

## **Ujjivan Small Finance Bank Limited**

### **IPO Note**

**(SUBSCRIBE)**

**Analyst:**

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# IPO details

## Key Data

Issue Opens	2-Dec-19
Issue Closes	4-Dec-19
Equity Shares Offered (in mn.)	208.33
QIB	Up to 75%
NIB	Min 15%
Retail	Min 10%
Face Value (Rs)	10
Price Band (Rs)	36-37
Max. Issue Size (Rs mn)	7,500.00
Lot Size (Eq. Shares)	400 and multiple thereof

## Object of the issue

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

	Pre Issue		Post Issue <sup>^</sup>	
	# no. of Shares	% Holding	# no. of Shares	% Holding
Promoters	1,525.0	100.0%	1,525.0	88.0%
Public		0.0%		0.0%
Others		0.0%	0.0	0.0%
Offer for sale		0.0%	208.3	12.0%
Total	1,525.0	100.00%	1,733.3	100.0%

## Recommendation

The issue is priced at a P/BV of 2.67 based on its NAV of Rs. 13.84 as of 30.09.19. Based on FY19 earnings the issue is at a P/E of around 32.17x. The scrip is being offered at price to BV of 2.67 times at the upper price band. Among peers, AU Small Finance Bank is trading at P/BV of 7.16 times and Bandhan Bank at P/BV of 6.25 times so it is relatively available at lower valuation. Therefore, we give **SUBSCRIBE** rating to this IPO.

Source: Red Herring Prospectus, Dealmoney Research, Crisil

## About the company..

- ❑ Ujjivan Small Finance Bank Ltd. (USFB) is a mass market focused SFB in India, catering to unserved and underserved segments and committed to building financial inclusion in the country. USFB'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. USFB also offered individual loans to Micro and Small Enterprises ("MSEs") and adopted an integrated approach to lending, which combined a customer touch point similar to microfinance, with the technology infrastructure and related back-end support functions similar to that of a retail bank.
- ❑ Among the leading SFBs in India, USFB Bank had the most diversified portfolio, spread across 24 states and union territories as of March 31, 2019 (Source: CRISIL Report). As of June 30, 2019, it served 4.72 million customers and operated from 474 Banking Outlets that included 120 Banking Outlets in Unbanked Rural Centres ("URCs") (of which seven were business correspondent centres) and additionally operated 50 Asset Centres. In Fiscal 2019 alone, it operationalized 287 Banking Outlets. As of June 30, 2019, we had a network of 387 ATMs (including nine ACRs).
- ❑ USFB's portfolio of products and services includes various asset and liability products and services. Its asset products comprise: (i) loans to its 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. 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.
- ❑ It has grown in a sustainable manner. Its 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 ₹ 117,829.38 million as of June 30, 2019. Its 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 ₹ 79,567.64 million as of June 30, 2019. As of June 30, 2019, its percentage of gross NPAs to gross advances was 0.84% while our percentage of net NPAs to Net Advances was 0.26%.

Source: Red Herring Prospectus, Dealmoney Research, Crisil

# Strengths

- ❑ **Deep understanding of mass market serving unserved and underserved segments:** The experience of its Promoters, USFB, 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.
- ❑ **Customer centric organization with multiple delivery channels:** We 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. On the liability side, it offer a variety of demand deposits and other services so that its customers can realise their savings goals.
- ❑ **Pan-India presence:** As of June 30, 2019, we operated from 474 Banking Outlets that included 120 Banking Outlets in URCs (of which seven were business correspondent centres) and additionally operated 50 Asset Centres. Our diversified operations also allow us to derisk our business by mitigating political and state-specific risks. As of June 30, 2019, we operated 96, 152, 157 and 69 Banking Outlets (including in URCs) in the North, South, East and West regions, respectively. In Fiscal 2019 alone, we operationalized 287 Banking Outlets.
- ❑ **Strong track record of financial performance:** USFB has maintained strong growth credentials since its inception through high rates of customer retention, geographical expansion, operationalization of Banking Outlets, improved productivity, lower credit cost and growth in customer base. It believes that its operational efficiencies, low turn-around time and network of Banking Outlets have resulted in the rise in its profitability. It has grown in a sustainable manner and accordingly have been able to maintain our asset quality.
- ❑ **Robust risk management framework:** It has an established risk management framework to identify, measure, monitor and manage credit, market, liquidity, IT and operational risks. Its risk management framework is driven actively by its Board through its Risk Management Committee and at the management level by the Asset and Liability and Market Risk Management Committee and Credit Risk Management Committee, Operational Risk Management Committee and the Information Security and Business Continuity Management Committee which are comprised and supported by members of its senior management team. Its Risk Management Committee is responsible for the review of prudential risks while its Credit Risk Management Committee is responsible for overseeing implementation of credit risk management framework across our Bank.

