

Ujjivan Small Finance Bank

Muted FY26; building for a diversified mix

Ujjivan Small Finance Bank (Ujjivan) hosted an Analyst Meet and reiterated its guidance for muted FY26 earnings while showcasing its medium-term strategy of upscaling the mix of secured loans and individual micro-banking portfolio. Basis our channel checks, we believe that lenders (including Ujjivan) have been witnessing a gradual improvement in collection efficiencies in their micro-banking portfolio (including Karnataka) during July and August, indicative of stress peaking out in the MFI portfolio. Although the MFI stress is expected to normalize downwards during H2FY26, we expect the overall stress to remain elevated for Ujjivan, resulting in muted return ratios. The company intends to diversify its loan book by scaling up its secured mix to 65-70% by 2030 (FY25: 45%) in asset classes like affordable housing and new businesses such as 2W, micro-LAP, and gold loans. We cut our FY26E/27E forecasts by ~25/~13% as we moderate the non-linearity built in from stability in the MFI book, especially during FY26. We believe UJJIVAN is better placed than other MFI players given its geographical diversification, higher employee vintage, larger urban/metro presence, and superior underwriting. We retain ADD with an unchanged TP of INR45 (1.2x Mar-27 ABVPS).

- **Lingering pain merits further cuts to FY26 forecasts:** While slippages and credit costs are likely to have peaked during Jun-25 quarter (Q1FY26: 4.3%; 280 bps), the MFIN's new guardrails 2.0 (three-lender limit) have resulted in higher rejection rates. While flow rates have moderated in recent months, the flow-through to higher buckets continues to remain high. Factoring in the impact of these new guardrails, **we expect annualized credit costs to swell to 2.2% (+50bps over our earlier estimate; FY25: 2.5%)**. Ujjivan intends to scale the individual loan (IL) portfolio to 45-50% (Q1FY26: 29%) of the MFI book by FY30 (largely graduating from group loan customers), which remains a key monitorable, given the relatively higher ATS of such loans (INR130K).
- **Aiming for a diversified mix:** Ujjivan continues to scale its mix of secured loans, largely driven by affordable housing (3yr CAGR: 35%, now 21% of loan book), while also building out its other secured asset classes like micro-LAP, gold loans, and 2-wheeler portfolios. We believe a calibrated scaling up of the secured businesses is critical for the company's universal bank aspirations.
- **Optimistic FY30 guidance; building for a universal franchise:** Capitalizing on its existing moats Ujjivan aims to build for a more diverse product mix (secured: 65%-70%), stronger liabilities franchise (35% CASA), stable asset quality (1.2-1.3%), higher operating efficiencies (C/I- 55%) and sustainable RoA/RoE of 1.8-2.0%/16%-18% by FY30. While majority of the medium-term guidance seems equitable, we believe that CASA guidance of 35% is highly ambitious and poses a downside risk.

Financial Summary

(INR bn)	FY22	FY23	FY24	FY25	FY26E	FY27E
NII	17.7	27.0	34.1	36.4	37.3	43.7
PPOP	5.9	14.9	19.2	16.9	17.8	22.1
PAT	(4.1)	11.0	12.8	7.3	7.7	11.6
EPS (INR)	(2.4)	5.6	6.6	3.8	4.0	6.0
ROAE (%)	(13.8)	31.4	26.1	12.4	12.1	16.3
ROAA (%)	(1.9)	3.8	3.5	1.6	1.5	2.0
ABVPS (INR)	15.6	21.5	28.7	30.7	33.3	37.5
P/ABV (x)	2.9	2.1	1.6	1.5	1.4	1.2
P/E (x)	(19.2)	8.2	6.9	12.3	11.6	7.7

Source: Company, HSIE Research

ADD

CMP (as on 18 Sep 2025)	INR 46
Target Price	INR 45
NIFTY	25,424

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR45	INR45
EPS %	FY26E	FY27E
	-24.5%	-13.0%

KEY STOCK DATA

Bloomberg code	UJJIVANS IN
No. of Shares (mn)	1,937
MCap (INR bn) / (\$ mn)	88/1,000
6m avg traded value (INR mn)	631
52 Week high / low	INR 52/31

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.8)	30.3	6.8
Relative (%)	(8.7)	20.1	6.8

SHAREHOLDING PATTERN (%)

	Mar-25	Jun-25
Promoters	0.0	0.0
FIs & Local MFs	8.5	16.8
FPIs	19.5	19.6
Public & Others	72.0	63.6
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Annual Report Dashboard

