Ujjivan SFB: Promising franchise comes at a reasonable valuation

Ability to diversify is well demonstrated; its effectiveness may take a while to reflect on numbers

HAMSINI KARTHIK
Mumbai, 28 November

OFFER DETAILS

Shares offered (mn)
202.70 – 208.33

Price band (₹/share)
36 – 37

Offer size (₹ crore)
745.83 – 745.95

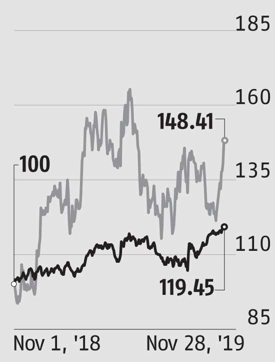
Fresh issue (₹crore)
750

Opens on
Dec 2, 2019

Closes on
Dec 4, 2019

OUTPERFORMER

Base=100



REPORT CARD

(₹ crore)	FY18	FY19	% chg	H1 FY19	H1 FY20
Net interest income	861	1,106	28.5	506	740
Operating profit	50	329	555.2	157	295
Net profit	7	199	2,804	90	187
Net interest margin (%)	10.3	10.9	60 bps	NA	10.6
Gross NPA (%)	3.65	0.92	-273 bps	NA	0.85
Net NPA (%)	0.69	0.26	-43 bps	NA	0.33
CASA (%)	3.70	10.60	690 bps	NA	11.90

Change is year-on-year; bps: basis points; sharp jump in FY19 profits is partly due to low base effect
NPA: Non-performing assets; CASA: Current account – savings account; NA: Not available
Source: Red herring prospectus

Priced at ₹36–37 a share, the initial public offering (IPO) of Ujjivan Small Finance Bank is positioned attractively for investors. At this price range, valuations work out to be about 1.8x FY20 estimated book value, which is not demanding considering that small finance banks (SFBs) are turning out to be a hotbed for growth, especially in India's underserved and unserved territories.

To that extent, the potential that these regions hold for Ujjivan SFB is reflected in its growth trajectory of the past three years.

The appealing factor is that when the industry as a whole is vying for growth outside the comfort zone, that is microfinance (MFI) loans, Ujjivan SFB has demonstrated its ability to disperse from this segment and more importantly through organic diversification opportunities. From 97 per cent of loans coming from the MFI segment in FY17, its share has fallen to 79 per cent in the September 2019 quarter.

Introduction of products — such as affordable housing loans, vehicle loans, loans to small businesses, personal loans, and loan against property — has helped reduce the share of these loans to Ujjivan's overall portfolio. While one could point out that the share of MFI loans is higher when compared to Equitas SFB (25 per cent of the loan book), the number fares marginally better than the industry's dependence in MFI loans which averages at 82 per cent of the loan book. Investors should also remember that without the acquisition of Gruh Finance, Bandhan Bank, too, wouldn't have had it easy to reduce the share of MFI loans from over 80 per cent a year ago to 62 per cent in the September quarter.

The liabilities, too, are fast assuming the colour of a bank. Deposits account for 76 per cent of liabilities, with retail deposits accounting for 42 per cent of deposits. Ujjivan SFB is also making progress in mopping up low-cost current account–savings account (CASA) deposits, share of which has increased from 3.8 per cent in FY18 to 11.9 per cent as of the first half of FY20 (H1FY20).

Financials, too, have accordingly turned attractive for the bank, especially with much of demonetisation pain being absorbed in FY18.

Risk factors

While the track record of the bank has been impressive, the question is how much of this will hold up when years of product diversification lies ahead of it. In other words, the asset quality and profitability of Ujjivan SFB may be put to test going forward, making it the key risk for investors. For instance, the gross non-performing assets ratio of 0.9 per cent in H1FY20 doesn't reflect the behaviour or asset quality movement of recently introduced loan products, the quality of which could be vastly different from that of MFI loans. "The bank needs to be cautious on asset-quality risk emanating from its unseasoned non-MFI portfolio," say analysts at Emkay Global Financial Services.

