

Retail Equity Research (South India Focus)

Ujjivan Small Finance Bank Ltd.

Banking/Finance

BSE CODE : 542904

NSE CODE: UJJIVANSFB

BLOOMBERG CODE: UJJIVANS:IN

SENSEX : 36,940

Reduce

12M Investment Period

Rating as per Small Cap

CMP Rs.33

TARGET Rs.29

RETURN -12% ↓

(Closing: 03-08-20)

KEY CHANGES:

TARGET



RATING



EARNINGS



High moratorium & weak asset quality to weigh...

Ujjivan Small Finance Bank, the wholly owned subsidiary of Ujjivan Financial Services Ltd. (USFL) serves over 54.7 lakh customers through 524 branches and 17,370 employees spread across 244 districts of 24 states in India with gross loan book size of Rs.14,366cr. Also, it has about 474 full-service banking outlets with a deposit base of Rs.11,057cr.

- In Q1FY21, Interest income witnessed a growth of 23% annualized driven by 22% YoY increase in advances.
- With close to 77% of the lending to microfinance segment, provisions saw a spike of 45% sequentially with respect to lockdown.
- Collection efficiency improved and as on 30st July stands at 59% indicating bank is planning to get to pre Covid levels.
- For the quarter moratorium still stands at 47% magnifying the risk and going ahead expect better operational performance, but bottom line to hurt by higher provisioning in FY21E & FY22E
- We recommend Reduce rating on the stock with a target price of Rs29 based on 1.3x FY22E Adj. BVPS.

Stable performance with 22% YoY growth in gross advances.

The gross loans and advances have reached Rs14,366cr in the current quarter, registering a growth of 22% on a YoY basis. The micro banking segment which constitute about 78% of the gross loans & advances have registered around 16% YoY growth, while the lower base MSE and affordable housing loans, which constitute around 7% and 11% of the loans mix have grown by 46% and 54% respectively. Lower than the growth witnessed in Q4FY20. The deposit base grew by 39% on a YoY basis to reach Rs11,057cr, which apparently cover around 77% of the total loans and advances compared to 67% in Q1FY20, which will effectively reduce the dependence on borrowings for lending, to bring down the cost of funds. The banks CASA ratio has increased by 380 bps, from 10.39% in Q1FY20 to 14.2% in Q1FY21.

Disbursement lower but collection efficiency improves.

In Q1FY21, Total disbursements fell by 84% to Rs474cr as compared to Rs2,959cr on a YoY basis. Largely driven by lockdown initiated during the pandemic. Up to 95% of the disbursement was to repeat customers while just 5% was fresh. However, during the quarter bank has clearly focused on improving collection efficiency. For the quarter collection efficiency stood at 54% and as on 30th July collection efficiency stands at 59% with significantly better collections from rural areas. On region wise Maharashtra and Assam accounts witnessed lower collection and higher moratorium levels.

Stable asset quality but risk remain upward.

For the quarter ended March 2020, asset quality remained mostly stable with Gross NPA/Net NPA at 1%/0.2% compared to 0.8%/0.3% in Q1FY20. Segment wise Net NPA also remained stable. Provision coverage ratio improved to 82% and the bank has provided Covid related provision of Rs129cr and total provision stood at Rs199cr, that accounts to 1.4% of gross advances. While portfolio at risk slightly contracted to 1.8% compared to 2% sequentially. Given largest portion of portfolio under moratorium asset quality risk can't be ruled out going ahead.

Valuations

Business wise the new management is building a stable franchise as the micro level ending is coming down from 97% in FY17 to 77% in FY20. Segment wise Net NPA also remained stable. Provision coverage ratio improved to 82% and the bank has provided Covid related provision of Rs129cr and total provision stood at Rs199cr, that accounts to 1.4% of gross advances. While portfolio at risk slightly contracted to 1.8% compared to 2% sequentially. Given largest portion of portfolio under moratorium asset quality risk can't be ruled out going ahead.

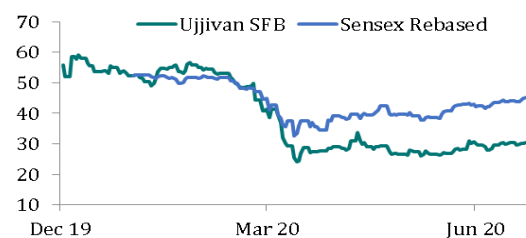
Company Data

Market Cap (cr)	Rs 5,945
Outstanding Shares (cr)	172.8
Free Float	16.7%
Dividend Yield	-
52 week high	Rs 63
52 week low	Rs 23
6m average volume (cr)	0.25
Beta	N.A
Face value	Rs10

