

## UJJIVAN FINANCIAL SERVICES

BANKS &amp; FINANCIAL SERVICES

# BUY

Target Price: Rs 400

### Turnaround in sight

Ujjivan reported a loss of Rs 120 mn (est. Rs 118 mn PAT) due to higher provisions (11x YoY but down 45% QoQ at Rs 882 mn) related to bad assets generated during demonetization. However, operating metrics posted strong turnaround with 15% QoQ pick-up in disbursement, uptick in NIM and significant improvement in collection efficiencies and headline asset quality (GNPLs down 117 bps at ~5%; PCR at 72%).

AUM growth was subdued at ~3% YoY to Rs 66.7 bn led by sharp de-growth in the MFI and micro individual loans (relatively high risk). Provisioning will remain high in H2 related to back book but incremental diversification, larger collections team and adequate coverage provide comfort. Moreover, transitioning-related expenses are majorly behind.

CMP : Rs 344  
Potential Upside : 16%

#### MARKET DATA

No. of Shares : 120 mn  
Free Float : 100%  
Market Cap : Rs 41 bn  
52-week High / Low : Rs 472 / Rs 285  
Avg. Daily vol. (6mth) : 2.1 mn shares  
Bloomberg Code : UJJIVAN IB Equity  
Promoters Holding : 0%  
FII / DII : 45% / 12%

**Q2FY18 highlights:** (a) PAR '0' and PAR '90' improved to 6.7% and 5.5% (8.8% and 6.1% in Q1FY18) whereas collection efficiency is back to pre-demonetization levels at 99.7% for new business; (b) AUM growth (2.8%) was supported by strong traction in MSE (up 465% YoY; ~1.8% of AUM), housing (232% YoY; ~2.5% of AUM) and agriculture (49% YoY; ~14% of AUM); (c) Margin improved 132 bps QoQ at 10.6% benefiting from decline in cost of funds and higher yield (improving collections and redeployment); (d) 40 SFB branches were added in Q2 (total 92) with a total network of 445 branches. Ujjivan SFB plans to add another 82 outlets in H2 (41 each in ensuing quarter).

**Maintain BUY with revised TP of Rs 400 (Rs 375 earlier):** Due to MFI linked write-offs and SFB transitory costs, Ujjivan is likely to report negligible profits in FY18. However, improvement in operating metrics post demonetization has been much faster and, we expect a return to normalcy by next fiscal. Hence, we upgrade our target multiple to 2.6x (from 2.4x) with a TP of Rs 400 (16% upside). The stock trades at 2.4x/2.2x FY18E/FY19E ABV of Rs 141/Rs 157. We expect diversification benefits to play out over the next few years (targets 50% non-MFI book in 5 years) along with operating leverage that will lead to a steady state RoA of ~2.5%, which offers a good risk-reward opportunity.

#### Financial summary (Standalone)

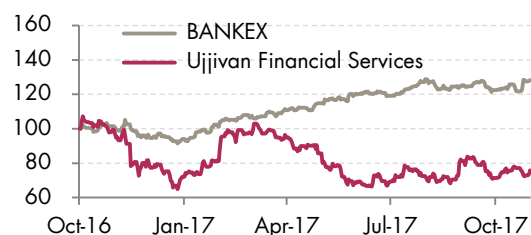
Y/E March	FY16	FY17	FY18E	FY19E
PAT(Rs mn)	1,772	2,077	266	2,206
EPS (Rs)	18	17	2	18
EPS chg (%)	99.0	(2.2)	(87.2)	728.3
Book value (Rs)	118	145	146	163
Adj. BV (Rs)	118	145	141	157
PE (x)	19.6	20.1	156.6	18.9
P/ABV (x)	2.9	2.4	2.4	2.2
RoE (%)	18.3	14.1	1.5	11.8
RoA (%)	3.7	2.9	0.3	2.0
Net NPA (%)	-	-	1.3	1.2