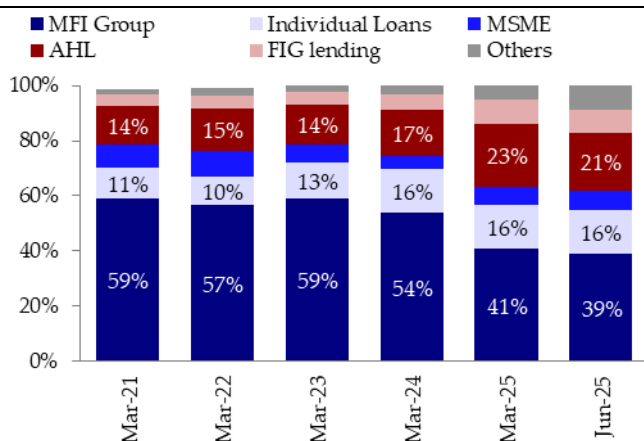
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Concentration metrics									
% Share of Top 20 advances	NA	0.2%	2.4%	3.2%	4.1%	4.3%	3.8%	4.9%	9.6%
% Share of Top 20 exposures	6.6%	2.6%	7.6%	3.8%	8.7%	3.9%	3.7%	4.8%	6.1%
% Share of Top 20 depositors	98.3%	73.6%	41.8%	29.0%	29.3%	22.5%	18.3%	16.6%	17.2%
% Share of Top 20 NPAs	NA	NA	NA	NA	NA	1.5%	3.9%	3.3%	3.3%
Sector-wise GNPA's (% of sector-wise net advances)									
Priority Sector	0.3%	0.9%	0.7%	0.8%	6.6%	8.0%	2.7%	2.5%	2.5%
Industrial credit	0.0%	0.9%	0.3%	1.0%	10.4%	21.3%	5.6%	26.7%	3.7%
Credit for services	0.0%	1.6%	0.7%	0.4%	10.3%	36.4%	5.0%	1.3%	2.8%
Agricultural credit	0.2%	0.5%	0.5%	0.8%	8.4%	7.1%	2.5%	2.4%	2.8%
Personal loans	0.3%	0.7%	0.8%	0.9%	5.8%	3.4%	2.5%	0.8%	2.1%
Non-Priority Sector	NA	1.9%	1.3%	1.2%	7.6%	5.0%	3.3%	1.5%	1.4%
Industrial credit	NA	11.6%	1.2%	0.0%	0.0%	0.0%	0.0%	NA	NA
Credit for services	NA	0.0%	3.5%	0.0%	0.0%	0.5%	0.4%	0.3%	0.2%
Agricultural credit	NA	3.5%	0.4%	0.8%	8.4%	0.0%	0.0%	NA	NA
Personal loans	NA	1.7%	0.8%	1.6%	8.4%	6.3%	4.0%	2.0%	1.9%
GNPA Mix %									
Sub standard	89.4%	75.4%	69.7%	91.1%	77.7%	60.7%	37.4%	62.0%	83.9%
Doubtful	10.4%	1.6%	22.5%	7.7%	4.6%	39.0%	62.2%	35.7%	14.6%
Loss	0.1%	23.0%	7.8%	1.2%	17.6%	0.2%	0.3%	2.3%	1.5%
Bancassurance - % of Total Fee									
PSLC Bought - % of previous year loans	NA	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
PSLC Sold - % of previous year loans	NA	0.3%	0.1%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
Operational Risk									
Frauds reported (#)	NA	NA	NA	NA	203	383	618	2,713	1,081
Amount involved in frauds (INR mn)	NA	NA	NA	NA	24	53	97	242	92
Provision for fraud (INR mn)	NA	NA	NA	NA	10	26	68	108	32
Provision for fraud (% of PPOP)	NA	NA	NA	NA	0.1%	0.4%	0.5%	0.6%	0.2%
Ticket size of frauds (INR mn)	NA	NA	NA	NA	0.12	0.14	0.16	0.09	0.08
Real Estate Exposure (% of net advances)									
Secured by residential mortgage	100%	100%	100%	100%	97%	97%	98%	97%	97%
Individual housing loans	NA	44%	48%	73%	35%	36%	35%	53%	34%
Secured by commercial mortgage	NA	NA	NA	NA	NA	1%	1%	2%	1%
Exposure to NHBs and HFCs	NA	NA	NA	NA	3%	2%	1%	1%	1%
LCR Disclosures									
LCR %	728%	169%	187%	254%	116%	126%	180%	134%	137%
RSBD (% of total deposits on bank's BS)	NA	NA	NA	NA	NA	68%	49%	52%	51%

