

VICTORY AGAINST ALL ODDS





# ANNUAL REPORT

2017 - 2018 /



Nothing epitomizes grit and determination quite like the lotus.

And at Ujjivan, we constantly strive to embody the spirit of this beautiful, yet courageous flower.

Be it in the way we function or how we help our customers.

The last financial year was a challenging one, especially for those of us in the financial sector.

But the instinct of the lotus inspired us to rise above our circumstances and blossom in the unpredictable financial landscape that prevailed.

And like the lotus we intend to brave all odds to emerge victorious time after time.





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## MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

Financial Year 2017-18 has been the first full year of operations of our wholly owned subsidiary - Ujjivan Small Finance Bank (SFB). Transformational journey to a Small Finance Bank threw up multifaceted challenges. The Bank had to convert the existing NBFC outlets, numbering over 450 into full-fledged bank branches under a phased programme and deploy modernized IT infrastructure. Traditional brick and mortar branches apart, access to alternative banking channels like ATMs, phone and mobile technology aided services had to be provided to customers. New employees had to be inducted and were to be intensively trained to build competencies in banking operations. Full-fledged Treasury and Risk and Compliance units had to be set up. MSE and Housing verticals had to be strengthened to provide the much needed business thrust. Deposit business had to be built from scratch and funding cost had to be reduced. The Bank leadership team and the rank and file rose up to the manifold challenges admirably and had rolled out 187 branches, with plan to take the number to 475 by the end of the year. Deposit build up happened quickly, with a base of over Rs 3000 crore, albeit wholesale, and funding cost dropped by 140 bps – from 10.4% to 9%. Micro and Small Enterprises business and Housing saw a growth momentum at 7.2% of the overall portfolio by year end as against 2.4% in the previous year.

The adverse impact of demonetisation however lingered through most part of the last financial year. We witnessed considerable damage to the credit discipline and repayment behaviour of borrowers. The defaults were pronounced in certain geographies. Defying our expectations, a significant portion of the impaired assets turned hard core NPAs. We maintained a conservative stance and took a hit of Rs.177 crore by way of loan write off during FY 2017-18 and contained total credit costs at Rs 311 crore, constituting 4% of the portfolio. The Bank strengthened its recovery organization by setting up specialised collection team for recovery from hard core NPAs and concurrently revisited its growth strategies in the affected markets. It is gratifying that the rank and file, particularly of the microfinance business, through strong grit and determination put the business back on track; monthly repayment has since improved from 89.5% to 97.3%. The bank was able to close the year in black. The net non-performing assets stood at 0.7% as of March 2018.

Mr Samit Ghosh, Managing Director of the Bank, has lucidly articulated in his letter to you the challenges faced during the financial year and how they were met. He has also detailed the strategic initiatives taken and proposed to put the bank back on a sustainable growth phase.

Moving forward, the bank plans to leverage fully on the branch network and the robust technology infrastructure it has set up and build the growth momentum in all its businesses segments. Selective build-up of Microfinance business in chosen geographies, while maintaining steady growth overall, non-linear growth in MSE and Housing vertical, foray into rural banking, introduction of new loan products, opening up new business lines such as personal lending, two wheeler financing and institutional lending, ramp up of deposit mobilisation with focus on retail, are some of the key strategic priorities planned.

Ujjivan Financial Services Limited, the HOLCO, at the consolidated level posted a total income of Rs.1582 crores- an increase of 13.2% over the previous year and a net profit after tax of Rs 7.3 crore. The Board has recommended a dividend of 5%, subject to the approval of shareholders.



Post formation and business transfer to Ujjivan Small Finance Bank, your company had applied to the Reserve Bank of India for registering the Company "Ujjivan Financial Services Limited" (HOLCO) as an NBFC-Core Investment Company. The RBI vide its letter dated October 10, 2017 has approved the conversion of the Company into a *Systemically Important Core Investment – Non-Deposit taking – Non-Banking Financial Company* i.e. from NBFC-ND-SI-MFI to NBFC-ND-SI-CIC - and has issued a new Certificate of Registration dated October 10, 2017. In compliance with the RBI direction, the Company has surrendered the NBFC-ND-SI- MFI Certificate. As a holding Company, we exercise oversight on the overall functioning of the SFB and provide it funding support when needed, subject to the regulatory framework.

