

RSec Research

Ujjivan Financial Services

BFSI | India

Initiating Coverage | January 16, 2018

CMP (Rs)	398
Upside/ (Downside) (%)	15
Bloomberg Ticker	UJJIVAN IN
Market Cap. (Rs Cr.)	4,789
Free Float (%)	60
Shares O/S (Cr.)	12

BUY 

Target Price: Rs457

Worst is Behind; Well-poised for Profitable Growth

Ujjivan Financial Services – the parent company of Ujjivan Small Finance Bank (Ujjivan SFB) – is one of the leading players in India’s micro financing segment. It started banking operations in Feb’17 after securing Small Finance Bank (SFB) licence from the Reserve Bank of India (RBI). Conversion into an SFB gives the Company access to low-cost funds, wider scope for asset diversification and cross selling opportunities. Further, the Bank has already made most of provisioning relating to NPA during demonetisation period and the cost relating to conversion into SFB from NBFC in 1HFY18. **On the back of healthy presence in niche segment having huge growth potential, higher margin profile, superior execution skills and strong corporate governance track record, we initiate our coverage on Ujjivan Financial Services with BUY recommendation and a Target Price of Rs457.**

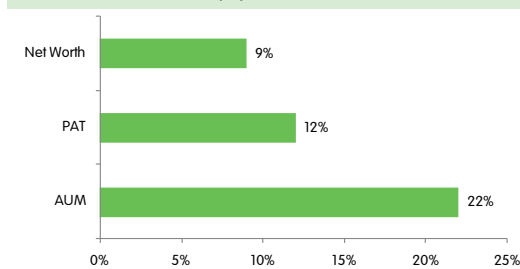
Investment Rational

- **Conversion into SFB – A Long-term Positive:** Ujjivan is structurally better placed vis-à-vis other MFIs and vehicle financing NBFCs on the back of access to low-cost funds and wider scope of cross-selling opportunities following conversion into an SFB. Its liability branches stood at 92 as of Sep’17 compared to 17 as of Mar’17. Currently, deposits account for ~20% of interest bearing liabilities compared to 1.3% in Mar’17. Further, the Management has guided that another 160 asset branches out of total 445 asset branches will be converted into SFB branches by FY18-end, which will significantly increase its liability franchise.
- **Ample Growth Opportunity:** AUM analysis suggests that Ujjivan will sustain robust growth in the foreseeable future led by large market size and low formal financing penetration. It has built a niche presence in lending to self-employed individuals, which will aid its strong growth trajectory in coming years. The Management expects AUM growth of ~20% in full FY18 mainly driven by stabilisation in MFI business and healthy growth in other segments. Overall, the Bank is planning to increase the contribution of non-MFI business to AUM to 40% by FY20E from current level of 5%.
- **Worst of Asset Quality Stress is Behind:** Ujjivan has made most of the demonetisation related provisioning on stressed asset portfolio amounting ~Rs446 crore (Par>0). Following a total provisioning of Rs277 crore towards these stressed loans, the Bank now expects substantial lower provisioning in 2HFY18.
- **Best-in-Class Corporate Governance:** Ujjivan has demonstrated strong track record on corporate governance front. We believe that strong corporate governance with enhanced transparency will continue to help Ujjivan in attracting long-term value investors.

Outlook & Valuation

Looking ahead, we believe that most of the segments in which Ujjivan SFB operates provide a lucrative opportunity to sustained strong growth owing to under penetration and growing market size. This also would help it to command relatively higher yield on loans, which would eventually lead to maintain healthy NIM. Moreover, scheduled bank status – received in Aug’17 – will help it to tap bulk deposits, which would also bring down the overall cost of fund from the current level. However, the probability of any fluctuation in return ratios in intermittent period is not ruled out due to ongoing conversion into an SFB. We believe that presence in niche segment having high growth potential, higher margin profile, superior execution skills and strong corporate governance track record augur well for Ujjivan. **Valuing the Company at 2.5x FY20 P/BV, we initiate our coverage on Ujjivan with BUY recommendation and a Target Price of Rs457.**

CAGR- FY17-FY20E (%)



Share Price (%)	1 mth	3 mth	12 mth
Absolute Performance	9.5	17.8	21.3
Relative Performance	5.9	12.6	(6.1)

Shareholding Pattern (%)	Sep’17	Dec’17
Promoters	-	-
Institutions	57.5	56.0
Bodies Corporate	14.6	14.1
Retail	27.9	29.9
Total	100.0	100.0

1 Year Stock Price Performance



Note: * CMP as on Jan. 16, 2018

Key Financials (Rs cr)	FY17	FY18E	FY19E	FY20E
Disbursements	7,132	7,988	10,385	13,500
AUM	6,379	7,327	9,033	11,492
NIM	80.7	79.1	95.5	117.5
PPP Adj.	39.7	31.7	42.5	55.5
PAT Adj.	20.8	1.5	21.6	28.8
EPS Adj. (Rs)	17.4	1.3	18.1	24.0
P/E (x)	22.9	316.9	22.0	16.5
Adj. BV (Rs)	146.9	140.6	158.7	182.7
P/Adj. BV (x)	2.7	2.8	2.5	2.2
Gross NPA (%)	0.3	3.9	3.6	3.1
Avg. ROA (%)	2.9	0.2	2.0	2.1
Avg. ROE (%)	14.1	0.9	11.5	13.5

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Company Overview

Ujjivan Financial Services (Ujjivan) is a leading player in the micro finance segment. It has successfully built a micro-lending franchise over last 10 years with a Gross Loan Book of Rs6,669 crore. The Company also operates in Micro & Small Enterprises and affordable housing segments. After receiving licence from the RBI in 2015, Ujjivan launched Small Finance Bank in Feb'17 as wholly owned subsidiary. As of Sep'17, the Ujjivan SFB had 445 branches, out of which 92 are bank branches. Further, Ujjivan SFB plans to roll out 82 banking outlets in H2FY18.

