



Ujjivan SFB is priced at P/BV of ~2.67x as on Sep 30, 2019 and likely to trade at ~2.12x Post IPO. On the valuation front, the issue price is attractive as compared to its listed peers. Hence, Investors may subscribe to the IPO for listing as well as long term gains.



## About the Company :

The Ujjivan Small Finance Bank Ltd Promoter, UFSL (Ujjivan Financial Services Limited) commenced operations as an NBFC in 2005 with the mission to provide a full range of financial services to the 'economically active poor' who were not adequately served by financial institutions. UFSL'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. UFSL also offered individual loans to Micro and Small Enterprises ("MSEs") and adopted an integrated approach to lending, which combined a customer touchpoint similar to microfinance, with the technology infrastructure and related back-end support functions similar to that of a retail bank. 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 Bank, which commenced its operations from February 1, 2017.

## Issue details

Price Band (in ₹ per share)	36-37
Discount for Eligible USFL Shareholders (in ₹ per share)	2
Issue size (in ₹ Crore)	745.83-745.95
Offer for Sale (Shares in lakhs)	NIL
Total number of shares (lakhs)	2083.33-2027.03
Issue open date	02-12-2019
Issue close date	04-12-2019
Tentative date of Allotment	09-12-2019
Tentative date of Listing	12-12-2019
Offer Allocation	QIB-75 %, Retail— 10%, NII-15%
No. of shares for Eligible Employees (lakhs)	NIL
No. of shares for Eligible USFL Shareholders (lakhs)	208.33-202.70
Minimum order quantity	400
Face value (in ₹)	10
Amount for retail investors (1 lot)	14400-14800
Maximum number of shares for Retail investors at lower Band	5200(13 Lots)
Maximum number of shares for Retail investors at upper band	5200(13 Lots)
Maximum amount for retail investors at lower Band- upper band (in ₹)	187200-192400
Exchanges to be listed on	BSE, NSE

## Promoters

Ujjivan Financial Services Limited (USFL)

## Objective of the Offer

The objects of the Issue are:

1. Ujjivan SFB proposes to utilize the Net Proceeds from the Issue towards augmenting bank's Tier – 1 capital base to meet bank's future capital requirements.
2. The bank expects to receive the benefits of listing the Equity Shares on the Stock Exchanges.

**Brief Financials**

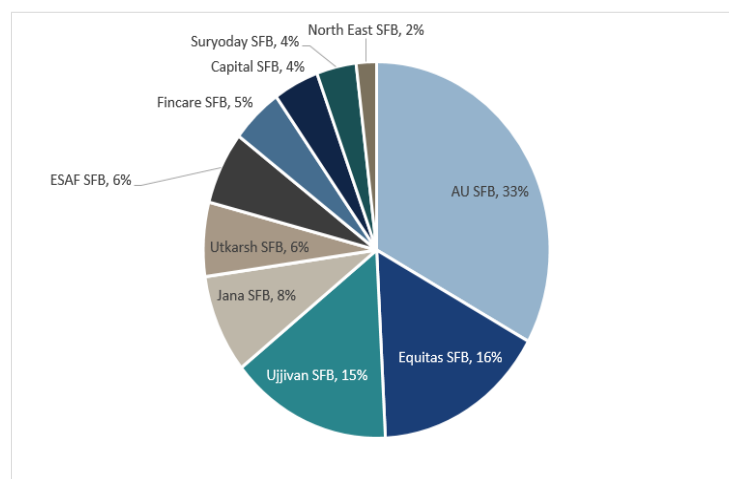
Particulars (Rs. Cr)	1HFY20	FY19	FY18	FY17
Deposits	10129.85	7379.44	3772.52	206.41
Advances	12863.65	11048.59	7561.2	6383.98
Net Interest Income	740.42	1106.41	861.01	107.65
PBT	259.04	268.42	8.54	1.19
Net Profit	187.11	199.22	6.86	0.04
CRAR Basel – III (%)	18.84	18.95	23.04	21.07
NIM (%)	10.64	10.93	10.31	8.36
Cost to Income Ratio (%)	66.95	76.45	67.13	95.35
EPS	1.21	1.20	0.05	0.00
BVPS	13.84	12.64	11.44	11.39
P/B	2.67*	N/A	N/A	N/A
P/E#	15.29*	N/A	N/A	N/A

\*Calculated at the upper band, # P/E is annualized

**Industry Review****SMALL FINANCE BANKING INDUSTRY**

In order to promote financial inclusion, the Indian banking industry has seen several changes in recent years. NBFCs such as, Bandhan and IDFC, received permission to set up universal banks. Further, a few microfinance companies, local area banks and NBFCs have received permission to set up SFBs. SFBs are allowed to take deposits, which provide them an edge of having lower cost of funds in comparison with NBFCs. MFIs turned into SFBs are now diversifying their advances mix, and focusing on other retail and corporate lending business.

