

Axis Annual Analysis 2023



Ujjivan Small Finance Bank Ltd.

Core MFI Growth Robust, Focus Shifts to Portfolio Diversification!

Summary

FY23 was a year characterised by a sharp rebound in the MFI business (the core segment of the bank) and a gradual pick up in the non-microfinance book, which was primarily led by the affordable housing and FIG segment. The microfinance portfolio continued to dominate the portfolio mix with a share of 72% vs. 68% in FY22 and clocked a growth of 41% YoY in FY23. On the other hand, the growth in the non-microfinance portfolio was slightly muted (on a lower base) at 15% YoY. During FY23, both Asset Quality and Profitability metrics witnessed sharp improvement with the pandemic-related headwinds receding.

Key Highlights

- Financial Performance:** Disbursements grew by 42% YoY, largely driven by the microfinance (MFI) segment (+51% YoY). The growth in the microfinance segment was mainly driven by individual loans (-2x YoY, albeit on a smaller base). Thus, healthy customer additions and strong disbursement growth drove buoyant advances growth for the MFI segment, which grew by 41% YoY. As the bank continued to fine-tune its processes in the non-MFI segment, disbursement and advances growth in this book stood tepid at 15% YoY each. Despoits growth was robust at 40% YoY, largely driven by TDs (+41% YoY), while CASA growth stood at 35% YoY. NII grew by 52% YoY driven by strong advances growth and margin expansion of ~70bps YoY. Non-interest income growth of 63% YoY was primarily driven by healthy fee income growth which was supported by robust business activity and higher bad debt recoveries. While Opex grew by 20% YoY, strong income growth resulted in a lower C-I Ratio of 54.8% vs. 70.1% in FY22. PPOP more than doubled YoY in FY23. Negligible provisions drove earnings growth, as the bank reported a profit of Rs 1,100 Cr in FY23 vs. a loss of Rs 413 Cr in FY22.
- Asset Quality:** At the start of FY23, collection efficiency (CE) across geographies and business segments reached normalised levels. GNPA reduced sharply by ~446bps, driven by lower slippages (down 84% YoY) and healthy recoveries. The restructured book continued to taper to 0.9% as the bank exited FY23 vs. 4.7% in FY22, against which the bank held a provision cover of ~100%.
- Operational Review:** Risk-weighted Assets (RWA) stood at Rs 16,361 Cr (+27% YoY) and constituted ~77% of Total assets vs. 79% in FY22. The bank continues to remain well-capitalised with CRAR/Tier I capital of 25.8%/22.7%. As a part of the initial steps towards the completion of the reverse merger with the Holdco. – Ujjivan Financial Services, the bank raised ~Rs 475 Cr primarily to comply with the minimum public shareholding (MPS). The reverse merger continued to progress well during the year with the bank receiving approvals from RBI, BSE, NSE.

Key Competitive Strengths: (a) Pan-India presence enabling the Bank to mitigate the risk of geographical concentration; (b) Diversified Portfolio with gradual transition towards secured products; (c) Deep understanding of mass market serving unserved and underserved segments, (d) Customer centric organization with multiple delivery channels

Growth Drivers: (a) Diversify product offerings with a portfolio shift towards secured products; (b) Focus on building a scaleable, granular and retail-focused liability franchise; (c) Building and Expanding Digital channels along with improving productivity to help improve Opex ratios, thereby supporting operating profitability; (d) Diversification of Revenue Streams encompassing fee and non-fund-based revenues, (e) Healthy Asset Quality with steady credit costs to support healthy earnings growth.

Outlook & Valuation

Post a strong recovery in FY23, UJSFB will look to capitalise on the growth opportunities with building blocks in place. With asset quality challenges behind, the focus will now remain on sustaining growth momentum and improving efficiency. As the portfolio mix shifts towards the secured lower-yielding book, NIM pressures will be visible. However, despite the NIM compression, the bank remains well-poised to deliver robust RoA/RoE of 3-3.1%/25-27%, supported by a gradual improvement in cost ratios and largely steady credit costs. With the MD CEO – Mr. Davis' term expected to end in Jan'25, the bank is in the process of identifying a successor before the end of his term, to ensure a seamless management transition. **We retain our positive outlook on the bank and reiterate our BUY recommendation on UJSFB, valuing it at 2.0x FY25E ABV to arrive at a target price of Rs 64/share, implying an upside of 13% from the CMP.**

Key Financials (Standalone)

(Rs. Cr)	FY22	FY23	FY24E	FY25E
NII	1,774	2,698	3,442	4,224
PPOP	639	1,485	1,871	2,331
Net Profit	-413	1,100	1,211	1,439
EPS (Rs.)	-23.8	5.6	6.2	7.4
ABV	14.2	20.2	25.5	31.8
P/ABV	4.0	2.8	2.2	1.8
NNPA (%)	0.6	0.0	0.1	0.1
ROA (%)	-1.9	3.9	3.2	3.1

Source: Company, Axis Research

(CMP as of Oct 05, 2023)

CMP (Rs)	57
Upside /Downside (%)	13%
High/Low (Rs)	60/23
Market cap (Cr)	11,111
Avg. daily vol. (6m) Shrs.	1,88,56,812
No. of shares (Cr)	195.5

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	73.7	73.7	73.7
FII	2.3	2.0	3.9
MFs / UTI	1.8	1.6	1.6
Others	22.2	22.7	20.9

Financial & Valuations

Y/E Mar (Rs. Cr)	FY23	FY24E	FY25E
NII	2,698	3,442	4,224
PPOP	1,485	1,871	2,331
Net Profit	1,100	1,211	1,439
EPS (Rs.)	5.6	6.2	7.4
ABV	20.2	25.5	31.8
P/ABV	2.8	2.2	1.8
RoA (%)	3.9	3.2	3.1
NNPA (%)	0.0	0.1	0.1

Change in Estimates (%)

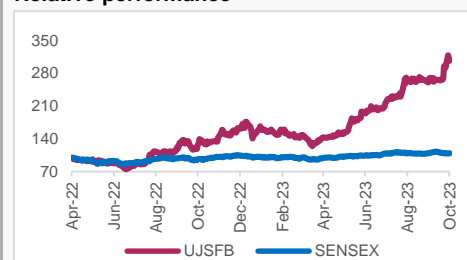
Y/E Mar	FY24E	FY25E
NII	-	-
PPOP	-	-
PAT	-	-

ESG disclosure Score**

Environmental Disclosure	N.A
Social Disclosure Score	N.A
Governance Disclosure Score	N.A
Total ESG Disclosure Score	N.A
Sector Average	39.1

Source: Bloomberg, Scale: 0.1-100
 **Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Company Overview

Ujjivan SFB (UJSFB) is a diversified SFB that transitioned from a NBFC (Ujjivan Financial Services Ltd.) in Feb'17 which primarily catered to the low and middle-income individuals and businesses in the metro and urban areas with limited or no access to formal banking and finance channels. UJSFB's product portfolio is spread across Microfinance – group and individual products, MSE Finance, Affordable Housing Finance, and FIG Finance. The bank operates pan-India (with a presence in 25 states and UTs) through 629 branches, with ~66% of its branches in the urban and metro areas.

