

Ujjivan Financial Services Ltd

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
282	375	33.0%	407 / 167	34102

Key Highlights:

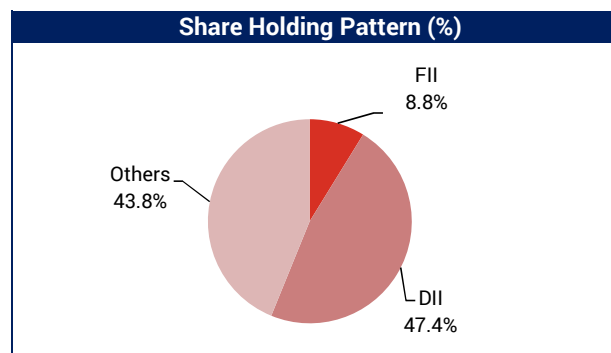
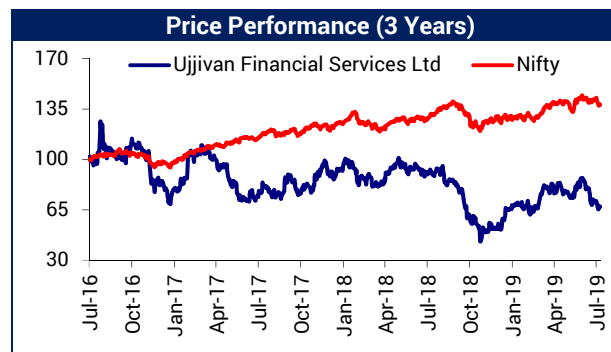
- We expect AUM to grow at marginally higher than 30% CAGR over FY19-22E to ~Rs250 bn by FY22E. Growth will be driven by newer segments, while growth in microfinance is likely to slow down in the medium term.
- With steady decline in PAR and higher provisions we should expect credit cost to normalize in FY20E. We are building 110 bps loan-loss provisions over FY20-22E.
- Q4FY19 reported NIM decreased 10 bps qoq to 11.7% on the back of marginal decline in lending yields. The drop in yields was led by change in loan mix towards higher share of low-yielding products and increasing competition across product classes. We forecast NIM (calculated) to compress by 60 bps over FY19-22E to 9% by FY22E.
- Over the medium term, growth in deposits will be a function of improvement in branch productivity and increasing penetration into newer geographies. We forecast CASA to grow at 65% CAGR over FY19-22E leading to improvement in CASA ratio (unadjusted or CDs) 15% by FY22E
- Cost-income ratio was elevated at 78% in 4QFY19 (flat qoq). Growth in operating expenses was high at 70% yoy in Q4FY19 driven by 1X rise in other expenses and 60% increase in employee expenses. We forecast 25% CAGR in operating expenses over FY19-22E leading to decline in cost-to-income ratio of ~65% by FY22E.
- The management has guided the following for FY20: (1) 35-40% growth in loans with MFI being at 25%, (2) NIM at 10.5% with cost of funds at 8.3%, (3) cost-income ratio at 72% and (4) credit costs at <100 bps and (5) RoA at 1.8% and RoEs at 14%.
- **Q1FY20 Results preview** - We expect Ujjivan to report strong PAT growth on the back of strong AUM growth (~45% yoy) driven by solid performance in MFI, housing space and SME financing. We expect cost ratios to be high (~75%) as transition to a bank continues. Commentary on the path of listing of the bank as well as outlook on MFI loans would be key monitorable.
- We maintain ADD rating with fair value of Rs375 (unchanged), valuing the bank at ~1.9X book and 13X FY20E EPS for RoEs recovering to ~14-15% in the near term.

Financials (Rs mn)*	FY19	FY20E	FY21E
Net Interest Income	10,030	15,069	19,395
Non interest income	3,145	4,220	5,041
Total Income	13,175	19,288	24,437
Growth (%)	34.9%	46.4%	26.7%
PBT	2,698	4,025	5,188
Net profit	1,984	2,839	3,659
EPS (Rs.)	16.4	23.4	30.2
Book value (Rs.)	158.7	178.3	202.8
P/B (x)	1.8	1.6	1.4
NIM (%)	9.6	9.8	9.4
Cost-income ratio (%)	76.4	72.4	70.1
RoE (%)	10.7	13.7	15.6
RoA (%)	1.6	1.7	1.7

Source: Kotak Institutional Equities *Consolidated

Financials (Rs mn)*	Q4-FY18	Q4-FY19	% Chg
Net interest income	2,109	2,863	36%
PBT	978	729	-25%
PAT	648	638	-2%
NIM (%)	11.5	11.2	-32 bps
GNPL (%)	3.6%	0.9%	-270 bps
NNPL (%)	0.3%	70.0%	-40 bps

Source: Kotak Institutional Equities *Standalone



This one pager on the company is extracted from last two KIE update dated May 30, 2019 and July 8, 2019 and it does not contain events beyond that date. We take no obligation to update the KIE recommendations. While source of all other information is taken from Kotak Institutional Equities, the price performance and shareholding pattern chart is inputted by Kotak PCG research team (with source as Bloomberg). It is advisable to read the full KIE report before taking any investment decision on the above company recommendation.

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- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
- SELL** – We expect the stock to deliver < -5% returns over the next 12 months
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