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Q1FY22 result review
and target price change

FINANCIALS

Target price Rs31

Target price revision

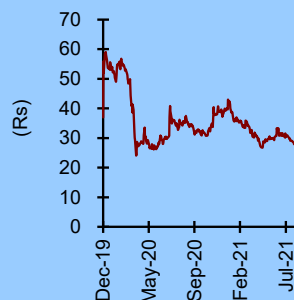
Rs31 from Rs35

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



Research Analysts:

Renish Bhuvu

renish.bhuvu@icicisecurities.com
+91 22 6637 7465

Kunal Shah

kunal.shah@icicisecurities.com
+91 22 6637 7572

Chintan Shah

chintan.shah@icicisecurities.com
+91 22 6637 7658

Piyush Kherdikar

piyush.kherdikar@icicisecurities.com
+91 22 6637 7465

INDIA

ICICI Securities

Ujjivan Small Finance Bank

ADD

Maintain

Incremental stressed asset formation remained elevated; collections in July improved sharply

Rs28

Ujjivan Small Finance Bank (Ujjivan) reported net loss of Rs2.3bn largely due to accelerated provision of Rs4.7bn, including creation of Rs2.5bn floating provision to absorb near-term stress. However, the same is utilised while arriving at NNPL of 2.7% as at Jun'21. Considering partial or full income loss of its customer base during covid second wave, the bank expects incremental restructuring of ~7-8% by Sep'21. Current restructured pool stands at 5.5% of advances with collection efficiency at 50% as at Jun'21. With gradual opening up of the economy, collections improved sharply to 93% in Jul'21 from 78% in Jun'21 across product categories. Ujjivan's journey towards building secured assets (30% of loans) and granular liability franchise (retail deposit share at 48%) is progressing well. Near-term asset quality concerns persist given lack of provision buffer and PAR-0 at 25%. However, incremental focus on secured assets and encouraging trend in collections, reinforces our view that the higher stressed asset formation is transitory in nature and Ujjivan would deliver normalised RoA by FY23E. Maintain ADD with revised TP of Rs31 (earlier: Rs35).

- **Stressed asset formation remained elevated.** Ujjivan's GNPL increased to 9.8% (NPL in MFI at >11%) vs 7% in Q4FY21 despite it writing off Rs2.8bn (2% of loans), while NNPL fell to 2.7% due to accelerated provision of Rs2.5bn. While the bank restructured only Rs0.7bn under 2.0, pipeline remains elevated at ~7-8% of loans. Collections in restructured portfolio under 1.0 (~5.5% of loans) remained at 50% as at Jun'21. PAR-0 too remains stretched at 31% as at Jun'21. However, with gradual opening up of the economy, collections improved sharply to 93% in Jul'21 from 78% in Jun'21. Notably, states having significantly lower collections in Jun'21 also reported strong recovery in Jul'21, e.g. collections in Kerala improved to 86% in Jul'21 (39% in Jun'21), Tamil Nadu 94% (60%), Karnataka 102% (66%), West Bengal 90% (74%). Management did not give any guidance on credit cost for FY22.
- **Progression towards building secured assets and granular liability franchise is encouraging.** While disbursements during Q1FY22 fell sharply by 69% QoQ, it continued to tilt towards secured assets as reflected in ~75% drop in MFI-related disbursements. As a result, AUM fell 7% QoQ, but share of secured assets increased to 30% as at Jun'21 from 27% in Mar'21. Going forward, Ujjivan will continue to focus on scaling up affordable home loans, gold loans, vehicle loans and MSME loans. Deposits grew 4% QoQ to Rs137bn with CASA ratio at 20% and share of retail at 48%. Its concentrated efforts to improve average balances by offering value-added products have started yielding positive results as reflected in average SA balance at Rs18k vs Rs15k in Q4FY21. Further, average balance of incremental SA customers in Q1FY22 stands at much higher level of Rs42k vs Rs21k in Q4FY21. Ujjivan is also tying up with fintechs to expand customer acquisition channels and focuses on scaling up products like personal loans and credit cards to improve customer engagement and cross-sells.

