

May 12, 2023

RESULT REPORT Q4 FY23 | Sector: Financials

Ujjivan Small Finance Bank

Robust performance, yet again

Continues to exceed expectations on all fronts

Ujjivan SFB delivered 6%/14% beat on our PPOP/PAT expectations despite higher opex. The overall outperformance was aided by a) 2% higher NII (20 bps portfolio spread improvement), b) stronger other income (strong core fee growth + sustained elevated bad debts recovery) and c) NIL credit cost (sustained significant collections even on Restructured & NPL pools). While collection cost was lower in the quarter, the addition of 31 branches and 1100+ employees underpinned higher opex and thus an increase in cost/income ratio.

Robust loan growth (10% qoq/33% yoy), continued encouraging trends in CASA & Retail TDs (both up 10-11% qoq), absence of credit cost and higher recoveries from written-off loans once again drove strong RoA/RoE of 3.9%/30%. The NIM decline (30 bps qoq), despite a substantial expansion (50 bps qoq) in loan book yield, was caused by build-up of liquidity (incl. investments) on the balance sheet from stronger liabilities mobilization and internal cash generation.

Other comforting trends were a) growth in Micro Banking driven by significant customer addition and calibrated increase in ATS, b) share of CASA + Retail TDs further inching-up to 66% (consistently improved over past 4Qs and cumulatively by 6 ppt), c) substantial reduction (by ~Rs1.2bn) of GNPLs even with lower write-offs (Rs0.67bn v/s Rs1.79bn in Q3 and Rs1.57bn in Q2) and d) solid traction in core fees (up 26%/45% yoy in Q4/FY23).

Guidance of 25%+ loan growth and 22%+ RoE for FY24

After surpassing its loan growth (30%+) and credit cost (<100 bps) guidance in FY23, the bank is now guiding for 25%+ loan growth, 30%+/35%+ deposits/CASA growth, 9%+ NIM, <100 bps credit cost and 22%+ RoE in the current fiscal. The drivers of loan growth would be a) sustained strong volume-led growth in Micro Banking (Individual Loans would continue to grow faster than Group Loans), b) continuation of robust momentum in Affordable HL and FIG Lending and c) growth revival in MSE Finance and scale-up of new products like vehicle finance and gold loans. Attractive pricing of SA/TDs and augmentation of branch network (plan to 100+ in FY24) would support the deposits momentum.

Portfolio Spread/NIM would remain firm due to benefits from lending rate hikes coming through (bank has increased pricing by 50 bps each in Sept and March in Micro Banking). Bad Debts recoveries are expected to remain meaningful with the bank having Rs10bn+ of technically written-off loans. High collection efficiency on restructured accounts (111% in March), healthy collections on NPLs (40-45%), substantial provisions on these loans, 99-100% collections on regular/0 dpd loan book and significantly reduced 1-90 dpd/SMA bucket offers comfortable visibility for below 100 bps credit cost in the current year.

18-20% normalized RoEs and merger benefit not factored; valuation extremely attractive

Trends in loan growth, deposits, portfolio spread, fee income and asset quality are expected to remain sturdy through FY24, possibility resulting in stronger-than-guided RoE. It is noteworthy that Ujjivan SFB's portfolio has demonstrated stronger recovery from the Covid impact and thus cumulative credit cost from this event has been much better than industry and even better than large NBFC-MFIs. Recovery from written-off accounts has also been stronger for Ujjivan SFB. The visibility of 25% growth and 18-20% normalized RoE should re-rate the stock from current undemanding valuation of 4.7x P/E and 0.9x P/ABV on FY25. Retain BUY with 12m PT of Rs45. The merger will augment BVPS by 6-8%, which has not been factored.

Reco	: BUY
CMP	: Rs 29
Target Price	: Rs 45
Potential Return	: 53.4%

Stock data (as on May 11, 2023)

Nifty	18,297
52 Week h/l (Rs)	34 / 14
Market cap (Rs/USD mn)	56687 / 691
Outstanding Shares (mn)	1,955
6m Avg t/o (Rs mn):	232
Div. yield (%):	-
Bloomberg code:	UJJIVANS IN
NSE code:	UJJIVANSFB

Stock performance



	1M	3M	1Y
Absolute return	10.8%	3.4%	82.2%

Shareholding pattern

Promoter	73.7%
FII+DII	10.3%
Others	16.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	45	45

