

RETAIL EQUITY RESEARCH

Ujjivan Financial Services Ltd

Banking/Finance

BSE CODE:539874

NSE CODE: UJJIVAN

Bloomberg CODE: UJJIVAN :IN SENSEX: 30,248

BUY

Rating as per Midcap

12months investment period

CMP Rs346 TARGET Rs415 RETURN 20% 11thMay, 2017

Headwinds amid transformation...

Ujjivan Financial Services Ltd is the third largest NBFC microfinance (MFI) in India and is among the first group of companies to procure small finance bank (SFB) license. Ujjivan has a network of 457 branches across 24 states.

- Loan book grew 16% YoY (-3%QoQ), lower than expected marred by lower disbursements and client acquisition post demonetisation.
- Asset quality deteriorated with GNPA moving 344bps QoQ to 3.69% (excluding RBI dispensation for demonetisation).
- Margins contracted 410 bps YoY on lower loan growth and interest reversals, leading to -65%YoY de-growth in PAT.
- Transformation to SFB is gaining pace, and has converted 15 branches in FY17 and expects to operate 171 bank branches by FY18.
- We lower our loan growth forecasts and factor higher provisions leading to -86% & -27% downgrades in FY18E & FY19E PAT respectively.
- Ujjivan's prospective business model provides long term growth visibility, while medium term earnings headwinds will influence valuations. We therefore reduce our valuation to 2.5x from 2.7x FY19E Adj.BV while retain our Buy rating with a reduced target price of Rs415.

Loan growth disrupted...

Loan book grew at a nominal pace of 16% YoY in Q4FY17, marred by lower disbursements amid conservative client acquisition post demonetisation. Total clients de-grew -5% QoQ, and management remain conservative in the medium term due to risks emerged post demonetisation. We lower our loan growth estimates and factor 25% CAGR in loan book over FY17-19E.

Asset quality blues emerge...

Asset quality deteriorated in Q4FY17 as GNPA increased 344bps QoQ to 3.7% (without factoring the RBI dispensation) and is expected to remain elevated amid write off of part of the NPA accretion in FY17. Multiple factors have impacted the asset quality including the liquidity crunch from demonetisation, political interventions etc. We factor higher provisions for FY17 factoring write-offs in some NPA accounts, while asset quality is expected to improve from FY19E.

Earnings outlook moderated...

Operating Income (NII) de-grew 16% YoY with margins contracting 410bps YoY on lower interest income and higher borrowing to meet CRR & SLR investments. NIM will moderate in coming years on conversion to SFB model. Higher CRR & SLR investments and competitive pricing will bring down yields. We lower our FY18E and FY19E NIMs by 90bps each, factoring lower loan growth and lower our FY18E and FY19E earnings estimates by -86% & -27% respectively.

SFB transformation in track...

Ujjivan has opened 26 SFB branches till date and plans to operate 171 branches by the year end. An additional 56 branches will be opened in the rural to meet the RBI requirement. The focus will be to build the deposits under SFB branches and targets to meet 30% funding requirement from deposits in FY18.

Valuations...

Ujjivan is currently trading at 2.4x one yr forward Adj B/V (from a peak of 3x). Despite prospective business model with growth visibility, earnings headwinds will influence the valuation. We therefore lower our target valuation to 2.5x FY19E Adj. BV, while retain our Buy rating with a revised target price of Rs 415.

