

Ujjivan Financial Services Ltd.: Q2FY18 Result Update

CMP INR 373

Target INR 452

Last Quarter of Pain, Re-rating starts now

Rating: BUY

Upside: 21%

Ujjivan Financial Services (UFS) reported Q2FY18 results with the broad takeaway being that this is the last quarter of pain and the the company is now, poised to deliver a materially better (and profitable) H2FY18 compared with a loss-making H1FY18, which will drive upward re-rating for the stock. In Q2FY18, Net Interest Income grew 12% qoq to INR 186 cr, Other Income grew 10% qoq to INR 39 cr whereas Provisions (other than Tax) fell 45% qoq to INR 88 cr. Consequently, net loss on PAT basis narrowed 84% to INR -12 cr.

Asset quality problem firmly in the past. Collection Efficiency, PAR0 clearly indicate there is no fresh accretion of stress

Collection Efficiency of the 'new book' created post December, for the 9-month period from Jan to Sep 2017, stands at a superlative 99.7%. Importantly, 9 months is reasonably long period from the perspective of Microfinance loan tenures. Even on the legacy book, there is no concern regarding fresh delinquent customers as such and provisions have been made largely on customers who were already overdue. In fact, PAR0 has fallen by as much 210 bps from 8.8% in Q1FY18 to 6.7% in Q2FY18, indicating that underlying asset quality has actually improved on the legacy book.

Normalisation of growth an ongoing process with strong traction for Non-MFI businesses. Management maintains guidance

Disbursements have risen 15% qoq with Gross Loan Portfolio (GLP) rising 3.3% qoq and 2.8% yoy to INR 6669 cr. This was driven by 2% yoy growth in JLG MFI loans, which now form 85.2% of GLP. Micro and Small Enterprise loans grew 465% yoy and now form 1.8% of GLP. Affordable Housing loans grew 232% yoy and now form 2.5% of GLP. Management has retained their full year FY18 guidance for loan growth of c.20%.

Liability mix transforming rapidly leading to major Cost of Funds benefit with CoF falling from 11.4% to 9.7% over the course of an year

The proportion of Term Loans in overall funding mix has fallen from 69% in Q2FY17 to 39% in Q2FY18. At the same time, the proportion of Refinance has risen from 7% to 21% and that of Deposits has risen from 0% to 20%. Consequently, Cost of Borrowings and Deposits has fallen from 11.35% in Q2FY17 to 9.65% in Q2FY18. Most of the Deposits are Non-Retail in nature as of now with CD (9.1%) and Insitutional Deposits (9%) dominating Deposits share. This is still however, meaningfully lower cost than NBFC-style funding and Ujjivan's Average Cost of Deposits stood at 5.3% in Q2FY18.

Cost to Income Ratio also displaying falling trend and augurs well from the perspective of meeting long-term expectations

Cost to Income Ratio for UFS has fallen from 78% in Q1FY18 to 68.9% in Q2FY18. Apart from normalisation of Total Income, which grew 12% qoq, the fact that all major fixed costs related to bank franchise build had been incurred in Q1FY18 was a contributing factor. UFS prudently relies on low-cost BC outlets to fulfil URC target requirement. Furthermore, the share of Branches in transaction value has fallen from 56% in Q1FY18 to 38% in Q2FY18.

Valuation and Rating: Maintain 'BUY' with Price Target of INR 452

At the current price of INR 373, MFL trades at a P/B of 2.2x FY19E book for an FY19E-21E RoE of 13-17%. We maintain 'BUY' Rating with Price Target of INR 452.

Consolidated P&L (INR cr)	FY17	FY18E	FY19E	FY20E	FY21E
Net Interest Income	761	786	973	1,091	1,369
Profit after tax	208	12	243	309	433
Basic EPS	17.8	1.0	20.4	25.9	34.5
P/E	21.0	356.7	18.3	14.4	10.8
Book value per share	147	147	167	191	207
P/B	2.5	2.5	2.2	1.9	1.8
RoAE	14.1%	0.7%	13.0%	14.5%	17.3%

Bloomberg:	UJJIVAN:IN
52-week range (INR):	472 / 285
Share in issue (cr):	11.9
M cap (INR cr):	4,146
Avg. Daily Vol. BSE/NSE :('000):	2223
Promoters (%)	-

Q2FY18 Result Highlights

Quarterly P&L (INR cr)	Q2FY18	Q2FY17	YoY%	Q1FY18	QoQ%
Net Interest Income	186	224	-17%	166	12%
Other Income	39	6	545%	35	10%
Total Income	225	230	-2%	201	12%
Operating Expenses	155	110	41%	157	-1%
Pre-Provisioning Operating Profit	70	120	-41%	45	57%
Provisions other than Tax	88	7	1169%	159	-45%
Profit before tax	-18	113	-116%	-115	-84%
Total tax expense	-6	40	-115%	-40	-85%
Profit After Tax	-12	73	-116%	-75	-84%

Key Con Call Highlights (containing key information incremental to first page)

- 'New book' created over Jan to Sep 2017 is 63% of Gross Loan Portfolio.
- The INR 88 cr figure in Provisions and Write Offs for Q2FY18 is completely Write Offs. Given that Opening and Closing GNPA over Q2FY18 are INR 376.8 cr (6.2% of loans) and INR 323.2 cr (5%), respectively, it is implied that there was Net Addition of INR 34.5 cr worth of GNPA in Q2FY18. This is not concerning since this has happened due to previously stressed customers from legacy book have merely moved to a higher period bucket as time passed.
- The real picture of stress evolution is gauged from PAR0 which has moved as follows: Opening INR 571 cr, Less Write Off INR 89 cr, Add Gross Addition INR 54 cr, Less Gross Reduction INR 91 cr, Closing INR 445 cr. This means that there was been a Net Reduction in PAR0 of INR 37 cr.
- UFS is not acquiring new customers in branches where PAR0 > 5% and such branches are 41% of total branches. This explains the flattish qoq trend in customer addition as number of customers added in Q2FY18 stands at 1.7 lacs with the H1FY18 figure standing at 3.49 lacs. The rough split between Repeat and Fresh customers is 75:25.
- There could be moderation in yield of about c.200 bps over the ultra long-term in all business categories which are currently operating at c.21% (MFI), 17% (MSE) and 15% (Housing) levels.
- The long-term CAGR for the MFI loan business is expected to be in the 15-20% range. Management feels MFI industry has matured (relatively speaking).
- While proportion of cashless disbursement is 56.4%, the proportion to captive SFB accounts is c.10%.
- The total Credit Costs expected for FY18 is in the range INR 280-300 cr. Credit Costs to normalise by FY19 itself to sub 1% levels.
- Of the total Other Income of INR 74 cr for H1FY18, about INR 50 cr is Processing Fees, about INR 15 cr is PSLC Fee Income and the remaining (INR 9 cr) is Miscellaneous. PSLC Fee Income has been largely Non-Agri in nature. It is Agri which has high market demand and commands higher premium.
- GNPA Ratio for Non MFI business is less than 0.5%.
- The total Opex expected for FY18 is INR 650-670 cr. Branch opex experience has been INR 70-80 lacs per branch per year and this is broadly what had been budgeted by them. Cost of branch conversion is about INR 35-40 lacs. C/I Ratio could fall to 50% as early as FY20.
- The rough business split between Urban, Semi Urban and Rural is one-third each.
- C.60% of Retail Deposits is from new open market customers (not captive).
- About 67% of Term Loan funding will be paid off this year.

