Ujjivan Small Finance Bank Limited

September 06, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long-term Bank Facilities	6,000	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Non- Convertible Debentures- (NCD V)	40	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Non- Convertible Debentures- (NCD VI)	60	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Non- Convertible Debentures- (NCD VII)*	-		Withdrawn
Non- Convertible Debentures- (NCD VIII)*	-		Withdrawn
Non- Convertible Debentures- NCD IX	100	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total Facilities	**6,200 (Rupees Six Thousand Two Hundred crore only)**		

** Withdrawal based on the confirmation from the debenture trustee on the redemption of the Non-Convertible debentures of Rs. 100 crore(NCD VII) and Rs. 100 crore(NCD VIII) .*

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities and debt instruments of Ujjivan Small Finance Bank Limited (USFB) continues to factor in the successful commencement of banking operations, experienced promoter group with seasoned management, adequate capitalization levels and inheritance of geographically well-diversified client portfolio and well-developed portfolio management systems from Ujjivan Financial Services Limited (UFSL).

The rating is, however, constrained due to USFB's foray into newer area of general banking business which is characterized by intense competition and impact on the near term profitability arising on account of staffing, regulatory compliance and technology and infrastructure spending. The rating takes into account the impact of demonetization resulting in moderation in asset quality and profitability during Q4FY17 (refers to the period January 2017 to March 2017) and Q1FY18 (refers to the period April 2017 to June 2017).

The prospects of USFB will be linked to the stabilization of operations of the Small finance bank while improving asset quality and profitability and maintaining liquidity and capitalization at healthy levels.

Detailed description of the key rating drivers

Experienced promoter group with seasoned management

The senior management team of USFB is largely stable and highly experienced in the financial sector. The Managing Director (MD) and Chief Executive Officer (CEO), Mr Samit Ghosh is a veteran banker with over three decades of experience. He is well assisted by highly qualified board and experienced senior management team.

Transition of UFSL from NBFC-MFI to Small Finance Bank and successful commencement of banking operations

USFB commenced banking operations from February 01, 2017 post compliance of various SFB guidelines issued by RBI including raising adequate funds to comply with the CRR and SLR requirements and capping foreign institutional investors' holding to 49%. As on June 30, 2017 UFSL had 457 branches of which 35 branches are expected to be merged. Post merger, the total number of branches would be 422, all of which are planned to be converted into Small Finance Banks branches in a phased manner.

On technology, USFB will have to incur one time capex and additional investment over the next few years. To meet the staffing requirements and increase the depth of the organisation, recruitment at various organisation levels is being done.

Inheritance of geographically well-diversified client portfolio

[2]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

UFSL has transferred its interest in business undertaking (including the entire assets and liabilities forming part thereof) to USFB. UFSL, with an operational track record of more than a decade had witnessed robust growth in business and profitability. The portfolio of Rs.6110.7 crore (as on June 30, 2017) is geographically diversified in 24 states.

Moderation in Asset Quality

UFSL had maintained good asset quality. Gross NPA% was 0.15% and the Net NPA% has been negligible at 0.04% as on March 31, 2016. However, following demonetization which disrupted currency supply, the asset quality moderated with stagnation in overdues from the November 2016 - January 2017 period. As a result, the Gross NPA% and Net NPA moderated to 6.16% and 2.30% as on June 30, 2017 from 0.28% (3.69% excluding RBI dispensation) and 0.03% as on March 31, 2017. As on June 30, 2017, PAR>0 stood at Rs.571cr, which is 8.84% of total AUM. USFB's ability to improve asset quality and collections would be crucial going forward.

Comfortable capital adequacy

UFSL has a track record of regular equity infusion in the past with demonstrated ability to raise capital. During FY17, UFSL raised Rs.358 crore of equity capital, which bolstered the capitalization levels. The CAR declined to 19.53% as on March 31, 2017 from 24.14% as on March 31, 2016 due to changes in regulatory guidelines from NBFC to Bank. CAR stood at 19.83% (Tier I: 19.83%) as on June 30, 2017.

