Ujjivan Small Finance Bank

Financials

Likely to miss guidance on all parameters; credit cost to inch up in H2FY25

Ujjivan Small Finance Bank's (Ujjivan) PAT fell 23% QoQ to INR 2.3bn vs. INR 3bn QoQ, largely due to higher provisioning at INR1.5bn vs. INR 1.1bn QoQ driven by higher delinquencies in its MFI portfolio. Ujjivan's strategy of de-risking its asset portfolio is playing out well, evident in robust 12% QoQ growth in secured asset vs. muted 1% QoQ growth in overall advances. However, its unsecured portfolio still contributes >65% of the overall of portfolio, as on Sep'24. Management highlighted that stress in MFI shall subside only from Q4FY25 and it poses a near-term risk on asset quality. As a result, management revised its credit cost guidance upward to 2.3–2.5% vs. 1.7% earlier and hinted at lower-than-expected loan growth and lower NIM. Considering the lack of visibility around the revival in the MFI segment, we downgrade Ujjivan to **HOLD** (earlier Buy) with a revised TP of INR 36 (earlier INR 60), valuing it at 1x (1.5x earlier) on Sep'25E BVPS.

Q2FY25 financial performance: Loan growth remains muted; elevated credit cost impacts earnings

NII remained flat QoQ at INR 9.4bn due to muted loan growth and a 10bps QoQ dip in NIM. Profitability was also hurt by sharp 10% QoQ growth in operating expenses. Lofty credit cost at 2% vs. 1.5% QoQ further weighed on earnings (down 23% QoQ). As a result, RoA fell to 2.2% vs. 2.9% QoQ. While GNPL was flat QoQ at 2.5%, slippages spiked to 3.2% vs. 2.6% QoQ and 1+ DPD across products inched up on sequential basis. While Ujjivan has proactively curbed growth in the MFI segment (down 2% YoY) and offset that with accelerated growth in secured retail assets since Q2FY24, its share in overall loan remains high at 65%. Deposit growth was robust at 5% QoQ with CASA deposits growing by 6% QoQ and contributing ~26% of total deposits.

Stress in MFI visible; expects revival only from Q4FY25

Collection efficiency in the MFI segment moderated by 100bps to 97% in Sep'24, from 98% in Jun'24. Similarly, GNPL in the segment too increased to 2.5% in Sep'24 vs. 2.3% in Jun'24. PAR 0 in MFI rose to 5.5% vs. 3.9% QoQ. While Ujjivan was ahead of the curve in curbing growth in the segment (13% YoY growth in FY24; deceleration in H1FY25) due to signs of increasing stress, it still implemented stricter norms compared to MFIN guidelines to ensure quality acquisition. However, its effects will likely emerge only by Q4FY25.

Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E
NII (INR bn)	27.0	34.1	38.0	44.3
Op. profit (INR bn)	14.8	19.2	19.6	23.0
Net Profit (INR bn)	11.0	12.8	8.8	12.1
EPS (INR)	5.6	6.6	4.6	6.3
EPS % change YoY	(334.6)	17.9	(31.2)	37.1
P/E (x)	6.5	5.5	8.0	5.8
P/BV (x)	1.8	1.3	1.1	0.9
GNPA (%)	2.9	2.2	4.6	4.9
RoA (%)	3.9	3.5	2.0	2.2
RoE (%)	31.4	26.1	14.6	17.0

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Market Data

Market Cap (INR)	71bn
Market Cap (USD)	842mn
Bloomberg Code	UJJIVANS IN
Reuters Code	UJJI BO
52-week Range (INR)	63 /36
Free Float (%)	95.0
ADTV-3M (mn) (USD)	7.0

Price Performance (%)	3m	6m	12m
Absolute	(17.7)	(32.0)	(32.2)
Relative to Sensex	(17.6)	(40.4)	(56.2)

ESG Score	2023	2024	Change
ESG score	**74.7**	-	-
Environment	51.3	-	-
Social	71.7	-	-
Governance	87.0	-	-

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Previous Reports

26-07-2024: Q1FY25 results review

22-05-2024: Q4FY24 results review

AUM up 1% QoQ/14% YoY; secured share rising in overall book

AUM growth was at 1% QoQ/14% YoY led by QoQ uptick in affordable housing, FIG and MSME lending, while group loans contracted 6% QoQ. Ujjivan's strategy has been to de-risk its portfolio by diversifying the portfolio offerings with the introduction of more secured products in its kitty. In the past 18 months, it has launched products such as micro mortgages, gold loan, vehicle loan, agri and working capital (SME) loans. As a result, there has been a steep rise in secured share in the overall AUM to 35% vs. 31% QoQ/27% YoY. Moreover, the secured portfolio (calculated) was up ~14% QoQ/~48% YoY vs. a 5% QoQ decline/2% YoY rise in the unsecured portfolio (calculated).