Market Cap	Rs47.3bn/US\$637mn
Bloomberg	UJJIVANS IN
Shares Outstanding (mn)	1,728.3
52-week Range (Rs)	43/27
Free Float (%)	16.7
FII (%)	6.2
Daily Volume (US\$/000)	2,099
Absolute Return 3m (%)	(6.2)
Absolute Return 12m (%)	(18.6)
Sensex Return 3m (%)	11.6
Sensex Return 12m (%)	44.3

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
BVPS (Rs)	17.3	17.5	17.9	20.5
Net NPA (%)	0.2	2.9	3.3	0.8
RoA (%)	2.2	0.0	0.4	1.8
RoE (%)	14.0	0.3	2.5	12.3

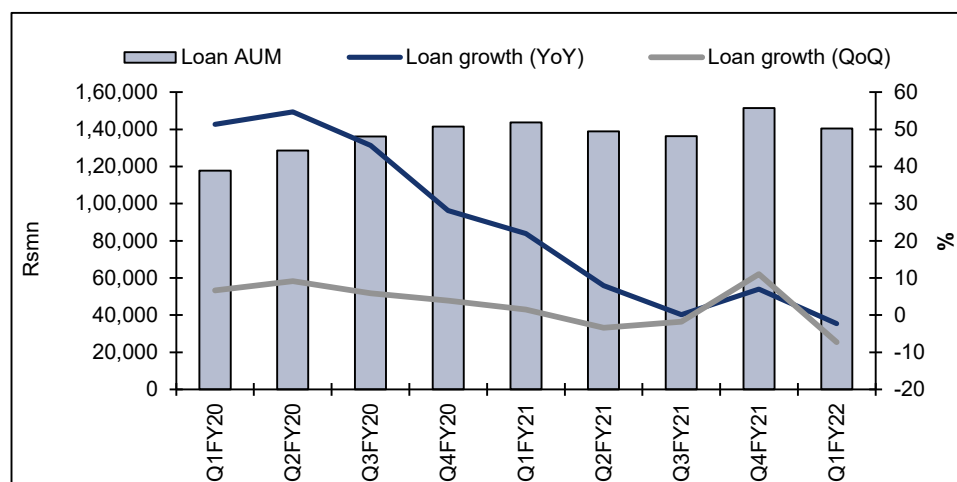
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- **Digital journey leapfrogging.** Ujjivan's digital capabilities and faster adoption reflects in >4x YoY growth in active UPI customers, 3.2x YoY growth in active net banking users, and 1.5x YoY growth in POS transaction value. Further, in SFB space, Ujjivan SFB ranked no. 1 in terms of transactions volume in Mar'21 with 45-50% market share. It completely automated 16 business vertical processes of which 2 are completely unattended (RTGS, NEFT Recon) and is systematically moving to scorecard-based underwriting across all products. It had collaborated with 6 fintechs – 3 for loan repayments and 3 for digital lending under personal loan and MSE categories.
- **Earnings impacted by accelerated provision.** Ujjivan reported net loss of Rs2.3bn due to accelerated provision at Rs4.7bn and 36% QoQ drop in other income. However, NII remained strong at 4% QoQ despite 7% QoQ drop in AUM. Total operating costs fell 9% QoQ with other operating costs down 16% QoQ and staff costs down by a marginal 3% QoQ. Cost-income ratio stood at 64.6%. Cost of CASA increased sharply to 5% in Q1FY22 vs 4.2% in Mar'21.
- **Key risk –** A) higher slippages from restructured portfolio and B) delay in loan growth revival.

