

# UJJIVAN SMALL FINANCE BANK | Banking

Adequate provision cover; growth focus returns

# LKP

## Price Analysis:

The growth momentum (disbursement up 50% sequentially) and adequate provision buffer (7.6% of the book) demonstrates a healthy balance sheet. Ujjivan SFB's 3QFY21 results were stable on the operating level with lower NII (led by non-recognition of interest) and better other income due to higher treasury gains. Loan growth was a bit lower due to a more cautious stance on MFI while balance sheet mix further improved with secured loans/CASA share increasing by 2%/1.2% QoQ to 25%/18%. CASA guidance of 25% in 3 years is maintained. Pro-forma GNPA/NNPA escalated to 4.8%/2.1% which led to a spike in provisions for the quarter to ₹5.8bn due to potential stress recognition. 6% of loans have been restructured though collection efficacy for this pool in Jan'21 was 73%. However, overall collection efficiency is improving MoM (84% in Sep'20 to 92% in Jan'20) and adequate provision cover (~7.6%) on near term stress with CET-1 of ~25% provides comfort. See FY23E RoA/RoE at 1.9%/15.3%. Rolling forward to FY23ABV we assign multiple/TP at 2.1x/₹48. Recommend BUY.

## Gazing the core:

**Overall PCR on stress book strong despite surge in pro-forma GNPA:** Pro-forma GNPA/NNPA increased 363bps/175bps QoQ to 4.83%/2.05% (1.2%/0.3% in Q2FY21). Total provisions now stand at ~7.6% of the gross loan book (v/s ~3.4% in Q2FY21). Overall PCR stands at ~68% of the restructured book + pro-forma GNPA, which we believe to be adequate (based on the current trends in collection efficiency).

**Cost-driven operating profits offset by provisions:** Ujjivan SFB reported strong 42% YoY operating profit growth riven by ~6% revenue growth and 8% YoY decline in operating expense growth. NII was nearly flat YoY, whereas non-interest income increased 34% YoY due to treasury gains. AUM growth remained muted (flat YoY; -2% QoQ) with disbursements normalizing towards the end (December: +8% YoY). MFI segment trends were more severe with 7% YoY AUM decline and ~40% YoY disbursements decline. Cost of funds declined to 7.1% (-30bps QoQ) with NIMs declining ~50bps QoQ to 9.7% due to non-accrual on capitalized interest. Operating expenses remained under control (-8% YoY) and cost-income at 62% (vs 71% in 3QFY20).

**Focus on granular deposits continues:** The bank's focus on building granular low-cost deposits in terms of CASA resulted in 66% YoY growth in CASA deposits to ₹2,055cr. CASA ratio improved to 17.7% as against 11.6% YoY.

## Outlook and Valuation:

Although asset quality deterioration was a negative surprise, we believe management has taken the right step in fast tracking provisions for the stress book, ensuring focus returns to growth in FY22-23E. We believe the company will benefit from lower credit costs and higher growth in FY22-23E due to the clean-up initiated in the quarter. We recommend BUY with target price of ₹48, implying a valuation of 2.1x FY23E P/ABV.

Financial Summary	FY20	FY21E	FY22E	FY23E
Net worth	29,662	28,752	33,339	39,362
Deposits	1,07,800	1,26,143	1,61,069	2,14,578
Advances	1,40,440	1,46,156	1,87,923	2,34,685
CDR (%)	130	116	117	109

Key Ratios	FY19	FY20	FY21E	FY22E
RoA (calculated, annualized, %)	1.9	-0.5	1.9	1.9
RoE (calculated, annualized, %)	11.7	-3.2	13.8	15.3
BVPS	17.2	16.6	19.3	22.8
EPS (₹)	2.0	-0.5	2.7	3.5

## Rating

Buy

Current Market Price (₹)	36
12 M Price Target (₹)	48
Potential upside (%)	33

## Stock Data

FV (₹) :	10
Market Cap Full (₹ bn) :	62
Market Cap Free Float (₹ bn) :	7
52-Week High / Low (₹) :	54 / 23
1 Year Avg. Dly Traded Volume (in lakh)	23
BSE Code / NSE Symbol :	542904 / UJJIVANSFB
Bloomberg :	UJJIVANSFB IN