Moreover, its new customer acquisition (as a % of fresh loans) for microfinance group loans has seen a consistent decline to 33% vs. 37% QoQ/42% YoY, suggesting that it turned cautious on growth in the microfinance portfolio ahead of the peers. Given the current environment, Ujjivan is focusing more on scaling secured book, which now constitutes 38% of overall disbursements vs. 27% QoQ. Overall, disbursements were down 6% YoY, but up 2% QoQ.

Healthy deposits growth; getting more granular

Deposits for Ujjivan were up 5% QoQ/17% YoY with growth turning more granular. Retail TD + CASA deposits were up 3% QoQ/32% YoY and now constitute 73% of total deposits vs. 74% QoQ/65% YoY. Net advances, however, were up 8% QoQ/20% YoY, due to which the CD ratio increased to 86% vs. 83% QoQ as well as YoY.

Dip in CE across segments; gross slippages at 3.2% vs. 2.6% QoQ

CE (for the month) fell to 97% for Sep'24 vs. 98% for Jun'24. Even at the segmental level, CE has dipped for MFI from 98% in Jun'24 to 97% in Sep'24, 98% for affordable housing in Jun'24 to 97% in Sep'24 and 89% for MSME in Jun'24 to 87% in Sep'24. The decline in CE led to rise in SMA portfolio to 2.6% vs. 1.9% QoQ. In the microfinance portfolio, it has a cautious approach and has introduced stricter norms compared to MFIN guidelines, which should ensure better quality of customer acquisition.

Gross slippages stood at 3.2% vs. 2.6% QoQ and net slippages were also higher at 2.6% vs. 1.9% QoQ. Despite higher write-off QoQ at INR 2bn vs. INR 0.6bn. GNPA as well as NNPA rose 20bps QoQ to 2.5% and 0.6%, respectively. Total provisions for Ujjivan stood at INR 8.7bn, which is ~2.9% of overall AUM (flat QoQ). Going ahead, management expects credit cost to settle in the range of 2.3%-2.5% for FY25, much higher than ~1.7% credit cost for H1FY25.

Margins fell as yields contracted; deposit cost stable QoQ

Yield for the overall portfolio fell 20bps QoQ to 18.9% vs. 19.1% QoQ, wherein it has seen yield contraction for microfinance and affordable housing, while it has improved for MSME. Cost of funds as well as cost of deposit were stable QoQ at 7.5%. As a result, NIMs compressed 10bps QoQ to 9.2%. Going ahead, management expects moderation in margins as loan mix shifts towards secured products.

Earnings cut by ~33% in FY25E to account for higher credit cost

Ujjivan like its peers has significantly impacted by the stress in the microfinance portfolio, which has a double whammy of higher credit cost and decline in revenue. Despite credit cost of ~1.7% in H1, Ujjivan has guided for credit cost in the range of 2.3-2.5% for FY25, implying much higher credit cost in H2. As a result, we have revised our credit cost estimates to factor in the revised guidance and this has led to ~33%/~20% earnings estimate for FY25E/FY26E respectively.

Key risks: 1) Lower than expected slippages and credit cost, particularly from the microfinance portfolio, thereby, impacting credit cost; and 2) Slower-than-expected loan growth, particularly due to lower growth in unsecured portfolio.

ICICI Securities

Q2FY25 earnings call takeaways

Outlook

- *On business side, secured portfolio growth would be >40% for FY25, individual MFI would be ~17% for FY25; it is not pencilling in any growth in microfinance group loans.*
- **Secured book is expected to reach 40% of the overall book by FY25-end vs. 35% currently.**
- ***Margins are currently at 9.2%, but for entire FY25, margins are likely to be below 9%, possibly 8.6-8.8%.***
- **Expect credit cost at 2.3-2.5% for FY25.** *RoE likely to moderate, as there would be a rise in credit cost.*
- ***Slippages would be ~0.8% (non-annualised) for the remaining two quarters of FY25.***
- *Previous RoE guidance would be a miss in FY25 due to elevated credit cost; in the medium-term, 18-20% RoE is very much on the radar in FY26.*
- **RoE of 18-20% is achievable for FY26, as microfinance headwinds subside and situation normalises.**
- Margins at 9.2% for the quarter and **likely to see further compression, as mix shifts towards secured.**

