

July 27, 2022

**RESULT REPORT Q1 FY23** | Sector: Financials

# Ujjivan Small Finance Bank

## Substantial earnings beat on strong asset quality

USFB delivered a substantial 59% PAT beat driven by much lower-than-estimated credit cost (rather negligible), which was underpinned by continuance of strong collection trends on Std. non-OTR pool and encouraging collections even from OTR and NPL portfolios. Consequently, PAR 0 declined to 7.9% as of June vs 9.6% as on March and GNPA/NNPA declined to 5.9%/0.1% from 7.1%/0.6%. Write-offs in Q1 FY23 were moderate at Rs790mn (<0.5% of gross adv.) versus Rs2.7bn in Q4 FY22. NII and PPOP were in-line with our estimates and represented 56% and 68% growth on yoy basis. Annualized RoA and RoE was at 3.4% and 28% respectively

### OTR resilience surprised; stress pool looks adequately covered

GNPL addition in Q1 FY23 was markedly lower at Rs1.5-1.6bn and upgradations & recoveries remained strong at Rs2.1-2.2bn. In Micro Banking, behavior of the OTR book was not very different from the Std. book. Collections on OTR portfolio was ~80%, as customers' income stabilized further. SMA pool was miniscule within OTR as of June (being billed since Dec), reflecting little incremental flow risk. Quality of loan originations in MSE Finance and Affordable Housing has improved over the past 18-24 months with GNPL of <1% on disbursements. Besides GNPLs being nearly fully provided for, the bank has a significant 59% cover on OTR book which looks adequate given its dpd construct and collection trends. On the non-OTR Std. portfolio, the bank is holding 80-85 bps provisions which is matching current collection experience.

### Guidance on Key Performance Indicators for FY23

Bank expects a) 30% growth in Gross Advances and faster growth in deposits, b) credit cost of below 1% with further decline in PAR 0 and GNPLs, c) NIM improvement even without lending rate hikes, d) cost/Income ratio of 60-62% and e) RoA of 2.3%+. In Micro Banking, the focus is back on new customer acquisition (incl. in rural areas). Growth in Affordable Housing is being driven by more formal customers and semi-urban geographies. Focus for deposits growth would be on granular retail deposits (the bank has raised retail TD rates post the policy rate hikes).

### Favourable growth and credit cost cycle; upgrade to BUY

Our earnings estimates undergo significant upgrades mainly from lowering of credit cost assumption. It seems cyclically a right time to upgrade USFB to a BUY (from ADD), considering robust collection trends, a significantly shrunk PAR 1-90 bucket in Micro Banking, substantial provisions on stress pool (OTR + GNPL), encouraging repayment pattern of the stress pool and recoveries showing-up even from written-off portfolio. A capital raise to meet SEBI's MPS criteria is impending. In a normal scenario, we see the bank delivering PPOP/Credit Cost/RoA of 4-4.5%/1-1.5%/2-2.25%. The stock currently trades at 0.9x FY24 P/ABV for estimated RoE delivery of 16-17%.

### Exhibit 1: Result table

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Total Operating Income	9,054	8,182	10.6	6,417	41.1
Interest expended	(3,057)	(2,743)	11.4	(2,573)	18.8
Net Interest Income	5,997	5,440	10.2	3,844	56.0
Other Income	951	1,026	(7.3)	730	30.2
Total Income	6,948	6,465	7.5	4,574	51.9
Operating expenses	(4,237)	(4,293)	(1.3)	(2,965)	42.9
PPOP	2,711	2,172	24.8	1,610	68.4
Provisions	(4)	(438)	(99.1)	(4,732)	(99.9)
PAT	2,029	1,265	60.4	(2,334)	(186.9)

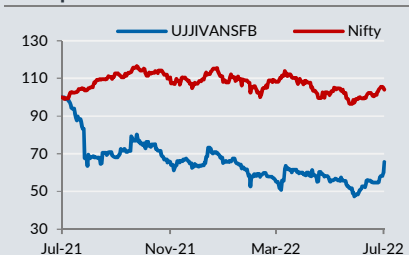
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 19
Target Price	: Rs 26
Potential Return	: 38.3%

### Stock data (as on July 26, 2022)

Nifty	16,484
52 Week h/l (Rs)	30 / 14
Market cap (Rs/USD mn)	33011 / 414
Outstanding Shares (mn)	1,728
6m Avg t/o (Rs mn):	27
Div yield (%):	-
Bloomberg code:	UJJIVANS IN
NSE code:	UJJIVANSFB

### Stock performance



	1M	3M	1Y
Absolute return	35.5%	10.7%	-34.4%

### Shareholding pattern

Promoter	83.3%
FII+DII	0.8%
Others	15.9%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	26	22

