

Ujjivan Small Finance Bank

Profit warning in core MFI business

Ujjivan Small Finance Bank (UJJIVAN) hosted its Analyst Meet and cut its loan growth and credit cost guidance, primarily from the emerging headwinds in select pockets of its core MFI business (70% of loan book). The bank continues to look to diversify its loan book by increasing its secured mix, largely through affordable housing and scale-up of new business such as 2W, micro-LAP, and gold loans. UJJIVAN revised its FY25 loan growth guidance to 20% (from earlier range of 20-25%), and its credit cost estimates upwards to ~1.7% (from earlier guidance of ~1.4%). UJJIVAN is likely to continue investing in people and technology to improve its customer franchise and distribution footprint. The bank is looking to apply for a universal bank license, supported by continued diversification of the asset book and more granular retail liabilities. We cut our FY25/26 estimates by 7-8%, factoring in higher credit costs for FY25/26 given the stress building up in the MFI book; however, we believe that UJJIVAN is more conservative than its peers on underwriting, and impairment recognition norms. We reiterate BUY with a revised TP of INR65 (1.5x Mar-26 ABVPS).

- MFI book; deceleration ahead:** The management highlighted stress building up in certain geographies, likely to result in a growth deceleration in the MFI portfolio. UJJIVAN guided for higher growth in the individual MFI loan book (customers graduating from the group MFI cohort), given the relatively better performance of the individual portfolio, since COVID. However, we flag the individual MFI book in a higher risk category, given materially high ATS (INR135k). We also highlight the impending regulatory pressure on yields in the MFI book.
- Scaling up secured book critical for diversification:** UJJIVAN continues its journey towards a more diversified book, rapidly growing its secured mix, largely driven by affordable housing. UJJIVAN has scaled up its affordable housing book (16.5% of total loan book), registering a 45% CAGR over the past two years. UJJIVAN is also scaling up other secured asset classes like Micro LAP, gold loans and two-wheeler book. The bank has run-down its old MSME cohort and is now scaling the book in a calibrated manner, while using it as an opportunity to cross-sell liabilities. Despite building geographical diversification in its asset mix, we understand that UJJIVAN needs to further diversify its product mix to qualify for a universal bank license.
- Balance sheet granularity key to a quality franchise:** With its focus on new customer acquisition and granular retail deposits through investments in distribution and digital initiatives, medium-term opex intensity is likely to stay elevated. Given the change in mix towards secured loans, likely pressure on yields, and stress building up in certain geographies, we cut our earnings estimates by 7-8% (RoAs to average 3.2% over FY25E-FY26E).

Financial Summary

(INR bn)	FY21	FY22	FY23	FY24	FY25E	FY26E
NII	17.3	17.7	27.0	34.1	40.2	47.3
PPOP	8.1	5.9	14.9	19.2	23.2	27.7
PAT	0.1	(4.1)	11.0	12.8	14.0	16.4
EPS (INR)	0.0	(2.4)	5.6	6.6	7.3	8.5
ROAE (%)	0.3	(13.8)	31.4	26.1	22.7	22.2
ROAA (%)	0.0	(1.9)	3.9	3.5	3.2	3.1
ABVPS (INR)	16.2	15.6	21.5	28.7	34.1	40.9
P/ABV (x)	3.0	3.1	2.3	1.7	1.4	1.2
P/E (x)	NM	(20.2)	8.6	7.3	6.7	5.7

Source: Company, HSIE Research

BUY

CMP (as on 21 Jun 2024)	INR 48
Target Price	INR 65
NIFTY	23,501

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 70	INR 65
EPS %	FY25E -6.9%	FY26E -7.9%

KEY STOCK DATA

Bloomberg code	UJJIVANS IN
No. of Shares (mn)	1,932
MCap (INR bn) / (\$ mn)	93/1,118
6m avg traded value (INR mn)	605
52 Week high / low	INR 63/37

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.2	(15.5)	26.1
Relative (%)	(1.0)	(24.5)	4.6

