

## Ujjivan Financial Services Limited: Q4FY18 Result Update

CMP INR: 407  
 Rating: BUY  
 Target Price INR: 501  
 Upside: 23%

## Looking forward to a holistic growth

Ujjivan Financial Services Ltd. (UFS) reported significant jump in net profit on back of healthy growth in loan & advances and significant surge in net interest margin in its Q4FY18 financial results. Net revenue, net profit and loan & advances growth exceeded our estimate by substantial margin. Net interest income grew 64% YoY to INR 211cr and net revenue came in at INR 308cr, registered 73% YoY growth aided by 93% YoY growth in non-interest income. NIM jumped 300bps YoY to 11.6% due to 332bps decline in cost of funds. The significant decline cost of fund is attributed by deposits mobilisation. Operating cost surged by 28% YoY to INR 175cr, marginally, consequently operating profit surged by >217% to INR 133cr. Provision and contingencies for Q4FY18 was INR 35cr as compared to INR 7cr in Q4FY17 and INR 29cr in Q3FY18. Company reported >235% YoY jump in net profit to INR 65cr. We have estimated net profit to surge grow INR 7cr to INR 339cr in FY20E on back of reduction in credit cost and marginal improvement in C/I ratio.

## Non-MFI continues to drive the loan growth

Non-MFI loans grew 253% YoY to INR 547cr on back of 134% YoY growth in disbursement to INR 171cr. However, disbursement grew 60.8% YoY and 6% QoQ to INR 2,262cr. Thus, loans & advances grew 18.5% YoY and 6.5% QoQ to INR 7,560cr. Management guided that MFI loans will grow 18-20% over next few years and non-MFI loans will grow at faster pace and will contribute one-third in next three years. We have projected 26% YoY growth in loans & advances to INR 121bn over FY18-20E.

## Margin expected to remain robust

Total deposits grew 62.6% QoQ to INR 3,797cr and now constitutes nearly 50% of the total borrowings. The average cost of deposits is 7.5% as compared to 9.4% average cost of borrowings. During the year, the company has retired majority of high cost borrowings (64% of legacy borrowings). Thus, cost of funds reduced by 140bps to 9% in FY18 from 10.4% in FY17. We expect NIM to improve in FY19E on account of moderation in cost of funds due to focus on expanding the retail deposits.

## Asset quality improved

The gross NPL improved to 3.6% in Q4FY18 as against 4.22% in Q3FY18 and Net NPL came at 0.7% in Q4FY18 as against 1% in Q3FY18. PAR>0 came in at 4% against 4.6% in Dec. 2017 and 10% in Q4FY17. Management guided that GNPA & NNPA to decline <2% & <0.75% respectively and credit cost to remain 0.3-0.5% in FY19E.

## Outlook and Valuation: Continue with Buy recommendation

At CMP, stock is trading at 2.1x FY20E ABV and 15.0x FY20 earning for an FY19E-21E RoE of 15%. We have projected RoA/RoE of 2.3%/15% over FY18-20E on back of 26% growth in loans & advances. Based on 2.6x FY20E ABV, we arrive at a target price of INR 501 per share, implying 23% upside.

INR crs	Q4FY18	Q4FY17	%change	Q3FY18	%change	FY17	FY18	FY19E	FY20E
Net revenue	307.6	178.3	72.5	242.8	26.7	855	976	1,346	1,615
Net profit	64.9	19.4	235.2	29.3	121.2	208	7	252	339
Dil. EPS (INR)	5.4	1.6	231.1	2.4	120.7	18	1	21	28
Adj. Book Value Per Share (INR)						147.0	145.7	165.7	192.8
Price/Adj. book (x)						2.8	2.8	2.5	2.1
Price/Earning (x)						22.9	669.7	19.5	14.5

