

Q1FY22 result review  
and target price change

## FINANCIALS

Target price Rs31

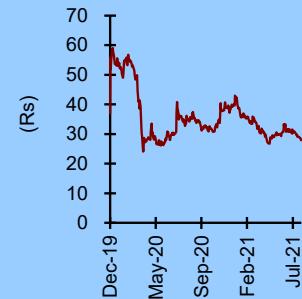
Target price revision  
Rs31 from Rs35

## 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 Bhuva

renish.bhuva@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

## Ujjivan Small Finance Bank

ADD  
Maintain**Rs28**

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

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.

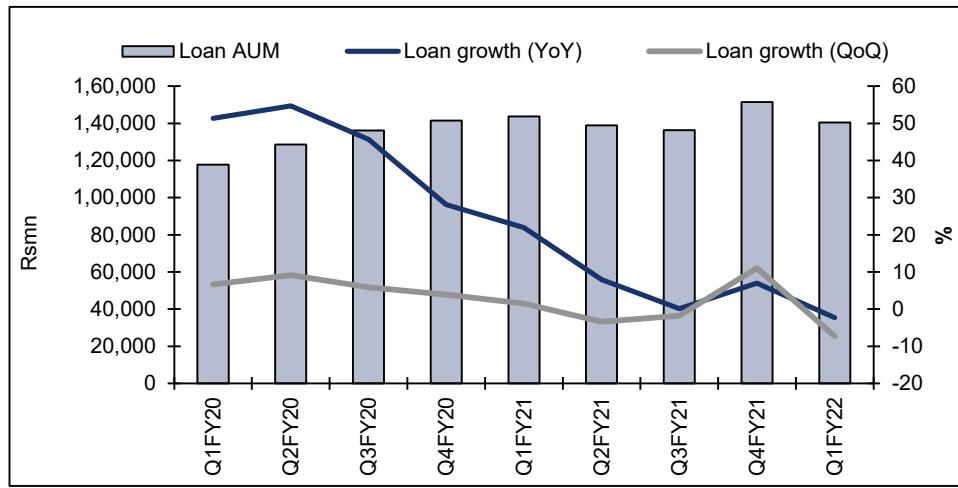
Market Cap	Rs47.3bn/US\$637mn	Year to March	2020	2021	2022E	2023E
Bloomberg	UJJIVANS IN	NII (Rs mn)	16,336	17,286	19,212	22,338
Shares Outstanding (mn)	1,728.3	Net Profit (Rs mn)	3,499	83	825	4,338
52-week Range (Rs)	43/27	EPS (Rs)	2.0	0.0	0.5	2.5
Free Float (%)	16.7	% Chg YoY	66.7	-97.6	894.3	425.7
FII (%)	6.2	P/E (x)	14.3	603.9	60.7	11.6
Daily Volume (US\$'000)	2,099	P/BV (x)	1.7	1.7	1.6	1.4
Absolute Return 3m (%)	(6.2)	BVPS (Rs)	17.3	17.5	17.9	20.5
Absolute Return 12m (%)	(18.6)	Net NPA (%)	0.2	2.9	3.3	0.8
Sensex Return 3m (%)	11.6	RoA (%)	2.2	0.0	0.4	1.8
Sensex Return 12m (%)	44.3	RoE (%)	14.0	0.3	2.5	12.3

- ▶ **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.

