

BUY Ujjivan Small Finance Bank

Superior growth, RoA delivery continues; retain BUY



Your success is our success

BFSI - Banks ▶ Result Update ▶ October 27, 2023

TARGET PRICE (Rs): 65

Ujjivan SFB has reported in-line PAT at Rs3.3bn/RoA at 3.6%, mainly led by healthy other income, and partly offset by slightly lower NII and higher provisions. Bank clocked healthy 27% YoY/5% QoQ AUM growth, largely owing to mortgages, while growth in the MFI book was relatively moderate and the SME book continued to decline QoQ. This weighed on loan yields which, coupled with rising CoF, led to a 40bps QoQ correction in NIM to 8.8%. Going forward, Bank expects growth/NIM to stay robust in 2H, mostly due to residual repricing of the portfolio. Bank targets completing the reverse merger of the holdco by 4Q, while the process to identify a successor to the current MD is WIP.

Factoring-in the strong growth, we raise FY24E-26E earnings by 6%-11% and expect the bank to log the best RoA/RoE among peers, at 2.5%-3.4%/23%-30%. We roll-forward our TP on 1.8x Sep-25 ABV, revising it up, to Rs65/sh from Rs58/share; we retain our BUY rating on UJSFB. Separately, we value Ujjivan Fin Services (holdco) at Rs692/share, assuming a 20% holdco discount.

Ujjivan Small Finance Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	(4,146)	10,999	13,473	14,790	15,739
Loan growth (%)	12.5	30.6	34.3	25.1	24.9
NII growth (%)	2.6	52.1	27.0	24.8	21.0
NIM (%)	8.5	9.8	9.0	8.8	8.6
PPOP growth (%)	(20.4)	133.1	35.2	26.4	18.1
Adj. EPS (Rs)	(2.4)	6.0	6.9	7.6	8.0
Adj. EPS growth (%)	(5,096.6)	0.0	15.4	9.8	6.4
Adj. BV (INR)	14.4	20.2	26.0	32.2	38.5
Adj. BVPS growth (%)	(13.9)	36.7	29.1	24.3	20.2
RoA (%)	(1.9)	3.9	3.4	2.9	2.5
RoE (%)	(15.0)	33.7	29.7	25.8	22.5
P/E (x)	(22.3)	8.9	7.7	7.0	6.6
P/ABV (x)	3.7	2.6	2.0	1.6	1.4

Source: Company, Emkay Research

Strong growth continues, but margins contract QoQ

Ujjivan SFB reported healthy AUM growth at 27% YoY/5% QoQ to Rs266bn, and net loan growth at 40% YoY/10% QoQ to Rs243bn. However, MFI (JLG) loan growth was relatively moderate, while the bank continues to accelerate the MFI individual loan book. Bank has also accelerated mortgage growth (@31% YoY/10% QoQ); contraction in the MSE book was unrelenting for the fourth straight quarter amid some stress build-up. Deposits growth remained strong at 43% YoY/9% QoQ, but CASA slipped further to 24%, leading to higher than expected increase in CoF. This, coupled with near-flattish loan yields, led to a sharp 40bps contraction in NIM to 8.8%. Bank expects margins to remain healthy in 2H, mainly on the back of repricing of the residual portfolio.

Headline NPAs continue to trend well, but SME remains an irritant

Fresh slippages were seasonally higher in 2Q at Rs1.1bn/2.6% of loans, but better recoveries and strong growth led to a 27bps QoQ reduction in the GNPA ratio to 2.4%. However, collection efficiency in the SME book remains sub-par at 88%, given the elevated stress in some pockets; thus, the bank has been continuously shedding the book. Bank carries a strong 96% PCR on the back-book, but believes that with the new book seasoning, credit cost would start normalizing from 2H. Ujjivan carries floating provisions to the extent of Rs2.5bn/0.9% of loans, which we believe need to be shored-up to withstand any future asset-quality hiccups, as being advocated by a number of other MFI players.

