


Asset Quality Concerns to Remain a Near-Term Overhang!
Est. Vs. Actual for Q1FY25: NII – **BEAT**; PPOP – **BEAT**; PAT – **BEAT**
Changes in Estimates post Q1FY25
FY24E/FY25E: NII: -4.3%/-6.5%; PPOP: -5.5%/-7.8%; PAT: -11.2%/-9.4%

Recommendation Rationale

- **Microfinance Asset Quality concerns; a near-term overhang:** UJSFB has been witnessing stress in certain geographies, especially the emerging markets (Punjab, Haryana, Odisha and certain districts in Tamil Nadu), while the mature microfinance markets (Maharashtra, West Bengal, Tamil Nadu, Karnataka) continue to exhibit healthy asset quality trends. The bank has proactively reduced its disbursements in stressed geographies and has also identified branches where PAR levels remain elevated. Amidst asset quality concerns cropping up, the MFIN guidelines would imply a slow-down in MFI growth, with customer rejection rates inching up to ensure adherence to the guidelines. UJSFB will adopt a cautious approach in sourcing new-to-bank customers and will continue to service existing customers. The management indicated that the PAR pool is likely to inch up marginally in Jul'24; however, with focused collections efforts, the bank will aim at controlling the pace of slippages. **GNPA is likely to peak out at 2.7-2.8% in FY25 vs 2.5% currently. UJSFB remains confident of containing credit costs within 1.7% for FY25E.**
- **Growth momentum to improve from H2FY25 onwards:** The management has indicated that credit growth would largely follow deposit growth and the bank intends to maintain its C-D Ratio at 85% on a steady state basis. UJSFB is confident of growth momentum returning in H2FY25 and improving there onwards. The new business segments - Micro-mortgages, Gold Loans and Vehicle Finance will play a meaningful role in offering an enhanced product suite to customers and are expected to see a significant spurt in business volumes. The bank remains committed to increasing the share of secured products to 35% by FY25E and 40% by FY26E. In the microfinance segment, UJSFB will pursue growth in the individual loan wherein asset quality metrics are better than group loans.

Sector Outlook: Positive
Company Guidance: Given headwinds in the microfinance segment, the bank will aim to grow the portfolio at 20% in FY25. Deposit growth will mirror credit growth and the bank aims at maintaining C-D Ratio at 85% on a steady state basis. The bank has guided for NIMs to be maintained at ~9% and RoE at 20% in FY25E. The board will consider transitioning into a Universal Bank and apply to the regulator in FY25.

Current Valuation: 1.3x FY26E ABV **Earlier Valuation:** 1.7x Sep'25E ABV

Current TP: Rs 52/share **Earlier TP:** Rs 64/share

Recommendation: We maintain our **BUY** recommendation on the stock.

Alternate BUY Ideas from our Sector Coverage:
CreditAccess Grameen (TP – Rs 1,700); AU SFB (TP – Rs 725)
Financial Performance

- **Operational Performance –** The growth momentum decelerated, with **disbursements** reporting flat YoY growth and a de-growth of 21% QoQ, largely on the back of a slowdown in the MFI disbursements (-5/-21% YoY/QoQ). Advances growth was in line with management guidance at 19/1% YoY/QoQ with the share of secured portfolio improving to 31.3% vs 30.2% QoQ. The non-MFI book grew by 33/4% YoY/QoQ. Deposits grew by 22/3% YoY/QoQ, primarily driven by TDs (+20/5% YoY/QoQ), while CASA deposit growth de-railed sequentially and was flat QoQ. CASA Ratio declined to 25.6% vs 26.5% QoQ. C-D Ratio stood at 83.4% vs 85.4%.
- **Financial Performance –** NII grew by 19/1% YoY/QoQ. Margin contraction was shallow vs expectations and stood at ~9.3% vs 9.4% in Q4. Non-interest income grew by 11% YoY and de-grew by 16% QoQ. Opex growth was modest at 23% YoY and de-growth of 3% QoQ, primarily driven by lower other expenses (+19/-11% YoY/QoQ). C-I Ratio improved to 55.2% vs 55.7% QoQ. PPOP grew by 11% QoQ. Credit costs are gradually normalizing and stood at 147bps vs 110bps QoQ. This also reflects the asset quality stress in the MFI segment in certain geographies that the bank had highlighted earlier. PAT de-grew by 7/9% YoY/QoQ. Asset quality deteriorated with GNPA/NNPA inching up to 2.5/0.4% vs 2.2/0.3% QoQ.