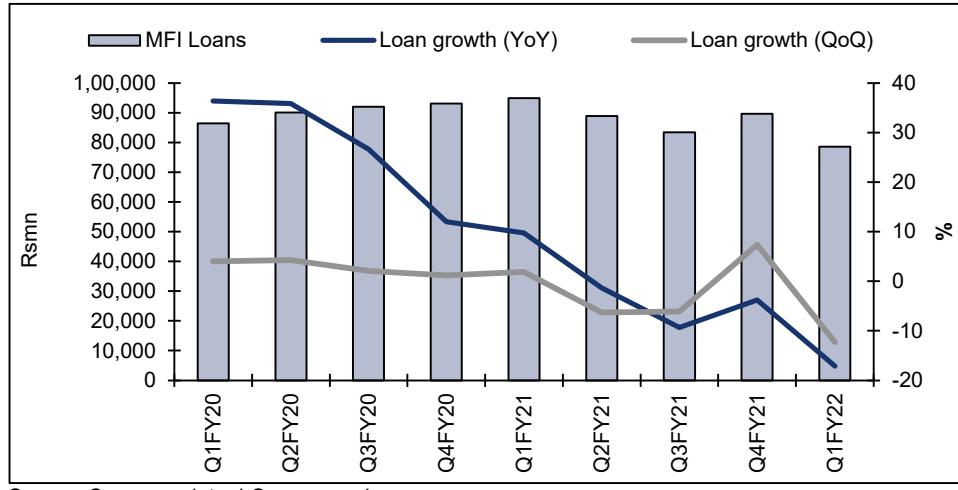
**Table 1: Q1FY22 result review***(Rs mn, year ending March 31)*

	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
<b>Net interest income (NII)</b>	<b>3,844</b>	<b>4,580</b>	<b>-16.1</b>	<b>3,681</b>	<b>4.4</b>
Other income	746	287	160.0	1,173	-36.4
<b>Total income</b>	<b>4,590</b>	<b>4,867</b>	<b>-5.7</b>	<b>4,854</b>	<b>-5.4</b>
<b>Operating expenses</b>	<b>2,965</b>	<b>2,720</b>	<b>9.0</b>	<b>3,268</b>	<b>-9.3</b>
-Staff expenses	1,648	1,858	-11.3	1,693	-2.6
-Other expenses	1,317	863	52.6	1,575	-16.4
<b>Operating profit</b>	<b>1,625</b>	<b>2,147</b>	<b>-24.3</b>	<b>1,587</b>	<b>2.4</b>
Total provisions	4,748	1,403	238.3	-252	-1,982.8
<b>Profit before tax</b>	<b>-3,123</b>	<b>744</b>	<b>-520.0</b>	<b>1,839</b>	<b>-269.8</b>
Tax	-788	197	-500.1	474	-266.3
<b>Profit after tax</b>	<b>-2,335</b>	<b>547</b>	<b>-527.2</b>	<b>1,365</b>	<b>-271.1</b>
<b>Balance sheet (Rs mn)</b>					
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
<b>Ratios (%)</b>					
<b>Profitability ratios</b>					
Yield on Advances	16.0	19.0	(300)	16.0	-
Cost of Funds	6.4	7.5	(110)	6.6	(20)
<b>NIM</b>	<b>8.0</b>	<b>10.2</b>	<b>(220)</b>	<b>7.9</b>	<b>10</b>
RoaA	-4.7	0.0	(470)	2.7	(740)
RoaE	-30.0	0.0	(3,000)	17.3	(4,730)
<b>Business &amp; Other Ratios</b>					
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)

