

Transition gaining traction

We retain Hold on Ujjivan with TP revised upwards to Rs370 (earlier Rs350). Q2FY18 earnings saw an improvement over the last quarter on the business front (disbursements up 14.8% QoQ) and asset quality side (GNPA at 4.99%, down 110bps QoQ also aided by w/off). Transition to Small Finance Bank (SFB) model has gathered further momentum with reach now extended to 92 branches (vs. 15 in Q4'17). H2FY18 promises to be better over H1'18 on back of improved business environment and better controls. The near term earnings, however are expected to remain volatile as Ujjivan provides for portfolios overdue. We have tweaked our estimates for FY18-19E. Valuations at 2.2x FY19E ABV remain reasonable.

- NIM beat estimates; accelerated provisions led to yet another quarter of loss:** - Ujjivan Q2'18 NII at Rs1.86bn beat our estimates and was driven by expansion in NIM (+100bps QoQ) to 11.35% and healthy disbursements (+14.8% QoQ). AuM grew 2.8% YoY / 3.3% QoQ (in-line with our estimates). Other income came in at Rs82mn and included PSLC related income to the tune of Rs82mn. H1'18 has seen PSLC related income to the tune of ~Rs150mn (~46bps of AuM). The quarter saw Ujjivan report improvement in its asset quality with GNPA at 4.99% (down 117bps QoQ) / NNPA at 1.38% (down 92bps QoQ). While the trend in new NPA addition has declined, prudential write-offs to the tune of Rs 886mn also attributed to the decline in GNPA's. Provisions came in at Rs882mn; net loss for the quarter stood at Rs120mn.
- Disbursements gaining pace; Credit costs guidance unchanged:** The quarter saw pace of disbursements accelerate (+14.8% QoQ) and was led by strong uptick in both - MFI (+14.3% QoQ) and non-MFI portfolio (+20% QoQ). The share of non-MFI portfolio in overall AuM has increased to 14.8%; the same is guided to rise to 40% by FY2020E. AuM grew 2.8% YoY; management has retained its growth guidance at 20% for FY18E. Improved recoveries (including w/off), especially in trouble areas of Karnataka and UP saw overall PAR decline to Rs4.5bn (vs Rs5.7bn in Q1FY18). Maharashtra continues to report problems with newer regions therein (ie pockets of south Maharashtra) adding to stress and needs closer monitoring. Credit cost guidance has been retained at 400bps for FY18E. We have tweaked our estimates on AuM / credit cost front for FY18E.
- Transition progressing; near term returns to remain suppressed:** Transition to Small Finance Bank (SFB) commenced in Feb'2017 has gathered more pace. The quarter saw SFB branch reach extending to 92 branches (vs. 52/15 branches in Q1'18/Q4'17). On the liability side, the increase in deposit base coupled with rise in CASA / retail deposits has attributed to reduction in cost of borrowings (7.19% in Q2'18 vs. 7.5% in Q1'18). CASA ratio for Ujjivan at 4.6% as at Q2'18 however is still on the lower side when compared to Equitas SFB (28.3% as at Q2'18). While the transition related operating costs is largely into the numbers, MFI related stress - elevated PAR (Rs4.5bn or 6.7% of AuM) will see provisions remain high and thus impact near-term profitability. We expect RoA/RoE of 0.9% / 4.6% for FY18E before scaling to 2.5% RoA / 14.1% RoE by end-FY19E.
- Valuation, view and key risks:** H1FY18 earnings were marred by elevated provisioning and holds true for the entire MFI space. We however draw comfort in Q2'18 results that saw a) improved disbursements (both MFI / non-MFI portfolio) and b) sharper than expected fall in PAR / GNPA portfolio (also aided by w/off). Retain Hold with TP revised upwards to Rs370 (valued at 2.2x FY19E). Key risks: lower than expected new NPA accretion and or higher recoveries would mean lower provisions and thus higher profitability. Elevated GNPA / low pace of growth could impact earnings negatively.

