

# Ujjivan Small Finance Bank | BUY



## Soft quarter

In 1Q25, USFB reported a miss on PAT (at INR 3.0bn, -9% QoQ, -7% YoY, -12% JMFe) on account of contracted margins (NIM at 9.3%, -10bps QoQ) and elevated provisions (credit cost at 1.78% vs 1.31% QoQ) despite moderation in opex (-3.4% QoQ, +23% YoY). Mgmt. expects to maintain NIM at around 9% mark despite increasing share of secured book as the bank undertakes upwards reprising of pending microfinance book and stabilises CoF going ahead. Deposit growth (+22% YoY, 3.3% QoQ) was in-line with USFB's strategy of building granular, retail focused liability franchise (institutional TD: -9% QoQ). However, AUM growth was muted (+19% YoY, +1% QoQ) due to sluggish disbursements (-21% QoQ, flat YoY) as the bank slowed down its micro group/individual lending (-21%/-23% QoQ) business as a precautionary measure against pockets of stress observed in certain states. Share of secured business increased to 31.2% (vs 30.2% as of 4Q24, and guidance of 35% by FY25). In our view, new leadership is taking the asset mix in the right direction by increasing the contribution of secured assets, which bodes well for the medium term. In addition, management feels that USFB fits the RBI criteria of receiving a universal banking licence and has indicated its willingness to apply for the same. We believe greater thrust on improving efficiency, ability to deliver on improved liability franchise and weathering the environment of increasing credit costs should determine re-rating trajectory going ahead. We expect Ujjivan SFB to deliver avg RoA/ RoE of 3.1%/22.6% FY25-26E. Maintain BUY with a TP of INR 65 valuing it at 1.5x FY26E BVPS.

- Deposit growth steady; AUM growth muted:** In 1Q25, deposit witnessed growth of 22% YoY/3.3% QoQ led by retail TD (+14% QoQ) while CASA growth was flat QoQ resulting in CASA ratio of 25.6% (-90 bps QoQ). Deposit growth was in-line with USFB's strategy of building granular, retail focused liability franchise (institutional TD: -9% QoQ). AUM growth, on the other hand, was muted (+19% YoY, +1% QoQ) due to sluggish disbursements (-21% QoQ, flat YoY) as the bank slowed down its micro group/individual lending (-21%/-23% QoQ) business as a precautionary measure against pockets of stress observed in certain states. Share of secured business increased to 31.2% (vs 30.2% as of 4Q24) and the mgmt. emphasised on taking this share to 35% by FY25 as the bank scales gold, vehicle and MSME businesses to achieve credit growth guidance of 20% for FY25.
- Margin contraction and higher provisions weigh heavy on bottom line:** In 1Q25, USFB reported PAT of INR 3.0bn (-9% QoQ, -7% YoY, -12% JMFe) on account of contracted margins (NIM at 9.3%, -10bps QoQ) and elevated provisions (credit cost at 1.78% vs 1.31% QoQ) despite moderation in opex (-3.4% QoQ, +23% YoY). Mgmt. expects to maintain NIM at around 9% mark despite increasing share of secured book as the bank undertakes upwards reprising of pending microfinance book and stabilises CoF going ahead. Moderation in opex for the quarter (cost to income improved to 55.2% vs 55.7% QoQ) aided the bank in reporting RoA of 2.92% (vs 3.3% QoQ)
- Credit cost normalisation underway:** Asset quality deteriorated as GNPA/NNPA inched up to 2.52%/0.41% (+28bps/+13bps QoQ) and PCR dropped to 84% (vs 87.5% QoQ). Gross slippage ratio increased to 3.1% (vs 2.2% in 4Q24) and net slippages to 2.3% (vs 1.8% QoQ). Credit cost normalisation continued (at 178bps vs +131bps QoQ) during 1Q25 as PAR increased to 4.2% vs 3.5% QoQ. However mgmt. remained confident of containing credit cost to under 170bps for FY25.