### Δ in earnings estimates

	FY22	FY23e	FY24e
EPS (New)	-	2.7	3.2
EPS (Old)	-	2.1	2.6
% Change	-	28.3%	24.5%

### Financial Summary

(Rs mn)	FY22	FY23e	FY24e
Op. income	20,869	27,257	33,556
PPOP	5,905	9,599	12,544
Net profit	(4,146)	5,461	6,564
Growth (%)	-	-	20.2
EPS (Rs)	(2.4)	2.7	3.2
ABVPS (Rs)	14.8	17.9	21.1
P/E (x)	(8.1)	7.1	5.9
P/ABV (x)	1.3	1.1	0.9
ROE (%)	(14.9)	17.6	16.6
ROA (%)	(1.9)	2.1	2.0

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## KEY CON-CALL HIGHLIGHTS

### Guidance on Key Performance Indicators for FY23

- Bank is looking for 30% growth in Gross Advances and faster growth in deposits.
- Credit cost of below 1% with further decline in PAR 0 and GNPLs.
- NIM is expected to improve even if lending rate hikes are not taken with improvement in NPLs.
- Cost/Income ratio to be around current level of 60-61% - milestone of 50% to be achieved thereafter in short-to-medium term.
- RoA to be 2.3%+

### Loan & Deposits Growth

- **MFI Borrower Mix: 35% unique and rest 65% would have either 1 more or 2 more lenders (unlikely more).**
- The bank has been capturing HH income and liability details for many years and thus not many system adjustments were required.
- **Loan rejection rates in MFI during Q1 FY23 were like Q4 FY22**, reflecting no material impact of 50% FOIR criteria – also \*no significant change in incremental loan ATS\* (which was more influenced by % of repeat loans) – ATS for repeat loans around Rs65K (range 35K to 1 lac based on cycle migration).
- **ATS increased significantly over recent quarters due to focus on repeat loans and policy change** (raised ticket size for later cycle loans) – **now focus in back on new customer acquisition (incl. in rural areas).**
- Growth in Affordable Housing Portfolio driven by more formal customers and semi-urban geographies.
- Focus for deposits growth to fund the expected asset growth would be on granular retail deposits (not much reliance on bulk) – the bank has raised retail TD rates post the policy rate hikes.

### Asset Quality

- **GNPL movement in the quarter was Rs1.5-1.6bn slippages, Rs2.1-2.2bn upgradations & recoveries and Rs0.7-0.8bn write-off.**
- Overall collection efficiency at 99-100% in the recent months is on the monthly demand from all customers (current + delinquent + OTR + NPLs).
- **SMA 0,1,2 is miniscule in the OTR portfolio as of June (billed since Dec 2021) – thus no incremental NPL flow risk, as standard OTR customers are regularly paying.**
- One of the key reasons behind overall collection efficiency being strong in Micro Banking is \*not very different behavior of the OTR pool vis-à-vis the Std. book\* – OTR collection rate around 80% with as customers' income has come back to normalcy.
- **About 30% of NPL customers are paying every month** but are not able to improve buckets – implies that incremental write-off would be lesser.
- **Quality of loan origination on both MSE and Affordable Housing has been much better in the past 18-24 months with GNPL of <0.5% on these disbursements.**
- In MSE finance, the focus has shifted to semiformal and formal customer segments and the share of such customers in disbursements is at 45-50% (book share has risen to 22% from 8% a couple of years back).
- In Affordable Housing, incremental focus has been on Salaried customers and their share in disbursement stands around 55% (book share has risen to 47% from 38% a couple of years back).

# Ujjivan Small Finance Bank

- **The non-delinquent portfolio in MSE finance and Affordable Housing has a collection efficiency of 95%+** - further, there has been a sequential decline in MSE NPLs on account of significant upgrades.
- Total provisions at Rs12.9bn, of which Rs9.1bn on GNPL, Rs2.5bn Floating Provisions (Rs2.3bn considered for PCR) and Rs1.3bn on the Std. assets - OTR NPLs have been fully provided for.
- ~Rs15bn slippages in Micro Banking portfolio due to Covid - of this, around Rs7bn was collected/recovered and ~Rs8bn was written off - **recovery from the written-off pool has been around Rs650mn thus far and further recoveries are likely in coming quarters.**

## Merger Update

- **Equity capital raise to meet SEBI's MPS requirement would be done by December.**
- Post the capital raise, the bank would seek various regulatory approvals - expecting similar timelines for approvals as Equitas SFB.
- **No observation from RBI with respect to PSL Agri classification of Micro Banking loans** (as the categorization was followed in spirit) - requirement of additional documents (land records being one) came from Sept 2020 but only for loans >Rs2 lacs.

