BUY

Ujjivan Small Finance Bank

Strong growth, provision reversal drive up RoAs

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BFSI - Banks ▸ Result Update ▸ **May 12, 2023**

TARGET PRICE (Rs): 38

Despite a miss on margins, Ujjivan SFB reported a strong beat on PAT at Rs3.1bn (vs our estimate of Rs2.4bn) in 4Q, mainly on higher other income and provision reversal. Credit growth (net) remained strong at 31% YoY/9% QoQ in 4Q, led by healthy traction in MFI. Bank expects growth to remain robust at 25%, with increasing share of secured loans which, coupled with lower credit cost, should keep RoAs high & healthy. Bank has applied to the NCLT and expects reverse merger with the holdco to be completed by Sep-Dec '23.

We revise our earnings upwards and expect the Bank to clock RoE of 21-24% over FY23-26E. Factoring-in the earning upgrades and higher P/ABV at 1.3x, we revise our TP upwards to Rs38/share (vs Rs33), while upgrading the rating to BUY from Hold. We retain hold on the Ujjivan Fin Services with TP of Rs286.

Ujjivan Small Finance Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	(4,146)	10,999	10,863	11,975	13,694
Loan growth (%)	12.5	30.6	25.1	25.4	25.3
NII growth (%)	2.6	52.1	23.7	21.2	22.9
NIM (%)	8.5	9.8	9.2	9.0	8.9
PPOP growth (%)	(20.4)	133.1	19.9	19.5	26.8
Adj. EPS (Rs)	(2.4)	6.0	5.6	6.1	7.0
Adj. EPS growth (%)	NA	0.0	(7.0)	10.2	14.4
Adj. BV (INR)	14.4	20.2	24.6	29.3	34.6
Adj. BVPS growth (%)	(13.9)	36.7	22.5	19.9	18.5
RoA (%)	(1.9)	3.9	2.9	2.6	2.4
RoE (%)	(15.0)	33.7	24.7	22.5	21.6
P/E (x)	(12.2)	4.9	5.3	4.8	4.2
P/ABV (x)	2.0	1.4	1.2	1.0	0.8

Source: Company, Emkay Research

Strong growth, but margins come off

Ujjivan logged strong AUM growth at 33% YoY/10% QoQ to Rs241bn, while net loan book grew 31% YoY/9% QoQ to Rs213bn. Growth was mainly driven by the MFI/micro-individual loan book, and was supported by retail (affordable housing). Disbursements remain resilient, especially in MFI, as Q4 is a seasonally-strong quarter; this resulted in higher share at 72% of AUM. Deposit growth, too, was strong and outpaced credit growth at 40% YoY/10% QoQ, led by healthy growth in CASA; resultantly, CASA ratio improved by 25bps QoQ to 26.4%. However, NIM contracted by 30bps QoQ to 9.1% due to higher CoF. Bank expects both credit/deposit growths at 25%/30%, respectively, leading to lower LDR; it estimates NIM to clock at >9% in FY24.

Headline asset quality continues to improve due to lower slippages

Fresh slippages were miniscule at 0.2bn/0.5% of loans which, coupled with healthy recoveries/write-offs, led to reduction of 76bps QoQ in the GNPA ratio to 2.9%. Given the higher specific PCR, NNPA is virtually nil. The restructured book sharply declined to Rs2.3bn/1.1%, from 1.6% in Q3. Overall collection efficiency remains robust at 100%, which explains the reason for the lower slippages and the continued decline in the PAR book at 3.8% vs 4.9% in Q3 and 9.6% in Q4FY22.

Outlook and Valuations

Ujjivan SFB has recovered well from Covid-induced stress in the MFI space as well as from the management saga. Current MD & CEO Ittira Davis' term is till Jan-2025, but the bank would look for a successor well before his term ends. We revise our earnings upwards and expect the bank to clock RoE of 21-24% over FY23-26E. Factoring-in the earning upgrades and the higher P/ABV at 1.3x, we revise our TP upwards to Rs38/share (vs Rs33), while upgrading the rating to BUY from Hold. We retain hold on the Ujjivan Fin Services with TP of Rs286 **Key risks:** Higher NPAs in MFI being otherwise vulnerable to asset-quality shock; elevated cost weighing on margins; and management attrition.

