

Ujjivan Small Finance Bank | BUY



Investor and analyst meet – key takeaways

Ujjivan SFB (USFB) at its analyst meet emphasised on **key focus areas** for the medium term: a) increasing contribution of secured assets to 35% by FY25 and 40% by FY26 (from 30.2% as of FY24) b) further strengthening its retail focused deposit franchise (CASA ratio improved from 20.5% in FY21 to 26.5% in FY24) and c) leveraging technology as a catalyst for growth. USFB successfully completed its reverse merger, entered into AP and Telangana and opened 123 branches in FY24. The bank is now ready to expand two of its secured lending products: i) Vehicle Finance and ii) Gold Loan. MSME business offers a complete stack of services including: LAP (a sourcing funnel), WC loans (helps in building CA) and supply chain finance (ultra-short-term), and is expected to grow at about 50% YoY. Affordable housing segment is set to focus on self-employed retail customers with a digital servicing platform and a TAT of 72 hours. USFB expects 40% YoY growth in this segment and with GNPA of c.1%. Within micro lending, a deliberate growth slowdown (+19% in FY24 vs +41% in FY23) helped the bank in maintaining better asset quality (90+, 18MOB PAR at 0.84% vs 1.64% for the industry) between Oct'22 to Mar'24. Against the backdrop of a changing leadership (Mr Sanjeev Nautiyal taking up the role of MD and CEO wef 1st July, 2024), USFB guided for loan growth of 20% (vs 20-25% earlier) as the bank takes precautionary measures against pockets of stress observed in the states like Punjab, Gujarat and Kerala. Credit costs are expected to normalise going ahead (guided 1.7% vs 1.5% earlier) while margins are expected to remain stable at about 9% with ROE of c.20%.

In our view, new leadership is taking the asset mix in the right direction by increasing the contribution of secured assets, which bodes well for the medium term. In addition, management feels that USFB fits the RBI criteria of receiving a universal banking licence and has indicated its willingness to apply for the same. We believe greater thrust on improving efficiency (FY24 cost-to-income at 54.3%) and ability to deliver on improved liability franchise will drive rerating ahead. We expect USFB to deliver avg RoA/ RoE of 3.2%/23% over FY25-26E. Maintain BUY with a revised TP of INR 65 valuing it at 1.5x FY26E BVPS.

- Increasing contribution of secured assets:** USFB plans to increase contribution of its secured assets from 30.2% as of FY24 to 35% in FY25 and to 40% by FY26. The move is in-line with its diversification strategy away from microfinance business (contributing 70% of its asset book as of FY24). The bank intends to scale up its vehicle finance and gold loan business significantly in FY25, in addition to its Housing and MSME segments. Vehicle finance is targeted towards commuter/mid-premium segment of tier-II and tier-III cities and is currently operational in 9 states/185 branches (out of 26 states and 752 branches of USFB), while gold loan is expected to reach 15 states/259 branches in FY25 (vs 5 states/63 branches currently).
- Strengthening retail focused liability franchise:** USFB added three new focus segments to its liability franchise: a) Youth (offering digital first banking) b) Minor (seamless account access) c) Retailer (offering value added services). The bank expects to further reduce dependency on bulk deposits (29% as of FY24 vs 40% as of FY22) and increase its CASA ratio (at 26.5% as of FY24) going ahead.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	65
Upside/(Downside)	34.4%
Previous Price Target	72
Change	-9.7%

Key Data – UJJIVANS IN

Current Market Price	INR48
Market cap (bn)	INR93.4/US\$1.1
Free Float	87%
Shares in issue (mn)	1,728.3
Diluted share (mn)	
3-mon avg daily val (mn)	INR661.7/US\$7.9
52-week range	63/37
Sensex/Nifty	77,210/23,501
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	-8.8	-16.2	30.2
Relative*	-11.0	-22.8	6.2

