

Retail Equity Research (South India Focus)

Ujjivan Financial Services Ltd.

Banking/Finance

BSE CODE : 539874 NSE CODE: UJJIVAN
BLOOMBERG CODE: UJJIVAN:IN SENSEX : 37,333

Reduce

12M Investment Period

Rating as per Small Cap

CMP Rs. 304 TARGET Rs. 276 RETURN -9% 
(Closing: 30-08-19)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Persisting challenges amid robust performance

Ujjivan Small Finance Bank, the wholly owned subsidiary of Ujjivan Financial Services Ltd. (USFL) serves over 47 lakh customers through 524 branches and 15,626 employees spread across 221 districts of 24 states in India with gross loan book size of Rs11,783cr. Also, it has about 474 full-service banking outlets with a deposit base of Rs7,956cr.

- The gross loan book has grown at 51% on a YoY basis to reach Rs11,783cr, with micro banking segment mix at 82% .
- The deposit base grew by 109% YoY, thus effectively covering 68% of the total loans and advances, compared to 49% in Q1FY19.
- The GNPA has improved to 0.8% in the current quarter compared to 2.7% a year ago, while the NNPA remained stable at 0.3%.
- The separate listing of the small finance bank is negative for the USFL shareholders, as they may end up with only the holding company shares with out any clarity on the reverse merger.
- We reduce our valuation to 1.4x FY21E Adj.BVPS and downgrade our rating to Reduce from Accumulate with a target price of Rs276.

Robust performance with 51% YoY growth in gross advances

The gross loans and advances have reached Rs11,783cr in the current quarter, registering a growth of 51% on a YoY basis. The micro banking segment which constitute about 82% of the gross loans & advances have registered around 37% YoY growth, while the lower base MSE and affordable housing loans, which constitute around 5.8% and 8.5% of the loans mix have grown by 145% and 142% respectively. The deposit base grew by 109% on a YoY basis to reach Rs7,956cr, which apparently cover around 68% of the total loans and advances compared to 49% in Q1FY19, which will effectively reduce the dependence on borrowings for lending, to bring down the cost of funds. The retail deposit base currently forms 43.1% of the total deposits compared to 19.7% a year ago. The banks CASA ratio has increased by 410bps, from 6.3% in Q1FY 19 to 10.4% in Q1FY20.

Improvement in asset quality both yearly & sequentially

The gross non-performing assets (GNPA) has improved from 2.7% in Q1FY19 to 0.8% in the current quarter, whereas the Net NPA has remained almost stable at 0.3%. However, the provision coverage ratio (PCR) has declined from 88% in Q1FY19 to 69% in the current quarter. The portfolio at risk (PAR) has reduced from 3.3% in Q1FY19 to 1.8% in Q1FY20.

Separate listing requirement to outweigh the positives

As per the Small Finance Bank licensing condition of the Reserve Bank of India, the company need to undertake a separate listing of the Ujjivan Small Finance Bank (USFB) by January 2020. In this regard, the company has filed a draft red herring prospectus (DRHP) with SEBI dated 14th August 2019, where USFB proposes to undertake an IPO of equity shares, comprising a fresh issue aggregating up to Rs1,200cr. Also, currently we don't have any clarity over the possibility of a reverse merger going ahead, which will be subjected to the approval by the RBI, and may end up with the current shareholders of the Ujjivan Financial Services owning only the holding company shares. In these circumstances, the stock can trade on a significant discount.

Valuations

Though solid performance continues, the separate listing of Ujjivan Small Finance Bank will be negative for the current shareholders, as it will ultimately lead to a considerable holding company discount and dilution. Hence, we reduce our valuation to 1.4x FY21E Adj.BVPS (previous 1.95x) and arrive at a target price of Rs276, and downgrade our rating to Reduce from Accumulate.