Source: Company, Axis Capital

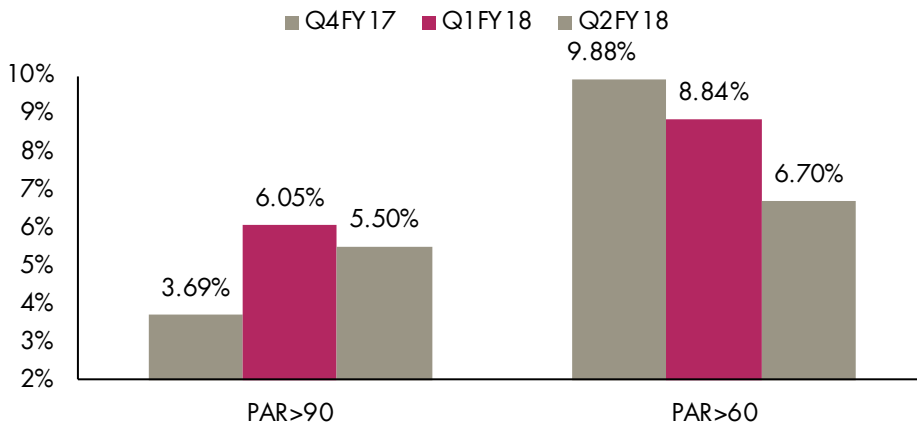
#### Key drivers

(%)	Q4FY17	Q1FY18	Q2FY18
Loan Growth	16	10	6
Disb. Growth	(33)	(9)	(11)
GNPA	0.28	6.16	4.99

#### Price performance



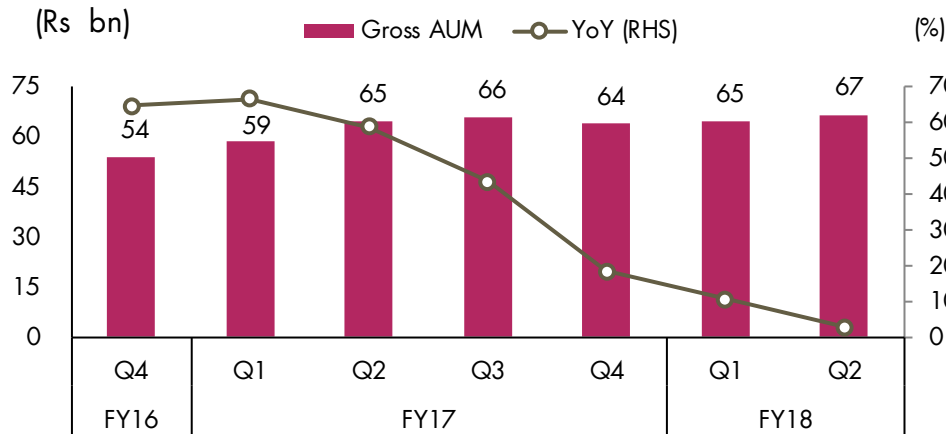
**Exhibit 1: Portfolio at risk (PAR)**



Overall PAR has reduced by Rs 1.26 bn during Q2 and stands at Rs 4.45 bn

Source: Company, Axis Capital

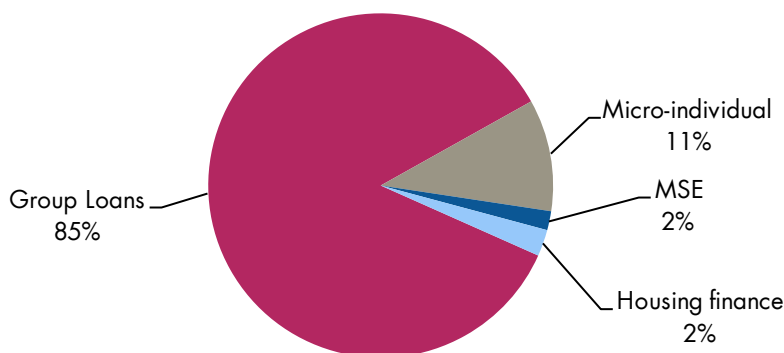
**Exhibit 2: Trend in AUIM growth...**



Management expects to grow its AUM by ~20% in FY18. The growth would be back-ended

