



Ujjivan Small Finance Bank

IPO notes by **Wealthyvia**

Reason for listing



RBI declined the proposal for merger of Ujjivan Financial Services (Holding company & listed) & Ujjivan Small Finance Bank (unlisted). Even though the ONLY business of holding company is to run the USFB.

As per RBI guidelines, SFB has to be listed before Jan 30th, 2020 (3 years before the commencement of SFB operations)

Hence management opted for IPO.

Post IPO, the management said they will approach RBI again to consider Ujjivan merger with the bank.

IPO details



Issue Size	750 Cr
Face Value	Rs 10 Per Share
Issue Price	Rs 36 to Rs 37 Per Share
Market Lot	400 Shares
Min Order Quantity	400 Shares
Amount	14,800/-
Opens On	Dec 2, 2019
Closes On	Dec 4, 2019
Finalisation of Basis of Allotment	Dec 9, 2019
Initiation of Refunds	Dec 10, 2019
Credit of Shares to Demat Acct	Dec 11, 2019
IPO Shares Listing Date	Dec 12, 2019
Pre Issue Share Promoter Holding	94.40%
Post Issue Share Promoter Holding	84.00%
Qualified Institutional Buyers	75.00%
Non-Institutional Investor	15.00%
Retail Individual Investor	10.00%

Why we like it?



524

Banking touchpoints
(branches and asset centres)



