Progressing with **Trust and Confidence**

Ujjivan

Build a Better Life

Ujjivan Financial Services Limited

Annual Report

2021-2022

Contents

Progressing with Trust and Confidence

At Ujjivan Financial Services Limited, we have always been sensitive about the responsibility that we carry towards the less-enabled and less-banked who trust us with their money and their dreams of improving their lives.

The success of our efforts gets reflected in the way we operate our businesses, combining technological prowess with empathetic understanding of customer needs. We ensure safety and stability for our businesses, and help to balance segment-specific challenges, while keeping sight of returns and profitability. We measure the success of our efforts in the trust and confidence that our customers show, expecting more from us each day. Our portfolio growth and service reach stand testimony to our customers' satisfaction, and the economic change that we have helped to catalyse.

Corporate Identity

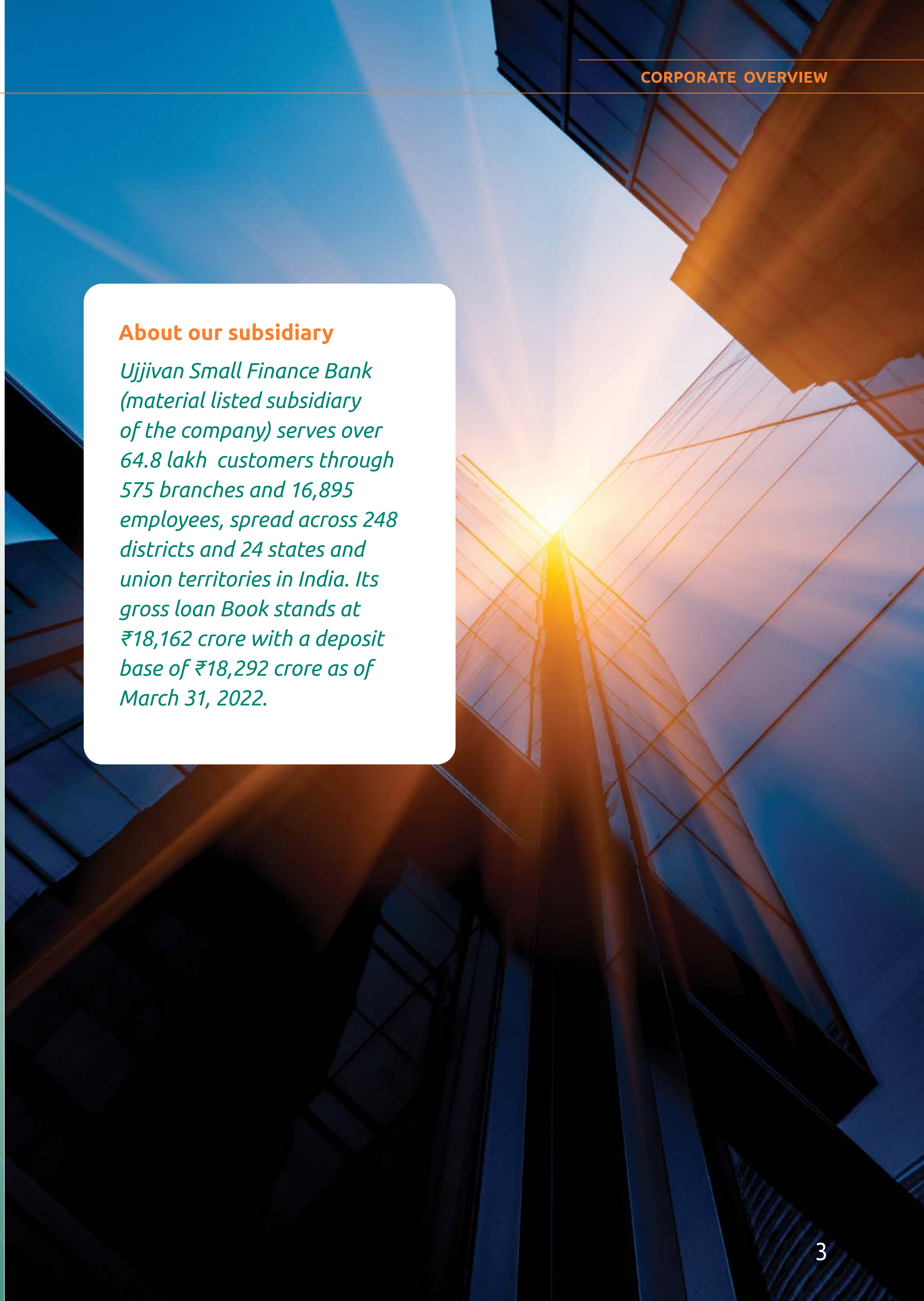
Trusted custodians, committed to enablement

Ujjivan Financial Services Limited (UFSL) is a Core Investment Company (NBFC-NDSI-CIC) registered with the Reserve Bank of India (RBI). Being a non-operating holding Company, its main objective is to carry on the business of making investments in the group company(ies). Both, the Company and its subsidiary 'Ujjivan Small Finance Bank', are led by highly governed and regulated Boards, and adopt high standards of corporate and social governance, which effectively paves the way for the trust of all the stakeholders including, but not limited to its customers, employees, shareholders, the regulators and the community at large.

UFSL commenced operations as an NBFC in 2005, to provide a full range of financial services to the 'economically active' underbanked/unbanked segment of the population, primarily based on the joint liability group-lending model for providing collateral-free, small ticket-size loans. It also offered individual loans to Micro and Small Enterprises (MSEs). UFSL adopted an integrated approach to lending, which combines a high customer touchpoint similar to microfinance, with the technology infrastructure and back-end support similar to 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 (the Bank). UFSL transferred its business to the Bank, which subsequent to the RBI license, commenced its banking operations from February 1, 2017. As of March 31, 2022, UFSL holds 83.32% in the Bank.

