

26 July 2024

India | Equity Research | Q1FY25 results review

Ujjivan Small Finance Bank

Financials

In-line Q1FY25 result; profitability metrics is gradually converging towards steady-state level

Ujjivan Small Finance Bank's (Ujjivan) PAT remained flat ~INR3bn from last seven quarters and the same resulted in RoE falling to 21% from 35% in Q2FY23. Gradual normalisation of credit cost at 1.5% in Q1FY25 vs provision write-back until FY23 and 0.4% / 0.7% / 0.9% / 1.1% during FY24 quarters led to normalisation of RoA to 2.9% by Q1 from 4.6% in Q2FY23. While delinquencies have increased during Q1 as reflected in PAR 0 portfolio increasing to 4.2% vs 3.5% QoQ, GNPL ratio rising to 2.5% vs 2.2% QoQ and PCR falling to 84% vs 87% QoQ, management highlighted collections still remained strong at 98% in Jun'24. As a result, it maintained FY25 credit cost guidance at 1.7%. Considering its strong RoE at >20% (FY25 guidance at ~20%), we upgrade Ujjivan to **BUY** with an unchanged TP of INR 60, valuing the stock at 1.5x Sep'25E BVPS.

Q1FY25 financial performance: calibrated growth owing to stress seen during H2FY24; collection remained strong

Business growth was calibrated with 1% QoQ / 18% YoY growth, while deposit growth was relatively better at 3% QoQ / 22% YoY. Growth moderation was seen in microfinance group (~60% of the portfolio) which was down 2% QoQ / up 6% YoY. Also, disbursements were lower 21% QoQ and flat YoY. Ujjivan expects normalcy to return in loan growth in H2. On margins front, yield compressed 20bps QoQ while cost of funds inched up 30bps QoQ resulting in overall 10bps margin decline QoQ to 9.3% and flat NII QoQ. Nevertheless, with some part of the MFI book yet to be repriced in the next 2-3 quarters, NIM is likely to sustain at ~9% going ahead. Opex was lower 3% QoQ as Ujjivan added nil branches and headcount addition was also limited to 316 vs past four quarters' average of 1,174. Normalisation in credit cost to 1.5% impacted overall profitability which was lower 9% QoQ and 7% YoY. Overall, RoA stood at 2.9% and RoE was 20.9%.

Maintains FY25 outlook despite rise in credit cost

Despite relatively weaker Q1FY25 financial performance (down PAT 9% QoQ), management maintained its full year FY25 guidance – a) AUM growth at 20% with deposit growth in line, b) credit cost at 1.7%, c) NIM at 9% and d) RoE at ~20%. Management's confidence about improving financial performance for the rest of FY25 stems from strong collections at ~98%, NIM still sustaining at 9.2% and AUM growth at 19% YoY during Q1FY25.

Key risks: Higher slippages and moderation in loan growth.

Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E
NII (INR bn)	27.0	34.1	40.1	47.3
Op. profit (INR bn)	14.8	19.2	22.4	26.0
Net Profit (INR bn)	11.0	12.8	13.2	15.2
EPS (INR)	5.6	6.6	6.8	7.8
EPS % change YoY	(334.6)	17.9	3.2	14.6
P/E (x)	7.8	6.6	6.4	5.6
P/BV (x)	2.1	1.6	1.3	1.0
GNPA (%)	2.9	2.2	3.6	4.0
RoA (%)	3.9	3.5	2.9	2.7
RoE (%)	31.4	26.1	21.1	19.7

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Market Data

Market Cap (INR)	85bn
Market Cap (USD)	1,014mn
Bloomberg Code	UJJIVANS IN
Reuters Code	UJJI BO
52-week Range (INR)	63 /40
Free Float (%)	95.0
ADTV-3M (mn) (USD)	9.7

Price Performance (%)	3m	6m	12m
Absolute	(17.4)	(19.6)	(0.2)
Relative to Sensex	(25.0)	(32.8)	(20.8)

Previous Reports

22-05-2024: [Q4FY24 results review](#)25-01-2024: [Q3FY24 results review](#)