We retain BUY, with revised TP of Rs58/share

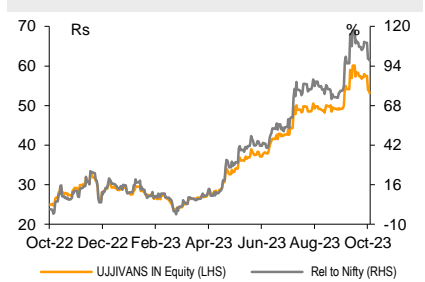
Factoring-in the strong growth, we raise FY24E-26E earnings by 4%-10% and expect Bank to log the best RoA/RoE among peers, at 2.5%-3.4%/23%-29%. We roll-forward our TP on 1.8x Sep-25 ABV, hoisting it to Rs65/share and retain our BUY rating on UJSFB. Separately, we value Ujjivan Fin Services (holdco) at Rs692/share, assuming a 20% holdco discount. Key risks: Macro/micro disruption leading to slower-than-expected growth; higher NPAs with seasoning of the MFI/SME book, and KMP attrition.

Target Price – 12M	Sep-24
Change in TP (%)	12.1
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	21.7
CMP (27-Oct-23) (Rs)	53.4

Stock Data	Ticker
52-week High (Rs)	61
52-week Low (Rs)	23
Shares outstanding (mn)	1,955.9
Market-cap (Rs bn)	104
Market-cap (USD mn)	1,255
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	26
ADTV-3M (Rs mn)	1,375.5
ADTV-3M (USD mn)	16.5
Free float (%)	26.0
Nifty-50	19,047
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	73.7
FPIs/MFs (%)	3.5/4.2

Price Performance

(%)	1M	3M	12M
Absolute	(2.0)	21.1	114.0
Rel. to Nifty	1.4	25.0	99.3

1-Year share price trend (Rs)**Anand Dama**

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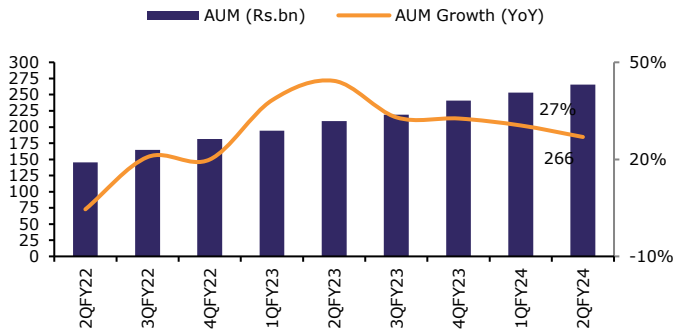
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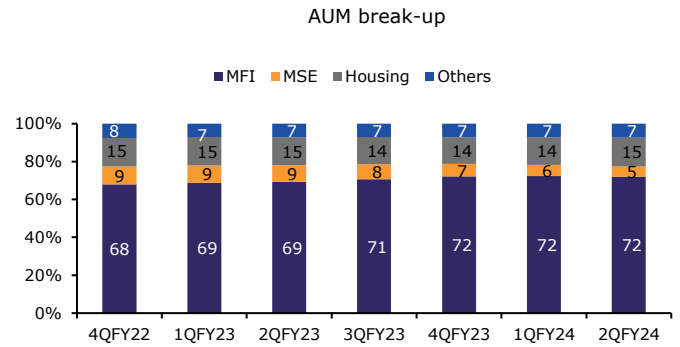
Story in Charts

Exhibit 1: AUM book growth remains strong, with mortgages doing the heavy lifting



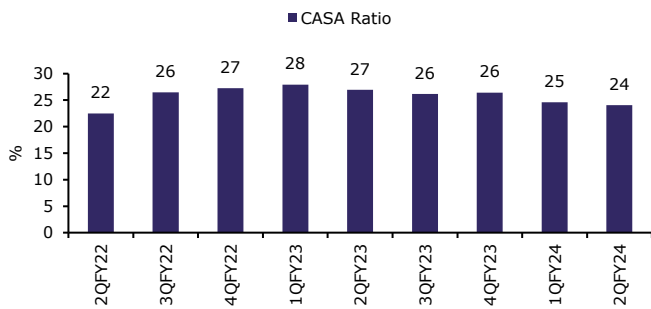
Source: Company, Emkay Research

Exhibit 2: MFI share stays higher at 72% of the overall book, with incrementally higher contribution from individual loans



