

## Equity Research

August 22, 2021

BSE Sensex: 55329

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**Company update and reco change**

## FINANCIALS

**Target price: Rs20**

**Target price revision**

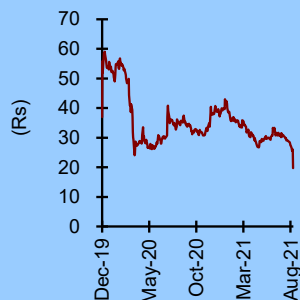
Rs20 from Rs31

## Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	83.3	83.3	83.3
Institutional investors	9.4	7.5	6.2
MFs and others	1.1	0.7	0.7
FIs/Banks	0.0	0.0	0.0
FII	8.3	6.8	6.2
Others	7.3	9.2	10.5

Source: BSE

## Price chart



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**INDIA**



## Ujjivan Small Finance Bank

**HOLD**

**Downgrade from Add**

**Top management change and lumpy provisioning concern to weigh on valuation in near term**

**Rs20**

Ujjivan Small Finance Bank (Ujjivan SFB) hosted analysts call on August 20, 2021 led by Mr. Samit Ghosh and Mr. Sunil Patel to address the concern regarding higher attritions at senior management and Board level in the recent past, followed by the latest resignation of its MD and CEO – Nitin Chugh on August 18, 2021. Mr. Samit Ghosh (founder) was appointed as Additional Director on Ujjivan SFB's Board w.e.f. August 20, 2021 along with 3 other newly appointed Board members. While admitting concern around asset quality and intent to clean the balance sheet in Q2FY22e, the Board assured continuity of strategic business initiatives under the new leadership. Immediate focus of the Board would be i) to manage and improve the asset quality with upfront provisioning if required and strengthen collection team, ii) rebuild senior management team, iii) ensure smooth transition of the bank under the new leadership and iv) prepare roadmap to ensure timely reverse merger process of holdco and the bank. Considering the likely lumpy provisioning in Q2FY22e and the uncertainty over the appointment of new MD & CEO, we downgrade the stock to HOLD (earlier Add) with revised TP of Rs20 (earlier Rs31) as we now value the stock at 1x FY23e PBV vs 1.5x earlier.

- **Board to conduct asset quality review and initiate corrective measure to strengthen balance sheet by Q2FY22e.** Board admits that managing the asset quality in current environment along with change in guard is going to be the key challenge. Nevertheless, it sounded confident about sailing through smoothly given highly experience Board and appointment of special officer (Ms. Carol Furtado – prime candidate given her stint with the Ujjivan group for over 15 years) for better coordination between Board and business teams. Immediate focus would be on strengthening the collection team and upfront stress recognition with adequate provisioning in Q2FY22e. Post that, it intends to achieve business normalcy by Q4FY22e.
- **Top priorities of Board.** To ensure smooth transition and continue business as usual, the Board of holding company (promoter of SFB) and Ujjivan SFB has focused on bringing in personnel from holdco to SFB for better coordination between Board and business teams. To strengthen SFB's Board, due to few resignations in the past couple of quarters, it appointed two independent directors along with two non-independent directors. The top priorities of newly restructured Board are managing and improving the asset quality and rebuilding & stabilising senior management team. The immediate focus would be on bringing back old employees and retaining good talent. Secondly, to ensure the smooth transition of the bank (with Nitin Chugh resignation), it appointed the special officer on duty (and interim CEO after September 30, 2021) till the appointment of new CEO and MD, which may take 3-4 months from now. The Board is currently contemplating all available options i.e. internal or external candidate.

Market Cap	Rs34bn/US\$457mn
Bloomberg	UJJIVANS IN
Shares Outstanding (mn)	1,728.3
52-week Range (Rs)	43/20
Free Float (%)	16.7
FII (%)	6.2
Daily Volume (US\$/'000)	2,105
Absolute Return 3m (%)	(34.2)
Absolute Return 12m (%)	(44.6)
Sensex Return 3m (%)	12.3
Sensex Return 12m (%)	46.3

Year to March	2020	2021	2022E	2023E
NII (Rs mn)	16,336	17,286	19,212	22,338
Net Profit (Rs mn)	3,499	83	825	4,338
EPS (Rs)	2.0	0.0	0.5	2.5
% Chg YoY	66.7	-97.6	894.3	425.7
P/E (x)	14.3	603.9	60.7	11.6
P/BV (x)	1.7	1.7	1.6	1.4
Net NPA (%)	0.2	2.9	3.3	0.8
Dividend Yield (%)	-	-	-	-
RoA (%)	2.2	0.0	0.4	1.8
RoE (%)	14.0	0.3	2.5	12.3

