

Ujivan Financial Services Ltd.: Q3FY18 Result Update

CMP INR: 343
 Rating: BUY
 Target Price INR: 452
 Upside: 32%

Good show; Robust outlook

Ujivan Financial Services Ltd. (UFS) reported a mixed set of numbers in its Q3FY18 financial results. Net revenue and loan & advances growth were in-line with estimates; however operating profit and net profit were below from our estimates due to higher operating expenses. Net revenue grew by 2% YoY to INR 243cr on back of 20% YoY growth in non-interest income to INR 47cr. Net interest income de-grew by 2% YoY to INR 196cr due to lower net interest margin (NIM), however it increased 19% QoQ driven by sequential margin expansion. NIM declined is attributable to moderating yield which decreased 427bps YoY to 20.7%. As a consequence of this, NIM declined 143bps YoY to 11.8%, however it increased by 124bps QoQ aided by substantial growth in deposits. Operating cost increased 43% YoY to INR 167cr due to conversion of Micro finance branch to full-fledged bank branch. UFS has converted 161 micro branches into full-fledged banks branches and planning to convert 67 another in Q4FY18. Consequently, operating profit and net profit de-grew 38% and 32% YoY to INR 75cr and 29cr respectively.

Disbursement back to pre Demon level

UFS reported 28% YoY and 9% QoQ growth in disbursement to INR 2,134cr. Management guided that disbursement will remain elevated going forward. Thus, loan and advances grew 13%/9% YoY/QoQ to INR 6,927cr and AUM grew 8%/6% YoY/QoQ to INR 7,095cr. Management guided to grow 18-20% in FY18 and >25% in FY19E and going forward.

Margin expected to remain elevated on back of moderating cost of funds

Deposits grew 80% QoQ to INR 2,437cr and average cost of deposits was 7% as compared to 9.7% average cost of borrowings. We expect yield to moderate, albeit at slower pace. In Q3FY18, margin improved by 124bps QoQ to 11.8%, however it declined 143bps YoY due to moderating yield. We expect NIM to improve on back of stable yield and expected moderation in cost of funds.

Asset quality improved

The gross NPLs improved to 4.24% as compared to 4.99% in Q2FY18 and net NPLs came in at 1.2% as against of 1.4% in Q2FY18. During the quarter, Company wrote off INR 34cr and INR 132cr YTD. Overall PAR reduced to 384cr in Q3FY18 as compared to INR 445cr in Q2FY18. The collection efficiency increased to 99.7% (prior to demon level) on loans disbursed since Jan. 2017. The proportion of loan disbursed since Jan. 2017 is increasing and hence asset quality to improve.

Valuation, we maintain 'BUY'

At the current price of INR 342, UFS trades at P/ABV of 1.8x FY20E book for an FY19E-21E RoE of 13-17%. We maintain 'BUY' Rating with Price Target of INR 452, implying an upside of INR 32%.

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Bloomberg:	UJJIVAN:IN
52-week range (INR):	464.30 / 285.00
Share in issue (cr):	11.9
M cap (INR cr):	4,188
Avg. Daily Vol. BSE/NSE :('000):	2223
Promoter Holding (%)	-

Year to March	Q3FY18	Q3FY17	% change	Q2FY18	% change	FY17	FY18E	FY19E
Net revenue	242.8	238.1	2.0	225.1	7.9	855	949	1,166
Net profit	29.3	43.9	-33.2	-12.0	na	208	12	243
Dil. EPS (INR)	2.4	3.7	-33.8	na	na	18	1	20
Adj. Book Value Per Share (INR)						147.1	147.2	166.6
Price/Adj. book (x)						2.3	2.3	2.1
Price/Earning (x)						19.4	329.6	16.9

Date: 6th February 2018

Q3FY18 Result Highlights

INR crs	Q3FY18	Q3FY17	%change	Q2FY18	%change	YTD18	FY18E	FY19E
Net interest income	196	199	-1.6	165	19.0	499	786	973
Non-interest income	47	39	20.0	60	-22.4	171	163	193
Operating Income	243	238	2.0	225	7.9	669	949	1166
Operating expenses	167	117	43.1	155	8.1	479	679	727
Operating Profit	75	121	-37.8	70	7.4	190	269	439
Provisions & Contingencies	29	55	-47.6	88	-67.5	276	250	66
PBT	47	66	-29.7	-18	na	-86	19	374
Tax	17	22	-22.8	-6	na	-28	7	131
PAT	29	44	-33.2	-12	na	-58	12	243
Adjustment	0	0	na	0	na	0	0	0
Adjusted PAT	29	44	-33.2	-12	na	-58	12	243
Paid-up Capital	120	119	0.8	120	0.0	120	119	119
Adj. EPS (INR)	2.4	3.7	-33.8	-1.0	na	-4.8	1.0	20.4
Ratio								
C/I Ratio	69.0	49.1	1,983bps	68.8	13bps	71.6	71.6	62.3
Yield	20.7	25.0	-427bps	20.5	16bps	19.4	18.3	17.9
cost of funds	9.5	12.0	-250bps	9.9	-41bps	10.1	9.9	9.1
Spread	11.2	13.0	-177bps	10.6	57bps	9.3	8.4	8.8
NIM	11.8	13.2	-143bps	10.6	124bps	10.2	9.7	10.0
Balance Sheet								
AUM	7095	6588	7.7	6669	6.4	7095.3	8622	10680
Loan & Advances	6927	6111	13.4	6364	8.8	6926.7	6993	8733
Borrowings	4435	5151	-13.9	5120	-13.4	4435.4	7576	9388
Disbursement	2134	1663	28.4	1954	9.2	4088.6	5560	6951
Asset Quality								
GNPA (%)	4.24	0.3	399bps	5.0	-75bps	4.2	3.7	2.9
NNPA (%)	1.2	0.1	119bps	1.4	-14bps	1.2	1.0	0.6
Provision Coverage Ratio	70.75	80.00	-925bps	72.34	-2.2	70.8	73	79.3
Adjusted Book Value per share (ABV)							147.2	166.6
P/ABV							2.3	2.1
P/E (x)							329.6	16.9

