

Ujjivan Small Finance Bank Limited

May 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	500.00	CARE AA-; Stable	Reaffirmed
Subordinated non-convertible debentures	500.00	CARE AA-; Stable	Reaffirmed
Fixed Deposit	10,000.00	CARE AA-; Stable	Assigned

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

Ratings assigned to bank facilities and debt instruments of Ujjivan Small Finance Bank Limited (USFB) factor in the sustenance of improved profitability, good growth in business over last few years, wherein advances have seen significant growth, and comfortable capitalisation levels with bank raising capital regularly including the recent equity infusion ₹475 crore in FY23. The bank witnessed healthy profitability in all quarters of FY23 and FY24. The bank reported PAT of ₹1,281 crore in FY24 and reported as against ₹1,100 crore in FY23 (refers to April 01 to March 31) resulting in return on total asset (ROTA) of 3.5% in FY24 against 3.9% in FY23. Total capital adequacy ratio (CAR) stood at 24.69% as on March 31, 2024, as against 25.81% as on March 31, 2023. The total business witnessed 25% growth in FY24 to ₹58,345 crore as on March 31, 2024, as against ₹46,827 crore as on March 31, 2023, with growth in advances and deposits by 26% and 23% respectively in FY24. Ratings continue to derive strength from the long track record of operations with seasoned management, bank's improving resource profile with improvement in deposit franchise and the geographically well-diversified loan portfolio.

Ratings also take note of the bank's improving asset quality, with a decline in the overall stressed asset portfolio, and a resultant improvement in profitability indicators. The gross non-performing assets (GNPA) and net non-performing assets (NNPA) ratios improved from 7.34% and 0.61% as on March 31, 2022, to 2.88% and 0.04% as on March 31, 2023, and further to 2.23% and 0.28% respectively as on March 31, 2024.

Ratings continue to remain constrained by the lack of diversity in income profile with the unsecured micro-banking-joint liability group (JLG) segment continuing to constitute 54% of the loan portfolio as on March 31, 2024. In addition, individual loans under micro-banking stood at 16% as on March 31, 2024. Ratings also remain constrained due to the exposure to the inherent risk associated with the marginal borrower profile of customers, with the majority of USFB's customers being from the economically-weaker section (EWS) and low-income group (LIG) segments. While the bank has been able to improve its deposit base in recent years, the current account savings account (CASA) ratio continues to be relatively moderate with a CASA of 26% as on March 31, 2024 (26% as on March 31, 2023).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively, lead to positive rating action/upgrade:

- Scale up of the total business along with diversification into a secured asset class comprising 50% of portfolio.
- Continuous improvement in the CASA proportion on a sustained basis.

Negative factors – Factors that could individually or collectively, lead to negative rating action/downgrade:

- Significant deterioration in profitability with ROTA below 1%.
- Material deterioration in the asset quality.
- Decline in the total CAR below 18%.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach: Standalone**Outlook:** Stable

The stable outlook reflects the likely continuation of steady growth in advances with comfortable capitalisation levels and healthy profitability levels while maintaining stable asset quality.

Detailed description of the key rating drivers**Key strengths****Established track record of the bank**

USFB, incorporated in 2016, is a subsidiary of Ujjivan Financial Services Limited (UFSL). UFSL was a Bengaluru-based microfinance company registered as a non-banking financial company-microfinance institution (NBFC-MFI) with the Reserve Bank of India (RBI). The entity has a long track record in the microfinance segment since 2005. Subsequently, the RBI granted the license to carry out the banking business. USFB commenced operations in 2017. The present senior management team of USFB is highly experienced in the financial sector. Ittira Davis is the current Managing Director (MD) and Chief Executive Officer (CEO), who has an experience of over 40 years in the banking industry. USFB's board comprises nine directors, which includes the MD, an executive director, a non-executive director, and six independent directors with diverse experience, who bring valuable expertise to the bank. The bank's operations are ably supported by the senior management team.