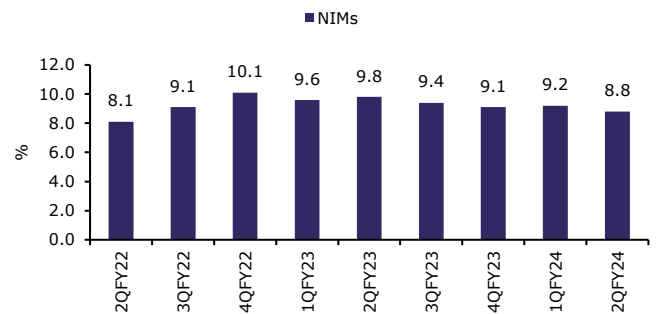
Source: Company, Emkay Research

Exhibit 3: CASA ratio at 24% remains sub-par



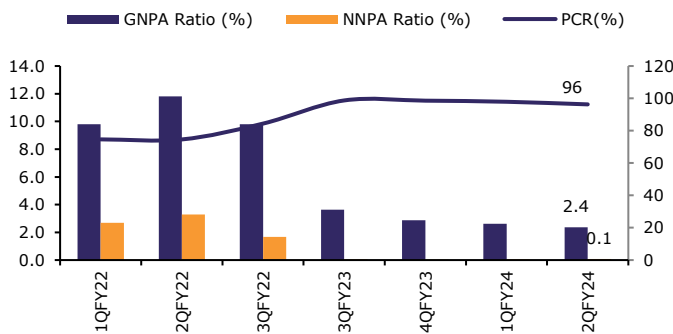
Source: Company, Emkay Research

Exhibit 4: Higher CoF led to contraction in NIM to 8.8%



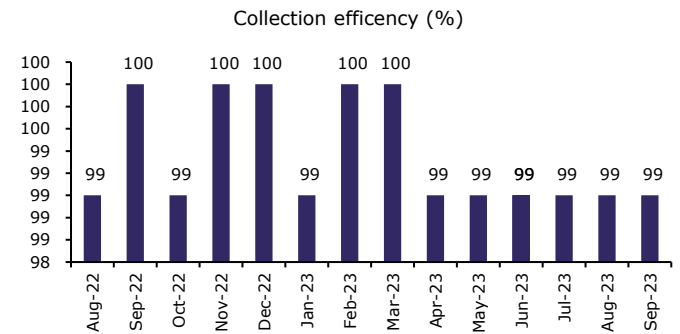
Source: Company, Emkay Research

Exhibit 5: Fresh slippages were higher, but better recoveries caused the GNPA ratio to trend downward



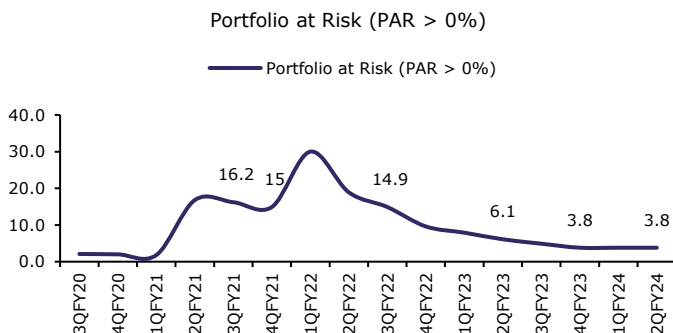
Source: Company, Emkay Research

Exhibit 6: Overall collection efficiency remains healthy, but for the MSE portfolio at 88%