FY23 Performance Round-up:

- **Growth momentum robust in FY23** – The business traction remained healthy as the bank stepped into FY23 and gained pace throughout the year, which was visible in the buoyant disbursement growth of ~42% YoY. UJSFB's disbursement and credit growth were mainly driven by the Microfinance segment (51% YoY/+41% YoY respectively), while the non-MFI book grew by 15% YoY, owing to sluggish growth in the MSE segment. The bank added ~10 Lc customers during the year mainly in the MFI and Housing segment.
- **Deposit franchise picked up momentum** – UJSFB's focus remains on building a granular and retail-led liability franchise. In FY23, deposit growth continued to remain robust, growing at 40% YoY. As the interest rate began its upward trajectory led by the regulator undertaking rate hikes, UJSFB, like most banks, witnessed CASA Ratio compression through FY23. Deposit growth was primarily driven by TDs which grew by 41% YoY, while CASA Deposit growth was healthy at 35% YoY. The efforts towards building a retail franchise were visible with the share of retail deposits (CASA + Retail TDs) in the total deposits mix improving to ~66% vs. ~60% in FY22.
- **NIMs expansion visible** – NIMs expanded sharply by ~70bps YoY owing to yield improvement led by rate hikes, lower interest reversal with a significant reduction in slippages and strong credit growth. A sharp yield improvement of ~180bps was adequate to offset the marginal increase of ~20bps in CoF. The bank has taken 2 rate hikes of ~50bps in the MFI book (in Sep'22 and Mar'23). Additionally, in the MFI book, the individual loan portfolio (better yield of ~25% vs. group loan yield of 23%) is growing at a faster pace, thereby supporting lending yields. Staying ahead of the curve and anticipating the rate hikes ahead of the market, UJSF was able to contain the CoF increase to ~20bps in FY23, as against the 250bps increase in systemic rates. During H2FY23, the bank aimed at reducing interest rate premiums over larger peers and successfully reduced the same to a large extent, thereby keeping the increase in CoF under check.
- **Opex growth remains elevated, Cost ratios improved** – During the year, UJSFB continued to invest in secured businesses and streamline processes. Additionally, given that the bank's business is largely driven by volume, its Opex tends to remain sticky which keeps Cost ratios inflated. Opex growth of 20% YoY was offset by a strong total income growth of 54% YoY, driving improvement in cost ratios. During FY23, UJSFB witnessed a sharp decline in C-I Ratio and C-A Ratio from 70.1%/6.8% in FY22 to 54.8%/6.3%. The bank has identified *improvement in productivity and profitability* as key levers for Opex ratio improvement. This along with newly secured businesses beginning to contribute incrementally to growth will help the bank improve cost ratios.
- **Strong recoveries and controlled slippages aided asset quality improvement** – In FY23, with focused efforts on collections, UJSFB witnessed meaningful improvement across asset quality metrics. Collection efficiency (CE) remained stable at 99%+ throughout the year. GNPA improved by ~450bps in FY23 led by moderating slippages and strong recoveries. The restructured book tapered sharply and stood at 0.9% as the bank exited FY23 as against 4.7% in FY22. The bank held a provision cover of ~100% against this pool. ~75% of the restructured book had been fully recovered. The bank also built and ramped up a dedicated collections team for the recovery of NPA and potential NPA accounts and remained focused on digital collections as higher digital collections ensured more time available for the field staff to grow the business.
- **Digital Ecosystem enhancement** – UJSFB developed a strong and dependable digital ecosystem to cater to different customer segments with speed, accuracy, and security. As part of its focus on enabling financial and digital inclusion, the bank launched first of its first-of-its-kind voice and visual-assisted vernacular banking app – the 'Hello Ujjivan' App in 8 regional languages. This innovative application was designed specifically for customers with limited reading and writing skills to instill banking habits amongst the MFI and rural customers.
- **Reverse Merger progressing well** – In FY23, the bank received regulatory approvals from RBI, NSE and BSE required for the successful completion of the reverse merger. During the year, the bank proceeded with the QIP of Rs 475 Cr to comply with the minimum public shareholding (MPS) norms. This also bolstered the bank's capital position, which improved the Tier I/CRAR to 22.7/25.8% vs. 17.7/19.0% in FY22. As of FY23 end, the bank awaited approval from the Bengaluru NCLT and expects the reverse merger to be completed by Dec'23. The reverse merger will be accretive at the book value level (BVPS likely to increase by ~Rs 1.8-2/share).

Key Operating Highlights

- Accelerating growth with strong demand visibility in core MFI segment**– During FY23, as business picked up momentum, UJSFB disbursed Rs 20,039 Cr (+42% YoY) with a bulk of disbursements (80% mix in disbursements) towards the MFI segment (group + individual). Thus, aided by strong disbursement growth, advances growth was robust at 32.6% YoY. Advances growth was mainly driven by MFI (+41% YoY, 72% Mix), Affordable Housing (+24% YoY, 14% Mix) and FIG (+32% YoY, -5% Mix), while the MSME segment reported de-growth (-7% YoY) with the bank focusing on revamping and streamlining the processes in this segment.

During FY23, the bank added ~10 Lc customers on the asset side with customer acquisition mainly in the MFI and housing segment and on the deposit side, the bank successfully on-boarded ~70,000-75,000 customers every quarter. Thus, the customer base of UJSFB grew by ~20% YoY in FY23 to ~77 Lc customers vs. 65 Lc in FY22.