As part of its ongoing CSR initiatives, UFSL has continued its partnerships for CSR projects during the year, by working closely with the Parinaam Foundation, and the Company has granted ₹3.31 lacs to Parinaam Foundation towards their Academic Adoption Program.

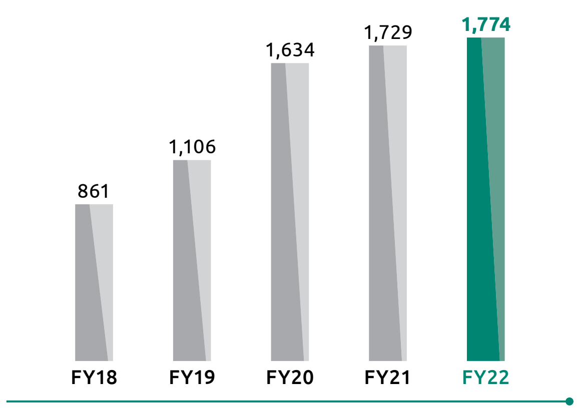


About our subsidiary

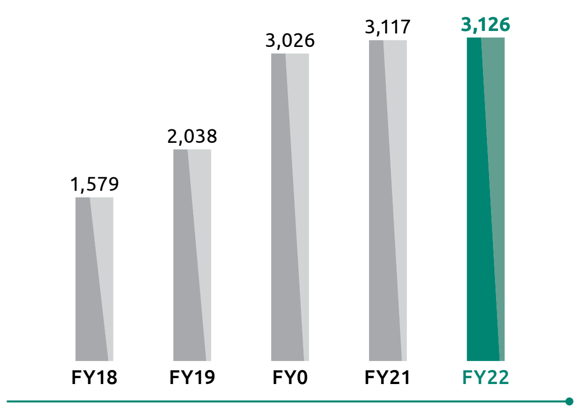
Ujjivan Small Finance Bank (material listed subsidiary of the company) serves over 64.8 lakh customers through 575 branches and 16,895 employees, spread across 248 districts and 24 states and union territories in India. Its gross loan Book stands at ₹18,162 crore with a deposit base of ₹18,292 crore as of March 31, 2022.

Key Performance Indicators (listed subsidiary – Ujjivan Small Finance Bank)

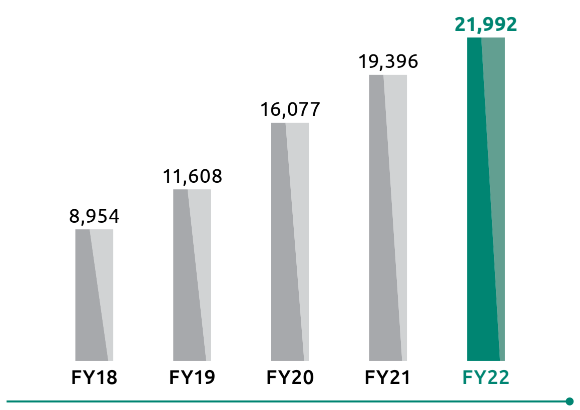
Net Interest Income (NII)
(₹ in Crores)



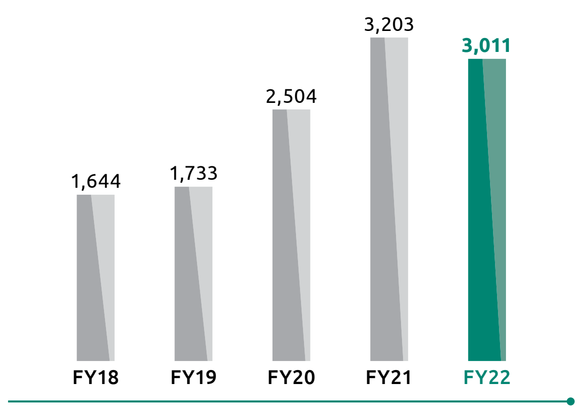
Total Income
(₹ in Crores)



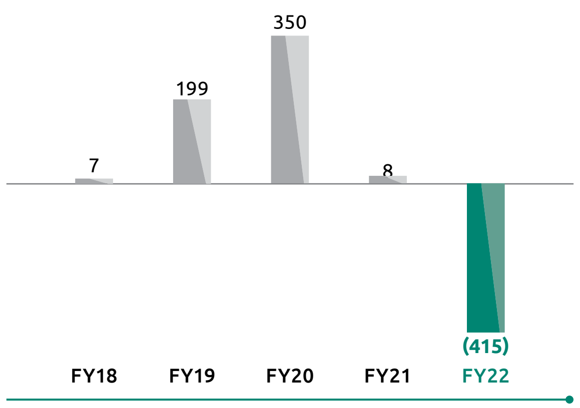
Average Total Assets
(₹ in Crores)



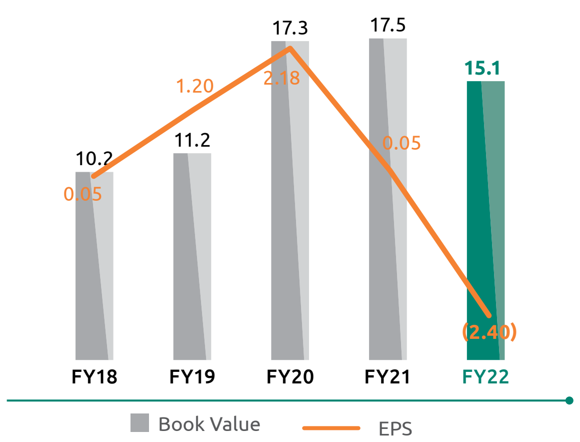
Average Net Worth
(₹ in Crores)