Y/E Mar (Rs mn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Q2FY18E	% Var
Net Interest Income	1,863	2,235	(16.7)	1,662	12.1	1,795	3.8
Operating Profit	702	1,196	(41.3)	446	57.5	451	55.5
Provisions	882	70	1168.8	1,592	NA	800	10.2
Reported PAT	(120)	730	NA	(749)	NA	(230)	NA
Gross Loan Portfolio	66,692	64,864	2.8	64,593	3.3	66,445	0.4

Source: Company, Centrum Research

Y/E Mar (Rs mn)	Net Income#	PPOP	Adj PAT	YoY (%)	EPS (Rs)	P/E (x)	Adj BV (Rs)	P/Adj BV (x)	RoA (%)	RoE (%)
FY15	3,405	1,356	758	37.7	8.8	0.0	81.7	0.0	2.5	13.7
FY16	6,041	2,973	1,772	133.8	17.5	0.0	113.4	0.0	3.7	18.3
FY17	8,549	3,969	2,077	17.2	17.3	21.5	146.3	2.5	2.9	14.1
FY18E	10,619	4,275	829	(60.1)	6.9	48.9	144.9	2.3	0.9	4.6
FY19E	12,890	5,657	2,758	232.7	23.0	16.2	168.0	2.2	2.5	14.1

Source: Company, Centrum Research Estimates #denotes net interest income + other income. FY15-18E have been valued on average market cap basis.

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs370	Key Data	
CMP*	Rs373	Bloomberg Code	UJJIVAN IN
Downside	0.1%	Curr Shares O/S (mna)	119.7
Previous Target	Rs350	Diluted Shares O/S(mn)	119.7
Previous Rating	Hold	Mkt Cap (Rs bn/USDmn)	44.7/690.5
Price Performance (%)*		52 Wk H / L (Rs)	471.8/284.9
		5 Year H / L (Rs)	547.5/216.7
UJJIVAN IN	11.9	7.9	(10.3)
Nifty	4.7	12.5	23.9
		Daily Vol. (3M NSE Avg.)	2398539

* as on 3 November 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sept-17	Jun-17	Mar-17	Dec-16
Promoter	0.0	0.0	0.0	0.0
FIs	44.6	46.2	47.5	49.1
Dom. Inst.	26.8	9.2	52.0	49.3
Public & Others	28.6	44.6	0.5	1.7

Source: BSE, * as on 3 November 2017

Earnings revision

Particulars (Rs mn)	FY18E			FY19E		
	New	Old	Var (%)	New	Old	Var (%)
NII + Oth. Inc	10,619	10,393	2.2	12,890	12,637	2.0
PPoP	4,275	3,922	9.0	5,657	5,186	9.1
PAT	829	755	9.8	2,758	2,537	8.7

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
NII + Oth. Inc	10,619	9,899	7.3	12,890	12,249	5.2
PPoP	4,275	3,301	29.5	5,657	4,217	34.1
Report. PAT	829	561	47.7	2,758	2,238	23.2

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
7	3	3	382	370	(3.2)

*as on 3 November 2017; Source: Bloomberg, Centrum Research Estimates

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Exhibit 1: Earnings revision, valuation and view

Particulars (Rs bn)	FY18E			FY19E		
	New	Old	Var (%)	New	Old	Var (%)
NII + Oth inc	10,619	10,393	2.2	12,890	12,637	2.0
PPOP	4,275	3,922	9.0	5,657	5,186	9.1
PAT	829	755	9.8	2,758	2,537	8.7

Source: Centrum Research Estimates

H1FY18 earnings were marred by elevated provisioning and holds true for the entire MFI space. We however draw comfort in Q2'18 results that saw a) improved disbursements (both MFI / non-MFI portfolio) and b) sharper than expected fall in PAR / GNPA portfolio (also aided by w/off).

The quarter also saw sharper than expected traction on deposit front (including retail and CASA deposits) and strong PSLC income. On a QoQ basis, deposits have increased to Rs12.5bn vs. Rs3bn. Share of retail deposits has remained unchanged at ~10%. We have tweaked our estimates on AuM / NIM and provision front for FY18-19E. Our annual estimates have changed also to account for strong PSLC related income. The near-term earnings however will remain volatile as the same will be a factor of the increase / reverse in provisions required. We will watch for trends therein.

While we remain positive on Ujjivan's business model and the scalability, current valuations at 2.2x FY19E ABV for exit RoE's of 14.1% in FY19E appear reasonable. Retain Hold with TP revised upwards to Rs370 (valued at 2.2x FY19E). Key risks: lower than expected new NPA accretion and or higher recoveries would mean lower provisions and thus higher profitability. Elevated GNPA / low pace of growth could impact earnings negatively.

