

Ujjivan Financial Services

BUY

INDUSTRY	BANKS
CMP (as on 05 Feb 2018)	Rs 347
Target Price	Rs 440
Nifty	10,667
Sensex	34,757
KEY STOCK DATA	
Bloomberg	UJJIVAN IN
No. of Shares (mn)	121
MCap (Rs bn) / (\$ mn)	42/654
6m avg traded value (Rs mn)	763
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 465/285
	3M 6M 12M
Absolute (%)	(7.1) 8.2 (18.5)
Relative (%)	(10.3) 0.7 (41.6)
SHAREHOLDING PATTERN (%)	
Promoters	-
FIs & Local MFs	13.2
FPIs	41.9
Public & Others	45.9
Source : BSE	

On Recovery

Ujjivan's 3QFY18 performance was in line of expectation. AUM grew by 6.4% QoQ to Rs 70.9bn. Provisions stood at Rs 287 mn as the company had largely provided for the delinquent book in 1HFY18. Disbursement grew 9.2/28.4% QoQ/YoY to Rs 21.3bn. PAT stood at Rs 293mn.

Share of the secured book improved from 4.3% QoQ to 5.5% with balance being microfinance loans (Group + Individual). Reported NIM improved from 10.5% to 11.8%, as COF declined 35bps to 9.3%. Operating cost increased 8.1% to Rs. 1.67bn. During the quarter, it further converted/opened 29 bank branches taking total bank branches to 121 branches.

Performance for the MF has normalised. Collection on the new loan after demonetization continues to above 99.7%. We believe MF industry including Ujjivan will benefit from the longer-term evolution of the sector, including E-KYC, Aadhar, cashless disbursement and further integration of technology. SFB rollout and diversification to other asset lending

Financial Summary

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
Net Interest Income	1,958	1,981	-1%	1,646	19%	7,131	7,942	10,149	12,361
PPOP	754	1,211	-38%	702	7%	3,969	2,769	3,960	5,225
PAT	293	439	-33%	-120	NM	2,077	-134	2,014	2,565
EPS (Rs)	2.4	3.7	-34%	-1.0	NM	22.6	-0.3	16.7	21.3
ROAE (%)						18.3	-0.2	10.9	12.4
ROAA (%)						2.92	-0.15	1.90	1.96
Adj. BVPS (Rs)						146.9	144.4	160.6	180.8
P/ABV (x)						2.36	2.40	2.16	1.92
P/E (x)						15.3	NM	20.8	16.3

Source: Bank, HDFC sec Inst Research

opportunity will further strengthen the business. We marginally tweak our assumption. Maintain BUY with a TP of Rs 440 (2.5x Dec-19E ABV).

Highlights of the quarter/concall

- Against PAR>0 of Rs 3.8bn, Ujjivan has cumulative provisioning of Rs 2.7bn now. During the quarter, it collected Rs 260 mn from 34% NPA customers. The company has guided for additional credit cost of Rs 200-250mn for 4QFY18.
- Disbursements increased 9.2/28.4% QoQ/YoY, AUM increased 6.4% QoQ to Rs 70.9bn. Unlike Equitas, Ujjivan continues to focus on microfinance.
- 34.6% of total interest bearing liabilities is now deposit; compared to 20% in 2Q which is helping Ujjivan to lower its Cost of fund; Though CASA increased 45% QoQ, its contribution is mere 3.7% to deposits.
- Near-term outlook:** Disbursement and Loan book growth should continue. We continue to monitor the company's traction on deposits and CASA.

