



COMPANY NAME	: Ujjivan Financial Services
BSE Code	: 539874
Time Duration	: 1 year
CMP	: ₹352 (as on 19 Jan., 2017)
Target Price	: ₹510

Our Mid-Bridge for the month of Jan 2017 is Ujjivan Financial Services Ltd. Ujjivan Financial Services (UFS) is the third largest micro finance institution (MFI) having a pan-India presence with 469 branches. The company's business model is based on joint liability group lending to economically active poor, which provides collateral free and small ticket size lending. The company offers its services in four segments i.e. micro finance (86.39% of gross loan book - GLB), MSE (4.88% of GLB), housing (5.02% of GLB) and agri/animal husbandry (3.59% of GLB). It also offers life insurance service through its tie-up with Bajaj Alliance, HDFC Life and Kotak Life Insurance. With this customised model, the company's GLB has grown at CAGR of 51% over FY12-H1FY17 and as of now stands at Rs 6,485.93 cr.

UFS is one of the 10 organisations that received approval from RBI to set up small finance bank (SFB). We believe UFS will successfully transit into SFB by leveraging capabilities as MFI. Automated back-end supported by robust technology has improved its efficiency, cost to income and turnaround time (TAT). We see the company growing at 18% CAGR over FY16-18E, attributing customised business model, operational efficiency, pan India presence and market leadership. We see an upside of 35%-plus in the scrip from current level.

Growth Drivers

Market leadership through pan-India presence and product portfolio : UFS is one of the top five MFIs in the country with 57% market share. It has good penetration across 24 states and Union territories and 209 districts in India, except Andhra Pradesh and Telangana where MFIs always face higher NPAs. UFS has portfolio spread of less than 5% in most of the states from north and central region, which leaves more opportunities for UFS to grow. The company has large customer base (grew by 32% YoY and 36.69 lakh as of Sept. 2016) and customer retention rate of 86% combined with expertise in handling small ticket loans. These are the key factors for loan book growth at CAGR of 51% over FY12-H1FY17 to Rs 6485.93 cr., out of which 67.50% are repeat loans and 32.50% are fresh loans.

UFS's microfinance segment has a higher share of 86.39% in GLB and has grown 56% YoY in Q2FY17, led by group loans for business and agriculture, while in individual lending, we see lot of traction for company in housing loan segment. Its products like

home improvement and secured home loan segment offer ample opportunities for the company. UFL has 5% share of housing finance loan in GLB with average ticket size of Rs 67,000 for unsecured and Rs 3 lakh for secured loans which leaves lot of scope to grow further with large ticket size of ~Rs 10 lakh. As SFB, the company can expand in housing finance segment.

Early mover advantage to transit from MFI to SFB : Ujjivan is one of the top ten companies to get small bank licence. It will also leverage its leading brand in growing MFIs into small finance bank (SFB). UFS intends to utilise its large customer base, product portfolio, pan-India presence, technology infrastructure and strong management team to transit into SFB. It will innovate and design basic liability products and other need specific products under individual and group segments to become smart SFB and gain the early mover advantage. Ujjivan SFB will work as banking subsidiary of Ujjivan which is expected to launch in Feb,17 in a phased manner. This SFB will add another golden feather in Ujjivan's hat.

Robust Business Model : The company has adopted technology-oriented integrated lending approach with related back end support like retail bank. The company utilises IBM cloud and android and tablet-based digitised front to support application continuity. This facility enables UFS to analyse customer information, financial position and credit details in real time. It eventually improves operational efficiency which reflects in cost to income ratio (46.95% in Q2FY17 vs 53% in Q2FY16) and turnaround time (average 12.58 in Q2FY17 vs 15 in Q2FY16).

UFS has solid organisational structure with two-tiered hierarchy leadership. We believe sound management practices will bode well for the growth of the company by delivering better performance. Ujjivan is among top three companies to work for in India as per the 'Great Place to Work Institute' survey. Its head count increased by 14% YoY in Q2FY17 to make it 8,880 with lower attrition ratio of 18.76% as of now. UFS is continuously improving GLB per employee from Rs 2 mn in FY12 to Rs 7.3 mn as of H1FY17. UFS's robust business model, sound management, IT infrastructure and economies of scale has led to improved GLB, GNPA, NNPA and NIM. We believe the company will continue this momentum going forward as well which will reflect in topline and bottomline of the company.

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Industry Tailwind : The micro finance sector in India has lot of potential to grow, despite competition from NBFCs and local money lenders. The government is also giving full support to MFIs to achieve its goal of financial inclusion. The Indian government's initiatives such as MUDRA Bank, Jan Dhan Yojana and Jan Suraksha Insurance programme will benefit MFIs and SFBs in future as the business would shift towards these financial services. The issuance of RBI guidelines for MFIs will boost the confidence of commercial banks in the MFI business model which will lead to revival in the MFI sector. As per a CRISIL report, gross loan portfolio of MFI's is expected to grow at CAGR of 28-30% over the next two years. We expect Ujjivan to benefit from industry tailwinds in MFI and SFB portfolios in future.

Financial Performance

UFS's total income grew at CAGR of 60.1% to Rs 1028 cr over FY12-16. The net interest income (NII) of the company also grew at a CAGR of 47% to Rs 510 cr over the last five years. The net profit of the company grew at a whopping CAGR of 516% to Rs 177 cr over FY12-16.

Q3FY17- The company reported Q3FY17 results on January 19,2017 which see impact of demonetisation. The company's loan book stood at Rs. 6587.9 cr with 43.5% YoY growth in Q3FY17. NII for the quarter grew 44% YoY to Rs. 198.1 cr keeping pace with the loan book. The company's GNPA and NNPA for the quarter stood at 0.25% and 0.05% respectively. Net profit for the quarter decreased 11.9% yoy to Rs 42.8 cr due to 9.6% increase in employee cost and an eight-fold growth in provisions and contingencies. Disbursements and collections had picked up since January-17 due to waiving demonetisation impact.

Valuation

UFS is trading at FY18E P/E of 10.67x with FY18E EPS of Rs 33.92 which looks attractive at the current level. It has also delivered healthy return on average asset and return on average equity of 4.66% and 20.2%, respectively, in H1FY17. Considering attractive valuation, future positive outlook and industry tailwinds, we recommend investors to **BUY** this scrip in the range of Rs 320- 400 (CMP-352) with a target of Rs 510.

(Note- Report was made before announcement of Q3FY17 though we tried to cover Q3 notes under financial section only.)

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201612	201609	Q on Q Var%	201512	Y on Y Var%
Net Sales	362.17	350.98	3.19	265.07	36.63
Total Expenditure	250.11	236.15	5.91	186.43	34.16
PBIDT (Excl OI)	122.17	122.14	0.02	88.41	38.19
PAT	42.81	73.04	-41.39	48.57	-11.86
PBIDTM% (Excl OI)	34%	35%	-3.07	33%	1.14
PATM%	12%	21%	-43.20	0.18	-35.49
Adj. EPS(Rs)	3.61	6.16	-41.40	4.47	-19.24

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201603	201503	201403	201303	201203
Net Sales	1007.25	599.32	351.34	222.52	148.24
Total Income	1029.27	612.89	357.66	233.93	156.30
Total Expenditure	325.76	220.25	125.82	101.63	93.12
PBIDT	703.51	392.64	231.84	132.30	63.18
PAT	177.22	75.79	55.04	33.85	1.71
Dividend %	5.00	5.00	5.00	2.50	
Adj. EPS(Rs)	17.51	8.80	8.39	5.16	0.30