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	73.6	0.0
FIs & Local MFs	4.0	7.8
FPIs	3.7	27.0
Public & Others	18.7	65.3
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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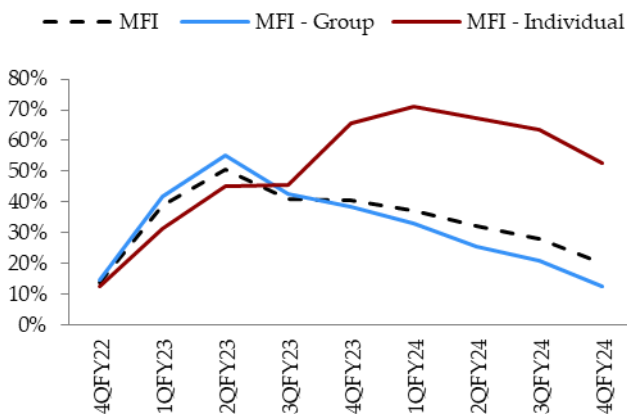
Annual Report Dashboard

	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Concentration metrics							
% Share of Top 20 advances	NA	0.2%	2.4%	3.2%	4.1%	4.3%	3.8%
% Share of Top 20 exposures	6.6%	2.6%	7.6%	3.8%	8.7%	3.9%	3.7%
% Share of Top 20 depositors	98.3%	73.6%	41.8%	29.0%	29.3%	22.5%	18.3%
% Share of Top 20 NPAs	NA	NA	NA	NA	NA	1.5%	3.9%
Sector-wise Advances (% of sector advances)							
Priority Sector	99.4%	15.1%	58.2%	54.9%	54.6%	78.1%	73.8%
Industrial credit	42.8%	34.1%	47.4%	100.0%	100.0%	100.0%	100.0%
Credit for services	71.6%	21.7%	37.8%	77.3%	6.5%	56.0%	40.8%
Agricultural credit	100.0%	13.8%	47.6%	46.7%	41.3%	100.0%	100.0%
Personal loans	99.7%	12.9%	70.2%	48.8%	60.9%	71.4%	68.3%
Non-Priority Sector	0.6%	84.9%	41.8%	45.1%	45.4%	21.9%	26.2%
Industrial credit	57.2%	65.9%	52.6%	0.0%	0.0%	0.0%	0.0%
Credit for services	28.4%	78.3%	62.2%	22.7%	93.5%	44.0%	59.2%
Agricultural credit	0.0%	86.2%	52.4%	53.3%	58.7%	0.0%	0.0%
Personal loans	0.3%	87.1%	29.8%	51.2%	39.1%	28.6%	31.7%
Sector-wise GNPA's (% of sector-wise net advances)							
Priority Sector	0.3%	0.9%	0.7%	0.8%	6.6%	8.0%	2.7%
Industrial credit	0.0%	0.9%	0.3%	1.0%	10.4%	21.3%	5.6%
Credit for services	0.0%	1.6%	0.7%	0.4%	10.3%	36.4%	5.0%
Agricultural credit	0.2%	0.5%	0.5%	0.8%	8.4%	7.1%	2.5%
Personal loans	0.3%	0.7%	0.8%	0.9%	5.8%	3.4%	2.5%
Non-Priority Sector	NA	1.9%	1.3%	1.2%	7.6%	5.0%	3.3%
Industrial credit	NA	11.6%	1.2%	0.0%	0.0%	0.0%	0.0%
Credit for services	NA	0.0%	3.5%	0.0%	0.0%	0.5%	0.4%
Agricultural credit	NA	3.5%	0.4%	0.8%	8.4%	0.0%	0.0%
Personal loans	NA	1.7%	0.8%	1.6%	8.4%	6.3%	4.0%
GNPA Mix %							
Sub standard	89.4%	75.4%	69.7%	91.1%	77.7%	60.7%	37.4%
Doubtful	10.4%	1.6%	22.5%	7.7%	4.6%	39.0%	62.2%
Loss	0.1%	23.0%	7.8%	1.2%	17.6%	0.2%	0.3%
Bancassurance - % of Total Fee							
PSLC Bought - % of previous year loans	NA	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
PSLC Sold - % of previous year loans	NA	0.3%	0.1%	0.2%	0.2%	0.1%	0.1%
Operational Risk							
Frauds reported (#)	NA	NA	NA	NA	203,000	383,000	618,000
Amount involved in frauds (INR mn)	NA	NA	NA	NA	24	53	97
Provision for fraud (INR mn)	NA	NA	NA	NA	10	26	68
Provision for fraud (% of PPOP)	NA	NA	NA	NA	1.4%	3.8%	0.5%
Ticket size of frauds (INR mn)	NA	NA	NA	NA	116	139	158
Real Estate Exposure (% of net advances)							
Secured by residential mortgage	100%	100%	100%	100%	97%	97%	98%
Individual housing loans	0%	44%	48%	73%	35%	36%	35%
Secured by commercial mortgage	0%	0%	0%	0%	0%	1%	1%
Exposure to NHBs and HFCs	0%	0%	0%	0%	3%	2%	1%
LCR Disclosures							
LCR %	728%	169%	187%	254%	116%	126%	180%
RSBD (% of total deposits on bank's BS)	NA	NA	NA	NA	NA	68%	49%

