

Ujjivan Financial Services Limited ("Ujjivan") originally incorporated as Ujjivan Financial Services Private Limited on December 28, 2004 at Bengaluru, Karnataka. Company's business primarily based on the joint liability group-lending model for providing collateral free, small ticket size loans to economically active women. The company also offers individual loans to Micro & Small Enterprises ("MSEs"). Company's products can be classified under two broad categories, namely, Group Loans and Individual Loans. Depending upon the end use, these products can further sub-divided into Agricultural, Education, Home Improvement, Home Purchase and Livestock Loans. In addition to loan products, they also provide non-credit offerings comprising of life insurance products, in partnership with insurance providers such as Bajaj Allianz Life Insurance Co., Kotak Mahindra Life Insurance Co. and HDFC Life Insurance Co. • As of December 31, 2015, the company's operations spread across 24 states and union territories and 209 districts in India through their 470 branches having 7,862 employees. On 7th October 2015, Ujjivan has received in-principle approval from the RBI to set up a Small Finance Bank ("SFB"). Historically, Ujjivan has relied on a combination of wholesale funding from banks and DFIs, equity infusions, issue of debt instruments such as commercial paper, non-convertible debentures and securitization of loan portfolio to fund its business and operations. Subsequent to the transformation into the SFB regime, the company proposes to raise a part of its funding through retail customers deposits. Stringent regulations by the Reserve Bank of India (RBI) improved transparency and mitigated political risk. Further, the setting up of credit bureaus and geographical diversification of loan portfolio kept credit risk under check. JLG model has tremendous strength of its own, with peer pressure acting as a biggest deterrent for group members to default. UFSL's gross non-performing asset or GNPA ratio is miniscule at 0.2% with individual loans having GNPA component of 0.4%.

As per CRISIL Research (Microfinance, November 2015), AUMs of non-Andhra Pradesh MFIs is expected to rise at 30-34% CAGR, while total AUMs of all MFIs (including those in AP) will rise at 29-31% over FY15-18. The growth in loan portfolio will be driven by non-AP states, where micro-credit penetration is low. Commercial Banks are finding it more comfortable to lend indirectly to borrowers through MFIs who are specialized institutions.

UFSL's current Tier I ratio of 17.8% and Tier II of 1.8% leads to total capital adequacy ratio of 19.6%. The company is making fresh capital issue to the extent of Rs3.6bn which will enable it to augment its Tier I ratio to 25.5% and total capital adequacy ratio to 27.3%.

At the upper end of the price band of Rs. 210, the IPO is valued at ~2.2x at FY16 Post issue P/BV which is reasonable. With due consideration to factors like a) Leading MFI with a deep pan-India presence, b) experienced leadership and strong corporate governance; c) robust technology driven operating model, d) comprehensive understanding and successful track record with underserved customer segment offering significant growth opportunities, e) effective risk management and improved efficiencies, f) customer and product profile has significant synergies with the SFB business and can enable access to larger customer base and enhance revenue generation & capital raising options, g) strong execution track record, g) impressive NIM and RoA with decent RoE, h) strong asset quality with NPAs under control, we recommend investors to "SUBSCRIBE" the issue.

Issue date	April 28 - May 02 , 2016			
Issue size	Rs. 8,825 mn. at upper end of the price band			
Type of issue	Fresh Issue: Rs. 3,581 mn Offer for sale: 24,968,332 Equity Shares by the Selling Shareholders			
Face Value	Rs. 10			
Price Band	Rs. 207 – 210 per share			
Lot size	70 equity Shares & multiple of 70 equity shares thereafter			
Issue structure	QIB: 50%, Retail: 35% Non – Institutional: 15%			
Post issue market cap	Rs. 21,672 Mn at upper price band			
Book Running Lead Managers	Axis Capital, Kotak, ICICI Sec, IIFL			
Registrar to the issue	Karvy Computershare Pvt. Ltd.			
Y/e 31 Mar (Rs. mn)	Dec 15	FY15	FY14	FY13
Net AUM	45,401	32,187	16,173	11,260
Net Interest Income	3,580	2,809	1,861	1,250
Net Profit	1,223	758	584	329
EPS (Rs.)	14.2*	11.2	8.9	5.3
Book Value (Rs.)	94	82	53	45
P/E (x)	15	19	24	40
P/BV(x)	2.23	2.56	3.96	4.67
RoA (%)	3.7*	2.5	3.4	2.9
RoE (%)	14.24	11.24	8.91	5.33
Gross NPA (%)	0.15	0.07	0.07	0.08
Net NPA(%)	0.04	0.02	0.01	0.08
NIM (%)	12.31	11.62	13.57	13.76
Share Capital	861.3	861.3	655.8	655.8

* annualized for 9MFY16



Objects of the issue

Fresh Issue - Upto 42,023,609 (Upper price band) - 42,270,787 (Lower price band) Equity Shares (Utilise the Net Proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements)

