

Poised to grow steadily & profitably

Asset side:

1)The company remains on track to grow the overall AUM by 30-35% in FY19 and also over the next 2-3 years. This would be achieved by:

- i) maintaining the momentum in disbursements across all segments.
- ii) focus on expanding the customer base, which stood at 4.1mn as of Q3FY19. Customer retention would also be a priority for the company, which would be achieved through optimization of customers per relationship officer.
- iii) Rolling out new products and services specially in newly launched rural branches (on account of RBI compliance for financial inclusion), This would also help in growing the customer base.

2)Micro finance dominates the portfolio, forming 87% as of Q3FY19. This includes Group loans, individual and rural. The share of loans other than microfinance has been inching up gradually forming 13% of the portfolio during the same period. Although, the share of segments other than microfinance is expected to increase rapidly, microfinance would still form a dominant part of the overall AUM-70% by FY20 and 50% by FY22.

3)Average ticket size has been increasing across all segments, albeit marginally for segments other than MSE which has seen a rapid increase sequentially and the trend is expected to be maintained going ahead. Although ticket size in the affordable housing segment is not expected to increase significantly from INR 0.91 mn in Q3FY19.

Branch expansion & Geographical diversification:

USFB had a total of 464 branches as of Q3FY19(97 opened in the quarter) and the management has stated to add another 10 branches by the next quarter. The bank would also be converting 49 asset centers into full fledged branches by the next fiscal. Going ahead, the branch addition is expected to remain more focused with an emphasis not only from the asset side but also in term of building the liability franchise. This would also help in putting a lid on costs, with the cost to income ratio that stood at 77.7% as of Q3FY19 and 75.9% as of 9M-FY19, eventually reducing to the 50-55% range in the NEXT 3-4 years as guided. The opex is expected to remain in line with the company's expansion plan. The company's footprint remains well spread across most states across the country, with the share of the top 4 states at 53%, a trend that has remained consistent over the past 3 quarters. Going ahead, a ramp is expected in newer markets spanning the northern region and Bihar. The company's strategy of spreading the overall geographical footprint helps in diversifying overall risk, specially in the MFI portfolio.

New product launches

- 1)The company has recently launched 2 wheeler loans on a pilot basis in the Bangalore area. Post the response, USFB would evaluate on future rollout and processes for final implementation.
- 2)The company is also in the process of launching a Family Banking platform enabling cross selling of products and at the same time lower the overall customer acquisition cost. This would also benefit the bank on the liability side by garnering a higher level of family savings.
- 3)An advanced version of corporate Internet banking is also on the cards to service mid sized companies and institutions.

Liability Side

1)The management has stated that the liquidity condition in the market has eased with funds being available to good quality businesses albeit at a slightly higher cost. That being said the company's cost of funds stood at 8.5% in Q3FY19, the same witnessed in the previous quarter. Overall the cost of funds are expected to be in the range of 8.4-8.5% in FY19.

Sector Outlook Positive

Stock

CMP (Rs)	298
Target Price (Rs)	Not Rated
BSE code	539874
NSE Symbol	UJJIVAN
Bloomberg	UJJIVAN IN
Reuters	UJVF.BO

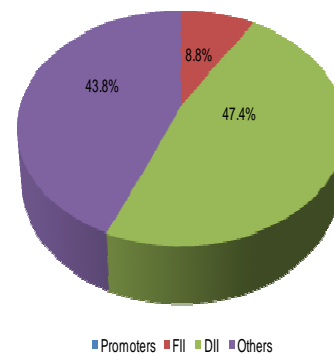
Key Data

Nifty	11,062
52WeekH/L(Rs)	432/166
O/s Shares (Mn)	121
Market Cap (Rs bn)	35
Face Value (Rs)	10

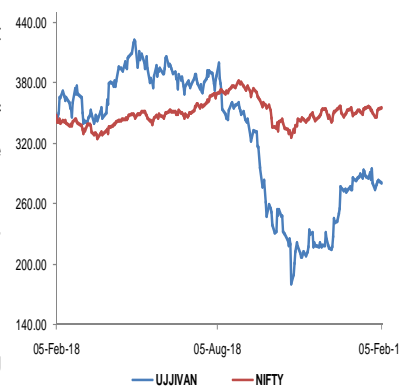
Average volume

3 months	24,74,870
6 months	22,90,220
1 year	17,17,620

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

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2) In Q3FY19 the proportion of CD borrowings from the market reduced to ~10% from 29% in the start of the year. The high cost term borrowings before the SFB license are also down to 2% from 16%.