Exhibit 1: Disbursement Mix dominated by MFI

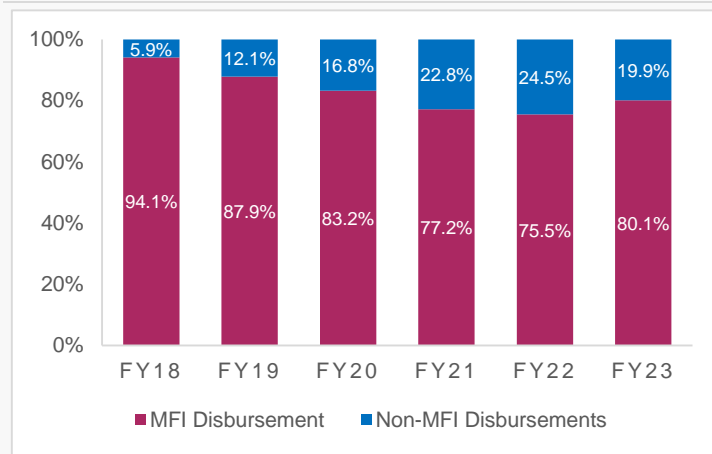
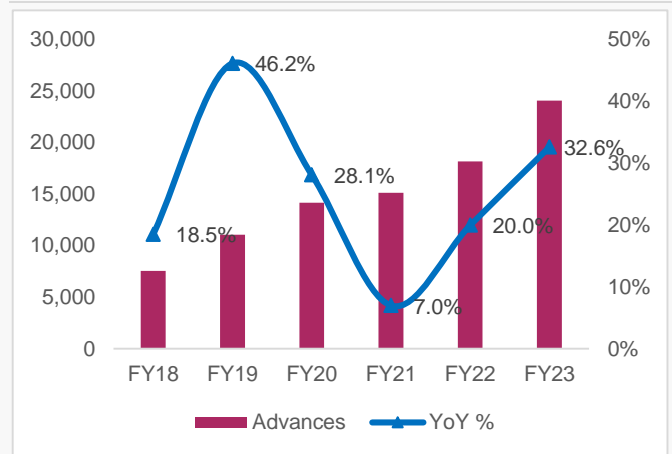
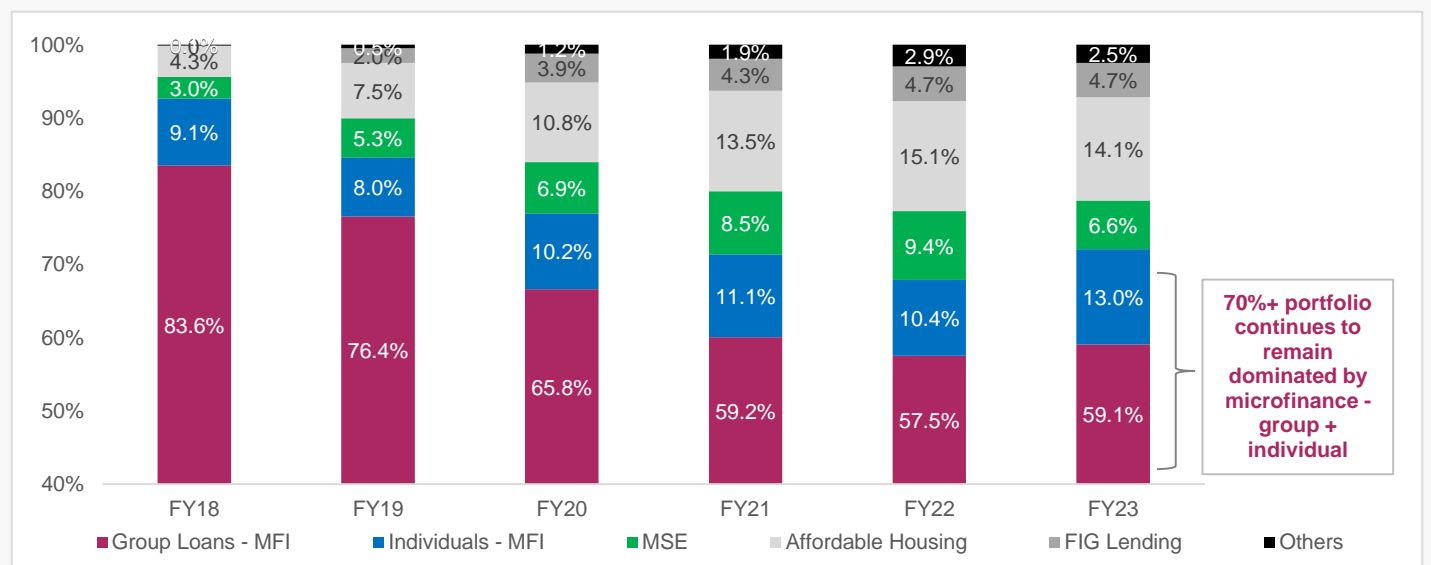


Exhibit 2: Advances growth continues to remain robust



Source: Company, Axis Securities

Exhibit 3: MFI continues to dominate the portfolio mix



Source: Company, Axis Securities

- Improving Deposit Franchise Granularity** – The bank’s primary emphasis was on establishing a strong and sticky foundation of retail deposits to support its asset growth ambitions. In line with this, the bank has successfully grown its deposit base by ~40% YoY with strong growth in both CASA Deposits and TDs. The bank offered highly competitive interest rates on Fixed Deposits and Savings Accounts, positioning itself among the top players in the industry. The efforts towards building a retail franchise were visible with the share of retail deposits (CASA + Retail TDs) in the total deposits mix improving to ~66% vs. ~60% in FY22.

UJSFB tried to establish a robust foundation among traditional customer segments such as senior citizens, women, enterprises, and TASC (Trusts, Associations, Societies, and Clubs). Additionally, by prioritizing digital products and employing a multi-channel approach, the bank is actively expanding its customer base among new-age segments, including young professionals, established investors, and tech-savvy entrepreneurs.

Exhibit 4: Deposits growth largely driven by TDs

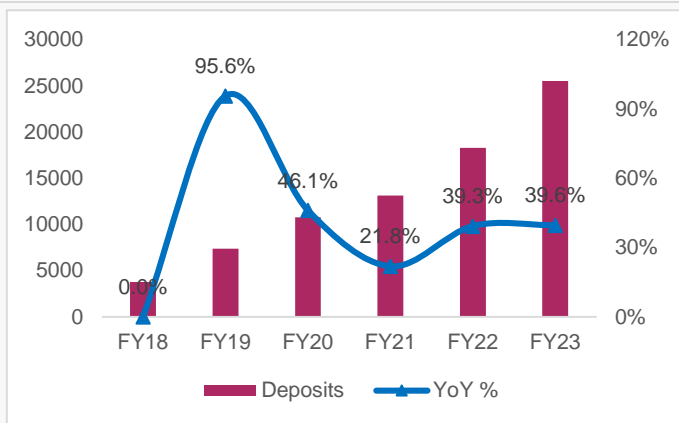
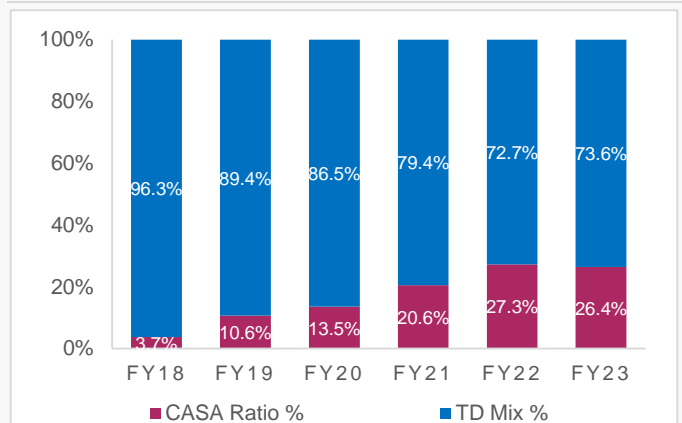


