

## Higher MFI stress dents earnings; plans to build secured portfolio

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Ujjivan SFB reported 24% PAT miss at Rs2.3bn, mainly due to lower other income and higher provisions, as stress in MFI accelerates. Bank's AUM growth moderated to 14% YoY/1% QoQ (net credit growth at 20% YoY), as it continued with its cautious growth strategy in MFI as initiated in 1Q. However, the bank remains focused on accelerating secured loan growth with its share now at 35% from 31% in Q1; it hopes to achieve 40% by Mar-25. This should weigh on margins, while LLP should remain elevated with hopes of some asset quality normalization by 4Q. However, the bank aspires for steady RoE at 18-20% on the back of better risk-adjusted margins, better operating leverage, and contained LLP as it transitions toward higher share of secured loans. Factoring in lower NIM/higher LLP, we cut earnings for FY25E/26E/27E by 24%/14%/8%. We also cut our TP further to Rs45 from Rs55, valuing the bank now at 1.1x Sep-26E ABV. However, we retain BUY given relatively superior RoAs among peers and the potential transition to being a Universal Bank.

## Ujjivan Small Finance Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	10,999	12,815	9,513	11,936	14,589
Loan growth (%)	30.6	26.3	17.8	19.9	22.0
NII growth (%)	52.1	26.4	13.0	17.3	18.1
NIM (%)	9.8	9.6	9.0	8.8	8.6
PPOP growth (%)	133.1	29.1	0.7	19.5	22.8
Adj. EPS (Rs)	6.0	6.6	4.9	6.2	7.5
Adj. EPS growth (%)	0.0	10.4	(25.4)	25.4	22.2
Adj. BV (Rs)	20.5	28.8	33.1	38.5	44.6
Adj. BVPS growth (%)	39.5	41.7	16.3	16.8	16.6
RoA (%)	3.9	3.5	2.2	2.3	2.3
RoE (%)	33.3	26.6	15.7	16.8	17.6
P/E (x)	6.3	5.7	7.6	6.1	5.0
P/ABV (x)	1.8	1.3	1.1	1.0	0.8

Source: Company, Emkay Research

## Calibrated MFI growth and higher secured loan growth softens margins

Ujjivan SFB's AUM grew at a moderate rate of 14% YoY/1% QoQ (net advances increased 20% YoY/8% QoQ), as the bank continued with its heightened caution in the MFI segment and also due to implementation of the MFIN guardrails. However, the secured book (AHS, M-LAP, VF, gold loan, MSE book) outpaced expectations, increasing its share of gross advances from ~31% in Q1 to ~35% in Q2. Deposit growth was also moderate at 17% YoY/3% QoQ, but the CASA ratio improved by 25bps QoQ to ~27%. NIM compressed by 10bps QoQ to 9.2% due to softening of overall yields as the secured book grew. Going forward, the bank expects robust growth in the secured book (aiming to increase its share to 40% by Mar-25, ahead of the previous estimate of FY26) and micro individual loans.

## Higher w-offs lead to stable GNPA, despite elevated slippages

Fresh slippages were elevated at Rs2.4bn/3.3% of loans, on account of persistent stress in the MFI segment (collection efficiency down to 97% vs 98% in Q1). Despite this, the GNPA ratio was stable at 2.5% due to higher write-offs (including w-off of an old Assam portfolio of Rs0.5bn). Ujjivan still carries a relatively strong PCR of 78% (vs 84% in Q1) on its back-book, while also carrying floating provisions to the extent of Rs2.5bn/0.8% of loans. Management expects slippages to remain at current levels in H2FY25 and endeavors to maintain PCR >78%. Bank expects credit cost at 2.3-2.5% for FY25 vs earlier guidance of 2%.

## We retain BUY on Ujjivan SFB, but cut our TP to Rs45

Factoring in lower NIM/higher LLP, we cut earnings for FY25E/26E/27E by 24%/14%/8%. We also cut our TP further to Rs45 from Rs55, valuing the bank at 1.1x Sep-26E ABV. However, we retain BUY given relatively superior RoAs among peers and potential transition towards a Universal Bank. **Key risks:** Macro/micro disruption leading to slower-than-expected growth/higher NPAs and KMP attrition.