Comfortable capitalisation levels

Owing to 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%, respectively, as on March 31, 2022. However, the bank's CAR and Tier-I CAR witnessed improvement considering the equity raised by the bank aggregating to ₹475 crore in H1FY23 by way of qualified institutional placement (QIP) and was further aided by healthy profits reported by the bank in FY23. Additionally, the bank had also raised subordinated debt (Tier-II bonds) of ₹300 crore, which had shored up its capital levels and has remained comfortably above the regulatory requirements with the CAR at 25.81% and Tier-I CAR at 22.68% as on March 31, 2023. Supported by strong internal accruals, capital adequacy continues to remain comfortable with Total CAR and Tier-I CAR at 24.69% and 22.58% as on March 31, 2024 despite the growth in advances of 26% during FY24. CARE Ratings Limited (CARE Ratings) expects the CAR levels to remain comfortable and is expected to support the growth over the medium term.

Improved deposit funding, however, CASA remains moderate

Deposits as a percentage of the total liabilities has increased to 87.7% as on March 31, 2023 (FY22: 87.9% and FY21: 76.5%) and remains at 86.1% as on December 31, 2023. The term loans from the RBI and financial institutions formed the remaining portion of the resource profile. The granularity of the deposit base also reflected an improvement, with retail deposits constituting 61% of the total deposits as on March 31, 2023, and 63% as on December 31, 2023.

However, the low-cost CASA deposits remain relatively moderate at 26.4% as on March 31, 2023, and further remains stable at 26.5% as March 31, 2024. Thus, an improvement in the CASA proportion on a sustained basis along with an improvement in the quality of the CASA will be key rating monitorable.

Geographically well-diversified loan portfolio

USFB has full-fledged banking branches of 629 as on March 31, 2023 and 752 as on March 31, 2024. The bank's advances witnessed a growth of 31% in FY23 from ₹16,303 crore as on March 31, 2022, to ₹21,290 crore as on March 31, 2023 and

further 26% growth in FY24 to ₹26,883 crore as on March 31, 2024, spread across 26 states and Union Territories (UTs) with an active customer base of 86 lakh. The top five states of Karnataka, West Bengal, Tamil Nadu, Maharashtra, and Gujarat contributed to 57.9% of the overall portfolio as on March 31, 2023 (60.3% of the overall portfolio as on March 31, 2022) and 56.3% of overall portfolio as on March 31, 2024, with the top state Tamil Nadu contributing to 15.5% of the loan portfolio as on March 31, 2023 (PY: 15.5% as on March 31, 2022) and 14.1% as on March 31, 2024. CARE Ratings expects the geographical diversification of advances to continue in the medium term.

Profitability remains healthy in FY24

The bank's profitability was impacted in FY21 and FY22, with interest reversals due to higher slippages on account of the COVID-19-induced pandemic, which resulted in higher credit costs. However, with an improvement in collections, reduced slippages and improved recoveries, the profitability witnessed improvement in FY23. The net interest margin (NIM) improved in FY23 to 9.5% from 8.1% in FY22, supported by improved yields. The operating expenses/average total assets declined to 6.3% in FY23 from 6.8% in FY22. The cost-to-income witnessed an improvement to 54.8% in FY23 from 71.7% in FY22.

Thus, the bank reported a pre-provision operating profit (PPOP) of ₹1,485 crore in FY23 as against ₹637 crore in FY22. The credit cost reduced significantly to 0.1% in FY23 from 5.4% in FY22. Thus, the bank reported a PAT of ₹1,100 crore in FY23 as against a loss of ₹415 crore in FY22, and ROTA of 3.9% in FY23.

During FY24, the bank reported PAT of ₹1,281 crore and reported ROTA of 3.5%. ROTA witnessed moderation in FY24 on account of reduction in Net Interest margin and increase in credit cost. However, ROTA continues to be healthy. CARE Ratings expects the profitability to remain stable over the medium term.