## Shareholding Pattern (%)

	Dec-20	Sep-20	Jun-20	Mar-20
Promoter	83.32	83.32	83.32	83.32
FPIs	5.03	5.18	5.14	5.35
MFs	0.44	0.17	0.23	0.79
AIF's	3.30	3.31	3.31	3.25
Others	7.91	8.02	8.00	7.29

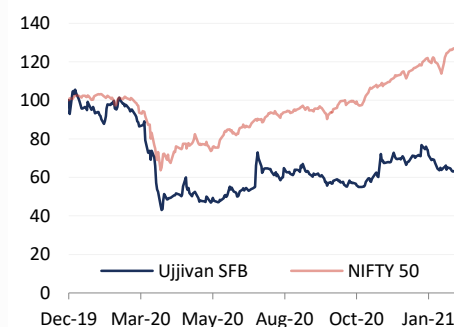
Source: BSE

## Price Performance (%)

(%)	1M	3M	6M	1YR
Ujjivan SFB	-10.0%	7.1%	4.0%	-33.9%
Nifty 50	6.1%	19.8%	37.0%	26.4%

\* To date / current date : February 16, 2021

## Ujjivan SFB vs Nifty 50



## Exhibit 1: Quarterly Balance Sheet

(₹ mn)	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	YoY (%)	QoQ (%)
Share capital	17,283	17,282	17,283	17,283	17,283	-	-
Reserves & Surplus	11,670	12,380	12,930	13,890	11,100	(4.9)	(20.1)
Net worth	28,953	29,662	30,213	31,173	28,383	(2.0)	(9.0)
Deposits	1,06,560	1,07,800	1,10,570	1,07,430	1,16,170	9.0	8.1
Borrowings	30,990	39,530	44,790	39,490	33,660	8.6	(14.8)
Other liabilities & Provisions	4,970	4,910	6,210	7,480	13,540	172.4	81.0
Preference Capital	1,998	1,998	1,998	1,998	1,998	-	-
<b>Total Liabilities</b>	<b>1,73,600</b>	<b>1,84,110</b>	<b>1,94,080</b>	<b>1,87,940</b>	<b>1,94,160</b>	<b>11.8</b>	<b>3.3</b>
Cash & Balances with RBI	6,630	12,250	15,320	7,550	12,060	81.9	59.7
Balance with Banks & Money at call	2,920	1,180	3,170	3,160	4,270	46.2	35.1
Investments	22,820	23,960	26,890	33,490	34,840	52.7	4.0
Advances	1,35,390	1,40,440	1,42,510	1,37,730	1,35,140	(0.2)	(1.9)
Fixed Assets	2,629	2,998	3,070	2,970	2,890	9.9	(2.7)
Other Assets	3,211	3,282	3,122	3,040	4,960	54.5	63.2
<b>Total Assets</b>	<b>1,73,600</b>	<b>1,84,110</b>	<b>1,94,082</b>	<b>1,87,940</b>	<b>1,94,160</b>	<b>11.8</b>	<b>3.3</b>

Source: Company, LKP Research

## Exhibit 2: Quarterly Income statement

(₹ mn)	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	YoY (%)	QoQ (%)
Interest Income	7,070	7,375	7,463	7,540	6,880	(2.7)	(8.8)
Interest Expenses	2,800	2,709	2,883	2,830	2,560	(8.6)	(9.5)
NII	4,270	4,666	4,580	4,710	4,320	1.2	(8.3)
NIM (%)	10.9	10.7	10.2	10.2	9.7	(11.0)	(4.9)
Other Income	750	722	287	640	1,000	33.3	56.3
PPP	1,440	1,906	2,147	2,330	2,030	41.0	(12.9)
Provisions	550	969	1,403	1,370	4,830	778.2	252.6
Credit cost (calculated, annualized %)	1.6	2.8	3.9	4.0	14.3	779.8	259.3
PAT	900	732	547	960	-2,790	(410.0)	(390.6)
RoA (calculated, annualized, %)	2.1	1.6	1.1	2.0	-5.7	(377.2)	(381.3)
RoE (calculated, annualized, %)	12.4	9.8	7.2	12.2	-38.8	(413.1)	(418.4)

