Stock Update

Ujjivan Financial Services Ltd.

June 14, 2023

RETAILRESEARCH

Ujjivan Financial Services Ltd

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
MFI	Rs.398	Buy between Rs. 395-403 band & add more on dips to Rs. 340-345 band	Rs. 442	Rs. 491	3-4 quarters

HDFC Scrip Code	UJJFINEQNR
BSE Code	539874
NSE Code	UJJIVAN
Bloomberg	UJJIVANS IN
CMP June 13, 2023	398
Equity Capital (Rs cr)	122
Face Value (Rs)	10
Equity Share O/S (cr)	12.2
Market Cap (Rs cr)	4,849
Book Value (Rs)	151.9
Avg. 52 Wk Volumes	7,87,132
52 Week High	400.5
52 Week Low	120.5

Share holding Pattern % (Mar, 2023)	
Promoters	0
Institutions	33.29
Non Institutions	66.71
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Ujjivan Financial Services Limited (UFSL) is a core holding company of Ujjivan Small Finance Bank Limited (USFB), holding 73.68% stake. As part of the banking license requirement, UFSL had floated its wholly owned subsidiary which had commenced its banking operations from February 1, 2017. For the purpose of analysis at the consolidated level, we have done the financial analysis of Ujjivan SFB and added investment value to arrive at the fair value for UFSL.

Ujjivan Small Finance Bank Limited is a mass market focused small finance bank in India, catering to financially unserved and underserved segments and committed to building financial inclusion in the country. It serves ~77 lakh customers through 629 branches and 17,870 employees spread across 271 districts and 25 states and union territories in India. Gross loan book stands at Rs. 24,085 crores with a deposit base of Rs. 25,538 crores as of Mar 31, 2023.

COVID led weak economic scenario had impacted the Micro Finance Industry (MFI) and small business segment. Ujjivan SFB's performance had also deteriorated during this period. There was a sharp spike in NPAs and due to higher provisions, the profitability of the bank was also impacted. However, we feel that going by the Q4FY23 results, the worst is over and situation has improved with the economy picking up again and the rural demand on the rise, the growth outlook looks positive for the short to medium term. During the recently concluded quarter (Q4FY23), the bank set new benchmarks- it recorded highest quarterly disbursements, improved asset quality, highest ever loan and deposits book, negligible credit costs, reduced slippages and strong recoveries, healthy branch additions, technological advancements, etc.

RBI in March 2022 issued new directions for microfinance lending and has eased microfinance regulations. For the long term we feel that the opportunity is huge as penetration of MFI and SFB loans in Indian market is still low.

We had previously issued an initiating coverage report on Ujjivan Financial Services Ltd (link) on 1st August, 2022. Both the targets mentioned therein were attained by Sept 06, 2022. We are now issuing this report incorporating the latest quarterly results of Q4FY23.

Valuation & Recommendation:

At standalone level, the income stream of UFSL include dividend income from investments held in its subsidiary, UFSB and interest earned on fixed deposits invested with various banks. As mentioned earlier, for the purpose of analysis at the consolidated level, we have done the financial analysis of Ujjivan SFB and added investment value to arrive at the fair value for UFSL.

USFB has continued to deliver stellar performance in Q4FY23. The business growth momentum continued, while asset quality improved further. With major asset quality clean-up completed and the focus shifting to low-cost deposits, we expect profitability metrics to pan out better than earlier expectations. The bank is investing in a franchise development which could keep the opex elevated. We are optimistic on the micro finance business as a whole as there has been strong demand growth revival.

In the recently declared Q4FY23 results, total deposits stood at Rs. 25,538 crores which is up 40%/10% YoY/QoQ. This figure has crossed Rs. 25,000 crore mark for the first time in the history of bank's operations. Out of these deposits, CASA balance stood at Rs. 6,744 crores which is up 35%/11% YoY/QoQ. This is equivalent to a CASA ratio of 26.4% which was previously 26.2% in December, 2022. On the assets side, the bank's Gross Loan Book stood at Rs. 24,085 crores up 33%/10% YoY/QoQ and the disbursements stood at Rs. 6,001 crores up 23%/24% YoY/QoQ. This growth was primarily led by housing, Micro-banking and FIG (financial institutions group) lending. GNPAs and NNPAs were as low as 2.6% and 0.04% at the end of Q4FY23 as against 3.4% and 0.05% in Q4FY23 in Q3FY23 respectively.

As of March 2023, the bank has 629 branches, 517 ATMs and 17,870 employees.

We have envisaged 18% CAGR in NII and 15% in PPOP over FY23-25E, while the loan book is estimated to grow at 24% CAGR over same time frame. As the collection efficiencies have improved and economic activities have picked momentum, the asset quality has improved. ROAA is estimated to improve to 2.6% by FY25E.

USFB is available at 1.3x FY25E ABV. Looking at the growth opportunities we feel that the stock is trading at attractive valuations and UFSL- the holding company (having 73.67% stake in USFB), which is trading at discount based on the swap ratio looks like a candidate for re-rating. **We feel that investors can buy the shares of UFSL between Rs. 395-403 & add more on dips to Rs. 340-345 band. We expect the base case fair value of Rs. 442 (Rs. 426/ share Ujjivan SFB and Rs.16/share investments after 10% holding discount) and the bull case fair value of Rs. 491 (Rs. 475/ share Ujjivan SFB and Rs.16/ share investments after 10% holding discount) over the next 3-4 quarters.**

Ujjivan SFB Financial Summary (Rs. Cr):