Financials

Income Statement (INR cr)

Year to March	FY17	FY18E	FY19E	FY20E	FY21E
Interest income	1,303	1,476	1,745	2,041	2,490
Interest charges	543	691	772	950	1,121
Net interest income	761	786	973	1,091	1,369
Other income	94	163	193	228	270
Net revenues	855	949	1,166	1,319	1,640
Operating expense	458	679	727	765	877
- Employee exp	272	390	401	425	489
- Depreciation / amortisation	13	43	54	68	85
- Other opex	174	246	271	272	304
Preprovision op. profit	397	269	439	555	763
Provisions	75	250	66	80	97
PBT	322	19	374	475	666
Taxes	114	7	131	166	233
PAT	208	12	243	309	433
Extraordinaries	0	0	0	0	0
Reported PAT	208	12	243	309	433
Basic number of shares (cr.)	11.7	11.9	11.9	11.9	12.5
Basic EPS (INR)	17.8	1.0	20.4	25.9	34.5
Diluted number of shares (cr.)	12.1	12.4	12.4	12.4	13.0
Diluted EPS (INR)	17.1	1.0	19.6	24.9	33.2

Growth Ratios

Year to March	FY17	FY18E	FY19E	FY20E	FY21E
NII growth	32%	3%	24%	12%	25%
Net Revenues growth	42%	11%	23%	13%	24%
Opex growth	49%	48%	7%	5%	15%
PPOP growth	34%	-32%	63%	26%	37%
Provisions growth	197%	233%	-74%	22%	22%
PAT growth	17%	-94%	1845%	27%	40%

Operating Ratios

Year to March	FY17	FY18E	FY19E	FY20E	FY21E
Yield on Average Advances and Investments	20.8%	18.3%	17.9%	17.0%	16.8%
Cost of Average Deposits and Borrowings	10.1%	9.9%	9.1%	9.1%	8.7%
Spread	10.7%	8.4%	8.8%	7.9%	8.1%
Net Interest Margin	12.1%	9.7%	10.0%	9.1%	9.2%
Cost to Income Ratio	54%	72%	62%	58%	53%
Tax Rate	35%	35%	35%	35%	35%

Balance Sheet (INR cr)

As on 31st March	FY17	FY18E	FY19E	FY20E	FY21E
EQUITY AND LIABILITIES					
Share Capital	119	119	119	119	131
Reserves and Surplus	1,636	1,637	1,868	2,166	2,586
Total	1,755	1,756	1,988	2,285	2,717
Share application money pending allotment:	1	1	1	1	1
Total Shareholder's Funds	1,756	1,757	1,988	2,286	2,718
Long-term borrowings	2,845	3,445	3,962	5,397	6,713
Long-term provisions	37	45	52	70	87
Total Non-Current Liabilities	2,882	3,490	4,013	5,468	6,800
Short-term borrowings	100	688	2,436	2,843	4,499
Trade Payables	29	29	82	230	437
Other current liabilities	3,601	3,528	3,064	3,342	3,194
Short-term provisions	110	109	95	104	99
Total Current Liabilities	3,841	4,354	5,678	6,519	8,229
Total Equity and Liabilities	8,479	9,601	11,680	14,272	17,747
ASSETS					
Total Fixed Assets	140	168	203	245	297
Non-current investments	357	407	487	574	715
Deferred tax assets (net)	47	59	73	92	115
Long-term loans and advances	22	42	52	64	80
Other non-current assets	1,430	1,784	2,226	2,748	3,421
Total Other Non-Current Assets	1,857	2,292	2,838	3,478	4,331
Current investments	1,089	1,222	1,460	1,722	2,145
Receivables under financing activity	4,481	5,209	6,507	8,037	10,014
Cash and Bank balances	760	535	452	520	624
Short-term loans and advances	84	97	121	150	187
Other current assets	68	78	98	121	150
Total Current Assets	6,482	7,141	8,638	10,549	13,120
Total Assets	8,479	9,601	11,680	14,272	17,747

RoAE Decomposition

Year to March	FY17	FY18E	FY19E	FY20E	FY21E
Net Interest Income / Assets	9.0%	8.2%	8.3%	7.6%	7.7%
Other Income / Assets	1.1%	1.7%	1.7%	1.6%	1.5%
Net Revenues / Assets	10.1%	9.9%	10.0%	9.2%	9.2%
Operating Expense / Assets	5.4%	7.1%	6.2%	5.4%	4.9%
Provisions / Assets	0.9%	2.6%	0.6%	0.6%	0.5%
Taxes / Assets	1.3%	0.1%	1.1%	1.2%	1.3%
Total Costs / Assets	7.6%	9.7%	7.9%	7.1%	6.8%
Return on Assets	2.4%	0.1%	2.1%	2.2%	2.4%
Assets / Equity	4.8	5.5	5.9	6.2	6.5
Return on Equity	11.8%	0.7%	12.2%	13.5%	15.9%

Valuation Metrics

Year to March	FY17	FY18E	FY19E	FY20E	FY21E
Basic EPS	17.8	1.0	20.4	25.9	34.5
EPS growth	-12%	-94%	1845%	27%	33%
BVPS	147	147	167	191	207
Basic P/E	21.0	356.7	18.3	14.4	10.8
P/B	2.5	2.5	2.2	1.9	1.8

