ArihantCapital
Generating Wealth

Initiating Coverage
06th Oct 2022

Small Finance Banks

SFBs are well positioned to report strong growth; Sector has an incremental lending opportunity of INR 1-1.5 tn over the next 3 years

Sector Thematic

Company

Equitas Small Finance Bank
CMP : INR 50
TP : INR 78
Rating : Buy

Ujjivan Small Finance Bank
CMP : INR 22
TP : INR 36
Rating : Buy

Indian banking industry has undergone through several challenges in the past to support financial inclusion in the country. In order to support niche small-ticket lending and with the purpose of serving the unbanked people, government has awarded licenses to 10 players to commence small finance banking (SFB) operations in Sept'2015. The main objective of SFBs is to extend banking services to the under-served and unserved people through savings, and providing credit to small business units, micro and small industries and others in the unorganised sector. With a transition from NBFCs into SFB, it has provided the opportunities to the lenders to not only diversify their portfolio but also to diversify the liability mix. After getting the license, SFB started garnering low cost CASA deposits, retail deposits by replacing high cost borrowings.

India's Small finance banks (SFB) has clocked AUM CAGR of 26% during FY16-22 at INR ~1,447 bn. Top 6 players in the SFB industry accounts for ~86% of the total AUM. **SFBs credit share in the total banking systematic credit has increased steadily from 0.5% in FY16 to 1.2% as on FY22 and it is expected to reach 1.7-1.8% of total credit by FY25E.** We believe, SFBs are well positioned to record AUM CAGR of 22% over FY22-25E.

SFB industry expected to clock 22% AUM CAGR over the next 3 years: After the conversion into SFBs, total accumulated AUM growth for the industry was at 26% CAGR over the period of FY16-22. At the same time period total banking system credit growth was at 7.1% which reflects that SFBs are well positioned in the small ticket lending space. Considering, most of the SFBs have completed their transition phase and likely to get benefit from the operating leverage coupled with government thrust on financial inclusion and huge untapped opportunity, SFBs' are expected to record AUM CAGR of 22% over FY22-25E which creates an incremental lending opportunity of INR 1-1.5 tn.

Deposits growth of SFBs is expected to grow rapidly: After receiving license from RBI, SFBs got access to diversify their funding profile into low cost CASA deposits and also into retail deposits. In the last 5 years, SFBs market share has increased from 0.1% to ~0.7-0.8% of the total system deposits growth. Deposits base of SFBs increased by 64% CAGR over FY18-22 and it is expected to increase further by ~40-45% CAGR by FY25E. SFBs focus into the digital onboarding process, offering higher interest rates compared to banks and attractive product offerings has helped them to gain market share at an accelerated pace. CASA ratio of the industry has increased sharply from 24% in FY19 to 41% as on FY22.

From transition to normalization to growth phase: In the first 4 years of SFB operations, all NBFCs have started transitioning their business model into SFBs where the bank started diversifying the lending as well as liability profile. However, the transition has posed challenges as it had involved investments in technology, setting up of/conversion of existing branches to liability branches and hiring additional personnel for the SFB operations which has resulted in higher cost over the same period. After this, SFBs operation had been stabilized from 2020 onwards with OPEX cycle peaking out and banks started benefitting from the transition. Though covid has disrupted the journey in between, SFBs are gradually coming out from it and are set to report strong growth going forward.

Initiate coverage with Buy: We initiate coverage on **Equitas Small Finance Bank** and **Ujjivan Small Finance Bank** with a Buy rating. We believe, both the banks are well positioned to report robust growth in advances and strong profitability going forward with declining credit cost trajectory and steady improvement in liability profile.

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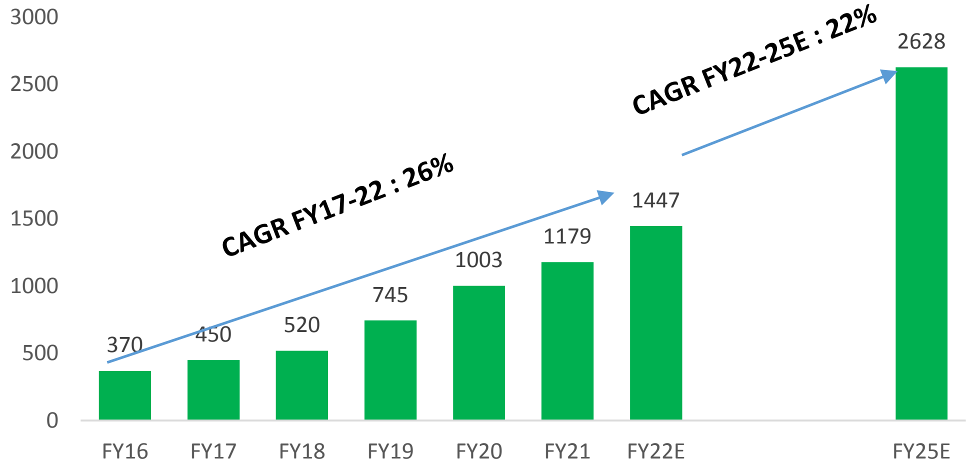
Key Charts:

Exhibit 1: SFBs are well poised to grow its AUM at 22% CAGR over FY22-25E (INR in bn)



SFBs have total incremental lending opportunity of INR 1-1.5 tn over the next 3 years

Exhibit 2: SFB's market share in overall system credit

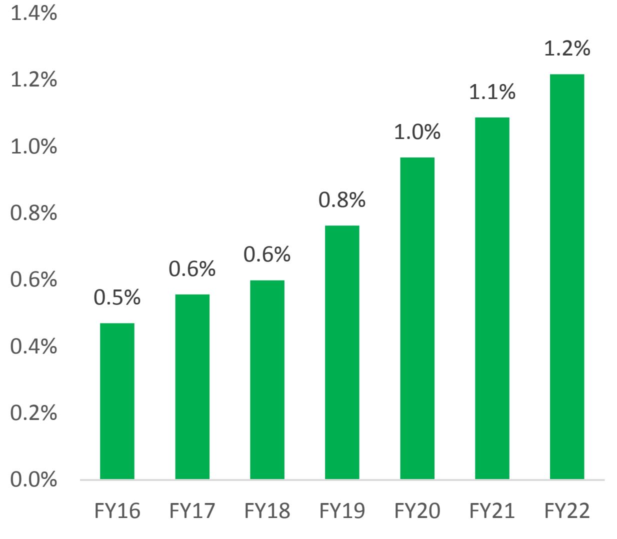


Exhibit 3: Share of urban and semi-urban regions in total advances continuously increasing for SFBs

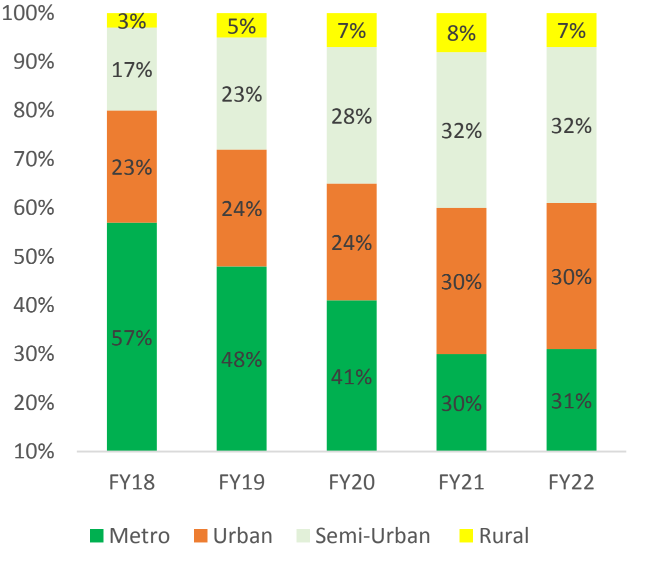


Exhibit 4: Deposit base of SFBs has grown at a robust 64% CAGR between FY18-FY22 (in bn)

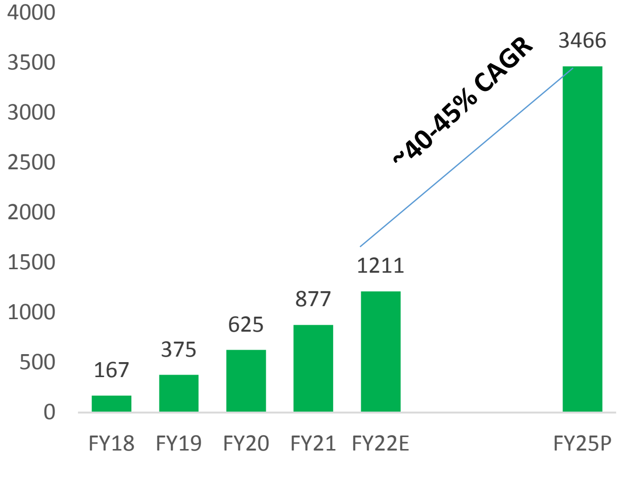
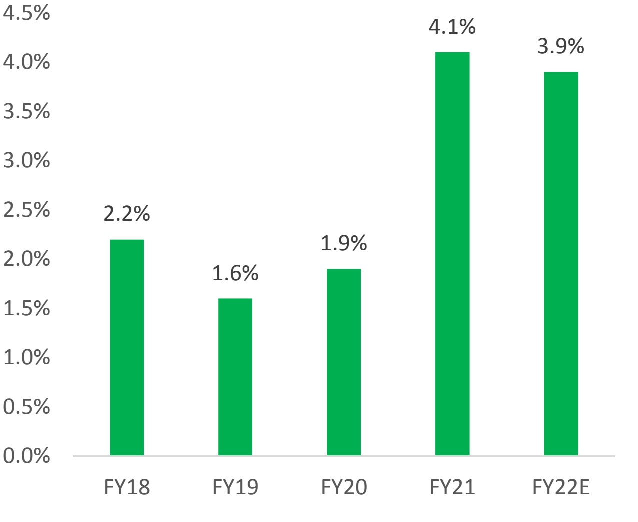


Exhibit 5: GNPA trend of overall SFB Industry



Source: Utkarsh DRHP, Arihant Research

Exhibit 6: Top six players accounted for 87% of industry AUM as of Fiscal 2022

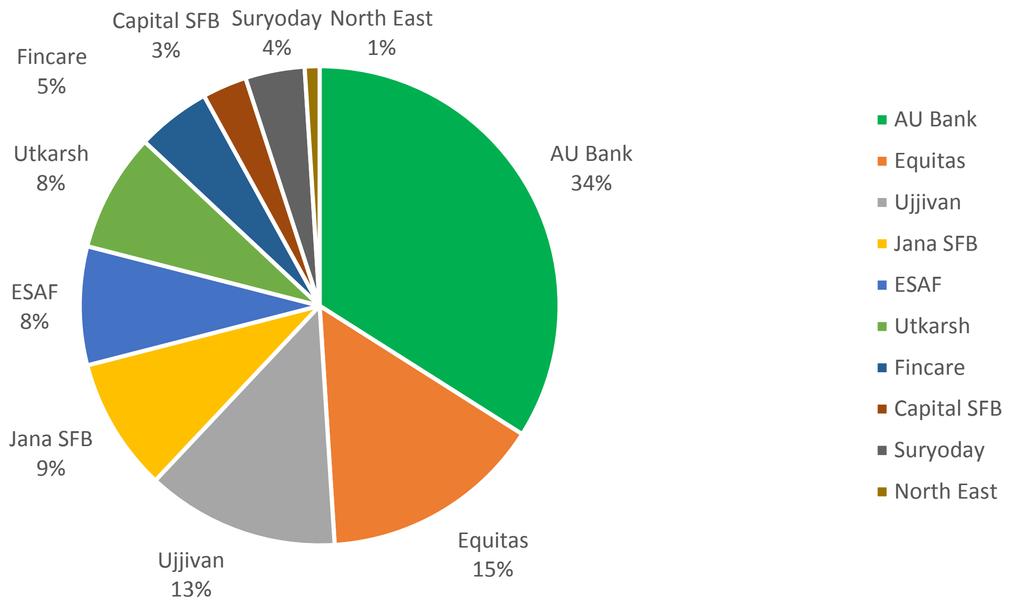


Exhibit 7: Key SFB Players (Financial data are as on FY22)

Name of the Bank	Advances	Deposits	RoA (%)	NIM (%)	CAR (%)	GNPA (%)
AU SFB	47,830	52,590	1.9%	5.4%	21.0%	2.0%
Equitas SFB	20,600	18,950	1.1%	7.9%	25.2%	4.1%
Ujjivan SFB	18,160	18,290	-1.9%	8.1%	19.0%	7.1%
Jana SFB	13,010	13,540	0.0%	7.1%	15.3%	5.7%
ESAF SFB	11,640	12,820	0.4%	7.6%	18.6%	7.8%
Utkarsh SFB	10,630	10,070	0.5%	7.8%	21.6%	6.1%
Fincare SFB	7,540	6,460	0.1%	9.3%	22.3%	7.8%
Suryoday SFB	5,060	3,850	-1.3%	7.9%	37.9%	11.8%
North East SFB	1,627	1,529	-	-	17.1%	11.7%
Capital SFB	4,689	6,046	0.9%	5.7%	18.6%	2.5%

Source: Utkarsh DRHP, Arihant Research

SFBs have incremental credit opportunity of INR 1-1.5 tn; Top 3 players accounts for 62% market share: Small Finance Banks sector have delivered industry-leading loan CAGR of 26% over past 7 years as compared to overall banking sector growth of 7% CAGR over the same period which indicates SFBs gaining credit market share at an accelerated pace and carved a niche in financing the small-ticket self-employed segment.

Eight of the ten firms that got SFBs license in the initial phase were MFIs and for most of them microfinance is the key segment. After the conversion of NBFC-MFIs to SFBs, the focus is now on diversifying the product portfolio. As a result, the share of their MFI portfolio in total advances reduced to 36% as of FY22 from 90-95% as of FY16. The diversification is mainly into MSME loans, affordable housing finance, gold loans, CV/non-CV loans and two-wheeler loans. In terms of geography, Top 10 states of SFB loan portfolio contribute ~82% of the loan portfolio (Rajasthan and Tamil Nadu at 16% followed by Maharashtra at 11%, MP at 9% and Gujarat at 7%).

SFBs loan CAGR is expected to increase by 22% over the period of FY22-25E. We believe, considering the potential incremental lending opportunity of ~INR 1-1.5 tn and SFBs' niche in financing small-ticket loans, SFBs are best positioned to sustain their industry-leading growth rates over the medium term. Within SFBs, industry leaders (e.g. AU, Equitas, and Ujjivan which put together contributes ~62% SFB market share) are likely to lead the growth given their diversified product segment to cater to various customers needs, strong distribution network and competitive rates on the back of lower cost of funds as compared to other SFBs.

Initiating Coverage
06th Oct 2022

Equitas Small Finance Bank

Well diversified SFB; Set to cross 2% RoA mark

CMP: INR 50

Rating: Buy

Target Price: INR 78

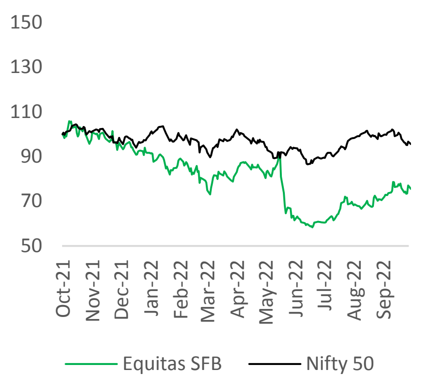
Stock Info	
BSE	543243
NSE	EQUITASBANK
Bloomberg	EQUITASB IN
Reuters	EQUITASB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	17
Mkt Cap (INR Cr)	6,268
52w H/L (INR)	71 / 38
Avg Yearly Vol (in 000')	1,272

Shareholding Pattern %
(As on June, 2022)

Promoters	74.5
FII	4.1
DII	15.6
Public & Others	5.8

Stock Performance (%)	1m	3m	12m
Equitas SFB	9.1	27.2	-23.2
Nifty 50	-1.5	9.1	-2.4

Equitas SFB vs Nifty 50



Equitas Small Finance Bank (Equitas SFB) is one of the largest and well diversified small finance bank in India having a largely secured portfolio. Bank has commenced its operations in 2007 as a MFI lender and subsequently, diversified into other segments. It operates under-penetrated business segments like Small Business loans, CV finance and Affordable Housing, which provides a huge growth opportunity. Equitas SFB is headquartered in Chennai and has the largest network of branches among the SFBs. It has 876 banking outlets, 288 business correspondents and a network of 342 ATMs across 18 states and UTs. Post transition into SFB, bank has diversified its asset mix and also its liability profile steadily improving which provides long term sustainable growth opportunity. Share of secured lending has increased from 66% in FY18 to 81% in FY22. The liability profile of the bank gained strong traction over the years with CASA ratio increased from 29% in FY18 to 52% as on Jun'22.

Well Diversified loan book: Bank has diversified its loan book very well by reducing higher share of unsecured microfinance lending. Share of unsecured portfolio has reduced from 34% in FY18 to 19% as on FY22 and bank is targeting to reduce this unsecured microfinance share to 15% in the next 3 years and below 10% in the long term. Bank's presence in other segment i.e. CV, Small Business loans, MSE finance provides higher growth opportunity and will be major growth drivers going ahead. We expect the bank to register a growth of 22% CAGR over FY22-25E.