Likewise, net interest margin or NIM marginally contracted from 10.9 in FY19 to 10.6 per cent in H1FY20 with the bank pursuing non-MFI products for growth.

Also, with the promoters having to reduce their stake from 84 per cent after the IPO to 40 per cent by January 2022, investors stare at further stake dilution. Since stake dilution is potentially value depletive, much depends on how well Ujjivan SFB fares on the bourses and to what extent the post listing gains insulate investors from this risk.

What awaits shareholders

Much of the underperformance related to listing of Ujjivan SFB has been well absorbed by the Street, with the Ujjivan Financial Services (the promoter entity) stock moving up over 50 per cent in a year; it has gained over 55 per cent since listing. Therefore, fears of value depletion and the stock not holding potential for its existing investors are well behind it. However, with sentiment around the stock not being healthy despite the gains, analysts say investors should avoid taking fresh exposure to Ujjivan Financial Services and instead look at Ujjivan SFB. **HAMSINI KARTHIK**

Even those not audited must deduct TDS

TDS of 5 per cent has to be deducted if total payment exceeds ₹50 lakh

BINDISHA SARANG

The Ministry of Finance recently notified Form 26QD for TDS (tax deducted at source) return and Form 16D for TDS certificate under Sections 194M and 194N of the Income-Tax (I-T) Act. Budget 2019 had introduced two new Sections — 194M and 194N — for the purpose of TDS that became applicable from September 1, 2019. However, there was no clarity on the procedure for complying with these Sections. The Ministry of Finance has dealt with this issue through a notification dated November 18, 2019.

Earlier, only individuals and Hindu Undivided Families (HUFs) subject to tax audit were required to deduct tax on contractual, professional fees, brokerage and commission payments made to a resident. Personal payments and businesses not subject to audit were out of its purview till September 1, 2019.

Says Ashok Shah, senior partner, NA Shah Associates LLP: "According to the newly inserted Section 194M, any individual or HUF, which is not subject to a tax audit, is also required to deduct and pay tax on these payments at the rate of 5 per cent."

This notification will impact many. According to Sudhir Kaushik, chartered accountant, co-founder, and CFO, TaxSpanner, "Those paying more than ₹50 lakh during a financial year for a contract, professional fee or commission, even if it is not for business purpose, but for, say, getting a house or floor constructed by a building contractor, or paying an architect fee for personal use, will have to deduct and deposit TDS."

YOUR MONEY

The liability to deduct tax gets triggered when the amount paid to a resident, or even the aggregate of such amounts, exceeds ₹50 lakh. The time limit for depositing TDS is 30 days from the end of the month in which tax was deducted.

According to Suresh Surana, founder, RSM Astute Consulting Group, this payment would be made using the newly notified Form 26QD. This is a challan-cum-statement, which means that there exists no further liability on the deductor to separately file a statement providing other details.

Says Shah: "The TDS certificate in Form 16D is to be issued to the payee within 15 days of furnishing Form 26QD. However, since the Section was effective since September, the consequences of delayed payment on account of challans not being notified are not clear. In the absence of online forms, it can be assumed that the deductors can, for the time being, use manual forms."

A statement of return in Form 26Q will also have to be filed if the deductor is required to deduct TDS under Section 194N. To encourage digital payments and discourage cash payments, Union Budget 2019 had introduced Section 194N, which stipulated TDS at 2 per cent on cash withdrawals exceeding ₹1 crore during the financial year with effect from September 1, 2019.

Says Kaushik: "There is a loophole in this provision. The limit of ₹1 crore is per bank/co-operative bank/post office. This means one can withdraw ₹10 crore by withdrawing from 10 accounts with different banks."

Also, clarity is awaited from the I-T department on whether withdrawals through bearer cheques will also be included, while computing the limit of ₹1 crore.

Finally, Kaushik says, "When making a payment, take the digital payment route and avoid cash transactions. Also, keep a copy of the Permanent Account Number of all the other parties." He adds that during large financial transactions, it would be advisable to take the help of a tax consultant.