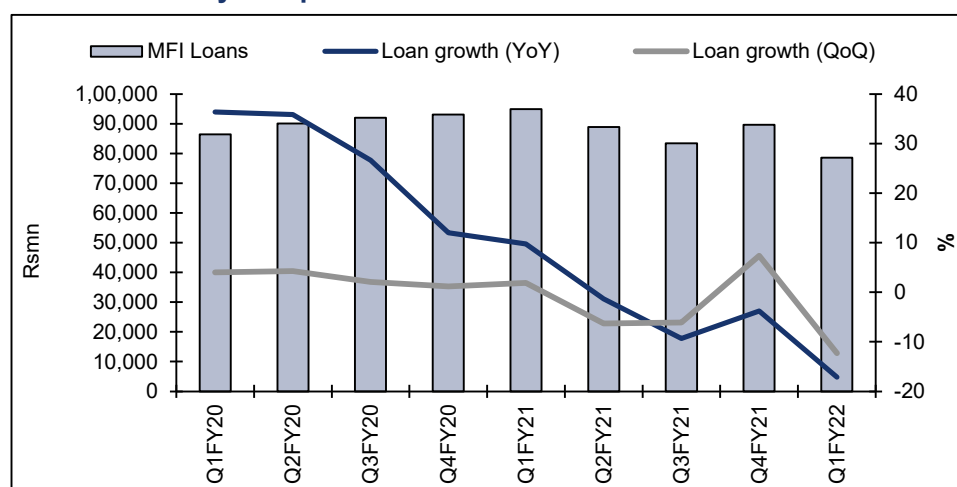
Table 1: Q1FY22 result review*(Rs mn, year ending March 31)*

	Q1FY22	Q1FY21	% change YoY	Q4FY21	% change QoQ
Interest Income	6,417	7,463	-14.0	6,179	3.9
Interest Expended	2,573	2,883	-10.8	2,497	3.0
Net interest income (NII)	3,844	4,580	-16.1	3,681	4.4
Other income	746	287	160.0	1,173	-36.4
Total income	4,590	4,867	-5.7	4,854	-5.4
Operating expenses	2,965	2,720	9.0	3,268	-9.3
-Staff expenses	1,648	1,858	-11.3	1,693	-2.6
-Other expenses	1,317	863	52.6	1,575	-16.4
Operating profit	1,625	2,147	-24.3	1,587	2.4
Total provisions	4,748	1,403	238.3	-252	-1,982.8
Profit before tax	-3,123	744	-520.0	1,839	-269.8
Tax	-788	197	-500.1	474	-266.3
Profit after tax	-2,335	547	-527.2	1,365	-271.1
Balance sheet (Rs mn)					
Deposits	1,36,730	1,10,570	23.7	1,31,358	4.1
Advances	1,32,610	1,42,510	-6.9	1,44,940	-8.5
Gross NPL (Rs mn)	13,750	1,398	883.4	10,706	28.4
Gross NPL (%)	9.8	1.0	882	7.1	272
Net NPL (Rs mn)	3,487	251	1,289.4	4,246	-17.9
Net NPL (%)	2.7	0.2	250	2.9	(25)
Coverage ratio	72.6	81.4	(882)	58.6	1,407
Ratios (%)					
Profitability ratios					
Yield on Advances	16.0	19.0	(300)	16.0	-
Cost of Funds	6.4	7.5	(110)	6.6	(20)
NIM	8.0	10.2	(220)	7.9	10
RoaA	-4.7	0.0	(470)	2.7	(740)
RoaE	-30.0	0.0	(3,000)	17.3	(4,730)
Business & Other Ratios					
CASA ratio	20.3	14.2	612	20.5	(25)
Cost-income ratio	64.6	55.9	870	67.3	(272)
CAR	25.9	28.7	(280)	26.4	(54)