Source: Company, HSIE Research

Secured businesses to scale up; MFI book to stabilize

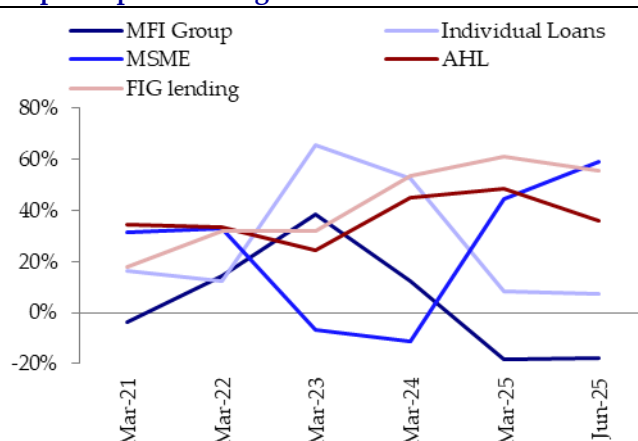
- Journey to a higher secured mix:** Ujjivan highlighted its long-term strategy on scaling its mix of secured businesses such as affordable housing, MSME, FIG, vehicle finance, and agri lending to 65-70% by FY30 (FY25: 45%). In the micro-banking business, the company has been confidently growing its individual MFI book (IL) faster than the group business, as the IL cohort continues to perform better in terms of delinquencies. The pace of MFI disbursements is expected to pick up during H2FY26, given early signs of stress peaking out. While we are confident of the overall quality of the MFI portfolio, we flag the risk on the fast-growing IL portfolio, given the increasing average ticket size (ATS) of this book.

Exhibit 1: Loan mix - scaling secured book as MFI stress looms



Source: Company, HSIE Research

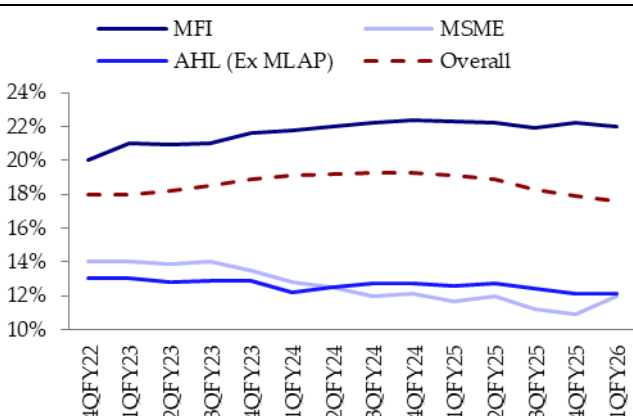
Exhibit 2: Disbursements (YoY %) - disbursements yet to pick up in MFI segments



Source: Company, HSIE Research

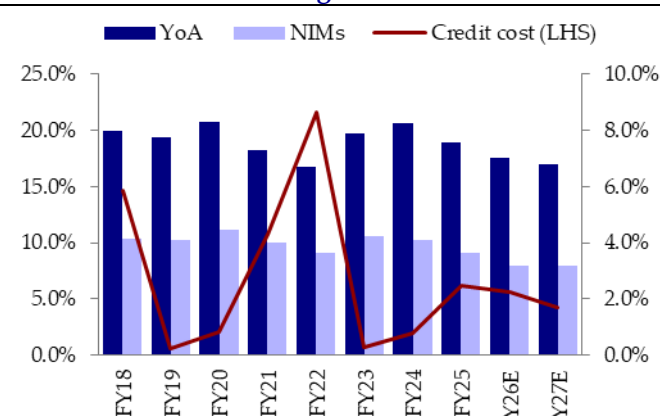
- Loan yields to trend lower even as asset quality stabilizes:** With the pick-up in secured businesses, blended yields are expected to trend lower (150bps lower during FY26), partly offset by stabilization in the MFI book. While flow rates have moderated in recent months in the MFI book, the flow-through to higher buckets continues to remain high. Factoring in the impact of the MFIN's new guardrails, we expect credit costs to settle at 2.2% for FY26 (earlier estimate at 1.7%; FY25: 2.5%) with further downward normalization in credit costs during FY27 (1.7%).