Exhibit 1: Q1FY25 result review

(INR mn)	Q1FY25	Q1FY24	% chg YoY	Q4FY24	% chg QoQ
Interest Income	15,772	12,869	22.6	15,285	3.2
Interest Expended	6,357	4,942	28.6	5,950	6.8
Net interest income (NII)	9,415	7,927	18.8	9,335	0.8
Other income	1,971	1,772	11.2	2,361	-16.5
Total income	11,386	9,699	17.4	11,697	-2.7
Operating expenses	6,290	5,120	22.9	6,511	-3.4
-Staff expenses	3,403	2,684	26.8	3,273	4.0
-Other expenses	2,888	2,435	18.6	3,238	-10.8
Operating profit	5,095	4,579	11.3	5,186	-1.7
Total provisions	1,099	261	320.7	790	39.1
Profit before tax	3,997	4,318	-7.4	4,396	-9.1
Tax	986	1,077	-8.5	1,099	-10.3
Profit after tax	3,011	3,241	-7.1	3,296	-8.7

Balance sheet (INR mn)

Deposits	3,25,140	2,66,600	22.0	3,14,622	3.3
Advances	2,71,140	2,21,690	22.3	2,68,829	0.9
Gross NPL	6,972	5,965	16.9	6,125	13.8
Gross NPL (%)	2.5	2.6	(10)	2.2	29
Net NPL	1,112	126	781.5	763	45.8
Net NPL (%)	0.41	0.1	35	0.3	13
Coverage ratio	83.7	97.7	(1,398)	87.4	(371)

Ratios (%)**Profitability ratios**

Yield on Advances	19.1	19.1	-	19.3	(20)
Cost of Funds	7.5	7.2	30	7.2	30
NIM	9.3	9.2	10	9.4	(10)
RoaA	2.9	3.8	(91)	3.3	(40)
RoaE	20.9	29.8	(890)	24.8	(390)

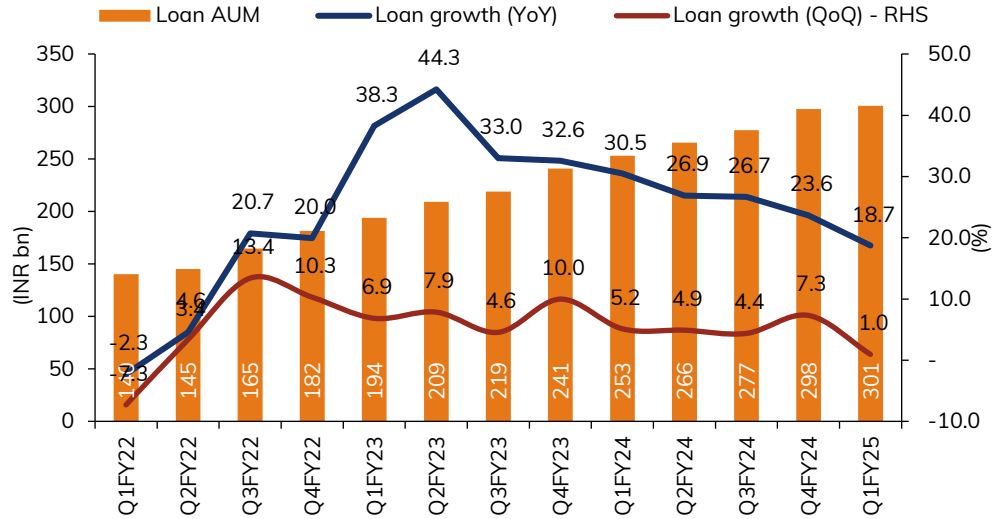
Business & Other Ratios

CASA ratio	25.6	24.6	100	26.5	(90)
Cost-income ratio	55.2	52.8	246	55.7	(42)
CAR	24.9	26.7	(184)	24.7	16

AuM mix	Q1FY25	Q1FY24	% chg YoY	Q4FY24	% chg QoQ
Microfinance - Group loans	1,57,680	1,48,190	6.4	1,60,090	-1.5
Microfinance - Individual loans	49,670	34,960	42.1	47,990	3.5
MSE	14,150	15,080	-6.2	14,140	0.1
Affordable Housing	51,990	36,710	41.6	49,240	5.6
FIG	18,000	12,180	47.8	17,310	4.0
Others	9,200	6,140	49.8	9,020	2.0
Total	3,00,690	2,53,260	18.7	2,97,790	1.0

