

BEST SMALL
FINANCE BANK
& BEST BANK IN
INNOVATION
**UJJIVAN SMALL
FINANCE BANK**

BEST FOOT FORWARD Ittira Davis is the MD and CEO of the Bengaluru-based Ujjivan Small Finance Bank

PHOTO BY MILIND SHELTE

A SMALL BANK WITH A BIG ROAR

Ujjivan Small Finance Bank is a new entrant in the banking space. But in a short span of time, it is already planning to hit the big league

BY ASHISH RUKHAIYAR



UJJIVAN SMALL FINANCE BANK, although a new entrant in the banking space—being in

business only since 2017—has already made a name for itself. Having already attained significant scale in just seven years, the Bengaluru-based small finance bank (SFB) is now poised to enter the major league, ready to challenge more established players in the banking sector.

The SFB, slated to conclude the current fiscal year with over 750 branches, is strategically expanding its presence into major urban centres to capitalise on low-cost current and savings accounts (CASA) deposits, and a recent branch inauguration in Mumbai's financial hub near BSE underscores this initiative. Concurrently, the bank is enhancing its service offerings, with a particular emphasis on expanding its mutual funds and gold loan portfolios. Additionally, it is actively exploring avenues to augment the proportion of secured loans within its overall lending portfolio, which presently stands at 28%.

Moreover, the SFB is implementing a comprehensive restructuring of its housing loan product, prioritising accessibility and streamlining turnaround times. This initiative is imperative as the bank faces stiff competition from both the larger banks and also non-banking financial companies (NBFCs).

In fact, highlighting the challenge, Ujjivan's MD & CEO, Ittira Davis, points out that people still need to be told what an SFB is. "When you look at different banks, SFBs come in between the private and co-operative banks. You still have to explain to people what a small finance bank means," he says. Davis is the third CEO of the bank in the last seven years.

The SFB's business model is

known to be centred on unsecured micro loans, which enables it to provide higher interest rates to depositors, leveraging the higher pricing of these loans. While this strategy might be prone to greater risks, it not only allows for competitive interest rates on deposits but also enhances profit margins.

But within this business model for an SFB, how does Ujjivan's strategy fit in? Davis explains that getting a deposit-taking licence was an important step for the bank.

"By getting a deposit-taking licence as a bank, we were able to

between somebody who is doing well and not so well," Davis explains.

Currently, the bank's asset mix includes micro group loans (56%), individual loans (16%), affordable housing (16%), and MSMEs (5%).

The bank is also coming to the metros with an eye on deposit mobilisation—the recent branch openings in cities like Mumbai and Delhi is a case in point.

"These are not big branches and the main purpose is deposit taking. If later on we find that there is demand for other prod-

TOP 5 INDIAN SMALL FINANCE BANKS

RANK	BANKS	TOTAL ASSETS (₹ CR)	NET NPA (%)	COST TO INCOME RATIO	ROCE (%)	CAPITAL ADEQUACY (%)
1	Ujjivan Small Finance Bank	33,317	0.04%	0.55	31.37%	25.81%
2	AU Small Finance Bank	90,216	0.49%	0.63	15.44%	23.59%
3	Utkarsh Small Finance Bank	19,118	0.39%	0.54	22.64%	20.64%
4	Equitas Small Finance Bank	34,958	1.21%	0.63	12.20%	23.80%
5	Jana Small Finance Bank	25,644	2.64%	0.56	17.08%	15.57%

Total assets in ₹ crore; data for FY23

Source: BT-KPMG Best Banks and NBFCs Survey 2022-23

manage the liability side of the balance sheet. The premium we pay vis-à-vis others is primarily because of the differentiated licence we have. Even an HNI (high net worth individual) who wants a higher interest rate can come to us. They can put some portion of their funds with us and to that extent we serve that customer as well," he says.

At the close of the Q3FY24, the bank's CASA ratio was reported at 25.5%. "The difference is that we are taking credit risk and if you know how to manage credit risk, then that is going to differentiate

ucts, we will introduce them gradually," says Davis.

Furthermore, it is also focusing on improving the quality of its loan book by enhancing the share of the secured loans as the current mix is around 72:28 (72% being unsecured).

