Ujjivan Small Finance Bank Q1FY21

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)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	775	706	9.77%	810	-4.32%
PBT	74	142	-47.89%	94	-21.28%
PAT	55	94	-41.49%	73	-24.66%

Detailed Results:

1. The company had a modest quarter with a 10% growth in YoY revenues. The profits for the company fell 41.5% YoY while PBT fell 48% YoY in Q1. These figures were subdued because of the increased provision made of Rs 140 Cr in Q1 vs Rs 19 Cr last year.
2. The company made disbursements of Rs 474 Cr in the current quarter vs Rs 2959 Cr last year.
3. The gross loan portfolio has risen to Rs 14366 Cr registering a YoY growth of 22%.
4. The non-MicroBanking portfolio now contributes 23% to the portfolio against 18% as of last year.
5. Secured loans now constitute 21% of all loans as compared to 16% a year ago.
6. GNPA in Q1 was at 1% while NNPA was at 0.2%. An additional write-off of Rs 0.08 Cr was taken in Q1. COVID-19 provisioning was at Rs 129 Cr in Q1. Total provisions for COVID-19 now stand at Rs 199 Cr.
7. Deposits were up 39% YoY at Rs 11057 Cr covering 77% of total loans vs 68% a year ago.
8. Retail deposits are now at 45% of total deposits vs 43% a year ago. CASA has improved to 14% vs 10% a year ago.
9. Net Interest Income rose 30% YoY at Rs 458 Cr.

10. Net interest margin declined slightly to 10.2% in Q1FY21 vs 10.5% a year ago.
11. Cost to income ratio was reduced to 56% from 64% a year ago.
12. ROA and ROE for the company rose to 1.2% (vs 2.7% a year ago) and 6.8% (vs 20.2% a year ago) in Q1.
13. The company maintained an LCR of 453%. CAR was at 29% with tier 1 capital at 28%.
14. The number of customers rose to 52.5 lakh from 46.1 lakh a year ago.
15. The company's recently launched digital deposit products helped add 17000 new customers for them in Q1.
16. Collection efficiency was at 54% and 59% for June and July respectively.
17. Pre-Provision Operating Profit was at Rs 215 Cr which is a YoY growth of 33%.
18. June 2020 disbursement was at Rs 370 Cr which is around 1/3rd of pre-COVID levels.
19. Loan against Rent Receivables was launched in Q1.
20. The cost of funds was reduced to 7.7% which is down 21 bps QoQ.
21. Active trading in Treasury commenced in Q1 and Rs 10.4 Cr of MTM gains realized in the shift of portfolio from HTM to AFS.
22. 4% of the total loan book was under moratorium in June.
23. Collection through digital channels rose to 37% in July.
24. The top 3 states Tamil Nadu, Karnataka, and West Bengal account for 45% of total advances.
25. 95% of MFI loans were given to repeat customers in Q1.
26. Group loans account for 66% of gross advances.
27. The average ticket size in group loans is at Rs 39068.
28. The company PCR for Q1 was at 82%.
29. Book value per share was at Rs 17.6 per share.

Investor Conference Call Highlights:

1. Collections in the housing business are around 70-75%.
2. The company has tied up with Airtel Payments Bank and is rolling out the Airtel Payments Bank points as collection points.
3. The company has seen a dramatic rise in digital collections from 16% in Q1 to 37% in July.
4. The company is in a very advanced API integration stage now.