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

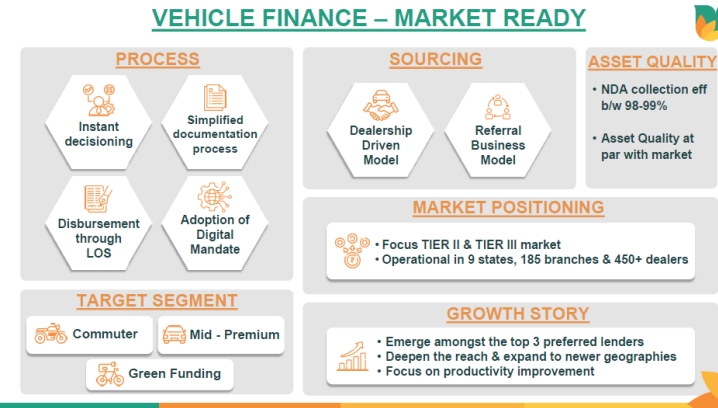
Financial Summary		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Profit	-4,146	10,999	12,815	14,501	16,980	
Net Profit (YoY) (%)	-5,096.9%	-365.3%	16.5%	13.2%	17.1%	
Assets (YoY) (%)	15.9%	41.1%	21.3%	21.5%	22.0%	
ROA (%)	-1.9%	3.9%	3.5%	3.2%	3.1%	
ROE (%)	-15.0%	33.7%	27.0%	23.4%	22.3%	
EPS	-2.4	5.6	6.6	7.5	8.8	
EPS (YoY) (%)	-5,096.9%	-334.6%	17.9%	13.2%	17.1%	
PE (x)	-20.0	8.5	7.2	6.4	5.5	
BV	15	20	29	35	43	
BV (YoY) (%)	-13.9%	36.7%	41.7%	23.6%	22.3%	
P/BV (x)	3.24	2.37	1.67	1.35	1.11	

Source: Company data, JM Financial. Note: Valuations as of 21/June/2024

- **Fast growing secured businesses - MSME and AHL:** USFB has heavily invested in Tech of its MSME business, which offers a complete stack of services including: LAP (a sourcing funnel), WC loans (helps in building CA) and supply chain finance (ultra-short-term), and is expected to grow at about 50%. MSME business provides opportunities of liability cross sell of payments, third party products etc. for fee income. Affordable housing segment is set to focus on self-employed retail customers with a digital servicing platform and a TAT of 72 hours. USFB expects 40% growth in this segment and with GNPA of c.1%.
- **Microfinance to slow down with focus on asset quality:** USFB slowed down its microfinance lending in FY24 (+19% YoY vs +43% YoY in FY23) due to pockets of stress observed in some states. Matured states have continued healthy asset quality while external events have triggered delinquency in select states. USFB plans to upsell its newer, secured products to its large microfinance borrower base of 5mn. Post-covid asset quality for USFB has been better than the industry (90+, 18MOB PAR at 0.84% vs 1.64% for the industry) between Oct'22 to Mar'24.
- **Potential benefits of Universal Banking Licence:** According to the mgmt. USFB is one of the two listed SFBs that qualify the criteria set by RBI for Universal Banking Licence. The bank has constituted a committee to evaluate this opportunity and indicated its willingness to apply for the same. Reduced CRR requirements, lower PSL exposure and leeway for higher ticket loans (vs 25L limit for 50% of the asset book for SFBs) are some of the potential benefits if the bank is offered universal banking licence.
- **Stable asset quality with floating provision of INR 2.5bn:** USFB reported credit cost of 90bps for FY24 with PCR at 87%. SMA portfolio of 1.4% as of FY24 indicates reasonably stable asset quality. While USFB and the industry as a whole have seen normalization of credit costs in Q4FY24, USFB's floating provisions of INR 2.5bn gives confidence in its ability to mitigate minor hick-ups.
- **Valuation and view:** In our view, new leadership is taking the asset mix in the right direction by increasing the contribution of secured assets, which bodes well for the medium term. In addition, management feels that USFB fits the RBI criteria of receiving a universal banking licence and has indicated its willingness to apply for the same. We believe greater thrust on improving efficiency and ability to deliver on improved liability franchise will drive rerating ahead. We expect USFB to deliver avg RoA/ RoE of 3.2%/23% over FY25-26E. Maintain BUY with a revised TP of INR 65 valuing it at 1.5x FY26E BVPS.

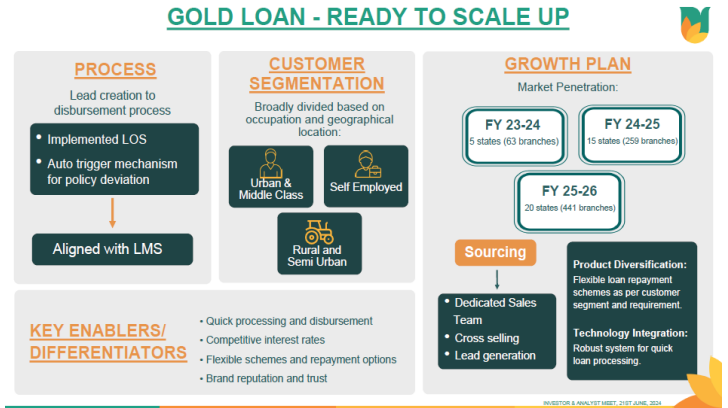
Product portfolio:

Exhibit 1. Plans to expand vehicle loan business in FY25



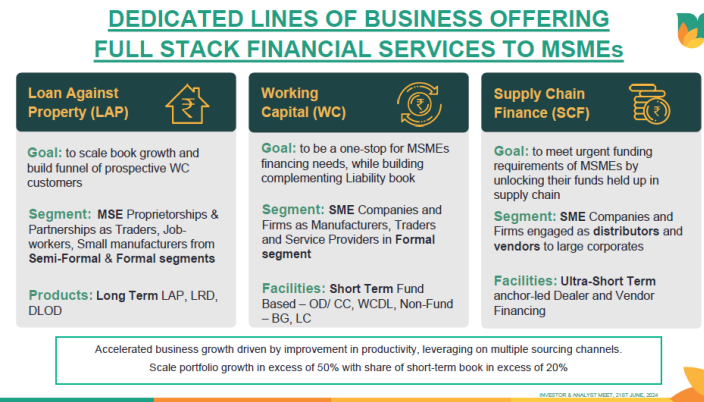
Source: Company, JM Financial

Exhibit 2. Scaling up secured gold loan business significantly



Source: Company, JM Financial

Exhibit 3. MSME business overview: offering full stack of services



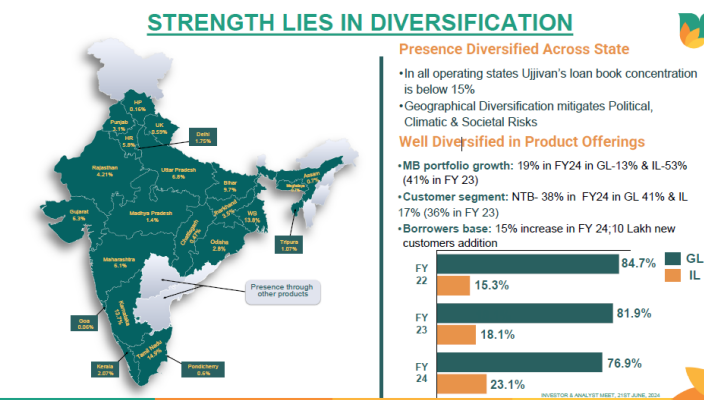
Source: Company, JM Financial

Exhibit 4. Action plan for affordable housing segment



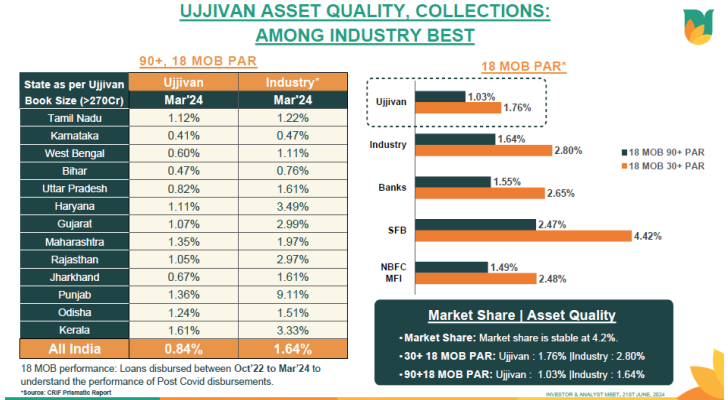
Source: Company, JM Financial

Exhibit 5. Micro lending: diversified pan India



Source: Company, JM Financial

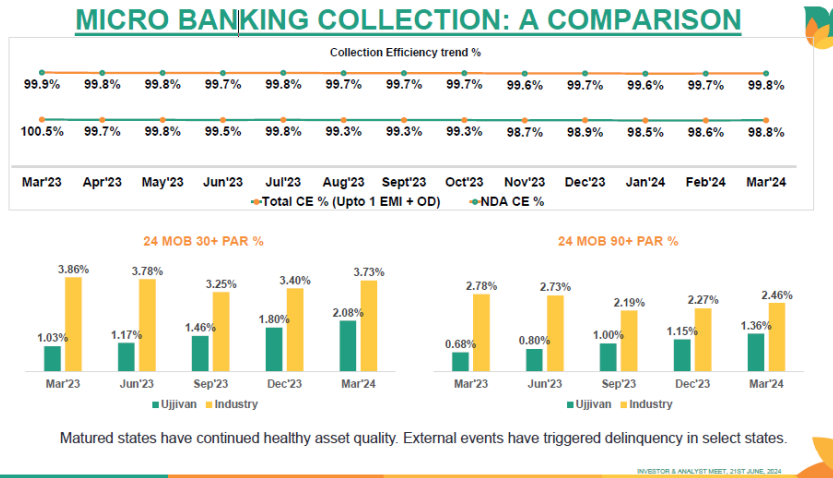
Exhibit 6. Micro lending: 90+, 18MOB PAR at 0.84% vs 1.64% for industry