Exhibit 5: Faster growth in TDs resulted in CASA ratio decline

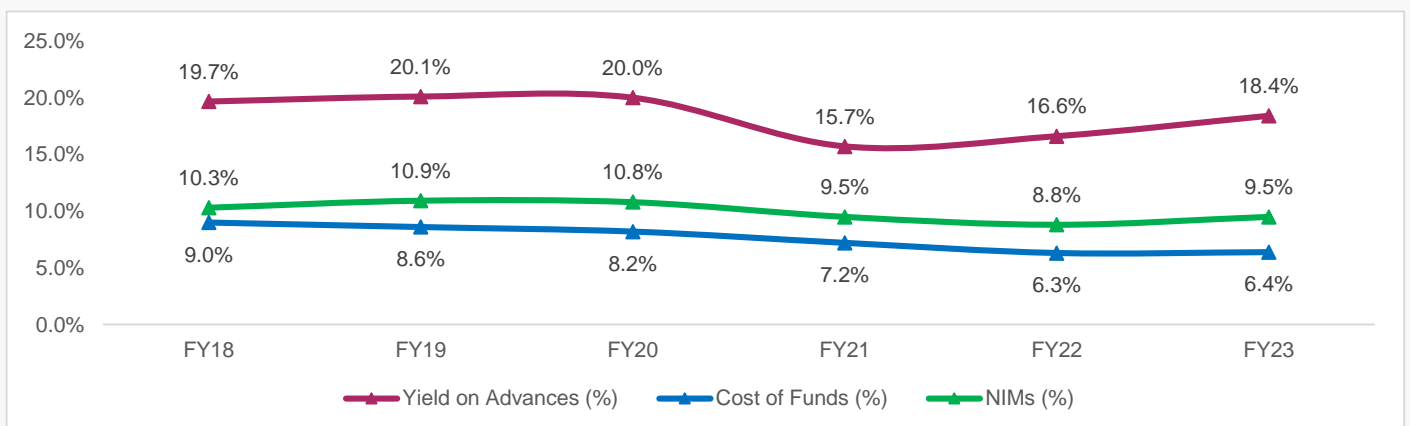


Source: Company, Axis Securities

- NIMs expansion visible** – NIMs expanded sharply by ~70bps YoY owing to yield improvement led by rate hikes, lower interest reversal with a significant reduction in slippages and strong credit growth. A sharp Yield improvement of ~180bps was adequate to offset the marginal increase of ~20bps in CoF. The bank has taken 2 rate hikes of ~50bps in the MFI book (in Sep'22 and Mar'23) which supported yields positively. Additionally, the individual MFI loan portfolio is a better yielding portfolio (yields of ~25% vs. group loan yield of 23%) and is growing at a faster pace, thereby further supporting lending yields.

Staying ahead of the curve and anticipating the rate hikes ahead of the market, UJSF was able to contain the CoF increase to ~20bps in FY23, as against the 250bps increase in systemic rates. During H2FY23, the bank aimed at reducing interest rate premiums over larger peers and successfully reduced the same to a large extent, thereby keeping the increase in CoF under check.

Exhibit 6: Sharper yield improvement offset CoF increase, leading to strong NIM expansion



Source: Company, Axis Securities

- Productivity Metrics continue to improve** – Given that the bank’s business is largely volume-driven, Opex tends to remain sticky keeping Cost ratios inflated. However, as the investments in the new business begin to contribute meaningfully to the business and turn profitable, UJSFB is likely to witness a significant improvement in cost ratios. As the bank continued to invest in the revamping and streamlining of the secured portfolio, the bank also added 975 new employees. Hus Opex growth continued to remain higher at 20% YoY. However, strong income growth led to the C-I Ratio improving to 54.8% vs. 70.1% in FY22.

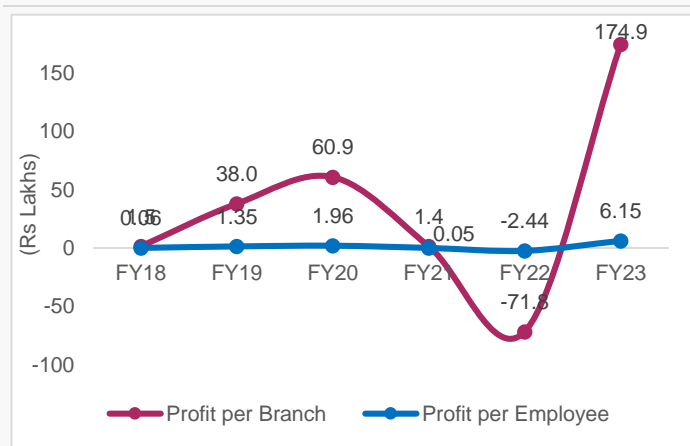
The bank also witnessed improvement across productivity metrics. The disbursement and Gross advances per employee have increased from 0.8 Cr / 1.1 Cr in FY22 to Rs 1.1 Cr / 1.3 Cr in FY23 (+34/25% YoY) respectively. Similarly, in terms of branches, the disbursement and Gross advances per branch grew by 30/21% YoY respectively. As the productivity and efficiency of branches and employee continues to improve, UJSFB will continue to witness cost ratio improvement.

Exhibit 7: Improvement visible across Productivity Metrics

	FY18	FY19	FY20	FY21	FY22	FY23
Disbursement per branch	17.4	21.2	23.0	14.6	24.5	31.9
<i>YoY Growth</i>		21.7%	8.6%	-36.5%	68.1%	29.8%
Advances per Branch (Rs Cr)	16.3	21.1	24.6	26.3	31.6	38.3
<i>YoY Growth</i>		29.4%	16.7%	7.0%	20.0%	21.2%
Disbursement per employee	0.7	0.8	0.7	0.5	0.8	1.1
<i>YoY Growth</i>		4.7%	-1.5%	-31.6%	64.9%	34.2%
Advances per employee (Rs Cr)	0.7	0.7	0.8	0.9	1.1	1.3
<i>YoY Growth</i>		11.4%	5.9%	15.2%	17.7%	25.4%

