

Some Respite on Asset Quality; Growth Resumption Keenly Eyed!

Est. Vs. Actual for Q4FY25: NII – MISS; PPOP – MISS; PAT – MISS

Changes in Estimates post Q4FY25

FY26E/27E (in %): NII: +1.7/+3.9; PPOP: +0.3/+1.4; PAT: +5.6/+3.7

Recommendation Rationale

- Growth outlook in MFI improves; Secured portfolio growth visibility strong:** The mix of the secured products improved from 30% in FY24 to ~44% in FY25, led by robust growth of 56% YoY. This growth was led by continued growth in the Affordable housing book and a pick-up in the MSME segment. The management expects growth in the secured portfolio to continue, primarily driven by Affordable Housing, MSME, with support from Micro-mortgage, Gold and Vehicle segments. Amongst the new businesses, UJSFB intends to ramp up the gold loans to ~2-3% of the portfolio by FY26. The vehicle business will also continue to scale up to ~Rs 1,500 Cr over the next 2-3 years. Furthermore, green shoots are visible in most geographies in the MFI segment. However, the bank will continue to exercise caution while pursuing growth, given the uncertainty in Karnataka (KA) and Tamil Nadu (TN) and await better clarity on the impact of the MFIN guardrails 2.0. UJSFB's focus in the MFI portfolio will remain on scaling the Individual Loans (IL) portfolio. **We pencil down an improved credit growth of 19% CAGR over FY25-27E, mainly led by the secured products (improving mix to 50% as guided earlier)**
- Some respite on Asset quality stress in MFI:** In Q4FY25, UJSFB saw a meaningful improvement in X-bucket collection efficiency (CE) across most geographies except KA. The bank has seen a similar trend in Apr'25 and expects to end the quarter on an improved CE trajectory. The management believes that PAR has peaked in Dec'24 (at 5.4% and improved to 4.5% in Q4FY25), and improvement should be visible in the coming quarters. However, the bank will continue to monitor the evolving situation in KA and TN and the definite impact of the guardrails. The situation in KA is gradually improving, and stress is visible, particularly in certain districts, which is expected to settle over the next 2-3 months. Management has indicated that MFI credit costs will taper, though H1FY26 credit costs will be higher than H2FY26. So far, there have been no meaningful on-ground changes in TN, and the management does not foresee any major challenges. **We believe credit costs will gradually moderate over FY26E, thereby supporting RoA for the bank.**

Sector Outlook: Positive

Company Guidance: The bank has performed better than its peers in the current MFI downcycle owing to its proactive approach to cut growth and diversified geographical presence. UJSFB's X-bucket CE has improved meaningfully across geographies, and the trend is expected to continue going ahead. This should drive down credit costs over FY26. The secured portfolio's growth momentum will remain strong, driving healthy credit growth for the bank. Deposit growth is expected to mirror credit growth as the bank intends to maintain LDR at ~88% on a steady-state basis. Portfolio mix shift should exert pressure on yields. However, the bank has identified levers to limit the impact of margin compression. We expect UJSFB's RoA/RoE to improve to 1.9-2.1%/15-18% over FY26-27E.

Current Valuation: 1.2x FY27E ABV Earlier Valuation: 1.0x Sep'26E ABV

Current TP: Rs 49/share Earlier TP: Rs 39/share

Recommendation: We maintain our **BUY** recommendation on the stock

Alternative BUY Ideas from our Sector Coverage

AU SFB (TP – Rs 75/share); Equitas SFB (TP – Rs 76/share)

