

Retail Equity Research

Ujjivan Small Finance Bank Ltd.

Banking/Finance

BSE CODE : 542904

NSE CODE: UJJIVANSFB

BLOOMBERG CODE: UJJIVANS:IN

SENSEX : 65,252

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 49.3

TARGET Rs. 62.0

RETURN 26%

↑

(Closing: 24-08-2023)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Strong business momentum to continue.

Ujjivan Small Finance Bank Ltd., a wholly owned subsidiary of Ujjivan Financial Services Ltd. (USFL), serves over 76 lakh customers through 661 branches. USFL is the 3rd largest SFB with a loan book size of Rs.25,326cr and a deposit base of Rs.26,660cr.

- Advance growth is expected to remain strong at 25%, led by both microfinance and non-MF book with strong customer addition and brand building strategies.
- Considering strong loan growth, an improving cost to income ratio and lower credit costs, USFL is expected to record an ROE of 25% in FY24 and 23% in FY25, well above the management guidance.
- The proposed reverse merger with the parent company is expected to be completed within 2024.
- Asset quality continues to witness improvement, with GNPA/NNPA declining to 2.40%%/0.06%, respectively.
- Considering the strong business performance, we upgrade our rating to BUY based on 1.8x FY25E Adj.BVPS with a target price of Rs. 62.

Loan growth to remain strong led by MF portfolio

USFL continued to show robust loan growth supported by strong disbursement and customer addition. The bank has adopted strategies to increase brand visibility along with new branch additions and aims to build a retail-focused franchise. Advance growth of 30% YoY was supported by a microfinance portfolio that grew by 37%. Strong traction was seen in non-MF books too. As of Q1FY23, MF books constitute 72% of total AUM. With the growth momentum expected to continue, management has shown confidence in achieving 25% growth during FY24. We expect the loan book to grow at a CAGR of 25% over FY23–25. Management also aims to increase the mix of secured loans to 40% in the long run. On the liability side, the bank's total deposit increased by 45% YoY to Rs. 26,660 cr, with retail deposits increasing by 71% year on year to Rs. 10,970 cr. CASA continued to witness a sequential decline as funds moved to term deposits. The bank aims for deposit growth of 30% for FY24.

Enhanced profitability aided by healthy credit growth & lower cost

During Q1, Net Interest Income increased 36% YoY and 6% sequentially supported by strong loan growth along with a 10bps sequential increase in margins to 9.2%. The reported yield of the bank improved 20bps QoQ to 19.1%, with the MFI yield improving 20bps to 21.8%. With rising interest rates, the reported cost of funds witnessed a QoQ increase of 30bps to 7.2%. Though more cost pressure is expected from the repricing book, management is confident in maintaining NIM above 9%. The cost-to income ratio improved to 53% as new branches moved towards maturity. The pre-provision profit of the bank grew 52% YoY and 12% sequentially to Rs.458cr. The bank has reported a strong PAT of Rs.324cr compared to Rs.203cr in Q1FY23. With improving asset quality and high PCR, the management expects the credit cost to be below 1% for FY24, though higher provisioning is expected in H2. The ROA of the bank stands at 3.8% and the ROE at 29.8%. Management aims to keep ROE above 22% for FY24.

Improving asset quality with healthy provision

USFL has been proactive in improving its asset quality with lower incremental stress and higher recoveries. Though Q1 saw a sequential increase in slippages, it remained within the comfort zone. The collection efficiency of the bank stood at 102% in June. A significant reduction is seen in the stressed book as the GNPA improved 20bps sequentially to 2.4%. Higher provision coverage will help the bank keep credit costs under control. The NNPA of the bank stood at 0.06%.

Valuations

UFSL has shown strong business momentum with improved asset quality and strong loan growth. The bank is moving ahead of their guidance by achieving 25% loan growth. Though cost pressure is expected to trim the margins, management is confident in maintaining NIM in a healthy range above 9%. With high levels of provisioning, the credit cost is expected to remain low. Considering the improvements in business fundamentals, we upgrade our rating to Buy, valuing the company at 1.8x FY25 Adj.BVPS with a target price of Rs.62.

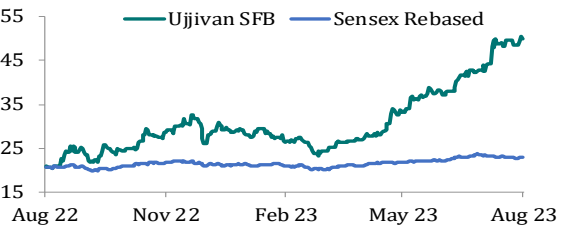
Company Data

Market Cap (cr)	9,794.8
Outstanding Shares (cr)	195.5
Free Float (%)	26.3
Dividend Yield (%)	2.5
52 week high	53.1
52 week low	19.6
6m average volume (cr)	1.49
Beta	1.08
Face value	10.0

Shareholding (%)	Q3FY23	Q4FY23	Q1FY24
Promoters	73.7	73.7	73.7
FII's	2.3	2.1	3.9
MFs/Institutions	8.2	8.4	7.1
Public	15.8	15.8	15.3
Total	100	100	100
Promoter Pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	47.1%	88.0%	142.0%
Absolute Sensex	4.9%	10.3%	11.0%
Relative Return*	42.2%	77.7%	131.1%

*over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
NII	2,698	3,424	4,136
Growth(%)	52.1	26.9	20.8
NIM(%)	9.83	9.48	9.43
Provisions	18	246	335
Adj. PAT	1,100	1,198	1,406
Growth(%)	-	8.9	17.4
Adj. EPS	5.8	6.1	7.2
Growth(%)	-	5.3	17.4
BVPS	21.5	27.4	34.6
Adj BVPS	21.5	27.4	34.5
P/E	8.6	8.1	6.9
P/B	2.32	1.82	1.44
Adj. P/B	2.32	1.82	1.45
ROE (%)	31.37	25.04	23.20