3) All the CD borrowings have been replaced by long term refinance –facilities, retail & wholesale deposits

4) The bank would be continuing its focus on growing its retail deposits, which would be aided through branch expansion. Retail deposits stood at 36% and CASA at 10% for the third quarter and is expected to touch 20% in the next 2-3 years.

5) USFB opened 1 million new savings account for the year, of which 0.4 million were added in the third quarter itself. Out of this 140,000 new bank deposit customers were added in the year, with 60,000 being added in the quarter. The bank has a target to convert about half of its micro banking borrowers as banking customers.

6) For this year the bank has a target to cover 65-70% of the total assets by deposits of which retail is expected to form around a third.

Capital

1) CAR stood at 22.2% for the quarter with Tier-1 at 21.6%-remains well capitalized to grow AUM comfortably.

2) USFB is planning to raise \$50 million from IFC for Tier II capital in Q4FY19. This would serve a dual purpose of augmenting capital and also aid in balance sheet stability to better support long tenure loans

Listing of the Bank

The company has evaluated multiple options of listing the bank by January 2020, and also for dilution of the promoter's holding to 40% by January 2022, as required by RBI. The management has been in talks with a number of bankers, legal counsel and tax experts over the last two months, which have been reviewed by both the boards. They have been able to come up with a number of options that would require regulatory approval from authorities like the RBI, SEBI and CSG. Details of the final roadmap would be provided after securing the required approvals.

Succession planning

The Board of the Bank and the holding company have completed the process of identifying three candidates for the new MD and CEO position and the application has been submitted to RBI for their approval.

Profitability

1) The company posted NIM's of 10.8% for the Nine months ended December and 11% ended for the quarter. With the addition of higher ticket SME customers, yields are expected to come down marginally but asset quality would improve. As the bank's liability franchise improves through higher CASA and retail TD, cost of funds would inch lower, helping margins. This would be partially offset through a reducing mix of MF in the portfolio through lower yields. The management has guided for NIM of USFB to remain ~11%, with ROE of 11% and ROA of 1.7% in FY19.

2) In the medium term, operating leverage would help in improving ROE to ~14-15% and ROA to ~2-2.5% as majority of the opex for branch expansion has already been incurred. Fee and other income would also start contributing significantly going ahead further aiding profitability.

Asset quality

1) The asset quality of the company remains robust with GNPA at 1.4% and NNPA at 0.3% for the quarter. The provision coverage was also comfortable at 81% and is expected to remain at similar levels going ahead.

2) Competitors are growing fast in MF space which is making Ujjivan cautious. The company is not keen on growing more than 18-20% in MF business in a bid to maintain credit quality.

3) Credit costs are expected to remain at ~1.5% over the medium term

**Valuation & Outlook**

Ujjivan Financial services has been growing steadily over the last few years evolving into one of leading MFIs in the country, With a comfortable liquidity situation bolstered by various valuation metrics like strong capital adequacy ratio, robust asset quality and strong presence in high growing rural segment help in securing future growth prospects.

We believe the near term outlook would be challenging with higher operational cost due to conversion of banking branches. The management has been prudent in delivering new disbursements while keeping a strong check on asset quality. The management is also confident of achieving ~30-35% percent CAGR in AUM for next 2-3 years.