Share of the MF loan declined 120bps QoQ to 94.5%

Separate collection team for customers overdue for 90 days is helping recover dues

Cumulative provisions for last 5Q stood at Rs 3.4bn (5.2% of book as on 3QFY17)

- **SFB update:** Ujjivan Small Finance Bank (SFB) had commenced operations in Feb-17. Currently, it has 121 bank branches. Of the total 445 asset branches, 188 will be converted into SFB branches (offering both assets and liabilities) in FY18. Remaining 67 bank branches would be rolled out in 4QFY18.
- Management maintains its AUM growth guidance at 19-20%, with the share of MSE and Housing increasing from the current 5.5%. It continues to expect opex of ~Rs 6.5bn for FY18. We expect Ujjivan's costs to increase on the rollout/conversion of branches. We have built in a cost-to-income ratio of 70.3% in FY18E.
- Ujjivan is gradually diversifying its loan book. The share of Non-MF has improved to 5.5% from 4.3% in 2QFY18, with contributions from Housing and MSE products.
- **Collection Update:** During the quarter, it collected Rs 260 mn from NPA customers as independent team focused on collection from hard buckets (>90days). After taking write off of Rs 1.3bn in 9MFY18, PAR >0/90 stands at 5.4/4.24%. Against PAR>0 of Rs 3.8bn, Ujjivan now has a cumulative provisioning of

Rs 2.7bn. For loans disbursed after Jan-17, collection efficiency has normalised at 99.7%. The company has guided for additional credit of Rs 0.2-0.25bn. Recovery from Maharashtra and MP has been weak.

- **Headline GNPA lower owing to write-off:** Headline GNPA improved to 4.24% from 4.99% in 2QFY18. This was owing to write-off of Rs 335mn and collection
- **Business momentum recovers:** Disbursements jumped 9.2/28.4% QoQ/YoY, and AUM growth stood at 6.4/7.7% QoQ/YoY. The company added 0.19mn new customers during the quarter. Disbursements' growth in Group Loans was 7/28.2% QoQ/YoY, and for Individual Loans it was 28.1/29.2% QoQ/YoY).
- **NIMs up, owing to lower cost of funds:** The reported NIM for 3QFY18 was up by 124bps QoQ to 11.79%, owing to the reduction in cost of funds which declined 35bps to 9.3%.
- **Institutional/Bulk deposits.** The bank as a strategy is replacing high cost borrowing with institutional deposits as it had received the Scheduled Bank Status in August '17. Bulk deposits increased by Rs 9.6bn QoQ to resulting in deposits contributing 34.6% of total borrowings.

Opex increased as 29 branches were converted to bank branches

Headline GNPA is lower owing to a write-off of ~Rs 340mn in 3QFY18.

In the PAR>90 bucket, 34% customers paid some installment during the quarter

3QFY18 Financial Summary

Rs mn	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY%	QoQ%
Interest income on loans	3,313	3,146	2,955	3,175	3,372	1.8%	6.2%
Interest expenses	1,332	1,617	1,573	1,530	1,414	6.1%	-7.6%
Net interest income	1,981	1,529	1,382	1,646	1,958	-1.1%	19.0%
Non-interest income	400	254	632	605	469	17.2%	-22.4%
Processing and other fees	181	158	NA	NA	NA	NA	NA
Income from other Financial Ser	128	97	NA	NA	NA	NA	NA
Miscellaneous income	91	-	NA	NA	NA	NA	NA
Net revenue	2,381	1,783	2,014	2,251	2,428	2.0%	7.9%
Operating expenses	1,170	1,365	1,568	1,549	1,674	43.1%	8.1%
Employee expenses	707	765	880	895	931	31.7%	4.0%
Depreciation	28	51	78	101	111	304.3%	10.0%
Others	435	548	610	552	632	45.2%	14.4%
Pre-provision profit	1,211	418	446	702	754	-37.8%	7.4%
Provisions and write-offs	547	72	1,592	882	287	-47.6%	-67.5%
PBT	664	346	(1,147)	(180)	467	-29.7%	NM
Tax expenses	225	153	(397)	(61)	173	-22.8%	NM
PAT	439	194	(749)	(120)	293	-33.3%	NM
Total AUM	65,879	63,795	64,593	66,692	70,953	7.7%	6.4%
On-Book	60,464	58,712	61,107	63,644	69,267	14.6%	8.8%
Off-Book	5,415	5,083	3,486	3,048	1,686	-68.9%	-44.7%
% of Total	9.0%	8.7%	5.7%	4.8%	2.4%	-652 bps	-236 bps
Disbursements	16,628	14,070	17,019	19,543	19,543	28.4%	9.2%
No of customers (mn)	3.58	3.57	3.63	3.80	3.97	10.8%	4.6%
AUM/Borrowings	128%	100%	102%	105%	105%	-2311 bps	5 bps
CAR	26.4%	18.2%	21.8%	22.2%	22.1%	-435 bps	-15 bps
NIM (Calculated)	12.1%	8.8%	7.2%	8.4%	9.6%	-254 bps	117 bps
Cost/Income	49%	77%	78%	69%	69%	1992 bps	23 bps
PAR>30	3.78%	7.51%	7.82%	6.10%	NA	585 bps	NA
Gross NPA	151	164	3,764	3,176	2,945	1848.4%	-7.3%
Gross NPA / On-Book AUM (%)	0.25%	0.28%	6.16%	4.99%	4.24%	399 bps	-75 bps
Coverage	80.00%	89.29%	62.66%	72.34%	76.30%	-370 bps	396 bps
Provision % AUM	3.35%	0.44%	9.92%	5.37%	1.67%	-168 bps	-371 bps