(RsCr)	Q4FY23	Q4FY22	YoY	Q3FY23	QoQ	FY20	FY21	FY22	FY23P	FY24E	FY25E
NII	738	544	*36%*	697	*6%*	1,634	1,729	1,774	2,698	3,155	3,738
PPOP	411	217	*89%*	389	*6%*	637	809	591	1,485	1,705	1,954
PAT	309	127	*145%*	294	*5%*	350	8	-414	1,100	1,054	1,205
EPS (Rs.)						2.0	0.0	-2.4	5.6	5.4	6.2
ROAA (%)						2.2%	0.0%	-1.9%	3.9%	2.8%	2.6%

ROAE (%)						14.0%	0.3%	-13.8%	31.4%	22.7%	21.6%
ABVPS (Rs.)						18.3	16.2	15.6	21.5	25.8	30.9
P/ABV (x)						2.1	2.4	2.5	1.8	1.5	1.3

(Source: Company, HDFC sec)

Recent Developments

Q4FY23 result update

The bank reported healthy financial performance during Q4FY23. The bank reported total interest income of Rs. 1,185 crores up 45%/9.5% YoY/QoQ whereas the interest expenditure stood at Rs. 447 crores up 63%/16%. This resulted in a Net Interest Income (NII) of Rs.738 crores showing a growth of 36%/6% YoY/QoQ. Non-Interest Income was up by 75%/29% YoY/QoQ which primarily consisted of fee income and bad debt recoveries. The opex of the bank were higher by 18%/13% YoY/QoQ on account of addition of 31 branches and recruitment of over 1000 human resources. The Pre Provision Operating Profit (PPoP) stood at Rs.411 crores, up 70%/6% YoY/QoQ. It has written back provision worth Rs.2 crores, which has further aided the bottom line. Finally, the bank reported profits of Rs. 310 crores which is up 144%/6% YoY/QoQ.

NIM changed by -90/-30 bps YoY/QoQ to 9.1%. The overall yield on its loan portfolio for Q4FY23 stood at 18.9% up 110/50bps. This increase was driven by higher yields earned in micro finance group and individual loans. While the yield on its housing portfolio was almost flat, the yields in the MSME book have dipped by 60/50 bps YoY/QoQ. On the other hand, it reported cost of funds of 6.9% v/s 6.6% in Q3FY23 and 6.1% in Q4FY22. This increase was in line with the rising interest rate environment that prevailed in the country during that period. The cost to income ratio of the bank stood at 55.2% as against 53.5% in Q3FY23 and 63.9% in Q4FY22. The ratio has risen sequentially on account of opex growth outpacing the growth in total income of the bank.

The bank has a strong financial position with advances standing at Rs. 24,085 crores, up 33%/10% YoY/QoQ. The disbursements for the quarter stood at Rs. 6,001 crores, up 23%/24% YoY/QoQ which is the highest ever quarterly disbursements reported by the bank. Despite the contraction in NIM, the bank reported growth in NII, which can be attributed to this healthy traction in bank's advances. On the deposits front, it reported a jump of 40%/10% YoY, taking it to Rs. 25,538 crores. The CASA ratio stood at 26.4% as against 26.2% in Q3FY23 and 27.3% in Q4FY22. As of Q4FY23, the bank's capital adequacy ratio stood at 25.8% with Tier-1 capital at 22.7%. Its Liquidity coverage ratio remained at robust level of 180%. The annualized RoA stands currently at 3.9% and RoE at 30.3%.

The bank added 31 branches during Q4FY23, taking the total branches to 629 and it employs 17,870 human resources as against 16,895 as of March 2022.

Reverse Merger update

In September 2022, Ujjivan SFB had raised Rs.475 Cr by issuing over 22.6 Cr shares via qualified institutional placement (QIP). The shares were issued at a price of Rs.21 apiece. With this equity raise, the bank has complied with the SEBI requirement for minimum public shareholding, following which the board has approved a revised scheme of amalgamation with the promoter UFSL. As per the scheme of amalgamation, the shareholders of parent company (UFSL) will receive 116 shares of USFB for every 10 shares held by them. As of March 2023, UFSL holds ~144 crore shares of USFB which is equivalent to 73.68% of the outstanding shares of the bank. The bank has already obtained RBI's approval and is awaiting NCLT's direction to hold shareholder's meeting and obtain their approval for the reverse merger. The management believes that this merger shall be complete by Q2-Q3FY24.

UFSL is currently trading at ~ Rs. 398. Applying the swap ratio of 116:10, the holding company discount comes to 12% which can be considered as a margin of safety for the investment in shares of the parent company.

Management Guidance:

- The management has strategized to increase the portion of secured book in its overall book to 32% in FY24 which stands at 28% as of March 2023, and to 40% by FY26, which will improve its overall asset quality. From the growth figures reported by the bank in its secured portfolio in Q4FY23, it seems possible for the bank to achieve this target. However, this can, potentially add downward pressure on its NIM during FY24 onwards.
- The bank has targeted a loan growth amounting to more than 25% in FY24 primarily led by non-MFI secured book. The bank wants to focus on affordable housing segment going forward.
- The target deposit growth for FY24 is 30% with a CASA ratio of 35% driven by digital initiatives and branch growth. We feel that it is necessary for the bank to grow its deposit franchise at this guided rate of 30%, as the current credit to deposit ratio is as elevated as 83%. However, improving the CASA ratio to 35% might be a tad bit ambitious. By increasing the interest rates, it might be able to garner Term Deposits, however, it is generally observed that SFBs find it difficult to raise CASA ratio on account of trust issues of depositors. The management has also specified that going forward, it is going to focus invest in and expand its CA franchise in order to contain the rise in its CoF.
- The bank has guided for NIMs to stay above 9% for FY24. The NIM of the bank, in Q4FY23 stood at 9.1%. Going forward, as the bank wishes to change its product mix in favour of secured loans and the fact that it has a CASA ratio of 26.4%, it seems it would be challenging for the bank to achieve this.
- The management has guided for credit costs to stay below 1% and RoE to be 22% or more, in FY24. Due to improvement in asset quality, the bank has reported net provision write back in FY23. Hence, going forward, in FY24, the credit costs are expected to compress the bank's RoA. However, the management has guided for this ratio to be around 2.5% in FY24.

