

Ujivan Small Finance Bank

BUY

CMP Rs32

Target Rs40

Upside 24.2%

A large PPOP/earnings beat in Q2; improved cost metric alleviating credit cost impact on RoA - Rate BUY with 12m PT of Rs40

Ujivan Small Finance Bank (USFB) delivered a large beat on earnings in Q2 FY21 led by a stronger NII performance, higher non-interest income, controlled opex growth and lower-than-estimated provisioning. Sequential decline in gross advances at 3.4% (yoy growth decelerated sharply to 8%) was caused by 6% contraction of Micro Banking portfolio (share declined to 76%) where the bank has been cautious on disbursements and has tightened credit policy. Qoq growth in affordable housing and MSE lending portfolios was strong at 5.5-6%. Deposit base also declined by 3% qoq with steep reduction in institutional deposits (CD + Wholesale TDs) with the bank substituting them with Retail TD and CASA (their combined contribution rising to 49%). This mix change along with the reduction in FD rates reflected positively in deposit cost and NII growth.

USFB augmented its Covid provisioning buffer by Rs1bn in Q2 FY21 (cumulative at 2.2% of loan book) even as it witnessed a significant improvement in collection efficiency in Micro Banking and other portfolios during recent months. October collection efficiency in Micro Banking portfolio was at 88% without arrears, pre-closures and advance payments and 91% of borrowers have started repaying. Collection efficiency is relatively lower in the states of WB, MH, Assam and Punjab. Though confident about collections improving further in ensuing months, Management refrained from guiding on credit cost while being open for more provisions if required. On sustainability of the cost/income ratio delivered in H1 FY21, the bank believes that a significant portion of the reduction (v/s pre-Covid) is structural.

We factor conservative 5.5% loan loss in Micro Banking and 3% loan loss in other portfolios (bulk credit cost in FY21) to capture sustained uncertainty around Covid. In spite of this, we estimate USFB to deliver reasonable RoA in current fiscal and a sharp improvement next year. Structural improvement in cost/income ratio will alleviate credit cost impact on RoA. USFB is trading at 1.6x FY22 P/BV. Rate BUY with 12m PT of Rs40.

Conference Call Takeaways

Collection Trends

- ✓ Micro Banking collection efficiency improved to 88% in October w/o arrears, pre-closures and any advance - 86% of the collections represented full payment and remaining 2% part-payments - overall, 91% of customers have started paying.

Exhibit 1: Financial Summary

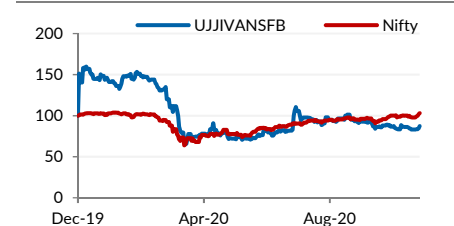
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	13,124	19,558	21,091	24,981
PPOP	3,090	6,372	8,234	9,554
Net profit	1,992	3,499	2,713	4,933
yoy growth (%)	-	75.6	(22.5)	81.8
EPS (Rs)	1.4	1.8	1.4	2.5
Adj.BVPS (Rs)	11.2	16.4	17.7	20.3
P/E (x)	23.1	17.8	23.0	12.6
P/adj.BV (x)	2.8	2.0	1.8	1.6
ROE (%)	11.3	14.6	8.2	13.3
ROA (%)	1.7	2.2	1.4	2.2
CAR (%)	18.0	29.6	30.9	28.2

Source: Company, YES Sec - Research

Stock data (as on November 06, 2020)

Nifty	12,264
52 Week h/l (Rs)	63 / 23
Market cap (Rs/USD mn)	55735 / 751
Outstanding Shares (mn)	1,728
6m Avg t/o (Rs mn):	55
Div yield (%):	-
Bloomberg code:	UJJIVANS IN
NSE code:	UJJIVANSFB

Stock performance



	1M	3M	1Y
Absolute return	-2.0%	-4.0%	-

Shareholding pattern

Promoter	83.3%
FII+DII	9.3%
Others	7.4%

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States with low Micro Banking collections in October were...

