

Oct 28, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

Ujjivan Small Finance Bank

Another strong quarter

Sustained strong show with delivery of 3.6%/28% RoA/RoE

Ujjivan's Q2 FY24 PAT was 7% ahead of expectations, driven by 8% beat on PPOP. NII came in-line notwithstanding marginal spread compression and increased investments/liquidity on the BS. Overall non-interest income was higher than estimate with continuance of encouraging trends in core fees and bad debts recovery and a significant jump in insurance distribution income (largely sustainable due to increase of commissions). Opex growth remains restrained despite investments being made for growth of granular deposits (branches, resources, marketing, products, relationship management, etc.). Notably, the bank has been witnessing much better-than-industry growth trends in CASA without increasing the blended cost of these deposits. Robust collection trends across buckets continue to improve PAR/GNPLs and underpin modest credit cost.

Firmly on track to achieve guidance

The bank has retained guidance of 25%+ loan growth, 30%+/35%+ deposits/CASA growth, 9%+ NIM, <100 bps credit cost and 22%+ RoE for the current fiscal. Management also remains confident about delivering healthy loan/deposit growth and 20%+ RoE in FY25/26. The drivers of loan growth would be a) persistent strong volume-led growth in Micro Banking (Individual Loans would continue to grow faster than Group Loans), b) continuation of momentum in Affordable HL and FIG Lending and c) growth revival in MSE Finance and scale-up of new products like 2w loans and gold loans. Differential pricing of SA/TD, augmentation of branch network and many other initiatives would support deposits momentum.

NIM to improve from Q4 FY24; credit cost to normalize gradually

While NIM declined by 40 bps qoq in Q2 FY24 to 8.8%, the bank expects some recovery in H2 FY24 as TD re-pricing is largely complete while gradual asset re-pricing would continue to play out. About 53% of Micro Banking portfolio is yet to re-price fully; 28% to reprice by 50 bps and remaining 25% to reprice by 100 bps over the next 2-4 quarters. Slippages (ann. 2% run-rate) continue to be under control and NPA recoveries remain healthy. Loan write-off was moderate at Rs0.6bn. Credit cost was low on account of strong collections. Non-delinquent accounts collection in Micro Banking has been at 99.5%+ for past 18-20 months. The new (post-Covid) book in Affordable Housing is performing much better than peers/industry with lower 30+ dpd and GNPLs.

Raise earnings by 4-5%; maintain Buy with increased price target of Rs66

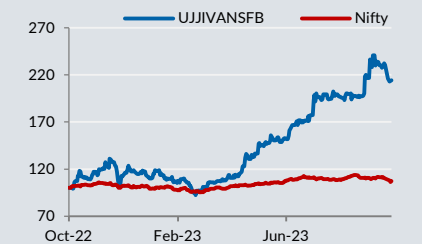
Even with normalized credit cost and bad debts recoveries, we see the bank delivering an impressive RoA/RoE of 2.5%/20%+. Sturdy growth in Micro Banking (both in Group & Individual Loans), pricing flexibility, moderate net slippages, and operational improvements in Affordable Housing and MSE Financing portfolios would aid in delivering high RoEs despite the franchise investments. Notwithstanding the run-up in stock price, Ujjivan SFB's valuation remains undemanding at 8x P/E and 1.6x P/ABV on FY25 estimates. Rising conviction on sustenance of strong RoEs and the BV benefit from reverse merger would further re-rate the stock. The merger with Holdco. Is likely to get consummated in Q4 FY24 and is estimated to add ~Rs2.4 (10%) to current BV. With regards to succession after the end of Mr. Davis' current term in Dec'24, the Board would be evaluating both internal and external candidates for appointment much ahead of time.