Source: Company, JM Financial

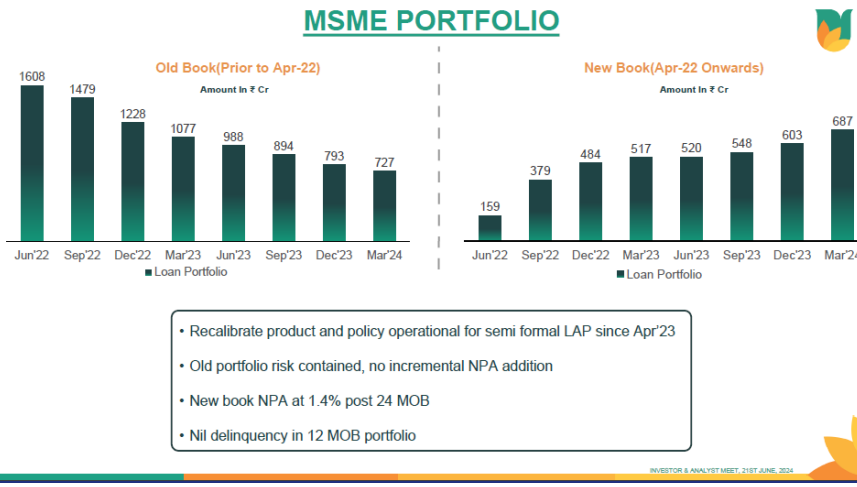
Product wise asset quality:

Exhibit 7. Micro lending: asset quality better than industry given robust collections



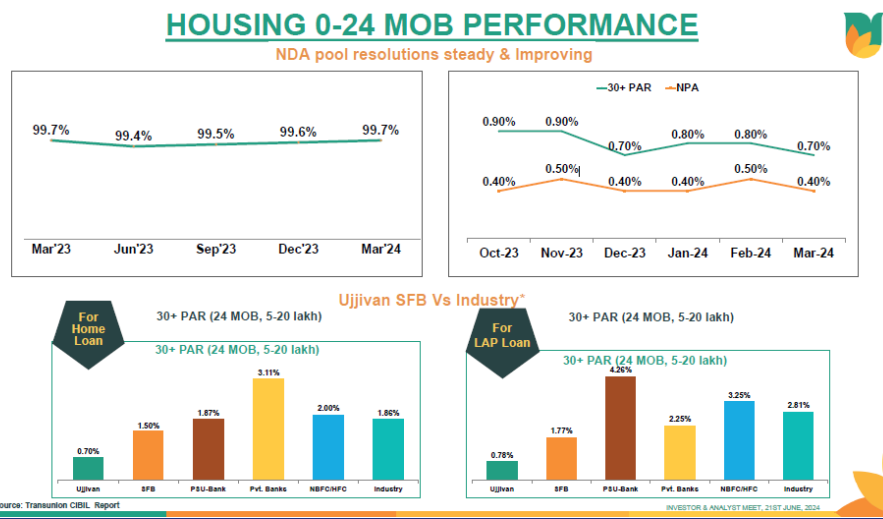
Source: Company, JM Financial

Exhibit 8. Old MSME book running down as better quality new book grows



Source: Company, JM Financial

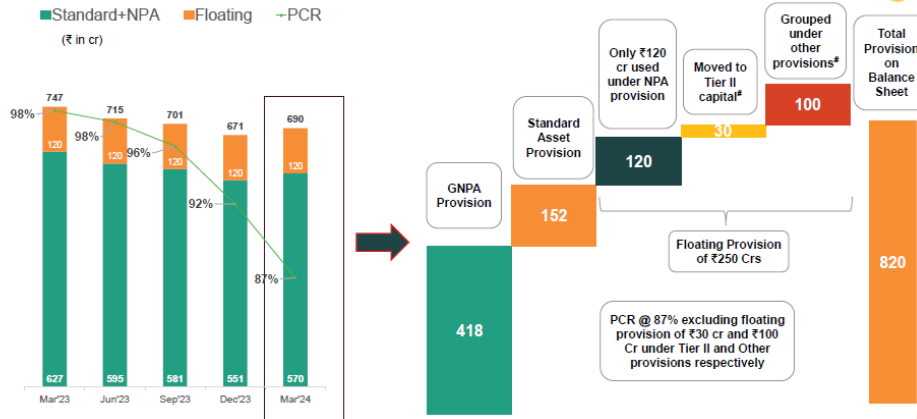
Exhibit 9. 30+ dpd for Housing at 0.70% and LAP at 0.78%; performing better than industry



Source: Company, JM Financial

Exhibit 10. USFB: Floating provision of INR 2.5bn on balance sheet

FLOATING PROVISION COVERAGE



Floating provision of ₹250 Cr continues to be on books & can be utilized for making specific provisions in future during extraordinary circumstances, with prior approval from the RBI ₹ 30 Cr was moved to Tier II capital in Jun'22 while ₹ 60 Cr, ₹ 10 Cr and ₹ 30 Cr were moved to other provision in Sep'22, Dec'22 and Mar'23 respectively

