

Ujivan Small Finance Bank

ADD

CMP Rs37

Target Rs40

Upside 8.1%

Larger stress and upfront provisioning drives a big loss in Q3 FY21

USFB reported a big loss in Q3 FY21 with the bank opting to address the entire stress (including what may come) at one go - credit cost was Rs5.8bn and provisioning buffer was substantially raised to 8% of overall portfolio. While upfront provisioning is well appreciated, the quantum was a shocker considering that Management was not so perturbed about the credit cost outcome till the preceding quarter. Bulk of the provisions were built for the Microfinance portfolio (Group + Individual + Rural Finance is 75% of Bank's advances), where the cover was increased to 9%+. Provisions carried on the non-MFI portfolio (MSE + Affordable Housing + Other Retail Assets + FIG) was around 3%. Proforma Gross NPLs stood at 4.8%, PAR 0 was high at 16%+, and the bank restructured 8.5% of its Microfinance book. The large provisioning in the quarter was triggered by a high PAR 0 figure and uncertainty around Assam portfolio (2.7% of advances - collections dropped in January after passage of the MFI Bill).

On growth front, Q3 FY21 was encouraging with disbursements in all businesses posting a substantial jump qoq and surpassing even pre-Covid levels in December. Traction in loan book is likely to accelerate from Q4 FY21 and growth would be sharper in non-Microfinance segments. Bank believes that it has fully provided for the stress and that credit cost should revert to normal levels. There are encouraging indications in the stressed portfolio - 73% collection efficiency in restructured microfinance book in January (with repayments from many customers who were non-paying till December) and improving recoveries/roll-backs across SMA buckets. USFB has augmented its collection effort by onboarding many people who will only look after collections.

We are changing our rating from BUY to ADD with significant downward revisions (6-7%) in FY21-23 ABV estimates and with a view that valuation multiple will get impacted with the large negative surprise of Q3 FY21 (Management did not guide well). The stock currently trades at 1.7x FY23 P/ABV.

Exhibit 1: Financial Summary

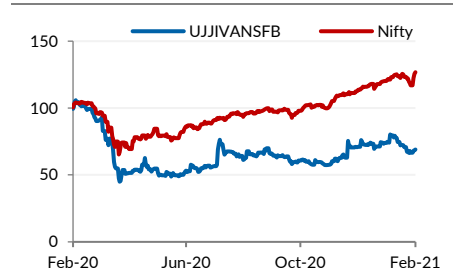
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	19,558	21,084	23,907	30,799
PPOP	6,372	8,558	8,499	12,310
Net profit	3,499	8	4,779	6,644
yoy growth (%)	75.6	(99.8)	-	39.0
EPS (Rs)	1.8	0.0	2.5	3.4
Adj. BVPS (Rs)	16.4	16.4	18.8	22.2
P/E (x)	20.6	-	15.1	10.9
P/adj.BV (x)	2.3	2.3	2.0	1.7
ROE (%)	14.6	0.0	13.9	16.6
ROA (%)	2.2	0.0	2.2	2.4
CAR (%)	29.6	28.7	26.4	24.0

Source: Company, YES Sec - Research

Stock data (as on February 03, 2021)

Nifty	14,790
52 Week h/l (Rs)	58 / 23
Market cap (Rs/USD mn)	63860 / 875
Outstanding Shares (mn)	1,728
6m Avg t/o (Rs mn):	70
Div yield (%):	-
Bloomberg code:	UJJIVANS IN
NSE code:	UJJIVANSFB

Stock performance



	1M	3M	1Y
Absolute return	-6.7%	19.6%	-30.6%

Shareholding pattern

Promoter	83.3%
FII+DII	9.4%
Others	7.2%

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Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Operating Income	6,883	7,536	(8.7)	7,064	(2.6)
Interest expended	(2,560)	(2,835)	(9.7)	(2,799)	(8.5)
Net Interest Income	4,323	4,701	(8.1)	4,265	1.3
Other income	1,004	644	55.9	749	34.1
Total Income	5,327	5,345	(0.3)	5,014	6.2
Operating expenses	(3,289)	(3,024)	8.8	(3,574)	(8.0)
PPOP	2,038	2,322	(12.2)	1,440	41.5
Provisions	(5,835)	(1,005)	480.4	(305)	1,811.1
PBT	(3,797)	1,317	(388.4)	1,135	(434.6)
Tax	1,008	(357)	(382.9)	(238)	(523.3)
PAT	(2,788)	960	(390.4)	897	(411.0)