"If you paid ₹50 lakh to an architect or engineer to build a house, and did not cut TDS, you could get a tax notice a few years later and may have to pay a fine, which could be huge," he says.

SEC 194M FINE PRINT YOU SHOULD BE AWARE OF

- Need PAN only for depositing TDS. TAN not required
- TDS will be deducted on payments made after September 1, 2019, even if agreement was made earlier
- Deduct TDS at the time of credit or payment, whichever is earlier
- Penalty for late payment of TDS is 1 per cent or 1.5 per cent, depending on the reason
- Professional work includes professional fees, technical fees, remuneration paid to director excluding salary, royalty, and payment in the form of non-compete fees or fees paid not to share any technical knowledge

Source: Taxspanner.com

ICICI Securities settles case with Sebi

In a case of fraudulent trading by bogus entities through several brokerage houses, ICICI Securities has settled charges of alleged violation of stock broker norms without admission or denial of any wrongdoing with markets regulator Sebi.

ICICI Securities has settled the case by paying over ₹28 lakh towards settlement charges, the Securities and Exchange Board of India said in a settlement order. **PTI**

CORRECTION
The report – "Link FASTag to a prepaid card" – published on November 27 had wrongly mentioned Shailendra Singh's employer. He is Head – Digital Banking at Bank of Baroda. The error is regretted.

BNP Paribas, Credit Suisse sound a note of caution on record market run

BLOOMBERG
Mumbai, 28 November

A slowing economy hasn't stopped India's benchmark equity index from climbing to a series of records this year, but this divergence may have run its course, according to BNP Paribas.

Asia's third-biggest economy probably grew 4.6 per cent last quarter, which would be the slowest since the first three months of 2013, according to a *Bloomberg* survey ahead of Friday's data release. Meanwhile, the Sensex closed at a new high on Wednesday and is up nearly 14 per cent for 2019. Stocks have climbed mainly since late September, when the unveiling of a corporate tax cut boosted the outlook for corporate earnings.

"Our recent meetings with policy makers and industry experts confirmed that there is unlikely to be a significant uptick in economic data in the near term," Abhiram Eleswarapu, the firm's Mumbai-based head of equity research, wrote in a note. "The index rally we had cautiously called for may be done for now."

This view echoes that of Credit Suisse, which expects the growth slump to last longer than anticipated based on its interaction with investors. "With growth continuing to fall in October-November, it seems unlikely that FY20 would see any growth in EPS and FY21 should see meaningful cuts too," it said in a report this week.

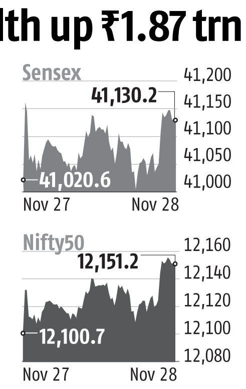
Investors are, however, unfazed by the economic slowdown. Net foreign buying in Indian stocks has reached $3.2 billion so far this month, set for the biggest tally since March, according to official data.

Investor wealth up ₹1.87 trn in 2-day rally

Investor wealth rose ₹1.87 lakh crore in two-day market rally, where the benchmark indices ended at fresh closing highs on Thursday.

At the close of trade, market capitalisation (m-cap) of the BSE-listed companies went up by ₹1,87,370.56 crore to ₹1,55,57,484.15 crore in two days on the BSE.

Extending its record-setting streak for the second session, the Sensex gained 308.87 points in two days. During the day on Thursday, the index scaled its record peak of 41,163.79.



Climbing new highs every day

Benchmark stock indices extended their record-breaking run for the second day on Thursday, propped up by gains in index heavyweights ICICI Bank and Reliance Industries.

The highlight in the market on Thursday was Reliance Industries that became the first Indian company to hit the ₹10-lakh crore market valuation mark following a spike in its share price.

