

Ujjivan Small Finance Bank Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	735	810	-9.26%	789	-6.84%	3117	3026	3.01%
PBT	184	94	96%	-380	-148.42%	10	466	-98%
PAT	137	73	88%	-279	-149.10%	8	350	-97.71%

Detailed Results:

1. The company had another dismal quarter with a 9% decline in YoY revenues. The bank saw PBT and PAT rise 96% & 88% YoY respectively in Q4. These figures were high because of the increased provision made in Q4 last year.
2. The company made disbursements of Rs 4274 Cr in the current quarter vs Rs 3254 Cr last year. March disbursements were up 2.2x YoY.
3. The gross loan portfolio has risen to Rs 15140 Cr registering a YoY growth of 7%.
4. The non-MicroBanking portfolio now contributes 28% to the portfolio against 23% as of last year.
5. Secured loans now constitute 27% of all loans as compared to 22% a year ago.
6. GNPA in Q4 was at 7.1% while NNPA was at 2.9%, after the withdrawal of the Supreme Court directive.
7. Deposits were at Rs 13136 Cr were up 22% YoY, covering 87% of total loans.
8. Retail deposits are now at 48% of total deposits vs 44% a year ago. CASA has improved to 21% vs 14% a year ago. Retail deposits grew 32% YoY in Q4.
9. Net Interest Income was up 6% YoY in FY21 at Rs 1729 Cr.

10. Net interest margin declined 330 bps to 7.9% in Q4FY21 vs 10.9% a year ago. NIM for FY21 was at 9.5% vs 10.8% a year ago.
11. PPOP for FY21 rose 27% YoY. It fell 17% YoY in Q4.
12. The cost to income ratio was at 67% from 65% a year ago in Q4. It was improved to 60% in FY21 vs 67% in FY20.
13. ROA and ROE for the company were at 2.7% (vs 1.6% a year ago) and 17.3% (vs 9.3% a year ago) in Q4.
14. The company maintained an LCR of 116%. CAR was at 26.4% with tier 1 capital at 25%.
15. 3.15 Lac new customers were acquired in Q4.
16. Collection efficiency was at 94% in March.
17. Q4 disbursement in micro banking was up 18% YoY.
18. The cost of deposits was at 6.6% in Q4 vs 7.8% in March 2020 & 7% in Dec 2020.
19. Collection efficiency in MSE was at 91% in March with disbursements of Rs 276 Cr in Q4 vs Rs 136 Cr in Q3.
20. Collection efficiency in Affordable Housing was at 96% in Q4 disbursements of Rs 324 Cr in Q4 vs Rs 209 Cr in Q3.
21. Collection efficiency in Personal Loan was at 91% in Q4 with disbursements of Rs 44 Cr in Q4.
22. Collection efficiency in Vehicle Loan was at 99% in Q4. with disbursements of Rs 38 Cr in Q4.
23. Digital transactions at 57% in Q4-FY21.
24. Digital collection was at 11% in Q4.
25. Low Collections were only in Maharashtra at 74%, 89% in WB, 66% in Assam & 87% in Punjab in April. Low collections in Assam are due to the new MFI waiver bill and for the rest it was due to COVID-related lockdowns.
26. No additional restructuring was done in Q4.
27. Total provisions in FY21 were at Rs 955 Cr with PCR at 60%.
28. The top 3 states Tamil Nadu (15.8%), Karnataka (14.4%), and West Bengal (13.3%).
29. 78% of MFI loans were given to repeat customers in Q4.
30. Group loans account for 59% of gross advances.
31. The average ticket size in group loans is Rs 38463.

Investor Conference Call Highlights:

1. The bank saw its highest-ever disbursement in a quarter in Q4.
2. The bank crossed the Rs 2000 Cr mark in the affordable housing book.
3. The rise in cost to income to 69% in Q4 was due to the reversal of interest on the non-performing portfolio of Rs 75 Cr.
4. The management expects the momentum in the deposit building to continue and CASA to rise to 25-27% by the end of FY22.
5. Overall collection efficiency has fallen to 89% in April.
6. 99.5+% collection efficiency was seen for loans disbursed in FY21.
7. The bank plans to add 55 new branches in FY22.
8. The bank currently carries excess provisions of Rs. 172 crores or 1.2% of the total portfolio and has not made any new provisions for the impact of the second wave of COVID during Q4.
9. The company reduced headcount by 200+ in Q4.
10. Although the bank is looking for repeat business from existing customers it is not looking to go above Rs 1 lac of indebtedness per customer. It is also looking to cap first-time loans to below Rs 40,000.
11. While the business has improved significantly in Q4FY21, the management states that the resurgence of COVID-19 cases across geographies and regional lockdowns are likely to hamper near-term performance.
12. But the management does not expect disbursement to be affected as severely as at the start of the pandemic.
13. It also states that Q1FY22 disbursement may be at similar levels as Q2FY21.
14. The management has guided for a credit growth of 20-22% in FY22.
15. The bank is looking to reduce dependence on MFI loans by expanding on MSE & affordable housing segments. It is doing this primarily to build a more secured loan book. It expects MFI share to fall to below 60% of sales by the end of FY23.
16. The corresponding shift towards secured loans will also put pressure on NIMs.
17. Opex fell 6% YoY in Q4 mainly due to lower employee costs. The management expects branch level efficiency to improve resulting in almost 3% improvement in cost to income by the end of FY22.
18. The bulk of the slippages in Q4 were from the MSE loan book. The management states that is expected to restructure Rs 100 Cr of loans but only Rs 13 Cr were restructured while the rest was taken as NPA.
19. The Assam portfolio now accounts for ~2.3% of the total loan book. Due to the uncertain situation in the state regarding the MFI industry, Ujjivan has not added any new customers in the last 15 months.
20. The main role of fintech partners is profiling, social media promotion & identifying locations.

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 down quarter with a 9% revenue decline and pre-provision profit decline of 17% YoY. But it also saw its highest-ever disbursements in a quarter which shows that growth is coming back. The bank continues to see uncertainties in Assam. Ujjivan has seen encouraging results in its digital initiatives and the



smaller loan segments like affordable housing and MSE. The company has also seen a good bounce back in collections, but they have gone down due to the 2nd wave of COVID. It remains to be seen how the situation in Assam pans out and how will the bank cope with the disruption caused by the 2nd wave of COVID-19 in India. 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 less than 2 times book value.

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