

RETAIL EQUITY RESEARCH

Ujjivan Financial Services Ltd

Banking/Finance

BSE CODE:539874

NSE CODE: UJJIVAN

Bloomberg CODE: UJJIVAN IN

SENSEX: 32,014

Buy

Rating as per midcap

12months investment period

CMP Rs. 327 TARGET Rs. 391 RETURN 20% ↑

9th August 2017

On rough waters

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.

- Higher NPA provisions & subdued business led to Rs-70cr loss in Q1FY18 on flat revenue growth.
- GNPA and NNPA increased by 247bps and 227bps QoQ to 6.2% & 2.3% respectively in Q1FY18, post demonetisation dispensation.
- Loan growth was tepid at 10% YoY as management remained conservative on disbursements due to repayment risks prevailing in select markets.
- Factoring higher provisions and moderation in loan growth we downgrade our FY18E earnings by 80%.
- Headwinds amid transition to SFB will impact earnings in the medium term, while a full fledged SFB adds long term growth visibility. We maintain our valuation of 2.5x FY19E Adj.BV and recommend Buy with a revised target price of Rs391.

Higher provisions drag down earnings...

Ujjivan reported net loss of Rs70 cr in Q1FY18 on subdued business growth and higher NPA provisions. Loan book grew 10% YoY, while net interest income de-grew -20%YoY on higher interest reversals on NPA. Provisions grew 24x YoY on fresh classification of NPA post the dispensation availed during demonetisation. Provisions will remain elevated in FY18 leading to downgrades in FY18E earnings by 80%.

Tepid loan growth...conservative disbursements

Loan book grew at a tepid pace in Q1FY18 as management remained conservative on disbursements due to repayment risks in some of the strong markets. Fresh loan disbursements de-grew 9% YoY, while customers per branch grew 2% QoQ. Loan growth target for FY18E has been revised downward to 18%YoY, while remain optimistic on a robust revival in FY19E as business normalises and SFB branches gain traction. We factor 24% CAGR in loan book over FY17-19E.

Asset quality worsens...

Asset quality deteriorated further in Q1FY18 post the RBI's dispensation availed during demonetisation. GNPA and NNPA increased by 247bps & 227bps QoQ to 6.2% & 2.3% respectively on higher slippages of loans disbursed during demonetisation. While GNPA has peaked, asset quality pressures are likely to prevail in FY18E as repayments risks still remain in some key markets post demonetisation. Overdue accounts ">60days" and ">30days" remains high at 7% and 7.8% of outstanding loan portfolios respectively. We increase our FY18E and FY19E NPA by 150bps and 70bps respectively to 4.5% and 3.5%.

SFB transformation in track...

The transition of branches to full fledged bank branches is gaining momentum. Ujjivan has opened 54 SFB branches till date and plans to operate 171 branches by the year end. SFB branches are currently focused on growing the deposits. Deposit base has increased to Rs404cr from Rs200cr QoQ.

Valuations...

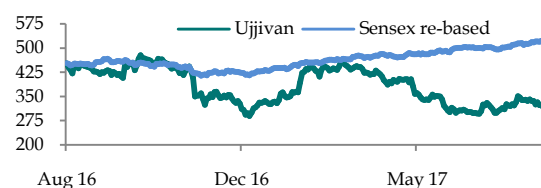
Headwinds during transition to SFB from demonetisation will impact earnings in the medium term, while long term growth visibility from a full fledged SFB is supporting the valuations. We retain our target valuation to 2.5x FY19E Adj.BV and recommend Buy with a revised target price of Rs391.

Company Data	
Market Cap (cr)	Rs. 3,904
Outstanding Shares (cr)	11.9
Free Float	100%
Dividend Yield	0.14%
52 week high	Rs. 484
52 week low	Rs. 285
6m average volume (cr)	0.18
Beta	1.4
Face value	Rs. 10

Shareholding(%)	Q3FY17	Q4FY17	Q1FY18
Promoters	0	0	0
FII's	47.3	45.8	44.2
MFs/Insti	14.3	14.0	10.1
Public	21.1	22.4	27.9
Others	17.3	17.8	17.8
Total	100.0	100.0	100.0

Price Performance	3 month	6 month	1 Year
Absolute Return	-5.7%	-25.8%	-27.8%
Absolute Sensex	5.8%	13.0%	13.6%
Relative Return	-11.5%	-38.8%	-41.4%

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY17A	FY18E	FY19E
NII	683	762	919
Growth (%)	35%	12%	21%
NIM (%)	12.5%	9.0%	8.1%
PAT Adj	208	23	213
Growth (%)	18%	-89%	812%
Adj.EPS	17.5	2.0	17.8
Growth (%)	18%	-89%	812%
P/E	18.8	167.6	18.4
P/B	2.2	2.2	2.0
Adj. P/B	2.2	2.3	2.1
ROE %	14.1	1.3	11.3

Anil R
Analyst

Quarterly Financials

Profit & Loss Account

(Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
Interest Income	296	291	1.7	289	2.4
Interest Expense	157	120	30.8	162	-3.1
Net Interest Income (NII)	138	171	-19.3	127	8.7
Fee and Other Income	28	31	-9.6	25	12.0
Total Income	166	202	-17.8	152	9.2
Expenditure	149	92	62.0	131	13.7
Provision	159	6	2550	7	2171
Depreciation	8	2	300	5	60.0
Other Income	35	8	338	26	34.6
PBT	-115	108	-106	35	-328
Tax	-40	37	-	15	-
Reported PAT	-75	71	-106	19	-395
Adjustment	-	-	-	-	-
Adj PAT	-75	71	-106	19	-395
Diluted EPS (Rs)	-6.3	6.0	-106	1.6	-395