Microfinance

- **Ujjivan's heightened caution led to slow growth in microfinance.**
- **Situation continues to evolve for FY25. Ujjivan expects that business will likely normalise by Q4FY25.**
- Approach during the quarter was to serve good quality and repeat customers.
- Non-delinquent portfolio CE at 99.23% for Q2 and in Oct'24; CE has improved vs. Sep'24. Expects CE for non-delinquent portfolio for Q3 to be similar to Q1 levels.
- **~10% of slippages come from >=4 lenders. Slippages from this portfolio is 4-5% higher than the regular portfolio. *~7% borrowers have >=4 relationships.***
- ~INR 500mn of Assam portfolio has been written-off, which was NPA since 2019.
- *Slippages and NPA in individual loan portfolios have been much better than group loan portfolio.*
- *MFI slippages at INR 2.4bn vs. INR1.93bn QoQ.*
- *On the JLG side, reason for ticket size looking high was due to a lower number of customer acquisition. As it continues to increase customer acquisition, its ticket size would gradually see a downward trend.*

Asset quality

- **Expect credit cost at 2.3-2.5% for FY25.**
- **Secured business credit cost would be typically ~1%.**
- **Credit cost typically comes with a lag of 90-180 days from the time the customer becomes delinquent.**
- ***Slippages would be ~0.8% (non-annualised) for the remaining two quarters of FY25.***
- ***~80% of Q2 slippages were from microfinance.***
- ***Floating provisions can be utilised only in extraordinary circumstances with prior approval of RBI.***
- *There are some branches that are stressed branches; hence, Ujjivan has put restriction on growth in these branches like restricting new customer acquisition among others.*
- *Tamil Nadu CE is below overall CE of the portfolio*

- *Four other large states have CE of 99.4-99.7% CE*
  - *Karnataka*
  - *Bihar*
  - *West Bengal*
  - *Uttar Pradesh*

AUM and disbursements

- **Secured book is expected to reach 40% of the overall book by FY25-end vs. 35% currently.**
- 60% of overall disbursements in **micro mortgage** happened through referrals.
- During Q2, it also launched **bank guarantee and working capital term loan variants.**
- **FIG** continues to grow as per its strategy of growing its secured book.
- **Gold loans business** has expanded well and is targeting to cover 200 branches by Q3FY25-end vs. ~160 currently. 40% of monthly gold business is coming from referrals.
- *~50% of the micro mortgage book comes from individual loan customers who graduate to micro mortgage. Only ~1% of the customers in micro mortgage are new to credit customers.*
- *In 2W, it has tie-ups across manufacturers.*

Opex

- Higher IT expense as well as expanding network led to a rise in opex. But these are investments for growing its book, strengthening its collections and improving its branch/franchise network.
- There is additional hiring for the secured portfolio and it has also added staff on the collections team, which has led to a rise in opex.
- *Ujjivan does not foresee any decline in cost to income ratio in FY25. Ujjivan continues to have investments in technology.*

Other income

- It has received AD1 license earlier during the month.
- It is also looking to add MF facility and ASBA facility during the quarter.
- It has introduced non-maintenance of minimum account balance (MAB) charges, which has led to a spike in other income.

Deposits

- Retail deposits now form 73% of its overall deposits.
- Focus on providing solution-based approach continues for attracting deposits.
- It has a focused approach of growing retail and granular deposit base.

Miscellaneous

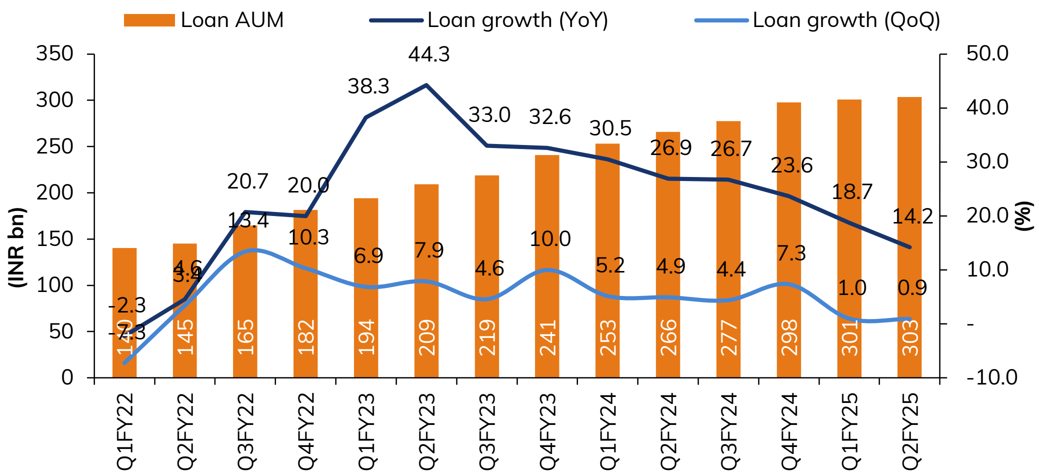
- Dividend payment of INR 2.9bn led to reduction in Tier-1 capital.
- ***It is likely to apply for universal banking license in H2FY25.***