Access to diversified resource profile

As on March 31, 2017, major source of external funding of UFSL had been interbank borrowings and FIs. UFSL also raised NCD issues during FY17 (refers to the period April 1 to March 31). Post conversion into an SFB, granularity in liability profile is expected to be one of the key benefits for USFB. Given the large active customer base, USFB is in a position to create a strong retail deposit franchise. The bank has received Scheduled Commercial Bank Status on August 25, 2017 which is expected to ease the mobilization of deposits from other sources.

Healthy earnings profile in FY17, however moderated in Q1FY18

UFSL has a healthy earnings profile with a NIM of 10.12% and ROTA of 2.95% in FY17, though moderated from FY16 levels of 10.70% and 3.67% respectively. However, transition cost associated with SFB conversion, increase in operating expense and due to change in asset and liability mix as a SFB, profitability was expected to be impacted. Accordingly, the cost to income ratio has increased to 77.87% in Q1FY18 from 53.32% in FY17. The profitability parameters have taken a hit in Q1FY18, on account of interest reversal on substandard assets and higher interest cost following higher borrowings to maintain the statutory SLR and CRR requirements. Consequently NIM moderated to 7.67% in Q1FY18.

Further due to moderation and delayed payments, USFB has made a provision of Rs.150 crore during Q1FY18 including accelerated provisioning of Rs. 43 crore on certain accounts. Resultantly the bank reported a net loss of Rs.74.5 crore in Q1FY18. With provisions expected to have peaked in Q1, monitoring the asset quality efficiently thereby controlling incremental slippages and effecting recoveries from overdue accounts is crucial, which would otherwise impact the earnings profile of the bank.

Applicable Criteria

CARE's Policy on Default Recognition
CARE's Criteria on assigning Outlook to Credit Ratings
Bank - CARE's Rating Methodology For Banks
Financial Sector

Background

USFB, incorporated on July 04, 2016 is a wholly owned subsidiary of 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 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. UFSL was given 18 months to comply with the requirements under the guidelines issued and fulfill such other conditions as stipulated by the RBI. 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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,029.30	1,401.25
PAT	177.20	207.65
Interest coverage (times)	1.73	1.76
Total Assets	5,695.80	8,367.21
Net NPA (%)	0.04	0.03
ROTA (%)	3.67	2.95

A- Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact
Name: Mr Karthik Raj K
Tel: 080 - 46625555
Mobile: +91 9980562244
Email: karthik.raj@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	August 2026	1500.00	CARE A+; Stable
Fund-based-Long Term	-	-	August 2026	4500.00	CARE A+; Stable
Debentures-Non Convertible Debentures	July 01, 2014	12.60%	May 28, 2019	60.00	CARE A+; Stable
Debentures-Non Convertible Debentures	July 30, 2013	12.75%	July 30, 2019	40.00	CARE A+; Stable
Debentures-Non Convertible Debentures	July 23, 2015	12.35%	August 05, 2021	100.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term	LT	1500.00	CARE A+;	1)CARE A+;	-	-	-

	Loan			Stable	Stable (12-Apr-17)			
2.	Debentures-Non Convertible Debentures	LT	-	-	1)CARE A+; Stable (12-Apr-17)	-	-	-
3.	Debentures-Non Convertible Debentures	LT	40.00	CARE A+; Stable	1)CARE A+; Stable (12-Apr-17)	-	-	-
4.	Debentures-Non Convertible Debentures	LT	-	-	1)CARE A+; Stable (12-Apr-17)	-	-	-
5.	Debentures-Non Convertible Debentures	LT	100.00	CARE A+; Stable	1)CARE A+; Stable (12-Apr-17)	-	-	-
6.	Fund-based-Long Term	LT	4500.00	CARE A+; Stable	1)CARE A+; Stable (12-Apr-17)	-	-	-
7.	Debentures-Non Convertible Debentures	LT	60.00	CARE A+; Stable	1)CARE A+; Stable (12-Apr-17)	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691