Sensitivity analysis and peer comparison

Exhibit 2: Sensitivity Analysis – impact of change in AuM and NIM on FY18 PBT

%	AuM					
	+ 10bps	+ 20bps	' Current level	- 10bps	- 20bps	
NIM	- 10bps	(7.5)	(10.8)	(4.1)	(0.8)	2.5
	- 5bps	(11.6)	(14.9)	(8.3)	(5.0)	(1.6)
	Current levels	(3.3)	(6.6)	-	3.3	6.6
	+ 5bps	0.8	(2.5)	4.1	7.5	10.8
	+ 10bps	5.0	1.6	8.3	11.6	11.6

Source: Centrum Research Estimates

Exhibit 3: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR % (FY17-FY19E)			PE (x)			RoA (%)			RoE (%)			P/BVPS (x)		
		NII + Oth inc	PPOP	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Ujjivan*	44,706	22.8	19.4	15.2	21.5	49.0	16.2	2.9	0.9	2.5	14.1	4.6	14.1	2.5	2.2	2.1
Equitas	49,634	19.6	(0.2)	0.2	31.1	66.6	28.1	2.3	0.8	1.4	9.8	3.2	7.1	2.5	2.4	2.0
BHAFIN	1,37,260	31.1	42.4	14.6	17.7	24.0	17.5	6.4	3.6	4.6	30.2	17.0	22.7	3.9	3.9	3.7

Source: Bloomberg consensus, *Centrum Research Estimates. FY17-18EYTD has been valued on average market cap basis.

Exhibit 4: Quarterly financials

(Rs mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Income statement								
Interest income	2,651	2,940	3,217	3,510	3,622	3,145	3,234	3,393
Interest expenses	1,093	1,179	1,204	1,274	1,332	1,617	1,573	1,530
Net interest income	1,558	1,761	2,013	2,235	2,290	1,528	1,662	1,863
Other income	23	39	76	60	91	255	352	388
Total income	1,581	1,800	2,089	2,296	2,381	1,783	2,014	2,251
Operating expenses	771	875	946	1,100	1,170	1,365	1,568	1,549
Pre-provision profit	809	925	1,144	1,196	1,211	418	446	702
Provisions	61	82	62	70	547	72	1,592	882
Profit before tax	748	843	1,081	1,126	664	346	(1,147)	(180)
Tax	262	294	367	396	225	153	(397)	(61)
Profit after tax	486	549	714	730	439	194	(749)	(120)
Balance sheet items								
Networth	8,590	11,978	16,193	16,868	17,329	17,553	16,825	16,600
Share capital	861	1,012	1,182	1,185	1,188	1,194	1,196	1,197
Reserves & surplus	7,729	10,966	15,011	15,683	16,140	16,359	15,629	15,403
Borrowings	37,404	43,380	41,809	46,887	51,507	62,914	60,389	51,197
Deposits	0	0	0	0	0	1,064	3,038	12,475
Provisions	648	758	1,076	1,141	1,685	1,474	2,969	2,988
Other liabilities	889	1,158	1,435	1,635	1,714	1,781	1,923	1,541
Total liabilities	47,531	57,273	60,514	66,532	72,235	84,786	85,143	84,802
Cash	559	4,913	2,927	3,775	8,302	7,601	5,582	3,491
Advances	45,401	50,644	55,575	60,002	61,021	58,712	61,107	63,644
Fixed & intangible assets	221	242	252	856	1,073	1,398	1,563	1,719
Other assets	1,349	1,474	1,759	1,898	1,838	17,075	16,890	15,947
Total assets	47,531	57,273	60,514	66,532	72,235	84,786	85,143	84,802
Ratios (%)								
Cost-income	48.8	48.6	45.3	47.9	49.1	76.6	77.9	68.8
GNPA	0.15	0.15	0.18	0.17	0.25	3.69	6.16	4.99
NNPA	0.04	0.04	0.04	0.04	0.05	0.03	2.30	1.38

Source: Company, Centrum Research

Financials

Exhibit 5: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	5,993	10,072	13,644	15,717	18,295
Interest Expense	2,714	4,235	5,427	5,930	6,500
Net Interest Income	3,279	5,837	8,217	9,787	11,795
Non-Interest Income	126	204	332	833	1,095
Total Net Income	3,405	6,041	8,549	10,619	12,890
Total Operating Expenses	2,049	3,068	4,580	6,345	7,233
Employee expenses	1,328	1,967	2,716	3,781	4,365
Other Operating Expenses	722	1,102	1,864	2,564	2,868
Pre-provision Profit	1,356	2,973	3,969	4,275	5,657
Provisions & Contingencies	210	253	751	3,019	1,478
Profit Before Tax	1,145	2,720	3,217	1,256	4,179
Taxes	387	948	1,141	427	1,421
Profit after tax	758	1,772	2,077	829	2,758

