


Ujjivan Financial Services Ltd.

Industry Financial
Bloomberg UJJIVAN IN
BSE CODE 539874

Consistent Strong Growth and Steady Asset Quality

RATING	BUY
CMP	311
Price Target	364
Potential Upside	17%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	372/167
Mkt Capital (Rs Cr)	3,773
Free float (%)	77%
Avg. Vol 1M (,000)	2,551
No. of Shares (Cr)	12
Promoters Pledged %	

Fig. in Rs Cr

	FY19	FY20E	FY21E
NII	1226	1633	2014
PPP	270	589	853
PAT	150	348	506
NIM %	11.5	11.1	10.4
EPS (Rs)	12	29	42
EPS	483	131	46
ROE (%)	8.3	17.0	20.6
ROA (%)	1.3	2.2	2.4
BV	155	183	223
P/B (X)	2.0	1.7	1.4
P/E (x)	25.0	10.8	7.4

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2QFY20 Result Update

□ NII has grown at a rate of 59% YoY majorly driven by strong AUM growth of 55% YoY. Other income has declined to Rs 19 Cr as at 2QFY20. PAT has grown at 43% YoY. NIM has declined to 10.8% from 11% YoY on the back of the rise in the secured lending in the MSE segment & fall in Micro lending.

□ C/I ratio is at 71% as at 2QFY20, management has converted 46 branches and opened 36 new branches including 21 URC

□ AUM has grown at the rate of 55% YoY, the growth was majorly driven by the non-MFI segment. The share of MFI business has declined to 79% as of 2QFY20. The deposit has shown a strong growth standing at Rs 10130 Cr with CASA improving to 12% as of 2QFY20. The retail deposit stood at 42% of the total liability mix.

□ PAR 0 has improved to 1.6% from 1.8% QoQ. The GNPA has slightly risen to 90 bps from 80 bps QoQ as at 2QFY20 while NNPA stood steady at 30 bps as at 2QFY20. PCR stood at 61% as of 2QFY20.

□ Management has guided to list the UJJIVAN SFB by 3QFY20. The IPO is expected to be a fresh issue of capital with almost Rs 120 Cr to be reserved for the retail investor which is expected to proceed with a 10% discount.

AUM & Deposit Growth Remain Strong

AUM has grown at a robust rate of 55% driven by both the micro banking & non-micro banking segment. The disbursement stood strong at 51% YoY majorly driven by group loans. Cashless disbursement stands at 95%. The ticket size of group loans and individual loans has increased to Rs 33316 Cr & Rs 88592 Cr while MSE and affordable housing stands at Rs 14.3 Lakh and Rs 10 Lakh. The retail deposit stood at 42% as of 2QFY20. The share of CASA is prominent in the incremental deposit addition every quarter.

Asset Quality Steady State

The slippages stand elevated at Rs 41 Cr v/s Rs 23 Cr QoQ while reduction stood at Rs 28 Cr v/s Rs 26 Cr QoQ. The GNPA in the group loan & individual loan segment stood steady at 20 bps & 30 bps QoQ but MSE and Housing segment stood at 1.50% & 70 bps from 1% & 50 bps QoQ.

Strong Growth in NII driven by AUM and NIM under pressure

Overall Yield has remained stable at 21% along with micro banking at 21%, affordable housing segment at 14% but the MSE segment has declined to 17% from 19% YoY. The cost of the fund stood steady at 9.3% while the average cost of borrowing has declined from 8.5% to 8.4% QoQ. The cost of the deposit remains steady at 8%.

Other Details

The share of fresh to new customer disbursement stands at 37%:63%. Customer acquisition stood at 49.4 lakh as at 2QFY20 v/s 40.2 lakhs YoY.

View and Valuation

UJJIVAN has maintained strong growth driven by all the segments. The margins remain under pressure with the fall in the MFI segment and the rising share of the secured book. The asset quality remains unaffected even with the raging flood situation in the country. With the conversion into a bank, management has centered its focus on building strong liability franchise, CASA stood at 12% as at 2QFY20 from 9% YoY. UJJIVAN has started the preliminary steps for the IPO and expects it to get completed by 3QFY20. We value the stock at 1.6x FY21e at Rs 364. We maintain BUY.

Key Risks to our rating and target

- Margin pressure with rising share of secured book.
- Lag in operational efficiency.

