

Ujjivan Small Finance Bank

Rating: Subscribe | Price Band: Rs36-37

November 28, 2019

IPO Note

IPO Fact Sheet

Opening Date	December 2, 2019
Closing Date	December 4, 2019
BRLMs	Kotak Mahindra Capital Company, IIFL Securities and JM Financial
Issue Size	Rs 7,500mn
- Fresh Issue	Rs 7,500mn
Post issue number of shares	1,728mn
Face value	Rs10
Bid lot	400 shares

Issue Details

Pre-issue equity (m shares)	1,526
Post-issue equity (m shares)	1,728
Post-issue Market Cap (Rs bn)	63.9

Object of the Issue

To augment Bank's Tier - 1 capital base to meet the future capital requirements and to meet expenses in relation to the Issue.

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	94.4%	83.3%
Public & Others	5.6%	16.7%

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Execution needs to be demonstrated

Ujjivan Small Finance Bank (SFB) a subsidiary of Ujjivan Financial Services is the 3rd largest SFB in AUM terms commencing operations in Feb'17. Bank has been able to ramp up reasonably well on both liabilities as well as assets and is coming back on track post facing issues in micro finance business from demonetization. It is trying to diversify its asset towards non-MFI (79% mix) from improved product offerings in the mass market segment compared to its earlier position of cater to lower end of the pyramid. Bank is getting listed to meet the RBI guidelines with fresh issue of Rs750mn (Rs250mn already raise pre-IPO). Post money raise, bank trades at 2.0x FY20E & 1.7x FY21E ABV on upper band of Rs37, which in our view is fairly priced on back of weaker liability profile, higher cost/assets and is yet to establish a franchise. We recommend subscribe only with a long term view.

- **Liabilities profile needs to be strongly ramped up:** Bank has been able to demonstrate reasonable build-up in liabilities but it needs to significantly ramp up low cost deposits especially CASA which is at 12% of mix, lower than immediate peers. It also requires to decrease its concentration in wholesale deposits (Top 20 depositors at 35% & Top 5 depositors at 15%) which has been quite high although it has been coming down. Bank strategy is currently to build a sustainable franchise to stitching of suite of offering in both assets & liabilities to the mass market customer especially from the PSB/NBFC space which will also help ramp up liabilities.
- **Focusing on business mix diversification:** Bank has steadily grown its advances (34% CAGR in 3 years) with an attempt to granularize the mix and a conscious effort on reducing its Micro Loans (down from 90% in FY17 to 79% as on H1FY20) while moving forward, bank intends to focus on Retail and MSE segments but focused solely on the mass market segment.
- **Asset quality has improved; new segments need to be watched:** Bank has seen significant improvement in asset quality which faced issues in the MFI business post demonetization (GNPA 3% in FY18 to 0.9% in H1FY20) leading to high credit costs and write-offs and impacting profitability. Although, higher mix of MFI still poses a risk which has its own cycle and political risks, while recently SME (growth has been stronger) has also seen uptick in GNPA. Hence asset quality needs to be tread with caution as it diversifies in equally riskier SME, affordable housing, personal & vehicle loan.
- **New MD at helm can build a sustainable franchise:** Bank has appointed new MD – Mr Nitin Chugh from Dec 1, 2019 (currently serving as president) who will take over from retiring MD – Mr. Samit Ghosh. Mr. Chugh has been previously head of Digital Banking at HDFC Bank and will be instrumental to build a sustainable franchise especially in liabilities from leveraging technology, while also streamlining compliance and operations. At upper price band of Rs37, bank trades at 2.0x FY20 & 1.7x FY21E ABV which is slightly premium given its still weak liability franchise and cost structure which leads to limited upside in near term post listing.

Exhibit 1: Issue details

Values in million	No. of Shares	Value	
		@ Lower Band	@ Upper Band
		Rs. 36	Rs. 37
Total Issue	20,27,02,703	7,297	7,500
Fresh Issue	20,27,02,703	7,297	7,500

Source: RHP, PL

Note: No of shares at upper price band

Exhibit 2: Pre IPO Placement Details

	No. Of Shares	Offer Size	Price
Pre-IPO Placement	7,14,28,750	2,500	Rs. 35

Source: RHP, Company, PL

Exhibit 3: Shareholding pattern of Ujjivan SFB

Shareholding of the Company	Pre-Offer		Post-Offer (at Upper Band)	
	No of Shares	%	No of Shares	%
Promoters	1,440,036,800	94.4	1,440,036,800	83.3
Public	85,483,667	5.6	28,81,86,370	16.7
Total O/s Shares	1,525,520,467	100.0	1,728,223,169	100.0

Source: Company, PL

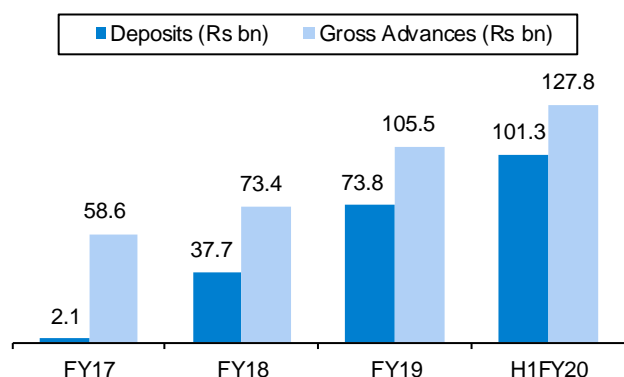
Note: Shareholding based on upper price band

Business Description

Ujjivan SFB is a mass focused SFB in India with its portfolio spread across 24 states. The Bank acquired its license from RBI under new licensing guidelines in FY15 and commenced operations in Feb'17 post which the current parent company Ujjivan Financial Services transferred its business to the SFB. Ujjivan SFB has divided its business in (i) loans to micro banking customers for both group loans and individual loans (ii) agriculture and allied loans (iii) MSE loans (iv) affordable housing (v) financial institutions group (vi) personal loans and (vii) vehicle loans.