Source: Company, LKP Research

## Exhibit 3: Quarterly Asset quality trend

	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	YoY (%)	QoQ (%)
GNPA (%)	0.9	1.0	1.0	1.0	1.0	11.1	-
NNPA (%)	0.4	0.2	0.2	0.1	0.1	(87.5)	(50.0)
PCR (calculated, %)	60.0	80.0	82.0	86.0	95.0	58.3	10.5
PCR (Reported, including tec write off %)	60.0	80.0	82.0	86.0	95.0	58.3	10.5

Source: Company, LKP Research

## Exhibit 4: Quarterly Loan book Trend

(₹ mn)	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	YoY (%)	QoQ (%)
Group Loans	92,020	93,110	94,870	88,890	83,460	(9.3)	(6.1)
Micro Individual Loans	12,740	14,460	14,810	14,480	14,450	13.4	(0.2)
Agri & Allied Loans	1,370	1,760	1,820	1,820	1,870	36.5	2.7
MSE	9,310	9,800	10,010	10,590	11,420	22.7	7.8
Affordable Housing	13,810	15,240	15,490	16,340	17,980	30.2	10.0
FIG Lending	5,460	5,490	5,230	5,060	5,080	(7.0)	0.4
Others	1,470	1,670	1,420	1,630	2,120	44.2	30.1
<b>Gross loan book</b>	<b>1,36,180</b>	<b>1,41,530</b>	<b>1,43,650</b>	<b>1,38,810</b>	<b>1,36,380</b>	<b>0.1</b>	<b>(1.8)</b>
<b>Loan Book share (%)</b>							
Group Loans %	67.6	65.8	66.0	64.0	61.2	(9.4)	(4.4)
Micro Individual Loans %	9.4	10.2	10.3	10.4	10.6	13.3	1.6
Agri & Allied Loans %	1.0	1.2	1.3	1.3	1.4	36.3	4.6
MSE %	6.8	6.9	7.0	7.6	8.4	22.5	9.8
Affordable Housing %	10.1	10.8	10.8	11.8	13.2	30.0	12.0
FIG Lending %	4.0	3.9	3.6	3.6	3.7	(7.1)	2.2
Others %	1.1	1.2	1.0	1.2	1.6	44.0	32.4
Gross loan book %	100.0	100.0	100.0	100.0	100.0	-	-

Source: Company, LKP Research

## Exhibit 5: Liability Profile

	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	YoY (%)	QoQ (%)
Refinancing %	21.1	21.3	25.9	23.1	20.8	(1.3)	(9.8)
Deposits %	77.5	73.2	71.2	73.1	77.5	0.1	6.0
Others %	1.1	1.2	1.0	1.2	1.6	44.0	32.4

## Exhibit 6: Capital Adequacy

	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21
CET1 (%)	27.5	28.0	27.8	31.0	25.9
AT1 (%)	-	-	-	-	-
Tier 1 (%)	27.5	28.0	27.8	31.0	25.9
Tier 2 (%)	0.8	0.8	0.9	-0.9	1.0
CAR (%)	28.3	28.8	28.7	30.1	26.9
RWA	1,04,420	1,07,750	1,10,320	1,05,430	1,03,420
RWA to total assets	60.1	58.5	56.8	56.1	53.3

Source: Company, LKP Research

## Exhibit 7: Ratio Analysis

	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21
<b>Operating ratios</b>					
YoA (%)	20.0	19.9	19.0	20.0	19.0
CoF (%)	8.1	8.0	7.7	7.4	7.1
Spread (%)	11.9	11.9	11.3	12.6	11.9
NIM (%)	10.9	10.7	10.2	10.2	9.7
Cost to Income ratio (%)	71.0	65.0	55.9	57.0	62.0
Credit cost (calculated, annualized %)	1.6	2.8	3.9	4.0	14.3
<b>Balance sheet ratios</b>					
Debt to Equity Ratio	1.1	1.3	1.5	1.3	1.2
Equity to loan Ratio	0.2	0.2	0.2	0.2	0.2
CDR (%)	127.1	130.3	128.9	128.2	116.3
WA/WL	1.0	1.0	1.0	1.0	1.0
<b>Valuation ratios</b>					
RoA (calculated, annualized, %)	2.1	1.6	1.1	2.0	-5.7
RoE (calculated, annualized, %)	12.4	9.8	7.2	12.2	-38.8
BVPS	16.8	17.3	17.7	18.3	16.7