Source: Red Herring Prospectus, Dealmoney Research, Crisil

# Future road ahead

- **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 intend to develop and offer a comprehensive suite of asset and liability products that will help it to attract new customers and deepen its relationship with its existing customer base. It also intend 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 intend 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 its 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.
- **Expand its distribution network to increase customer penetration:** It intends to expand its Banking Outlets and infrastructure by focusing on rural and semi-urban areas. It believe these areas represent a significant opportunity for its continued growth as it expand banking services to those areas which have traditionally been underserved. It intends to operationalize additional Banking Outlets, convert its existing Asset Centres to Banking Outlets, expand its ATM network and business correspondent agent network to grow its advances and deposits.
- **Diversify our revenue streams:** An important strategic focus for it is to diversify its fee and non-fund based revenues. It intend 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 aim 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.

Source: Red Herring Prospectus, Dealmoney Research, Crisil

# Peer Comparison

## Profitability parameters (as of FY19)

Player	Yield on advances (%)	NIMs (%)	Other income (% of average assets)	Cost of Funds (%)	Cost of Income (%)	PCR (%)^	GNPA (%)^	ROE (%)	Post Tax ROA (%)
<b>SFB</b>									
AU SFB	15.5%	4.6%	1.8%	7.4%	65.5%	37.0%	2.0%	14.0%	1.5%
Equitas SFB	19.0%	5.9%	1.9%	8.2%	79.9%	43.0%	2.5%	10.0%	1.4%
Ujjivan SFB	20.5%	9.5%	1.7%	7.6%	76.5%	72.0%	0.9%	12.0%	1.7%
Jana SFB	20.4%	4.6%	1.2%	10.2%	204.0%	NA	8.1%	177.0%	-20.3%
Utkarsh SFB	22.6%	9.2%	1.1%	8.3%	58.6%	91.0%	1.4%	16.0%	1.7%
ESAF SFB	26.8%	9.7%	1.8%	9.0%	66.4%	30.0%	1.6%	15.0%	1.5%
Fincare SFB	27.5%	11.7%	2.2%	8.9%	66.4%	23.5%	1.3%	20.0%	3.2%
Capital SFB	15.6%	3.5%	0.8%	5.9%	79.4%	27.0%	1.3%	8.0%	0.5%
Suryoday SFB	24.7%	11.4%	2.3%	9.1%	48.0%	58.0%	1.8%	12.0%	2.9%
North East SFB	NA	NA	NA	NA	54.0%	50.0%	1.0%	7.0%	1.4%
<b>Microfinance</b>									
BFIL	19.0%	11.9%	0.0%	12.1%	65.7%	NA	0.8%	26.7%	8.9%
CreditAccess Grameen	20.6%	12.9%	0.0%	10.0%	35.6%	NA	0.6%	16.9%	5.2%
Satin Creditcare	18.2%	8.3%	0.0%	13.5%	67.5%	NA	2.9%	19.1%	3.0%
Arohan	20.3%	20.2%	0.1%	18.9%	29.0%	NA	NA	21.1%	3.6%

Source: Red Herring Prospectus, Dealmoney Research, Crisil

Name of the company	Total Income (₹ in million)	P/E	EPS (Basic) (₹)	RoNW (%)	NAV (₹)
Ujjivan Small Finance Bank	20,375.75	[●]	1.2	9.49	12.64
<b>Listed Peers</b>					
AU Small Finance Bank Ltd	34,108.65	53.04	13.16	12.07%	108.19
Equitas Holdings Limited	23,585.30	21.19	5.18	7.24%	71.57
Bandhan Bank Limited	77,070.99	30.42	16.36	17.42%	93.89
CreditAccess Grameen Ltd	12,833.20	21.91	23.37	13.18%	164.75
RBL Bank Limited	77,430.64	19.2	20.25	11.43%	176.58
DCB Bank Limited	33,916.47	18.67	10.53	10.44%	100.65

