BUY (Maintain)

CMP: **INR 62** Target Price: **INR 75 (INR 60)** ▲ 21%

ICICI Securities

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23 January 2026

India | Equity Research | Results update

Ujjivan Small Finance Bank

Financials

Strong 45bps uptick in RoA to 1.5% as margin expands and credit cost contracts

Ujjivan Small Finance Bank (USFB)'s Q3FY26 RoA improved to 1.5% (four straight quarters of RoA expansion), driven by a strong uptick in revenue, aided by NIM expansion and subsiding stress in MFI (gross slippages moderated to INR 2.2bn vs. INR 2.8bn QoQ). This was on account of ~80bps annualised decline in credit cost to 2%. PAT grew 52% QoQ and 71% YoY to INR 1.9bn with RoA and RoE at 1.5% and 11.5%, respectively. Management highlighted that USFB is on track to achieve its 1.2–1.4% RoA target for FY26, implying Q4FY26 RoA could be ~1.5%. Retain **BUY**; TP revised to INR 75 (vs. INR 60), valuing USFB at 1.9x Mar'27E BVPS (earlier: 1.6x Sep'26E) as Q3 earnings give greater visibility of RoA crossing 1.5% mark in the near term, coupled with steady AUM growth.

Q3FY26 financial performance: RoA up 15bps QoQ at 1%, aided by 21bps QoQ margin expansion and stable credit cost

Ujjivan SFB reported PAT of INR 1.86bn, up 52% QoQ and 71% YoY, aided by credit cost moderation and margin expansion. Overall, it reported RoA of 1.5%, up 45bps QoQ, and RoE came in at 11.5% vs. 7.7% QoQ.

Loan growth was strong at 7.1% QoQ and 21.6% YoY, driven by secured segments. Margin improved 33bps QoQ to 8.2%, aided by liquidity absorption and ~20bps moderation in cost of funds. It expects further ~10bps moderation in cost of funds in Q4. With respect to new labour code, it had an impact of ~10bps towards its opex to assets ratio, which came in at 6.7% and is expected to remain around similar levels in Q4 as well.

Annualised credit cost came in at ~2% vs. ~2.8% QoQ, aided by improving share of secured portfolio, improvement in MFI X-bucket CE and a decline in overall GNPA. Asset quality further improved with 47bps sequential decline in PAR to 3.98% and 6bps sequential decline in GNPA to 2.39%. MFI X-bucket CE further improved to 99.7% for Dec'25 vs. 99.5% for Sep'25.

On universal banking license, it added that this is under RBI consideration and USFB continues to be hopeful. It is expecting a decision on the same anytime soon.

Financial Summary

Y/E March	FY25A	FY26E	FY27E	FY28E
NII (INR bn)	36.4	37.7	42.6	49.3
Op. profit (INR bn)	16.9	16.4	21.3	24.7
Net Profit (INR bn)	7.3	7.0	10.0	11.6
EPS (INR)	3.8	3.6	5.2	6.0
EPS % change YoY	(43.4)	(4.1)	43.2	16.2
P/E (x)	16.5	17.2	12.0	10.4
P/BV (x)	2.0	1.8	1.6	1.4
GNPA (%)	2.2	2.4	2.2	2.1
RoA (%)	1.6	1.3	1.6	1.6
RoE (%)	12.4	10.8	13.7	13.9

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Market Data

Market Cap (INR)	120bn
Market Cap (USD)	1,311mn
Bloomberg Code	UJJIVANS IN
Reuters Code	UJJI BO
52-week Range (INR)	63 /31
Free Float (%)	97.0
ADTV-3M (mn) (USD)	8.0

Price Performance (%)	3m	6m	12m
Absolute	23.3	31.3	80.1
Relative to Sensex	25.8	31.2	72.3

ESG Score	2024	2025	Change
ESG score	**74.2**	**73.2**	**(1.0)**
Environment	58.8	60.1	1.3
Social	68.1	69.1	1.0
Governance	86.3	82.6	(3.7)

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

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
PAT	-	-

Previous Reports

04-01-2026: NBFCs Q3FY26 preview

18-10-2025: Q2FY26 result review

Credit cost lower by 80bps QoQ at 2.0%; guidance at 2.3-2.4% for FY26

Gross slippages eased further to INR 2.2bn vs. INR 2.8bn QoQ and >INR 3bn in the prior three quarters as MFI slippages continue to ease, which form a major portion of total gross slippages. For Q3FY26, out of INR 2.2bn slippages, ~80% were towards MFI.

X-bucket CE for MFI has further improved to 99.7% for Dec'25 vs. 99.5% for Sep'25, suggesting further reduction in incremental forward flows. It further added that all 10 states with MFI exposure have X-bucket CE of 99.6% or above for both Nov'25 as well as Dec'25. Overall SMA portfolio dropped to 1.60%, lowest since Q1FY25.

