



IPO DETAILS

Issue Date 02nd Dec-04th Dec 2019

Price Band 36-37 per Share

Bid Lot 400 & in multiple there

Face Value Rs 10/Share

Listing BSE, NSE

Fresh Issue Rs 750 Crores

Pre Issue Eq Shares 15,25,520,467 Eq Shares

BRLM Kotak Mahindra
Capital Company Ltd,
IIFL Securities Ltd
JM Financial Ltd

Registrar Karvy Fintech
Private Limited

Research Analyst: Astha Jain

Ujjivan Small finance Bank (USFB) is a mass market focused SFB in India, catering to unserved and underserved segments in the country. Its Promoter, Ujjivan Financial Services Ltd (UFSL) commenced operations as an NBFC in 2005 with the mission to provide a full range of financial services to the 'economically active poor'. 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.

The experience of USFB's Promoter, UFSL, as an erstwhile microfinance institution, coupled with its ability to address mass market customer segments has allowed bank to become among the leading small finance banks in India in terms of deposits, branch count and geographical spread, as of March 31, 2019. Bank continue 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.

Bank have grown in a sustainable manner. Bank's Gross Advances (including securitization/ IBPC) have grown from ₹ 63,839.77 million as of March 31, 2017 to ₹ 110,485.91 million as of March 31, 2019 and were ₹ 128,636.45 million as of September 30, 2019. Bank's deposits have increased from ₹ 2,064.05 million as of March 31, 2017 to ₹ 73,794.40 million as of March 31, 2019 and were ₹ 101,298.49 million as of September 30, 2019. As of September 30, 2019, bank's percentage of gross NPAs to gross advances was 0.85% while its percentage of net NPAs to Net Advances was 0.33%. Bank's profit after tax as restated for Fiscal 2018 and 2019 was ₹ 68.63 million and ₹ 1,992.18 million, respectively while for the six months ended September 30, 2019, its profit after tax as restated was ₹ 1,871.10 million. Further, bank'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.

Valuation

USFB is bringing the issue at p/b multiple of approx. 2.25 at higher end of price band of Rs 36-37/share. Currently USFB have a strong customer base of 4.94 million customers & bank intend to strengthen its liability franchise with a focus on growing its retail deposit base which provide it with a stable, low-cost source of funding.

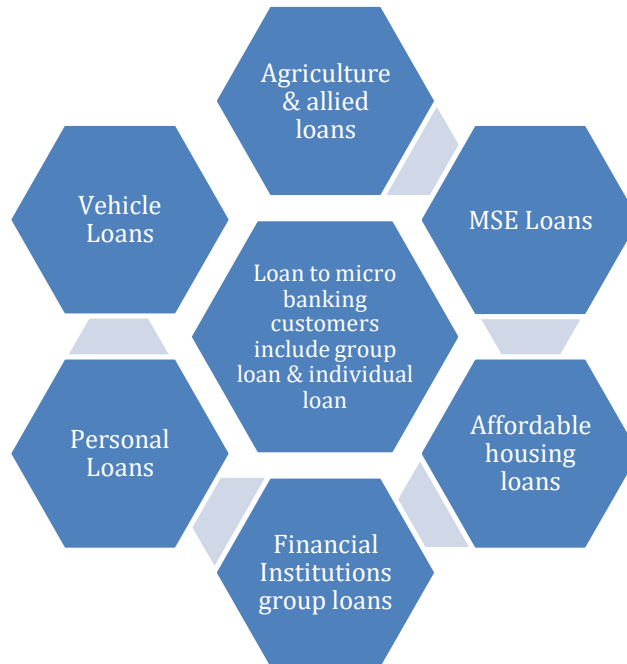
USFB with its deep understanding of mass market serving unserved and underserved segments is customer centric organization with multiple delivery channels. Also bank's pan India presence along with strong asset quality as GNPA being the lowest & has second highest provision coverage ratio among the small finance banks in India, as of March 31, 2019 depicts strength in fundamentals of bank.

Hence we recommend "Subscribe" on issue for listing gain as well as long term investment.



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

Asset Products



On the liability side, bank offer savings accounts, current accounts and a variety of deposit accounts. In addition, it also provide non-credit offerings comprising ATM-cum-debit cards, Aadhaar enrolment services, distribute third party insurance products and point of sales (“POS”) terminals.