Building strong liability franchise; CASA ratio is at 52%: After the transition from NBFC to SFB, bank has got access of deposits especially low-cost CASA, enabling the bank to control cost of funds. At the initial phase, bank had spent on infrastructure to build liability-focused branches which has helped them to raise deposits and recorded a deposits CAGR of 28% over FY19-22. Also, low cost CASA ratio of the bank increased sharply from 29% in FY18 to 52% as on Jun'22. Company has a high share of deposits by individuals at ~67%. In terms of term deposits (TD), retail term deposits constitute ~72% of the total TD.

Margins are likely to be at >8% on a steady basis: Management's focus on reducing high yielding unsecured lending book share (MFI book share reduction from 54% in FY16 to 19% in FY22) and move towards marginally lower secured lending product has resulted into decline in yields. However, the steady build up of the liability franchise with higher CASA has resulted in a drop in CoF, thus supporting the margins. Expectation of strong increase in credit growth and strong traction on the liability side will support the margins going ahead. We expect NIMs to range between 8-9% over the medium term.

Valuation and View: Considering, Equitas SFB's more secured profile compared to other SFB lenders, moderation in credit cost in FY23E, strong growth expectation, robust collection and underwriting mechanism and granular liability profile, we expect ROA/ROE to improve to 2.2%/15.1% by FY25E. We initiate coverage on Equitas SFB with a BUY rating and target price of INR 78, valuing the bank at 1.6x FY25E P/ABV.

in Cr.	NII	PPOP	PAT	NIM (%)	RoA (%)	RoE (%)	P/BV(x)
FY20	1,495	598	244	8.8%	1.3%	8.9%	1.9
FY21	1,798	887	384	8.5%	1.6%	11.3%	1.7
FY22	2,039	872	281	8.2%	1.0%	6.6%	1.5
FY23E	2,337	1,057	500	8.4%	1.6%	10.5%	1.3
FY24E	2,843	1,360	716	8.7%	2.0%	13.1%	1.1
FY25E	3,548	1,807	972	8.9%	2.2%	15.1%	1.0

Source: Company, Arihant Research

Story in charts

Exhibit 8: AUM expected to grow by 22% over FY22-25E. Non-microfinance portfolio is expected to increase by 22% CAGR over the same period.

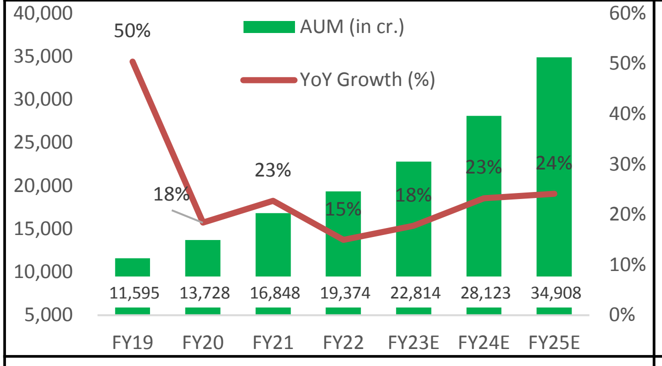


Exhibit 9: PAT growth expected to be at 51% CAGR over FY22-24E (INR in cr.)

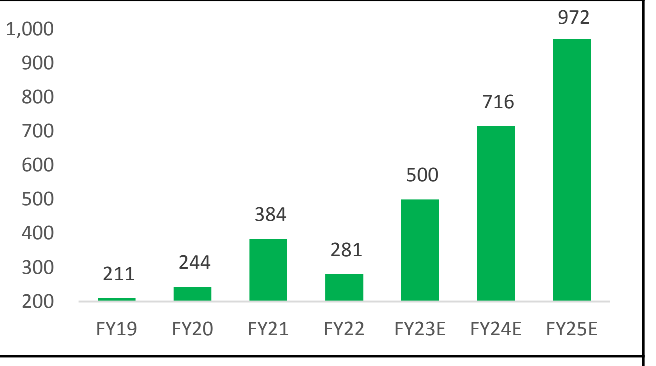


Exhibit 10: Deposits base increase at rapid pace

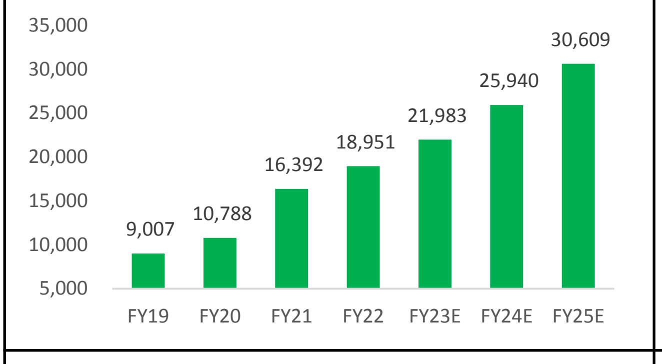


Exhibit 11: Improvement seen on the cost of funds side due to increasing CASA share

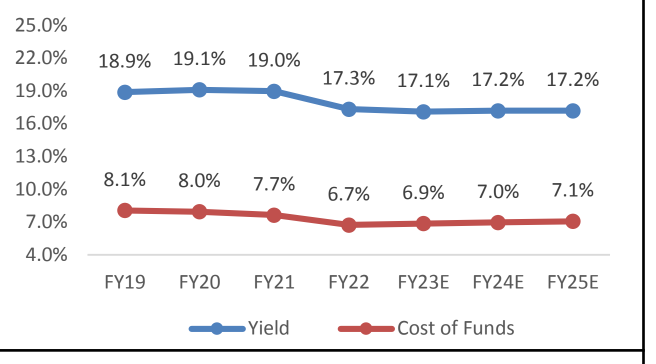


Exhibit 12: Margins are likely to be at >8% going forward on a steady state basis

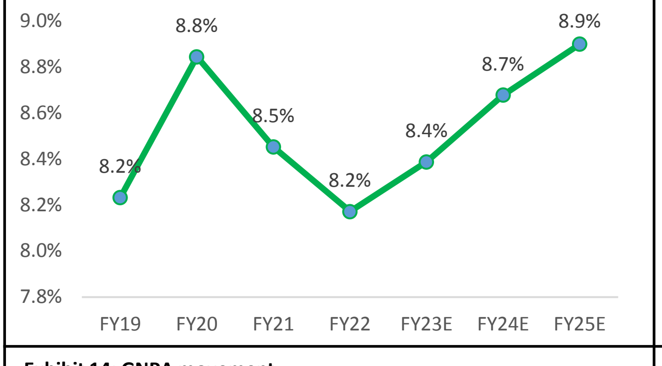


Exhibit 13: Return ratios expected to increase; RoA expected to cross 2% in FY24E.

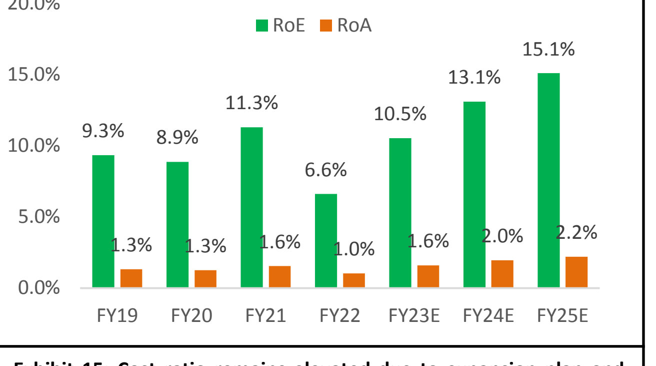


Exhibit 14: GNPA movement

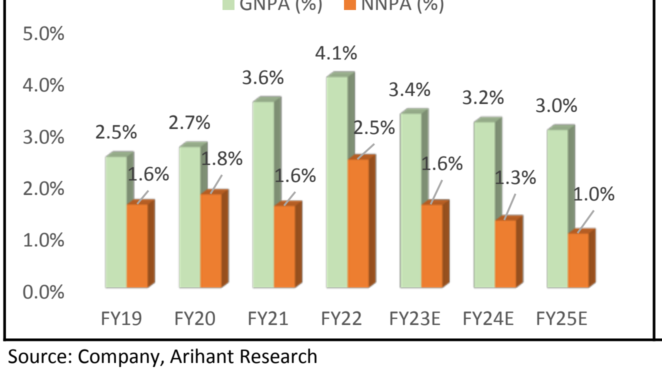
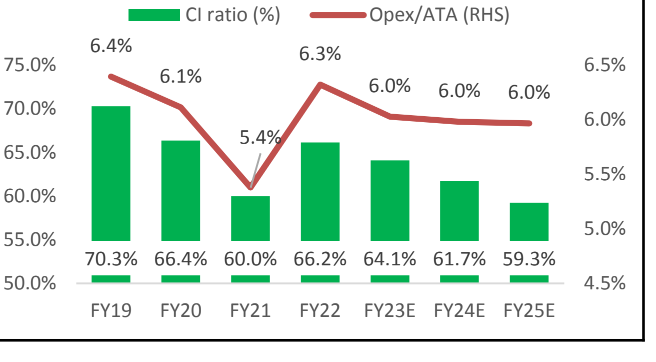


Exhibit 15: Cost ratio remains elevated due to expansion plan and some technology related expenses



Source: Company, Arihant Research

Investment Rationale

Well diversified loan book; Advances expected to grow by 22% CAGR over FY22-25E

- **Small Business loan constitutes the largest loan book mix of 46%**
- **Advances expected to grow by 22% CAGR over FY22-25E driven by non-microfinance portfolio**

Exhibit 16: Equitas SFB's Product Portfolio details

Small Business Loans	Vehicle Finance	Microfinance	MSE Finance	NBFCs Financing
•AUM: INR 10,055 cr	•AUM: INR 5,279 cr	•AUM: INR 4,007 cr	•AUM: INR 1,122 cr	•AUM: INR 692 cr
•Portfolio share: 46%	•Portfolio share: 24%	•Portfolio share: 18%	•Portfolio share: 5%	•Portfolio share: 3%
• Yield: 17.0%	• Yield: 17.1%	• Yield: 20.8%	• Yield: 9.97%	• Yield: 9.77%
•ATS: INR 3.47 lakhs	•ATS: INR 3.05 lakhs	•ATS: INR 0.21 lakhs	•ATS: INR 57.3 lakhs	•ATS: INR 1,775 lakhs
•GNPA: 4.2%	•GNPA: 4.2%	•GNPA: 4.7%	•GNPA: 5.6%	•GNPA: 0.7%

Source: Company, Arihant Research
Note: Small business loans AUM includes Housing finance AUM of INR 1,821 cr.
Yield as on FY22 and other financial details are as on Q1FY23.

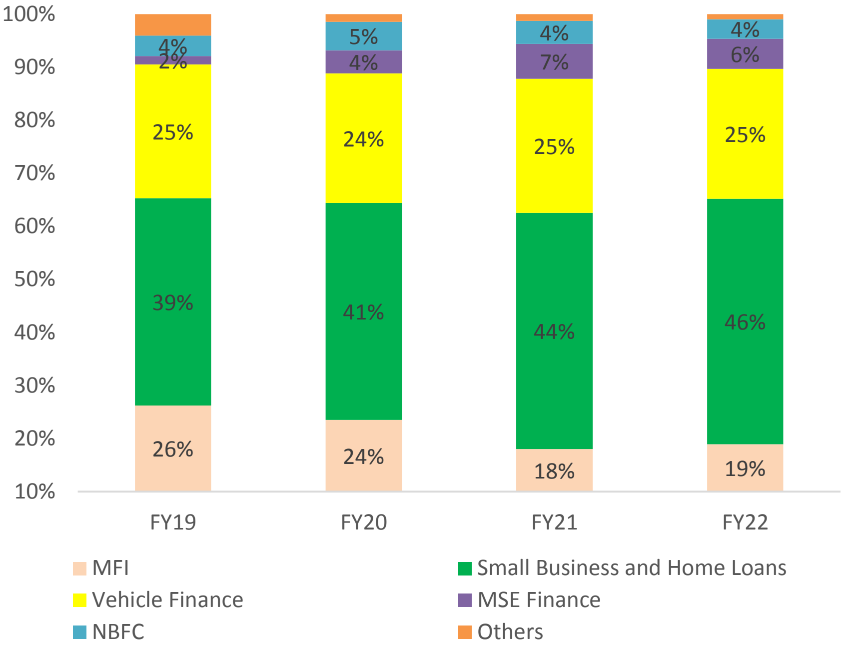
Bank has diversified its loan book very well by reducing higher share of unsecured microfinance lending. In its NBFCs days also, Equitas had a product portfolio into vehicle financing, home loans and MSE finance business. Post conversion into SFB, Equitas has strategically focused on increasing secured portfolio share faster than MFI portfolio. Also, after the conversion, bank has started focusing more on cross sell opportunities, deepening relationships with existing customers and also it has one of the highest banking touchpoint amongst SFBs.

Bank's secured lending asset mix is spread across Used and New Vehicles, Small Business Loans, Home Loans, MSE Loans, Agriculture Loans and NBFC lending. With the management's focus on derisking the portfolio, the bank has made significant progress in moving away from the unsecured microfinance book. Share of its Microfinance book has decreased from 47% of the portfolio in FY17 to 18% as on Q1FY23 which is expected to declined further up to 15% in the next 3 years.

Bank's diversification and focus on secured product segment can be seen in historical advances growth numbers. Bank had registered a gross advances growth of 28% CAGR over FY19-22, driven by Microfinance portfolio growth of 8% CAGR and Non-microfinance portfolio growth of 25% CAGR over the same period. In the non-microfinance portfolio, Small Business loans recorded AUM CAGR of 28%, Vehicle finance portfolio recorded AUM CAGR of 20% and MSE finance recorded AUM CAGR of 86% over the period of FY19-22.

We expect the bank to register a growth of 22% CAGR over FY22-25E and that will be driven by non-microfinance portfolio. Going forward, focus of the bank is to grow small business loans, Housing loans and CV portfolio.

Exhibit 17: AUM mix; Diversification seen towards secured lending



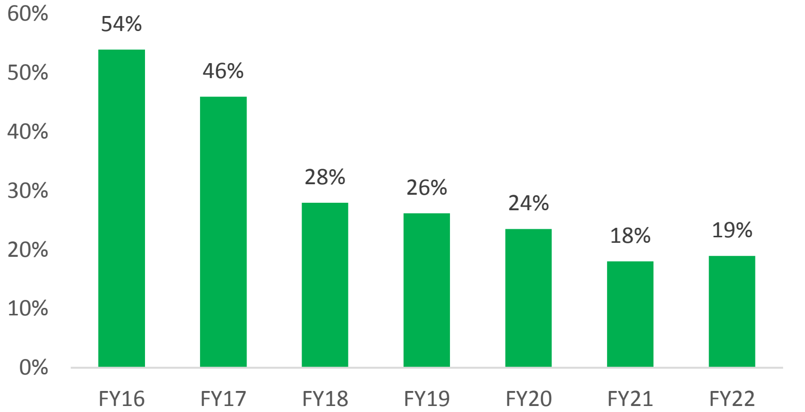
Segment wise Product Portfolio details

A) Microfinance – 19% of the portfolio

As an NBFC, Equitas had started its business as a pure play microfinance player. Later on, bank started de-risking their business model by diversifying into secured lending products. Share of microfinance portfolio has reduced from 34% in FY18 to 19% as on FY22 and bank is targeting to reduce this unsecured microfinance share to 15% in the next 3 years and below 10% in the long term. Microfinance AUM of the company increased by 8% CAGR over the period of FY19-22 and stood at INR 4,007 cr as on Q1FY23. Company generated a higher yield of 20.8% (As on FY22) in the MFI lending. GNPA in this segment stood at 4.7% with PCR of 47.8%.

Microfinance loans are mainly for the lower end of the customers comprises of farmers, micro entrepreneurs like vegetable- vendors, fruit and flower sellers and others. The bank has a conservative lending approach in its as its a high risk business. The average ticket size in micro lending stood at INR 21,000 as compared to industry average of INR 45K for SFB players and INR 39K for NBFC-MFI players.

Exhibit 18: Declining share of microfinance lending



Source: Company, Arihant Research

B) Small Business Loans including Agri loans – 38% of the portfolio

Small Business loans would remain the key growth driver for the bank; it forms higher share in the overall portfolio

The bank has entered the Small Business loan (SBL) segment in 2013, mainly to de-risk the portfolio and move into secured lending side. These loans are fully secured against the commercial or self-occupied property of the borrower. In this segment, bank provides financing to self-employed individuals operating small enterprises, typically in urban and semi-urban locations. These small business loans are advanced to individuals belonging to low income groups engaged in business activities (e.g. Kirana store, Dairy business, Tailor, mechanics with garages, agri, tea shops and building materials).

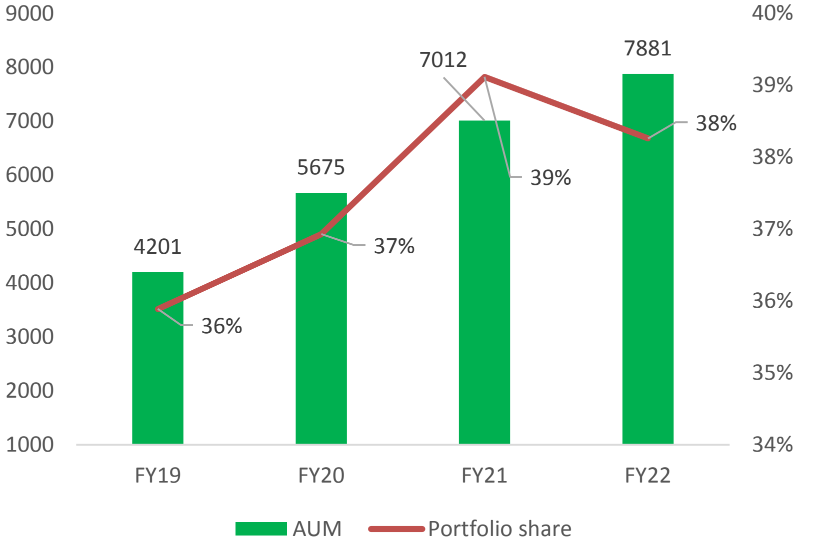
Loans offered under this segment are with ticket sizes ranging from INR 50K to INR 20 lakhs, depending on the customers business. As on Q1FY23, average ticket size in this portfolio was INR 6.45 lakhs at disbursement level and INR 3.47 lakhs at portfolio level. Avg. LTV on the product is 35-40%.