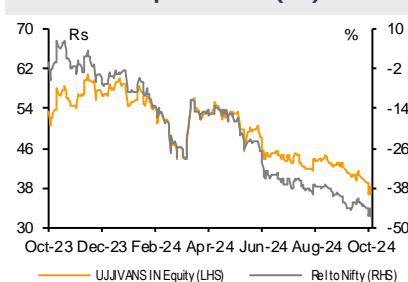
Target Price – 12M	Sep-25
Change in TP (%)	(18.2)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	23.0
CMP (24-Oct-24) (Rs)	36.6

Stock Data	Ticker
52-week High (Rs)	63
52-week Low (Rs)	36
Shares outstanding (mn)	1,934.5
Market-cap (Rs bn)	71
Market-cap (US\$ mn)	842
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	14
ADTV-3M (Rs mn)	589.1
ADTV-3M (US\$ mn)	7.0
Free float (%)	26.0
Nifty-50	24,399
INR/US\$	84.1
<b>Shareholding, Sep-24</b>	
Promoters (%)	-
FPIs/MFs (%)	20.6/6.5

## Price Performance

(%)	1M	3M	12M
Absolute	(12.9)	(17.7)	(32.2)
Rel. to Nifty	(7.4)	(17.7)	(46.4)

## 1-Year share price trend (Rs)



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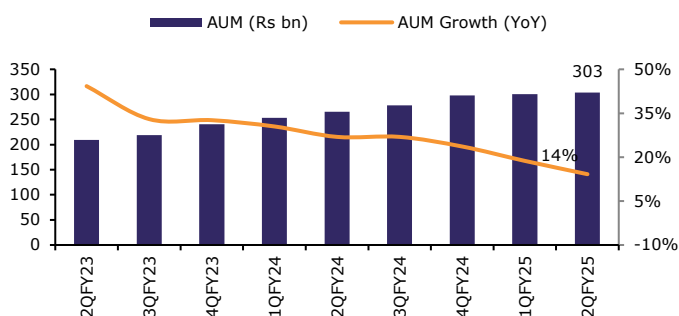
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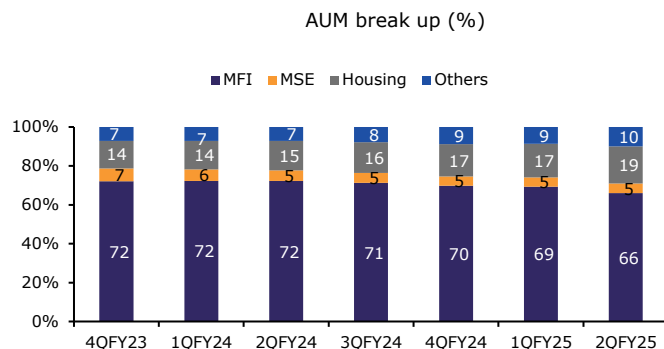
## Story in Charts