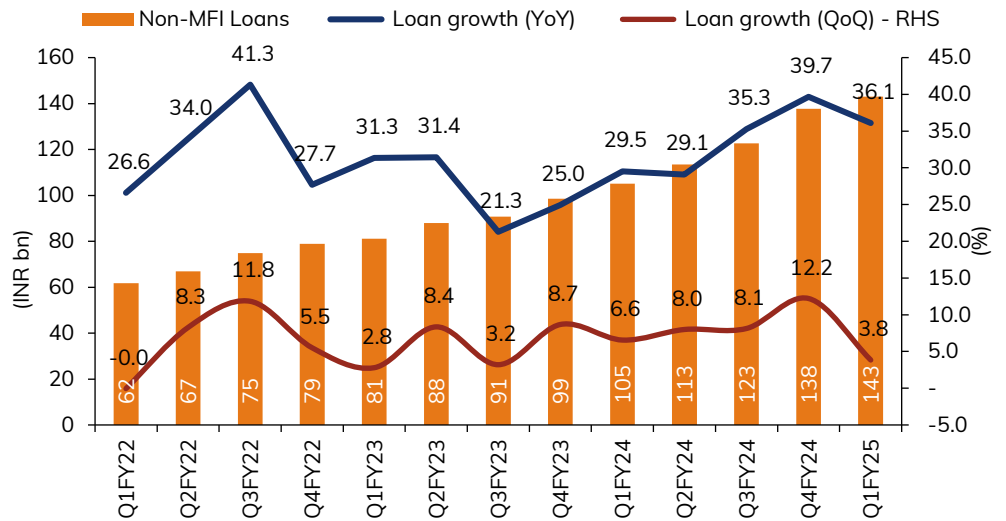
Source: Company data, I-Sec research

Exhibit 2: Credit growth momentum was calibrated at 1% QoQ



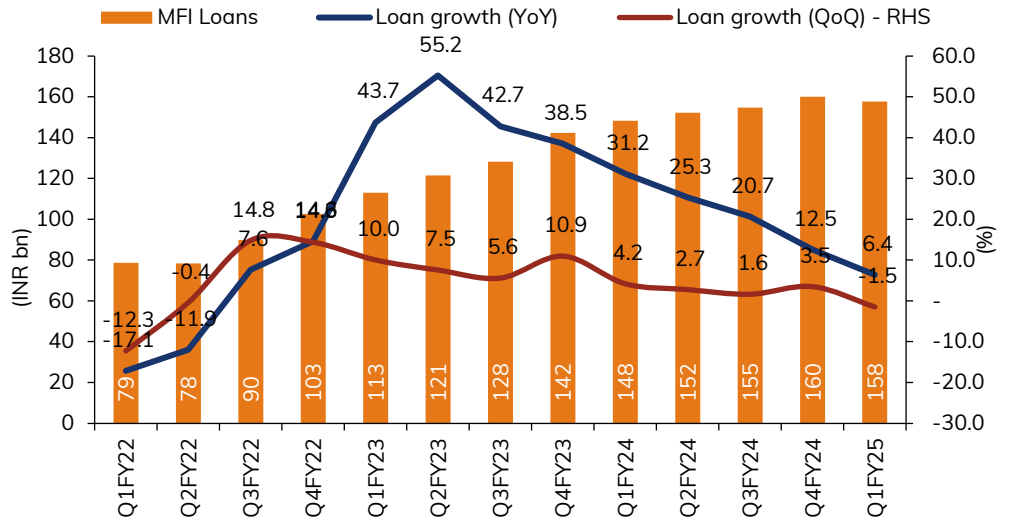
Source: Company data, I-Sec research

Exhibit 3: Growth primarily driven by non-MFI book which grew 4% QoQ



