

CMP: INR 53

Rating: BUY

Target Price: INR 66

Stock Info

BSE	542904
NSE	UJJIVANSFB
Bloomberg	UJJIVANS IN
Reuters	UJJI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,955.88
Mkt Cap (INR Cr)	10,786
52w H/L (INR)	61.4 / 22.8
Volume ('000)	14,545

Shareholding Pattern %

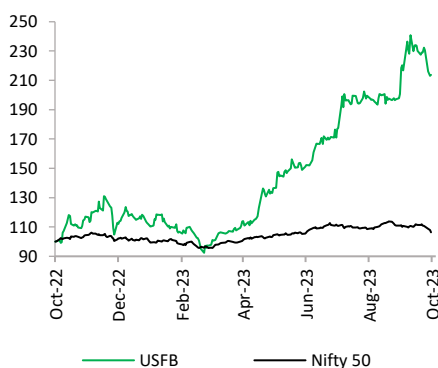
(As on September, 2023)

Promoters	73.67
Public & Others	26.33

Stock Performance (%) 1m 6m 12m

Ujjivan SFB	1.4	94.2	121.4
Nifty 50	-3.7	6.24	7.3

Ujjivan SFB Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
Harshit Jain
harshit.jain@arihantcapital.com

Ujjivan Small Finance Bank (Ujjivan SFB) reported a net profit of INR 3,277 mn during the quarter v/s INR 3,241 mn during Q1FY24 with a growth of 1.1% QoQ and 11.4% YoY, led by strong advances growth of 27% YoY/ 5% QoQ at INR 253 bn. Net Interest Income grew 24.1% YoY/ 3.9% QoQ at INR 8233 mn, despite the increasing cost of funds during the quarter. Pre-provisioning profit came in at INR 4834 mn, (+26% YoY, +6% QoQ), led by increasing net interest income. NIMs stood at 8.8% which was down 100 bps YoY and 40 bps QoQ. Cost of funds remained elevated in the current quarter as well, leading to NIM contraction by 40 bps sequentially.

- 1) NIMs down 100 bps YoY led by increasing cost of funds:** NIMs during the quarter came in at 8.8% v/s 9.2% in Q1FY24 v/s 9.8% in Q2FY24 (-40 bps QoQ, -100 bps YoY). The decline in NIMs was primarily due to the increasing cost of funds, during the quarter, which was in accordance with the industry performance. The Cost of funds came at 7.4% in Q2FY24 v/s 7.2% in Q1FY24 and 6.2% in Q2FY23 and are expected to flatten out as the deposits repricing is mostly complete. 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 20bps QoQ and 223bps YoY to 2.2% during the quarter. Bad debt recoveries continue to be strong at INR 39 cr, which grew by 47% YoY and 12% QoQ. Going forward, recoveries are expected to grow.
- 3) Affordable Housing Finance book expected to grow:** Affordable housing constitutes to 15% of the gross loan book and grew by 31% YoY and 10% QoQ at INR 40.36 bn. Micro loan book grew by 25% YoY and 3% QoQ at INR 152.26 bn and constitutes 57% of the gross loan book. USFL's focus continues to remain strong on affordable housing and microfinance, since the micro group + individual loan yields are at 22% and affordable housing yield is at 12.5%.
- 4) MSME book growth slower than expected:** MSME book has degrown by 22% YoY and 4% QoQ at INR 14.42 bn. The revamp of MSME vertical is slower than expected. They launched semi formal LAP in Q1, which is now scaling up. They have tied up with two fintech partners and will commence disbursement soon. It is expected to contribute to growth significantly in H2FY24 Further, Vehicle and gold finance should also start to contribute in the second half of the fiscal year. The MSME book is expected to grow at CAGR of 25% till FY26. This will help them improve their profitability.

OUTLOOK & VALUATION

We continue to remain positive on the company. Ujjivan Small Finance Bank witnessed an improvement in their NII on a YoY and QoQ basis but the NIMs saw a decline during the Quarter. Their growth in Affordable housing and MSME group loan along with FIG lending continues to be robust. The cost of funds saw an increase during the quarter due to deposits repricing. However, since most of their deposits have been repriced, it is expected to flatten out going forward, leading to improvement in NIMs. 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 66, valuing the bank at 1.5x 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)	3.4	2.6	1.8	1.4	1.1

Source: Company reports, Arihant Capital Research

Q2FY24 - Quarterly Performance (Standalone)

Quarterly Result Update (INR in Mn)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Interest Income	13,911	12,869	9,932	8.1%	40.1%
Interest Expended	5,678	4,942	3,299	14.9%	72.1%
Net Interest Income	8,233	7,927	6,632	3.9%	24.1%
Other Income	1,886	1,772	1,467	6.4%	28.6%
Operating Income	10,120	9,699	8,099	4.3%	25.0%
Operating Expenses	5,286	5,120	4,249	3.3%	24.4%
Employee Expenses	2,734	2,684	2,204	1.9%	24.0%
Other Operating Expenses	2,552	2,435	2,045	4.8%	24.8%
PPOP	4,834	4,579	3,850	5.6%	25.6%
Provisions	469	261	-99	79.7%	-572.0%
PBT	4,364	4,318	3,949	1.1%	10.5%
Tax Expenses	1,087	1,077	1,006	0.9%	8.0%
Net Income	3,277	3,241	2,943	1.1%	11.4%

Source: Company reports, Aриhant Capital Research

Conference Call Highlights:

Guidance for FY24

1. NIMs for FY24 are expected to be 9% against current NIM of 8.8% (Q2FY24).
2. Gross loan book growth guidance of 25%.
3. Credit cost is expected to be under 100bps.
4. Deposit growth is expected to be 30%.
5. ROE guidance of more than 22%.

Highlights

1. Company added 39 branches during the quarter. 45 more branches are expected to be added in H2FY24.
2. It includes splitting of microbanking branches due to higher customer base.
3. Asset growth during the quarter was primarily driven by microbanking and affordable housing.
4. Affordable housing constitutes to 15% of the gross loan book. It grew by 31% YoY and 10% QoQ at INR 40.36 bn. Micro loan book grew by 25% YoY and 3% QoQ at INR 152.26 bn and constitutes 57% of the gross loan book.
5. They are investing in their Micro LAP business, which is active in 8 states. Their Micro LAP business is expected to pick up in coming quarters.
6. Their new product offerings like gold loan and two-wheeler loan will also start contributing to the growth in H2FY24.
7. Their MSME book has degrown by 22% YoY and 4% QoQ at INR 14.42 bn. The revamp of MSME vertical is slower than expected.
8. They launched semi formal LAP in Q1, which is now scaling up. They have tied up with two fintech partners and will commence disbursement soon. It is expected to contribute to growth significantly in H2FY24.
9. Their cost of funds continues to rise as the Term deposits repriced. The Cost of funds came at 7.4% in Q2FY24 v/s 7.2% in Q1FY24 and 6.2% in Q2FY23. Cost of funds are expected to flatten out as the deposits repricing is mostly complete.
10. NIMs had also seen a contraction of 102 bps YoY and 40bps QoQ at 8.8%, due to the increasing cost of funds and partially due to the increasing investment book. As the cost of funds flatten out, NIMs are expected to see improvement in H2FY24.
11. On the reverse merger, it is expected to be completed by Q4 FY24.

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)	-22.3	9.5	7.4	6.4	5.6
P/BV (x)	3.3	2.5	1.8	1.4	1.1
P/ABV (x)	3.4	2.6	1.8	1.4	1.1

Source: Company reports, Arianth Capital Research

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880