

CMP: INR 44

Rating: BUY

Target Price: INR 65

Stock Info

BSE	542904
NSE	UJJIVANSFB
Bloomberg	UJJIVANS IN
Reuters	UJJI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,933
Mkt Cap (INR Mn)	84,950
52w H/L (INR)	63 / 40
Volume ('000)	15,705

Shareholding Pattern %

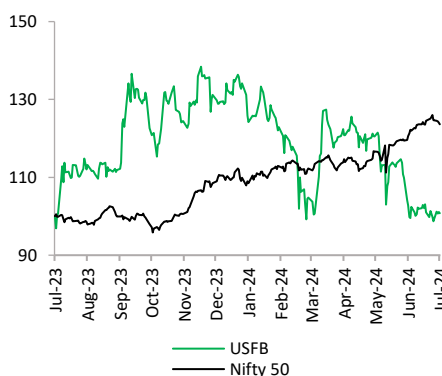
(As on June, 2024)

Promoters	0.0
Public & Others	100.0

Stock Performance (%) 1m 6m 12m

Ujjivan SFB	-2.92	-19.6	-0.24
Nifty 50	2.89	14.3	24.01

Ujjivan SFB Vs Nifty



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Ujjivan Small Finance Bank (Ujjivan SFB) reported a Net Profit of INR 3,011 mn for Q1FY25 and INR 3,296 mn during Q4FY24 with a decline of 8.7% QoQ / 7.1% YoY, led by provision growth of 39.1% QoQ/ 320.7% YoY at INR 1099 mn. Net Interest Income grew by 0.8% QoQ/ 18.8% YoY at INR 9,415 mn, despite the increasing Cost of Funds during the quarter. Pre-provisioning profit came in at INR 5,095 mn, (-1.7% QoQ/ 11.3% YoY), led by increasing net interest income and increasing opex. NIMs stood at 9.3% which was down by 10 bps QoQ and up by 10 bps YoY. Cost of funds remained elevated in the current quarter at 7.5% against 7.2% in both Q4FY24 and Q1FY24.

- NIMs down by 10 bps QoQ led by increasing cost of funds:** NIMs went down to 9.3% v/s 9.4% in Q4FY24 v/s 9.2% in Q1FY24 (down +10 bps YoY). The decline in NIMs was attributed to the increase in the Cost of Funds. The Cost of Funds came at 7.5% in Q1FY25 v/s 7.2% in Q4FY24 and 7.2% in Q1FY24 and are expected to remain elevated. NIMs are expected to be within the range of 9% for the FY25.
- Asset Quality deteriorated on higher slippages against Recoveries:** GNPA increased by 20 bps QoQ and down 10 bps YoY to 2.3% in Q1FY25 and NNPA came at 0.4% increasing by 10 bps QoQ/ 34 bps YoY. The increase in NPA happened mainly from Punjab, Haryana, Gujarat, Kerala, Odisha, Rajasthan and few states of Tamil Nadu. Bad debt recoveries came at INR 480 mn. The Bank's secured book currently stood at 31.3% of the overall advances and we expect it to stabilize their Asset Quality in the long run.
- Affordable Housing Finance growth continues to remain robust:** Affordable housing constitutes to 17% of the gross loan book against 17% in Q4FY24 and grew by 42% YoY at INR 52 bn. Micro loan book grew by 6% YoY and -2% QoQ at INR 158 bn and constitutes 52% of the gross loan book. USFL's focus continues to remain strong on affordable housing and individual microfinance, and the Management expects Individual loan book to outpace Group loan book growth.
- MSME book growth slower than expected:** MSME book growth was flat sequentially showing a degrowth of 6% YoY at INR 14.15 bn. They are in the process of launching digital current account for the benefit of MSME segment. Further, Gold loan and vehicle finance business showed a good growth trajectory in the quarter. Gold loan is offered from more than 100 branches and vehicle finance loans are being offered to customers on risk-based pricing and scorecard-based decision.