Please refer to important disclosures at the end of this report

- ▶ **Assurance to continue journey of becoming “digital led mass market bank”.** The new Board clearly highlighted that it will continue to pursue the same strategy of becoming “digital led mass market bank”.
- ▶ **Appointment of special officer to ensure smooth transitioning.** The Board appointed special duty officer to ensure smooth transition under new leadership, triggered by current MD & CEO Mr. Nitin Chugh stepping down as MD and CEO (w.e.f. September 30, 2021). The special duty officer will also resume role as interim CEO from October 1, 2021 till the appointment of new CEO (which is expected to take 3-4 months). Ms. Carol Furtado, being engaged with the Ujjivan group for more than 15 years, is one of the prime candidates for the said position based on her experience in – A) managing the previous MFI crisis for Ujjivan group and B) having the good ground and people connect due to handling of head of Human Resources division at Ujjivan.
- ▶ **Key risks.** Upside risk – lower than anticipated provisions in Q2FY22, and downside risk - delay in appointment of MD and CEO could impact transition process and execution of the bank.

**Table 1: Ujjivan's Board structure, Board members and changes since Jan'21**

Ujjivan SFB	Annual Report 2020	Q4FY21	Q1FY22	Board member changes since January 1, 2021
Part-time Chairman and Independent Director	Biswamohan Mahapatra			Resigned on February 19, 2021
MD & CEO	Nitin Chugh	Nitin Chugh	Nitin Chugh	Resigned on August 18, 2021
Non-Executive Director	Mona Kachhwala	Mona Kachhwala	Mona Kachhwala	Resigned on August 9, 2021
Non-Executive Director	Jayanta Kumar Basu			Resigned on January 20, 2021
Non-Executive Nominee Director	Chitra Karthik Alai	Chitra Karthik Alai	Chitra Karthik Alai	
Independent Director	Prabal Kumar Sen	Prabal Kumar Sen	Prabal Kumar Sen	
Independent Director	Nandlal Laxminarayan Sarda	Nandlal Laxminarayan Sarda		Retired as on July 26, 2021
Independent Director	Mahadev Laxminarayanan	Mahadev Laxminarayanan		Resigned on June 18, 2021
Independent Director	Vandana Viswanathan			
Independent Director		Umang Bedi	Umang Bedi	
Additional Director (Independent)	Umang Bedi			
Additional Director (Independent)		Umesh Bellur	Umesh Bellur	Appointed on March 13, 2021
Additional Director (Independent)		Rajni Mishra	Rajni Mishra	
Additional Director (Independent)		Harish Devarajan	Harish Devarajan	Appointed on March 13, 2021 and Resigned on August 12, 2021
Additional Director (Non-Executive, Non-Independent)		Ittira Davis		Appointed on March 13, 2021 and Resigned on May 20, 2021
Additional Director (Non-Executive, Non-Independent)		Rajesh Kumar Jogi	Rajesh Kumar Jogi	Appointed on March 13, 2021

Source: Company data, I-Sec research

**Table 2: Strengthening of Board by appointing four new members w.e.f. August 20, 2021**

Appointment of Directors on August 20, 2021 to the date of ensuing AGM of the Bank	
Additional Director (Independent)	Mr. Banavar Prabhakar
Additional Director (Independent)	Mr. Ravichandran Venkatraman
Additional Director (Non-Executive, Non-Independent)	Mr. Samit Ghosh
Additional Director (Non-Executive, Non-Independent)	Ms. Sudha Suresh