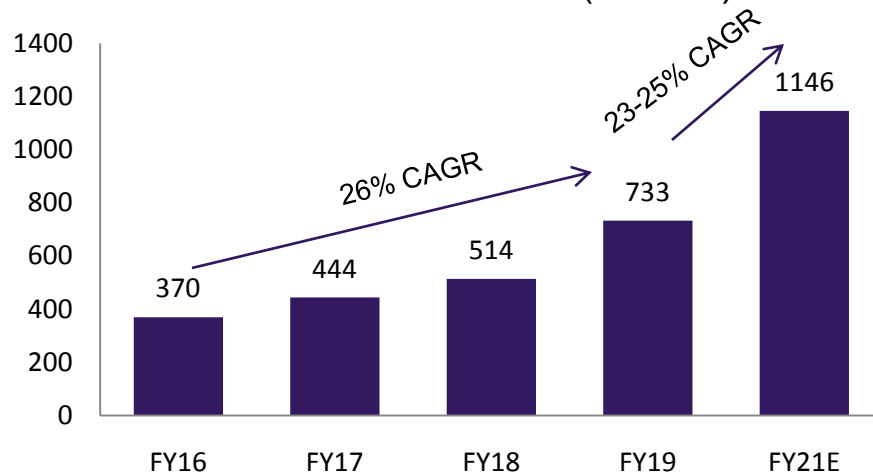
## Details of SFB Players

Player – SFB	Type	Commence-ment Date	Aum FY19 (₹ Cr)	AUM Growth	Deposits (₹ Cr)	Deposit Growth YOY (FY19)	Branches (FY19)	ATM*	States & UTs covered
AU SFB	NBFC	Apr'17	24250	43%	19420	0.91	558	550	12
Equitas SFB	Microfinance	Sep'16	11840	25%	9010	1.45	991	322	15
Ujjivan SFB	Microfinance	Feb'17	11050	27%	7260	0.61	524	387	24
Jana SFB	Microfinance	Mar'18	6220	-17%	4200	NA	NA	123	NA
Utkarsh SFB	Microfinance	Jan'17	4670	48%	3790	0.73	482	127	11
ESAF SFB	Microfinance	Mar'17	4590	33%	4320	0.71	424	141	14
Fincare SFB	Microfinance	Jul'17	3530	123%	2040	1.81	569	77	13
	Local Area								
Capital SFB	Bank	Apr'16	3110	39%	3670	0.29	129	133	5
Suryoday SFB	Microfinance	Jan'17	2710	40%	1590	1.12	382	26	11
North East SFB	Microfinance	Oct'17	1390	42%	170	1.13	155 <sup>^</sup>	08 <sup>^</sup>	

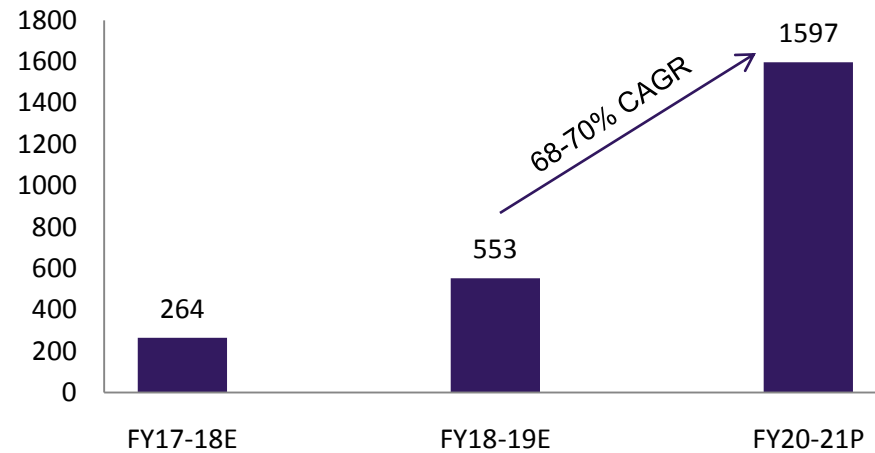
Source: Red Herring Prospectus, Dealmoney Research, Crisil

# Industry growth and outlook

## AUM Growth (Rs. Bn)



## Deposits (Rs. Bn)



*SFBs have grown at a CAGR of 26% from Fiscal 2016 to Fiscal 2019. Top three SFBs accounted for 64% of the total SFB market in Fiscal 2019. Microfinance is the central product for most of the SFBs, since eight of the ten SFBs were MFIs. SFBs are shifting their focus from microfinance to other products, however the core customer focus is likely to be unserved and underserved due to regulatory norms- SFBs will have to focus on small ticket size lending to financially underserved and unserved segments, i.e. loans below ₹ 2.5 million, will have to form at least 50% of the loan portfolio.*