Given the improving trend in CE, velocity of PAR addition coming down and loan mix shifting towards secured, we expect a sharp improvement in credit cost in FY27. From a coverage standpoint, it has 76% PCR with ~55% coverage for secured and ~85% for unsecured.

Loan book up 7% QoQ; secured share now at 48% vs. 47% QoQ and 39% YoY

Gross advances were up 7.1% QoQ and 21.6% YoY to INR 370.6bn, aided by a rise in secured portfolio. Secured portfolio was up >10% QoQ and 49% YoY, while MFI book was up >4% QoQ and secured book now forms 48.1% vs. 46.8% QoQ and 39.3% YoY. It expects secured shared to reach 50% by FY26-end and thereafter inch up by ~5% every year to 65-70% by FY30. Overall, USFB plans to grow its secured portfolio at a faster pace than its overall portfolio.

Disbursements inched up 5% QoQ and 55% YoY, wherein MFI disbursements also saw a strong uptick of >9% QoQ and >50% YoY. Deposits were up 7.5% QoQ and 22.2% YoY to INR 422.2bn, aided by higher rise in TD. As a result, CD ratio came in at 87.8% vs. 88.2% QoQ and 88.3% YoY.

Affordable housing now forms an integral part of its overall portfolio at 22% share vs. 19% YoY and is the highest after MFI, which is 52% of the book. Moreover, micro-mortgage has augmented the housing portfolio, effectively supplementing the sub-~INR 1mn segment and widening its product offerings.

Margin improves 33bps QoQ aided by a decline in cost of funds

Ujjivan's margin, after five consecutive quarters of decline, from 9.3% in Q1FY25, fell to 7.7% in Q1FY26. However, the trend changed in Q2FY26 with 21bps QoQ rise to 7.9%. This trend further accelerated in Q3FY26 with another 33bps QoQ margin improvement to 8.2%.

As guided earlier, absorption of excess liquidity and improvement in cost of funds aided by rate calibration led to margin uptick. Ujjvan expects margin to stay around current levels. It expects further moderation of ~10bps in cost of funds in Q4 and also expects ~5bps moderation in SA cost by Q4. Moreover, on lending side, MFI yields have inched up by 20bps QoQ to 22.2% aided by a decline in slippages and it has not tweaked MFI lending rates. Overall, portfolio yield was stable QoQ at 17.5%.

Key risks: 1) Higher-than-expected slippages and credit cost, particularly from the unsecured portfolio; and 2) slower than expected AUM growth, particularly due to a slow pick-up in unsecured portfolio.

Exhibit 1: Q3FY26 result review

(INR mn)	Q3FY26	Q3FY25	% chg YoY	Q2FY26	% chg QoQ
Interest Income	17,519	15,911	10.1	16,823	4.1
Interest Expended	7,515	7,043	6.7	7,606	-1.2
Net interest income (NII)	**10,005**	**8,867**	**12.8**	**9,217**	**8.5**
Other income	2,955	1,722	71.6	2,564	15.3
Total income	**12,960**	**10,589**	**22.4**	**11,780**	**10.0**
Operating expenses	**8,562**	**6,997**	**22.4**	**7,828**	**9.4**
-Staff expenses	4,738	3,712	27.6	4,355	8.8
-Other expenses	3,823	3,286	16.4	3,473	10.1
Operating profit	**4,398**	**3,592**	**22.4**	**3,952**	**11.3**
Total provisions	1,953	2,228	-12.3	2,350	-16.9
Profit before tax	**2,445**	**1,364**	**79.3**	**1,603**	**52.5**
Tax	587	278	111.7	386	52.3
Profit after tax	**1,857**	**1,086**	**71.0**	**1,217**	**52.6**
Balance sheet (INR mn)					
Deposits	4,22,230	3,44,940	22.4	3,92,109	7.7
Advances	3,62,280	2,96,210	22.3	3,38,076	7.2
Net NPL (INR mn)	2,081	1,649	26.2	2,250	-7.5
Net NPL (%)	0.57	0.60	(3)	0.67	(10)
Coverage ratio	76	78	(178)	73	300
Ratios (%)					
Profitability ratios					
Yield on Advances	17.5	18.2	(70)	17.5	-
Cost of Funds	7.1	7.6	(50)	7.3	(20)
NIM	**8.3**	**8.6**	**(30)**	**7.9**	**40**
RoaA	1.5	1.0	48	1.0	47
RoaE	11.5	8.8	270	7.7	380
Business & Other Ratios					
CASA ratio	28.2	25.0	324	27.5	74
Cost-income ratio	66.1	66.1	(2)	66.4	(39)
CAR	21.6	23.9	(228)	21.4	26
AUM mix					
Microfinance - Group loans	1,36,850	1,36,630	*0.2*	1,31,060	*4.4*
Microfinance - Individual loans	56,870	49,530	*14.8*	54,640	*4.1*
MSE	28,650	16,940	*69.1*	25,590	*12.0*
Housing & MLAP	95,600	63,930	*49.5*	87,500	*9.3*
Agri	6,070	1,950	*211.3*	5,100	*19.0*
FIG	26,610	22,570	*17.9*	24,890	*6.9*
Others	19,920	13,110	*51.9*	17,100	*16.5*
Total	**3,70,570**	**3,04,660**	**21.6**	**3,45,880**	**7.1**