Outlook

Given the stress in the microfinance segment, the bank is pursuing growth in a risk-calibrated manner. With asset quality concerns continuing into the next quarter, H1FY25 is expected to report a muted performance. Growth is likely to pick up from H2FY25 onwards. Backed by a slowdown in growth and factoring in margin compression given the shift towards the secured products weighing on NIMs we cut our NII estimates by 4-7% over FY25-26E. Driven by Elevated Opex ratios and higher credit costs we cut our earnings estimates by 10-11% over FY25-26E. Despite this we expect RoA to remain at 2.5%+ over the medium term.

Valuation & Recommendation

 UJSFB currently trades at 1.1x FY26E ABV and we value UJSFB at 1.3x FY26E ABV to arrive at a target price of Rs 52/share, implying an upside of 18% from CMP. **We maintain our BUY recommendation on the stock owing to reasonable valuations.**
Key Financials (Standalone)

| (Rs Cr) | Q1FY25 | QoQ (%) | YoY (%) | Axis Est. | Variance |
|---------------------|--------|---------|---------|-----------|----------|
| Net Interest Income | 942 | +0.9 | +18.8 | 916 | +2.8 |
| PPOP | 510 | -1.6 | +11.4 | 459 | +11.1 |
| Net Profit | 302 | -8.5 | -6.9 | 247 | +22.0 |
| NNPA (%) | 0.4 | +13 bps | +35 bps | 0.4 | +4 bps |
| RoA (%) - reported | 2.9 | -37 bps | -89 bps | 2.3 | +66 bps |

Source: Company, Axis Securities Research

(CMP as of 25 July 2024)

| | |
|----------------------------|-------------|
| CMP (Rs) | 44 |
| Upside /Downside (%) | 18% |
| High/Low (Rs) | 63/40 |
| Market cap (Cr) | 8,493 |
| Avg. daily vol. (6m) Shrs. | 1,46,82,238 |
| No. of shares (Cr) | 193.2 |

Shareholding (%)

| | Dec-23 | Mar-24 | Jun-24 |
|-----------|--------|--------|--------|
| Promoter | 73.6 | 73.5 | 0.0 |
| FIIIs | 3.7 | 3.5 | 24.7 |
| MFs / UTI | 1.3 | 0.6 | 4.1 |
| Others | 21.4 | 22.4 | 71.2 |

Financial & Valuations

| Y/E Mar (Rs Cr) | FY25E | FY26E | FY27E |
|-----------------|-------|-------|-------|
| NII | 4,012 | 4,767 | 5,767 |
| PPOP | 2,156 | 2,599 | 3,236 |
| Net Profit | 1,227 | 1,523 | 1,906 |
| EPS (Rs) | 6.4 | 7.9 | 9.9 |
| ABV (Rs) | 33.5 | 40.0 | 48.3 |
| P/ABV (x) | 1.3 | 1.1 | 0.9 |
| RoA (%) | 2.8 | 2.8 | 2.8 |
| NNPA (%) | 0.4 | 0.4 | 0.4 |

Change in Estimates (%)

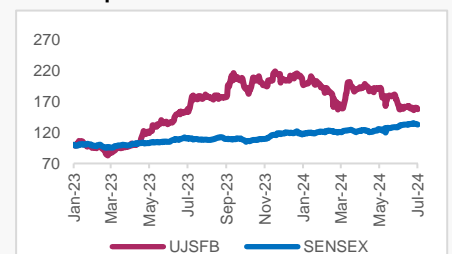
| Y/E Mar | FY25E | FY26E |
|---------|-------|-------|
| NII | -4.3 | -6.5 |
| PPOP | -5.5 | -7.8 |
| PAT | -11.2 | -9.4 |

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 | 38.8 |

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: Ace Equity, Axis Securities Research

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Key Highlights

- **NIM compression imminent:** As the bank's portfolio mix shifts towards secured products, yields will come under pressure resulting in margin compression. However, a part of the microfinance portfolio is pending repricing and should partially support NIMs. While margin compression is imminent, the bank's focus towards better-yielding products in certain segments should lend some support to NIMs.

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit growth which could potentially derail our earnings estimates.
- The scalability of new products and secured book remains a key monitorable.
- Asset quality concerns persisting for a long could keep credit costs elevated hurting our earnings estimates

Change in Estimates

| | Revised | | | Old | | | % Change | | |
|------------|---------|-------|-------|-------|-------|-------|----------|-------|-------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| NII | 4,012 | 4,767 | 5,767 | 4,193 | 5,096 | - | -4.3 | -6.5 | - |
| PBP | 2,156 | 2,599 | 3,236 | 2,280 | 2,820 | - | -5.5 | -7.8 | - |
| Provisions | 515 | 563 | 688 | 433 | 572 | - | 19.0 | -1.6 | - |
| PAT | 1,227 | 1,523 | 1,906 | 1,382 | 1,681 | - | -11.2 | -9.4 | - |