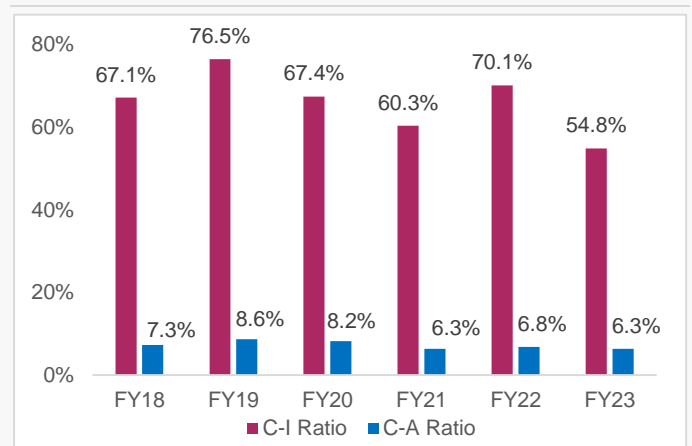
Source: Company, Axis Securities

Exhibit 8: Improving Profitability per branch and employee

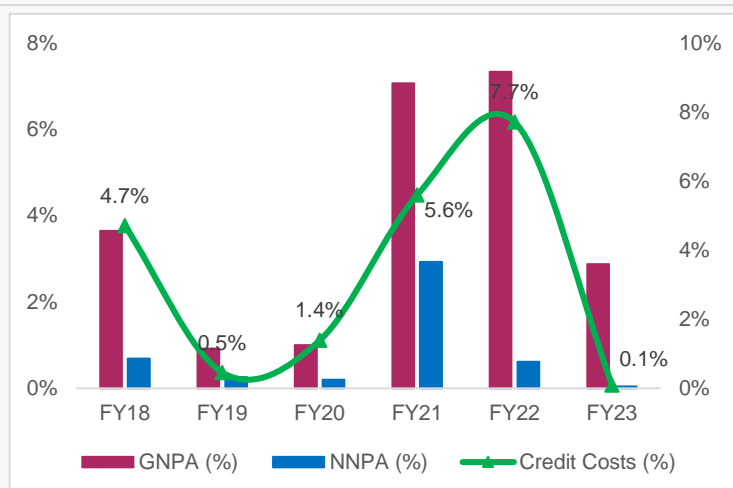


Source: Company, Axis Securities

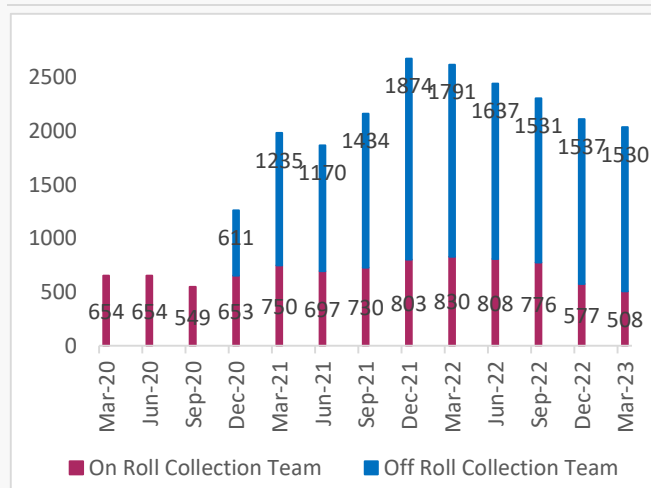
Exhibit 9: Improved Cost Ratios



- Strong recoveries result in improved asset quality even as slippages remain elevated:** In FY23, with focused efforts on collections, UJSFB witnessed meaningful improvement across asset quality metrics. Collection efficiency (CE) remained stable at 99%+ throughout the year. GNPA improved by ~450bps in FY23, led by moderating slippages and strong recoveries. The restructured book tapered sharply and stood at 0.9% as the bank exited FY23 as against 4.7% in FY22. The bank held a provision cover of ~81% against this pool. ~75% of the restructured book has been fully recovered. The bank ramped up and built a dedicated collections team for the recovery of NPA and potential NPA accounts. Focus also remained on digital collections as higher digital collections ensured more time available for the field staff to grow the business.

Exhibit 10: Asset Quality improvement continues, Credit costs negligible in FY23


Source: Company, Axis Securities

Exhibit 11: Collection team to reduce gradually as NPA pool shrinks

Exhibit 12: FY23 Trends – Collections continue to improve across segments

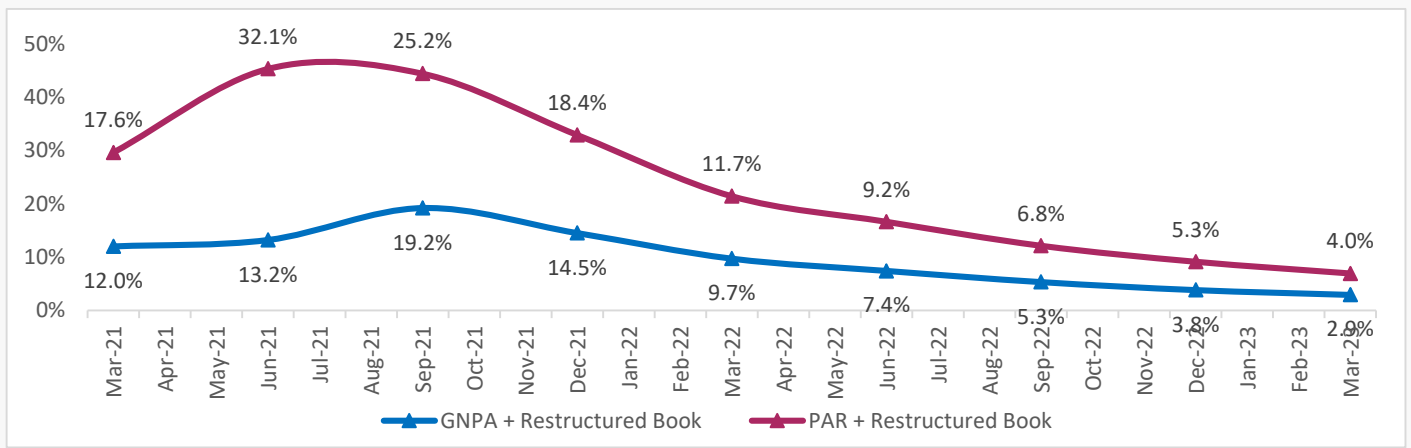
	Apr'22	May'22	Jun'22	Jul'22	Aug'22	Sep'22	Oct'22	Nov'22	Dec'22	Jan'23	Feb'23	Mar'23
Microfinance	99.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	101.0%
MSE	84.0%	85.0%	85.0%	86.0%	86.0%	87.0%	87.0%	88.0%	88.0%	88.0%	89.0%	90.0%
Affordable Housing	94.0%	95.0%	95.0%	95.0%	94.0%	95.0%	95.0%	95.0%	96.0%	95.0%	96.0%	97.0%
FIG Lending	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Others	92.0%	92.0%	91.0%	92.0%	91.0%	91.0%	91.0%	91.0%	90.0%	91.0%	90.0%	91.0%
Total	98.0%	99.0%	99.0%	99.0%	99.0%	100.0%	99.0%	100.0%	100.0%	99.0%	100.0%	100.0%

Source: Company, Axis Securities

Exhibit 13: Restructured Book Movement in FY23 vs FY22

	Mar'22			Mar'23		
	Restructured Book		Total	Restructured Book		Total
	1.0	2.0		1.0	2.0	
Microfinance (Group + Individual)	230	502	732	80	65	145
Housing	13	23	36	8	18	26
MSE	12	65	77	6	49	55
Loan book	255	590	845	94	132	226
PAR	216	242	458	84	95	179
GNPA	205	166	370	81	80	162
Provisions	199	195	394	82	80	162
Collection Efficiency (%)			89%			111%

Source: Company, Axis Securities

Exhibit 14: Significant reduction in stress book


Source: Company, Axis Securities

Key Growth Drivers

Portfolio Diversification with growth in the secured businesses

Post a strong show across most parameters in FY23, the bank aims to replicate **a similar performance in FY24**. It expects to grow the book at **>25% in FY24, primarily led by robust growth in the non-MFI secured book which is expected to outpace growth in the core MFI book**.

While growth so far has been largely driven by the MFI portfolio, the bank is looking to accelerate growth in the non-MFI portfolio which has so far been 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 semi-formal/formal secured loans vs. 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% vs. 28% currently.

As a part of its revamped strategy for the Affordable Housing book, the bank expects to scale up the book with a **focus on profitable business** rather than volume-led business, thereby resulting in lower BT-Out rates. UJSFB is also looking to **onboard fin-techs** to enhance customer acquisition as the bank's focus remains on scaling up **alternate sourcing channels and improving their share to ~25% over the next 3 years** (vs. ~5% currently) of overall affordable housing sourcing. It will also focus on expanding our Micro-LAP (Loan Against Property) book, primarily by promoting the progression of its MFI borrowers. Furthermore, a key priority remains cross-selling Vehicle and Gold Loans to MFI borrowers.

