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ASIAMONEY

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CMP: INR 50

Rating: Buy

Target Price: INR 61

Stock Info

BSE	542904
NSE	UJJIVANSFB
Bloomberg	UJJIVANS IN
Reuters	UJJI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,954.71
Mkt Cap (INR Cr)	8,493
52w H/L (INR)	44.6 / 18.7

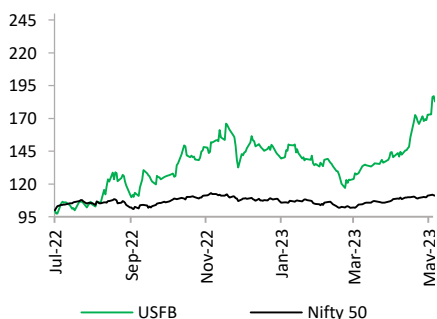
Shareholding Pattern %

(As on June, 2023)

Promoters	73.67
Public & Others	26.33

Stock Performance (%)

	1m	6m	12m
Ujjivan SFB	14.6	58.2	120.8
Nifty 50	5.3	12.5	19.0



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Ujjivan Small Finance Bank (Ujjivan SFB) reported a net profit of INR 324.1 cr during the quarter, above our estimate of INR 321 cr v/s INR 309.5 during last quarter with a growth of 4.7% QoQ and 59.7% YoY, led by strong advances growth of 34.5% YoY/ 4% QoQ at INR 22,169 cr. Net Interest Income grew 32.2% YoY/ 7.4% QoQ at INR 792.7 cr against our estimate of INR 774 cr, despite the increasing cost of funds during the quarter. Pre-provisioning profit came in at INR 457 cr, above our estimate of INR 429 cr (+68.9% YoY, +11.5% QoQ), led by increasing net interest income. NIMs stood at 9.2% which was down 40 bps YoY/ +10 bps QoQ. Despite the increasing cost of funds, bank was able to sustain their NIM at above 9%, which is in line with the guidance given by the management.

- 1) NIMs down 40 bps YoY led by increasing cost of funds:** NIMs during the quarter came in at 9.2% v/s 9.1% in Q4FY23 v/s 9.6% in Q1FY23 (-40 bps YoY, +10 bps QoQ). Despite the increasing cost of funds, during the quarter, which was in accordance with the industry performance, bank was able to expand their NIMs by 10 bps as a result of consciously reducing excess liquidity and benefitting from yield expansion on account of repricing. NIMs are expected to be within the range of 9 – 9.5%.
- 2) Improvement in asset quality led by strong recoveries:** GNPA during the quarter improved by 26bps to 2.63% during the quarter. Bad debt recoveries continue to be strong at INR 35 cr, which grew by 17% YoY. Going forward, recoveries are expected to grow. However, recovery levels are expected to be less than FY23 levels.
- 3) Affordable Housing Finance book expected to grow:** In FY24, USFL's focus will be on affordable housing and microfinance, since MFI yields are at 23% and Individual micro yields are at 25% currently. The MSME book is expected to grow at CAGR of 25% till FY26. This will help them improve their profitability.
- 4) MSME book expected to grow from second half of the year:** MSME book continues to be in transition. Bank launched LAP product in Q1 and more products in pipeline. This segment should start picking up towards the end of the year. Further, Vehicle and gold finance should also start to contribute in the second half of the fiscal year.

OUTLOOK & VALUATION

We continue to remain positive on the company. It has performed well in a seasonally weak quarter. Bank's affordable HF and micro banking will continue to grow and the MSME book will start contributing from second half of the FY24. NIMs are expected to be above 9% with a gross loan book growth of 25%. We maintain our buy rating on the stock with a target price of INR 61, valuing the bank at 1.4x FY26E ABV.