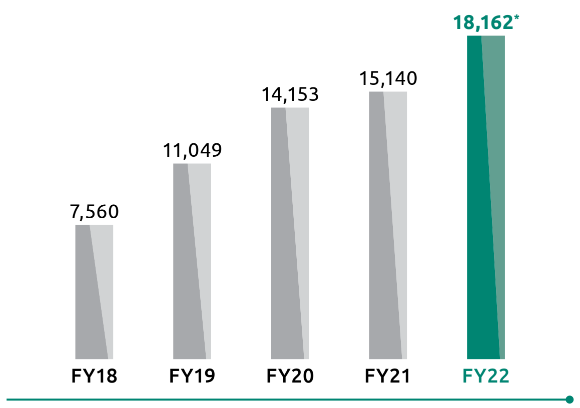
Profit After Tax
(₹ in Crores)



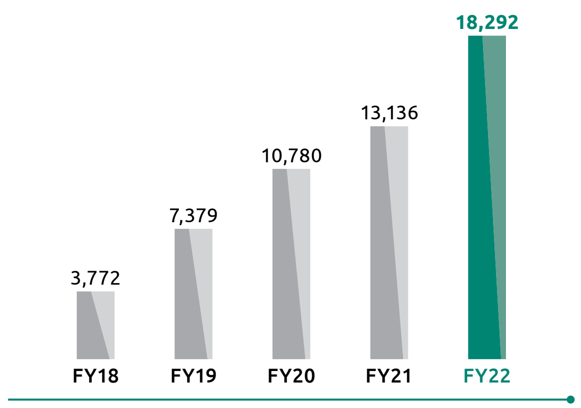
Book Value per share and EPS
(In ₹)



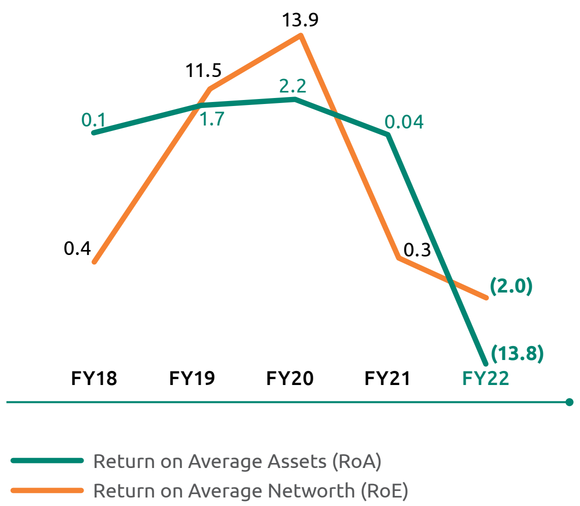
Assets under Management (AUM)
(₹ in Crores)



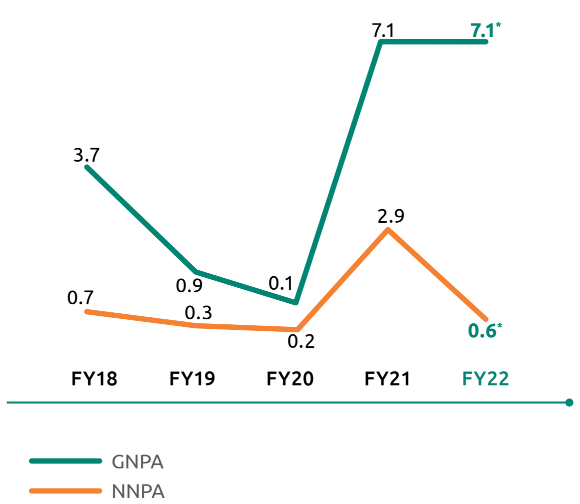
Total Deposits
(₹ in Crores)



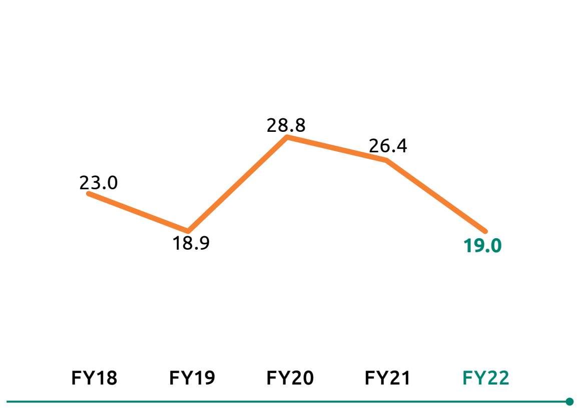
RoA & RoE
(%)



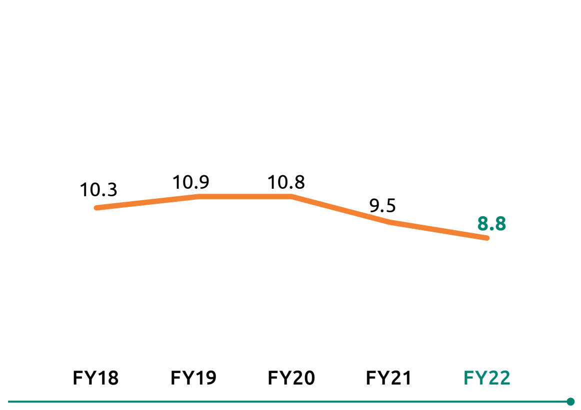
GNPA & NNPA
(%)



Capital Adequacy Ratio
(%)



Net Interest Margin (NIM)
(%)



* Note: Without adjusting for ₹ 674 cr of IBPC/ Securitization as on 31st March 2022

Message from the Chairman

Resolute on the path to improving lives

"In my last message, I touched upon the effect of Covid 19 on our customers and employees. However, this year as we all know the situation has vastly improved. My last address covered the efforts of Ujjivan Group to bring relief to individuals and institutions through our available resources."

Dear Shareholders,

With the economy gradually and steadily recovering and our Bank witnessing a remarkable turnaround during the last quarter of FY21-22 and the first quarter of the FY22-23, we are confident that the future of our Bank looks brighter than ever before as credit demand is back to normalcy. We are confident that the momentum built in the last six months would continue in the current fiscal and in the years to come which would enable our Bank to attain newer heights in terms of growth, size, deposit mobilization and profitability leading to further financial inclusion.