**Exhibit 1: Growth continues to moderate owing to the bank's cautious stance on MFI**



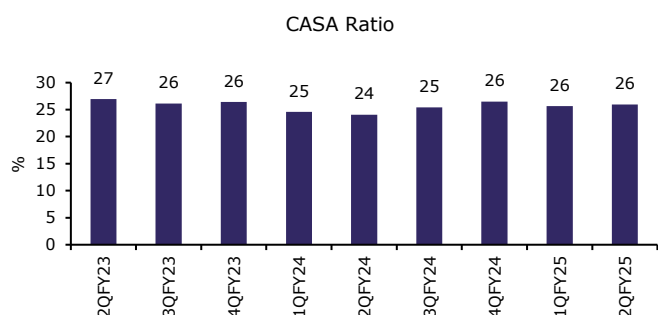
Source: Company, Emkay Research

**Exhibit 2: MFI share remains high at 66%, but set to moderate**



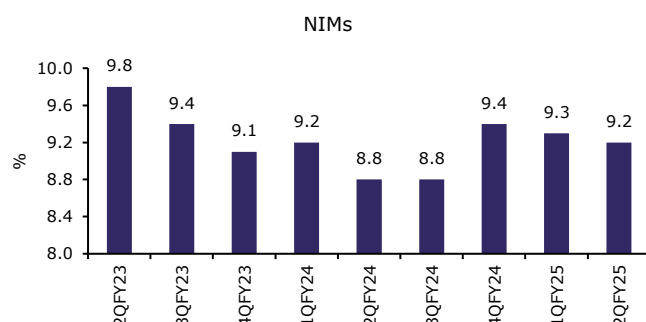
Source: Company, Emkay Research

**Exhibit 3: CASA ratio remains range-bound**



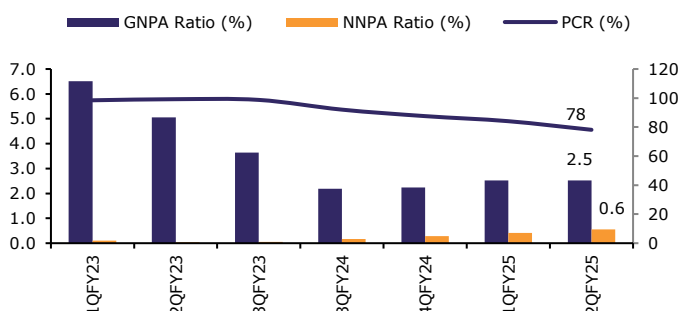
Source: Company, Emkay Research

**Exhibit 4: NIMs slip slightly as the secured loan portfolio grows**



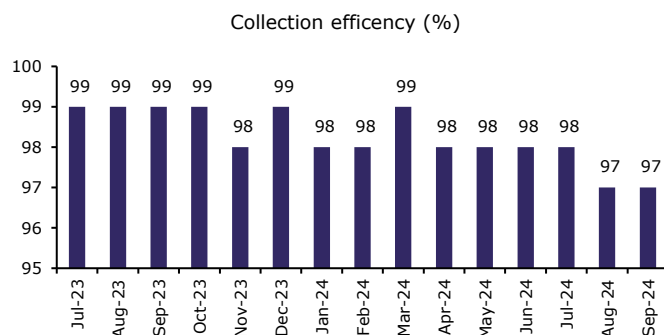
Source: Company, Emkay Research

**Exhibit 5: GNPA remained stable despite elevated slippages mainly due to higher w-offs**



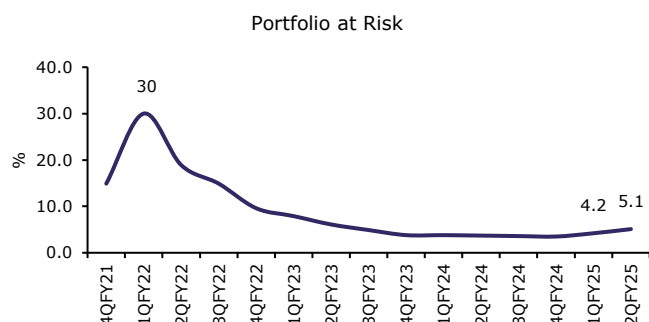
Source: Company, Emkay Research

**Exhibit 6: Overall collection efficiency saw a slight fall in Q2**



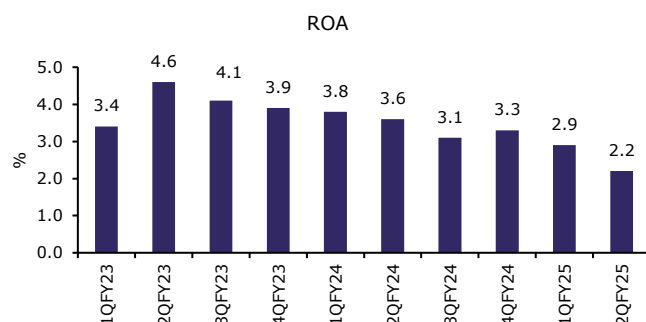
Source: Company, Emkay Research

**Exhibit 7: PAR book inching-up, but well under control**

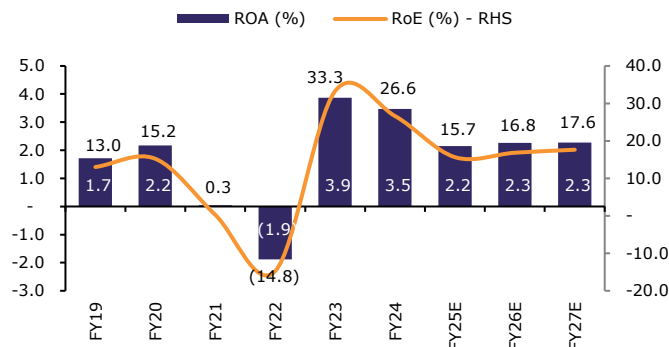


Source: Company, Emkay Research

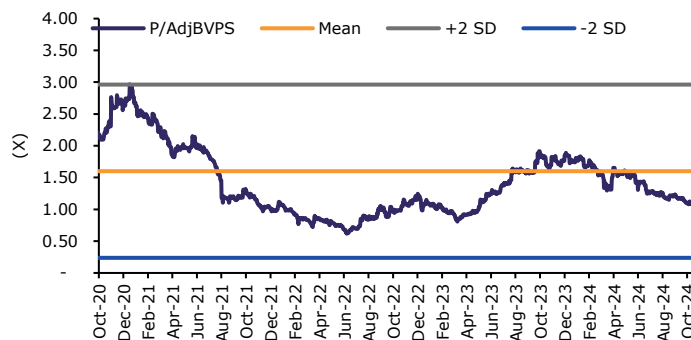
**Exhibit 8: RoA declined due to lower other income, and higher LLP**



Source: Company, Emkay Research

**Exhibit 9: Return ratios expected to remain healthy, aided by reducing opex**

Source: Company, Emkay Research

**Exhibit 10: The stock currently trades at 1x its 1Y forward P/ABV**

Source: Bloomberg, Emkay Research

