

Focus shifts at scaling retail liability franchise

We lower our rating on Ujjivan to HOLD with TP at Rs430. Since our last note (Q3'18) the stock is up 34% on expectations of improved loan growth, receding asset quality and slow yet steady progression towards the SFB transition. Q4'18 results saw each of these aspects play out well. Growth guidance has been revised upwards; asset quality improving and we have factored the same into our estimates. Traction on retail liability franchise and higher growth in non-MFI portfolio remain key focus area. While we continue to like Ujjivan model, valuations at 2.2x FY20E ABV limit near term upside.

- **Q4'18 – Strong quarter:** Ujjivan Q4'18 revenue / earnings were ahead of our estimates and follows a) healthy NIM trajectory (11.6% vs. 8.6% YoY) b) strong other income and c) further reduction in PAR 0 / PAR 90 portfolio. AuM / disbursements grew 18.5% / 60.8% YoY (along the expected lines). Collection efficiency (CE) for business after Jan, 2017 stood at 99.6%; and coupled with w/off to the tune of Rs450mn saw further improvement in asset quality. Q4'18 GNPA stood at Rs2.7bn (3.6% of loans) and has reduced from 4.2% QoQ. Provisions for the quarter came in at Rs347mn; PCR improved to 81.5% (vs. 76.3% QoQ). Net profit, after NPA provisions and taxes came in at Rs649mn (vs. our estimates of Rs513mn).
- **Margins to remain under pressures; greater focus at shoring retail liabilities:** In our last note, we had argued for margin pressures to prevail. Q4'18 results saw NIM decline 20bps QoQ. Ujjivan has ~30% of its borrowings due for re-pricing in FY19. On the deposit front, 89% is in form of institutional deposits and with shorter tenure. Re-pricing of these funds will see cost of borrowing remain elevated and we have factored the same into our estimates. As at FY18, deposit portfolio stood at ~Rs38bn with retail / CASA deposits comprising 11.3% of deposits (6.1% in FY17). Management has guided for focus at garnering retail liabilities. This in our view can enable Ujjivan mitigate cost pressures. We will watch for traction therein.
- **Guides for strong AuM growth; credit cost moderation :** Q4'18 AuM grew 18.5% yoy and was led by 16.6% YoY growth in MFI portfolio and 28.2% YoY growth in non-MFI portfolio. The share of non-MFI portfolio, thus has inched to 16.4% (vs. 15.1% in Q4FY17). Management has guided for robust 30-35% / 18-20% YoY growth in overall AuM / MFI portfolio. We are building in 22% CAGR in AuM over FY19-20E. Traction on shoring non-MFI portfolio with superior risk-adjusted RoE's remain key area. FY18 provisions stood at Rs3.1bn and included ~Rs1.8bn towards NPA's w/off. Management has guided for credit cost at 0.3-0.5% for FY19E. We believe the same could remain elevated as a) PAR 0 portfolio still remains at 4% b) NPA in non-MFI portfolio are near 1% region and c) hard-bucketing portfolio.
- **Valuation, view and key risks:** We have tweaked our FY19E/FY20E estimates to factor in accelerated loan growth and on credit cost front. In our Q3'18 result note we had upgraded the stock to BUY on the premise of improved growth, stabilising asset quality and traction on SFB front. Each of the above parameters are gaining further ground. We expect RoA /RoE for Ujjivan to inch towards 2.3% / ~15% by end-FY20E. Valuations at 2.2x FY20E ABV however limit near term upside. Downgrade to HOLD with TP at Rs430 (valued at 2.3x FY20E). Key risks: Higher than expected compression in margins or lower growth.

Y/E Mar (Rs mn)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Q4FY18E	% Var
Net Interest Income	2,693	1,528	76.2	2,167	24.3	2,324	15.9
Operating Profit	1,750	1,365	28.2	1,674	4.5	1,600	9.4
Provisions	1,326	418	217.3	754	75.9	1,024	29.5
Reported PAT	347	72	384.0	287	NA	235	47.7
GNPA	649	194	NA	293	NA	513	26.6
Gross Loan Portfolio	75,600	63,795	18.5	70,953	6.5	75,453	0.2

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 (%)
FY16	6,041	2,973	1,772	133.8	17.5	-	113.4	-	3.7	18.3
FY17	8,549	3,969	2,077	17.2	17.3	22.5	146.3	2.7	2.9	14.1
FY18P	9,768	3,226	73	(96.5)	0.6	581.9	141.3	2.5	0.1	0.4
FY19E	12,546	4,869	2,334	-	19.3	20.3	159.5	2.5	2.1	12.5
FY20E	14,912	6,309	3,239	38.7	26.7	15.1	186.0	2.2	2.3	15.2