This assumes significance as its competitors, such as Utkarsh Small Finance Bank, Jana Small Finance Bank, among others, currently have a higher share of secured loans in their respective portfolios.

"If you are in micro finance,

you have to do unsecured portfolio. Once you graduate to a bank, the comfort level changes and you may have to do 60:40 (60% unsecured and the rest secured) which we are aiming to achieve in the next three years," says Davis.

But that's not the only thing it is aiming to do. Gold loans, mutual funds, housing loans and even tying up with fintechs are high on the bank's radar.

"We are trying to provide as many services and across a bigger spectrum so that they [customers] stay with us," says Davis.

In the realm of housing loans, which constitute 15% of the bank's total loan portfolio, the bank has revamped its offerings by introducing a hub-and-spoke model. This initiative aims to expand its customer reach and streamline processing times for improved efficiency.

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"It is like a hub-and-spoke model in bigger cities...by end of the current fiscal we will have 16 such centres and we will add a few more every year," says Davis.

As per Davis, the partnership with fintech firms is for lead generation, with the bank conducting thorough due diligence. Additionally, the bank has ventured into capital market services, having already collaborated with SMC Global for demat services. Next in line is the exploration of mutual fund offerings, with plans under way for potential partnerships. "We will tie up with some mutual funds as well. Setting up a mutual fund business and managing it is an expensive business so we can partner with experts who are already doing it," says Davis.

According to Shreyansh Shah, research analyst at the brokerage firm Stoxbox, Ujjivan's resilience is evident in the fact that it has maintained margins at 8.9% in 9MFY24, despite facing chal-

EMPOWERED BANKING

► **Voice. Vernacular. Visual.** These three aspects of the 'Hello Ujjivan' app, or the so-called 3V approach, did the trick for Ujjivan Small Finance Bank and helped the lender emerge as the winner in *BT-KPMG's Best Bank in Innovation* category.

Launched a little over a year ago, the app, which is currently available in nine languages—Hindi, Marathi, Bengali, Tamil, Gujarati, Kannada, Odia, Assamese and English—has been a huge hit with the bank customers, especially those who are illiterate or semi-literate. Further, the voice feature of the app has been a huge hit with the bank's women customers of the Bengaluru-based small finance bank (SFB).

"Semi-literate or illiterate customers identify certain words with pictures. While it is an Android-only app, the combination of visual, vernacular and voice has helped a lot of customers, especially women who are comfortable with voice search," says Ittira Davis, the lender's MD & CEO.

The app adapts to users' dialects and responds accordingly, providing visual aids and voice guides in their chosen language for seamless banking tasks like paying loan EMIs, opening deposits, transferring funds, and more.

The popularity of the app can be seen in the fact that it already has over 500,000 downloads and a four-star rating on Google Play Store. The bank anticipates two million downloads in the first three years, with five million monthly transactions. Additionally, it leverages its 750 branches to train customers hesitant about technology.

This assumes significance as SFBs typically have the bulk of customers based in Tier 2 and 3 locations. The regulatory compliance also mandates that SFBs have at least 25% of the branches in rural and unbanked areas.

'Hello Ujjivan' has been created by the bank in collaboration with Navana.AI, a tech firm that specialises in designing speech recognition and generative AI powered solutions for companies.

lenges in the market. "Looking ahead to FY24, we anticipate the bank to sustain net interest margins around 9% through proactive loan repricing measures. However, the intensifying competition in the SFB space presents a potential challenge," says Shah.

And, it seems that the market is also betting big on the banking entity. In the last one year, shares

of Ujjivan SFB have more than doubled even as the benchmark 30-share Sensex has moved up by around 23%. Even the *BT-KPMG* jury was impressed, picking it for the Best Indian Bank in Innovation award. Plus, the bank was also adjudged the Best Small Finance Bank based on a quantitative analysis. **BT**

