

## Ujjivan Small Finance Bank Limited (Revised)

January 05, 2023

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	500.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
<b>Total Bank Facilities</b>	<b>500.00</b> <b>(₹ Five hundred Crore Only)</b>		
Subordinated Non-Convertible Debentures	500.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
<b>Total Long-Term Instruments</b>	<b>500.00</b> <b>(₹ Five hundred Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The rating assigned to the instruments/bank facilities of Ujjivan Small Finance Bank Limited (USFB) continues to derive strength from bank's experienced promoter group with seasoned management, improving resource profile of the bank with improvement in deposit funding, geographically well-diversified loan portfolio, comfortable capital adequacy levels aided by equity raise and accretion of profits during H1FY23. The rating also takes note of the significant decline in overall stressed asset position post peaking in H1FY22 with bank maintaining high provision coverage ratio and overall reduction in restructured portfolio. Profitability was under pressure during FY22 on account of higher provisioning leading to losses in FY22, however the profitability parameters has witnessed significant improvement during H1FY23. The rating continues to remain constrained by lack of diversity in income profile with unsecured MFI portfolio continuing to constitute 69% of loan portfolio as on September 30, 2022. Ratings also remain constrained due to exposure to inherent risk associated with marginal borrower profile of customers with majority of USFB's customers being from the economically weaker section and low-income segments. Such segments of borrowers are vulnerable to economic downturns as witnessed in sharp decline in collection efficiencies during the COVID-19 affected period leading to sharp moderation in asset quality parameters post COVID. While the bank has been able to improve its deposit base in the recent years, CASA ratio continues to be relatively moderate with CASA of 27% as on Sep 30, 2022.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant Scale up of the total business along with sustained diversification into secured asset class while maintaining asset quality on a reasonably seasoned portfolio.
- Continuous improvement in CASA proportion on a sustained basis along with improvement in quality of CASA.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in overall CAR below 18%.
- Material deterioration in asset quality impacting earnings profile of the bank.

### Detailed description of the key rating drivers

#### Key rating strengths

**Comfortable capital headroom with improvement in capital adequacy levels during H1FY23 aided by equity raise and profit accretion:** On account of losses reported and loan book growth of 20% in FY22, USFB's CAR% and Tier-I CAR witnessed moderation from 26.44% and 25.06% respectively as on March 31, 2021 to 18.99% and 17.70% as on March 31, 2022. Bank's CAR and Tier-I CAR witnessed improvement on account of equity raised by the bank aggregating Rs.475 crore on September 14, 2022 by way of QIP and was further aided by healthy profits reported by bank in H1FY23. Additionally, bank had also raised subordinated debt (Tier II bonds) of Rs.300 crore on August 26, 2022, which had shored up its capital levels and has remained comfortably above the regulatory requirements at 26.70% and 23.37% respectively as on September 30, 2022.

**Improving deposit funding:** USFB's reliance on non-deposit funding has exhibited a steady decline in the last couple of years. Deposits as a percentage of total liabilities has increased to 87.9% in FY22 (FYE21: 76.5%). The granularity of the

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

deposit base too reflected an improvement with retail deposits now constituting 54% of the total deposits at FYE22 (FYE21: 48%) and the same has witnessed improvement to 61% as on September 30, 2022. CARE Ratings understand that the bank has increased its range of deposit products to widen its customer base. However, low-cost CASA deposits remains relatively moderate at 26.9% as on September 30, 2022 and improvement in CASA proportion on a sustained basis along with improvement in quality of CASA would be key rating monitorable.

**Geographically well-diversified loan portfolio:** USFB has full-fledged banking branches of 590 as on September 30, 2022. The bank's AUM witnessed increase of 20% and 15% respectively during FY22 and H1FY23 from Rs.15,140 crore as on March 31, 2021 to Rs.20,938 crore as on September 30, 2022 spread across 24 states and UTs with active customer base of 69.4 lakhs. Top five states of Karnataka, West Bengal, Tamil Nadu, Maharashtra, and Gujarat contributed to 59.1% of the overall portfolio as on September 30, 2022 (60.3% of the overall portfolio as on March 31, 2022) with top state Tamil Nadu contributing to 15.5% of loan portfolio as on September 30, 2022.