Exhibit 1: Q2FY25 result review

(INR mn)	Q2FY25	Q2FY24	% chg YoY	Q1FY25	% chg QoQ
Interest Income	16,128	13,912	15.9	15,772	2.3
Interest Expended	6,690	5,678	17.8	6,357	5.2
Net interest income (NII)	**9,438**	**8,234**	**14.6**	**9,415**	**0.2**
Other income	2,073	1,886	9.9	1,971	5.2
Total income	**11,510**	**10,120**	**13.7**	**11,386**	**1.1**
Operating expenses	**6,902**	**5,286**	**30.6**	**6,290**	**9.7**
-Staff expenses	3,684	2,734	34.7	3,403	8.3
-Other expenses	3,218	2,552	26.1	2,888	11.4
Operating profit	**4,608**	**4,834**	**-4.7**	**5,095**	**-9.6**
Total provisions	1,505	469	220.8	1,099	37.0
Profit before tax	**3,103**	**4,365**	**-28.9**	**3,997**	**-22.4**
Tax	773	1,087	-28.9	986	-21.6
Profit after tax	**2,330**	**3,278**	**-28.9**	**3,011**	**-22.6**
Balance sheet (INR mn)					
Deposits	3,40,698	2,91,393	16.9	3,25,140	4.8
Advances	2,91,793	2,43,250	20.0	2,71,140	7.6
Net NPL (INR mn)	1,641	218	652.3	1,112	47.5
Net NPL (%)	0.56	0.09	47	0.41	15
Coverage ratio	77. 8	96.2	(1,839)	83.7	(595)
Ratios (%)					
Profitability ratios					
Yield on Advances	18.9	19.2	(30)	19.1	(20)
Cost of Funds	7.5	7.4	10	7.5	-
NIM	**9.2**	**8.8**	**40**	**9.3**	**(10)**
RoaA	2.2	3.6	(139)	2.9	(74)
RoaE	20.9	28.0	(710)	20.9	-
Business & Other Ratios					
CASA ratio	25.9	24.1	180	25.6	30
Cost-income ratio	60.0	52.2	773	55.2	472
AuM mix	**Q2FY25**	**Q2FY24**	**% chg YoY**	**Q1FY25**	**% chg QoQ**
Microfinance - Group loans	1,48,920	1,52,260	-2.2	1,57,680	-5.6
Microfinance - Individual loans	44,350	32,890	34.8	43,550	1.8
MSE	15,140	14,420	5.0	14,150	7.0
Affordable Housing	57,840	40,360	43.3	51,990	11.3
FIG	20,420	13,040	56.6	18,000	13.4
Others	9,790	5,940	64.8	8,160	20.0
Total	**2,96,460**	**2,58,910**	14.5	**2,93,530**	1.0

