

We strive to be the best  
at all that we do.  
For what we do, creates

hope



Annual Report  
2013 - 2014



**GREAT PLACE TO WORK®** Best Companies to Work for 2014 India

Top 10 companies to work for in India

9th Best Company to work in

2nd in Financial Services Industry

25%

growth to close at  
1.3 million customers

50%

cashless disbursement  
amounting to  
Rs. 10,000 million.

99.9%

Cumulative  
Repayment Rate



There's a lot we have achieved this year.  
Ujjivan was declared  
the 9th Best Company to work in, in India  
and ranked 2nd, in the Financial Services category,  
by Great Place to Work Institute.  
To add to these, we were also among the first MFIs  
to meet the Smart Campaign Standards  
of Customer Protection.

We were awarded by India Inc. magazine  
as an Innovator in the Responsible Business category.  
Further, we were awarded Client Protection Certification  
by Smart Campaign and won the MIX 2013  
Socially Transparent and Responsible MFI Award.



# In the business of creating hope

Every year at Ujjivan, we make an effort to improve on the benchmarks we set the previous year. For the simple reason that we sincerely believe that with financial inclusion, what we bring our customers, is hope. Hope of a better future, hope of a better life, hope for a new generation free from poverty.

This year, we were able to reach out to more customers, registering 25% growth and closing at 1.3 million happier Indians.

And we shall endeavour harder in the year to come. To create hope, to build better lives for many, many more.









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Letter from the Managing Director

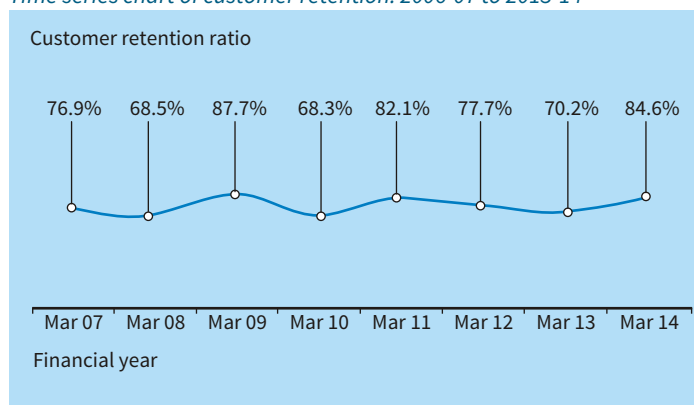
# Bringing hope, changing lives,

This marks the 8th full year of operations for Ujjivan. We started out in November 2005, when we received the NBFC license from the Reserve Bank of India. Our mission was to provide microfinance to the urban and semi-urban poor across India. They constitute a major section of our society with the fastest growth rate due to urban migration. Today the Ujjivan team of over 4,600 employees serves over 1.3 million families across 22 states and union territories in India, through 350 branches and four regional offices. We disbursed over Rs. 21,050 million of loans last year, which is the 4th highest in the industry. Our loan book grew by 44% during the year to Rs. 16,173 million and we have been ranked the 4th largest NBFC-MFI, excluding MFIs based in Andhra Pradesh, which are under Corporate Debt Restructuring program.

## Why we consider ourselves the best of the best.

■ Our **active customers increased 29%** from 1.1 to over 1.3 million during the year. This compares favorably with the industry growth of 20%. We introduced a comprehensive service quality department in 2009, which is unique to the industry. The standard customer satisfaction surveys do not work with this segment of customers. They are too beholden to us and especially to our field staff. At the same time, we along with the industry, were plagued by high customer dropout rates. Customers voted with their feet. We researched the reasons for drop outs and worked out programs to improve customer retention. From the nadir of 68.5% during the crisis years 2009-10, this year, we achieved ~85% customer retention.