Healthy asset quality marked by low net stressed asset position with the bank maintaining a high provision coverage ratio (PCR)

The asset quality performance was impacted by the COVID-19-led pandemic, with the GNPA peaking at 11.80% as on September 30, 2021, from 7.07% on March 31, 2021. USFB had ramped-up its collection efforts and the collections witnessed improvement from the month of July 2021 and has remained above 100% (including arrears). Consequently, the GNPA levels have witnessed an improvement to 7.34% as on March 31, 2022, and further to 2.88% as on March 31, 2023, aided by lower slippages, better recovery, and write-offs in FY23. The bank has written-off loans aggregating to ₹483 crore in FY23 (PY: ₹789 crore). GNPA continues to improve and stood at 2.23% as on March 31, 2024. Additionally, the bank continues to make aggressive provisioning for the NPAs, thus NNPA remains low at 0.04% as on March 31, 2023 (March 31, 2022: 0.61%) and remains stable at stood at 0.28% as on March 31, 2024. The bank's PCR stood high at 98% as on March 31, 2023 (PY: 92%) and 87% as on March 31, 2024

Furthermore, with a rundown of restructured advances, the gross stressed assets (GNPA + standard restructured advances) also declined to 3.17% as on March 31, 2023, as against 10.06% as on March 31, 2022. Gross stressed assets improved further and stood at 2.34% as on March 31, 2024. The total amount of standard restructured accounts outstanding stood at ₹65 crore (0.30% of the gross advances (excluding IBPC/Securitisation) as on March 31, 2023, and at ₹29 crore as on March 31, 2024 (0.1% as on of gross advances (Excluding IBPC/Securitisation) as on March 31, 2024. The net stressed assets as a percentage of the net worth stood low at 1.60% as on March 31, 2023, as against 18.82% as on March 31, 2022, and remained at 1.36% as on March 31, 2024.. However, higher delinquencies were also witnessed in the non-MFI portfolio such as mid-size enterprise (MSE) and vehicle loan with 90+DPD of 8.80% and 6.20%, respectively, as on March 31, 2023 (11.09% and 7.09%, respectively, as on March 31, 2022). CARE Ratings expects the asset quality to remain stable over the medium term.

Key weaknesses

Exposure to inherent socio-economic and geo-political risks of the microfinance sector

The share of micro-banking loans continues to form a larger share of the loan book at 70% with group loans (GL): 54% and individual loans (IL): 16% as on March 31, 2024, exposing the bank to the inherent risks associated with the industry. The share of the borrower base remains vulnerable to economic downturns and political events, which affects their repayment capacity. Over the years, the bank has diversified its non-MFI portfolio, leading to a steady reduction in the composition of the microfinance loan portfolio. While the overall share of micro banking continues to be at 70% as on March 31, 2024, and 72% as on March 31, 2023, CARE Ratings notes that there is decline in proportion of group loans from 59.1% as on March 31, 2023 to 54% as on March 31, 2024, and increase in individuals loans from 13% as on March 31, 2023 to 16% as on March 31, 2024.

At present, the non-micro-banking portfolio mainly comprises the housing loan segment (14% of the total loan portfolio), loans to the MSE segment (7% of the total loan portfolio), and loans to the financial institution group (FIG) segments (5%) as on March 31, 2023. As on March 31, 2024, housing loan segment comprised 17% of total loan portfolio, loans to MSE segment comprised 5.0%, loans to FIG comprised 6% and others comprised 3% of total loan portfolio. 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

The liquidity profile of the bank stood comfortable, with no negative cumulative mismatches up to one year as per the asset liability management (ALM) statement as on March 31, 2024. USFB had excess statutory liquidity ratio (SLR) investments of ₹3,848 crore as on March 31, 2024. USFB's liquidity coverage ratio remained comfortable at 173% as on December 31, 2023, against the minimum regulatory requirement of 100%.

Environment, social, and governance (ESG) risks

With sustainability factoring to be a crucial aspect, the bank expects to expand the scope towards ESG, starting from banking products and services, operations, and to all stakeholders. The ESG aspects are an integral part of the bank's core principles. Initiatives towards optimal resource utilisation in the bank's operations and digitalisation of its products and services are some of the bank's key focus areas with respect to environment parameters. The bank follows responsible business practices during the procurement of goods, such as energy-efficient appliances across their offices, branches, and ATMs pan-India.