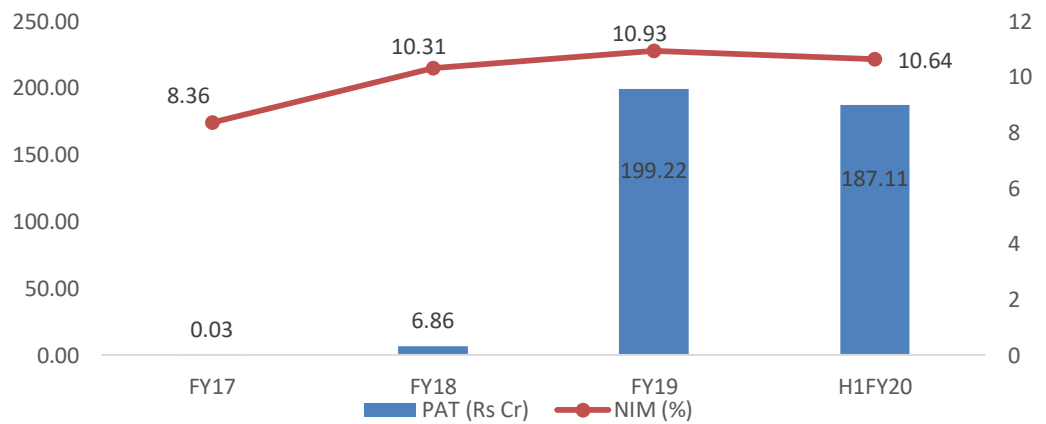
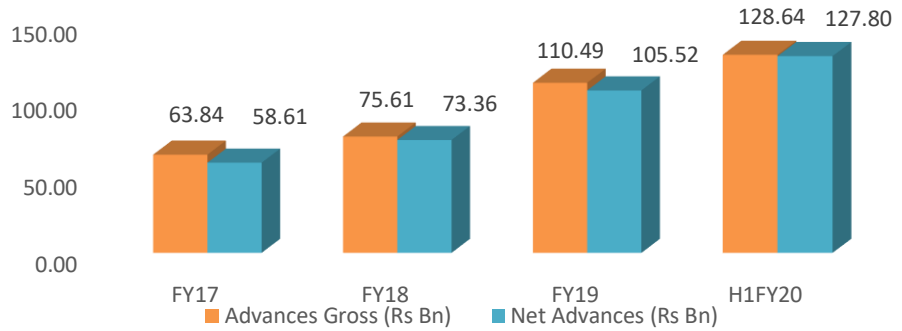
USFB operations are focused on serving the financially unserved and underserved segments in India. As of September 30, 2019, bank operated 235 Banking Outlets located in 107 districts classified by the RBI as under-banked districts as per the Census 2011. In addition, bank’s focus on the financially unserved and underserved segments enables it 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”, which includes micro loans and were able to comply with such guidelines within the first year of its operations. As of September 30, 2019, 25.54% of USFB’S Banking Outlets were located in URCs and its ‘priority sector advances’ net of PSLC and IBPC were 77.00% of ANBC.



INVESTMENT RATIONALE

Strong Growth

Bank have shown strong growth. Bank's Gross Advances (including securitization/ IBPC) have grown from ₹ 63,839.77 million as of March 31, 2017 to ₹ 110,485.91 million as of March 31, 2019 and were ₹ 128,636.45 million as of September 30, 2019. Bank's deposits have increased from ₹ 2,064.05 million as of March 31, 2017 to ₹ 73,794.40 million as of March 31, 2019 and were ₹ 101,298.49 million as of September 30, 2019



Pan-India presence

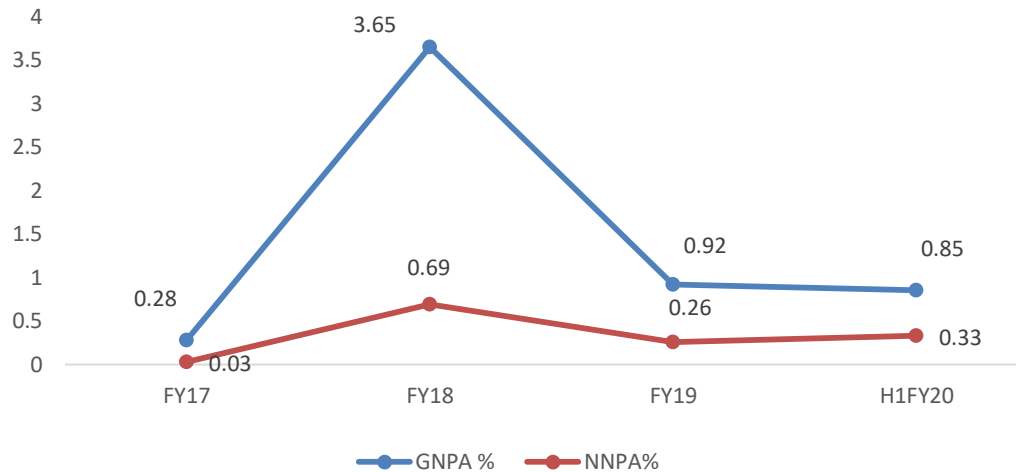
As of March 31, 2019, USFB was among the leading SFBs in terms of branch count and geographical spread across India. As of September 30, 2019 USFB was present in 24 states and union territories encompassing 232 districts in India. As of September 30, 2019, bank operated from 552 Banking Outlets that included 141 Banking Outlets in URCs (of which seven were business correspondent centres) and additionally operated four Asset Centres. Bank's diversified operations also allow it to de-risk its business by mitigating political and state-specific risks. As of September 30, 2019, bank operated 131, 167, 173 and 81 Banking Outlets (including in URCs) in the North, South, East and West regions, respectively. In Fiscal 2019 alone, bank operationalized 287 Banking Outlets. Bank's 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 bank's geographic spread, bank have been able to reduce its concentration risk and diversify its loan portfolio.