Δ in earnings estimates

	FY23	FY24e	FY25e
EPS (New)	5.5	5.7	6.1
EPS (Old)	5.5	5.2	6.1
% Change	-	10.4%	-

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Op. income	32,871	40,638	49,715
PPOP	14,850	17,841	21,448
Net profit	10,999	11,432	12,254
Growth (%)	(365.3)	3.9	7.2
EPS (Rs)	5.5	5.7	6.1
ABVPS (Rs)	20.0	25.7	31.8
P/E (x)	5.3	5.1	4.8
P/ABV (x)	1.5	1.1	0.9
ROE (%)	33.3	25.0	21.3
ROA (%)	3.9	3.1	2.7

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Exhibit 1: Result table

(Rs mn)	Q4 FY23	Q3 FY23	% qoq	Q4 FY22	% yoy
Operating Income	11,848	10,816	9.5	8,182	44.8
Interest Expense	(4,468)	(3,847)	16.2	(2,743)	62.9
Net Interest Income	7,380	6,970	5.9	5,440	35.7
Other Income	1,791	1,389	28.9	1,026	74.6
Total Income	9,171	8,359	9.7	6,465	41.8
Operating expenses	(5,065)	(4,470)	13.3	(4,293)	18.0
PPOP	4,106	3,889	5.6	2,172	89.0
Provisions	19	2	777.3	(438)	(104.4)
PBT	4,125	3,891	6.0	1,734	137.8
Tax	(1,030)	(960)	7.3	(469)	119.5
PAT	3,095	2,932	5.6	1,265	144.6

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q4 FY23	Q3 FY23	% qoq	Q4 FY22	% yoy
Gross loan book	240,860	218,960	10.0	181,600	32.6
Micro - Group	142,250	128,230	10.9	102,710	38.5
Micro - Individual	31,410	26,320	19.3	18,980	65.5
MSE	15,930	17,440	(8.7)	17,100	(6.8)
Affordable Housing	34,010	31,440	8.2	27,340	24.4
Others	17,260	15,530	11.1	13,720	25.8
Disbursements	60,010	48,380	24.0	48,690	23.2
Micro - Group	39,390	30,810	27.8	35,090	12.3
Micro - Individual	9,890	7,120	38.9	4,380	125.8
MSE	810	1,670	(51.5)	3,120	(74.0)
Affordable Housing	4,390	3,440	27.6	3,040	44.4
Others	5,530	5,340	3.6	2,740	101.8
Deposits	255,380	232,030	10.1	182,920	39.6
CASA	67,440	60,700	11.1	49,930	35.1
Retail TD	101,180	91,720	10.3	59,930	68.8
Institutional TD	84,580	78,140	8.2	65,500	29.1
CD	2,170	1,470	47.6	7,560	-71.3

Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q4 FY23	Q3 FY23	chg qoq	Q4 FY22	chg yoy
NIM	9.1	9.4	(0.3)	10.1	(1.0)
Avg. Cost of Funds*	6.9	6.6	0.3	6.1	0.8
CASA + Retail TD	66.0	65.7	0.3	60.1	6.0
Cost to Income	55.2	53.0	2.2	66.0	(10.8)
Gross NPA	2.9	3.6	(0.8)	7.1	(4.2)
PCR	98.0	99.0	(1.0)	92.0	6.0
Net NPA	0.0	0.1	(0.0)	0.6	(0.6)
RoA	3.9	4.2	(0.3)	2.3	1.6
Tier-1 CAR	22.7	22.8	(0.1)	17.7	5.0

Source: Company, YES Sec; *Calculated.

KEY CON-CALL HIGHLIGHTS

Advances & Liabilities Growth

- Loan growth of 25%+ targeted in FY24, which would be largely driven by customer addition in Micro Banking and faster growth in secured products (MSE and VF to see a pick-up and Affordable HL momentum will remain strong).
- Secured products contribution to increase to 32% by end FY24 (from 28% as of Mar'23) - in longer run (5 years) this contribution will rise to 50%.
- Within Micro Banking, the share of Individual Loans (IL) will keep rising - avg tenor of the book will thus keep gradually increasing.
- Low growth in MSE financing due to recalibration of focus/strategy and running down of one fintech relationship.
- Affordable Housing portfolio had subsidy repayments of Rs1.6bn in FY23.
- Expect to scale-up Gold Loans in current year - mainly would be introduced in the Southern region.
- Targeting 30% deposits growth in FY24 with CASA share reaching 30% by year-end.