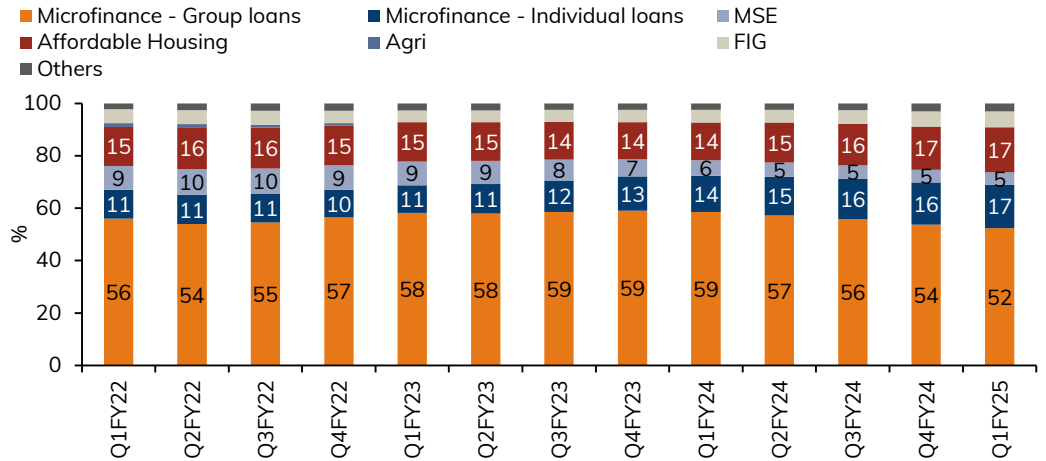
Source: Company data, I-Sec research

Exhibit 4: MFI book declined 2% QoQ



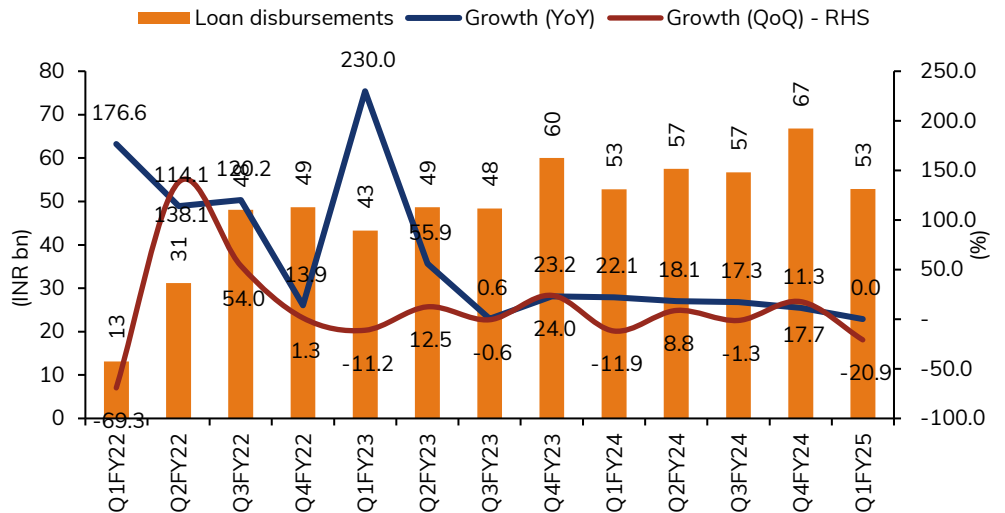
Source: Company data, I-Sec research

Exhibit 5: Share of non-MFI group loan book increased to 31% vs 28% YoY



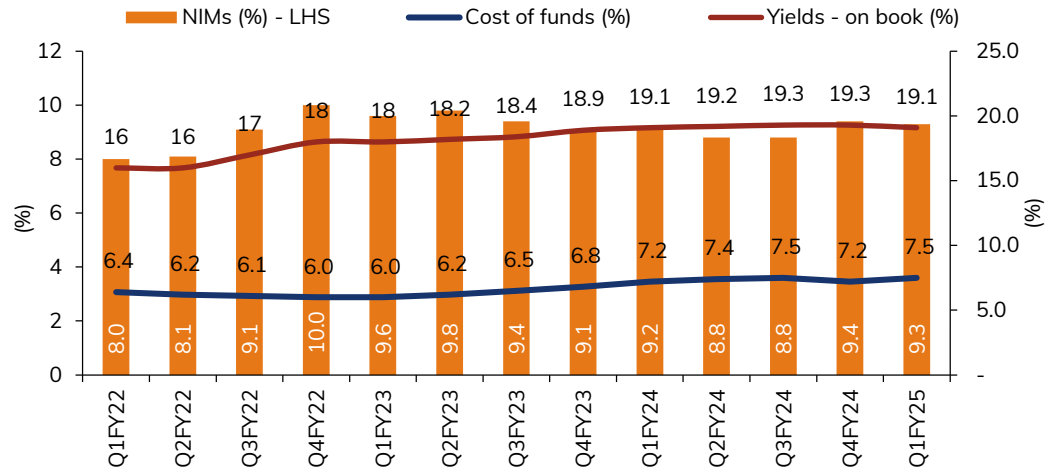