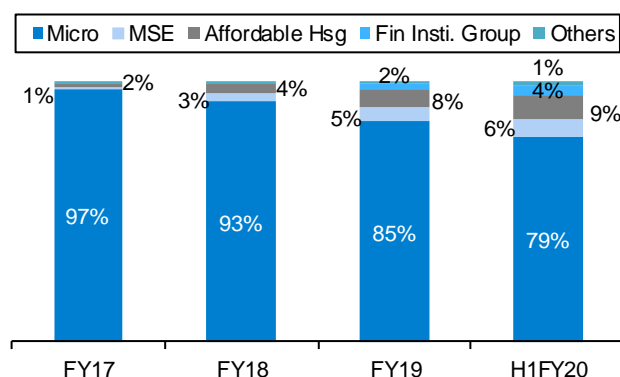
Currently, Bank has Rs127.8bn in loan assets which is dominated by Micro loans (largely similar to MFI business) at 79% share although it has diversified its portfolio from a peak of 97% post UFSL transferring its business in FY17. Also, top three states contribute 46% of its loan book i.e TN, Karnataka & West Bengal, while interestingly its home state is not largest in the portfolio unlike other new age banks. It's credit portfolio strategy is to have focussed approach towards retail and MSE with diversified product offerings to enable multiple customer centric relationships.

Exhibit 4: Bank has been able to scale up well post commencing operations



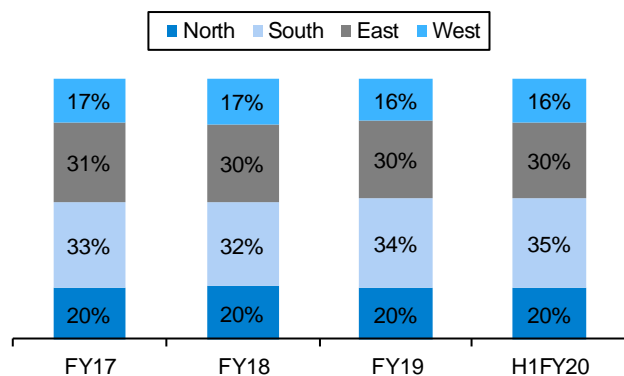
Source: RHP, PL

Exhibit 5: Bank has been gradually diversifying its loan book to non-Micro Finance



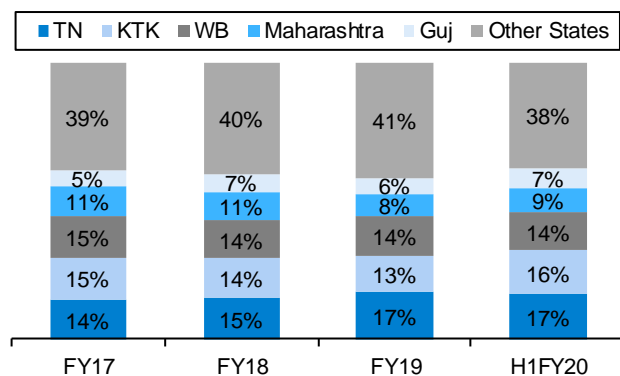
Source: RHP, PL

Exhibit 6: Bank has been trying to diversify across regions



Source: RHP, PL

Exhibit 7: Top three states is contributing 46% of total loans



Source: RHP, PL

Exhibit 8: All key segments have seen uptick in loan ticket size

Avg Ticket Size (Rs 000s)	FY17	FY18	FY19	H1FY20
Micro	28	28	33	35
MSE	259	346	765	1,339
Affordable Hsg	305	633	842	986
Personal Loans	-	-	146	176
Others	-	65	57	281

Source: Company, PL

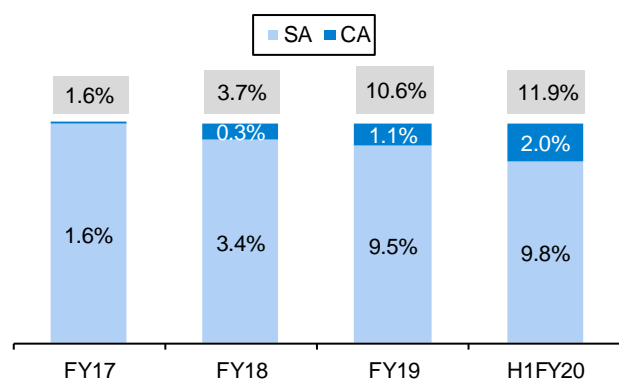
Exhibit 9: Average Tenor has been steady in Micro loans

Avg Tenor (Months)	FY17	FY18	FY19	H1FY20
Micro	21	20	20	20
MSE	40	53	85	106
Affordable Hsg	105	143	172	173
Fin Insti. Group	-	-	13	17
Personal Loans	-	-	37	39
Others	-	16	20	19