Financial Performance

- Operational Performance:** UJSFB's disbursements grew by 12/39% YoY/QoQ, primarily led by a pick-up in MFI disbursements (-19/42% YoY/QoQ). Non-MFI disbursements growth continued to remain strong at 99/36% YoY/QoQ, with growth visible across segments. Advances grew by 8/7% YoY/QoQ, with growth led by secured businesses (+50/16% YoY/QoQ). The share of secured book improved to 43.5% vs 30.2/39.3% YoY/QoQ. Deposits grew by 20/9% YoY/QoQ, driven by both CASA (+15/11% YoY/QoQ) and TDs (+21/8% YoY/QoQ). CASA Ratio improved to 25.5% vs 25.1% QoQ. C-D Ratio stood at 85.4% vs 94.7/86.8% YoY/QoQ.
- Financial Performance:** NII growth was weak and de-grew by 7/3 YoY/QoQ, owing to weak MFI growth, higher slippages and shift in portfolio mix. Margins contracted by ~30bps QoQ and stood at 8.3%. Non-interest income grew by 14/57% YoY/QoQ, driven by healthy fee income growth of 6/35% YoY/QoQ. Opex growth was higher at 19/11% YoY/QoQ, primarily driven by higher employee expenses (+28/13% YoY/QoQ). C-I Ratio increased to 68.3% vs 66.1% QoQ, mainly on the back of weak topline growth. PPOP de-grew by 31% YoY and was flat QoQ. Credit costs were elevated at ~3.4% vs 3% QoQ. PAT de-grew by 75/23% YoY/QoQ.
- Asset Quality:** UJSFB's asset quality is better than the industry. The X-bucket collections improved in both the group and individual loans, with CE at 99.5% in Mar'25. GNPA/NNPA declined by 50/7bps QoQ and stood at 2.18/0.49% vs 2.68/0.56% QoQ.

Key Financials (Standalone)

(Rs Cr)	Q4FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	864	-2.5	-7.4	897	-3.6
PPOP	360	+0.2	-30.6	379	-5.1
Net Profit	83	-23.2	-74.7	99	-16.1
NNPA (%)	0.5	-7 bps	+21 bps	0.5	+4 bps
RoA (%)	0.7	-26 bps	-258 bps	0.9	-14 bps

Source: Company, Axis Securities Research

(CMP as of 30th April, 2025)

CMP (Rs)	42.5
Upside /Downside (%)	15%
High/Low (Rs)	56.1/30.9
Market cap (Cr)	8,226
Avg. daily vol. (6m) Shrs.	1,39,26,878
No. of shares (Cr)	193.6

Shareholding (%)

	Sep-24	Dec-24	Mar-25
Promoter	0.0	0.0	0.0
FII's	20.6	17.9	19.5
MFs / UTI	3.7	3.8	4.7
Others	75.7	78.3	75.8

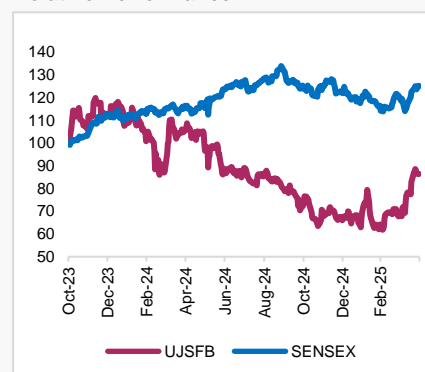
Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
NII	3,636	4,163	4,984
PPOP	1,689	1,940	2,407
Net Profit	726	1,001	1,295
EPS (Rs)	3.8	5.2	6.7
ABV (Rs)	30.2	34.7	40.7
P/ABV (x)	1.4	1.2	1.0
RoA (%)	1.6	1.9	2.1
NNPA (%)	0.5	0.5	0.4

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	+1.7	+3.9
PPOP	+0.3	+1.4
PAT	+5.6	+3.7

Relative Performance



Source: Ace Equity, Axis Securities Research

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Key Takeaways

MFI stress managed better than industry: UJSFB has been able to manage the stress in the current MFI downcycle in a better manner than its peers. This can be credited to the bank's (a) proactive approach to identifying stress and classifying branches based on collections. The disbursements in the impacted branches were curtailed to minimise risk, (b) a geographically diversified portfolio and (c) a higher contribution of IL, where asset quality held up fairly well vs GL, which remained impacted due to the guardrails.