Source: Company, LKP Research

**Exhibit 8: Balance Sheet Projections**

(₹ mn)	FY20	FY21E	FY22E	FY23E
Share capital	17,282	17,282	17,282	17,282
Reserves & Surplus	12,380	11,470	16,057	22,080
<b>Net worth</b>	<b>29,662</b>	<b>28,752</b>	<b>33,339</b>	<b>39,362</b>
Deposits	1,07,800	1,26,143	1,61,069	2,14,578
Borrowings	39,530	34,786	40,127	46,018
Other liabilities & Provisions	4,910	5,632	6,473	7,139
Preference Capital	1,998	1,998	1,998	1,998
<b>Total Liabilities</b>	<b>1,84,110</b>	<b>1,97,311</b>	<b>2,43,006</b>	<b>3,09,095</b>
Cash & Balances with RBI	12,250	13,245	9,109	8,871
Balance with Banks & Money at call	1,180	1,512	1,956	2,658
Investments	23,960	27,413	35,814	16,587
Advances	1,40,440	1,46,156	1,87,923	2,34,685
Fixed Assets	2,998	3,298	3,627	3,990
Other Assets	3,282	5,687	4,576	42,303
<b>Total Assets</b>	<b>1,84,110</b>	<b>1,97,311</b>	<b>2,43,005</b>	<b>3,09,094</b>

Source: Company, LKP Research

**Exhibit 9: Income Statement Projections**

(₹ mn)	FY20	FY21E	FY22E	FY23E
Interest Income	27,036	29,633	32,627	36,973
Interest Expenses	10,700	11,200	11,361	12,651
NII	16,336	18,433	21,266	24,322
Other Income	3,222	3,265	3,766	4,521
PPP	6,372	7,886	9,168	11,356
Provisions	1,710	9,290	2,815	2,965
<i>Credit cost (calculated, annualized %)</i>	<i>4.9</i>	<i>6.4</i>	<i>1.5</i>	<i>1.3</i>
PAT	3,499	-910	4,587	6,023
<i>RoA (calculated, annualized, %)</i>	<i>1.9</i>	<i>-0.5</i>	<i>1.9</i>	<i>1.9</i>
<i>RoE (calculated, annualized, %)</i>	<i>11.7</i>	<i>-3.2</i>	<i>13.8</i>	<i>15.3</i>

Source: Company, LKP Research

**Exhibit 10: Ratios**

Qtr/Yr	FY20	FY21E	FY22E	FY23E
<i>Credit cost (calculated, annualized %)</i>	<i>4.9</i>	<i>6.4</i>	<i>1.5</i>	<i>1.3</i>
<i>Debt to Equity Ratio</i>	<i>1.3</i>	<i>1.2</i>	<i>1.2</i>	<i>1.2</i>
<i>Equity to loan Ratio</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>
<i>CDR (%)</i>	<i>130.3</i>	<i>115.9</i>	<i>116.7</i>	<i>109.4</i>
<i>RoA (calculated, annualized, %)</i>	<i>1.9</i>	<i>-0.5</i>	<i>1.9</i>	<i>1.9</i>
<i>RoE (calculated, annualized, %)</i>	<i>11.7</i>	<i>-3.2</i>	<i>13.8</i>	<i>15.3</i>
<i>BVPS</i>	<i>17.2</i>	<i>16.6</i>	<i>19.3</i>	<i>22.8</i>
<i>EPS (₹)</i>	<i>2.0</i>	<i>-0.5</i>	<i>2.7</i>	<i>3.5</i>
<i>GNPA (%)</i>	<i>1.0</i>	<i>6.0</i>	<i>2.2</i>	<i>1.4</i>
<i>NNPA (%)</i>	<i>0.2</i>	<i>0.1</i>	<i>0.3</i>	<i>0.3</i>

Source: Company, LKP Research

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