

February 03, 2023

RESULT REPORT Q3 FY23 | Sector: Financials

Ujjivan Small Finance Bank

Strong performance continues

Ujjivan SFB delivered a 7%/30% beat on our PPOP/PAT expectations driven by a) higher NII, b) measured increase in opex (normalization of collection-related costs), c) higher other income (strong core fee growth + sustained elevated bad debts recovery) and d) NIL credit cost (continued robust collections and NPL recoveries). Management expects a similar operating (earnings) performance in Q4 FY23, and 25% loan growth and 1% credit cost in FY24. With collections-related costs normalizing, the bank hopes to limit the likely increase in cost/income ratio next year owing to lower bad debts recovery and some pressure on NIM. As the granular deposits inflow remains strong, Ujjivan SFB doesn't see any imminent need to raise deposits pricing.

We raise our earnings estimates by 35%/20% for FY23/24 on much stronger-than-expected operational delivery in Q3 FY23 and encouraging medium-term commentary on asset quality, growth, loans/deposits pricing flexibility and cost metric. While FY23 will be an exceptionally profitable year due to lower-than-usual credit cost and higher-than-usual bad debts recovery, we estimate the bank to deliver 18-20% RoE even under normalized circumstances. Expect stock to re-rate further; we maintain BUY with revised 12m PT of Rs45. Valuation is quite attractive at 5.7x P/E and 1.1x P/ABV on FY24 estimates.

Robust asset quality trends continue

With sustained strong collections across buckets, the fwd. flows and fresh slippages remained benign. Net slippages were at just Rs140mn during the quarter. PAR (1+ dpd)/GNPA levels further declined to 4.9%/3.4% from 6.1%/4.4% as of Sept, with the 1-90 dpd bucket shrinking from 1.7% to 1.5% (8% qoq absolute decline). Even adjusted for the meaningful write-offs of Rs1.79bn (Rs1.57bn in Q2), the PAR (1+ dpd) pool has declined by 2% qoq in abs. terms. There was a substantial reduction in restructured book (now constitutes 1.4% of loan book), wherein collection efficiency was 98% in December. Bank holds a provision cover of 64% on the restructured loans. Credit cost was near zero in the quarter due to favourable bucket movements and that loans written-off were already significantly provided for.

Secured products contribution to rise; pricing headroom across products

Encouraged by another strong performance in Q2 FY23 and extant growth and collections/recoveries trends. Micro Banking (Group & Individual Loans) loan growth was strong in Q3 FY23 (up 6.6% qoq/43% yoy) underpinned by sustained significant customer additions and some increase in ATS (after having declined in preceding two quarters). Micro Banking disbursements were highest-ever in December. Decline in MSE financing book was attributable to shift in focus on shorter tenor products and more formal customer segments. Strong traction in affordable housing continued with incremental focus on semi-formal customer segment in Tier 2 and Tier 3 towns. NBFC funding portfolio is being scaled-up as there are Nil delinquencies. The bank would be significantly scaling-up vehicle finance in FY24 and would launch gold loans in targeted 50 locations. Management aspires for 50% loan book contribution of the secured products in 5-6 years. Ujjivan SFB has taken limited lending rate hikes across products when compared to competition - 50 bps in Micro Banking and 90-100 bps in Affordable Housing. While comfortable with extant pricing currently, the bank would review the rates when required.

Exhibit 1: Result table

(Rs mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
Net Interest Income	6,970	6,632	5.1	4,539	53.6
Total Income	8,359	8,099	3.2	5,447	53.5
Operating expenses	(4,470)	(4,249)	5.2	(4,034)	10.8
PPOP	3,889	3,850	1.0	1,413	175.2
Provisions	2	99	(97.8)	(1,870)	(100.1)
Tax	(960)	(1,006)	(4.7)	118	(912.4)
PAT	2,932	2,943	(0.4)	(338)	(966.7)

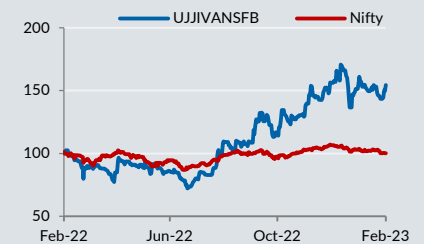
Source: Company, YES Sec

Reco : BUY
CMP : Rs 30
Target Price : Rs 45
Potential Return : 51.7%

Stock data (as on Feb 02, 2023)

Nifty	17,610
52 Week h/l (Rs)	34 / 14
Market cap (Rs/USD mn)	55997 / 682
Outstanding Shares (mn)	1,955
6m Avg t/o (Rs mn):	181
Div yield (%):	-
Bloomberg code:	UJJIVANS IN
NSE code:	UJJIVANSFB