*Time series chart of customer retention: 2006-07 to 2013-14*



■ Our **employee strength grew by 28%**, well above the industry average growth at 10%. We added a thousand new employees during the year. One of the unique features of our leadership development is the Management Development Program which has been in place since 2008. Today our National Leadership Team includes two members from the first batch of



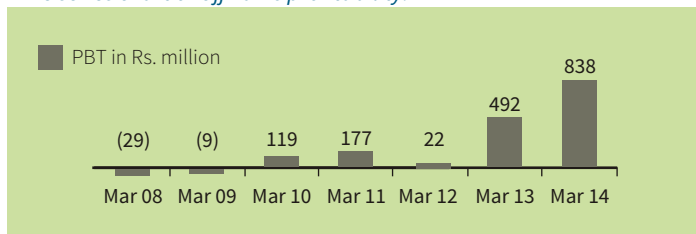
management trainees. From 2009, we participated in the Great Place to Work Institute survey, competing with top companies in India across industries like Google, Intel, NTPC, American Express etc. We are proud to be among the top ten best companies to work for in India. The table below shows our standing:

	10-11	11-12	12-13	13-14
Ujjivan Employee Trust Index (%)	87	86	90	90
Top 50 Companies Trust Index (%)	81	82	82	82
Ujjivan's Rank among all companies	14	21	7	9

# growing together

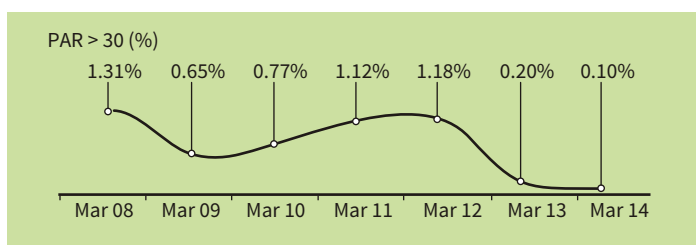
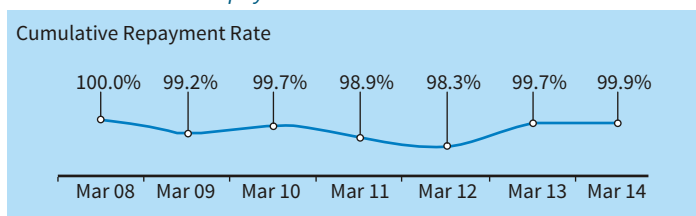
■ Our **profits before taxes grew by 71%** over the previous year at Rs. 838.4 million with a return on equity of 15.86%, among the highest in the industry. Our business gross loan book grew by 44% to Rs. 16,173 million with return of assets at 3.20%. Our consistent business performance and dividend payout from 2009-10 (dividend was not paid in 2011-2012 on account of modest profits during the crisis), which is also unique in the industry has kept our existing investors happy and attracts a lot of new investors.

*Time series chart of Ujjivan's profitability.*



■ Our **repayment rate was 99.90%** at the year end with Portfolio at Risk over 30 days at 0.1%. This reflects the outstanding credit management processes at Ujjivan. We are one of the very few in the industry to have an independent credit function to manage the overall credit process and quality.

*Time series charts of repayment rate and PAR > 30.*



- Active customers increased by 29%
- Employee strength grew by 28%
- Profits before taxes grew by 71%
- Repayment rate was 99.90%
- Diversified customer base and loan portfolio
- Introduced cashless customer transactions in 2012

■ We have the most **diversified customer base and loan portfolio** across the geographical expanse of India balanced by regions and states, avoiding concentration of risk. Since inception Ujjivan has a comprehensive business and risk assessment system to open individual branches or start operations in a state. This led to our decision not to operate in Andhra Pradesh well before the crisis despite the state being considered the center of microfinance in India. Our wide geographical base gives us a very large launching pad for the next phase of business and helps us play an important role in financial inclusion across the country.