- The bank plans to open more than 100 branches in FY24 and to enter the state of Andhra Pradesh. The cost of income ratio is expected to stay at the current elevated levels due to investments in branches, recruitment of talent and digital initiatives.

Key Triggers:

Healthy business momentum and guidance

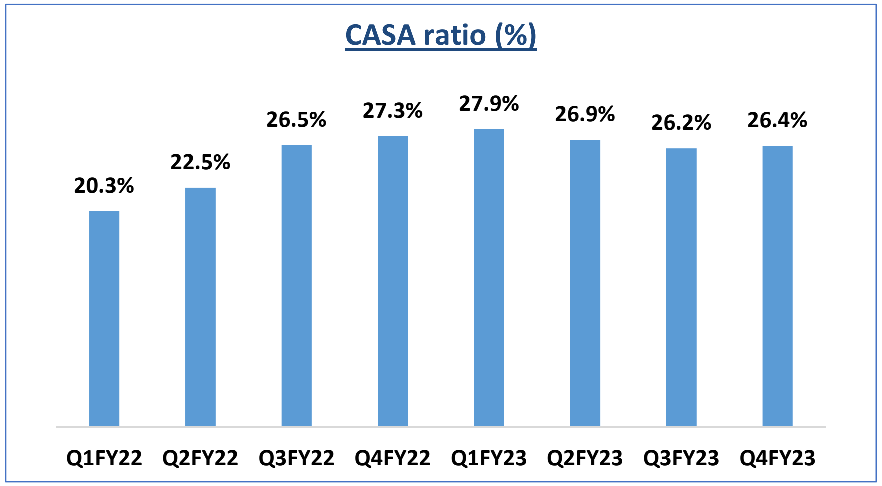
Since last couple of quarters the bank has been witnessing strong business momentum. The loan book has been growing at a healthy rate supported by disbursement growth across the segments. This healthy traction is witnessed in the liability profile of the bank as well. Capital position has improved after the QIP referred above and now the focus has shifted towards growth, backed by favourable environment. Going forward, the management aims to reduce the share of MFI business gradually while incremental growth is expected from newer segments.

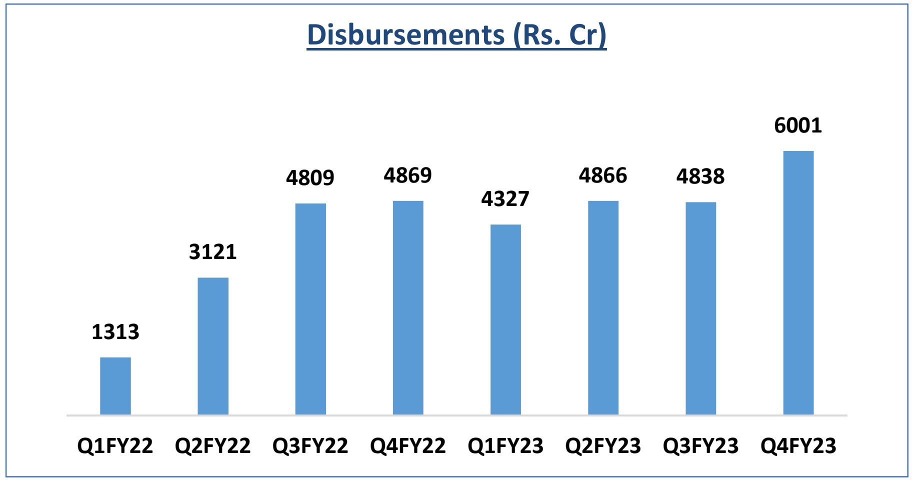
The gross advances have grown at a robust pace during the quarter and stood at 24,085 crores, up 33%/10% YoY/QoQ. It has reported a new high in quarterly disbursements of Rs. 6,001 crores up 23%/24% YoY/QoQ. The bank acquired ~ 3 lac new customers during Q4FY23 and 40% of fresh individual loans and 15% of the fresh micro group loans were advanced to new customers. The company is observing a very good demand from the market for the micro finance loans which consists of micro group loans and individual loans. Around 82% of the total disbursements were towards micro banking and individual loans while the rest were from affordable housing, MSME and FIG lending, etc. On account of RBI's regulation on partnership with Fintech companies, the bank saw a 50% sequential decline in disbursements to MSMEs. The growth was also aided by new RBI's norms easing Micro banking regulations.

	Q4FY23	Q4FY22	Q3FY23	YoY	QoQ	% of Gross Advances
Micro Group Loans	14,225	10,446	12,823	36%	11%	59%
Individual Loans	3,141	1,882	2,632	67%	19%	13%
MSME	1,593	1,710	1,744	-7%	-9%	7%
Affordable Housing	3,401	2,734	3,144	24%	8%	14%
FIG Lending	1,128	855	1,010	32%	12%	5%
Other	597	535	543	12%	10%	2%
Total	24,085	18,162	21,896	33%	10%	100%

(Source: Company, HDFC sec)

The micro finance book which is generally unsecured in nature, fetches higher yield for the bank @ 21.6% and has improved by 160/60 bps YoY/QoQ. This increase was on account of two rate hikes during the year of 50 bps each in September 2022 and March 2023. Currently, the lending rate is 23% for group MFI loans and 25% for individual MFI loans and the faster growth in high yielding individual loan has supported bank's overall yield on advances. On the other hand, housing segment fetched a yield of 12.9% and MSME segment fetched 13.5%. The overall yield on bank's portfolio stood at 18.9%. The bank has also ventured into gold loans for the first time in FY23. It targets to disburse gold loans from the coming FY from 50 branches where it expects demand. The management has said that though the gold loan market is heavily competitive, it has healthy demand from its existing customers for gold loans and hence it should be able to tap to these potential gold loan customers. Further, this would also help the bank to reach the target mix of 40-60% secured-unsecured.