Before closing, I regret to mention that Ms. Sudha Suresh, the Managing Director & CEO of the Company has resigned for personal reasons, to take effect from 30<sup>th</sup> June 2018. She has been associated with the company for nearly a decade and her contribution to the company was significant, particularly in successful listing of the Company on the stock exchanges and transitioning the company to a Bank. The Board accepted her resignation with regret and placed on record its appreciation of her valuable contribution.

The Board has proposed to appoint Mr Ittira Davis as the Managing Director and CEO effective July 1 2018 subject to RBI approval. Mr. Ittira Davis is currently the Chief Operating Officer of the Bank. He is a career banker with over 36 years of corporate and investment banking experience. He has previously worked with Citi Bank in India and the Arab Bank Group in the Middle East and Europe. I seek earnestly your support to him.

We thank you for your excellent understanding and support and look forward to the same in greater measure in the years ahead.

With Best Wishes,



K.R. Ramamoorthy



## LETTER FROM MANAGING DIRECTOR

We are happy to share the highlights of FY 2017-18 - A year proving our strong resilience and successful navigation through one of the most challenging years for Ujjivan.

This was our first full year of banking operations and we started the fiscal year 2017-18 working parallelly on many key challenges and new initiatives. Highlights of these are as follows:

The foremost challenge was combating the significant impact that demonetisation had left on our business growth and portfolio quality in the previous year. We assessed the situation across various states and adopted a three pronged approach – managing branch by branch business based on PAR, GNPA and business feedback across affected branches, getting business back on track in branches not affected or very marginally impacted, and building a collection team to exclusively follow up on PAR >90 days. The microfinance team spent significant time and efforts in collections and facilitating business to be back on track and growth across most branches.

The second aspect was implementation of branch conversions to full-fledged banking outlets in a phased manner. Across the challenges of selection and setting up of the right infrastructure, technology with core banking systems, setting up banking operations with new team members and marketing our brand, great teamwork across functions has facilitated in successful roll out of 187 full service banking outlets spread across 20 states including 47 banking outlets as URCs. We are expanding our product portfolio to suit the banking needs of retail customers, supported by unique marketing initiatives. The extensive advertising campaign of the bank across mass media will increase awareness and enhance brand visibility among potential customers, thereby expanding the outreach nationally.

The third aspect is establishing a strong foundation of cutting edge technology and leveraging for maximising productivity and outreach. During the year we have implemented channels like new banking outlets, handheld devices for paperless and doorstep banking, ATM's with biometric facility, phone banking, mobile and internet banking with strong support from our Technology team. We undertook host of IT initiatives in FY 17 for setting up a full range of IT infrastructure and software including Finnacle, Oracle Financials, I exceed, Mobile Banking App, CRM, SAS & AML for Risk & Compliance which were operative this year with seamless integration across multiple channels and systems. At the same time, we ensured Cyber Security controls as a critical focus and the Bank was awarded the best Small Bank in IT Risk and Cyber Security by the Indian Banks' Association (IBA) in February 2018.

Finally the key enabler for all this has been our "Employees First" motto with continued focus in building great teams with domain knowledge and expertise and continuous trainings for building competencies required for banking operations. The year saw our staff strength move to 11000+ with more than 3500 recruited across functions and verticals including branch banking, sales, operations, treasury, risk, legal, credit & collections. General banking, functional specific trainings have been conducted across banking outlets and form the core of enhancing skill sets and motivating our teams to put in their best. **Ranked 10<sup>th</sup> in Asia's Best Large Workplaces and ranked 13<sup>th</sup> in 'India's Best Companies to Work For'**. Ujjivan Small Finance Bank, also received the recognition for **'Being the Best in the Industry - Small Finance Bank'**.

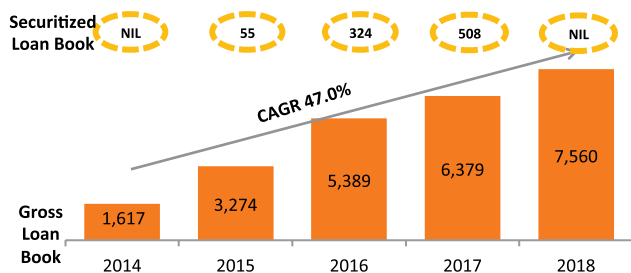
As we walked the transition path, our business growth was maintained parallelly. We closed this financial year with a gross loan book of Rs 7,560 crores marking 18.5 % growth over the previous year. We focussed on



