

Ujjivan Small Finance Bank

Ujjivan Small Finance Bank (USFB) is a mass market focused SFB in India, catering to unserved and underserved population segments of the country. USFB is well diversified with presence across 24 states and union territories and is catering to over 4.94 million customers as on September 30, 2019. USFB is involved in (i) loans to micro banking customers, (ii) agriculture & allied loans, (iii) MSE loans, (iv) Affordable housing loans, (v) financial institutions group loans, (vi) Personal loans, and (vii) vehicle loans.

Healthy AUM growth with calibrated geographic diversification: USFB's AUM grew at impressive CAGR of 32% over FY2017-19. In 2017, when USFB started operation as SFB, its majority portfolio (97.5%) was concentrated towards micro finance. However, as of Q2FY2020 it contributes 79.2% and other major contributors are Affordable housing (9.4%) and SME (6.5%). Since Feb 2017, USFB has added 100 branches, Tamilnadu formed 16.5% of advances and the top two states (Tamilnadu+ Kerela) contribute 32% of advances, which is among the lowest. To leverage existing client base and network further it has extended loans to the two wheeler and electric three wheelers.

Asset quality improvement continues: Post demonetisation USFB's GNPA rose to 6.23%, however management has been able to reduce it to 0.9% in Q2FY2020. Bank has been maintaining one of the highest provision coverage ratios (67%), which is a positive. However, there is some issue in few areas of Assam, but USFB's exposure to Assam is 3.7% and AUM in concerned area is minuscule.

Improving liability profile: Within 3 years of operation, USFB has been able to improve funding mix towards deposit and CASA ratio of 12%. In FY2017, out of total borrowing, only 3% was sourced through term deposit and reached to 76% in Q2FY2020. However, it has only garnered 41% of deposits from retail. To mobilize retail deposits, USFB is offering higher term deposit rate.

Outlook & Valuation: At the upper end of the price band, USFB is valued at 2.8x its Q2FY2020 book value (Pre-IPO) and on post dilution basis at 2.3x of BV, which we believe is attractive considering similar businesses are trading at higher valuations. Moreover, experienced management, Pan-India presence, and pristine asset quality provides comfort. We recommend a Subscribe to the issue.

Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19	H1FY20
NII	108	861	1,106	740
% chg		700	29	
Net profit	0	7	199	187
NIM (%)	1.5	10.8	10.7	11.0
EPS (₹)	0.0	0.0	1.3	1.2
P/E (x)	-	-	28	30
P/ABV (x)	3.4	3.4	3.1	2.8
RoA (%)	0.0	0.1	1.7	1.7
RoE (%)	0.0	0.4	11.5	17.5

Source: Company, RHP, Angel Research; Note: Valuation ratios based at upper end of the price band.

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Issue Open: Dec 02, 2019
 Issue Close: Dec 04, 2019

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹1,640cr

Fresh issue: ₹750cr

Post Eq. Paid up Capital: ₹1,728cr

Issue size (amount): *₹730cr - **750 cr

Price Band: ₹36-37

Lot Size: 400 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹6,222cr - **₹6,394cr

Promoters holding Pre-Issue: 94.4%

Promoters holding Post-Issue: 83.3%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	83.3%
Others	16.7%

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Comp Background

USFB, a wholly owned subsidiary of Ujjivan Financial Services (UFSL), was incorporated in July 2016, but started its operations on Feb 01, 2017 after its promoter company UFSL transferred its business to USFB. By this time, USFB also received receipt of the license to operate as a small finance bank. It operates as a scheduled commercial bank under the RBI norms.

UFSL was operating as an NBFC since 2005, and hence, USFB gets an upper edge of having an experienced promoter in its field. The bank's business is primarily based on the joint liability group-lending model for providing collateral-free, small ticket-size loans to economically active poor women. It also offers individual loans to Micro and Small Enterprises (MSEs) and insurance. USFB follows a diversified operation model with presence across 24 states. This enables the bank to reduce credit risk in its loan portfolio. Apart from this, the bank adopted an integrated approach to lending, which combined a customer touch point similar to microfinance, with the technology infrastructure similar to that of a retail bank. This makes it more competitive in customer service in its industry.