Signs of stress in core MFI portfolio (select geographies)

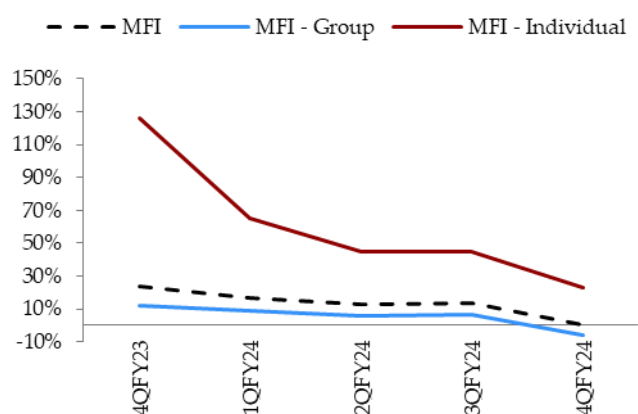
In its narrative on the core MFI business, UJJIVAN highlighted a few states (and select districts within these states) where the bank is likely to either calibrate its growth or trim exposure owing to transient disruptions. This includes specific districts in Punjab and Haryana (stress emanating from loan waiver protests prevalent since H2FY24), Kerala (2% of total MFI exposure; economic slowdown), and Gujarat (elevated competitive intensity resulting in mis-pricing and over-leveraging of borrowers). The management evoked more confidence in growing its individual MFI loan book faster than the group business, as that cohort continues to perform better since COVID. While we continue to be confident of the overall quality of the MFI book, we flag caution on the rapidly growing individual MFI portfolio, given the significantly high average ticket size (ATS) of the book.

Exhibit 1: YoY growth driven by Individual MFI



Source: Company, HSIE Research

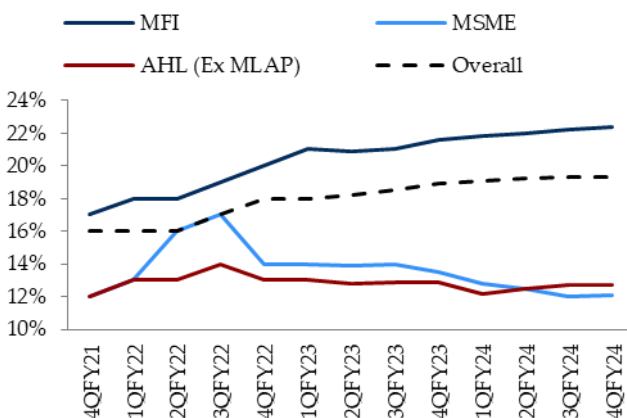
Exhibit 2: Disbursements (YoY) slowing down in FY24



Source: Company, HSIE Research

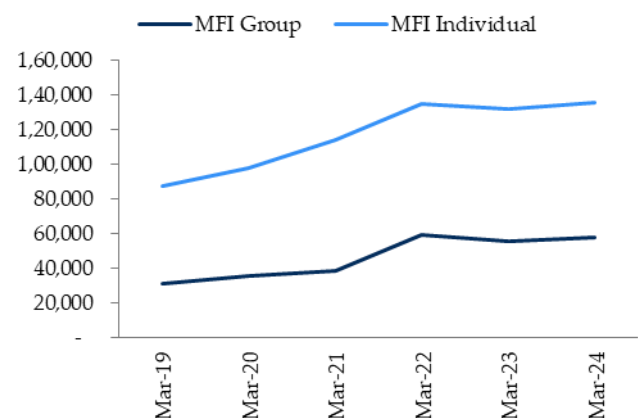
- Pressure on yields going forward:** While the RBI's lifting of interest rate cap on MFIs in FY21 helped lenders charge higher interest rates to borrowers, the RBI has recently been cautioning MFI lenders on usurious yields and super-normal margins, nudging these lenders to pass on the benefits to the customers. While UJJIVAN continues to operate at blended yields of 22%, we expect medium-term pressure on yields over the next few quarters.