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2QFY20 Results Below Expectation

Strong Growth

Fig. in Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	429	470	572	635	691	61.0%	8.8%	1,515	1,953	28.9%
Interest Exp.	167	183	216	263	273	63.8%	3.8%	602	727	20.9%
Nil	263	288	356	372	418	59.2%	12.3%	913	1,226	34.2%
Other Income	38	42	18	54	19	-50.8%	-65.4%	30	61	102.7%
Total Income	301	330	374	426	437	45.3%	2.5%	943	1,287	36.4%
Opex Exp.	233	256	302	280	311	34.0%	11.1%	662	1,017	53.6%
PPP	68	74	72	146	125	83.9%	-14.0%	281	270	-4.0%
Provisions	6	7	12	19	33	425.1%	73.2%	236	66	-72.2%
PBT	62	67	59	127	93	49.8%	-26.9%	45	204	3.57275
Tax	18	22	9	44	30	68%	-32.6%	19	54	1.83898
Extra Items	-	-	-	-	-			-	-	
Net Profit	44	45	50	83	63	42.7%	-23.9%	26	150	484%

Concall Highlights

- Management focuses on improvement on cost and business operations. Profitability was driven by strong growth and tax benefit.
- Gross advance were driven by 51% growth on disbursement.
- Management has taken a number of initiative to improve cashless disbursement.
- MSE business was mainly driven by secured lending which constitute 84% of the book. The ticket size are increasing in this segment while yield has declined marginally.
- Retail deposit which constitute 42% of total deposit. CASA is at 12% of the deposit.
- Cost of funds stood at 8.4%.
- Agriculture portfolio has grown at 21% of rural banking portfolio.
- Par greater than 0 has declined to 1.6 from 1.9 QoQ. Odisha FANI exposure & MSE unsecure book has been adding to NPA..
- Management has converted 46 new branches and opened 36 new branches including 21 URC.
- Ujjivan SFB is expected to get listed by next 3QFY20.
- For retail investor reservation for IPO stood at Rs 120 Cr which investor will be eligible to get 10% discount. Fresh capital will be raised in the IPO.
- Ujjivan will start dialogue with RBI for reverse merger or the entity has to dilute shareholding by 40%. Management plans to apply for universal banking license by 2023.
- Management has guided to define the retail investor going forward which mainly constitute individuals, HUF and some segments of HNIs.
- Other income from 1HFY20 consist of processing income Rs 82 Cr, PSLC Rs 46 Cr, 3rd party income is Rs 9 Cr, miscellaneous income is Rs 22 Cr.
- 30% of customer is unique to Ujjivan. Rejection rate is at 18% which includes both fresh and repeat. New customer has a rejection rate of 22% while older customers is at 14%.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	56.9	74.2	77.3	77.7	80.8	65.8	71.3	-6.03	5.51
Empl. Cost/ Tot. Exp. %	54.7	52.7	52.3	53.6	50.5	58.4	58.6	6.28	0.20
Other Exp/Tot. Exp.%	38.3	41.8	41.2	39.9	44.0	29.5	29.7	-11.56	0.20
Provision/PPP %	26.2	7.6	9.1	9.5	17.3	12.9	26.0	16.86	13.07
Tax Rate %	33.7	34.3	28.5	32.2	15.3	34.6	31.9	3.38	-2.69
Int Exp./Int Inc. (%)	36.3	37.8	38.8	38.8	37.8	41.4	39.5	0.68	-1.90
Other Inc./NII %	0.5	0.4	0.5	0.5	0.2	0.5	0.1	-0.31	-0.31
PPP/ Net Income %	43.1	25.8	22.7	22.3	19.2	34.2	28.7	6.03	-5.51
PAT/ Net Income %	21.1	15.6	14.7	13.7	13.5	19.5	14.5	-0.26	-5.02
NII Growth % (YoY)	111.4	59.3	41.0	32.8	32.1	40.6	59.2	18.20	18.55
PPP Growth YoY %	217.3	71.3	(2.8)	(2.2)	(45.8)	91.2	83.9	86.70	-7.29
PAT Growth %	235.2	161.8	469.8	54	(22.4)	79.5	42.7	-427.03	-36.75

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	20.7	20.2	19.3	19.9	22.0	22.0	21.5	2.23	-0.50
Cost Of Funds	9.0	9.0	8.7	8.8	9.2	10.0	9.3	0.62	-0.74
Spreads	11.8	11.2	10.6	11.0	12.7	12.0	12.3	1.62	0.24
NIM	12.8	10.7	11.0	10.8	10.9	10.5	10.8	-0.20	0.30

