

KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Bank profits met projections, with strong loan growth offsetting increasing operating expenses.
- The management has reiterated its confidence in keeping credit costs at less than 1% in FY24 because it sees no significant obstacles with asset quality.
- Management's forecast for deposits, which are fueled by retail deposits. Unlike its contemporaries, CASA grew sequentially during the quarter by 7.8%, and it is currently at 25.47% as opposed to 24.06% in 2QFY24.

2. MANAGEMENT COMMENTARY:

- It is anticipated that the trend of increasing financial inclusion—which includes both new and current clients—will continue, presenting significant growth prospects.
- Continues to focus on building a granular retail dominated liability franchise. Its recently introduced value-added liability products and statewide brand effort to increase exposure have both been warmly appreciated and have begun to make a significant impact.
- Three factors contributed to a notable increase in employee expenditures during the quarter: 1) recruiting more workers for new branches; 2) mid-year raises for specific employees; and 3) adding yearly ESOPS fees in 3QFY24.
- Over the coming quarters, the management anticipates that the MSME portfolio will recover from the COVID-related stress.

3. BUSINESS OVERVIEW:

- Ujjivan Small Finance Bank Limited is a mass market focused bank in India, catering to financially unserved and underserved segments and committed to building financial inclusion in the country. The bank has a diversified portfolio with branches spread across many states and union territories across India. Apart from the network of branches, ATMs and Automated Cash Recyclers, the bank has a phone banking unit that services customers in nine languages, a mobile banking application that is accessible in five languages as well as internet banking facility for individual and corporate customers.

4. MANAGEMENT GUIDANCE

- AUM growth guidance is maintained (+25%)
- CDR remains comfortable at 88%.
- RoE guidance of +22% over FY24-26E
- Fourth quarter is the strongest quarter and that trend would continue this time around as well.
- The pending reverse merger is expected to conclude in FY24.
- MSME activity has begun to increase, and the bank has partnered with two Fintech companies to provide supply chain financing.

5. BANKING INDUSTRY

- The Indian banking sector has recovered strongly following the covid epidemic, owing to a variety of factors including as early regulatory action, careful capital raising by banks, improved lending discipline, and cautious provisioning practices at banks. Indian banks have an all-time high CET 1 / tier 1 level, decadal low gross / net NPAs, the highest PCR, and robust contingent provisions as of FY23.

6. VALUATION AND OUTLOOK:

- Loan growth for FY24 is expected to be greater than 25. Over the medium term, the business growth momentum should be maintained by the secured business's new product scale-up and concentrated efforts to strengthen the liability endeavor. Medium-term opex is probably going to be high due to new customer acquisition and granular retail deposits through investments in distribution and digital activities. The management maintained its guidance for sub-1% credit costs during FY24
- We value the company at 8.7x FY24 EPS to arrive at the target of 54.

RECOMMENDATION - BUY

CMP - 46

TARGET - 54 (17%)

Industry	Bank - Private
NSE CODE	UJJIVANSFB
BSE CODE	542904
Market Cap (₹ Cr)	9006
Shares Outstanding (in Cr)	195.65
52 wk High/Low (₹)	63 / 23
P/E	6.79
P/BV	1.78
Face Value (₹)	10.00
Book Value (₹)	24.60
EPS (FY23) (₹)	5.51
Dividend Yield (%)	4.94

SHAREHOLDING PATTERN

	Dec'23	Sep'23	Jun'23
Promoters	73.60	73.66	73.67
Mutual Funds	1.34	1.14	1.58
FII/FPI	3.70	3.54	3.90
Non-Institutions	18.71	18.59	15.36
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023A	2024E
Core			
Interest Earned	2813	4165	5812
Other Income	360	589	742
Total Income	3173	4754	6554
Interest Expense	1039	1467	2399
Profit from Ordinary Activity	-550	1467	1625
PAT	-415	1100	1218
EPS	-2.40	5.51	6.21
Ratios			
ROE (%)	-14.98	33.75	26.2
ROA (%)	-1.88	3.86	3.3
Valuation			
P/E (x)	0.00	4.59	8.7
P/BV (x)	1	1.25	2.2