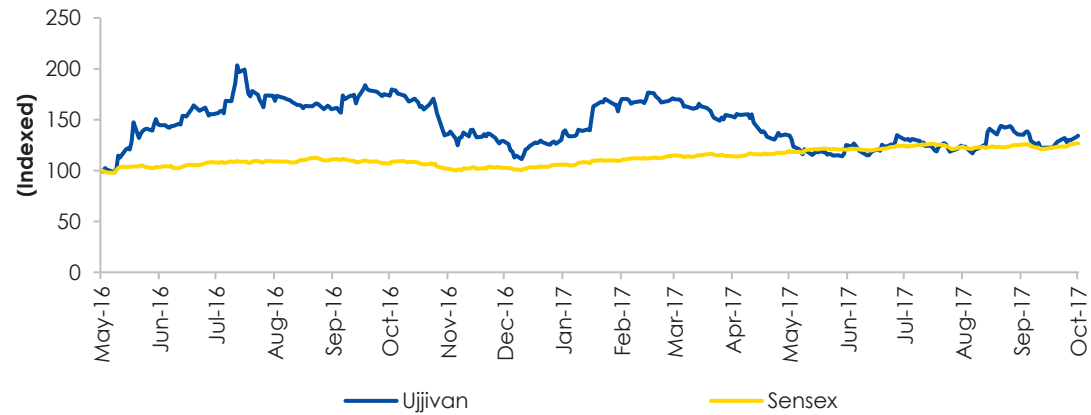
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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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Ujjivan Financial Services

BUY

INDUSTRY	BANKS
CMP (as on 03 Nov 2017)	Rs 373
Target Price	Rs 435
Nifty	10,453
Sensex	33,686

KEY STOCK DATA

Bloomberg	UJJIVAN IN
No. of Shares (mn)	120
MCap (Rs bn) / (\$ mn)	45/692
6m avg traded value (Rs mn)	708

STOCK PERFORMANCE (%)

52 Week high / low	Rs 472/285		
	3M	6M	12M
Absolute (%)	20.9	3.6	(12.0)
Relative (%)	16.4	(9.1)	(34.8)

SHAREHOLDING PATTERN (%)

Promoters	-
FIs & Local MFs	12.6
FPIs	44.6
Public & Others	42.8

Source : BSE

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Future bright

Ujjivan's 2QFY18 performance was largely in line with expectations. It made provisions of Rs 882mn, leading to negative PAT of Rs 120mn. Loan book growth was 3.3% QoQ at Rs.66.7bn, as disbursements improved 14.8%.

Reported NIM improved 9.2% to 10.5%, as COF declined from 9.82% to 9.65%, owing to an increase in the share of total deposits from 5.8% to 20%. Operating cost was down QoQ at Rs. 1.6bn. During the quarter, it further converted 40 bank branches.

With the bulk of credit costs provided for as of now, we expect earnings and AUM growth to recover. Ujjivan will benefit from the longer-term evolution of the MFI sector, including E-KYC, Aadhar, cashless disbursement and further integration of technology.

We lower our PAT estimates by 33/2% for FY18/FY19. Ujjivan continues to focus on the microfinance sector, and is looking at diversifying its book gradually. With transition into an SFB

Financial Summary

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	1,646	1,868	-12%	1,382	19%	5,218	7,131	7,887	10,050	12,314
PPOP	702	1,196	-41%	446	57%	2,973	3,969	2,902	3,965	5,295
PAT	-120	731	-116%	-749	-84%	1,772	2,077	132	2,021	2,572
EPS (Rs)	-1.0	6.2	0%	-6.3	0%	17.5	22.6	1.1	16.9	21.5
ROAE (%)						18.3	18.3	0.7	10.9	12.4
ROAA (%)						3.65	2.92	0.15	1.90	1.96
Adj. BVPS (Rs)						118	147	146	163	185
P/ABV (x)						3.16	2.54	2.55	2.29	2.01
P/E (x)						19.0	14.7	202.9	19.2	14.2

Source: Bank, HDFC sec Inst Research

underway, we expect ROE/ROA at 12.4/1.96% in FY20. Maintain BUY with a TP of Rs 435 (2.5x Sept-19E ABV).

Highlights of the quarter/concall

- Against PAR>0 of Rs 4.5bn, Ujjivan has cumulative provisioning of Rs 2.7bn now. During the quarter, it collected ~Rs 500mn from delinquent customers. Of these delinquent customers, 23% (Rs 1bn) have yet not repaid any installment, while 60% are paying irregularly. The company has guided for additional credit cost of Rs 500-700mn for FY18.
- Disbursements moved +14.8/-10.5% QoQ/YoY, as the microfinance industry has stabilised. AUM increased 3.3% QoQ to Rs 66.7bn. Unlike Equitas, Ujjivan continues to focus on microfinance.
- Near-term outlook:** Earnings are expected to recover starting 3QFY18. We continue to monitor the company's traction on CASA and deposits.

While Equitas is recalibrating its asset mix by reducing MF loans, Ujjivan is focussing on MF loans for growth, and will diversify its asset mix over 3-4 years.

The company has created a separate collection team for customers overdue for 90 days

- **SFB update:** Ujjivan Small Finance Bank (SFB) commenced operations in Feb-17. Currently, it has 94 branches. Of the total 445 asset branches, 160 will be converted into SFB branches (offering both assets and liabilities) in FY18. The remaining will continue functioning as asset centres for the next two to three years, as approved by the RBI. These bank branches will focus on garnering deposits and CASA.
- Management maintains its AUM growth guidance at 20%, with the share of MSE and Housing increasing from the current 2% to 6-8% in FY18. It has provided an opex of Rs 6 to 7bn. We expect Ujjivan's costs to increase on the rollout of branches. We have built in a cost-to-income ratio of 68.8% in FY18E.
- Ujjivan continues to maintain its vision to have a balanced portfolio of MFI and non-MFI by FY20. The share of MFI (JLG and Individual) is currently ~96%, with small contributions from Housing and MSE customers.
- **Collection focus:** During the quarter, Ujjivan collected Rs 500mn from delinquent customers, as an independent team focussed on collections from hard buckets. After taking a write-off of Rs 885mn, PAR >90/30/0 stands at 5.5/6.1/6.7%. Against PAR>0 of Rs 4.5bn, Ujjivan now has a cumulative provisioning of Rs 2.7bn. The company has guided for additional credit of Rs 0.5-0.7bn. However, given that a bulk of non-paying and irregular customers has been provided for, we estimate an additional credit cost of Rs 250mn for 2HFY18. For loans disbursed after Jan-17, collection efficiency has normalised at 99.76%.
- **Headline GNPA improves owing to write-off:** Reported GNPA improved to 4.99% vs. 6.16% in 1QFY18. This was owing to a prudential write-off of Rs 886mn.
- **Business momentum recovers:** Disbursements moved +14.8/-10.5% QoQ/YoY, and AUM growth stood at 3.3/2.8% QoQ/YoY. The company added 0.17mn customers during the quarter, and largely disbursed loans to existing borrowers with a good track record. Disbursements' growth in Group Loans moved (+14.3/-9.8% QoQ/YoY), and Individual Loans (20/-16.5% QoQ/YoY). We maintain our growth estimates at 20/27% AUM growth for FY18E/FY19E respectively.
- **NIMs up, owing to lower cost of funds:** The reported NIM for 2QFY18 was up by 135bps QoQ to 10.55%, owing to the reduction in the cost of funds.
- **Scheduled Bank status boosts bulk deposits.** The bank received the Scheduled Bank Status in August-17, owing to which it witnessed a significant increase in its deposits. Bulk deposits increased by Rs 8.6bn QOQ, resulting in deposits constituting 19% of total interest bearing liabilities.