Source: Company data, I-Sec research

Exhibit 6: Disbursements growth was muted, being flat QoQ and lower 21% YoY



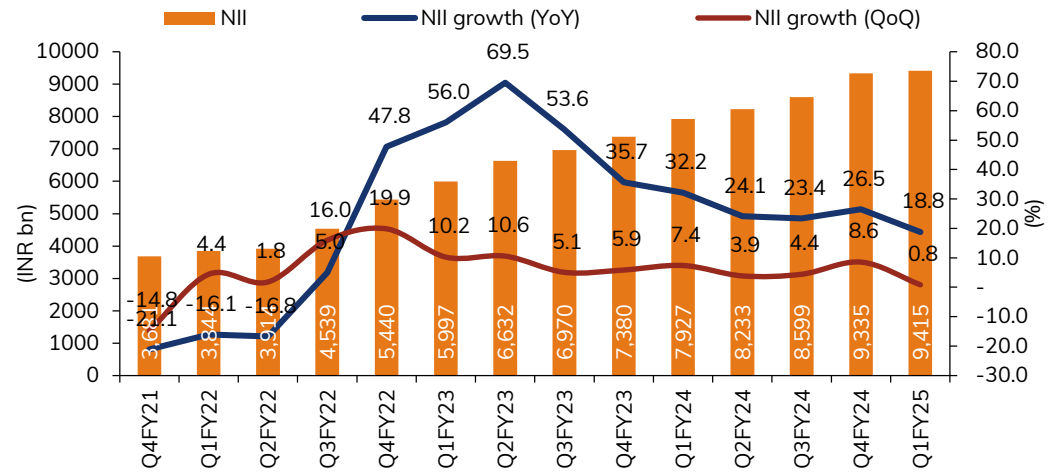
Source: Company data, I-Sec research

Exhibit 7: Yields declined, while cost of funds rose leading to margin compression of 10bps QoQ