Source: Company, PL

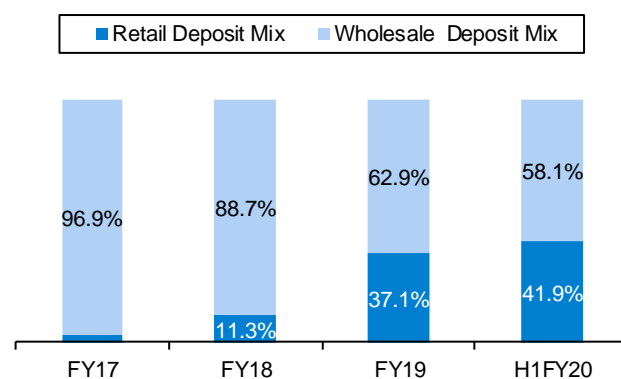
Bank has been able to some extent improve its deposit profile with strong growth over last three years taking its deposits base to Rs101.3bn of which 12% is CASA but 40% is retail deposits (CASA + Term). CASA profile remains slightly weaker than immediate peers despite improving headline ratio in last three years. Also, its concentration of deposits has been also high compared to peers but has been coming down as bank focuses incrementally on retail deposits but still remains a risk with RBI red flag in FY19 inspection report. Challenge will continue to remain on garnering low cost deposits for the bank with high competitive intensity, while it has been able to show strong growth in retail term deposit but its rate offering is among the highest among peers keeping TD cost still at 8.1% in H1FY20.

Exhibit 10: CASA Ratio needs to be significantly improved



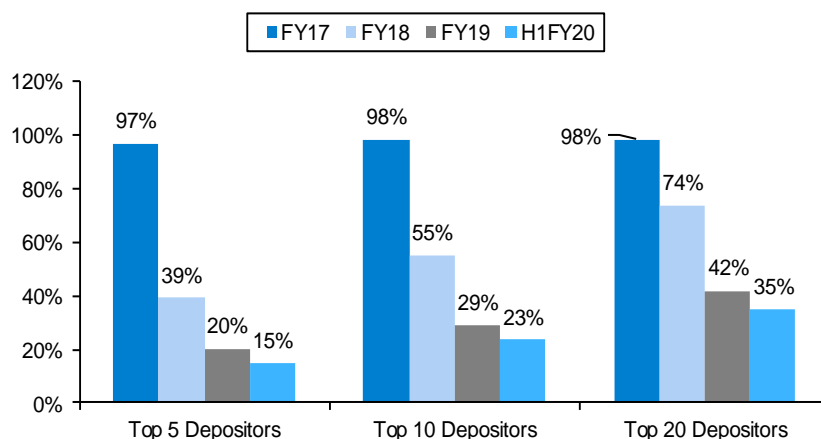
Source: RHP, PL

Exhibit 11: Share of Retail Deposits has grown robustly



Source: RHP, PL

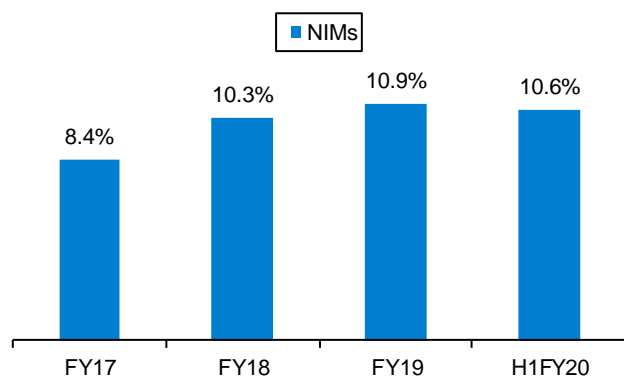
Exhibit 12: Deposit concentration is lowering but still is higher than comfort