Exhibit: Yield and Cost

Spreads has Improved

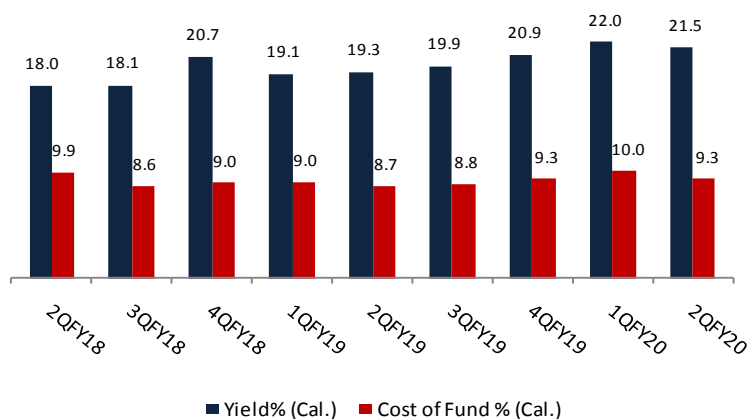
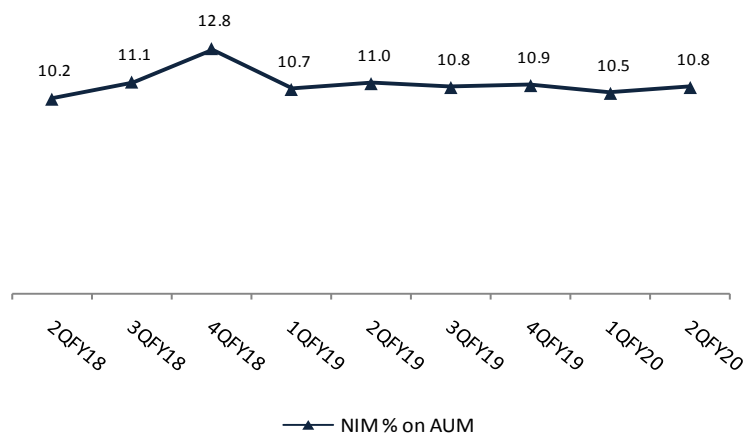


Exhibit: Net Interest Margin

NIM Expansion QoQ



Asset & Borrowings Growth Trend

Fig. In Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	1954	2134	2263	2091	2383	2885	3727	2958	3606
Growth YoY %	-11	28	61	23	22	35	65	41	51
AUM	6669	7095	7552	7787	8317	9349	11049	11783	12863
Growth YoY %	3	8	18	21	25	32	46	51	55
Borrowings	6469	6871	7625	7775	8525	9244	11971	12292	13600
Growth YoY %	38	32	17	21	32	35	57	58	60

Exhibit: AUM Growth%

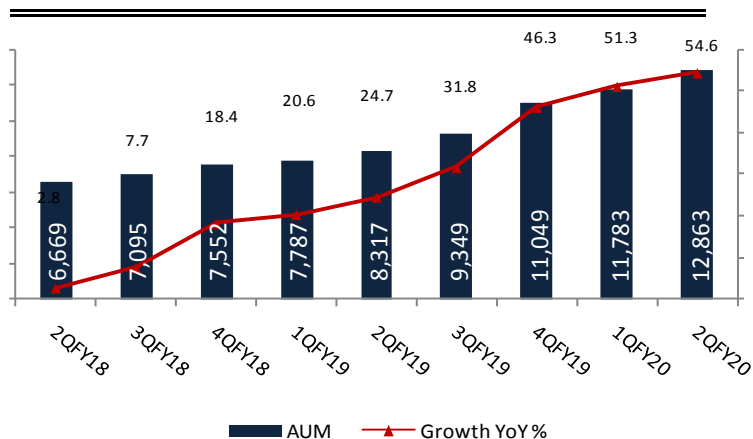
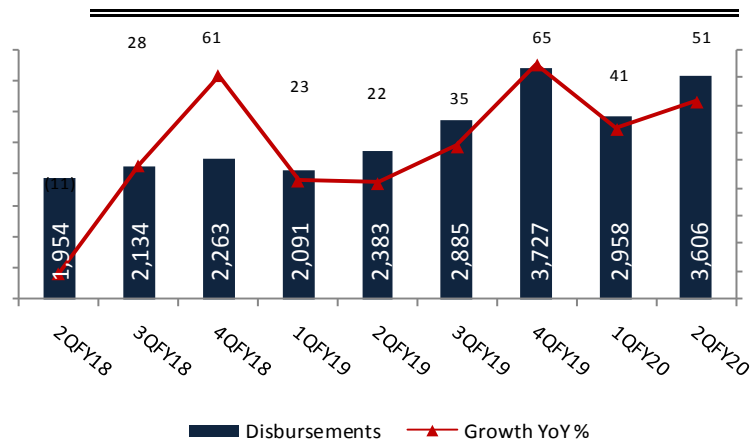


