

Impressive increase in NIMs sequentially; loan book growth expected to outpace Management Guidance

CMP: INR 53

Rating: BUY

Target Price: INR 75

Stock Info

BSE	542904
NSE	UJJIVANSFB
Bloomberg	UJJIVANS IN
Reuters	UJJI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	19,314
Mkt Cap (INR Mn)	104,630
52w H/L (INR)	63 / 32
Volume ('000)	14,581

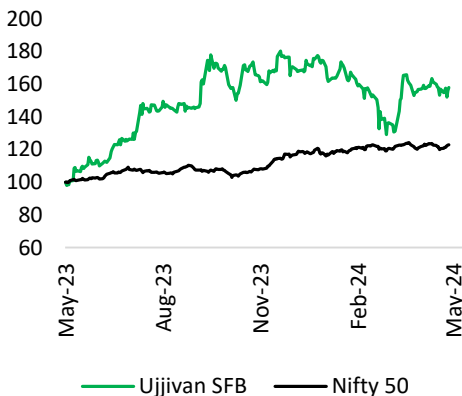
Shareholding Pattern %

(As on March, 2024)

Promoters	0.0
Public & Others	100.0

Stock Performance (%)	1m	6m	12m
Ujjivan SFB	0.5	-4.5	57.7
Nifty 50	0.7	14.3	22.9

Ujjivan SFB Vs Nifty



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Ujjivan Small Finance Bank (Ujjivan SFB) reported a Net Profit of INR 3,296 mn for Q4FY24 and INR 3,001 mn during Q3FY24 with a 9.9% QoQ /up 6.5% YoY, led by advances growth of 4.9% QoQ/ 26.3% YoY at INR 269 bn. Net Interest Income grew by 8.6% QoQ/ 26.5% YoY at INR 9,335 mn, despite the increasing Cost of Funds during the quarter. Pre-provisioning profit came in at INR 5,186 mn, (13.4% QoQ/26.3% YoY), led by increasing net interest income and increasing opex. NIMs stood at 9.4% which was up by 60 bps QoQ and remained flat sequentially. Cost of funds remained elevated in the current quarter but came down to 7.2% against 7.5% in Q3FY24.

- NIMs up by 60 bps QoQ led by decreasing cost of funds:** NIMs went up to 9.4% v/s 8.8% in Q3FY24 v/s 10% in Q4FY23 (down -60 bps YoY). The increase in NIMs was attributed to the decline in the Cost of Funds as well as the bank repricing their assets. The Cost of Funds came at 7.2% in Q4FY24 v/s 7.5% in Q3FY24 and 6.9% in Q4FY23 and are expected to remain elevated as the bank has recently increased the interest rates for the 15 month bucket of Term deposits by 25 bps. NIMs are expected to be within the range of 9% for the FY25.
- Asset Quality deteriorated on higher slippages against Recoveries:** GNPA increased by 5 bps QoQ and down 65 bps YoY to 2.23% in Q4FY24 and NNPA came at 0.28% increasing by 11 bps QoQ/24 bps YoY. Bad debt recoveries continue to be strong at INR 1,410 mn. The Bank's secured book currently stood at 30% 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 16% in Q3FY24 and grew by 45% YoY at INR 50 bn. Micro loan book grew by 13% YoY and 3% QoQ at INR 160 bn and constitutes 54% 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 growing 1.2% QoQ and 3.12% QoQ /11.23% YoY at INR 14.14 bn. The Bank will launch new Loan Origination System in Q1FY25. They have tied up with two fintech partners in Q4FY24 and have commenced disbursement of INR 1,280 mn in Q4FY24 while they are in the process of on-boarding 2 other Fintech partners. Further, Vehicle and Gold Finance books should also gain momentum as the Bank will be disbursing gold loans from 250 branches by the end of FY25 up from current 60 operating branches. The Management expects the Vehicle Finance business to gain more traction in the existing 8 state markets.

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 while the NIMs improved during the Quarter. The growth in affordable housing book along with Individual loan book growth continues to be robust. Also, going ahead, they will be repricing the remaining assets, while Cost of Funds will remain elevated on 25 bps increase in 15 month bucket of deposits. 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 75, valuing the bank at 1.3x FY27E ABV of INR 56.6 per share.

Exhibit 1: Financial Performance

Particulars. (INR in Cr)	FY24	FY25E	FY26E	FY27E
NII	34,095	43,580	48,857	59,253
PPOP	19,171	24,522	27,091	35,581
PAT	12,815	15,527	17,344	23,071
EPS (INR / Share)	6.6	7.9	8.9	11.8
ABVPS (INR / Share)	27.9	36.7	45.2	56.6
NIM (%)	9.54%	9.97%	9.16%	9.26%
ROA (%)	3.2%	3.1%	2.9%	3.2%
ROE (%)	22.8%	21.0%	19.0%	20.2%
P / ABV (x)	1.9	1.5	1.2	0.9