NIM compression imminent: Pressure on yields is imminent as the portfolio continues to skew towards lower-yielding segments. However, the bank is looking to pursue growth in the better-yielding secured segment – Gold, Vehicle Finance and Micro-mortgages. Additionally, the bank will look to grow the IL portfolio faster vs GL, thereby partially compensating for the yield pressures from the portfolio shift. The IL yields are ~100bps better vs GL. Moreover, the bank has reversed its rate cut in Q4FY25 and expects a positive impact on MFI yields.

With the commencement of the rate cut cycle, UJSFB has also taken a SA and TD rate cut. The bulk deposit rates have also declined. **Thus, the management expects CoF to decline by 25-30bps in FY26E.** Collectively, (i) Growth in better yielding secured segments, (ii) Faster growth in IL vs GL, (iii) Gradual downward repricing of CoF and (iv) Lower interest reversal backed by controlled slippages should help UJSFB defend its NIMs, while limiting the quantum of compression. We pencil in NIMs to remain range-bound between 8.5-8.6% over FY26-27E.

Opex growth to moderate gradually: The bank's Opex growth in Q4FY25 was higher owing to spending on tech, new business lines, liability business and towards enhancing collections. The new products take 18-24 months to break even and are expected to contribute to overall profitability while delivering RoA of ~2% over the medium term. The management has indicated that the C-I Ratio will continue to trend downwards.

Outlook

As clarity in certain states emerges and CE normalises, the bank will push the growth pedal in GL disbursements through its branches while onboarding NTB customers. We tweak our credit growth estimates slightly upwards to factor in continued growth in the secured products and a catch-up in growth in the MFI book (both GL and IL) as the bank exits FY26. We revise our NII estimates upwards by 1-4% over FY26-27E. With the outlook on credit costs turning cautiously optimistic, with stress largely having peaked out, we expect moderating credit costs to aid earnings growth. We revise our earnings growth estimates upwards by 4-6% over FY26-27E. **We expect UJSFB to deliver a healthy Advances/NII/Earnings growth of 19/17/34% CAGR over FY25-27E.**

Valuation & Recommendation

UJSFB currently trades at 1x FY27E ABV, and we value UJSFB at 1.2x FY25E ABV to arrive at a target price of Rs 49/share, implying an upside of 15% from CMP. **We maintain our BUY recommendation on the stock. A meaningful re-rating would be contingent to a pick-up in growth and credit costs moderating materially.**

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit growth, potentially derailing our earnings estimates.
- The scalability of new products and secured books remains a key monitorable.
- Asset quality concerns persisting for long could keep credit costs elevated, hurting our earnings estimates

Change in Estimates

Rs Cr	Revised		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
NII	4,163	4,984	4,095	4,796	1.7	3.9
PBP	1,940	2,407	1,934	2,374	0.3	1.4
Provisions	605	681	673	713	-10.1	-4.5
PAT	1,001	1,295	949	1,249	5.6	3.7