Source: RHP, PL

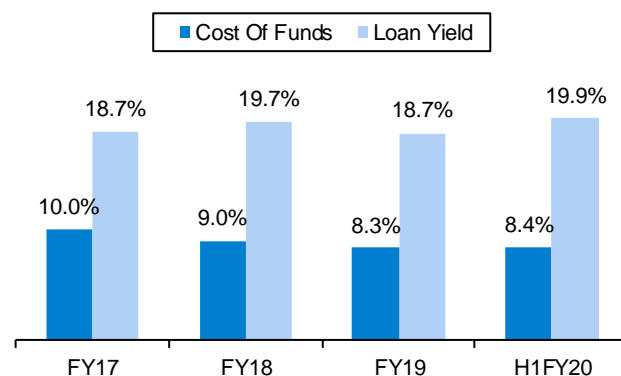
Ratios and Financial Parameters

Exhibit 13: NIMs have been at a steady held by high yields



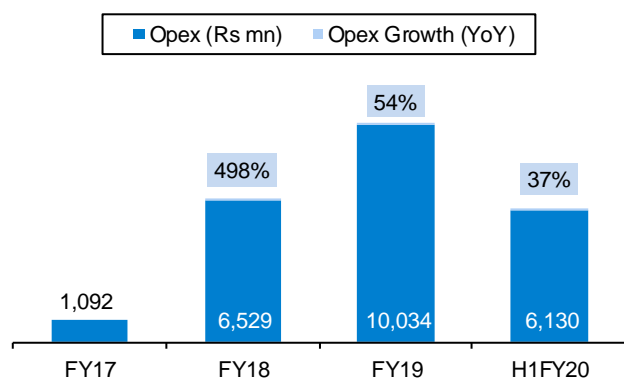
Source: RHP, PL

Exhibit 14: Higher TD rate offering has limited gains on COF



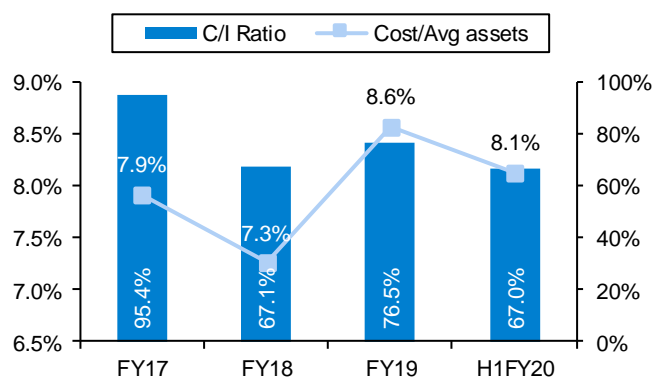
Source: RHP, PL

Exhibit 15: Opex has been coming down from peak...



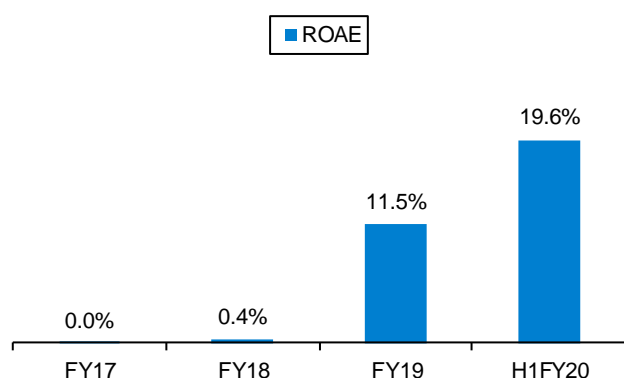
Source: RHP, PL

Exhibit 16: ...although cost ratios are still elevated



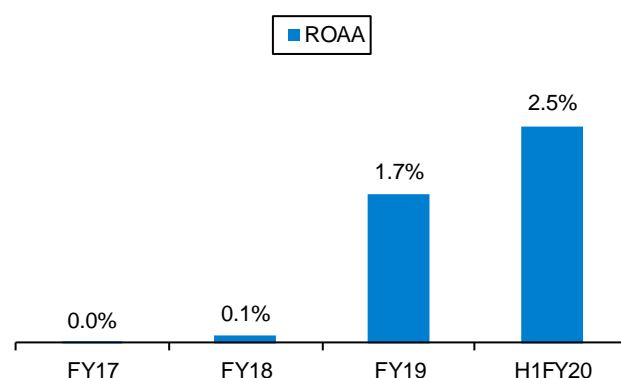
Source: RHP, PL

Exhibit 17: RoEs have improved as growth improved

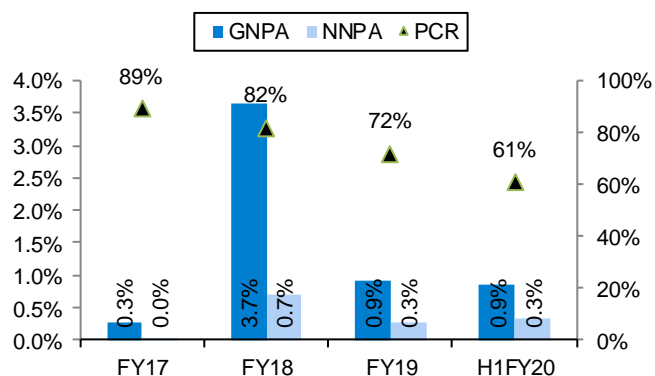


Source: RHP, PL

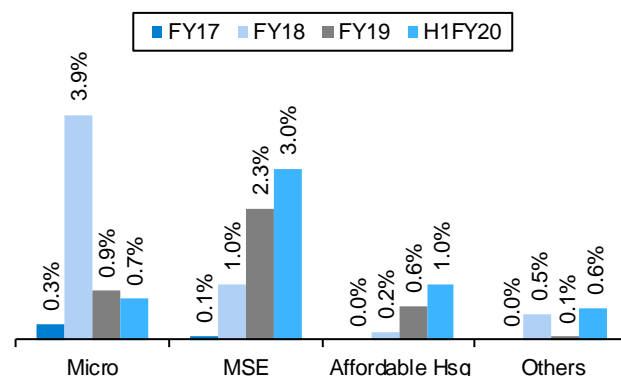
Exhibit 18: ROAs have improved from lowered credit costs



