

Partnering inclusive growth



Index

Ujjivan Financial Services Limited

Corporate Overview

- 02 Message from the Chairman
- 04 Message from the MD & CEO
- 06 Key Performance Indicators (Consolidated)
- 08 Corporate Social Responsibility (CSR)
- 12 Board of Directors
- 14 Leadership Team

Ujjivan Small Finance Bank Limited

Corporate Overview

- 16 Ujjivan Small Finance Bank Limited at a Glance
- 18 Highlights of FY19
- 20 Product Suite
- 24 Message from the Chairman
- 26 Message from the MD & CEO
- 30 Geographic Reach
- 32 Multi-channel Banking
- 34 Marketing and Branding

Business Division Review

- 36 MicroBanking
- 39 Rural Banking
- 40 Micro & Small Enterprises (MSE)
- 41 Affordable Housing Loans
- 42 Personal Loans
- 43 Trust, Association, Society and Club (TASC)
- 44 Financial Institutions Group (FIG)
- 45 Third Party Products
- 46 Branch Banking
- 48 Our People
- 52 Risks and Mitigation
- 54 Board of Directors
- 58 Leadership Team
- 59 Key Awards

Ujjivan Financial Services Limited

Statutory Reports

- 62 Management Discussion and Analysis
- 64 Board of Directors' Report
- 91 Corporate Governance Report
- 104 Notice

Financial Statements

- 115 Standalone Financial Statements
- 162 Consolidated Financial Statements

Ujjivan Small Finance Bank Limited

Statutory Reports

- 248 Management Discussion and Analysis
- 261 Pillar III Disclosures
- 295 Board of Directors' Report
- 316 Corporate Governance Report

Financial Statements

Ujjivan Financial Services Limited (UFSL)

UFSL commenced operations as an NBFC in 2005 with the mission to provide a full range of financial services to the 'economically active' disadvantaged sections of the population.

UFSL's erstwhile business was primarily based on the joint liability group-lending model for providing collateral-free, small ticket-size loans to economically active poor women. It also offered individual loans to Micro & Small Enterprises (MSEs). UFSL adopted an integrated approach to lending, which combines a high customer touchpoint similar to microfinance, with the technology infrastructure and related back-end support functions similar to that of a retail bank.

On October 7, 2015, UFSL received an in-principle approval from the RBI to set up a Small Finance Bank and floated its wholly owned subsidiary Ujjivan Small Finance Bank Limited (Ujjivan SFB). UFSL transferred its business to Ujjivan SFB, which subsequent to the RBI licence commenced its banking operations from February 01, 2017. Ujjivan SFB is also included in the Second Schedule to the Reserve Bank of India Act, 1934.

Subsequent to the transfer of business, as mandated by the RBI, UFSL got itself registered as a Core Investment Company (NBFC-NDIS-CIC). Its primary objective is to conduct the business of making investments in group company in the form of securities and providing guarantees among others. It also conducts financial activities, whether in India or outside, in the nature of investment in bank deposits, money market instruments (including money market mutual funds and liquid mutual funds), government securities, and to carry on such other activities as may be permitted and prescribed by the relevant statutory authorities for core investment companies from time to time.



Our journey began with the mission to bring large proportion of the population to the economic mainstream and help accelerate inclusive growth.

India still has a huge share of economically active urban and rural poor, who need financial support to realise their ambitions, but cannot approach traditional, formal channels of finance.

In line with our mission to build a leading state-of-the-art 'mass market' bank in five years, we focused on key priority areas during FY19. We scaled up our established business segments, set up new business enterprises and launched third-party products.

We also focused on expanding multiple customer touchpoints such as Branches, ATMs, Phone banking, Mobile and Internet banking. We closed the year on a positive note on the financial and business front.

Financial inclusion remains at the heart of our strategy. To empower more people across the social pyramid, we are building a new-age bank with technology-enabled operations on the bedrock of enduring values of empathy, integrity, and respect, every step of the way.

Message from the Chairman

Driven by purpose



Over the years, we have made commendable progress and continue to make impressive strides towards our avowed purpose of helping accelerate inclusive prosperity for all.