Source: Company data, I-Sec research

Q3FY26 earnings call takeaways

Universal banking license

- **Universal banking license is being considered by the regulator and USFB continues to be hopeful.**
- **Expect the decision on the same soon.**

AUM and disbursements

- **Expect that it will end 50% secured by FY26 and this will improve every year by ~5% till FY30.**
- Expect 30-35% unsecured book and balance would be secured by 2030.
- Likely to introduce mid-corporate offerings in mid-2026.

<u>Asset quality</u>

- **On secured products, it has PCR of ~55% and on unsecured products, it has PCR of ~85% and this will continue.**
- **MFI slippages are ~80% of total slippages (70% GL and 30% IL).**
- **2.4% is annualised gross slippage at bank level.**
- Credit cost (including INR 90mn of accelerated provisions) came in at 0.5% (non-annualised).
- **Q4FY26 credit cost would be lower than Q3FY26.**
- **Credit cost normalisation will happen in FY27.**
- PAR below 4% vs. 5.36% a year ago.
- SMA book continued positive momentum and came in at 1.6%.
- Slippages have moderated QoQ.
- Asset book diversification will continue without compromising on asset quality.

<u>Margins</u>

- **Expect margin to stay around Q3FY26 level.**
- **SFB has not tweaked its lending rates for MFI portfolio, while MFI yield has risen due to a decline in slippages.**
- **Exit cost of funds is expected to be around 7% by Q4.**
- **Cost of SA is expected to moderate by 5bps in Q4 post SA rate cut.**

<u>Microfinance</u>

- **10/10 states have 99.6% X bucket CE in Nov-Dec'25.**
- **One blip was seen in CE in Gujarat in Oct'25, but that was also reversed in Nov'25.**
- There has been consistent improvement in new customer acquisition and USFB expects this to continue in Q4 as well.
- 46-47% was rejection rate after guard rails was implemented, but this has now come down to 35-36% as overleverage customers' share keeps on declining in overall MFI portfolio.
- Lender cap and overall indebtedness are the key reasons for rejection.
- CGFMU - it covers a smaller portion and uses it as a tail risk protection strategy.
- CGFMU cover is quite limited and not significant.
- INR 2.34bn of coverage with a premium payment of INR 17mn for the quarter for CGFMU.

<u>Micro mortgage</u>

- Present in 317 branches, and hence, it is very well diversified and not dependent on any geography.
- 100% self-sourcing.
- LTV is 44-45%.
- 96% of properties are SORP.

Operating cost

- **It will see moderation in opex to assets in FY27.**
- **New labour code had an impact of 10bps on opex to assets ratio and this would be similar in Q4 as well at around 6.7%.**
- It is managing its operating expense very tightly.

Q3FY26 performance

- Q3FY26 performance was durable and reflective of disciplined execution, keeping in sight its long-term vision.
- **Confident of increasing CASA share in next quarter.**

Q2FY26 earnings call takeaways

Guidance for FY26 (maintained guidance provided in Q1)

- Advances ~20% (secured ~35%)
- CD ratio 88%
- CASA ratio 27%
- C/I ~67%
- Credit cost at 2.3-2.4% of average gross loan book
- RoE 10-12%
- RoA 1.2-1.4%

Asset quality

- **Fresh slippages, at INR 2.8bn, in the quarter vs. INR 3.5bn – a sharp drop due to reduced stress in MFI book**
- **Overall SMA level dropped to 1.99%; lowest since Q1FY25**
- PAR at 4.45% in Q2 vs. 4.81% last quarter, showing signs of improvement and is coming under control now
- **X-bucket collections efficiency in micro-banking averaged at 99.48% for the quarter**
- **Anticipates meaningful decline in credit cost in H2FY26**
- Cashless GL and IL collections at ~43% vs. 38% a year ago
- **Kerala and Odisha were not focused and were small states for USFB. Most of the states are showing signs of improvement. TN showing CE ~99.5% and Karnataka is also close to that**
- **Gujarat will likely take a quarter or more; Odisha shall take time. All remaining states are normalising**
- Some locations in Gujarat and Karnataka are still not ready for growth right now in the micro-banking portfolio
- H2 should be much better than H1. Expect 7% growth in this year in the micro-banking portfolio
- Provision for most of the book has been done and there would be some provisions in H2FY26

