

Ujjivan Fin IPO Priced Attractively at 1.66 Times

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ET Intelligence Group: After Equitas, another microfinance company Ujjivan Financial is coming out with an IPO. It will use about 60% of the proceeds of the ₹880-crore issue to provide an exit route to some of the existing foreign shareholders and the rest will be used for capital requirements.

Ujjivan has received a small bank licence, and has to bring down its foreign investor holding to below 49% before starting operations.

The IPO is attractively priced at 1.66 times, post IPO price-to-book. Equitas had priced its IPO at 1.8 times and witnessed strong listing gains of over 30%.

Ujjivan has a market share of 11.2%. The microfinance industry is likely to grow at 30% from FY15 to FY18, and given Ujjivan's strong presence, its microfinance business will continue to grow at a fast pace. Its assets under management have grown at 51% CAGR from FY11 to FY15.

IPO Details

Dates	April 28 - May 2
PRICE BAND	₹207-210
ISSUE SIZE	₹875 cr - ₹882.5 cr
BID LOT	70 Shares
ETIG'S VIEW	Positive

As on December 31, 2015, its gross AUM was ₹4,600 crore spread across 470 branches, serving 2.77 million clients.

Founder Samit Ghosh is close to retirement and the company is strengthening its second line of leaders.

Financials

From FY11 to FY15, income has grown at 40% CAGR and net profit at 60%. Its income and net profit for the first nine months of FY16 were ₹729.6 crore and ₹122.3 crore. Its net interest margins have been in the range of 11.3% and 13.8% over the past few years and return on assets in the range of 2.5-3.6%.

Its ROE has increased to 19.1% in the first nine months of FY16. The debt to equity in the period was 4.3% and its gross NPA was 0.15% which is very low.

The NIMs and return ratios may be under pressure once Ujjivan commissions its small bank business. They may remain under pressure for the next 3 years, but the positive is the rate of borrowing will come down.