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	83.32	83.30	83.32
FPI's	4.77	5.30	5.14
MFs/Institutions	1.72	0.80	3.54
Public	10.19	10.6	8.04
Total	100	100	100

Price Performance	3 Month	6 Month	1 Year
Absolute Return	23.8%	-41.7%	-
Absolute Sensex	17.4%	-10.2%	-
Relative Return*	6.3%	-31.5%	-

*over or under performance to benchmark index



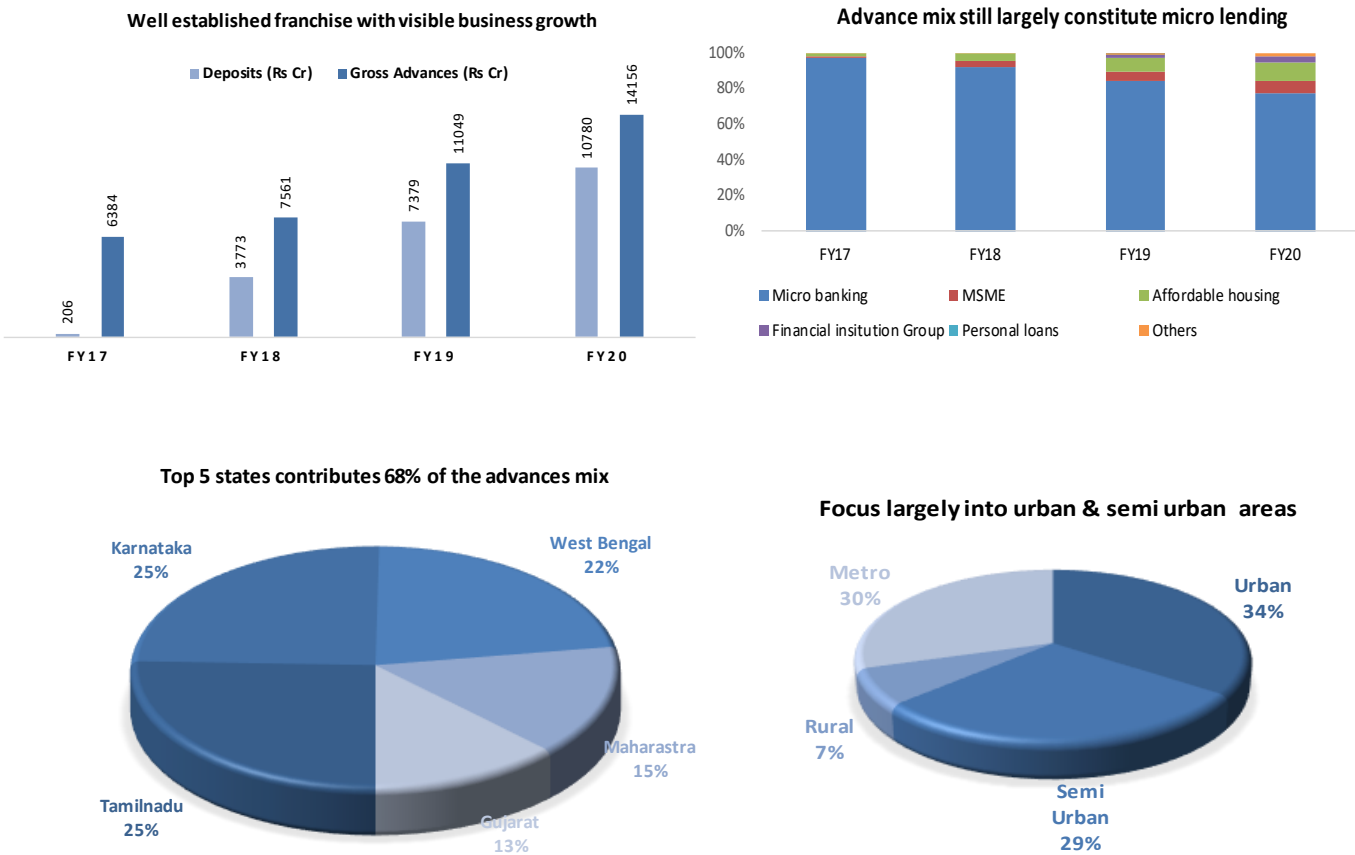
Standalone (cr)	FY20A	FY21E	FY22E
NII	2,704	2,867	3,094
Growth(%)	47.6	6.0	7.9
NIM(%)	11.22	11.22	11.80
Provisions	171	473	511
Adj. PAT	350	408	390
Growth(%)	75	17	-4
Adj. EPS	2.0	2.4	2.3
Growth(%)	43	18	-4
BVPS	18	21	23
Adj BVPS	18	20	22
P/E	19.5	16.5	17.3
P/B	1.86	1.65	1.48
Adj. P/B	1.89	1.73	1.53
ROE (%)	14.04	12.11	10.35