In my last message, I touched upon the effect of Covid 19 on our customers and employees. However, this year as we all know the situation has vastly improved. My last address covered the efforts of Ujjivan Group to bring relief to individuals and institutions through our available resources.

I. Financial results:

1. Standalone (UFSL)

Ujjivan Financial Services Limited (UFSL), is a Core Investment Company with 83.32% ownership of Ujjivan Small Finance Bank (USFB) and it does not have any other business interest apart from investments in fixed deposits. At the standalone level, the income streams of UFSL, besides interest on these deposits, include dividend income from investments held in its subsidiary. However, dividend from the Bank is dependent on the Bank's profitability and we could not receive any dividends on both preference and equity shares held by UFSL in the Bank. UFSL closed on a standalone level with a profit after tax of ₹2.17 crores in comparison to Rs.2.93 crores in the previous year. Interest rates were lower this year in comparison to the previous year but UFSL also economised on expenses.

2. Consolidated (UFSL with USFB)

UFSL's consolidated loss (which includes Bank's financials) under Ind-AS for the financial year 2021-22 stood at ₹230.50 crores vis-à-vis loss of ₹239.11 crores during the financial year 2020-21. This includes impairment on Financial Assets – Loans, based on Expected Credit Loss (ECL) provisions of ₹846.20 crores due to COVID-19 compared to ₹1,165.19 crores of provisions in the previous year.

83.32%

ownership of Ujjivan Small Finance Bank (USFB) and it does not have any other business interest apart from investments in fixed deposits

3. Bank (IGAAP)

The Bank's operating profit under IGAAP, before provisioning, declined from ₹800.79 crores in FY 2020-21 to ₹590.49 crores in FY 2021-22 and net loss after tax stood at ₹414.58 crores for FY 2021-22 vis-à-vis net profit after tax of ₹8.30 crores, in the previous year. Provisions on Gross Advances as per IGAAP books for the financial year 2021-22 were ₹1,140.84 crores vis-à-vis ₹790.59 crores in the financial year 2020-21.

It Is important to note that UFSL, as NBFC is required to prepare its stand-alone and consolidated financials as per Ind-AS whereas the banks continue to operate under IGAAP with resultant differences in the financial figures, mainly due to the difference in the amount of provision. Therefore, the consolidated loss is lower than the Bank IGAAP loss whereas last year it was higher.

II. The Covid Crisis and the Turn Around by the Bank

It will be pertinent here for me to highlight the changes that occurred since the last AGM held in September 2021 in terms of the Bank's performance:

The Bank's business was hit by multiple covid waves and the mobility restrictions that followed each wave. This led to a sharp deterioration of portfolio quality, business, and organizational paralysis and the Bank took a provision of ₹583 Crores in the third quarter of FY 2020-21 and subsequently closed the year with a marginal profit. The asset quality worsened post-Covid 2.0, which not only led to higher credit costs but also impacted the business severely.

The board was very seriously concerned about the extent of damage to the Bank's asset quality. Timely measures were taken to first recognize the problem and undertake appropriate action in terms of collection & recovery.

The RBI approved a Special Committee of Directors (SCOD) comprising of three Independent Directors of the Bank headed by the Chairman, to oversee the Bank effective from September 16, 2021, till such time a new MD & CEO of the Bank is appointed. On September 16, 2021, the Bank appointed the senior most officer, P.S. Martin to be the Officer on Special Duty to oversee the day-to-day operations of the Bank apart from his responsibilities as the Head of Bank's Operations. Carol Furtado was appointed as the Chief Operating Officer with the responsibilities of overseeing the businesses of the Bank. The two of them reported progress & got direction from the SCOD on a fortnightly basis. The Bank set clear priorities with a time frame to turn around the Bank's overall performance

First, the Bank re-assessed the asset quality in the light of the situation and this led to an upward revision in provision. Based on the estimate of the Risk Management Team of the Bank and verified by an independent expert, the estimated additional credit cost was in the range of ₹1,100 crores - 1,200 crores for fiscal 2021-22. In the four quarters of fiscal 2021-22, the Bank had to take provisions of ₹473 crores, ₹414 crores, Rs.187 crores and Rs.44 crores totalling ₹1,118 Crores. The spiral led to the Bank posting a huge loss in the first half of the FY 2021 – 22. By the time Covid 2.0 receded, Ujjivan was saddled by very high PAR (30%+) and rising NPAs (~10%).

The Bank Board & Board Committees reviewed the Bank's businesses in detail and put in a 100 Days revival program for the initial period of September – December 2021. Based on the success of the first, a second 100 Days program was launched to cover the last quarter of the financial year where three key objectives were set:

- Re-organize and strengthen the Credit & Collection teams in-house, outsourced & agencies with the objective to reduce the flow into NPA, start the collection in earnest to bring down the PAR and start a recovery program utilizing the legal team, especially for the Housing & MSE businesses. To be more effective bring closer coordination between the business & collection teams.
- The second area of focus was to rebuild business volumes, both on the loan disbursements and sourcing of retail / wholesale deposits. We estimated that the worst was over with Covid 2.0 and any future impact would be marginal. The Microbanking business which was both demoralized & in disarray in the last two years seemed to have the largest pent-up demand post-Covid. They needed some process & policy changes to remove roadblocks and little encouragement. Excitement was brought in with sales contests like Public Ka Champion which boosted productivity. The Housing & MSE businesses required some strategic changes to pivot the businesses. They were only volume-driven businesses and needed much more bottom-line focus and needed to get out of high-risk & unprofitable segments of businesses. The Housing business needed to reduce their low margin, high loan to value businesses & focus more on profitable business financing individual homes in Tier II & III towns. MSE vertical needed to grow their short-term working capital business. In the second 100-Day Program, we discontinued the unprofitable Personal Loan Business. The Retail deposit business needed to focus on the key customer segments and increase the individual customer base. In the Wholesale Deposit Business, we diversified away from concentration areas and very successfully were able to organize alternate sources of funding from securitization & IBPC transactions.
- The third area was stabilizing the organization, bringing down attrition and filling open positions in leadership with more experienced & higher quality talent. Firstly, the leadership of all the businesses and some functional areas like Human Resources were filled from internal talent. This speaks of the depth of leadership talent we have in Ujjivan. The younger generation of Ujjivan was able to bring in a lot of energy, an open mind to change and a lot of experience & learnings from the past which enabled them to pivot away from the old and bring refreshing new directions to the business. Along with these changes, the Bank was able to attract top talent in the following positions: Chief Information Officer, Head of Digital, Chief Financial Officer and Head of Internal Audit.

