

BUY

TP: Rs 59 | ▲ 21%

**UJJIVAN SMALL
FINANCE BANK**

| Banking

| 18 October 2025

Asset quality holds firm amid lending mix transformation

- Earnings in line with estimates; asset quality performance remains better vs peers
- Strategy to de-risk balance sheet through increasing focus on secured portfolio
- Maintain BUY with TP of Rs 59 (unchanged), ascribing 1.5x Sep'27E ABV

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Profitability in line with estimates: PAT was in line with our estimates at Rs 1.2bn (-48% YoY; +18% QoQ). The sequential improvement in PAT was mainly supported by rise in NIMs to 7.9% (+20bps QoQ) and decline in C/I ratio to 66.4% (-93bps QoQ). Rise in NIMs was due to reduction in cost of funds (CoF) by ~30bps QoQ to 7.3%. CoF declined, mainly due to the bank's reduction in peak TD rates by 30-50bps across buckets in Q2FY26 and CRR cut (25bps in Sep'25). Further, credit cost remains elevated at Rs 2.3bn (+56% YoY; +4% QoQ) in Q2FY26. Management expects NIMs to be 6-7% and RoE of 16-18% by FY30 (10-12% in FY26).

Asset quality remains better vs peers: UJJIVANS's GNPA ratio improved marginally to 2.45% (-7bps QoQ) as of Sep'25 and remains better as compared to peers. Slippage ratio improved to 3.5% (Q2FY26) vs 4.5% (Q1FY26) due to reduced stress in MFI portfolio. GL & IL X-bucket CE improved to 99.5% (Sep'25) vs. 99.3% (Jun'25). With the rise in CE, SMA book declined to 1.99% (Sep'25) vs. 2.29% (Jun'25), indicating improvement in early delinquency bucket. Overall PCR was 73% with higher PCR on MFI book at 80%.

Increasing focus on secured book: UJJIVANS strategy is to de-risk the balance sheet through increasing focus on secured portfolio. This was evident from the rise in the share of secured book disbursement to 46% of total disbursement in Q2FY26 vs 40% in Q2FY25. As a result, share of secured loans increased to 46% of gross loans (target of 65-70% by FY30) as of Sep'25 from 36% (Sep'24). In the unsecured space, the bank is undergoing structural shift to IL vs MGL, given their better yields and AQ. We expect loans to grow at 18% CAGR in FY25-28E, largely led by secured and IL book.

Maintain BUY: As AQ stress in MFI book seems to be peaking out, credit costs are expected to decline, driving improvements in RoA/ RoE to 1.4-1.8%/11.1-15.6% during FY26-28E. UJJIVANS's adequate capital position, healthy credit growth with MFI stress receding, recovering earnings, and awaited RBI's approval for conversion to a universal bank (applied in Feb'25) will lead to stock re-rating. We maintain BUY and roll over the valuation to 1.5x Sep'27E ABV with TP of Rs 59 (unchanged).

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	UJJIVANS IN/Rs 49
Market cap	US\$ 1.1bn
Free float	100%
3M ADV	US\$ 4.5mn
52wk high/low	Rs 52/Rs 31
Promoter/FPI/DII	0%/17%/20%

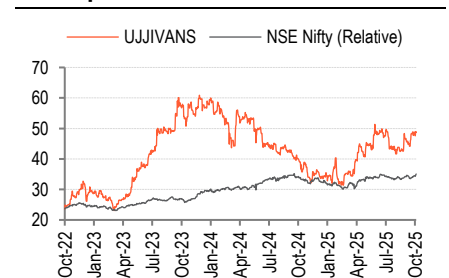
Source: NSE | Price as of 17 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	36,363	39,490	47,481
NII growth (%)	6.7	8.6	20.2
Adj. net profit (Rs mn)	7,261	7,067	10,077
EPS (Rs)	3.8	3.7	5.2
Consensus EPS (Rs)	3.7	3.5	5.2
P/E (x)	13.0	13.3	9.4
P/BV (x)	1.5	1.4	1.3
ROA (%)	1.6	1.4	1.7
ROE (%)	12.4	11.1	14.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