In the FIG segment, UJSFB 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.

Building a Retail-dominated Deposit Base

The skew towards the high-yielding segments in the product portfolio has given the bank the agility to aggressively grow the deposit book especially retail deposits, even in an increasing interest rate environment. To drive the next leg of growth of the deposit base, the bank is (1) Expanding product & service suites to attract a wider customer base, (2) Launching targeted programs for each set of customers to deepen the relationship, (3) Using analytics to enable cross and up-sell, (4) Implementing the latest technology to provide better service, (5) Investing on national-level branding campaigns and (6) Expanding sourcing from the traditional brick and mortar setup to multi-channel sourcing. Backed by these initiatives, UJSFB aspires to grow the deposit base at 30%+ CAGR over FY23-26E, improving the CASA Ratio to 35% and the share of retail deposits to 70%. UJSFB expects to maintain its C/D Ratio at 80% by FY26 vs. 83% in FY23.

Improving Operational Efficiency and steady credit costs to steer superior RoA/RoE delivery

The shift in the portfolio mix towards secured products will weigh on the bank's margins, given that the secured book is a lower-yielding book vs. the microfinance segment. However, that said, the bank's focus on Tier II/III markets for most of its secured products should support UJSFB's lending yields to an extent (given yields are better vs. Metros/Tier I cities). Similarly, the focus of the bank remains on, improving the mix of IL in the MFI portfolio (better yields of ~25% vs. group loan yield of 23%) could also lend some support to yields, thereby potentially arresting the pace of margin compression. Thus, we expect margins to contract by ~60-65bps over the medium term.

The bank will continue to invest in the brick-and-mortar model and add ~100 branches during FY24 along with foraying into Telangana and ramping up operations in Andhra Pradesh. UJSFB will also look to build and expand the digital channel which remains a key cost optimization lever. With a bulk of investment made in the secured businesses done and processes being streamlined, improving the productivity and profitability of these businesses will be a key Opex ratio improvement lever. However, reflective of the investments made Cost-ratios in the near term will continue to remain elevated. However, UJSFB expects a sharp improvement of 300-350bps improvement each year in C-I Ratio FY25 onwards for the next 2-3 years.

UJSFB's diversified geographic presence with a cap on state-wise concentration (at ~15%) has helped the bank mitigate any geography-specific risk. Collections across geographies and segments have continued to remain healthy. As the book matures, credit costs in H2FY24 could be marginally higher, however, the management remains confident of containing credit costs at sub-100bps in FY24.

Thus, steady credit costs and improving cost ratios should offset the impact of margin compression, enabling the bank to deliver a robust RoA of 2.5%+ and RoA of 22%+ on a steady state basis.

Diversifying revenue streams

UJSFB's primary focus is expanding its portfolio of financial solutions to augment its revenue streams, encompassing fee and non-fund-based revenues. Leveraging its extensive banking outlet network, digital channels, diverse product and service portfolio, and large customer base, the bank aims to enhance its fee and commission-based business. Additionally, the introduction of new products for institutional clients will contribute to fee income growth.

Risks & Mitigation

- **Higher exposure to the informal sector**

UJSFB primarily caters to microfinance customers (72% portfolio mix) from low and middle-income individuals and businesses in the metro and urban areas that have limited or no access to formal banking and finance channels. The cash flows of these borrowers are dependent on the smooth functioning of their businesses. Any disruptive situation would impact business continuity and is likely to trigger higher NPAs.

Mitigation: As a part of the bank's strategy UJSFB will look to transition gradually towards the secured portfolio to ensure more stability and balance in the overall portfolio mix. Similarly, as a part of the revamped strategy for the MSME vertical, the bank will shift its focus towards serving the semi-formal and formal set of customers.

- **Ensuring seamless management succession**

With the current MD CEO slated to retire in Jan'25, the Bank will have to look out for a suitable successor and ensure seamless management succession.

Mitigation: The bank has already begun the process to identify a suitable successor and has assured of an appointment to be made ahead of time, to ensure a smooth management transition.

Operational Performance and Financial Statement Analysis

Profitability Analysis

(Rs. Cr)

Particulars	FY22	FY23	Change	Comments
Net Interest Income	2,698	3,442	52.1%	Strong credit growth along with NIM expansion aided NII growth
Non-Interest Income	362	589	62.8%	Improving fee income supported by strong business momentum along with recoveries aided non-interest income
PPOP	639	1,485	132.4%	Strong income growth and improving productivity along with the bank streamlining processes enable employee cost rationalisation
Provisions	1,187	18	-98.5%	Improving asset quality primarily aided by robust collections
PAT	-413	1,100	N.M	Significant reduction in credit costs along with strong NII growth resulted in strong earnings growth
EPS	-2.4	5.6	N.M	Same as above

Source: Company; Axis Securities

Spread Analysis

(Rs. Cr)

Particulars	FY22	FY23	Change	Comments
Blended Yields (reported)	13.6	15.2	+158bps	Strong advances growth primarily in the higher yielding MFI segment along with lower interest reversals owing to lower slippages led to yield improvement
Cost of Deposits (reported)	6.2	6.4	+20bps	
Cost of Funds (reported)	6.3	6.4	+8bps	The rise in the cost of funds was driven by increasing repo rates and aggressive pricing in wholesale deposits
Spreads (reported)	7.9	9.1	+120bps	Sharper yield improvement offset the increase in CoF resulting in spread expansion
NIMs (reported)	9.5	8.8	+70bps	Healthy improvement in lending yields, lower slippages and repricing benefit and a slower CoF expansion aided NIMs

Source: Company; Axis Securities

Asset Quality Analysis

(Rs Cr)

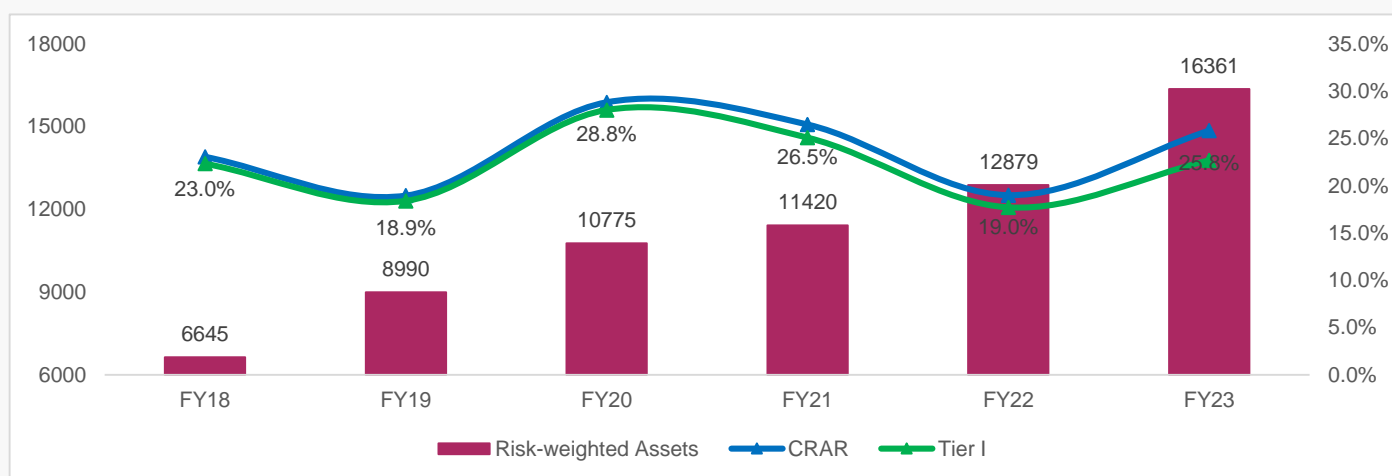
Particulars	FY22	FY23	Change	Comments
GNPA	1,284	631	-103.6%	Lower slippages and better recoveries resulted in a sharp improvement in the asset quality
GNPA %	7.3	2.9	-446bps	Same as above
Slippage	2,088	335	-523.4%	Enhanced efforts at monitoring along with healthy collections controlled the pace of slippages
Slippage Ratio (%)	13.6	1.8	-1178bps	Same as above
NNPA	100	9	N.M	Healthy PCR resulted in lower NNPA
NNPA %	0.6	0.0	-57bps	
Credit Costs (%)	7.7	0.1	-762bps	Lower stress formation and continued collection efforts resulted in lower credit costs
Provision Coverage Ratio %	92.3	98.6	+633bps	