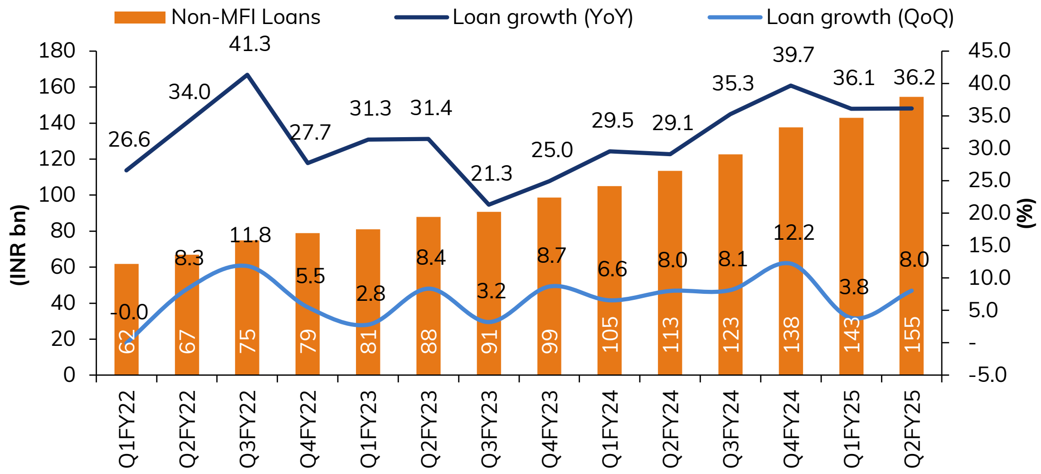
Source: Company data, I-Sec research

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



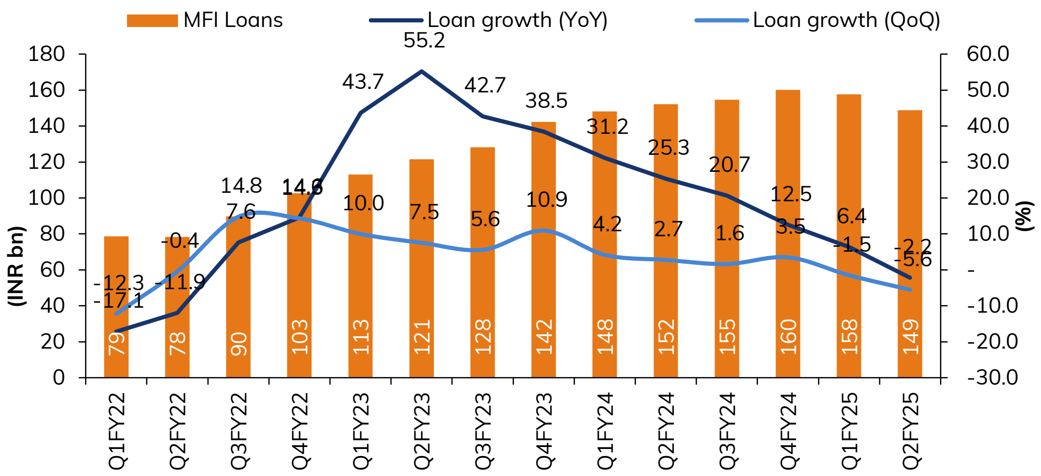
Source: Company data, I-Sec research

Exhibit 3: Growth primarily driven by non MFI loans, which grew 8% QoQ



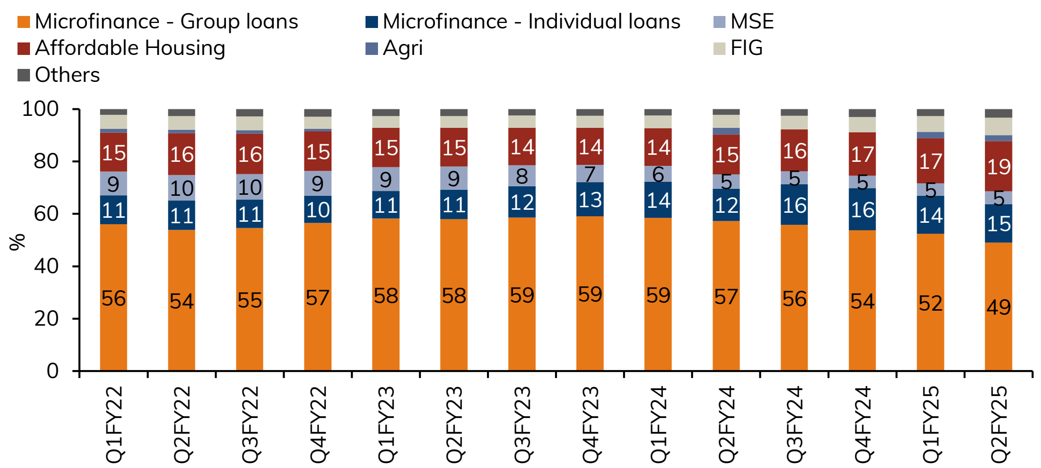
Source: Company data, I-Sec research

Exhibit 4: MFI book continues to declined QoQ by 2%, in line with company's strategy to remain watchful in the microfinance portfolio