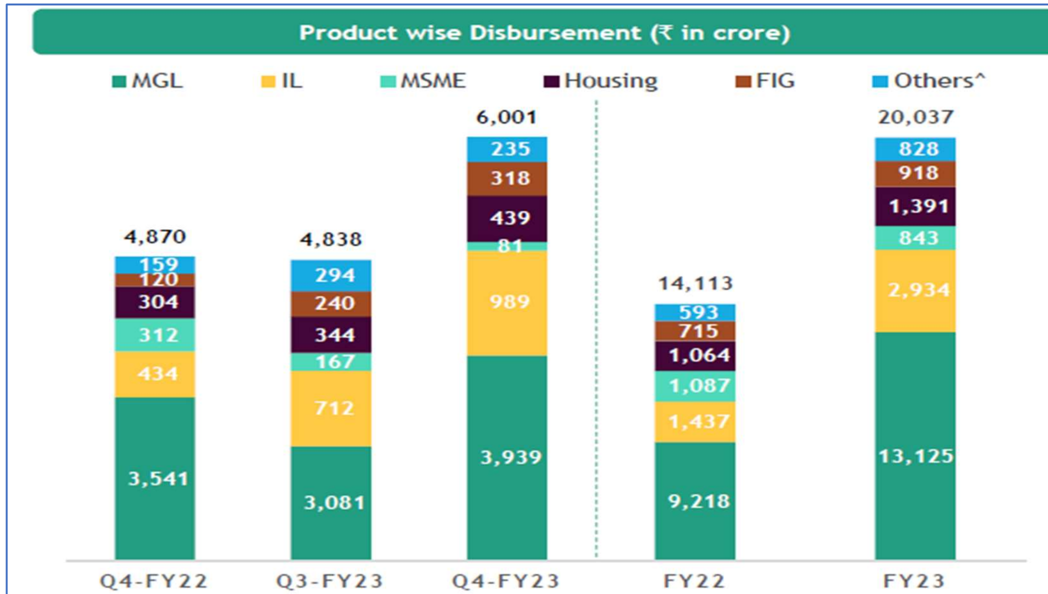


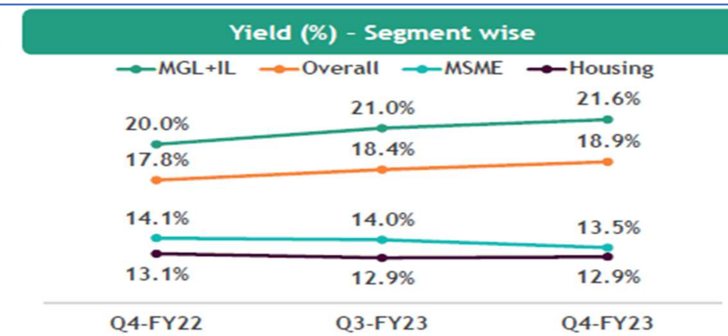


In the recent analyst meet, the bank expressed that, while growth so far has been largely driven by the unsecured MFI portfolio, it is looking to accelerate growth in the non-MFI portfolio which will be primarily driven by the affordable housing and FIG portfolio. Alongside, UJSFB will also aim at scaling up the revamped MSME portfolio, thereby shifting its focus towards the semiformal/ formal secured loans as against the bank's earlier strategy of focusing on the informal unsecured MSME loans. Thus, by FY26, UJSFB is likely to improve the share of non-MFI businesses to 40% as against the current level of 28%. Over the past 5 years, the bank has been able to grow its affordable housing book by 60% CAGR on account of lower base with loans in the range Rs. 5-20 lakhs. The bank has devised a new strategy to achieve its ambitions in this segment. It is also looking to partner with Fintech companies to onboard new customers.

Along with **Affordable Housing**, the bank has identified opportunities in the Micro-LAP segment. USFB aspires to be the lender of choice – among the Top-5 lenders in the affordable housing market, building a strong profitability business alongside maintaining a strong asset quality with a GNPAs below 1%. The bank expects the book to scale up to Rs 10,000 crores, of which Rs 9,000 crores are expected from the affordable housing book and rest Rs. 1,000 crores from LAP by FY26.

The **FIG portfolio** which consists of bank's lending to other NBFCs offers the bank an opportunity to grow the secured book, with indirect exposure to other retail assets and also offers the bank cross-sell opportunities for the bank's deposit franchise. Currently, the book is well-diversified across sectors with ~90+% of the book having a credit rating of A or above. Going ahead, USFB will look to increase the exposure to BBB-rated entities/good unrated entities, though capping its limit to 10% of the overall book. This will enable the bank to improve its yields, offer smaller ticket-size loans and also allow the bank to cross-sell opportunities. The new product launch pipeline includes products such as Working capital demand loans and Capital market products as it offers a better opportunity to engage with higher-rated borrowers.