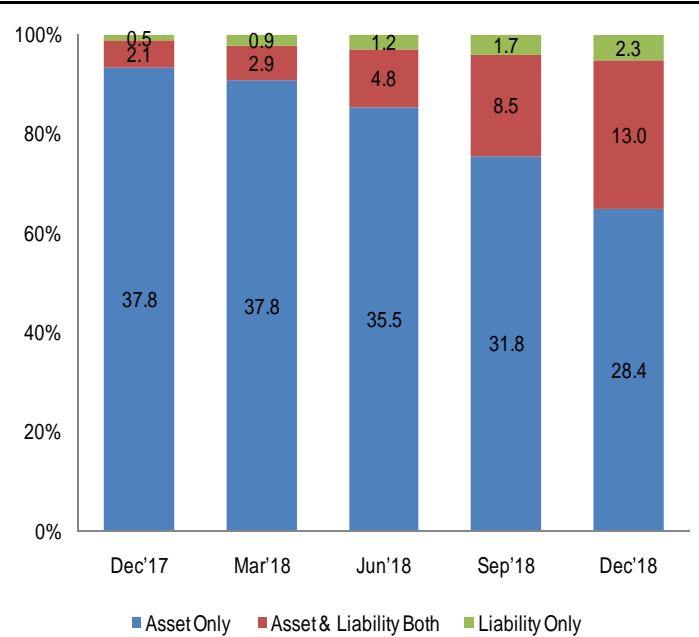
Even in turbulent times, the company has shown improvement in asset quality with GNPA reducing to 1.4%. We are also expecting Ujjivan to gain on operating leverage post conversion of asset centers into branches & a strong liability franchise to support operations going ahead.

Overall we maintain long term positive view for the stock

Customer Profile

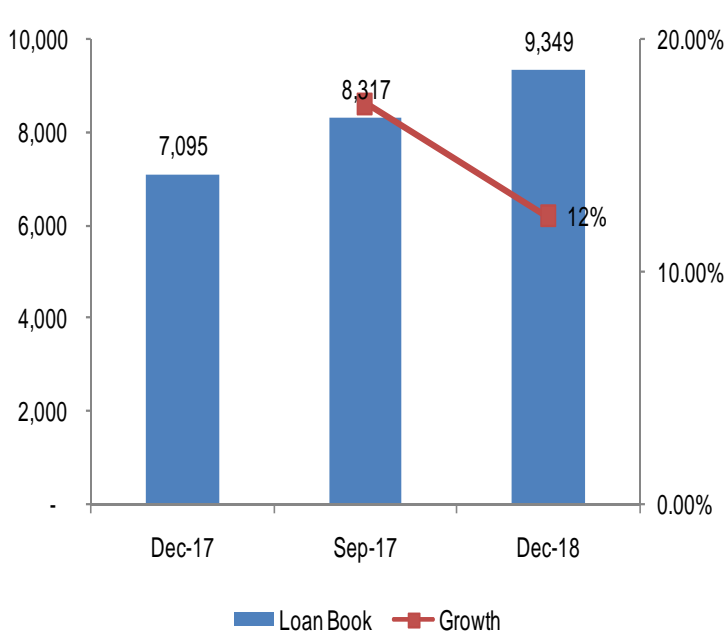
In Lakhs	Dec'17	Mar'18	Jun'18	Sep'18	Dec'18
Asset Customers	39.9	40.7	40.3	40.3	41.4
Deposit Customers	2.6	3.8	6	10.2	15.3
New to Bank Deposit Customers	0.5	0.9	1.2	1.7	2.3
Total Customers	40.4	41.6	41.5	42	43.7

Outstanding Loan Book (INR Cr)