Source: Company data, I-Sec research

Exhibit 5: Share of non-MFI group loan book increased to 36% vs 31% YoY



Source: Company data, I-Sec research

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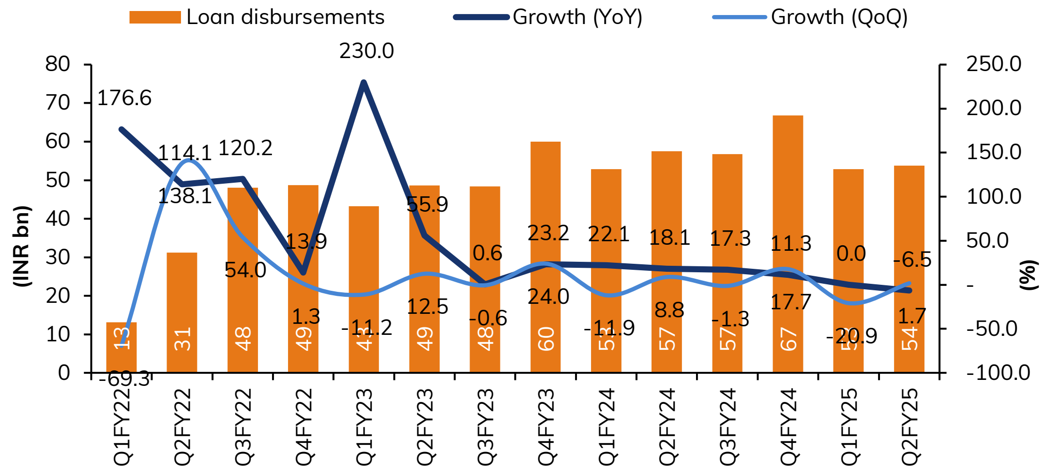
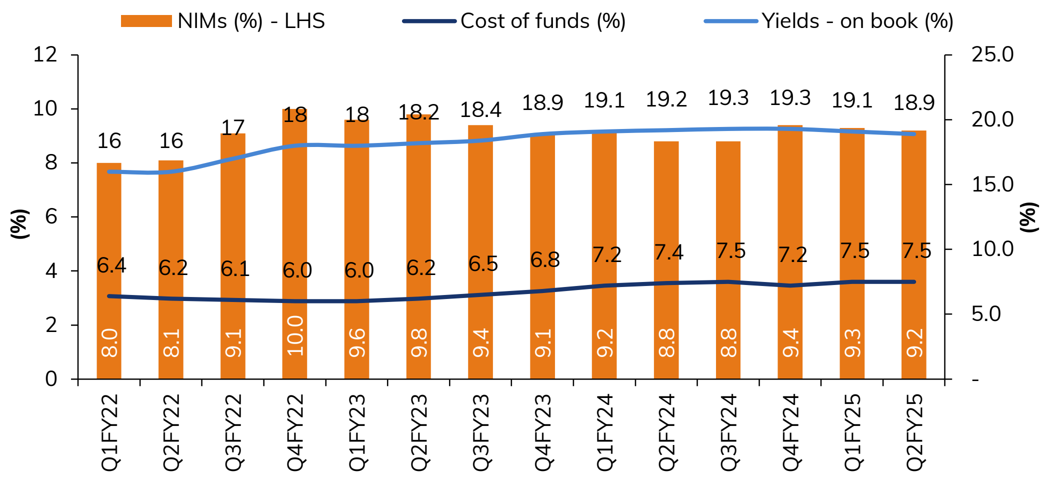
Exhibit 6: Disbursements growth was muted, being flat QoQ and lower 7% YoY



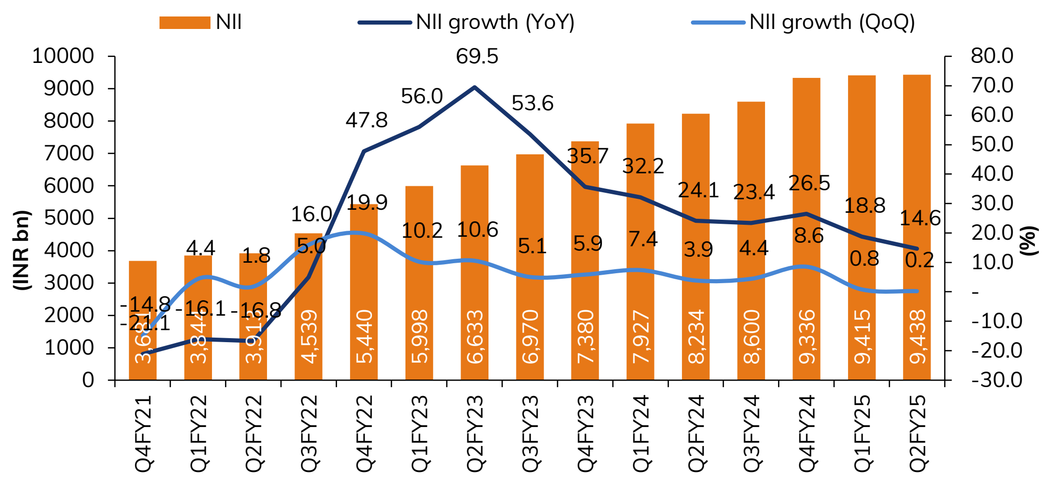
Source: Company data, I-Sec research

Exhibit 7: Cost of funds stable, while yields declined leading to spread compression of 20bps QoQ