Source: Bank, HDFC sec Inst Research

The MF segment remains the key driver of the business, with a contribution of 94.5%, and 5.5% contribution from MSE/Housing.

Disbursement is now growing

Growth & AUM Trend

Rs mn	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY%	QoQ%
Total AUM	65,879	63,795	64,593	66,692	70,953	7.7%	6.4%
On-Book	60,464	58,712	61,107	63,644	69,267	14.6%	8.8%
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% of Total	9.0%	8.7%	5.7%	4.8%	2.4%	-652 bps	-236 bps
Mix of AUM							
Group Loans (Microfinance)	56,490	54,160	54,970	56,828	60,305	6.8%	6.1%
Individual Lending	9,393	9,635	9,628	9,865	10,648	13.4%	7.9%
MSE	145	564	831	1,191	1,633	1028.7%	37.1%
Housing	724	986	1,258	1,660	2,280	214.9%	37.3%
Unsecured Individuals	8,524	8,086	7,539	7,013	6,736	-21.0%	-4.0%
% share of AUM							
Group Loans (Microfinance)	85.7%	84.9%	85.1%	85.2%	85.0%	-75 bps	-22 bps
Individual Lending	14.3%	15.1%	14.9%	14.8%	15.0%	75 bps	22 bps
MSE	0.2%	0.9%	1.3%	1.8%	2.3%	208 bps	52 bps
Housing	1.1%	1.5%	1.9%	2.5%	3.2%	211 bps	72 bps
Unsecured Individuals	12.9%	12.7%	11.7%	10.5%	9.5%	-345 bps	-102 bps
Disbursements							
GL (Microfinance)	16,628	14,070	17,019	19,543	21,343	28.4%	9.2%
GL (Microfinance)	14,633	12,215	15,343	17,531	18,765	28.2%	7.0%
Individual	1,995	1,855	1,677	2,012	2,578	29.2%	28.1%
MSE	9	445	307	438	555	6282.8%	26.8%
Housing	239	284	302	459	703	193.9%	53.2%
Unsecured Individuals	1,747	1,126	1,068	1,115	1,319	-24.5%	18.3%
% share of Disbursement							
GL (Microfinance)	88.0%	86.8%	90.1%	89.7%	87.9%	-8 bps	-178 bps
Individual	12.0%	13.2%	9.9%	10.3%	12.1%	8 bps	178 bps
MSE	0.1%	3.2%	1.8%	2.2%	2.6%	255 bps	36 bps
Housing	1.4%	2.0%	1.8%	2.3%	3.3%	186 bps	95 bps
Unsecured Individuals	10.5%	8.0%	6.3%	5.7%	6.2%	-432 bps	48 bps
No of customers (mn)	3.58	3.57	3.63	3.66	3.71	3.6%	1.3%

Source: Bank, HDFC sec Inst Research

QoQ NIMs improved, owing to fall in COF

Ujjivan is repaying the bank loans and replacing them with wholesale deposits. During the quarter, it repayed Rs 4.6bn of high cost loans