Exhibit 1: Financial Performance

Particulars. (INR in Cr)	FY22	FY23	FY24E	FY25E	FY26E
NII	1,774	2,698	3,566	4,331	4,894
PPOP	590	1,485	2,119	2,419	2,719
PAT	-415	1,100	1,327	1,528	1,742
EPS (INR / Share)	-2.4	5.6	6.8	7.8	8.9
ABVPS (INR / Share)	15.6	20.3	27.5	35.1	43.6
NIM (%)	8.40%	9.83%	9.94%	9.91%	9.23%
ROA (%)	-1.8%	3.3%	3.3%	3.1%	2.9%
ROE (%)	-14.8%	26.1%	24.0%	21.6%	19.8%
P / ABV (x)	3.2	2.5	1.8	1.4	1.1

Source: Company reports, Arihant Capital Research

Q1FY24 - Quarterly Performance (Standalone)**(in INR Cr)**

Quarterly Result Update (INR Cr)	Q1FY24	Q1FY23	Q4FY23	Q-o-Q	Y-o-Y
Interest Income	1,286.9	905.4	1,184.8	8.6%	42.1%
Interest Expended	494.2	305.7	446.8	10.6%	61.7%
Net Interest Income	792.7	599.7	738.0	7.4%	32.2%
Other Income	177.2	124.6	179.1	-1.0%	42.3%
Operating Income	969.9	724.3	917.1	5.8%	33.9%
Operating Expenses	512.0	423.7	506.5	1.1%	20.8%
Employee Expenses	268.4	221.0	253.2	6.0%	21.4%
Other Operating Expenses	243.5	202.7	253.3	-3.8%	20.2%
PPOP	457.9	300.6	410.6	11.5%	52.3%
Provisions	26.1	29.9	-1.9	-1452.8%	-12.6%
PBT	431.8	270.7	412.5	4.7%	59.5%
Tax Expenses	107.7	67.7	103.0	4.6%	59.0%
Net Income	324.1	203.0	309.5	4.7%	59.7%

Source: Company reports, Aриhant Capital Research

Conference Call Highlights:**Reverse Merger with Ujjivan Financial Services Ltd**

The hearing of application for reverse merger with Ujjivan Financial Services Ltd was completed on 28th June 2023. An order is expected to receive soon, entailing directions for scheduling the meeting of shareholders and other directions. We expect the reverse merger to be completed by Q3FY24.

Succession for UFSB

Tenure of Mr. David is till January 2025. Bank is currently looking for the successor, both internally and externally. It is expected to be completed before the expiry of tenure of Mr. David.

Micro-banking

- Disbursement for micro banking during the quarter stood at INR 3235 cr v/s INR 3939 cr during the last quarter (-18% QoQ). The sequential decline was due to Q1 being seasonally weak quarter.
- The disbursements are expected to pick up during the second half of the fiscal year.
- Bank acquired 2.6 Lakh new customers during the quarter.

Affordable Housing Finance

- Strong disbursements in affordable housing finance on YoY basis. Disbursements at INR 418 Cr during the quarter v/s INR 288 Cr in corresponding quarter last year.
- Total Affordable housing finance stood at INR 3650 Cr.
- This segment is expected to grow, with the banks increasing focus on affordable HF and micro banking.

MSME

- MSME book continues to be in transition. Bank launched LAP product and Q1 and more products in pipeline. This segment should start picking up towards the end of the quarter.
- Further, Vehicle and gold finance should also start to contribute in the second half of the fiscal year.

Margins

Cost of funds continues to rise during the quarter which is in line with industry trend. Despite the pressure from increasing cost of funds side, bank has been able to expand their NIMs.

