

Rating



Issue Details

Fresh issue of equity shares upto Rs 750 cr

Issue Summary

Price Band (Rs)	36-37
Face Value (Rs)	10
Implied Market Cap (Rs Cr)	6,222-6,394
Market Lot	400 Shares
Issue Opens on	2 nd Dec 2019
Issue Close on	4 th Dec 2019
No. Of share pre-issue	1,525,520,467
No. Of share post issue [^]	1,728,223,170
Listing	NSE & BSE

[^]@ upper price band

Issue Break-up

	%
QIB Portion	75.0
NIB Portion	15.0
Retail Portion	10.0

Book running lead Managers

Kotak Mahindra Capital
IIFL Securities Ltd
JM Financial Ltd

Registrar

Karvy Fintech Pvt Ltd.

Shareholding Pattern

	Pre-issue	Post-issue
Promoters	94.4%	83.3%
Public + Others	5.6%	16.7%

Objects of the issue

To utilize the net proceeds from the fresh issue towards augmenting its Tier-I capital base to meet future capital requirements and achieve the benefits of listing the equity shares on the stock exchanges and for the Offer for Sale

Ujjivan Small Finance Bank (USFB) is mass-market focused Small Finance bank in India, catering to unserved and underserved segments. USFB's Promoter, Ujjivan Financial Service Ltd (UFSL) commenced operations as a NBFC in 2005. UFSL's business was primarily based on the joint liability group-lending model for providing collateral free, small ticket-size loans. As of September 30, 2019, USFBs' operations spread across 24 States and Union Territories with 552 banking outlets and 441 ATMs. It has a diversified portfolio with Advances at Rs 12,864 cr and Deposits at Rs 10,130 cr. The bank offers wide range of products and services, with particular focus on micro banking, SME & Retail loans.

Key Rationales:

- **To focus on Mass market with shift towards Non-MFI segment:** USFB's promoter USFL has started its business with microfinance business. However, the bank is now focusing on increasing the share of non-MFI segment through new products like MSE loans and 2 & 3W loan and affordable housing loans. The contribution from Microfinance business to overall advances has reduced to 79% as of H1FY20 from 97.5% in FY17.
- **Bank has built strong liability franchise but CASA proportion is lowest:** Over the period of FY17-H1FY20, the bank has increased its deposit base from Rs 206 cr in FY17 to Rs 10,130 cr in H1FY20. To reduce the cost of funds, bank is focusing on retail deposits offering higher interest rates against larger peers. The CASA ratio as of September 30, 2019 was at 11.87% vs. 1.57% in FY17.
- **The bank has one of lowest GNPA ratio:** As of H1FY20, USFB's GNPA/NNPA ratio stood at a healthy level of 0.85%/0.33% respectively. The bank's PCR ratio was at 72% in FY19 reflecting healthy level of transparency.
- **Professional & experienced management team:** USFB has a professionally managed team with diversified track record in the financial services industry. The Board of Directors consist of a diverse mix of experience in various sectors including the financial services industry and technology. Nitin Chugh, who will be taking over as MD & CEO with effect from Dec 1, 2019, following the retirement of Samit Kumar Ghosh, has experience working with HDFC Bank, Standard Chartered Bank, HCL Hewlett Packard and Modi Xerox. Overall, several experienced independent directors, constitute majority of the board, ensuring transparency and accountability of operations.

Valuation and View:

At the upper price band of Rs 37, the stock is offered at 2.3x P/BV (post issue), which we believe is at significant discount to its peers. Management's focus on mass-market segment by focusing on Non-MFI segment and garnering retail deposits will aid into USFB's performance. The key positive factors for USFB are good promoter background, adequately capitalized and high yielding businesses like MFI loans. Bank is getting listed mainly to meet the RBI guidelines with fresh issue of Rs 750 cr, which further improves its capital position. The bank has also shown significant improvement in asset quality. We recommend investors to subscribe to the issue from a longer term perspective. We have a three star rating on the issue.

Key Financial Indicators

(Rs. Cr)	FY17	FY18	FY19	H1FY20
NII	108	861	1106	740
Operating Profit	5	320	309	303
PAT	0	7	199	187
Net Worth	1640	1647	1820	1993
Advances	5861	7336	10552	12780
Deposits	206	3773	7379	10130
GNPA (%)	0.28	3.65	0.92	0.85
NNPA (%)	0.03	0.69	0.26	0.33
NIM (%)	8.4	10.3	10.9	10.6
Yield on Loans (%)	18.7	19.7	18.7	19.9
Cost of funds (%)	10	9	8.3	8.4
EPS	0.0	0.0	1.2	1.1
BV (Rs)	10.0	10.0	11.1	12.2
P/E[^]	NA	NA	30.5	32.4
P/BV[^]	3.7	3.7	3.3	3.0

[^] At upper price band

Peer Group Comparison

Bank Name	CMP	Total Income (in Cr.)	PAT (in Cr.)	EPS (Rs)	BVPS (Rs)	RoE (%)	RoA (%)	P/E	P/BV
USFB[^]	NA	1312	199	1.2	11	9.49	1.88	30.8	3.3
AU Small Finance Bank	824	3411	382	13.1	108	14.7	1.5	63.1	7.6
Creditaccess Grameen	802	1283	322	23.4	165	17.0	5.0	34.3	4.9
Bandhan Bank Limited	581	7707	1951	16.4	94	19.0	3.9	35.5	6.2

All Financials are as on FY19, [^] @ upper price band

Key Managerial Personnel:

Sunil Vinayak Patel (Part-Time Chairman and an Independent Director)	He holds a bachelor's degree in commerce from Mumbai University and a master of business administration degree from the Wharton School, University of Pennsylvania. He is a CA from the ICAI. He is a certified management consultant from the Institute of Management Consultants' of India. He was previously associated with A.F. Ferguson & Co. and A.F. Ferguson Associates. He was previously a director on the boards of L&T Investment Management Limited and Ujjivan Financial Services Limited.
Mr Samit Kumar Ghosh (Current MD and CEO)	He holds a bachelor's degree in arts with honors in economics from Jadavpur University and a Master of Business Administration degree from University of Pennsylvania. 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 Microfinance Institution and the chairman of Association of Karnataka Microfinance Institutions
Mr Nitin Chugh (Incoming MD and CEO)	He has been appointed as Managing Director and Chief Executive Officer with effect from December, 1, 2019 for a period of 3 years. He has previously worked with HDFC Bank as Head of Digital Banking, Standard Chartered Bank, HCL, Hewlett Packard and Modi Xerox Limited.

Objectives of issue:

To augmenting the Bank's Tier – 1 capital base to meet the future capital requirements
General Corporate Purposes

Competitive Strength:

- 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

Key Risk Areas:

- Higher dependence on MFI business acts as concentration risk
- Ability to shore up retail & CASA deposit to impact profitability
- Introduction of new products pose risk of NPA

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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