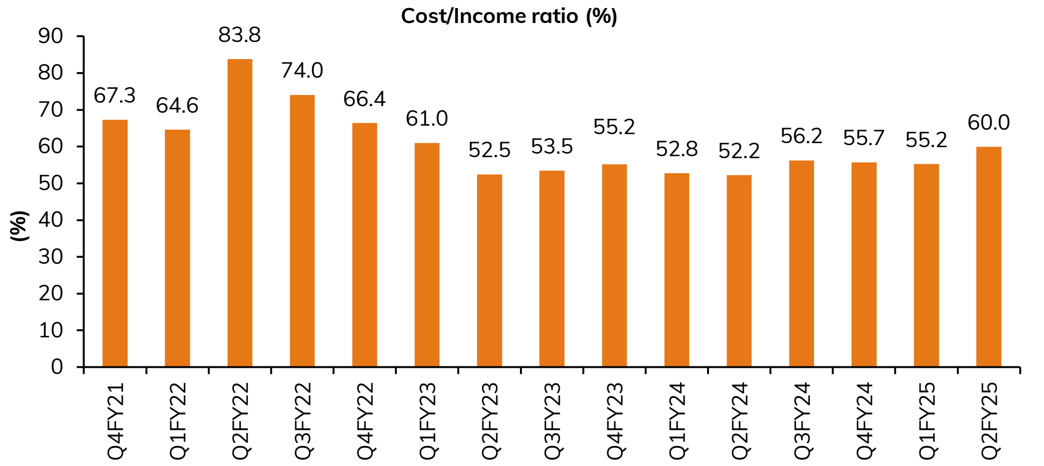
Source: Company data, I-Sec research

Exhibit 8: NII was flat QoQ and up 15% YoY



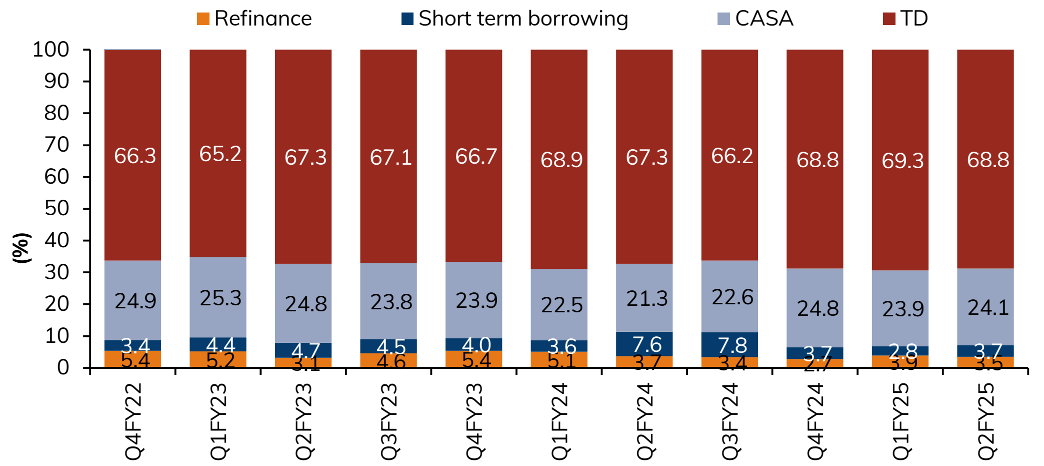
Source: Company data, I-Sec research

Exhibit 9: Higher IT expense as well as expanding network led to a rise in opex as well as C/I



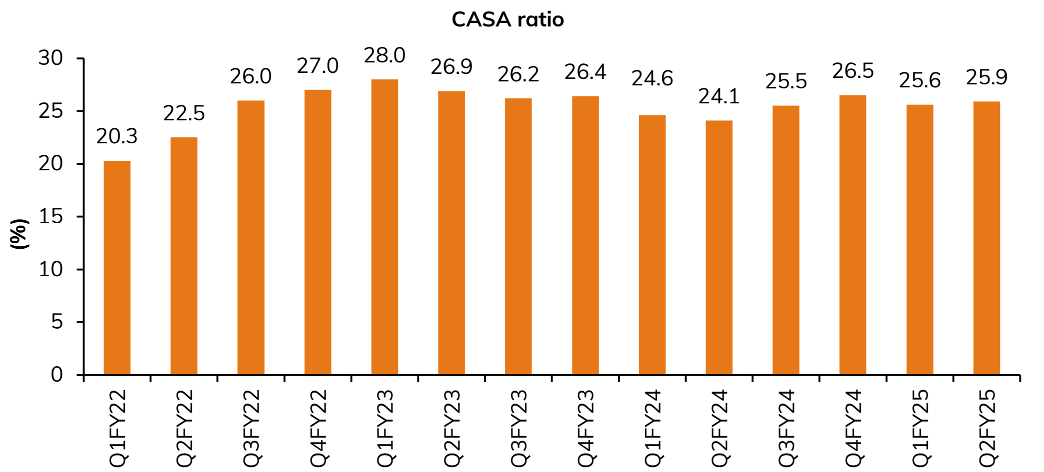
Source: Company data, I-Sec research

Exhibit 10: Well-diversified liability mix



Source: Company data, I-Sec research

Exhibit 11: CASA ratio rose marginally to 25.9% vs. 25.6% QoQ



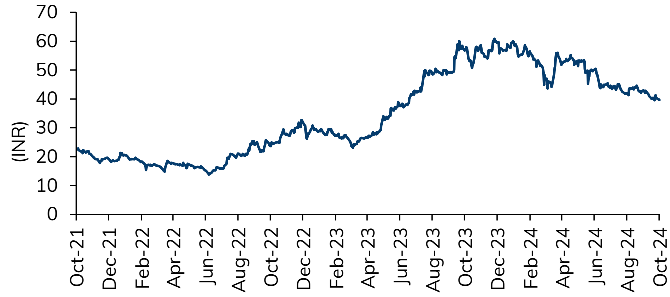
Source: Company data, I-Sec research

Exhibit 12: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	73.5	0.0	0.0
Institutional investors	5.8	32.0	27.1
MFs and others	0.6	4.1	3.7
FIs/Banks	0.8	2.3	1.9
Insurance	0.0	1.0	0.9
FIIs	4.4	24.6	20.6
Others	20.7	68.0	72.9