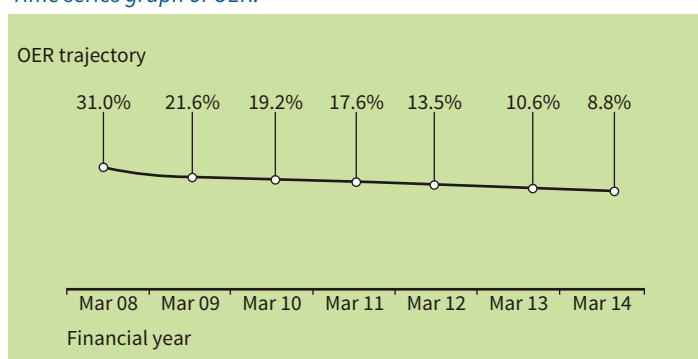
Particulars (As of March 31, 2014)	South	North	East	West	Ujjivan
Number of branches	106	81	108	55	350
Gross outstanding portfolio (Rs. million)	5,254	3,793	4,507	2,619	16,173
Total customers	429,638	313,645	428,624	214,149	1,386,056



Our **initial focus was the urban and semi-urban poor** and we opened branches in both these areas. Today, we serve both customers living in towns and also rural customers living in villages. This gives us access to customers in all three areas: urban, semi-urban, rural.

The biggest threat to Ujjivan when the crisis hit the industry in 2010 was not portfolio quality but our highly expensive and inefficient operating base. The Malegam Committee recommended interest rate of 26% and margin caps 12-10%. Our operating expense ratio (OER) was 17.6% with cost of funds of around 13%. We embarked on an extensive re-engineering program covering all aspects of our business and introduced new technology: bringing branches online and processing paperless transaction. Today our OER is at 8.8%, which is at par with the best in the industry.

*Time series graph of OER.*



**Dependence on cash for disbursing and collecting loans** is one of the biggest problems in the microfinance industry. This makes the operations both inefficient and highly risky. Our staff is frequently attacked by criminals and we are also susceptible to fraud. In addition dependence on cash tarnishes the objective of financial inclusion as MFIs withdraw cash from banks and inject it into the cash economy by disbursing loans in cash. We embarked on a program to introduce cashless customer transactions from 2012. This year we disbursed 50% amounting to more than Rs. 10,000 million directly to customers' accounts. This was possible by helping customers open bank accounts; activating dormant accounts and training them to operate bank accounts, including using ATMs through Parinaam Foundation's efforts with the **Diksha Financial Literacy Program**. The Diksha program was started on August 20, 2012. It is widely acknowledged as one of the best programs of its kind. The Reserve Bank of India (RBI) is highly appreciative of this program. We have trained and certified 98,737 customers under Diksha and opened 45,157 bank accounts.

Parinaam spent Rs. 24 million on this program funded by Citi Foundation and Michael & Susan Dell Foundation. In addition Ujjivan has contributed Rs. 7.4 million, bringing the total spend to Rs. 31 million. This achievement is unparalleled in the industry.

Funding from banks and financial institutions was fairly consistent for the MFI industry. Ujjivan continued to enjoy the benefits of excellent liquidity at optimal costs. The Company added 8 new banking relationships and continues to work on strategic structured deals which will bring domestic capital market funding into the MFI industry. The company raised Rs. 13,600 million during the year, an increase of 90% over the previous year's borrowing. The company also received additional funding through Non convertible debentures apart from redeeming Rs. 1000+ million NCD during the year. This demonstrates the continued confidence of debt stakeholders in Ujjivan. CRISIL awarded Ujjivan an MFI grading of mfr1, the highest rating for MFIs, during 2013-14.

Ujjivan also enjoys a rating of A- for its long term loans and NCDs as rated by CARE in June 2014. This reflects a well diversified portfolio with good asset quality and consistent increase in earnings and profitability driven by good business growth and outreach.

We started the **Social Development Program** from the first year after we broke even and generated a profit (2010-11). This was a program to 'give back' to the communities by undertaking small but high impact projects. The projects are chosen by the customer leaders and branch staff of every project. Our initial focus was on programs which benefit children and education. But we gave freedom to local team of customers and staff. Consequently, a wide range of programs were undertaken across the country which earned Ujjivan appreciation from community members and local government officials. We have undertaken 803 programs across the country at cost of Rs. 22.6 million. This is one of our many remarkable achievements that earn us a lot of goodwill from across society.