Exhibit 3: Yield on advances asset class-wise



Source: Company, HSIE Research

Exhibit 4: Yields and margins to trend lower

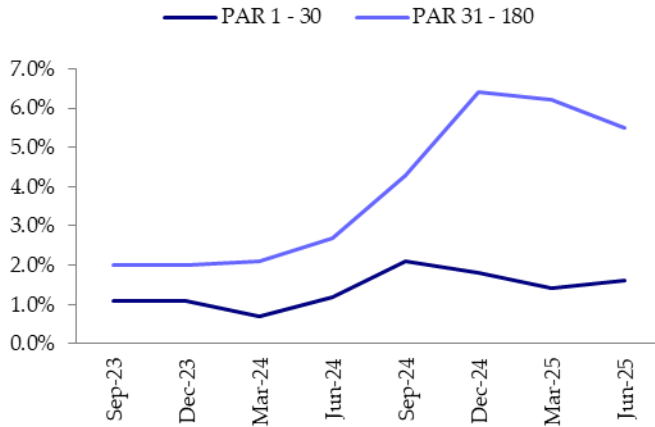


Source: Company, HSIE Research

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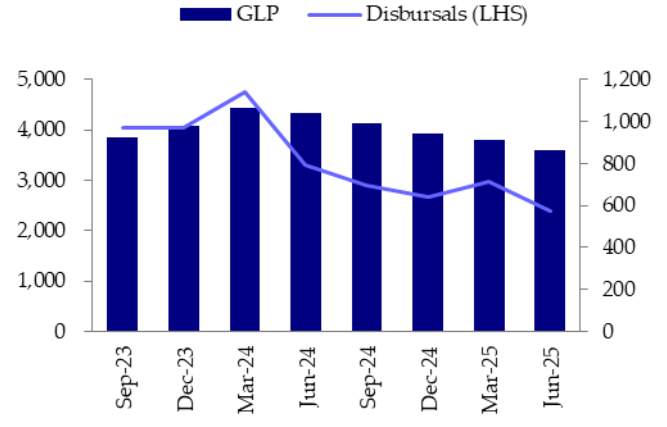
- Industry trends suggest stress plateauing:** Bureau data suggests that the 31-180 dpd delinquency trends in the MFI portfolio are showing signs of stabilization. The 1-30 dpd delinquency trends in the past 3 quarters are showcasing signs of improvement (except for inch up in Jun-25 on account of guardrail 2.0). The disbursements have reduced drastically since Mar-24 as lenders tighten their credit filters across industry. Starting H2FY26 we anticipate the disbursals to pick up and the delinquency trends to gradually improve.