INVESTOR & ANALYST MEET, 21ST JUNE, 2024

Source: Company, JM Financial

Exhibit 11. USFB: Guidance for FY25

GUIDANCE - FY'25



Gross Loan Book Growth- ~20%
Credit Cost: ~1.7%



Deposit Growth: In line with gross loan book growth



NIM: ~9.0%
RoE: ~20%

INVESTOR & ANALYST MEET, 21ST JUNE, 2024

Source: Company, JM Financial

Key trends: 4QFY24

Exhibit 12. Ujjivan SFB: Results Summary

Earnings Table (Rs mn)	4Q'23	3Q'24	4Q'24	YoY (%)	QoQ (%)
NII	7,380	8,599	9,335	26.5%	8.6%
Misc Income	1,001	1,058	1,361	36.0%	28.7%
Non-Interest income	1,791	1,848	2,361	31.9%	27.8%
Total Income	9,171	10,447	11,697	27.5%	12.0%
Employee Cost	2,532	3,140	3,273	29.2%	4.2%
Other Operating Expenses	2,533	2,734	3,238	27.9%	18.5%
Total Operating Expenses	5,065	5,874	6,511	28.6%	10.8%
Operating Profit	4,106	4,573	5,186	26.3%	13.4%
Loan Loss Provisions	-19	629	790	-4193.3%	25.6%
Total Provisions	-19	629	790	-4193.3%	25.6%
PBT	4,125	3,944	4,396	6.6%	11.5%
Tax	1,030	943	1,099	6.7%	16.5%
Reported Profit	3,095	3,001	3,296	6.5%	9.9%
Balance sheet (Rs bn)					
Deposits	255.4	296.7	314.6	23.2%	6.0%
Net Advances	212.9	256.2	268.8	26.3%	4.9%
Total Assets	333.2	395.3	404.2	21.3%	2.3%
Low-cost Deposits (%)	26.4%	25.5%	26.5%	0.1%	1.0%
Loan-Deposit ratio (%)	83.4%	86.4%	85.4%	2.1%	-0.9%
Key Ratios					
Credit Quality					
Gross NPAs (Rs. mn.)	6,306	5,707	6,125	-2.9%	7.3%
Net NPAs (Rs. mn.)	90	428	763	743.9%	78.5%
Gross NPA (%)	2.88%	2.18%	2.23%	-0.64%	0.05%
Net NPA (%)	0.04%	0.17%	0.28%	0.24%	0.12%
Loan Loss Provisions (%)	-0.04%	1.11%	1.31%	1.35%	0.20%
Coverage Ratio (%)	98.6%	92.5%	87.5%	-11.0%	-5.0%
Capital Adequacy					
Tier I (%)	22.70%	21.97%	22.58%	-0.12%	0.61%
CAR (%)	25.80%	24.37%	24.69%	-1.11%	0.32%
Du-pont Analysis					
NII / Assets (%)	9.26%	8.80%	9.34%	0.08%	0.54%
Non-Interest Inc. / Assets (%)	2.25%	1.89%	2.36%	0.12%	0.47%
Operating Cost / Assets (%)	6.35%	6.01%	6.51%	0.16%	0.51%
Operating Profits / Assets (%)	5.15%	4.68%	5.19%	0.04%	0.51%
Provisions / Assets (%)	-0.02%	0.64%	0.79%	0.81%	0.15%
ROA (%)	3.88%	3.07%	3.30%	-0.58%	0.23%