Average Ticket Size (₹)

Product	Q4-FY22	Q3-FY23	Q4-FY23
Micro Group Loans	59,475	55,186	55,664
Individual Loan	1,34,980	1,22,185	1,31,742
MSME (ex-fintech)	29.4 lakhs	40.0 lakhs	30.6 lakhs
Housing	11.4 lakhs	12.5 lakhs	12.6 lakhs

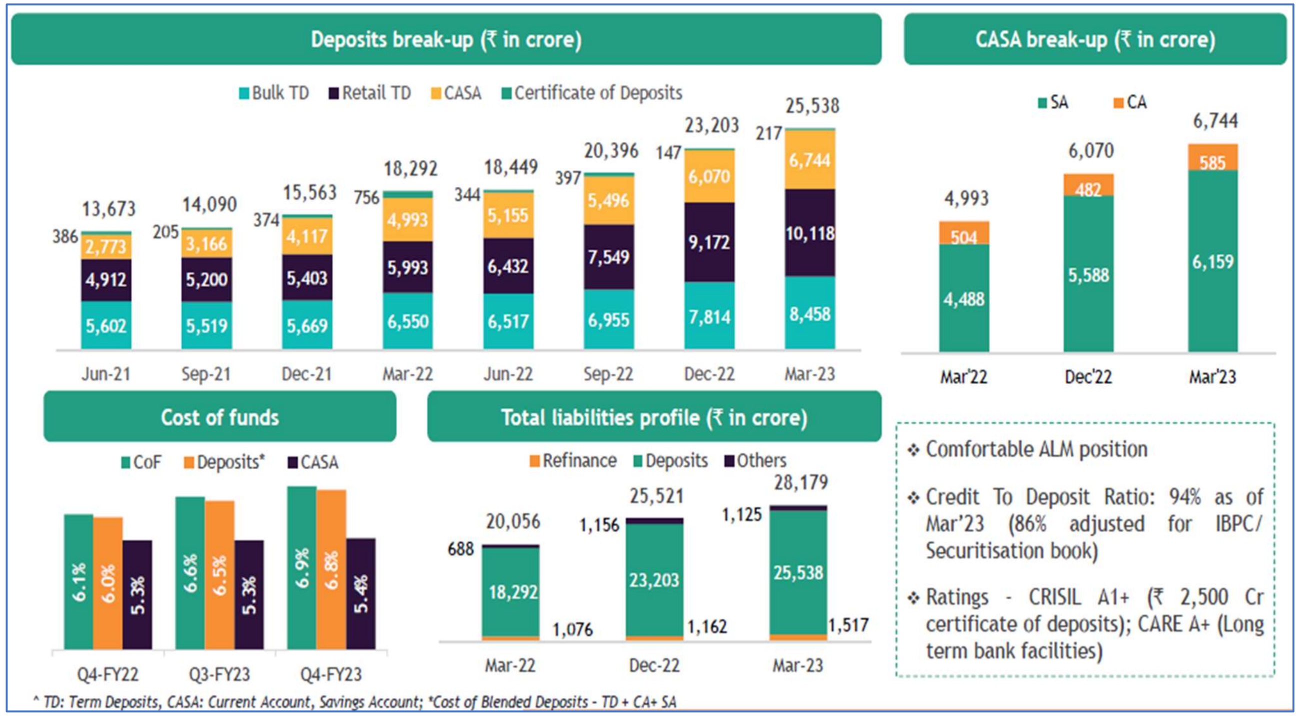
(Source: Company, HDFC sec)

On the liability front, as mentioned above, the bank reported total deposits worth Rs. 25,528 crores which is up 40/10% YoY/QoQ. Of this, CASA balance stood at Rs. 6,744 crores which is up 35/11% YoY/QoQ. The CASA ratio stood at 26.4% v/s 26.2% in the previous quarter. The bank is focusing on acquiring higher ATS (average ticket size) customers. This is evident from an increase in savings deposits by 10% sequentially whereas the number of customers added were ~2 lacs in Q4FY23 v/s ~3 lacs in Q3FY23. The Term Deposits and Certificate of Deposits stood at Rs. 18,794 crores up 41%/10% YoY/QoQ. The bank has been successful in garnering deposits from its MFI customers, which stands at Rs. 2,100 crores and contributing ~13% to the bank's retail deposits. Cost of Funds stood at 6.9% v/s 6.6% in Q3FY23 and 6.1% in Q4FY22. The increasing trend in the cost of funds is attributable to the bank's reliance on costly term deposits as compared to CASA balances which are merely 26.4% of the total deposits as of March, 2023. The management does not expect the cost of funds to reduce in

FY24. The Credit-Deposit ratio of the bank is on a higher side of 83%. This indicates that the bank would have to increase their efforts to garner deposits at a faster rate in order to meet the demand for its products.

The bank has formulized the following strategies in order to achieve the intended deposit targets:

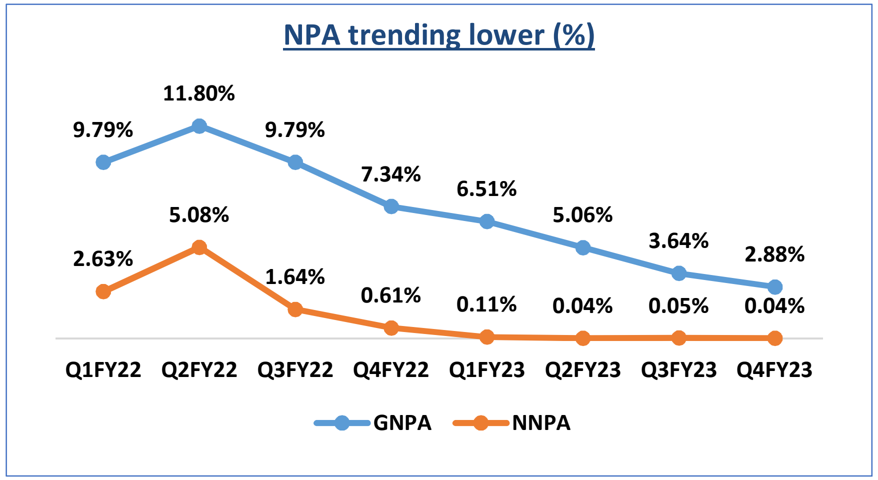
- Expanding its product 0fferings & services to attract new customers.
- Launching targeted programs for different sets of customers.
- Using data analytics to enable cross selling.
- Implementing the latest technology to provide better service.
- Investing on national-level branding campaigns.
- Expanding sourcing from the traditional brick and mortar setup to multi-channel sourcing.