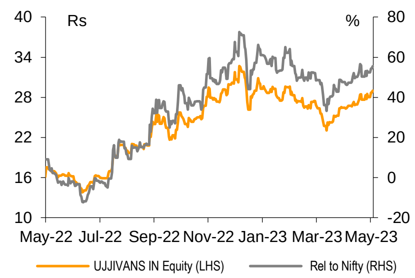
Target Price – 12M	May-24
Change in TP (%)	**15.2**
Current Reco.	BUY
Previous Reco.	HOLD
Upside/(Downside) (%)	29.7
CMP (11-May-23) (Rs)	29.3

Stock Data	**Ticker**
52-week High (Rs)	34
52-week Low (Rs)	14
Shares outstanding (mn)	1,954.7
Market-cap (Rs bn)	57
Market-cap (USD mn)	698
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	7
ADTV-3M (Rs mn)	185.8
ADTV-3M (USD mn)	2.3
Free float (%)	26.0
Nifty-50	18,297
INR/USD	82.1
Shareholding, Mar-23	
Promoters (%)	73.7
FPIs/MFs (%)	2.0/8.4

Price Performance

(%)	1M	3M	12M
Absolute	11.0	3.5	82.6
Rel. to Nifty	7.5	1.0	61.3

1-Year share price trend (Rs)



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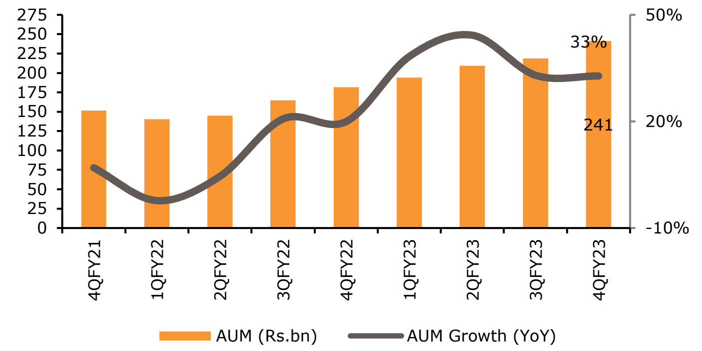
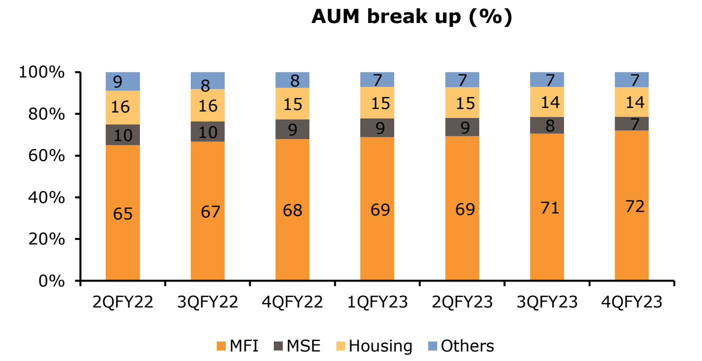
Story in Charts