Source: Company, Axis Capital

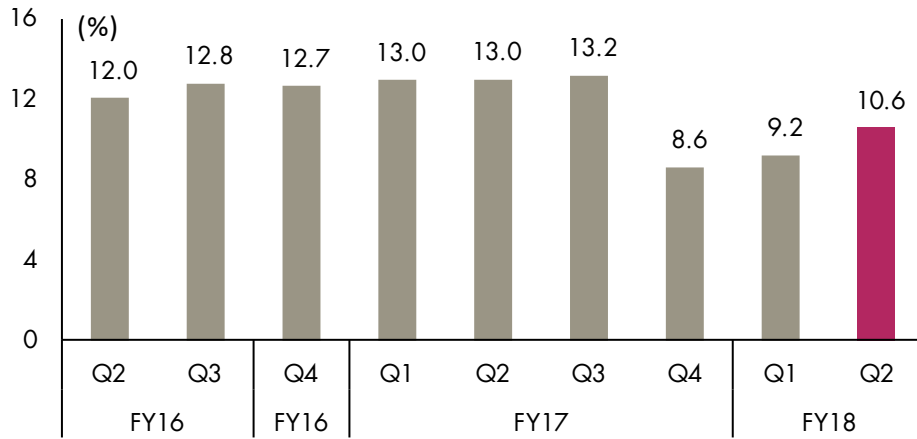
**Exhibit 3: Loan book mix as on Q2FY18**



Significant traction in MSE and housing portfolio, on a small base

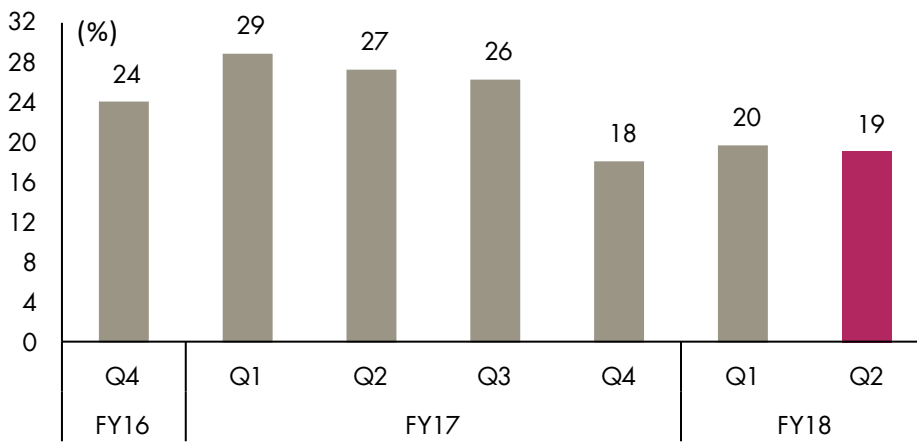
Source: Company, Axis Capital Note: Agri is part of Group loans

**Exhibit 4: Margin began to improve post demonetization quarter...**



Source: Company, Axis Capital

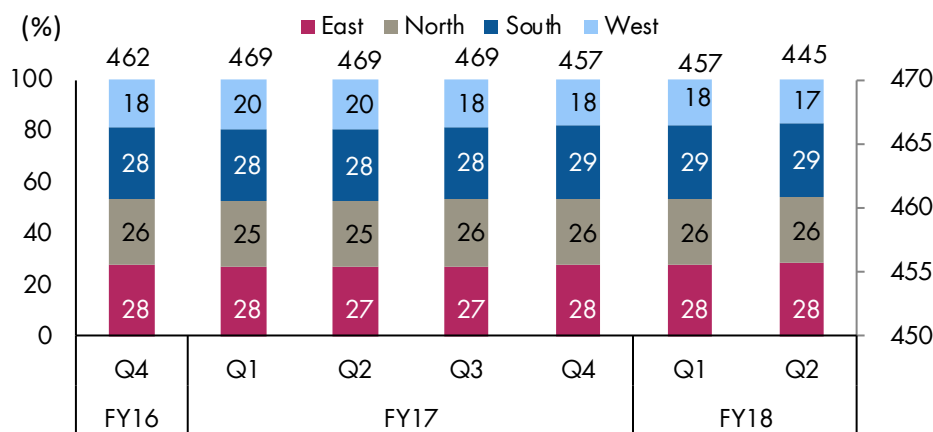
**Exhibit 5: Capital adequacy ratio trend...**