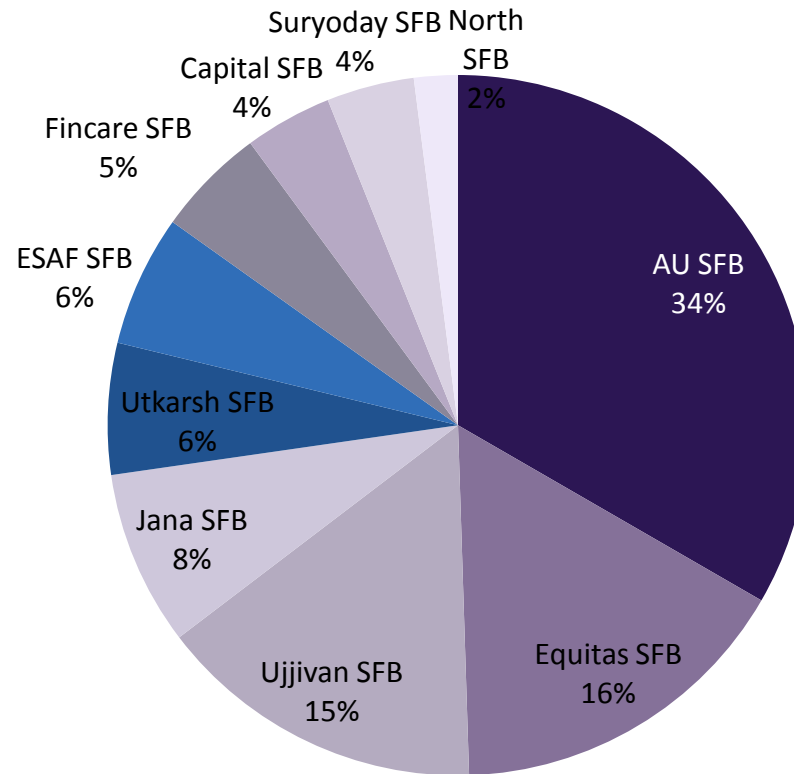
*In the next couple of years, SFBs are expected to focus on gradually building up their banking business and complying with more stringent regulatory norms. On the other hand, access to stable and granular public deposits over the long run will bring down their cost of funds. However, SFBs are expected to face certain challenges in increasing CASA deposits in the initial few years after their transformation.*

Source: Red Herring Prospectus, Dealmoney Research, Crisil



# Industry growth and outlook

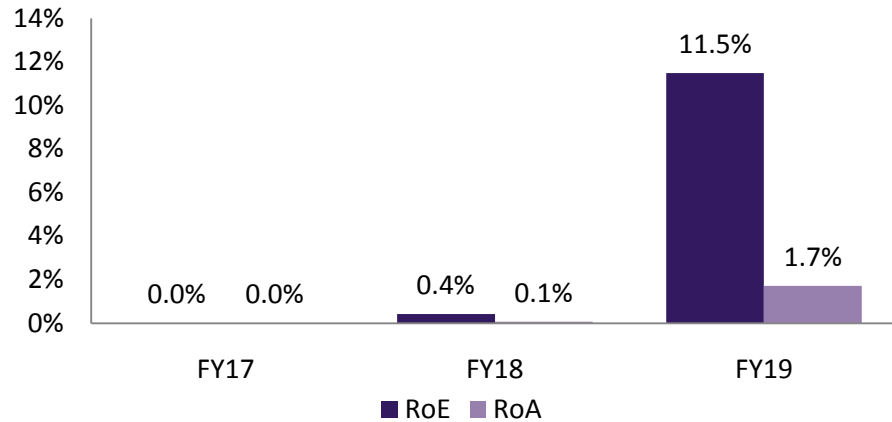
Top 3 players account for 64% of the industry AUM as of FY19



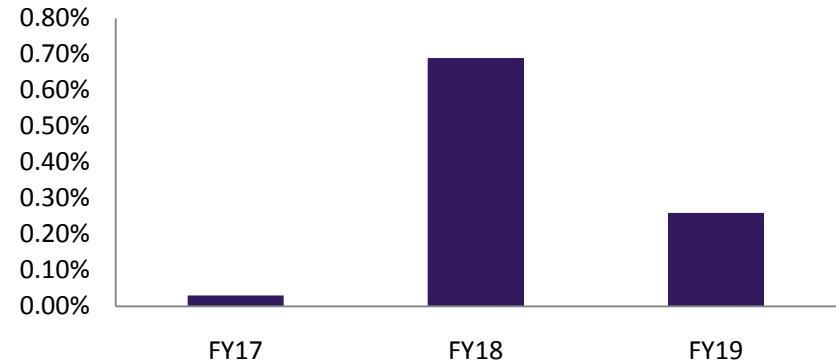
Source: Red Herring Prospectus, Dealmoney Research, Crisil