Exhibit 5: PAR 0 inching up but amongst the lowest



Source: CRIF Highmark, HSIE Research

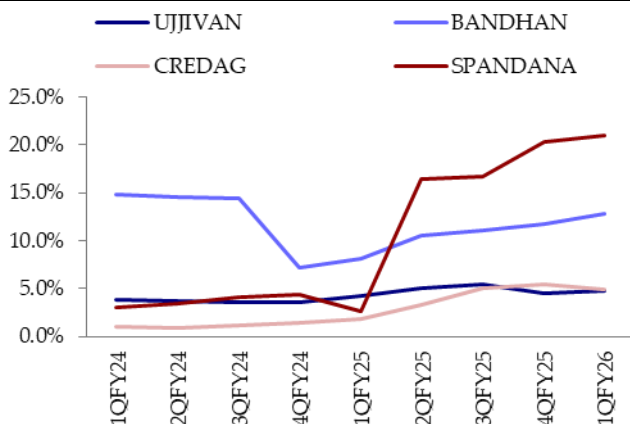
Exhibit 6: MFI PAR (31-180dpd) trends



Source: CRIF Highmark, HSIE Research

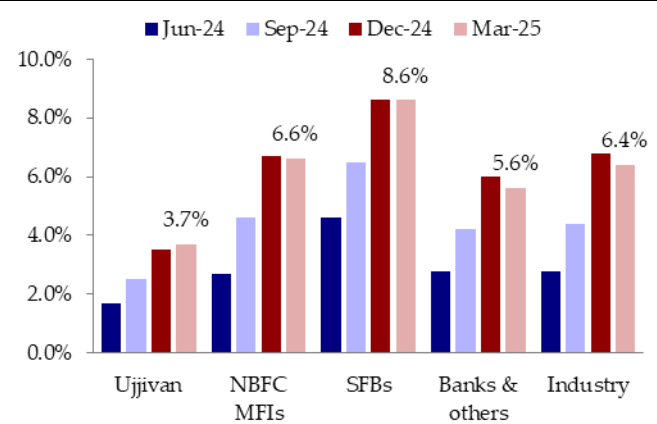
- Expect gradual moderation in MFI stress:** Ujjivan's PAR-0 portfolio, although elevated at 4.8% as of Jun-25, is amongst the most superior portfolios within the industry. The management has indicated improving collection efficiencies during Jul-25 and Aug-25, showcasing early signs of plateauing stress in the MFI book. Ujjivan is looking to scale its individual micro-banking book, which continues to perform better than the JLG book (individual loan PAR-0 at 4.7%; group loan PAR-0 at 6.1%). As of May-25, 7.4% of Ujjivan's portfolio has >3L indebtedness (overlap with more than 3 lenders), close to the Jun-25 industry average of 7.2%. On the other hand, >2L indebtedness for <=3 lenders stood at 3.4% as of May-25. Loans to customers with 30+dpd in the prior 6m have averaged <0.5% over the past 5 quarters.

Exhibit 7: PAR 0 inching up but amongst the lowest



Source: Company, HSIE Research

Exhibit 8: MFI PAR (31-180dpd) trends

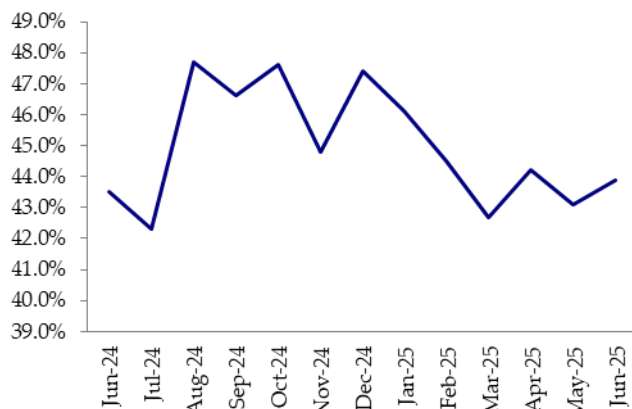


Source: Company, HSIE Research

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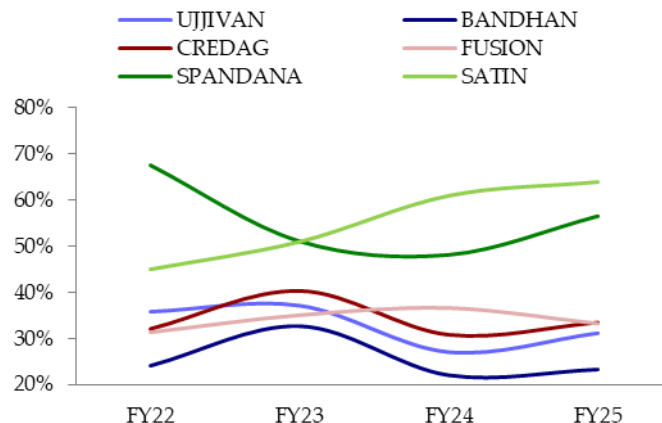
- **Rejection rates increase post guardrail 2.0; longer employee vintage:** Ujjivan witnessed higher rejection rates, post implementation of guardrails 2.0. During Q1FY26, the GL login rejection rates ranged around 43-44% while micro-banking individual loans rejection rates were ~35-40%. Our discussions with MFI industry experts suggest that high employee vintage (lower attrition) is directly correlated to delinquency trends in the MFI business. Ujjivan has consistently witnessed lower employee attrition (~30%) compared to the industry, indicating relatively higher vintage, which drives superior asset quality trends.

Exhibit 9: Rejection rates for GL logins inched up



Source: Company, HSIE Research

Exhibit 10: Employee attrition lower



Source: Company, HSIE Research

- **Mixed start to the journey towards secured business mix:** Ujjivan managed to quickly scale its affordable housing book to ~INR80bn, while also maintaining superior asset quality (NPA at 1.3%). However, the MSME book which scaled post-Covid had to be run down, owing to higher delinquencies. The new cohort of MSME clients, added in recent times, appears to be performing much better. Ujjivan sources affordable housing as well as MSME loans disproportionately from the open market, independent of the MFI cohort. The management claimed that only 2.5% of customers were exposed to tariff-impacted sectors, hence the portfolio is likely to be relatively less vulnerable. Gold loans, agri loan and vehicle finance businesses are sub-scale as they have commenced operations in the past 24 months and are yet to break even.