 Rajin Rajan P
 Research Analyst

Quarterly Financials (Standalone)

(Rs Cr)	Q1FY21	Q4FY20	QoQ Growth (%)	Q1FY20	YoY Growth (%)
Interest Income	746	737	1	605	23
Interest Expense	288	271	6	253	14
Net Interest Income (NII)	458	467	(2)	352	30
Fee and Other Income	29	72	(60)	100	(71)
Total Income	487	539	(10)	453	8
Expenditure	272	348	(22)	291	(7)
Pre-Provision Profit	215	191	13	161	33
Provision	140	97	45	19	647
PBT	74	94	(21)	142	(48)
Tax	20	21	(4)	48	(59)
Reported PAT	55	73	(25)	94	(42)
Adjustment	-	-	-	-	-
Adj. PAT	55	73	(25)	94	(42)
Diluted EPS (Rs)	0.3	0.42	(24)	0.66	(52)

Key metrics



Source: Company, Geojit Research.

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	1,468	1,832	2,704	2,867	3,094
Interest Expense	607	725	1,070	800	902
Net Int. Income	861	1,106	1,634	2,067	2,192
Change %		28.5	47.6	26.5	6.0
Non Int. Income	111	206	322	287	309
Total Income	972	1,312	1,956	2,354	2,502
Operating Expenses	653	1,003	1,319	1,356	1,464
Pre Prov. Profit	320	309	637	998	1,038
Change %	-	(3.3)	106.2	56.6	4.0
Prov. & Conting.	311	41	171	473	511
PBT	9	268	466	525	527
Change %	-	2932.6	73.7	12.6	0.5
Tax	2	69	116	117	137
Tax Rate (%)	22	26	25	22	26
Reported PAT	7	199	350	408	390
Adj*	0	0	0	0	0
Adj. PAT	7	199	350	408	390
Change %	-	2802.3	75.5	16.6	(4.4)
No. of shares (Cr)	144.0	144.0	173.0	173.0	173.0
EPS (Rs)	0.0	1.4	2.0	2.4	2.3
Change %		-	42.9	18.0	(4.4)
DPS (Rs)	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	495	1,094	1,343	2,156	2,497
Loans & Advances	7,336	10,552	14,044	15,309	16,609
Investments	1,232	1,527	2,396	2,492	2,567
Gross Fixed Assets	172	267	300	334	368
Net Fixed Assets	194	282	300	334	368
CWIP	4	2	0	0	0
Other Assets	211	284	328	374	300
Def. Tax (Net)	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Assets	9,473	13,742	18,411	20,670	22,345
Deposits	3,773	7,379	10,780	11,705	12,699
Debt Funds	3,853	4,166	3,953	4,312	4,846
Other Liabilities & Provisions	201	377	511	1,078	835
Capital	1,640	1,640	1,928	1,928	1,928
Reserves & Surplus	7	180	1,238	1,646	2,037
Shareholder's Funds	1,647	1,820	3,166	3,574	3,965
Total Liabilities	9,473	13,742	18,411	20,670	22,345
BVPS (Rs)	11	13	18	21	23
Change %	-	0.1	0.4	0.1	0.1
Adj. BVPS (Rs)	11	12	18	20	22
Change %	-	12	45	9	13

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
Interest yield (%)	17.7	17.1	18.6	16.6	16.6
Cost of funds (%)	8.6	7.6	8.1	5.2	5.4
Spread(%)	9.1	9.6	10.4	11.4	11.3
NIM (%)	10.4	10.4	11.2	12.0	11.8
ROE (%)	0.4	11.5	14.0	12.1	10.4
ROA(%)	0.1	1.7	2.2	2.1	1.8
Business Growth					
Loans & Advances (%)	18.4	46.1	28.1	8.8	8.5
Borrowings (%)	-38.8	8.1	-5.1	9.1	12.4
Operating Ratios					
Cost to Income (%)	67.1	76.5	67.4	57.6	58.5
Capital Adequacy					
CAR (%)	23.0	18.9	26.9	27.2	27.8
Asset Quality					
GNPA (%)	0.9	0.9	1.1	3.9	2.6
NNPA (%)	0.7	0.2	0.3	1.2	0.8
Valuation					
P/E (x)	-	24.3	17.0	14.4	15.1
P/B (x)	3.0	2.7	1.9	1.6	1.5
Adj. P/B (x)	3.1	2.7	1.9	1.7	1.5

Recommendation Summary (Since listing)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
04 August 2020	Reduce	29

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated		-	

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.

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