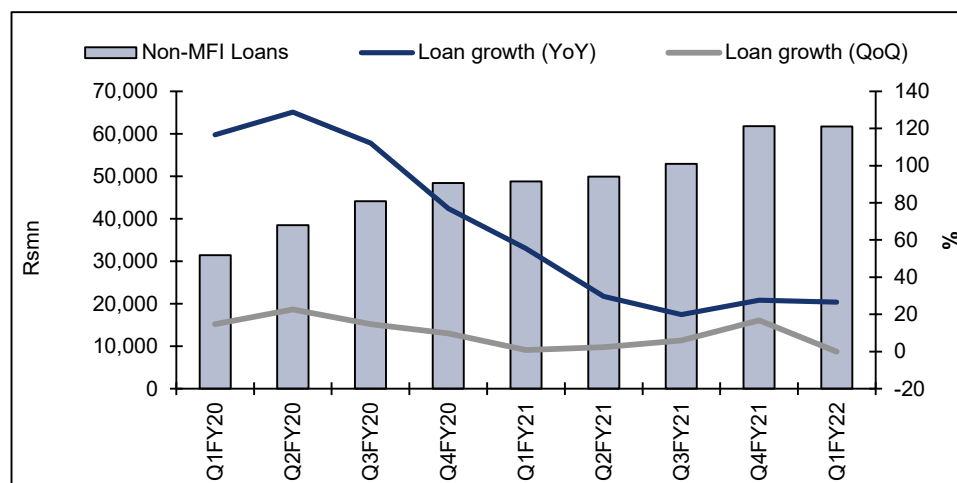
Source: Company data, I-Sec research

Chart 1: AUM fell 7% QoQ...

