

**Cost of funds moderating;
Growth in Affordable housing & Micro loan book continues to be robust**

CMP: INR 55

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)	1,956.91
Mkt Cap (INR Cr)	10,831
52w H/L (INR)	63 / 23
Volume ('000)	14,581

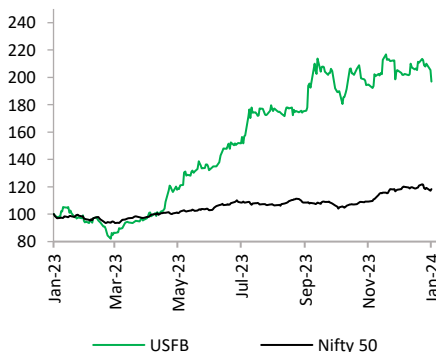
Shareholding Pattern %

(As on December, 2023)

Promoters	73.6
Public & Others	26.4

Stock Performance (%)	1m	6m	12m
Ujjivan SFB	-3.1	25.8	98.4
Nifty 50	0.06	9.01	19.9

Ujjivan SFB Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
Anmol Das
anmol.das@arihantcapital.com
Harshit Jain
harshit.jain@arihantcapital.com

Ujjivan Small Finance Bank (Ujjivan SFB) reported a net profit of INR 3,001 mn during the quarter v/s INR 3,277 mn during Q2FY24 with a degrowth of 8.4% QoQ and marginal growth of 2.3% YoY, led by advances growth of 31.2% YoY/ 5.3% QoQ at INR 256 bn. Net Interest Income grew 23.4% YoY/ 4.4% QoQ at INR 8599 mn, despite the increasing cost of funds during the quarter. Pre-provisioning profit came in at INR 4573 mn, (+17.6% YoY, -5.4% QoQ), led by increasing net interest income and increasing opex. NIMs stood at 8.8% which was down 60 bps YoY and remained flat sequentially. Cost of funds remained elevated in the current quarter as well, leading to NIM contraction by 60 bps YoY.

- 1) NIMs down 60 bps YoY led by increasing cost of funds:** NIMs during the quarter came in at 8.8% v/s 8.8% in Q2FY24 v/s 9.4% in Q3FY23 (-60 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 7.5% in Q3FY24 v/s 7.4% in Q2FY24 and 6.6% in Q3FY23 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 10bps QoQ and 154bps YoY to 2.1% during the quarter. Bad debt recoveries continue to be strong at INR 31 cr. Going forward, recoveries are expected to grow. Further, the increasing focus on secured book will help to maintain asset quality.
- 3) Affordable Housing Finance growth continues to remain robust:** Affordable housing constitutes to 16% of the gross loan book and grew by 40% YoY and 9% QoQ at INR 44.17 bn. Micro loan book grew by 21% YoY and 2% QoQ at INR 154.71 bn and constitutes 56% 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 22.2% and affordable housing yield is at 12.7%.
- 4) MSME book growth slower than expected:** MSME book has degrown by 19.9% YoY and 3.12% QoQ at INR 13.97 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 have commenced disbursement in Q3FY24. It is expected to contribute to growth significantly in Q4FY24. Further, Vehicle and gold finance should also start to contribute in the coming quarters. The MSME book is expected to grow at CAGR of 25% till FY26. This will help them improve their profitability.

OUTLOOK & VALUATION

Our outlook remains optimistic on Ujjivan Small Finance Bank, driven by its decent operational performance characterized by consistent margins and robust loan growth. They 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 have started moderating out. 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)	3.5	2.7	2.0	1.6	1.3