INVESTMENT RATIONALE

Highest Provision coverage ratio & lowest NPA in Industry

Bank have grown in a sustainable manner and accordingly have been able to maintain its asset quality. As of March 31, 2017, 2018 and 2019 and as of September 30, 2019, bank's percentage of gross NPAs to gross advances was 0.28%, 3.65%, 0.92% and 0.85%, respectively, while its percentage of net NPAs to Net Advances was 0.03%, 0.69%, 0.26% and 0.33%, respectively. Bank's portfolio at risk was ₹ 3,045.01 million as of March 31, 2018 and reduced to ₹ 1,646.17 million as of March 31, 2019 and was ₹ 2,110.82 million as of September 30, 2019. Bank's GNPA was the lowest among the small finance banks in India, as of March 31, 2019. 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. Bank manage 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. Bank's provision coverage ratio (including technical write-offs) was 81.87% and 71.90% in Fiscal 2018 and 2019, respectively and was 61.12% in the six months ended September 30, 2019. Bank was ranked second in terms of provision coverage ratio among the small finance banks in India, as of March 31, 2019



Currently bank have a strong customer base and as of September 30, 2019, it served 4.94 million customers. Bank intend to strengthen its liability franchise with a focus on growing its retail deposit base to provide bank with a stable, low-cost source of funding. Bank's 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, bank's 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. Bank intend 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 its existing customers with a convenient banking experience to meet the needs of their particular demographics. This shift will enable bank to access diversified, short term, low cost funds.



Risk Factors:

Bank have a limited operating history as an SFB and its future financial and operational performance cannot be evaluated on account of its evolving and growing operations. Accordingly, future results may not be reflective of its past performance. Further, bank cannot effectively compare its financial statements for Fiscal 2017 with its financial statements for Fiscal 2018 and 2019 due to non-comparable reporting periods.

Objects of Offer

Bank proposes to utilize the Net Proceeds from the Issue towards augmenting its Tier – 1 capital base to meet Bank’s future capital requirements. Further, the proceeds from the Issue will also be used towards meeting the expenses in relation to the Issue.

Financial Statement

(Rs Cr)

	FY17	FY18	FY19	H1FY20
Interest Income	217.01	1467.88	1831.61	1259.70
Growth %	#REF!	576.41	24.78	(31.22)
Other Income	6.86	111.48	205.96	175.16
Net Income	223.87	1579.36	2037.58	1434.86
Growth %	#REF!	605.47	29.01	(29.58)
Total Expenses	218.55	1259.73	1728.55	1132.23
Pre Provision Profit	5.326	319.621	309.022	302.623
Growth %	#REF!	5901.15	(3.32)	(2.07)
Provisions	5.29	312.76	109.80	115.51
PBT	0.03	6.86	199.22	187.11
Tax	0.00	0.00	0.00	0.00
PAT	0.03	6.86	199.22	187.11
Growth %	#REF!	19508.57	2802.78	-6.08
Eq Capital	1440.04	1440.04	1440.04	1,440.04
Pref Capital	200.00	200.00	200.00	200.00
Sh Warrant	0.00	0.00	0.00	46.63
Res & Surplus	0.04	6.90	179.59	353
Net Worth	1,440.07	1,446.94	1,619.63	1,840.11
Eq Shares(No)	144.00	144.00	144.00	144.00
EPS	0.0	0.0	1.4	1.3
Book Value	10.00	10.05	11.25	12.78
NIM %	8.36	10.31	10.93	10.64
ROE %	0.02	0.42	11.49	19.57
ROA %	0.003	0.08	1.72	2.51
Cost To Income Ratio %	95.35	67.13	76.45	66.95
Credit to Deposit %	3092.94	200.43	149.72	126.99
CAR %	21.07	23.04	18.95	18.84
GNPA %	0.28	3.65	0.92	0.85
NNPA %	0.03	0.69	0.26	0.33

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