## Exhibit 2: Business Data

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Gross loan book	194,100	181,600	6.9	140,370	38.3
Micro - Group	111,580	102,710	8.6	78,610	41.9
Micro - Individual	20,420	18,980	7.6	15,530	31.5
Agri. & Allied	1,640	1,750	(6.3)	1,990	(17.6)
MSE	17,670	17,100	3.3	12,720	38.9
Affordable Housing	29,050	27,340	6.3	20,960	38.6
Others	13,740	13,720	0.1	10,560	30.1
Disbursements	43,270	48,690	(11.1)	13,130	230
Micro - Group	29,710	35,090	(15.3)	6,600	350.2
Micro - Individual	5,270	4,380	20.3	1,380	281.9
Agri. & Allied	170	320	(46.9)	130	30.8
MSE	2,540	3,120	(18.6)	1,060	139.6
Affordable Housing	2,880	3,040	(5.3)	1,120	157.1
Others	2,700	2,740	(1.5)	2,840	(4.9)
Deposits	184,490	182,920	0.9	136,730	34.9
CASA	51,550	49,930	3.2	27,730	85.9
Retail TD	58,880	51,870	13.5	41,340	42.4
Institutional TD	70,610	73,570	(4.0)	63,790	10.7
CD	3,440	7,560	(54.5)	3,860	-10.9

Source: Company, YES Sec

## Exhibit 3: Key Ratios

(%)	Q1 FY23	Q4 FY22	chg qoq	Q1 FY22	chg yoy
NIM	9.6	10.1	(0.5)	8.0	1.6
Avg. Cost of Funds*	5.9	6.1	(0.2)	6.5	(0.6)
CASA + Retail TD	60	56	4.2	51	9.3
Cost to Income	61.0	66.0	(5.0)	64.6	(3.6)
Gross NPA	6.5	7.3	(0.8)	9.8	(3.3)
PCR	98.0	92.0	6.0	75.0	23.0
Net NPA	0.1	0.6	(0.5)	2.7	(2.6)
RoA	3.4	2.3	1.2	(4.7)	8.1
Tier-1 CAR	18.7	17.7	1.0	24.5	(5.8)

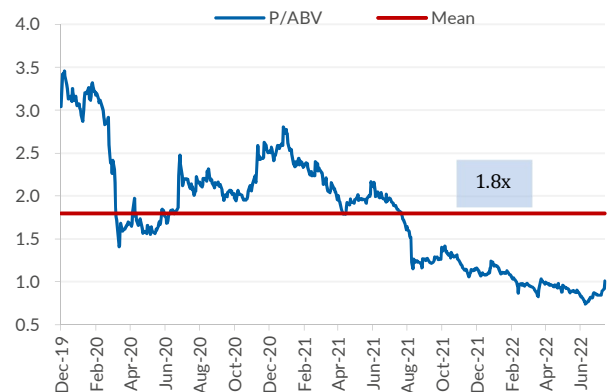
Source: Company, YES Sec; \*Calculated.

## 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)	FY20	FY21	FY22	FY23E	FY24E
Total cash & equivalents	13,433	25,775	21,681	23,915	28,090
Investments	23,961	25,165	41,529	56,065	72,884
Advances	140,436	144,940	163,032	203,790	254,737
<b>Total interest-earning assets</b>	<b>177,831</b>	<b>195,879</b>	<b>226,242</b>	<b>283,770</b>	<b>355,711</b>
Fixed assets	3,005	2,807	2,494	2,743	3,018
Other assets	3,277	5,118	7,309	8,770	10,525
<b>Total assets</b>	<b>184,112</b>	<b>203,804</b>	<b>236,045</b>	<b>295,283</b>	<b>369,254</b>
<b>Net worth</b>	<b>29,877</b>	<b>29,964</b>	<b>25,818</b>	<b>36,279</b>	<b>42,842</b>
Deposits	107,805	131,357	182,922	228,653	290,389
Borrowings	39,533	32,473	17,636	19,399	23,279
<b>Total interest-bearing liabilities</b>	<b>147,338</b>	<b>163,831</b>	<b>200,558</b>	<b>248,052</b>	<b>313,668</b>
Non-interest-bearing liabilities	6,898	9,786	9,461	10,953	12,743
<b>Total liabilities</b>	<b>154,235</b>	<b>173,617</b>	<b>210,018</b>	<b>259,005</b>	<b>326,411</b>
<b>Equity &amp; Total liabilities</b>	<b>184,112</b>	<b>203,804</b>	<b>236,045</b>	<b>295,283</b>	<b>369,254</b>