Exhibit 3: Yield on advances



Source: Company, HSIE Research

Exhibit 4: Average ticket size significantly higher for individual

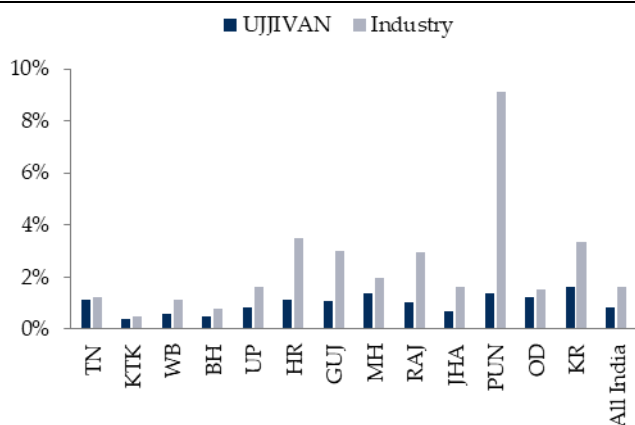


Source: Company, HSIE Research

Asset quality continues to be superior to peers

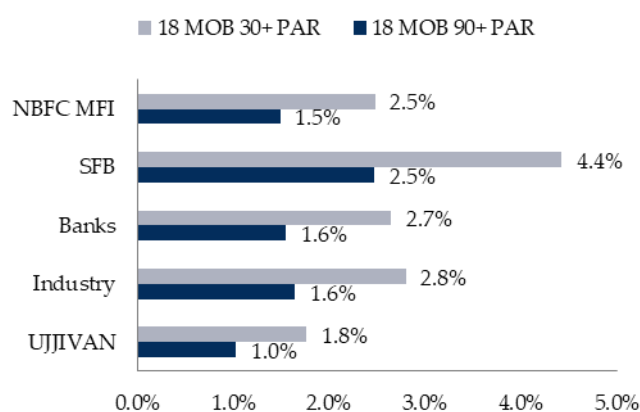
UJJIVAN continues to boast asset quality better than its peers, especially during the two years of normalisation since COVID. While the management highlighted stress in certain geographies as mentioned above, the overall MFI book continues to perform well on the back of significant geographic diversification, which offers an edge over its peers. UJJIVAN benefitted from accelerated recoveries/upgrades and write-offs during FY24, resulting in credit costs clocking in at sub-1%. However, the management has now revised its FY25 credit cost guidance upwards to 1.7% (against the earlier guidance of ~1.4%), highlighting the stress building up in its core MFI portfolio.

Exhibit 5: 90+, 18 MOB PAR – UJJIVAN performing better across states



Source: Company, HSIE Research

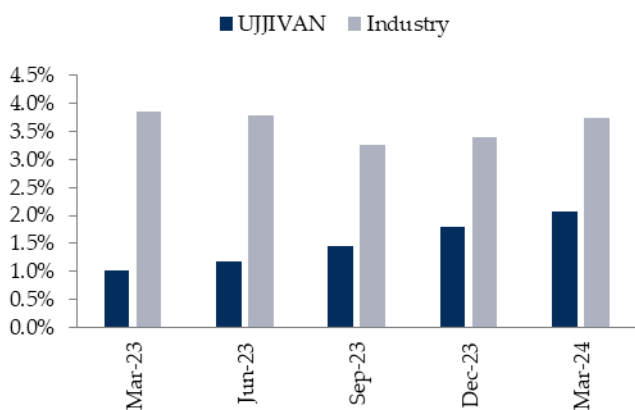
Exhibit 6: UJJIVAN - best in class amongst MFI players in terms of asset quality