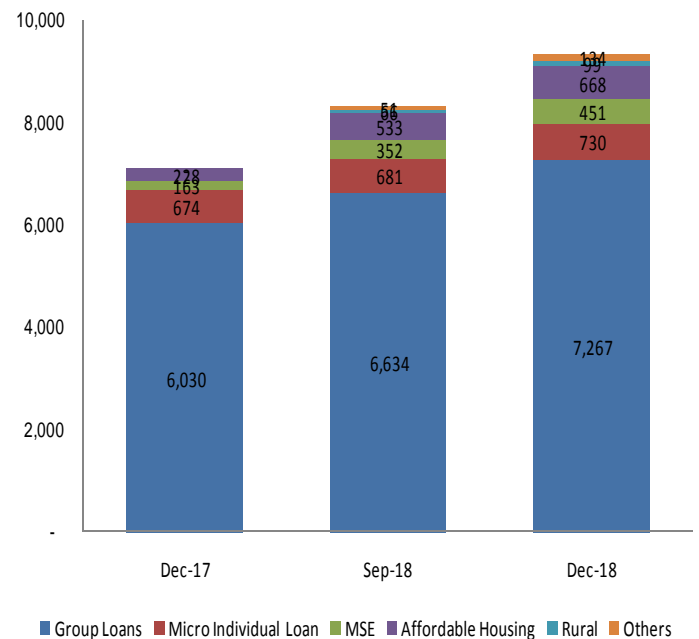


Source: Company, BP Equities Research

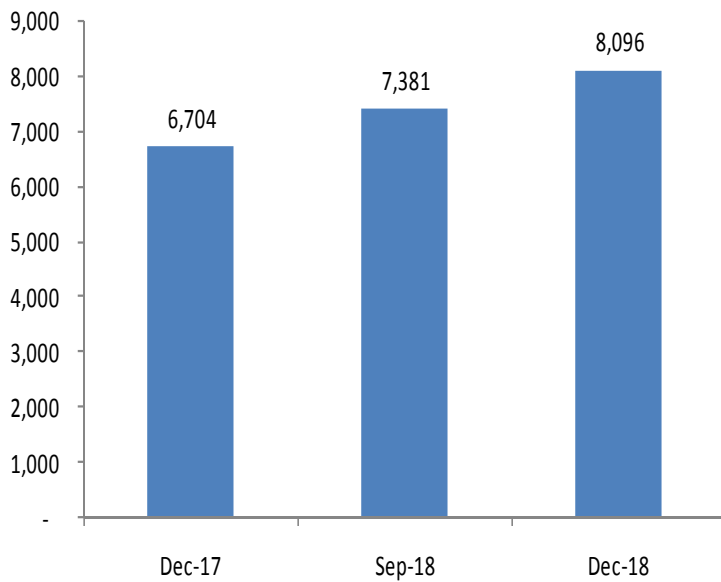
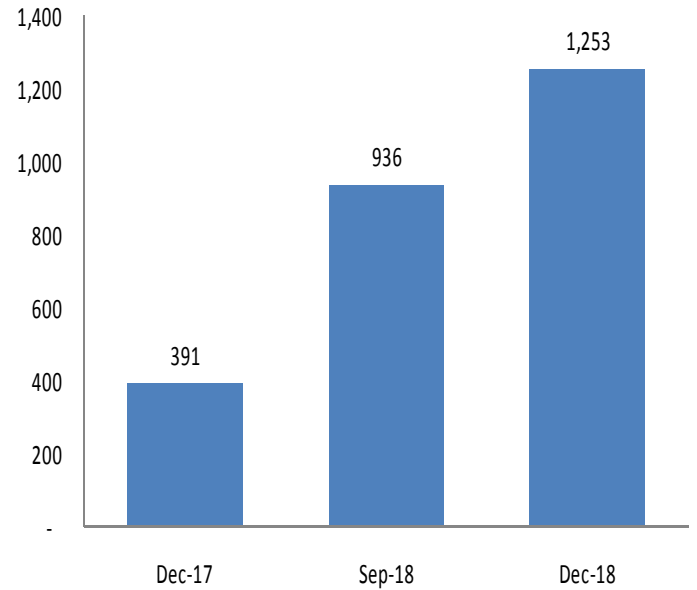
Loan Book and disbursement trend (INR Crore)



Loan Book and disbursement trend (INR Crore)



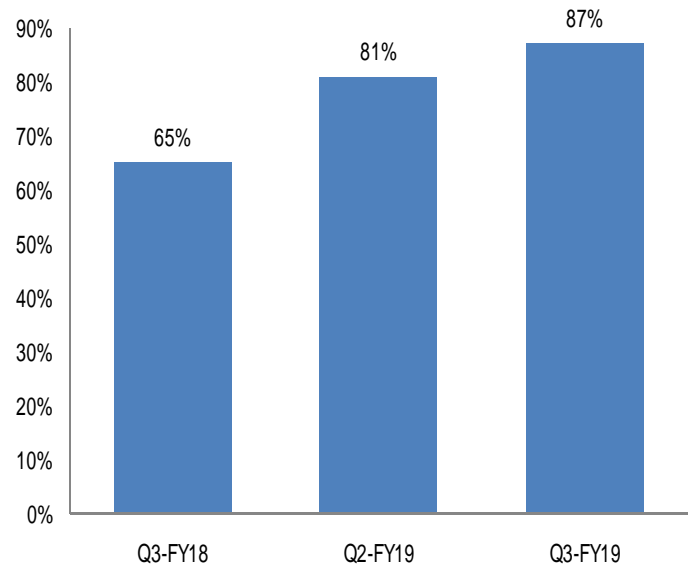
Source: Company, BP Equities Research

Micro Finance Portfolio Trend (In Rs Crore)