2QFY18 Financial Summary

Rs mn	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY%	QoQ%
Interest income on loans	3,143	3,313	3,146	2,955	3,175	1.0%	7.5%
Interest expenses	1,274	1,332	1,617	1,573	1,530	20.0%	-2.7%
Net interest income	1,868	1,981	1,529	1,382	1,646	-11.9%	19.1%
Non-interest income	415	400	254	632	605	45.7%	-4.2%
Processing and other fees	236	181	158	NA	NA	NA	NA
Income from other Financial Ser	131	128	97	NA	NA	NA	NA
Miscellaneous income	48	91	-	NA	NA	NA	NA
Net revenue	2,284	2,381	1,783	2,014	2,251	-1.4%	11.8%
Operating expenses	1,087	1,170	1,365	1,568	1,549	42.5%	-1.2%
Employee expenses	645	707	765	880	895	38.8%	1.7%
Depreciation	25	28	51	78	101	NM	29.2%
Others	417	435	548	610	552	32.4%	-9.4%
Pre-provision profit	1,196	1,211	418	446	702	-41.3%	57.5%
Provisions and write-offs	70	547	72	1,592	882	NM	-44.6%
PBT	1,127	664	346	(1,147)	(180)	-116.0%	-84.3%
Tax expenses	396	225	153	(397)	(61)	-115.3%	-84.7%
PAT	731	439	194	(749)	(120)	-116.4%	-84.0%
Total AUM	64,859	65,879	63,795	64,593	66,692	2.8%	3.3%
On-Book	60,002	60,464	58,712	61,107	63,644	6.1%	4.2%
Off-Book	4,857	5,415	5,083	3,486	3,048	-37.2%	-12.6%
% of Total	8.1%	9.0%	8.7%	5.7%	4.8%	-331 bps	-91 bps
Disbursements	21,838	16,628	14,070	17,019	19,543	-10.5%	14.8%
No of customers (mn)	3.48	3.58	3.57	3.63	3.80	9.1%	4.8%
AUM/Borrowings	138%	128%	100%	102%	105%	-3359 bps	290 bps
CAR	27.4%	26.4%	18.2%	19.8%	19.1%	-825 bps	-72 bps
NIM (Calculated)	12.1%	12.1%	8.8%	7.2%	8.4%	-371 bps	122 bps
Cost/Income	48%	49%	77%	78%	69%	2121 bps	-918 bps
PAR>30	0.25%	3.78%	7.51%	7.82%	6.10%	585 bps	-172 bps
Gross NPA	102	151	164	3,764	3,176	NM	-15.6%
Gross NPA / On-Book AUM (%)	0.17%	0.25%	0.28%	6.16%	4.99%	482 bps	-117 bps
Coverage	76.47%	80.00%	89.29%	62.66%	72.34%	-413 bps	968 bps
Provision % AUM	0.45%	3.35%	0.44%	9.92%	5.37%	492 bps	-455 bps

Source: Bank, HDFC sec Inst Research

Other income includes PSL certificate income of Rs 82mn in 2QFY18

Opex remained flat

Reported GNPA is better, owing to a write-off of Rs 886mn in 2QFY18.

Of a total PAR>0, 23% have not paid any installments, while 60% are paying irregularly. The company guided for a total credit cost of Rs 3-3.2 bn for FY18

The MFI segment remains the key driver of the business, with a contribution of 95.7%, and a small contribution from MSE/Housing.

The disbursement number in Sept-17 has almost reached pre-demonetisation levels

25% of Incremental Loans were given to new borrowers

Growth & AUM Trend

Rs mn	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY%	QoQ%
Total AUM	64,859	65,879	63,795	64,593	66,692	2.8%	3.3%
On-Book	60,002	60,464	58,712	61,107	63,644	6.1%	4.2%
Off-Book	4,857	5,415	5,083	3,486	3,048	-37.2%	-12.6%
% of Total	8.1%	9.0%	8.7%	5.7%	4.8%	-331 bps	-91 bps
Mix of AUM	64,864	65,883	63,795	64,598	66,692	2.8%	3.3%
GL (Microfinance)	56,030	56,490	54,160	54,970	56,828	1.4%	3.4%
Individual Lending	8,834	9,393	9,635	9,628	9,865	11.7%	2.5%
MSE	NA	145	564	831	1,191	NA	43.4%
Housing	NA	724	986	1,258	1,660	NA	31.9%
Unsecured Individual Micro Loans	NA	8,524	8,086	7,539	7,013	NA	-7.0%
% share of AUM							
GL (Microfinance)	86.4%	85.7%	84.9%	85.1%	85.2%	-117 bps	11 bps
Individual Lending	13.6%	14.3%	15.1%	14.9%	14.8%	117 bps	-11 bps
MSE	NA	0.2%	0.9%	1.3%	1.8%	NA	50 bps
Housing	NA	1.1%	1.5%	1.9%	2.5%	NA	54 bps
Unsecured Individuals	NA	12.9%	12.7%	11.7%	10.5%	NA	-115 bps
Disbursements							
Disbursements	21,838	16,628	14,070	17,019	19,543		
GL (Microfinance)	19,428	14,633	12,215	15,343	17,531	-9.8%	14.3%
Individual	2,410	1,995	1,855	1,677	2,012	-16.5%	20.0%
MSE	NA	9	445	307	438	NA	42.6%
Housing	NA	239	284	302	459	NA	52.1%
Unsecured Individuals	NA	1,747	1,126	1,068	1,115	NA	4.4%
% share of Disbursement							
GL (Microfinance)	89.0%	88.0%	86.8%	90.1%	89.7%	74 bps	-44 bps
Individual	11.0%	12.0%	13.2%	9.9%	10.3%	-74 bps	44 bps
MSE	NA	0.1%	3.2%	1.8%	2.2%	NA	44 bps
Housing	NA	1.4%	2.0%	1.8%	2.3%	NA	57 bps
Unsecured Individuals	NA	10.5%	8.0%	6.3%	5.7%	NA	-57 bps
No of customers (mn)	3.48	3.58	3.57	3.63	3.80	9.1%	4.8%
Type of Loan							
Repeat	68.8%	72.8%	79.0%	64.1%	75.0%	-6877 bps	-6411 bps
Fresh	31.2%	27.2%	21.0%	35.9%	25.0%	-3123 bps	-3589 bps

Source: Bank, HDFC sec Inst Research

QoQ NIMs improved, owing to fall in COF

Ujjivan aggressively plans to repay the grandfathered bank loans, and replace them with wholesale deposits. With Scheduled bank status, the company garnered Rs8.6bn bulk deposits in the current quarter

Rs 500mn was recovered from delinquent customers

Cost-to-Income ratio declined as a result of opex being flat QoQ.