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GROUP-V SMALL FINANCE BANKS

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RANK FY23	RANK FY22	Bank	GROWTH (%)										SIZE (₹ CRORE)						
			Growth in total deposits	Growth in loans and advances	Growth in fee income	Growth in operating profit	Absolute increase in market share of deposits	Absolute increase in market share of CASA	3-year CAGR of total deposits	3-year CAGR of loans and advances	3-year CAGR of fee income	3-year CAGR of operating profit	Deposits	Operating profit	Balance sheet size	Increase in gross NPAs (%)	NPA coverage (%)	Net NPA/ Net advances (%)	GNPA/ Gross Advances
1	8	Ujivan Small Finance Bank	39.61% 1	30.59% 3	70.90% 4	133.09% 1	0.03% 2	0.02% 2	33.31% 3	14.88% 9	22.89% 6	32.58% 5	25,538 2	1,485.0 2	33,317 3	1.78% 1	79.54% 2	0.04% 1	2.88% 5
2	1	AU Small Finance Bank	31.91% 6	26.74% 5	26.79% 8	11.26% 8	0.06% 1	0.08% 1	38.40% 1	29.35% 1	26.39% 5	19.04% 7	69,365 1	2,019.5 1	90,216 1	2.37% 2	70.84% 3	0.49% 3	1.66% 1
3	2	Utkarsh Small Finance Bank	36.09% 2	27.77% 4	59.49% 5	63.76% 4	0.01% 4	0.01% 3	37.84% 2	27.66% 3	45.17% 1	33.76% 4	13,710 6	838.3 6	19,118 6	4.47% 4	66.82% 4	0.39% 2	3.23% 7
4	4	Equitas Small Finance Bank	33.93% 4	33.16% 2	30.90% 7	34.87% 5	0.02% 3	0.00% 5	33.00% 4	23.40% 4	32.41% 4	25.32% 6	25,381 3	1,176.0 3	34,958 2	4.81% 5	56.90% 6	1.21% 5	2.76% 3
5	6	Jana Small Finance Bank	20.67% 8	36.54% 1	95.07% 2	74.06% 3	0.01% 5	0.00% 8	19.17% 9	21.28% 6	14.68% 9	52.78% 1	16,334 4	1,000.4 4	25,644 4	8.52% 8	34.01% 10	2.64% 10	3.94% 8
6	-	ESAF Small Finance Bank	14.44% 9	19.66% 8	94.69% 3	81.70% 2	0.00% 8	0.00% 10	27.79% 6	28.60% 2	42.06% 2	40.14% 3	14,666 5	893.7 5	20,224 5	5.63% 6	55.11% 7	1.13% 4	2.49% 2
7	3	Fincare Small Finance Bank	24.43% 7	23.67% 7	19.10% 9	3.48% 9	0.00% 7	0.00% 6	19.96% 8	21.80% 5	18.00% 8	9.43% 8	8,033 7	443.1 7	12,468 7	7.58% 7	60.82% 5	1.30% 6	7.79% 9
8	5	Capital Small Finance Bank	8.51% 10	17.13% 9	-3.16% 10	31.35% 6	0.00% 10	0.00% 9	13.84% 10	17.95% 8	11.70% 10	41.72% 2	6,561 8	148.7 9	7,991 9	3.07% 3	51.49% 8	1.36% 7	2.77% 4
9	7	Suryoday Small Finance Bank	34.07% 3	26.61% 6	33.52% 6	27.39% 7	0.00% 6	0.00% 7	21.95% 7	19.42% 7	18.26% 7	3.33% 9	5,167 9	337.5 8	9,861 8	9.39% 9	51.43% 9	1.55% 8	3.13% 6
10	9	North East Small Finance Bank	33.42% 5	-1.47% 10	123.52% 1	-78.30% 10	0.00% 9	0.00% 4	31.84% 5	5.94% 10	36.30% 3	-36.99% 10	2,040 10	13.9 10	2,710 10	16.50% 10	92.18% 1	1.69% 9	18.20% 10

29.35

PER CENT

Three-year annualised growth (CAGR) in loans and advances witnessed by AU Small Finance Bank, the highest among small finance banks