Source: Company; Axis Securities

Efficiency Ratios
(%)

Particulars	FY22	FY23	Change	Comments
Cost-Income Ratio	70.1	54.8	-1525bps	Improved productivity and significant growth in income resulted in a sharp improvement in the C-I Ratio
Cost-Assets Ratio	6.3	6.0	-30bps	Same as above
ROA	-1.9	3.9	N.M	NIM expansion, lower cost ratios, and negligible credit costs collectively supported strong RoA delivery
ROE	-14.9	33.7	N.M	
Tier I	17.7	22.7	+500bps	QIP of Rs 475 Cr resulted in improvement in Tier I Capital
CRAR	19.0	25.8	+680bps	Same as above
RWA	12,879	16,361	27%	
RWA to Total Assets (%)	79%	77%		

Source: Company; Axis Securities

Exhibit 15: UJSFB remains well capitalized to fuel medium term growth, especially post the QIP


Source: Company, Axis Securities

Exhibit 16: Healthy NIM expansion, lower cost ratios and negligible credit costs boost RoA

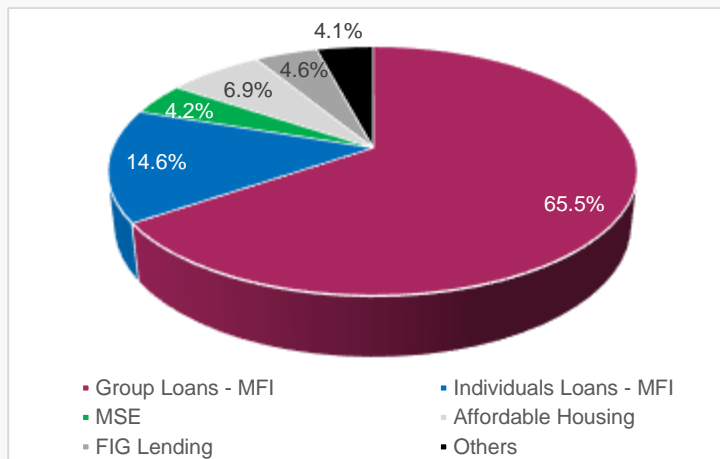
	FY18	FY19	FY20	FY21	FY22	FY23
NII	9.6%	9.5%	10.2%	8.9%	8.1%	9.5%
Other Income	1.2%	1.8%	2.0%	1.6%	1.6%	2.1%
Total Income	10.9%	11.3%	12.2%	10.5%	9.7%	11.5%
Opex	7.3%	8.6%	8.2%	6.3%	6.8%	6.3%
PPP	3.6%	2.7%	4.0%	4.2%	2.9%	5.2%
Provisions	3.5%	0.3%	1.1%	4.1%	5.4%	0.1%
PBT	0.1%	2.3%	2.9%	0.1%	-2.5%	5.2%
Tax Rate	0.0%	0.6%	0.7%	0.0%	-0.6%	1.3%
ROA	0.1%	1.7%	2.2%	0.0%	-1.9%	3.9%
Leverage	6.2	7.6	7.0	6.5	7.9	8.7
ROE	0.5%	13.0%	15.3%	0.3%	-14.9%	33.7%

Source: Company, Axis Securities

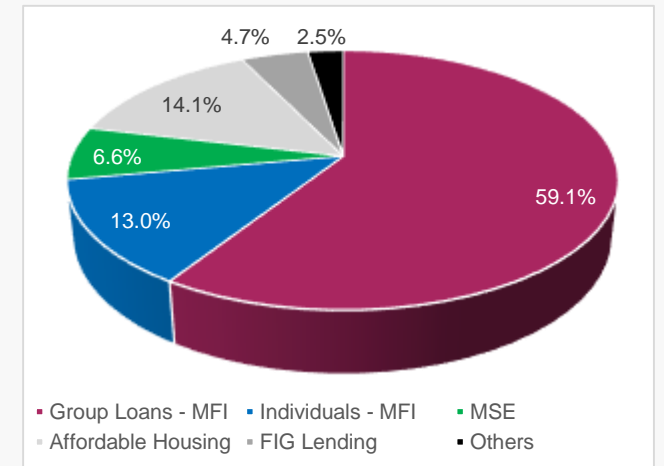
Asset and Liability Analysis
(Rs Cr)

Particulars	FY22	FY23	Change	Comments
Disbursements	14,114	20,039	42.0%	Primarily driven by the MFI segment and Housing and FIG segment amongst the non-MFI businesses
Advances	18,162	24,086	32.6%	Healthy customer addition momentum, Strong disbursement growth with robust growth in the core MFI segment resulted in healthy advances growth
Deposits	25,538	18,292	39.6%	Deposit growth in both CASA and TDs was healthy
C/D Ratio (%)	89.1	83.4		Deposit growth outpacing credit growth resulted in lower C/D Ratio
CASA Deposits	4,993	6,745	35.1%	Strong growth in SA deposits drove CASA growth
CASA Ratio (%)	27.3	26.4	-90 bps	Faster growth in TDs vs CASA Deposits resulted in CASA Ratio compression
Total Assets	23,604	33,317	41.1%	

Source: Company; Axis Securities

Exhibit 17: Disbursements dominated by strong demand in core MFI book


Source: Company, Axis Securities

Exhibit 18: Microfinance continues to dominate the Portfolio Mix


Contingent Liability Analysis
(Rs Cr)

Particulars	FY22	FY23	Change	Comments
Contingent Liabilities				
(a) Claims against the Bank not acknowledged as debts	78.8	2.6	-96.7%	
(b) Guarantees given on behalf of constituents – In India	0.3	20.3	N.M	
(c) Other items for which the Bank is contingently liable - Capital commitments not provided/DEAF	58.1	72.1	24.1%	Normal Business Activity
Total Contingent Liabilities	137.2	95.0	-30.8%	
Contingent Liabilities/Total Assets (%)	0.6%	0.3%		% of contingent liabilities has reduced as a % of total assets

Source: Company; Axis Securities

Corporate Social Responsibility (CSR)

- ✓ The Bank's has taken significant strides in its CSR efforts, with presence in 24 states across India. In FY23, UJSFB has successfully executed 21 projects, benefitting around 7.3 Lk individuals.
- ✓ In FY23, the bank's CSR efforts were focused on strengthening healthcare systems across India. In addition to infrastructure development for the underprivileged, the Chote Kadam – the bank's flagship program focusses on providing environmental solutions.
- ✓ The Bank spent Rs 0.81 Cr towards CSR activities during FY23.