(Source: Company, HDFC sec)

Asset quality clean up seems completed

Sustained collection efficiency of ~100% across business segments with strong recoveries continue to drive PAR (Portfolio at Risk) and NPAs further lower. GNPA declined to 2.6% which is 450/80bps YoY/QoQ lower, while NNPA came stood at 0.04% as of Q4FY23, improving by 56/1bps YoY/QoQ. The bank has reported slippages and recoveries & upgrades in Q4FY23 to the tune of Rs. 19 crores and Rs. 59 crores respectively. The incremental stressed assets formation is slow as can be seen from lower fresh slippages number when compared to the upgrades. The Provision Coverage Ratio stood at a healthy rate of 98%. The bank a total of Rs. 250 crores of floating provisions for making specific provisions in future during extraordinary circumstances. Further, the bank has a PCR of 99% on GNPAs. The stressed assets pool has improved as can be seen from GNPA + restructured book which stood at 3.2% in Q4FY23 v/s 4.1% in Q3FY23. The SMA pool reduced to 1.2% in March 2023 v/s 1.5% in December 2022. Standard restructured pool stands at 0.3% only which is equivalent to Rs. 230 crores with a PCR of 64%. Out of these, 70% have already turned into NPAs. The collection efficiency on the restructured book is at 100%. PAR 0 stood at 3.8% in Q4FY23, v/s 4.9% in Q3FY23. The improvement of asset quality is also evident from management's decision to write back provisions worth Rs. 2 crores in Q4FY23. Management has guided for ~1% credit cost for FY24.



PAR-Portfolio At Risk (%)

	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
SMA-0	1.2%	1.1%	0.9%	0.8%	0.6%
SMA-1	0.9%	0.7%	0.6%	0.5%	0.5%
SMA-2	0.4%	0.3%	0.2%	0.2%	0.2%
NPA	7.1%	5.9%	4.4%	3.4%	2.6%
Total PAR	**9.6%**	**7.9%**	**6.1%**	**4.9%**	**3.8%**

(Source: Company, HDFC sec)

Focus on building a franchise

The bank is focused towards building the franchise by investing in branch expansion as well as digital initiatives. We believe that this will keep the opex high in the near term but over the long term the benefits are plenty. Earlier, the management had guided that the cost to income ratio would be at sub-60% in FY23 and in the latest results, they have reported a cost to income ratio of 55%. As per the management, the aim for next one year is to consolidate the businesses and make them profitable and invest in new avenues for growth.

During the quarter, the bank has added 31 branches. The management is aiming to add 100 new branches in FY24. They are planning to open bulk of these branches in Tier 2/3 cities and the focus will be to mobilize deposits. So far it has taken several step to digitize the business. Recently, it has launched a mobile banking app, which is first of its kind to target customers who are not tech savvy. It is called Hello Ujjivan, and it's based on voice and video in vernacular languages. It has already seen 1.3 lac + downloads on Playstore. It is in nine languages and the bank aims to encourage semi-literate customers to use this app and increase penetration of digital banking. The bank also wishes to capitalize this asset to disburse MFI loans with very limited human intervention and focus on digital collections as well. During FY23, the bank has invested in digital capabilities like video banking, KYC, access management and is continuing to invest in newer avenues like QR code, cashless collection, etc.

As of Q4FY23, 81% of the bank’s transactions are conducted digitally and it saw the highest quarterly business net banking transactions of Rs. 4,510 crores. Outward UPI transaction values for Q4FY23 are at all-time high of Rs. 7,600 crores.

Risks & Concerns

- Any regulatory hurdle in the way of merger could have negative impact on the share price.
- The management has conveyed a change in the current strategy and move to a 50-50% secured-unsecured portfolio in next 5 years. Currently this ratio stands at 72% unsecured and 28% secured. By nature, unsecured loans offer higher yield on account of the risks involved. Hence, lowering the proportion of unsecured loans in the mix will add a downward pressure on the NIMs of the bank (though the asset quality would improve). On the other hand, the bank has a sub-optimal level of CASA ratio (26.4%). This increases the cost of capital of the bank and add further downward pressure on the NIMs.
- The bank has CASA Ratio of 26.4% as of Mar-23, which is lower than industry peers. Situation is improving on a steady basis off late however, we will remain watchful on this front especially in the time when liquidity is being taken out of the system.
- The bank has high share of Micro finance lending (~72% of the loan book). Micro finance is inherently risky business because of cash dealing and collateral free nature. Clients have below-average credit risk profiles and lack the access to formal credit. They are economically weaker class and income volatility exists due to dependence of rainfall. Hence, the bank has significant indirect exposure to the El-Nino phenomenon.
- MFI business generally caters to rural credit demand and hence faces political risk. The management in its concall specified that in order to keep this risk under control, it has limited its MFI exposure to 15% per state.

