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UJJIVAN SMALL FINANCE BANK LIMITED

November 29, 2019



SMC Ranking
★ ★ ★ ☆ ☆ (3/5)

Issue Highlights

Industry	Banking
Total Issue (Shares) - Fresh Issue	202,702,703
Net Offer to the Public	202,702,703
Issue Size (Rs. Cr.)	750-729
Price Band (Rs.)	36-37
UFSL's shareholder reservation	10% size of the issue
UFSL's shareholder price discount	Rs.2 of price Band
Offer Date	2-Dec-19
Close Date	4-Dec-19
Face Value	10
Lot Size	400 Shares

Issue Composition

	In shares
Total Issue for Sale	202,702,703
QIB	152,027,027
NIB	30,405,405
Retail	20,270,270

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	94.40%	83.32%
QIB	5.60%	13.74%
NIB	0.00%	1.76%
Retail	0.00%	1.17%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

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

Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- IIFL Securities Limited
- JM Financial Limited

Name of the registrar

- Karvy Fintech Private Limited

About the Company

Ujjivan Small Finance Bank Limited (USFB), incorporated in 2017, offers small finance to underserved & unserved segments in India. 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 offers small size loan products to economically poor women, individual loans to Micro and Small Enterprises (MSEs). Among the leading SFBs in India, the Bank had the most diversified portfolio, spread across 24 states and union territories as of March 31, 2019.

Strength

Pan-India presence: As of September 30, 2019 the company was present in 24 states and union territories encompassing 232 districts in India. As of September 30, 2019, it 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. Its diversified operations also allow it to de-risk its business by mitigating political and state-specific risks. 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.

Diversified portfolio offering: USFB launched "Sampoorna Banking" in April 2019. USFB's 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. USFB also provides non-credit offerings comprising ATM-cum-debit cards, Aadhaar enrolment services; distribute third-party insurance products and point of sales ("POS") terminals.

Customer centric organization with multiple delivery channels: As of September 30, 2019, USFB 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 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.

Strong track record of financial performance: Its Net Interest Income in Fiscal 2018 and 2019 was Rs 861Cr and Rs 1106.4 Cr, respectively, and was Rs 740.42 Cr in the six months ended September 30, 2019. Its Net Interest Margins (NIM) in Fiscal 2018 and 2019 were 10.31% and 10.93%, respectively, and was 10.64% in the six months ended September 30, 2019. Total deposits have increased from Rs 206.40 Cr as of March 31, 2017 to Rs 7379.44 Cr as of March 31, 2019 and were Rs 10129.85 Cr as of September 30, 2019. Of its total deposits, its share of retail deposits has increased from 3.15% as of March 31, 2017 to 37.07% as of March 31, 2019 and was 41.93% in the six months ended September 30, 2019. Moreover, its CASA to total deposits ratio has improved from 1.57% as of March 31, 2017 to 10.63% as of March 31, 2019 and was 11.87% as of September 30, 2019.

Robust risk management framework: Its 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. 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. Its Bank's GNPA was the lowest among the small finance banks in India, as of March 31, 2019 (Source: CRISIL Report). Its effective risk management framework is also evident from its low portfolio at risk ratio that was 1.49% and 1.64% as of March 31, 2019 and September 30, 2019, respectively. The company 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 monitors liquidity risk and interest rate risk, and ensure diversified funding as prescribed by the RBI.

Strategy

Diversify product offerings to enable multiple customer relationships: As per the company its 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 also intends to develop and offer a comprehensive suite of asset and liability products that will help us attract new customers and deepen its relationship with its existing customer base. Further it aims to expand its range of third party products and services in order to serve its customers better.

Continue to focus on technology and data analytics to grow operations: The optimum use of advanced, cost-effective technology has significantly driven its operations, and going forward, it intends to strategically invest its resources for further integration of technology into its operations. It intends to automate the operational processes by adopting robotic processes in order to become faster and efficient. The company is currently exploring the use of robotic process automation technology for reconciliation of ATMs and UPI transactions.

Strengthen liability franchise and focus on increasing its retail base: Currently it 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 it 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 itself as a reliable alternative to informal players. It has identified the key retail and institutional customer segments and put together a range of saving accounts, current accounts, recurring and fixed deposits along with services such as bill pay, UPI based money transfer, e-NACH, cash management and POS terminals.

Diversify its revenue streams: As per the RHP, an important strategic focus for the company is to diversify 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.

Risk Factors:

Limited operating history: The Company has a limited operating history as an SFB and its future financial and operational performance cannot be evaluated on account of evolving and growing operations.

Subject to stringent regulatory requirements and prudential norms: They are subject to stringent regulatory requirements and prudential norms and its inability to comply with such laws, regulations and norms may have an adverse effect on its business, results of operations, financial condition and cash flows.

Banking industry is very competitive: The Indian banking industry is very competitive and its growth strategy depends on its ability to compete effectively.