Source: Company data, I-Sec research

**Table 3: Top management attrition since SFB formation**

Key Role - Reporting directly to CEO	FY18	FY19	FY20	FY21	As of Aug'21	Comments
MD & CEO	Samit Ghosh	Samit Ghosh	Nitin Chugh	Nitin Chugh	Nitin Chugh	2 change
CFO	Upma Goel	Upma Goel	Upma Goel	Upma Goel	Upma Goel	1 change
CS & Compliance Officer	Chanchal Kumar	Chanchal Kumar	Chanchal Kumar	Chanchal Kumar	Chanchal Kumar	No change
Chief Compliance Officer	Brijesh Cherian	Brijesh Cherian	Brijesh Cherian	Brijesh Cherian	Brijesh Cherian	No change
Chief Marketing Officer	Vijay Balakrishnan	Laxman V	Laxman V	Laxman V	Laxman V	1 change
Head of Channels	Jolly Zachariah	Jolly Zachariah	Jolly Zachariah	Jolly Zachariah	No Position	-
Head of Customer Experience	No Position				Jolly Zachariah	Position Created
COO	Ittira Davis	Jaya Janardan	Jaya Janardan	No Position	No Position	1 change
IT Head / Chief Technology Officer	Balaji Parthasarathi	Balaji Parthasarathi		Venkat Krishnan V	Venkat Krishnan V	1 change
Chief Credit Officer			Kalyanaraman M	Ashish Goel	Ashish Goel	1 change
Head of Operations & Service Quality	Martin P S	Martin P S	Martin P S	No Position	No Position	-
Head of Operations	No Position			Martin P S	Martin P S	Position Created
Head - HR	Carol Furtado	Carol Furtado	Sanjay Kao	Sanjay Kao	Sanjay Kao	Internal change
Chief Business Officer	Sanjay Kao	Sanjay Kao		No Position	No Position	-
Chief Risk Officer	Arunava Banerjee	Arunava Banerjee	Arunava Banerjee	Arunava Banerjee	Arunava Banerjee	No change
Head - Treasury	Subramanian Ravi	Subramanian Ravi	Rajeev Pawar	Rajeev Pawar	Rajeev Pawar	1 change
Head - Digital Banking	No Position			Dheemant Thacker	Dheemant Thacker	Position Created
Head - Liabilities / Branch Banking / 3rd party / TASC	Manish Kumar Raj	Manish Kumar Raj	Manish Kumar Raj	Srinivas Murty	Srinivas Murty	1 change
Head - New Business Initiatives & Data Analytics	Rajat Singh	No Position				-
Business Head - Personal Loan	Alagarsamy A P	Alagarsamy A P	Alagarsamy A P	Manish Kumar Raj	Pradeep Kumar	2 changes
Business Head - MSE	Vasant Srivastava	Vasant Srivastava	Vasant Srivastava	Rajiv Pathak	Rajiv Pathak	1 change
Head - 3rd Party Products & TASC	Santhosh Kumar G	Merged with Liabilities				-
Head - Audit	Alagarsamy A P	Alok Chawla	Alok Chawla	Alok Chawla	Alok Chawla	1 change
Business head Micro & Rural Banking	Abhiroop Chaterjee	Rajat Kumaar Singh	Rajat Kumaar Singh	Rajat Kumaar Singh	No Position	1 change
Business Head - Micro Banking	No Position				Vibhas Chandra	Position Created
Business Head - Vehicle Finance	No Position	Abhiroop Chaterjee	Abhiroop Chaterjee	Abhiroop Chaterjee	Hirak Joshi	1 change
Business Head - Housing	Abhay Kataria	Abhay Kataria	Abhay Kataria	Abhay Kataria	Abhay Kataria	No change
Head of Admin & Infra	Premkumar G	Premkumar G	Premkumar G	Premkumar G	Premkumar G	No change
Head of Credit & Collections - MFI	Sneh Thakur	Sneh Thakur	Sneh Thakur	Sneh Thakur	No Position	-
Chief Vigilance Officer	No Position			Parmeet Singh Grover	Parmeet Singh Grover	Position Created

Source: Company data, I-Sec research

Note: 1) Rajeev Pathak (Head of MSE) is also the head of Rural Banking from August'21

2) Nitin Chugh (MD and CEO) resigned on August 18, 2021

3) Upma Goel (CFO) resigned on July 8, 2021

## Financial summary

**Table 4: Profit and loss statement**

(Rs mn, year ending March 31)

	FY19	FY20	FY21	FY22E	FY23E
Interest earned	18,316	27,036	28,061	30,993	35,580
Interest expended	7,252	10,700	10,775	11,782	13,241
<b>Net interest income</b>	<b>11,064</b>	<b>16,336</b>	<b>17,286</b>	<b>19,212</b>	<b>22,338</b>
<b>Other income</b>	<b>2,060</b>	<b>3,222</b>	<b>3,108</b>	<b>3,202</b>	<b>3,730</b>
Staff cost	5,188	7,185	7,488	7,862	9,435
Other operating expenses	4,846	6,001	4,813	5,443	6,174
<b>Total operating cost</b>	<b>10,034</b>	<b>13,186</b>	<b>12,301</b>	<b>13,306</b>	<b>15,608</b>
<b>Pre-provisioning op profit</b>	<b>3,090</b>	<b>6,372</b>	<b>8,093</b>	<b>9,109</b>	<b>10,460</b>
Provisions & contingencies	406	1,710	7,991	8,006	4,663
<b>Profit before tax &amp; exceptional items</b>	<b>2,684</b>	<b>4,662</b>	<b>102</b>	<b>1,103</b>	<b>5,797</b>
Exceptional items					
<b>Profit before tax &amp; exceptional items</b>	<b>2,684</b>	<b>4,662</b>	<b>102</b>	<b>1,103</b>	<b>5,797</b>
Income taxes	692	1,163	19	278	1,459
<b>PAT</b>	<b>1,992</b>	<b>3,499</b>	<b>83</b>	<b>825</b>	<b>4,338</b>