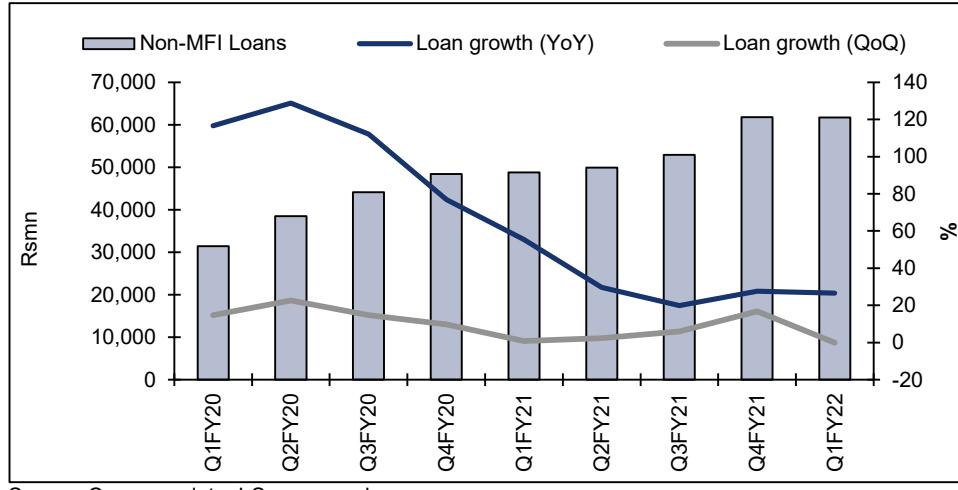
Source: Company data, I-Sec research

**Chart 1: AUM fell 7% QoQ...**

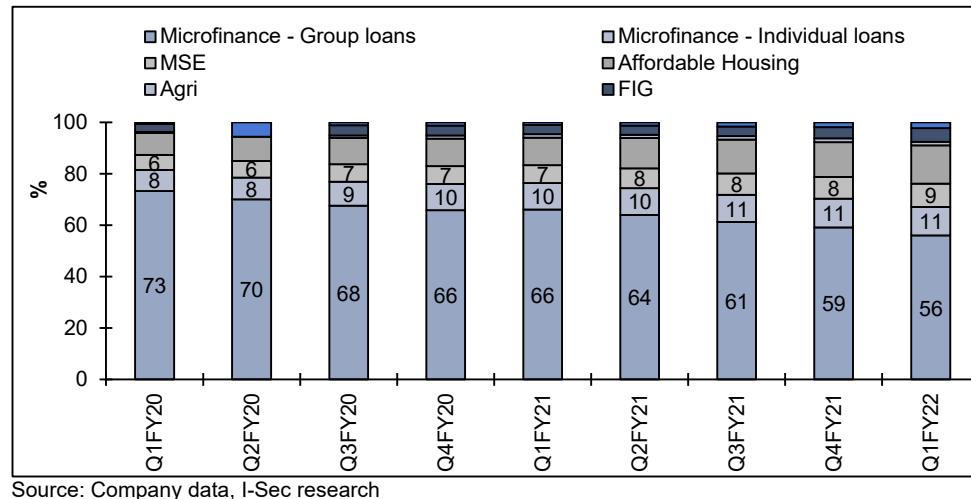
Source: Company data, I-Sec research

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

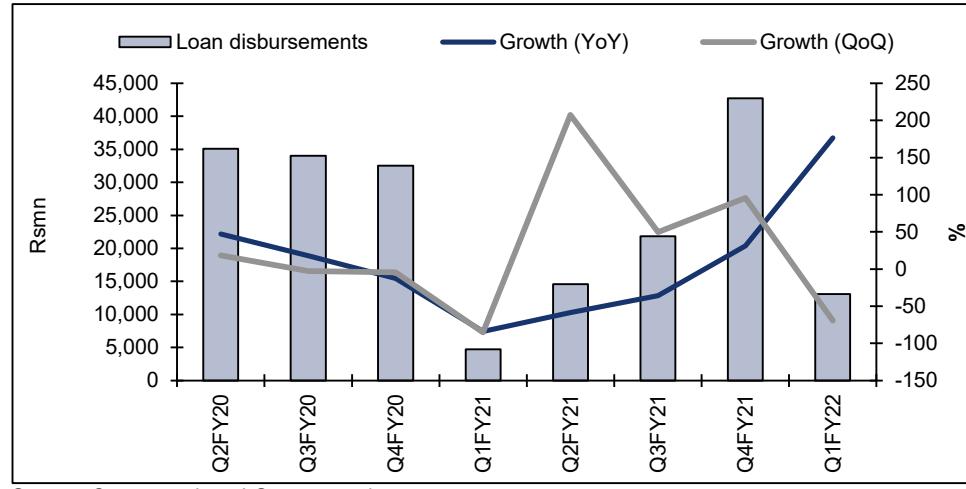
Source: Company data, I-Sec research

**Chart 3: Non-MFI book remained flat QoQ**

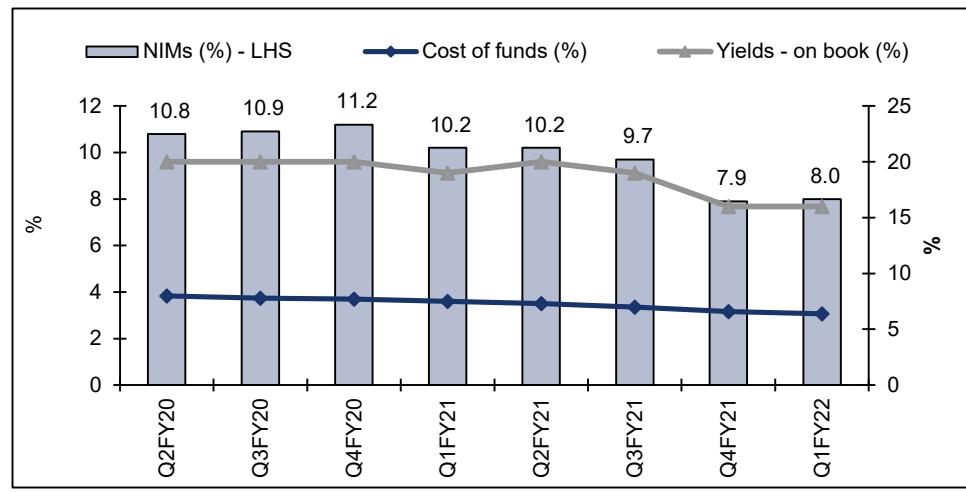
Source: Company data, I-Sec research

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

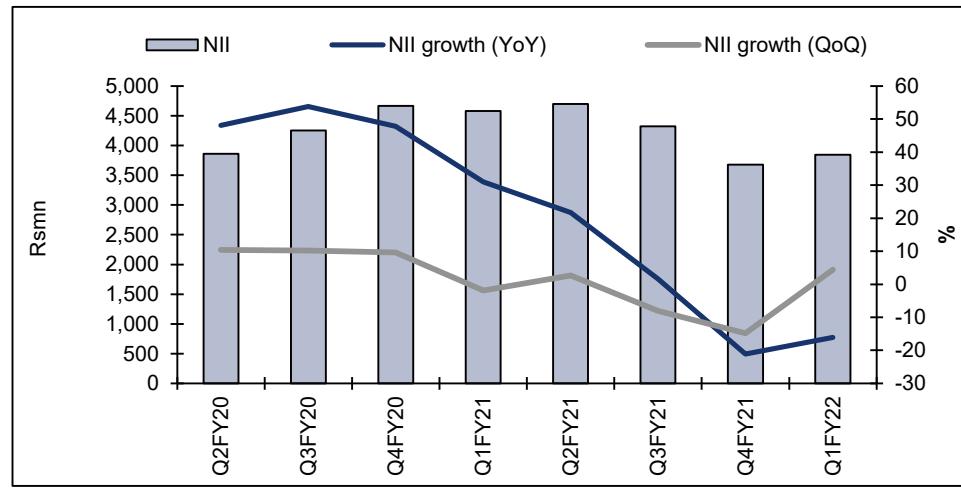
Source: Company data, I-Sec research