USFB focuses on social uplifting of the people who aspire in the lower middle class and in the middle-class ladder. The bank focuses on improving customer satisfaction by providing seamless banking experience, doorstep services, benefits, and financial literacy, among others. The bank carries out corporate social responsibility (CSR) activities to help in the progress of society, in terms of educational support, basic infrastructure facilities (water, sanitation, and medical) and financial literacy. A defined policy, procedure and governance is established for safeguarding the risk. The bank has a comprehensive ERM framework along with environment and social risks integrated in risk assessment process and has protocols and governance mechanisms established across for identified risks.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Bank](#)

[Financial Ratios - Financial Sector](#)

[Rating Basel III - Hybrid Capital Instruments issued by Banks](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Banks	Other bank

Incorporated on July 04, 2016, USFB is a subsidiary of UFSL. UFSL was a Bengaluru-based microfinance company registered as an NBFC-MFI with the RBI. It has been involved in microfinance lending since 2005 and has operated through the JLG model in urban and semi-urban areas and targets customers who are salaried as well as self-employed women. UFSL was one of the 10 entities to be granted 'in-principle' approval by the 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, the 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 of the Business Transfer Agreement (BTA) effective from February 1, 2017, entered between UFSL and USFB, the entire assets and liabilities of UFSL had been transferred to USFB. As per the listing norms requirement of RBI for small finance banks (SFBs), the bank concluded its initial public offering (IPO) process and got listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) on December 12, 2019. Post the IPO, UFSL's shareholding stands at 83.32% in USFB. The bank was in the process of reverse merger, and accordingly, USFL diluted its shareholding in USFB by way of QIP and had raised fresh equity of ₹475 crore on September 14, 2022, to meet the minimum public shareholding criteria of 25%. Post the QIP, USFL's shareholding stood at 73.7% as on March 31, 2023 and 73.5% as on March 31, 2024. Further, the record date for allotment of shares was fixed on May 03, 2024, and the process will be completed in due course.

As on March 31, 2024, the bank has a branch network of 752 branches and has 596 biometric ATMs. The bank has a presence across 26 states and UTs in India and with an overall advance of around ₹29,780 crore as on March 31, 2024 (March 31, 2023: ₹24,085 crore), primarily spread across the micro-banking segment (GL: 54% and IL: 16%), retail housing (17%), MSE loan (5%), FIG (6%), and others (3%).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023(A)	March 31, 2024(A)
Total operating income	3,173	4,754	6,464
PAT	(415)	1,100	1,281
Total assets	23,612	33,317	40,422
Net NPA (%)	0.61	0.04	0.28
ROTA (%)	NM	3.86	3.5

A: Audited; UA: Unaudited; Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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
Fund-based-Long term	-	-	-	March 2025	500.00	CARE AA-; Stable
Debentures-Non-convertible debentures	INE551W08013	26-08-2022	11.95%	26-04-2028	300.00	CARE AA-; Stable
Debentures-Non-convertible debentures	Proposed	-	-	-	200.00	CARE AA-; Stable
Fixed Deposit	-	-	-	-	10000.00	CARE AA-; 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-Long Term	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Stable (03-Jan-24) 2)CARE A+; Positive (03-Aug-23)	1)CARE A+; Stable (05-Jan-23) 2)CARE A+; Stable (05-Jul-22) 3)CARE A+; Stable (01-Apr-22)	1)CARE A+; Stable (05-Aug-21)
2	Debentures-Non Convertible Debentures	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Stable (03-Jan-24) 2)CARE A+; Positive (03-Aug-23)	1)CARE A+; Stable (05-Jan-23) 2)CARE A+; Stable (05-Jul-22)	-
3	Fixed Deposit	LT	10000.00	CARE AA-; Stable				

LT: Long 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 the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Fixed Deposit	Simple
3	Fund-based-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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 for any clarifications.

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About us:

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