Source: Company, YES Sec - Research

Exhibit 3: Business Data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Gross loan book	136,380	138,810	(1.8)	136,180	0.1
Micro - Group	83,460	88,890	(6.1)	92,020	(9.3)
Micro - Individual	14,450	14,480	(0.2)	12,740	13.4
Agri. & Allied	1,870	1,820	2.7	1,370	36.5
MSE	11,420	10,590	7.8	9,310	22.7
Affordable Housing	17,980	16,340	10.0	13,810	30.2
Others	7,200	6,690	7.6	6,930	3.9
Disbursements	21,820	14,580	49.7	34,040	(36)
Micro - Group	13,810	9,410	46.8	24,340	(43.3)
Micro - Individual	2,430	1,610	50.9	3,970	(38.8)
Agri. & Allied	300	200	50.0	560	(46.4)
MSE	1,360	920	47.8	1,520	(10.5)
Affordable Housing	2,090	1,160	80.2	2,190	(4.6)
Others	1,830	1,280	43.0	1,460	25.3
Deposits	116,170	107,430	8.1	106,560	9.0
CASA	20,550	17,690	16.2	12,370	66.1
Retail TD	38,740	38,630	0.3	34,410	12.6
Institutional TD	55,290	48,740	13.4	49,780	11.1
CD	1,600	2,370	(32.5)	10,000	(84.0)

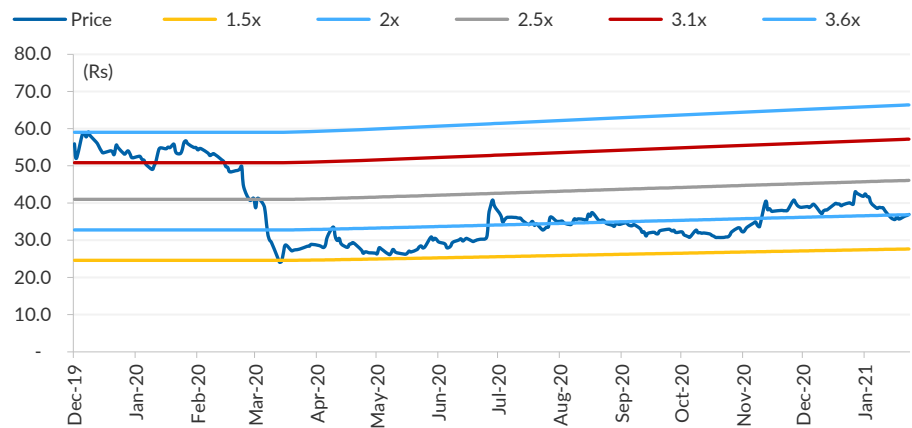
Source: Company, YES Sec - Research

Exhibit 4: Key Ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM	9.7	10.2	(0.5)	10.9	(1.2)
Avg. Cost of Funds*	7.1	7.4	(0.3)	8.1	(1.0)
CASA + Retail TD	51	52	(1.4)	44	6.7
Cost to Income	62.0	56.6	5.4	71.3	(9.3)
Gross NPA	1.0	1.0	(0.0)	0.9	0.1
PCR	95.0	86.0	9.0	60.0	35.0
Net NPA	0.1	0.1	(0.1)	0.4	(0.4)
RoA	(5.8)	2.0	(7.8)	2.1	(7.9)
RoE	(34.7)	11.6	(46.3)	14.0	(48.7)
Tier-1 CAR	26.0	30.1	(4.1)	27.5	(1.5)

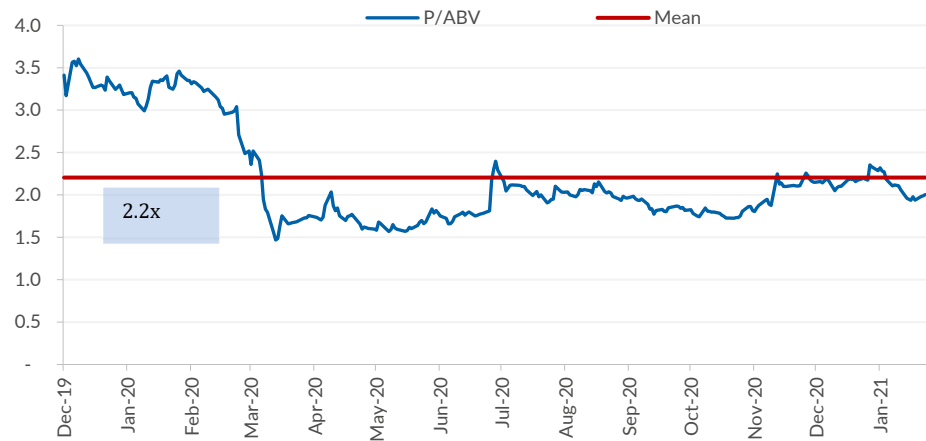
Source: Company, YES Sec - Research; *Cost of funds (Borrowings + Deposits)

Exhibit 5: 1-year rolling P/ABV band



Source: Company, YES Sec – Research

Exhibit 6: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec – Research

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