Exhibit 1: AUM growth remains healthy, led by MFI



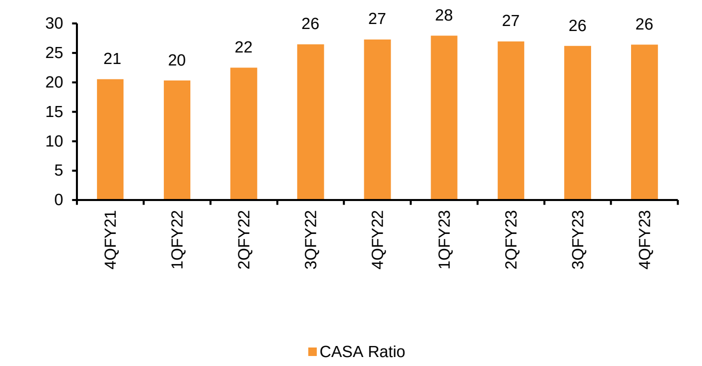
Source: Company, Emkay Research

Exhibit 2: …however, increasing MFI share is a cause for concern



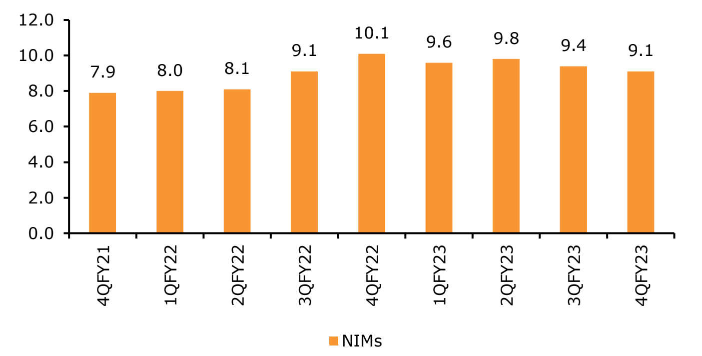
Source: Company, Emkay Research

Exhibit 3: CASA ratio at 26% remains sub-par



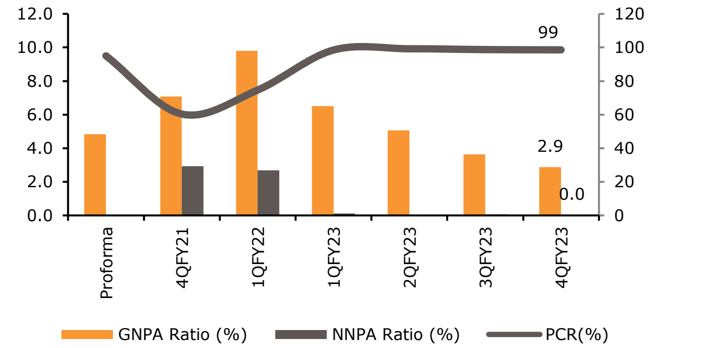
Source: Company, Emkay Research

Exhibit 4: Margins moderated amid cost pressure



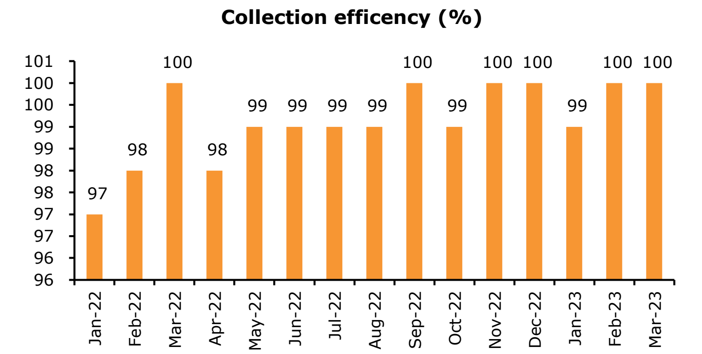
Source: Company, Emkay Research

Exhibit 5: NPA ratio trends down due to lower slippages



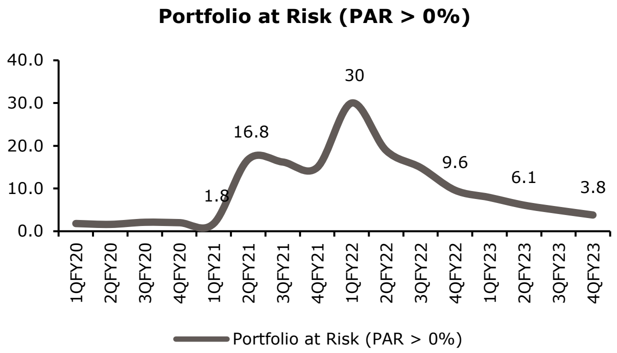
Source: Company, Emkay Research

Exhibit 6: Overall collection efficiency remains healthy



Source: Company, Emkay Research

Exhibit 7: PAR book is nearing pre-Covid levels

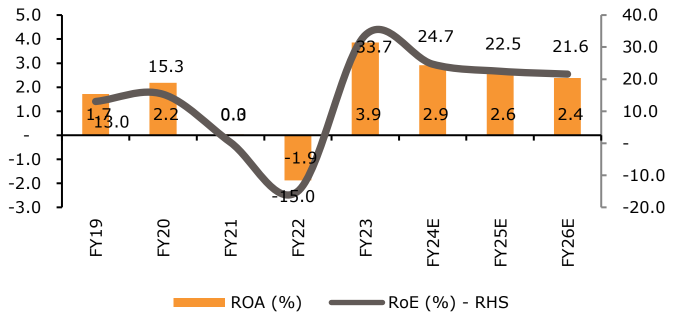


Source: Company, Emkay Research

Exhibit 8: Better Lower LLP led to a sharp jump in RoA

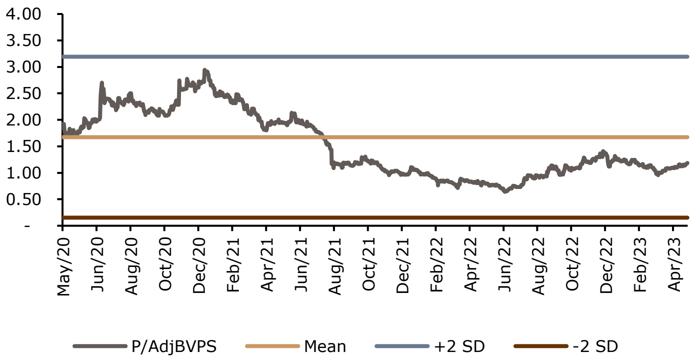
Source: Company, Emkay Research

Exhibit 9: We expect return ratios to improve, owing to better growth and lower LLP



Source: Company, Emkay Research

Exhibit 10: The stock currently trades at 1.2x one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 11: Actuals vs Estimates (Q4FY23)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	9,171	8,667	8,607	6%	7%	Lower margins partly offset by higher other income led to a beat
PPOP	4,106	3,722	3,722	10%	10%	Higher net income led to a beat
PAT	3,095	2,351	2,617	32%	18%	Provision reversals led to a beat

Source: Company, Emkay Research