- Though the bank has presence in 25 states in India, 50% of its loan book is concentrated in Tamil Nadu (15.5%), Karnataka (13.4%), West Bengal (12.2%), Maharashtra (8.9%). Hence the bank is exposed to geographical concentration and its growth can be affected in case of volatile business environment in these states.
- The current CEO of the company, Mr. Ittira Davis is aged 68 years and is due for retirement in January 2025 on account of RBI's age bar of 70 years on CEOs. The bank is in the process of looking for a replacement for the said post.

Company Background:

Ujjivan Financial Services Limited (UFSL) is a Core Investment Company registered with the Reserve Bank of India. Being a non-operating holding Company, its main objective is to carry on the business of making investments in the group company(ies).

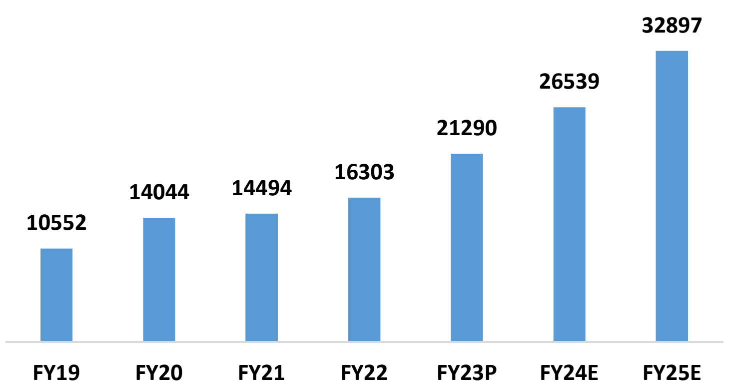
UFSL commenced operations as an NBFC in 2005, to provide a full range of financial services to the 'economically active' underbanked/unbanked segment of the population, primarily based on the joint liability group-lending model for providing collateral-free, small ticket-size loans. It also offered individual loans to Micro and Small Enterprises (MSEs). UFSL adopted an integrated approach to lending, which combines a high customer touch point similar to microfinance, with the technology infrastructure and back-end support similar to a retail bank.

Ujjivan Small Finance Bank Limited is a mass market focused small finance bank in India, catering to financially unserved and underserved segments and committed to building financial inclusion in the country. On October 7, 2015, UFSL received RBI In-Principle Approval to set up a Small Finance Bank (SFB), following which it incorporated Ujjivan Small Finance Bank Limited as a wholly-owned subsidiary. UFSL, subsequent to obtaining RBI Final Approval on November 11, 2016 to establish and carry on business as a SFB, transferred its business undertaking comprising of its lending and financing business to the Bank, which commenced its operations from February 1, 2017. As of March 31, 2023, UFSL holds 73.67% in Ujjivan SFB.

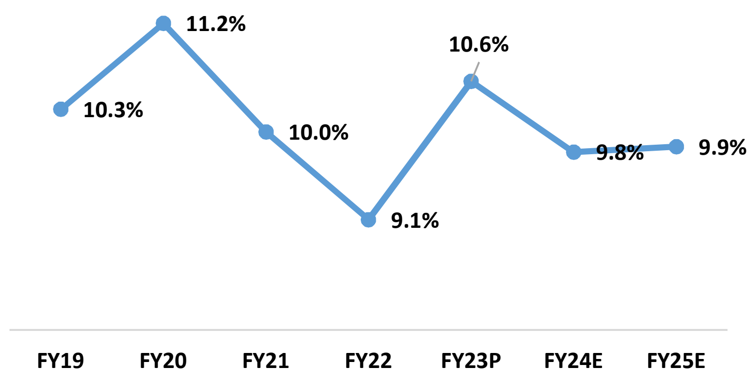
SOTP Valuation:

	Rationale	Base Case	Bull Case
Ujjivan SFB (Stake 73.67 %)	1.3x/1.45x Mar-25 ABV	5,777	6,444
Investments (FD & Cash Balance)	1x book value of Rs.173.66 Cr	174	174
Holding Company Discount	10% Discount	578	644
Total Value		**5,373**	**5,973**
No. of Shares of UFSL (Crs)		12	12
Fair Value/Share		**442**	**491**

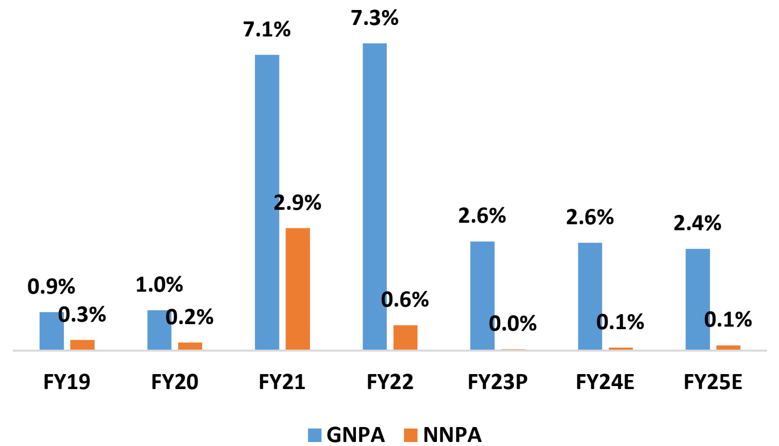
Loan Book (Rs. Cr) to grow at ~24% CAGR over FY23-25E



NIM (%)



NPA Trend



(Source: Company, HDFC sec)