Most importantly, Ittira Davis with the approval of the RBI took charge as the Managing Director of the Bank from January 14th, 2022. With him in place, Ujjivan is in safe hands and is continuing to break all records in terms of business growth and profitability. He is also focussed to ensure that we continue to work well within all legal & regulatory norms as we push ahead.

The results can be seen below: Key Performance Indicators (All amounts in Rupees Crores, including IBPC/ Securitisation book)

	FY'22				FY'23
	Q1	Q2	Q3	Q4	Q1
Disbursement	1,311	3,122	4,809	4,870	4,326
Gross Advances	14,037	14,514	16,463	18,162	19,409
Deposit	13,673	14,090	15,563	18,292	18,449
Cost to Income Ratio	65%	84%	74%	66%	61%
GNPA	1,375	1,713	1,612	1,284	1,147
GNPA %	9.8%	11.8%	9.8%	7.1%	5.9%
PAR	4,322.5	2,741.9	2,447.9	1,741.5	1,541.7
PAR %	30.8%	18.9%	14.9%	9.6%	7.9%
Credit Cost	473	414	187	44	0.2
PpoP	161	71	141	217	271
PAT	(233)	(274)	(34)	127	203

III. Governance

UFSL (Holding Company)

During the year, there was only one addition to the Board of UFSL with the induction of Mr Renzo Viegas an experienced banking professional who joined the Board on December 17, 2021. As per SEBI regulations, we must have a Board of not less than 6 members. Otherwise, the directors are the same as the last year save for Mr Rajesh Jogi who resigned to remain on the Bank's board as an independent director, Mr Abhijit Sen who completed his term as an independent director and Mr Ittira Davis who resigned to join the Bank's Board as the MD & CEO. The Board thanks all of them for their valuable contributions. As I mentioned last year I am also on the Bank's Board since August 2021 as a common director as permitted by the RBI in such cases. At the senior level to strengthen the Bank due to the resignations of two KMPs in a short period, we transferred the Company Secretary and CFO to the Bank. Recently we have appointed Mr Radhakrishnan Ravi a very experienced Chartered Accountant as the CEO and CFO of UFSL.

USFB (Bank)

The Bank was fortunate to induct on the board, on August 20, 2021, Mr. Banavar Anantharamaiah Prabhakar, an eminent banker & ex-CMD of Andhra Bank as the Chairman. Under his matured leadership and guidance, the Board was strengthened by experienced and competent professionals. Mr. Ravichandran Venkataraman, ex-banker; Ms. Sudha Suresh, ex-CFO & MD of UFSL and myself joined the board. Mr. P.N. Raghunath from the Reserve Bank of India also joined the board at the request of the regulator on November 29th, 2021, for a period of two years. Recently the Bank inducted Ms Anita Ramachandran an HR expert on the board. Thus, the Bank's board was strengthened & stabilized.

IV. MERGER

As mentioned last year in July 2021, the RBI permitted small finance banks which were subsidiaries of holding companies (ie the promoters) and which had completed 5 years of operations to merge with the holding companies, thereby permitting the promoters to exit by this route. This was a positive for the holding company shareholders which so far had seen UFSL shares trading at a discount to the bank shares which are also listed. We were to apply for the merger by 1st November 2021, three months before the completion of 5 years ie February 2022.

Although the Bank had a change of senior personnel, the Boards of the Bank and UFSL reviewed and approved the merger scheme documents and submitted the same to the RBI on 1st November 2021. At the same time, we applied to the Securities & Exchange Board of India (SEBI) for adopting a scheme of amalgamation as a method to achieve the Minimum Public Shareholding (MPS) to 25% within 3 years of listing i.e. by December 11, 2022 condition and request for relaxing the lock-in condition of the promoter holding in the event the merger is made effective and UFSL is dissolved before the lock-in period is over i.e. by December 09, 2022. SEBI waived the second but not the first. Hence, since this MPS condition must be fulfilled, the merger application cannot for now proceed. The merger documents will have to be reworked after achieving the MPS condition as the share capital will change when new shares are issued by the Bank.

To achieve the MPS, the Bank is in the process to undertake an issue of new shares to Qualified Institutional Buyers (QIBs) through a Qualified Institutions Placement (QIP) which will meet the requirement to proceed with the proposed reverse merger of UFSL into and with the Bank. Further, the Bank is also in the process to raise Tier 2 capital by way of subordinated debt. The combination of these will result in a stronger balance sheet and Capital Adequacy Ratio. Although we had hoped to raise the QIP earlier, the market conditions after the sudden change in the economic scenario as well as geopolitical issues were not amenable to making an issue to QIBs at a decent price. As you would appreciate the quality of shareholders in terms of long-term commitment to the Bank is very important and so is the pricing of the issue to minimize dilution to the holding company shareholders.

Further to achieving the MPS, we would apply to the RBI and Stock Exchanges for approval and then to the NCLT. It is unfortunately not possible to give a time frame for final approval as there are many milestones. However, I can assure you that in this process the Boards of the two companies will work towards achieving the merger with the desired parameters of Board structure, shareholder structure, corporate goals, and socio-economic objectives.