Exhibit 12: Quarterly Summary

(Rs mn)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)
Interest Earned	8,182	9,054	9,932	10,816	11,848	45	10	41,650	54,860	32
Interest Exp	2,743	3,057	3,299	3,847	4,468	63	16	14,671	21,496	47
Net Interest Income	5,440	5,997	6,632	6,970	7,380	36	6	26,979	33,365	24
Global NIMs (reported)	10.1	9.6	9.8	9.4	9.1	-100bps	-30bps	9.8	9.2	-61bps
Non-interest Income	1,026	1,246	1,467	1,389	1,791	75	29	5,892	6,560	11
Operating Expenses	4,293	4,237	4,249	4,470	5,065	18	13	18,021	22,119	23
Pre Provisioning Profit	2,172	3,006	3,850	3,889	4,106	89	6	14,850	17,805	20
Provision & Contingencies	438	299	-99	-2	-19	-104	777	178	3,283	1,744
PBT	1,734	2,707	3,949	3,891	4,125	138	6	14,672	14,522	-1
Income Tax Expense (Gain)	469	677	1,006	960	1,030	120	7	3,673	3,660	0
Net Profit/(Loss)	1,265	2,029	2,943	2,932	3,095	145	6	10,999	10,863	-1
Gross NPA (%)	7.1	6.5	5.1	3.6	2.9	-422bps	-76bps	2.9	2.2	-67bps
Net NPA (%)	0.6	0.1	0.0	0.1	0.0	-57bps	-1bps	0.0	0.2	18bps
Deposits (Rs bn)	182.9	184.5	204.0	232.0	255.4	39.6	10.1	255.4	332.4	30.2
Net Advances (Rs bn)	163.0	164.9	174.3	195.3	212.9	30.6	9.0	212.9	266.3	25.1

Source: Company, Emkay Research

Exhibit 13: Revision in estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E
	Earlier	Revised	Change	Earlier	Revised	Change	Introduced
Net income	38,657	39,925	3.3%	46,882	47,822	2.0%	58,721
PPOP	16,480	17,805	8.0%	19,558	21,284	8.8%	26,985
PAT	8,504	10,863	27.7%	9,550	11,975	25.4%	13,694
EPS (Rs)	4.3	5.6	27.8%	4.9	6.1	25.4%	7.0
BV (Rs)	24.6	24.8	0.7%	28.5	29.7	4.3%	35.2