Financials

Income Statement (INR cr)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Interest income	1,002	1,303	1,476	1,745	2,041
Interest charges	423	543	691	772	950
Net interest income	578	761	786	973	1,091
Other income	26	94	163	193	228
Net revenues	604	855	949	1,166	1,319
Operating expense	307	458	679	727	765
- Employee exp	197	272	390	401	425
- Depreciation / amortisation	8	13	43	54	68
- Other opex	102	174	246	271	272
Preprovision op. profit	297	397	269	439	555
Provisions	25	75	250	66	80
PBT	272	322	19	374	475
Taxes	95	114	7	131	166
PAT	177	208	12	243	309
Extraordinaries	0	0	0	0	0
Reported PAT	177	208	12	243	309
Basic number of shares (cr.)	8.8	11.7	11.9	11.9	11.9
Basic EPS (INR)	20.1	17.8	1.0	20.4	25.9
Diluted number of shares (cr.)	9.2	12.1	12.4	12.4	12.4
Diluted EPS (INR)	19.2	17.1	1.0	19.6	24.9

Growth Ratios

Year to March	FY16	FY17	FY18E	FY19E	FY20E
NII growth	77%	32%	3%	24%	12%
Net Revenues growth	77%	42%	11%	23%	13%
Opex growth	50%	49%	48%	7%	5%
PPOP growth	119%	34%	-32%	63%	26%
Provisions growth	20%	197%	233%	-74%	22%
PAT growth	134%	17%	-94%	1845%	27%

Operating Ratios

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Yield on Average Advances and Investments	24.0%	20.8%	18.3%	17.9%	17.0%
Cost of Average Deposits and Borrowings	11.4%	10.1%	9.9%	9.1%	9.1%
Spread	12.6%	10.7%	8.4%	8.8%	7.9%
Net Interest Margin	13.8%	12.1%	9.7%	10.0%	9.1%
Cost to Income Ratio	51%	54%	72%	62%	58%
Tax Rate	35%	35%	35%	35%	35%

Balance Sheet

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Paid Capital	101	119	119	119	119
Share application money pending allotment	0	1	1	1	1
Reserve & Surplus	1,097	1,636	1,637	1,868	2,166
Shareholder's Fund	1,198	1,756	1,757	1,988	2,286
Total Borrowings	4,338	6,398	7,576	9,388	11,501
Other Liabilities	192	325	267	303	486
Total Liabilities	5,727	8,479	9,601	11,680	14,272
Cash & Bank Balance	491	760	535	452	520
Investment	0.1	1,447	1,629	1,947	2,296
Loan & Advances	5,083	5,912	6,993	8,733	10,785
Net Fixed Assets	24	140	168	203	245
Other assets	128	221	276	345	427
Total Assets	5,727	8,479	9,601	11,680	14,272

RoAE Decomposition

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income / Assets	10.1%	9.0%	8.2%	8.3%	7.6%
Other Income / Assets	0.5%	1.1%	1.7%	1.7%	1.6%
Net Revenues / Assets	10.5%	10.1%	9.9%	10.0%	9.2%
Operating Expense / Assets	5.4%	5.4%	7.1%	6.2%	5.4%
Provisions / Assets	0.4%	0.9%	2.6%	0.6%	0.6%
Taxes / Assets	1.7%	1.3%	0.1%	1.1%	1.2%
Total Costs / Assets	7.5%	7.6%	9.7%	7.9%	7.1%
Return on Assets	3.1%	2.4%	0.1%	2.1%	2.2%
Assets / Equity	4.8	4.8	5.5	5.9	6.2
Return on Equity	14.8%	11.8%	0.7%	12.2%	13.5%

Valuation Metrics

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Basic EPS	20.1	17.8	1.0	20.4	25.9
EPS growth	79%	-12%	-94%	1845%	27%
BVPS	118	147	147	167	191
Basic P/E	17.2	19.4	329.6	16.9	13.3
P/B	2.9	2.3	2.3	2.1	1.8

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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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