Yours sincerely,

Samit Ghosh
Chairman
August 4, 2022

Corporate Social Responsibility

Passage to a brighter future

At UFSL, we began our social responsibility programmes in 2010, much before it was mandated by government policies; and today we undertake various programmes in collaboration with our CSR Partner, Parinaam Foundation

The Company constantly strives to ensure strong corporate culture which emphasizes on integrating CSR values with business objectives directly or indirectly through its CSR partner Parinaam Foundation. It pursues initiatives to eradicate hunger poverty; promoting preventive health care and making available safe drinking water; promoting education, including special education, employment enhancing vocational skill training for women, promoting gender equality, programs for empowering women and projects for environmental protection.

Academic Adoption Program

During the year the Company has granted ₹3.31 lakhs to Parinaam Foundation towards the School transportation expenses under its Academic Adoption Program.

Project outline:

Parinaam Foundation provides transport facility to 114 children for going to school. Transportation support is provided to children living in communities which have:

a) Long distance to school

b) Lack of child friendly public transport

c) Little or no transport to school

Parinaam has partnered with transport vendors whose main business is providing transport facility to a lot of renowned schools across Bangalore. This enable all the required safety concerns are taken care from the vendor's end.

Parinaam has also employed 2 helpers from our own communities who will be travelling in the bus along with the children ensuring their safety.

Board of Directors

Transforming vision into action

Samit Ghosh

Mr. Samit Ghosh is the Non-Executive Director and Chairman of our Company. He founded the Company in 2004 and served as its MD & CEO until January 31, 2017. With the approval of the Reserve Bank of India, Mr. Samit Ghosh was designated and took charge as the MD & CEO of Ujjivan Small Finance Bank Limited (the listed subsidiary of the Company) effective from February 01, 2017 and he retired on November 30, 2019 from this position on attaining the age of 70 years. Prior to founding Ujjivan, Mr. Samit Ghosh was a career banker with over 30 years of experience in India & overseas with a specialization in retail banking. He was part of the management team which launched retail banking with Citibank in 1985, Standard Chartered Bank in 1993 and HDFC bank in 1996 and his last employment prior to founding Ujjivan was in Bank Muscat. Mr. Samit Ghosh holds a master of business administration degree from the Wharton School of Business at the University of Pennsylvania. He is also a Non-Executive Non-Independent Director of Ujjivan Small Finance Bank Limited.

K.R. Ramamoorthy

Mr. K.R Ramamoorthy is the Non-executive, Independent Director of our Company. He holds a bachelor's degree in arts from Delhi University and bachelor's degree in law from Madras University. He is also a fellow member of the Institute of Company Secretaries of India. He is the former Chairman and Managing director, Corporation Bank and former Chairman & Chief Executive Officer, ING Vysya Bank. He has served as an advisor to CRISIL and as consultant to The World Bank. He serves as an independent director on the boards of Subros Limited, Nilkamal Limited and Amrit Corp. Limited.

Sunil Vinayak Patel

Mr. Sunil Patel is a chartered accountant from the Institute of Chartered Accountants of India and is a certified management consultant from the Institute of Management Consultants' of India. He was previously consultant and Director of A.F. Ferguson & Co. and Partner, A.F. Ferguson Associates. He served as a director on the boards of L&T Investment Management Limited and retired as the part-time Chairman of Ujjivan Small Finance Bank Limited in January 2020. He was also on the Board of Ujjivan Financial Services Limited from 2006 till 2017 and on the Local Advisory Board of Bank Muscat India from 1998 to 2003.

He holds a bachelor's degree in commerce from Bombay University and a master of business administration degree from the Wharton School, University of Pennsylvania.

Mona Kachhwaha

Ms. Mona Kachhwaha is a Non-Executive, Independent Director of our Company. She has over 25 years of financial services industry experience, which includes 12 years with Caspian Impact Investment Advisers (2007-2019) and 13 years with Citibank N.A. (1994-2007). At Caspian, she managed the India Financial Inclusion Fund, a USD 89 Million impact fund with a focus on financial inclusion. She has also been a part of investment and credit committees of other funds managed by Caspian. She also sits on the Boards of Aptus Value Housing Finance Limited and Impact Investors Counsel. She has graduated in Mathematics (Hons.) from Delhi University (1992) and holds an MBA from XLRI, Jamshedpur (1994). She completed an executive program in Private Equity from Said Business School, Oxford University in 2010.

Anand Narayan

Mr. Anand Narayan is a Non-Executive Director of our Company. He is Managing Partner of Creador Advisors India llp from 2011. Prior to Creador, he was a Partner and Director of Veda Corporate Advisors Private Limited, where he was responsible for mergers and acquisitions, sponsor coverage of private equity firms and raising structured debt for a number of mid-market corporates. He had also served in Infrastructure Leasing & Financial Services as Vice President between 1994 -2006 and served various corporate entities like Zuari Agrochemicals and at Eicher Motors Ltd in the past in operational roles. Mr. Narayan holds an M.B.A. from IIM, Bangalore and graduated with honors in Mechanical Engineering from the National Institute of Technology, Jaipur. He is also a non-executive director in Ashiana Housing Limited, Vectus Industries Limited, Paras Healthcare Private Limited and Redrock (India) Offshore Consultants Private Limited and is a designated partner of Creador Advisors India LLP.

Renzo Christopher Viegas

Mr. Renzo Viegas is the Non-Executive, Independent Director of the Company. He holds a Bachelor of Commerce from the University of Mumbai, India. He is a Chartered Accountant and Fellow Member of the Institute of Chartered Accountants of India and a member of the Malaysian Institute of Accountants. He has extensive experience in the banking industry and started his career with Citibank India in 1985, where he progressively held senior positions in various Asia Pacific countries including leading the Consumer Finance business for Asia Pacific. Thereafter he joined RHB Bank (Asean) in 2008, and was the Deputy Chief Executive officer with primary responsibilities for the Consumer, Commercial and International businesses.