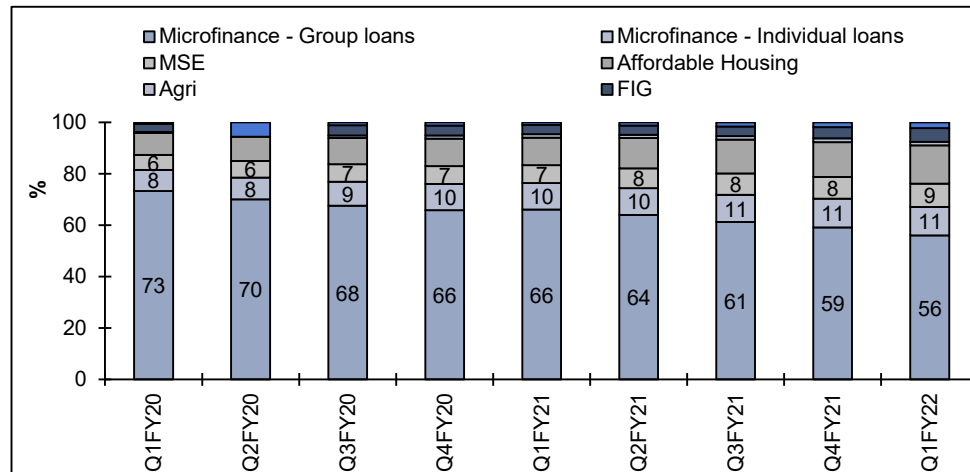
Source: Company data, I-Sec research

Chart 2: ...led by sharp 12% QoQ decline in MFI loans

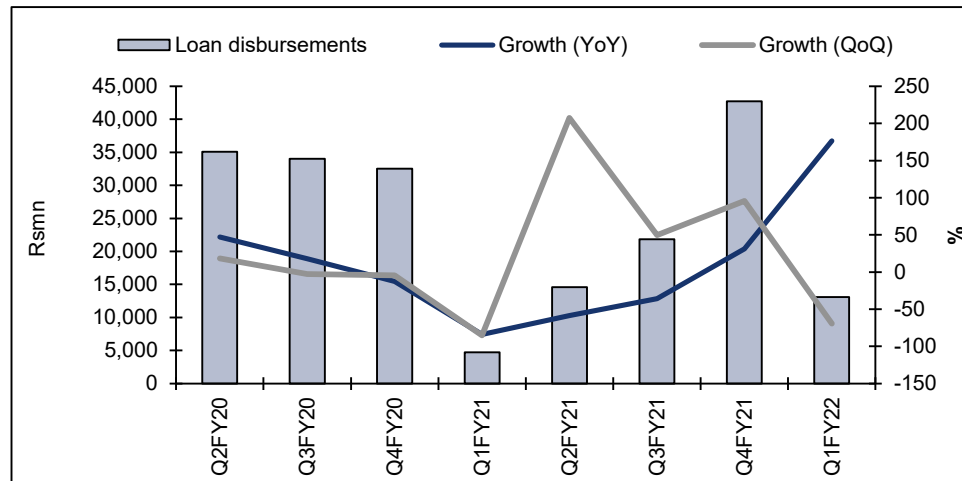
Source: Company data, I-Sec research

Chart 3: Non-MFI book remained flat QoQ

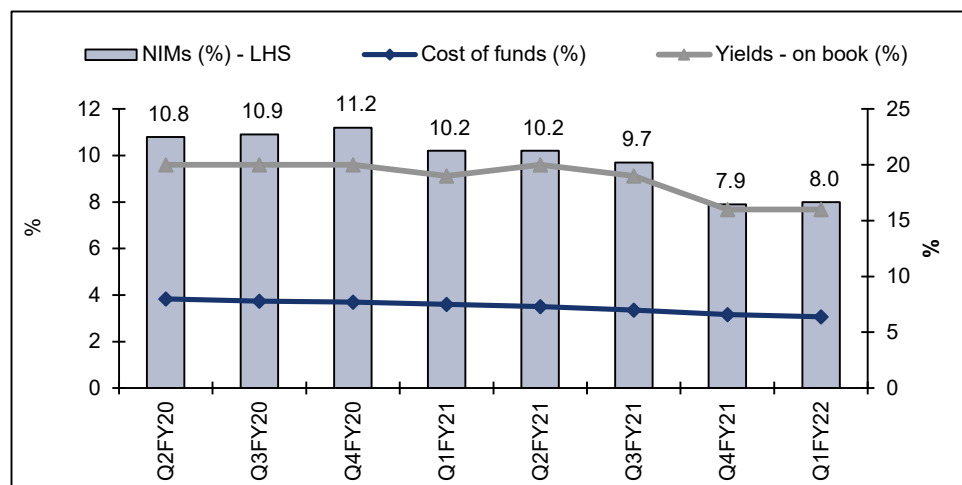
Source: Company data, I-Sec research