Rs 260mn was recovered from GNPA customers

Coverage has improved over the last 3 quarters

Margins-Improve, Borrowing Mix Showing Gradual Improvement

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY%	QoQ%
Margins-Reported							
Net interest margin	13.22%	8.61%	9.20%	10.55%	11.79%	-143 bps	124 bps
CARR	26.4%	18.2%	21.8%	22.2%	22.1%	-435 bps	-15 bps
Borrowing Mix							
Term Loans, Cash Credit & Overdraft	64.0%	63.0%	54.8%	39.4%	24.7%	-3929 bps	-1470 bps
Refinance Facility*	9.0%	16.0%	18.0%	21.3%	24.1%	1506 bps	280 bps
Securitization (Off Balance Sheet)	9.0%	8.0%	5.0%	4.5%	2.4%	-660 bps	-210 bps
Non Convertible Debentures	15.0%	13.0%	9.0%	9.2%	8.5%	-648 bps	-70 bps
Sub Debt	1.0%	0.0%	0.0%	0.0%	0.0%	-100 bps	0 bps
Commercial Paper	2.0%	0.0%	0.0%	0.0%	0.0%	-200 bps	0 bps
Short term borrowings			7.3%	5.7%	5.7%	568 bps	0 bps
Deposit			5.9%	19.9%	34.6%	3460 bps	1468 bps
-CASA			0.3%	1.0%	1.3%	128 bps	30 bps

Source: Bank, HDFC sec Inst Research

Asset Quality

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY%	QoQ%
PAR>30	3.78%	7.51%	7.82%	6.10%	NA	-378 bps	NA
Gross NPA	151	164	3,764	3,176	2,945	1848.4%	-7.3%
Gross NPA / On-Book AUM (%)	0.25%	0.28%	6.16%	4.99%	4.24%	399 bps	-75 bps
Net NPAs	30	18	1,405	878	698	2208.8%	-20.5%
Net NPAs / On-Book AUM (%)	0.05%	0.03%	2.30%	1.38%	1.04%	99 bps	-34 bps
Coverage	80.00%	89.29%	62.66%	72.34%	76.30%	-370 bps	396 bps
Provision % AUM	3.35%	0.44%	9.92%	5.37%	1.67%	-168 bps	-371 bps

Source: Bank, HDFC sec Inst Research

Recovery in PAR has been weak; aggressive provisioning is helping Ujjivan to recover

Productivity

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY%	QoQ%
Cost/Income	49%	77%	78%	69%	69%	1992 bps	23 bps
Cost/AUM	7.1%	8.6%	9.7%	9.3%	9.4%	234 bps	15 bps
Other Income/AUM	16.8%	14.3%	31.4%	26.9%	19.3%	252 bps	-754 bps

Source: Bank, HDFC sec Inst Research

PAR Movement

Rs Mn	4QFY17	1QFY18	2QFY18	3QFY18	QoQ(%)
Reported PAR>0	6,507	5,712	4,455	3,840	-14
PAR>0 adjusted (for write off)	6,507	5,809	5,437	5,157	-5
As a % of AUM (adjusted for write off)		9.0%	8.0%	7.1%	-90bps

Source: Bank, HDFC sec Inst Research

We marginally tweak our assumption

Change In Estimates

Rs. Mn	FY18E			FY19E			FY20E		
	Old	New	Change	Old	New	Change	Old	New	Change
Loan book	76,554	76,235	-0.4%	97,223	96,818	-0.4%	121,529	121,991	0.4%
Total Income	9,299	9,335	0.4%	11,631	11,706	0.6%	14,120	14,145	0.2%
Total Operating Exp	6,397	6,566	2.6%	7,666	7,747	1.1%	8,825	8,921	1.1%
PPOP	2,902	2,769	-4.6%	3,965	3,960	-0.1%	5,295	5,225	-1.3%
Provisions & Contingencies	2,701	2,921	8.2%	874	880	0.7%	1,362	1,303	-4.3%
PAT	132	(134)	NM	2,021	2,014	-0.4%	2,572	2,565	-0.3%
Ad BV	146.4	144.4	-1.4%	163.1	160.6	-1.5%	185.2	180.8	-2.4%