Exhibit: Deposit & % of Deposit as to Borrowings



Asset Mix%

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Microfinance	95.7	94.5	92.8	90.2	88.0	85.5	83.0	79.5	78.5
Housing Finance	2.5	3.2	4.3	5.4	6.4	7.1	7.5	8.5	9.4
MSE	1.8	2.3	3.0	3.6	4.2	4.8	5.3	5.8	6.5
Others	-	-	-	0.9	1.4	2.5	4.2	6.1	1.5

Asset Quality

Fig. In Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA	276	210	158	131	128	98	96	(62)	(2)
GNPA %	3.6	2.7	1.9	1.4	0.9	0.8	0.9	(1.0)	0.1
NNPA	51	23	25	28	98	96	109	84	14
NNPA %	0.7	0.3	0.3	0.3	0.3	0.3	0.3	-	-
Total Specific PCR %	82	88	85	81	72	69	61	(24)	(8)

NNPA%

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Group Loans (%)	1.00	0.60	0.30	0.30	0.20	0.20	0.20	0.20
Individual Loan (%)	2.30	1.70	0.80	0.50	0.40	0.30	0.30	0.30
MSE (%)	0.50	0.50	0.60	0.60	1.00	0.90	1.00	1.50
Housing(%)	0.10	0.10	0.10	0.10	0.20	0.40	0.50	0.70