Stock performance



	1M	3M	1Y
Absolute return	-1.0%	19.1%	54.6%

Shareholding pattern

Promoter	73.7%
FII+DII	10.5%
Others	15.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	45	40

Δ in earnings estimates

	FY23e	FY24e	FY25e
EPS (New)	5.4	5.2	6.1
EPS (Old)	4.0	4.3	6.1
% Change	34.9%	20.1%	-

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Op. income	32,292	39,398	48,316
PPOP	14,635	17,327	20,726
Net profit	10,663	10,200	12,055
Growth (%)	(357.2)	(4.3)	18.2
EPS (Rs)	5.4	5.2	6.1
ABVPS (Rs)	20.9	26.0	32.1
P/E (x)	5.5	5.7	4.9
P/ABV (x)	1.4	1.1	0.9
ROE (%)	31.8	22.0	21.0
ROA (%)	3.8	2.8	2.7

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KEY CON-CALL HIGHLIGHTS

Disbursements & Loan Growth

- Disbursements in Dec'22 in the Micro Banking segment were highest-ever after fully adjusting to the new lending guidelines in the initial part of the quarter.
- Individual Loans are typically offered after the completion of one Group Loan cycle, but customers tend to opt for it after completing 2-3 cycles - 90-95% of IL customer acquisition is existing customer migration from GL.
- Separate Underwriting, Credit and Collections teams and processes for Individual Loans – the Credit team is different from the Business team.
- Individual Loans ticket size range is from Rs51000 to Rs300000 depending on vintage of the customer (no of cycles competed under GL and IL) – loan tenor is up to 36 months with avg. being 26 months.
- Not onboarding any written-off customers with any lender in Micro Banking.
- 40% of new customers acquired in Group Loans are new-to-MFI.
- Active Micro Banking customers have grown 25% on YTD basis.
- Decline in MSE financing book is due to strategic adjustments being done – new focus would be on shorter tenor products semi-formal and formal customer segments – emphasis would also be on growth via fintech partnerships.
- Incremental focus in affordable housing is on semi-formal customer segment in Tier 2 and Tier 3 towns – this business has turned profitable.
- Amongst other secured products, the bank would be scaling-up vehicle finance significantly in the coming year and would launch gold loans in targeted 50 locations - significant portion of Micro Banking customers have availed gold loans currently or in the past.
- NBFC financing portfolio is having Nil delinquencies.
- Secured businesses/products to grow faster than Micro Banking from next year – their contribution in loan book to reach near 50% in 5-6 years.

Liability growth & franchise

- Not taken any TD rate hike after November (when the rates were increased competitively) – strong retail TD inflow has continued despite many other banks having hiked rates in Dec and Jan.
- What has worked for the bank besides rates for granular deposits mobilization has been better customer service, introduction of new products, local marketing activities and increasing productivity of branch staff.
- Added 8 branches in Q3 and entered a new state Telangana - looking to add 50-70 branches in FY24.
- Focus is on building a granular deposits franchise – the bank would like to maintain C/D ratio at around 80%.
- Some slowdown in retail branch banking customer acquisition in recent quarters depicts banks' focus on acquiring potentially high balance/value relationships.

Asset Quality & Credit Cost

- Net slippages were Rs140mn - Gross Slippages at Rs1.1bn (0.5% annualized) and Upgrades + Reco at Rs0.9bn.

NIM, Cost/Income & RoA

- The bank has taken limited lending rate hikes across products when compared to competition – 50 bps in Micro Banking and 90-100 bps in Affordable Housing – while comfortable with extant pricing currently, it would review the rates when required.

Ujjivan Small Finance Bank

- No imminent requirement to raise deposit rates, as the bank has substantial liquidity on the Balance Sheet to meet Q4 disbursements – so the deposits rates would also be reviewed when required.
- C/I ratio expected to be around 55% for FY23 – bank would limit the increase in FY24 owing to lower bad debts recovery and some pressure on NIM.
- Cashless collection will gradually keep rising - it got impetus during the pandemic with the bank also developing alternate/digital repayment channels - recently launched a mobile application, Hello Ujjivan, for Micro Banking customers which enables digital repayments.
- Expect Q4 FY23 operational and earnings performance to be on similar lines of Q3.
- In FY24, management has guided loan growth of 25% and credit cost of 1% - bad loan recoveries would be much lower than FY23.
- Longer term RoA outlook of 2.25-2.5%, which factors the desired shift in loan book mix.