Risks to the View

- ▶ Compliance to the norms relating to CRR, SLR and higher priority sector lending requirements post conversion into an SFB may negatively impact its operating performance.
- ▶ As target profile of SFB is similar to that of the existing banks, competitive intensity of especially for liabilities may cap expected growth.

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Profit & Loss Statement

Y/E March (Rs cr)	FY17	FY18E	FY19E	FY20E
Interest Income	1,349.4	1,397.4	1,612.8	1,954.5
Interest Expenses	542.7	606.4	658.3	779.6
Net Interest Income	806.7	791.0	954.5	1,174.9
Non Core Other Income	48.3	156.8	235.2	329.3
Other Income	48.3	156.8	235.2	329.3
Net Income / Revenue	854.9	947.8	1,189.7	1,504.2
Employee Expenses	271.6	359.9	439.1	544.4
Other Opex	186.4	271.3	325.5	404.7
Operating Expenses	458.0	631.2	764.6	949.1
Pre Provision Profits	396.9	316.7	425.2	555.0
Provisions Exp	75.1	293.6	104.7	129.1
Profit Before Tax (PBT)	321.7	23.1	320.5	426.0
Tax	114.1	8.1	104.2	138.4
Reported - Net Profit	207.7	15.0	216.3	287.5

Balance Sheet

Y/E March (Rs cr)	FY17	FY18E	FY19E	FY20E
Equity - Paid Up	119	120	120	120
Reserves (ex Revel. Reserve)	1,636	1,651	1,867	2,155
Net Worth (Ex Revel)	1,755	1,771	1,987	2,274
Borrowings	6,291	5,358	5,389	5,228
Other Liabilities & Prov.	326	435	353	339
Restated Liability - Total	8,479	9,859	12,139	15,685
Restated Assets				
Cash & Cash Equivalent	760	411	478	634
Investments	0	497	951	1,725
Loans & Advances	5,871	6,979	8,604	10,946
Fixed Assets	140	196	242	292
Other Assets	1,707	1,776	1,865	2,088
Restated Assets - Total	8,479	9,859	12,139	15,685

Per share data

Y/E March	FY17	FY18E	FY19E	FY20E
Face Value (Rs)	10	10	10	10
Share O/S - Adj. (Cr)	12	12	12	12
EPS Adj. (Rs)	17.4	1.3	18.1	24.0
PE Adjusted (X)	22.9	316.9	22.0	16.5
Book Value (Rs)	147.0	147.9	166.0	190.0
Price-BV (x)	2.7	2.7	2.4	2.1
Adjusted BV (Rs)	146.9	140.6	158.7	182.7
Price-ABV (x)	2.7	2.8	2.5	2.2

Detail RoA Tree Analysis

Y/E March (%)	FY17	FY18E	FY19E	FY20E
Average Cost of Funds (CoF)	10.1	8.6	7.5	6.8
Interest Spread	12.0	10.6	10.5	9.9
Net Interest Margin (NIM)	13.2	10.9	10.7	10.1
Interest Income / Avg Assets	19.0	15.2	14.7	14.0
Interest Expense / Avg Assets	7.6	6.6	6.0	5.6
NII / Avg Assets	11.4	8.6	8.7	8.4
NII to Net Operative Income	94.4	83.5	80.2	78.1
Other Income / Avg Assets	0.7	1.7	2.1	2.4
Other Income to Net Oper Inc.	5.6	16.5	19.8	21.9
Net Operating Income / Avg. Assets	12.0	10.3	10.8	10.8
Employee Expense / Avg. Assets	3.8	3.9	4.0	3.9
Other Opex/ Avg. Assets	2.6	3.0	3.0	2.9
Operating Exp / Avg. Assets	6.4	6.9	7.0	6.8
Credit Cost (As % of Opening AUM)	1.48	5.00	1.50	1.50
NPA Provisions as % Oper. Inc.	8.8	31.0	8.8	8.6
Provisions / Avg. Assets	1.1	3.2	1.0	0.9
Profit Before Tax / Avg. Assets	4.5	0.3	2.9	3.1
Effective Tax Rate	35.5	35.0	32.5	32.5
Tax Expenses / Avg. Assets	1.6	0.1	0.9	1.0
PAT / Avg. Assets (RoA)	2.9	0.2	2.0	2.1
Leverage (x)	4.8	5.6	6.1	6.9
PAT / Avg. Net Worth (RoE)	14.1	0.9	11.5	13.5

Credit Quality

Y/E March	FY17	FY18E	FY19E	FY20E
Absolute Gross NPA	16.4	274.0	307.1	340.0
Gross NPA (%)	0.3	3.9	3.6	3.1
Provision Coverage Ratio (%)	89.0	82.7	83.2	83.6
Absolute Net NPA	1.8	47.5	51.6	55.9
Net NPA (%)	0.0	0.7	0.6	0.5

Capital and Asset-Liability Profile

Y/E March (%)	FY17	FY18E	FY19E	FY20E
CET 1 Ratio (%)	16.8	15.4	14.1	12.6
Tier 1 Ratio (%)	16.8	15.4	14.1	12.6
Tier 2 Ratio (%)	1.4	1.3	1.0	0.8

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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