At the market close, the oil-to-telecom conglomerate's market capitalisation (m-cap) zoomed to ₹10,01,555.42 crore on the BSE. **PTI**

COMMODITIES

PRICE CARD

As on Nov 28	International Price	International %Chg#	Domestic Price	Domestic %Chg#
METALS ($/tonne)				
Aluminium	1,770.5	2.7	1,885.5	-4.0
Copper	5,925.5	4.8	6,159.2	0.0
Zinc	2,335.0	3.3	2,667.6	4.1
Gold ($/ounce)	1,455.1*	-5.5	1,641.2	-2.4
Silver ($/ounce)	16.9*	-7.7	19.3	-5.1
ENERGY				
Crude Oil ($/bbl)	63.5*	5.8	63.6	7.0
Natural Gas ($/mmBtu)	2.5*	11.1	2.5	10.9
AGRI COMMODITIES ($/tonne)				
Wheat	185.2	14.9	299.9	3.9
Maize	182.1*	0.1	302.4	-0.1
Sugar	342.6*	10.8	490.5	2.3
Palm oil	655.0	20.7	1,024.0	17.1
Cotton	1,431.0	11.2	1,564.2	-9.3

* As on Nov 28, 19 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.6 & 1 Ounce = 31.1032316 grams.
Notes:
1) International metals, Indian basket crude, Malaysia Palm oil, Wheat LIFFE and Coffee Karnataka robusta pertains to previous days price.
2) International metal are LME Spot prices and domestic metal are Mumbai local spot prices except for Steel.
3) International Crude oil is Brent crude and Domestic Crude oil is Indian basket.
4) International Natural gas is Nymex near month future & domestic natural gas is MCX near month futures.
5) International Wheat, White sugar & Coffee Robusta are LIFF E future prices of near month contract.
6) International Maize is MATIF near month future, Rubber is Tokyo-TOCOM near month future and Palm oil is Malaysia FOB spot price.
7) Domestic Wheat & Maize are NCDEX future prices of near month contract, Palm oil & Rubber are NCDEX spot prices.
8) Domestic Coffee is Karnataka robusta and Sugar is M30 Mumbai local spot price.
9) International cotton is Cotton no.2-NYBOT near month future & domestic cotton is MCX Future prices near month futures.
Source: Bloomberg Compiled by BS Research Bureau

ONION@₹100

Price expected to stay high for weeks

RAJESH BHAYANI
Mumbai, 28 November

The price of onions is expected, say researchers and market players, to remain high for the better part of two months.

The retail price for good quality rose above ₹100 a kg in major consuming centres, including this metropolis, earlier this week, though it has moderated a bit. It is retailing at ₹120 a kg here, at ₹100 in Hyderabad, ₹90 in Bengaluru, ₹85 in Ahmedabad and ₹75 in Delhi, shows data from the National Horticulture Board.

Observers says the supply deficit is expected till the middle of December and it will take a month after that to see prices moderating to average levels. The kharif crop damage impact is still seen in the market, says Ajit Shah, president, Horticulture Exporters Association. He expects prices to begin falling "from the middle of next month to the end of the month".

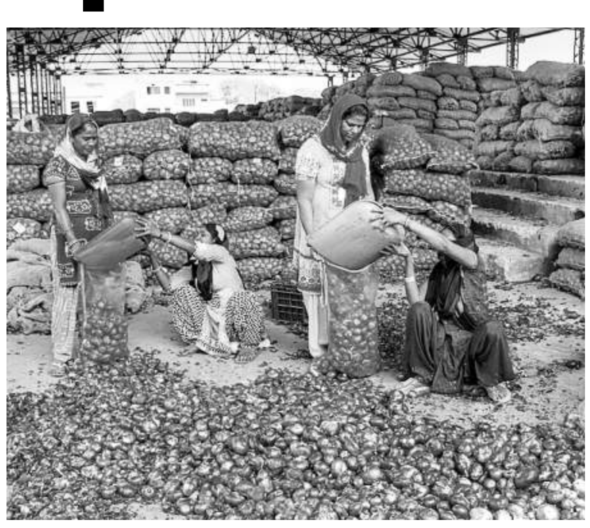
The monsoon was delayed; later, excessive and prolonged rain hit the crop. So, prices began rising; they have been doing so for three months. There was an expectation that these would moderate from November, after the central government banned export and imposed nationwide stock limits on traders. However, the crop damage was much more than the trade had anticipated.