Source: Company, Emkay Research

Exhibit 14: Revision in estimates

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	30.6	25.1	25.4	25.3
Deposit Growth (%)	39.6	30.2	27.0	27.1
NIM (%)	9.8	9.2	9.0	8.9
GNPA (%)	2.9	2.2	2.0	1.8
Credit Cost (%)	0.1	1.2	1.6	2.0

Source: Company, Emkay Research

Exhibit 15: Key ratios and trends

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Loans (Rs mn)	151,390	140,370	145,140	164,630	181,600	194,090	209,380	218,960	241,140
YoY growth (%)	7.0	(2.3)	4.5	20.7	20.0	38.3	44.3	33.0	32.8
QoQ growth (%)	11.0	(7.3)	3.4	13.4	10.3	6.9	7.9	4.6	10.1
Composition (%)									
- MFI (%)	70.3	67.1	66.3	65.5	67.0	68.8	69.2	70.6	72.1
- SME (MSE) (%)	8.5	9.1	9.8	9.6	9.4	9.1	8.9	8.0	6.6
- Retail (Housing (%)	13.5	14.9	16.0	15.6	15.1	15.0	14.7	14.4	14.1
- Others (%)	7.6	8.9	7.9	9.3	8.5	7.2	7.2	7.1	7.2
Liability Profile									
Deposit (Rs mn)	131,358	136,730	140,895	155,630	182,922	184,490	203,962	232,030	255,377
YoY growth (%)	21.8	23.7	31.2	34.0	39.3	34.9	44.8	49.1	39.6
QoQ growth (%)	13.1	4.1	3.0	10.5	17.5	0.9	10.6	13.8	10.1
CASA (Rs mn)	26,990	27,730	31,660	41,170	49,920	51,550	54,960	60,700	67,440
CASA ratio (%)	21	20	22	26	27	28	27	26	26
Asset Quality									
Gross NPA (Rs mn)	10,706	13,750	17,126	16,117	12,841	11,467	9,289	7,376	6,306
Net NPA (Rs mn)	4,246	3,487	4,350	2,516	996	178	73	95	90
GNPA (%)	7.1	9.8	11.8	9.8	7.1	6.5	5.1	3.6	2.9
NNPA (%)	2.9	2.7	3.3	1.7	0.6	0.1	0.0	0.1	0.0
RSA (%)	6.2	5.9	11.2	8.1	5.2	4.0	2.7	1.5	1.1
Specific PCR (%)	60.3	74.6	74.6	84.4	92.2	98.4	99.2	98.7	98.6
Capital Adequacy (%)									
CRAR	26.4	25.9	22.2	19.1	19.0	20.0	26.7	26.0	25.8
Tier-I	25.0	24.8	20.7	17.7	17.7	18.7	23.4	22.8	22.7
ROE Decomposition - on total assets (%)									
NII	7.4	7.7	8.0	8.9	9.7	10.0	10.4	9.7	9.3
Other Income	2.3	1.5	1.1	1.8	1.8	2.1	2.3	1.9	2.2
Net Income	9.7	9.2	9.1	10.7	11.5	12.1	12.7	11.7	11.5
Opex	6.6	5.9	7.5	7.9	7.7	7.1	6.7	6.2	6.4
PPOP	3.1	3.2	1.6	2.8	3.9	5.0	6.0	5.4	5.1
Provisions	(0.6)	9.5	8.9	3.7	0.8	0.5	(0.2)	(0.0)	(0.0)
PBT	3.7	(6.3)	(7.3)	(0.9)	3.1	4.5	6.2	5.4	5.2
Tax	1.0	(1.6)	(1.9)	(0.2)	0.8	1.1	1.6	1.3	1.3
ROA	2.7	(4.7)	(5.4)	(0.7)	2.3	3.4	4.6	4.1	3.9
Leverage (x)	6.3	6.4	6.9	7.6	8.2	8.2	7.5	7.3	7.7
ROE	17.3	(30.3)	(37.4)	(5.0)	18.5	27.9	34.7	29.9	29.9