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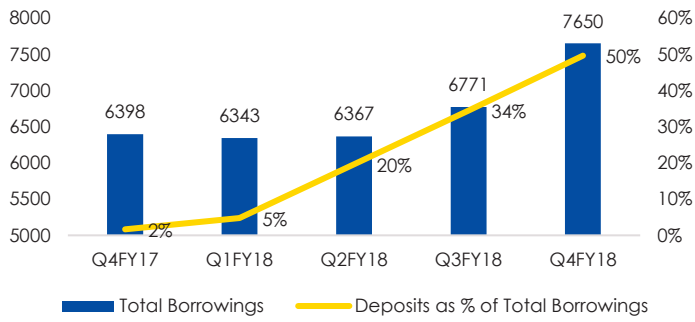
Bloomberg:	UJJIVAN:IN
52-week range (INR):	432/ 285
Share in issue (cr):	12
M cap (INR cr):	4,925
Avg. Daily Vol. BSE/NSE :('000):	1,890
Promoter Holding (%)	0

Date: 11th May 2018

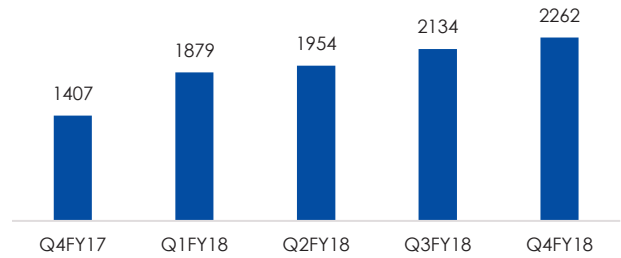
## Q4FY18 Result Highlights

INR crs	Q4FY18	Q4FY17	%change	Q3FY18	%change
Net interest income	211	128	64.4	196	7.7
Non-interest income	97	50	93.4	47	106.0
Operating Income	308	178	72.5	243	26.7
Operating expenses	175	137	28.2	167	4.5
Operating Profit	133	42	217.3	75	75.9
Provisions & Contingencies	35	7	384.1	29	21.0
PBT	98	35	182.7	47	109.7
Tax	33	15	116.2	17	90.3
PAT	65	19	235.2	29	121.2
Adjustment	0	0	na	0	na
Adjusted PAT	65	19	235.2	29	121.2
Paid-up Capital	121	119	1.2	121	0.2
Adj. EPS (INR)	5.4	1.6	231.1	2.4	120.7
Ratio					
C/I Ratio	56.9	76.6	-1,967bps	69.0	-1,206bps
Yield	21.7	21.2	48bps	20.7	99bps
cost of funds	8.7	12.0	-332bps	9.5	-75bps
Spread	13.0	9.2	380bps	11.2	174bps
NIM	11.6	8.6	300bps	11.8	-20bps
Balance Sheet					
AUM	7560	6379	18.5	7095	6.5
Loan & Advances	7560	5871	28.8	6927	9.1
Disbursement	2262	1407	60.8	2134	6.0
Asset Quality					
GNPA (%)	3.6	0.3	332bps	4.22	-62bps
NNPA (%)	0.7	0.03	67bps	1.0	-30bps
Provision Coverage Ratio	80.56	89.29	-873bps	76.30	5.6

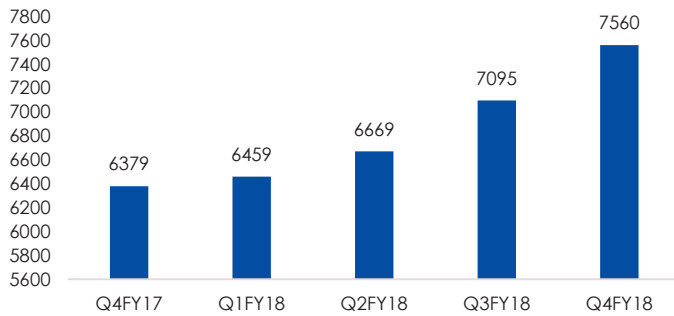
## Share of deposit increasing significantly