Exhibit 11: Product portfolio

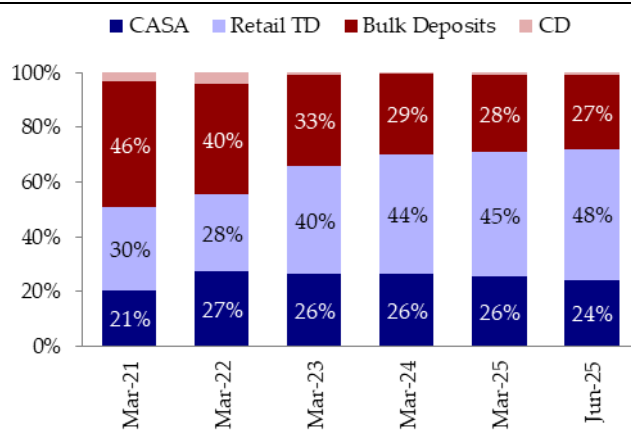
Loan mix	ATS (in Lakhs)	Yield (%)	Average Tenure	Outstanding amount (in Bn)	% of loan mix	Segment
Group loan	0.6	22%	2	129.6	39%	Self-employed, Salaried & Agri
Individual loan	1.3	23%	2.5	53.3	16%	Self-employed, Salaried & Agri
FIG	3400 - 4000	NA	1.5	27.9	8%	NBFCs and MFI
Affordable housing	16	12%	15	70.7	21%	Self-employed, Salaried & Non-professional
Micro Mortgage	6	19%	7	8.9	3%	Small Traders & Segments
Agri Banking	13	13%	5	4.0	1%	Farmers for Argi purpose
Gold Loan	1.5	14%	1.1	2.9	1%	Self-employed, Salaried, Agri, SME
MSME: LAP	47	11%	12	17.0	5%	MSME companies (Manufacturing, Trading and Service)
MSME: WC	101	10%	1	4.0	1%	MSME companies (Manufacturing, Trading and Service)
MSME: SCF	127	12%	0.3	1.5	0%	SME companies and Firms
Vehicle Finance	0.9	20%	2.5	6.0	2%	Two-wheeler

Source: Company, HSIE Research

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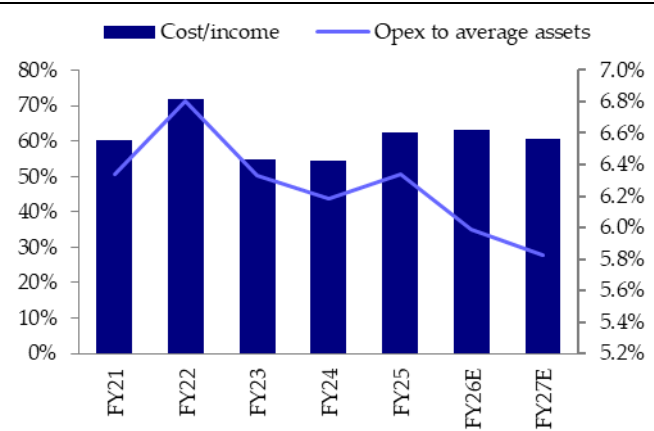
- **Strong deposit franchise critical to long-term aspirations:** We believe that Ujjivan needs to build a strong deposit franchise corresponding to its medium-term aspirations of building a higher mix of secured loans. We believe that the guidance of 35% CASA ratio by FY30 (Q1FY26: 24.3%), based on their internal projections of 40% CAGR in CA balances through FY30, is highly ambitious and poses a downside risk, given the intense competition for low-cost deposits.
- **Opex intensity to remain elevated; cross-sell efforts offer trade-off:** Given that the franchise is in an investment phase (aiming to add 400 branches over the next 5 years) to scale its secured businesses, we expect the opex intensity to sustain at elevated levels. On the other hand, Ujjivan has introduced initiatives to bolster its other income via cross-sell of third-party products such as MF, insurance and co-branded credit cards while improving its digital capabilities.