Profit & Loss Statement (in INR Cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest Income	2,813	4,165	5,447	6,630	7,998
Interest Expended	1,039	1,467	1,881	2,300	3,104
Net Interest Income	1,774	2,698	3,566	4,331	4,894
Other Income	313	589	713	866	979
Operating Income	2,087	3,287	4,279	5,197	5,873
Operating Expenses	1,496	1,802	2,160	2,777	3,154
Employee Expenses	813	920	1,063	1,283	1,505
Other Operating Expenses	684	882	1,097	1,494	1,649
PPOP	590	1,485	2,119	2,419	2,719
Provisions	1,141	18	346	377	391
PBT	-550	1,467	1,773	2,042	2,328
Tax Expenses	-136	367	446	514	586
Net Income	-415	1,100	1,327	1,528	1,742

Balance Sheet (in INR Cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity & Liabilities					
Share Capital	1,928	2,155	2,155	2,155	2,155
Reserves & Surplus	832	2,003	3,330	4,858	6,600
Net Worth	2,803	4,209	5,536	7,064	8,806
Deposits	18,292	25,538	31,185	38,156	46,785
Borrowings	1,764	2,641	2,746	2,732	2,376
Other Liabilities and Provisions	746	929	1,123	1,190	1,374
Total Capital & Liabilities	23,604	33,317	40,591	49,142	59,341
Assets					
Cash & Balances with RBI	1,682	2,305	3,190	4,998	7,043
Balances with Other Banks & Call Money	486	178	223	270	328
Investments	4,153	8,510	9,489	10,438	11,560
Advances	16,303	21,290	26,580	32,245	39,129
Fixed Assets	249	283	321	364	413
Other Assets	731	750	788	827	869
Total Assets	23,604	33,317	40,591	49,142	59,341

Source: Company reports, Arianth Capital Research

Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
Growth rates					
Advances (%)	12.5%	30.6%	24.9%	21.3%	21.3%
Deposits (%)	39.3%	39.6%	22.1%	22.4%	22.6%
Total assets (%)	15.8%	41.1%	21.8%	21.1%	20.8%
NII (%)	2.6%	52.1%	32.2%	21.5%	13.0%
Pre-provisioning profit (%)	-27.0%	151.5%	42.7%	14.2%	12.4%
PAT (%)	-5144.8%	365.3%	20.6%	15.2%	14.0%
Balance sheet ratios					
Credit/Deposit (%)	89.1%	83.4%	85.2%	84.5%	83.6%
CASA (%)	27.3%	26.4%	28.0%	28.5%	29.0%
Advances/Total assets (%)	69.1%	63.9%	65.5%	65.6%	65.9%
Leverage (x) (Asset/Shareholder's Fund)	8.4	7.9	7.3	7.0	6.7
CAR (%)	19.0%	24.8%	27.9%	29.0%	29.6%
CAR - Tier I (%)	17.7%	21.8%	25.4%	27.0%	28.0%
Operating efficiency					
Cost/income (%)	71.7%	54.8%	50.5%	53.4%	53.7%
Opex/total assets (%)	6.3%	5.4%	5.3%	5.7%	5.3%
Opex/total interest earning assets	7.1%	6.6%	6.0%	6.4%	5.9%
Profitability					
NIM (%)	8.4%	9.8%	9.9%	9.9%	9.2%
RoA (%)	-1.8%	3.3%	3.3%	3.1%	2.9%
RoE (%)	-14.8%	26.1%	24.0%	21.6%	19.8%
Asset quality					
Gross NPA (%)	7.1%	4.0%	3.1%	3.2%	3.1%
Net NPA (%)	0.6%	1.1%	0.6%	0.7%	0.7%
PCR (%)	92.2%	75.9%	81.8%	81.2%	78.9%
Credit cost (%)	7.0%	0.1%	1.3%	1.2%	1.0%
Per share data / Valuation					
EPS (INR)	-2.4	5.6	6.8	7.8	8.9
BVPS (INR)	16	22	28	36	45
ABVPS (INR)	16	20	27	35	44
P/E (x)	-20.8	8.9	7.4	6.4	5.6
P/BV (x)	3.1	2.3	1.8	1.4	1.1
P/ABV (x)	3.2	2.5	1.8	1.4	1.1

Source: Company reports, Arianth Capital Research

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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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