Source: Company, Centrum Research Estimates #denotes net interest income + other income. FY16-19E 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	Rs430	Key Data	
CMP*	Rs408	Bloomberg Code	UJJIVAN IN
Upside	5.4%	Curr Shares O/S (mna)	120.9
Previous Target	Rs410	Diluted Shares O/S(mn)	120.9
Previous Rating	BUY	Mkt Cap (Rs bn/USDmn)	49.3/732.5
Price Performance (%)*		52 Wk H / L (Rs)	427.8/285
	1M 6M 1Yr	5 Year H / L (Rs)	547.5/216.7
UJJIVAN IN	7.0 6.7 14.5	Daily Vol. (3M NSE Avg.)	1227991
Nifty	3.7 4.7 14.7		

* as on 11 May 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-18	Dec-17	Sept-17	Jun-17
Promoter	0.0	0.0	0.0	0.0
FIs	39.1	41.9	44.6	46.2
Dom. Inst.	31.1	27.7	26.8	25.1
Public & Others	29.9	30.4	28.6	28.7

Source: BSE, * as on 11 May 2018

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY19E			FY20E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
NII + Oth. Inc	12,546	12,130	3.4	14,912	14,934	(0.1)
PPoP	4,869	4,204	15.8	6,309	5,360	17.7
Report. PAT	2,334	2,174	7.4	3,239	2,815	15.1

Earning revision

Particulars (Rs mn)	FY19E			FY20E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
NII + Oth. Inc	12,546	11,347	10.6	14,912	13,807	8.0
PPoP	4,869	4,001	21.7	6,309	5,544	13.8
Report. PAT	2,334	1,912	22.1	3,239	2,869	12.9

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
11	4	0	386	430	11.3

*as on 11 May 2018; Source: Bloomberg, Centrum Research Estimates

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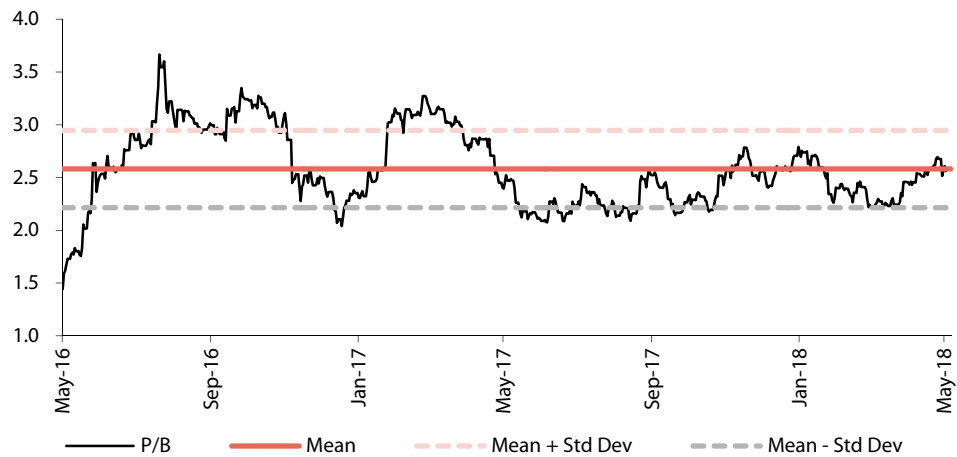
Sensitivity analysis and peer comparison

Exhibit 1: Sensitivity Analysis – impact of change in AuM and NIM on FY19 PBT

%	AuM					
	+ 10bps	+ 20bps	' Current level	- 10bps	- 20bps	
NIM	- 10bps	(2.7)	(3.6)	(1.8)	(0.9)	0.0
	- 5bps	(4.5)	(5.4)	(3.6)	(2.7)	(1.8)
	Current levels	(0.9)	(1.8)	-	0.9	1.8
	+ 5bps	0.9	(0.0)	1.8	2.7	3.6
	+ 10bps	2.7	1.8	3.6	4.5	4.5