This segment has witnessed fastest growth in the past and recorded 28% CAGR growth over FY19-22 on the back of strong distribution network, focused segment and strong underwriting model. AUM in this segment stood at INR 8,234 cr as on Q1FY23 with an yield of 16.96% (as on FY22). In terms of product mix, 33% is towards general LAP, 21% - Micro LAP, 37% business loans and 9% towards Agri segment.

Micro LAP are secured loans launched to offer to the existing group loan customers higher loans for their businesses based on their microfinance loan repayment behavior. Over the years, Bank have expanded its operations to provide these loans to new customers. General LAP are secured loans were launched to offer facilities for low-level businesses and service providers for their business requirements primarily comprising small time working capital requirements.

Small business loans is one of the growth driver for the bank and we believe there is a huge addressable market provides which provides growth opportunity. We expect SBL to register a growth of 27.7% CAGR over FY22-25E.

Exhibit 19: Small Business Loan AUM share (in cr.)



Source: Company, Arihant Research

C) Housing Finance – 8% of the portfolio

Bank has launched housing finance business in 2011. Housing loan offerings are targeted towards self-employed individuals who have limited access to loans from banks and larger HFCs. Loans are provided for purchase of plots or house, construction of house, improvement/ restoration/ extension of home. Customers in this segment typically run small enterprises or are employed in the informal segment or involved in informal trade or commercial activity where income is not completely documented and requires field based credit assessment.

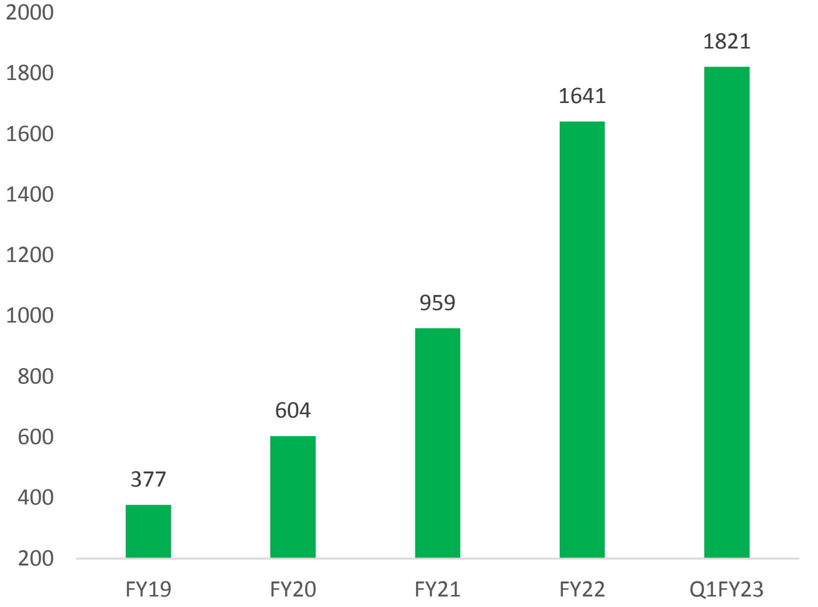
Ticket sizes in this segment ranges from INR 3 lakhs to INR 12.5 lakhs. As on Q1FY23, housing finance average ticket size was INR 7.96 lakhs at portfolio level. GNPA in this segment was at 1.4%. As on Q1FY23, Housing finance AUM stood at INR 1,821 cr. These loans are offered at interest rates between 11.00%-13.00% p.a. Housing finance portfolio had registered a growth of 63% over FY19-22.

With government's thrust on affordable housing like 'Housing for all' scheme, favorable demographic, Rising urbanization & nuclearisation, low housing penetration, Indian affordable housing finance market (HFC) is well-positioned to witness strong growth. Overall housing market is expected to deliver a AUM growth of ~9-11% CAGR over FY21-23E.

As per the report of a RBI appointed committee on the development of housing finance securitization market (Sept'19), the housing shortage in India is estimated to increase to 100 mn units by 2022. This will result into incremental loan demand of INR 50-60 tn. This is as compared to overall housing market outstanding of ~22.8 tn for FY21 implying immense potential for the housing finance market.

Considering, higher incremental opportunity in HFCs space, strong banking outlet of the bank coupled with bank's focus into affordable housing space, we believe, housing finance portfolio to record good growth going forward.

Exhibit 20: Housing Finance portfolio AUM (in cr.)



Source: Company, Arihant Research

D) Vehicle Finance – 24% of the portfolio

Equitas has commenced vehicle financing business in FY11 to cater to the customers who are typically first-time formal financial channel borrowers purchasing used commercial vehicles, with significant experience in hyperlocal logistics and small fleet operators. The bank started with used CV financing and later entered the new CV financing space. Also, bank has introduced used car financing.

The bank has an AUM of INR 5,279 cr as on Q1FY23. AUM as on FY22 stood at INR 5,047 cr of which, 36% portfolio is Light CV (LCV), 35% portfolio towards Small CV (SCV), 22% is Heavy CV (HCV) and 7% towards used car financing. The average ticket size in this segment stood at INR 4.93 lakhs at disbursement level and INR 3.05 lakhs at portfolio level. GNPA in this segment was at 4.2% as on Q1FY23. Yield in this portfolio as on FY22 was at 17.1%.

Loan tenure in the used CV segment is generally for 2.5 years to 3.5 years with ATS range of INR 2 lakhs to 5 lakhs and yield range of 21-23% p.a. Loan under new CV segment have a tenure of 3-4.5 years with yield range of 13.5%-15% pa.

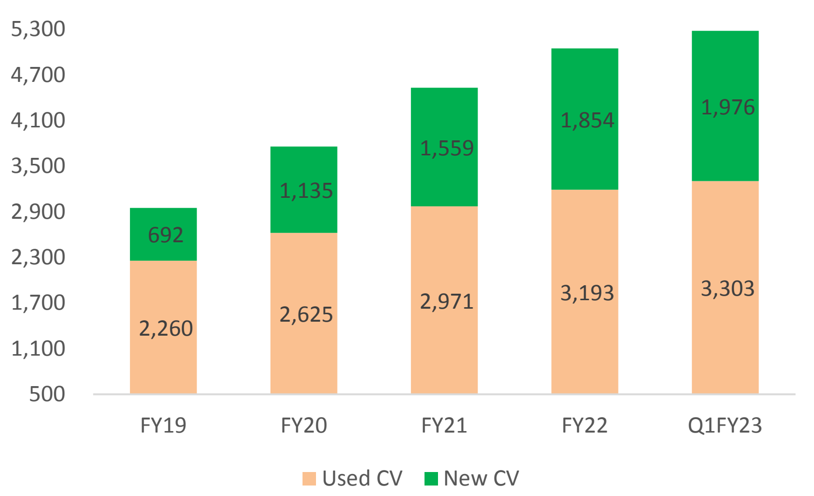
Loan tenure in the used CV segment is generally for 2.5 years to 3.5 years with ATS range of INR 2 lakhs to 5 lakhs and yield range of 21-23% p.a. Loan under new CV segment have a tenure of 3-4.5 years with yield range of 13.5%-15% pa.

Exhibit 21: Industry sales volume is expected to pick-up

Domestic Sales Segments	FY20 Volume	FY20 growth	FY21 growth	FY22P growth	FY23P growth
LCV	395783	-21%	-12%	9-14%	9-14%
MHCV	153366	-47%	-17%	37-42%	12-19%
Bus	19388	-6%	-77%	50-55%	87-92%
Total CV	568537	-29%	-21%	18-23%	13-18%

Source: Company Annual report, Arihant Research

Exhibit 22: Equitas Bank vehicle finance business AUM (in cr.)



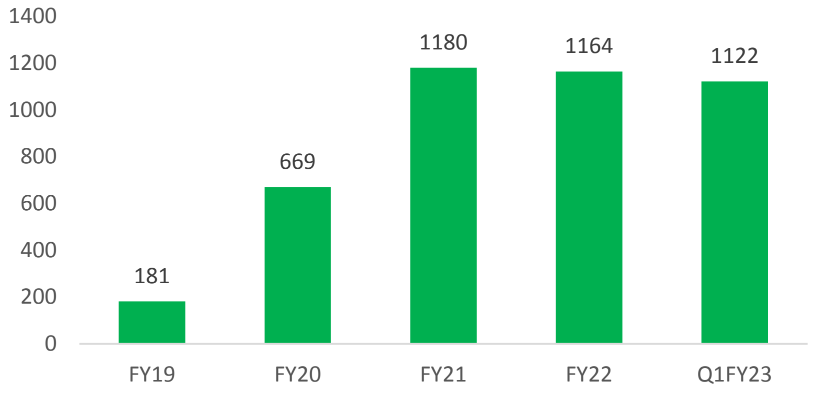
Source: Company, Arihant Research

E) Micro and Small Enterprise (MSE) Finance – 5% of the portfolio

Equitas was providing MSE finance (targeted towards formal sector) as part of its SBL product segment. Later, bank has separated the MSE finance vertical aimed at providing loans to micro and small enterprises for business expansion. Customers that comprise this segment typically undertake manufacturing and trading activities. Bank have developed a wide range of products and customized services including overdraft facility and corporate internet banking to suit specific needs of the MSE customers. Under this product segment, bank offers working capital loans. The ticket size for MSE loans ranges between INR 1 mn - INR 50 mn with average tenure between 1-5 years. These loans are offered at interest rates between 10.5-12.0% pa.

The bank has an MSE finance AUM of INR 1,122 cr as on Q1FY23. AUM as on FY22 stood at INR 1,164 cr. The average ticket size in this segment was at INR 57.3 lakhs at portfolio level as on Q1FY23. GNPA in this segment was at 5.6% with PCR of 30.8%. Yield in this portfolio as on FY22 was at 9.97%. This segment has registered a growth of 86% CAGR over the period of FY19-22.

Exhibit 23: MSE Finance portfolio AUM (in cr.)



Source: Company, Arihant Research

F) NBFC Financing – 3% of the portfolio

Under NBFC financing, bank offers loan to NBFCs that further lend to retail customers in the form of microfinance, vehicle finance, housing finance and similar sectors, and to certain corporates. Bank typically lend to the entities that are predominately rated BBB. Average ticket-size for these loans range between INR 150 mn-INR 500 mn and these loans are offered at interest rates between 10.5-13.0%. As on Q1FY23, NBFC financing AUM was at INR 692 cr with a ATS of INR 17.75 cr. GNPA in this segment was lower at 0.69% with PCR of 100%.

G) Others – 3% of the portfolio

Products include loans against gold, overdraft facilities against FD and unsecured business loans. Loan against Gold: Loans secured by gold jewelry of customers, with average ticket size of INR 30K to INR 4 mn. Overdraft facilities against Fixed Deposits: Extended to individuals, proprietorships, private companies that have open FD with bank with interest rate at 8.5-11.5%. AUM under this segment stood at INR 533 cr as on Q1FY23.

Liability profile scaling up well; One of the highest CASA amongst SFBs

- **Bank has scaled up liability franchised very well; CASA improved from 29% in FY18 to 52% in FY22**
- **Individuals forms 63% of the deposits share**
- **Cost of funds came down from 8.36% in FY18 to 6.58% in FY22**
- **Top 20 largest depositors contributes 13.8% in FY22 vs. 21.9% in FY21.**

Upon conversion from an NBFC to a bank, Equitas has successfully transitioned to deposits as its primary source of funding and these now form ~70% of the total liabilities vs. 42% in FY18. Bank had built its deposit base initially by garnering bulk deposits and gradually moved towards building a retail deposits base. Reduced reliance on borrowings and bulk deposits has also aided ~139bps (over FY20) reduction in incremental cost of funds to 6.6% in FY22. Equitas liability profile is fairly granular with Retail TD+CASA deposits contributing ~89% share in total deposits as on Mar'22.

Though CASA ratio remained volatile during FY18-20 but it has showed significant improvement during FY21-22. CASA ratio improved sharply from 29% in FY18 to 52% as on Q1FY23. Management's primary focus is to create a granular retail deposit. Bank has taken several initiatives on the digital front. ~60% of the bank accounts has been sourced digitally. On an incremental basis, 80% of the accounts are expected to be opened digitally.

It has partnered with multiple players under API banking on leading online platforms, payments banks, brokerages, etc. Bank have tie-up with Niyo to offer investment-cum-savings account, where the banking products are offered by the bank and the mutual fund account is provided by Niyo, at zero commission.

Bank have launched ELITE programme for sourcing the deposits, for mass-affluent customers. This product is available for select clients through all banking outlets and internet and mobile banking. This product has a additional features including higher interest rates, product and pricing benefits, and certain complementary services such as a wealth management system, dedicated relationship managers, and priority processing for senior citizens. ELITE book has crossed INR 8,000 cr with +70,000 customers as on Q1FY23.

Exhibit 24: Deposits growth over the years (in cr.)

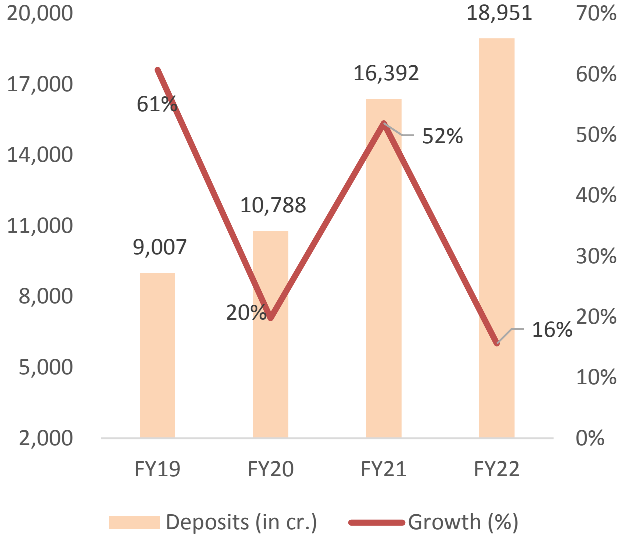
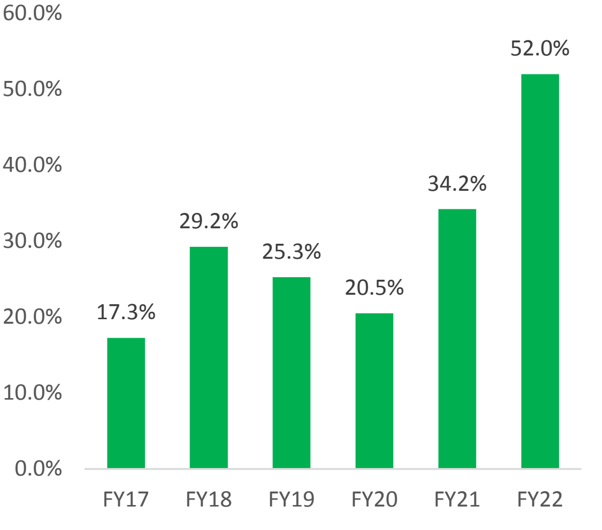


Exhibit 25: CASA ratio increased sharply



Asset quality to stabilise, credit costs to witness compression

Equitas SFB has seen relatively stable asset quality depsite the lending into informal customer segment. However, the bank had witnessed spike in GNPA due to covid. GNPA of the bank increased from 2.7% in FY20 to 3.6% in FY21 and at 4.1% in FY22. Net NPA of the bank increased from 1.6% in FY21 to 2.4% in FY22. In Q1FY23, bank had reported improvement in asset quality with GNPA/NNPA at 4%/2.1% respectively. Banks total restructured book stands at INR 1,190 cr (vs. INR 1,500 cr as on FY22), of which, standard restructured book stands at INR 410 cr and INR 271 cr is under NPA category. Bank holds a restructured loans provision of INR 276 cr (INR 114 cr restructured standard provisions and INR 162 cr restructured NPA provisions. Bank has made 100% provisions on Microfinance Covid restructured loans that has slipped into NPA.

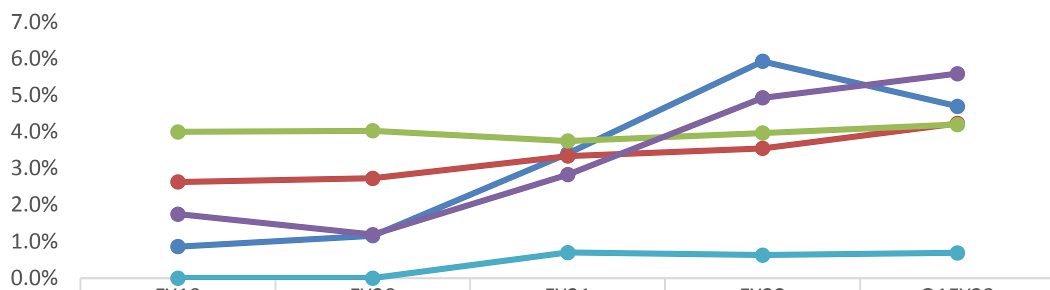
Bank has a conservative lending approach in Microfinance lending which is visible in ticket size of bank's MFI lending. The average ticket size in micro lending stood at INR 21,000 as compared to industry average of INR 45K for SFB players and INR 39K for NBFC-MFI players. High share of micro finance portfolio with large part of the borrowers being from daily laborer category impacted asset quality for the bank. Microfinance GNPA increased from 1.2% in FY20 to 5.9% in FY22 and 4.7% in Q1FY23.