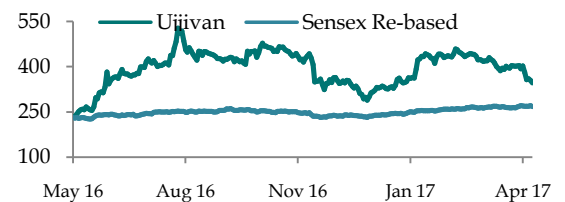
Company Data

Market Cap (cr)	Rs4,135
Outstanding Shares (cr)	11.9
Free Float	100%
Dividend Yield	0.14%
52 week high	Rs547
52 week low	Rs217
6m average volume (cr)	0.14
Beta	1.5
Face value	Rs10

Shareholding %	Q2FY17	Q3FY17	Q4FY17
Promoters	0	0	0
FII's	49.6	47.3	45.8
MFs/Insti	16.6	14.3	14.0
Public	17.2	21.1	22.4
Others	16.6	17.3	17.8
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	-20.1%	-21.9%	49.5%
Absolute Sensex	5.6%	8.7%	16.1%
Relative Return*	-25.7%	-30.7%	33.4%

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY17	FY18E	FY19E
NII	683	771	927
Growth (%)	35%	13%	20%
NIM (%)	11.0%	10.6%	9.8%
PAT Adj	208	117	217
Growth (%)	18%	-44%	86%
Adj.EPS	17.5	9.8	18.2
Growth (%)	18%	-44%	86%
P/E	19.8	35.4	19.0
P/B	2.4	2.2	2.0
Adj. P/B	2.4	2.3	2.1
ROE %	14.1	6.5	11.0

ANIL R
Analyst

Financials

Profit & Loss Account

(Rs cr)	Q4FY17	Q4FY16	YoY Growth %	Q3FY17	QoQ Growth %
Interest Income	289	269	7.4	331	-12.7
Interest Expense	162	118	37.3	133	21.8
Net Interest Income (NII)	127	151	-15.9	198	-35.9
Fee and Other Income	25	25	-	31	-19.4
Total Income	152	176	-13.6	229	-33.6
Expenditure	131	85	54.1	114	14.9
Provision	7	8	-12.5	55	-87.3
PBT	34	84	-59.5	67	-49.3
Tax	15	29		22	-31.8
Reported PAT	19	55	-65	45	-57.8
Adjustment	-	-		-	
Adj PAT	19	55	-65	45	-57.8
Diluted EPS (Rs)	1.6	4.6	-65	3.7	-57.8

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY17E	FY18E
Net Interest Income (NII)	852	1,002	771	927	-10.5%	-7.5%
NIM (%)	11.5	10.7	10.6	9.8	-90bps	-90bps
Fee and Other Income	151	199	137	185	-9.3%	-7.1%
Adj PAT	218	275	117	217	-86%	-26.7%
Diluted EPS (Rs)	18.4	23.2	9.8	18.2	-86%	-26.7%

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	551	931	1,226	1,420	1,718
Interest Expense	271	423	543	649	791
Net Int. Income	279	507	683	771	927
% Change	55%	82%	35%	13%	20%
Non Int. Income	48	76	124	137	185
Operating Income	328	584	807	908	1,112
% Change	61.5%	78.0%	38.2%	12.6%	22.5%
Pre Prov. Profit	123	277	350	241	335
Prov. & Conting.	21	25	75	117	67
PBT	115	272	322	177	329
% Change	37%	138%	18%	-45%	86%
Tax	39	95	113	60	112
Tax Rate (%)	34%	35%	35%	34%	34%
Reported PAT	76	177	208	117	217
Adj*	0	0	0	0	0
Adj PAT	76	177	208	117	217
% change	37.7%	133.8%	17.6%	-43.9%	86.0%
No. of shares (cr)	9	10	12	12	12
EPS (Rs)	7.5	17.5	17.5	9.8	18.2
% change	-10.7%	133.8%	-0.3%	-43.9%	86.0%
DPS (Rs)	0.0	0.8	0.6	0.6	0.6
CEPS (Rs)	9.6	18.3	18.5	12.8	22.8