385

ATM network



46 LAKH+

Customer base



24

States/Union territory
presence across 221 districts



14,752

Employee strength

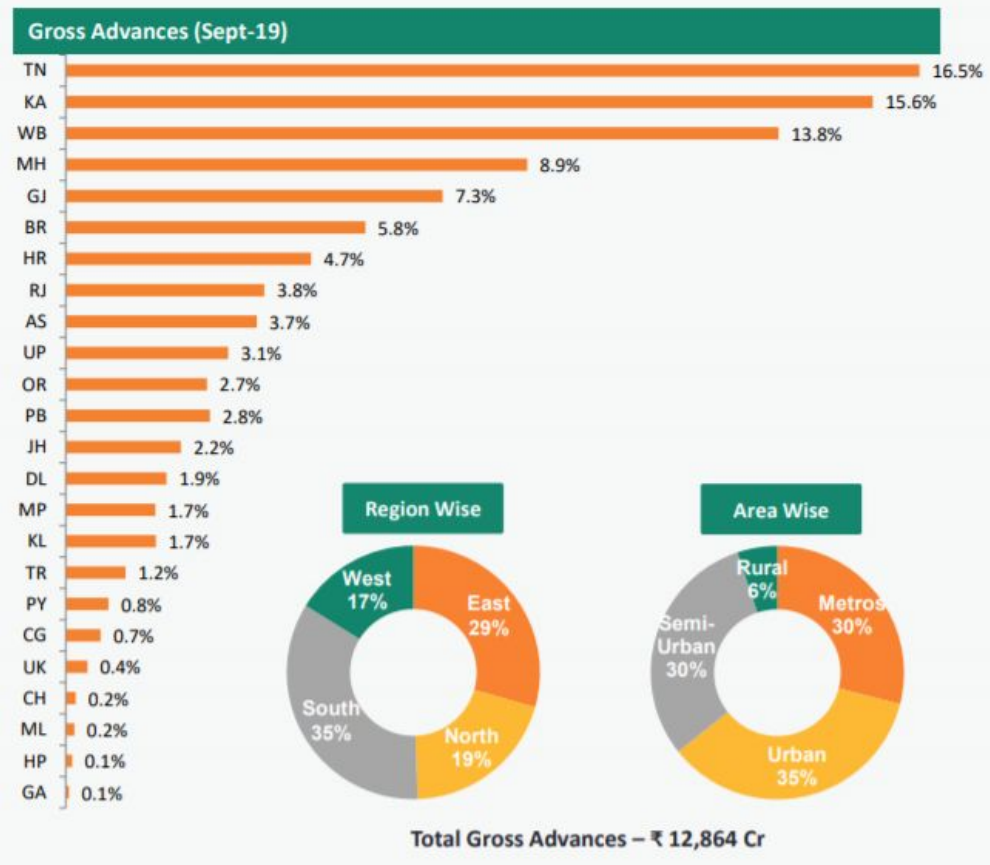


40 LAKH+

Active borrowers

Loan book composition & weightage

	Group loans	Individual loans	Two wheeler loans
Micro Banking Group Loan - 75% of Loan Book Micro Individual Loan - 8% of Loan Book	Customer: Groups of women on a joint liability basis Ticket size: 2,000 - 60,000 (unsecured) Tenor: 1 - 2 years	Customer: Individuals for business, livestock, home improvement Ticket size: 51,000 - 2,00,000 (unsecured) Tenor: 6 months - 36 months (2 years - 7 years for higher education after commencement of repayment)	Customer: Existing microfinance customers and their families Ticket size: 20,000 - 75,000, LTV up to 80% Tenor: 1 - 3 years
	Unsecured loans	Secured loans	LAP
Micro & Small Business (SME) 5% of Loan Book	Customers: MSEs meeting eligible turnover criteria Ticket size: 2,00,000 - 7,50,000 (unsecured) Tenor: 1 - 3 years	Customer: MSEs meeting eligible turnover criteria Ticket size: 10,00,000 - 50,00,000 Tenor: 3 - 10 years	Customer: MSEs meeting eligible turnover criteria Ticket size: 3,00,000 - 10,00,000 Tenor: 3 - 7 years
Affordable Housing 8% of the Loan book	Loans for home construction, home purchase and home improvement Ticket size: ₹2,00,000 - ₹50,00,000 Tenor: 3-20 years		
Personal Loans Less than 2% of the Loan book	Loans for salaried customers with net income of over 15,000 Ticket size: 50,000 - 15,00,000 (unsecured) Tenor: 1 - 5 years		



Gross Advances at 12,864 Cr

Non-MicroBanking Assets now contributes 20.8% of portfolio

Secured portfolio constitutes 19.4% of the portfolio

GNPA at 0.9% and NNPA at 0.3%

Deposit base at 10,130 Cr as of Sep'19

Retail deposits at 41.9% to total deposits

Net Interest Margin at 10.8% in Q2FY20

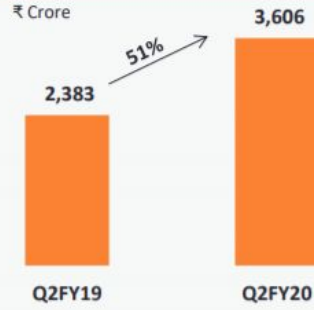
Cost to Income ratio at 69.5% in Q2FY20

ROA at 2.4% and ROE at 18.9% for Q2FY20

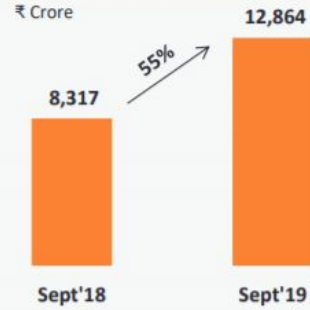
Total B/S Assets



Disbursements



Gross Advances[#]



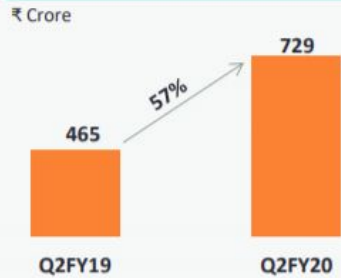
Total Deposits



Retail Deposits*

42%
Vs.
30%
30-Sept-18

Total Income



Net Interest Income



PAT



Net-worth



Peer Comparison

	AUM	CASA	GNPA%	NNPA%	PCR%	Tier 1	ROA	ROE	PBV
Ujjivan SFB	12900	12%	0.90%	0.30%	65%	18.10%	2%	13.70%	2.8 (PB at IPO Price)
Equitas SFB	13300	22%	2.90%	1.60%	43%	20.50%	1.80%	15.60%	NA
AU SFB	27900	15%	2.00%	1.10%	43%	14.90%	1.80%	18.90%	5
Bandhan Bank	64200	33%	1.80%	0.60%	68%	23%	4.30%	27.60%	4.7

	Ujjivan SFB	Satin	Jana SFB	Bandhan	Equitas
MFI % in Total Book	79%	78%	71%	61%	24%



Management

Ujjivan was the brainchild of **Mr. Samit Ghosh**. He started Ujjivan Fin Services Pvt Ltd in 2004 & had been part of it through till date.

He was associated with First National City Bank in 1975 and later worked with Standard Chartered Bank, HDFC Bank, Citibank N.A., and the Bank Muscat Al Ahli Al Omani. He was the president of MFIN and the chairman of Association of Karnataka Microfinance Institutions.

Nitin Chugh has joined the Bank as the President with effect from 17, August, 2019. He will assume office as Managing Director and Chief Executive Officer with effect from 1, December, 2019.

He has previously worked with HDFC Bank Limited, Standard Chartered Bank, HCL, Hewlett Packard Limited and Modi Xerox Limited.



How they handled Demonetization?

Reported loss for 2 Quarters (Q1 & Q2 of 2017) post Demon.

Credit cost increased 3x from 25 Cr to 75 Cr by FY17.

GNPA went to around 6.16% in Q1 FY17, which they bought it down to 3.6% by Q4 FY18 and currently at 0.9%.