Source: Company, HSIE Research

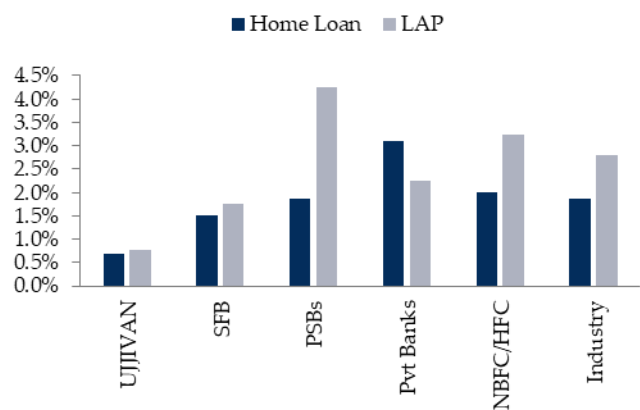
- Housing book performing well despite significant scaling up:** UJJIVAN continues to grow its secured book, primarily anchored on the back of its affordable housing foray. On the back of a geographically diversified portfolio, UJJIVAN has grown its affordable housing book with relatively superior asset quality metrics, with the post-COVID book (~70% of loans) clocking PAR at 1.6% and GNPA at 0.6%. While the affordable housing segment is performing well in the current benign environment, the performance of newer segments/portfolios of MSMEs, Micro LAP, 2 wheelers, gold loan continues to be a key monitorable going ahead.

Exhibit 7: 24 MOB 30+ PAR % Micro banking book



Source: Company, HSIE Research

Exhibit 8: PAR-30 (24 MOB, INR5-20 lakh) Housing and LAP book

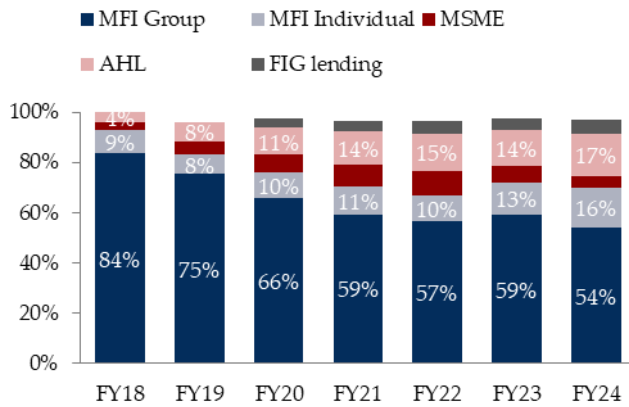


Source: Company, HSIE Research

Increasing secured mix with focus on housing book

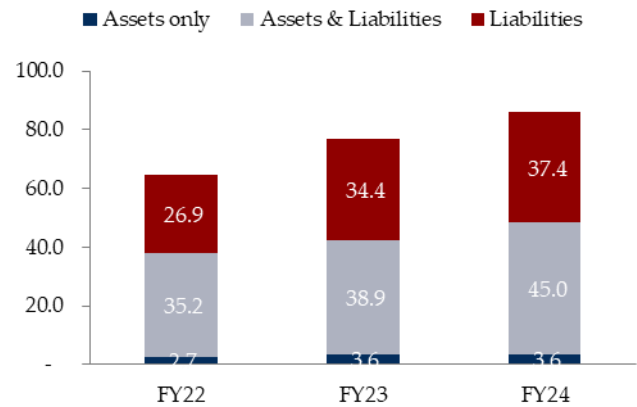
- Change in mix with focus on increasing secured asset mix:** UJJIVAN continues to grow its secured book, primarily anchored on the back of its affordable housing foray. UJJIVAN has scaled up its affordable housing book (16.5% of loans), registering a 45% CAGR over the past two years. UJJIVAN is also scaling up other secured asset classes like Micro LAP, gold loans and two-wheeler loans. The bank has run-down its legacy MSME cohort and is now scaling the book in a calibrated manner, while using it as an opportunity to cross-sell liabilities. Despite building geographical diversification in its asset mix, we understand that UJJIVAN needs to further diversify its product mix to qualify for a universal bank license.

Exhibit 9: Increase in secured mix over the years



Source: Company, HSIE Research

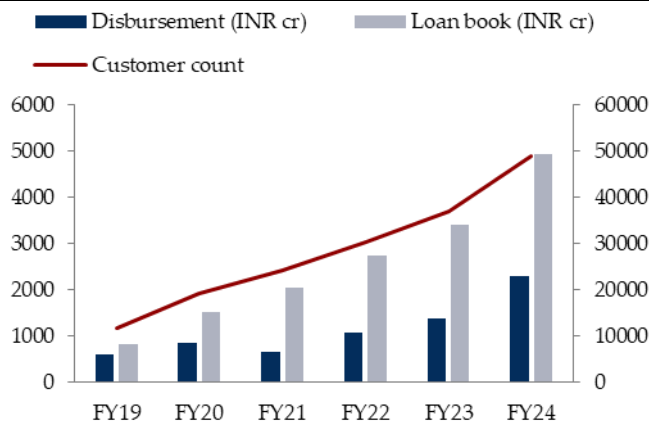
Exhibit 10: Consistent growth in customer base