Source: Company, JM Financial

Exhibit 13. Ujjivan SFB: AUM break-up

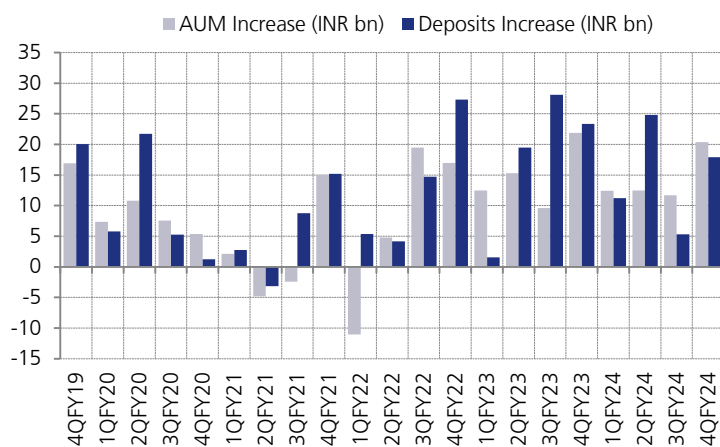
AUM Break-up (Rs bn)	4Q'23	3Q'24	4Q'24	YoY (%)	QoQ (%)
Group Loans	142.3	154.7	160.1	12.5%	3.5%
Micro Individual loan	31.4	43.0	48.0	52.8%	11.5%
MSE	15.9	14.0	14.1	-11.2%	1.2%
Housing	34.0	44.2	49.2	44.8%	11.5%
Agri and Animal Husbandry	-	-	-	-	-
FIG	11.3	14.4	17.3	53.5%	20.6%
Others	6.0	7.2	9.0	50.8%	25.5%
AUM	240.9	277.4	297.8	23.6%	7.3%
AUM Mix (%)					
Group Loans	59.1%	55.8%	53.8%	-5.3%	-2.0%
Micro Individual loan	13.0%	15.5%	16.1%	3.1%	0.6%
MSE	6.6%	5.0%	4.7%	-1.9%	-0.3%
Housing	14.1%	15.9%	16.5%	2.4%	0.6%
FIG	4.7%	5.2%	5.8%	1.1%	0.6%
Others	2.5%	2.6%	3.0%	0.5%	0.4%

Source: Company, JM Financial

Exhibit 14. Ujjivan SFB: Deposits break-up

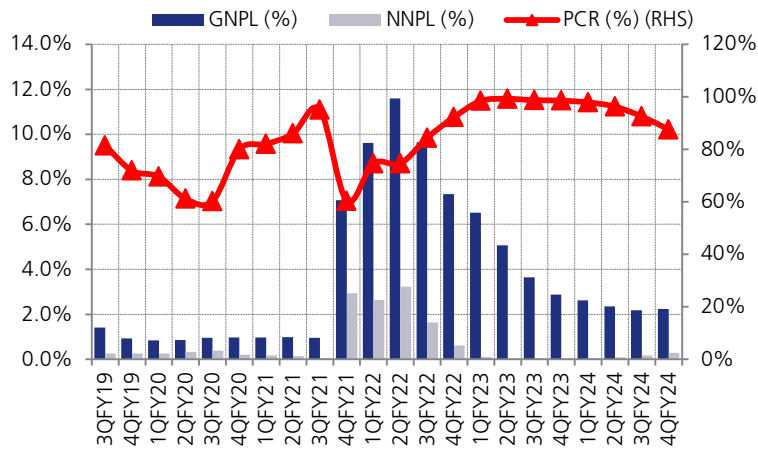
Deposits Composition (Rs bn)	4Q'23	3Q'24	4Q'24	YoY (%)	QoQ (%)
CASA	67.4	75.6	83.3	23.6%	10.3%
Retail TD	101.2	128.3	137.5	35.9%	7.2%
Institutional TD	84.6	91.1	92.6	9.4%	1.6%
Total Deposits (ex-CDs)	253.2	295.0	313.4	23.8%	6.2%
Certificate of Deposits	2.2	1.7	1.2	-44.2%	-28.0%
Total Deposits	255.4	296.7	314.6	23.2%	6.0%
Deposit Mix (%)					
CASA	26.4%	25.5%	26.5%	0.1%	1.0%
Retail TD	39.6%	43.3%	43.7%	4.1%	0.5%
Institutional TD	33.1%	30.7%	29.4%	-3.7%	-1.3%
Total Deposits (ex-CDs)	99.1%	99.4%	99.6%	0.5%	0.2%
Certificate of Deposits	0.8%	0.6%	0.4%	-0.5%	-0.2%
Total Deposits	100.0%	100.0%	100.0%		