- ✓ WB at 78% - Reasons protests for loan waiver, lockdowns and transportation (Metro) unavailability.
- ✓ Assam at 74% - Reasons rains & floods, impact of past protests and rumors of loan waiver.
- ✓ Maharashtra at 79% - Reasons severe Covid situation and localized political intervention.
- ✓ Punjab at 83% - Reasons loan waiver and farm bill protest by political parties.
- ✓ Collection efficiency improves to 91% for October excluding the above-mentioned states.
- ✓ Mangalore belt in Karnataka has some issues, but USFB does not have a presence there.
- ✓ October collection efficiency in other lending segments – Housing 93%, MSE 86%, FIG 100%, Personal Loans 88% and Vehicle Loans 91%.

Liability granularization

- ✓ Focus on building granular and stable deposit base by substituting wholesale deposits with retail deposits.
- ✓ Strong new deposit customer acquisition - 0.5mn new deposit accounts opened during H1 FY21, of which 0.3mn were new-to-bank sourced by the branches. Liability only customers at 1.4mn v/s 1.18mn on June 30.
- ✓ Retail deposits contribution improved to 49% of total deposits as of September 30 v/s 45% as of June 30.
- ✓ Cost of Deposits moved lower to 7.4% in Q2 FY21 vs 7.9% in Q4 FY20, led by significant growth in CASA and reduction in FD rates.

Other Takeaways

- ✓ Disbursements in Micro Banking majorly in form of repeat loans to existing customers.
- ✓ The bank has tightened credit policies to avoid any undue risk, reflecting in 99.5%+ collection for loans disbursed in H1 FY21.
- ✓ USFB has also signed the Code for Responsible Lending (CRL).
- ✓ Added Covid-19 provisions of Rs1bn in Q2 FY21 taking total to Rs3bn (2.2% of gross advances).
- ✓ Call on incremental provisions will be taken on quarterly basis.
- ✓ Lot of cost reduction to stay, leading to better than earlier guided Cost/Income outcomes.
- ✓ Focus to remain on retaining profitability by competitively pricing the deposits.

Exhibit 2: Result Table

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Total Operating Income	7,536	7,463	1.0	6,543	15.2
Interest expended	(2,835)	(2,883)	(1.7)	(2,664)	6.4
Net Interest Income	4,701	4,580	2.6	3,880	21.2
Other income	644	287	124.4	750	(14.2)
Total Income	5,345	4,867	9.8	4,630	15.5
Operating expenses	(3,024)	(2,720)	11.2	(3,216)	(6.0)
PPOP	2,322	2,147	8.1	1,414	64.2
Provisions	(1,005)	(1,403)	(28.4)	(248)	305.5
PBT	1,317	744	77.1	1,166	12.9
Tax	(357)	(197)	81.0	(240)	48.7
PAT	960	547	75.7	926	3.6

Source: Company, YES Sec - Research

Exhibit 3: Business Data

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Gross loan book	138,810	143,650	(3.4)	128,630	7.9
Micro - Group	88,890	94,870	(6.3)	90,120	(1.4)
Micro - Individual	14,480	14,810	(2.2)	10,860	33.3
Agri. & Allied	1,820	1,820	-	920	97.8
MSE	10,590	10,010	5.8	8,350	26.8
Affordable Housing	16,340	15,490	5.5	12,120	34.8
Others	6,690	6,650	0.6	6,260	6.9
Disbursements	14,580	4,740	207.6	36,060	(60)
Micro - Group	9,410	3,230	191.3	25,230	(62.7)
Micro - Individual	1,610	560	187.5	3,130	(48.6)
Agri. & Allied	200	100	100.0	420	(52.4)
MSE	920	170	441.2	2,030	(54.7)
Affordable Housing	1,160	120	866.7	2,320	(50.0)
Others	1,280	560	128.6	2,930	-
Deposits	107,430	110,570	(2.8)	101,300	6
CASA	17,690	15,680	12.8	12,020	47
Retail TD	38,630	36,940	4.6	30,830	25
Institutional TD	48,740	55,380	(12.0)	50,820	(4)
CD	2,370	2,570	(7.8)	7,620	(69)

