

UJJIVAN SMALL FINANCE BANK LTD

IPO

PRICE BAND : ₹ 36–₹ 37

OUR RECOMMENDATION

“SUBSCRIBE”

THE OFFER

Issue Open : 2 Dec 2019 to 04 Dec 2019

»» Issue Type: Book Built Issue IPO

»» Total Issue Size: ₹ 750 cr

☉ Offer for Sale: 20,833,333 Equity Shares @ 10 aggregating up to ₹ 750cr

»» Face Value: ₹ 10 Per Equity Share

»» Issue Price: ₹ 36 - ₹ 37 Per Equity Share

»» Market Lot: 400 Shares

»» Minimum Order Quantity: 400 Shares

»» Listing At: NSE & BSE

CAPITAL STRUCTURE

The share capital of Company, is set forth below:-

(Amount in ₹ except share data)

Authorized Share Capital :-

2,300,000,000	Equity	Shares	@10	Aggregate	value
₹ 23,000,000,000					
200,000,000	Preference	Shares	@10	Aggregate	value
₹ 2,000,000,000					

Issued, subscribed and paid up capital before the Offer :-

1,525,520,467	Equity	Shares	@10	Aggregate	value
₹ 15,255,204,670					
200,000,000	Preference	Shares	@10	Aggregate	value
₹ 2,000,000,000					

OBJECT OF THE OFFER

The objects of the Offer are:

- To utilize the Net Proceeds from the Issue towards augmenting Bank's Tier – 1 capital base for meeting future capital requirements.
- For meeting the expenses in relation to the Issue.
- To achieve the benefit of listing the equity shares on the Stock Exchanges.

COMPANY OVERVIEW

It is a SFB, catering to unserved and underserved segments and committed to building financial inclusion in India. On October 7, 2015, UFSL received the RBI In-Principle Approval to set up an SFB, following which it incorporated Bank, as a wholly-owned subsidiary. Thereby, after obtaining the RBI Final Approval on November 11, 2016, commenced operations on February 1, 2017.

Thus, in the short span of time been operational, it is amongst the leading SFBs in India in terms of deposits, advances, branch count and geographical spread.

Bank has the most diversified portfolio spread across 24 states and union territories. *This diversified operations allow to de-risk business by mitigating political and state-specific risks. Further, as a result of geographic spread, it helps to reduce concentration risk and diversify loan portfolio.*

Having a strong customer base of **4.94 million**, network of **441 ATM's**, it operated from **552 Banking Outlets** that included **141 Banking Outlets** in Unbanked Rural Centres (URCs) and additionally operated four Asset Centres as on Sep.2019.

In Fiscal 2019 alone, operationalized 287 Banking Outlets.

Management stated to expand ATM and ACR network. Moreover, to increase advances & deposits, focus is on converting existing Asset Centres to Banking Outlets and selectively operationalizes additional Banking Outlets.

The recently introduced 'Sampoorna Family Banking' facility will help to target a larger base of potential customers and deepen relationship with existing micro banking customers. Moreover, is in the process to launch additional products and services for non-resident Indians and introduce foreign currency remittances.

PRODUCT PORTFOLIO

Liability Services

- Savings accounts, current accounts and a variety of deposit accounts.
- In addition, also provide non-credit offerings comprising ATM-cum-debit cards, Aadhaar enrolment services, distribute third party insurance products and point of sales (**“POS”**) terminals.

Assets Products

- Group loans & Individual loans
- Agriculture and allied loans
- MSE loans
- Affordable housing loans
- Financial institutions group loans
- Personal loans
- Vehicle loans

PEER COMPARISON

Amongst the leading SFB's in India, Ujjivan has maintained strong Asset quality with lowest GNPA (Gross Non- performing Assets) levels at 0.85% and higher provisioning at 72% amongst peers during sep.2019. Also, has the most diversified portfolio among SFB's .