Margins-Improve, Borrowing Mix Showing Gradual Improvement

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY%	QoQ%
Margins-Reported							
Net interest margin	13.02%	13.22%	8.61%	9.20%	10.55%	-247 bps	135 bps
CARR	27.4%	26.4%	18.2%	19.8%	19.1%	-825 bps	-72 bps
Borrowing Mix							
Term Loans,Cash Credit & Overdraft	69.0%	64.0%	63.0%	58.0%	39.4%	-2958 bps	-1858 bps
Refinance Facility*	7.0%	9.0%	16.0%	18.0%	21.3%	1426 bps	326 bps
Securitization (Off Balance Sheet)	9.0%	9.0%	8.0%	5.0%	4.5%	-450 bps	-50 bps
Non Convertible Debentures	10.0%	15.0%	13.0%	9.0%	9.2%	-77 bps	23 bps
Sub Debt	1.0%	1.0%	0.0%	0.0%	0.0%	-100 bps	0 bps
Commercial Paper	4.0%	2.0%	0.0%	0.0%	0.0%	-400 bps	0 bps
Short term borrowings				7.0%	5.7%	NA	-132 bps
Deposit				5.4%	18.9%	NA	1350 bps
CASA				0.4%	1.0%	NA	64 bps

Source: Bank, HDFC sec Inst Research

Asset Quality

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY%	QoQ%
PAR>30	0.25%	3.78%	7.51%	7.82%	6.10%	585 bps	-172 bps
Gross NPA	102	151	164	3,764	3,176	3013.5%	-15.6%
Gross NPA / On-Book AUM (%)	0.17%	0.25%	0.28%	6.16%	4.99%	482 bps	-117 bps
Net NPAs	24	30	18	1,405	878	3559.4%	-37.5%
Net NPAs / On-Book AUM (%)	0.04%	0.05%	0.03%	2.30%	1.38%	134 bps	-92 bps
Coverage	76.47%	80.00%	89.29%	62.66%	72.34%	-413 bps	968 bps
Provision % AUM	0.45%	3.35%	0.44%	9.92%	5.37%	492 bps	-455 bps
PAR>30	0.25%	3.78%	7.51%	7.82%	6.10%	585 bps	-172 bps

Source: Bank, HDFC sec Inst Research

Productivity

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY%	QoQ%
Cost/Income	48%	49%	77%	78%	69%	2121 bps	-918 bps
Cost/AUM	6.7%	7.1%	8.6%	9.7%	9.3%	258 bps	-42 bps
Other Income/AUM	18.2%	16.8%	14.3%	31.4%	26.9%	870 bps	-449 bps

Source: Bank, HDFC sec Inst Research

PAR Movement

PAR (In %)	>90	>60	>30	>0
1QFY18	6.05	6.95	7.82	8.84
2QFY18	5.50	NA	6.10	6.70

Source: Bank, HDFC sec Inst Research

We tweak our model to build slightly higher credit cost and opex

Change In Estimates

Rs. Mn	FY18E			FY19E		
	Old	New	Change	Old	New	Change
Loan book	76,554	76,554	0%	97,223	97,223	0%
Total Income	9,066	9,299	2.6%	11,158	11,631	4.2%
Total Operating Exp	6,300	6,397	2%	7,276	7,666	5%
PPOP	2,766	2,902	5%	3,882	3,965	2%
Provisions & Contingencies	2,466	2,701	10%	722	874	21%
PAT	196	132	-33%	2,067	2,021	-2%
Ad BV	147.0	146.4	-0%	164.0	163.1	-1%

Source: HDFC sec Inst Research

Peer Valuations

BANK	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
ICICIBC #	2,025	316	BUY	364	114	134	151	15.4	13.2	11.7	2.08	1.66	1.47	10.5	10.8	9.5	1.20	1.19	1.18
KMB #	1,935	1,017	BUY	1,178	181	205	235	36.9	30.5	24.1	4.70	4.05	3.43	13.9	13.3	14.5	1.89	1.89	1.94
AXSB	1,293	540	NEU	504	199	234	271	34.7	17.8	12.9	2.72	2.31	2.00	6.5	11.7	14.5	0.58	0.99	1.16
IIB	996	1,674	BUY	1,809	382	444	521	28.3	23.0	18.5	4.39	3.77	3.21	16.2	17.3	18.5	1.79	1.80	1.81
FB	225	116	BUY	137	59	65	72	21.3	16.6	13.4	1.98	1.79	1.61	9.9	10.5	11.9	0.84	0.91	0.97
CUB	108	163	BUY	196	56	66	77	18.3	15.8	13.5	2.90	2.48	2.12	15.3	15.3	15.5	1.56	1.56	1.53
DCBB	56	180	BUY	214	78	88	99	21.2	16.8	13.8	2.30	2.05	1.83	10.9	11.1	12.2	0.97	1.02	1.02
SBIN #	2,806	325	BUY	357	117	157	181	17.3	12.4	9.3	1.99	1.48	1.28	5.8	7.0	8.8	0.37	0.44	0.53
BOB	397	172	BUY	206	102	144	172	20.9	13.6	10.1	1.69	1.20	1.00	5.1	7.4	9.2	0.27	0.39	0.47
Ujjivan	45	373	BUY	435	146	163	185	338.5	22.0	17.3	2.55	2.29	2.01	0.7	10.9	12.4	0.15	1.90	1.96
Equitas	50	147	NEU	160	64	67	73	91.3	37.1	21.2	2.30	2.21	2.02	2.4	5.7	9.3	0.54	1.11	1.24
AU	174	613	NEU	550	76	89	105	57.5	44.4	32.9	8.12	6.90	5.83	14.2	16.0	18.4	1.78	1.71	1.85

Source: Company, HDFC sec Inst Research, # Adjusted for embedded value of subs

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Interest Earned	9,453	12,558	14,309	17,387	21,285
Interest Expended	4,235	5,427	6,422	7,336	8,971
Net Interest Income	5,218	7,131	7,887	10,050	12,314
Other Income	823	1,418	1,412	1,580	1,806
Total Income	6,041	8,549	9,299	11,631	14,120
Total Operating Exp	3,068	4,581	6,397	7,666	8,825
PPOP	2,973	3,969	2,902	3,965	5,295
Provisions & Contingencies	253	751	2,701	874	1,362
PBT	2,720	3,217	201	3,091	3,933
Provision for Tax	948	1,141	70	1,069	1,361
PAT	1,772	2,077	132	2,021	2,572