**Exhibit 11: Actuals vs Estimates (Q2FY25)**

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	11,510	11,878	11,846	-3%	-3%	Lower other income led to a miss
PPOP	4,608	5,343	5,381	-14%	-14%	Lower net income, and higher staff/operating expenses lead to a miss
PAT	2,330	3,062	3,050	-24%	-24%	PPOP miss along with higher provisions lead to a PAT miss

Source: Company, Emkay Research

**Exhibit 12: Quarterly Summary**

(Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	FY24	FY25E	YoY (%)
Interest Earned	13,911	14,706	15,285	15,772	16,128	16	2	56,772	65,922	16
Interest Exp.	5,678	6,107	5,950	6,357	6,690	18	5	22,677	27,397	21
Net Interest Income	8,233	8,599	9,335	9,415	9,438	15	0	34,094	38,525	13
Global NIMs (reported)	8.8	8.8	9.4	9.3	9.2	40bps	-10bps	9.6	9.0	-54bps
Non-interest Income	1,886	1,848	2,361	1,971	2,073	10	5	7,868	8,389	7
Operating Expenses	5,286	5,874	6,511	6,290	6,902	31	10	22,791	27,618	21
Pre-Provisioning Profit	4,834	4,573	5,186	5,095	4,608	-5	-10	19,171	19,296	1
Provision & Contingencies	469	629	790	1,099	1,505	221	37	2,149	6,662	210
PBT	4,364	3,944	4,396	3,997	3,103	-29	-22	17,022	12,634	-26
Income Tax Expense (Gain)	1,087	943	1,099	986	773	-29	-22	4,207	3,121	-26
Net Profit/(Loss)	3,277	3,001	3,296	3,011	2,330	-29	-23	12,815	9,513	-26
Gross NPA (%)	2.4	2.2	2.2	2.5	2.5	17bps	0bps	2.2	2.6	41bps
Net NPA (%)	0.1	0.2	0.3	0.4	0.6	47bps	15bps	0.3	0.5	26bps
Deposits (Rs bn)	291.4	296.7	314.6	325.1	340.7	17	5	314.6	378.2	20.2
Net Advances (Rs bn)	243.3	256.2	268.8	271.1	291.8	20	8	268.8	316.7	17.8