Chart 4: Share of MFI loans (group+individual) fell to 67% from 76% in Q1FY21

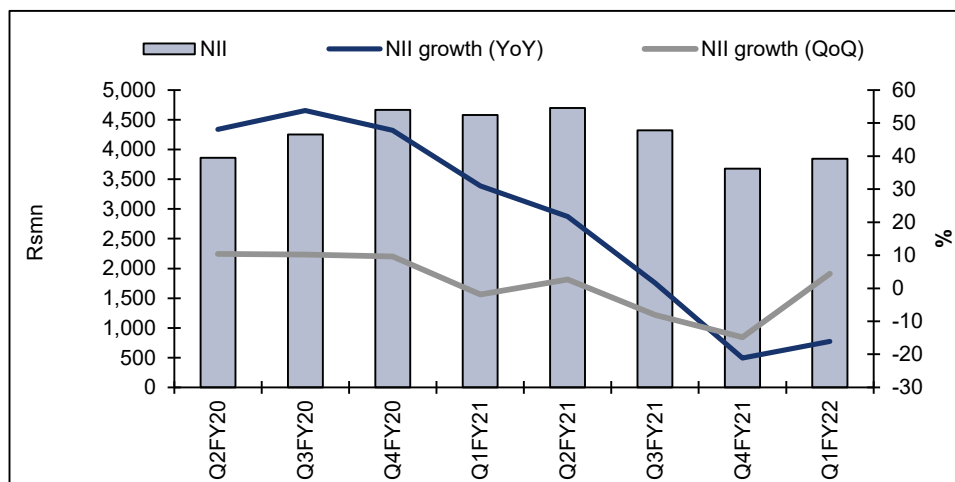
Source: Company data, I-Sec research

Chart 5: Disbursements plunged 69% QoQ

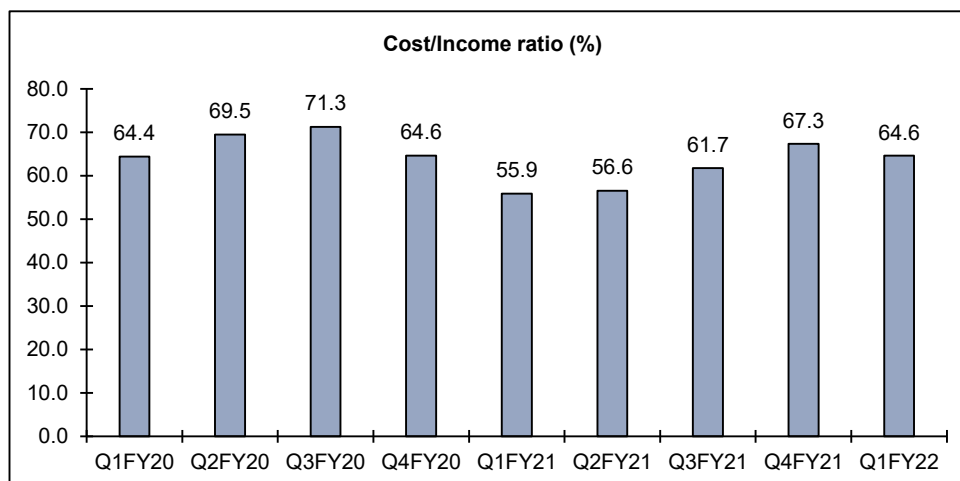
Source: Company data, I-Sec research

Chart 6: NIM expanded 10bps QoQ due to steady asset yields and 20bps QoQ reduction in CoF...