Historical & Industrial Val Ratios

Historical P/E	6.79
Industry P/E	19.10
Historical P/B	1.78
Industry P/B	2.52



Liability Trends	Q3FY24	Q2FY24	Q1FY24	Q4FY23	Q3FY23	Q2FY23	Q1FY23
CASA Ratio (%)	25.50	24.10	24.60	26.40	26.20	26.95	28
CASA	7556	7012	6556	6744	6070	5496	5155
NIM (%)	8.80	8.80	9.20	9.10	9.40	9.80	9.60
Provisions Coverage (%)	92	96	97.60	98.40	99	99	98

QUARTERLY PERFORMANCE (STANDALONE)

(₹ Cr)

Y/E March	FY22	FY23				FY24			FY24E*
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Interest Earned	818.24	905.35	993.12	1081.59	1184.83	1286.88	1391.14	1470.63	5812
YoY change (%)	18.87%	46.53%	54.77%	52.80%	44.80%	42.14%	40.08%	35.97%	39.5%
Other Income	149.18	124.57	146.71	138.95	179.06	177.22	188.64	184.76	742
Total Income	967.42	1029.92	1139.83	1220.54	1363.89	1464.10	1579.78	1655.39	6554
Interest Expense	274.26	305.66	329.94	384.67	446.82	494.23	567.80	610.70	2399
Operating Expenses	429.32	423.70	424.91	446.95	506.50	511.98	528.62	587.39	2318
Operating Profit	263.84	300.56	384.98	388.92	410.57	457.89	483.36	457.30	1837
Provision	90.40	29.89	-9.94	-0.22	-1.93	26.11	46.92	62.91	212
Profit Before Tax	173.44	270.67	394.92	389.14	412.50	431.78	436.44	394.39	1625
Tax	46.92	67.73	100.63	95.95	103.00	107.71	108.70	94.33	407
Net Profit After Tax	126.52	202.94	294.29	293.19	309.50	324.07	327.74	300.06	1218
YoY change (%)	-145.38%	48.68%	-226.05%	-966.66%	144.63%	59.69%	11.37%	2.34%	10.72%

Source: Company, Hem Securities Research.

EWS*Insights into the assumptions:

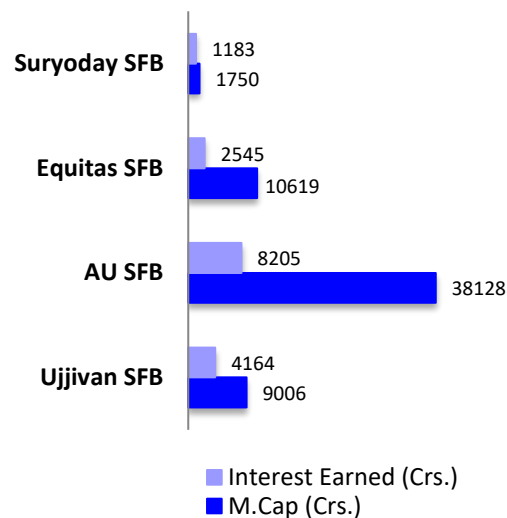
- 1> Bank credit growth is likely to increase up, Credit growth has started showing signs of recovery.
- 2> Asset quality improved as lower slippages and better recoveries helped the overall performance.
- 3> Banks are preparing to expand their digital offerings through partnerships with fintech companies or in-house development.
- 4> Improvement in collection.
- 5> Given the economy's return to normalcy, the forecast for company growth and credit costs remains positive.