**Chart 5: Disbursements plunged 69% QoQ**

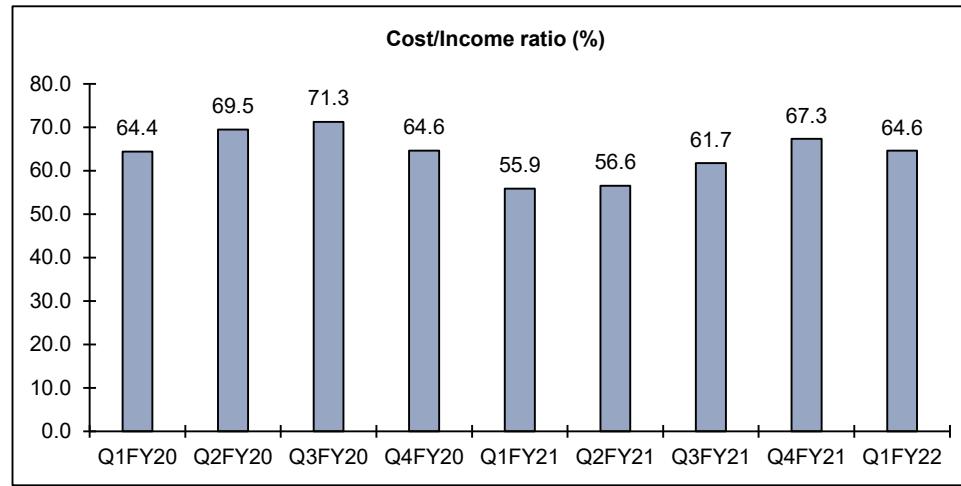
Source: Company data, I-Sec research

**Chart 6: NIM expanded 10bps QoQ due to steady asset yeilds and 20bps QoF...**

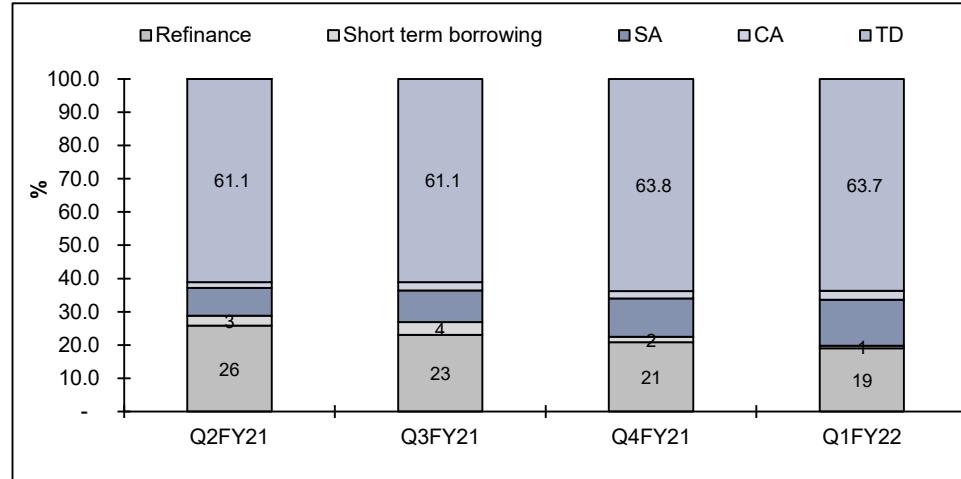
Source: Company data, I-Sec research

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

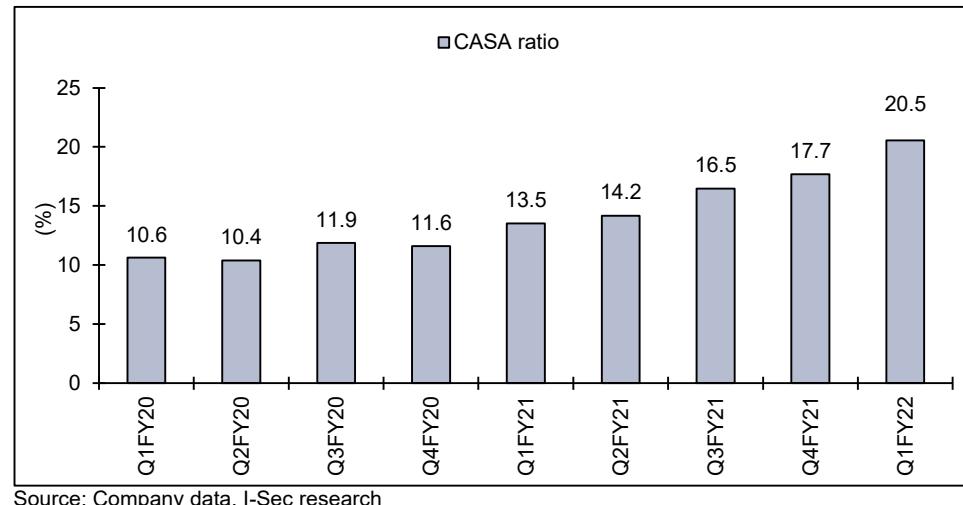
Source: Company data, I-Sec research

**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%**

## 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
<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 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
<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>
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
<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 4: Key ratios**

(Year ending March 31)

	FY19	FY20	FY21	FY22E	FY23E
<b>Growth (%)</b>					
AUM	<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 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
<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>
<i>Tax rate (%)</i>	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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