With improvement in economic activity, we believe that the worst in terms of asset quality is likely over and it is already reflected in the balance sheet. Hence, additional stress will be limited going ahead. We build in credit cost of 1.2-1.5% over FY23-25E. Management in Q1 concall stated that, credit cost will be below 2% in FY23E as bank is witnessing improving collection efficiencies the restructured and standard book.

Exhibit 26: Restructuring book update

	As of 30th June 2022 (in cr.)				
Buckets	**MF**	**CV**	**SBL & HF**	**MSE**	**Total**
Standard	68	156	159	27	410
1-30 Days	13	93	35	16	157
31-60 Days	15	114	52	2	183
61-90 Days	48	64	54	4	170
NPA	26	132	104	9	271
Total	**170**	**559**	**404**	**58**	**1191**

Exhibit 27: Segment wise GNPA



	FY19	FY20	FY21	FY22	Q1FY23
MFI	0.9%	1.2%	3.4%	5.9%	4.7%
Small Business Loans	2.6%	2.7%	3.3%	3.6%	4.2%
VF	4.0%	4.0%	3.8%	4.0%	4.2%
MSE Finance	1.8%	1.2%	2.8%	4.9%	5.6%
NBFCs	0.0%	0.0%	0.7%	0.6%	0.7%

MFI Small Business Loans VF MSE Finance NBFCs

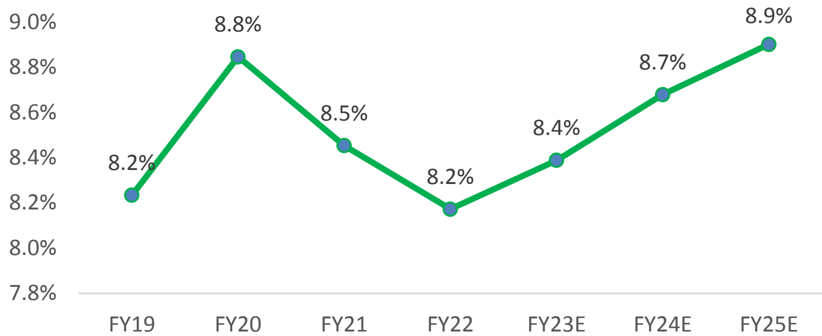
source: Company, Arihant research

Margins are likely to be at >8% on a steady state basis

Management's focus on reducing high yielding unsecured lending book share and move towards marginally lower secured lending product side has resulted into decline in yields. MFI lending share has come down from 34% in FY18 to 19% in FY22. Despite reduction in high yielding products, bank has maintained its margins very well due to strong growth witnessed in other key segment and steady build up of the liability franchise with higher CASA share has result in a drop in CoF. NIM of the bank improved from 8.5% in FY21 to 9.1% as on Q1FY23.

With transitioning into a bank, Equitas was able to garner the deposits and bank's reliance on borrowings has reduced which has supported in cost of funds improvement. Cost of fund of the bank improved from 8.36% in FY18 to 6.2% in Q1FY23. Expectation of strong increase in credit growth and strong traction on liability side will support the margins going ahead. Overall, we estimate NIMs to be in the range of 8-9% over FY23-25E, translating into NII CAGR of 23% over the same period.

Exhibit 28: NIM likely to be in the range of 8-9% going forward



Increase in operating leverage to aid into improvement in cost ratio

Post conversion into SFB, Equitas had spent well on building deposits franchise, cost due to change in business model and capex related cost was there which has resulted into sharp spike in operating expenses ratio. This was the case with other SFBs also. Equitas cost to income ratio was at 80% in FY20 (it was in the range of 50-55% pre SFB conversion) which is declining gradually as operating leverage kicking in. Cost to income ratio as on FY22 was at 66.2% which has further come down to 62.4% as on Q1FY23. Higher opex was also a result of aggressive hiring by the bank. Employee count of the bank increased from 13,490 in FY18 to 17,607 in FY22.

Exhibit 29: Cost to income ratio trend C/I ratio

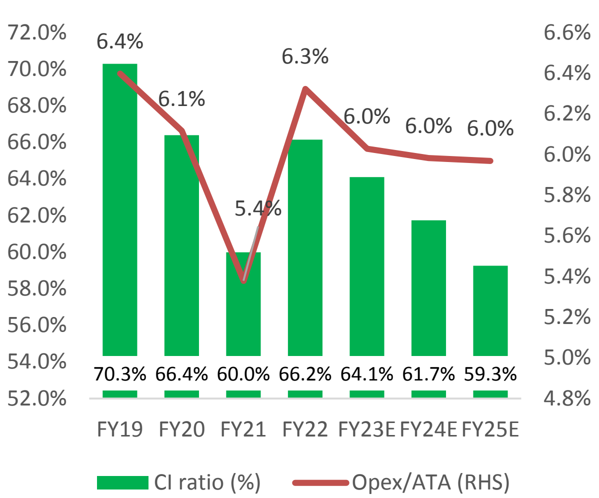
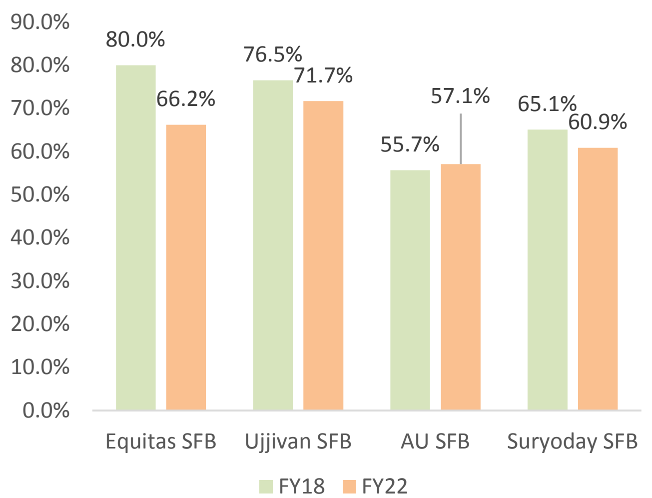


Exhibit 30: Cost to income ratio trend vs. peers



Valuation and View; Initiate with ‘Buy’

Equitas SFB is a good play in the small finance banking space, considering its niche focus on small-ticket, more focus into secured retail loans to the self-employed and low/mid-income segments customers. The bank has transitioned its NBFC model to SFB model very well by reducing the high risk unsecured lending exposure. Equitas transformation journey in terms of transition related cost, branch building and workforce expenses and realignment of loan mix with more focus on secured lending side has largely been over and now bank is well positioned to gain market share and to get benefit of operating leverage which will support its profitability.

The bank largely caters to bottom-of-the-pyramid customers who are new to credit or have little access to formal loans – an under-served market segment that offers large opportunities for growth. Despite serving to the bottom-of-the-pyramid customers, bank has managed its asset quality and it was in the range of 2.5-3%. However, covid has impacted its asset quality and GNPA reached at 4% in FY22 which is improving gradually with declining credit cost.

During the FY18-22, the bank’s AUM grew by 28% CAGR, driven by a robust growth in the non-microfinance portfolio as it looked to de-risk its portfolio. We expect bank to report CAGR growth of 22% in its AUM over the period of FY22-25E. Considering, Equitas more secured profile compared to other SFB lenders, moderation in credit cost in FY23, strong growth expectation, robust collection and underwriting mechanism and strong liability franchise, we expect ROA/ROE to improve to 2.2%/15.1% by FY25E from 1%/6.6% in FY22. The bank is expected to close the reverse merger with it’s parent company by March’23.

We initiate coverage on Equitas SFB with a BUY rating and target price of INR 78, valuing the stock at 1.6x FY25E P/ABV.

Key risks: A) Asset quality risk b) Geographic concentration risk.

Exhibit 31: SFBs comparison on key financial metrics

SFBs name (Amount in cr.)	CMP (in Rs.)	Mcap	AUM	Deposits	Yield	Cost of funds	NIM	Cost to Income
AU SFB	594	40,750	47831	52585	13.7%	5.9%	5.7%	57.1%
Equitas SFB	50	6,268	20597	18951	17.6%	6.6%	8.5%	66.2%
Ujjivan SFB	22	4,466	18162	18292	16.6%	6.3%	8.8%	72.0%
Suryoday SFB	95	1,013	5063	3849	18.2%	7.0%	8.6%	60.9%

Exhibit 31: Peer group comparison (continued)

SFBs name (Amount in cr.)	Cost/Assets	GNPA (%)	NNPA (%)	CRAR (%)	CASA (%)	Branch Count
AU SFB	4.0%	2.0%	0.6%	21.0%	37.0%	432
Equitas SFB	6.3%	4.0%	2.1%	25.2%	52.0%	861
Ujjivan SFB	6.8%	5.9%	0.1%	19.0%	27.3%	575
Suryoday SFB	5.1%	10.0%	5.0%	37.9%	18.8%	565

Exhibit 31: Peer group comparison (continued)

SFBs name (Amount in cr.)	ROA (%)				ROE (%)				P/BV(x)			
	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
AU SFB	1.9%	1.7%	1.8%	1.8%	16.4%	15.7%	16.9%	18.3%	4.9	4.0	3.3	2.9
Equitas SFB	1.0%	1.6%	2.0%	2.2%	6.6%	10.5%	13.1%	15.1%	1.4	1.3	1.1	1.0
Ujjivan SFB	-1.8%	1.8%	1.9%	2.2%	-14.8%	14.3%	15.7%	18.7%	1.4	1.1	0.9	0.8
Suryoday SFB	-1.2%	1.5%	2.0%	--	-6.0%	8.7%	12.9%	--	0.7	0.6	0.5	--

Source: Company, Arihant Research, Bloomberg estimates taken for AU SFB and Suryoday SFB, Financials are as on FY22.

Exhibit 32: RoA Tree of the Equitas SFB

in %	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income/Avg. Assets	14.5	15.1	14.5	13.4	13.5	14.0	14.5
Interest Expended/Avg. Assets	6.6	6.6	6.3	5.5	5.5	5.6	5.7
Net Interest Income/Avg. Assets	**7.9**	**8.5**	**8.2**	**7.9**	**8.0**	**8.4**	**8.8**
Other Income/Avg. Assets	1.9	1.6	1.9	2.1	2.1	2.1	2.2
Operating Income/Avg. Assets	9.9	10.1	10.1	10.0	10.1	10.5	11.0
Operating Expenses/Avg. Assets	6.9	6.7	6.0	6.6	6.5	6.5	6.5
Employee Expenses/Avg. Assets	3.8	4.0	3.6	3.5	3.4	3.5	3.6
Other Operating Expenses/Avg. Assets	3.1	2.7	2.4	3.1	3.1	3.0	2.9
PPOP/Avg. Assets	**2.9**	**3.4**	**4.0**	**3.4**	**3.6**	**4.0**	**4.5**
Provisions/Avg. Assets	0.5	1.3	1.5	1.7	1.2	1.0	1.0
PBT/Avg. Assets	**2.4**	**2.1**	**2.5**	**1.7**	**2.5**	**3.0**	**3.4**
Tax Expenses/Avg. Assets	0.9	0.8	0.8	0.6	0.7	0.9	1.0
Net Income (RoAA)	**1.4**	**1.4**	**1.7**	**1.1**	**1.7**	**2.1**	**2.4**
RoAE (%)	9.3	8.9	11.3	6.6	10.5	13.1	15.1

Source: Company, Arihant research

Exhibit 33: Leadership team of the bank

Name and Designation	Brief Profile
Vasudevan Pathangi Narasimhan MD & CEO)	He holds BSc degree in Science from the Madras University and is a qualified Company Secretary. He has served as VP and Head of Vehicle Finance in Cholamandalam Investment and Finance Co Ltd for about two decades; EVP and Head of Consumer Banking in DCB for one & half years.
Murali Vaidyanathan Senior President & Country Head Branch Banking, Liabilities)	Murali has worked with Kotak, ICICI Bank and Citi Group prior to joining Equitas Bank. He has over 20 years of experience in setting up branches & business verticals. He has completed General Management Program from IIM Ahmedabad.
Sridharan N (CFO)	Mr. Sridharan holds a bachelor's degree in commerce from University of Madra. He is a qualified Chartered Accountant and Certified Cost & Works Accountant. Prior to joining the Bank, he was the general manager- finance at SRA Systems Limited and vice president – MIS and commercial control at Subhiksha Trading Services Limited. He joined Equitas Bank in August 2010.
Rohit Phadke (President & Head)	Rohit Phadke is a president head of the bank looking into emerging enterprise banking & mortgages. Prior to joining Equitas he was with Cholamandalam Investment & Finance Co. Ltd as Business Head – Home Loans where he has worked for 18 years.
Sampathkumar K. Raghunathan (Company Secretary and Compliance Officer)	He holds a bachelor's degree in commerce from University of Madras. He is a member of the Institute of Company Secretaries of India. He has previously worked at the Reserve Bank of India and at the Office of the Comptroller and Auditor General of India. Prior to joining Bank, he worked at Hinduja Leyland Finance Limited. He joined the bank in 2014.
Pallab Mukherji (Chief People Officer)	Pallab Mukherji is the Chief People Officer of the Bank. He holds a post graduate diploma in personnel management and industrial relations from XLRI, Jamshedpur and has completed a strategic HR management, Michigan. Prior to joining the Bank, he has worked with The Arvind Mills and HDFC Bank. He was the president with the HR department at IIFL Holdings Limited. He was appointed as the chief people officer of the Bank on February 17, 2020.

About the Company:

Equitas SFB is one of the largest small finance banks in India. The bank commenced its operations in 2007 as a microfinance lender. Subsequently, it has diversified into Vehicle Finance & Housing Finance in 2011 and SME Finance & LAP in 2013. The bank had received in-principal approval from the RBI to convert into SFB in Sept'2015 and commenced banking operations in 2016. Equitas Bank is headquartered in Chennai and has the largest network of branches among the SFBs. It has 876 banking outlets, 288 business correspondents and a network of 342 ATMs across 18 states and UTs. It employs over 17,936 employees. Equitas Holdings Ltd is the promoter with 74.5% stake.

Its focus customer segment include individuals with limited access to formal financing channels on account of their informal, variable and cash-based income profile. On the liability side, bank's target customers comprise mass and mass-affluent individuals. To promote the business through digital approach, it has set up a digital banking team to focus on leveraging technology and develop products/services to acquire customers.

In Oct'20, Equitas came out with an IPO of INR 518 cr issue size, consisting OFS of INR 238 cr fresh issue of INR 280 cr. The price band of IPO was at INR 32-33. The IPO was subscribed 1.95x.

Exhibit 34: State-wise advance mix

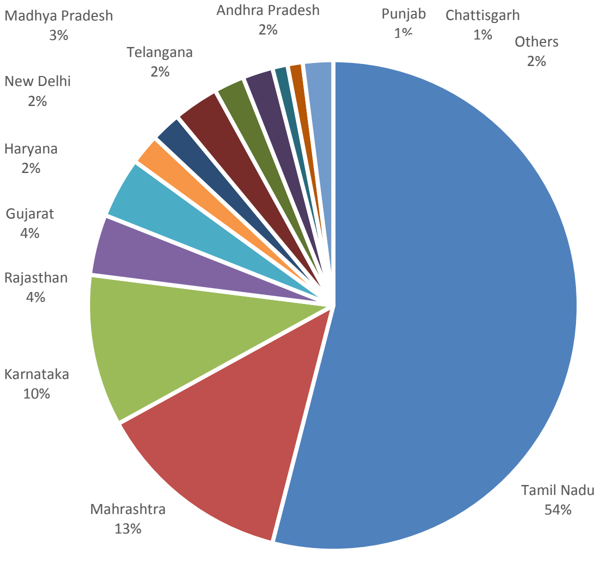


Exhibit 35: State-wise deposit mix

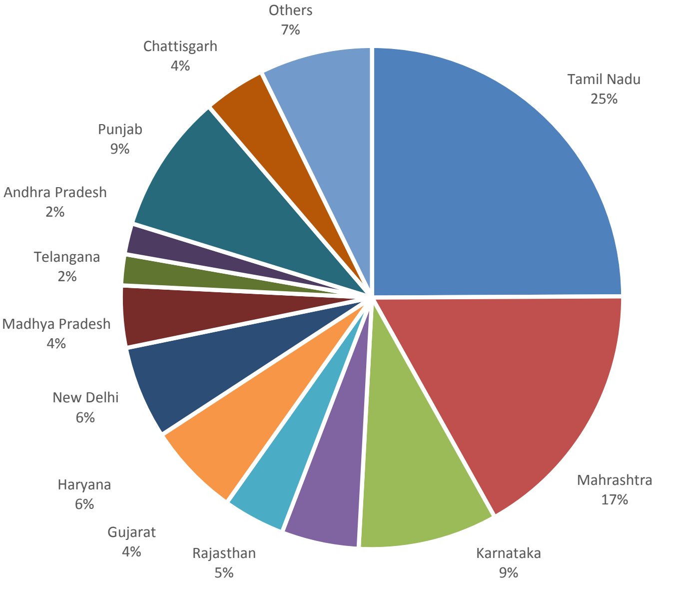


Exhibit 36: Key Milestones:

Year	Event
2007	Incorporation of Equitas
2010	Gross AUM crossed INR 500 cr
2011	Launched Vehicle Finance and Housing Finance
2013	Launched SME and LAP businesses
2015	Received in prinicipal approval from RBI to convert into small finance bank
2016	Final approval received from RBI and started operation as small finance bank
2017	RBI granted Scheduled Commercial Bank status to Equitas Small Finance Bank
2018	Launched NBFC/Corporate Loan business
2020	INR 518 cr IPO of Equitas Small Finance Bank, oversubscribed by 1.95x
2022	Equitas Holdings Ltd and Equitas Small Finance Bank Ltd merger announced

Source: Company, Arihant Research

Key Financials

Profit & Loss Statement (in INR Cr)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Interest Income	2,112	2,645	3,194	3,460	3,945	4,748	5,834
Interest Expended	960	1,150	1,396	1,421	1,608	1,905	2,286
Net Interest Income	**1,152**	**1,495**	**1,798**	**2,039**	**2,337**	**2,843**	**3,548**
Other Income	283	282	418	538	608	711	887
Operating Income	1,435	1,778	2,216	2,576	2,945	3,554	4,436
Operating Expenses	1,008	1,180	1,329	1,704	1,888	2,194	2,629
Employee Expenses	551	710	791	898	999	1,186	1,469
Other Operating Expenses	457	470	538	806	889	1,009	1,160
PPOP	**426**	**598**	**887**	**872**	**1,057**	**1,360**	**1,807**
Provisions	78	221	335	433	342	337	419
PBT	348	377	551	438	715	1,022	1,388
Tax Expenses	138	133	167	158	214	307	416
Net Income	**211**	**244**	**384**	**281**	**500**	**716**	**972**

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (in INR Cr)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Equity & Liabilities							
Share Capital	1,006	1,053	1,139	1,252	1,252	1,252	1,252
Reserves & Surplus	1,248	1,691	2,257	2,994	3,494	4,210	5,182
Net Worth	2,254	2,744	3,396	4,246	4,746	5,462	6,434
Deposits	9,007	10,788	16,392	18,951	21,983	25,940	30,609
Borrowings	3,973	5,135	4,165	2,616	3,215	3,442	4,536
Other Liabilities and Provisions	529	628	762	1,139	1,367	1,840	2,465
Total Capital & Liabilities	**15,763**	**19,296**	**24,715**	**26,952**	**31,311**	**36,684**	**44,043**
Assets							
Cash & Balances with RBI	403	381	515	957	684	844	1,396
Balances with Other Banks & Call Money	858	2,156	2,864	1,176	1,369	1,406	1,745
Investments	2,344	2,343	3,705	4,450	4,895	5,384	5,923
Advances	11,595	13,728	16,848	19,374	22,814	28,123	34,908
Fixed Assets	237	213	185	200	217	235	255
Other Assets	325	475	598	795	1,332	692	-184
Total Assets	**15,763**	**19,296**	**24,715**	**26,952**	**31,311**	**36,684**	**44,043**

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Ratios

Ratios	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Growth rates							
Advances (%)	50.5%	18.4%	22.7%	15.0%	17.8%	23.3%	24.1%
Deposits (%)	60.7%	19.8%	51.9%	15.6%	16.0%	18.0%	18.0%
Total assets (%)	18.5%	22.4%	28.1%	9.0%	16.2%	17.2%	20.1%
NII (%)	33.8%	29.8%	20.2%	13.4%	14.6%	21.7%	24.8%
Pre-provisioning profit (%)	93.1%	40.2%	48.4%	-1.7%	21.2%	28.7%	32.9%
PAT (%)	561.5%	15.7%	57.7%	-26.9%	78.2%	43.0%	35.8%
Balance sheet ratios							
Credit/Deposit (%)	128.7%	127.2%	102.8%	102.2%	103.8%	108.4%	114.0%
CASA (%)	25.3%	20.5%	34.2%	52.0%	52.5%	53.0%	53.0%
Advances/Total assets (%)	73.6%	71.1%	68.2%	71.9%	72.9%	76.7%	79.3%
Leverage (x) (Asset/Shareholder's Fund)	7.0%	7.0%	7.3%	6.3%	6.6%	6.7%	6.8%
CAR (%)	22.4%	23.6%	24.2%	25.2%	25.9%	24.7%	24.0%
CAR - Tier I (%)	20.9%	22.4%	23.2%	24.5%	25.4%	24.3%	23.6%
Operating efficiency							
Cost/income (%)	70.3%	66.4%	60.0%	66.2%	64.1%	61.7%	59.3%
Opex/total assets (%)	6.4%	6.1%	5.4%	6.3%	6.0%	6.0%	6.0%
Opex/total interest earning assets	2.7%	2.9%	2.6%	2.4%	2.4%	2.5%	2.5%
Profitability							
NIM (%)	8.2%	8.8%	8.5%	8.2%	8.4%	8.7%	8.9%
RoA (%)	1.3%	1.3%	1.6%	1.0%	1.6%	2.0%	2.2%
RoE (%)	9.3%	8.9%	11.3%	6.6%	10.5%	13.1%	15.1%
Asset quality							
Gross NPA (%)	2.5%	2.7%	3.6%	4.1%	3.4%	3.2%	3.0%
Net NPA (%)	1.6%	1.8%	1.6%	2.5%	1.6%	1.3%	1.0%
PCR (%)	37.0%	40.7%	58.6%	42.7%	55.1%	61.7%	67.6%
Credit cost (%)	0.7%	1.6%	2.0%	2.2%	1.5%	1.2%	1.2%
Per share data / Valuation							
EPS (INR)	2.1	2.3	3.4	2.2	4.0	5.7	7.8
BVPS (INR)	22	26	30	34	38	44	51
ABVPS (INR)	21	24	27	30	35	41	48
P/E (x)	23.9	21.6	14.8	22.3	12.5	8.7	6.4
P/BV (x)	2.2	1.9	1.7	1.5	1.3	1.1	1.0
P/ABV (x)	2.4	2.1	1.8	1.7	1.4	1.2	1.0

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Arihant Capital
Generating Wealth

Initiating Coverage
06th Oct 2022

Ujjivan Small Finance Bank

Getting out of the woods

CMP: INR 22

Rating: Buy

Target Price: INR 36

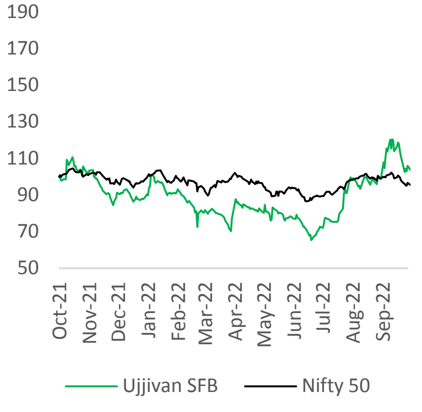
Stock Info	
BSE	542904
NSE	UJJIVANSFB
Bloomberg	UJSFB IN
Reuters	UJSFB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	2,155
Mkt Cap (INR Cr)	4,466
52w H/L (INR)	26 / 14
Avg Yearly Vol (in 000')	2,959

Shareholding Pattern %
(As on 15th Sep, 2022)

Promoters	73.7
FII	2.9
DII	9.6
Public & Others	13.8

Stock Performance (%)	1m	3m	12m
Ujjivan SFB	11.3	52.3	9.7
Nifty 50	-1.5	9.1	-2.4

Ujjivan SFB vs Nifty 50



Ujjivan Small Finance Bank's (Ujjivan SFB) fourfold objective of growing assets base, increasing collections, strengthening the leadership team and improving asset quality is doing well and the bank is well on track on these counts. Ujjivan SFB is a mass market focused SFB in India, catering to underserved segments with focus on digital capabilities, customer centricity, and financial inclusion, especially in rural areas. As per the geography, AUM of the bank is well diversified with no single state contributing >16% of AUM. Bank is rapidly diversifying its advances profile towards secured products as its microfinance share has come down from 100% to 68% as on FY22. From being a microfinance player to its journey towards building secured assets is progressing well and liability franchise trending better with retail deposits at 58% and CASA ratio at 27.9%. We believe the long-term prospects of the bank remain attractive on the back of 1) diversification towards secured portfolio, 2) improving asset quality post covid disruption, and 3) peaking out of the opex cycle, 4) credit cost moderation driving ROA expansion and 5) strengthened leadership team.

Diversification towards secured lending: Ujjivan SFB is focusing to de-risk its portfolio by moving towards secured lending i.e. on SME, Affordable housing, FIG lending (loan to NBFCs) and other products such as vehicle finance, gold finance and personal loan. Share of secured lending product has increased from Nil to 32% as on FY22. Bank is looking to realign its AUM mix with micro and non-micro banking share at 50%-50% over the medium to longer term from 68%-32% respectively. We expect the book to register a growth of 30% CAGR over FY22-25E mainly driven by growth in non-MFI book growing at 38% CAGR over the same period.

Earnings are set to accelerate due to credit cost and Opex moderation: After conversion into SFB, bank had invested towards branch expansion to build a deposits franchise, technology and employee cost was there which has resulted in higher opex during the transition period. As the large part of investment had been over cost ratio of the bank likely to stabilize at current level and expect improvement in the medium term. Profitability of the bank was subdued in the last 2 years due to higher credit cost which has impacted RoA. We believe, RoA of the bank to bounce back in FY23E as credit cost and opex is expected to moderate.

Asset quality stress easing out gradually; GNPA set to improve: Historically, GNPA of the bank (excluding demonetization) was in the range 1% but it has increased sharply in FY21 and FY22 due to covid. As bank has higher share of MFI lending, it had witnessed major stress and credit cost also increased sharply to 5-7% range. However, we are expecting GNPA to improve going ahead due to improving collection efficiency, diversification into secured lending and strong recovery.

Valuation and View: We initiate coverage on Ujjivan SFB with a 'Buy' rating and TP of INR 36, valuing it at 1.3x FY25E P/ABV which implies a potential upside of 64% from the CMP. Improving collection and underwriting mechanism, strong growth trajectory, moderation in credit cost and an experienced leadership team are the key positives.

in Cr.	NII	PPOP	PAT	NIM (%)	RoA (%)	RoE (%)	P/BV(x)
FY20	1,634	637	350	10.6%	1.9%	11.0%	1.2
FY21	1,728	809	8	9.3%	0.0%	0.3%	1.2
FY22	1,774	590	-415	8.4%	-1.8%	-14.8%	1.4
FY23E	2,183	940	547	8.5%	1.8%	14.3%	1.1
FY24E	2,843	1,311	715	8.7%	1.9%	15.7%	0.9
FY25E	3,709	1,751	1,043	9.0%	2.2%	18.7%	0.8

Source: Company, Arihant Research

Arihant Capital Markets Limited | Research Analyst SEBI Registration No: INH000002764
1011, Solitaire Corporate Park, Bldg No.10, 1st Floor, Andheri Ghatkopar Link Rd, Chakala, Andheri (E), Mumbai 400093

Story in charts

Exhibit 37: AUM expected to grow by 30% over FY22-25E. Non-microfinance portfolio is expected to increase by 38% CAGR over the same period.

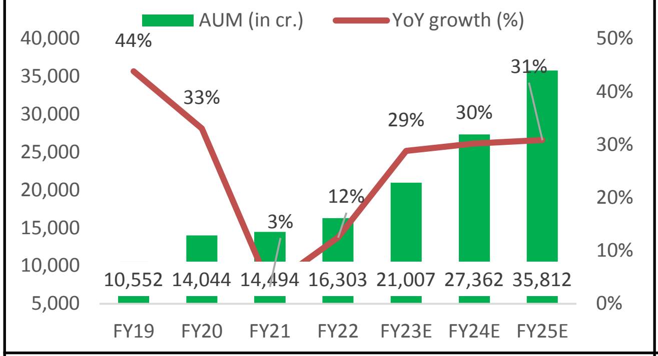


Exhibit 38: Profit expected to revert back driven by moderation in credit cost (in cr.)

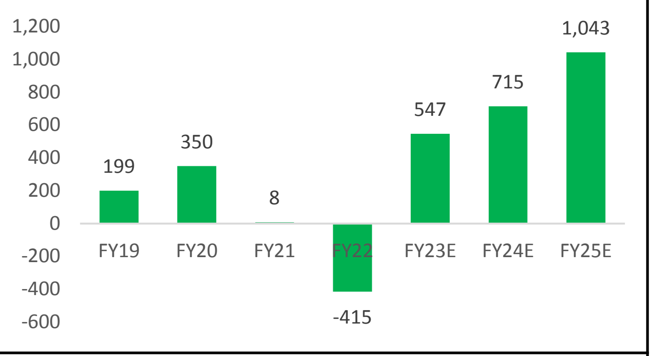


Exhibit 39: Deposits base increase at rapid pace; Deposits expected to increase by 28% CAGR over FY22-25E (in cr.)

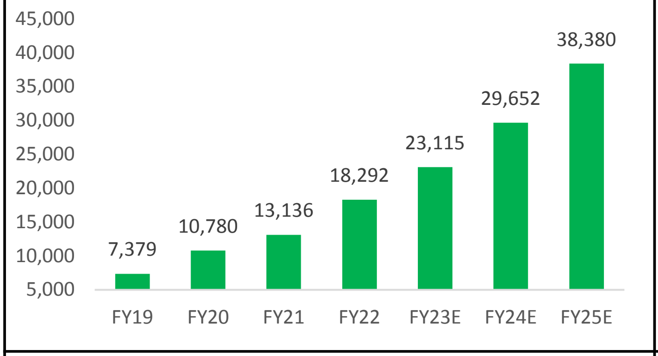


Exhibit 40: Improvement seen on the CoF side due to increasing CASA share; Yield decline was mainly due to move into secured lending

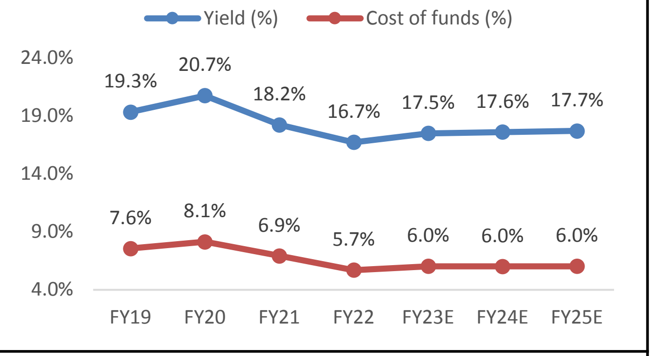


Exhibit 41: Margins are likely to be at 9% going forward

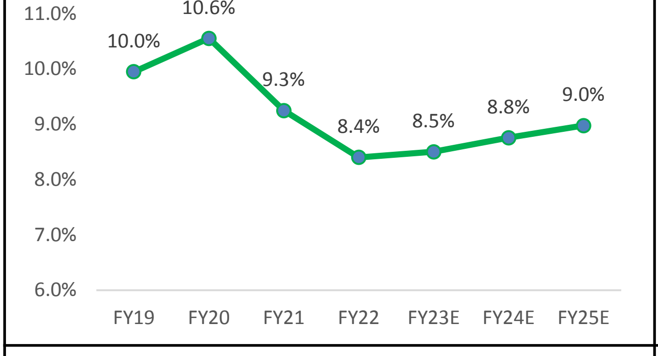


Exhibit 42: Return ratios expected to bounce back

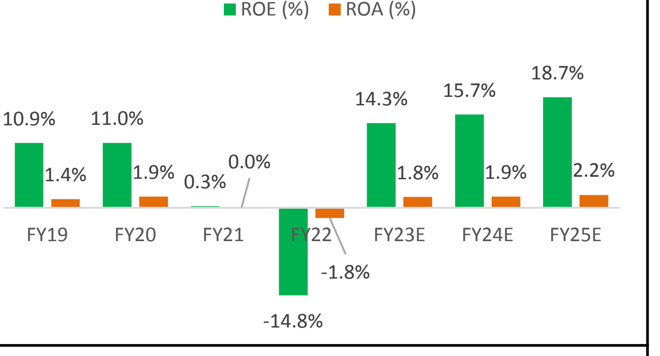


Exhibit 43: GNPA ratio expected to improve going ahead

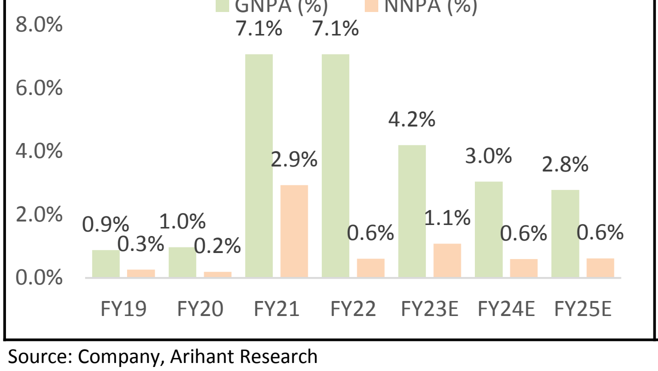
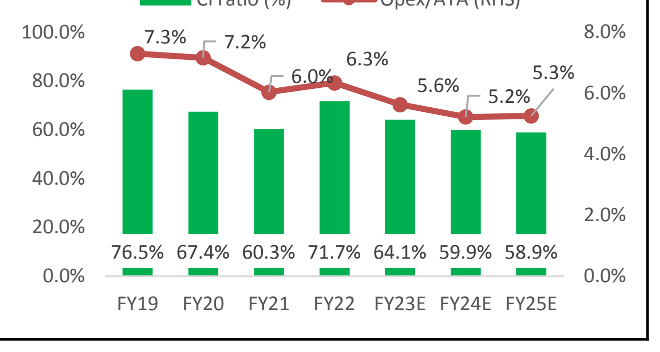


Exhibit 44: Cost ratio remains elevated due to expansion plan and some technology related expenses



Source: Company, Arihant Research

Investment Rationale

Diversification towards secured lending; Advances expected to grow by 30% CAGR over FY22-25E

Post conversion into SFB, Ujjivan finance started diversifying business segment mainly to de-risk the portfolio. In its NBFC days, Ujjivan was mainly into microfinance business but later on it started focusing more into secured lending. Diversification was mainly towards, Affordable housing, SME lending, Vehicle loans and FIG lending. Thus, share of MFI lending has decreased from 98% in FY18 to 68% currently. **Bank is looking to realign its AUM mix with micro and non-micro banking share at 50%-50% over the medium to longer term.** Bank's move from higher yielding microfinance lending to secured low yielding products such as MSE Financing and Affordable Housing Finance has led to decline in yields. Most of its secured products are end-to-end digitally enabled, which makes its product offerings more competitive and easily accessible in remote areas.