INDUSTRY OVERVIEW

- The RBI changed its accommodative stance and raised the repo rate by a total of 225 basis points over the previous five monetary policy meetings, which led to an increase in interest rates. Banks may gain in the short run on the margin front because the majority of loans are made on a floating rate basis and higher deposit costs may take some time to take impact.
- Scheduled Commercial Banks (SCBs) continued to maintain robust capital positions, with CRAR and CET-1 Ratios of SCBs reaching as high as 16.7% and 13.6%, respectively, in March 2022. (RoE). The ratios of SCBs gross nonperforming assets (GNPA) and net non-performing assets (NNPA) fell to six-year lows of 5.9 percent and 1.7%, respectively, in March 2022. The provisioning coverage ratio (PCR) increased from 67.6 percent in March 2021 to 70.9 percent in March 2022.
- Banks, especially larger banks, are getting ready to increase their digital offerings through internal development or partnerships with fintech. Incumbents will be helped by persistent focus on digital offerings to manage disruptive issues. Additionally, "digital banking," a new banking format, is developing steadily.
- According to RBI monthly figures, systemic credit growth reached a multi-year high of 15.0% YoY in FY23. Credit growth began the year at 11.2% (YoY) and peaked at 17.9% YoY in October'22.

KEY PLAYERS



PEER PERFORMANCE

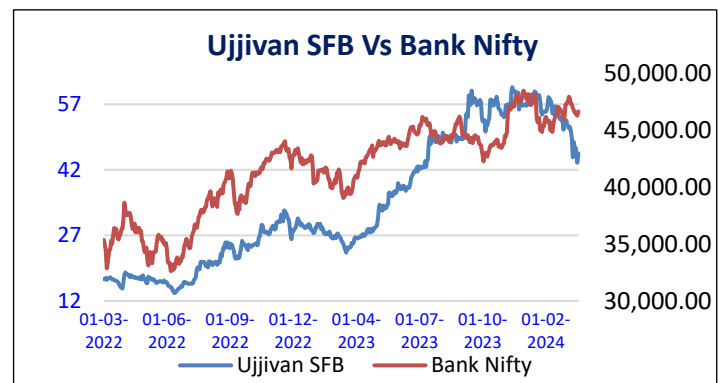
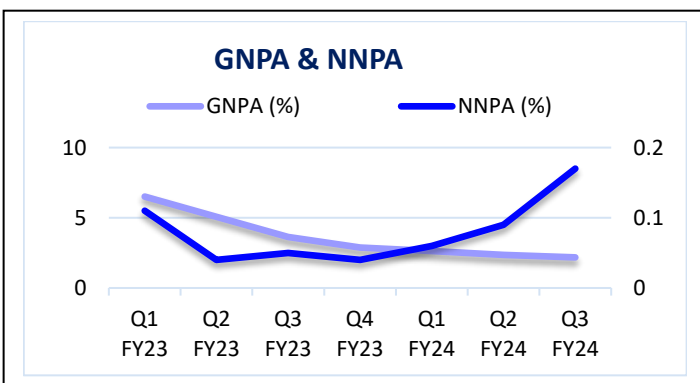
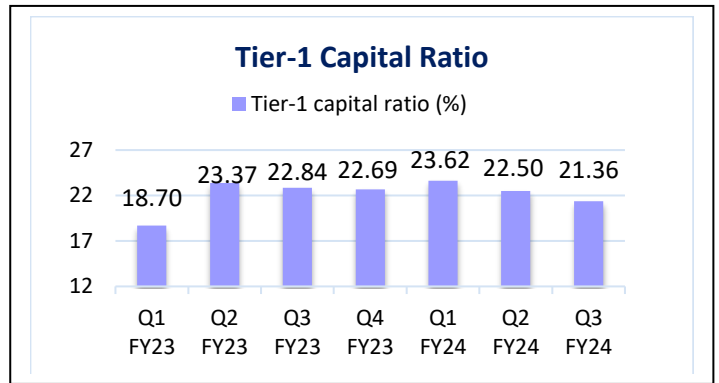
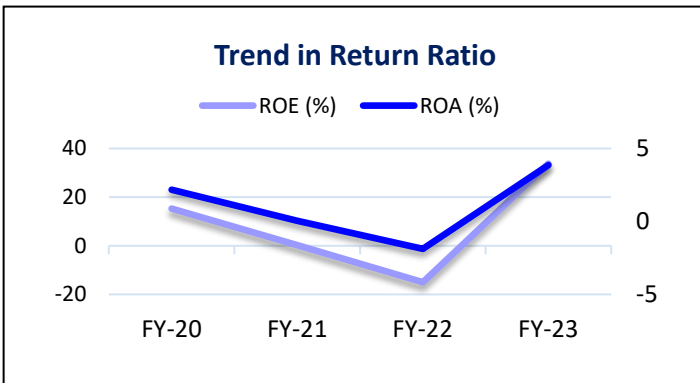
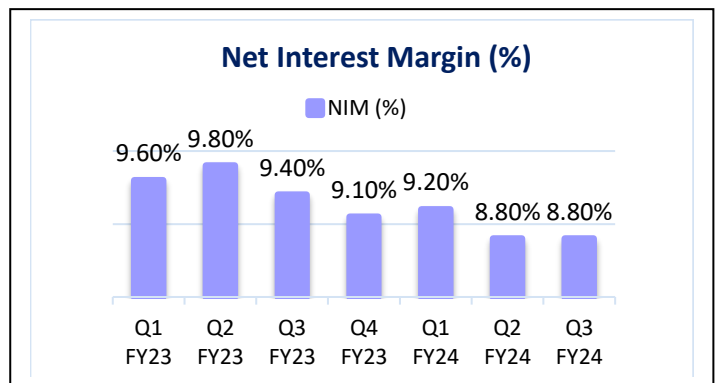
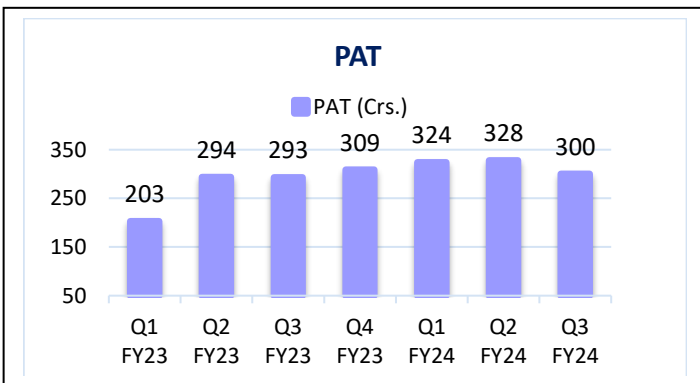
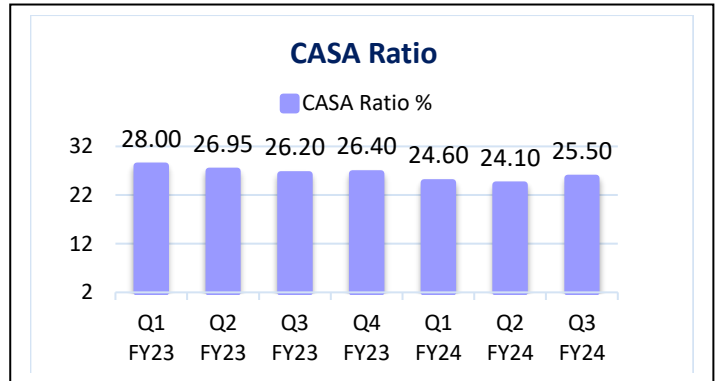
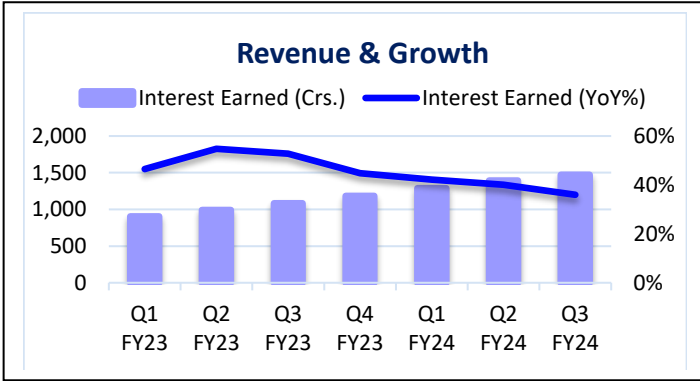
(₹ Cr)