Capital, Profitability & Reverse Merger

- Don't see any need to raise capital in the next couple of years - additional net-worth will be added from the merger and RoE profile will remain strong.
- FY24 PAT will be higher than FY23 (Rs11bn) by a reasonable margin.
- Reverse merger could get completed by Sept'23 - Rs.1.6-2 to be added to BV on account of merger (due to NW addition and cancellation of shares).
- The Board will be identifying a potential candidate (internal or external) to succeed Mr. Davis as MD & CEO much ahead of his tenure ending in Jan'25.

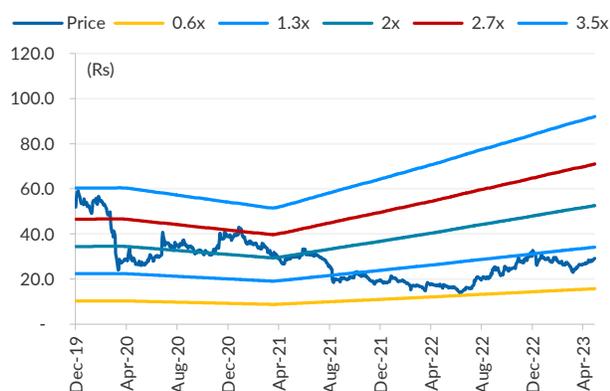
NIM & Cost/Income

- Portfolio Yield expansion happened due to rate hike in Micro Banking of 50 bps each in Sept'22 and Mar'23 - also continuous coming down of NPLs has had a positive impact.
- Lending rates in Micro Banking at 23%/25% for GL/IL - notably, IL which is at higher rate is growing much faster.
- Lending rate in Affordable Housing is 13.2-13.4%.
- NIM was impacted by build-up of liquidity on the BS due to stronger deposits growth - the liquidity would be redeployed from investments into loans in the current quarter itself.
- Bank expects NIM to stay above 9% for the whole year.
- C/I ratio may not improve much in FY24 due to investments on branch addition, employee addition and IT/digital initiatives.
- Bank would be adding 100+ branches in FY24 which would be spread across the country - after adding Telangana last year, it would be adding AP this year.

Asset Quality & Credit Cost

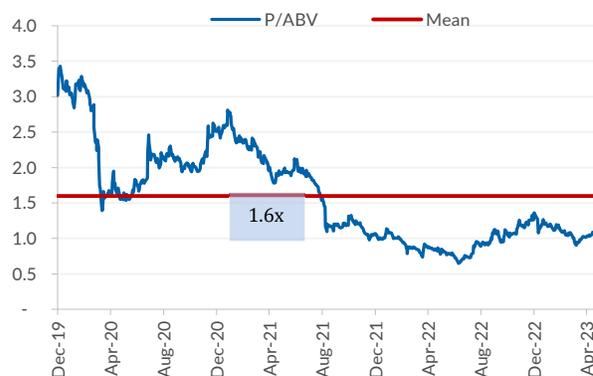
- NDA/Current Bucket collections back to pre-Covid level of around 100%.
- Slippages were Rs190mn and Upgradation and Recoveries were Rs590mn in Q4 FY23 - Slippages were Rs3.35bn and Upgradation and Recoveries were Rs5.1bn in FY23.
- Bad Debt recoveries will continue during FY24, but the quantum will be lower than FY23 - recoveries will come from current Rs10bn+ worth of technically written-off portfolio.
- Collection efficiency on NPLs at 40-45% and collections on Restructured assets was 111% in March - a good part of the currently held provisions on these loan pools could be written-back in current year.
- Blended guidance of up to 100 bps credit cost for FY24 factors some write-back of existing provisions - bank not expecting any negative surprise on asset quality front.
- Not looking at reversing/utilizing the Floating Provisions.

Exhibit 4: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Total cash & equivalents	25,775	21,681	24,836	32,164	38,311
Investments	25,165	41,529	85,103	98,720	119,451
Advances	144,940	163,032	212,897	269,304	332,008
Total interest-earning assets	195,879	226,242	322,836	400,187	489,770
Fixed assets	2,807	2,494	2,829	3,112	3,423
Other assets	5,118	7,309	7,504	9,005	10,806
Total assets	203,804	236,045	333,169	412,304	503,999
Net worth	30,188	26,026	40,091	51,524	63,777
Deposits	131,357	182,922	255,377	324,329	402,167
Borrowings	32,473	17,636	26,415	23,773	23,773
Total interest-bearing liabilities	163,831	200,558	281,791	348,102	425,941
Non-interest-bearing liabilities	9,786	9,461	11,286	12,679	14,281
Total liabilities	173,617	210,018	293,078	360,781	440,222
Equity & Total liabilities	203,804	236,045	333,169	412,304	503,999

