

Jan 24, 2024

**RESULT REPORT Q3 FY24** | Sector: Financials

# Ujjivan Small Finance Bank

## Sustained strong performance

### Strong show yet again

Ujjivan SFB's sustained strong performance was characterized by 1) brisk loan growth of 27% yoy, 2) robust accretion of granular deposits (improvement in CASA share), 3) stable NIM, 4) firm asset quality (modest credit cost) and 5) robust RoA/RoE of 3.1%/24%. The bank delivered a mild beat on our NII/PPOP/PAT estimates. Commentary from the Management remains sturdy with no change in outlook for balance sheet growth, cost/income ratio and long-term RoE.

### Retain BUY with enhanced 12m PT of Rs70

We have largely maintained our FY24-26 estimates wherein slightly higher opex run-rate is getting offset by enhanced insurance distribution income. Even with normalized credit cost, much lower bad debts recovery and changing asset mix, we see the bank delivering 20% RoE in a stable operating environment, which would be aided by benefits from moderation in core cost/income ratio. In the context of envisaged growth and RoE, the valuation is undemanding at 7x/1.4x PE/PABV on FY26 basis. The likely completion of reverse merger with the holding company by March would augment BV by Rs2.4-2.5, which is not factored in abovementioned valuation.

### Disbursements to pick-up, bank confident of 25% loan growth

Management expects Micro Banking Group Loans disbursements to be substantially higher in Q4 FY24, largely led by new customer acquisition. Due to its Metro and Urban presence, Ujjivan SFB has been much less impacted in Punjab and Haryana where false loan waiver promises impacted delinquencies in certain districts. Growth momentum in other key products of Individual Micro Banking Loans and Affordable Home Loans continues to be strong. Overall, Management sounded confident about delivering 25% loan growth on consistent basis. With a reasonable C/D ratio of 86% and good traction in retail TDs and CASA, loan growth is unlikely to be constrained by the deposits.

### NIM has pricing tailwinds and Credit Cost to normalize slowly

NIM stability in Q3 FY24 was underpinned by improvement in portfolio yield, utilization of excess BS liquidity and lower rise in CoD. Portfolio Yield is expected to further improve due to repricing of Micro Banking portfolio (50 bps repricing left for 20% book and full 100 bps repricing left for 17% book) which will happen over next two quarters. TD repricing is largely complete, and there is no pressure on the bank for raising TD rates at this point. Hence, Management expects some improvement in NIM over coming quarters.

Credit cost will continue to normalize and is guided at sub-1% for FY24 and 1.25-1.5% for FY25. Slippages were higher sequentially at Rs1.4bn (2.2% ann. rate) v/s Rs1.13bn. Micro Banking had some impact from higher holidays, false loan waiver announcements in certain districts of North India and floods in TN.

### Exhibit 1: Result table

Result table (Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Operating Income	14,706	13,911	5.7	10,816	36.0
Interest expended	(6,107)	(5,678)	7.6	(3,847)	58.8
Net Interest Income	8,599	8,233	4.4	6,970	23.4
Total Income	10,447	10,120	3.2	8,359	25.0
Operating expenses	(5,874)	(5,286)	11.1	(4,470)	31.4
PPOP	4,573	4,834	(5.4)	3,889	17.6
Provisions	(629)	(469)	34.1	2	-
PBT	3,944	4,364	(9.6)	3,891	1.3
Tax	(943)	(1,087)	(13.2)	(960)	(1.7)
PAT	3,001	3,277	(8.4)	2,932	2.3

Source: Company, YES Sec

Reco : **BUY**

CMP : Rs 55

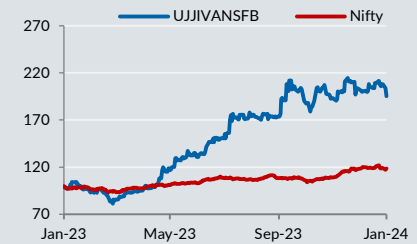
Target Price : Rs 70

Potential Return : 27.4%

### Stock data (as on Jan 24, 2024)

Nifty	21,454
52 Week h/l (Rs)	63 / 23
Market cap (Rs/USD mn)	112914 / 1360
Outstanding Shares (mn)	1,957
6m Avg t/o (Rs mn):	842
Div. yield (%):	2.1
Bloomberg code:	UJJIVANS IN
NSE code:	UJJIVANSFB

### Stock performance



	1M	3M	1Y
Absolute return	-4.1%	2.6%	97.0%

### Shareholding pattern

Promoter	73.6%
FII+DII	7.7%
Others	18.7%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	70	66

### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	6.3	6.5	7.7
EPS (Old)	6.4	6.5	7.9
% Change	-0.9%	0.3%	-2.3%

### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	41,413	49,748	60,228
PPOP	19,068	22,487	27,514
Net profit	12,720	13,072	15,485
Growth (%)	15.6	2.8	18.5
EPS (Rs)	6.3	6.5	7.7
ABVPS (Rs)	26.3	32.8	40.6
P/E (x)	8.7	8.4	7.1
P/ABV (x)	2.1	1.7	1.4
ROE (%)	27.4	22.0	21.0
ROA (%)	3.4	2.7	2.6

### RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in



### MANUJ OBEROI, Associate

## Exhibit 2: Business Data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
<b>Gross loan book</b>	2,77,420	2,65,750	4.4	2,18,960	26.7
Micro - Group	1,54,710	1,52,260	1.6	1,28,230	20.7
Micro - Individual	43,030	39,250	9.6	26,320	63.5
MSE	13,970	14,420	(3.1)	17,440	(19.9)
Affordable Housing	44,170	40,360	9.4	31,440	40.5
Others	21,540	19,460	10.7	15,530	38.7
<b>Disbursements</b>	56,750	57,490	(1.3)	48,380	17
Micro - Group	32,940	33,080	(0.4)	30,810	6.9
Micro - Individual	10,290	10,190	1.0	7,120	44.5
MSE	1,060	680	55.9	1,670	(36.5)
Affordable Housing	5,950	5,410	10.0	3,440	73.0
Others	6,510	8,130	(19.9)	5,340	21.9
<b>Deposits</b>	2,96,690	2,91,390	1.8	2,32,030	27.9
CASA	75,560	70,120	7.8	60,700	24.5
Retail TD	1,28,320	1,18,060	8.7	91,720	39.9
Institutional TD	91,130	99,330	(8.3)	78,140	16.6
CD	1,680	3,880	(56.7)	1,470	14.3

Source: Company, YES Sec

## Exhibit 3: Key Ratios

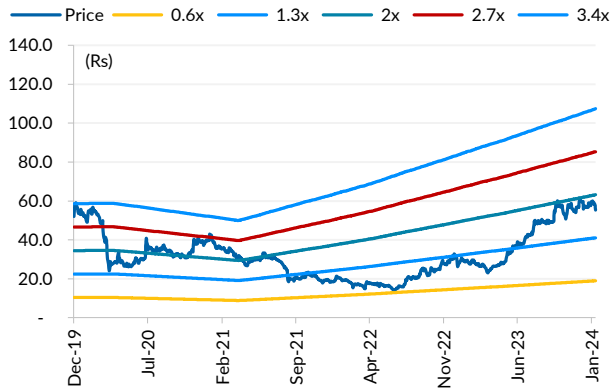
(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
NIM	8.8	8.8	-	9.4	(0.6)
Avg. Cost of Funds*	7.5	7.4	0.1	6.6	0.9
CASA + Retail TD	69	65	4.1	66	3.0
Cost to Income	56.0	52.2	3.8	53.0	3.0
Gross NPA	2.2	2.4	(0.2)	3.4	(1.2)
PCR	92.0	96.0	(4.0)	99.0	(7.0)
Net NPA	0.2	0.1	0.1	0.1	0.1
RoA	3.1	3.6	(0.5)	4.2	(1.1)
Tier-1 CAR	22.0	22.5	(0.5)	22.8	(0.9)

Source: Company, YES Sec; \*Calculated.