Source: Company, HSIE Research

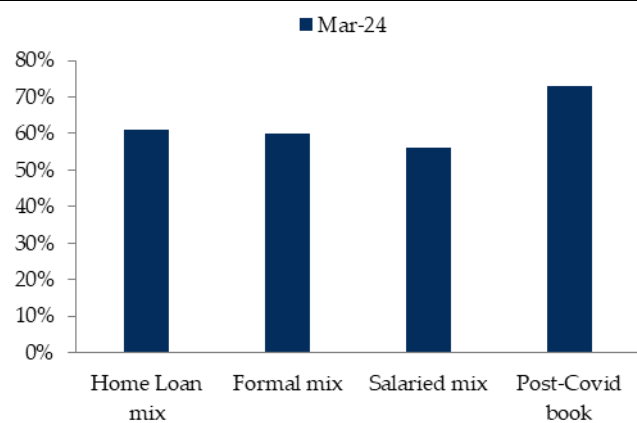
- Affordable housing scaling up at rapid pace:** UJJIVAN continues its journey towards a more diversified book, rapidly growing its secured mix, largely driven by affordable housing. The bank's affordable housing foray has been primarily driven by volume growth (45% CAGR over past couple of years) on the back of an organic build-out in its customer franchise.

Exhibit 11: Affordable housing gaining momentum



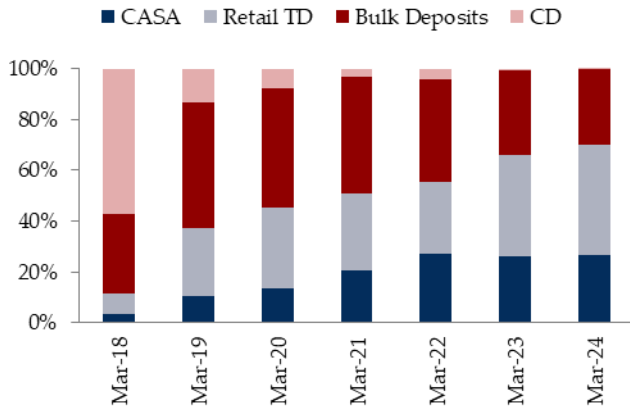
Source: Company, HSIE Research

Exhibit 12: Housing loan portfolio mix



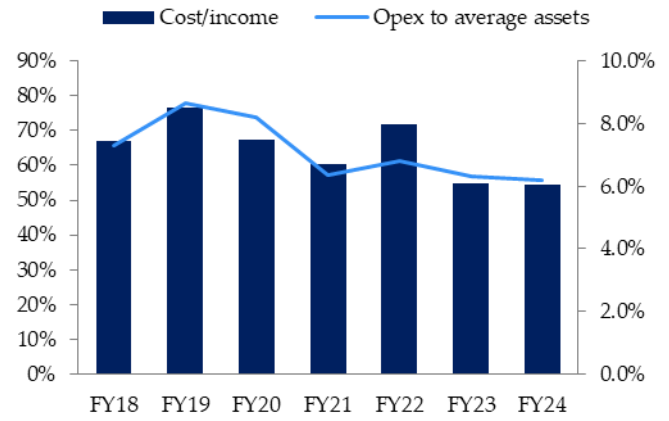
Source: Company, HSIE Research

Exhibit 13: Liability mix - Need to improve CASA mix



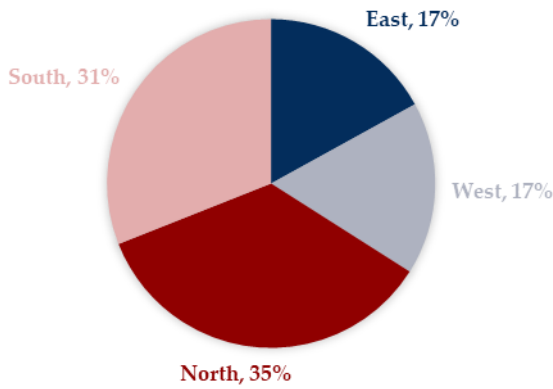
Source: Company, HSIE Research

Exhibit 14: Opex intensity to stay elevated



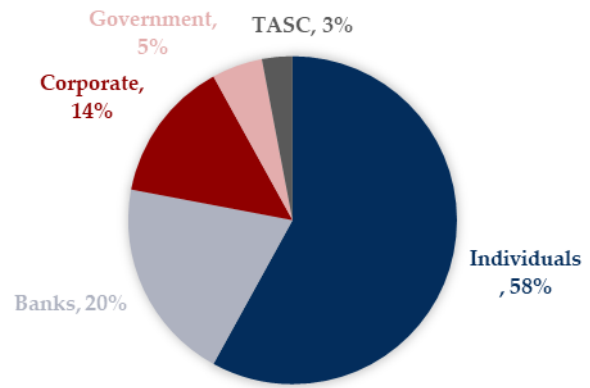
Source: Company, HSIE Research

Exhibit 15: Region-wise deposit mix



Source: Company, HSIE Research

Exhibit 16: Segment wise deposit mix



Source: Company, HSIE Research

Valuation and recommendation

- Granular customer franchise key to sustaining RoAs > 3%:** UJJIVAN continues to invest in branches and technology to build a stronger customer franchise and drive granularity in liabilities. These initiatives are likely to keep medium-term opex ratios elevated for the bank, especially given its aspiration to grow the proportion of retail deposits and achieve a 30% CASA in the next 2 years (FY24: 26.5%). Having embarked on its journey towards a higher secured asset mix and likely deceleration in the group MFI business, we expect incremental pressure on margins, especially given the regulatory oversight. While we continue to believe in the superior asset quality of the franchise, our forecasts reflect incremental caution in the form of higher credit costs, given medium-term stress in the MFI portfolio. We maintain BUY with a revised TP of INR65 (1.5x Mar-26 ABVPS).