Source: Company, JM Financial

Exhibit 15. Ujjivan SFB: Trend in accretion to loans and deposits

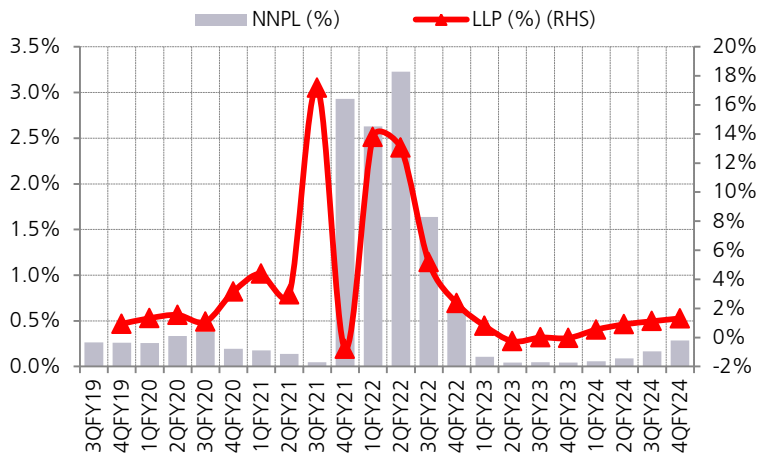
Source: Company, JM Financial

Exhibit 16. Ujivan SFB: Trend in asset quality



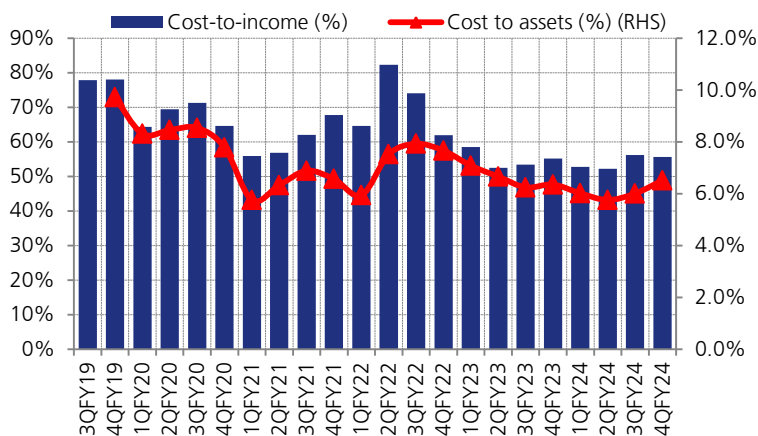
Source: Company, JM Financial

Exhibit 17. Ujivan SFB: Net NPLs and LLP trends



Source: Company, JM Financial

Exhibit 18. Ujivan SFB: Trend in cost ratios



Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Interest Income	17,736	26,979	34,095	41,533	50,111	
Profit on Investments	177	18	250	500	500	
Exchange Income	0	0	0	0	0	
Fee & Other Income	3,422	5,874	7,618	8,968	10,499	
Non-Interest Income	3,599	5,892	7,868	9,468	10,999	
Total Income	21,335	32,871	41,962	51,000	61,110	
Operating Expenses	14,964	18,021	22,791	27,632	33,168	
Pre-provisioning Profits	6,371	14,850	19,171	23,368	27,942	
Loan-Loss Provisions	11,645	176	2,149	4,107	5,388	
Provisions on Investments	0	0	0	0	0	
Others Provisions	230	2	0	0	0	
Total Provisions	11,875	178	2,149	4,107	5,388	
PBT	-5,504	14,672	17,022	19,262	22,554	
Tax	-1,358	3,673	4,207	4,760	5,574	
PAT (Pre-Extraordinaries)	-4,146	10,999	12,815	14,501	16,980	
Extra ordinaries (Net of Tax)	0	0	0	0	0	
Reported Profits	-4,146	10,999	12,815	14,501	16,980	
Dividend paid	0	2,663	2,897	1,450	1,698	
Retained Profits	-4,146	8,336	9,918	13,051	15,282	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (YoY) (%)					
Deposits	39.3%	39.6%	23.2%	23.0%	23.5%
Advances	12.5%	30.6%	26.3%	19.8%	22.9%
Total Assets	15.9%	41.1%	21.3%	21.5%	22.0%
NII	2.6%	52.1%	26.4%	21.8%	20.7%
Non-interest Income	15.8%	63.7%	33.5%	20.3%	16.2%
Operating Expenses	21.6%	20.4%	26.5%	21.2%	20.0%
Operating Profits	-21.3%	133.1%	29.1%	21.9%	19.6%
Core Operating profit	-17.8%	139.5%	27.6%	20.9%	20.0%
Provisions	48.6%	-98.5%	1,107.8%	91.1%	31.2%
Reported PAT	-5,096.9%	-365.3%	16.5%	13.2%	17.1%
Yields / Margins (%)					
Interest Spread	7.68%	9.14%	8.57%	8.57%	8.50%
NIM	8.40%	9.83%	9.54%	9.59%	9.49%
Profitability (%)					
Non-IR to Income	16.9%	17.9%	18.7%	18.6%	18.0%
Cost to Income	70.1%	54.8%	54.3%	54.2%	54.3%
ROA	-1.88%	3.86%	3.48%	3.24%	3.11%
ROE	-15.0%	33.7%	27.0%	23.4%	22.3%
Assets Quality (%)					
Slippages	14.84%	2.07%	2.26%	2.35%	2.45%
Gross NPA	7.34%	2.88%	2.23%	2.38%	2.33%
Net NPAs	0.61%	0.04%	0.28%	0.34%	0.31%
Provision Coverage	92.2%	98.6%	87.5%	86.0%	87.0%
Specific LLP	8.62%	0.26%	0.77%	1.29%	1.39%
Net NPAs / Networth	3.9%	0.2%	1.4%	1.6%	1.5%
Capital Adequacy (%)					
Tier I	17.70%	22.68%	26.67%	27.36%	27.63%
CAR	18.99%	25.81%	29.25%	29.48%	29.37%