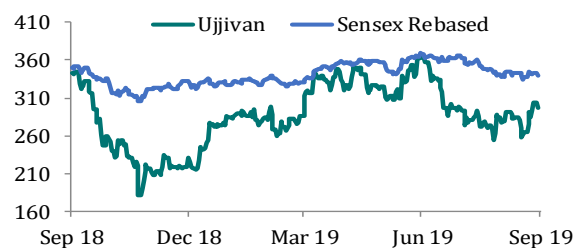
Company Data

| | |
|-------------------------|---------|
| Market Cap (cr) | Rs3,678 |
| Outstanding Shares (cr) | 12.1 |
| Free Float | 100% |
| Dividend Yield | 0.2% |
| 52 week high | Rs372 |
| 52 week low | Rs167 |
| 6m average volume (cr) | 0.23 |
| Beta | 1.6 |
| Face value | Rs10 |

| Shareholding (%) | Q3FY19 | Q4FY19 | Q1FY20 |
|------------------|--------|--------|--------|
| Promoters | 0 | 0 | 0 |
| FPI's | 9 | 14 | 14 |
| MFs/Institutions | 47 | 43 | 43 |
| Public | 44 | 43 | 43 |
| Total | 100 | 100 | 100 |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return | -18.8% | -7.4% | -15.9% |
| Absolute Sensex | -7.9% | 0.5% | -3.6% |
| Relative Return* | -10.9% | -8.0% | -12.3% |

*over or under performance to benchmark index



| Consolidated (cr) | FY19A | FY20E | FY21E |
|-------------------|-------|-------|-------|
| NII | 1,190 | 1,517 | 1,939 |
| Growth(%) | 32.4 | 27.5 | 27.8 |
| NIM(%) | 10.91 | 10.39 | 10.61 |
| Provisions | 66 | 78 | 104 |
| Adj. PAT | 150 | 266 | 318 |
| Growth(%) | 480 | 76.8 | 19.5 |
| Adj. EPS | 12.4 | 21.9 | 26.2 |
| Growth(%) | 476 | 77.1 | 19.5 |
| BVPS | 155 | 175 | 199 |
| Adj BVPS | 153 | 173 | 197 |
| P/E | 24.5 | 13.9 | 11.6 |
| P/B | 1.96 | 1.74 | 1.52 |
| Adj. P/B | 1.99 | 1.76 | 1.54 |
| ROE (%) | 8.3 | 13.3 | 14.0 |

Abijith T Cherian
Research Analyst

Quarterly Financials (Consolidated)

| (Rs cr) | Q1FY20 | Q4FY19 | QoQ Growth (%) | Q1FY19 | YoY Growth (%) | FY19 |
|---------------------------|--------|--------|----------------|--------|----------------|-------|
| Interest Income | 626 | 562 | 11% | 422 | 48% | 1,917 |
| Interest Expense | 263 | 216 | 22% | 161 | 63% | 727 |
| Net Interest Income (NII) | 363 | 346 | 5% | 261 | 39% | 1,190 |
| Fee and Other Income | 63 | 28 | 128% | 35 | 81% | 97 |
| Total Income | 426 | 374 | 14% | 296 | 44% | 1,287 |
| Expenditure | 280 | 303 | -8% | 220 | 28% | 1,017 |
| Pre-Provision Profit | 146 | 70 | 108% | 76 | 91% | 270 |
| Provision | 19 | 27 | -29% | 6 | 224% | 66 |
| PBT | 127 | 43 | 192% | 70 | 80% | 204 |
| Tax | 44 | 0 | - | 24 | 82% | 54 |
| Reported PAT | 83 | 43 | 92% | 46 | 79% | 150 |
| Adjustment | - | - | - | - | - | - |
| Adj. PAT | 83 | 43 | 92% | 46 | 79% | 150 |
| Diluted EPS (Rs) | 6.83 | 3.55 | 92% | 3.82 | 79% | 12.38 |

Change in Estimates

| | Old estimates | | New estimates | | Change % | |
|---------------------------|---------------|-------|---------------|-------|----------|--------|
| Year / Rs Cr | FY20E | FY21E | FY20E | FY21E | FY20E | FY21E |
| Net Interest Income (NII) | 1,301 | 1,746 | 1,517 | 1,939 | 16.6% | 11.0% |
| Net Interest Margin (%) | 9.1 | 9.6 | 10.4 | 10.6 | 127bps | 99bps |
| Pre-Provision Profit | 298 | 391 | 487 | 593 | 63.3% | 51.7% |
| Adj. PAT | 263 | 354 | 263 | 307 | 0.1% | -13.3% |
| Diluted EPS (Rs) | 21.7 | 29.3 | 21.7 | 25.3 | -0.3% | -13.7% |