Turning to top line numbers, loan book registered an impressive growth of 46% during FY19 and the outstanding loan book at March 31, 2019 stood at ₹11,049 Crore. Our total active customer base increased by 19% this year, from 39 Lakh to 46 Lakh, with over 27 Lakh customers having deposits. MicroBanking loans grew by a respectable 34%. Thrust on portfolio diversification continued and non-MFI portfolio constituted 15.3% of the loan book, as against 7.3% in FY18. We were able to fund 67% of our loan book with deposits. Retail deposits stood at 37.1% of total deposits against 11.3% in FY18. CASA ratio also improved from 3.7% to 10.6%. Our network increased to 524 branches, including 474 banking outlets and 50 asset centers. You will find detailed discussions on our financials and performance elsewhere in the Annual Report.

I will now update you on some of the key regulatory developments.

Listing of Ujjivan Small Finance Bank Limited

You may recall, as a non-banking finance company, Ujjivan Financial Services Limited, did not have any promoter/promoter group. We had to, therefore, opt for the 'holding company structure' to be eligible for applying for a small finance bank licence. Once we received the 'in-principle approval' from the RBI for setting up a small finance bank, we came up with our IPO to comply with the regulatory guidelines that the majority ownership of small finance bank should lie with domestic investors. Thereafter, we formed our fully owned subsidiary 'Ujjivan Small Finance Bank' and transferred our operational business undertaking to the newly set up entity through a slump sale. The holding company was thereafter registered with the RBI as a core investment company (NBFC-ND-SI-CIC). As you all know, there was overwhelming response from investors and our shareholding is well diversified among Indian public.

Dear Shareholders,

I am glad to share with you that our overall financial and business performance in the financial year that passed by was quite strong and healthy. Consolidated net profit posted a smart recovery at ₹198 Crore from ₹7 Crore. Net interest income rose by 41% over the previous year and net interest margin stood at 11.1%. Loan delinquencies were contained. Gross non-performing loans stood at 0.9% and net at 0.3%. Our funding cost dropped from 9.0% to 8.5%. Cost/Income ratio however rose and this spurt was primarily due to the expansion of branch network, one-time investment on modern technology platform and the additional manpower cost to man the newly opened branches. Concerted efforts are on to bring down our cost/income ratio.

We have close to 75,000 individual shareholders holding shares of the paid-up value of less than ₹2 Lakh. The scrip is actively traded, and the price fully mirrors the performance of the newly set up Ujjivan Small Finance Bank. Based on our publicly disclosed financial information of our Company and our Bank at periodical intervals, the investors, depositors and creditors primarily assess the level of risk of the Bank and make investment decisions. Thus, we are already subjected to the rigours of 'market discipline' and the pricing information of the holding company shares is indicator of the bank's financial health. We had also more than adequately complied with the regulatory objectives for which we were licenced catering to the financial needs of the underserved and unserved. It is in this background that we were sanguine that the regulator may relax yet another licencing stipulation viz., listing of Ujjivan Small Finance Bank on the domestic bourses. We were in constant dialogue with the regulator on this matter and represented that dual listing of both the holding company and the small finance bank may be superfluous and may adversely impact the shareholder value of the holding company. If this were not feasible, we sought their permission to collapse the time frame set and permit the holding company to do a reverse merger with the small finance bank to protect the shareholder value. The regulator has advised us that since listing of SFB was a licencing condition, we had to comply with the same. As for reverse merger of our Company with our Bank, the regulator has kept the door open but will take a view on this closer to the fifth year. We are, therefore, now working on the modalities of listing Ujjivan Small Finance Bank for minimum percentage of capital permitted by the regulators and will initiate work on the reverse merger of the two entities closer to our fifth anniversary. We continue to endeavour to the best of our potential to safeguard the Company (HoldCo) shareholder interests.

On tap licencing of small finance banks

The Reserve Bank of India has recently announced that since the small finance banks have attained their mandate of furthering financial inclusion, there was a case for more players to be included to enhance access to banking facilities to the small borrowers and to encourage competition. The RBI has, therefore, proposed to issue the Draft Guidelines for 'on tap' licencing of small finance banks by the end of August 2019. This is a welcome development and hopefully the guidelines will incorporate the smooth functioning of banks with holding company structure.

Small finance banks need less stringent regulatory/supervisory framework

Since small finance banks now form a 'specific category' among the licenced banking entities, it is hoped that the regulator would fine tune their regulatory and supervisory guidelines suited to these entities, reckoning their business model and risk profile. As long as these

banks fulfill the objectives for which they were licenced and comply fully with critical prudential guidelines like capital adequacy, income recognition, asset classification and provisioning, liquidity management and corporate governance standards and their risk profile is acceptable, there is a case for easing the policy guidelines appropriately to minimise the regulatory cost. Regulatory compliance cost hit the small banks hard.