Financial Summary		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Profit	-4,146	10,999	12,815	14,065	16,994	
Net Profit (YoY) (%)	-5,096.9%	-365.3%	16.5%	9.8%	20.8%	
Assets (YoY) (%)	15.9%	41.1%	21.3%	21.4%	22.0%	
ROA (%)	-1.9%	3.9%	3.5%	3.1%	3.1%	
ROE (%)	-15.0%	33.7%	27.0%	22.8%	22.4%	
EPS	-2.4	5.6	6.6	7.3	8.8	
EPS (YoY) (%)	-5,096.9%	-334.6%	17.9%	9.8%	20.8%	
<b>PE (x)</b>	<b>-17.9</b>	<b>7.6</b>	<b>6.5</b>	<b>5.9</b>	<b>4.9</b>	
BV	15	20	29	35	43	
BV (YoY) (%)	-13.9%	36.7%	41.7%	22.8%	22.5%	
<b>P/BV (x)</b>	<b>2.90</b>	<b>2.12</b>	<b>1.50</b>	<b>1.22</b>	<b>1.00</b>	

Source: Company data, JM Financial. Note: Valuations as of 26/Jul/2024

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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	65
Upside/(Downside)	50.6%
Previous Price Target	65
Change	0.0%

### Key Data – UJJIVANS IN

Current Market Price	INR43
Market cap (bn)	INR83.5/US\$1.0
Free Float	89%
Shares in issue (mn)	1,728.3
Diluted share (mn)	
3-mon avg daily val (mn)	INR832.8/US\$9.9
52-week range	63/40
Sensex/Nifty	81,333/24,835
INR/US\$	83.7

### Price Performance

%	1M	6M	12M
Absolute	-4.2	-21.0	-2.6
Relative*	-6.9	-30.1	-20.7

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Valuation and view:** In our view, new leadership is taking the asset mix in the right direction by increasing the contribution of secured assets, which bodes well for the medium term. In addition, management feels that USFB fits the RBI criteria of receiving a universal banking licence and has indicated its willingness to apply for the same. We believe greater thrust on improving efficiency, ability to deliver on improved liability franchise and weathering the environment of increasing credit costs should determine rerating trajectory going ahead. We expect Ujjivan SFB to deliver avg RoA/RoE of 3.1%/22.6% FY25-26E. Maintain BUY with a TP of INR 65 valuing it at 1.5x FY26E BVPS.

## Key trends: 1QFY25

## Exhibit 1. Ujjivan SFB: Results Summary

Earnings Table (Rs mn)	1Q'24	4Q'24	1Q'25	YoY (%)	QoQ (%)
<b>NII</b>	<b>7,927</b>	<b>9,335</b>	<b>9,415</b>	<b>18.8%</b>	<b>0.8%</b>
Misc Income	762	1,361	1,081	41.8%	-20.6%
<b>Non-Interest income</b>	<b>1,772</b>	<b>2,361</b>	<b>1,971</b>	<b>11.2%</b>	<b>-16.5%</b>
<b>Total Income</b>	<b>9,699</b>	<b>11,697</b>	<b>11,386</b>	<b>17.4%</b>	<b>-2.7%</b>
Employee Cost	2,684	3,273	3,403	26.8%	4.0%
Other Operating Expenses	2,435	3,238	2,888	18.6%	-10.8%
Total Operating Expenses	5,120	6,511	6,290	22.9%	-3.4%
<b>Operating Profit</b>	<b>4,579</b>	<b>5,186</b>	<b>5,095</b>	<b>11.3%</b>	<b>-1.7%</b>
Loan Loss Provisions	261	790	1,099	320.7%	39.1%
<b>Total Provisions</b>	<b>261</b>	<b>790</b>	<b>1,099</b>	<b>320.7%</b>	<b>39.1%</b>
PBT	4,318	4,396	3,997	-7.4%	-9.1%
Tax	1,077	1,099	986	-8.5%	-10.3%
<b>Reported Profit</b>	<b>3,241</b>	<b>3,296</b>	<b>3,011</b>	<b>-7.1%</b>	<b>-8.7%</b>
<b>Balance sheet (Rs bn)</b>					
Deposits	266.6	314.6	325.1	22.0%	3.3%
Net Advances	221.7	268.8	271.1	22.3%	0.9%
<b>Total Assets</b>	<b>347.5</b>	<b>404.2</b>	<b>420.5</b>	<b>21.0%</b>	<b>4.0%</b>
Low-cost Deposits (%)	24.6%	26.5%	25.6%	1.0%	-0.9%
Loan-Deposit ratio (%)	83.2%	85.4%	83.4%	0.2%	-2.1%
<b>Key Ratios</b>					
<b>Credit Quality</b>					
Gross NPAs (Rs. mn.)	5,965	6,125	6,972	16.9%	13.8%
Net NPAs (Rs. mn.)	126	763	1,112	781.5%	45.8%
Gross NPA (%)	2.62%	2.23%	2.52%	-0.10%	0.28%
Net NPA (%)	0.06%	0.28%	0.41%	0.35%	0.13%
Loan Loss Provisions (%)	0.54%	1.31%	1.78%	1.24%	0.47%
Coverage Ratio (%)	97.9%	87.5%	84.0%	-13.8%	-3.5%
<b>Capital Adequacy</b>					
Tier I (%)	23.62%	22.58%	22.96%	-0.66%	0.38%
CAR (%)	26.69%	24.69%	24.85%	-1.84%	0.16%
<b>Du-pont Analysis</b>					
NII / Assets (%)	9.32%	9.34%	9.13%	-0.18%	-0.21%
Non-Interest Inc. / Assets (%)	2.08%	2.36%	1.91%	-0.17%	-0.45%
Operating Cost / Assets (%)	6.02%	6.51%	6.10%	0.08%	-0.41%
Operating Profits / Assets (%)	5.38%	5.19%	4.94%	-0.44%	-0.25%
Provisions / Assets (%)	0.31%	0.79%	1.07%	0.76%	0.28%
<b>ROA (%)</b>	<b>3.81%</b>	<b>3.30%</b>	<b>2.92%</b>	<b>-0.89%</b>	<b>-0.38%</b>