OUTLOOK & VALUATION

Our outlook remains optimistic on Ujjivan Small Finance Bank., driven by its ability to reprice the assets passing on the higher interest rates and robust loan growth. They witnessed an improvement in their NII growth of 18% YoY, while the NIMs increased by 10 bps YoY and contracted by 10 bps sequentially. The growth in affordable housing book along with Individual loan book growth continues to be robust. Also, going ahead, NIMs are expected to be above 9% with a gross loan book growth of 20%. We maintain our BUY rating on the stock with a target price of INR 65, valuing the bank at 1.14x FY27E ABV of INR 57 per share.

Exhibit 1: Financial Performance

Particulars. (INR in Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	17,736	26,979	34,095	43,580	48,857	59,253
PPOP	5,905	14,850	19,171	24,522	27,091	35,581
PAT	-4,146	10,999	12,815	15,527	17,344	23,071
EPS (INR / Share)	-2.4	5.6	6.6	7.9	8.9	11.8
ABVPS (INR / Share)	15.6	20.3	27.9	36.7	45.2	56.6
NIM (%)	8.40%	9.83%	9.54%	9.97%	9.16%	9.26%
ROA (%)	-1.8%	3.3%	3.2%	3.1%	2.9%	3.2%
ROE (%)	-14.8%	26.1%	22.8%	21.0%	19.0%	20.2%
P / ABV (x)	2.8	2.2	1.6	1.5	1.2	0.9

Source: Company reports, Arihant Capital Research

Q1FY25 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Interest Income	15,772	15,285	12,869	3.2%	22.6%
Interest Expended	6,357	5,950	4,942	6.8%	28.6%
Net Interest Income	9,415	9,335	7,927	0.8%	18.8%
Other Income	1,971	2,361	1,772	-16.5%	11.2%
Operating Income	11,386	11,697	9,699	-2.7%	17.4%
Operating Expenses	6,290	6,511	5,120	-3.4%	22.9%
Employee Expenses	3,403	3,273	2,684	4.0%	26.8%
Other Operating Expenses	2,888	3,238	2,435	-10.8%	18.6%
PPOP	5,095	5,186	4,579	-1.7%	11.3%
Provisions	1,099	790	261	39.1%	320.7%
PBT	3,997	4,396	4,318	-9.1%	-7.4%
Tax Expenses	986	1,099	1,077	-10.3%	-8.5%
Net Income	3,011	3,296	3,241	-8.7%	-7.1%
Balance Sheet Analysis					
Advances	2,71,140	2,68,830	2,21,690	0.9%	22.3%
Deposits	3,25,140	3,14,620	2,66,600	3.3%	22.0%
Total Assets	4,20,500	4,04,220	3,47,500	4.0%	21.0%
CASA Deposits	83,340	83,350	65,560	0.0%	27.1%
CASA (%)	25.6%	26.5%	24.6%	-86bps	104bps
CAR (%)	24.9%	24.7%	26.7%	16bps	-184bps
Spreads					
NIMs (%)	9.30%	9.40%	9.20%	-10bps	10bps
Cost of Funds	7.50%	7.20%	7.20%	30bps	30bps
Yield on Average Advances	20.43%	20.51%	20.86%	-8bps	-43bps
Asset Quality					
GNPA (%)	2.52%	2.23%	2.62%	29bps	-10bps
NNPA (%)	0.41%	0.28%	0.06%	13bps	35bps
Returns & Expenses					
RoA	2.90%	3.36%	3.80%	-46bps	-90bps
RoE	20.90%	24.80%	29.80%	-390bps	-890bps
Cost / Income Ratio	55.25%	55.67%	52.79%	-42bps	246bps