Non – Micro Finance Portfolio Trend (In Rs. Crore)


Source: Company, BP Equities Research

Average Ticket Size (in Rs)

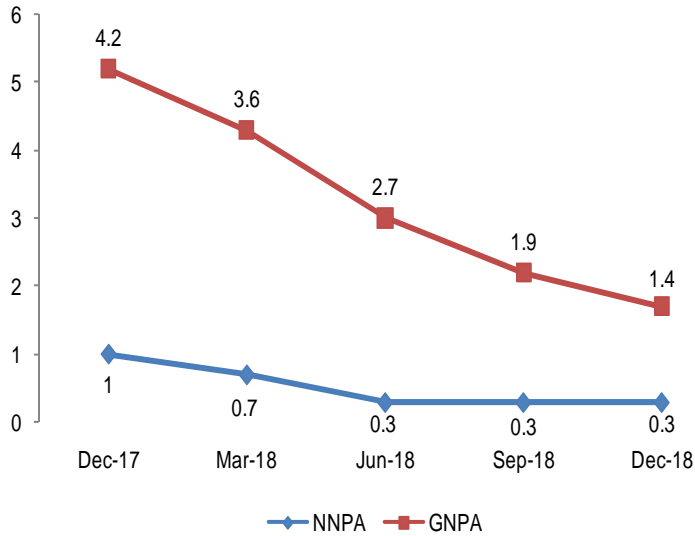
Product	Q3-FY19	Q2-FY19
Group Loans	31,517	29,506
Micro Individual Loan	81,976	80,929
MSE	7,40,000	5,80,000
Housing Finance	9,10,000	9,30,000

Cashless Disbursement (%)


Source: Company, BP Equities Research



GNPA & NNPA Trend(%)

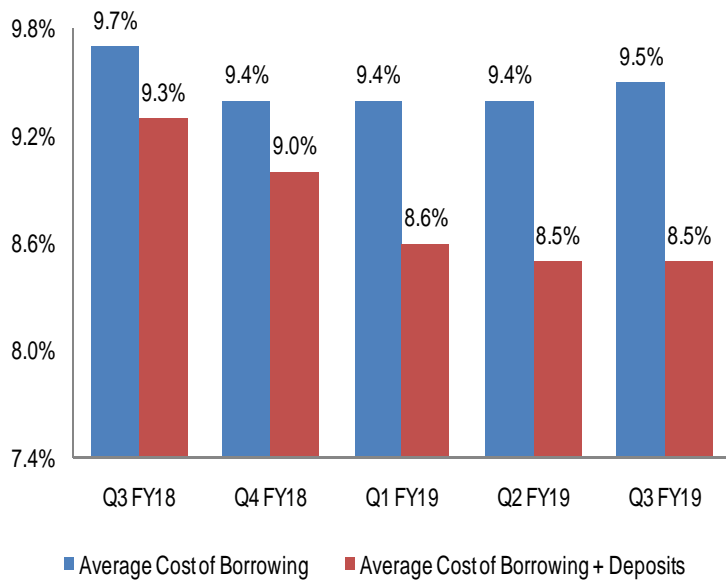


Total Borrowing (INR Crore)

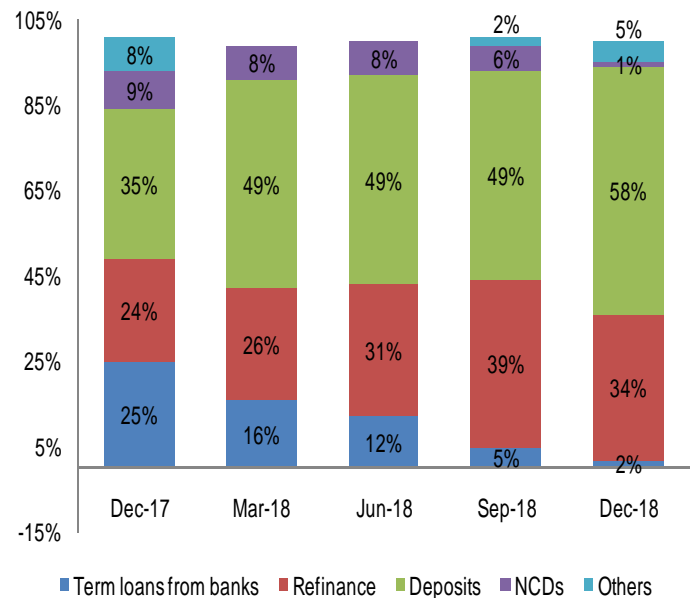
	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Total Borrowing (INR Crore)	7,041	7,625	7,775	8,525	9,244