Exhibit 12: Deposit mix: CASA largely stagnant at sub-26%



Source: Company, HSIE Research

Exhibit 13: Opex intensity to remain elevated



Source: Company, HSIE Research

Valuation and recommendation

- **Muted FY26; driving stronger medium-term outcomes:** Although there are early signs of MFI delinquencies plateauing, we expect credit costs to remain elevated, dragging the company's FY26 earnings. We continue to monitor the company's strategy to grow its individual micro banking portfolio (graduating from the JLG cohort), given relatively higher ticket sizes (INR130k) compared to the ticket size in group loans (INR60k). Having embarked upon a journey of building a more secured loan mix, Ujjivan continues to invest in branches and technology to build a stronger customer franchise and drive greater granularity in liabilities. These initiatives are likely to keep medium-term opex ratios elevated, especially with an aspiration to grow its CASA ratio to 35% over the next 5 years. We expect incremental pressure on NIMs with scale-up in the secured loan mix, which is likely to be offset by moderation in credit costs. While we continue to believe in the superior quality of the franchise given its geographic diversification, higher employee vintage, higher mix of urban/metro branches and superior underwriting, we cut our FY26E/27E earnings estimates by ~25/~13% as we moderate the non-linearity from expected stability in the MFI book (especially in FY26). We maintain ADD with a TP of INR 45 (1.2x Mar-27 ABVPS).

Exhibit 14: Change in estimates

(INR bn)	FY26E			FY27E		
	New	Old	% chg	New	Old	% chg
Net advances	370	367	1.0%	442	433	2.0%
NIM (%)	8.0	8.3	-27 bps	8.0	8.1	-17 bps
NII	37.3	38.5	-2.9%	43.7	44.1	-0.9%
PPOP	17.8	19.1	-6.7%	22.1	22.7	-2.8%
PAT	7.7	10.2	-24.5%	11.6	13.3	-13.0%
Adj. BVPS (INR)	33.3	34.9	-4.5%	37.5	40.2	-6.5%

Source: Company, HSIE Research

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Financials

Income Statement

(INR mn)	FY22	FY23	FY24	FY25	FY26E	FY27E
Interest Income	28,127	41,650	56,772	63,544	69,281	80,211
Interest Expenses	10,391	14,671	22,677	27,181	31,946	36,554
Net Interest Income	17,736	26,979	34,095	36,363	37,334	43,657
Non-Interest income	3,132	5,892	7,868	8,462	10,910	12,360
Total income	20,868	32,871	41,962	44,825	48,244	56,016
Operating Expenses	14,962	18,021	22,791	27,932	30,454	33,953
Operating Profit	5,906	14,850	19,171	16,893	17,790	22,063
Provisions	11,408	178	2,149	7,477	7,520	6,660
PBT	-5,502	14,672	17,022	9,416	10,270	15,404
Tax	-1,358	3,673	4,207	2,155	2,567	3,851
PAT	-4,144	10,999	12,815	7,261	7,702	11,553

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY22	FY23	FY24	FY25	FY26E	FY27E
Share capital	17,283	19,547	19,314	19,350	19,350	19,350
Reserves	8,321	20,032	34,097	40,588	47,187	55,971
Net worth	28,026	42,091	56,135	60,834	66,537	75,321
Deposits	182,922	255,377	314,622	376,304	429,644	499,584
Borrowings	17,636	26,415	21,709	28,454	31,918	36,025
Other liabilities and provisions	7,460	9,286	11,758	11,299	12,161	15,253
Total Liabilities & Equity	236,044	333,169	404,223	476,891	540,259	626,184
Cash balance	23,514	26,606	25,368	31,698	29,574	20,985
Investments	41,529	85,103	97,660	117,300	124,526	144,537
Advances	163,032	212,897	268,829	313,900	370,278	441,936
Fixed assets	2,494	2,829	4,267	4,437	5,254	6,042
Other assets	7,309	7,504	8,098	9,424	10,627	12,684
Total Assets	237,878	334,939	404,222	476,760	540,259	626,184

Source: Company, HSIE Research

Key Ratios

	FY22	FY23	FY24	FY25	FY26E	FY27E
VALUATION RATIOS						
EPS (INR)	-2.4	5.6	6.6	3.8	4.0	6.0
Earnings Growth (%)	NA	NA	17%	-43%	6%	50%
BVPS	16.2	21.5	29.1	31.4	34.4	38.9
Adj. BVPS	15.6	21.5	28.7	30.7	33.3	37.5
ROAA (%)	-1.9%	3.8%	3.5%	1.6%	1.5%	2.0%
ROAE (%)	-13.8%	31.4%	26.1%	12.4%	12.1%	16.3%
P/E (x)	-19.5	8.3	7.0	12.4	11.7	7.8
P/ABV (x)	2.9	2.1	1.6	1.5	1.4	1.2
P/PPOP (x)	15.2	6.1	4.7	5.3	5.1	4.1
PROFITABILITY (%)						
Yield on loans	16.7%	19.7%	20.6%	19.0%	17.5%	17.0%
Cost of Funds	5.7%	6.1%	7.3%	7.3%	7.4%	7.3%
Cost of Deposits	5.7%	6.0%	7.1%	7.2%	6.4%	6.7%
Spread	11.0%	13.7%	13.5%	11.7%	11.1%	10.3%
NIM	9.1%	10.6%	10.23%	9.1%	8.0%	8.0%