Key Management Personnel

Samit Kumar Ghosh is the Managing Director and Chief Executive Officer of USFB. He holds a bachelor's degree in arts with honors in economics from Jadavpur University and a master of business administration degree from the University of Pennsylvania. He has worked with First National City Bank, Standard Chartered Bank, HDFC Bank, Citibank, 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.

Nitin Chugh is the President of USFB. Joined as a President with effect from August 17, 2019 and will assume office of MD & CEO from December 01, 2019. Experience across multiple associations including, HDFC Bank Ltd, Standard Chartered Bank, HCL Ltd. and Modi Xerox Ltd.

Sanjay Kao is the Chief Business Officer of Bank. He is a post graduate diploma in management from the Indian Institute of Management, Calcutta. He was previously employed with Lipton India Limited, Dunia Finance LLC, Citibank, N.A. and ABN AMRO Bank, N.V. He was appointed as the Chief Business Officer of the Bank with effect from February 12, 2018.

Upma Goel is the Chief Financial Officer of Bank. She is a chartered accountant from the Institute of Chartered Accountants of India. She was previously employed with L&T Finance Holdings Limited, Ujjivan Financial Services Limited and Escorts Securities Limited. She joined the Bank as the Chief Financial Officer with effect from February 01, 2017.

Sachin Bansal, co-founder of Flipkart, is an Independent Director of USFB. He holds a bachelor of technology degree in computer science and engineering from the Indian Institute of Technology, Delhi.

Issue details

This IPO is purely on fresh issue and the issue is worth ₹750cr. Of this, issue worth ₹75cr is reserved for UFSL (promoter) shareholders.

Primary reason for listing is to comply with RBI guidelines on Small Finance Bank. When the SFB licenses were issued, the Reserve Bank of India had put in the condition that the SFBs, after three years of operation, with a capital of ₹500cr or above would have to list at the end of the third year or by the end of the third year.

Exhibit 1: Pre and post-IPO shareholding pattern

Particular	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	1,44,00,36,800	94.4	1,44,00,36,800	83.3
Investor/Public	8,54,83,667	5.6	28,81,86,370	16.8
	1,52,55,20,467	100	1,72,82,23,170	100

Source: RHP Note: Calculated on upper price band

Note :

UFSL Shareholder Discount: ₹ 2/- per equity shares.

UFSL Shareholders Reservation portion: Equity shares aggregating up to ₹75cr (Eligible UFSL Shareholders: Individuals and HUFs who are the public equity shareholders of UFSL, the Promoter, (excluding such persons who are not eligible to invest in the Issue under applicable laws) as on the date of the Red Herring Prospectus i.e.22nd Nov'2019).

Objects of the offer

- The net proceeds of the Fresh Issue are proposed to be utilized for augmenting capital base and general corporate purposes.
- To achieve the benefits of listing the Equity Shares on the Exchanges and to carry out offer for sale of equity shares

Risk

- USFB's nearly 79% loan book comprises of micro banking, Therefore, there is a greater risk of loan loss if any natural, social, political or regulatory disruption happens.
- RBI regulations in SFB industry are stringent vs. that of NBFCs. To ensure compliance, the bank might have to limit its revenue.
- The holding company will have to gradually reduce its stake in the SFB, as per RBI guidelines.

Exhibit 2: Relative Comparison

Particular	AUM	Mcap	MCAP /AUM	P/BV	TTM PE	CASA	Yield	COF	NIM	ROE	GNPA	NPA	PCR
Ujjivan SFB	12,864	6,394	0.50	2.3	22	12	19.9	8.4	10.6	20	0.9	0.3	67
AU SFB	27,876	24,106	0.86	7.1	42	15	14.7	7.9	5.3	18	2.0	1.1	45
Equitas	13,269	3,614	0.27	1.5	17	22	18.6	8.5	8.3	8	2.9	1.6	45
Credit Access	7,905	11,476	1.45	4.5	31	-	19.5	10.3	12.1	16	0.5	-	100
Bandhan Bank	64,186	93,472	1.46	6.7	24	33	14.2	7.2	8.2	28	1.8	0.6	68

Valuation done at upper IPO price band, Post Issue valuation ₹750 fresh issue has been considered for Net worth.