Source: Company, Emkay Research

Ujjivan Small Finance Bank: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	28,128	41,650	54,860	66,983	81,380
Interest Expense	10,392	14,671	21,496	26,555	31,705
Net interest income	**17,736**	**26,979**	**33,365**	**40,427**	**49,676**
NII growth (%)	2.6	52.1	23.7	21.2	22.9
Other income	3,599	5,892	6,560	7,395	9,045
Total Income	**21,335**	**32,871**	**39,925**	**47,822**	**58,721**
Operating expenses	14,964	18,021	22,119	26,538	31,736
PPOP	**6,371**	**14,850**	**17,805**	**21,284**	**26,985**
PPOP growth (%)	(20.4)	133.1	19.9	19.5	26.8
Core PPOP	**6,194**	**14,840**	**17,796**	**21,275**	**26,977**
Provisions & contingencies	11,875	178	3,283	5,275	8,678
PBT	**(5,504)**	**14,672**	**14,522**	**16,009**	**18,307**
Extraordinary items	0	0	0	0	0
Tax expense	(1,358)	3,673	3,660	4,034	4,613
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**(4,146)**	**10,999**	**10,863**	**11,975**	**13,694**
PAT growth (%)	NA	NA	(1.2)	10.2	14.4
Adjusted PAT	**(4,146)**	**10,999**	**10,863**	**11,975**	**13,694**
Diluted EPS (Rs)	**(2.4)**	**6.0**	**5.6**	**6.1**	**7.0**
Diluted EPS growth (%)	NA	NA	(7.0)	10.2	14.4
DPS (Rs)	**0.0**	**1.4**	**1.0**	**1.2**	**1.5**
Dividend payout (%)	**0.0**	**23.1**	**18.0**	**19.6**	**21.4**
Effective tax rate (%)	24.7	25.0	25.2	25.2	25.2
Net interest margins (%)	8.5	9.8	9.2	9.0	8.9
Cost-income ratio (%)	70.1	54.8	55.4	55.5	54.0
Shares outstanding (mn)	1,728.3	1,954.7	1,954.7	1,954.7	1,954.7

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	17,283	19,547	19,547	19,547	19,547
Reserves & surplus	8,321	20,032	28,940	38,569	49,331
Net worth	**25,604**	**39,579**	**48,487**	**58,116**	**68,878**
Deposits	182,922	255,377	332,438	422,069	536,437
Borrowings	19,636	28,415	24,452	21,085	18,222
Interest bearing liab.	**202,558**	**283,791**	**356,891**	**443,153**	**554,658**
Other liabilities & prov.	**7,960**	**9,798**	**8,136**	**11,246**	**13,337**
Total liabilities & equity	**236,122**	**333,169**	**413,514**	**512,516**	**636,873**
Net advances	163,032	212,897	266,293	333,883	418,311
Investments	41,529	85,103	101,882	124,284	149,999
Cash, other balances	21,758	24,836	32,120	39,884	52,693
Interest earning assets	**226,319**	**322,836**	**400,295**	**498,051**	**621,003**
Fixed assets	2,494	2,829	4,144	4,865	5,714
Other assets	7,309	7,504	9,075	9,599	10,156
Total assets	**236,122**	**333,169**	**413,514**	**512,516**	**636,873**
BVPS (Rs)	14.8	20.2	24.8	29.7	35.2
Adj. BVPS (INR)	14.4	20.2	24.6	29.3	34.6
Gross advances	174,877	219,112	271,699	339,624	424,530
Credit to deposit (%)	89.1	83.4	80.1	79.1	78.0
CASA ratio (%)	27.3	26.4	25.4	24.8	24.2
Cost of deposits (%)	5.7	6.4	7.0	6.8	6.5
Loans-to-Assets (%)	69.0	63.9	64.4	65.1	65.7
Net advances growth (%)	12.5	30.6	25.1	25.4	25.3
Deposit growth (%)	39.3	39.6	30.2	27.0	27.1
Book value growth (%)	(13.9)	36.7	22.5	19.9	18.5

