

## RETAIL EQUITY RESEARCH

## Ujjivan Financial Services Ltd

Banking/Finance

BSE CODE:539874

NSE CODE: UJJIVAN

Bloomberg CODE: UJJIVAN :IN SENSEX: 30,248

BUY

Rating as per Midcap

12months investment period

CMP Rs346 TARGET Rs415 RETURN 20% 11<sup>th</sup>May, 2017

## Headwinds amid transformation...

Ujjivan Financial Services Ltd is the third largest NBFC microfinance (MFI) in India and is among the first group of companies to procure small finance bank (SFB) license. Ujjivan has a network of 457 branches across 24 states.

- Loan book grew 16% YoY (-3%QoQ), lower than expected marred by lower disbursements and client acquisition post demonetisation.
- Asset quality deteriorated with GNPA moving 344bps QoQ to 3.69% (excluding RBI dispensation for demonetisation).
- Margins contracted 410 bps YoY on lower loan growth and interest reversals, leading to -65%YoY de-growth in PAT.
- Transformation to SFB is gaining pace, and has converted 15 branches in FY17 and expects to operate 171 bank branches by FY18.
- We lower our loan growth forecasts and factor higher provisions leading to -86% & -27% downgrades in FY18E & FY19E PAT respectively.
- Ujjivan's prospective business model provides long term growth visibility, while medium term earnings headwinds will influence valuations. We therefore reduce our valuation to 2.5x from 2.7x FY19E Adj.BV while retain our Buy rating with a reduced target price of Rs415.

## Loan growth disrupted...

Loan book grew at a nominal pace of 16% YoY in Q4FY17, marred by lower disbursements amid conservative client acquisition post demonetisation. Total clients de-grew -5% QoQ, and management remain conservative in the medium term due to risks emerged post demonetisation. We lower our loan growth estimates and factor 25% CAGR in loan book over FY17-19E.

## Asset quality blues emerge...

Asset quality deteriorated in Q4FY17 as GNPA increased 344bps QoQ to 3.7% (without factoring the RBI dispensation) and is expected to remain elevated amid write off of part of the NPA accretion in FY17. Multiple factors have impacted the asset quality including the liquidity crunch from demonetisation, political interventions etc. We factor higher provisions for FY17 factoring write-offs in some NPA accounts, while asset quality is expected to improve from FY19E.

## Earnings outlook moderated...

Operating Income (NII) de-grew 16% YoY with margins contracting 410bps YoY on lower interest income and higher borrowing to meet CRR & SLR investments. NIM will moderate in coming years on conversion to SFB model. Higher CRR & SLR investments and competitive pricing will bring down yields. We lower our FY18E and FY19E NIMs by 90bps each, factoring lower loan growth and lower our FY18E and FY19E earnings estimates by -86% & -27% respectively.

## SFB transformation in track...

Ujjivan has opened 26 SFB branches till date and plans to operate 171 branches by the year end. An additional 56 branches will be opened in the rural to meet the RBI requirement. The focus will be to build the deposits under SFB branches and targets to meet 30% funding requirement from deposits in FY18.

## Valuations...

Ujjivan is currently trading at 2.4x one yr forward Adj B/V (from a peak of 3x). Despite prospective business model with growth visibility, earnings headwinds will influence the valuation. We therefore lower our target valuation to 2.5x FY19E Adj. BV, while retain our Buy rating with a revised target price of Rs 415.

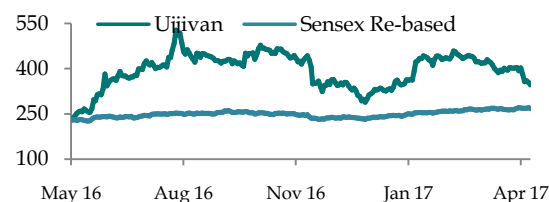
## Company Data

Market Cap (cr)	Rs4,135
Outstanding Shares (cr)	11.9
Free Float	100%
Dividend Yield	0.14%
52 week high	Rs547
52 week low	Rs217
6m average volume (cr)	0.14
Beta	1.5
Face value	Rs10