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share capital	1,012	1,194	1,194	1,194	1,194
Reserves and surplus	10,966	16,359	16,425	18,380	20,819
Shareholders' funds	11,978	17,553	17,618	19,573	22,013
Total Borrowings	43,380	62,914	52,000	54,400	60,160
Deposit + CASA	-	1,064	21,575	39,040	56,640
Other Liabilities, provisions	1,915	3,255	3,495	4,652	5,882
Total	57,273	84,786	94,688	117,666	144,695
APPLICATION OF FUNDS					
Advances	50,644	58,712	63,540	84,584	106,946
Investments	1	14,468	16,822	20,468	27,736
Cash including with RBI	4,913	7,601	8,461	7,475	8,176
Fixed assets	242	1,398	1,630	1,585	1,548
Other Assets	1,473	2,616	4,235	3,552	289
Total assets	57,273	84,794	94,688	117,666	144,695
AUM	50,644	58,712	63,540	84,584	106,946

Source: Company, HDFC sec Inst Research

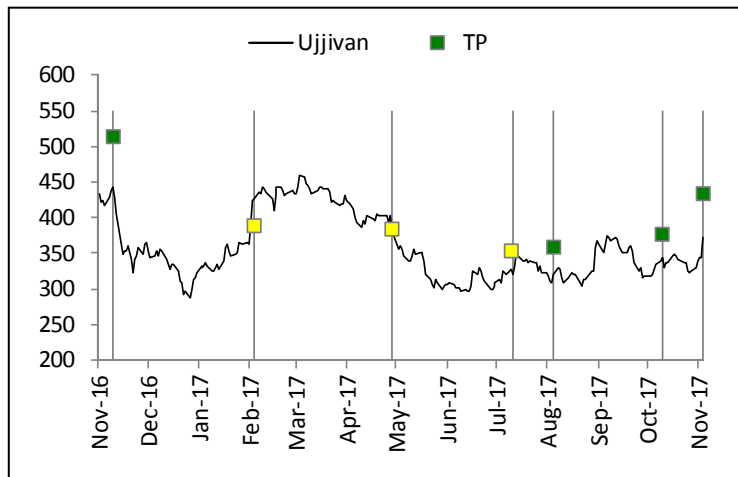
Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
VALUATION RATIOS					
EPS	17.5	22.6	1.1	16.9	21.5
Earnings Growth (%)	133.8	17.2	(93.7)	1,436.7	27.2
BVPS	118	147	148	164	184
Adj. BVPS (ex reval. & 100% cover)	118	147	146	163	185
RoAA (%) (on total assets)	3.65	2.92	0.15	1.90	1.96
ROAE (%)	18.3	18.3	0.7	10.9	12.4
P/E (x)	21.3	16.5	338.5	22.0	17.3
P/ABV (x)	3.16	2.54	2.55	2.29	2.01
P/PPOP (x)	12.7	11.2	15.3	11.2	8.4
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.3
PROFITABILITY					
Yield on Funds (%)	20.1	18.4	15.7	15.3	15.1
Cost of Funds (%)	11.4	10.1	9.3	8.8	8.5
Spread (%)	8.7	8.3	6.3	6.5	6.5
Core Spreads (%)	10.3	11.7	11.4	11.5	11.0
NIM (%)	11.1	10.5	8.6	8.9	8.7
OPERATING EFFICIENCY					
Cost/Avg. AUM Ratio (%)	7.1	7.4	9.1	8.8	8.1
Cost-Income Ratio (%)	50.8	53.6	68.8	65.9	62.5
BALANCE SHEET STRUCTURE RATIOS					
AUM Growth (%)	64.6	18.4	20.0	27.0	25.0
Loan Growth (%)	57.3	15.9	8.2	33.1	26.4
Borrowing Growth (%)	39.0	45.0	(17.3)	4.6	10.6
Equity/Assets (%)	20.9	20.7	18.6	16.6	15.2
Equity/Loans (%)	23.7	29.9	27.7	23.1	20.6
Tier I CAR	22.4	16.8	15.8	13.3	11.83

	FY16	FY17	FY18E	FY19E	FY20E
ASSET QUALITY					
Gross NPLs (%)	0.2	0.3	2.4	1.7	1.2
Net NPLs (%)	0.0	0.0	0.2	0.1	(0.1)
Coverage Ratio (%)	73.8	89.3	90.6	93.0	107.6
Provision/Avg. AUM (%)	0.6	1.3	3.8	1.0	1.2
ROAA TREE (On Total Assets)					
Net Interest Income	10.8	10.0	8.8	9.5	9.4
Non Interest Income	1.7	2.0	1.6	1.5	1.4
Operating Cost	6.3	6.4	7.1	7.2	6.7
Provisions	0.5	1.1	3.0	0.8	1.0
Tax	2.0	1.6	0.1	1.0	1.0
ROAA	3.7	2.9	0.1	1.9	2.0
ROAE	18.3	18.3	0.7	10.9	12.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Nov-16	443	BUY	515
6-Feb-17	426	NEU	390
1-May-17	382	NEU	384
10-Jul-17	321	NEU	354
6-Aug-17	320	BUY	360
9-Oct-17	334	BUY	378
4-Nov-17	373	BUY	435

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
Disclosure:

We, **Vishal Rampuria, CA and Amey Chheda, ACA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –Yes

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Ujjivan Financial Services

6 November 2017

Reuters: UJVF.BO; Bloomberg: UJJIVAN IN

Asset Quality Pain Wanes

While Ujjivan Financial Services (UFSL) reported that its gross non-performing assets or GNPA on Principal at Risk (PAR) 90 marginally decreased to 5.5% in 2QFY18 as against 6.2% in the previous quarter on account of shifting of the bucket of over dues, its PAR 0 decreased to 6.7% from 8.8% in the previous quarter.

Collection efficiency in new loans given during the current calendar year is 99.7%. Given the collection efforts, the management gave guidance of asset quality improving from here on. Provisioning declined 55% to Rs882mn. As a result, net non-performing assets or NNPA to that extent were down at 1.4%. The management reiterated its guidance of credit costs remaining below 4% in FY18. We have retained our GNPA estimates at 6.0%/5.5% for FY18/FY19, respectively.

