

Have opted for IPO to cut foreign ownership

ARMED with an in-principle approval to start operations as a small finance bank (SFB), Ujjivan Financial Services — one of the country's largest micro-finance institutions — has decided to go public. Shakti Patra spoke to Samit Ghosh, its MD & CEO, to understand the rationale behind the initial public offering (IPO) and how the company is preparing to transition itself into an SFB. Excerpts:

What is the main reason for Ujjivan going for an IPO, other than, as mentioned in the red herring prospectus (RHP), augmenting its capital base?

The main reason for us going for an IPO is reducing foreign ownership in the company because the Reserve Bank of India mandates that majority ownership in a small finance bank (SFB) has to be domestic. The quantum of domestic capital that we had to raise to bring down foreign own-

ership in Ujjivan, so that it meets RBI's regulations, is fairly large. In addition, we need to make a fair amount of investment — be it on people or for IT and physical infrastructure — for our transition into a bank. We also need capital for our business growth over the next four-five years. Basically, the amount of capital we need for our business growth is almost equal to what we need to get our capital structure in place.

So, would it be fair to say that you wouldn't have opted for an IPO if not for the SFB licence?

Yes. We had raised capital last year. So, if not for bringing down foreign ownership, we wouldn't have gone for an IPO now.

Give us some details about your preparedness to start operations as an SFB. When are you planning to start and with how many branches?

We have about 470



branches at present, but it would be very difficult to convert each of them into an SFB branch. So, initially we will convert about 40% of them into SFB branches and the rest would be converted in a phased manner. Currently, the location of none of our branches meet the RBI's definition of an unbanked rural centre. But as per its regulations, we would need to have 25% of our branches in such centres. We intend to comply with this regulation going forward. Our plan is to start operations as an SFB at the beginning of Q1 of CY17 and ensure that all such reg-

ulations are met by the end of March.

Realistically speaking, what percentage of your liabilities do you think you can mobilise through deposits in the first year of operations?

Building up liabilities takes time. Currently, we have over 2.7 million customers. These would form our initial deposit base. Only after that will we start our retail liability strategy of acquiring new customers.

We are clear about one thing. We don't want to get into the middle class and the affluent, because that's a very crowded and competitive market. However, there is a certain segment above our group lending customers, that of micro entrepreneurs and small businessmen, who currently have bank accounts but save their money in the unorganised sector. And our strategy is to convert them into our customers.

Given the profile of your current customers, is there a fear that mobilising deposits from them will lead to very high additional costs, which might totally negate the advantages of such low cost funds?

We are not looking at collecting pygmy deposits by going door to door. It's not economically viable. We are looking to collect them at our monthly centre meetings. We will supplement our branch networks with business correspondents to whom our customers can go to do their transactions.

Can you put a number on the rate of interest you will offer on deposits when you start operations as an SFB?

We would be offering slightly higher rates than what banks do. But what we have seen in case of Sahara and others is that they don't offer more than one percent more than what postal savings offer.