Particulars	Ujjivan SFB	AU SFB	Equitas SFB	Suryoday SFB
Market Cap	9006	38128	10619	1750
Interest Earned (FY-23)	4164	8205	2545	1183
Profit from Ordinary Activities	1467	1864	768	100
PAT	1100	1428	573	78
EPS(Rs)	5.82	21.86	4.71	7.32
Total Deposit	26660	69315	25381	5167
CASA Ratio	24.6	35	42	21.7
Net Interest Income	793	1246	707	210
NIM	9.2	5.7	9	10.4
Total Advances	25326	63635	27861	6114
Gross NPA (%)	2.4	1.76	2.76	3.1
Net NPA (%)	0.06	0.55	1.21	1.5
Provision Coverage Ratio	97.6	73	56.9	51.5
Capital Adequacy Ratio	26.7	21.5	23.8	33.72

Source: Company, Hem Securities Research.



STORY IN CHARTS



INVESTMENT RATIONALE:

- Ujjivan SFB, the third largest small finance bank in the country, benefits from its strong presence and longstanding track record of over two decades in the microfinance space in India. Of the total portfolio, 72% constituted micro-banking loans (group, individual and rural loans). Within this, group loans under Joint Loan Group (JLG) model were 57% (of the AUM) whereas another 15% comprised of individual loans to microfinance borrowers who have had a long association with the bank.
- The operational presence of Ujjivan SFB remains geographically well diversified. In its portfolio, no state accounts for more than 15% of the total loan book. As on September 30, 2023, top 4 states for the bank's portfolio were – Karnataka (13%), Maharashtra (9%), Tamil Nadu (15%) and West Bengal (12%). The bank's established presence in the microfinance space has helped it in diversifying into adjacent segments, such as micro and small enterprise loans and micro-LAP (loan against property) financing.
- In the medium run, the bank intends to concentrate on growing its books of SME loans and affordable housing, even though microfinance will still account for the majority of loans. Furthermore, as the bank expands its scale in the non-microfinance business—where the intended clientele is comparatively wealthier—exposure to the political and regulatory risks related to the microfinance industry would progressively decrease.
- The bank's asset quality has recovered to GNPA and NNPA levels of 2.2% and 0.09% as of September 30, 2023, after peaking at 11.8% and 3.3% as of September 30, 2021. The bank's asset quality was unstable during the Covid-19 crisis during the majority of fiscal 2021 and 2022. The last two fiscal years' growth in AUM, faster write-offs, and higher resolution all contributed to this improvement.
- The present senior management team of USFB is highly experienced in the financial sector. Ittira Davis is the current Managing Director (MD) and Chief Executive Officer (CEO), who has an experience of over 40 years in the banking industry. USFB's board comprises eight directors, which includes the MD, a non-executive director, and six independent directors with diverse experience, who bring valuable expertise to the bank. The bank's operations are ably supported by the senior management team.

RISK FACTORS:

- Even if the percentage of retail deposits (CASA and term deposits of less than Rs 2 crore) has been steadily rising, it is still comparatively lower than that of other banks. Inability to garner retail deposits resulting in the share of CASA as a percentage of total deposits
- Higher-than-expected deterioration in the asset quality.
- Ujjivan SFB has higher operating expenditures, compared to peer banks.
- The scalability of new products and secured book remains needs to be supervised.
- The proportion of micro banking loans in the loan book keeps growing, exposing the bank to the risks that come with being in this business.

COMPANY RECAP

- Ujjivan Small Finance Bank Limited is a mass market focused bank in India, catering to financially unserved and underserved segments and committed to building financial inclusion in the country. The bank has a diversified portfolio with branches spread across many states and union territories across India. Apart from the network of branches, ATMs and Automated Cash Recyclers, the bank has a phone banking unit that services customers in nine languages, a mobile banking application that is accessible in five languages as well as internet banking facility for individual and corporate customers.
- Ittira Davis is the MD and CEO of our Bank. He is a graduate from the Indian Institute of Management, Ahmedabad (1976). He is an international banker with over 36 years of corporate and investment banking experience and has worked extensively in the Middle East and Europe. During his stint in Europe, he was with the Arab Bank from July 2008 to October 2012, initially as the managing director – Corporate and Institutional Banking and then as an Executive Director of the Europe Arab Bank. He has previously worked with Citibank in India, the Arab Bank Group in the Middle East and Europe, and has been the Chief Operating Officer of Ujjivan SFB (the wholly owned subsidiary of the company) until June 30, 2018.