Source: Company, Centrum Research Estimates

Exhibit 6: Balance sheet

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Other assets	6,448	4,913	7,601	10,401	12,666
Loans & Advances	32,187	50,644	58,712	67,082	82,101
Investments	1	1	14,467	16,298	20,089
Total Int Earning Assets	38,636	55,558	80,779	93,781	1,14,856
Fixed Assets	179	242	1,398	1,556	2,085
Other non-current assets	947	1,474	2,609	2,281	2,791
Total Assets	39,763	57,273	84,786	97,618	1,19,733
Interest Bearing Liabilities	31,218	43,380	63,978	77,741	96,950
Other non int bearing Liab	1,180	1,916	3,250	1,631	1,948
Total Liabilities	32,398	45,296	67,228	79,371	98,897
Equity	7,365	11,978	17,558	18,246	20,835
Total Liabilities	39,763	57,273	84,786	97,618	1,19,733

Source: Company, Centrum Research Estimates

Exhibit 7: DuPont analysis

(% of avg assets)	FY15	FY16	FY17	FY18E	FY19E
Yield on assets	19.8	20.8	19.2	17.2	16.8
Cost of funds	9.2	9.0	7.9	6.7	6.1
Spreads	8.4	9.4	9.0	7.5	6.8
NIM	11.1	11.9	12.3	11.2	10.5
Other income	0.4	0.4	0.5	0.9	1.0
Total income	11.2	12.5	12.0	11.6	11.9
Operating expenses	6.8	6.3	6.4	7.0	6.7
Provisions	0.7	0.5	1.1	3.3	1.4
PBT	3.8	5.6	4.5	1.4	3.8
Tax	1.3	2.0	1.6	0.5	1.3
RoA	2.5	3.7	2.9	0.9	2.5
Leverage	5.5	5.0	4.8	5.1	5.6
RoE	13.7	18.3	14.1	4.6	14.1

Source: Company, Centrum Research Estimates

Exhibit 8: Financial ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E
Growth Ratios (%)					
Loans	99.0	57.3	15.9	14.3	22.4
AuM	102.4	64.6	18.4	15.5	23.5
Assets	91.3	44.0	48.0	15.1	22.7
Borrowings	89.2	39.0	45.0	-6.6	20.8
NII	61.5	78.0	40.8	19.1	20.5
Provisions	47.1	119.3	33.5	7.7	32.3
PAT	37.7	133.8	17.2	-60.1	232.7
Operating Ratios (%)					
Yield on advances	22.8	22.5	22.4	20.9	19.7
Cost of borrowings	11.4	11.4	10.2	9.7	10.0
NIM (on AuM)	13.4	13.5	14.0	14.2	14.3
Fee to disbursement	0.3	0.3	0.4	0.9	1.0
Cost/Income	60.2	50.8	53.6	59.7	56.1
Opex/ Avg AuM	6.8	6.3	6.4	7.0	6.7
Effective tax rate	33.8	34.8	35.5	34.0	34.0
RoA	2.5	3.7	2.9	0.9	2.5
RoE	13.7	18.3	14.1	4.6	14.1
RoTA (inld.off-balance sheet)	2.5	3.5	2.8	0.9	2.4
Credit Quality Ratios (%)					
Gross NPA	0.07	0.15	0.28	4.21	3.41
Net NPA	0.02	0.04	0.03	1.18	0.76
Credit cost (% of AuM)	0.9	0.6	1.3	4.4	1.8
NPA coverage ratio	74.4	73.8	89.3	71.9	77.6
Capital Adequacy Ratios (x)					
Total CAR	24.2	24.1	18.2	20.9	19.3
Tier I	21.7	22.4	16.8	19.3	18.1
Tier II	2.5	1.8	1.4	1.5	1.2
Assets/equity (x)	5.5	5.0	4.8	5.1	5.6
Per Share (Rs)					
BVPS	81.8	113.6	146.4	152.2	173.8
Adjusted BVPS	81.7	113.4	146.3	144.9	168.0
EPS - basic	8.8	17.5	17.3	6.9	23.0
Valuations Ratios					
Price/BV (x)	-	-	2.5	2.2	2.1
Price/Adj. BV (x)	-	-	2.5	2.3	2.2
P/E (x)	-	-	21.5	48.9	16.2
Dividend Yield (%)	-	-	0.2	0.3	0.3

Source: Company, Centrum Research Estimates. FY15-18E have been valued on average market cap basis.

Appendix A

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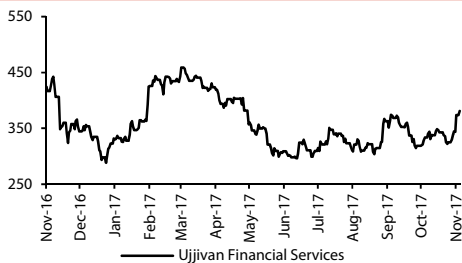
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Ujjivan Financial Services price chart



Source: Bloomberg, Centrum Research

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Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

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