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net Interest Income (NII)	771	927	762	919	(1.1)%	(1.0)
NIM (%)	10.6	9.8	9.0	8.1	(140bps)	(170bps)
Fee and Other Income	137	185	166	216	21.0	16.7%
Adj PAT	117	217	23	213	(80.3)	(1.8)
Diluted EPS (Rs)	9.8	18.2	2.0	17.8	(80.3)	(1.8)

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	551	931	1,226	1,502	1,978
Interest Expense	271	423	543	739	1,059
Net Int. Income	279	507	683	762	919
% Change	55%	82%	35%	12%	21%
Non Int. Income	48	76	124	166	216
Operating Income	328	584	807	928	1,135
% Change	61.5%	78.0%	38.2%	15.1%	22.3%
Pre Prov. Profit	123	277	349	258	351
Prov. & Conting.	21	25	75	277	95
PBT	115	272	322	35	322
% Change	37%	138%	18%	-89%	812%
Tax	39	95	114	12	109
Tax Rate (%)	34%	35%	35%	34%	34%
Reported PAT	76	177	208	23	213
Adj*	0	0	0	0	0
Adj PAT	76	177	208	23	213
% change	37.7%	133.8%	17.2%	-88.8%	812.4%
No. of shares (cr)	9	10	12	12	12
EPS (Rs)	7.5	17.5	17.4	2.0	17.8
% change	-10.7%	133.8%	-0.7%	-88.8%	812.4%
DPS (Rs)	0.0	0.8	0.6	0.6	0.6
CEPS (Rs)	9.6	18.3	18.5	4.2	21.7

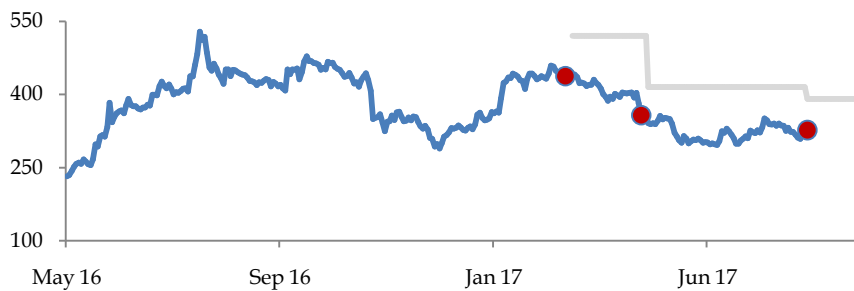
Ratios

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Profitability & Return Ratios					
Interest yield (%)	22.8	22.5	22.4	21.5	20.0
Cost of funds (%)	11.4	11.4	10.7	10.0	9.8
Net int. spread (%)	11.4	11.1	11.7	11.5	10.2
NIM (%)	11.6	12.3	12.5	9.0	8.1
Cost to Income	60.4	51.2	55.2	69.4	65.0
ROE (%)	13.7	18.3	14.1	1.3	11.3
ROA (%)	2.2	3.5	2.6	0.2	1.6
Asset Quality					
GNPA (%)	0.07	0.15	3.69	4.50	3.50
NNPA (%)	0.02	0.04	0.03	1.50	1.20
Credit cost (%)	0.8	0.5	1.2	4.0	1.1
Valuation ratios					
P/E (x)	37.2	18.7	18.8	167.6	18.4
P/BV (x)	3.8	2.8	2.2	2.2	2.0
P/ABV (x)	3.8	2.8	2.2	2.3	2.1

Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Cash	645	491	760	1,578	2,140
Loans & Advances	3,256	5,129	6,017	6,998	9,093
Investments	0	0	1,447	2,747	3,947
Gross Fixed Assets	42	59	68	96	126
Net Fixed Assets	29	36	100	240	375
CWIP	14	17	72	188	280
Intangible Assets	4	7	64	61	58
Def. Tax (Net)	15	24	47	-1	-10
Other Assets					
Total Assets	3,976	5,727	8,475	11,667	15,635
Deposits	0	0	106	2,702	7,565
Debt Funds	1,288	1,734	2,839	3,287	2,900
Other Liabilities	1,904	2,720	3,630	3,480	2,676
Provisions	48	76	147	425	519
Equity Capital	86	101	119	119	119
Reserves & Surplus	650	1,097	1,636	1,653	1,858
Shareholder's Fund	736	1,198	1,756	1,772	1,978
Total Liabilities	3,976	5,727	8,479	11,666	15,638
BVPS (Rs)	85.5	118.4	147.1	148.4	165.7
% change	50.5%	38.4%	24.3%	0.9%	11.6%
Adj. BVPS (Rs)	85.6	118.6	147.2	139.7	155.9

Recommendation Summary (last 3 years)



Dates	Rating	Target
16-March-2017*	Buy	520
11-May-2017	Buy	415
09-August- 2017	Buy	391

Source: Bloomberg, Geojit Research

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.

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