- USFB's policy is to not lend to customers with 1 DPD with USFB at the time of disbursement
- **Does not see any incremental stress in IL in Maharashtra, since CE is improving. Maharashtra PAR is 4.2% and GNPA 1.9%**
- **As NPA book starts to slow down, WACE (Weighted average Collection efficiency) is expected to improve**
- **Only 3 states in last 3 quarters where PAR was elevated (Karnataka, West Bengal and Bihar). Not growing much in West Bengal; and in Bihar, it has seen flat growth. Maharashtra and other states are doing well good**
- No concerns of income assessment or credit underwriting in IL/GL – it is more of a geographical thing
- Some part of GNPA (~30-35% of overall GNPA), which is existing from pre-2024 levels and have stopped disbursing in those locations so GNPA, should stabilise.
- **Write-offs expected to be lower in H2FY26 vs. H1FY26. Mostly write-offs would be from micro-banking portfolio (only INR 200mn was for vehicle finance in this year and rest was micro-banking)**
- ~80% PCR on micro-banking (standard assets is 0.5% provision)
- **Management has not seen any initial trend of bad repayments in Tirupur belt or Surat belt**

<u>Margins</u>

- **NIM improved to 7.9% (~20bps higher than previous quarter) largely due to liquidity absorption and CoF improvement**
- **Expect NIMs to remain in similar range in FY26 (~7.9 to 8%)**
- Cost of Funds dropped to 7.3% from 7.1% in Q1 due to reduction in deposit rates. Expect further CoF benefit coming in next quarters.
- Repo rate cut was applicable to only ~17% of its book (MSME and partial FIG portfolio); coming quarters' cost of deposits/funds is expected to improve
- **Micro-banking yields are expected to be stable at ~22% this year (USFB has not increased any rates)**

<u>AUM and deposits</u>

- Secured AUM now at ~47% in the mix vs. ~35% in Q2FY25 and is expected to grow faster than unsecured book
- **Highest ever disbursements at INR 79bn, growth of 48% YoY and 21% QoQ**
- **CASA deposits reached 27.5% with CASA crossing INR 100bn for the first time; CASA + Retail TD stands at 71% of total deposits**
- Micro banking has grown meaningfully this quarter, with IL growing 9% YoY and 2% QoQ
- USFB is on track to meet ~35% secured growth target
- Housing GNPA ~1% stable over last quarters
- **Gold loans' monthly disbursement run rate of INR 0.72bn**
- **Vehicle loans focusing on new two wheelers across 262 branches; overall vehicle finance is going good, as per management**
- Do not see adverse movement in lower ticket size segment

- Plan to scale housing and gold loans going ahead; two-wheeler expected to scale INR 10bn this year; MSME is in break-even stage and is expected to do be well placed in 2-3 years. Housing is already profitable and gold loans is expected to break even in FY26
- GL Average ATS is INR 64,000 (Top range is INR 0.3mn): IL Average ATS is INR 130,000 (Maximum is INR 0.15-.16mn)
- IL sourced is generally GL to IL transition; IL is expected to do better than GL in coming quarters
- CD (Certificate of deposit) is INR 4.11bn