Source: Axis Capital, Company

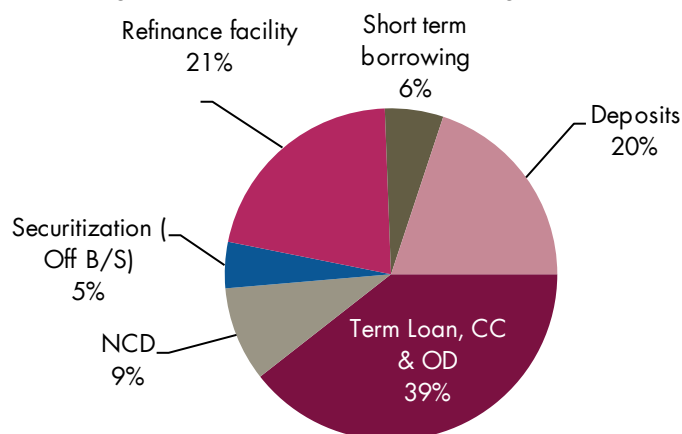
Well capitalized for future growth. Does not expect to raise capital anytime soon

**Exhibit 6: Branch expansion to continue with 445 branches (92 SFB branches)**



Source: Company, Axis Capital

Ujjivan added 40 SFB branches in Q2 (total SFB branches - 92) and has a total of 445 branches. Bank plans to roll 82 banking outlets in H2FY18 (41 in each ensuing quarter)

**Exhibit 7: Borrowing mix as on Q2FY18 (Total borrowings: Rs 67.8 bn)**


CASA ratio at 4.6% of deposits

Source: Company, Axis Capital

**Exhibit 8: Results update**

(Rs. mn)	Quarter ended				12 months ended			
	Sep-17	Sep-16	% Chg	Jun-17	% Chg	Mar-18E	Mar-17	% Chg
Interest income	3,393	3,510	(3)	3,234	5	14,958	12,258	22
Interest expended	1,530	1,274	20	1,573	(3)	6,906	5,427	27
<b>Net interest income</b>	<b>1,863</b>	<b>2,235</b>	<b>(17)</b>	<b>1,662</b>	<b>12</b>	<b>8,051</b>	<b>6,831</b>	<b>18</b>
Non-interest income	388	60	544	352	10	1,726	1,718	0
<b>Net income</b>	<b>2,251</b>	<b>2,296</b>	<b>(2)</b>	<b>2,014</b>	<b>12</b>	<b>9,778</b>	<b>8,549</b>	<b>14</b>
Operating expenses	1,549	1,100	41	1,568	(1)	6,573	4,580	43
Operating profit	702	1,196	(41)	446	57	3,205	3,969	(19)
Provision & Contingencies	882	70	1,169	1,592	(45)	2,795	751	272
<b>PBT</b>	<b>(180)</b>	<b>1,126</b>	<b>(116)</b>	<b>(1,147)</b>	-	<b>410</b>	<b>3,217</b>	<b>(87)</b>
Tax	(61)	396	(115)	(397)	-	143	1,141	(87)
<b>Net Profit</b>	<b>(120)</b>	<b>730</b>	<b>(116)</b>	<b>(749)</b>	-	<b>266</b>	<b>2,077</b>	<b>(87)</b>
<b>Yields &amp; Margins (%)</b>								
Net interest margin	10.6	13.0	(247) bps	9.2	132 bps	9.2	10.0	(79) bps
<b>Asset quality</b>								
Gross NPAs (%)	4.99	0.17	482 bps	6.16	(117) bps	4.26	0.28	398 bps
Net NPAs (%)	1.38	0.04	134 bps	2.30	(92) bps	1.32	0.03	128 bps
Provisioning coverage (%)	72.3	76.5	(413) bps	62.7	968 bps	70.0	87.6	(1,759) bps
<b>Balance sheet (Rs bn)</b>								
Gross AUM	67	65	3	65	3	74	64	16