Source: Company data, I-Sec research

**Table 5: Balance sheet**

(Rs mn, year ending March 31)

	FY19	FY20	FY21	FY22E	FY23E
Capital	16,400	19,282	19,283	19,283	19,283
Reserves & surplus	1,796	12,595	12,904	13,730	18,068
<b>Networth</b>	<b>18,196</b>	<b>31,877</b>	<b>32,187</b>	<b>33,013</b>	<b>37,351</b>
<b>Total borrowings</b>	<b>41,661</b>	<b>39,533</b>	<b>32,473</b>	<b>30,278</b>	<b>35,589</b>
<b>Term Deposits &amp; CASA</b>	<b>73,794</b>	<b>1,07,805</b>	<b>1,31,358</b>	<b>1,53,534</b>	<b>1,81,041</b>
Provisions	1,335	-	-	-	-
Other Liabilities	2,436	4,898	7,786	9,343	11,212
<b>Total liabilities &amp; stockholders' equity</b>	<b>1,37,422</b>	<b>1,84,112</b>	<b>2,03,805</b>	<b>2,26,168</b>	<b>2,65,193</b>
<b>Loans &amp; advances</b>	<b>1,05,525</b>	<b>1,40,436</b>	<b>1,44,940</b>	<b>1,68,831</b>	<b>2,04,176</b>
Investments	15,266	23,961	25,165	35,313	38,924
Cash and Balance	10,945	13,433	25,775	13,818	13,578
Fixed Assets	2,844	3,005	2,807	3,088	3,397
Current & other assets	2,842	3,277	5,118	5,118	5,118
<b>Total Assets</b>	<b>1,37,422</b>	<b>1,84,112</b>	<b>2,03,805</b>	<b>2,26,168</b>	<b>2,65,193</b>

Source: Company data, I-Sec research

**Table 6: Key ratios***(Year ending March 31)*

	FY19	FY20	FY21	FY22E	FY23E
<b>Growth (%)</b>					
<b>AUM</b>	<b>46.2</b>	<b>28.1</b>	<b>7.0</b>	<b>11.5</b>	<b>20.9</b>
Loan book (on balance sheet)	40.5	33.2	7.0	11.5	20.9
Total Assets	45.1	34.0	10.7	11.0	17.3
Total Deposits	95.6	46.1	21.8	16.9	17.9
Total NDTL	51.4	27.6	11.2	12.2	17.9
Total Investments	23.9	57.0	5.0	40.3	10.2
Interest Income	24.8	47.6	3.8	10.5	14.8
Interest Expenses	19.5	47.5	0.7	9.3	12.4
<b>Net Interest Income (NII)</b>	<b>28.5</b>	<b>47.6</b>	<b>5.8</b>	<b>11.1</b>	<b>16.3</b>
Non-interest income	84.8	56.4	-3.5	3.0	16.5
Net Income	34.9	49.0	4.3	9.9	16.3
Total Non-Interest Expenses	53.7	31.4	-6.7	8.2	17.3
Pre provisioning operating profits (PPoP)	-3.3	106.2	27.0	12.5	14.8
<b>PAT</b>	<b>2803.3</b>	<b>75.6</b>	<b>-97.6</b>	<b>894.3</b>	<b>425.7</b>
EPS	2803.3	75.6	-97.6	894.3	425.7
CA		183.9	93.5	40.0	40.0
SA		75.0	83.3	40.0	40.0
Time deposits		41.3	12.0	10.9	10.7
<b>Yields, interest costs and spreads (%)</b>					
NIM on AUM	10.4	10.8	9.5	9.5	9.4
Yield on loan assets	18.6	20.3	17.8	17.8	17.5
Average cost of funds	7.6	8.1	6.9	6.8	6.6
Interest Spread on loan assets	11.0	12.1	10.8	11.0	10.9
<b>Operating efficiencies</b>					
Non-interest income as % of net income	15.7	16.5	15.2	14.3	14.3
Cost to income ratio (%)	76.5	67.4	60.3	59.4	59.9
Op.costs/avg AUM (%)	8.6	8.2	6.3	6.2	6.4
No of employees	14,752	17,841	16,571	19,057	21,915
Average annual salary (Rs '000)	351.7	402.7	451.9	412.6	430.5
Salaries as % of non-int.costs (%)	9.7	14.5	12.2	-8.7	4.3
AUM/employee(Rs mn)	7.5	7.9	9.1	8.9	9.3
Number of asset branches	524.0	575.0	575.0	625.0	675.0
AUM/asset branch(Rs mn)	210.9	246.1	263.3	270.1	302.5
<b>Balance Sheet Structure</b>					
Loans/ deposits (%)	143.0	130.3	110.3	110.0	112.8
Loans/ Total assets	76.8	76.3	71.1	74.6	77.0
Loans/NDTL	91.4	95.3	88.5	91.8	94.3
CA% of NDTL	0.7	1.6	2.7	3.4	4.0
SA% of NDTL	6.1	8.4	13.8	17.2	20.4
CASA% of NDTL	6.8	9.9	16.5	20.6	24.4
Total deposits as % of NDTL	63.9	73.2	80.2	83.5	83.6
<b>Capital Structure</b>					
Leverage (x)	7.6	5.8	6.3	6.9	7.1
CAR (%)	18.9	28.8	26.4	24.3	24.0
Tier 1 CAR (%)	18.4	28.0	25.1	23.1	23.0
Tier 2 CAR (%)	0.6	0.8	1.4	1.2	1.0
Tier 1 Capital (Rs mn)	16,530	30,180	28,630	31,362	35,483
Tier 2 Capital (Rs mn)	500	870	1,570	1,570	1,570
RWA (Rs mn)	89,900	1,07,750	1,14,200	1,35,684	1,54,299
<b>Asset quality and provisioning</b>					
GNPA (%)	0.9	1.0	7.1	9.4	4.8
NNPA (%)	0.3	0.2	2.9	3.3	0.8
GNPA (Rs mn)	979	1371	10689	14985	8877
NNPA (Rs mn)	275	275	4286	5251	1407
Coverage ratio (%)	71.8	80.0	59.9	65.0	84.1
Credit costs as % of average AUM	0.4	1.4	5.5	5.0	2.5
<b>Return ratios</b>					
RoAA (%)	1.7	2.2	0.0	0.4	1.8
RoAE (%)	11.5	14.0	0.3	2.5	12.3