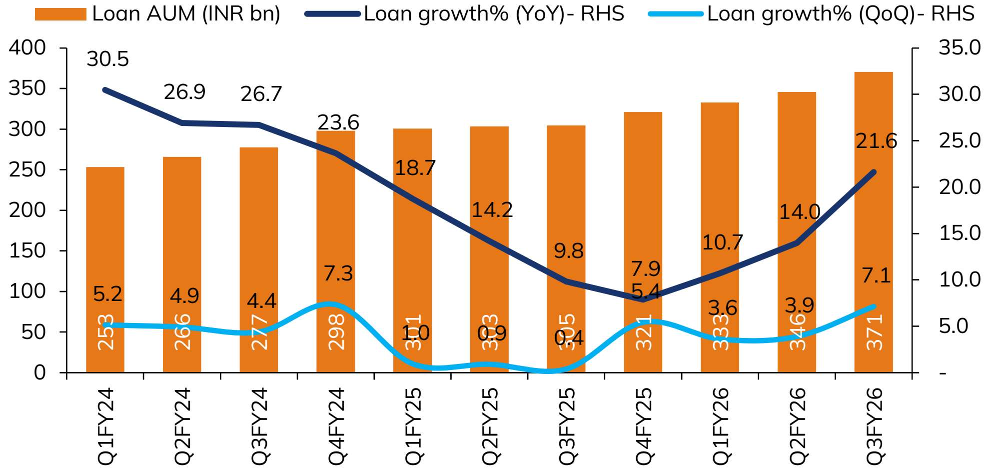
Universal bank

- RBI is evaluating banking license application

Others

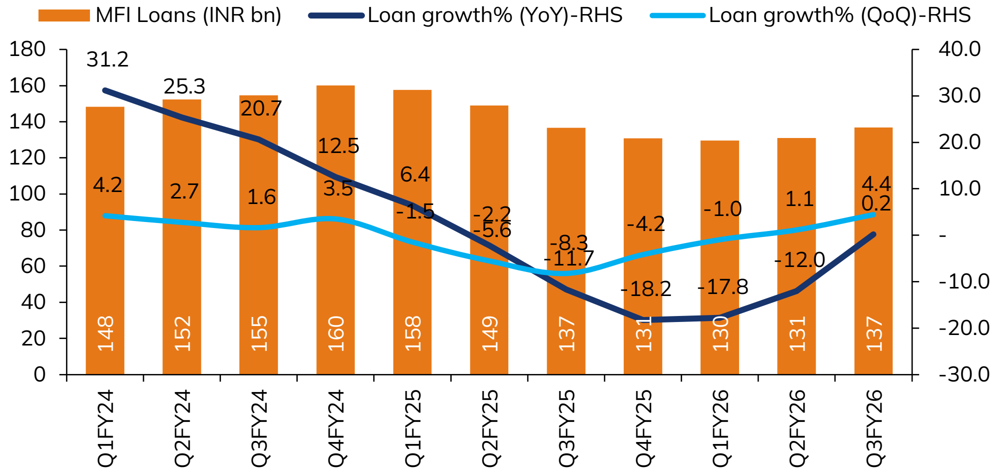
- New branches added shall cater to micro-banking customers first, and then other products
- Regarding attrition, everything is under control and attrition is flat vs. last quarter; ~20% rate currently

Exhibit 2: AUM picked up momentum with 7% QoQ / 22% YoY growth...



