

Ujivan Small Finance Bank and Ujivan Financial Services

Accelerated provisions dent earnings

UJJIVANS' 3QFY21 reported a net loss of INR 2.8bn (vs. our estimate of a PAT of INR 703mn) on account of accelerated provisions (INR 5.8bn) against potential stress (pro forma slippages and restructuring), and interest reversals. The bank's performance in terms of granular deposit traction and operating efficiency remained creditable- although sustainability will be the key. We continue to watch for potential corporate action at both UJJIVANS and UJJIVAN, especially in context of the recent RBI IWG report on the ownership of private banks. We maintain BUY on UJJIVAN with a target price of INR 394 and ADD on UJJIVANS with a target price of INR 44 (adjusted for 25% holding company discount).

- Pro forma stress rises:** UJJIVANS, like some of its micro-lending peers clocked a sharp rise in stress, with pro forma GNPA's touching 4.8%, led by the micro-credit segment which constitutes 72% of the bank's portfolio. PAR 0 remained sticky at 16.2% (vs. 16.8% in 2QFY21 and 2.1% in 3QFY20). However, when viewed on a monthly basis, the bank held onto gains in overall collection efficiency, which came in at 92% in January vs. 88% in October. Further, the bank restructured ~8.5% of its micro-credit portfolio. We have revised our GNPA estimates upwards to 5.5% in FY21E.
- Provisions jump:** UJJIVANS made accelerated provisions of INR 5.8bn (~17% of loans, annualised). It thus held a total cover amounting to ~8% of loans. After utilising ~INR 690mn of provisions towards restructured loans, the bank held a pro forma PCR of 59%. Elevated slippages from the pool of restructured micro-credit assets could keep credit costs elevated. We build LLPs of 2.7% over FY22-23E.
- Deposit growth improves:** The bank registered a slight improvement in deposit traction, with YoY growth at 9% vs. 6% in 2QFY21, which in turn was led by 69.4/23.3% growth in SA balances. Consequently, the CASA rose 122bps sequentially to 17.7%, ensuring significant CoF tailwinds (-30bps QoQ). We will continue to monitor UJJIVANS' efforts in building a granular low-cost liability base.

Financial summary (USFB)

(INR bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	4.3	4.3	1.3%	4.7	-8.1%	16.3	18.1	20.6	24.9
PPOP	2.0	1.4	41.5%	2.3	-12.2%	6.4	8.5	9.8	12.0
PAT	(2.8)	0.9	NA	1.0	NA	3.5	(0.1)	3.7	5.3
EPS (INR)	4.3	4.3	NA	0.6	NA	2.0	(0.1)	2.1	3.1
ROAE (%)						15.2	(0.3)	11.7	14.8
ROAA (%)						2.2	(0.1)	1.8	2.1
ABVPS (INR)						17.1	16.4	18.6	21.7
P/ABV (x)						2.2	2.3	2.0	1.7
P/E (x)						18.3	NA	17.3	12.0

Change in estimates (USFB)

INR bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	149.4	144.3	-3.4%	174.9	168.8	-3.5%	213.6	206.1	-3.5%
NIM (%)	10.6	10.6	-5 bps	10.8	10.8	0 bps	10.9	10.9	0 bps
NII	18.5	18.1	-2.2%	21.2	20.6	-3.2%	25.1	24.9	-0.6%
PPOP	8.3	8.5	2.2%	10.0	9.8	-1.8%	12.4	12.0	-3.7%
PAT	2.4	(0.1)	NA	3.8	3.7	-2.0%	5.7	5.3	-5.9%
Adj. BVPS (INR)	17.4	16.4	-5.8%	20.3	18.6	-8.6%	23.9	21.7	-9.1%

Source: Bank, HSIE Research

Ujivan Small Finance Bank

ADD

CMP (as on 3 Feb 2021)	INR 37
Target Price	INR 44
NIFTY	14,790

KEY STOCK DATA

Bloomberg code	UJJIVANS IN
No. of Shares (mn)	1,728
MCap (Rs bn) / (\$ mn)	64/875
6m avg traded value (Rs mn)	79
52 Week high / low	Rs 58/23

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.6	12.7	(30.6)
Relative (%)	(5.2)	(23.4)	(56.7)

Ujivan Financial Services

BUY

CMP (as on 3 Feb 2021)	INR 263
Target Price	INR 394
NIFTY	14,790

KEY STOCK DATA

Bloomberg code	UJJIVAN IN
No. of Shares (mn)	122
MCap (Rs bn) / (\$ mn)	32/438
6m avg traded value (Rs mn)	314
52 Week high / low	Rs 416/125

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.8	15.7	(30.0)
Relative (%)	(2.0)	(20.3)	(56.0)

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