In 2012, he moved to be Deputy Chief Executive Officer of CIMB Group (Asean) and was Executive Director of CIMB Bank leading the Consumer and Commercial franchises for the region. He was a non-independent director of CIMB Bank (Vietnam) Ltd and CIMB Cambodia Bank PLC. He was also a non-executive director of Sun Life Malaysia Assurance and Takaful Berhad. He currently sits as an Independent director on the boards of Manulife Holdings Berhad and Manulife Insurance Berhad as well as Astro Malaysia Holdings Berhad. Both these companies are listed on the Kuala Lumpur Stock Exchange.

Leadership Team

Radhakrishnan Ravi

Chief Executive Officer and Chief Financial Officer

He is a qualified Chartered Accountant from The Institute of Chartered Accountants of India, New Delhi, and is a member of the Institute of Internal Auditors, Florida, USA. He has more than 30 years of experience in Financial Accounting and Planning, Budgetary Cost Control, MIS Reporting and Statutory Compliance for Internal Control Team Management.

His previous work experience includes working as an Independent Fraud Investigation officer for Inteltec, Commercial Director for Calega Resources Investment LLC, as a VP Finance of Commit Group, as a Finance Director/ Compliance Officer of Alcazar Capital Ltd, as a Chief Financial Officer for AGT FZCO, Dubai UAE, as a supervisor with Ernst & Young, Bahrain, SNB Associates (Chartered Accountants), Bangalore, Ravi and Mahadevan (Chartered Accountants), Chennai as Partner.

Shashidhara S.

Company Secretary and Compliance Officer

Mr. Shashidhara S is a qualified Company Secretary from the Institute of Company Secretaries of India and holds a Bachelor's degree in Law. He has a corporate experience of over 13 years and prior to joining Ujjivan, he worked with GMR Groups of Companies - Highways Sector as Company Secretary for GMR OSE Hungund Hospet Highways Private Limited.

He has been in the secretarial department of the Company for over 5 years and has played important roles in several key milestones. His overall secretarial and financial experience plus his active interactions with Internal and Statutory auditors and other regulators will help him in his wider role as the Company Secretary and Compliance Officer of the Company.

Statutory and Financial reports

Statutory Reports

Financial Reports

Management Discussion and Analysis

The Company, a RBI registered NBFC-Core Investment Company is the promoter of 'Ujjivan Small Finance Bank Limited' (hereinafter referred to as "USFB" or "the Bank"). The Company on a standalone basis has no operation of its own and derives its value primarily from its investments in USFB where it holds 83.32%.

Key highlights pertaining to the consolidated financials (as per Ind-AS) are given below:

(Rs. in Crores)

Particulars	FY 2021-22	FY 2020-21	y-o-y growth
Total Income	3,092.00	3,181.00	-2.80%
Total Operational Expenses	3,396.00	3,500.32	-2.98%
Profit/(Loss) Before Tax	(303.96)	(319.33)	4.81%
Profit/(Loss) After Tax	(230.50)	(239.11)	3.60%

This report is being presented from the Bank perspective and highlights a synopsis of the banking industry, business and financials of the Bank which predominately dominates the consolidated financials and business of the Company; on a standalone basis the Company is a non-operating Company.

MACROECONOMIC INDICATORS

The beginning of 2022 marked the third year of the COVID-19 pandemic for India and the world, ushering in newer challenges for the healthcare systems and global economies. However, businesses continuity, coupled with rapid vaccination coverage, led to a stronger resilience, pointing towards a GDP growth of 9.2% for FY 2021-22, the highest amongst the world's largest economies.

In FY 2022-23, the Indian economy is expected to bounce back to normalcy, after overcoming COVID's sharp adverse shock. This process has consumed two years, with FY 2020-21, suffering a major contraction, and FY 2021-22, allowing enough recovery to enable the economy to reach back to a real GDP magnitude, only marginally above its pre-pandemic FY 2019-20 level. Even as policymakers have been looking forward to the prospects of a normalised Indian economy, another layer of challenges has gathered momentum in the form of surging prices of global crude and primary products, along with an accentuation of supply-side bottlenecks. These issues in fact, pre-date the recent geopolitical developments.

BANKING INDUSTRY SCENARIO

Bank credit growth revived, post a muted performance last fiscal. Deposit growth, CASA maintained its upward trajectory, reflecting continued preference for precautionary savings; however, it would be interesting to see the deposit trajectory in a rising interest rate scenario.

As per RBI data, on a y-o-y basis, non-food bank credit registered a growth of 9.7% in March 2022 as compared to 4.5% a year ago. Credit to agriculture and allied activities continued to perform well, registering growth of 9.9% in March 2022 as compared to 10.5% in March 2021. A bigger swing came in because of growth in credit to industry, which picked up to 7.1% in March 2022 from a contraction of 0.4% in March 2021. Size-wise, credit to medium industries registered a robust growth of 71.4 % in March 2022 as compared to 34.5 % last year. Credit growth to micro and small industries accelerated to 21.5% from 3.9%, and credit to large industries recorded a marginal growth of 0.9% against a contraction of 2.5% during the same period last year. Within industry, credit growth to 'all engineering', 'beverage and tobacco', 'chemicals and chemical products', 'construction', 'food processing', 'infrastructure', 'leather and leather products', 'mining and quarrying', 'petroleum, coal products and nuclear fuels', 'rubber plastic and their products', 'textiles' and 'vehicles, vehicle parts and transport equipment,' accelerated in March 2022 as compared to the corresponding month of the previous year. However, credit growth to 'basic metal and metal products', 'cement and cement products', 'glass and glassware', 'gems and jewellery', 'paper and paper products' and 'wood and wood products,' decelerated/contracted.

Credit growth to services sector accelerated to 8.9% in March 2022 as compared to 3.0% a year ago, mainly due to significant improvement in credit growth to NBFCs and robust credit offtake in 'trade' and 'transport operators.'

Personal loans segment continued to expand at a robust rate and grew by 12.4% in March 2022 from 10.7% in March 2021.