Source: Company, Axis Capital

## Financial summary (Standalone)

### Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	9,310	12,258	14,958	17,425
Interest expended	(4,235)	(5,427)	(6,906)	(8,024)
<b>Net interest income</b>	<b>5,075</b>	<b>6,831</b>	<b>8,051</b>	<b>9,401</b>
Non interest income	966	1,718	1,726	2,016
<b>Net income</b>	<b>6,041</b>	<b>8,549</b>	<b>9,778</b>	<b>11,417</b>
<b>Operating expenses</b>	<b>(3,068)</b>	<b>(4,580)</b>	<b>(6,573)</b>	<b>(6,600)</b>
Staff expenses	(1,967)	(2,716)	(3,688)	(3,873)
Other operating expenses	(1,102)	(1,864)	(2,884)	(2,727)
<b>Operating profit</b>	<b>2,973</b>	<b>3,969</b>	<b>3,205</b>	<b>4,817</b>
Provisions & contingencies	(253)	(751)	(2,795)	(1,423)
<b>Pre-tax profit</b>	<b>2,720</b>	<b>3,217</b>	<b>410</b>	<b>3,394</b>
Tax expense	(948)	(1,141)	(143)	(1,188)
<b>Profit after tax</b>	<b>1,772</b>	<b>2,077</b>	<b>266</b>	<b>2,206</b>
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
<b>Adj. PAT</b>	<b>1,772</b>	<b>2,077</b>	<b>266</b>	<b>2,206</b>

### Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
<b>Total assets</b>	<b>57,273</b>	<b>84,786</b>	<b>98,345</b>	<b>124,384</b>
Cash & Balances with RBI	4,913	7,601	6,193	7,117
Investments	1	14,467	17,071	21,850
Advances	50,644	58,712	70,454	88,769
Fixed assets	242	1,398	2,236	3,338
Other assets	1,233	2,139	1,827	2,633
<b>Total liabilities</b>	<b>57,273</b>	<b>84,786</b>	<b>98,345</b>	<b>124,384</b>
Equity capital	1,012	1,194	1,194	1,194
Preference capital	-	-	-	-
Reserves & surplus	10,966	16,346	16,461	18,492
Networth	11,978	17,558	17,673	19,704
Borrowings	43,380	62,914	51,275	61,530
Deposits	-	1,064	23,590	36,597
Other liabilities & prov.	1,916	3,250	5,807	6,552

Source: Company, Axis Capital

### Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
<b>Per share data</b>				
FDEPS (Rs.)	18	17	2	18
BV (Rs.)	118	145	146	163
Adj. BV (Rs.)	118	145	141	157
DPS (Rs.)	1	-	1	1
Dividend payout (%)	3	-	45	7
<b>Yields &amp; Margins (%)</b>				
Yield on advances	22.5	22.4	21.5	20.3
Cost of deposit	-	-	7.0	6.9
Net interest margin	10.8	10.0	9.2	8.9
<b>Asset quality (%)</b>				
Gross NPAs	0.2	0.3	4.3	3.8
Net NPAs	-	-	1.3	1.2
Credit cost	-	-	4.2	1.6
Provisioning coverage	73.9	87.6	70.0	69.0
<b>Capital (%)</b>				
Tier-I	22.4	113.8	1.9	2.9
CAR	24.1	113.8	1.9	2.9
<b>Efficiency (%)</b>				
ROA	3.7	2.9	0.3	2.0
ROE	18.3	14.1	1.5	11.8
Cost to income	51	54	67	58
CASA	-	3	15	18
Effective tax rate	35	35	35	35
<b>Growth (%)</b>				
Net interest income	82	35	18	17
Fee income	58	61	(25)	40
Operating expenses	50	49	43	-
Profit after tax	134	17	(87)	728
Advances	57	16	20	26
Deposits	-	-	2,117	55
Total assets	44	48	16	26

Source: Company, Axis Capital

Note: Dividend for FY17 will be reflected in FY18 due to change in reporting norms

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