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	64,013	75,915
Interest expense	(14,671)	(22,677)	(26,010)	(31,607)
Net interest income	**26,978**	**34,095**	**38,003**	**44,308**
Non interest income	5,892	7,868	8,186	9,766
Operating income	**32,870**	**41,962**	**46,189**	**54,074**
Operating expense	(18,021)	(22,791)	(26,549)	(31,088)
- Staff expense	(9,203)	(11,832)	(14,435)	(17,610)
Pre-provisions profit	**14,850**	**19,171**	**19,640**	**22,986**
Core operating profit	**14,850**	**19,171**	**19,640**	**22,986**
Provisions & Contingencies	(178)	(2,149)	(7,858)	(6,836)
Pre-tax profit	**14,672**	**17,022**	**11,781**	**16,149**
Tax (current + deferred)	(3,673)	(4,207)	(2,965)	(4,065)
Net Profit	**10,999**	**12,815**	**8,816**	**12,085**
% Growth	**(365.3)**	**16.5**	**(31.2)**	**37.1**

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	45,637	57,721
Deposits	2,55,377	3,14,622	3,86,028	4,75,103
Borrowings	26,415	21,708	32,350	17,417
Other liabilities	9,286	11,758	14,109	16,931
Total equity & liabilities	**3,33,169**	**4,04,222**	**4,97,438**	**5,86,486**
Cash and Bank balance	23,053	25,183	38,603	47,510
Investments	85,103	97,660	1,23,529	1,42,531
Advances	2,12,897	2,68,829	3,22,330	3,82,999
Fixed assets	2,829	4,267	4,693	5,163
Other assets	7,504	8,098	8,098	8,098
Total assets	**3,33,169**	**4,04,222**	**4,97,438**	**5,86,486**
% Growth	41.1	21.3	23.1	17.9

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	4.6	6.3
Nominal Book Value per share (INR)	21	28	33	39
Adjusted BVPS (INR)	20	28	32	38
Valuation ratio				
PER (x)	**6.5**	**5.5**	**8.0**	**5.8**
Price/ Nominal Book (x)	1.8	1.3	1.1	0.9
Profitability ratio				
Yield on advances (%)	17.6	18.5	17.3	17.2
Yields on Assets	15.2	15.9	14.6	14.4
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	8.7	8.4
Cost/Income (%)	54.8	54.3	57.5	57.5
Dupont Analysis (as % of Avg Assets)				
Interest Income	14.6	15.4	14.2	14.0
Interest expended	(5.2)	(6.2)	(5.8)	(5.8)
Net Interest Income	**9.5**	**9.2**	**8.4**	**8.2**
Non-interest income	2.1	2.1	1.8	1.8
Total Income	11.5	11.4	10.2	10.0
Staff costs	(3.2)	(3.2)	(3.2)	(3.2)
Non-staff costs	-	-	-	-
Total Cost	**(6.3)**	**(6.2)**	**(5.9)**	**(5.7)**
PPoP	5.2	5.2	4.4	4.2
Non-tax Provisions	(0.1)	(0.6)	(1.7)	(1.3)
PBT	**5.2**	**4.6**	**2.6**	**3.0**
Tax Provisions	**(1.3)**	**(1.1)**	**(0.7)**	**(0.8)**
ROA (%)	3.9	3.5	2.0	2.2
Leverage (x)	**8.1**	**7.5**	**7.4**	**7.6**
ROE (%)	31.4	26.1	14.6	17.0
Asset quality ratios				
Gross NPLs (%)	2.9	2.2	4.6	4.9
Net NPLs (%)	**0.0**	**0.3**	**0.2**	**0.3**
PCR (%)	**98.6**	**87.5**	**96.7**	**94.4**
Gross Slippages (% of PY loans)	2.6	2.3	4.3	2.7
Net NPLs / Networth (%)	0.2	1.4	0.8	1.4
Capitalisation ratios				
Tier I cap.adequacy (%)	22.7	22.6	19.1	18.4
Total cap.adequacy (%)	25.8	24.7	20.6	19.6

Source Company data, I-Sec research

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