Source: Axis Securities Research

Results Review

| Result | Q1FY25 | Q1FY24 | % YoY | Q4FY24 | % QoQ |
|------------------------------|--------|--------|-------|--------|-------|
| Net Interest Income | 942 | 793 | 18.8 | 934 | 0.9 |
| Non-Interest Income | 197 | 177 | 11.2 | 236 | -16.5 |
| Operating expenses | 629 | 512 | 22.9 | 651 | -3.4 |
| Staff Cost | 340 | 268 | 26.8 | 327 | 4.0 |
| Pre provision profits | 510 | 458 | 11.4 | 519 | -1.6 |
| Provisions and contingencies | 110 | 26 | 320.7 | 79 | 39.1 |
| PBT | 400 | 432 | -7.3 | 440 | -9.0 |
| Provision for Tax | 99 | 108 | -8.5 | 110 | -10.3 |
| PAT | 302 | 324 | -6.9 | 330 | -8.5 |

Business Update

| | | | | | |
|---------------------------|-------|-------|-------|-------|-------|
| Disbursements | 5,286 | 5,285 | 0.0 | 6,681 | -20.9 |
| <i>MFI - Group</i> | 2,952 | 3,235 | -8.7 | 3,712 | -20.5 |
| <i>MFI - Individual</i> | 942 | 872 | 8.0 | 1,219 | -22.7 |
| <i>Affordable Housing</i> | 445 | 418 | 6.5 | 730 | -39.0 |
| <i>MSME</i> | 130 | 24 | 441.7 | 128 | 1.6 |
| <i>FIG</i> | 400 | 320 | 25.0 | 546 | -26.7 |
| <i>Others</i> | 417 | 416 | 0.2 | 346 | 20.5 |

| | | | | | |
|---------------------------|---------------|---------------|-------------|---------------|------------|
| Advances | 30,069 | 25,326 | 18.7 | 29,779 | 1.0 |
| <i>MFI - Group</i> | 15,768 | 14,819 | 6.4 | 16,009 | -1.5 |
| <i>MFI - Individual</i> | 4,967 | 3,496 | 42.1 | 4,799 | 3.5 |
| <i>FIG</i> | 1,800 | 1,218 | 47.8 | 1,731 | 4.0 |
| <i>Affordable Housing</i> | 5,199 | 3,671 | 41.6 | 4,924 | 5.6 |
| <i>MSME</i> | 1,415 | 1,508 | -6.2 | 1,414 | 0.1 |
| <i>Others</i> | 920 | 614 | 49.8 | 902 | 2.0 |

| | | | | | |
|-----------------------|------|------|---------|------|---------|
| Cost-Income ratio (%) | 55.2 | 52.8 | 243 bps | 55.7 | -44 bps |
|-----------------------|------|------|---------|------|---------|

Asset Quality

| | | | | | |
|---------------|------|------|-----------|------|----------|
| Gross NPA (%) | 2.5 | 2.6 | -10 bps | 2.2 | 29 bps |
| Net NPA (%) | 0.4 | 0.1 | 35 bps | 0.3 | 13 bps |
| PCR (%) | 84.0 | 98.0 | -1400 bps | 87.0 | -300 bps |

Capital Adequacy

| | | | | | |
|-------------|------|------|----------|------|---------|
| CRAR (%) | 24.9 | 26.7 | -184 bps | 24.7 | 15 bps |
| Tier I (%) | 23.0 | 23.6 | -66 bps | 22.6 | 36 bps |
| Tier II (%) | 1.9 | 3.1 | -118 bps | 2.1 | -21 bps |

Source: Company, Axis Securities Research

Financials (Standalone)

| Profit & Loss | | | | | (Rs Cr) |
|------------------------------|--------------|--------------|--------------|--------------|----------------|
| Y/E March | FY24 | FY25E | FY26E | FY27E | |
| Net Interest Income | 3,409 | 4,012 | 4,767 | 5,767 | |
| Non-Interest Income | 787 | 857 | 951 | 1,055 | |
| Total Income | 4,196 | 4,869 | 5,718 | 6,822 | |
| Operating Expenses | 2,279 | 2,712 | 3,119 | 3,586 | |
| Pre-Provision Profits | 1,917 | 2,156 | 2,599 | 3,236 | |
| Provisions | 215 | 515 | 563 | 688 | |
| PBT | 1,702 | 1,641 | 2,036 | 2,548 | |
| Tax | 421 | 414 | 513 | 642 | |
| Profit After Tax | 1,281 | 1,227 | 1,523 | 1,906 | |

