Date: January 23, 2020

PCG RESEARCH

FASTRACK IDEA

Ujjivan Small Finance Bank

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Industry	CMP	Time Frame	Buying Range	Targets	Red Flag
Small Finance Bank	Rs. 51.3	6 Months	Rs. 53-49.5	Rs. 58 - 65	Rs. 44

HDFC Scrip Code	UJJIVANSFB
BSE Code	542904
NSE Code	UJJIVANSFB
Bloomberg	UJJIVANS
CMP Jan 22, 2020	51.3
Equity Capital (cr)	1728.22
Face Value (Rs)	10
Eq - Share O/S (cr)	172.82
Market Cap (Rs cr)	8,874.4
Book Value (Rs)	16.8
Avg.52 Wk Volume	23556114
52 Week High	62.8
52 Week Low	48.4

Shareholding Pattern % (Dec 31, 2019)	
Promoters	83.3
Institutions	10.1
Non Institutions	6.6
Total	100.00

FUNDAMENTAL ANALYST

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Company Profile:

Ujjivan Small Finance Bank is a mass market focused SFB in India, catering to unserved & underserved segments with commitment to build financial inclusion in the country. The promoter of Ujjivan SFB – Ujjivan Financial Services (UFSL) commenced operations in 2005 and later converted into a small finance bank in February 2017, post obtaining license from RBI. Currently, Ujjivan SFB offers all banking products on assets as well as liabilities with focus on lending to micro banking products including group and individual loans.

Post recent IPO, the promoter (Ujjivan Financial Services Ltd - UFSL) holding got reduced to 83.3%, which they have to bring down to 40% till Feb-22 according to RBI norms.

Key Rationale:

Strong MFI Player: Among the leading SFBs in India, Ujjivan SFB had the most diversified portfolio, spread across 24 states and union territories. As of September 30, 2019, it served 4.94 million customers and operated from 552 Banking Outlets that included 141 Banking Outlets in Unbanked Rural Centres ("URCs").

Change in Management: Mr. Nitin Chugh, ex-head of digital banking at HDFC Bank, who joined in Aug'19, has taken over as MD & CEO effective Dec-19. While keeping his core DNA of technology up gradation, his focus will also be on matters like rising share of non- MFI business, replacing wholesale/bulk deposit with retail etc.

Stable Asset Quality: Since post demonetization time Ujjivan SFB has able to recover asset quality exceptionally well. During demonetization time GNPA of the bank rose to as high as 6% but now it has reduced to 0.9% and NNPA ratio at 0.33% as of Q2 FY20 (one of best in the industry). Provision coverage ratio stood at 72%.

Changing Business Mix: Ujjivan SFB is looking to diversify from its core microfinance business by offering a variety of asset and liability products. Currently ~80% (down from 90% in FY17) of total AUM is MFI and this gives risk of high dependence on single sector. Moreover, MFI sector is more exposed to cyclical asset-quality shocks from the events like natural calamities, major regulatory or policy changes (i.e. during demonetization all the MFI faced worst time in their history) as well as political & social risks.

Focus on CASA Improvement: Ujjivan SFB has increased its deposit base from Rs. 206cr in FY17 to Rs.10130cr in H1 FY20, comprising ~74.5% of its funding profile. However, CASA ratio stood at minimal ~12% (low compared to other peers). Wholesale deposits is very high (Top 20 depositors at 35% & Top 5 depositors at 15%), although it is coming down. Now management has intended to strengthen its liability franchise by focusing on its retail deposit base which provides low-cost source of funding.

Outlook and Valuation:

Ujjivan has a strong track record of financial performance since last many years through deep understanding of mass market, diversified geographic presence and experienced leadership. High margin, stable asset quality, robust capital adequacy ratio (CAR), changing business mix put Ujjivan SFB in a sweet spot compared to other peers.

We expect NII to grow at 33% CAGR and Net profit is likely to see robust 44% CAGR over FY19-22E. Ujjivan SFB is currently trading at 2.2x and 1.7x P/BV of FY21E and FY22E successively. We recommend Ujjivan SFB BUY between Rs. 49.5 to 53 for the price targets of Rs. 58 and 65 over next 6 months.

Risk & Concerns:

- Highly dependence on MFI business
- Promoter stake sale overhang
- High margin and high ROA might moderate as the share of non MFI rises

Financial Summary:

(in Rs mn)	Q3FY20	Q3FY19	YoY%	Q2FY20	QoQ%	FY19	FY20E	FY21E	FY22E
NII	4265.3	2803.6	52.1	3879.7	9.9	11,064	15,500	20,150	25,792
PPOP	1440.1	728.6	97.7	1413.9	1.9	3,090	5,610	7,405	9,710
PAT	896.6	453.1	97.9	926.3	-3.2	1,992	3,480	4,594	5,972
EPS						1.4	2.2	2.9	3.8
ABV						12	20	23	30
P/E						36.7	23.3	17.7	13.6
P/ABV						4.1	2.6	2.2	1.7

Source: Company, HDFC sec Research

Disclosure:

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