Quarterly Result Update (Rs Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Group Loans	1,57,680	1,60,090	1,48,190	-1.5%	6.4%
Micro Individual Loans	49,670	47,990	34,960	3.5%	42.1%
MSE	14,150	14,140	15,080	0.1%	-6.2%
Affordable Housing	51,990	49,240	36,710	5.6%	41.6%
FIG	18,000	17,310	12,180	4.0%	47.8%
Others	9,200	9,020	6,140	2.0%	49.8%
Total Advances	3,00,690	2,97,790	2,53,260	1.0%	18.7%

Source: Company reports, Arihant Capital Research

Conference Call Highlights:**Guidance for FY25:**

- The Bank's Management gave a Loan book growth guidance of 20% YoY. Deposit growth to be in line with Advances growth at more than 20% YoY.
- The Management expects the NIMs to be around ~9% & RoE for the bank to be above 20% for FY25.
- The management believes GNPA to rise and the same will be in the range of 2.7%-2.8%. After that it will stabilize.
- They are in the process of launching digital current account for the benefit of MSME segment.

Highlights

- In Q1 FY25, net interest margin increased by 10 bps YoY and contracted by 10 bps sequentially.
- Cost of funds during the quarter stood at 7.5%. It increased by 30 bps both on a QoQ basis and YoY basis.
- They are in the process of launching digital current account for the benefit of MSME segment.
- They are considering to apply for universal bank license.
- The bank is focusing on individual loan segment and expects lot of up-selling opportunity in that segment.
- Affordable housing segment constitutes 17% of the gross loan book and 50% of the secured loan book and the same stood at INR 51.99 bn in the quarter. This segment increased by 42% on a YoY basis and 6% on a QoQ basis.
- In Q1FY25, FIG business witnessed a growth of 48% YoY and 4% QoQ. As on 30th June 2024, the total amount of loans from this segment stood at INR 18 bn.
- Gold loan and vehicle finance business showed a good growth trajectory in the quarter. Gold loan is offered from more than 100 branches and vehicle finance loans are being offered to customers on risk-based pricing and scorecard-based decision.
- In Q1FY25, the bank acquired 2.08 lakh new customers in group loan and individual loan segment.
- In Q1FY25, the asset quality on an overall basis deteriorated as GNPA ratio increased by 20 bps QoQ while net NPA ratio increased by 10 bps QoQ. The increase in NPA happened mainly from Punjab, Haryana, Gujarat, Kerala, Odisha, Rajasthan and few states of Tamil Nadu.
- Fresh slippages during the quarter stood at INR 1.92 bn while recoveries and write-offs stood at INR 0.48 bn and INR 0.59 bn for Q1FY25.

Profit & Loss Statement (in INR Mn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	28,128	41,650	56,772	66,788	80,176	96,552
Interest Expended	10,392	14,671	22,677	23,208	31,319	37,300
Net Interest Income	17,736	26,979	34,095	43,580	48,857	59,253
Other Income	3,133	5,892	7,868	8,716	9,771	11,851
Operating Income	20,869	32,871	41,962	52,296	58,629	71,103
Operating Expenses	14,964	18,021	22,791	27,774	31,538	35,522
Employee Expenses	8,126	9,203	11,832	12,832	15,053	17,657
Other Operating Expenses	6,838	8,818	10,959	14,941	16,485	17,865
PPOP	5,905	14,850	19,171	24,522	27,091	35,581
Provisions	11,408	178	2,149	3,773	3,913	4,750
PBT	-5,503	14,672	17,022	20,749	23,178	30,831
Tax Expenses	-1,358	3,673	4,207	5,223	5,834	7,760
Net Income	-4,146	10,999	12,815	15,527	17,344	23,071