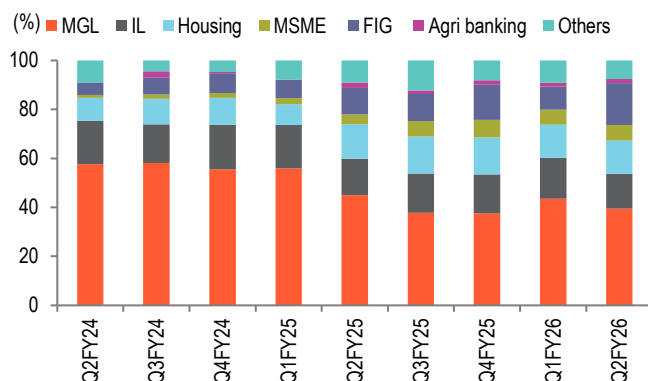
(Rs mn)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	14,055	13,818	13,596	13,988	14,727	4.8	5.3
Income on investments	2,010	2,020	2,087	2,119	2,030	1.0	(4.2)
Int. on bal. with RBI & inter-bank funds & Others	63	73	50	81	66	4.4	(18.9)
Interest income	16,128	15,911	15,734	16,188	16,823	4.3	3.9
Interest expense	6,690	7,043	7,091	7,629	7,606	13.7	(0.3)
Net interest income	9,438	8,867	8,643	8,560	9,217	(2.3)	7.7
Growth YoY (%)	14.6	3.1	(7.4)	(9.1)	(2.3)		
Fee Income	1,160	990	1,790	1,570	1,600	37.9	1.9
Others	663	442	597	760	734	10.7	(3.5)
Non-interest income	2,073	1,722	2,697	2,490	2,564	23.7	3.0
Growth YoY (%)	9.9	(6.8)	14.2	26.3	23.7		
Total income	11,510	10,589	11,340	11,049	11,780	2.3	6.6
Growth YoY (%)	13.7	1.4	(3.0)	(3.0)	2.3		
Staff expenses	3,684	3,712	4,196	4,118	4,355	18.2	5.8
Other operating expenses	3,218	3,286	3,546	3,327	3,473	7.9	4.4
Operating expenses	6,902	6,997	7,742	7,445	7,828	13.4	5.1
Pre-Provisioning Profit (PPoP)	4,608	3,592	3,598	3,605	3,952	(14.2)	9.6
Growth YoY (%)	(4.7)	(21.5)	(30.6)	(29.3)	(14.2)		
Provisions	1,505	2,228	2,645	2,249	2,350	56.1	4.5
Growth YoY (%)	220.8	254.2	234.8	104.8	56.1		
Exceptional Item	-	-	-	-	-	-	-
PBT	3,103	1,364	953	1,355	1,603	(48.3)	18.3
Tax	773	278	119	323	386	(50.1)	19.3
PAT	2,330	1,086	834	1,032	1,217	(47.8)	17.9
Growth YoY (%)	(28.9)	(63.8)	(74.7)	(65.7)	(47.8)		
Per Share							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	1.2	0.6	0.4	0.5	0.6	(47.9)	18.1
Book Value (Rs)	30	31	31	32	33	7.4	2.1

Source: Company, BOBCAPS Research

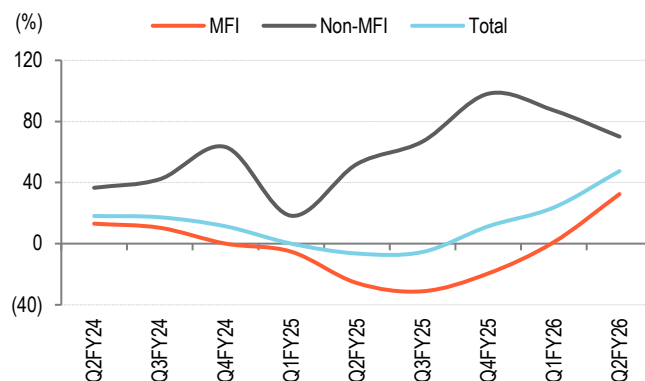
Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