Source: Axis Securities Research

Results Review

Result	Q4FY25	Q4FY24	% YoY	Q3FY25	% QoQ	FY25	FY24	% YoY
Net Interest Income	864	934	-7.4	887	-2.5	3,637	3,409	6.7
Non-Interest Income	270	236	14.2	172	56.6	846	787	7.6
Operating expenses	774	651	18.9	700	10.6	2,793	2,279	22.6
Staff Cost	420	327	28.2	371	13.0	1,499	1,183	26.7
Pre provision profits	360	519	-30.6	359	0.2	1,690	1,917	-11.9
Provisions and contingencies	265	79	234.8	223	18.7	748	215	247.8
PBT	95	440	-78.3	136	-30.2	942	1,702	-44.7
Provision for Tax	12	110	-89.2	28	-57.2	215	421	-48.8
PAT	83	330	-74.7	109	-23.2	727	1,281	-43.3
Business Update								
Disbursements	7,455	6,681	11.6	5,362	39.0	23,479	23,401	0.3
MFI - Group	2,787	3,712	-24.9	2,029	37.4	10,185	13,549	-24.8
MFI - Individual	1,185	1,219	-2.8	776	52.7	3,605	3,999	-9.9
Affordable Housing	1,130	730	54.8	813	39.0	3,146	2,284	37.7
MSME	533	128	316.4	332	60.5	1,211	326	271.5
FIG	1,064	546	94.9	596	78.5	2,640	1,538	71.7
Others	756	346	118.5	657	15.1	2,288	1,554	47.2
Advances	32,123	29,779	7.9	29,949	7.3	32,123	29,779	7.9
MFI - Group	13,090	16,009	-18.2	13,663	-4.2	13,090	16,009	-18.2
MFI - Individual	5,182	4,799	8.0	4,436	16.8	5,182	4,799	8.0
FIG	2,785	1,731	60.9	2,257	23.4	2,785	1,731	60.9
Affordable Housing	7,308	4,924	48.4	6,393	14.3	7,308	4,924	48.4
MSME	2,047	1,414	44.8	1,694	20.8	2,047	1,414	44.8
Others	1,388	816	70.1	1,311	5.9	1,388	816	70.1
Cost-Income ratio (%)	68.3	55.7	1261 bps	66.1	220 bps	62.4	54.2	816 bps
Asset Quality								
Gross NPA (%)	2.2	2.2	-5 bps	2.7	-50 bps	2.2	2.2	-5 bps
Net NPA (%)	0.5	0.3	21 bps	0.6	-7 bps	0.5	0.3	21 bps
PCR (%)	78.0	87.0	-900 bps	80.0	-200 bps	78.0	87.0	-900 bps
Capital Adequacy								
CRAR (%)	23.1	24.7	-160 bps	23.9	-80 bps	23.1	24.7	-160 bps
Tier I (%)	21.4	22.6	-122 bps	22.1	-72 bps	21.4	22.6	-122 bps
Tier II (%)	1.7	2.1	-38 bps	1.8	-8 bps	1.7	2.1	-38 bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
Net Interest Income	3,409	3,636	4,163	4,984
Non-Interest Income	787	846	956	1,080
Total Income	4,196	4,482	5,120	6,064
Operating Expenses	2,279	2,793	3,180	3,657
Pre-Provision Profits	1,917	1,689	1,940	2,407
Provisions	215	748	605	681
PBT	1,702	942	1,335	1,727
Tax	421	215	334	432
Profit After Tax	1,281	726	1,001	1,295

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
Equity Share Capital	1,931	1,935	1,935	1,935
Reserves & Surplus	3,662	4,059	4,960	6,126
Net Worth	5,593	5,994	6,895	8,061
Deposits	31,462	37,630	45,656	55,803
Borrowings	2,171	2,845	2,728	1,865
Other Liabilities	1,176	1,130	1,345	1,599
Total Liabilities	40,454	47,689	56,754	67,504
Cash & Bank balances	2,537	3,170	4,048	4,669
Investments	9,766	11,730	13,912	16,167
Loans	26,883	31,390	37,071	44,619
Fixed Assets & Others	1,216	1,399	1,722	2,048
Total Assets	40,402	47,689	56,754	67,504