## KEY CON-CALL HIGHLIGHTS

- Group loans disbursement would be substantially higher in Q4 FY24 with significant new customer acquisition - the business volume in Q3 was impacted by higher holidays and some technical issues.
- Group loan disbursements has already picked-up from Dec.
- Maintain FY24 and FY25 loan growth guidance of 25% - C/D ratio is comfortable.
- NIM stability in Q3 was underpinned by improvement in portfolio yield, utilization of excess BS liquidity and lower rise in CoD.
- Portfolio Yield is expected to further improve due to repricing of Micro Banking portfolio (50 bps repricing left for 20% book and full 100 bps repricing left for 17% book) over the next couple of quarters.
- No pressure of raising TD rates further at this point - future actions to be driven market forces only - extant TD repricing is largely complete.
- Bank expects some improvement in NIM over coming quarters.
- Qoq deposit growth was lower in Q3 as the bank released Bulk Deposits with focus on CASA and RTD mobilization and utilized BS liquidity to fund part of the loan growth.
- Higher increase in Employee cost qoq on account of 1) pick-up in Hiring in recent quarters, 2) mid-year Salary corrections for certain employee and 3) presence of ESOPs cost (non-recurring as issued once in a year).
- Insurance distribution income run rate would either remain around the current level or will go higher.
- No change in long-term Cost/Income ratio outlook which is around 50%.
- Slippages increased to Rs1.4bn v/s Rs1.13bn in Q2 - Micro Banking had some impact from higher holidays, false loan waiver announcements in certain districts of North India and floods in TN.
- The impact of false loan waiver announcements in certain districts of North India was relatively lower for Ujjivan due to its urban and metro presence.
- Credit cost will continue to normalize - the bank is building a strong quality of book across segments and has a strong collection focus.
- While FY24 credit cost would be sub-1%, it is expected to be around 1.25-1.3% in FY25 as the quantum of upgrades would be lower.
- Floating Provisions of Rs2.5bn would be utilized only for contingencies in the future.
- GNPL would be remain around 2%.
- BD recovery in FY25 to be significantly lower in FY25 as fresh w-offs have been lower in the recent quarters.
- Confident of receiving merger approval in the Jan 30th NCLT hearing - merger would be complete by March.
- Bank's BV would increase by Rs2.4-2.5 after the merger.
- RBI's increase in RW impacted bank's CAR by around 80 bps.

**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	24,860	35,374	43,349
Investments	41,529	85,103	1,10,634	1,34,974	1,64,668
Advances	1,63,032	2,12,897	2,76,766	3,42,148	4,22,056
<b>Total interest-earning assets</b>	<b>2,26,242</b>	<b>3,22,836</b>	<b>4,12,260</b>	<b>5,12,496</b>	<b>6,30,072</b>
Fixed assets	2,494	2,829	3,112	3,423	3,765
Other assets	7,309	7,504	9,005	10,806	12,968
<b>Total assets</b>	<b>2,36,045</b>	<b>3,33,169</b>	<b>4,24,377</b>	<b>5,26,725</b>	<b>6,46,805</b>
<b>Net worth</b>	<b>26,026</b>	<b>40,091</b>	<b>52,811</b>	<b>65,883</b>	<b>81,367</b>
Deposits	1,82,922	2,55,377	3,17,944	3,97,430	4,92,813
Borrowings	17,636	26,415	40,943	49,131	56,501
<b>Total interest-bearing liabilities</b>	<b>2,00,558</b>	<b>2,81,791</b>	<b>3,58,887</b>	<b>4,46,561</b>	<b>5,49,314</b>
Non-interest-bearing liabilities	9,461	11,286	12,679	14,281	16,123
<b>Total liabilities</b>	<b>2,10,018</b>	<b>2,93,078</b>	<b>3,71,566</b>	<b>4,60,842</b>	<b>5,65,438</b>
<b>Equity &amp; Total liabilities</b>	<b>2,36,045</b>	<b>3,33,169</b>	<b>4,24,377</b>	<b>5,26,725</b>	<b>6,46,805</b>

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	57,219	70,413	84,448
Interest expense	(10,392)	(14,671)	(23,170)	(28,324)	(33,029)
<b>Net interest income</b>	<b>17,736</b>	<b>26,979</b>	<b>34,048</b>	<b>42,089</b>	<b>51,419</b>
Non-interest income	3,598	5,892	7,365	7,659	8,808
<b>Total op income</b>	<b>21,334</b>	<b>32,871</b>	<b>41,413</b>	<b>49,748</b>	<b>60,228</b>
Total op expenses	(14,964)	(18,021)	(22,346)	(27,262)	(32,714)
<b>PPoP</b>	<b>6,371</b>	<b>14,850</b>	<b>19,068</b>	<b>22,487</b>	<b>27,514</b>
Provisions	(11,875)	(178)	(2,100)	(5,049)	(6,858)
Profit before tax	(5,504)	14,672	16,968	17,437	20,656
Taxes	1,358	(3,673)	(4,248)	(4,365)	(5,171)
<b>Net profit</b>	<b>(4,146)</b>	<b>10,999</b>	<b>12,720</b>	<b>13,072</b>	<b>15,485</b>