Outlook & Valuation

At the upper end of the price band, USFB is valued at 2.8x its Q2FY2020 book value (Pre-IPO) and on post dilution basis at 2.3x of BV, which we believe is attractive considering similar businesses are trading at higher valuations. Moreover, experienced management, Pan-India presence, and pristine asset quality provides comfort. We recommend a Subscribe to the issue.

Income Statement

Y/E March (₹ cr)	FY17	FY18	FY19	H1FY20
Net Interest Income	108	861	1,106	740
- YoY Growth (%)		700	29	
Other Income	7	111	206	175
- YoY Growth (%)		1,524	85	
Operating Income	115	972	1,312	916
- YoY Growth (%)		749	35	
Operating Expenses	109	653	1,003	613
- YoY Growth (%)		498	54	
Pre - Provision Profit	5.3	320	309	303
- YoY Growth (%)		5,901	(3)	
Prov. & Cont.	4.4	311	41	44
- YoY Growth (%)		6,907	(87)	
Profit Before Tax	0.9	9	268	259
- YoY Growth (%)		893	2,934	
Prov. for Taxation	1	2	69	72
- as a % of PBT	92	22	26	28
PAT	0.0	7	199	187
- YoY Growth (%)		19,509	2,803	

Exhibit 3: Balance Sheet

Y/E March (₹ cr)	FY17	FY18	FY19	H1FY20
Equity	1,640	1,640	1,640	1,640
Reserve & Surplus	0	7	180	400
Net worth	1,640	1,647	1,820	2,040
Deposits	206	3,773	7,379	10,130
- Growth (%)		1,728	96	
Borrowings	6,291	3,853	4,166	3,470
Other Liab. & Prov.	298	201	377	468
Total Liabilities	8,436	9,473	13,742	16,108
Cash Balances	261	250	446	487
Bank Balances	502	245	648	222
Investments	1,447	1,232	1,527	2,018
Advances	5,861	7,336	10,552	12,780
- Growth (%)		25	44	
Fixed Assets	140	198	284	296
Other Assets	226	211	284	304
Total Assets	8,436	9,473	13,742	16,108
- Growth (%)		12	45	

Exhibit 4: Key Ratio

Ratio analysis (Standalone)	FY17	FY18	FY19	H1FY20
Y/E March				
Profitability ratios (%)				
NIMs	1.47	10.85	10.72	11.02
Cost to Income Ratio	95	67	76	67
RoA	0.0	0.1	1.7	1.7
RoE	0.0	0.4	11.5	17.5
B/S ratios (%)				
CASA Ratio	1.6	3.7	10.6	11.9
Credit/Deposit Ratio	2,840	194	143	126
CAR	21	23	19	19
Tier I	20	22	18	18
Asset Quality (%)				
Gross NPAs	0.3	3.7	0.9	0.9
Net NPAs	-	0.7	0.3	0.3
Provision Coverage				
Provision Coverage	100.0	81.1	66.7	66.7
Provision Coverage (With tech W/O)	89.0	81.9	71.9	61.6
Loan Loss Prov. /Avg. Assets	0.1	4.7	0.5	0.4
Per Share Data (₹)				
EPS	0.0	0.0	1.3	1.2
ABVPS (70% cover.)	10.8	10.8	11.9	13.4
Valuation Ratios				
PER (x)	-	-	28.3	30.2
P/ABVPS (x)	3.4	3.4	3.1	2.8
Post issue				
PER (x)				17.1
P/ABVPS (x)				2.3
DuPont Analysis				
NII	1.3	9.6	9.5	9.2
(-) Prov. Exp.	0.1	3.5	0.3	0.5
Adj. NII	1.2	6.1	9.2	8.7
Other Inc.	0.1	1.2	1.8	2.2
Total Income	1.3	7.4	11.0	10.8
Opex	1.3	7.3	8.6	7.6
PBT	0.0	0.1	2.3	3.2
Taxes	0.0	0.0	0.6	0.9
RoA	0.0	0.1	1.7	2.3
Leverage	5.1	5.4	6.7	7.9
RoE	0.0	0.4	11.5	18.3

Valuation done at upper IPO price band, Post Issue valuation ₹750 fresh issue has been considered for Net worth and PE calculation on annualized PAT.

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