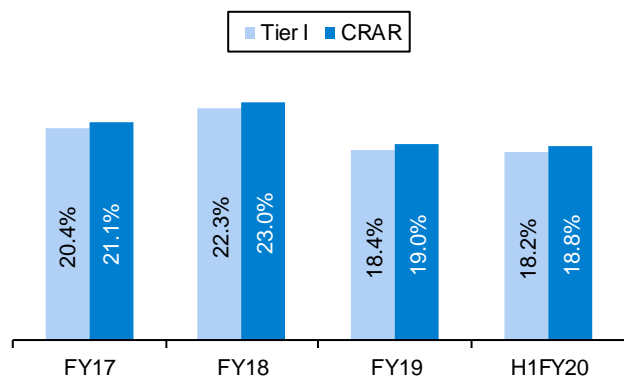
Source: RHP, PL

Exhibit 19: Asset quality has improved post demonetisation


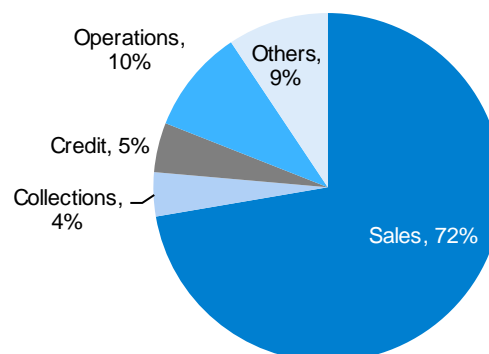
Source: RHP, PL

Exhibit 20: MFI seeing better asset quality, SME seeing rise


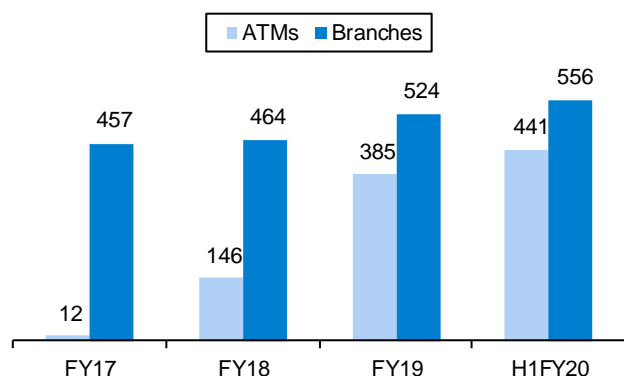
Source: RHP, PL

Exhibit 21: Capital adequacy has remained strong


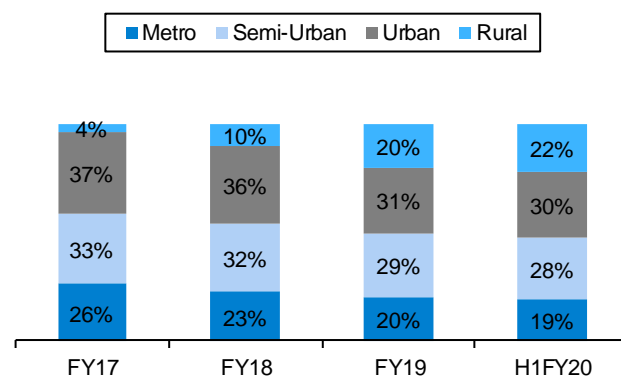
Source: RHP, PL

Exhibit 22: High share of employees are engaged in sales


Source: RHP, PL

Exhibit 23: Bank has been gradually building reach


Source: RHP, PL

Exhibit 24: Expansion focused towards SU-RU


Source: RHP, PL

Stacking with peers – Lags mainly on liabilities

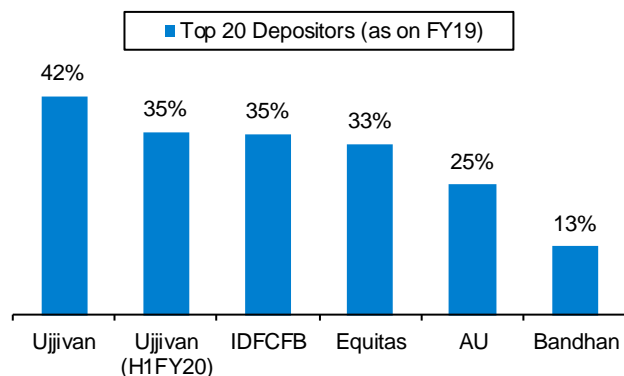
Ujjivan stacks up well with its SFB Peers. Bank's GNPA Levels are the lowest while PCR Ratio is the 2nd highest. AUM Book size and Growth has been decent while margins have been stronger supported by its microfinance business and incrementally lower cost of funds. CASA ratio though still needs to be scaled up significantly and concentration in deposits remains quite high even with compared to peers. Bank with improving asset quality and return back to profitability, return ratios have improved significantly.

Exhibit 25: Peer Comparison for Key Metrics

FY19	AUM (Rs bn)	Deposits (Rs bn)	NIMs (%)	Cost Of Funds (%)	C/I Ratio (%)	GNPA (%)	PCR (%)	ROE (%)	ROA (%)
Ujjivan	110.5	72.6	10%	8%	77%	1%	72%	12%	1.7%
Equitas	118.4	90.1	6%	8%	80%	3%	43%	10%	1.4%
AU	242.5	194.2	5%	7%	66%	2%	37%	14%	1.5%
Bandhan	447.8	432.3	10%	7%	33%	2%	72%	19%	4.2%
IDFCB	1,104.7	704.8	3%	8%	83%	2%	43%	-12%	-1.3%

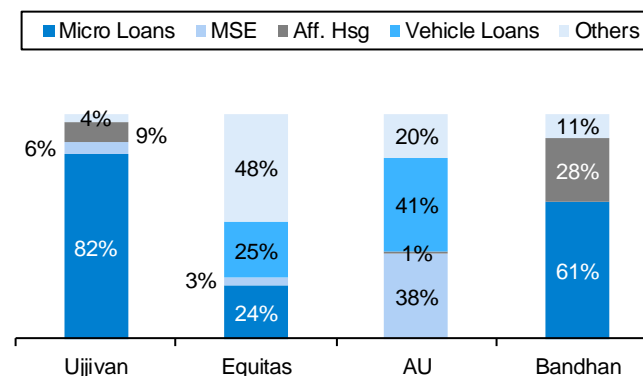
Source: RHP, Company, PL

Exhibit 26: Ujjivan's concentration in bulk deposits remains high amongst industry players