Reco	: BUY
CMP	: Rs 53
Target Price	: Rs 66
Potential Return	: 24.2%

Stock data (as on Oct 27, 2023)

Nifty	19,047
52 Week h/l (Rs)	61 / 23
Market cap (Rs/USD mn)	104248 / 1252
Outstanding Shares (mn)	1,956
6m Avg t/o (Rs mn):	683
Div. yield (%):	2.3
Bloomberg code:	UJJIVANS IN
NSE code:	UJJIVANSFB

Stock performance



	1M	3M	1Y
Absolute return	-2.8%	20.5%	113.6%

Shareholding pattern

Promoter	73.7%
FII+DII	7.8%
Others	18.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	66	55

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	6.4	6.5	7.9
EPS (Old)	6.1	6.3	-
% Change	5.0%	3.4%	%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	41,445	50,120	61,366
PPOP	19,460	23,079	28,105
Net profit	12,852	13,061	15,808
Growth (%)	16.8	1.6	21.0
EPS (Rs)	6.4	6.5	7.9
ABVPS (Rs)	26.4	32.9	40.8
P/E (x)	8.3	8.1	6.7
P/ABV (x)	2.0	1.6	1.3
ROE (%)	27.6	22.0	21.4
ROA (%)	3.4	2.7	2.7

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Exhibit 1: Result table

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Operating Income	13,911	12,869	8.1	9,932	40.1
Interest Expense	(5,678)	(4,942)	14.9	(3,299)	72.1
Net Interest Income	8,233	7,927	3.9	6,632	24.1
Other Income	1,886	1,772	6.4	1,467	28.6
Total Income	10,120	9,699	4.3	8,099	25.0
Operating expenses	(5,286)	(5,120)	3.3	(4,249)	24.4
PPOP	4,834	4,579	5.6	3,850	25.6
Provisions	(469)	(261)	79.7	99	(572.0)
PBT	4,364	4,318	1.1	3,949	10.5
Tax	(1,087)	(1,077)	0.9	(1,006)	8.0
PAT	3,277	3,241	1.1	2,943	11.4

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Gross loan book	265,750	253,260	4.9	209,380	26.9
Micro - Group	152,260	148,190	2.7	121,480	25.3
Micro - Individual	39,250	34,960	12.3	23,480	67.2
MSE	14,420	15,080	(4.4)	18,580	(22.4)
Affordable Housing	40,360	36,710	9.9	30,790	31.1
Others	19,460	18,320	6.2	15,050	29.3
Disbursements	57,490	52,850	8.8	48,660	18
Micro - Group	33,080	32,350	2.3	31,210	6.0
Micro - Individual	10,190	8,720	16.9	7,050	44.5
MSE	680	240	183.3	3,410	(80.1)
Affordable Housing	5,410	4,180	29.4	3,200	69.1
Others	8,130	7,360	10.5	3,790	114.5
Deposits	291,390	266,600	9.3	203,960	42.9
CASA	70,120	65,560	7.0	54,960	27.6
Retail TD	118,060	109,700	7.6	75,490	56.4
Institutional TD	99,330	89,410	11.1	69,550	42.8
CD	3,880	1,930	101.0	3,970	-2.3

Source: Company, YES Sec

Exhibit 3: Key Ratios

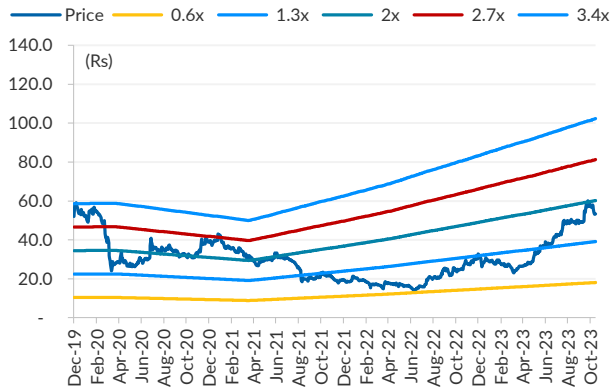
(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
NIM	8.8	9.2	(0.4)	9.8	(1.0)
Avg. Cost of Funds*	7.4	7.2	0.2	6.1	1.3
CASA + Retail TD	65	66	(1.2)	64	0.6
Cost to Income	52.2	53.0	(0.8)	52.5	(0.3)
Gross NPA	2.4	2.6	(0.3)	5.1	(2.7)
PCR	96.0	98.0	(2.0)	99.0	(3.0)
Net NPA	0.1	0.1	0.0	0.0	0.1
RoA	3.6	3.9	(0.3)	4.8	(1.2)
Tier-1 CAR	22.5	23.6	(1.1)	23.4	(0.9)