Elsewhere in some of the developed financial markets, there is a growing recognition that volume and the complexity of financial regulation are, for small and medium sized banks, extremely onerous and disproportionately costly. To avoid excessive compliance costs or regulatory burden for smaller non-complex banks, which could dampen their competitive position, a proportionate approach is advocated tailoring regulatory requirements to the bank's size, systemic importance, complexity and risk profile. The Chairman of Financial Stability Institute, Bank for International Settlements at the recently held BIS/IMF policy implementation meeting specifically adverted on this issue of proportionality in financial regulation and supervision.

Before I conclude, on your and the Board's behalf, I extend a warm welcome to Mr. Nitin Chugh, CEO designate of our Bank. He will take over as the CEO of the Bank effective December 1, 2019. Given his extensive retail and digital experience, we are confident he would take the Bank to newer heights and position the same as a mass market bank. We hereby seek your full-hearted support to Mr. Nitin in all his business endeavours.

I am also glad to share with you Mr. Samit Ghosh, the visionary leader and founder CEO of Ujjivan will continue to be associated with Ujjivan, mentor the new CEO designate and ensure his smooth transition to the leadership position in the Bank and thereafter continue to provide his wise counsel and guidance to Ujjivan, although within different capacity.

Thank you.

K.R Ramamoorthy

Chairman



Message from the MD & CEO

Growing with momentum



Looking at the year gone by, we can say with reasonable pride that having successfully managed the challenges arising from demonetisation, the Ujjivan team was able to get the focus back on business growth.

Dear Shareholders,

In this letter, I would like to touch upon some of the important developments that impact the three Ujjivan partner groups - shareholders, customers and staff.

Business

Looking at the year gone by, we can say with reasonable pride that having successfully managed the challenges arising from demonetisation, the Ujjivan team was able to get the focus back on business growth. Our teams were able to grow the retail deposit base to 37.1% of total deposits with a CASA ratio of 10.6%. The loan book moved up to ₹11,049 Crore with the non-MFI portfolio constituting 15%. On a consolidated basis (IGAAP), our net profit was ₹198.4 Crore.

Branches

FY19 saw the branch conversion momentum pick up. A total of 287 full-service bank branches were set up during the year, taking the converted branch tally to 474 full-service bank branches on March 31, 2019. Of these, 120 bank branches were in the Unbanked Rural Centres (URCs), which is 25.3% of total in keeping with the compliance requirement i.e. 25% of the branches being in URCs. As on March 31, 2019, the Bank had 50 asset centres remaining to be converted into full-service banking branches, including these the total branch count was 524 branches.

UFSL structure and financial reporting

Understanding UFSL's structure as a holding Company is important from its position as a financial institution; and also the impact of listing. UFSL is an NBFC-ND-SI-CIC. In this form, UFSL does not undertake any business transactions with the public. All business is done by the wholly owned subsidiary Ujjivan Small Finance Bank Limited (Ujjivan SFB) which operates as a Scheduled Bank. Since the Bank is the operating entity, the business is not impacted by regulations that are aimed at NBFCs who may not be implementing asset-liability-mismatch / liquidity management. Understanding this structure is important in the context of the current scenario in the financial markets, impacting NBFCs.

The Company, being an NBFC, has mandatorily adopted Ind-AS for reporting its standalone and consolidated financials. However, our wholly owned subsidiary Ujjivan SFB which contributes more than 98% of the Company's consolidated income is required by the RBI to follow IGAAP in preparing its financials. For the benefit and understanding of all stakeholders, the Company will continue to share its consolidated IGAAP financials through its investor presentations although the mandatory financial extract to be submitted to the stock exchanges on a quarterly basis will be in Ind-AS format.

Community counts

Supporting the communities where we have a presence is part of the Ujjivan ethos. Three natural disasters in the last 12 months – the Kerala Floods, Cyclone Gaja in Tamil Nadu and Cyclone Fani in Odisha affected communities around the Ujjivan SFB branches. The branch staff effectively used the Bank's Business Continuity Plan (BCP) to get banking services up and running in the shortest possible time. Ujjivan ATMs were among the first to be operational in the affected areas. Your Company working with the Bank branch teams, organised flood relief in the affected areas. In the Kerala floods, your Company also helped some schools by replacing flood damaged classrooms furniture, books and computers.