Source: Company reports, Arihant Capital Research

Q4FY24 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Mn)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Interest Income	15,285	14,706	11,848	3.9%	29.0%
Interest Expended	5,950	6,107	4,468	-2.6%	33.2%
Net Interest Income	9,335	8,599	7,380	8.6%	26.5%
Other Income	2,361	1,848	1,791	27.8%	31.9%
Operating Income	11,697	10,447	9,171	12.0%	27.5%
Operating Expenses	6,511	5,874	5,065	10.8%	28.6%
Employee Expenses	3,273	3,140	2,532	4.2%	29.2%
Other Operating Expenses	3,238	2,734	2,533	18.5%	27.9%
PPOP	5,186	4,573	4,106	13.4%	26.3%
Provisions	790	629	-19	25.6%	-4193.3%
PBT	4,396	3,944	4,125	11.5%	6.6%
Tax Expenses	1,099	943	1,030	16.5%	6.7%
Net Income	3,296	3,001	3,095	9.9%	6.5%
Balance Sheet Analysis					
Advances	2,68,829	2,56,200	2,12,897	4.9%	26.3%
Deposits	3,14,622	2,96,690	2,55,377	6.0%	23.2%
Total Assets	4,04,222	3,95,320	3,33,169	2.3%	21.3%
CASA Deposits	83,350	75,560	67,440	10.3%	23.6%
CASA (%)	26.5%	25.5%	26.4%	102bps	8bps
CAR (%)	24.7%	24.4%	25.8%	32bps	-112bps
Spreads					
NIMs (%)	9.40%	8.80%	10.0%	60bps	-60bps
Cost of Funds	7.50%	7.50%	6.9%	0bps	60bps
Yield on Average Advances	20.51%	20.56%	20.3%	-4bps	18bps
Asset Quality					
GNPA (%)	2.23%	2.18%	2.9%	5bps	-65bps
NNPA (%)	0.28%	0.17%	0.04%	11bps	24bps
Returns & Expenses					
RoA	3.36%	3.12%	3.9%	24bps	-52bps
RoE	24.20%	24.20%	29.4%	0bps	-521bps
Cost / Income Ratio	55.67%	56.23%	55.2%	-56bps	44bps

Source: Company reports, Aриhant Capital Research

Conference Call Highlights:

Guidance for FY24:

- The Bank's Management gave a Loan book growth guidance of 20-25% 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 23% for FY25.
- The Credit Cost is expected to be around 1.4-1.5% for FY25.
- The Bank has not repriced the Pre Sept 2022 asset book yet, hence more improvements on the margins front can be expected.
- The Bank is in talks with 4 Fintech partners of which 2 have already partnered with them. The Management says that currently it is small in size, but the book is a very high Yielding book.
- RBI has approved the appointment of Mr. Sanjeev Nautiyal as the MD & CEO of the bank w.e.f. from 1st July 2024 while the current Mr. Ittira Davis will step down from 30th June 2024.

Highlights:

- The Bank has successfully completed the merger of the parent Ujjivan Financial Services Ltd. with the Bank, resulting in the appreciation of the book value per share by INR 2.6.
- On the strong Profitability of the bank, the Board has announced a dividend of INR 1.50 per equity share of the bank.
- The Management intends to keep expanding the bank's presence geographically, with 123 branches added during the year FY24, taking the total to 752 branches spread over 26 states. During Q4FY24, they have added 23 branches.
- The Bank's disbursements in Q4FY24 stood at INR 66,810 mn, growing by 11.3% YoY / up 17.7% QoQ.
- Going ahead, the Management expects the Individual loan book growth to be faster than the Group Loan book growth of the bank. Currently, the Individual Loan book comprised of 16% of the Gross loan book of the bank, and they expect it to rise going further.
- As per the Management, the bank has graduated 0.14 mn customers to Individual Loans who were previously part of the Group Loan book, who come with good records.
- The Bank's affordable housing segment witnessed a growth of 45% YoY and stood at INR 50 bn. They disbursed INR 7.3 bn of loans in the segment during Q4FY24 and INR 22.84 bn in FY24. The Bank has piloted a new Loan Origination System for the Affordable Housing segment.
- The Bank's MSME book transition has nearly completed, and they have disbursed INR 1,280 mn in Q4FY24. The new PAN India MSME book largely comprises of LAP products and they will launch a separate LOS for the same in the Q1FY25.
- The Bank will be offering Gold loans from 250 branches by the end of FY25, up from 60 currently operating branches, and vehicle finance will deepen its presence in the existing 8 states to gain more traction to grow their business.
- The Bank acquired 0.27 mn new customers during Q4FY24, taking the newly acquired customers count to 1.05 mn in FY24, which is 12% higher than previous year FY23.
- The Bank has increased their CASA Deposits by INR 7,780 mn in Q4FY24, registering a growth of 10% QoQ for the same.
- The Bank's CASA ratio stood at 26.5% in Q4FY24 against 25.5% in the previous quarter.
- The Bank's Retail Term Deposits growth continues to outpace their bulk term deposits growth rates growing by 7% QoQ / up 36% for full year FY24.
- The Bank has recently increased the Deposit Interest Rates by 25 bps for the 15 month deposit bucket offering a more competitive rate to their customers.
- The Net Interest Margins expanded by 60 bps QoQ in Q4FY24, as the Bank undertook Asset book repricing while Cost of Funds improved from 7.5% in Q3FY24 to 7.2% in Q4FY24.
- The Bank's 75% of the book is repriced in the highest bracket while around 15% of the book sourced between September 2022 & Feb 2023, and 10% of the book sourced Pre Sept 2022 is yet to be fully repriced.
- The Management expects the Cost to Income ratio at 56% in Q4FY24 to remain elevated in the future as well as the Bank will keep spending towards Technology.
- The Bank's Credit Cost stood at INR 790 mn against INR 630 mn in Q3FY24. Slippages for Q4FY24 was at INR 4,800 mn while the recoveries and Upgrades stood at INR 2,240 mn for Q4FY24.
- The Management exuberated confidence that they will be able to achieve the Eligibility Criteria for Universal Banking License as per the RBI's recently outlined guidelines on Universal Banking license.

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)	-22.3	9.5	8.1	6.7	6.0	4.5
P/BV (x)	3.3	2.5	1.9	1.4	1.1	0.9
P/ABV (x)	3.4	2.6	1.9	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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