Source: Company, YES Sec; *Calculated.

KEY CON-CALL HIGHLIGHTS

- NIM decline due to significant increase in investment book and increase in CoD - higher BS liquidity would be used for seasonally higher disbursements in H2.
- CoD increase is expected to flatten out as TD re-pricing is largely complete.
- Expect some improvement in NIM from Q4 FY24 as asset re-pricing continues to play out.
- 53% of Micro Banking portfolio yet to re-price fully; 28% to reprice by 50 bps and remaining 25% to reprice by 100 bps over the next 2-4 quarters.
- Disbursements in group micro banking segment were calibrated in Q2 FY24 due to instances of floods in some markets - growth would pick-up in H2 in-line with seasonal pattern.
- Bank has increased lending rates for Micro Banking customers by 100 bps since new regulations have come in - follows risk-based pricing for both group and individual borrowers.
- Have added two fintech partnerships in MSE financing where disbursements will pick-up in H2 - shift towards formal and semi-formal segment in MSE financing would keep yields around current level.
- Gold Loans would be first offered to existing customers - significant contribution from this portfolio would come from FY25.
- Higher insurance income in Q2 FY24 largely due to increase in distribution commission while there were some arrears of Q1 - Bank expects insurance commission income to remain elevated.
- Slippages in Q2 FY24 were at Rs1.13bn, which was like Q1 - slippage ratio expected to be similar in H2.
- On track to achieve Rs1bn of bad debts recovery in the year, as guided earlier - Rs30mn recovery in H1 was pertaining to Assam relief package.
- Some increase in collection team due to addition of collection staff for secured products.
- Bank would be adding 150 branches in the year.
- Guidance of 20%+ RoE in FY25 and FY26 - guidance of 25%+ loan growth, 9%+ NIM and 22%+ RoE for FY24 was reiterated.
- Reverse merger to lead to NW addition of Rs4bn+, and with reduction of ~28mn shares, the BVPS would rise by ~Rs2.4 - the merger would be completed in Q4 FY24.

Exhibit 4: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	21,681	24,836	30,073	36,345	43,695
Investments	41,529	85,103	119,144	142,973	171,568
Advances	163,032	212,897	268,767	337,239	414,679
Total interest-earning assets	226,242	322,836	417,985	516,557	629,943
Fixed assets	2,494	2,829	3,112	3,423	3,765
Other assets	7,309	7,504	9,005	10,806	12,968
Total assets	236,045	333,169	430,102	530,787	646,675
Net worth	26,026	40,091	52,943	66,004	81,812
Deposits	182,922	255,377	328,159	406,917	496,439
Borrowings	17,636	26,415	36,320	43,584	52,301
Total interest-bearing liabilities	200,558	281,791	364,479	450,501	548,740
Non-interest-bearing liabilities	9,461	11,286	12,679	14,281	16,123
Total liabilities	210,018	293,078	377,159	464,783	564,863
Equity & Total liabilities	236,045	333,169	430,102	530,787	646,675