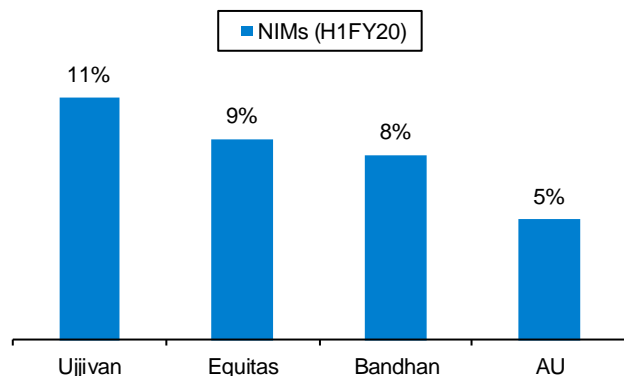
Source: RHP, Company, PL

Exhibit 27: New banks have adopted different portfolio strategies from each other



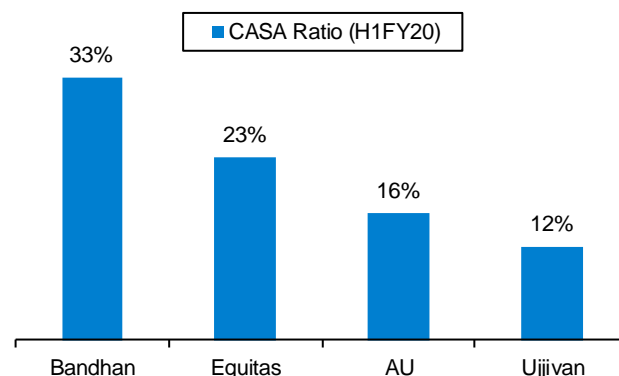
Source: RHP, Company, PL

Exhibit 28: NIMs have held up from yield management



Source: RHP, Company, PL

Exhibit 29: Ujjivan's CASA Ratio is weak among peers



Source: RHP, Company, PL

Key Risk Factors

- Bank significantly depends on their micro banking business (though mix share has reduced from 97% in FY17 to 79% as on H1FY20), particularly group loans, and the MFI business comparatively faces higher risk from external factors affecting asset quality and earnings.
- The Bank's micro banking loan portfolio, personal loans, and certain categories of MSE loans are not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, they may be unable to collect the unpaid balance
- Bank's geographical exposure is concentrated in the southern and eastern states of India, particularly, Karnataka, Tamil Nadu and West Bengal. In the event of a regional slowdown in the economic activity or any other developments, business could be significantly impacted.
- Bank's deposits are concentrated on the top 20 depositors (35% as on H1FY20) and a loss of such customers could adversely affect their deposit portfolio and funding sources. The Bank's CASA Ratio also stands at only 12% as on H1FY20 which needs significant scaling up to maintain cost efficiency and spreads.
- Promoter is required to reduce its shareholding in Bank to 40% within a period of 5 years from the date of commencement of business operations i.e is FY22 and thereafter to 30% and 26% within a span of 10 years and 12 years, respectively. This could as a deterrent in bank's performance over time.

Valuation

At the upper band of Rs37, bank will trade at 1.9x FY20 BV of Rs 19 and 1.7x FY21 BV of Rs22 which seems to be fairly priced but with limited upside in near to medium term as it has to demonstrate on many parameters and sustainability and hence we recommend to subscribe to the issue with only long term and play the value in bank rather than holding company (which is listed as well).

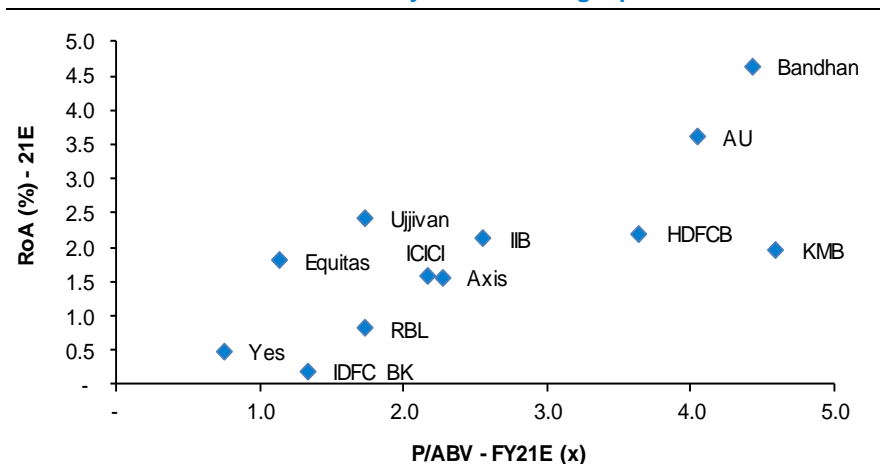
Exhibit 30: Valuation Table

	H1FY20	H1FY20 - Post Issue	FY20E	FY21E
Networth (Rs mn)	20,293	27,793	35,025	40,094
PAT (Rs mn)	926	926	3,888	5,069
EPS (Rs)	0.6	0.5	2.5	2.9
BV (Rs)	13.3	16.1	19.7	22.8
ROE	9.1%	6.7%	14.6%	13.5%
P/E (x)	61.0	69.1	15.1	12.6
P/BV (x)	2.8	2.3	1.9	1.7