Offer for sale - Upto 24,968,332 Equity shares

Offer for sale by	Shares upto
Sarva Capital LLC	2,935,213 Equity Shares
Mauritius Unitus Corporation	2,523,725 Equity Shares
Elevar Equity Mauritius	3,495,626 Equity Shares
India Financial Inclusion Fund	1,754,386 Equity Shares
WCP Holdings III	3,093,869 Equity Shares
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	2,698,163 Equity Shares
International Finance Corporation	3,060,722 Equity Shares
Women's World Banking Capital Partners, L.P	5,406,628 Equity Shares

Company & Promoters

Ujjivan Financial Services Limited ("Ujjivan") originally incorporated as Ujjivan Financial Services Private Limited on December 28, 2004 at Bengaluru, Karnataka. Pursuant to a certificate issued by the RBI on October 31, 2005, the company obtained the certificate of registration as an NBFC under section 45 IA of the RBI Act.

The Company was granted NBFC-MFI status by the RBI on September 5, 2013. Subsequently, the company converted into a public limited company on November 3, 2015 and consequently the name of the company changed to Ujjivan Financial Services Limited.

K.R. Ramamoorthy is the non-executive Chairman and Independent Director of the company.

Samit Ghosh is the Managing Director and Chief Executive Officer of the company.

He founded the company in 2005 as a microfinance firm for the urban poor. Mr. Ghosh was a career banker for 30 years and worked in both South Asia and the Middle East. Sudha Suresh is the chief financial officer of the company. She is a chartered accountant with a corporate career spanning over 18 years. The senior management has a diversified track record in the financial services industry, with approximately 20 years of experience in the industry on an average

Company's COOs, Ms. Carol Furtado, Mr. Abhiroop Chatterjee, Ms. Jolly Zachariah and Mr. Manish Raj who are in-charge of regional operations and key enablers of the decentralized management structure, and Mr. Aryendra Kumar, Head, Housing Finance, have an average experience of 17 years in the financial services industry.

Business overview

Ujjivan Financial Services ("Ujjivan") started their operations as an NBFC in 2005 with the mission of providing a full range of financial services to the economically active poor who are not adequately served by financial institutions. The company's business is Primarily based on the joint liability group-lending model for providing collateral free, small ticket size loans to economically active women.

The company also offers individual loans to Micro & Small Enterprises ("MSEs"). On 7th October 2015, Ujjivan has received in-principle approval from the RBI to set up a Small Finance Bank ("SFB"). The company offers a diverse range of loan products to cater to the specific requirements of their customers. Company's products can be classified under two broad categories, namely, Group Loans and Individual Loans. Depending upon the end use, these products can be further sub-divided into Agricultural, Education, Home Improvement, Home Purchase and Livestock Loans. All of their assets under management ("AUM") fall under the priority sector lending norms prescribed by the RBI. In addition to loan products, they also provide non-credit offerings comprising of life



insurance products, in partnership with insurance providers such as Bajaj Allianz Life Insurance Co., Kotak Mahindra Life Insurance Co. and HDFC Life Insurance Co.

The company has adopted a decentralized management structure for their operations, comprising four regional offices at Bengaluru, New Delhi, Kolkata and Pune. Their two-tiered management hierarchy consists of a national leadership team ("NLT") providing overall direction to their business, and four regional leadership teams ("RLT") responsible for taking on-ground operational decisions. The NLT and RLT members have significant experience in the banking and financial services industry. As of December 31, 2015, Ujjivan has operations spread across 24 states and union territories, and 209 districts across India, making them the largest MFI in terms of geographical spread. As of December 31, 2015, they served over 2.77 million active customers through 470 branches and 7,786 employees and their Gross AUM stands at Rs.40.88 billion. Further, as of September 30, 2015, Ujjivan has approximately 11.15% of market share of the NBFCMFI business in India, making them one of the leading providers of microfinance in India.

Competitive strengths

Leading MFI with a deep pan-India presence

Ujjivan is the third largest NBFC-MFI in India in terms of loans disbursed as of September 30, 2015, with Gross AUM aggregating over Rs.40.88 billion. As of December 31, 2015, the Gross AUM for the North, South, East and West regions was Rs.987.19 Crores, Rs.1,423.60 Crores, Rs.1,344.43 Crores and Rs.834.16 Crores. In addition, company's AUM diversified in terms of type of location. As of December 31, 2015, approximately 29%, 37% and 34% of their total customers comprise of rural, semi-urban and urban customers, respectively. As of September 30, 2015, they are the largest MFI in India in terms of geographical spread, with a pan-India presence through the 470 branches across 24 states and union territories and 209 districts in India.

Robust technology driven operating model

The company focuses on integrating advanced, cost-effective and innovative technology into their operations. They use IBM's private cloud resilience services to ensure smooth and secure functioning of their business operations. The company introduced tablets and mobiles in offices and the field, coupled with the 'Artoo' system, enable real time customer acquisition, loan underwriting and loan processing. The Truecell system, using which field transaction data is captured, supports transactions. The usage of the IBM FileNet database management system has eliminated the movement of physical documents for loan processing, and automated credit rule checking and the extraction of credit bureau reports. The company has also implemented collection system software and IC4 software from Indus Software Technologies Private Limited. The company use BR.Net as their core banking solution ("CBS"), which is structured and customized around their customers, and integrated with the front-end operations to provide a secure platform.