**Experienced promoter group with seasoned management:** The present senior management team of USFB is highly experienced in financial sector. Mr. Ittira Davis is the current Managing Director (MD) and Chief Executive Officer (CEO) who replaced Mr. Nitin Chugh w.e.f. January 14, 2022. Mr. Ittira Davis has experience of over 40 years in banking industry. USFB's Board comprises of nine directors which includes MD, three Non-Executive directors and five Independent Directors with diverse experience, who bring valuable expertise to the Bank. Bank's operations are ably supported by the senior management team.

**Losses reported in FY22, however significant improvement in profitability during H1FY23:** Profitability during FY22 was affected by high credit costs. Pre-Provision Operating Profit (PPOP) also decreased by 26.26% during FY22 to Rs. 590.5 crore on account of interest reversals. Albeit decline in cost of funds from 6.93% in FY21 to 5.70% in FY22, bank's Net Interest Margin witnessed decline from 8.91% in FY21 to 8.06% in FY22 owing to decline in yield on advances from 18.22% in FY21 to 16.73% in FY22 with about 68.58% of disbursements made during H2FY22. Further bank also made interest income reversal during the year on account of higher NPA. Bank's operational efficiency also witnessed moderation with cost to income ratio of the bank increasing from 60.57% in FY21 to 71.70% in FY22. Additionally, the credit cost also stood high at Rs.1118 crore during FY22 as against Rs.790 crore during FY21 on account of provisioning made by the bank for the restructuring and slippages during the year. Consequently, the bank reported net loss of Rs.415 crore in FY22 as against net profit of Rs.8.3 crore in FY21. However, the Bank's profitability has witnessed recovery during Q4FY22 and reported PAT of Rs.127 crore.

Further, with growth in loan book and lower credit cost on account of high PCR maintained by the bank the bank reported significant improvement in profitability during H1FY23. Bank reported PAT of Rs.497 crore at ROTA of 3.95% during H1FY23 as against pre-covid profit of Rs.350 crore in FY20. Recovery in profitability was aided by improvement in NIM with increase in yields and lower interest reversals further increase in other income was aided by increase in disbursements. The profitability momentum is expected to be continued during reminder of FY23.

**Healthy asset quality marked by low net stressed asset position with bank maintaining high provision coverage ratio:** Asset quality performance was impacted by the COVID-19 led pandemic with GNPA peaking at 11.80% on September 30, 2021 from 7.07% on March 31, 2021 and gross stressed assets stood at 19.23% as on September 30, 2021. USFB had ramped up its collection efforts and collections witnessed improvement from the month of July 2021 and the collections has remained above 100% (including arrears). Consequently, GNPA levels have witnessed improvement to 7.34% as on March 31, 2022 and further to 5.06% as on September 30, 2022 despite slippages from restructured portfolio. Further, with rundown of restructured advances, gross stressed assets also declined to 9.69% as on March 31, 2022 and further to 5.27% as on September 30, 2022. Additionally, with high provisioning made during FY22 the bank's net NPA stood low at 0.61% as on March 31, 2022 (March 31, 2021: 2.93%) and 0.04% as on September 30, 2022. Bank's provision coverage stood high at 99.2% as on September 30, 2022 compared to 60.34% as on March 31, 2021. The total amount of standard restructured accounts outstanding as on September 30, 2022 stood at Rs.175 crore (0.83% of gross advances). Net stressed assets as a % of networth stood low at 4.37% as on September 30, 2022 as against 51.83% as on September 30, 2021.

However, higher delinquencies were also witnessed in non-MFI portfolio like MSE and Vehicle loan with 90+DPD of 8.31% and 9.40% respectively as on September 30, 2022.