Shareholding %	Q2FY17	Q3FY17	Q4FY17
Promoters	0	0	0
FII's	49.6	47.3	45.8
MFs/Insti	16.6	14.3	14.0
Public	17.2	21.1	22.4
Others	16.6	17.3	17.8
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	-20.1%	-21.9%	49.5%
Absolute Sensex	5.6%	8.7%	16.1%
Relative Return*	-25.7%	-30.7%	33.4%

\*over or under performance to benchmark index



Consolidated (Rs.cr)	FY17	FY18E	FY19E
NII	683	771	927
Growth (%)	35%	13%	20%
NIM (%)	11.0%	10.6%	9.8%
PAT Adj	208	117	217
Growth (%)	18%	-44%	86%
Adj.EPS	17.5	9.8	18.2
Growth (%)	18%	-44%	86%
P/E	19.8	35.4	19.0
P/B	2.4	2.2	2.0
Adj. P/B	2.4	2.3	2.1
ROE %	14.1	6.5	11.0

ANIL R  
Analyst

## Financials

### Profit & Loss Account

(Rs cr)	Q4FY17	Q4FY16	YoY Growth %	Q3FY17	QoQ Growth %
<b>Interest Income</b>	289	269	7.4	331	-12.7
<b>Interest Expense</b>	162	118	37.3	133	21.8
<b>Net Interest Income (NII)</b>	127	151	-15.9	198	-35.9
Fee and Other Income	25	25	-	31	-19.4
<b>Total Income</b>	152	176	-13.6	229	-33.6
Expenditure	131	85	54.1	114	14.9
Provision	7	8	-12.5	55	-87.3
<b>PBT</b>	34	84	-59.5	67	-49.3
Tax	15	29		22	-31.8
<b>Reported PAT</b>	19	55	-65	45	-57.8
Adjustment	-	-		-	
<b>Adj PAT</b>	19	55	-65	45	-57.8
<b>Diluted EPS (Rs)</b>	1.6	4.6	-65	3.7	-57.8

### Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY17E	FY18E
<b>Net Interest Income (NII)</b>	852	1,002	771	927	-10.5%	-7.5%
<b>NIM (%)</b>	11.5	10.7	10.6	9.8	-90bps	-90bps
<b>Fee and Other Income</b>	151	199	137	185	-9.3%	-7.1%
<b>Adj PAT</b>	218	275	117	217	-86%	-26.7%
<b>Diluted EPS (Rs)</b>	18.4	23.2	9.8	18.2	-86%	-26.7%

## Consolidated Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	551	931	1,226	1,420	1,718
Interest Expense	271	423	543	649	791
<b>Net Int. Income</b>	<b>279</b>	<b>507</b>	<b>683</b>	<b>771</b>	<b>927</b>
% Change	55%	82%	35%	13%	20%
Non Int. Income	48	76	124	137	185
<b>Operating Income</b>	<b>328</b>	<b>584</b>	<b>807</b>	<b>908</b>	<b>1,112</b>
% Change	61.5%	78.0%	38.2%	12.6%	22.5%
<b>Pre Prov. Profit</b>	<b>123</b>	<b>277</b>	<b>350</b>	<b>241</b>	<b>335</b>
Prov. & Conting.	21	25	75	117	67
<b>PBT</b>	<b>115</b>	<b>272</b>	<b>322</b>	<b>177</b>	<b>329</b>
% Change	37%	138%	18%	-45%	86%
Tax	39	95	113	60	112
Tax Rate (%)	34%	35%	35%	34%	34%
<b>Reported PAT</b>	<b>76</b>	<b>177</b>	<b>208</b>	<b>117</b>	<b>217</b>
Adj*	0	0	0	0	0
<b>Adj PAT</b>	<b>76</b>	<b>177</b>	<b>208</b>	<b>117</b>	<b>217</b>
% change	37.7%	133.8%	17.6%	-43.9%	86.0%
No. of shares (cr)	9	10	12	12	12
<b>EPS (Rs)</b>	<b>7.5</b>	<b>17.5</b>	<b>17.5</b>	<b>9.8</b>	<b>18.2</b>
% change	-10.7%	133.8%	-0.3%	-43.9%	86.0%
DPS (Rs)	0.0	0.8	0.6	0.6	0.6
CEPS (Rs)	9.6	18.3	18.5	12.8	22.8