Source: Company, Emkay Research

**Exhibit 13: Revision in estimates**

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	48,761	46,914	-3.8%	57,802	54,896	-5.0%	69,067	64,884	-6.1%
PPOP	21,945	19,296	-12.1%	26,540	23,054	-13.1%	32,470	28,305	-12.8%
PAT	12,450	9,513	-23.6%	13,801	11,936	-13.5%	15,855	14,589	-8.0%
EPS (Rs)	6.4	4.9	-23.6%	7.1	6.2	-13.6%	8.2	7.5	-8.1%
BV (Rs)	34.3	33.8	-1.5%	40.1	39.5	-1.5%	46.8	46.0	-1.6%

Source: Company, Emkay Research

**Exhibit 14: Key Assumptions**

	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	26.3	17.8	19.9	22.0
Deposit Growth (%)	23.2	20.2	23.4	25.2
NIM (%)	9.6	9.0	8.8	8.6
GNPA (%)	2.2	2.6	2.9	3.0
Credit Cost (%)	0.9	2.3	2.0	2.0

Source: Emkay Research

**Exhibit 15: Key ratios and trends**

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Loans (Rs mn)	209,380	218,960	240,860	253,260	265,750	277,910	297,790	300,690	303,440
Growth YoY (%)	44.3	33.0	32.6	30.5	26.9	26.9	23.6	18.7	14.2
Growth QoQ (%)	7.9	4.6	10.0	5.1	4.9	4.6	7.2	1.0	0.9
<b>Composition (%)</b>									
- MFI	69.2	70.6	72.1	72.3	72.1	71.3	69.9	68.9	63.7
- SME (MSE)	8.9	8.0	6.6	6.0	5.4	5.0	4.7	4.7	5.0
- Retail (Housing)	14.7	14.4	14.1	14.5	15.2	15.9	16.5	17.3	19.1
- Others	7.2	7.1	7.2	7.2	7.3	7.8	8.8	9.1	12.3
<b>Liability Profile (%)</b>									
Deposit (Rs mn)	203,962	232,030	255,377	266,600	291,393	296,690	314,622	325,140	340,698
Growth YoY	44.8	49.1	39.6	44.5	42.9	27.9	23.2	22.0	16.9
Growth QoQ	10.6	13.8	10.1	4.4	9.3	1.8	6.0	3.3	4.8
CASA (Rs mn)	54,960	60,700	67,440	65,550	70,130	75,490	83,320	83,350	88,330
CASA ratio	27	26	26	25	24	25	26	26	26
<b>Asset Quality</b>									
Gross NPA (Rs mn)	9,289	7,376	6,306	5,965	5,860	5,707	6,125	6,972	7,500
Net NPA (Rs mn)	73	95	90	126	218	428	763	1,112	1,641
GNPA (%)	5.1	3.6	2.9	2.6	2.4	2.2	2.2	2.5	2.5
NNPA (%)	0.0	0.1	0.0	0.1	0.1	0.2	0.3	0.4	0.6
RSA (%)	2.7	1.5	1.1	0.8	0.6	0.5	0.4	0.4	0.4
Specific PCR (%)	99.2	98.7	98.6	97.9	96.3	92.0	87.5	84.0	78.1
<b>Capital Adequacy (%)</b>									
CRAR	26.7	26.0	25.8	26.7	25.2	24.4	24.7	24.9	23.4
Tier-I	23.4	22.8	22.7	23.6	22.5	22.0	22.6	23.0	21.6
<b>ROE Decomposition - on total assets (%)</b>									
NII	10.4	9.7	9.3	9.3	9.0	8.8	9.3	9.1	8.8
Other Income	2.3	1.9	2.2	2.1	2.1	1.9	2.4	1.9	1.9
Net Income	12.7	11.7	11.5	11.4	11.0	10.7	11.7	11.0	10.7
Opex	6.7	6.2	6.4	6.0	5.8	6.0	6.5	6.1	6.4
PPOP	6.0	5.4	5.1	5.4	5.3	4.7	5.2	4.9	4.3
Provisions	(0.2)	(0.0)	(0.0)	0.3	0.5	0.6	0.8	1.1	1.4
PBT	6.2	5.4	5.2	5.1	4.8	4.0	4.4	3.9	2.9
Tax	1.6	1.3	1.3	1.3	1.2	1.0	1.1	1.0	0.7
ROA	4.6	4.1	3.9	3.8	3.6	3.1	3.3	2.9	2.2
Leverage (x)	7.5	7.3	7.7	7.8	7.9	7.9	7.5	7.1	7.3
ROE	34.7	29.9	29.9	29.6	28.2	24.4	24.6	20.9	15.8