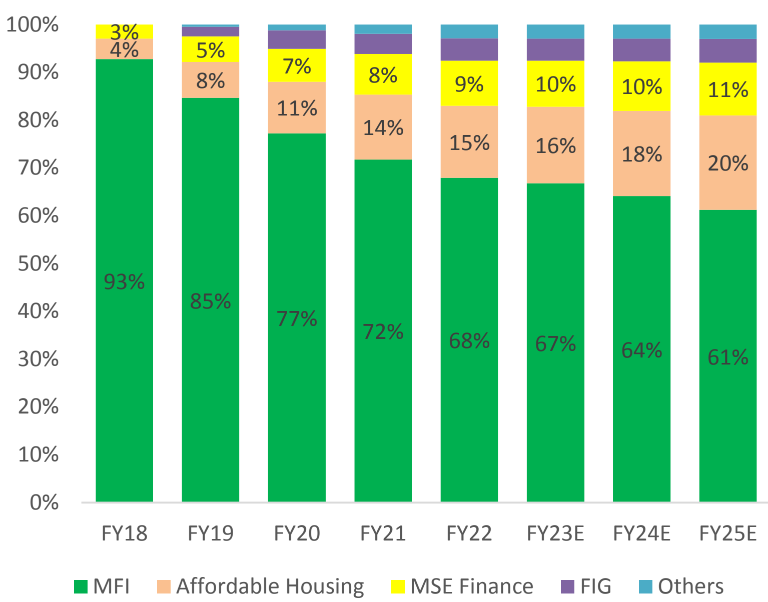
Exhibit 45: Ujjivan SFB's Product Portfolio details

Micro Banking	Micro and Small Enterprise loans (MSE)	Affordable Housing Loans	Vehicle loans	Financial Institutions group
• Group loans • Individual loans • Top up loans • Agri and allied loans • Gold loan • Street vendor loan	• Secured enterprise and Business loan • Business edge loan • LAP • Supply chain finance through fintech	• Construction and Purchase • Home improvement • Commercial purchase loan • Home equity loan	• Two wheeler laon • MMCV loan • Used car loan	• Term loan to NBFCs and MFIs • CC/OD • Bank guarantee • Working capital demand loan

Source: Company, Arihant Research

We expect the bank to register a growth of 30% CAGR over FY22-25E driven by non-microfinance portfolio CAGR growth of 38% over the same period.

Exhibit 46: AUM mix; Diversification seen towards secured lending



Source: Company, Arihant Research

Segment wise Product Portfolio details

A) Microfinance – 69% of the portfolio

As an NBFC, Ujjivan had commenced its business as a pure play microfinance player serving to unserved and underserved segments. There is 3 part of the loan under microfinance: i) Group loans, ii) Indiavidual loans and iii) loan for Agri and Allied activities under MFI. Micro Banking currently serves over 4 mn unserved and underserved customers and bank is focused on managing collection and reviving the business. Bank is looking to reduce its microfinance lending share from the portfolio.

Share of Group loans, Individual loans and Agri & Allied loans stood at 83%, 15% and 1% respectively as on Q1FY23

i) Group loans:

- Group loans under MFI are basically for the customers needs such as for small vendors, fund for business, medical emergencies, home improvement, repayment of high-cost debts availed for family needs, social, religious obligations and purchase of consumer durables. Bank offers group loan products to groups of five to 10 members, who live in the same area and within the operating radius of the same branch, and whose annual household income is not be more than INR 100,000 in rural areas and not more than INR 160,000 in non-rural areas.
- The average ticket size of these group loans is INR 56,944 and the portfolio yields is at ~22%. The average tenure of these loans is 2 years. The ticket size of these customers is slightly higher than the avg. ticket size in the MFI industry given the area of operations.
- Group loan products currently offered by bank includes: Ujjivan Bank Group Business Loan, Group Family Loan, Group Agriculture and Allied Loan, Group Education loan and Top up loan.
- Currently, AUM under Group loan stood at INR 11,158 cr as on Q1FY23 which forms 83% of the total MFI loan.

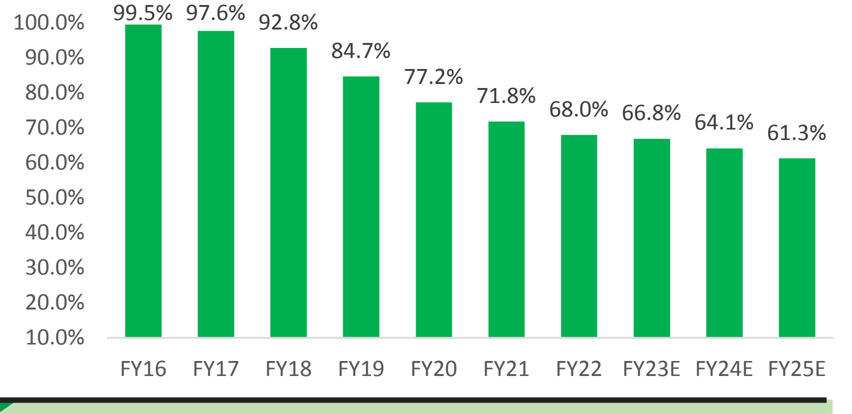
ii) Individual loan:

- Under Individual loan bank targets towards long-term group loan customers with a repayment track history of more then 20 months installments and there is higher overlap with JLG.
- The average ticket size of the product is INR 1.28 lakh and the portfolio yields a marginally higher than the group lending portfolio and it is in range of 23-24% p.a.

ii) Agri and Allied loans:

- In Agri and allied loans, bank offers loan to small and marginal farmers including those engaged in allied activities such as dairying, sericulture, animal husbandry and purchase renovations.
- Ticket size in this segment differs with each product offered and it ranges INR 30,000-60,000 for group agri loans and INR 60,000 – INR 1.5 lakhs in Agri Kisan Suvidha loan scheme. Yield in this segment ranges from 22-24%.

Exhibit 47: Declining share of microfinance lending

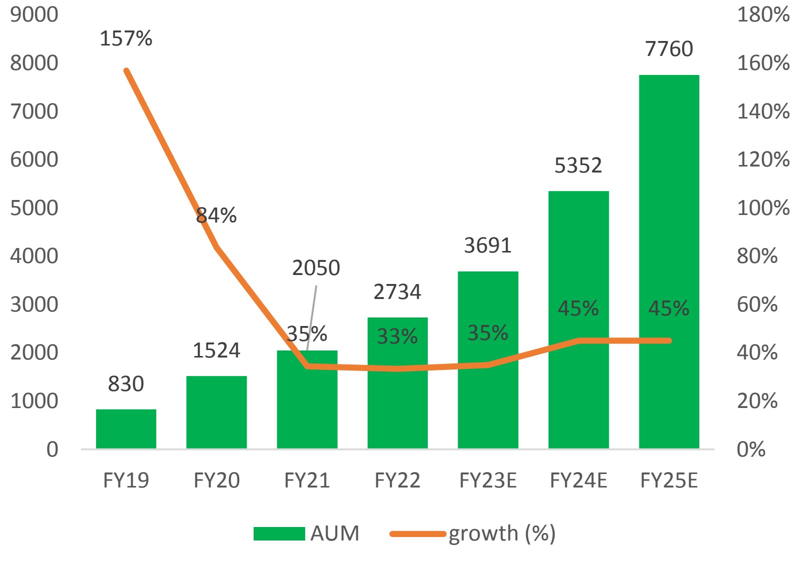


B) Affordable Housing –15% of the portfolio

Ujjivan Bank has started housing finance business in 2012 and it is currently one of the key focused segment. Bank is in affordable housing finance targeted towards informal and semi-formal income segments customers. In Affordable housing bank provides loan for purchase of plots or house, construction of house, improvement/ restoration/ extension of home. LAP contributes a one third of the company's total mortgage portfolio. The average ticket size of the book is INR 11.6 lakh and the portfolio yields ~13-14%. The LTV on this portfolio ranges between 50-55%.

With government's thrust on affordable housing like 'Housing for all' scheme, favorable demographic, Rising urbanization & nuclearisation, low housing penetration, Indian affordable housing finance market (HFC) is well-positioned to witness strong growth. Overall housing market is expected to deliver a AUM growth of ~9-11% CAGR over FY21-23E. Ujjvan being the focused lender in retail home loans is in sweet spot to grab the opportunity and gain market share.

Exhibit 48: Housing finance AUM expected to increase by 42% CAGR over FY22-25 driven by lower base (in cr.)

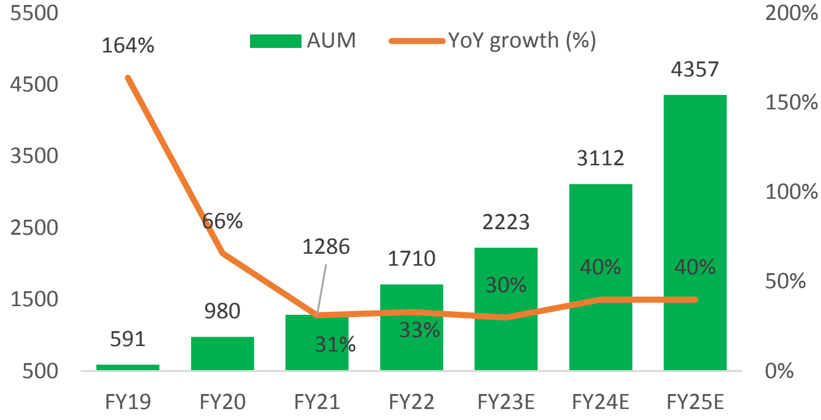


C) MSE Financing – 9% of the portfolio

Bank has enter into MSE (Micro and Small Enterprise) segment in 2017, offering loans and overdraft facility to enterprises engaged in manufacturing and service/ trade activities in the form of investment as well as working capital, with flexible security requirements to make credit more accessible. Earlier in 2019, bank has tweaked its strategy in MSE financing by shifting focus on financing the formal MSE segment with 100% security and discontinued unsecured MSE lending. In FY 2022-23, bank aims to introduce several new credit products to meet the working capital requirement in the MSE sector. MSE segment is one of the key driver of growth for the bank.

Bank has an AUM of INR 1,767 cr in MSE segment and yield in the portfolio stood at ~14%. MSE segment is expected to record CAGR growth of 37% over FY22-25E.

Exhibit 49: MSE segment financing; Expected to grow by 37% CAGR over FY22-25E (in cr.)

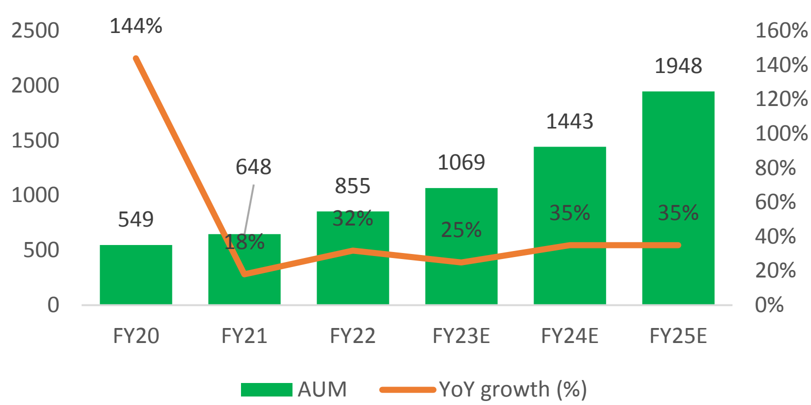


D) Financial Institution Group Lending –5% of the portfolio

Ujjivan SFB offers term loans to rated NBFCs, mainly MFI, small NBFCs and vehicle financiers. These NBFCs have a minimum rating of BBB certified by a credit rating agency. Bank has launched FIG lending in 2019 and the book has grown by 4x from INR 225 cr in FY19 to INR 855 cr in FY22. Average ticket size in this segment ranges from INR 10-25 cr. Average tenor for the loan ranges from two to three years with a cap at five years. The bank has a cap of 10% of the total portfolio mix on FIG lending.

The Bank has grown its institutional lending book in a controlled manner with good rated entities, considering overall business environment. The book is spread across diverse sectors and Bank monitors its exposures on regular basis. Bank launched collection, CC/OD accounts for the borrowers, and working to launch WCDL and fee-based trade finance products like bank guarantees.

Exhibit 50: FIG lending AUM trend (in cr.)



E) Others

The bank offers personal loans to salaried customers in private, public sector organizations, educational and healthcare sector. The loans are offered to customers in full time employment with to existing as well as new-to-credit customers. The book yields range between 18-23%, with an average tenure of 12-60 months. The bank has further introduced a new product in the form of gold financing, which is currently at a low stage and need time to scale up.

Liability franchise improving steadily

- **Liability franchise of the bank scaling up gradually; CASA ratio improved from 4% in FY18 to 28% in Q1FY23.**
- **Individuals forms 50% of the deposits share.**
- **Cost of funds came down from 7.57% in FY18 to 5.7% in FY22.**
- **Top 20 largest depositors contributes 22.5% in FY22 vs. 29.3% in FY21.**

Upon conversion from an NBFC to a bank, Ujjivan SFB got access of low cost deposits and cost of funds of the bank started coming down. The bank has steadily ramped up its deposit franchise to 77% of the balance sheet as of FY22 vs. 40% in FY18. Reduced share of borrowings and scale up of deposits has led to 190bps decline (over FY19) in cost of funds to 5.7% in FY22. Retail deposits forms 58% of the total deposits. The branch banking and Micro Banking teams was supported by the MSE and Housing finance teams to drive growth in retail deposits.

Management's primary focus is to create a granular retail deposit. Bank has taken several initiatives on the digital front and its diversified geographical presence with deeper distribution network and the product offerings, enabled the company to build a deposit base. Its deposit base expanded by robust at 48% CAGR during FY18-FY22. Bank's target segment to garner deposits from retailers, salaried, youths, senior citizen, Micro banking customers and marginal farmers.

Exhibit 51: Deposits growth over the years (in cr.)

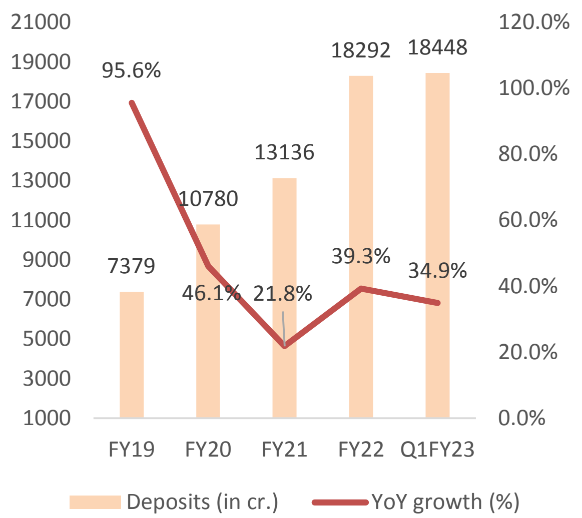


Exhibit 52: CASA ratio increased sharply

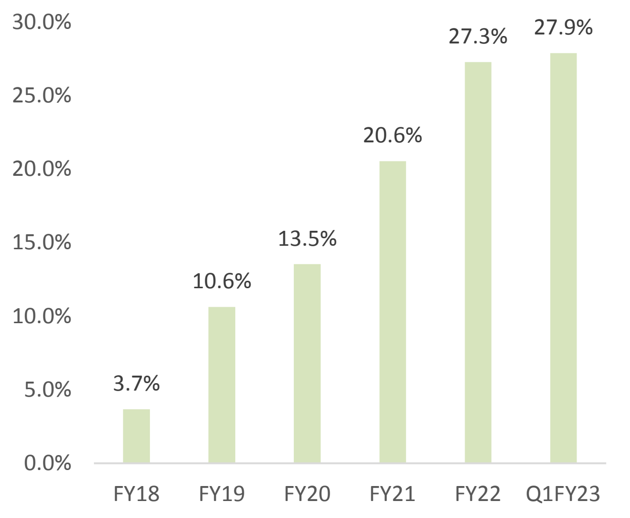
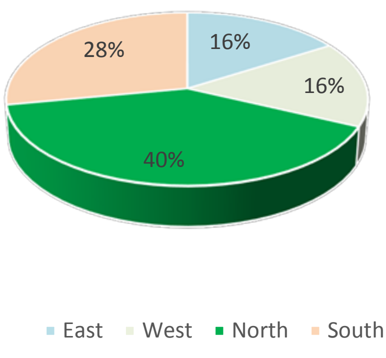
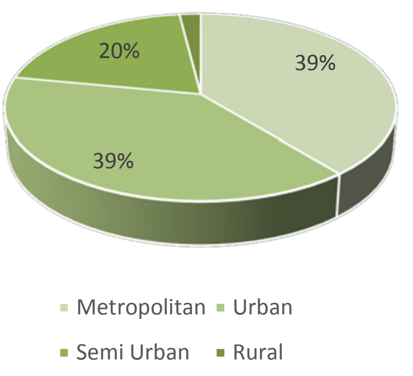
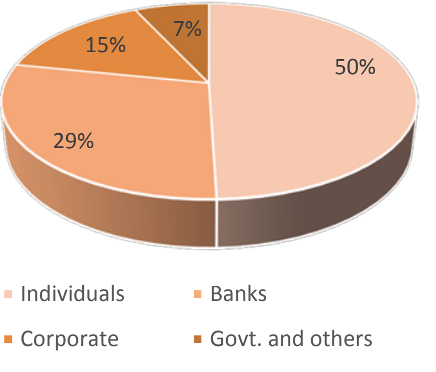


Exhibit 53: Region wise, Branch wise and segment wise deposits mix as on Q1FY23.