ANNUAL PERFORMANCE

Financials & Valuations						
Income Statement	(₹ Cr)					
	2019	2020	2021	2022	2023	2024E
Interest Earned	1831.61	2703.60	2806.07	2812.80	4164.99	5812
YoY change (%)	24.88%	47.61%	3.79%	0.24%	48.07%	39.5%
Other Income	205.96	322.21	302.31	359.89	589.19	742
Total Income	2037.57	3025.81	3108.37	3172.69	4754.19	6554
Interest Expense	725.20	1070.01	1077.51	1039.21	1467.09	2399
Operating Expense	1003.35	1318.58	1230.08	1496.38	1802.06	2318
Provision	40.60	170.99	790.59	1187.46	17.80	212
Profit from Ordinary Activities Before Tax	268.42	466.24	10.20	-550.36	1467.24	1625
YoY change (%)	2934.16%	73.70%	-97.81%			10.70%
Tax	69.21	116.32	1.90	-135.77	367.32	407
Net Profit After Tax	199.22	349.92	8.30	-414.59	1099.92	1218
YoY change (%)	2802.94%	75.65%	-97.63%			10.72%
EPS	1.20	1.95	0.05	-2.40	5.51	6.21

Source: Company, Hem Securities Research.

Balance Sheet					
Y/E March	(₹ Cr)				
	2019	2020	2021	2022	2023
Share Capital	1,440	1,728	1,728	1,728	1,955
Reserves	180	1,260	1,290	874	2,054
Borrowings	200	200	200	200	200
Other Liabilities	11,546	14,734	16,383	20,056	28,179
Total Liabilities & Equity	13,742	18,411	20,380	23,604	33,317
Fixed Assets	282	280	276	244	265
CWIP	2	21	5	6	18
Investments	1,527	2,396	2,516	4,153	8,510
Other Assets	11,931	15,715	17,583	19,202	24,524
Total Assets	13,742	18,411	20,380	23,604	33,317

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR))	2020	2021	2022	2023
Profit and Loss Account				
Net interest income	1634	1729	1774	2698
Employee expenses	719	749	813	920
ROE (%)	15.26	0.28	-14.98	33.75
ROA (%)	2.18	0.04	-1.88	3.86
EPS	2.19	0.05	-2.40	5.88
Key Performance Indicator				
NIM (%)	9.19	8.82	7.84	8.36
CASA (%)	13.54	20.55	27.30	26.41
Yield on Advances (%)	19.25	19.36	17.25	19.56
Cost of Funds (%)	7.26	6.58	5.18	5.21
Cost-to- Asset (%)	7.16	6.04	6.34	5.41
GNPA (%)	0.97	7.07	7.34	2.88
NNPA (%)	0.20	2.93	0.61	0.04
Cost Income Ratio (%)	67.61	62.29	70.73	54.85
Credit/Deposit (%)	130.27	110.34	89.13	83.37
Capital Adequacy Ratio (%)	28.82	26.44	18.99	25.81
Tier I (%)	28.00	25.06	17.70	22.68
Valuations Ratios				
P/E (x)	14.07	635.42	0.00	4.59
P/BV (x)	1.60	1.77	1	1.25
Dividend Yield (%)	0	0	0	4.94
OPERATIONAL				
Advances	14153	15140	18162	24085
Deposit	10780	13136	18292	25538
Net Interest Income	1634	1729	1774	2698
Net Profit	349.92	8.30	-414.59	1099.92

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
21-March-2024	BUY	54

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Name of the Research Analyst: Madhur Mandhana

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