Balance Sheet (in INR Mn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Equity & Liabilities						
Share Capital	19,283	21,547	19,314	21,547	21,547	21,547
Reserves & Surplus	8,321	20,032	36,097	51,624	68,968	92,039
Net Worth	28,026	42,091	56,135	73,894	91,238	1,14,310
Deposits	1,82,922	2,55,377	3,14,622	3,81,559	4,67,854	5,74,303
Borrowings	17,636	26,415	21,708	29,578	28,903	14,987
Other Liabilities and Provisions	7,461	9,286	11,758	12,461	14,612	16,196
Total Capital & Liabilities	2,36,045	3,33,169	4,04,222	4,97,492	6,02,608	7,19,796
Assets						
Cash & Balances with RBI	16,822	23,053	25,183	49,979	70,432	85,498
Balances with Other Banks & Call Money	4,859	1,783	185	2,701	3,277	3,978
Investments	41,529	85,103	97,660	1,07,426	1,18,975	1,31,318
Advances	1,63,032	2,12,897	2,68,829	3,22,447	3,91,289	4,74,988
Fixed Assets	2,494	2,829	4,267	6,435	9,706	14,639
Other Assets	7,309	7,504	8,098	8,503	8,928	9,375
Total Assets	2,36,045	3,33,169	4,04,222	4,97,492	6,02,608	7,19,796

Source: Company reports, Arianth Capital Research

Ratios	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Growth rates						
Advances (%)	12.5%	30.6%	26.3%	19.9%	21.3%	21.4%
Deposits (%)	39.3%	39.6%	23.2%	21.3%	22.6%	22.8%
Total assets (%)	15.8%	41.1%	21.3%	23.1%	21.1%	19.4%
NII (%)	2.6%	52.1%	26.4%	27.8%	12.1%	21.3%
Pre-provisioning profit (%)	-27.0%	151.5%	29.1%	27.9%	10.5%	31.3%
PAT (%)	-5144.8%	365.3%	16.5%	21.2%	11.7%	33.0%
Balance sheet ratios						
Credit/Deposit (%)	89.1%	83.4%	85.4%	84.5%	83.6%	82.7%
CASA (%)	27.3%	26.4%	28.0%	28.5%	29.0%	29.0%
Advances/Total assets (%)	69.1%	63.9%	66.5%	64.8%	64.9%	66.0%
Leverage (x) (Asset/Shareholder's Fund)	8.4	7.9	7.2	6.7	6.6	6.3
CAR (%)	19.0%	24.8%	28.9%	30.2%	30.6%	31.4%
CAR - Tier I (%)	17.7%	21.8%	26.4%	28.2%	28.9%	30.1%
Operating efficiency						
Cost/income (%)	71.7%	54.8%	54.3%	53.1%	53.8%	50.0%
Opex/total assets (%)	6.3%	5.4%	5.6%	5.6%	5.2%	4.9%
Opex/total interest earning assets	7.1%	6.6%	6.4%	6.4%	5.9%	5.6%
Profitability						
NIM (%)	8.4%	9.8%	9.5%	10.0%	9.2%	9.3%
RoA (%)	-1.8%	3.3%	3.2%	3.1%	2.9%	3.2%
RoE (%)	-14.8%	26.1%	22.8%	21.0%	19.0%	20.2%
Asset quality						
Gross NPA (%)	7.1%	4.0%	3.1%	3.2%	3.1%	3.0%
Net NPA (%)	0.6%	1.1%	0.6%	0.7%	0.7%	0.8%
PCR (%)	92.2%	75.9%	81.6%	81.0%	78.7%	76.0%
Credit cost (%)	7.0%	0.1%	0.8%	1.2%	1.0%	1.0%
Per share data / Valuation						
EPS (INR)	-2.4	5.6	6.6	7.9	8.9	11.8
BVPS (INR)	16	22	29	38	47	58
ABVPS (INR)	16	20	28	37	45	57
P/E (x)	-18.3	7.8	6.7	6.7	6.0	4.5
P/BV (x)	2.7	2.0	1.5	1.4	1.1	0.9
P/ABV (x)	2.8	2.2	1.6	1.5	1.2	0.9

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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