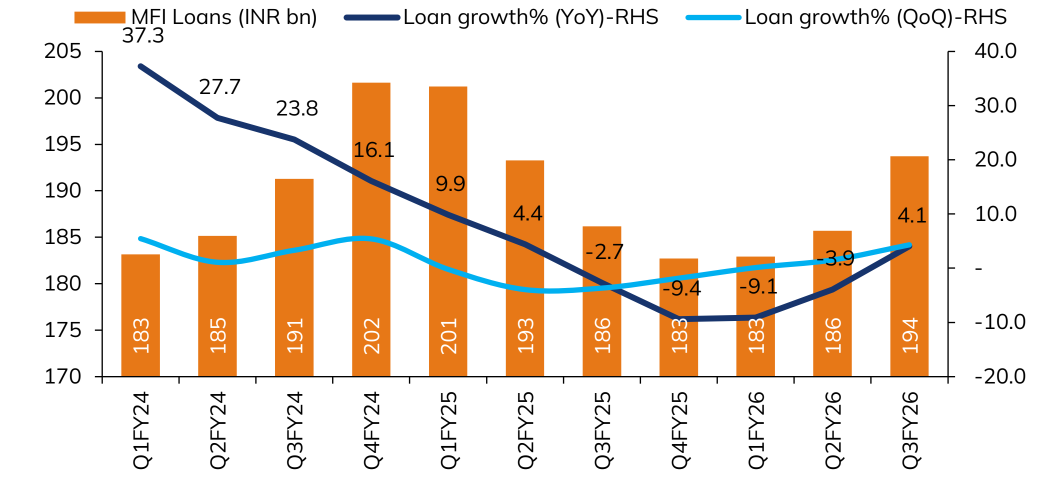
Source: Company data, I-Sec research

Exhibit 3: ...primarily driven by non-MFI loans



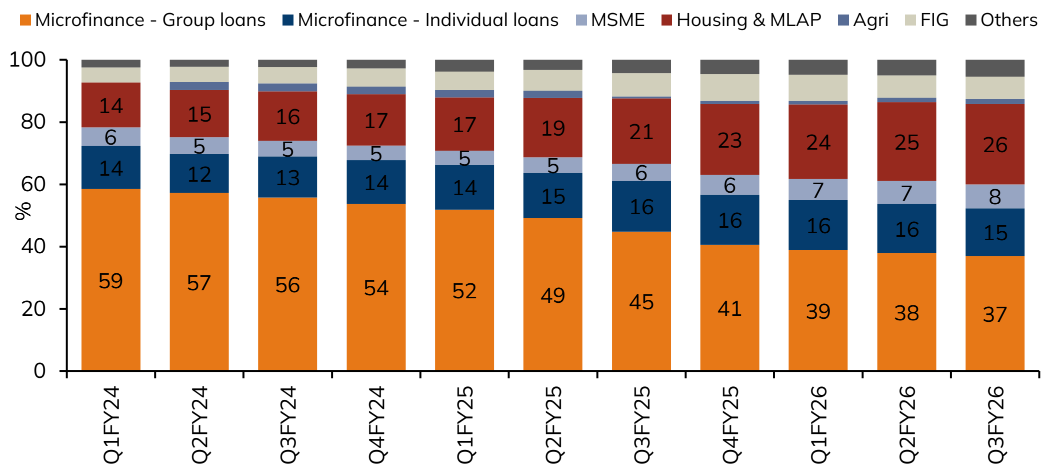
Source: Company data, I-Sec research

Exhibit 4: MFI loans up 4% QoQ as well as YoY



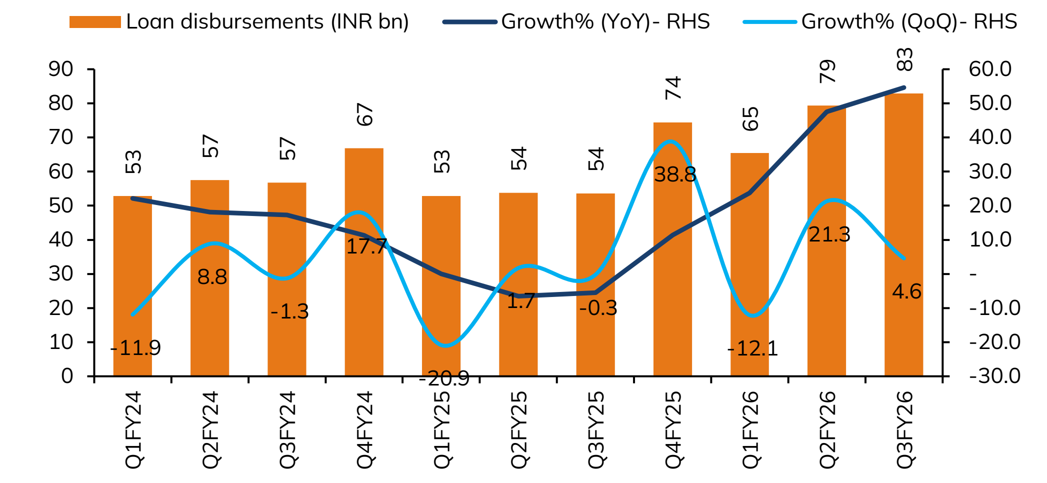
Source: Company data, I-Sec research

Exhibit 5: Share of secured book stands at ~48% now



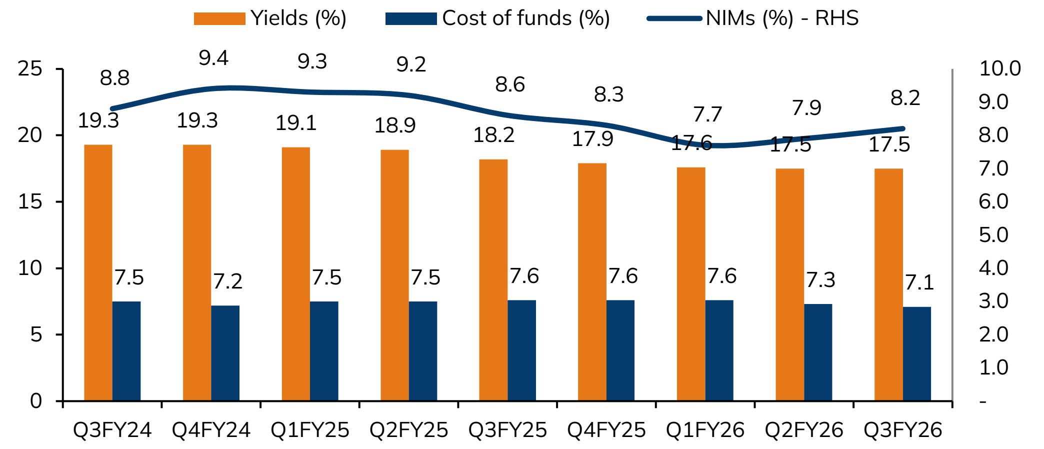
Source: Company data, I-Sec research

Exhibit 6: Disbursements at record high and were broad-based across segments



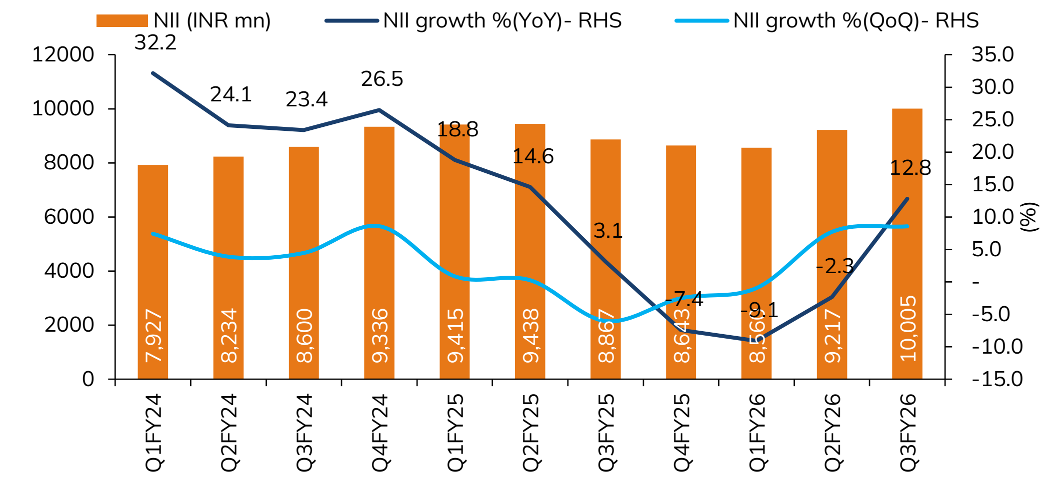
Source: Company data, I-Sec research

Exhibit 7: NIMs improved to 8.2%, up 30bps QoQ aided by reduction in cost of funds