Source: Company, Emkay Research

Asset quality and other metrics

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	12,841	6,306	6,007	6,754	7,773
Net NPLs	996	90	601	1,013	1,555
GNPA ratio (%)	7.3	2.9	2.2	2.0	1.8
NNPA ratio (%)	0.6	0.0	0.2	0.3	0.4
Provision coverage (%)	92.2	98.6	90.0	85.0	80.0
Gross slippages	20,884	3,350	5,977	7,472	10,189
Gross slippage ratio (%)	11.9	1.5	2.2	2.2	2.4
LLP ratio (%)	6.9	0.1	1.2	1.6	2.0
NNPA to networth (%)	3.7	0.2	1.2	1.7	2.2
Capital adequacy					
Total CAR (%)	19.0	21.0	20.4	19.5	18.7
Tier-1 (%)	17.7	20.1	19.7	18.9	18.2
CET-1 (%)	17.7	20.1	19.7	18.9	18.2
RWA-to-Total Assets (%)	54.6	55.0	56.0	57.0	57.0
Miscellaneous					
Total income growth (%)	2.1	49.8	29.2	21.1	21.6
Opex growth (%)	21.6	20.4	22.7	20.0	19.6
Core PPOP growth (%)	(16.8)	139.6	19.9	19.5	26.8
PPOP margin (%)	20.1	31.2	29.0	28.6	29.8
PAT/PPOP (%)	(65.1)	74.1	61.0	56.3	50.7
LLP-to-Core PPOP (%)	191.7	1.2	18.4	24.8	32.2
Yield on advances (%)	17.0	19.8	20.0	19.6	19.0
Cost of funds (%)	5.6	6.0	6.7	6.6	6.4

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(12.2)	4.9	5.3	4.8	4.2
P/B (x)	2.0	1.4	1.2	1.0	0.8
P/ABV (x)	2.0	1.4	1.2	1.0	0.8
P/PPOP (x)	7.9	3.9	3.2	2.7	2.1
Dividend yield (%)	0.0	4.7	3.4	4.1	5.1
DuPont-RoE split (%)					
NII/avg assets	8.1	9.5	8.9	8.7	8.6
Other income	1.6	2.1	1.8	1.6	1.6
Fee income	1.6	1.6	1.6	1.6	1.6
Opex	6.8	6.3	5.9	5.7	5.5
PPOP	**2.9**	**5.2**	**4.8**	**4.6**	**4.7**
Core PPOP	2.8	5.2	4.8	4.6	4.7
Provisions	5.4	0.1	0.9	1.1	1.5
Tax expense	(0.6)	1.3	1.0	0.9	0.8
RoA (%)	**(1.9)**	**3.9**	**2.9**	**2.6**	**2.4**
Leverage ratio (x)	7.9	8.7	8.5	8.7	9.1
RoE (%)	**(15.0)**	**33.7**	**24.7**	**22.5**	**21.6**

Quarterly data

Rs mn, Y/E Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
NII	5,440	5,997	6,632	6,970	7,380
NIM (%)	10.1	9.6	9.8	9.4	9.1
PPOP	2,172	3,006	3,850	3,889	4,106
PAT	1,265	2,029	2,943	2,932	3,095
EPS (Rs)	0.73	1.17	1.51	1.50	1.58

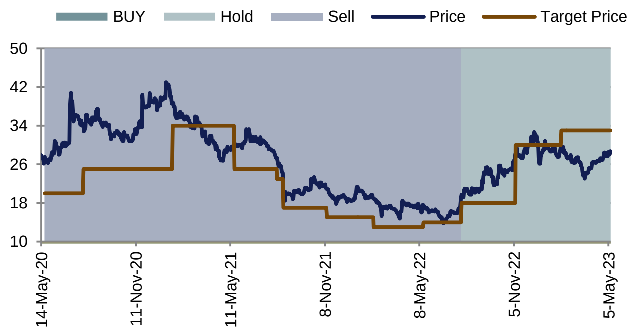
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
09-Mar-23	27	33	Hold	Anand Dama
03-Feb-23	30	33	Hold	Anand Dama
08-Nov-22	28	30	Hold	Anand Dama
27-Jul-22	20	18	Hold	Anand Dama
15-May-22	18	14	Sell	Anand Dama
09-Feb-22	19	13	Sell	Anand Dama
11-Nov-21	21	15	Sell	Anand Dama
20-Aug-21	20	17	Sell	Anand Dama
08-Aug-21	27	23	Sell	Anand Dama
18-May-21	31	25	Sell	Anand Dama
04-Feb-21	36	34	Sell	Anand Dama
20-Jan-21	39	34	Sell	Anand Dama
08-Nov-20	32	25	Sell	Anand Dama
02-Aug-20	34	25	Sell	Anand Dama
20-May-20	28	20	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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