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Equity Capital	17,283	19,547	19,314	19,314	19,314	
Reserves & Surplus	8,321	20,032	36,097	49,149	64,430	
Deposits	1,82,922	2,55,377	3,14,622	3,86,985	4,77,926	
Borrowings	19,636	28,415	21,708	22,694	23,728	
Other Liabilities	7,538	9,286	11,758	12,345	12,963	
Total Liabilities	2,36,122	3,33,169	4,04,222	4,91,210	5,99,085	
Investments	41,529	85,103	97,660	1,18,720	1,45,106	
Net Advances	1,63,032	2,12,897	2,68,829	3,22,094	3,95,938	
Cash & Equivalents	21,758	24,836	25,368	33,180	40,546	
Fixed Assets	2,494	2,829	4,267	4,691	5,152	
Other Assets	7,309	7,504	8,098	12,525	12,342	
Total Assets	2,36,122	3,33,169	4,04,222	4,91,210	5,99,085	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
NII / Assets	8.06%	9.48%	9.25%	9.28%	9.19%
Other Income / Assets	1.64%	2.07%	2.13%	2.11%	2.02%
Total Income / Assets	9.70%	11.55%	11.38%	11.39%	11.21%
Cost / Assets	6.80%	6.33%	6.18%	6.17%	6.08%
PBP / Assets	2.90%	5.22%	5.20%	5.22%	5.13%
Provisions / Assets	5.40%	0.06%	0.58%	0.92%	0.99%
PBT / Assets	-2.50%	5.15%	4.62%	4.30%	4.14%
Tax rate	24.7%	25.0%	24.7%	24.7%	24.7%
ROA	-1.88%	3.86%	3.48%	3.24%	3.11%
RoRWAs	-3.41%	7.52%	7.08%	6.60%	6.34%
Leverage	9.2	8.4	7.3	7.2	7.2
ROE	-15.0%	33.7%	27.0%	23.4%	22.3%

Source: Company, JM Financial

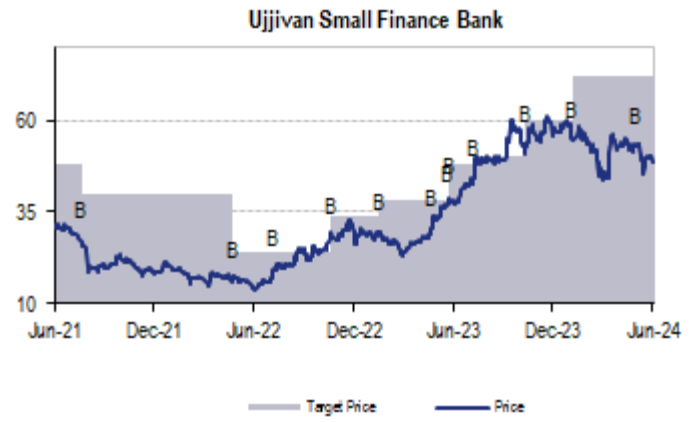
Valuations					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shares in Issue	1,728.3	1,954.7	1,931.4	1,931.4	1,931.4
EPS (INR)	-2.4	5.6	6.6	7.5	8.8
EPS (YoY) (%)	-5,096.9%	-334.6%	17.9%	13.2%	17.1%
PER (x)	-20.0	8.5	7.2	6.4	5.5
BV (INR)	15	20	29	35	43
BV (YoY) (%)	-13.9%	36.7%	41.7%	23.6%	22.3%
ABV (INR)	15	20	29	35	43
ABV (YoY) (%)	-10.8%	36.7%	41.7%	23.6%	22.3%
P/BV (x)	3.24	2.37	1.67	1.35	1.11
P/ABV (x)	3.24	2.37	1.67	1.35	1.11
DPS (INR)	0.0	1.4	1.5	0.8	0.9
Div. yield (%)	0.0%	2.8%	3.1%	1.6%	1.8%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Oct-20	Buy	45	
8-Nov-20	Buy	45	0.0
3-Feb-21	Buy	48	6.7
8-Aug-21	Buy	40	-16.7
12-May-22	Buy	24	-40.0
27-Jul-22	Buy	24	0.0
8-Nov-22	Buy	34	41.7
4-Feb-23	Buy	38	11.8
12-May-23	Buy	38	0.0
11-Jun-23	Buy	38	0.0
13-Jun-23	Buy	48	26.3
27-Jul-23	Buy	50	4.2
29-Oct-23	Buy	60	20.0
25-Jan-24	Buy	72	20.0
21-May-24	Buy	72	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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