Source: HDFC sec Inst Research

Peer Valuations

BANK	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
ICICIBC #	2,152	335	BUY	390	109	128	146	20.4	14.6	10.9	2.17	1.74	1.39	8.1	10.0	9.9	0.92	1.10	1.22
KMB #	2,066	1,086	BUY	1,213	181	205	234	41.7	33.0	26.5	5.04	4.36	3.70	13.2	13.4	14.2	1.77	1.84	1.85
AXSB	1,478	565	NEU	596	223	260	298	42.3	20.8	14.7	2.53	2.17	1.90	5.6	9.9	12.6	0.53	0.96	1.18
IIB	1,048	1,761	BUY	1,889	380	444	524	29.4	23.7	19.1	4.64	3.97	3.36	16.5	17.7	18.7	1.81	1.84	1.84
FB	181	93	BUY	138	57	63	71	18.0	14.4	11.3	1.64	1.48	1.32	9.5	9.9	11.6	0.80	0.85	0.93
CUB	105	158	BUY	206	56	66	78	17.6	15.2	12.8	2.83	2.41	2.03	15.5	15.4	15.8	1.58	1.57	1.57
KVB	81	112	BUY	151	63	71	79	21.7	16.3	9.2	1.78	1.58	1.42	6.6	7.8	13.3	0.57	0.68	1.08
DCBB	51	166	BUY	218	77	87	98	19.9	16.1	13.0	2.15	1.91	1.70	10.2	10.7	12.0	0.95	0.97	1.00
SBIN #	2,567	297	BUY	387	119	157	190	19.6	12.5	7.2	1.71	1.29	1.05	4.5	6.1	10.0	0.29	0.38	0.60
BOB	364	158	BUY	215	97	136	175	23.8	12.5	7.2	1.62	1.16	0.90	4.1	7.4	11.8	0.22	0.39	0.62
Ujjivan	42	347	BUY	440	144	161	181	NM	20.8	16.3	2.40	2.16	1.92	-0.2	10.9	12.4	-0.15	1.90	1.96
Equitas	47	139	NEU	160	64	66	72	163.8	37.3	18.9	2.17	2.09	1.92	1.3	5.5	10.0	0.28	1.01	1.33

Source: Company, HDFC sec Inst Research, # Adjusted for embedded value of subs

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Interest Earned	9,453	12,558	14,336	17,458	21,332
Interest Expended	4,235	5,427	6,395	7,309	8,971
Net Interest Income	5,218	7,131	7,942	10,149	12,361
Other Income	823	1,418	1,393	1,557	1,785
Total Income	6,041	8,549	9,335	11,706	14,145
Total Operating Exp	3,068	4,581	6,566	7,747	8,921
PPOP	2,973	3,969	2,769	3,960	5,225
Provisions & Contingencies	253	751	2,921	880	1,303
PBT	2,720	3,217	(153)	3,079	3,922
Provision for Tax	948	1,141	(18)	1,065	1,357
PAT	1,772	2,077	(134)	2,014	2,565

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share capital	1,012	1,194	1,206	1,206	1,206
Reserves and surplus	10,966	16,359	16,246	18,193	20,624
Shareholders' funds	11,978	17,553	17,452	19,399	21,829
Total Borrowings	43,380	62,914	47,000	54,400	60,160
Deposit + CASA	-	1,064	26,575	39,040	56,640
Other Liabilities, provisions	1,915	3,255	3,774	4,793	6,039
Total	57,273	84,786	94,800	117,631	144,668
APPLICATION OF FUNDS					
Advances	50,644	58,712	68,611	87,136	109,792
Investments	1	14,468	16,221	19,666	24,583
Cash including with RBI	4,913	7,601	6,990	7,475	8,176
Fixed assets	242	1,398	1,630	1,585	1,548
Other Assets	1,473	2,616	1,348	1,768	569
Total assets	57,273	84,794	94,800	117,631	144,668
AUM	53,886	63,795	76,235	96,818	121,991