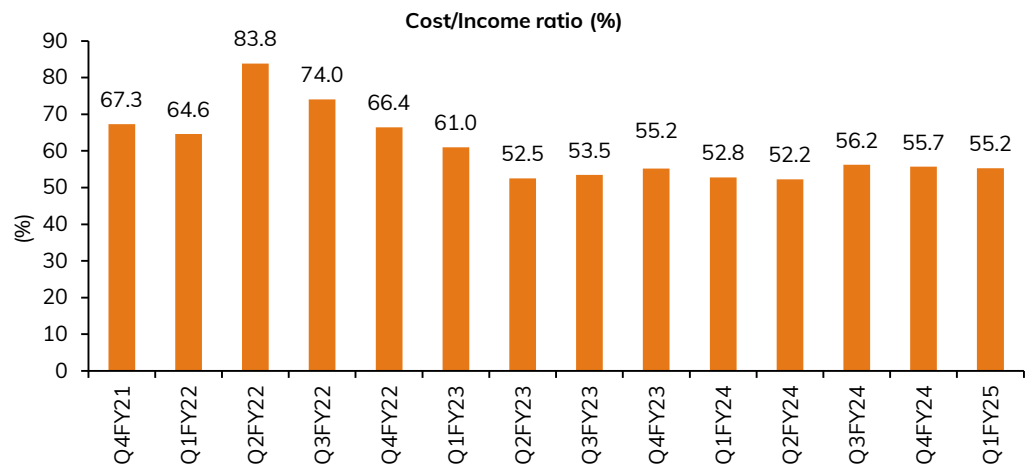
Source: Company data, I-Sec research

Exhibit 8: NII was flat QoQ



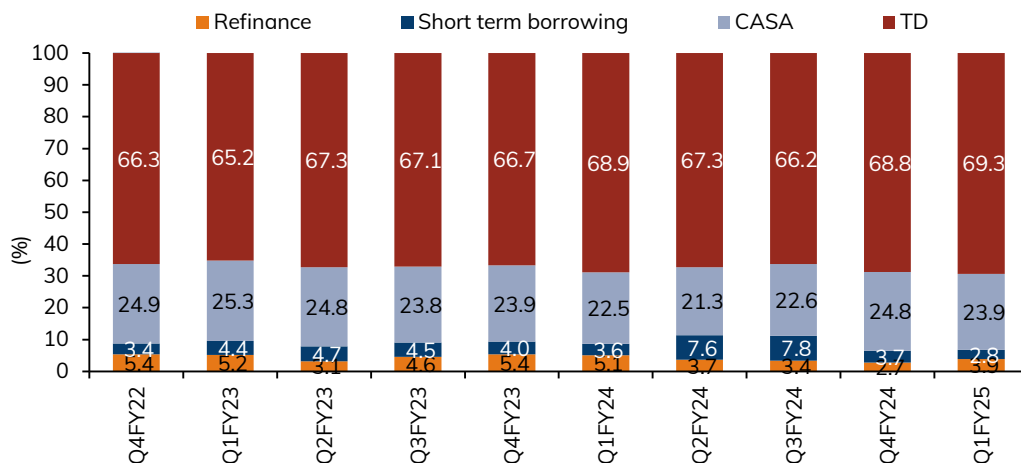
Source: Company data, I-Sec research

Exhibit 9: Cost-to-income ratio was a tad lower at 55.2% vs 55.7% QoQ



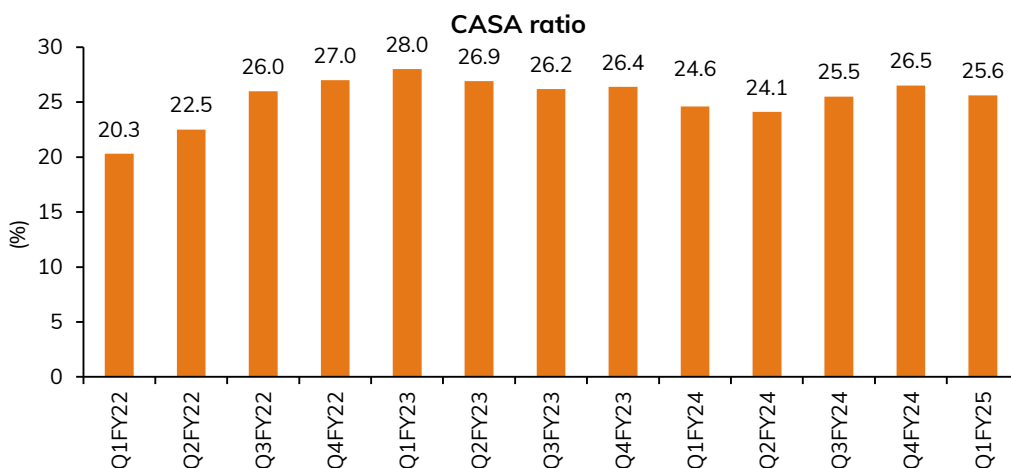
Source: Company data, I-Sec research

Exhibit 10: Well-diversified liability mix



Source: Company data, I-Sec research

Exhibit 11: CASA ratio fell to 25.6% vs 26.5% QoQ



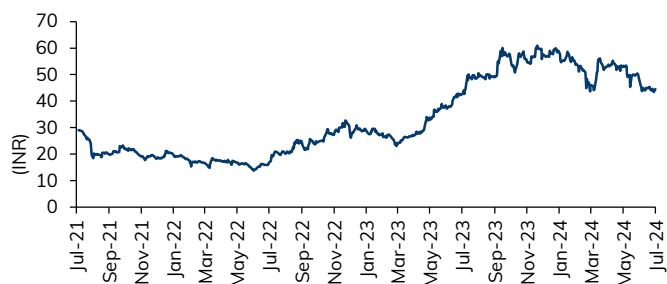
Source: Company data, I-Sec research

Exhibit 12: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	73.6	73.5	0.0
Institutional investors	7.7	5.8	32.0
MFs and others	1.4	0.6	4.1
FIs/Banks	1.3	0.8	2.3
Insurance	0.0	0.0	1.0
FIIIs	5.0	4.4	24.6
Others	18.7	20.7	68.0