Exhibit 2: Business Data

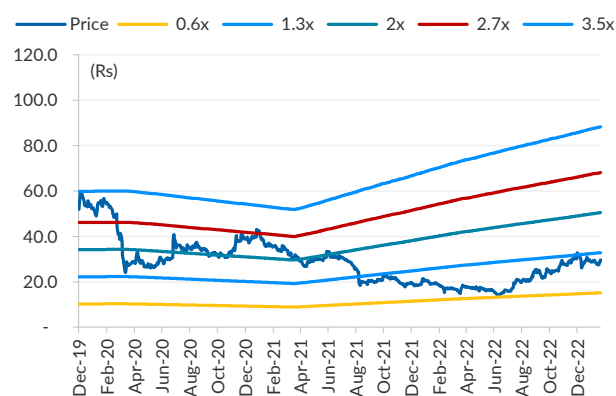
(Rs mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
Gross loan book	218,960	209,380	4.6	164,630	33.0
Micro - Group	128,230	121,480	5.6	89,840	42.7
Micro - Individual	26,320	23,480	12.1	18,060	45.7
MSE	17,440	18,580	(6.1)	15,830	10.2
Affordable Housing	31,440	30,790	2.1	25,620	22.7
Others	15,530	15,050	3.2	13,390	16.0
Disbursements	48,380	48,660	(0.6)	45,090	7
Micro - Group	30,810	31,210	(1.3)	28,400	8.5
Micro - Individual	7,120	7,050	1.0	5,110	39.3
MSE	1,670	3,410	(51.0)	3,400	(50.9)
Affordable Housing	3,440	3,200	7.5	3,490	(1.4)
Others	5,340	3,790	40.9	4,300	24.2
Deposits	232,030	203,960	13.8	155,630	49.1
CASA	60,700	54,960	10.4	41,170	47.4
Retail TD	88,660	71,830	23.4	44,920	97.4
Institutional TD	81,200	73,200	10.9	65,800	23.4
CD	1,470	3,970	(63.0)	3,740	-60.7

Source: Company, YES Sec

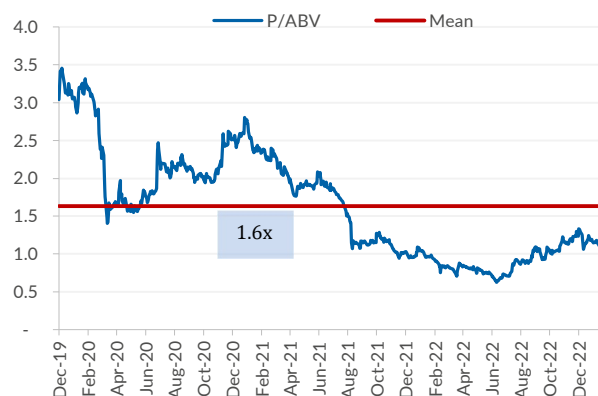
Exhibit 3: Key Ratios

(%)	Q3 FY23	Q2 FY23	chg qoq	Q3 FY22	chg yoy
NIM	9.4	9.8	(0.4)	9.1	0.3
Avg. Cost of Funds*	6.6	6.1	0.5	6.2	0.4
CASA + Retail TD	64.4	62.2	2.2	55.3	9.1
Cost to Income	53.0	52.5	0.5	74.0	(21.0)
Gross NPA	3.6	5.1	(1.4)	9.8	(6.2)
PCR	99.0	99.0	-	84.0	15.0
Net NPA	0.1	0.0	0.0	1.7	(1.6)
RoA	4.2	4.8	(0.6)	(0.7)	4.8
Tier-1 CAR	22.8	23.4	(0.5)	17.7	5.1

Source: Company, YES Sec; *Calculated.

Exhibit 4: 1-yr rolling P/ABV band


Source: Company, YES Sec

Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean


Source: Company, YES Sec

FINANCIALS

Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Total cash & equivalents	25,775	21,681	29,747	33,108	40,213
Investments	25,165	41,529	70,600	84,720	101,664
Advances	144,940	163,032	211,924	266,010	330,658
Total interest-earning assets	195,879	226,242	312,271	383,838	472,535
Fixed assets	2,807	2,494	2,743	3,018	3,319
Other assets	5,118	7,309	8,770	10,525	12,629
Total assets	203,804	236,045	323,785	397,380	488,484
Net worth	29,964	25,818	41,230	51,430	63,485
Deposits	131,357	182,922	246,030	305,078	378,296
Borrowings	32,473	17,636	25,572	28,129	32,348
Total interest-bearing liabilities	163,831	200,558	271,602	333,206	410,644
Non-interest-bearing liabilities	10,010	9,670	10,953	12,743	14,355
Total liabilities	173,841	210,227	282,555	345,950	424,999
Equity & Total liabilities	203,804	236,045	323,785	397,380	488,484