Source: Company, JM Financial

**Exhibit 2. Ujjivan SFB: AUM break-up**

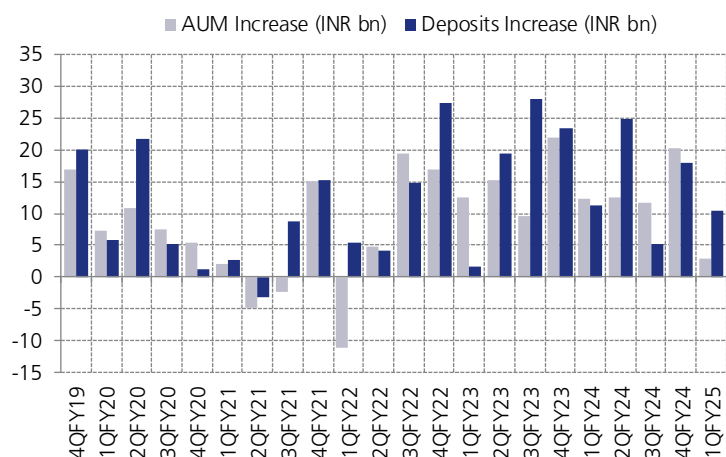
AUM Break-up (Rs bn)	1Q'24	4Q'24	1Q'25	YoY (%)	QoQ (%)
Group Loans	148.2	160.1	157.7	6.4%	-1.5%
Micro Individual loan	35.0	48.0	49.7	42.1%	3.5%
MSE	15.1	14.1	14.2	-6.2%	0.1%
Housing	36.7	49.2	52.0	41.6%	5.6%
Agri and Animal Husbandry	-	-	-	-	-
FIG	12.2	17.3	18.0	47.8%	4.0%
Others	6.1	9.0	9.2	49.8%	2.0%
<b>AUM</b>	<b>253.3</b>	<b>297.8</b>	<b>300.7</b>	<b>18.7%</b>	<b>1.0%</b>
<b>AUM Mix (%)</b>					
Group Loans	58.5%	53.8%	52.4%	-6.1%	-1.3%
Micro Individual loan	13.8%	16.1%	16.5%	2.7%	0.4%
MSE	6.0%	4.7%	4.7%	-1.2%	0.0%
Housing	14.5%	16.5%	17.3%	2.8%	0.8%
FIG	4.8%	5.8%	6.0%	1.2%	0.2%
Others	2.4%	3.0%	3.1%	0.6%	0.0%