Source: Company reports, Arihant Capital Research

Q3FY24 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Mn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Interest Income	14,706	13,911	10,816	5.7%	36.0%
Interest Expended	6,107	5,678	3,847	7.6%	58.8%
Net Interest Income	8,599	8,233	6,970	4.4%	23.4%
Other Income	1,848	1,886	1,389	-2.1%	33.0%
Operating Income	10,447	10,120	8,359	3.2%	25.0%
Operating Expenses	5,874	5,286	4,470	11.1%	31.4%
Employee Expenses	3,140	2,734	2,255	14.8%	39.2%
Other Operating Expenses	2,734	2,552	2,214	7.1%	23.5%
PPOP	4,573	4,834	3,889	-5.4%	17.6%
Provisions	629	469	-2	34.1%	-28695.5%
PBT	3,944	4,364	3,891	-9.6%	1.3%
Tax Expenses	943	1,087	960	-13.2%	-1.7%
Net Income	3,001	3,277	2,932	-8.4%	2.3%
Balance Sheet Analysis					
Advances	2,56,200	2,43,250	1,95,250	5.3%	31.2%
Deposits	2,96,690	2,91,393	2,32,030	1.8%	27.9%
Total Assets	3,95,320	3,86,802	3,04,610	2.2%	29.8%
CASA Deposits	75,560	70,120	60,700	7.8%	24.5%
CASA (%)	25.5%	24.1%	26.2%	140bps	-69bps
CAR (%)	24.4%	25.2%	26.0%	-83bps	-165bps
Spreads					
NIMs (%)	8.80%	8.80%	9.4%	0bps	-60bps
Cost of Funds	7.50%	7.40%	6.6%	10bps	90bps
Yield on Average Advances	20.56%	21.22%	20.7%	-66bps	-15bps
Asset Quality					
GNPA (%)	2.10%	2.20%	3.6%	-10bps	-154bps
NNPA (%)	0.16%	0.09%	0.1%	7bps	11bps
Returns & Expenses					
RoA	3.10%	3.60%	4.1%	-50bps	-100bps
RoE	24.20%	28.00%	29.7%	-380bps	-550bps
Cost / Income Ratio	56.23%	52.24%	53.5%	399bps	276bps

Quarterly Result Update (Rs Cr)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Group Loans	15,471	15,226	12,823	1.6%	20.7%
Micro Individual Loans	4,304	3,925	2,632	9.7%	63.5%
MSE	1,397	1,442	1,744	-3.1%	-19.9%
Affordable Housing	4,417	4,036	3,144	9.4%	40.5%
FIG	1,435	1,304	1,010	10.0%	42.1%
Others	719	642	543	12.0%	32.4%
Total Advances	27,743	26,575	21,896	4.4%	26.7%

Source: Company reports, Arianth Capital Research

Conference Call Highlights:

Guidance for FY24

1. NIMs for FY24 are expected to be 9% against current NIM of 8.8% (Q3FY24).
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. The bank expected merger with holding company to be completed by the end of FY24.
2. The bank added 2 new fintech partners for supply chain financing. They have started disbursements towards supply chain finance in MSME segment in Q3 FY24.
3. Further, it launched digital savings account in Q3FY24.
4. 23 new branches are expected to be added in Q4FY24.
5. The bank has received rating upgrade towards long term facilities.
6. Their focus is on increasing the secured loan book contribution to the total portfolio, which now stands at 28% of total loan mix.
7. Gold and Vehicle loans business is expected to scale up in FY25.
8. The company added 2.5 lakh new customers in 9M FY24.
9. The Net interest income was up 23.4% YoY/ 4.4% QoQ to INR 860 cr, largely aided by growth in loan book on YoY basis.
10. NIMs were steady on sequential basis to 8.8% while on YoY basis it was down by 60 bps.
11. Rise in Operating expense was on account of ESOP cost and employee addition.
12. Their new product offerings like gold loan and two-wheeler loan will also start contributing to the growth.

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)	-23.1	9.8	8.2	7.1	6.2
P/BV (x)	3.4	2.6	2.0	1.5	1.2
P/ABV (x)	3.5	2.7	2.0	1.6	1.3

Source: Company reports, Arianth Capital Research

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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