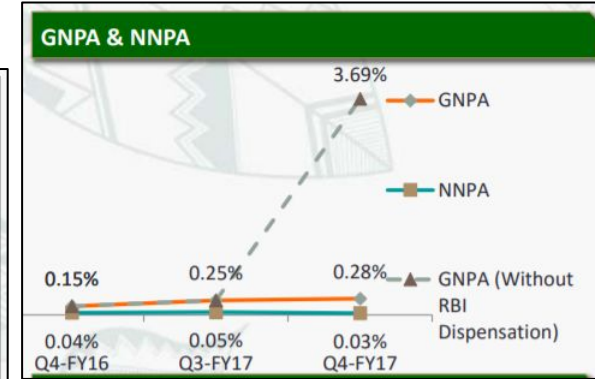
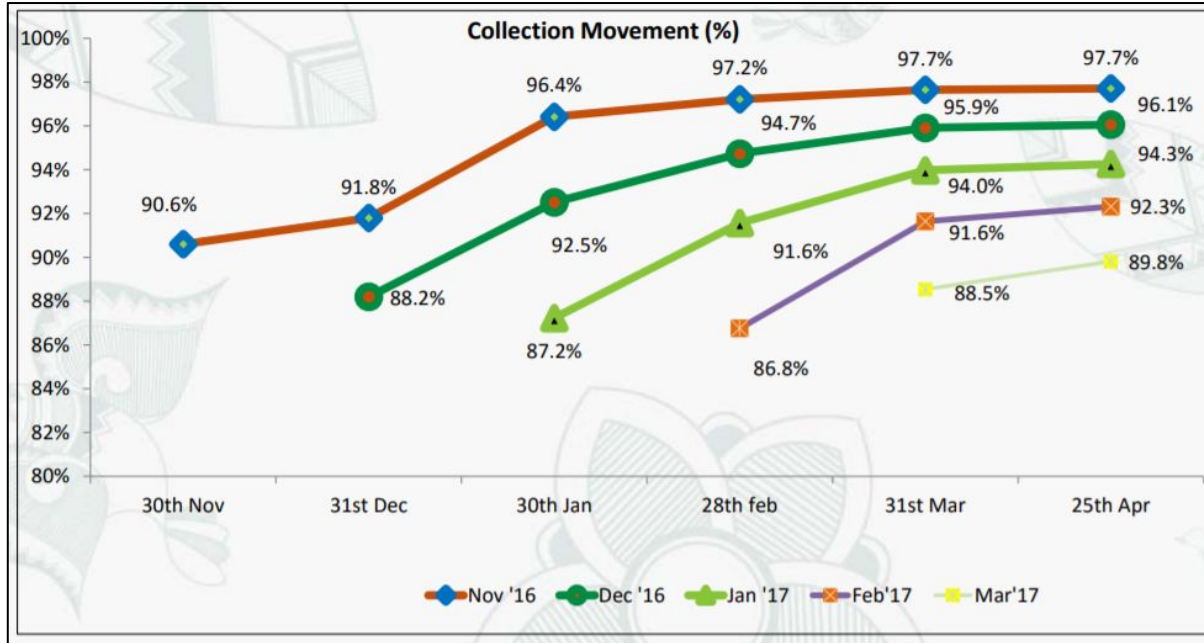
Collection efficiency was dropped to 90% on 30th Nov'16. With in 5 months, they bought it back to 97.7% by Apr'17.

States with <90% monthly collection efficiency, termed as affected states. States with >90% monthly collection efficiency, which are regular (16 states).

Affected states were provided for 10% on the Group Loan Portfolio and 20% on the Individual Lending Portfolio, despite the dispensation to classify them as Standard Assets.



Post Demonetization numbers at a glance



They handled the worse & came back on growth track.

Growth Drivers

Company identified 4 growth areas:

Retail Banking

Scaling up of Corporate salary program.

Digital onboarding of customers for Mobile Banking/UPI/Debit Card

Micro Banking

Scaling up of Individual loans, Micro-LAP products.

Scale-up of secured rural banking products and cashless repayment.

Launch of Goal based FD and RD under Family Banking initiative.



Growth Drivers (cont)

MSE

Dedicated team of Relationship Managers for Large clusters (> 200 customers).

Increased sourcing in Formal segment through MSE Business Edge program which offers Loan amount up to 2 Cr.

Proactive Collections by dedicated team to improve asset quality

Affordable Housing

Focus on expansion in Tier 3 & 4 cities.

Customized products offerings for rural markets

Tie-up with Govt. agencies with focus on economic weaker section and low income group projects



Risks



Micro Finance companies are always prone to Black Swan events in the economy or because of natural calamities.

Past events like Andhra MFI crisis or Demon have increased the defaults rates & took many MFIs to the verge of collapse.

Micro finance sector works in cycles. A good cycle is followed by a bad one.

View & Valuation

TTM Price to Book of 2.8 (IPO Price), it is valued below its peers.

With the regulatory hiccups out of the way, the management can focus on growth of the core business.

We expect the company to grow NII & Profitability at a CAGR of 25% over the next 3 years, with well managed NPAs.

We expect ROA & ROE to reach 2% & 15% respectively over the next 3 years.

Given all the growth prospects, we are bullish on Ujjivan SFB & **We recommend a subscribe for the IPO.**



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