UFSL is continuing its partnerships for CSR projects – working closely with Parinaam, in delivering Chote Kadam – Coming Together for Good; an initiative for undertaking several community development programmes. We have undertaken programme outreach through the Mobile Medical Units, in association with Piramal Swasthya and the village water programmes, in association with Piramal Sarvajal.

Looking ahead

FY20 will see changes at Ujjivan. Samit Ghosh, the Ujjivan founder and the Bank's MD & CEO, will retire on November 30, 2019. Samit had laid the foundation of setting up your Company as an MFI in 2005 and then nurturing it to become one of the country's best MFIs. He established the Bank as a wholly owned subsidiary that commenced business in February 2017. Nitin Chugh will take over as the Bank's MD & CEO from December 01, 2019.

The Bank's listing is to be completed by January 30, 2020, one of the RBI's licencing conditions. It is working with its advisors to meet this target. Developments on this matter affecting shareholders are being updated on the stock exchanges.

Dividend

I am happy to share, that the Board has recommended a final dividend of 4.5% for FY19, which will be subject to the approval of shareholders at the ensuing 15th Annual General Meeting of the Company, scheduled to be held on August 02, 2019. The Company has already declared and paid an interim dividend of 8.5% for FY19. Therefore, total dividend for FY19, including the interim dividend will be 13%.

Recognition

You will be glad to know, that during the reporting year, Ujjivan was among five companies to have been recognised for good governance. Fifty companies listed on the BSE between 2015 and 2017 were evaluated for this recognition.

Before I conclude, I would like to thank our shareholders, directors and the team of UFSL for their continued guidance and support. We look forward to working closely with you in future for our Company's continued success.

Yours truly,

Ittira Davis

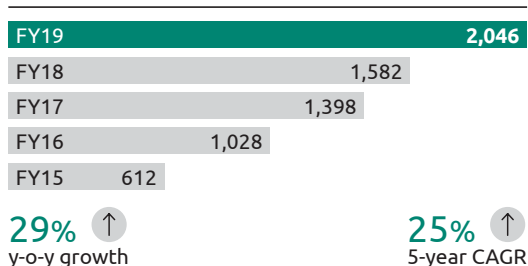
MD & CEO, UFSL

Key Performance Indicators (Consolidated)

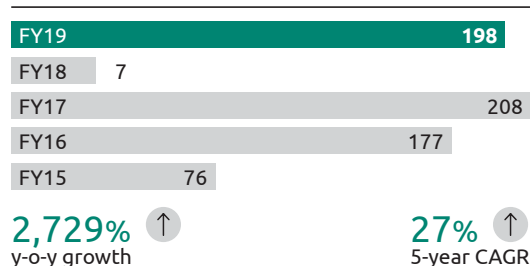
Numbers validate our story of strength

Profit and Loss metrics

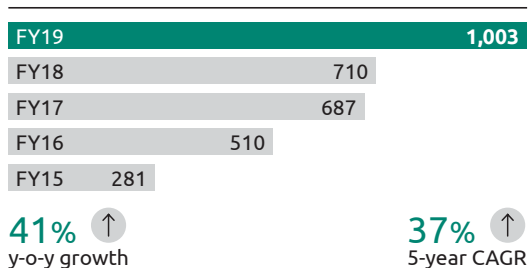
Total income (₹ in Crore)



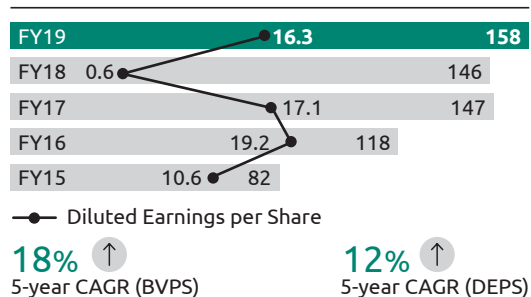
Net profit (₹ in Crore)



Net interest income (NII) (₹ in Crore)

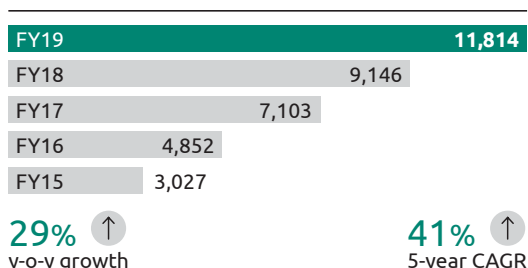


Book value per share (BVPS) and Diluted earnings per share (DEPS) (₹)

