

Ujjivan Small Finance Bank Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	789	781	1.02%	818	-3.55%	2382	2216	7.49%
PBT	-380	113	-436%	132	-387.88%	-174	373	-146.65%
PAT	-279	90	-410%	96	-390.63%	-128	277	-146.21%

Detailed Results:

1. The company had a dismal quarter with a 1% growth in YoY revenues. The bank saw PBT and PAT losses of Rs 380 Cr and Rs 279 Cr respectively in Q3. These figures were subdued because of the increased provision made of Rs 583 Cr in Q3 vs Rs 30.5 Cr last year.
2. The company made disbursements of Rs 2184 Cr in the current quarter vs Rs 3403 Cr last year. December disbursements were up 8% YoY.
3. The gross loan portfolio has risen to Rs 13638 Cr registering a YoY growth of 8%.
4. The non-MicroBanking portfolio now contributes 27% to the portfolio against 22% as of last year.
5. Secured loans now constitute 25% of all loans as compared to 21% a year ago.
6. GNPA in Q3 was at 1% while NNPA was at 0.05%, in line with the interim order of Hon. Supreme Court. Without this order, GNPA would be at 4.8% and NNPA would be at 2.05%.
7. Deposits were at Rs 11617 Cr were up 9% YoY, covering 85% of total loans.
8. Retail deposits are now at 48% of total deposits vs 43% a year ago. CASA has improved to 18% vs 12% a year ago. Retail deposits grew 20% YoY in Q3.
9. Net Interest Income was flat YoY at Rs 432 Cr.

10. Net interest margin declined 120 bps to 9.7% in Q3FY21 vs 10.9% a year ago.
11. PPop rose 42% YoY.
12. The cost to income ratio was reduced to 62% from 71% a year ago.
13. ROA and ROE for the company were at (5.8)% (vs 2.1% a year ago) and (34.7)% (vs 14% a year ago) in Q3.
14. The company maintained an LCR of 179%. CAR was at 27% with tier 1 capital at 26%.
15. The number of customers was at 56.6 lakh. 1.7 Lac new customers were acquired in Q3.
16. Collection efficiency was at 94% in Dec. 99.5+% collection for loans disbursed in 9M-FY21.
17. Q3 disbursement in micro banking was at Rs 892 Cr which is above pre-COVID levels.
18. The cost of deposits was at 7% in Q3 vs 7.3% in Sep.
19. Gold loan pilot is working well in 5 branches and has seen disbursement of 36 loans of Rs 18 Lacs.
20. Collection efficiency in MSE was at 90% in Q3. with disbursements of Rs 136 Cr in Q3 vs Rs 92 Cr in Q2.
21. Collection efficiency in Affordable Housing was at 94% in Q3 with disbursements of Rs 209 Cr in Q3 vs Rs 116 Cr in Q2.
22. Collection efficiency in Personal Loan was at 89% in Q3 with disbursements of Rs 30 Cr in Q3.
23. Collection efficiency in Vehicle Loan was at 97% in Q3. with disbursements of Rs 21 Cr in Q3.
24. Digital transactions at 59% in Q3-FY21.
25. Digital collection was at 13% in Q3.
26. Low Collections were only in Maharashtra at 87%, 92% in WB, 72% in Assam & 88% in Punjab in Jan. Low collections in Assam are due to the new MFI waiver bill.
27. 3.7 lac accounts amounting to Rs 852 Cr portfolio restructured – 8.5% of MicroBanking portfolio as of Dec'20. Rs 536 Cr (2.2 lac accounts) saw Tenor elongation and Rs 316 Cr (1.5 lac accounts) saw moratorium restructuring.
28. Total provisions in 9M were at Rs 1029 Cr.
29. The top 3 states Tamil Nadu (16.4%), Karnataka (14.4%), and West Bengal (13.8%) account for 44.6% of total advances.
30. 90% of MFI loans were given to repeat customers in Q3.
31. Group loans account for 61.2% of gross advances.
32. The average ticket size in group loans is Rs 39279.

Investor Conference Call Highlights:

1. The management maintains that Ujjivan will stay cautious in expanding the customer base in microbanking as only 10% of group loans were to new customers.
2. The bank has tied up with PayNearby, which has almost 800,000 outlets.
3. The management is bullish on the affordable housing business for FY22.
4. In MSE, Ujjivan has tied up with a fintech firm for supply chain finance.
5. The bank disbursed INR 55 crores under the ECLGS scheme.
6. The bank has tied up with many fintech firms for workflow digitization which has resulted in the reduction of turnaround time and freeing up of bandwidth at the back office for handling more volume.
7. Ujjivan has INR 364 crores of an outstanding book as of December in Assam and it is not planning to grow that book at all right now until things improve.
8. The book coverage of total provisions is at 8% as of Dec 2020. On the microbanking book, the coverage would be 9.3%.
9. Under tenor elongation, the bank has reduced the borrower's EMI after assessing the cash flows and elongated the tenor by a maximum of 24 months from the original date of maturity. The interest for the unpaid period has been capitalized. Customers who have availed the moratorium for 1 or more months were restructured by way of tenor extension by the number of EMIs unpaid. There is no change in the EMI in that case.
10. The bank is seeing a collection efficiency of 73% in the restructured book in Jan.
11. The cost of funds has come down for Ujjivan as it was able to replace a lot of high-cost deposits at a significantly lower rate.
12. Ujjivan has enabled all of its branches to cross-sell all asset products.
13. Ujjivan has divided the digital strategy into 3 parts which are:
 - a) Digitizing the business processes with a focus on improving turnaround time and employee productivity.
 - b) Investing in digital solutions, which will further improve the customer experience, including some that we are using for customer engagement through messaging and notifications.
 - c) Partnering with fintech firms for its API banking framework where Ujjivan has released 90+ APIs of its 150 total.
14. The turnaround time for various processes on the onboarding side through these fintech engagements has helped Ujjivan reduce the turnaround time for various activities by almost 70% to 90%.
15. In robotic process automation, Ujjivan has identified 100 plus processes, which are going to be automated. It has already completed 13 such processes.
16. The management doesn't expect to take any more provisions in Q4 as it believes that it has sufficiently front ended all of the expected requirement.
17. The management believes that the restructuring was necessary to provide much needed relief to the customers in question and it has not resulted in any loss in credit discipline as the bank is seeing 73% collection efficiency in restructured accounts already.
18. The situation in Assam has been one of systematic deterioration in collections as both the ruling party and opposition have come up with the MFI waiver narrative and thus Ujjivan is maintaining a very cautious stance here with no fresh disbursements until any resolution is done here.

19. The bank has capitalized Rs 575 Cr of interest. The drop in interest income from this is about Rs 11 Cr in Dec and Rs 42 Cr in the last 4 months.
20. The field officers in MFI doing collections were at 8000+ at the latest.
21. The yield on the MFI book has gone down due to Rs 575 Cr of loans not yielding any interest currently.

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 mixed quarter with flat revenue growth but good pre-provision profit growth of above 40% YoY. The bank saw operating losses in Q3 due to high provisioning of Rs 538 Cr. These provisions were taken mainly due to the ongoing situation in Assam regarding the proposed MFI waiver. 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. It has also done restructuring of Rs 852 Cr of MFI loans where it has already seen an encouraging collection efficiency of 73%. It remains to be seen how the situation in Assam pans out and how will Ujjivan get back to the growth track in order to not get left behind in the intensifying MFI race 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 close to 2 times book value.

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