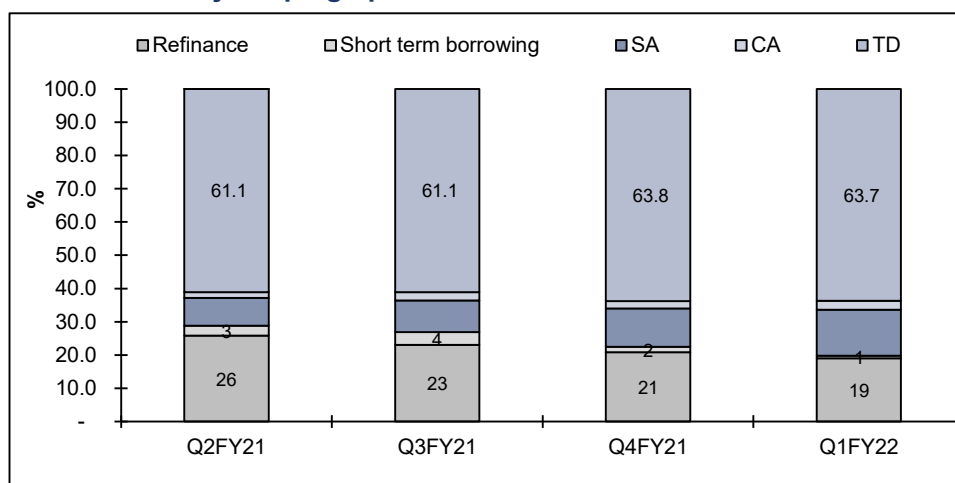
Source: Company data, I-Sec research

Chart 7: ...the same led to QoQ improvement in NII growth

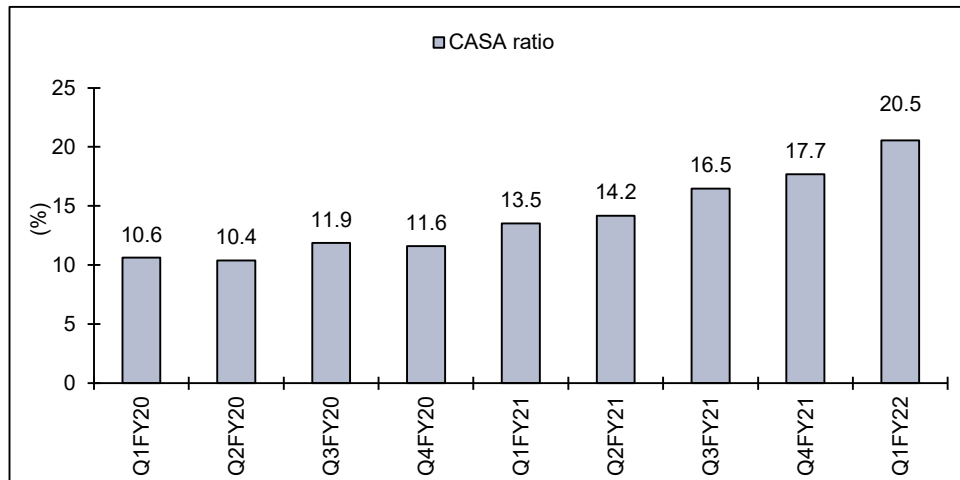
Source: Company data, I-Sec research

Chart 8: Cost-income ratio fell QoQ to 64.6%, but was still higher than FY21 levels.

Source: Company data, I-Sec research

Chart 9: Liability shaping up well

Source: Company data, I-Sec research

Chart 10: CASA ratio increased to 20.5%

Source: Company data, I-Sec research

Summary financials

Table 2: 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
Net interest income	11,064	16,336	17,286	19,212	22,338
Other income	2,060	3,222	3,108	3,202	3,730
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
Total operating cost	10,034	13,186	12,301	13,306	15,608
Pre-provisioning op profit	3,090	6,372	8,093	9,109	10,460
Provisions & contingencies	406	1,710	7,991	8,006	4,663
Profit before tax & exceptional items	2,684	4,662	102	1,103	5,797
Exceptional items					
Profit before tax & exceptional items	2,684	4,662	102	1,103	5,797
Income taxes	692	1,163	19	278	1,459
PAT	1,992	3,499	83	825	4,338

Source: Company data, I-Sec research

Table 3: 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
Networth	18,196	31,877	32,187	33,013	37,351
Total borrowings	41,661	39,533	32,473	30,278	35,589
Term Deposits & CASA	73,794	1,07,805	1,31,358	1,53,534	1,81,041
Provisions	1,335	-	-	-	-
Other Liabilities	2,436	4,898	7,786	9,343	11,212
Total liabilities & stockholders' equity	1,37,422	1,84,112	2,03,805	2,26,168	2,65,193
Loans & advances	1,05,525	1,40,436	1,44,940	1,68,831	2,04,176
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
Total Assets	1,37,422	1,84,112	2,03,805	2,26,168	2,65,193

Source: Company data, I-Sec research

Table 4: Key ratios*(Year ending March 31)*

	FY19	FY20	FY21	FY22E	FY23E
Growth (%)					
AUM	46.2	28.1	7.0	11.5	20.9
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
Net Interest Income (NII)	28.5	47.6	5.8	11.1	16.3
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
PAT	2803.3	75.6	-97.6	894.3	425.7
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
Yields, interest costs and spreads (%)					
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
Operating efficiencies			16.1		
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
Balance Sheet Structure					
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
Capital Structure					
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
Asset quality and provisioning					
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
Return ratios					
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
Valuation Ratios					
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 5: 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
Gross Interest Spread	9.5	10.2	8.9	8.9	9.1
Credit cost	0.3	1.1	4.1	3.7	1.9
Net Interest Spread	9.2	9.1	4.8	5.2	7.2
Operating cost	8.6	8.2	6.3	6.2	6.4
Lending spread	0.5	0.9	-1.5	-1.0	0.8
Non-interest income	1.8	2.0	1.6	1.5	1.5
Operating spread	2.3	2.9	0.1	0.5	2.4
Exceptional items	0.0	0.0	0.0	0.0	0.0
Final Spread	2.3	2.9	0.1	0.5	2.4
Tax rate (%)	0.6	0.7	0.0	0.1	0.6
ROAAUM	1.7	2.2	0.0	0.4	1.8
Effective leverage (AAUM/ AE)	6.7	6.4	6.1	6.6	7.0
RoAE	11.5	14.0	0.3	2.5	12.3

Source: Company data, I-Sec research

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