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.

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

Source: Company reports; CRISIL Research

Source: Company, CBSL

According to CRISIL Research, 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.



## Details of SFB players

Player	Type	Operati on commen t date	Registered office	AUM* FY19 (Rs bn)	AUM growth (FY16- FY19)	Deposit s (Rs bn)	Deposit growth YoY (FY19)	Branch count* (FY19)	ATM count ^^ (As of May 2019)	States and UTs covered
AU SFB	NBFC	April 19, 2017	Jaipur	242.5	43%	194.2	91%	558	550	12
Equitas SFB	Microfinance	Sep 5, 2016	Chennai	118.4	25%	90.1	145%	991	322	15
Ujjivan SFB	Microfinance	Feb 1, 2017	Bengaluru	110.5	27%	72.6	61%	524	387	24
Jana SFB	Microfinance	Mar 28, 2018	Bengaluru	62.2	-17%	42.0	NA	NA	123	NA
Utkarsh SFB	Microfinance	Jan 23, 2017	Varanasi	46.7	48%	37.9	73%	482	127	11
ESAF SFB	Microfinance	Mar 10, 2017	Thrissur	45.9	33%	43.2	71%	424	141	14
Fincare SFB	Microfinance	Jul 21, 2017	Ahmedaba d	35.3	123%	20.4	181%	569	77	13
Capital SFB	Local Area bank	Apr 21, 2016	Jalandhar	31.1	39%	36.7	29%	129	133	5
Suryoday SFB	Microfinance	Jan 23, 2017	Mumbai	27.1	40%	15.9	112%	382	26	11
North East SFB	Microfinance	Oct 17, 2017	Guwahati	13.9	42%	1.7	113%	155^	0	8^

Note: Jana SFB, Utkarsh SFB and Suryoday SFB advances are mentioned; Deposits of North East SFB are as of December 2018; Players are arranged in descending order of AUM. \* Banking outlets including bank branches, asset centres and business correspondent's outlets as reported by the players. ^ As of FY18. ^^ Including onsite and offsite ATMs

Source: Company reports, CRISIL Research

Source: Company, CBSL

## Company Review

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, transferred its business undertaking comprising of lending and financing business to Small Finance Bank, which commenced its operations from February 1, 2017.

Among the leading SFBs in India, Ujjivan SFB had the most diversified portfolio, spread across 24 states and union territories as of March 31, 2019. 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. The bank operationalized 287 banking outlets in FY19. As of September 30, 2019, it 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.

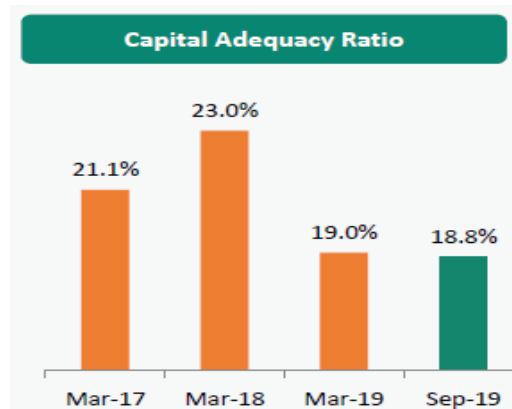
Ujjivan SFB's products and services include various asset and liability products and services. Its asset products comprise: (i) loans to micro banking customers that include group loans and individual loans, (ii) agriculture and allied loans, (iii) MSE loans, (iv) affordable housing loans, (v) financial institutions group loans, (vi) personal loans, and (vii) vehicle loans. On the liability side, the bank offer savings accounts, current accounts and a variety of deposit accounts. In addition, USFB also provide non-credit offerings comprising ATM-cum-debit cards, Aadhaar enrolment services, distribute third party insurance products and point of sales ("POS") terminals.