Financials (Standalone)

Profit & Loss (Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Net Interest Income	1,774	2,698	3,442	4,224
Non-Interest Income	362	589	697	784
Total Income	2,135	3,287	4,139	5,008
Operating Expenses	1,496	1,802	2,268	2,678
Pre-Provision Profits	639	1,485	1,871	2,331
Provisions	1,187	18	251	406
PBT	-548	1,467	1,619	1,924
Tax	-136	367	408	485
Profit After Tax	-413	1,100	1,211	1,439

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,728	1,955	1,955	1,955
ESOPs	42	51	53	55
Preference Capital	200	200	200	200
Reserves & Surplus	832	2,003	3,051	4,297
Net Worth	2,560	3,958	5,006	6,251
Deposits	18,292	25,538	33,153	42,528
Borrowings	1,764	2,641	2,322	1,745
Other Liabilities	746	929	1,113	1,388
Total Liabilities	23,604	33,317	41,848	52,167
Cash & Bank balances	2,168	2,484	3,169	4,066
Investments	4,153	8,510	10,451	12,769
Loans	16,303	21,290	26,824	33,585
Fixed Assets & Others	980	1,033	1,403	1,748
Total Assets	23,604	33,317	41,848	52,167

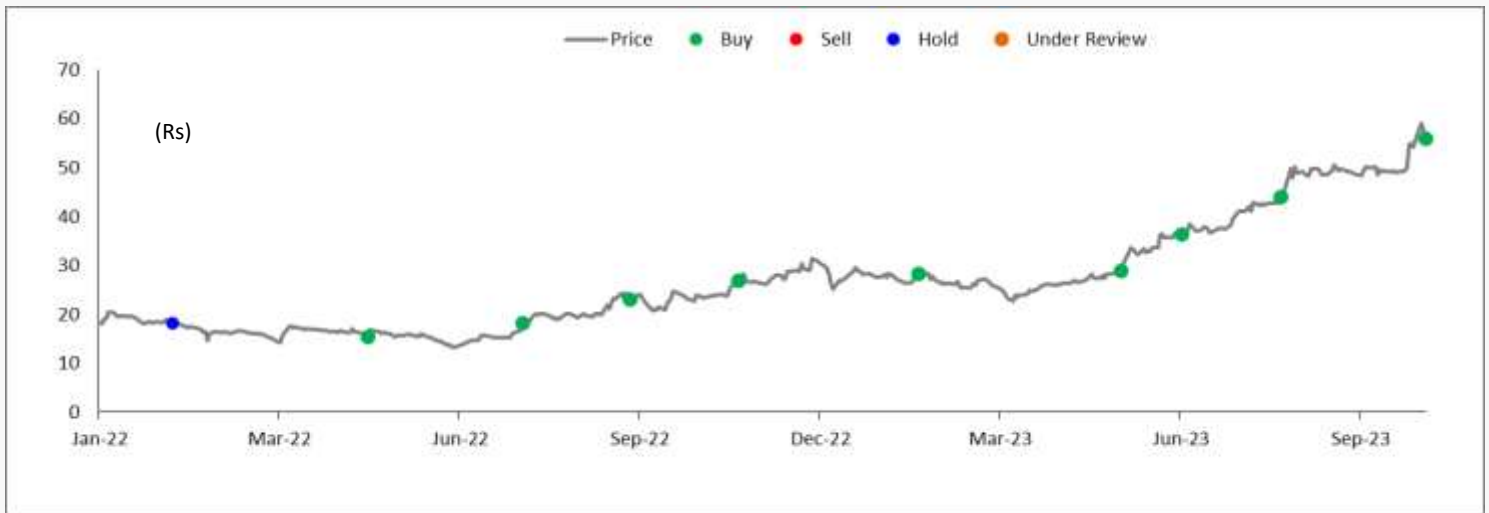
Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY22	FY23	FY24E	FY25E
VALUATION RATIOS				
EPS	-2.4	5.6	6.2	7.4
Earnings Growth (%)	<i>N.M</i>	<i>N.M</i>	0.1	18.8
BVPS	14.8	20.2	25.6	32.0
Adj. BVPS	14.2	20.2	25.5	31.8
RoA (%)	-1.9	3.9	3.2	3.1
ROAE (%)	-15.0	33.7	27.0	25.6
P/E (x)	-23.8	10.1	9.2	7.7
P/ABV (x)	4.0	2.8	2.2	1.8
PROFITABILITY & OPERATING EFFICIENCY				
NIM (%)	8.4	9.8	9.5	9.3
Cost/Avg. Asset Ratio (%)	6.8	6.3	6.0	5.7
Cost-Income Ratio (%)	71.7	54.8	54.8	53.5
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	12.5	30.6	26.0	25.2
Deposits Growth (%)	39.3	39.6	29.8	28.3
Equity/Assets (%)	3.5	6.0	7.3	8.2
Equity/Loans (%)	15.7	18.6	18.7	18.6
Total Capital Adequacy Ratio (CAR)	19.0	25.8	24.8	24.1
ASSET QUALITY				
Gross NPLs (%)	7.3	2.9	2.2	2.1
Net NPLs (%)	0.6	0.0	0.1	0.1
Coverage Ratio (%)	92.3	98.5	95.3	94.8
Provision/Avg. AUM (%)	7.4	0.1	1.0	1.3
ROAA TREE (on Total Assets)				
Net Interest Income	8.1	9.5	9.2	9.0
Non-Interest Income	1.4	2.1	1.9	1.7
Operating Cost	6.8	6.3	6.0	5.7
Provisions	5.2	0.1	0.7	0.9
Tax	-0.6	1.3	1.1	1.0
ROAA	-1.9	3.9	3.2	3.1
Leverage (x)	7.9	8.7	8.4	8.4
ROAE	-15.0	33.7	27.0	25.6

Source: Company, Axis Securities

Ujivan Small Finance Bank Price Chart and Recommendation History



Date	Reco	TP	Research
08-Feb-22	HOLD	20	Result Update
13-May-22	BUY	23	Result Update
27-Jul-22	BUY	26	Result Update
19-Sep-22	BUY	31	Company Update
09-Nov-22	BUY	34	Result Update
03-Feb-23	BUY	37	Result Update
12-May-23	BUY	37	Result Update
12-Jun-23	BUY	45	Company Update
28-Jul-23	BUY	54	Result Update
06-Oct-23	BUY	64	AAA

Source: Axis Securities

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