Source: Company, Emkay Research

Ujjivan Small Finance Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	41,650	56,772	65,922	76,792	90,906
Interest Expense	14,671	22,677	27,397	31,618	37,564
Net interest income	26,979	34,094	38,525	45,174	53,342
NII growth (%)	52.1	26.4	13.0	17.3	18.1
Other income	5,892	7,868	8,389	9,722	11,541
Total Income	32,871	41,962	46,914	54,896	64,884
Operating expenses	18,021	22,791	27,618	31,842	36,579
PPOP	14,850	19,171	19,296	23,054	28,305
PPOP growth (%)	133.1	29.1	0.7	19.5	22.8
Core PPOP	14,833	18,931	18,921	22,585	27,742
Provisions & contingencies	178	2,149	6,662	7,096	8,800
PBT	14,672	17,022	12,634	15,958	19,504
Extraordinary items	0	0	0	0	0
Tax expense	3,673	4,207	3,121	4,021	4,915
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	10,999	12,815	9,513	11,936	14,589
PAT growth (%)	(365.3)	16.5	(25.8)	25.5	22.2
Adjusted PAT	10,999	12,815	9,513	11,936	14,589
Diluted EPS (Rs)	6.0	6.6	4.9	6.2	7.5
Diluted EPS growth (%)	(348.9)	10.4	(25.4)	25.4	22.2
DPS (Rs)	0.8	0.4	0.2	0.5	1.0
Dividend payout (%)	13.3	5.3	4.1	8.1	13.3
Effective tax rate (%)	25.0	24.7	24.7	25.2	25.2
Net interest margins (%)	9.8	9.6	9.0	8.8	8.6
Cost-income ratio (%)	54.8	54.3	58.9	58.0	56.4
Shares outstanding (mn)	1,954.7	1,931.4	1,934.2	1,934.2	1,934.2

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	6,306.2	6,125.3	8,551.9	11,075.6	14,272.9
Net NPLs	90.4	762.9	1,710.4	2,436.6	3,568.2
GNPA ratio (%)	2.9	2.2	2.6	2.9	3.0
NNPA ratio (%)	0.0	0.3	0.5	0.6	0.8
Provision coverage (%)	98.6	87.5	80.0	78.0	75.0
Gross slippages	3,350.0	4,797.8	9,706.4	10,094.6	12,789.1
Gross slippage ratio (%)	1.5	1.7	3.0	2.6	2.7
LLP ratio (%)	0.1	0.9	2.3	2.0	2.0
NNPA to networth (%)	0.2	1.3	2.6	3.1	3.9
Capital adequacy					
Total CAR (%)	23.5	29.0	26.6	25.9	24.8
Tier-1 (%)	22.5	28.1	26.0	25.4	24.3
CET-1 (%)	22.5	28.1	26.0	25.4	24.3
RWA-to-Total Assets (%)	49.1	46.6	50.0	50.0	50.0
Miscellaneous					
Total income growth (%)	49.8	36.0	15.0	16.4	18.4
Opex growth (%)	20.4	26.5	21.2	15.3	14.9
Core PPOP growth (%)	139.5	27.6	0.0	19.4	22.8
PPOP margin (%)	31.2	29.7	26.0	26.6	27.6
PAT/PPOP (%)	74.1	66.8	49.3	51.8	51.5
LLP-to-Core PPOP (%)	1.2	11.4	35.2	31.4	31.7
Yield on advances (%)	19.8	20.7	19.8	19.5	19.1
Cost of funds (%)	6.0	7.3	7.4	7.1	6.9