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	28,061	28,128	41,338	53,490	65,947
Interest expense	(10,775)	(10,392)	(14,528)	(20,122)	(24,747)
Net interest income	17,286	17,736	26,810	33,368	41,200
Non-interest income	3,023	3,133	5,482	6,030	7,116
Total op income	20,309	20,869	32,292	39,398	48,316
Total op expenses	(12,301)	(14,964)	(17,657)	(22,072)	(27,590)
PPoP	8,008	5,905	14,635	17,327	20,726
Provisions	(7,906)	(11,408)	(418)	(3,727)	(4,653)
Profit before tax	102	(5,504)	14,217	13,600	16,073
Taxes	(19)	1,358	(3,554)	(3,400)	(4,018)
Net profit	83	(4,146)	10,663	10,200	12,055

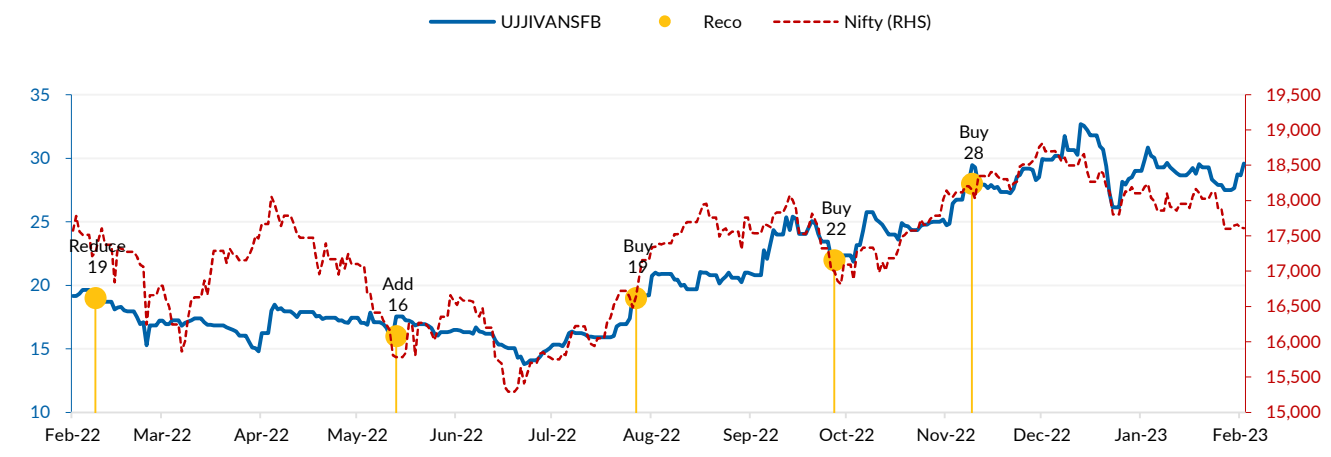
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Net interest income	5.8	2.6	51.2	24.5	23.5
Total op income	3.8	2.8	54.7	22.0	22.6
Op profit (pre-provision)	25.7	(26.3)	147.8	18.4	19.6
Net profit	(97.6)	(5,094.9)	(357.2)	(4.3)	18.2
Advances	3.2	12.5	30.0	25.5	24.3
Deposits	21.8	39.3	34.5	24.0	24.0
Total assets	10.7	15.8	37.2	22.7	22.9
Profitability Ratios (%)					
NIM	11.8	10.7	12.8	12.5	12.4
Non-interest income /Total income	14.9	15.0	17.0	15.3	14.7
Return on Equity	0.3	(14.9)	31.8	22.0	21.0
Return on Assets	0.0	(1.9)	3.8	2.8	2.7
Per share ratios (Rs)					
EPS	0.0	(2.4)	5.4	5.2	6.1
Adj. BVPS	17.1	14.8	20.9	26.0	32.1
Other key ratios (%)					
Cost/Income	60.6	71.7	54.7	56.0	57.1
Tier-I Capital	26.2	20.0	22.7	22.7	22.8
Gross NPLs/Loans	7.1	7.3	2.0	2.0	2.0
Net NPLs/Net loans	2.9	0.7	0.5	0.5	0.5
Tax rate	18.6	24.7	25.0	25.0	25.0

Source: Company, YES Sec

Recommendation Tracker



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