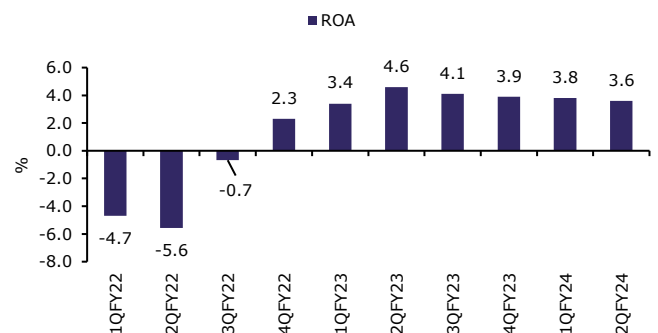
Source: Company, Emkay Research

Exhibit 7: PAR book is nearing pre-Covid levels

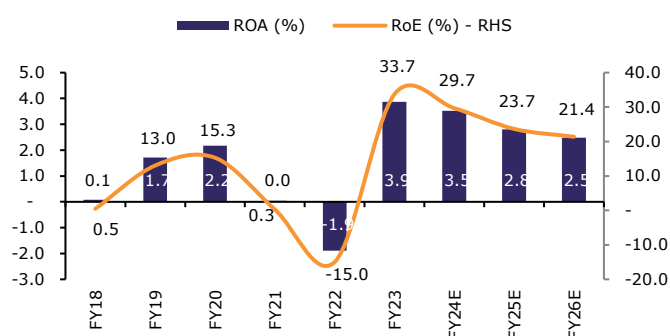


Source: Company, Emkay Research

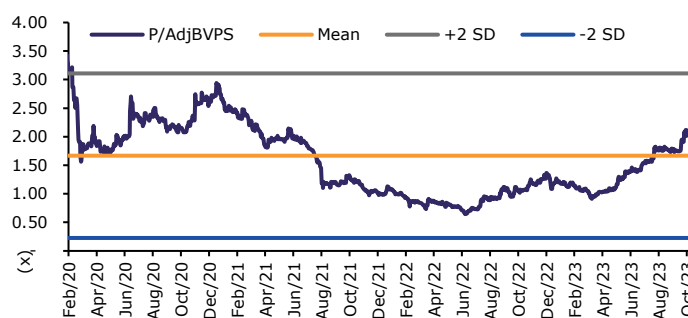
Exhibit 8: Bank continues to deliver healthy RoA of >3%



Source: Company, Emkay Research

Exhibit 9: We expect return ratios to remain strong, led by robust growth/NIMs

Source: Company, Emkay Research

Exhibit 10: The stock currently trades at 1.8x one-year forward P/ABV

Source: Bloomberg, Emkay Research

Exhibit 11: Actuals vs Estimates (Q2FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	10,120	10,083	8,607	0%	18%	Higher other income led to a slight beat
PPOP	4,834	4,816	3,722	0%	30%	Slightly higher staff cost led to in-line PPOP
PAT	3,277	3,300	2,617	-1%	25%	Slight miss on PAT due to higher LLP

Source: Company, Emkay Research

Exhibit 12: Quarterly Summary

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)
Interest Earned	9,932	10,816	11,848	12,869	13,911	40	8	41,650	58,227	40
Interest Exp	3,299	3,847	4,468	4,942	5,678	72	15	14,671	23,957	63
Net Interest Income	6,632	6,970	7,380	7,927	8,233	24	4	26,979	34,271	27
Global NIMs (reported)	9.8	9.4	9.1	9.2	8.8	-100bps	-40bps	9.8	9.0	-80bps
Non-interest Income	1,467	1,389	1,791	1,772	1,886	29	6	5,892	7,430	26
Operating Expenses	4,249	4,470	5,065	5,120	5,286	24	3	18,021	21,620	20
Pre Provisioning Profit	3,850	3,889	4,106	4,579	4,834	26	6	14,850	20,080	35
Provision & Contingencies	-99	-2	-19	261	469	-572	80	178	2,069	1,062
PBT	3,949	3,891	4,125	4,318	4,364	11	1	14,672	18,011	23
Income Tax Expense (Gain)	1,006	960	1,030	1,077	1,087	8	1	3,673	4,539	24
Net Profit/(Loss)	2,943	2,932	3,095	3,241	3,277	11	1	10,999	13,473	22
Gross NPA (%)	5.1	3.6	2.9	2.6	2.4	-271bps	-27bps	2.9	2.0	-87bps
Net NPA (%)	0.0	0.1	0.0	0.1	0.1	5bps	3bps	0.0	0.1	6bps
Deposits (Rs bn)	204.0	232.0	255.4	266.6	291.4	43	9	255.4	345.1	35.1
Net Advances (Rs bn)	174.3	195.3	212.9	221.7	243.3	40	10	212.9	285.9	34.3

Source: Company, Emkay Research

Exhibit 13: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	40,975	41,700	1.8%	48,564	51,576	6.2%	59,631	61,877	3.8%
PPOP	19,173	20,080	4.7%	22,585	25,379	12.4%	28,329	29,964	5.8%
PAT	12,711	13,473	6.0%	13,311	14,790	11.1%	14,560	15,739	8.1%
EPS (Rs)	6.5	6.9	6.0%	6.8	7.6	11.1%	7.4	8.0	8.1%
BV (Rs)	25.7	26.1	1.5%	31.4	32.5	3.6%	37.3	39.0	4.7%

Source: Company, Emkay Research

Exhibit 14: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	30.6	34.3	25.1	24.9
Deposit Growth (%)	39.6	35.1	28.0	25.3
NIM (%)	9.8	9.0	8.8	8.6
GNPA (%)	2.9	2.0	2.0	2.2
Credit Cost (%)	0.1	0.8	1.6	2.0