## Competitive Strengths

### Strong Capital Adequacy

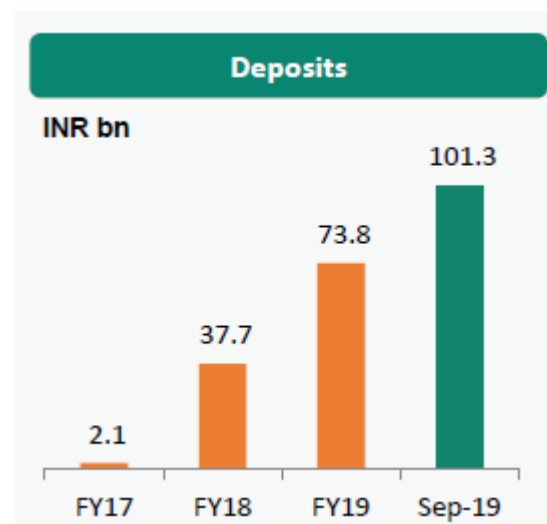
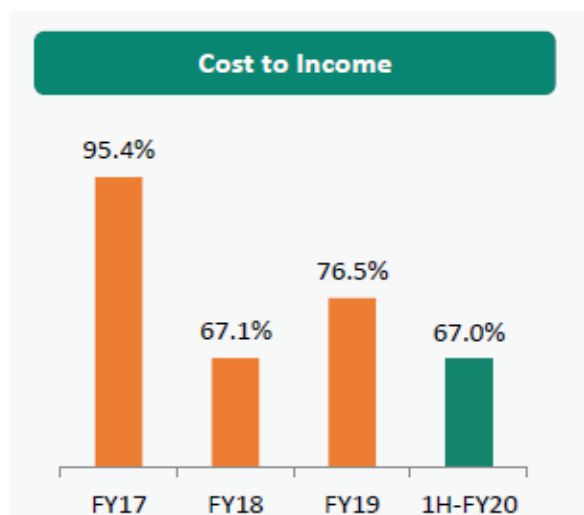
Under the SFB Operating Guidelines, SFB is required to maintain a minimum capital adequacy of 15% of credit risk weighted assets only, to be computed as per the Basel II norms prescribed by RBI, including a minimum Tier I capital of 7.5%, and the Tier II capital should be limited to a maximum of 100% of total Tier I capital. However, under the SFB Operating Guidelines, Ujjivan does not require to maintain any capital conservation buffer or any counter-cyclical capital buffer. Ujjivan SFB has Capital Adequacy Ratio (CAR) of 18.8% as on September 2019. Post IPO, the bank's Tier I capital is going to increase by ~1000 crore (Including 250 Crores Pre-IPO fund raising) which would further increase its CAR to support the aggressive advances growth without raising additional funds.



Source: Company, CBSL

### Declining Cost of funding on the back of increasing deposit base

Ujjivan SFB's funding operations are designed to ensure stability, low cost of funding and effective liquidity management. The bank's primary sources of funds are deposits from retail customers. Retail deposits raised were 3.15%, 11.32% and 37.07% of total deposits as of March 31, 2017, 2018 and 2019, respectively, and were 41.93% as of September 30, 2019. Ujjivan SFB intends to further expand retail deposit base through measured expansion of Banking Outlets and offer digital savings and deposit products through internet and mobile banking to acquire new customers. The SFB is also providing existing customers with a convenient banking experience to meet the needs of their particular demographics. This shift will enable to access diversified, short term, low cost funds, global competition, and adverse changes in Indian laws, regulations, and policies (including farm loan waivers).