Source: Company, BP Equities Research

Average Cost of Funds(%)



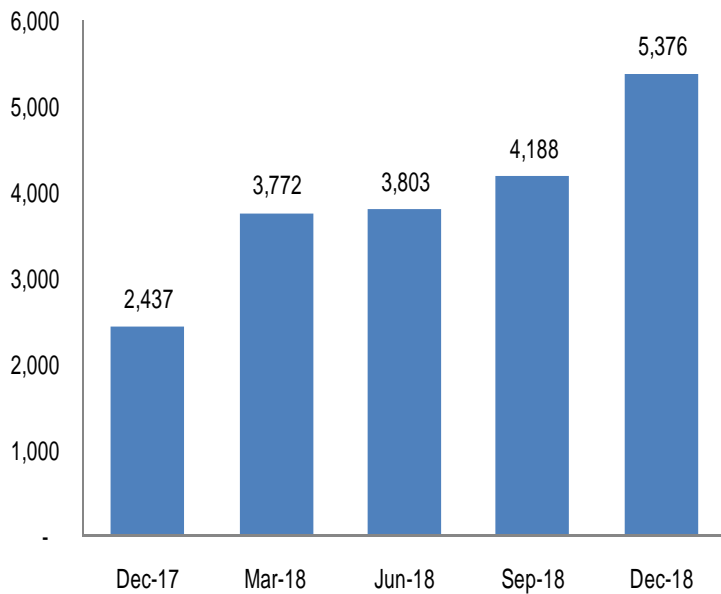
Borrowing Profile (%)



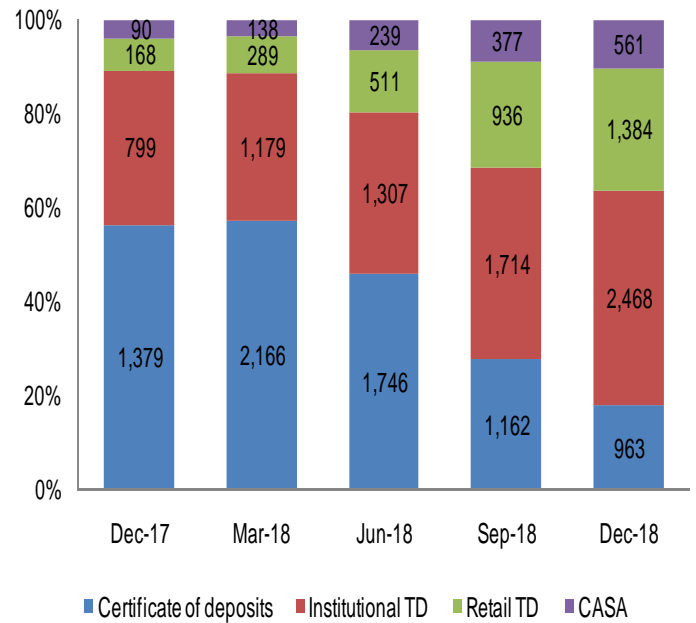
Source: Company, BP Equities Research



Total Deposits (INR Crore)