Exhibit: Credit Cost

Spike in Credit cost

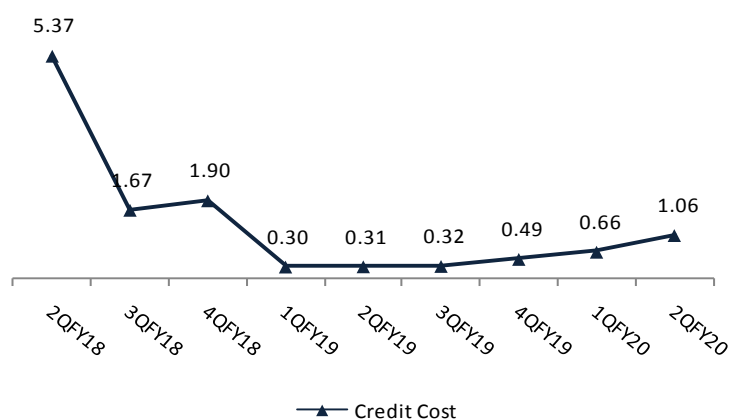


Exhibit: Provisions

PCR has decreased sequentially

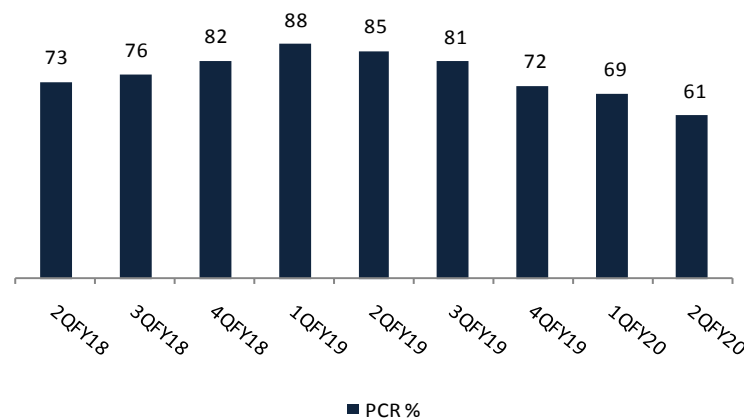


Exhibit: AUM Break Up

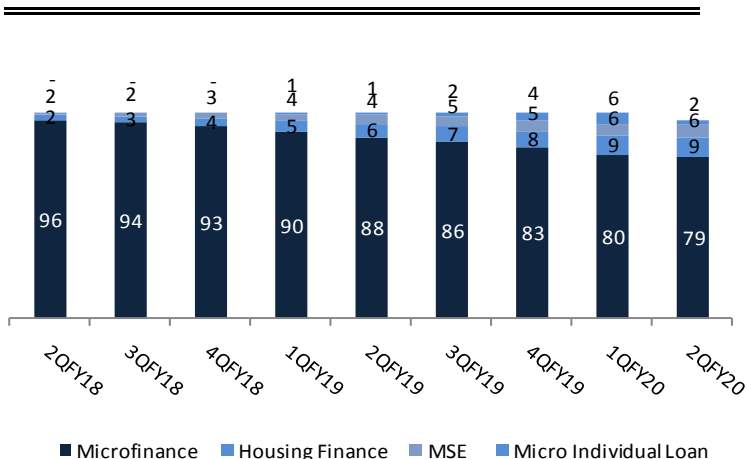
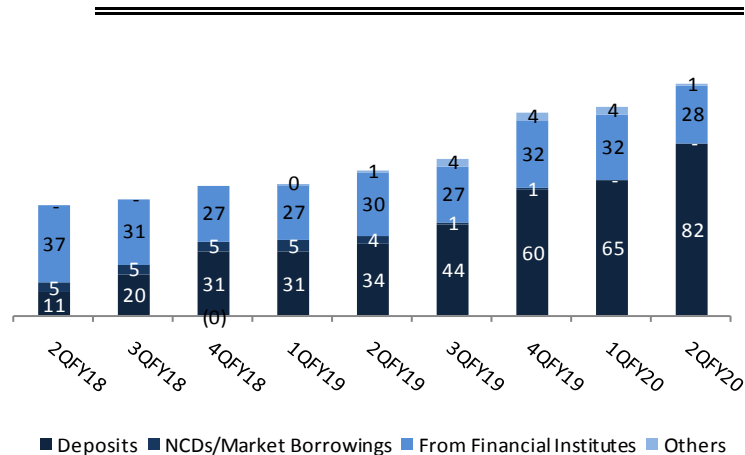


Exhibit: Borrowings Break Up



Borrowing Mix%

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Deposits (%)	20	31	31	34	44	60	65	82
NCDs/Market Borrowings (%)	5	5	5	4	1	1	-	-
Financial Institutes (%)	31	27	27	30	27	32	32	28
Others (%)	-	(0)	0	1	4	4	4	1

Deposit

Fig. In Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Deposit	2,436	3,772	3,803	4,189	5,376	7,379	7,957	10,129
>> CASA	90	138	239	377	561	784	827	1,202
>>TD	2346	3634	3564	3812	4815	6595	7130	8927
>>CD	1379	2166	1746	1162	963	982	247	762

Others

Fig. In Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Overall PAR	384	305	256	267	220	167	206	211
PAR>0 (%)	271.6	261.5	220	173	150	124	127	134

Customers%

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Repeat (%)	73	67	71	73	72	67	57	63
Fresh (%)	27	33	29	27	28	33	43	37

Exhibit: Asset Quality

Steady Asset Quality

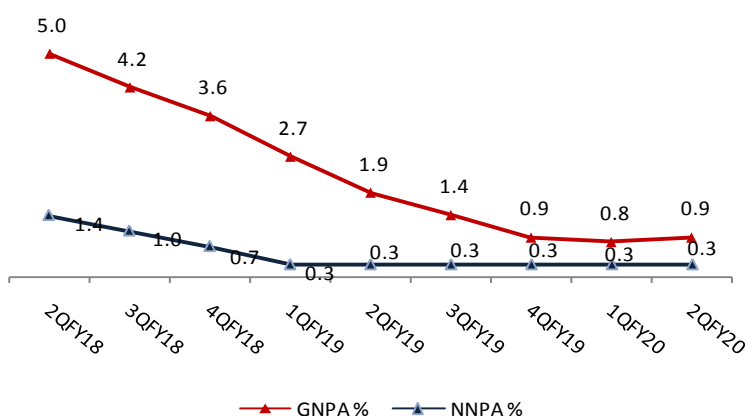
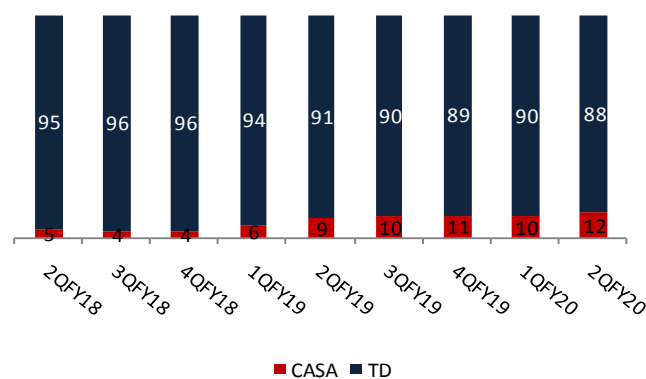