Source: Company, HDFC sec Inst Research

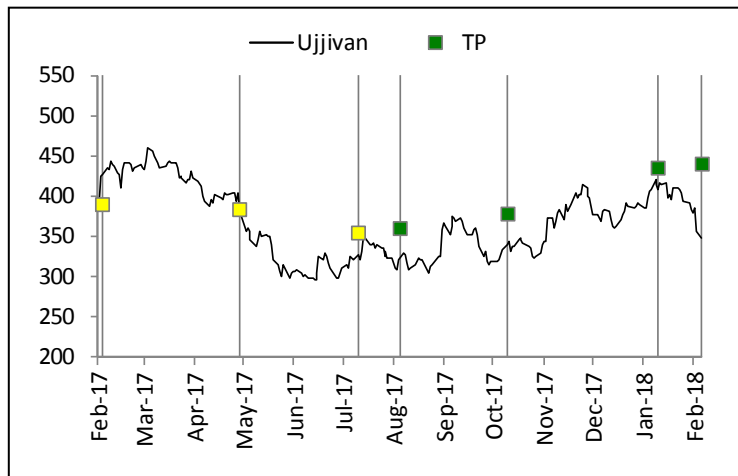
Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
VALUATION RATIOS					
EPS	17.5	22.6	(0.3)	16.7	21.3
Earnings Growth (%)	133.8	17.2	(106.5)	(1,598.1)	27.3
BVPS	118.4	147.0	144.7	160.9	181.0
Adj. BVPS (ex reval. & 100% cover)	118.2	146.9	144.4	160.6	180.8
RoAA (%) (on total assets)	3.65	2.92	(0.15)	1.90	1.96
ROAE (%)	18.3	18.3	(0.2)	10.9	12.4
P/E (x)	19.8	15.3	NM	20.8	16.3
P/ABV (x)	2.94	2.36	2.40	2.16	1.92
P/PPOP (x)	11.8	10.4	15.1	10.6	8.0
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.3
PROFITABILITY					
Yield on Funds (%)	20.1	18.4	15.9	15.6	15.3
Cost of Funds (%)	11.4	10.1	9.3	8.8	8.5
Spread (%)	8.7	8.3	6.6	6.9	6.8
Core Spreads (%)	10.3	11.7	11.1	11.1	10.7
NIM (%)	11.1	10.5	8.8	9.1	8.9
OPERATING EFFICIENCY					
Cost/Avg. AUM Ratio (%)	7.1	7.4	9.2	9.0	8.2
Cost-Income Ratio (%)	50.8	53.6	70.3	66.2	63.1
BALANCE SHEET					
STRUCTURE RATIOS					
AUM Growth (%)	64.6	18.4	19.5	27.0	26.0
Loan Growth (%)	57.3	15.9	16.9	27.0	26.0
Borrowing Growth (%)	39.0	45.0	(25.3)	15.7	10.6
Equity/Assets (%)	20.9	20.7	18.4	16.5	15.1
Equity/Loans (%)	23.7	29.9	25.4	22.3	19.9
CAR (%)	18.2	18.2	18.5	16.7	15.4

	FY16	FY17	FY18E	FY19E	FY20E
ASSET QUALITY					
Gross NPLs (%)	78	164	1,527	1,518	1,349
Net NPLs (%)	20	18	288	283	175
Coverage Ratio (%)	0.2	0.3	2.2	1.7	1.2
Provision/Avg. AUM (%)	0.0	0.0	0.4	0.3	0.2
ROAA TREE (On Total Assets)					
Net Interest Income	10.75	10.04	8.84	9.56	9.43
Non Interest Income	1.70	2.00	1.55	1.47	1.36
Operating Cost	6.32	6.45	7.31	7.29	6.80
Provisions	0.52	1.06	3.25	0.83	0.99
Tax	1.95	1.61	(0.02)	1.00	1.03
ROAA	3.65	2.92	(0.15)	1.90	1.96
ROAE	18.3	18.3	(0.2)	10.9	12.44

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
6-Feb-17	426	NEU	390
1-May-17	382	NEU	384
10-Jul-17	321	NEU	354
6-Aug-17	320	BUY	360
9-Oct-17	334	BUY	378
9-Jan-18	408	BUY	435
6-Feb-18	347	BUY	440

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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