Source: Company, Emkay Research

Ujivan Small Finance Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	28,128	41,650	58,227	72,234	86,211
Interest Expense	10,392	14,671	23,957	29,467	34,466
Net interest income	17,736	26,979	34,271	42,767	51,745
NII growth (%)	2.6	52.1	27.0	24.8	21.0
Other income	3,599	5,892	7,430	8,808	10,132
Total Income	21,335	32,871	41,700	51,576	61,877
Operating expenses	14,964	18,021	21,620	26,196	31,913
PPOP	6,371	14,850	20,080	25,379	29,964
PPOP growth (%)	(20.4)	133.1	35.2	26.4	18.1
Core PPOP	6,194	14,833	20,070	25,370	29,955
Provisions & contingencies	11,875	178	2,069	5,607	8,922
PBT	(5,504)	14,672	18,011	19,773	21,042
Extraordinary items	0	0	0	0	0
Tax expense	(1,358)	3,673	4,539	4,983	5,303
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	(4,146)	10,999	13,473	14,790	15,739
PAT growth (%)	(5,096.7)	(365.3)	22.5	9.8	6.4
Adjusted PAT	(4,146)	10,999	13,473	14,790	15,739
Diluted EPS (Rs)	(2.4)	6.0	6.9	7.6	8.0
Diluted EPS growth (%)	(4,900.0)	(348.9)	15.4	9.8	6.4
DPS (Rs)	0.0	1.4	1.0	1.2	1.5
Dividend payout (%)	0.0	23.1	14.5	15.9	18.6
Effective tax rate (%)	24.7	25.0	25.2	25.2	25.2
Net interest margins (%)	8.5	9.8	9.0	8.8	8.6
Cost-income ratio (%)	70.1	54.8	51.8	50.8	51.6
Shares outstanding (mn)	1,728.3	1,954.7	1,955.6	1,955.6	1,955.6