To become Small Finance Bank

Ujjivan is well positioned for the transition from microfinance operations to banking operations given its resources, operational strength and capabilities. In order to satisfy the criteria for corporate structure, ownership and control prescribed under the SFB Guidelines, Ujjivan would float a wholly owned subsidiary and transfer the existing business to the subsidiary, which will, in turn, be the proposed SFB.

Customer centric organization

The company serves over 2.77 million active customers as of December 31, 2015. In addition to constantly assessing the customers' requirements and feedback for the introduction of new products, Ujjivan has also set up a dedicated service quality department to focus on customer retention, customer protection and grievance redressal. As a result of the customer centric approach and welfare initiatives, the customer retention rates have improved from 73% in Financial Year 2010 to 88% as of December 31, 2015. In 2013, Ujjivan became one of the few MFIs in India to be certified by Smart Campaign for their standards of care in implementing their client protection principles through their operations, product offerings and treatment of clients. Further, for the Financial Years 2015, 2014 and 2013, the company has accredited by M2I, an independent rating agency, with a score of 93%, 91% and 87%, respectively, for displaying "Excellent Adherence" in the Code of Conduct Assessment. In addition to these accreditations, their customer centric approach has recognized through accolades such as the 'MIX 2013 Socially Transparent and Responsible (S.T.A.R.) MFI' award by MIX in 2013 and the 'Innovator in Responsible Business' award by Inc India magazine in 2013. Ujjivan has partner with the Parinaam Foundation for the formulation and implementation of financial literacy programs such as 'Diksha' and 'Sankalp', and continue to support them in their initiatives, which aides in raising the level of financial awareness of the customers.



Professional management, experienced leadership

Ujjivan is a professionally managed company, and their senior management team has a diversified track record in the financial services industry, with average experience of approximately 20 years in the industry. The Chief Executive Officer and Managing Director, Samit Ghosh, has over 30 years of experience in banking industry. He has been a part of the management teams at Citibank, Standard Chartered Bank, HDFC Bank and Bank Muscat. In the past, he has also served as president of MFIN, as well as the chairman of AKMI. He is currently on the board of WWB. The company Board consists of Directors with a diverse mix of experience in various sectors, in particular, the financial services industry.

Robust risk management framework

The company has an established risk management and audit framework to identify, assess, monitor and manage credit, market, liquidity and operational risks. This framework has driven actively by the Board through its Audit, Risk Management and ALCO committees and supported by an experienced senior management team. The Risk Management Committee, consisting of an independent director, the Managing Director, and two nominee directors conducts a meeting every quarter, and is responsible for the review of prudential risks including, but not limited to, credit, market, liquidity and operational risks. The company has a strong credit function, which is independent of their business and a key controller of the overall portfolio quality. They have implemented credit management models such as decentralized loan sanctioning and stringent credit history checks, which enabled them to maintain a stable portfolio quality. Their effective credit risk management reflected in their portfolio quality indicators such as robust repayment rates, stable portfolio at risk ("PAR") and low rates of GNPA and NNPA. The portfolio quality has remained consistent in spite of the increase in the size of their operations.

The company has managed operational risks by implementing best practices such as the Risk & Control Self Assessment ("RCSA") to monitor high risk areas across all departments and Key Risk Indicator -specific risks such as high staff turnover and cash handling. The focus on managing employee turnover and transition has resulted in containing their attrition rate of 17.32% as of Financial Year 2015. With respect to cash handling, over 50% of their disbursements were undertaken through the cashless route for the Financial Year 2015 and the six months period ended December 31, 2015. Because of the effective asset liability management policy, Ujjivan has able to consistently raise debt and equity to support their operations. As of December 31, 2015, their CAR has maintained at 19.64%, which is above the statutory requirement of 15%.

Microfinance Industry in India

- 1) Indian microfinance industry is dominated by NBFCs-MFI with an 88% share of the market. RBI guidelines in 2011 stipulate that all for profit microfinance institutions in India should operate as NBFC-MFIs. Not for profit institutions can operate as trusts or Section 25 companies.
- 2) As per CRISIL Research (Microfinance, November 2015), AUMs of non-Andhra Pradesh MFIs is expected to rise at 30-34% CAGR, while total AUMs of all MFIs (including those in AP) will rise at 29-31% over FY15-18. The growth in loan portfolio will be driven by non-AP states, where micro-credit penetration is low. Commercial Banks are finding it more comfortable to lend indirectly to borrowers through MFIs who are specialized institutions.
- 3) The microfinance sector in India witnessed rapid growth in the value of outstanding loans post 2000-01 once RBI granted priority sector status to bank loans advanced to MFIs.
- 4) In Union Budget 2016, the government announced setting up Micro Units Development and Refinance Agency (MUDRA), which will act as regulator for MFIs and also provide them refinancing services



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