Cyril Charly

Research Analyst

Quarterly Financials (Standalone)

(Rs Cr)	Q1FY24	Q4FY23	QoQ Growth (%)	Q1FY23	YoY Growth (%)
Interest Income	1,287	1,185	8.6	905	42.1
Interest Expense	494	447	10.6	306	61.7
Net Interest Income (NII)	793	738	7.4	600	32.2
Fee and Other Income	177	179	-1.0	125	42.3
Total Income	970	917	5.8	724	33.9
Expenditure	512	507	1.1	424	20.8
Pre-Provision Profit	458	411	11.5	301	52.3
Provision	26	-2	-	30	-12.6
PBT	432	413	4.7	271	59.5
Tax	108	103	4.6	68	59.0
Reported PAT	324	310	4.7	203	59.7
Adjustment	-	-	-	-	-
Adj. PAT	324	310	4.7	203	59.7
Diluted EPS (Rs)	1.66	1.47	12.9	1.17	41.9

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs cr	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income (NII)	2,939	-	3,424	4,136	16.5	-
Net Interest Margin (%)	9.3	-	9.5	9.4	18bps	-
Pre-Provision Profit	1,514	-	1,864	2,234	23.1	-
Adj. PAT	884	-	1198	1406	35.5	-
EPS (Rs)	5.1	-	6.1	7.2	20.1	-

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Interest Income	2,806	2,813	4,165	5,437	6,637
Interest Expense	1,078	1,039	1,467	2,012	2,501
Net Int. Income	1,729	1,774	2,698	3,424	4,136
Change %	5.8%	2.6%	52.1%	26.9%	20.8%
Non Int. Income	311	313	589	707	796
Total Income	2,039	2,087	3,287	4,131	4,932
Operating Ex-penses	1,230	1,496	1,802	2,267	2,698
Pre Prov. Profit	809	590	1,485	1,864	2,234
Change %	27.0	-27.0	151.5	25.5	19.8
Prov. & Conting.	799	1141	18	246	335
PBT	10	-550	1,467	1,618	1,900
Change %	-97.8	-	-	10.3	17.4
Tax	2	-136	367	421	494
Tax Rate (%)	19	25	25	26	26
Reported PAT	8	-415	1,100	1,198	1,406
Adj*	0	0	0	0	0
Adj. PAT	8	-415	1,100	1,198	1,406
Change %	-97.6	-	-	8.9	17.4
No. of shares (Cr)	173.0	173.0	195.5	195.5	195.5
EPS (Rs)	0.1	-2.4	5.8	6.1	7.2
Change	-97.5	-	-	5.3	17.4
DPS (Rs)	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET

Y.E March (Rs Cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	2,578	2,168	2,484	3,273	4,607
Loans & Advances	14,494	16,303	21,290	26,769	33,405
Investments	2,516	4,153	8,510	9,361	10,297
Net Fixed Assets	281	249	283	436	471
CWIP	0	0	0	0	0
Other Assets	512	731	750	825	908
Def. Tax (Net)	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Assets	20,380	23,604	33,317	40,665	49,689
Deposits	13,136	18,292	25,538	32,099	39,678
Debt Funds	3,247	1,764	2,641	2,120	1,889
Other Liabilities & Provisions	822	746	929	1,090	1,360
Capital	1,928	1,928	2,155	2,155	2,155
Reserves & Surplus	1,247	874	2,054	3,201	4,607
Shareholder's Funds	3,175	2,803	4,209	5,356	6,761
Total Liabilities	20,380	23,604	33,317	40,665	49,689
BVPS (Rs)	18.4	16.2	21.5	27.4	34.6
Change	0.3%	-11.7%	32.9%	27.2%	26.2%
Adj. BVPS (Rs)	15.9	15.6	21.5	27.3	34.5
Change	-12.4%	-1.7%	37.5%	27.3%	26.3%

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
Interest yield (%)	16.4	14.1	15.2	15.1	15.1
Cost of funds (%)	6.9	5.7	6.1	6.5	6.6
Spread(%)	9.5	8.4	9.1	8.6	8.5
NIM (%)	10.1	8.9	9.8	9.5	9.4
ROE (%)	0.3	-13.9	31.4	25.0	23.2
ROA(%)	0.0	-1.9	3.9	3.2	3.1
Business Growth					
Loans & Advances (%)	7.0	20.0	32.6	25.7	24.8
Borrowings (%)	-17.9	-45.7	49.8	-19.8	-10.9
Operating Ratios					
Cost to Income (%)	60.3	71.7	54.8	54.9	54.7
Capital Adequacy					
CAR (%)	20.5	19.0	19.0	22.7	22.8
Asset Quality					
GNPA (%)	7.1	7.3	2.6	2.1	1.8
NNPA (%)	2.8	0.6	0.0	0.0	0.0
Valuation					
P/E (x)	998.2	-20.8	8.6	8.1	6.9
P/B (x)	2.7	3.1	2.3	1.8	1.4
Adj. P/B (x)	3.1	3.2	2.3	1.8	1.4

Recommendation Summary (Since listing)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
04 August 20	Reduce	29
17 November 20	Hold	38
12 February 21	Hold	37
11 August 21	Accumulate	30
15 November 21	Accumulate	23
17 February 22	Buy	22
01 August 22	Buy	24
14 November 22	Accumulate	32
24 August 23	Buy	62

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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