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest income	41,649	56,772	66,394	79,682
Interest expense	(14,671)	(22,677)	(26,264)	(32,383)
Net interest income	26,978	34,095	40,130	47,299
Non interest income	5,892	7,868	8,355	10,261
Operating income	32,870	41,962	48,485	57,560
Operating expense	(18,021)	(22,791)	(26,132)	(31,566)
- Staff expense	(9,203)	(11,832)	(14,435)	(17,610)
Pre-provisions profit	14,850	19,171	22,353	25,994
Core operating profit	14,850	19,171	22,353	25,994
Provisions & Contingencies	(178)	(2,149)	(4,679)	(5,746)
Pre-tax profit	14,672	17,022	17,675	20,248
Tax (current + deferred)	(3,673)	(4,207)	(4,449)	(5,096)
Net Profit	10,999	12,815	13,226	15,151
% Growth	(365.3)	16.5	3.2	14.6

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Capital	21,547	19,314	19,314	19,314
Reserve & surplus	20,544	36,821	50,047	65,198
Deposits	255,377	314,622	386,028	475,103
Borrowings	26,415	21,708	40,172	33,460
Other liabilities	9,286	11,758	14,109	16,931
Total equity & liabilities	333,169	404,222	509,669	610,006
Cash and Bank balance	23,053	25,183	38,603	47,510
Investments	85,103	97,660	123,529	142,531
Advances	212,897	268,829	334,561	406,519
Fixed assets	2,829	4,267	4,693	5,163
Other assets	7,504	8,098	8,098	8,098
Total assets	333,169	404,222	509,669	610,006
% Growth	41.1	21.3	26.1	19.7

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
No. of shares and per share data				
No. of shares (mn)	1,955	1,931	1,931	1,931
Adjusted EPS (INR)	5.6	6.6	6.8	7.8
Nominal Book Value per share (INR)	21	28	35	43
Adjusted BVPS (INR)	20	28	35	42
Valuation ratio				
PER (x)	7.8	6.6	6.4	5.6
Price/ Nominal Book (x)	2.1	1.6	1.3	1.0
Profitability ratio				
Yield on advances (%)	17.6	18.5	17.7	17.2
Yields on Assets	15.2	15.9	14.9	14.6
Cost of deposits (%)	6.7	8.0	6.9	7.0
Cost of funds	6.1	7.3	6.9	6.9
NIMs (%)	9.8	9.5	9.0	8.6
Cost/Income (%)	54.8	54.3	53.9	54.8
Dupont Analysis (as % of Avg Assets)				
Interest Income	14.6	15.4	14.5	14.2
Interest expended	(5.2)	(6.2)	(5.7)	(5.8)
Net Interest Income	9.5	9.2	8.8	8.4
Non-interest income	2.1	2.1	1.8	1.8
Total Income	11.5	11.4	10.6	10.3
Staff costs	(3.2)	(3.2)	(3.2)	(3.1)
Non-staff costs	-	-	-	-
Total Cost	(6.3)	(6.2)	(5.7)	(5.6)
PPoP	5.2	5.2	4.9	4.6
Non-tax Provisions	(0.1)	(0.6)	(1.0)	(1.0)
PBT	5.2	4.6	3.9	3.6
Tax Provisions	(1.3)	(1.1)	(1.0)	(0.9)
ROA (%)	3.9	3.5	2.9	2.7
Leverage (x)	8.1	7.5	7.3	7.3
ROE (%)	31.4	26.1	21.1	19.7
Asset quality ratios				
Gross NPLs (%)	2.9	2.2	3.6	4.0
Net NPLs (%)	0.0	0.3	0.1	0.4
PCR (%)	98.6	87.5	96.6	90.3
Gross Slippages (% of PY loans)	2.6	2.3	3.1	2.7
Net NPLs / Networth (%)	0.2	1.4	0.6	1.9
Capitalisation ratios				
Tier I cap.adequacy (%)	22.7	22.6	19.9	19.4
Total cap.adequacy (%)	25.8	24.7	21.3	20.5

Source Company data, I-Sec research

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