5. The company is going to launch a BBPS integrated platform for our customers to make payments. It is expected to accommodate all apps available on BBPS for payments. This is expected to improve collection efficiency and free up a lot of time and manpower on the field.
6. The company is planning to deploy the excess field staff into early-stage businesses of personal loans and vehicle finance, mostly through tele-calling.
7. The company now has more than 7000 personnel working on the collection.
8. In terms of geography, the North had a better repayment rate followed by the South, followed by East, and then lastly West.
9. In July the company saw a better collection rate of 65% in rural vs 58.5% in urban areas.
10. Total provisions stand at Rs 370 Cr which is 2.6% of the total balance sheet.
11. The company reduced its deposit rates by 125 bps QoQ in Q1.
12. The company is now close to deploying its own video KYC solution. It is also in the advanced stages of a few other robotic process automation projects.
13. The greatest focus will be on digital acquisition for all business segments.
14. The company is looking to pilot gold loans and other variants in its existing loan products.
15. The expansion will be dependent on 3 factors which are:
    1. New product categories
    2. Cross-selling to existing customers
    3. Digital partnerships to acquire more customers and offer more services with other fintech companies
16. The company is not too concerned with the loss of income for its customer base as the majority of them are running their own business. Also, the company is always looking for a secondary source of income according to its underwriting policies. This reduces dependence on one income source for customers.
17. Nearly 50% of customers are engaged in essential services of groceries, dairy, etc.
18. The company was able to bring down costs as the cost of funds and the cost of deposits have come down for them. The management has stated that the cost of funds is likely to continue down.
19. Most of the reduction in operating expenses was due to the rise of digital and the fall in travel and related expenses. The management has stated that all of the reductions are not expected to be permanent as expenses related to the growth of the new business will indeed come back but some will sustain due to change in operating mechanisms like in the case of a rise in digital customer acquisitions.
20. The company is also looking to pay back some of its grandfathered high-cost loans since it has so much excess liquidity.
21. Opex to average assets was at 5.8% in Q1 where 5% was all fixed costs.

22. The cost to sales would have been at 59.6% vs the reported 55.9% in case no rent renegotiations.

23. The management has admitted that it is hard to say definitively how long it will take for collection efficiency to come back to above 95%.

24. In mobile-only banking, the bank has around 531,000 customers all of which are non-micro banking and retail customers.

25. The average balance in the micro banking side has come down to below Rs 1000 from Rs 1500-1600 before COVID-19 as a result of people dipping into their savings in current uncertain times.

26. The management believes that the bank is currently adequately capitalized and it should not need to raise any additional capital until the end of FY21 at least.

27. Only 6% of the customer set is part of the catering industry. Around 1% of customers are in transportation and 3% are into household help and maid services.

28. Around 21% of customers are in small scale manufacturing while 20% are in agriculture, 16% in dairy, and 16% in essential groceries.

29. In the MSE portfolio, around 20% is eligible for the CGT-MSE scheme. The bank is still finalizing the whole product program and is planning to roll it out at the end of August.

30. The interest capitalization under moratorium is at Rs 450-500 Cr.

31. In new products, the bank is looking to capitalize on its existing customer set. For example, in the recently expedited used vehicle finance division, it is targeting family members of existing micro-banking customers. It is looking to cater to the existing set of customers and strengthen relationships with them through all possible product categories.

32. In the MSME segment, the company has maintained rigorous checks which include the standard rule like three lenders, overall exposure limit, and additional checks like tele-verification which has also been implemented in Microfinance. The bank remains cautious and had reduced disbursement in May to maintain overall quality of the portfolio. As a result, the segment is seeing almost 99% repayment.

33. In the case of repeat loans to MFI customers, they have been provided the new loans only on complete payment of existing loans.

34. The management has stated that the company had borrowed Rs 600 Cr from NHB and Rs 500 Cr from SIDBI at low cost as it wanted to change of borrowing mix and reduce overall costs for the bank. The company will continue this rebalancing of the funding mix until it reaches a more acceptable level of cost of funds for ourselves, which will get reflected in its cost of deposits. It will continue to repay high-cost loans and replace them with low-cost borrowings.

35. In the case of the moratorium, the company will only add the accrued interest into the principal and it will not be looking at interest on interest in this period.

36. The management is not concerned by the higher collection efficiency by other industry players as it remains confident on its customer set and its underwriting policies and the fact that it has been generous in granting moratorium to everyone who asked for it and is not being aggressive in its collections to maintain good relationships with all customers.

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 done well to maintain deposit growth in Q1. It has also seen encouraging results in its digital acquisition efforts. The company has indeed seen low collection efficiency as compared to its peers due to the high proportion of the book in the moratorium. The bank is doing well in keeping track of its customer base and keeping in touch with them and collecting relevant survey data to identify which segments of its customer set have been affected the most from COVID-19. It is encouraging that the bank is now looking to focus on transforming its operations to a more contactless mechanism using digital techniques and concentrating on repeat business from customers with a good operational and repayment history all the while deploying its excess workforce into new product segments. 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 fare once the moratorium ends in September. 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.