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	19,547	19,314	19,342	19,342	19,342
Reserves & surplus	20,544	36,820	46,042	57,011	69,666
Net worth	40,091	56,135	65,383	76,353	89,008
Deposits	255,377	314,622	378,225	466,797	584,626
Borrowings	28,415	21,708	22,794	21,654	19,488
Interest bearing liab.	283,791	336,330	401,019	488,451	604,115
Other liabilities & prov.	9,286	11,758	12,558	11,588	12,478
Total liabilities & equity	333,169	404,222	478,960	576,392	705,600
Net advances	212,897	268,829	316,705	379,616	462,967
Investments	85,103	97,660	116,622	141,825	174,863
Cash, other balances	24,836	25,368	32,081	40,053	51,350
Interest earning assets	322,836	391,857	465,408	561,494	689,180
Fixed assets	2,829	4,267	4,988	5,836	6,834
Other assets	7,504	8,098	8,565	9,061	9,587
Total assets	333,169	404,222	478,960	576,392	705,600
BVPS (Rs)	20.5	29.1	33.8	39.5	46.0
Adj. BVPS (INR)	20.5	28.8	33.1	38.5	44.6
Gross advances	219,112	274,192	323,546	388,255	473,671
Credit to deposit (%)	83.4	85.4	83.7	81.3	79.2
CASA ratio (%)	26.4	26.7	26.8	28.3	30.1
Cost of deposits (%)	6.0	7.1	7.5	7.2	6.9
Loans-to-Assets (%)	63.9	66.5	66.1	65.9	65.6
Net advances growth (%)	30.6	26.3	17.8	19.9	22.0
Deposit growth (%)	39.6	23.2	20.2	23.4	25.2
Book value growth (%)	39.5	41.7	16.3	16.8	16.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	6.3	5.7	7.6	6.1	5.0
P/B (x)	1.8	1.3	1.1	1.0	0.8
P/ABV (x)	1.8	1.3	1.1	1.0	0.8
P/PPOP (x)	4.9	3.8	3.8	3.2	2.6
Dividend yield (%)	2.1	0.9	0.5	1.3	2.7
DuPont-RoE split (%)					
NII/avg assets	9.5	9.2	8.7	8.6	8.3
Other income	2.1	2.1	1.9	1.8	1.8
Fee income	2.1	2.1	1.8	1.8	1.7
Opex	6.3	6.2	6.3	6.0	5.7
PPOP	5.2	5.2	4.4	4.4	4.4
Core PPOP	5.2	5.1	4.3	4.3	4.3
Provisions	0.1	0.6	1.5	1.3	1.4
Tax expense	1.3	1.1	0.7	0.8	0.8
RoA (%)	3.9	3.5	2.2	2.3	2.3
Leverage ratio (x)	8.6	7.7	7.3	7.4	7.8
RoE (%)	33.3	26.6	15.7	16.8	17.6
Quarterly data					
Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	8,233	8,599	9,335	9,415	9,438
NIM(%)	8.8	8.8	9.4	9.3	9.2
PPOP	4,834	4,573	5,186	5,095	4,608
PAT	3,277	3,001	3,296	3,011	2,330
EPS (Rs)	1.68	1.53	1.69	1.54	1.19

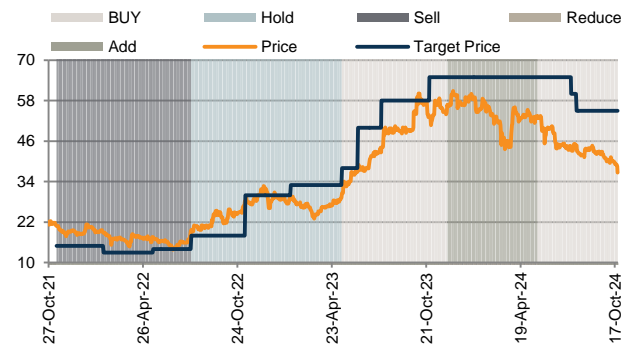
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
04-Aug-24	45	55	Buy	Anand Dama
25-Jul-24	44	60	Buy	Anand Dama
23-Jun-24	48	65	Buy	Anand Dama
21-May-24	53	65	Buy	Anand Dama
25-Jan-24	55	65	Add	Anand Dama
30-Nov-23	57	65	Add	Anand Dama
27-Oct-23	53	65	Buy	Anand Dama
02-Oct-23	54	58	Buy	Anand Dama
27-Jul-23	44	58	Buy	Anand Dama
01-Jul-23	38	50	Buy	Anand Dama
12-Jun-23	37	50	Buy	Anand Dama
12-May-23	31	38	Buy	Anand Dama
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

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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