As India enters 'Samvat 2079,' the third wave seems to be behind us, and with the removal of all restrictions, alongside a broadening of vaccination coverage, economic activity is returning to speed. Most sectors of the economy are reaching or have exceeded pre-pandemic levels. Notably, bank credit has gathered pace, and the job market is picking up steam. There is an acceleration in the travel and hospitality sectors. The construction and real estate sectors have also seen momentum.

The Bloomberg Commodity Index hit an 8-year high in early March, with prices soaring across the board, on war-induced supply shocks. The 10-year benchmark yields ended the month of March 2022 at 6.85%, hardening by 67 bps compared to previous year. Benchmark yields remained rangebound even as globally, yields continued to rise, owing to higher inflation and the ongoing Russia-Ukraine conflict, which led to significant rise in commodity prices. With no G-sec supply in the month of March, the domestic markets remained in a narrow range, as investors continued their buying spree to fulfil regulatory requirements. Since mid-March, however, it has been exhibiting two-way movements. Crude oil prices rocketed to a 14-year high of $ 133 per barrel in the first week of March, as Russia threatened to cut-off supply to the European nations that are heavily dependent on Russia for their oil and gas requirements. Although the prices eased subsequently, the domestic macro-economic conditions have begun to improve with the rapid retreat in COVID-19 infections, and the resumption of economic activity in normal modes of functioning. Daily infections plunged to 861 on April 11, 2022 from a peak of 3.47 Lakhs on January 20, 2022.

CPI for the month of March 2022 stood at 6.95%, recording a 9-month high. The inflation has now breached the RBI MPC upper tolerance band of 6%. Inflation is expected to remain high due to rise in commodity prices in the international markets on the back of the ongoing Russia-Ukraine conflict.

On the expected lines, FED in its FOMC meeting held in the month of May, raised the Federal Funds target range by 50 bps to 0.75% - 1%. The beginning of this hiking cycle came on back of higher inflation, tight labour market conditions, and the current Russia-Ukraine situation, which may also have a long-term bearing on the rates. GST collections continue to be buoyant, touching an all-time high of ₹1.68 Lakhs Crores in April 2022, thus helping the government to further push its initiatives in infrastructure investments.

The Reserve Bank of India (RBI) took various initiatives towards normalisation of liquidity management to pre-pandemic levels by reducing additional liquidity from the market, by conducting regular Variable Reverse Repo Rate (VRRR) Auctions, and with the introduction of the Standing Deposit Facility (SDF) as the basic tool, to absorb excess liquidity, in addition to narrowing the Liquidity Adjustment Facility (LAF) to 0.5% from 0.9%. In the recent off-cycle MPC meeting, RBI hiked the Repo and SDF rate by 40 bps, and also increased the CRR requirement by 50 bps. The increase in CRR will suck out the excess liquidity to about ₹87,000 Crores from the markets.

The RBI, on May 4, 2022, raised repo rate by 40 bps, and also raised CRR by 50 bps to 4.5%. The move has stemmed from rising inflationary pressures and outward flow of the US dollar. Taking note of the said factors, we expect an upward pressure on yields across the curve. We also expect the long-term yields to inch up at higher levels, owing to inflationary and supply pressure in the coming months. Owing to the above factors, we shall remain watchful and stay invested in lower-to-medium duration of the yield curve.

Bank Strategy

The Covid-19 pandemic has ushered in a true VUCA (volatility, uncertainty, complexity and ambiguity) environment. This crisis is dominated by unpredictability and uncertainty about the future with complexities arising in the socio-economic and healthcare structure. Responding with agility and adaptability in decisions and actions is the need of the hour.

Diversify product offerings to enable multiple customer relationships

Offering a comprehensive suite of products and services as well as personalised customer experience continues to be a significant objective. With a strong base of liability customers built over the past four years and our legacy microfinance customer base, we are poised to offer our other product offerings to them. Our focus will be on creating need-based products for each of our segments. We shall expand our offerings to MSE customers by offering products for the formal segment and introducing bill discounting and non-fund based credit facilities. In housing, we intend to launch specific offerings targeted towards rural borrowers and tie-up with government bodies and focus on ready to move-in constructions projects. We plan to add balance transfer, and pre-approved personal loans to our offerings. Strengthening of fintech alliances will provide access to new customers. For institutional segments, new products such as Bank Guarantee will be launched with further enhancement of interbank and exposure limit from various mutual funds, insurance companies and various cooperative banks. On the liability front, our emphasis will be on implementing digital solutions for government and institution businesses, such as Public Funds Management System (PFMS). We plan to increase our reach among small and medium size retailers so POS and QR led acquisition shall be a key area of focus.

Focus on digital banking and analytics

The Bank has set up a dedicated Digital Banking team to drive a central digital strategy to leverage technology in order to enhance customer experience while maximising returns on technology investments and reducing cost of operations. The main drivers of this initiative are digital innovation, application programming interface (API) banking, fintech engagements and partnerships, robotic process automation, artificial intelligence, digital lending, payments, digital marketing and data analytics and insights. During the year, the focus will be on end-to-end process digitisation to strengthen the contactless disbursements and repayments. Data analytics will be utilised for actionable insights to make informed decisions. We will leverage our full-stack API Banking platform to partner with the fintech ecosystem for innovative products and solutions for our customers. Digital channels will be utilised for new customer acquisition and delivery of service.

Strengthening liability franchise, and increasing our retail base

The Bank has been focusing on creating a sticky base of granular retail deposits to fund its asset growth. Our growth on the retail deposit base, CASA deposits, and customer acquisition, has been significantly healthy and encouraging. Also, we offer the best-in-class deposit rates to our customers, which further aids in garnering deposits. We propose to meet a majority of our funding requirements through current account saving account (CASA) deposits as well as recurring, and fixed deposits, by building a sticky deposit base, and attracting new customers. We shall drive the usage of our accounts by leveraging our dedicated customer service, and user-friendly apps. Our