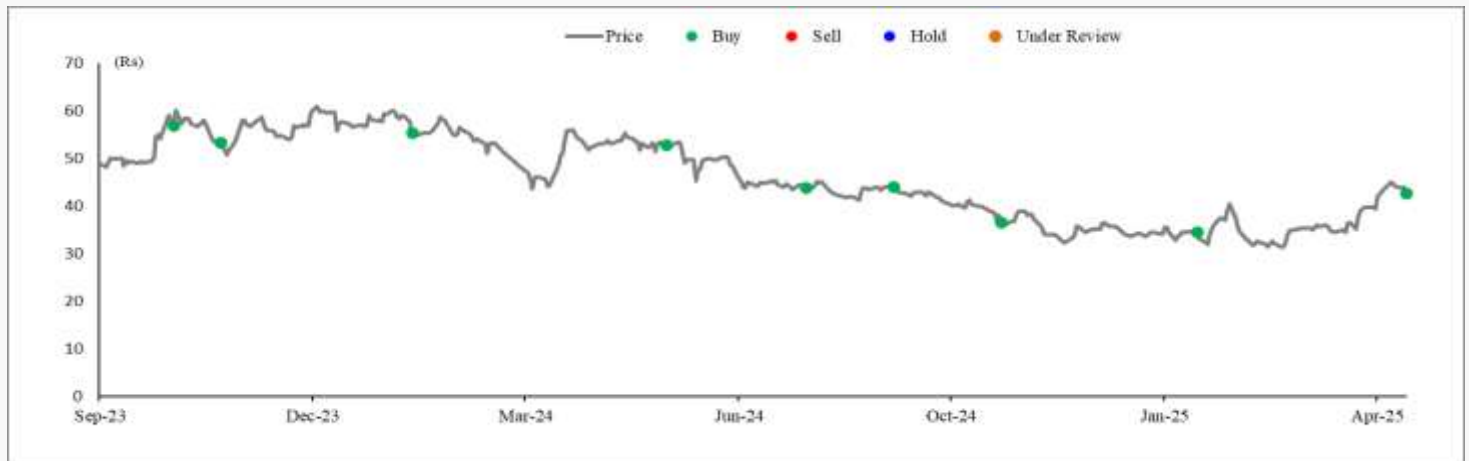
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25	FY26E	FY27E
VALUATION RATIOS				
EPS	6.6	3.8	5.2	6.7
Earnings Growth (%)	17.9	-43.4	37.9	29.3
BVPS	28.7	31.0	35.6	41.7
Adj. BVPS	28.3	30.2	34.7	40.7
RoA (%)	3.5	1.6	1.9	2.1
ROAE (%)	27.0	12.6	15.5	17.3
P/E (x)	6.4	11.3	8.2	6.4
P/ABV (x)	1.5	1.4	1.2	1.0
PROFITABILITY & OPERATING EFFICIENCY				
NIM (%)	9.0	8.5	8.2	8.3
Cost/Avg. Asset Ratio (%)	6.2	6.3	6.1	5.9
Cost-Income Ratio (%)	54.3	62.3	62.1	60.3
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	23.6	7.9	18.1	20.4
Deposits Growth (%)	23.2	19.6	21.3	22.2
Equity/Assets (%)	8.9	8.5	8.7	9.1
Equity/Loans (%)	20.6	19.1	18.6	18.1
Capital Adequacy Ratio (%)	24.7	23.1	22.2	21.6
Tier I Capital (%)	22.6	21.4	20.7	20.3
ASSET QUALITY				
Gross NPLs (%)	2.2	2.2	2.0	1.8
Net NPLs (%)	0.3	0.5	0.5	0.4
Coverage Ratio (%)	87.6	78.1	77.3	77.9
Provision/Avg. AUM (%)	0.9	2.6	1.8	1.7
ROAA TREE (on Total Assets)				
Net Interest Income	9.2	8.3	8.0	8.0
Non-Interest Income	2.1	1.9	1.8	1.7
Operating Cost	6.2	6.3	6.1	5.9
Provisions	0.6	1.7	1.2	1.1
Tax	1.1	0.5	0.6	0.7
ROAA	3.5	1.6	1.9	2.1
Leverage (x)	7.8	7.6	8.1	8.3
ROAE	27.0	12.6	15.5	17.3

Source: Company, Axis Securities Research

Ujjivan Small Finance Bank Price Chart and Recommendation History



Date	Reco	TP	Research
06-Oct-23	BUY	64	AAA
30-Oct-23	BUY	64	Result Update
25-Jan-24	BUY	64	Result Update
22-May-24	BUY	64	Result Update
26-Jul-24	BUY	52	Result Update
05-Sep-24	BUY	52	Company Update
25-Oct-24	BUY	41	Result Update
24-Jan-25	BUY	39	Result Update
02-May-25	BUY	49	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.