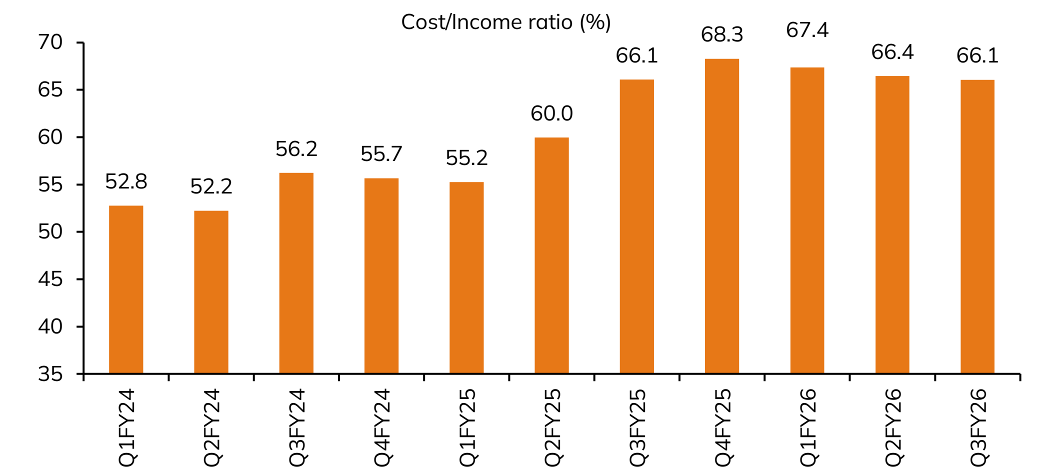
Source: Company data, I-Sec research

Exhibit 8: NII improved QoQ aided by strong growth and higher margins



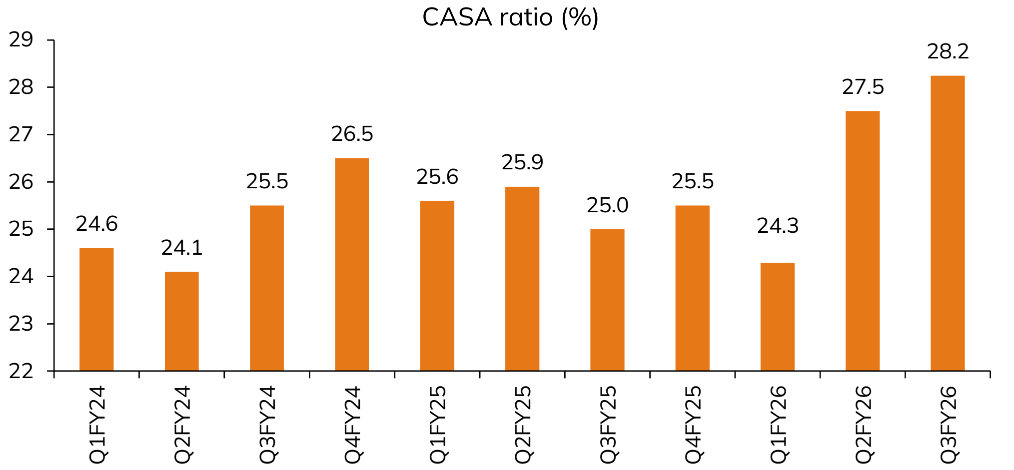
Source: Company data, I-Sec research

Exhibit 9: C/I ratio moderates QoQ, owing to higher income



Source: Company data, I-Sec research

Exhibit 10: CASA ratio crossed 28% and likely to continue its upward trajectory



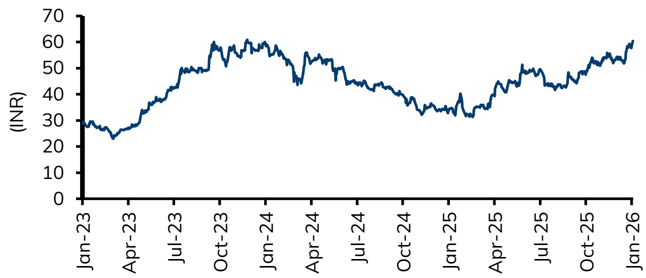
Source: Company data, I-Sec research

Exhibit 11: Shareholding pattern

%	Jun'25	Sep'25	Dec'25
Promoters	0.0	0.0	0.0
Institutional investors	36.4	37.1	44.2
MFs and others	11.0	14.8	23.8
FIs/Banks	3.5	2.8	2.5
Insurance	2.4	2.5	2.4
FIIs	19.6	17.0	15.5
Others	63.6	62.9	55.8