Quarterly Financials (Ujjivan Small Finance Bank)

| (Rs cr) | Q1FY20 | Q4FY19 | QoQ Growth (%) | Q1FY19 | YoY Growth (%) | FY19 |
|---------------------------|--------|--------|----------------|--------|----------------|-------|
| Interest Earned | 605 | 536 | 13% | 406 | 49% | 1,832 |
| Interest Expense | 253 | 216 | 17% | 161 | 57% | 725 |
| Net Interest Income (NII) | 353 | 320 | 10% | 245 | 44% | 1,106 |
| Other Income | 100 | 66 | 51% | 53 | 88% | 206 |
| Total Income | 453 | 386 | 17% | 299 | 52% | 1,312 |
| Expenditure | 291 | 302 | -3% | 214 | 36% | 1,003 |
| Pre-Provision Profit | 161 | 85 | 91% | 84 | 92% | 309 |
| Provision | 67 | 21 | 221% | 38 | 76% | 110 |
| Reported Profit | 95 | 64 | 48% | 46 | 105% | 199 |

Based on I-GAAP

Consolidated Financials

PROFIT & LOSS

| Y.E March (Rs cr) | FY17A | FY18A | FY19A | FY20E | FY21E |
|--------------------|-------|--------|--------|--------|-------|
| Interest Income | 1,226 | 1,500 | 1,917 | 2,601 | 3,269 |
| Interest Expense | 543 | 602 | 727 | 1,084 | 1,331 |
| Net Int. Income | 683 | 899 | 1,190 | 1,517 | 1,939 |
| Change | 34.6% | 31.6% | 32.4% | 27.5% | 27.8% |
| Non Int. Income | 124 | 44 | 97 | 202 | 196 |
| Total Income | 807 | 943 | 1,287 | 1,718 | 2,135 |
| Operating Expenses | 458 | 662 | 1,017 | 1,232 | 1,542 |
| Pre Prov. Profit | 349 | 281 | 270 | 487 | 593 |
| Change | 25.9% | -19.4% | -4.0% | 80.3% | 21.8% |
| Prov. & Conting. | 75 | 236 | 66 | 78 | 104 |
| PBT | 322 | 45 | 204 | 409 | 489 |
| Change | 18.3% | -86.1% | 357.2% | 100.2% | 19.7% |
| Tax | 114 | 19 | 54 | 143 | 171 |
| Tax Rate (%) | 35% | 42% | 26% | 35% | 35% |
| Reported PAT | 208 | 26 | 150 | 266 | 318 |
| Adj* | 0 | 0 | 0 | 0 | 0 |
| Adj. PAT | 208 | 26 | 150 | 266 | 318 |
| Change | 17.2% | -87.5% | 479.7% | 76.8% | 19.5% |
| No. of shares (Cr) | 11.9 | 12.1 | 12.1 | 12.1 | 12.1 |
| EPS (Rs) | 17.4 | 2.2 | 12.4 | 21.9 | 26.2 |
| Change | -0.7% | -87.6% | 475.8% | 77.1% | 19.5% |
| DPS (Rs) | 0.5 | 0.8 | 1.4 | 1.5 | 1.5 |