Source: Company, YES Sec

### Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Interest Income	27,036	28,061	28,128	36,763	46,209
Interest expense	(10,700)	(10,775)	(10,392)	(13,579)	(17,845)
<b>Net interest income</b>	<b>16,336</b>	<b>17,286</b>	<b>17,736</b>	<b>23,184</b>	<b>28,364</b>
Non-interest income	3,222	3,023	3,133	4,073	5,192
<b>Total op income</b>	<b>19,558</b>	<b>20,309</b>	<b>20,869</b>	<b>27,257</b>	<b>33,556</b>
Total op expenses	(13,186)	(12,301)	(14,964)	(17,657)	(21,012)
<b>PPoP</b>	<b>6,372</b>	<b>8,008</b>	<b>5,905</b>	<b>9,599</b>	<b>12,544</b>
Provisions	(1,710)	(7,906)	(11,408)	(2,350)	(3,831)
Profit before tax	4,662	102	(5,504)	7,250	8,713
Taxes	(1,163)	(19)	1,358	(1,788)	(2,150)
<b>Net profit</b>	<b>3,499</b>	<b>83</b>	<b>(4,146)</b>	<b>5,461</b>	<b>6,564</b>

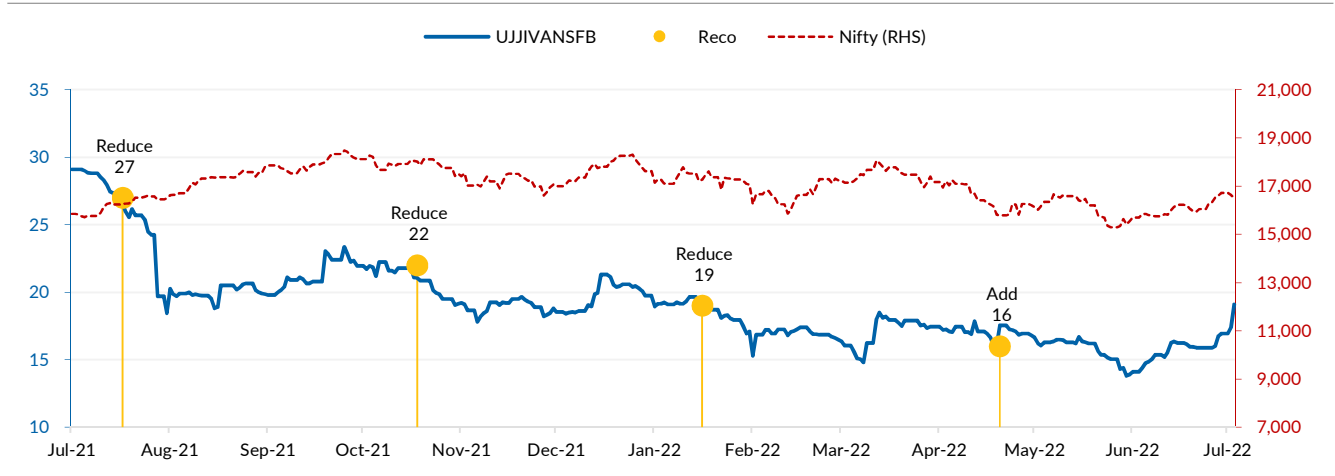
Source: Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
Net interest income	47.6	5.8	2.6	30.7	22.3
Total op income	49.0	3.8	2.8	30.6	23.1
Op profit (pre-provision)	106.2	25.7	(26.3)	62.6	30.7
Net profit	75.6	(97.6)	(5,094.9)	(231.7)	20.2
Advances	33.1	3.2	12.5	25.0	25.0
Deposits	46.1	21.8	39.3	25.0	27.0
Total assets	34.0	10.7	15.8	25.1	25.1
<b>Profitability Ratios (%)</b>					
NIM	13.0	11.8	10.7	11.3	11.1
Non-interest income /Total income	16.5	14.9	15.0	14.9	15.5
Return on Equity	15.2	0.3	(14.9)	17.6	16.6
Return on Assets	2.2	0.0	(1.9)	2.1	2.0
<b>Per share ratios (Rs)</b>					
EPS	2.0	0.0	(2.4)	2.7	3.2
Adj. BVPS	17.1	17.1	14.8	17.9	21.1
<b>Other key ratios (%)</b>					
Cost/Income	67.4	60.6	71.7	64.8	62.6
Tier-I Capital	27.7	26.2	24.8	27.9	26.4
Gross NPLs/Loans	1.0	7.1	7.3	4.0	2.0
Net NPLs/Net loans	0.3	2.9	0.7	0.5	0.5
Tax rate	24.9	18.6	24.7	24.7	24.7

Source: Company, YES Sec

## Recommendation Tracker



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**NEUTRAL:** Upside between 0% to 10% over 12 months

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