Exhibit 17: Change in estimates

(INR bn)	FY25E			FY26E		
	Old	New	Δ	Old	New	Δ
Net advances	328	323	-1.7%	398	391	-1.8%
NIM (%)	10.0	10.0	-5 bps	10.0	10.0	0 bps
NII	40.7	40.2	-1.4%	48.2	47.3	-1.8%
PPOP	23.5	23.2	-1.3%	28.2	27.7	-1.8%
PAT	15.1	14.0	-6.9%	17.8	16.4	-7.9%
Adj. BVPS (INR)	34.8	34.1	-1.9%	42.3	40.9	-3.3%

Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	28,061	28,127	41,650	56,771	66,136	78,107
Interest Expenses	10,775	10,391	14,671	22,677	25,964	30,830
Net Interest Income	17,286	17,736	26,979	34,094	40,172	47,277
Non-Interest income	3,108	3,132	5,892	7,867	9,124	10,709
Total income	20,394	20,868	32,871	41,961	49,296	57,986
Operating Expenses	12,301	14,962	18,021	22,790	26,138	30,301
Operating Profit	8,093	5,906	14,850	19,171	23,158	27,685
Provisions	7,991	11,408	178	2,149	4,472	5,796
PBT	102	-5,502	14,672	17,022	18,685	21,889
Tax	19	-1,358	3,673	4,207	4,671	5,472
PAT	83	-4,144	10,999	12,816	14,014	16,417

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Share capital	17,283	17,283	19,547	19,314	19,314	19,314
Reserves	12,467	8,321	20,032	34,821	45,938	59,457
Net worth	32,187	28,026	42,091	56,135	67,252	80,771
Deposits	131,358	182,922	255,378	314,622	375,617	445,265
Borrowings	32,473	17,636	26,415	21,708	23,651	25,779
Current Liab	7,786	7,460	9,286	11,758	11,543	13,853
Total Liabilities & Equity	203,805	236,044	333,170	404,222	478,063	565,668
Cash balance	25,775	23,514	26,606	25,367	31,426	42,882
Investments	25,165	41,529	85,103	97,660	107,952	113,230
Advances	144,940	163,032	212,897	268,829	322,897	390,745
Fixed assets	2,807	2,494	2,829	4,267	4,907	5,643
Other assets	5,118	7,309	7,504	8,098	10,882	13,168
Total Assets	203,805	236,044	333,170	404,222	478,063	565,668