Below is the list of few SFB players for comparison:

<i>as of FY19</i>		
Players	GNPA(%)	PCR(%)
SFB		
AU SFB	2	37
Equitas SFB	2.5	43
Ujjivan SFB	0.9	72
Jana SFB	8.08	NA

STRATEGIES AHEAD

- Diversify product offerings to enable multiple customer relationships
- Strengthen liability franchise and focus on increasing our retail base
- Focus on developing responsible banking behavior for unserved and underserved segments
- Expand our distribution network to increase customer penetration
- Continue to focus on technology and data analytics to grow operations
- Diversify revenue streams

STRENGTHS

- Deep understanding of mass market serving unserved and underserved segments
- Customer centric organization with multiple delivery channels
- Pan-India presence
- Technology driven operating model with advanced digital platform
- Robust risk management framework
- Strong track record of financial performance
- Professional management, experienced leadership

FINANCIAL HIGHLIGHTS

⇒ Amongst the leading SFB's in India, Ujjivan has maintained strong Asset quality with lowest GNPA (Gross Non- performing Assets) levels at 0.85% and higher provisioning at 72% amongst peers during sep.2019.

⇒ Percentage of net NPAs to Net Advances stood at 0.33% during the same period.

⇒ Ujjivan's Gross advances grew healthy from Rs 6384cr in 2017 to Rs 12864 cr in sep.2019, almost double in number. ***Apart from having a strong presence in the country's microfinance sector; the bank has started focusing on the retail loan segment.***

⇒ The CASA to total deposit ratio for the bank is also improving at 11.87% for sep. 2019. ***To attract retail customers and increase CASA deposits, new products and marketing campaigns are expected to come up.***

⇒ Deposits have increased to ₹ 10129.85 cr during sep.2019 as against ₹ 73,79.44 cr for FY19.

⇒ PAT (restated) for entire FY 19 stood at ₹ 1,99.22 cr, while for the first six months of FY20, bank has already achieved ₹ 1,87.11 cr.

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, where ujjivan accounts for 15%.*

Also, deposits are expected to grow at 68-70% CAGR between Fiscal 2019 to Fiscal 2021 as players focus on popularizing convenient banking habits.

Further, it is expected the **loan portfolio of SFBs** will grow at a **CAGR of approximately 23% to 25% in the near term** due to support from significant market opportunity especially in the semi-urban and rural segment; geographic diversification; ability to understand local markets, access to low cost funds, and 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 certain challenges in increasing CASA deposits in the initial few years after their transformation.

GOVERNMENT INITIATIVES TO BOOST INDUSTRY

⇒ **GST to increase demand in MSME lending-** transparency in MSMEs' operations will improve as a result of compliance with GST, which will result in MSME's to record their transactions. *For financial institutions, this will ease the credit appraisal process and lower credit risk.*

⇒ **Credit Guarantee Fund Scheme extended to cover NBFCs-** *overall limit enhanced to ₹20million.*

⇒ Lower tax rates to boost MSME lending

⇒ Recent government initiatives such as Mudra Loans, Udyog Aadhar memorandum, Make in India, 59minute loan, stand-up India scheme etc. would help in boosting MSMEs

RISK FACTORS

- Non-compliance with RBI inspection/ observations
- Significant dependence on micro banking business, particularly group loans
- Volatility in interest rates
- The rise of digital platforms and payment solutions may adversely impact fees
- Certain categories of loans not supported by any collateral
- Continuous requirement of funds
- All Banking Outlets & Assets centres along with Registered office & corporate office are on leased premises.

VALUATION

Having a strong management team, It has the most diversified portfolio spread across 24 states & union territories. Thus, *this diversified operations allow to de-risk business by mitigating political and state-specific risks. Further, as a result of geographic spread, it helps to reduce concentration risk and diversify loan portfolio.*

Being the leading SFB's amongst peers in India, Ujjivan has maintained strong Asset quality with lowest GNPA (Gross Non- performing Assets) levels at 0.85% and higher provisioning at 72% during sep.2019. Apart from having a strong presence in the country's microfinance sector; the bank has started focusing on the retail loan segment.

As per our estimates, on the upper price band of ₹ 37, post issue estimated P/BV for FY20 translates to 2.18x. which is quite lower compared with the 4x-5x P/BV ratio that the industry commands.

Considering asset quality, growth in advances & deposits, expansions plans, corporate governance, we recommend to subscribe for long term as well as listing gains.

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