Source: RHP, PL Research

Valuations calculated at Upper Band of Rs37

Exhibit 31: Valuations remains fairly valued amongst peers



Source: Company, Bloomberg, PL

Exhibit 32: About the company

Employees (Full time)	16,776
No. of customers	5 mn
Branches	552
ATMs	442

Source: RHP, PL Research

Company Background

Ujjivan SFB commenced its operations in February 2017 post getting license from RBI under the new licensing rules for SFB. The Bank is promoted by Ujjivan Financial Services Limited which transferred its microfinance business to the bank and currently holds 94% (post issue 83%) in the Bank through a holding company. Ujjivan's strength lies in its microfinance business, specifically group lending and now turning into a mass market focussed bank

Key Management Personnel

- **Mr. Samit Kumar Ghosh** is the MD & CEO of the bank. Mr. Ghosh holds a bachelor's degree in arts with honours in economics from Jadavpur University and a MBA from the University of Pennsylvania. He was the president of Microfinance Institutions Network.
- **Mr. Nitin Chugh** is currently the President and will assume office of MD & CEO from December 1st, 2019. He holds a B.Tech from Kurukshetra University and a professional diploma in marketing management from AIMA. He has previously worked with HDFC Bank, Standard Chartered Bank, HCL, Hewlett Packard and Modi Xerox.
- **Mrs. Upma Goel** is the CFO of the Bank. She is a CA having previously worked with L&T Finance, Ujjivan Financial Services and Escorts Securities and joined the Bank as CFO wef. Feb'17.
- **Mr. Sanjay Kao** is the CBO and holds a B. Tech from BHU and PGDM from IIM-Calcutta. He was previously employed with Lipton India Limited, Dunia Finance LLC, Citibank, N.A. and ABN AMRO Bank, N.V.
- **Mr Rajat Singh** is the Business Head of Micro and Rural Banking. He holds a bachelor's degree in agricultural and food engineering from IIT Kharagpur.
- **Other personnel**
 - Jaya Janardan – Chief Operating Officer
 - Arunava Banerjee – Chief Risk Officer

Exhibit 33: Board of Directors

Mr. Samit Kumar Ghosh	Managing Director & CEO
Mr. Sunil Vinayak Patel	Independent Director & Part time Chairman
Mr. Jayanta Kumar Basu	Non-Executive Director
Mrs. Mona Kachhwaha	Non-Executive Director
Mrs. Chitra Kartik Alai	Non-Executive Director
Mr. Sachin Bansal	Independent Director
Mr. Luis Miranda	Independent Director
Mr. Biswamohan Mahapatra	Independent Director
Mr. Prabal Kumar Sen	Independent Director
Mr. Nandlal Laxminarayan Sarda	Independent Director
Mrs. Vandana Viswanathan	Independent Director
Mr. Mahadev Lakshminarayanan	Independent Director

Source: RHP, Company, PL



Income Statement (Rs. m)

Y/e March	2017	2018	2019	H1FY20
Int. Earned from Adv.	1,853	13,128	17,285	11,870
Int. Earned from invt.	193	923	931	665
Others	124	628	100	62
Total Interest Income	2,170	14,679	18,316	12,597
Interest Expenses	1,094	6,069	7,252	5,193
Net Interest Income	1,077	8,610	11,064	7,404
Growth(%)		699.8	28.5	
Non Interest Income	69	1,115	2,060	1,752
Net Total Income	1,145	9,725	13,124	9,156
Growth(%)		749.2	34.9	
Employee Expenses	464	3,604	5,188	3,372
Other Expenses	627	2,924	4,846	2,758
Operating Expenses	1,092	6,529	10,034	6,130
Operating Profit	53	3,196	3,090	3,026
Growth(%)		NA	(3.3)	
NPA Provision	21	3,869	232	299
Total Provisions	44	3,108	406	436
PBT	9	88	2,684	2,590
Tax Provision	9	20	692	719
Effective tax rate (%)	96.1	22.4	25.8	27.8
PAT	0	69	1,992	1,871
Growth(%)		NA	2,803.2	

Balance Sheet (Rs. m)

Y/e March	2017	2018	2019	H1FY20
Face value	10	10	10	10
No. of equity shares	1,440	1,440	1,440	1,440
Equity	14,400	14,400	14,400	14,400
Networth	16,401	16,469	18,196	20,401
Growth(%)		0.4	10.5	
Adj. Networth to NNPA	16,388	16,113	18,003	20,103
Deposits	2,064	37,725	73,794	1,01,298
Growth(%)		NA	95.6	
CASA Deposits	32	1,387	7,841	12,024
% of total deposits	1.6%	3.7%	10.6%	11.9%
Total Liabilities	84,359	94,729	1,37,422	1,61,079
Net Advances	58,610	73,362	1,05,525	1,27,804
Growth(%)		25.2	43.8	
Investments	14,467	12,325	15,266	20,184
Total Assets	84,359	94,729	1,37,422	1,61,079
Growth (%)		12.3	45.1	