BALANCE SHEET

| Y.E March (Rs cr) | FY17A | FY18A | FY19A | FY20E | FY21E |
|---------------------|-------|-------|--------|--------|--------|
| Cash | 714 | 576 | 1,079 | 876 | 1,012 |
| Loans & Advances | 5,729 | 7,323 | 10,931 | 13,923 | 17,106 |
| Investments | 1,456 | 1,244 | 1,548 | 2,045 | 2,715 |
| Gross Fixed Assets | 72 | 144 | 275 | 419 | 577 |
| Net Fixed Assets | 72 | 118 | 207 | 231 | 257 |
| CWIP | 3 | 4 | 2 | 3 | 3 |
| Intangible Assets | 64 | 76 | 75 | 73 | 68 |
| Def. Tax (Net) | 76 | 92 | 76 | 99 | 99 |
| Other Assets | 181 | 89 | 108 | 238 | 302 |
| Total Assets | 8,295 | 9,522 | 14,026 | 17,486 | 21,561 |
| Deposits | 106 | 3,773 | 7,259 | 9,853 | 13,059 |
| Debt Funds | 6,241 | 3,803 | 4,533 | 4,993 | 5,430 |
| Other Liabilities | 231 | 191 | 322 | 476 | 603 |
| Provisions | 16 | 24 | 34 | 42 | 52 |
| Equity Capital | 119 | 121 | 121 | 121 | 121 |
| Reserves & Surplus | 1,581 | 1,611 | 1,757 | 2,001 | 2,297 |
| Shareholder's Funds | 1,700 | 1,732 | 1,878 | 2,122 | 2,418 |
| Total Liabilities | 8,295 | 9,522 | 14,026 | 17,486 | 21,561 |
| BVPS (Rs) | 147.0 | 143.3 | 155.0 | 174.9 | 199.2 |
| Change | 24.2% | -2.5% | 8.1% | 12.8% | 13.9% |
| Adj. BVPS (Rs) | 142.3 | 139.1 | 152.7 | 172.7 | 197.3 |
| Change | 23.9% | -2.2% | 9.8% | 13.1% | 14.2% |

RATIOS

| Y.E March | FY17A | FY18A | FY19A | FY20E | FY21E |
|----------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| Interest yield (%) | 22.4 | 18.2 | 17.6 | 17.8 | 17.9 |
| Cost of funds (%) | 10.6 | 8.5 | 7.4 | 8.1 | 7.9 |
| Spread(%) | 11.8 | 9.7 | 10.1 | 9.7 | 10.0 |
| NIM (%) | 11.0 | 11.0 | 10.9 | 10.4 | 10.6 |
| ROE (%) | 14.1 | 1.5 | 8.3 | 13.3 | 14.0 |
| ROA(%) | 2.9 | 0.3 | 1.3 | 1.7 | 1.6 |
| Business Growth | | | | | |
| Loans & Advances (%) | 17.1 | 27.8 | 49.3 | 27.4 | 22.9 |
| Deposits (%) | - | - | 92.4 | 35.7 | 32.5 |
| Operating Ratios | | | | | |
| Cost to Income (%) | 55.2 | 70.2 | 79.0 | 71.7 | 72.2 |
| Asset Quality | | | | | |
| GNPA (%) | 0.3 | 3.6 | 0.9 | 0.6 | 0.5 |
| NNPA (%) | 0.0 | 0.7 | 0.2 | 0.2 | 0.1 |
| Valuation | | | | | |
| P/E (x) | 17.5 | 141.3 | 24.5 | 13.9 | 11.6 |
| P/B (x) | 2.1 | 2.1 | 2.0 | 1.7 | 1.5 |
| Adj. P/B (x) | 2.1 | 2.2 | 2.0 | 1.8 | 1.5 |

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

| Dates | Rating | Target |
|-----------------|------------|--------|
| 16 March 17 | Buy | 520 |
| 11 May 17 | Buy | 415 |
| 09 August 17 | Buy | 391 |
| 07 November 17 | Buy | 426 |
| 15 February 18 | Accumulate | 413 |
| 14 May 18 | Buy | 470 |
| 04 September 18 | Accumulate | 399 |
| 20 November 18 | Accumulate | 249 |
| 25 January 19 | Accumulate | 334 |
| 03 June 19 | Accumulate | 406 |
| 03 September 19 | Reduce | 276 |

Investment Criteria

| Large Cap Stocks; | | | Mid Cap and Small Cap; | | |
|-------------------|---|-----------------------------|------------------------|---|------------------------------|
| Buy | - | Upside is above 10%. | Buy | - | Upside is above 15%. |
| Hold | - | Upside is between 0% - 10%. | Accumulate | - | Upside is between 10% - 15%. |
| Reduce | - | Downside is more than 0%. | Hold | - | Upside is between 0% - 10%. |
| Neutral | - | Not Applicable | Reduce/Sell | - | Downside is more than 0%. |
| | | | Neutral | - | Not Applicable |

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL. Neutral- The analyst has no investment opinion on the stock under review

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