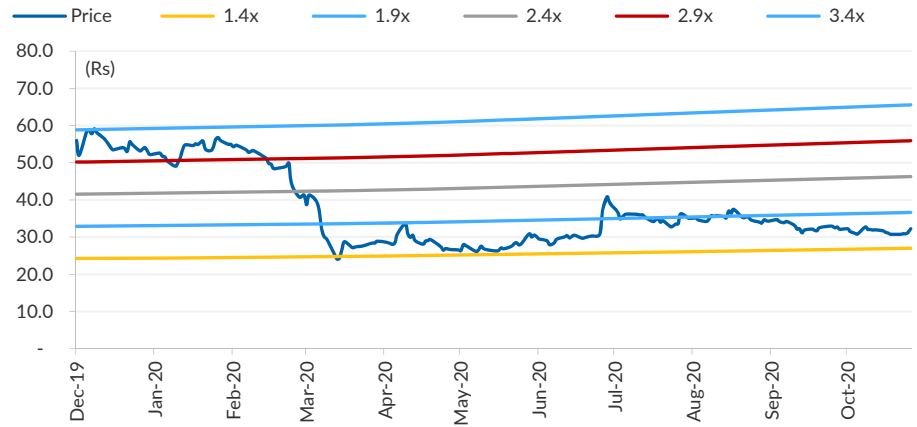
Source: Company, YES Sec - Research

Exhibit 4: Key Ratios

(%)	Q2 FY21	Q1 FY21	chg qoq	Q2 FY20	chg yoy
NIM	10.2	10.2	-	10.8	(0.6)
Avg. Cost of Funds*	7.4	7.7	(0.3)	8.4	(1.0)
CASA + Retail TD	52	47	5.0	42	10.1
Cost to Income	56.6	55.9	0.7	69.5	(12.9)
Gross NPA	1.0	1.0	0.0	0.9	0.1
PCR	86.0	82.0	4.0	61.0	25.0
Net NPA	0.1	0.2	(0.0)	0.3	(0.2)
RoA	2.0	1.2	0.8	2.4	(0.4)
RoE	11.6	6.8	4.8	18.9	(7.3)
Tier-1 CAR	30.1	28.0	2.1	18.1	12.0

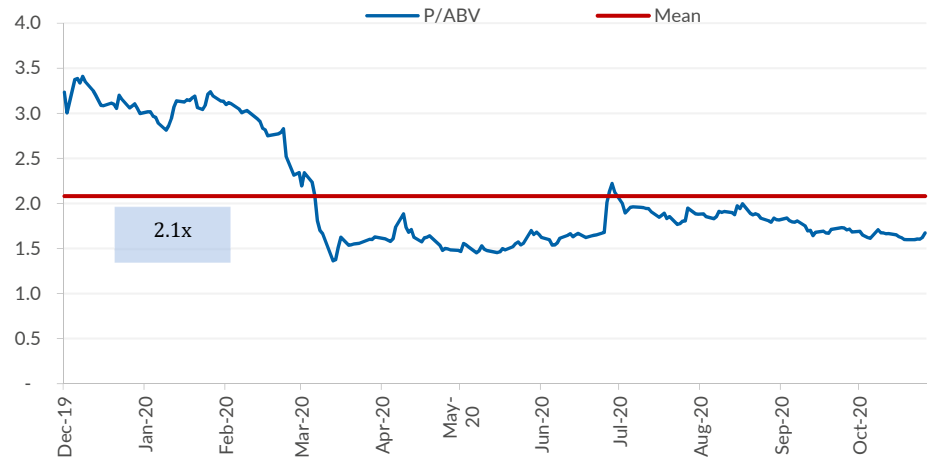
Source: Company, YES Sec - Research; *Cost of funds (Borrowings + Deposits)

Exhibit 5: 1-year rolling P/ABV band



Source: Company, YES Sec - Research

Exhibit 6: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec - Research

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