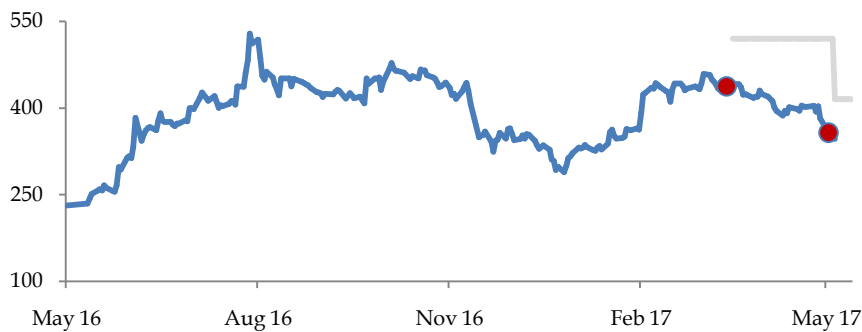
Ratios

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Profitability & Return Ratios					
Interest yield (%)	22.8	22.5	22.4	21.5	19.0
Cost of funds (%)	11.4	11.4	10.7	10.0	9.5
Net int. spread (%)	11.4	11.1	11.7	11.5	9.5
NIM (%)	11.6	12.3	11.0	10.6	9.8
Cost to Income	60.4	51.2	55.1	69.6	64.9
ROE (%)	13.7	18.3	14.1	6.5	11.0
ROA (%)	2.2	3.5	2.9	1.2	1.5
Asset Quality					
GNPA (%)	0.07	0.15	0.28	3.00	2.80
NNPA (%)	0.02	0.04	0.03	1.20	1.00
Credit cost (%)	0.9	0.6	1.4	1.8	0.8
Capital					
Cap adeq ratio (%)	24.2	24.1	26.4	26.0	24.0
Valuation ratios					
P/E (x)	39.3	19.8	19.8	35.4	19.0
P/BV (x)	4.1	2.9	2.4	2.2	2.0
P/ABV (x)	4.1	2.9	2.4	2.3	2.1

Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Cash	645	491	760	1789	4608
Loans & Advances	3256	5129	6017	7382	9373
Investments	0	0	357	1657	2857
Gross Fixed Assets	42	59	1157	90	109
Net Fixed Assets	29	36	165	305	440
CWIP	14	17	134	240	321
Intangible Assets	4	7	6	5	3
Def. Tax (Net)	15	24	47	-5	-10
Other Assets					
Total Assets	3976	5727	8479	11156	17261
Deposits	0	0	106	2158	6622
Debt Funds	1288	1734	2945	2625	2649
Other Liabilities	1904	2720	3524	4243	5582
Provisions	48	76	147	265	332
Equity Capital	86	101	119	119	119
Reserves & Surplus	650	1097	1636	1746	1957
Shareholder's Fund	736	1198	1756	1866	2076
Total Liabilities	3976	5727	8479	11156	17261
BVPS (Rs)	85.1	117.6	146.6	155.9	173.6
% change	50.9%	38.3%	24.6%	6.4%	11.4%
Adj. BVPS (Rs)	85.0	117.4	146.4	148.5	165.8

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
16-March-2017*	Buy	520
11-May-2017	Buy	415

*Initiating Coverage

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is 10% or more.	Buy	-	Upside is 15% or more.
Hold	-	Upside or downside is less than 10%.	Accumulate*	-	Upside between 10% - 15%.
Reduce	-	Downside is 10% or more.	Hold	-	Absolute returns between 0% - 10%.
			Reduce/Sell	-	Absolute returns less than 0%.
			To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.		

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Anil R, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of

its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports / research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

- (i) It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.
- (ii) It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein. However, it is mentioned that one of our Directors, Mr. Rakesh Jhunjunwala has over 1% stake in the subject company.

Further, the Analyst confirms that:

- (i) he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.
- (ii) he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

- (a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that the I Anil R Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Fax: +91 484-2979695, Website: geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Regn.Nos.: NSE: INB/INF/INE231337230 I BSE:INB011337236 & INF011337237 | MSEI: INE261337230, INB261337233 & INF261337233, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, NSDL: IN-DP-NSDL-24-97, CDSL: IN-DP-CDSL-648-2012, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226. Research Entity SEBI Registration Number: INH200000345