Source: Centrum Research Estimates

Exhibit 2: Rolling forward PB chart



Source: Company, Centrum Research Estimates

Exhibit 3: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR % (FY18-FY20E)			PE (x)			RoA (%)			RoE (%)			P/BVPS (x)		
		NII + Oth inc	PPOP	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Ujjivan*	49,323	23.6	39.8	566.1	581.9	20.3	15.1	0.1	2.1	2.3	0.4	12.5	15.2	2.4	2.4	2.1
Satin Creditcare*	20,071	23.8	28.0		(77.9)	18.6	13.8	(0.4)	1.7	1.9	(2.7)	10.4	12.9	1.7	1.8	1.6
Equitas	56,478	26.6	70.1	211.6	169.9	30.7	19.5	0.3	1.2	1.6	1.3	7.3	11.1	2.3	2.2	2.1
BHAFIN	1,62,343	34.3	54.3	47.4	27.4	21.6	16.8	3.6	4.1	4.3	15.9	20.8	21.7	4.1	4.2	3.4

Source: Bloomberg consensus, *Centrum Research Estimates. FY18-19EYTD has been valued on average market cap basis.

Exhibit 4: Quarterly financials

(Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Income statement								
Net interest income	2,013	2,235	2,290	1,528	1,662	1,863	2,167	2,693
Other income	76	60	91	255	352	388	261	383
Total income	2,089	2,296	2,381	1,783	2,014	2,251	2,428	3,076
Operating expenses	946	1,100	1,170	1,365	1,568	1,549	1,674	1,750
Pre-provision profit	1,144	1,196	1,211	418	446	702	754	1,326
Provisions	62	70	547	72	1,592	882	287	347
Profit before tax	1,081	1,126	664	346	(1,147)	(180)	467	979
Tax	367	396	225	153	(397)	(61)	173	330
Profit after tax	714	730	439	194	(749)	(120)	293	649
Balance sheet items								
Networth	16,193	16,868	17,329	17,553	16,825	16,600	16,936	17,614
Share capital	1,182	1,185	1,188	1,194	1,196	1,197	1,206	1,209
Reserves & surplus	15,011	15,683	16,140	16,359	15,629	15,403	15,730	16,405
Borrowings	41,809	46,887	51,507	62,914	60,389	51,197	44,354	38,528
Deposits	0	0	0	1,064	3,038	12,475	23,354	37,968
Provisions	1,076	1,141	1,685	1,474	2,969	2,988	2,925	2,858
Other liabilities	1,435	1,635	1,714	1,781	1,923	1,541	1,615	1,170
Total liabilities	60,514	66,532	72,235	84,786	85,143	84,802	89,184	98,138
Cash	2,927	3,775	8,302	7,601	5,582	3,491	4,330	5,937
Advances	55,575	60,002	61,021	58,712	61,107	63,644	69,267	75,597
Fixed & intangible assets	252	856	1,073	1,398	1,563	1,719	1,840	1,984
Other assets	1,759	1,898	1,838	17,075	16,890	15,947	13,747	14,620
Total assets	60,514	66,532	72,235	84,786	85,143	84,802	89,184	98,139
Ratios (%)								
Cost-income	45.3	47.9	49.1	76.6	77.9	68.8	69.0	56.9
GNPA	0.18	0.17	0.25	0.28	6.16	4.99	4.24	3.60
NNPA	0.04	0.04	0.05	0.03	2.30	1.38	1.04	0.70

Source: Company, Centrum Research

Financials

Exhibit 5: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Interest Income	10,072	13,644	14,434	17,819	22,372
Interest Expense	4,235	5,427	6,049	6,709	9,827
Net Interest Income	5,837	8,217	8,385	11,110	12,545
Non-Interest Income	204	332	1,383	1,436	2,367
Total Net Income	6,041	8,549	9,768	12,546	14,912
Total Operating Expenses	3,068	4,580	6,542	7,677	8,603
Employee expenses	1,967	2,716	3,666	4,424	5,133
Other Operating Expenses	1,102	1,864	2,876	3,253	3,470
Pre-provision Profit	2,973	3,969	3,226	4,869	6,309
Provisions & Contingencies	253	751	3,108	1,332	1,402
Profit Before Tax	2,720	3,217	118	3,537	4,907
Taxes	948	1,141	45	1,203	1,668
Profit after tax	1,772	2,077	73	2,334	3,239