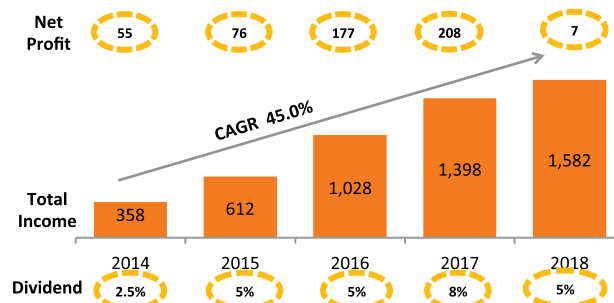


# FINANCIAL HIGHLIGHTS

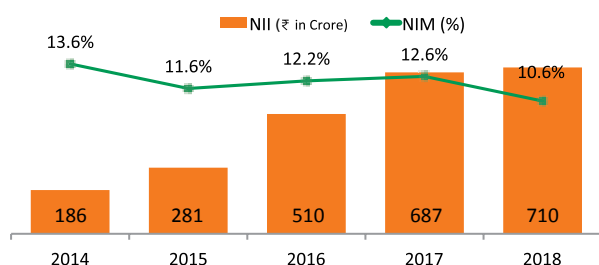
## Gross Loan Book & Securitized Loan Book (₹ in Crore)



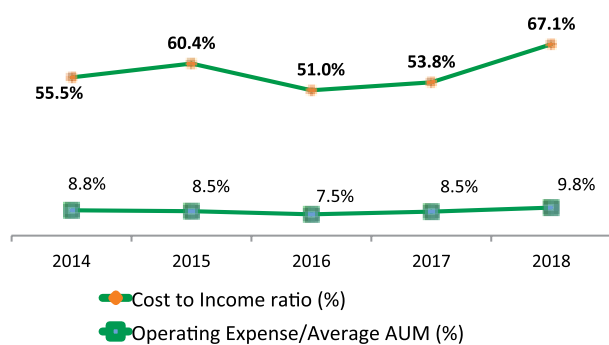
## Total Income & Net Profit (₹ in Crore)



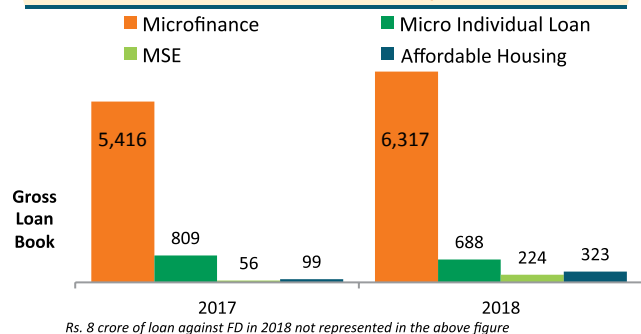
## NII (₹ in Crore) & NIM



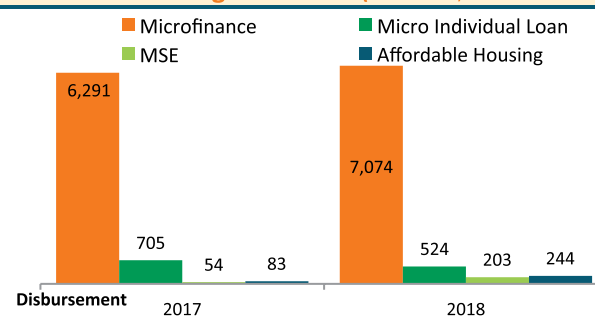
## Operating Efficiency



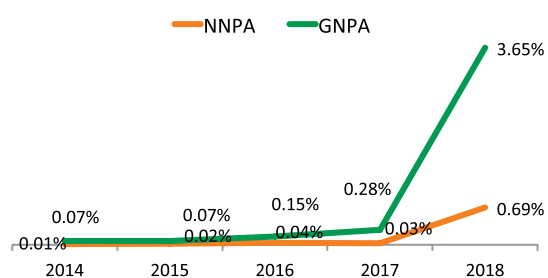
## Gross Loan Book – Product Wise (₹ in Crore)



## Disbursement – Segment Wise (₹ in Crore)



## GNPA & NNPA \*



\*GNPA for 2017 without RBI dispensation is 3.69%

## RoAA & RoAE