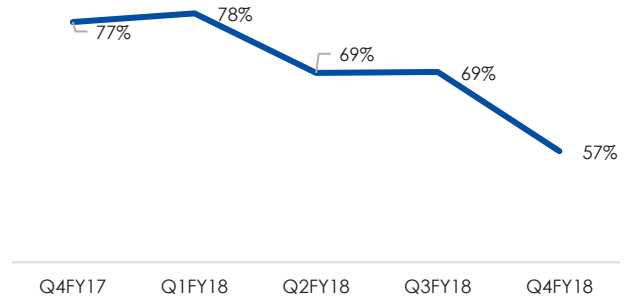
## Disbursement at highest ever quarterly levels



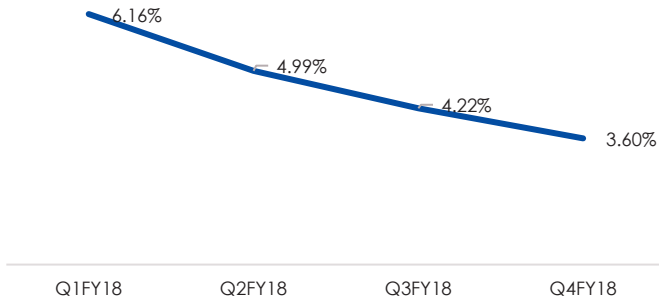
## AUM grew at faster pace



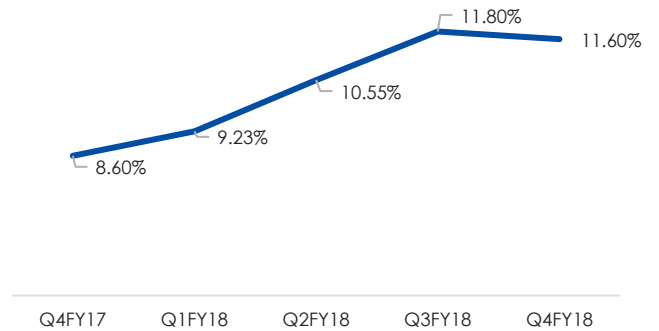
## Cost/Income Ratio moderated



## Asset quality improvement continues



## NIM improved due to moderation in cost of funds



## About the Company

Ujjivan Financial Services Ltd. (UFS) is the holding company and promoter of its 100% subsidiary "Ujjivan Small Finance Bank", which started banking operations from February 2017. It is registered as an NBFC-Non-Deposit-taking Systemically Important - Core Investment Company with RBI.

Ujjivan Small Finance Bank serves over 37.1 lakh active customers through 464 branches and 11,242 employees spread across 209 districts and 24 states in India. Its Gross Loan Book stands at ₹7,560 crore and it has over 187 full service banking outlets with a deposit base of ₹3,772 crore as of March 31, 2018. The company has rolled out 187 full service banking outlets spread across 20 states including 47 banking outlets in URCs to expand the reach to unserved and under-served in the rural areas.

## Key Risks

### Slowdown in Economy

Any slowdown in uptick of economic cycle will affect the collection efficiency thus affecting the asset quality of the company.

### Increase in Cost on converting to banking branches

The management has guided that the company will convert existing asset centers to full-fledged banking outlets and will have 475 banking branches by March 2019. Any unprecedented increase in expense on Infrastructure and technology may dent its profits in short term.

## Financials

### Income Statement (INR cr)

Year to March	FY17	FY18	FY19E	FY20E
Interest income	1,303	1,443	1,853	2,188
Interest charges	543	605	704	816
Net interest income	761	838	1,148	1,373
Other income	94	138	198	242
Net revenues	855	976	1,346	1,615
Operating expense	458	654	913	1,026
- Employee exp	272	366	425	489
- Depreciation / amortisation	13	41	119	149
- Other opex	174	246	369	389
Preprovision op. profit	397	322	433	588
Provisions	75	311	45	67
PBT	322	12	388	521
Taxes	114	5	136	183
PAT	208	7	252	339
Extraordinaries	0	0	0	0
Reported PAT	208	7	252	339
Basic number of shares (cr.)	11.7	12.0	12.1	12.1
Basic EPS (INR)	17.8	0.6	20.9	28.0
Diluted number of shares (cr.)	12.1	12.5	12.6	12.6
Diluted EPS (INR)	17.1	0.6	20.1	27.0