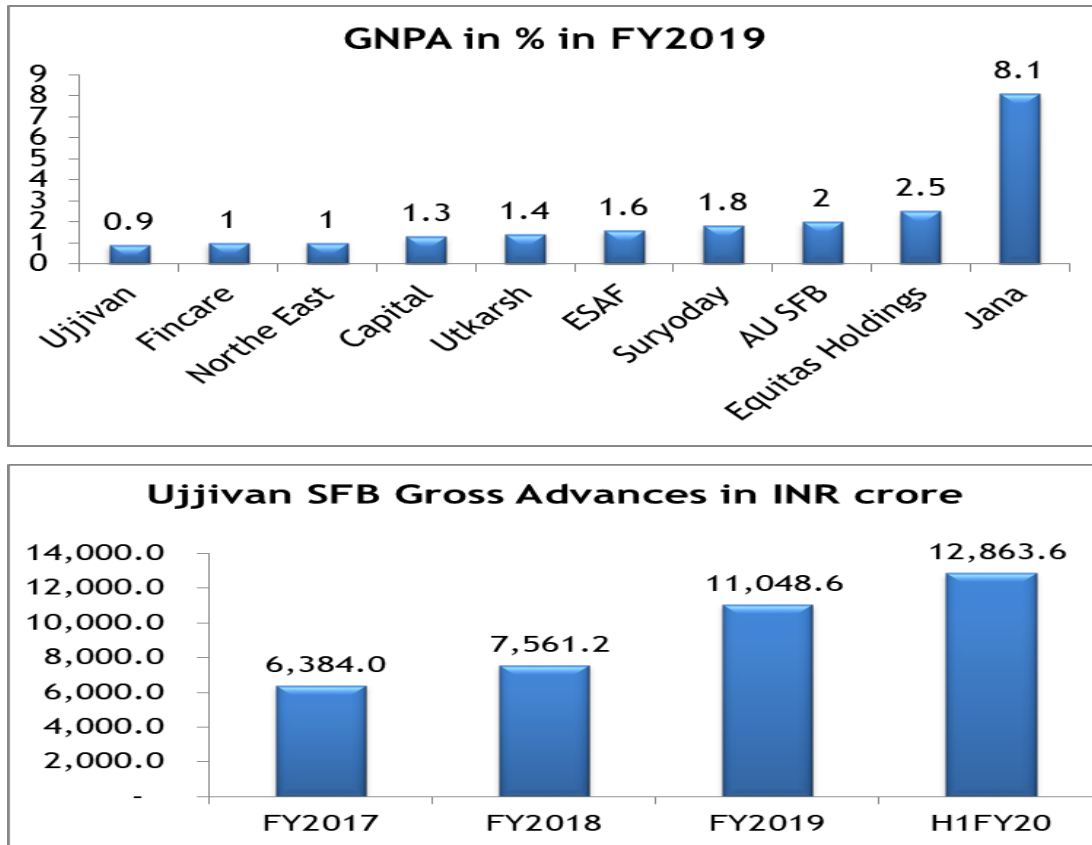
Source: Company, CBSL

### Stable high Margins despite of diversification of Advances

Ujjivan SFB's Net Interest Margins in Fiscal 2018 and 2019 were 10.31% and 10.93%, respectively, and was 10.64% in the six months ended September 30, 2019

**Best Asset quality among peers with robust advances growth**

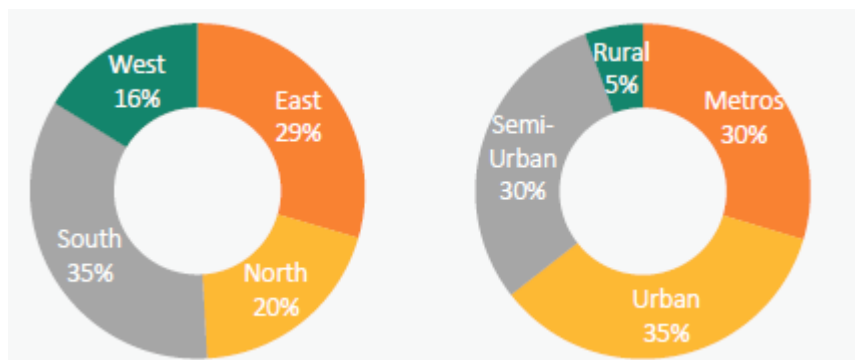
Ujjivan SFB has GNPA of 0.9% and NNPA of 0.3% as on September 2019. Its GNPA was the lowest among the small finance banks in India, as of March 31, 2019, as per Crisil Report. Ujjivan SFB's Gross Advances has grown by 32% CAGR in FY17-19. The bank's gross advances stood at 12,863.6 crore as on H1FY20. With the growth of bank's business, its ability to manage the credit quality of loans will be a key driver to results of operations, as quality loans help to reduce the risk of losses from loan impairment and write-offs. Ujjivan SFB believes that the quality of its credit function, resulting in effective credit evaluation measures, as well as systematic processes such as verification of borrower risk profile, source of repayment, underlying collateral and disbursement and collection processes, effective portfolio monitoring and timely corrective interventions have enabled to maintain relatively low levels of NPAs.