Focus on customer experience and increasing digital product offering

The Bank has set up a dedicated digital banking team to enhance customer experience, while maximising returns on technology investments, and reducing cost of operations. The main drivers of this initiative are digital innovation, application programming interface (API) banking, fintech engagements and partnerships, robotic process automation, artificial intelligence, digital lending, payments, digital marketing, and data analytics and insights.

Bank is focused on building robust digital capabilities targeted towards improving efficiencies and better customer experience. It is creating value chain for end to end digital process from prospecting, onboarding to servicing and cross sell. Bank It has expanded the capabilities of the API stack base to cater to a wider range of use cases from the fintech industry, with the total number of APIs standing at 169.

Digital penetration has increased steadily with 16.4 Lakhs of unique customers registered on the mobile banking and UPI platforms as on Mar’22. Bank have 5 lakh+ unique customers in FY22. Also, bank has launched Ujjivan pay QR solution for merchants. Bank have deployed machine learning based customer segmentation models which will help to identify and communicate with potential customers for cross-sell and upsell opportunities.

It has further strengthened digital collection network by partnering with "Spicemoney" to further strengthen the already strong digital collection network. ~18% of collection were made digitally during FY22.

Exhibit 54: Increasing share of digital transaction (numbers in lakhs)

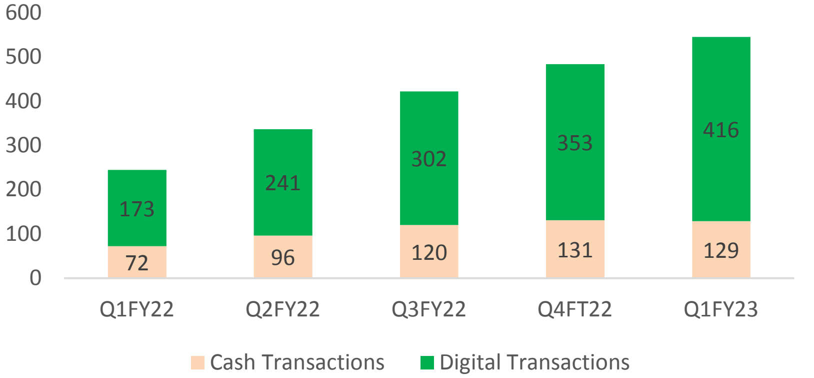


Exhibit 55: The digital journey – Going forward

API stack to scale-up UPI payments	Enhancements in Digital Payments	Scale-up UPI acquiring business	Payment Gateway Integrations	VVV and other initiatives	API Banking & Fintech partnerships
Building future ready API gateway for Fintechs by facilitating plug and play model enabling digital payments	Introducing cash mode for EMI loan repayments under Bharat Bill Payment System (BBPS)	1. P2PM - Scaling-up the issuance of P2PM QR code for small merchant business 2. P2M – Introduce P2M QR codes to facilitate digital payments for large merchants 3. Sound box – Introduction of UPI sound box for facilitating real time voice alerts 4. UPI PSP Acquiring App – Launch of UPI acquiring app in Mobile Banking as an additional payment mode	1. Ujjivan Internet Banking has been enabled by PGs like FSS and CC Avenues 2. Billdesk and Razorpay are in pipeline to go-live in Q2 FY 22-23 3. Other 2 payment aggregators are projected to go-live in Q2 FY 22-23 4. This will cover 80% of merchants in market facilitating online transactions through Internet Banking	1. One of the best mobile banking app that will navigate the customer through voice, visuals and available in vernacular languages to aid unserved and underserved customer segments on digital platform 2. This app will help in assisting customers in easily viewing balance & statements, transferring funds, booking deposits, repaying loan EMIs, etc. conveniently in their vernacular language	1. Revamped API banking developer portal for faster Go LIVE of partnerships 2. Multiple Fintech partnerships for sourcing Assets & Liability products

Source: Company, Arihant Research

Asset quality stress easing out gradually; GNPA set to improve

Covid had imposed a higher risk on Ujjivan's microfinance portfolio which has resulted into sharp deterioration in asset quality of the bank. In the past, despite lending to the unsecured microfinance segment, where risk of default is significantly higher, Ujjivan SFB has maintained its asset quality and credit cost at sub 1% levels (excluding demonetization). However, covid led lockdown which has impacted the economic activities and borrowers cash flow got impacted as most of the borrowers are into essential or day-to-day activities. Thus, slippages has increased sharply during covid.

GNPA of the bank increased from 1% in FY20 to 7.1% in FY21 & FY22. Simultaneously, credit cost of the bank increased from 1.2% in FY20 to 5.5% in FY21 and 7% in FY22. Due to higher credit cost, profitability of the bank was impacted in FY21 and FY22.

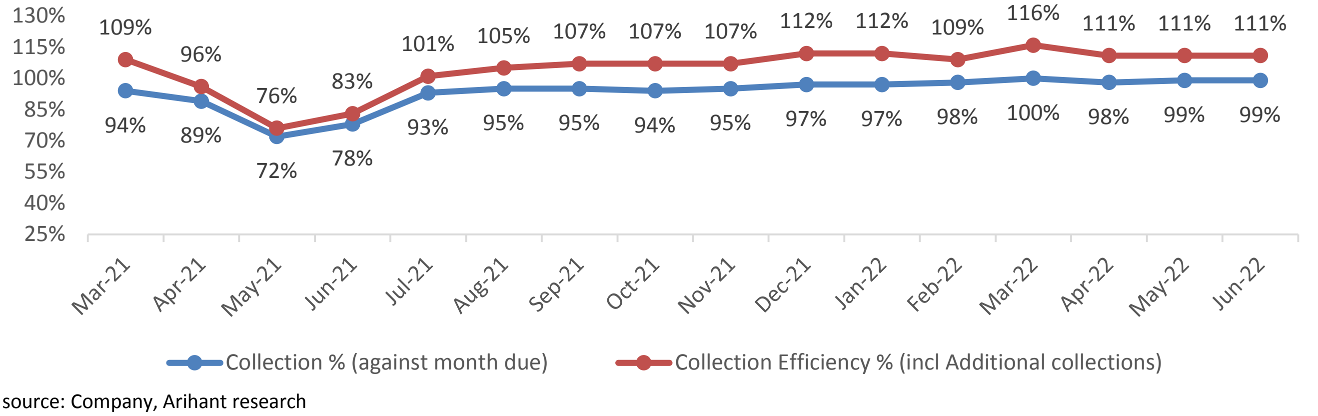
The bank has adopted an adopted a differentiated approach during the pandemic to improve collections: i) Focused approach on collections with a strengthened collection team, ii) increasing use of digital payment modes, iii) Partnership with fintechs and startups in payments, collection and lead generation etc. The bank has a strong collection and recovery team with separate collection teams for each of its business verticals. The credit team evaluates business needs, cash-flow based income generation capabilities of the borrower and the secondary source of income in case of a microfinance borrower and analyses the borrower's ability to repay the loan.

With improvement in economic activity, improving collection efficiency and great focus on collection approach, we believe that NPA cycle of the bank has peaked out and we will see improvement in the asset quality going ahead with moderation in credit cost. We are expecting credit cost in FY23E will be lower in the range of 1%. The bank holds a floating provision of INR 250 cr.

Exhibit 56: Restructuring book update

in cr.	RF 1.0	RF 2.0	Total
Micro Banking	188	361	549
Affordable Housing	13	23	36
MSE	11	62	73
Total	**212**	**446**	**658**
PAR	185	232	417
GNPA	179	188	367
Provisions	177	207	384
Collection efficiency %	--	--	84%

Exhibit 57: Collection efficiency trend



source: Company, Arihant research

Exhibit 58: Significant reduction seen in the stress book

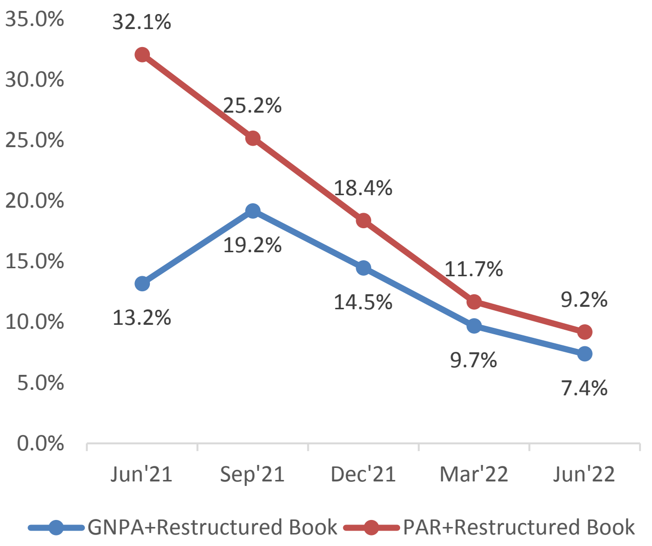
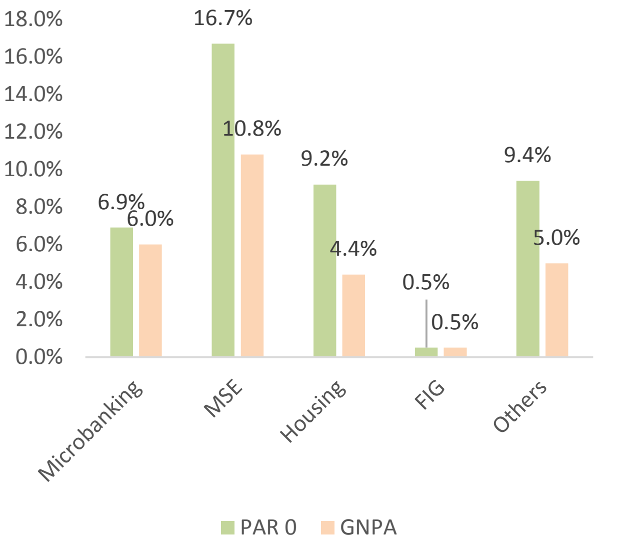


Exhibit 59: PAR 0 and GNPA segment wise(as on Jun'22)

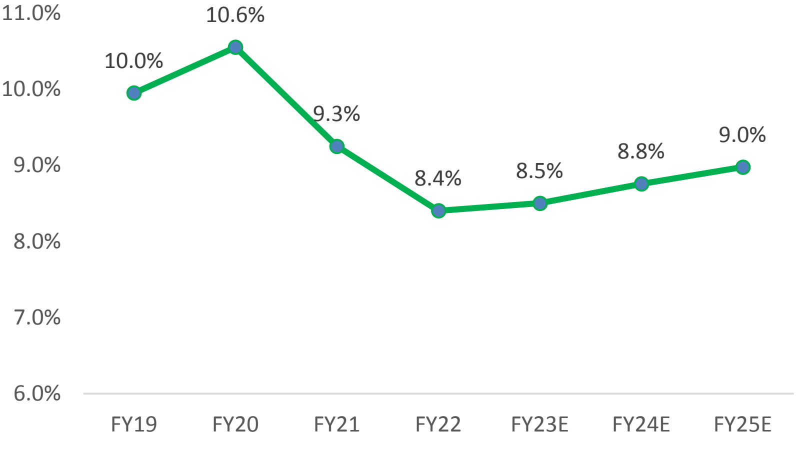


NIM has compressed historically due to move towards secured lending

The bank had started its business with microfinance which is higher yielding ranged between 22-24%. After the conversion into SFB, bank started diversifying its product portfolio into secured yielding products such as MSE, Housing finance and others where the yields are in between 12-18%. Due to this, NIM of the bank witnessed compression and NIM declined from 11.2% in FY17 to 8.4% in FY22.

With transitioning into a bank, Ujjivan was able to garner the deposits and bank's reliance on borrowings has reduced which has supported in cost of funds improvement. Cost of fund of the bank improved from 7.57% in FY19 to 5.7% in FY22. Share of bank's deposits in overall liabilities has increased from 40% in FY18 to 77% in FY22. Expectation of strong increase in credit growth and strong traction on liability side will support the margins going ahead. Overall, we estimate NIMs to be in the range of 8-9% over FY23-25E, translating into NII CAGR of 30% over the same period.

Exhibit 60: NIM likely to be in the range of 8-9% going forward



Moderation in cost ratio to aid into RoA improvement

Post conversion into SFB, Ujjivan had spent well on building deposits franchise, adding branches in phased manner. Also, bank is investing heavily on technology to smoothen the process and acquire more customers via digital mode. This collectively resulted in a sharp jump in opex. Opex/assets ratio of the bank increased to 7.3% which is coming down gradually and stood at 6.3% as on FY22. Increase in operating leverage will also aid into RoA improvement.

Cost to income ratio as on FY22 was at 71.7% which has further come down to 61% as on Q1FY23. Branch count of the bank increased from 187 in FY18 to 575 as on FY22. Employee count of the bank increased from 11,242 in FY18 to 16,571 in FY22.

The management had guided the cost to income ratio will remain at current level in the near term and expecting it to reduce to ~50% over the medium term basis.

Exhibit 61: Cost to income ratio trend C/I ratio

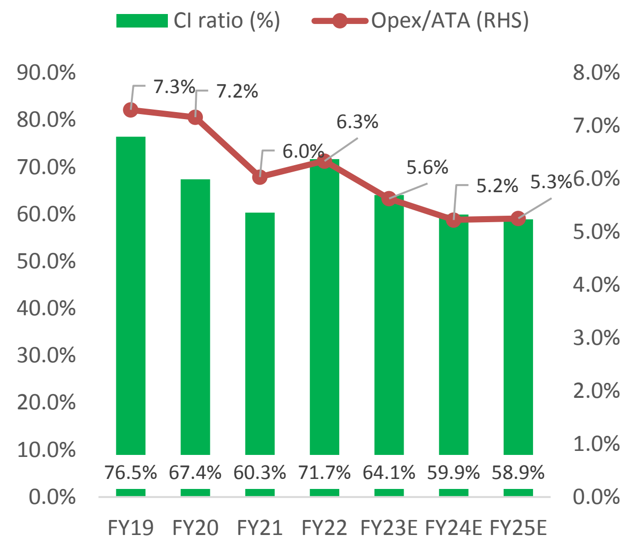


Exhibit 62: Cost to income ratio trend vs. peers

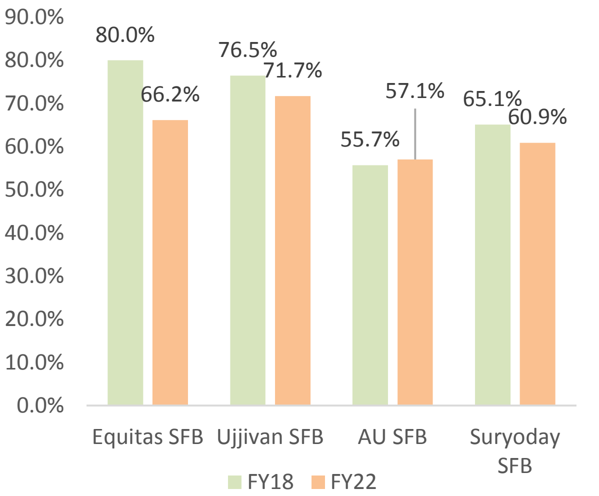


Exhibit 63: RoA tree of Ujjivan SFB

in %	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income/Avg. Assets	15.8	16.8	14.5	12.8	13.3	13.6	13.9
Interest Expended/Avg. Assets	7.7	7.8	5.9	5.1	5.8	5.8	5.9
Net Interest Income/Avg. Assets	**9.5**	**10.2**	**8.9**	**8.1**	**8.2**	**8.4**	**8.7**
Other Income/Avg. Assets	1.8	2.0	1.6	1.4	1.6	1.3	1.3
Operating Income/Avg. Assets	11.3	12.2	10.5	9.5	9.8	9.7	10.0
Operating Expenses/Avg. Assets	8.6	8.2	6.3	6.8	6.3	5.8	5.9
Employee Expenses/Avg. Assets	4.5	4.5	3.9	3.7	3.3	3.0	2.8
Other Operating Expenses/Avg. Assets	4.2	3.7	2.5	3.1	3.0	2.8	3.0
PPOP/Avg. Assets	**2.7**	**4.0**	**4.2**	**2.7**	**3.5**	**3.9**	**4.1**
Provisions/Avg. Assets	0.3	1.1	4.1	5.2	0.8	1.1	0.8
PBT/Avg. Assets	**2.3**	**2.9**	**0.1**	**-2.5**	**2.7**	**2.8**	**3.3**
Tax Expenses/Avg. Assets	0.6	0.7	0.0	-0.6	0.7	0.7	0.8
Net Income (RoAA)	**1.7**	**2.2**	**0.0**	**-1.9**	**2.0**	**2.1**	**2.4**
RoAE (%)	11.5	14.0	0.3	-13.8	16.5	17.1	20.6

Source: Company, Arihant Research

Valuation and View; Initiate with 'Buy'

We like Ujjivan SFB for its niche focus on small-ticket, secured retail loans to the self-employed and low/mid-income segments. We expects healthy earnings traction in going forward and model for a 38% earnings CAGR over FY23E-25E based on expectation of strong 31% CAGR loan growth over FY23E-25E, moderation in credit cost, healthy margins and improvement in cost ratios.