## The Future

Overall, it has been a banner year for Ujjivan and it is time to change gears. This closes an important phase in Ujjivan's history. The group lending business is reaching a saturation stage with the industry serving 25 million customers outside Andhra Pradesh. This comprises around 10% of the families who are financially excluded. In order for microfinance institutions to expand into the 90% which still remain unserved, we need to break into new customer segments and develop loans for different loan purposes: micro-enterprise, agriculture, animal husbandry, housing, education etc. These new customer segments do not find group loans attractive given the loan size, standard installment structure, group guarantee, time commitments for center meetings etc. We need to break into new products and customer base to widen our net of financial inclusion.

The regulatory environment has seen a positive sea change. Fresh licensing of NBFC-MFIs by the RBI as a specialized category is a recognition of the key role we play in financial inclusion. This has been reinforced with RBI awarding the coveted banking license to the largest NBFC-MFI in India - Bandhan. Dynamic supervision by RBI and the self-regulatory disciplines put in place by the Micro Finance Institutions Network (MFIN) has ensured that responsible finance is firmly established.

The discipline of extending every loan based on satisfactory credit history of over 25 million customers has resulted in reducing the risk of over-lending and substantially improved the portfolio quality of the entire industry.

The future regulatory changes being initiated with specialized banks and banking licenses available on tap, has completely changed the future regulatory landscape for the industry. The long term aspiration of every NBFC-MFI is to convert itself into a bank. The industry will not require the protection of the Microfinance Bill in the future.



## Conclusion

It has been a great journey so far and Ujjivan's list of achievements last year is the crowning glory. It was a year of a great personal loss. Elaine, my wife and partner, passed away suddenly on November 28, 2013 after a brief period of illness. Without Elaine's support, I would not have had the courage or energy to build Ujjivan. A lot of the values of Ujjivan originate from her. She built her pristine Parinaam Foundation to march in step with Ujjivan. In a fitting conclusion to her professional life, Parinaam's Urban Ultra Poor Program received international recognition and was awarded the prestigious Urban Ingenuity Award - sponsored by Financial Times and Citi Foundation for the most innovative urban program in Asia in New York on December 10, 2013. Elaine was fully committed to Ujjivan's mission to provide financial inclusion to the poor and help alleviate poverty. She would not like us to miss a step in our long march to help achieve this goal.

**Samit Ghosh**

May 30, 2014



# Products and Services

## Insurance

Initially we introduced life insurance for our customers and subsequently also offered it for their spouses. In the unfortunate event of natural or accidental death of the customer or spouse, the insurance amount helps the nominee/beneficiary cover the existing loan as well as receive the benefits of a life cover.

We have partnered with Bajaj Allianz Life Insurance to offer a Group Term Life (GTL) Insurance policy, with different insurance schemes based on loan type and repayment mode. And in 2013-14, we have insured over 2.6 million customers and spouses.

Appended below is the snapshot of claims for FY13-14

(Amount in Rs. million)

Region	Customer				Spouse				Total Claims	Claim Amt.	Ujjivan O/S	Nominee Share
	Nos	Claim Amt.	Ujjivan O/S	Nominee Share	Nos	Claim Amt.	Ujjivan O/S	Nominee Share				
001-South	731	19.29	7.49	11.80	2,822	74.66	24.33	50.33	3,553	93.95	31.82	62.13
002-North	702	20.13	8.70	11.43	2,168	62.19	26.38	35.81	2,870	82.32	35.08	47.24
003-East	552	16.29	5.45	10.85	1,898	55.51	14.87	40.64	2,450	71.80	20.32	51.48
004-West	375	10.58	4.02	6.56	1,242	35.10	11.74	23.36	1,617	45.68	15.76	29.92
Grand Total	2,360	66.29	25.66	40.63	8,130	227.46	77.32	150.14	10,490	293.75	102.98	190.77