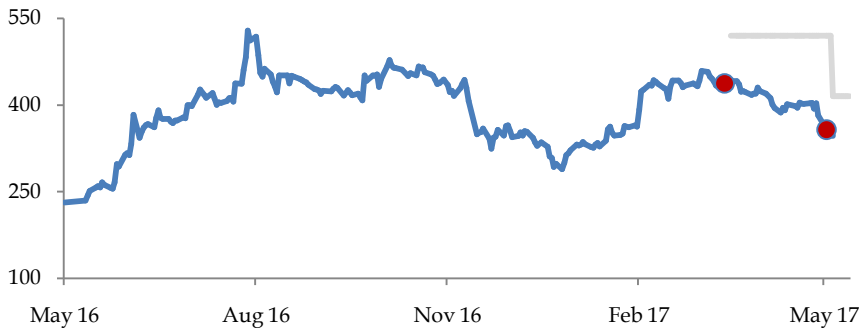
## Ratios

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
<b>Profitability &amp; Return Ratios</b>					
Interest yield (%)	22.8	22.5	22.4	21.5	19.0
Cost of funds (%)	11.4	11.4	10.7	10.0	9.5
Net int. spread (%)	11.4	11.1	11.7	11.5	9.5
NIM (%)	11.6	12.3	11.0	10.6	9.8
Cost to Income	60.4	51.2	55.1	69.6	64.9
ROE (%)	13.7	18.3	14.1	6.5	11.0
ROA (%)	2.2	3.5	2.9	1.2	1.5
<b>Asset Quality</b>					
GNPA (%)	0.07	0.15	0.28	3.00	2.80
NNPA (%)	0.02	0.04	0.03	1.20	1.00
Credit cost (%)	0.9	0.6	1.4	1.8	0.8
<b>Capital</b>					
Cap adeq ratio (%)	24.2	24.1	26.4	26.0	24.0
<b>Valuation ratios</b>					
P/E (x)	39.3	19.8	19.8	35.4	19.0
P/BV (x)	4.1	2.9	2.4	2.2	2.0
P/ABV (x)	4.1	2.9	2.4	2.3	2.1

## Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Cash	645	491	760	1789	4608
Loans & Advances	3256	5129	6017	7382	9373
Investments	0	0	357	1657	2857
Gross Fixed Assets	42	59	1157	90	109
Net Fixed Assets	29	36	165	305	440
CWIP	14	17	134	240	321
Intangible Assets	4	7	6	5	3
Def. Tax (Net)	15	24	47	-5	-10
Other Assets					
<b>Total Assets</b>	<b>3976</b>	<b>5727</b>	<b>8479</b>	<b>11156</b>	<b>17261</b>
Deposits	0	0	106	2158	6622
Debt Funds	1288	1734	2945	2625	2649
Other Liabilities	1904	2720	3524	4243	5582
Provisions	48	76	147	265	332
Equity Capital	86	101	119	119	119
Reserves & Surplus	650	1097	1636	1746	1957
Shareholder's Fund	736	1198	1756	1866	2076
<b>Total Liabilities</b>	<b>3976</b>	<b>5727</b>	<b>8479</b>	<b>11156</b>	<b>17261</b>
<b>BVPS (Rs)</b>	<b>85.1</b>	<b>117.6</b>	<b>146.6</b>	<b>155.9</b>	<b>173.6</b>
% change	50.9%	38.3%	24.6%	6.4%	11.4%
<b>Adj. BVPS (Rs)</b>	<b>85.0</b>	<b>117.4</b>	<b>146.4</b>	<b>148.5</b>	<b>165.8</b>

### Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
16-March-2017*	Buy	520
11-May-2017	Buy	415

\*Initiating Coverage

### Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is 10% or more.	Buy	-	Upside is 15% or more.
Hold	-	Upside or downside is less than 10%.	Accumulate*	-	Upside between 10% - 15%.
Reduce	-	Downside is 10% or more.	Hold	-	Absolute returns between 0% - 10%.
			Reduce/Sell	-	Absolute returns less than 0%.
			To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.		

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