#### **Key rating weaknesses**

**Exposure to inherent socio-economic and geo-political risks of the microfinance sector:** Share of microfinance loans continues to form a larger share of the loan book at 69.3% as on September 30, 2022 (March 31, 2022: 68.0%) which exposes the bank to the inherent risks associated with the industry. The borrower base remains vulnerable to economic downturns and political events which affects their repayment capacity. Bank over the years has diversified its non-MFI portfolio leading to a steady reduction in the composition of microfinance loan portfolio. Presently the non-MFI portfolio majorly comprises of housing

loan segment (14.7% of the total loan portfolio), loans to MSE segment (8.9% of total loan portfolio) and loans to financial institution (FIG) segments (4.5%) as on September 30, 2022. However, CARE Ratings understands that the bank will be eventually able to manage the resultant risk as the growth in the non-MFI portfolio gains traction.

### Liquidity: Adequate

According to the bank's structural liquidity statement (SLS) as on September 30, 2022, liquidity profile is comfortable with no cumulative negative mismatches in any of the time buckets. The liquidity coverage ratio of bank remained comfortable at 219% for quarter ended September 30, 2022 as against the regulatory requirement of 100%. Bank has excess SLR of Rs. 3250 crore as on September 30, 2022. Liquidity is also supported by the refinance lines available to it from SIDBI & NABARD and through sale of PSL certificate to other banks which are short of PSL targets.

### Analytical approach

Standalone

### Applicable criteria

[Financial Ratios – Financial Sector](#)  
[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)  
[Policy on Default Recognition](#)  
[Rating Methodology - Banks](#)

### About the company

USFB, incorporated on July 04, 2016 is a subsidiary of Ujjivan Financial Services Limited (UFSL). UFSL was a Bangalore based Microfinance Company registered as NBFC-MFI with RBI. It has been in microfinance lending since 2005 and has operated through joint liability group (JLG) model in urban and semi urban areas and target customers who are salaried as well as self-employed women. UFSL was one of the ten entities to be granted "in-principle" approval by Reserve Bank of India (RBI) on September 16, 2015 to set up a bank under the "Guidelines for Licensing of Small Finance Banks in the private sector" (Guidelines) issued by the RBI on November 27, 2014. Subsequently, on November 11, 2016 RBI granted the license to USFB to carry out the banking business in India. Accordingly, USFB formally commenced its operations on February 1, 2017 whereby in line with the terms with Business Transfer Agreement (BTA) effective from February 1, 2017 entered between UFSL and USFB, the entire assets/liabilities of UFSL had been transferred to USFB. As per the listing norms requirement of RBI for SFBs, Bank concluded its IPO process and got listed on NSE and BSE on December 12, 2019. Post IPO, UFSL's shareholding stands at 83.32% in USFB. As on March 31, 2022, the bank has a branch network of 590 branches and has 502 biometric ATMs. The bank has presence across 24 States and Union Territories of India, and with an overall portfolio of around Rs.20,938 crore as on September 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov)
Total operating income	3117	3126	2170
PAT	8	-415	497
Total Assets	20380	23604	26785
Net NPA (%)	2.93	0.61	0.04
ROTA (%)	0.04	-1.89	3.95

A: Audited; Prov: Provisional

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
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Fund-based-Long Term	-	-	-	March 2025	500.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE551W08013	26-08-2022	11.95%	26-04-2028	300.00	CARE A+; Stable
Debentures-Non Convertible Debentures	Proposed	-	-	-	200.00	CARE A+; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (07-Jul-20)	1)CARE A+; Stable (03-Jul-19)
2	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (30-Aug-19) 2)CARE A+; Stable (03-Jul-19)
3	Fund-based-Long Term	LT	500.00	CARE A+; Stable	1)CARE A+; Stable (05-Jul-22) 2)CARE A+; Stable (01-Apr-22)	1)CARE A+; Stable (05-Aug-21)	1)CARE A+; Stable (07-Jul-20)	1)CARE A+; Stable (03-Jul-19)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (03-Jul-19)
5	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	1)CARE A+; Stable (05-Jul-22)	-	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not Applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Fund-based-Long Term	Simple

**Annexure-5: Bank lender details for this company**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About us:

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