Peer comparison

Co_Name	Total Income	APAT	EPS	P/E	P/BV	BV	FV	CMP	MCAP
RBL Bank	9457.23	768.17	17.83	20.62	2.03	180.7	10	367.65	15836.16
DCB Bank	3723.29	354.9	11.44	15.32	1.81	97.01	10	175.3	5437.33
AU Small Finance	4254.23	575.83	11.66	58.49	8.73	78.13	10	681.9	20008.78
Equitas Holdings	2613.27	215.99	6.32	15.16	1.28	74.79	10	95.8	3274.07
CreditAcc. Gram.	1456.55	372.76	25.92	30.06	4.39	177.66	10	779.15	11205.86
Bandhan Bank	10117.04	2757.56	17.13	32.26	6.35	87.05	10	552.55	88964.2
Ujjivan Small Finance Bank*	2869.71	374.23	2.17	17.09	2.15	17.23	10	37.00	6394.43

* Ujjivan Small Finance Bank Limited are annualised

**Peer companies financials are based on TTM

Valuation

Considering the P/BVx valuation on the upper end of the price band of Rs. 37, the stock is priced at P/B ratio of 2.77x on the pre issue book value of Rs.13.37 and on the post issue book value of Rs.17.23, the P/B comes out to 2.15x.

On the lower end of the price band of Rs.36 the stock is priced at P/B ratio of 2.69x on the pre issue book value of Rs. 13.37 and on the post issue book value of Rs. 17.23, the P/B comes out to 2.09x.

Industry overview

SFBs have grown at a CAGR of 26% from Fiscal 2016 to Fiscal 2019, in terms of assets under management (AUM). Top three SFBs accounted for 64% of the total SFB AUM in Fiscal 2019, compared to 53% in Fiscal 2016. These top three SFBs recorded a CAGR of 34% from Fiscal 2016 to Fiscal 2019. Further, it is expected the loan portfolio of SFBs will grow at a CAGR of approximately 25% in the near term due to support from (i) significant market opportunity especially in the rural segment; (ii) presence of high informal credit channels; (iii) geographic diversification; (iv) ability to understand local markets, (v) access to low cost funds, and (vi) loan recovery and control on NPAs. In the next couple of years, SFBs are expected to focus on gradually building up their banking business and complying with more stringent regulatory norms. On the other hand, access to stable and granular public deposits over the long run will bring down their cost of funds. However, SFBs are expected to face near-term challenges in increasing deposits amid intense competition and maintaining profitability in the initial few years after transformation. Over the next couple of years, SFBs are expected to focus on gradually building up their banking business and complying with tougher regulatory norms. On the other hand, transformation into SFBs will provide them access to stable and granular public deposits over the long run, which will bring down their cost of funds. However, SFBs are expected to face near-term challenges in increasing deposits amid intense competition and maintaining profitability in the initial few years after transformation. In the last three years, SFB players have shifted their focus from microfinance to other products, but the core customer focus is not likely to change much because of the regulatory norms. Going forward, SFBs will have to focus on small ticket size lending to financially under-served and un-served segments (loans below ₹2.5 million will have to form at least 50% of loan book).

Outlook

Ujjivan Small Finance Bank Limited is a mass market focused Small Finance Bank in India. It has established a diversified portfolio, spread across 24 states and union territories as of 31 March 2019. Meanwhile, the total gross advances is 12863.65 Crore, out of which almost 80% of the advances are unsecured, which is under the category of micro lending. Taking into account its growth prospects, the issue price is attractively valued. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	December 02, 2019
Bid/Offer Closing Date	December 04, 2019
Finalisation of Basis of Allotment with the Designated Stock Exchange	December 09, 2019
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	December 10, 2019
Credit of Equity Shares to depository accounts of Allottees	December 11, 2019
Commencement of trading of the Equity Shares on the Stock Exchanges	December 12, 2019

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-19 (6 Months)	Period ended 31-Mar-19 (12 Months)	Period ended 31-Mar-18 (12 Months)
Interest Earned	1,259.70	1,831.61	1,467.88
Interest Expended	519.28	725.20	606.86
Net Interest Income	740.42	1,106.41	861.01
Other Income	175.16	205.96	111.48
Net Total Income	915.58	1,312.38	972.49
Operating Expenses	612.96	1,003.35	652.87
Operating Profits	302.62	309.02	319.62
Provisions & Contingencies	43.58	40.60	310.77
Profit Before Tax	259.04	268.42	8.85
Provision for Taxation	71.93	69.21	1.98
Net Profit	187.11	199.21	6.87

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-19	As on 31-Mar-19	As on 31-Mar-18
Non-current assets			
Fixed Assets	296.21	284.45	198.35
Advances	12780.40	10552.46	7336.21
investment	2018.39	1526.62	1232.48
Total Non- Current Assets	15095.00	12363.53	8767.04
Current assets			
Other Assets	303.58	284.23	211.00
Cash and Balances with Reserve Bank of India	487.25	446.46	249.63
Balances with Banks and Money at Call and Short Notice	222.06	648.00	245.20
Total current assets	1012.90	1378.69	705.84
Total Assets	16107.90	13742.22	9472.87
Non-current liabilities			
Borrowings	3470.17	4166.09	3852.85
Deposits	10129.85	7379.44	3772.52
Total	13600.02	11545.53	7625.36
Current liabilities			
Other Liabilities and Provisions	467.77	377.05	200.58
Total current liabilities	467.77	377.05	200.58
Total	14067.79	11922.58	7825.94
NET Worth	2040.11	1819.63	1646.94
Net worth represented by:			
Capital	1640.04	1640.04	1640.04
Share Application Money Pending Allotment	35.92	0.00	0.00
Employees Stock Options and Purchase Outstanding	10.70	0.00	0.00
Reserves and Surplus	353.44	179.59	6.90
Net Worth	2040.11	1819.63	1646.94
Contingent Liabilities	25.59	30.90	19.51

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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