Assets under management or AUM grew 3.2% during the quarter, a bit slower as the management turned cautious in geographies having a lower collection. Branches having PAR>5% will continue to focus on recovery before any disbursement is done. Loan disbursement grew 15% sequentially to Rs19.5bn, but lower than the pre-demonetisation level. The management retained its guidance on AUM growth for FY18 at 20%, with 7%-8% growth in the housing and MSME segments. Net interest margin or NIM improved on a sequential basis by 132bps to 10.6%. Non-interest income, however, declined 4.2%. Priority Sector Lending Certificates or PSLC fee income stood at Rs82mn on sale of a portfolio worth Rs95bn. Operating expenses grew 12%, despite addition of 40 branches as deposit-taking small finance bank or SFB branches. The company has a total of 92 deposit-taking branches out of its 445 branches. The management plans to roll out 41 banking outlets each in 3QFY18 and 4QFY18, while complying with the Reserve Bank of India or RBI's requirement of 25% branches in unbanked areas. Deposit-garnering activity witnessed a three-fold boost as the bank got approval for scheduled bank status. CASA deposit ratio stood at 8.4%. After factoring in the improvement in numbers going forward, we have increased our ABV estimates by 1%/2% for FY18/FY19, respectively. We have retained Buy rating on the stock with a target price of Rs439, valuing it at 2.7x P/ABV 1HFY20E financials.

Valuation and outlook: Collections have steadily improved and the management is taking appropriate steps to further improve recovery. Converting into a small finance bank has ensured business longevity as well as stability. Branch relocation/refurbishment will be phased over FY18-FY20 and as a result associated costs will be accordingly spread out. Post completion of the transition, return ratios will trend towards the pre-transition level. On an average, mid-cap banks' one-year forward P/ABV is double their RoA potential, whereas NBFC stocks trade fairly close to their RoA level. UFSL has transformed itself from an NBFC to a SFB and hence the valuation multiple should adjust accordingly over the long run. The UFSL stock currently trades below its mean.

BUY

Sector: Banking

CMP: Rs373

Target Price: Rs439

Upside: 18%

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Key Data

Current Shares O/S (mn)	119.7
Mkt Cap (Rsbn/US\$m)	44.7/692.6
52 Wk H / L (Rs)	472/285
Daily Vol. (3M NSE Avg.)	2,398,539

Price Performance (%)

	1 M	6 M	1 Yr
Ujjivan Financial Services	11.9	7.9	(10.3)
Nifty Index	4.7	12.6	23.9

Source: Bloomberg

Y/E March (Rsmn)	2QFY18	1QFY18	QoQ (%)
Interest income	3,175	2,955	7.5
Interest expenses	1,530	1,573	(2.8)
Net interest income	1,646	1,382	19.1
NIM (%)	10.6	9.2	132bps
Fee & other income	605	631	(4.2)
Operating income	2,251	2,013	11.8
Staff costs	895	880	1.7
Other op. expenses	654	688	(5.0)
Total operating expenses	1,549	1,568	(1.2)
Cost-to-income (%)	68.8	77.9	(907bps)
Cost-to-AUM (%)	9.4	9.8	(33bps)
Operating profit	702	445	57.7
Provision	882	1,591	(44.6)
Credit costs (%)	5.7	10.6	(497bps)
PBT	(180)	(1,146)	(84.3)
Tax	(61)	(397)	(84.7)
-effective tax rate	33.7	34.6	(98bps)
PAT	(120)	(749)	(84.0)
EPS (Rs)	(1.0)	(6.3)	(84.0)
BV (Rs)	138.7	140.7	(1.4)
AUM	66,692	64,593	3.2
Deposits	12,475	3,038	310.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Net interest income	5,075	6,831	7,658	9,597	12,030
Pre-provision profit	2,973	3,969	3,789	4,793	6,639
PAT	1,772	2,077	319	2,518	3,156
EPS (Rs)	17.5	17.4	2.7	21.1	26.4
ABV (Rs)	118.2	146.9	136.2	152.1	173.1
P/E (x)	21.3	21.4	139.6	17.7	14.1
P/ABV (x)	3.2	2.5	2.7	2.5	2.2
Gross NPAs (%)	0.2	0.3	6.0	5.6	5.4
Net NPAs (%)	0.0	0.0	2.1	2.2	2.2
RoA (%)	3.7	2.9	0.3	2.2	2.1
RoE (%)	18.3	14.1	1.8	13.3	14.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimates

(Rsmn)	2QFY18	1QFY18	QoQ (%)	1QFY18E	Devi. (%)
Net interest income	1,646	1,382	19.1	1,942	(15)
Pre-provision profit	702	445	57.7	780	(10)
PAT	(120)	(749)	(84.0)	202	(60)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

	Revised estimate		Earlier estimate		% revision	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net interest income (Rsmn)	7,658	9,597	7,672	9,796	(0.2)	(2.0)
NIM (%)	9.5	9.7	9.7	9.9	(17bps)	(21bps)
Operating profit (Rsmn)	3,789	4,793	3,013	4,257	25.8	12.6
Profit after tax (Rsmn)	319	2,518	299	2,182	6.8	15.4
EPS (Rs)	2.7	21.1	2.5	18.3	6.8	15.4
ABV (Rs)	136.2	152.1	134.7	149.1	1.2	2.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Conference-call highlights

- The management commented on the recovery of the MFI industry and significant changes in key players. Banks are gaining importance as they enter this space. With Bandhan Bank being set up, the acquisition of BFIL by IndusInd Bank, and the presence of eight small finance banks or SFBs the competition is getting tough. These changes are in fact good for the industry from two perspectives, firstly the industry will be well capitalised, and secondly, it will lead to a much better product interface with customers and will improve relationships.
- In 2QFY18, the company was able to reach pre-demonetisation loan disbursement growth of ~15%, which should increase in the coming quarters.
- UFSL has revamped its MSME and housing portfolios. UFSL aims to diversify its loan book and is looking to reduce the MFI exposure to 50% while at the same time growing its MSE, personal loans, and affordable housing loan book.
- The management reiterated its loan growth guidance of 18%-20% for the year, with 7%-8% growth in its housing and MSME portfolios.
- Collection efficiency stood at 99.7% in case of fresh loans and credit costs have started to taper. The management gave guidance of year-end credit cost of ~4%. The management aims to achieve this by increasing provision coverage and improving collections. It has set up a collection team focused on loans that are more than 90 days overdue. On this front, the company has witnessed 30% traction.
- Branches with PAR>5% have been instructed to focus on collections and no new loan disbursement taking place at these branches. Around 40% of the branches are having PAR>5%. Maharashtra still sees some pain in terms of collection, while Uttar Pradesh and Karnataka have seen improvement.
- Write-offs for the quarter were Rs880mn with credit costs reducing to 5.7%.
- UFSL topped the 100 SFB branch mark and has added 40 branches in 2QFY18 with a plan to open 41 branches each in 3QFY18 and 4QFY18.
- Cost-to-income ratio reduced to 68.8% as the company continued to focus on controlling operating costs. Branch operating and opening expenses stood at Rs700mn-Rs800mn per year.
- SFB witnessed a threefold increase in deposits to Rs13.5bn, of which Rs7.3bn were customer deposits while the rest comprised commercial deposits.
- Cost of funds stood at 9.6% and is slated to come down by the end of the year as 65%-75% grandfathered loans have been repaid. The small finance bank got scheduled bank status during the quarter which helped it to further reduce the cost of funds. The management is looking at a further 200bps reduction in cost of funds.
- UFSL added ~0.2mn customers during the quarter.
- On the NPA front, the management expects GNPA's to come down by the end of the year.
- Cashless loan disbursement stood at 60%, although only 10% of such disbursement was made through SFB branches.

Financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Interest income	9,310	12,258	14,334	17,381	21,639
Interest expense	4,235	5,427	6,676	7,785	9,609
Net interest income	5,075	6,831	7,658	9,597	12,030
Loan origination fees	708	776	1,298	1,681	2,256
Other income	258	943	1,637	2,038	2,576
Net revenues	6,041	8,550	10,593	13,316	16,862
Operating expenses	3,068	4,581	6,803	8,522	10,223
-Employee expenses	1,967	2,716	3,540	4,280	4,708
-Other expenses	1,102	1,865	3,264	4,243	5,516
Operating profit	2,973	3,969	3,789	4,793	6,639
Provisions	253	751	3,299	920	1,783
PBT	2,720	3,218	491	3,874	4,856
Tax	948	1,141	172	1,356	1,700
PAT	1,772	2,077	319	2,518	3,156

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Share capital	1,012	1,194	1,194	1,194	1,194
Reserves & surplus	10,966	16,359	16,563	18,966	22,007
Net worth	11,978	17,553	17,757	20,160	23,201
Deposits	-	1,064	18,360	36,346	63,324
Borrowings	43,380	62,914	61,750	67,639	75,223
Other liabilities & provisions	1,915	3,255	5,176	6,049	7,287
Total liabilities	57,273	84,786	103,043	130,193	169,035
Fixed assets	242	1,398	2,374	3,100	3,826
Investments	1	14,467	16,702	21,819	28,428
Loans	50,643	58,712	71,066	89,052	116,030
Cash	4,913	7,601	9,772	12,467	16,244
Other assets	1,475	2,608	3,130	3,756	4,507
Total assets	57,273	84,786	103,043	130,193	169,035
AUM	53,885	63,795	78,963	98,947	128,922

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

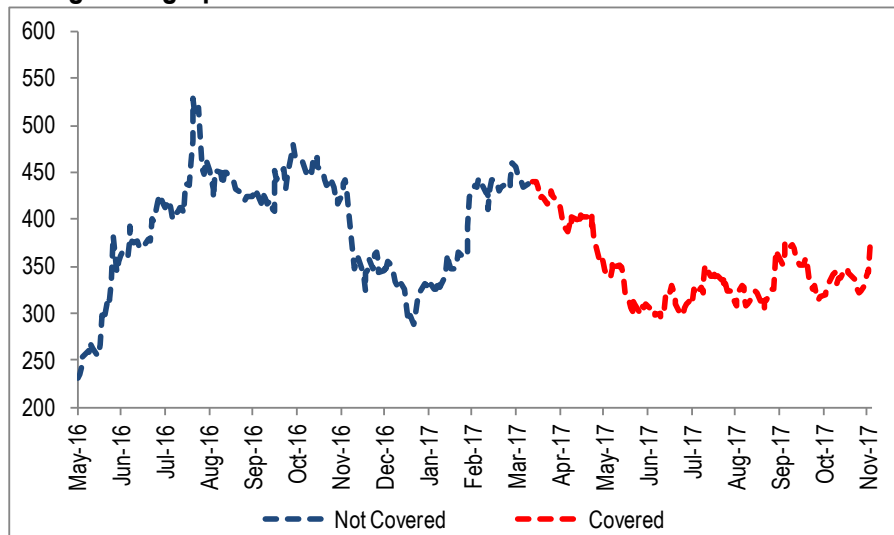
Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Growth (%)					
Net interest income	81.6	34.6	12.1	25.3	25.4
Operating profit	119.3	33.5	(4.5)	26.5	38.5
Profit after tax	133.8	17.2	(84.6)	689.3	25.4
Business (%)					
Deposit growth	-	-	1,625.6	98.0	74.2
CASA	-	3.0	3.0	4.0	7.0
Advance growth	57.3	15.9	21.0	25.3	30.3
AUM growth	64.6	18.4	23.8	25.3	30.3
Spread (%)					
Yield on AUM	21.5	20.8	18.7	18.2	17.8
Yield on BS loans	22.5	22.4	20.5	20.3	19.7
Cost of funds	11.4	10.8	9.3	8.5	7.9
Core spread	11.1	11.7	11.3	11.8	11.8
NIM	12.3	12.5	9.5	9.7	9.4
Operational efficiency (%)					
Cost-to-income	50.8	53.6	64.2	64.0	60.6
Costto-AUM	7.1	7.8	9.5	9.6	9.0
Productivity (Rsmn)					
AUM per branch	114.9	139.6	151.3	189.6	247.0
AUM per employee	6.7	6.3	6.9	7.8	10.2
Employee per branch	17.2	22.2	22.1	24.3	24.3
CRAR (%)					
Tier I	22.4	16.8	18.3	17.9	15.8
Tier II	1.8	1.4	1.7	1.6	1.4
Total	24.1	18.2	19.9	19.5	17.2
Asset quality (%)					
Gross NPAs	0.2	0.3	6.0	5.6	5.4
Net NPAs	0.0	0.0	2.1	2.2	2.2
Provision coverage	74.3	89.3	65.0	60.0	60.0
Credit cost (excluding std asset)	0.2	1.4	4.6	0.8	1.4
Credit cost (including std asset)	0.6	1.4	5.1	1.1	1.7
Return ratios (%)					
RoE	18.3	14.1	1.8	13.3	14.6
RoA	3.7	2.9	0.3	2.2	2.1
Per share (%)					
EPS	17.5	17.4	2.7	21.1	26.4
BV	118.4	147.0	148.7	168.8	194.3
ABV	118.2	146.9	136.2	152.1	173.1
Valuation (x)					
P/E	21.3	21.4	139.6	17.7	14.1
P/BV	3.2	2.5	2.5	2.2	1.9
P/ABV	3.2	2.5	2.7	2.5	2.2

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 March 2017	Buy	444	570
2 May 2017	Buy	381	480
12 June 2017	Buy	297	370
7 August 2017	Buy	321	395

Rating track graph



Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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