QUALITY OF ASSETS						PRODUCTIVITY & EFFICIENCY					QUALITY OF EARNINGS					CAPITAL ADEQUACY & LIQUIDITY COVERAGE			
Secured Advances / Total Advances (net)	Divergence in gross NPA ratio (%)	Divergence in provision for NPA (%)	Deposits of 20 largest depositors (% of total)	Advances to 20 largest borrowers (% of total)	Exposure to 20 largest borrowers (% of total)	Cost/Income ratio	Cost/Average asset ratio	Absolute increase in return on assets	Profit per employee	Increase in operating profit/Total income (%)	Return on average assets (%)	Fee income/Total income (%)	ROCE (%)	NIM (%)	Penalties (₹ crore)	CAR (%)	Tier I (%)	LCR ratio (%)	
31.96%	0.00%	0.00%	18.29%	3.73%	3.73%	0.55	0.06	5.06%	0.06	55.55%	3.86%	12.37%	31.37%	9.89%	0.00	25.81%	22.68%	183.86%	
8	1	1	6	5	4	2	6	1	2	1	3	1	2	1	2	3	7		
91.89%	0.00%	0.00%	14.47%	2.32%	4.07%	0.63	0.04	0.02%	0.05	-16.73%	1.76%	11.68%	15.44%	5.62%	0.05	23.59%	21.78%	127.00%	
2	1	1	3	3	6	7	2	9	4	9	4	6	6	9	7	4	4	10	
33.08%	0.00%	0.00%	21.04%	4.90%	5.54%	0.54	0.06	1.71%	0.03	18.75%	2.37%	10.67%	22.64%	9.36%	0.00	20.64%	18.25%	240.39%	
7	1	1	8	7	8	1	5	3	5	4	2	8	2	4	1	5	6	2	
81.71%	0.00%	0.00%	16.21%	3.87%	3.88%	0.63	0.07	0.60%	0.03	11.58%	1.85%	13.42%	12.20%	8.57%	0.00	23.80%	23.08%	190.76%	
3	1	1	5	6	5	8	8	7	5	6	3	2	7	6	1	3	2	5	
55.21%	0.00%	0.00%	14.58%	6.23%	6.23%	0.56	0.06	0.97%	0.02	43.50%	1.12%	16.84%	17.08%	7.45%	0.00	15.57%	13.02%	603.75%	
5	1	1	4	9	9	3	3	5	7	2	7	1	4	7	1	9	9	1	
24.65%	0.00%	0.00%	9.77%	3.44%	3.44%	0.58	0.06	1.19%	0.06	24.21%	1.59%	11.54%	19.34%	10.06%	0.01	19.83%	18.12%	137.61%	
10	1	1	2	4	3	4	7	4	3	3	5	7	3	1	6	7	7	9	
44.29%	0.00%	0.00%	18.97%	2.13%	2.13%	0.66	0.07	0.78%	0.01	-13.64%	0.89%	12.04%	8.24%	9.76%	0.00	20.04%	18.64%	188.60%	
6	1	1	7	2	2	9	10	6	9	8	8	4	8	3	1	6	5	6	
99.86%	47.66%	0.00%	3.89%	5.39%	5.39%	0.60	0.03	0.30%	0.09	14.50%	1.24%	6.47%	16.62%	4.40%	0.06	18.87%	13.69%	210.32%	
1	10	1	1	8	7	5	1	8	1	5	6	10	5	10	8	8	8	3	
31.36%	0.00%	0.00%	24.30%	9.66%	10.57%	0.60	0.06	1.93%	0.01	2.95%	0.86%	10.37%	5.03%	8.69%	0.58	33.72%	30.84%	193.46%	
9	1	1	9	10	10	6	4	2	8	7	9	9	9	5	10	1	1	4	
65.81%	0.00%	0.00%	42.00%	1.07%	0.93%	0.93	0.07	-2.62%	-0.10	-78.74%	-8.42%	11.71%	-113.15%	6.71%	0.40	5.50%	2.75%	143.25%	
4	1	1	10	1	1	10	9	10	10	10	10	5	10	8	9	10	10	8	

Numbers in bold indicate ranks of respective parameters; three-year growth is compounded annual growth rate (CAGR); values in each parameter are rounded off up to two decimals; NPA: Non-performing assets; CASA: Current account and savings account; CAR: Capital adequacy ratio; ROCE: Return on capital employed; NIM: Net interest margin; LCR: Liquidity coverage ratio; ESAF Small Finance Bank is a new entrant; for an explanation of parameters and how the total score was arrived at, see 'Picking the Winners' page 106