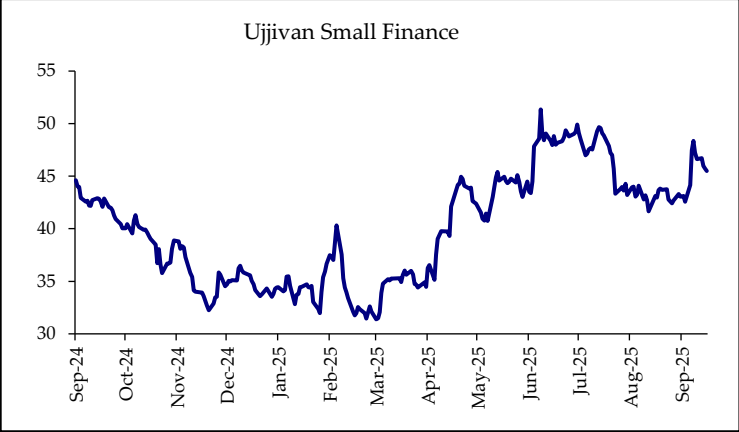
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	FY22	FY23	FY24	FY25	FY26E	FY27E
OPERATING EFFICIENCY						
Cost to average assets	6.8%	6.3%	6.2%	6.3%	6.0%	5.8%
Cost-income	71.7%	54.8%	54.3%	62.3%	63.1%	60.6%
BALANCE SHEET STRUCTURE RATIOS						
Loan Growth (%)	12.5%	30.6%	26.3%	16.8%	18.0%	19.4%
Deposits Growth (%)	39.3%	39.6%	23.2%	19.6%	14.2%	16.3%
C/D ratio	89.1%	83.4%	85.4%	83.4%	86.2%	88.5%
Equity/Assets (%)	11.9%	12.6%	13.9%	12.8%	12.3%	12.0%
Equity/Loans (%)	17.2%	19.8%	20.9%	19.4%	18.0%	17.0%
CASA %	27.3%	26.4%	26.7%	25.6%	25.0%	25.2%
CRAR (%)	19.0%	25.8%	24.7%	23.1%	20.5%	20.0%
Tier I (%)	17.7%	22.7%	22.6%	21.4%	19.1%	18.8%
ASSET QUALITY						
Gross NPA	12,842	6,307	6,126	6,960	7,854	8,808
Net NPA	997	90	763	1,525	2,106	2,682
PCR	92.2%	98.6%	87.6%	78.1%	73.2%	69.5%
GNPA %	7.3%	2.9%	2.2%	2.2%	2.1%	2.0%
NNPA %	0.6%	0.0%	0.3%	0.5%	0.6%	0.6%
Slippages	13.6%	1.8%	2.0%	3.9%	3.4%	2.9%
Credit costs	8.6%	0.3%	0.8%	2.5%	2.2%	1.7%
ROAA Tree						
Net Interest Income	8.0%	9.4%	9.2%	8.3%	7.3%	7.5%
Non-Interest Income	1.4%	2.1%	2.1%	1.9%	2.1%	2.1%
Operating Cost	6.8%	6.3%	6.2%	6.3%	6.0%	5.8%
Provisions	5.2%	0.1%	0.6%	1.7%	1.5%	1.1%
Tax	-0.6%	1.3%	1.1%	0.5%	0.5%	0.7%
ROAA	-1.9%	3.8%	3.5%	1.6%	1.5%	2.0%
Leverage (x)	7.3	8.2	7.5	7.5	8.0	8.2
ROAE	-13.8%	31.4%	26.1%	12.4%	12.1%	16.3%

Source: Company, HSIE Research

Ujjivan Small Finance Bank: Company Update

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Ujjivan Small Finance Bank: Company Update

Disclosure:

We, **Krishnan ASV, PGDM & Akshay Badlani, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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