(Rs mn)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Deposits	3,40,698	3,44,940	3,76,305	3,86,190	3,92,109	15.1	1.5
Growth YoY (%)	16.9	16.3	19.6	18.8	15.1		
Advances	2,91,793	2,96,210	3,13,900	3,25,010	3,38,076	15.9	4.0
Growth YoY (%)	20.0	15.6	16.8	19.9	15.9		
Investment	1,05,916	1,17,970	1,17,300	1,23,390	1,16,035	9.6	(6.0)
Equity	58,818	59,960	60,834	61,910	63,211	7.5	2.1
Assets	4,36,187	4,52,260	4,76,892	4,91,110	4,96,139	13.7	1.0
Growth YoY (%)	12.8	14.4	18.0	16.8	13.7		
Yield							
Yield on Funds	15.55	14.78	13.97	13.79	14.06	(149bps)	27bps
Cost of Funds	7.48	7.52	7.21	7.43	7.26	(22bps)	(17bps)
Spread	8.07	7.26	6.76	6.36	6.81	(126bps)	44bps
Net Interest Margin	9.10	8.24	7.67	7.29	7.70	(139bps)	41bps
Ratios							
Other Income / Net Income	18.0	16.3	23.8	22.5	21.8	376bps	(77bps)
Cost to Income ratio	60.0	66.1	68.3	67.4	66.4	648bps	(93bps)
CASA ratio	25.9	25.1	25.5	24.3	27.5	158bps	321bps
C/D ratio	85.6	85.9	83.4	84.2	86.2	57bps	206bps
Investment to Assets	24.3	26.1	24.6	25.1	23.4	(89bps)	(174bps)
Assets Quality							
GNPA	7,500	8,112	6,959	8,344	8,431	12.4	1.0
NNPA	1,641	1,649	1,524	2,261	2,250	37.1	(0.5)
Provision	5,859	6,463	5,435	6,082	6,181	5.5	1.6
GNPA (%)	2.52	2.68	2.18	2.52	2.45	(7bps)	(7bps)
NNPA (%)	0.56	0.56	0.50	0.70	0.67	11bps	(3bps)
Provision (%)	78.12	79.67	78.10	72.90	73.31	(481bps)	41bps
Others							
Branches	752	753	753	752	766	14	14
ATMs	610	611	613	613	613	3	-

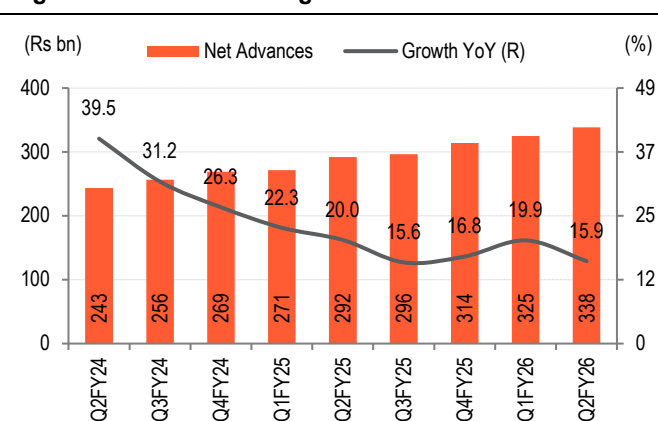
Source: Company, BOBCAPS Research

Fig 3 – UJJIVANS disbursed 46% towards secured segments...

