
- ✓ **USFB** has achieved a phenomenal Topline of Rs. 2,038 Crs. and PAT of Rs. 200 Crs. in a short span of only 2.5 years. GNPA and NNPA of 0.8% and 0.3% respectively as on June 30, 2019, one of the lowest in the industry, speak of the excellent asset quality of the SFB.
- ✓ CASA ratio has increased from 1.6% in FY2017 to 10.4% in Q1FY2020 reflecting **USFB's** focus on growing its retail deposit which has helped to bring down cost of borrowing and improving NIMs.
- ✓ **USFB has one of the best ROA figures across the industry at 2.7%.**
- ✓ SFBs' smaller transaction sizes usually result in a higher Cost – to – Income ratio. However, state of the art technology coupled with efficiencies in its front end and back end operations have lowered **Cost – to – Income ratio down to 64% in Q1FY2020 from 76% for FY2019.**
- ✓ In H1FY2020 79% of the Topline came from Micro Finance Business as against 98% in FY2017. **USFB** has expanded its presence in other business verticals such as affordable housing loans (10% of revenue share) and MSME business loans (6.5% of revenue share) thereby, reducing its dependence on the microfinance business substantially.

#### IV. USFB – Financials at a Glance

Particulars (Rs. in Crs.)	FY2017 <sup>1</sup>	FY2018	FY2019	H1FY2020
Total Income	224	1,579	2,038	<b>1,435</b>
Net Interest Income	108	861	1,106	<b>740</b>
PAT	0	7	199	<b>187</b>
EPS	0.0	0.1	1.2	<b>1.2</b>
Face Value	10	10	10	<b>10</b>
Eq. Sh. Cap	1,640	1,640	1,640	<b>1,640</b>
Net Worth	1,640	1,647	1,820	<b>2,040</b>
BVPS	10.0	10.0	11.1	<b>12.4</b>
Deposits	206	3,773	7,379	<b>10,130</b>
Advances	586	7,336	10,552	<b>12,780</b>
<b>Ratios</b>				
PAT Margin (%)	0.0%	0.4%	9.8 %	<b>13.3 %</b>
NIM (%)	8.4%	10.3%	10.9 %	<b>10.5 %</b> <sup>2</sup>
GNPA (%)	0.3%	3.7%	0.9 %	<b>0.8 %</b> <sup>2</sup>
NNPA (%)	0.0%	0.7%	0.3 %	<b>0.3 %</b> <sup>2</sup>
CAR (%)	21.1%	23.0%	19.0 %	<b>18.8 %</b> <sup>2</sup>
PCR (%)	89.0%	81.9%	71.9 %	<b>69.6 %</b> <sup>2</sup>
CASA (%)	1.6%	3.7%	10.6 %	<b>10.4 %</b> <sup>2</sup>
Cost to Income (%)	95.4%	67.1%	76.5 %	<b>64.4 %</b> <sup>2</sup>
ROA (%)	0.0%	0.1%	1.9 %	<b>2.7 %</b> <sup>2</sup>

1) Period from July 4, 2016 to March 31, 2017, however the bank was operational from February 2017.

2) As on June 30, 2019.

#### V. USFB – Valuation and Recommendation

- ✓ **USFB** raised Rs. 250 Crs. in a pre - IPO round during November 2019 led by marquee investors such as **IIFL group's funds, Avendus Capital's PE Fund and Mr. Akash Bhanshali of the Enam Group**. These Shares were issued at a price of Rs. 35 each.
- ✓ Investors should take solace in the fact that their entry price on subscription even at the higher end of Rs. 37 per share will shadow that of the above key institutional investors closely.
- ✓ **USFB** has shown superlative performance by growing from a PAT of Rs. 199 Crs. in FY2019 to H1FY2020 PAT to Rs. 187 Crs. (Just shy of its previous full fiscal year profit in the first six months of FY2020). **It is even more noteworthy that USFB has posted this profitability in the backdrop of one of the worst quarters for the entire Indian Banking Sector in recent times.**
- ✓ **At the higher end of the price band, USFB is likely to trade at a P/E multiple of 17 times of its FY2020E annualized EPS of Rs. 2.2 and at a P/BV multiple of 2.9 times.**
- ✓ **At a price band of Rs. 36 – Rs. 37 per Equity Share and we believe USFB could provide Excellent Listing Gains for Investors.**

**We recommend all investors to SUBSCRIBE to this issue with an 18-24 month horizon.**

## USFB IPO Details

<b>Bid Lot</b>	400 Equity Shares and in multiples of 400 Equity Shares thereafter
<b>Price Band</b>	Rs. 36 – Rs. 37 per Equity Share
<b>Lead Manager</b>	IIFL Holdings Limited, JM Financial Consultants Private Limited, Kotak Mahindra Capital Company Limited
<b>Registrar</b>	Karvy Computershare Private Limited
<b>UPI Mechanism</b>	All retail applications are compulsorily in UPI Mode
<b>Listing</b>	NSE, BSE

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