Source: Company, JM Financial

**Exhibit 3. Ujjivan SFB: Deposits break-up**

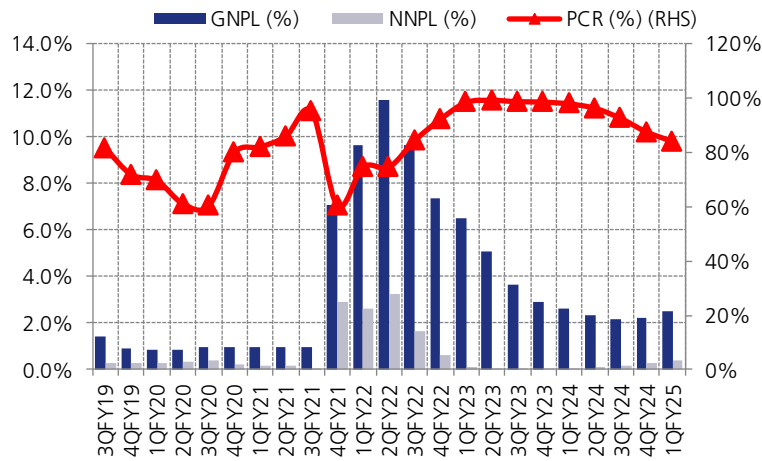
Deposits Composition (Rs bn)	1Q'24	4Q'24	1Q'25	YoY (%)	QoQ (%)
CASA	65.6	83.3	83.4	27.2%	0.0%
Retail TD	109.7	137.5	156.4	42.6%	13.7%
Institutional TD	89.4	92.6	84.2	-5.9%	-9.1%
<b>Total Deposits (ex-CDs)</b>	<b>264.7</b>	<b>313.4</b>	<b>323.9</b>	<b>22.4%</b>	<b>3.4%</b>
Certificate of Deposits	1.9	1.2	1.2	-35.8%	2.5%
<b>Total Deposits</b>	<b>266.6</b>	<b>314.6</b>	<b>325.1</b>	<b>22.0%</b>	<b>3.3%</b>
<b>Deposit Mix (%)</b>					
CASA	24.6%	26.5%	25.6%	1.0%	-0.9%
Retail TD	41.1%	43.7%	48.1%	7.0%	4.4%
Institutional TD	33.5%	29.4%	25.9%	-7.7%	-3.5%
<b>Total Deposits (ex-CDs)</b>	<b>99.3%</b>	<b>99.6%</b>	<b>99.6%</b>	<b>0.3%</b>	<b>0.0%</b>
Certificate of Deposits	0.7%	0.4%	0.4%	-0.3%	0.0%
<b>Total Deposits</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		