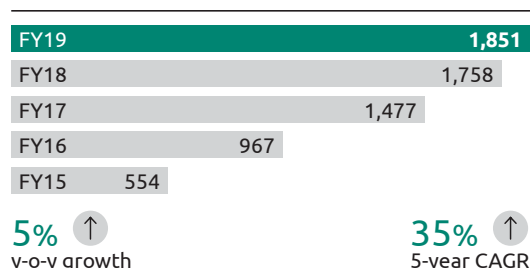


Balance Sheet metrics

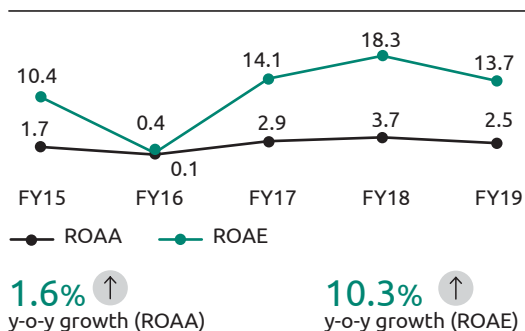
Average total assets (₹ in Crore)



Average net worth (₹ in Crore)



Return on average assets (ROAA) and Return on average network (ROAE) (%)



Efficiency metrics

Capital adequacy ratio (CAR)* (%)

FY19	18.9
FY18	23
FY17	21
FY16	24
FY15	23

Staff retention ratio (%)

FY19	80
FY18	83
FY17	84
FY16	82
FY15	83

Business metrics

Asset Under Management (₹ in Crore)

FY19	11,049
FY18	7,560
FY17	6,379
FY16	5,389
FY15	3,274

46% ↑
y-o-y growth

36% ↑
5-year CAGR

Customer retention ratio* (%)

FY19	86
FY18	85
FY17	86
FY16	86
FY15	87

Total deposits (for Ujjivan SFB) (₹ in Crore)

FY19	7,379
FY18	3,772
FY17	206

96% ↑
y-o-y growth

* CAR computation is as per RBI directive dated November 8, 2017 which provided exemption to all SFB with no capital charge on market and operational risk weighted asset.

* CAR for Banking entity for FY17 onwards

Graphs are prepared on the basis of consolidated I-GAAP figures and are based on management reports and have not been subject to review/audit by Auditors. The purpose of iGAAP financials is merely to provide an update on business performance.

Corporate Social Responsibility (CSR) Citizenship efforts

The Corporate Social Responsibility (CSR) programmes of UFSL were started in 2010, much before it was made mandatory under the Companies Act, 2013. During FY19, UFSL partnered with Parinaam Foundation and Piramal Foundation to undertake various community development programmes such as free healthcare and clean drinking water facility for and on behalf of the Company, across various districts and states in India.

Chote Kadam

Parinaam and Ujjivan's Community Development Programme

Parinaam Foundation, our long-term strategic partner, a not-for-profit Company registered under Section 8 of the Companies Act, 2013 was awarded a grant from UFSL to initiate and develop a community development programme around our ultra-poor communities.

Parinaam's goal is to empower communities to live healthy, safe, sustainable, and better lives. Their mission outlines the heart of their work - to support women, children and families through key milestones - education, work opportunities, healthcare while

ensuring they are financially equipped to become contributing members of society. They take impact to the family level across a wider platform, working with beneficiary communities to improve their quality of life, by creating stronger infrastructure and support systems.

Chote Kadam's vision is to work alongside families, corporates, peers and knowledge partners to help transform neighbourhoods across India. The families in the neighbourhood collectively identify infrastructural projects that will improve the environment they live in as well as their quality of life. These projects range from

fixing school buildings, setting up maternity clinics, solar electricity, housing, among others. Our focus is to maximise the use of recycled material, revisit existing project sites to upgrade designs and build a repository of blueprints and guides for these infrastructure projects. Parinaam collaborates with Bhumi Putra Architecture, a renowned architecture firm based out of Bangalore, to create innovative designs that can be easily implemented using locally available materials.

 [Read more on the impact created through our projects on page 10 and 11](#)



In our partnership with Parinaam, we have addressed the below key objectives for the programme:

- A community development programme focused on addressing and delivering critical community needs in the areas of education, healthcare, sanitation and public infrastructure across the unserved and underserved communities in India.
- Create an appealing programme for our Bank employees where they can develop a connect with and deeper understanding of the families they work with by coming together to identify and provide the needs of the community.