Source: Company, Axis Securities Research

| Balance Sheet | | | | | (Rs Cr) |
|--------------------------|---------------|---------------|---------------|---------------|----------------|
| Y/E March | FY24 | FY25E | FY26E | FY27E | |
| Equity Share Capital | 1,931 | 1,933 | 1,933 | 1,933 | |
| Reserves & Surplus | 3,662 | 4,672 | 5,967 | 7,586 | |
| Net Worth | 5,593 | 6,605 | 7,899 | 9,519 | |
| Deposits | 31,462 | 38,268 | 46,579 | 56,737 | |
| Borrowings | 2,171 | 2,155 | 4,006 | 5,633 | |
| Other Liabilities | 1,176 | 1,412 | 1,757 | 2,160 | |
| Total Liabilities | 40,454 | 48,528 | 60,369 | 74,215 | |
| | | | | | |
| Cash & Bank balances | 2,537 | 3,237 | 3,940 | 4,800 | |
| Investments | 9,766 | 11,496 | 14,924 | 18,746 | |
| Loans | 26,883 | 32,236 | 39,567 | 48,286 | |
| Fixed Assets & Others | 1,216 | 1,558 | 1,938 | 2,383 | |
| Total Assets | 40,402 | 48,528 | 60,369 | 74,215 | |

Source: Company, Axis Securities Research

Ratio Analysis
(%)

| Y/E March | FY24 | FY25E | FY26E | FY27E |
|---|------|-------|-------|-------|
| VALUATION RATIOS | | | | |
| EPS | 6.6 | 6.4 | 7.9 | 9.9 |
| Earnings Growth (%) | 17.9 | -4.3 | 24.1 | 25.1 |
| BVPS | 28.7 | 34.2 | 40.9 | 49.3 |
| Adj. BVPS | 28.3 | 33.5 | 40.0 | 48.3 |
| RoA (%) | 3.5 | 2.8 | 2.8 | 2.8 |
| ROAE (%) | 27.0 | 20.2 | 21.0 | 21.9 |
| P/E (x) | 6.6 | 6.9 | 5.6 | 4.5 |
| P/ABV (x) | 1.6 | 1.3 | 1.1 | 0.9 |
| PROFITABILITY & OPERATING EFFICIENCY | | | | |
| NIM (%) | 9.0 | 8.8 | 8.6 | 8.4 |
| Cost/Avg. Asset Ratio (%) | 6.2 | 6.1 | 5.7 | 5.3 |
| Cost-Income Ratio (%) | 54.3 | 55.7 | 54.5 | 52.6 |
| BALANCE SHEET STRUCTURE RATIOS | | | | |
| Loan Growth (%) | 26.3 | 19.9 | 22.7 | 22.0 |
| Deposits Growth (%) | 23.2 | 21.6 | 21.7 | 21.8 |
| Equity/Assets (%) | 8.9 | 9.6 | 9.9 | 10.2 |
| Equity/Loans (%) | 20.6 | 20.5 | 20.0 | 19.7 |
| Capital Adequacy Ratio (%) | 24.7 | 23.6 | 22.5 | 21.9 |
| Tier I Capital (%) | 22.6 | 21.6 | 20.8 | 20.4 |
| ASSET QUALITY | | | | |
| Gross NPLs (%) | 2.2 | 2.8 | 2.6 | 2.5 |
| Net NPLs (%) | 0.3 | 0.4 | 0.4 | 0.4 |
| Coverage Ratio (%) | 87.6 | 85.1 | 85.0 | 85.0 |
| Provision/Avg. AUM (%) | 0.9 | 1.7 | 1.6 | 1.6 |
| ROAA TREE (on Total Assets) | | | | |
| Net Interest Income | 9.2 | 9.0 | 8.8 | 8.6 |
| Non-Interest Income | 2.1 | 1.9 | 1.7 | 1.6 |
| Operating Cost | 6.2 | 6.1 | 5.7 | 5.3 |
| Provisions | 0.6 | 1.2 | 1.0 | 1.0 |
| Tax | 1.1 | 0.9 | 0.9 | 1.0 |
| ROAA | 3.5 | 2.8 | 2.8 | 2.8 |
| Leverage (x) | 7.8 | 7.3 | 7.5 | 7.7 |
| ROAE | 27.0 | 20.2 | 21.0 | 21.9 |

Source: Company, Axis Securities Research

Ujivan Small Finance Bank Price Chart and Recommendation History



| Date | Reco | TP | Research |
|-----------|------|----|---------------|
| 03-Feb-23 | BUY | 37 | Result Update |
| 12-May-23 | BUY | 37 | Result Update |
| 12-Jun-23 | BUY | 45 | Result Update |
| 28-Jul-23 | BUY | 54 | Result Update |
| 06-Oct-23 | BUY | 64 | AAA |
| 30-Oct-23 | BUY | 64 | Result Update |
| 25-Jan-24 | BUY | 64 | Result Update |
| 22-May-24 | BUY | 64 | Result Update |
| 26-Jul-24 | BUY | 52 | Result Update |

Source: Axis Securities Research

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