

## Ujjivan Small Finance Bank Q2FY21

### Financial Results & Highlights

#### Brief Introduction:

Ujjivan Small Finance Bank Limited is a mass-market focused bank in India, catering to financially unserved and underserved segments and committed to building financial inclusion in the country. Their Promoter, Ujjivan Financial Services Limited (UFSL) commenced operations as an NBFC in 2005 with the mission to provide a full range of financial services to the 'economically active poor' who were not adequately served by financial institutions. On 7, October 2015, UFSL received RBI In-Principle Approval to set up a Small Finance Bank(SFB), following which it incorporated Ujjivan Small Finance Bank Limited as a wholly-owned subsidiary. UFSL, subsequent to obtaining RBI Final Approval on November 11, 2016, to establish and carry on business as an SFB, transferred its business undertaking comprising of its lending and financing business to the Bank, which commenced its operations from 1, February 2017. Ujjivan Small Finance Bank has a diversified portfolio with branches spread across 24 states and union and a customer base of 4.9 million as of September 30, 2019.

Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	818	729	12.21%	775	5.55%	1593	1435	11.01%
PBT	132	117	12.82%	74	78.38%	206	259	-20.46%
PAT	96	93	3.23%	55	74.55%	151	187	-19.25%

#### Detailed Results:

- The company had a modest quarter with a 12% growth in YoY revenues. The profits for the company rose 3% YoY in Q2. These figures were subdued because of the increased provision made of Rs 100 Cr in Q2 vs Rs 25 Cr last year.
- The company made disbursements of Rs 474 Cr in the current quarter vs Rs 2959 Cr last year.
- The gross loan portfolio has risen to Rs 13890 Cr registering a YoY growth of 8%.
- The non-MicroBanking portfolio now contributes 24% to the portfolio against 21% as of last year.
- Secured loans now constitute 23% of all loans as compared to 19% a year ago.
- GNPA in Q1 was at 1% while NNPA was at 0%, in line with the interim order of Hon. Supreme Court. Without this order, GNPA would be at 1.2% and NNPA would be at 0.3%.
- Deposits were at Rs 10743 Cr covering 77% of total loans.
- Retail deposits are now at 49% of total deposits vs 42% a year ago. CASA has improved to 16% vs 12% a year ago.
- Net Interest Income rose 21% YoY at Rs 470 Cr.
- Net interest margin declined slightly to 10.2% in Q2FY21 vs 10.8% a year ago.

11. The cost to income ratio was reduced to 56.6% from 69.5% a year ago.
12. ROA and ROE for the company were at 2% (vs 2.4% a year ago) and 11.6% (vs 18.9% a year ago) in Q2.
13. The company maintained an LCR of 177%. CAR was at 31% with tier 1 capital at 30%.
14. The number of customers was at 55.3 lakh.
15. Collection efficiency was at 88% for Oct.
16. Pre-Provision Operating Profit was at Rs 232 Cr which is a YoY growth of 33%.
17. Q2 disbursement was at Rs 1458 Cr which is around half of the pre-COVID levels.
18. 1 lakh new deposit accounts opened during H1-FY21; of which around 3 lakh accounts were new-to-bank.
19. Digital SA/ TD acquired ~39,000 customers in H1-FY21.
20. The cost of deposits was at 7.4% in Q2 vs 7.9% in March.
21. New product launches in Q2 were:
  1. Gold Loan product targeting MFI customers.
  2. PMSvanidhiLoan (Street vendor program).
  3. Pre-approved loans for Microbanking customers; scaled to 9% of clients
22. Collection efficiency in MSE was at 86% in Oct. with disbursements of Rs 92 Cr in Q2.
23. Collection efficiency in Affordable Housing was at 93% in Oct. with disbursements of Rs 116 Cr in Q2.
24. Collection efficiency in Personal Loan was at 88% in Oct. with disbursements of Rs 12 Cr in Q2.
25. Collection efficiency in Vehicle Loan was at 91% in Oct. with disbursements of Rs 6 Cr in Q2.
26. Digital transactions at 56% in Q2-FY21.
27. Digital collection at 28% vs 1% at the start of FY21.
28. Low Collections were only in Maharashtra at 79%, 78% in WB, 74% in Assam & 83% in Punjab in Oct.
29. Total provisions in Q2 were at Rs 470 Cr.
30. The top 3 states Tamil Nadu (16.2%), Karnataka (14.5%), and West Bengal (14%) account for 44.7% of total advances.
31. 95% of MFI loans were given to repeat customers in Q2.
32. Group loans account for 64% of gross advances.
33. The average ticket size in group loans is Rs 40293.

**Investor Conference Call Highlights:**

1. 91% of our borrowers have started paying back after the moratorium got over.
2. The 4 states with lower than 85% collections were mainly due to localized issues at the respective states.
3. The company has activated all of its banking branches for personal loans and vehicle loans.
4. The company is focusing on trying to reduce its cost of the model by trying to bring in new key customers.
5. The company will be focused on keeping credit costs lower than the industry average according to management.
6. The lower collections are not due to intentional non-repayment but due to delay or disruption in collections at the ground level.
7. The company is maintaining a 2.2% provision on the micro banking book and 3.8% overall.
8. There hasn't been any big change in credit discipline since the rise of digital collections.
9. The collections in WB have been impacted mainly due to restrictions in mobility and extended intermittent lockdowns in the state.
10. The bank is maintaining a cautious underwriting stance and is not going aggressive in any geographies.
11. Absolute Opex may also rise in the future as the company makes investments into technology but the proportion to revenue will remain range-bound.
12. The company provides a yield of 650 bps in the retail term deposits and 555 bps in the institutional term deposits.
13. 86% of the customers have made full EMI payment and 2% have made partial payment in Oct.
14. There isn't any convenience fee charge for cash transactions.
15. The management hopes that the bank can reach 95% of collections in Q3.
16. The management hopes that the bank gets permission to reverse merge and not go through the dilution process.
17. The bank doesn't have any issues with collections in Karnataka as the disruption in the state is mainly in the Mangalore belt where the company doesn't have any presence.
18. The company will continue to engage its customers on the issue of restructuring the debt and will make a decision on it in Dec.

**Analyst's View:**

Ujjivan Small Finance Bank has been one of the top players in the SFB industry. It is the biggest and most diversified company in this sector in terms of geographical reach. The company has had a decent quarter with modest revenue growth but good pre-provision profit growth of above 60% YoY. It has also seen encouraging results in its digital acquisition efforts with 39000 new customers in digital in H1. The company has also seen a good bounce back in collections. It is also launching new products like gold loans and targeted loans at street vendors, etc which may see good uptake. It remains to be seen what is the exact extent that the MFI sector has been damaged by COVID-19 and how the industry will bounce back to pre-covid levels in the near future. Nonetheless, given the bank's industry position, its wide geographical reach, and its rising digital transactions, Ujjivan Small Finance Bank is a pivotal Small Finance Bank stock to watch for, particularly given its current valuation of just above 2 times book value.

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