Source: Company, JM Financial

**Exhibit 4. Ujjivan SFB: Trend in accretion to loans and deposits**

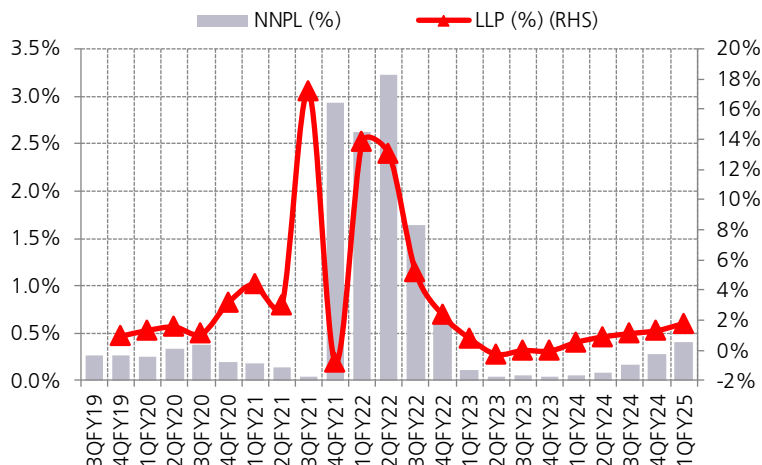
Source: Company, JM Financial

Exhibit 5. Ujjivan SFB: Trend in asset quality



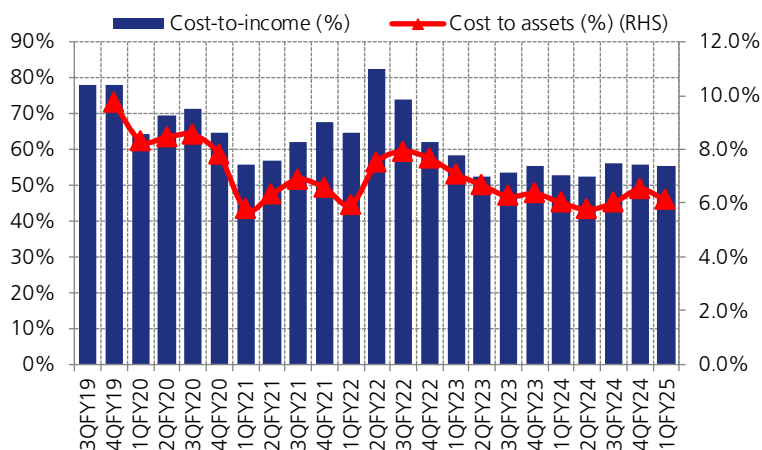
Source: Company, JM Financial

Exhibit 6. Ujjivan SFB: Net NPLs and LLP trends



Source: Company, JM Financial

Exhibit 7. Ujjivan SFB: Trend in cost ratios



Source: Company, JM Financial

## Financial Tables (Standalone)

Profit & Loss						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Interest Income	17,736	26,979	34,095	41,321	49,635	
Profit on Investments	177	18	240	500	500	
Exchange Income	0	0	0	0	0	
Fee & Other Income	3,422	5,874	7,627	9,279	11,305	
<b>Non-Interest Income</b>	<b>3,599</b>	<b>5,892</b>	<b>7,868</b>	<b>9,779</b>	<b>11,805</b>	
<b>Total Income</b>	<b>21,335</b>	<b>32,871</b>	<b>41,962</b>	<b>51,100</b>	<b>61,440</b>	
Operating Expenses	14,964	18,021	22,791	27,313	32,793	
<b>Pre-provisioning Profits</b>	<b>6,371</b>	<b>14,850</b>	<b>19,171</b>	<b>23,787</b>	<b>28,648</b>	
Loan-Loss Provisions	11,645	176	2,149	5,104	6,075	
Provisions on Investments	0	0	0	0	0	
Others Provisions	230	2	0	0	0	
<b>Total Provisions</b>	<b>11,875</b>	<b>178</b>	<b>2,149</b>	<b>5,104</b>	<b>6,075</b>	
<b>PBT</b>	<b>-5,504</b>	<b>14,672</b>	<b>17,022</b>	<b>18,682</b>	<b>22,573</b>	
Tax	-1,358	3,673	4,207	4,617	5,579	
<b>PAT (Pre-Extraordinaries)</b>	<b>-4,146</b>	<b>10,999</b>	<b>12,815</b>	<b>14,065</b>	<b>16,994</b>	
Extra ordinaries (Net of Tax)	0	0	0	0	0	
<b>Reported Profits</b>	<b>-4,146</b>	<b>10,999</b>	<b>12,815</b>	<b>14,065</b>	<b>16,994</b>	
Dividend paid	0	2,663	3,581	1,407	1,699	
<b>Retained Profits</b>	<b>-4,146</b>	<b>8,336</b>	<b>9,234</b>	<b>12,659</b>	<b>15,295</b>	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Growth (YoY) (%)</b>					
Deposits	39.3%	39.6%	23.2%	23.0%	23.5%
Advances	12.5%	30.6%	26.3%	19.8%	22.9%
Total Assets	15.9%	41.1%	21.3%	21.4%	22.0%
NII	2.6%	52.1%	26.4%	21.2%	20.1%
Non-interest Income	15.8%	63.7%	33.5%	24.3%	20.7%
Operating Expenses	21.6%	20.4%	26.5%	19.8%	20.1%
Operating Profits	-21.3%	133.1%	29.1%	24.1%	20.4%
Core Operating profit	-17.8%	139.5%	27.6%	23.0%	20.9%
Provisions	48.6%	-98.5%	1,107.8%	137.5%	19.0%
Reported PAT	-5,096.9%	-365.3%	16.5%	9.8%	20.8%
<b>Yields / Margins (%)</b>					
Interest Spread	7.68%	9.14%	8.57%	8.67%	8.67%
NIM	8.40%	9.83%	9.54%	9.63%	9.56%
<b>Profitability (%)</b>					
Non-IR to Income	16.9%	17.9%	18.7%	19.1%	19.2%
Cost to Income	70.1%	54.8%	54.3%	53.5%	53.4%
ROA	-1.88%	3.86%	3.48%	3.14%	3.12%
ROE	-15.0%	33.7%	27.0%	22.8%	22.4%
<b>Assets Quality (%)</b>					
Slippages	14.84%	2.07%	2.25%	2.70%	2.70%
Gross NPA	7.34%	2.88%	2.23%	2.60%	2.48%
Net NPAs	0.61%	0.04%	0.28%	0.32%	0.25%
Provision Coverage	92.2%	98.6%	87.5%	88.0%	90.0%
Specific LLP	8.62%	0.26%	0.78%	1.63%	1.58%
Net NPAs / Network	3.9%	0.2%	1.4%	1.5%	1.2%
<b>Capital Adequacy (%)</b>					
Tier I	17.70%	22.68%	22.58%	23.16%	23.51%
CAR	18.99%	25.81%	24.69%	24.90%	24.93%