Ujjivan Small Finance Bank Financials

Income Statement

(RsCr)	FY21	FY22	FY23P	FY24E	FY25E
Interest earned	2,806	2,813	4,165	5,264	6,333
Interest expended	1,078	1,039	1,467	2,109	2,594
Net interest income	**1,729**	**1,774**	**2,698**	**3,155**	**3,738**
Other income	311	313	589	694	812
Treasury income	56	18	1	39	38
Total income	**2,039**	**2,087**	**3,287**	**3,849**	**4,550**
Operating expenditure	1,230	1,496	1,802	2,144	2,595
Pre-provisioning operating profit	**809**	**591**	**1,485**	**1,705**	**1,954**
Non-tax provisions	799	1,141	18	300	348
NPA provisions	611	1,280	144	233	266
Profit before tax	10	-550	1,467	1,405	1,606
Tax expenditure	2	-136	367	351	402
Profit after tax	**8**	**-414**	**1,100**	**1,054**	**1,205**

Balance Sheet

(RsCr)	FY21	FY22	FY23P	FY24E	FY25E
Share capital	1,728	1,728	1,955	1,955	1,955
Reserves and surplus	1,247	832	2,054	2,913	3,922
Net worth	**3,219**	**2,803**	**4,209**	**5,067**	**6,076**
Deposits	13,136	18,292	25,538	32,489	40,190
CASA	2,700	4,993	6,744	8,433	10,120
Borrowings	3,247	1,764	2,642	2,685	2,726
Other liabilities and provisions	779	746	929	1,091	1,362
Total equity and liabilities	**20,380**	**23,604**	**33,317**	**41,332**	**50,353**
Cash and cash equivalents	2,577	2,168	2,468	6,520	7,798
Investments	2,516	4,153	8,526	7,053	8,176
Government securities	2,419	4,140	8,510	7,035	8,154
Advances	14,494	16,303	21,290	26,539	32,897
Fixed assets	281	249	283	325	374
Other assets	512	731	750	894	1,109
Total assets	**20,380**	**23,604**	**33,317**	**41,332**	**50,353**

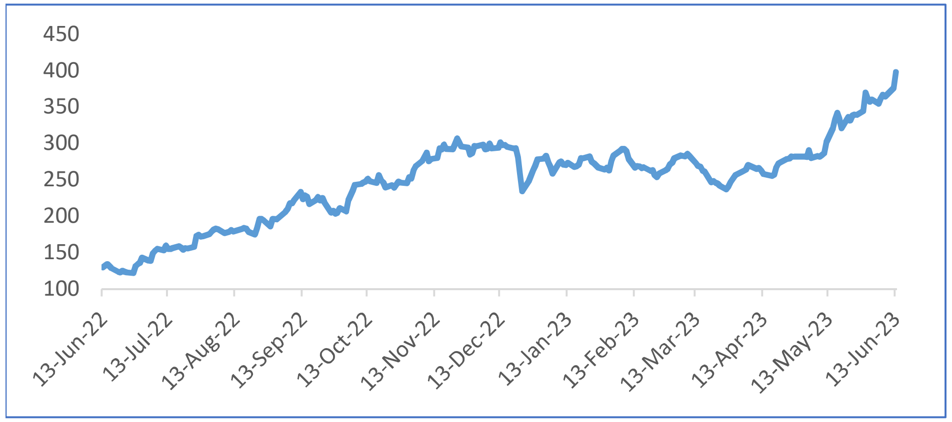
Key Ratio

	FY21	FY22	FY23P	FY24E	FY25E
Valuation metrics					
EPS	0	-2.4	5.6	5.4	6.2
BVPS	18.6	16.2	21.5	25.9	31.1
ABVPS	16.2	15.6	21.5	25.8	30.9
RoAA	0.00%	-1.90%	3.90%	2.80%	2.60%
RoAE	0.30%	-13.80%	31.40%	22.70%	21.60%
P/E	811.4	-16.2	6.9	7.2	6.3
P/ABV	2.4	2.5	1.8	1.5	1.3
P/PPOP	9.4	12.9	5.1	4.5	3.9
Profitability Ratios					
Yield on advances	18.20%	16.70%	19.70%	19.20%	19.00%
Cost of funds	6.90%	5.70%	6.10%	6.70%	6.60%
Cost of deposits	6.50%	5.90%	6.60%	6.50%	6.50%
Core spread	11.70%	10.90%	13.20%	12.70%	12.50%
Net interest margin	10.00%	9.10%	10.60%	9.80%	9.90%
Operating Efficiency Ratios					
Cost-average assets	6.30%	6.80%	6.30%	5.70%	5.70%
Cost-income	60.30%	71.70%	54.80%	55.70%	57.00%

Key Ratio

	FY21	FY22	FY23P	FY24E	FY25E
Balance Sheet Structure Ratios					
Loan growth	3%	12%	31%	25%	24%
Deposit growth	22%	39%	40%	27%	24%
C/D ratio	110%	89%	83%	82%	82%
Equity/assets	16%	12%	13%	12%	12%
Equity/loans	22%	17%	20%	19%	18%
CASA	21%	27%	26%	26%	25%
CRAR	22%	19%	26%	18%	18%
Tier 1	21%	18%	23%	16%	16%
Asset Quality Metrics					
Gross NPAs	1071	1284	631	703	820
Net NPAs	425	100	9	21	44
PCR	60.30%	92.20%	98.60%	97.00%	94.60%
GNPA %	7.10%	7.30%	2.60%	2.60%	2.40%
NNPA %	2.90%	0.60%	0.00%	0.10%	0.10%
Slippages	7.20%	13.60%	1.80%	2.00%	2.00%
Credit costs	4.30%	8.30%	0.80%	1.00%	0.90%

One Year Price Chart



Varun Nitin Manek

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HDFC Sec Retail Research Rating description

Green Rating stocks
This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks
This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks
This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:
I, **Varun Nitin Manek**, Research Analyst, **(CA)**, authors and the names subscribed to this report, hereby certify that all 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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