Says Ajit Shah: "The relaxation in import norms was not enough. If these had been relaxed beyond what was done, quick supplies would have helped to bring prices under control."

Early this month, the government relaxed condition of fumigation of onion import up to November 30. Importers wanted more easing, such as quick customs clearance and allowing shipment from trading centres like Dubai even if the consignment was originally from Iran.

As of now, traders have contracted import from Egypt and Turkey but this takes 20 days to reach Indian ports; import from Dubai comes in a day or two. Onion via Afghanistan has started to come across the Wagah (Pakistan) border.

In fact, arrivals have picked up in the past two days at wholesale centres, where the average has come down to ₹50-55 a kg, says the National Horticulture Research and Development Foundation.



HOLE IN THE POCKET
Retail price of onion in ₹ per kg

	Nov 20	Nov 27	% Chg
Ahmedabad	70	85	21.4
Bengaluru	70	90	28.6
Delhi	65	75	15.4
Hyderabad	60	100	66.7
Mumbai	80	120	50.0

Source: National Horticulture Board Compiled by *BS* Research Bureau

Survey: Better tech helped contain crop damage

RAJESH BHAYANI
Mumbai, 28 November

At a time when onion prices are soaring across the country because of a supply squeeze, a recent survey by Pune-based Indian Council of Agricultural Research (ICAR) and the Directorate of Onion and Garlic Research (DOGR) has revealed that farmers employing better technology were able to contain onion crop damage.

The survey, monitoring the effect of erratic monsoon on kharif and late kharif crops in major onion-growing districts of Maharashtra — Pune, Ahmednagar and Nasik — showed: "Heavy rains affected the entire kharif harvest, late kharif standing crop, and rabi nursery. The intensity of kharif crop damage could have been up to 80 per cent in Baramati and Purandar, where the crop was under water-logged conditions."

According to Major Singh, director in DOGR, "farmers who employed better technology incurred much less damage". Singh said farmers in Purandar who followed the ICAR-DOGR recommendation of raised-bed plantation, along with drip irrigation, suffered only 20-30 per cent damage.

Rising food prices are a big worry across EMs

BLOOMBERG
Singapore, 28 November

Food prices are climbing fast in the world's biggest emerging markets, posing a possible inflation threat after months of dormant pressures. Asia's two largest developing economies face a price surge for staple products — pork in China and onions in India — that are central to consumers' diets. In Turkey and Nigeria, supply problems are driving up costs, while United Nations data show global food prices rose at the fastest pace in October in more than two years.

While the spike is painful for poorer consumers, it hasn't reached a level to convince central banks to pull the brake on policy easing, as they remain focused on boosting economic growth amid a global slowdown. Average inflation across emerging markets is still at an all-time low, according to a Bloomberg gauge of consumer price indexes.

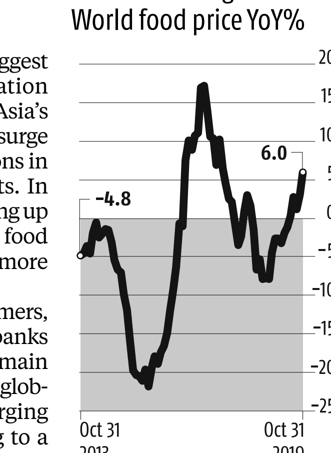
"We think it's likely they would look through food inflation that is concentrated on a handful of products and driven by idiosyncratic factors," said Taimur Baig, managing director and chief economist at DBS Bank in Singapore. "Bias toward further monetary and fiscal easing will remain in 2020, in our view."

India

In India, where spikes in the cost of onions have sparked social unrest in years past, a 26 per cent year-on-year rise in vegetable prices pushed October headline inflation above the Reserve Bank's threshold of 4 per cent for the first time in 15 months.

That runs up against a central bank intent on easing policy to spur growth. The latest Bloomberg survey shows consumer price inflation expected to peak at 4.8 per cent in the October-December period, before tapering off.

UN Food and Agriculture World food price YoY%



India CPI Price Index