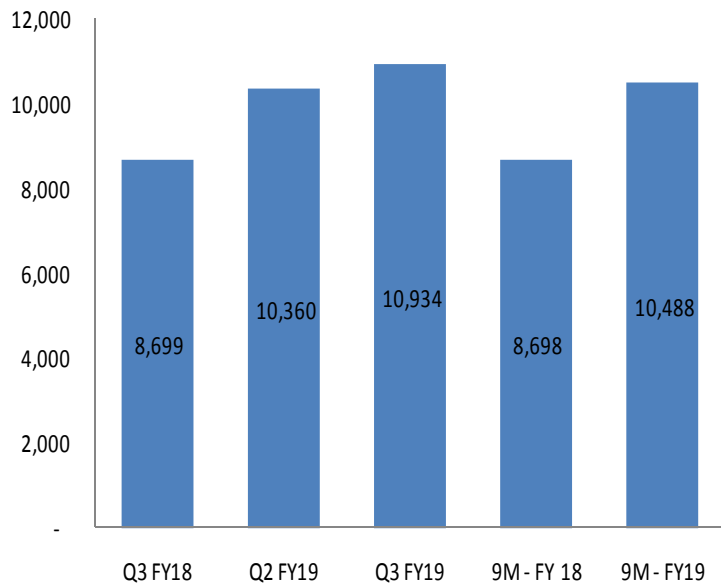


Deposits Break-Up (INR Crore)



Source: Company, BP Equities Research

Average Total Assets (INR Cr)



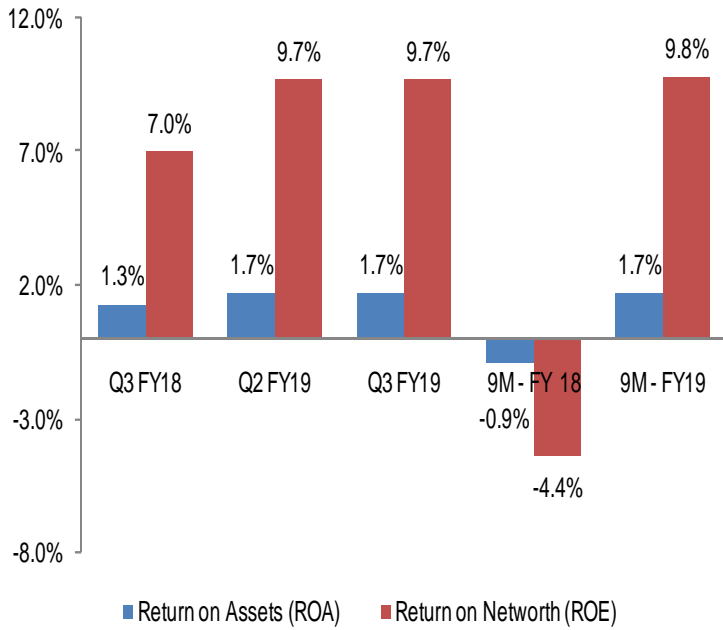
Average Net worth (INR Cr)

	Q3 FY18	Q2 FY19	Q3 FY19	9M - FY 18	9M - FY19
Average net worth	1677	1823	1867	1724	1825

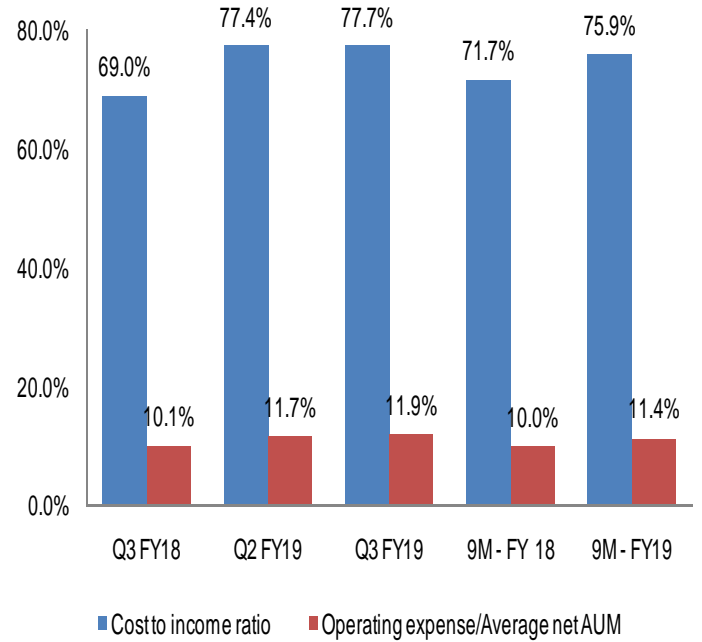
Source: Company, BP Equities Research



ROA & ROE trend (%)



Operating efficiency



Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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