# Financial Performance

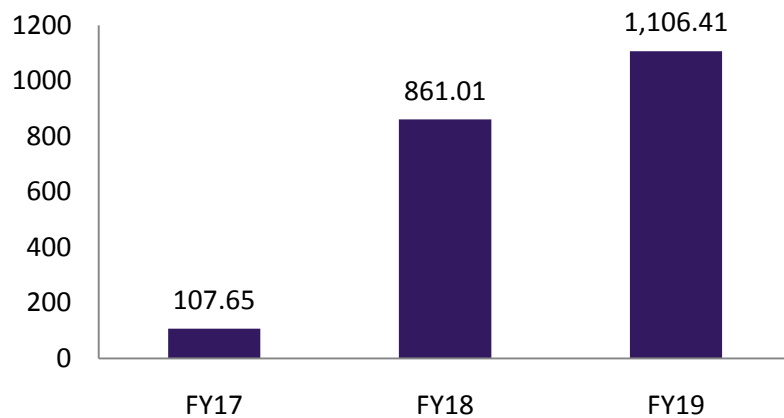
## Return Ratios (%)



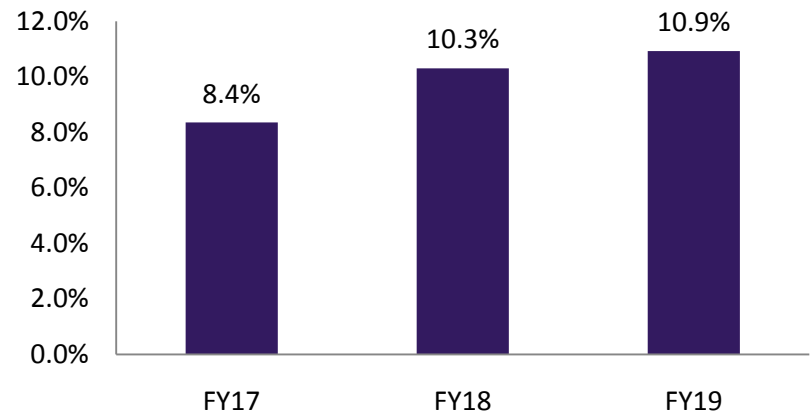
## Net NPAs/Net advances



## Net Interest Income



## NIM



Source: Red Herring Prospectus, Dealmoney Research, Crisil

# Standalone Summary Financials

## Income Statement

Rs. mn	FY17	FY18	FY19
Interest Earned	217	1,467	1,832
Other Income	9	113	206
<b>Total Income</b>	<b>226</b>	<b>1,579</b>	<b>2,038</b>
Interest Expended	109	609	725
Operating Expenses	111	650	1,003
Provisions and Contingencies	4	311	41
Profit Before Tax	1	9	268
Taxes	1	2	69
<b>Total</b>	<b>226</b>	<b>1,572</b>	<b>1,838</b>
<b>Profit After Tax</b>	<b>-</b>	<b>7</b>	<b>199</b>
Extra items	-	-	-
Profit brought forward	-	0	5
<b>Profit for the year</b>	<b>-</b>	<b>7</b>	<b>204</b>
	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
NIM(%)	1.33	9.46	8.4
Yield on Advances	3.7	19.99	17.36
Yield on Investments	0.57	8.04	6.73
ROA(%)		0.14	1.72
ROE(%)	0	0.48	12.99

## Balance Sheet

Rs. mn	FY17	FY18	FY19
<b>Liabilities</b>			
Share capital	1,640	1,640	1,640
Reserves and surplus	-	-	-
Total Reserves	0	7	180
Long-Term Borrowings	206	3,772	7,379
Deferred tax liabilities(Net)	6,291	3,853	4,166
Other Long Term Liabilities	298	201	377
<b>Total Liabilities</b>	<b>8,436</b>	<b>9,473</b>	<b>13,742</b>
<b>Assets</b>			
Cash and balance with Reserve Bank of India	261	198	446
Balances with banks and money at call	502	297	648
Investments	1,447	1,232	1,527
Advances	5,861	7,335	10,552
Assets: Net Block	137	194	282
Capital Work in Progress	3	4	2
Other Assets	225	212	284
<b>Total Assets</b>	<b>8,436</b>	<b>9,473</b>	<b>13,742</b>

Source: Red Herring Prospectus, Dealmoney Research, Crisil

# Key Risks

- ❑ Stringent regulatory requirements and prudential norms may affect its business.
- ❑ Dependency on its micro banking business, particularly group loans may if face with adverse development could affect its business.
- ❑ Limited operating history as an small finance bank.
- ❑ Threat from competitors.

Source: Red Herring Prospectus, Dealmoney research

# Dealmoney Securities Private Limited

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