Source: Company, HSIE Research

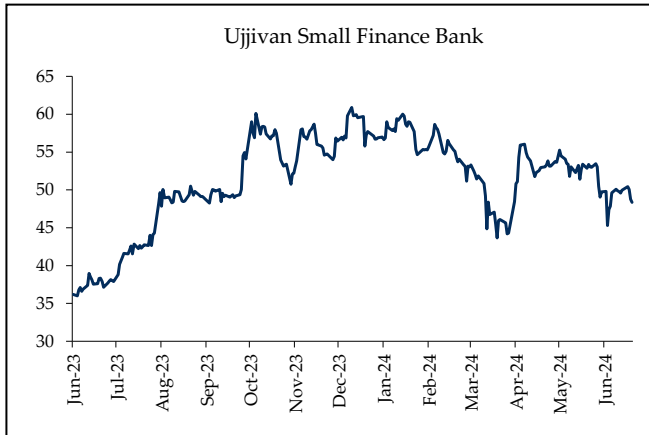
Key Ratios

	FY21	FY22	FY23	FY24	FY25E	FY26E
VALUATION RATIOS						
EPS (INR)	0.0	-2.4	5.6	6.6	7.3	8.5
Earnings Growth (%)	-98%	NA	NA	17%	9%	17%
BVPS	18.6	16.2	21.5	29.1	34.8	41.8
Adj. BVPS	16.2	15.6	21.5	28.7	34.1	40.9
ROAA (%)	0.0%	-1.9%	3.9%	3.5%	3.2%	3.1%
ROAE (%)	0.3%	-13.8%	31.4%	26.1%	22.7%	22.2%
P/E (x)	1,008	-20	9	7	7	6
P/ABV (x)	3.0	3.1	2.3	1.7	1.4	1.2
P/PPOP (x)	11.7	16.0	6.4	4.9	4.1	3.4
PROFITABILITY (%)						
Yield on loans	18.2%	16.7%	19.7%	20.6%	19.5%	19.3%
Cost of Funds	6.9%	5.7%	6.1%	7.3%	7.1%	7.1%
Cost of Deposits	6.5%	5.7%	6.0%	6.5%	6.5%	6.6%
Spread	11.7%	11.0%	13.7%	14.1%	13.0%	12.7%
NIM	10.0%	9.1%	10.6%	10.2%	10.0%	10.0%

	FY21	FY22	FY23	FY24	FY25E	FY26E
OPERATING EFFICIENCY						
Cost to average assets	6.3%	6.8%	6.3%	6.2%	5.9%	5.8%
Cost-income	60.3%	71.7%	54.8%	54.3%	53.0%	52.3%
BALANCE SHEET STRUCTURE RATIOS						
Loan Growth (%)	3.2%	12.5%	30.6%	26.3%	20.1%	21.0%
Deposits Growth (%)	21.8%	39.3%	39.6%	23.2%	19.4%	18.5%
Equity/Assets (%)	110.3%	89.1%	83.4%	85.4%	86.0%	87.8%
Equity/Loans (%)	15.8%	11.9%	12.6%	13.9%	14.1%	14.3%
CASA %	22.2%	17.2%	19.8%	20.9%	20.8%	20.7%
CRAR (%)	20.6%	27.3%	26.4%	26.5%	26.7%	26.4%
Tier I (%)	21.9%	19.0%	25.8%	25.3%	24.3%	23.8%
Asset quality						
Gross NPA	10,706	12,842	6,307	6,127	8,274	10,086
Net NPA	4,246	997	90	768	1,352	1,752
PCR	60.3%	92.2%	98.6%	87.5%	83.7%	82.6%
GNPA %	7.1%	7.3%	2.9%	2.3%	2.5%	2.5%
NNPA %	2.9%	0.6%	0.0%	0.3%	0.4%	0.4%
Slippages	7.2%	13.6%	1.8%	2.0%	2.2%	2.2%
Credit costs	4.3%	8.6%	0.3%	0.9%	1.5%	1.5%
ROAA Tree						
Net Interest Income	8.9%	8.1%	9.5%	9.2%	9.1%	9.1%
Non-Interest Income	1.6%	1.4%	2.1%	2.1%	2.1%	2.1%
Operating Cost	6.3%	6.8%	6.3%	6.2%	5.9%	5.8%
Provisions	4.1%	5.2%	0.1%	0.6%	1.0%	1.1%
Tax	0.0%	-0.6%	1.3%	1.1%	1.1%	1.0%
ROAA	0.0%	-1.9%	3.9%	3.5%	3.2%	3.1%
Leverage (x)	6.1	7.3	8.1	7.5	7.2	7.1
ROAE	0.3%	-13.8%	31.4%	26.1%	22.7%	22.2%

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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