The bank has started its business as a pure micro financier but later on post conversion into SFB, bank has started de-risking its business model by diversifying and focusing more into secured lending products. Also, steadily bank has built the liability profile and focusing more on granularising it. Ujjivan SFB has come out with an IPO in Dec'2019 at INR 36-37. Stock has corrected sharply post listing due to bank's higher exposure to vulnerable segments (MFI) which was highly impacted by covid pandemic. Hence, credit cost of the bank increased sharply which has impacted the profitability of the bank. Exit of multiple board members and management executives, including Nitin Chugh has also dampened investors sentiment. The bank has appointed Ittira Davis, as MD & CEO after the exit of Nitin Chugh.

We believe, bank has largely addressed the concern over top level exit and also asset quality stress is easing out with moderating credit cost. The bank is now better positioned to focus on loan growth, improving the liability profile and ultimately RoEs. We build 2.2% RoA and ~19% RoE in FY2023E.

We value Ujjivan SFB at 1.3x FY25E P/ABV basis on the back of improving collection and underwriting mechanism, strong growth trajectory, moderation in credit cost and an experienced leadership team. We initiate coverage on Ujjivan SFB with a 'Buy' and target price of INR 36, implying a 64% upside from the CMP.

Key risks: A) Asset quality risk b) Geographic concentration risk.

Update on merger of Ujjivan SFB and Equitas SFB with their parent company

Equitas SFB: In July'21, post the approval from the RBI to apply for a reverse merger, the boards of Equitas SFB and Equitas Holdings (promoter) approved the scheme of amalgamation to merger the holding company with SFBs. According to this scheme of amalgamation, the swap ratio has been fixed at 226 shares of Equitas SFB (EQSFB) for every 100 shares held in the holding company Equitas Holdings. Management expects reverse merger to get complete by the end of FY23.

Ujjivan SFB: In order to comply with RBI's shareholding norms on small finance banks, Ujjivan SFB has applied with RBI for the amalgamation between Ujjivan SFB and Ujjivan Financial services. The bank has applied to the RBI, SEBI and exchanges for the reverse merger in Nov'21. Recently, Ujjivan SFB has raised INR 475 cr of fresh capital from institutional investors to comply with the minimum public shareholding norms by December, post which the bank will approach the regulators for the merger scheme. Once the scheme comes to effect, Ujjivan SFB would issue and allot to the shareholders of Ujjivan Financial 115 equity shares of Ujjivan SFB for every 10 equity shares of Ujjivan Financial. Management has not given any specific guidelines on the timing of the reverse merger.

Exhibit 64: Holding Company discount as per merger ratio

in Rs.	CMP as on 03-10-22	
	Ujjivan	Equitas
SFB share price	22	49
Holding Company share price	207	99
Merger ratio (Holding:SFB)	10:115	10:226
Holding company value per share as per merger ratio	253	111
Holdco Discount as per merger ratio	**-18%**	**-11%**

Source: Company, Arihant Research

Exhibit 65: Leadership team of the bank

Name and Designation	Brief Profile
Ittira Davis (MD & CEO)	He is an international banker with over 36 years of corporate and investment banking experience and has worked extensively in the Middle East and Europe. Prior association: UFSL, Europe Arab Bank, Arab Bank, Citi Bank, Bank of America
Carol Furtado Chief Business Officer (CBO)	She comes with 26+ years of banking experience in the domain of Retail Banking and NBFCs, with expertise in leading business, banking operations, credit and people functions. Carol is a key member of the leadership team that laid the foundation and built Ujjivan SFB. Prior association: UFSL, ANZ Grindlays Bank and Bank Muscat
Martin Pampilly Chief Operating Officer (COO)	He comes with over 25 years of experience covering Retail Banking operations, Retail Asset and Micro-finance Operations, with expertise in set-up and implementation of new processes. More importantly, he's known for leveraging technology for operations innovation to create delightful customer experiences. Prior association: UFSL, ANZ Grindlays Bank, Bank Muscat and Centurion Bank of Punjab
Arunava Banerjee Chief Risk Officer (CRO)	Arunava Banerjee joined the Bank on February 1, 2017. He has previously worked with the State Bank of India, Standard Chartered Bank and Bahraini Saudi Bank. He was also the previous Chief Financial Officer of Remza Investment Company. Prior association: State Bank of India, Standard Chartered Bank and Bahraini Saudi Bank
Ashish Goel (Chief Credit Officer)	Ashish Goel was previously employed at Godrej & Boyce, Marico Industries and ICICI Bank. He joined Ujjivan SFB as Chief Credit Officer in February 2021. Prior association: ICICI Bank, Marico Industries, Godrej & Boyce
MD Ramesh Murty (Chief Financial Officer)	Ramesh Murthy comes on-board with 30 years of experience in Business, Risk Management and Finance in the Middle East and India. He started his banking career with ANZ Grindlays Bank, India in their Merchant Banking Division. He was the CFO of Karur Vysya Bank (Nov'20 to Feb'22) and their Chief Risk Officer (Apr'18 – Nov'20). Prior association: Karur Vaishya Bank, ANZ Grindlays Bank, Mashreq Bank, Commercial Bank International
Vibhas Chandra Business Head of MicroBanking	He is an experienced hand in Ujjivan with a career spanning 14 years in multiple roles and managing various geographies. Joining as part of Ujjivan's first Management Trainee batch, Vibhas was entrusted with responsibilities to launch Ujjivan's micro-finance footprint in multiple states in its initial years. Prior association: Ujjivan Financial Services (UFSL)
Sumit Thomas Head of Branch Banking	He holds 15+ years of experience and his expertise lies in retail branch banking, wealth management and liability products. He has been associated with HDFC Bank and ING Vysya Bank (Now Kotak) in the past, managing various roles starting from being a personal banker to handling various leadership roles at the branch and regional levels. He has been with Ujjivan since Dec 2016 where he started as a Regional Sales Manager for building liabilities business.
Sriram Srinivasan Head - Digital Banking	He has over 22 years of experience in banking industry. He was associated with Citibank for over 18 years in regional and global digital roles and has worked in various regions like Japan, Singapore & Vietnam. He has also worked with Standard Chartered Bank as Global Head, Digital Servicing and HSBC as regional Head of Digital Channels and Platform Operations. He joined Ujjivan SFB from Digital14, a UAE based Cyber Security and Digital Transformation company.
Ashim Sarkar Business Head – Micro and Small Enterprise	He joined Ujjivan in 2018 as National Product Manager – MSE. He has been instrumental in establishing the vertical from its initial phase and was subsequently elevated to Business Leadership role. During his tenure, Ujjivan's offerings to MSEs expanded beyond Term Loans and this helped cement a strong working capital franchise through internal channels & strategic alliances with reputed fintech partners.

About the Company:

Ujjivan SFB is a leading SFB which transitioned from a NBFC (Ujjivan Financial Services Ltd.) in Feb'17 which primarily catered to the low and middle-income individuals that have limited or no access to formal banking and finance channels. Its Promoter, Ujjivan Financial Services Limited (UFSL) commenced operations as an NBFC in 2005. On October 7, 2015, Ujjivan received RBI's In-Principle Approval to establish an SFB, following which it incorporated Ujjivan Small Finance Bank Limited as a wholly-owned subsidiary.

Currently, the holding promoter company Ujjivan Financial having a 73.7% stake in Ujjivan SFB. As per RBI guidelines, the promoter is required to reduce its shareholding in SFB to 40% within a period of 5 years from the date of commencement of business operations.

Ujjivan Bank is headquartered in Bengaluru and has the storng network of 575 branches, spread across 248 districts and 24 states and union territories in India. It employs over 16,571 employees. As of Q1FY23, Ujjivan SFB has a total Gross Advances of INR 19,409 cr, spread across Microfinance – group and individual products, MSE Finance, Affordable Housing Finance, FIG Finance and others. Post conversion into a SFB, Bank's liability franchise has shaped up well with retail deposits share at 58%. The bank has a total customer base of 66 lakhs.

In Dec'19, Ujjivan came out with an IPO of INR 750 cr issue size (all via fresh issue). The price band of IPO was at INR 36-37. The IPO was oversubscribed at 166x.

Exhibit 66: State-wise advance mix (as on Q1FY23)

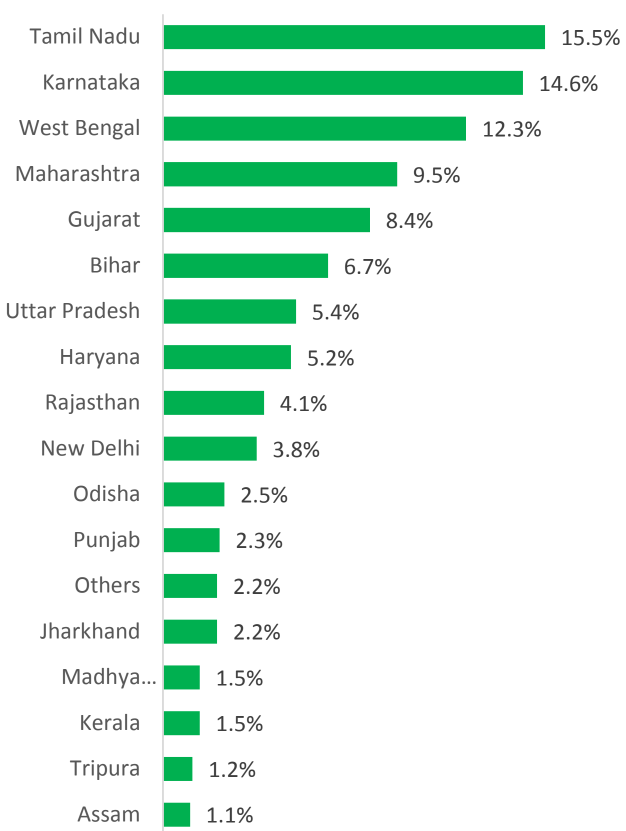
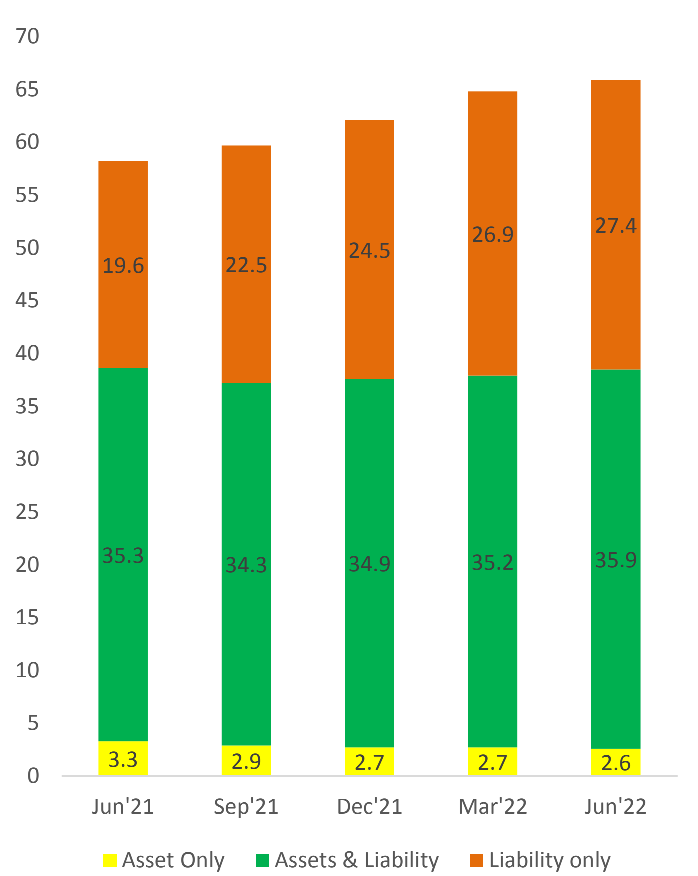


Exhibit 67: Customer base of the bank (in lakhs)



Source: Company, Arihant Research

Key Financials

Profit & Loss Statement (in INR Cr)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Interest Income	1,832	2,704	2,806	2,813	3,548	4,561	5,918
Interest Expended	725	1,070	1,078	1,039	1,365	1,718	2,209
Net Interest Income	**1,106**	**1,634**	**1,728**	**1,774**	**2,183**	**2,843**	**3,709**
Other Income	206	322	311	313	437	426	556
Operating Income	1,312	1,956	2,039	2,087	2,620	3,269	4,266
Operating Expenses	1,003	1,319	1,230	1,496	1,679	1,959	2,514
Employee Expenses	519	718	749	813	870	1,005	1,214
Other Operating Expenses	485	600	481	684	809	954	1,301
PPOP	**309**	**637**	**809**	**590**	**940**	**1,311**	**1,751**
Provisions	41	171	799	1,141	210	356	358
PBT	268	466	10	-550	730	955	1,393
Tax Expenses	69	116	2	-136	184	240	351
Net Income	**199**	**350**	**8**	**-415**	**547**	**715**	**1,043**

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (in INR Cr)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Equity & Liabilities							
Share Capital	1,640	1,928	1,928	1,928	2,155	2,155	2,155
Reserves & Surplus	180	1,238	1,247	832	1,627	2,342	3,385
Net Worth	1,820	3,188	3,219	2,803	3,824	4,539	5,581
Deposits	7,379	10,780	13,136	18,292	23,115	29,652	38,380
Borrowings	4,166	3,953	3,247	1,764	2,044	2,249	2,799
Other Liabilities and Provisions	377	490	779	746	858	1,037	1,089
Total Capital & Liabilities	**13,742**	**18,411**	**20,380**	**23,604**	**29,840**	**37,477**	**47,850**
Assets							
Cash & Balances with RBI	446	1,225	1,712	1,682	2,101	2,736	3,642
Balances with Others & Call Money	648	118	866	486	1,050	1,368	1,791
Investments	1,527	2,396	2,516	4,153	4,568	4,797	5,276
Advances	10,552	14,044	14,494	16,303	21,007	27,362	35,812
Fixed Assets	284	300	281	249	299	359	430
Other Assets	284	328	512	731	815	856	898
Total Assets	**13,742**	**18,411**	**20,380**	**23,604**	**29,840**	**37,477**	**47,850**

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Ratios

Ratios	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Growth rates							
Advances (%)	43.8%	33.1%	3.2%	12.5%	28.9%	30.3%	30.9%
Deposits (%)	95.6%	46.1%	21.8%	39.3%	26.4%	28.3%	29.4%
Total assets (%)	45.1%	34.0%	10.7%	15.8%	26.4%	25.6%	27.7%
NII (%)	28.5%	47.6%	5.8%	2.6%	23.1%	30.2%	30.5%
Pre-provisioning profit (%)	-3.3%	106.2%	27.0%	-27.0%	59.3%	39.4%	33.6%
PAT (%)	2802.9%	75.6%	-97.7%	NA	NA	30.7%	45.9%
Balance sheet ratios							
Credit/Deposit (%)	143.0%	130.3%	110.3%	89.1%	90.9%	92.3%	93.3%
CASA (%)	10.6%	13.5%	20.6%	27.3%	30.0%	29.0%	28.0%
Advances/Total assets (%)	76.8%	76.3%	71.1%	69.1%	70.4%	73.0%	74.8%
Leverage (x) (Asset/Shareholder's Fund)	7.6%	5.8%	6.3%	8.4%	7.8%	8.3%	8.6%
CAR (%)	18.9%	28.8%	26.4%	19.0%	22.2%	20.8%	19.6%
CAR - Tier I (%)	18.4%	28.0%	25.1%	17.7%	21.2%	20.0%	19.0%
Operating efficiency							
Cost/income (%)	76.5%	67.4%	60.3%	71.7%	64.1%	59.9%	58.9%
Opex/total assets (%)	7.3%	7.2%	6.0%	6.3%	5.6%	5.2%	5.3%
Opex/total interest earning assets	9.0%	8.5%	6.6%	7.1%	6.5%	6.0%	6.1%
Profitability							
NIM (%)	10.0%	10.6%	9.3%	8.4%	8.5%	8.7%	9.0%
RoA (%)	1.4%	1.9%	0.0%	-1.8%	1.8%	1.9%	2.2%
RoE (%)	10.9%	11.0%	0.3%	-14.8%	14.3%	15.7%	18.7%
Asset quality							
Gross NPA (%)	0.9%	1.0%	7.1%	7.1%	4.2%	3.0%	2.8%
Net NPA (%)	0.3%	0.2%	2.9%	0.6%	1.1%	0.6%	0.6%
PCR (%)	71.8%	80.0%	60.3%	92.2%	76.5%	82.0%	79.7%
Credit cost (%)	0.4%	1.2%	5.5%	7.0%	1.0%	1.3%	1.0%
Per share data / Valuation							
EPS (INR)	1.4	2.0	0.0	-2.4	2.8	3.7	5.3
BVPS (INR)	13	18	19	16	20	23	29
ABVPS (INR)	12	18	16	16	18	22	27
P/E (x)	15.9	10.9	462.7	-9.2	7.9	6.0	4.1
P/BV (x)	1.7	1.2	1.2	1.4	1.1	0.9	0.8
P/ABV (x)	1.8	1.2	1.4	1.4	1.2	1.0	0.8

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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