Exhibit: Provisions

Share of CASA improving



Financial Details

Balance Sheet

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	66	86	101	119	121	121	121	121
>> Equity Capital	66	86	101	119	121	121	121	121
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	307	650	1,097	1,636	1,611	1,757	2,092	2,584
Networth	373	736	1,198	1,755	1,732	1,878	2,213	2,705
Deposit				206	3,772	7,379	11,474	12,236
Change (%)	N/A	N/A	N/A	N/A	1,731	96	55	7
>> CASA Deposits	-	-	-	3	138	784	1,764	1,902
Change (%)	N/A	N/A	N/A	N/A	4,213	468	125	8
Borrowings	1,650	3,122	4,338	6,292	3,853	4,592	3,993	8,175
Other Liabilities & Provisions	56	118	192	226	-	-	-	-
Total Liabilities	2,079	3,976	5,727	8,479	9,522	14,026	18,102	23,670
Cash Balances	394	645	491	760	576	1,079	422	1,059
Investments	0	0	0	1,447	1,233	1,527	1,951	2,424
Change (%)	1	-	-		(15)	24	28	24
Advances	1,617	3,274	5,064	5,871	7,552	11,049	14,916	19,391
Change (%)	44	102	55	16	29	46	35	30
Fixed Assets	13	18	24	140	198	284	298	368
Other Assets	54	39	147	261	(37)	87	515	428
Total Assets	2,079	3,976	5,727	8,479	9,522	14,026	18,102	23,670

Income Statement

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	348	599	1,007	1,349	1,515	1,953	2,818	3,578
Interest expended	145	271	423	543	602	727	1,184	1,564
Net Interest Income	203	328	584	807	913	1,226	1,633	2,014
Change (%)	43	62	78	38	13	34	33	23
Other Income	10	13	20	48	30	61	157	209
Change (%)	(14)	29	62	137	(38)	103	158	33
Total Net Income	213	340	604	855	943	1,287	1,790	2,223
Operating Expenses	121	205	307	458	662	1,017	1,201	1,370
Change (%)	24	70	50	49	45	54	18	14
>> Employee Expenses	81	133	197	272	373	541	691	781
Pre-provisioning Profit	92	136	297	397	281	270	589	853
Change (%)	64	47	119	34	(29)	(4)	118	45
Provisions	8	21	25	75	236	66	105	169
Change (%)	19	154	20	200	215	(72)	60	60
PBT	84	115	272	322	45	204	484	684
Tax	29	39	95	114	19	54	136	178
Profit After Tax	55	76	177	208	26	150	348	506
Change (%)	63	38	134	17	(88)	484	131	46

Financial Details

Key Ratios

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	1,617	3,274	5,389	6,380	7,552	11,049	14,916	19,391
AUM Growth (%)	43.6	102.5	54.7	15.9	28.6	46.3	35.0	30.0
Borrowing Growth (%)	65.4	89.2	38.9	45.0	(38.8)	19.2	(13.1)	104.8
Loan/Borrowing (%)	98.0	104.9	116.7	90.4	99.0	92.3	96.4	95.0
CASA (%)	-	-	-	1.6	3.7	10.6	15.4	17.5
CRAR (%)	22.7	24.2	24.1	18.2	23.0	18.9	19.4	17.9
>> Tier 1 (%)	21.8	21.7	22.4	16.8	22.3	18.4	18.0	16.8
>> Tier 2 (%)	0.9	2.5	1.8	1.4	0.7	0.5	1.5	1.1