	FY19	FY20	FY21	FY22E	FY23E
<b>Valuation Ratios</b>					
EPS (Rs)	1.2	2.0	0.0	0.5	2.5
EPS fully diluted (Rs)	1.2	2.0	0.0	0.5	2.5
Price to Earnings	23.9	14.3	603.9	60.7	11.6
Price to Earnings (fully diluted)	23.9	14.3	603.9	60.7	11.6
Book Value (fully diluted)	11	17.3	17.5	17.9	20.5
Adjusted book value (fully diluted)	11	17	15	15	20
Price to Book	2.6	1.7	1.7	1.6	1.4
Price to Adjusted Book	2.7	1.7	1.9	1.9	1.5
DPS	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-

Source: Company data, I-Sec research

**Table 7: DuPont analysis**

	FY19	FY20	FY21	FY22E	FY23E
Interest earned	15.8	16.8	14.5	14.4	14.5
Interest expended	6.2	6.7	5.6	5.5	5.4
<b>Gross Interest Spread</b>	<b>9.5</b>	<b>10.2</b>	<b>8.9</b>	<b>8.9</b>	<b>9.1</b>
Credit cost	0.3	1.1	4.1	3.7	1.9
<b>Net Interest Spread</b>	<b>9.2</b>	<b>9.1</b>	<b>4.8</b>	<b>5.2</b>	<b>7.2</b>
Operating cost	8.6	8.2	6.3	6.2	6.4
<b>Lending spread</b>	<b>0.5</b>	<b>0.9</b>	<b>-1.5</b>	<b>-1.0</b>	<b>0.8</b>
Non-interest income	1.8	2.0	1.6	1.5	1.5
<b>Operating spread</b>	<b>2.3</b>	<b>2.9</b>	<b>0.1</b>	<b>0.5</b>	<b>2.4</b>
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Final Spread</b>	<b>2.3</b>	<b>2.9</b>	<b>0.1</b>	<b>0.5</b>	<b>2.4</b>
Tax rate (%)	0.6	0.7	0.0	0.1	0.6
<b>ROAAUM</b>	<b>1.7</b>	<b>2.2</b>	<b>0.0</b>	<b>0.4</b>	<b>1.8</b>
Effective leverage (AAUM/ AE)	6.7	6.4	6.1	6.6	7.0
<b>RoAE</b>	<b>11.5</b>	<b>14.0</b>	<b>0.3</b>	<b>2.5</b>	<b>12.3</b>

Source: Company data, I-Sec research

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