Source: Company Data, PL Research

Key Ratios

Y/e March	2017	2018	2019	H1FY20
CMP (Rs)	37	37	37	37
EPS (Rs)	0.0	0.0	1.4	1.3
Book Value (Rs)	11.4	11.4	12.6	14.2
Adj. BV (70%)(Rs)	11.4	11.2	12.5	14.0
P/E (x)	NA	NA	26.7	28.5
P/BV (x)	3.2	3.2	2.9	2.6
P/ABV (x)	3.3	3.3	3.0	2.7

Profitability (%)

Y/e March	2017	2018	2019	H1FY20
NIM	8.4	10.3	10.9	10.6
RoAA	0.0	0.1	1.7	2.5
RoAE	0.0	0.4	11.5	19.6
Tier I	20.4	22.3	18.4	18.2
CRAR	21.1	23.0	18.9	18.8

Efficiency

Y/e March	2017	2018	2019	H1FY20
Cost-Income Ratio (%)	95.3	67.1	76.5	67.0
C-D Ratio (%)	3,092.9	200.4	149.7	127.0
Business per Emp. (Rs m)	6.0	9.9	12.2	13.7
Profit per Emp. (Rs lacs)	0.0	0.1	1.4	1.1
Business per Branch (Rs m)	132.8	239.4	342.2	412.1
Profit per Branch (Rs m)	0.0	0.1	3.8	3.4

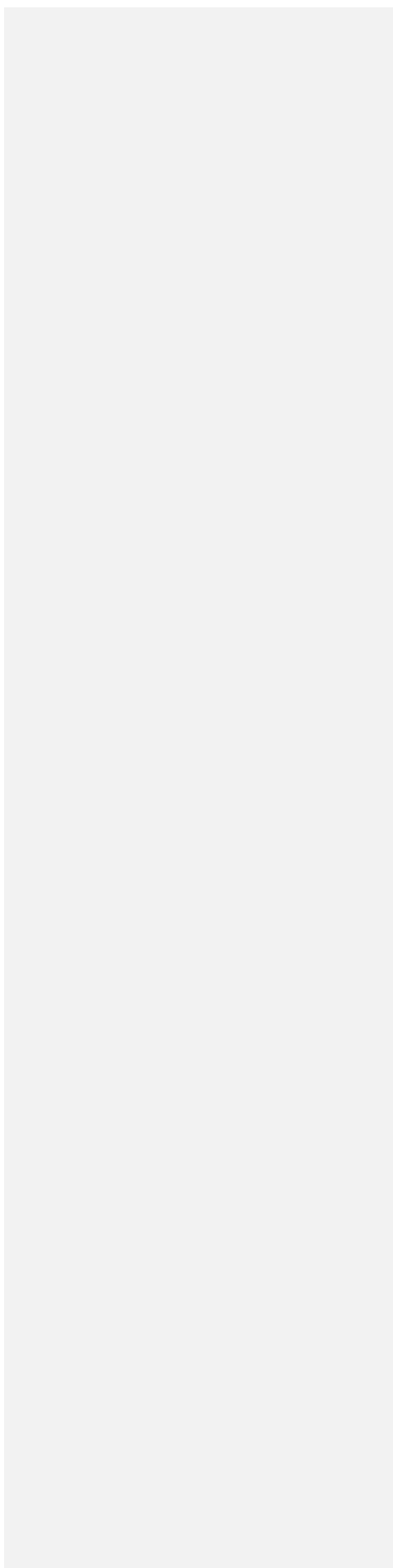
Asset Quality

Y/e March	2017	2018	2019	H1FY20
Gross NPAs (Rs m)	164	2,759	979	1,094
Net NPAs (Rs m)	18	509	275	425
Gr. NPAs to Gross Adv.(%)	0.28	3.76	0.93	0.85
Net NPAs to Net Adv. (%)	0.03	0.69	0.26	0.33
NPA Coverage %	89.0	81.5	71.8	61.1

Du-Pont

Y/e March	2017	2018	2019	H1FY20
NII	1.3	9.6	9.5	9.2
Total Income	1.4	10.9	11.3	11.4
Operating Expenses	1.3	7.3	8.6	7.6
PPoP	0.1	3.6	2.7	3.8
Total provisions	0.1	3.5	0.3	0.5
RoAA	0.0	0.1	1.7	19.6
RoAE	0.0	0.4	11.5	18.2

Source: Company Data, PL Research



**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	800	713
2	Bank of Baroda	BUY	115	91
3	Bank of India	Reduce	58	62
4	Federal Bank	BUY	102	82
5	HDFC	BUY	2,700	2,376
6	HDFC Bank	BUY	1,406	1,229
7	HDFC Life Insurance Company	Hold	604	608
8	ICICI Bank	BUY	541	469
9	ICICI Prudential Life Insurance Company	Accumulate	544	485
10	IDFC First Bank	BUY	44	39
11	IndusInd Bank	BUY	1,640	1,229
12	Jammu & Kashmir Bank	Under Review	-	32
13	Kotak Mahindra Bank	Hold	1,586	1,627
14	Max Financial Services	BUY	596	439
15	Punjab National Bank	Reduce	57	64
16	SBI Life Insurance Company	BUY	991	840
17	South Indian Bank	BUY	18	10
18	State Bank of India	BUY	413	290
19	Union Bank of India	Reduce	44	52
20	YES Bank	Hold	59	67

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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