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	28,128	41,650	57,263	70,674	85,138
Interest expense	(10,392)	(14,671)	(22,888)	(28,048)	(32,391)
Net interest income	17,736	26,979	34,375	42,626	52,747
Non-interest income	3,598	5,892	7,070	7,494	8,619
Total op income	21,334	32,871	41,445	50,120	61,366
Total op expenses	(14,964)	(18,021)	(21,985)	(27,042)	(33,261)
PPoP	6,371	14,850	19,460	23,079	28,105
Provisions	(11,875)	(178)	(2,316)	(5,656)	(7,018)
Profit before tax	(5,504)	14,672	17,144	17,423	21,087
Taxes	1,358	(3,673)	(4,292)	(4,362)	(5,279)
Net profit	(4,146)	10,999	12,852	13,061	15,808

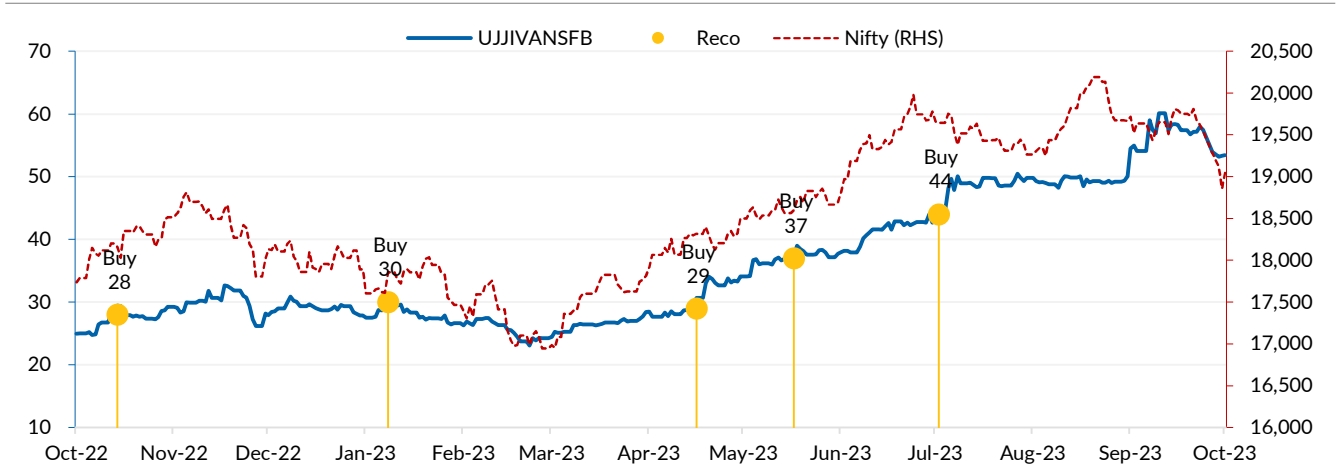
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	2.6	52.1	27.4	24.0	23.7
Total op income	5.1	54.1	26.1	20.9	22.4
Op profit (pre-provision)	(20.4)	133.1	31.0	18.6	21.8
Net profit	(5,095.5)	(365.3)	16.8	1.6	21.0
Advances	12.5	30.6	26.2	25.5	23.0
Deposits	39.3	39.6	28.5	24.0	22.0
Total assets	15.8	41.1	29.1	23.4	21.8
Profitability Ratios (%)					
NIM	10.7	12.8	12.6	12.4	12.4
Non-interest income /Total income	16.9	17.9	17.1	15.0	14.0
Return on Equity	(14.8)	33.3	27.6	22.0	21.4
Return on Assets	(1.9)	3.9	3.4	2.7	2.7
Per share ratios (Rs)					
EPS	(2.3)	5.5	6.4	6.5	7.9
Adj. BVPS	14.7	20.0	26.4	32.9	40.8
Other key ratios (%)					
Cost/Income	70.1	54.8	53.0	54.0	54.2
Tier-I Capital	20.2	24.5	21.6	21.8	22.2
Gross NPLs/Loans	7.1	2.6	1.6	1.4	1.4
Net NPLs/Net loans	0.6	0.0	0.1	0.1	0.1
Tax rate	24.7	25.0	25.0	25.0	25.0

Source: Company, YES Sec

Recommendation Tracker



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