Source: Bloomberg, I-Sec research

Exhibit 12: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Interest income	63,544	69,824	80,140	92,898
Interest expense	(27,181)	(32,097)	(37,501)	(43,581)
Net interest income	**36,363**	**37,727**	**42,639**	**49,317**
Non interest income	8,462	9,518	10,733	12,488
Operating income	**44,825**	**47,246**	**53,372**	**61,804**
Operating expense	(27,932)	(30,802)	(32,101)	(37,077)
- Staff expense	(14,995)	(17,544)	(20,176)	(23,202)
Pre-provisions profit	**16,892**	**16,444**	**21,271**	**24,727**
Core operating profit	**16,892**	**16,444**	**21,271**	**24,727**
Provisions & Contingencies	(7,477)	(7,139)	(7,950)	(9,250)
Pre-tax profit	**9,416**	**9,305**	**13,321**	**15,477**
Tax (current + deferred)	(2,155)	(2,342)	(3,353)	(3,896)
Net Profit	**7,261**	**6,963**	**9,968**	**11,582**
% Growth	**(43.3)**	**(4.1)**	**43.2**	**16.2**

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Capital	19,350	19,350	19,350	19,350
Reserve & surplus	41,484	48,447	58,415	69,996
Deposits	3,76,305	4,41,847	5,19,585	6,11,895
Borrowings	28,454	46,273	41,890	54,044
Other liabilities	11,299	11,864	12,457	13,080
Total equity & liabilities	**4,76,892**	**5,67,781**	**6,51,698**	**7,68,365**
Cash and Bank balance	31,334	36,791	43,264	50,951
Investments	1,17,300	1,37,730	1,61,963	1,90,737
Advances	3,13,900	3,78,445	4,31,153	5,10,808
Fixed assets	4,569	5,026	5,529	6,081
Other assets	9,425	9,425	9,425	9,425
Total assets	**4,76,892**	**5,67,781**	**6,51,698**	**7,68,365**
% Growth	18.0	19.1	14.8	17.9

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY25A	FY26E	FY27E	FY28E
No. of shares and per share data				
No. of shares (mn)	1,935	1,935	1,935	1,935
Adjusted EPS (INR)	3.8	3.6	5.2	6.0
Nominal Book Value per share (INR)	30	34	39	45
Adjusted BVPS (INR)	30	33	39	45
Subs Value per share (INR)	-	-	-	-
Valuation ratio				
PER (x)	16.5	17.2	12.0	10.4
Price/ Nominal Book (x)	2.0	1.8	1.6	1.4
Dividend Yield (%)	-	-	-	-
Profitability ratio				
Yield on advances (%)	**18.2**	**18.0**	**17.8**	**17.7**
Yields on Assets	14.9	13.7	13.5	13.4
Cost of deposits (%)	7.9	7.2	7.2	7.1
Cost of funds	7.3	7.2	7.1	7.1
NIMs (%)	8.5	7.4	7.2	7.1
Cost/Income (%)	62.3	65.2	60.1	60.0
Dupont Analysis (as % of Avg Assets)				
Interest Income	**14.4**	**13.4**	**13.1**	**13.1**
Interest expended	(6.2)	(6.1)	(6.2)	(6.1)
Net Interest Income	8.3	7.2	7.0	6.9
Non-interest income	1.9	1.8	1.8	1.8
Total Income	10.2	9.0	8.8	8.7
Staff costs	**(3.4)**	**(3.4)**	**(3.3)**	**(3.3)**
Non-staff costs	-	-	-	-
Total Cost	(6.3)	(5.9)	(5.3)	(5.2)
PPoP	**3.8**	**3.1**	**3.5**	**3.5**
Non-tax Provisions	**(1.7)**	**(1.4)**	**(1.3)**	**(1.3)**
PBT	2.1	1.8	2.2	2.2
Tax Provisions	**(0.5)**	**(0.4)**	**(0.5)**	**(0.5)**
ROA (%)	1.6	1.3	1.6	1.6
Leverage (x)	**7.5**	**8.1**	**8.4**	**8.5**
ROE (%)	12.4	10.8	13.7	13.9
Asset quality ratios				
Gross NPLs (%)	**2.2**	**2.4**	**2.2**	**2.1**
Net NPLs (%)	0.5	0.3	0.2	0.2
PCR (%)	78.1	88.0	91.2	91.8
Gross Slippages (% of PY loans)	4.2	2.6	2.3	2.1
Net NPLs / Networth (%)	2.5	1.5	1.0	0.9

Source Company data, I-Sec research

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