### Growth Ratios

Year to March	FY17	FY18	FY19E	FY20E
NII growth	32%	10%	37%	20%
Net Revenues growth	42%	14%	38%	20%
Opex growth	49%	43%	40%	12%
PPOP growth	34%	-19%	34%	36%
Provisions growth	197%	314%	-86%	49%
PAT growth	17%	-96%	na	34%

### Operating Ratios

Year to March	FY17	FY18	FY19E	FY20E
Yield on Average Advances and Investments	20.8%	18.3%	17.4%	16.3%
Cost of Average Deposits and Borrowings	10.1%	8.3%	8.2%	8.1%
Spread	10.7%	10.0%	9.2%	8.3%
Net Interest Margin	12.1%	9.9%	10.8%	10.2%
Cost to Income Ratio	54%	67%	68%	64%
Tax Rate	35%	35%	35%	35%

### Balance Sheet

Year to March	FY17	FY18	FY19E	FY20E
Paid Capital	119	121	121	121
Reserve & Surplus	1,636	1,641	1,881	2,209
Shareholder's Fund	1,755	1,761	2,002	2,330
Total Borrowings	6,398	7,650	8,972	11,200
Other Liabilities	326	403	776	1,244
Total Liabilities	8,479	9,814	11,750	14,774
Cash & Bank Balance	760	594	502	577
Investment	0.1	0.1	0.1	0.1
Loan & Advances	5,871	7,560	9,539	12,087
Net Fixed Assets	140	198	248	310
Other assets	1,708	1,462	1,462	1,799
Total Assets	8,479	9,814	11,750	14,774

### RoAE Decomposition

Year to March	FY17	FY18	FY19E	FY20E
Net Interest Income / Assets	9.0%	8.5%	9.8%	9.3%
Other Income / Assets	1.1%	1.4%	1.7%	1.6%
Net Revenues / Assets	10.1%	9.9%	11.5%	10.9%
Operating Expense / Assets	5.4%	6.7%	7.8%	6.9%
Provisions / Assets	0.9%	3.2%	0.4%	0.5%
Taxes / Assets	1.3%	0.0%	1.2%	1.2%
Total Costs / Assets	7.6%	9.9%	9.3%	8.6%
Return on Assets	2.4%	0.1%	2.1%	2.3%
Assets / Equity	4.8	5.6	5.9	6.3
Return on Equity	12%	0%	13%	15%

### Valuation Metrics

Year to March	FY17	FY18	FY19E	FY20E
Basic EPS	17.8	0.6	20.9	28.0
EPS growth	-12%	-97%	na	34%
BVPS	147	146	166	193
Basic P/E	22.9	669.7	19.5	14.5
P/B	2.8	2.8	2.5	2.1

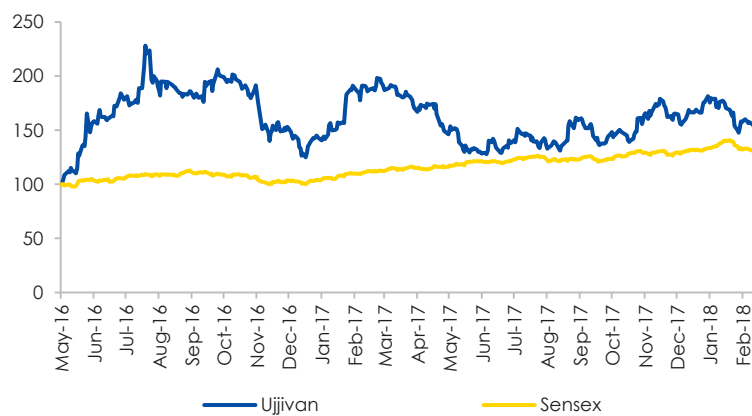
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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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