Source: Company, Centrum Research Estimates

Exhibit 6: Balance sheet

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Other assets	4,913	7,601	5,937	8,868	10,953
Loans & Advances	50,644	58,712	75,520	88,784	1,12,167
Investments	1	14,467	12,325	20,422	26,770
Total Int Earning Assets	55,558	80,779	93,782	1,18,074	1,49,889
Fixed Assets	242	1,398	1,984	2,149	2,986
Other non-current assets	1,474	2,609	2,214	3,255	4,113
Total Assets	57,273	84,786	97,979	1,23,478	1,56,988
Interest Bearing Liabilities	43,380	63,978	76,186	1,01,396	1,31,382
Other non int bearing Liab	1,916	3,250	4,177	2,292	2,721
Total Liabilities	45,296	67,228	80,364	1,03,689	1,34,103
Equity	11,978	17,558	17,616	19,789	22,885
Total Liabilities	57,273	84,786	97,979	1,23,478	1,56,988

Source: Company, Centrum Research Estimates

Exhibit 7: DuPont analysis

(% of avg assets)	FY16	FY17	FY18P	FY19E	FY20E
Yield on assets	20.8	19.2	15.8	16.1	16.0
Cost of funds	9.0	7.9	6.9	4.6	5.4
Spreads	9.4	9.0	3.8	7.7	6.0
NIM	11.9	12.3	10.4	10.6	9.1
Other income	0.4	0.5	1.5	1.3	1.7
Total income	12.5	12.0	10.7	11.3	10.6
Operating expenses	6.3	6.4	7.2	6.9	6.1
Provisions	0.5	1.1	1.1	1.2	1.0
PBT	5.6	4.5	0.1	3.2	3.5
Tax	2.0	1.6	0.0	1.1	1.2
RoA	3.7	2.9	0.1	2.1	2.3
Leverage	5.0	4.8	5.2	5.9	6.6
RoE	18.3	14.1	0.4	12.5	15.2

Source: Company, Centrum Research Estimates

Exhibit 8: Financial ratios

Y/E March	FY16	FY17	FY18P	FY19E	FY20E
Growth Ratios (%)					
Loans	57.3	15.9	21.8	24.1	26.3
AuM	64.6	18.4	18.5	22.9	25.4
Assets	44.0	48.0	15.7	25.8	27.1
Borrowings	39.0	45.0	(38.9)	22.5	29.6
NII	78.0	40.8	2.0	32.5	12.9
Provisions	119.3	33.5	(18.7)	50.9	29.6
PAT	133.8	17.2	(96.5)	-	38.7
Operating Ratios (%)					
Yield on advances	22.5	22.4	20.7	20.9	20.9
Cost of borrowings	11.4	10.2	11.9	8.4	10.0
NIM (on AuM)	13.5	14.0	12.0	13.2	12.0
Fee to disbursement	0.3	0.4	1.7	1.6	2.3
Cost/Income	50.8	53.6	67.0	61.2	57.7
Opex/ Avg AuM	6.3	6.4	7.2	6.9	6.1
Effective tax rate	34.8	35.5	38.1	34.0	34.0
RoA	3.7	2.9	0.1	2.1	2.3
RoE	18.3	14.1	0.4	12.5	15.2
RoTA (inld.off-balance sheet)	3.5	2.8	0.1	2.0	2.2
Credit Quality Ratios (%)					
Gross NPA	0.15	0.28	3.65	2.97	2.37
Net NPA	0.04	0.03	0.66	0.50	0.31
Credit cost (% of AuM)	0.6	1.3	4.5	1.6	1.3
NPA coverage ratio	73.8	89.3	81.9	83.0	86.7
Per Share (Rs)					
BVPS	113.6	146.4	145.5	163.4	189.0
Adjusted BVPS	113.4	146.3	141.3	159.5	186.0
EPS - basic	17.5	17.3	0.6	19.3	26.7
Valuations Ratios					
Price/BV (x)	0.0	2.7	2.4	2.4	2.1
Price/Adj. BV (x)	0.0	2.7	2.5	2.5	2.2
P/E (x)	0.0	22.5	581.9	20.3	15.1

Source: Company, Centrum Research Estimates. FY17-18E have been valued on average market cap basis.

Appendix A

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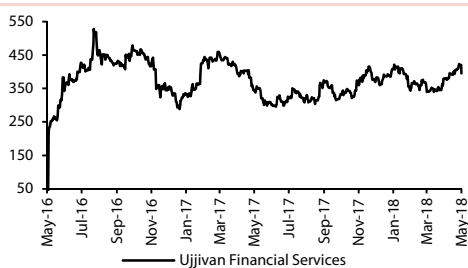
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Ujjivan Financial Services price chart



Source: Bloomberg, Centrum Research

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Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
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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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