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Equity Capital	17,283	19,547	19,314	19,314	19,314	
Reserves & Surplus	8,321	20,032	36,097	48,756	64,051	
Deposits	1,82,922	2,55,377	3,14,622	3,86,985	4,77,926	
Borrowings	19,636	28,415	21,708	22,794	23,933	
Other Liabilities	7,538	9,286	11,757	12,345	12,963	
<b>Total Liabilities</b>	<b>2,36,122</b>	<b>3,33,169</b>	<b>4,04,222</b>	<b>4,90,917</b>	<b>5,98,910</b>	
Investments	41,529	85,103	97,660	1,13,444	1,38,568	
Net Advances	1,63,032	2,12,897	2,68,829	3,22,094	3,95,938	
Cash & Equivalents	21,758	24,836	25,368	30,815	37,639	
Fixed Assets	2,494	2,829	4,267	4,688	5,151	
Other Assets	7,309	7,504	8,098	19,875	21,615	
<b>Total Assets</b>	<b>2,36,122</b>	<b>3,33,169</b>	<b>4,04,222</b>	<b>4,90,917</b>	<b>5,98,910</b>	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
NII / Assets	8.06%	9.48%	9.25%	9.23%	9.11%
Other Income / Assets	1.64%	2.07%	2.13%	2.18%	2.17%
Total Income / Assets	9.70%	11.55%	11.38%	11.42%	11.28%
Cost / Assets	6.80%	6.33%	6.18%	6.10%	6.02%
PBP / Assets	2.90%	5.22%	5.20%	5.31%	5.26%
Provisions / Assets	5.40%	0.06%	0.58%	1.14%	1.11%
PBT / Assets	-2.50%	5.15%	4.62%	4.17%	4.14%
Tax rate	24.7%	25.0%	24.7%	24.7%	24.7%
ROA	-1.88%	3.86%	3.48%	3.14%	3.12%
RoRWAs	-3.41%	7.52%	6.54%	5.56%	5.52%
Leverage	9.2	8.4	7.3	7.2	7.2
ROE	-15.0%	33.7%	27.0%	22.8%	22.4%

Source: Company, JM Financial

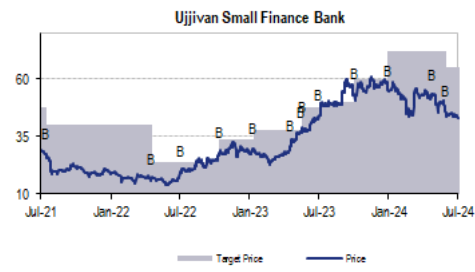
Valuations					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shares in Issue	1,728.3	1,954.7	1,931.4	1,931.4	1,931.4
EPS (INR)	-2.4	5.6	6.6	7.3	8.8
EPS (YoY) (%)	-5,096.9%	-334.6%	17.9%	9.8%	20.8%
PER (x)	-17.9	7.6	6.5	5.9	4.9
BV (INR)	15	20	29	35	43
BV (YoY) (%)	-13.9%	36.7%	41.7%	22.8%	22.5%
ABV (INR)	15	20	29	35	43
ABV (YoY) (%)	-10.8%	36.7%	41.7%	22.8%	22.5%
P/BV (x)	2.90	2.12	1.50	1.22	1.00
P/ABV (x)	2.90	2.12	1.50	1.22	1.00
DPS (INR)	0.0	1.4	1.9	0.7	0.9
Div. yield (%)	0.0%	3.2%	4.3%	1.7%	2.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Oct-20	Buy	45	
8-Nov-20	Buy	45	0.0
3-Feb-21	Buy	48	6.7
8-Aug-21	Buy	40	-16.7
12-May-22	Buy	24	-40.0
27-Jul-22	Buy	24	0.0
8-Nov-22	Buy	34	41.7
4-Feb-23	Buy	38	11.8
12-May-23	Buy	38	0.0
11-Jun-23	Buy	38	0.0
13-Jun-23	Buy	48	26.3
27-Jul-23	Buy	50	4.2
29-Oct-23	Buy	60	20.0
25-Jan-24	Buy	72	20.0
21-May-24	Buy	72	0.0
24-Jun-24	Buy	65	-9.7

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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