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	28,061	28,128	41,650	55,963	68,256
Interest expense	(10,775)	(10,392)	(14,671)	(21,836)	(25,865)
Net interest income	17,286	17,736	26,979	34,127	42,391
Non-interest income	3,023	3,598	5,892	6,511	7,324
Total op income	20,309	21,334	32,871	40,638	49,715
Total op expenses	(12,301)	(14,964)	(18,021)	(22,796)	(28,267)
PPoP	8,008	6,371	14,850	17,841	21,448
Provisions	(7,906)	(11,875)	(178)	(2,591)	(5,102)
Profit before tax	102	(5,504)	14,672	15,250	16,346
Taxes	(19)	1,358	(3,673)	(3,818)	(4,092)
Net profit	83	(4,146)	10,999	11,432	12,254

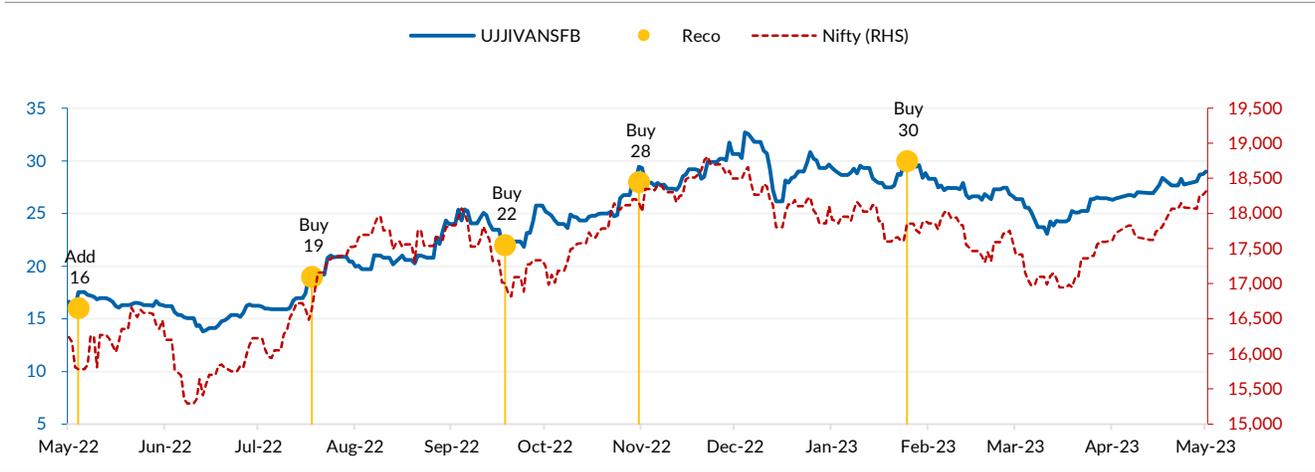
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Net interest income	5.8	2.6	52.1	26.5	24.2
Total op income	3.8	5.1	54.1	23.6	22.3
Op profit (pre-provision)	25.7	(20.4)	133.1	20.1	20.2
Net profit	(97.6)	(5,095.5)	(365.3)	3.9	7.2
Advances	3.2	12.5	30.6	26.5	23.3
Deposits	21.8	39.3	39.6	27.0	24.0
Total assets	10.7	15.8	41.1	23.8	22.2
Profitability Ratios (%)					
NIM	11.8	10.7	12.8	12.5	12.5
Non-interest income /Total income	14.9	16.9	17.9	16.0	14.7
Return on Equity	0.3	(14.8)	33.3	25.0	21.3
Return on Assets	0.0	(1.9)	3.9	3.1	2.7
Per share ratios (Rs)					
EPS	0.0	(2.3)	5.5	5.7	6.1
Adj. BVPS	17.3	14.7	20.0	25.7	31.8
Other key ratios (%)					
Cost/Income	60.6	70.1	54.8	56.1	56.9
Tier-I Capital	26.4	20.2	24.5	21.9	22.2
Gross NPLs/Loans	7.1	7.1	2.6	1.6	1.4
Net NPLs/Net loans	2.9	0.6	0.0	0.1	0.1
Tax rate	18.6	24.7	25.0	25.0	25.0

Source: Company, YES Sec

Recommendation Tracker



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