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	12,840.8	6,306.2	5,839.9	7,442.7	10,174.8
Net NPLs	996.0	90.4	292.0	744.3	1,526.2
GNPA ratio (%)	7.3	2.9	2.0	2.0	2.2
NNPA ratio (%)	0.6	0.0	0.1	0.2	0.3
Provision coverage (%)	92.2	98.6	95.0	90.0	85.0
Gross slippages	20,883.5	3,350.0	4,662.7	8,014.0	10,928.2
Gross slippage ratio (%)	11.9	1.5	1.6	2.2	2.4
LLP ratio (%)	6.9	0.1	0.8	1.6	2.0
NNPA to networth (%)	3.7	0.2	0.6	1.1	1.9
Capital adequacy					
Total CAR (%)	19.0	23.5	22.3	22.5	22.1
Tier-1 (%)	17.7	22.5	21.5	21.9	21.6
CET-1 (%)	17.7	22.5	21.5	21.9	21.6
RWA-to-Total Assets (%)	54.6	49.1	50.0	50.0	50.0
Miscellaneous					
Total income growth (%)	2.1	49.8	38.1	23.4	18.9
Opex growth (%)	21.6	20.4	20.0	21.2	21.8
Core PPOP growth (%)	(16.8)	139.5	35.3	26.4	18.1
PPOP margin (%)	20.1	31.2	30.6	31.3	31.1
PAT/PPOP (%)	(65.1)	74.1	67.1	58.3	52.5
LLP-to-Core PPOP (%)	191.7	1.2	10.3	22.1	29.8
Yield on advances (%)	17.0	19.8	20.4	19.6	18.9
Cost of funds (%)	5.6	6.0	7.2	6.9	6.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	17,283	19,547	19,556	19,556	19,556
Reserves & surplus	8,321	20,032	31,549	43,992	56,798
Net worth	25,604	39,579	51,105	63,548	76,354
Deposits	1,82,922	2,55,377	3,45,093	4,41,592	5,53,298
Borrowings	19,636	28,415	37,660	35,877	34,183
Interest bearing liab.	2,02,558	2,83,791	3,82,753	4,77,468	5,87,481
Other liabilities & prov.	7,960	9,798	14,675	13,619	16,340
Total liabilities & equity	2,36,122	3,33,169	4,48,533	5,54,635	6,80,174
Net advances	1,63,032	2,12,897	2,85,872	3,57,576	4,46,694
Investments	41,529	85,103	1,16,908	1,43,442	1,70,611
Cash, other balances	21,758	24,836	32,534	39,152	46,998
Interest earning assets	2,26,319	3,22,836	4,35,314	5,40,171	6,64,304
Fixed assets	2,494	2,829	4,144	4,865	5,714
Other assets	7,309	7,504	9,075	9,599	10,156
Total assets	2,36,122	3,33,169	4,48,533	5,54,635	6,80,174
BVPS (Rs)	14.8	20.2	26.1	32.5	39.0
Adj. BVPS (INR)	14.4	20.2	26.0	32.2	38.5
Gross advances	1,74,877	2,19,112	2,91,419	3,64,274	4,55,343
Credit to deposit (%)	89.1	83.4	82.8	81.0	80.7
CASA ratio (%)	27.3	26.4	22.1	23.9	26.5
Cost of deposits (%)	5.7	6.0	7.5	7.1	6.6
Loans-to-Assets (%)	69.0	63.9	63.7	64.5	65.7
Net advances growth (%)	12.5	30.6	34.3	25.1	24.9
Deposit growth (%)	39.3	39.6	35.1	28.0	25.3
Book value growth (%)	(13.9)	36.7	29.1	24.3	20.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(22.3)	8.9	7.7	7.1	6.6
P/B (x)	3.7	2.6	2.1	1.7	1.4
P/ABV (x)	3.7	2.6	2.0	1.6	1.4
P/PPOP (x)	14.4	7.0	5.2	4.1	3.5
Dividend yield (%)	0.0	2.6	1.9	2.2	2.8
DuPont-RoE split (%)					
NII/avg assets	8.1	9.5	8.8	8.5	8.4
Other income	1.6	2.1	1.9	1.8	1.6
Fee income	1.6	2.1	1.9	1.8	1.6
Opex	6.8	6.3	5.5	5.2	5.2
PPOP	2.9	5.2	5.1	5.1	4.9
Core PPOP	2.8	5.2	5.1	5.1	4.9
Provisions	5.4	0.1	0.5	1.1	1.4
Tax expense	(0.6)	1.3	1.2	1.0	0.9
RoA (%)	(1.9)	3.9	3.4	2.9	2.5
Leverage ratio (x)	7.9	8.7	8.6	8.7	8.8
RoE (%)	(15.0)	33.7	29.7	25.8	22.5
Quarterly data					
Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	6,632	6,970	7,380	7,927	8,233
NIM (%)	11.2	11.2	11.2	11.2	11.2
PPOP	3,850	3,889	4,106	4,579	4,834
PAT	2,943	2,932	3,095	3,241	3,277
EPS (Rs)	1.51	1.50	1.58	1.66	1.68

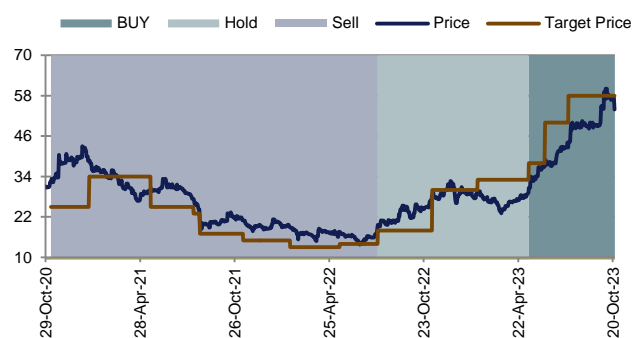
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
02-Oct-23	54	58	Buy	Anand Dama
27-Jul-23	44	58	Buy	Anand Dama
01-Jul-23	38	50	Buy	Anand Dama
12-Jun-23	37	50	Buy	Anand Dama
12-May-23	31	38	Buy	Anand Dama
09-Mar-23	27	33	Hold	Anand Dama
03-Feb-23	30	33	Hold	Anand Dama
08-Nov-22	28	30	Hold	Anand Dama
27-Jul-22	20	18	Hold	Anand Dama
15-May-22	18	14	Sell	Anand Dama
09-Feb-22	19	13	Sell	Anand Dama
11-Nov-21	21	15	Sell	Anand Dama
20-Aug-21	20	17	Sell	Anand Dama
08-Aug-21	27	23	Sell	Anand Dama
18-May-21	31	25	Sell	Anand Dama
04-Feb-21	36	34	Sell	Anand Dama
20-Jan-21	39	34	Sell	Anand Dama
08-Nov-20	32	25	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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