Source: Company, CBSL

**Diversified presence across Pan-India**

As of September 30, 2019, the 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. In FY2019 alone, Ujjivan SFB operationalized 287 Banking Outlets. The bank's operations are well-diversified and in Fiscal 2019, no single state constituted more than 18% of overall loan portfolio. As a result of geographic spread, the bank has been able to reduce concentration risk and diversify loan portfolio. As of September 30, 2019, the North, South, East and West regions contributed 19.58%, 34.70%, 29.52% and 16.20% of its Gross Advances (including securitization/ IBPC), respectively. As of September 30, 2019, Metropolitan, urban, semi-urban and rural areas accounted for 29.65%, 34.80%, 29.92% and 5.63% of its Gross Advances (including securitization/ IBPC), respectively.



Source: Company, CBSL



## Risk Factors

### RBI over hang over reducing promoter stake in the bank and reverse merger with holding company

Pre-IPO USFL holdings in Ujjivan SFB stood at 94.4% comprising 1,44,00,36,800 shares and post-IPO USFL holdings in Ujjivan SFB would come down to 83.32%. As per RBI regulations, Ujjivan SFB's promoter i.e. USFL is required to reduce its shareholding in the bank up to 40% of paid-up Equity Share capital within a period of five years from the date of commencement of business operations and thereafter required to reduce its shareholding in the Bank to 30% and 26% of paid-up Equity Share capital within a period of 10 years and 12 years, respectively, from the date of commencement of business operations. The bank's holding company, USFL is listed and bank may come up reverse merger with holding company prior permission from the RBI. If it does not get permission for reverse merger, then USFL needs to find different ways to reduce the holding, which may increase the supply of shares in the market.

### Higher exposure towards microfinance

As of September 30, 2019, micro banking loans, personal loans and unsecured MSE loans contributed 79.22%, 0.40%, and 1.02%, respectively, of total advances. Any increase in delinquency in the bank's loan portfolio could require increasing its provision for credit losses, which would impact earnings. Moreover, Micro Finance is more prone to defaults during the Economic Down Cycle.

### Disruptive business models such as P2P lending, Fintech

At present, the peer-to-peer lending is becoming a force to reckon with. These kinds of Fintech based Financial services may bring competition which could disrupt sales and distribution process. Due to competitive pressures, SFBs may be unable to successfully execute growth strategy and offer products and services at reasonable returns and this may adversely impact existing business model.

## Peer Comparison

Company	FV (₹)	Total Income (₹ In Crore)	Basic EPS	P/E*	P/B*	Ronw (%)	NAV (₹)
Ujjivan SFB	10	2037.6	1.20	30.83	2.93	9.49	12.64
AU SFB	10	3410.9	13.16	61.46	7.48	12.07	108.19
Equitas Holdings	10	2358.5	5.18	19.58	1.42	7.24	71.57
Bandhan Bank	10	7707.1	16.36	35.64	6.21	17.42	93.89
Credit Access Grameen	10	1283.2	23.37	34.47	4.89	13.18	164.75
*P/E & P/B ratio based on closing market price as on November 28st, 2019, Equitas Holdings is a Non Operative Holding company of Equitas SFB							

## External Ratings

Ujjivan SFB long term bank facilities have been rated CARE A+; Stable by CARE Ratings Limited, certificate of deposits have been rated CRISIL A1+ by CRISIL Limited

## Our Views

Ujjivan Small Finance Bank Ltd (Ujjivan SFB) has better asset quality among its small finance banking peers with robust advances growth. Post IPO, Ujjivan SFB's enhanced capital is likely to support aggressive lending without raising further capital in the next couple of years. Reduction in cost of Funds aided by increase in Retail Deposit base is positive amidst ongoing Liquidity crunch situation. Moreover, Ujjivan SFB is diversifying its Loan portfolio from unsecured micro banking lending towards secured lending segment such as affordable housing, MSME, and Vehicle loans. Contribution from secured lending to total advances has increased from 1.8% in FY17 to 19.4% in FY19. Despite of positive aspects, investors need to be cautious on Regulatory developments with regard to mandatory reduction of Promoter Shareholding.

Ujjivan SFB is priced at P/BV of ~2.67x as on Sep 30, 2019 and likely to trade at ~2.12x Post IPO. On the valuation front, the issue price is attractive as compared to its listed peers. Hence, Investors may subscribe to the IPO for **listing as well as long term gains**.

Sources: Company Website and Red Herring Prospectus



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