Assets Quality Metrics

Gross NPA (Rs)	-	-	8	16	294	128	172	223
Gross NPA (%)	0.1	0.1	0.2	0.3	3.6	0.9	1.2	1.2
Net NPA (Rs)	-	-	2	2	276	98	60	78
Net NPA (%)	0.0	0.0	0.0	0.0	0.7	0.3	0.4	0.4
Specific Provision Coverage (%)	-	-	73.3	89.3	76.4	55.0	65.0	65.0
Provision/Average Advances (%)	0.6	0.9	0.6	1.3	3.4	0.7	0.8	1.0

Margin Metrics

Yield On Advances (%)	25.4	24.5	23.3	22.8	21.5	20.6	20.7	19.9
Yield On Investment (%)	-	-	-	1.1	-	-	7.5	7.2
Yield On Earning Assets (%)	-	-	18.7	20.4	18.2	18.3	19.1	18.5
Cost Of Funds (%)	10.9	11.4	11.4	10.0	8.5	7.4	8.6	8.7
Spread (%)	14.4	13.1	11.9	12.8	13.0	13.2	12.1	11.3
NIM on AUM (%)	14.8	13.4	13.5	13.7	13.1	13.2	12.6	11.7
NIM on Earning Assets (%)	-	-	10.8	12.2	11.0	11.5	11.1	10.4

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	41.6	45.3	42.0	40.5	40.1	37.9	44.1	45.7
Cost to Income (%)	56.7	60.2	50.8	53.6	70.2	79.0	67.1	61.6
Cost on Average Assets (%)	7.0	6.8	6.3	6.4	7.4	8.6	7.5	6.6
Tax Rate (%)	34.4	33.9	34.9	35.5	42.3	26.3	28.0	26.0

Valuation Ratio Metrics

EPS (Rs)	8.4	8.8	17.5	17.4	2.1	12.4	28.7	41.8
Change (%)	63	4.8	99.0	(0.7)	(87.8)	483	131	45.5
ROAE (%)	15.9	13.7	18.3	14.1	1.5	8.3	17.0	20.6
ROAA (%)	3.2	2.5	3.7	2.9	0.3	1.3	2.2	2.4
Dividend Payout (%)	-	-	-	4.6	23.5	6.8	4.2	2.9
Dividend yield (%)	-	-	-	0.2	0.1	0.3	0.3	0.3
Book Value(Rs)	56.8	85.5	118.4	147.0	143.3	155.0	182.6	223.2
Change (%)	16	51	38	24	(3)	8	18	22
ABVPS (Rs)	57	86	118	147	120	147	178	217
P/B (X)	-	-	-	2.9	2.4	2.0	1.7	1.4
P/E (X)	-	-	-	24.4	162.2	25.0	10.8	7.4

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	20.2	19.8	20.8	19.0	16.8	16.6	17.5	17.1
<i>Interest expended</i>	8.4	9.0	8.7	7.6	6.7	6.2	7.4	7.5
<i>Net Interest Income</i>	11.8	10.8	12.0	11.4	10.1	10.4	10.2	9.6
<i>Non-Fund Based Income</i>	0.6	0.4	0.4	0.7	0.3	0.5	1.0	1.0
<i>Total Income</i>	12.4	11.2	12.5	12.0	10.5	10.9	11.1	10.6
<i>Total Operating Expenses</i>	7.0	6.8	6.3	6.4	7.4	8.6	7.5	6.6
>> <i>Employee Expenses</i>	4.7	4.4	4.1	3.8	4.1	4.6	4.3	3.7
>> <i>Other Expenses</i>	2.3	2.4	2.3	2.6	3.2	4.0	3.2	2.8
<i>Operating Profit</i>	5.4	4.5	6.1	5.6	3.1	2.3	3.7	4.1
<i>Provisions</i>	0.5	0.7	0.5	1.1	2.6	0.6	0.7	0.8
<i>Others</i>								
<i>PBT</i>	4.9	3.8	5.6	4.5	0.5	1.7	3.0	3.3
<i>Tax</i>	1.7	1.3	2.0	1.6	0.2	0.5	0.8	0.9
<i>PAT/RoAA</i>	3.2	2.5	3.7	2.9	0.3	1.3	2.2	2.4
<i>Equity Multiplier (x)</i>	5.0	5.5	5.0	4.8	5.2	6.5	7.9	8.5
<i>ROAE</i>	15.9	13.7	18.3	14.1	1.5	8.3	17.0	20.6

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