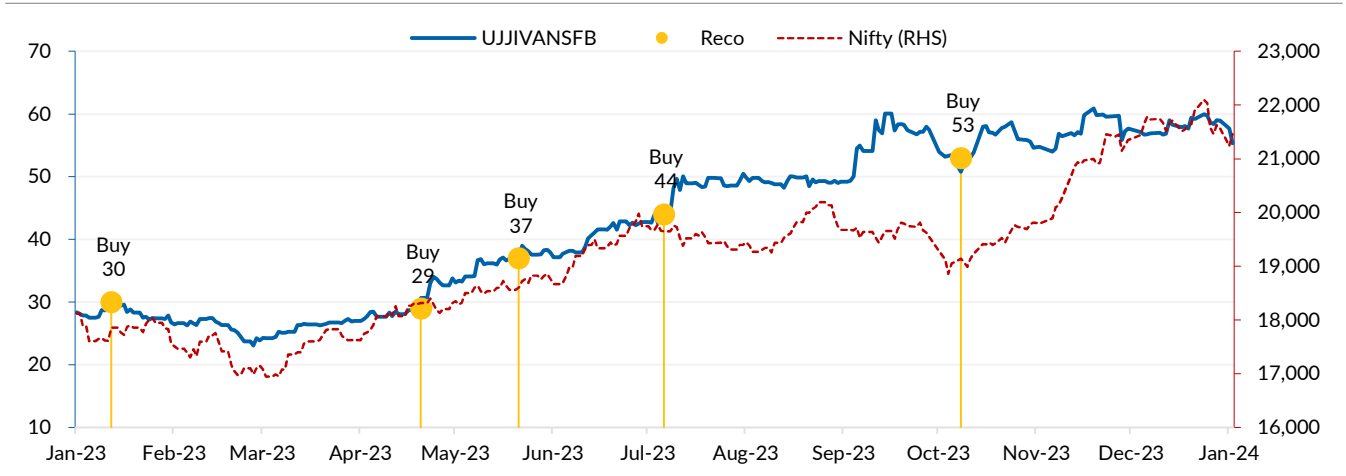
Source: Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	2.6	52.1	26.2	23.6	22.2
Total op income	5.1	54.1	26.0	20.1	21.1
Op profit (pre-provision)	(20.4)	133.1	28.4	17.9	22.4
Net profit	(5,095.5)	(365.3)	15.6	2.8	18.5
Advances	12.5	30.6	30.0	23.6	23.4
Deposits	39.3	39.6	24.5	25.0	24.0
Total assets	15.8	41.1	27.4	24.1	22.8
<b>Profitability Ratios (%)</b>					
NIM	10.7	12.8	12.6	12.5	12.4
Non-interest income /Total income	16.9	17.9	17.8	15.4	14.6
Return on Equity	(14.8)	33.3	27.4	22.0	21.0
Return on Assets	(1.9)	3.9	3.4	2.7	2.6
<b>Per share ratios (Rs)</b>					
EPS	(2.3)	5.5	6.3	6.5	7.7
Adj. BVPS	14.7	20.0	26.3	32.8	40.6
<b>Other key ratios (%)</b>					
Cost/Income	70.1	54.8	54.0	54.8	54.3
Tier-I Capital	20.2	24.5	21.8	21.9	22.1
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



## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The

securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES Securities (India) Limited distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YES Securities (India) Limited analyst's truthful views about the subject securities and or issuers discussed herein. YES Securities (India) Limited is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

This Research Report is the product of YES Securities (India) Limited. YES Securities (India) Limited is the employer of the research analyst(s) who has prepared the research report. YES Securities (India) Limited is the employer of the YES Securities (India) Limited Representative who is responsible for the report, are responsible for the content of the YES Securities (India) Limited Research Report; any material conflicts of interest of YES Securities (India) Limited in relation to the issuer(s) or securities discussed in the YES Securities (India) Limited Research Report. This YES Securities (India) Limited Research Report is distributed in the United States through Brasil Plural Securities LLC (BPS). The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and is/ are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by YES Securities (India) Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity. Transactions in securities discussed in this research report should be effected through Brasil Plural Securities LLC (BPS) or another U.S. registered broker dealer/Entity as informed by YES Securities (India) Limited from time to time.

### YES Securities (India) Limited

**Registered Address:** 2<sup>nd</sup> Floor, North Side, YES BANK House,  
Off Western Express Highway, Santacruz East,  
Mumbai - 400 055, Maharashtra, India.

**Correspondence Address:** 7<sup>th</sup> Floor, Urmi Estate Tower A, Ganpatrao  
Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West),  
Mumbai - 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single  
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member  
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL &  
NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 |  
RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER:  
INA000007331 | Sponsor and Investment Manager to YSL Alternates  
Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |  
AMFI ARN Code - 94338.

**Details of Compliance Officer:** Name: Aditya Goenka,  
**Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

**Grievances Redressal Cell:** customer.service@ysil.in/igc@ysil.in



## DISCLOSURE OF INTEREST

Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

Analyst Signature

Analyst Signature

## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.