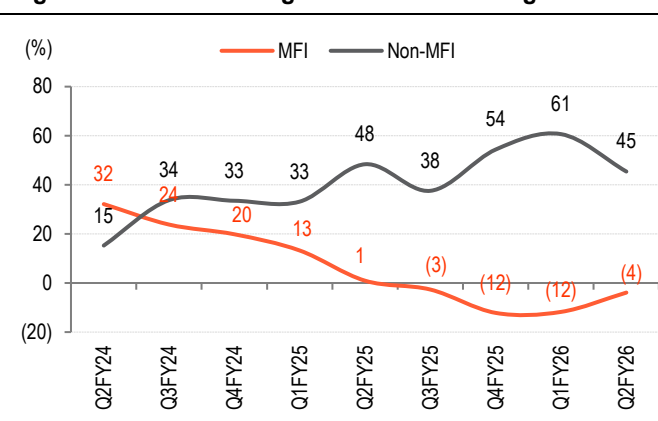
Source: Company, BOBCAPS Research

Fig 4 – ...increasing disbursement in non-MFI segment by 70% YoY

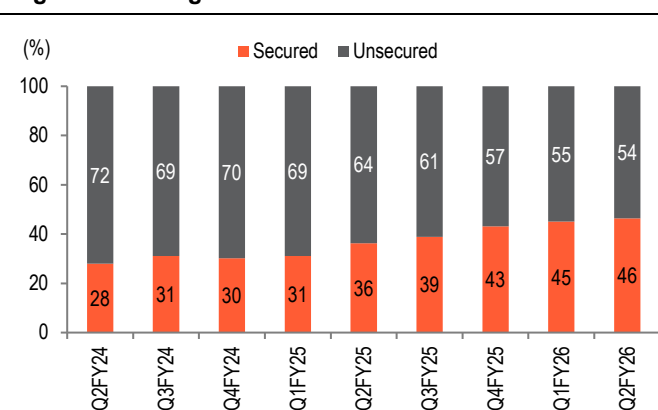
Source: Company, BOBCAPS Research

Fig 5 – Overall advances grew 16% YoY...


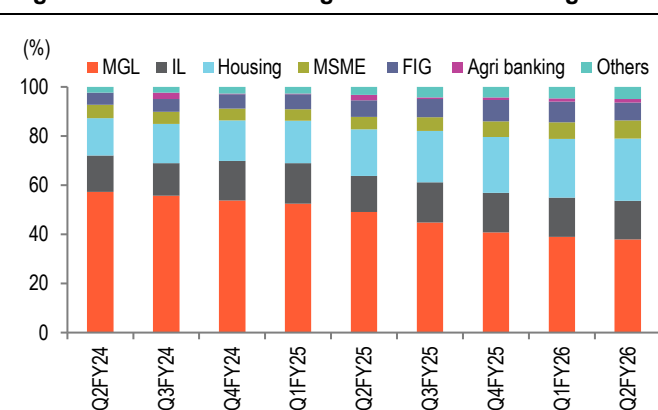
Source: Company, BOBCAPS Research

Fig 6 – ...with 45% YoY growth in non-MFI segments...


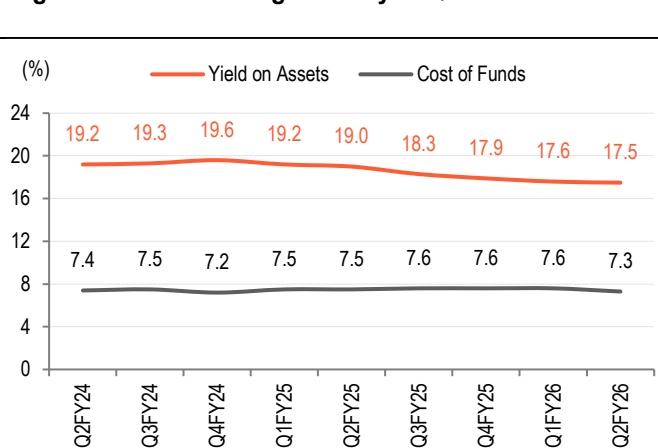
Source: Company, BOBCAPS Research

Fig 7 – ...leading to 46:54 secured vs unsecured mix


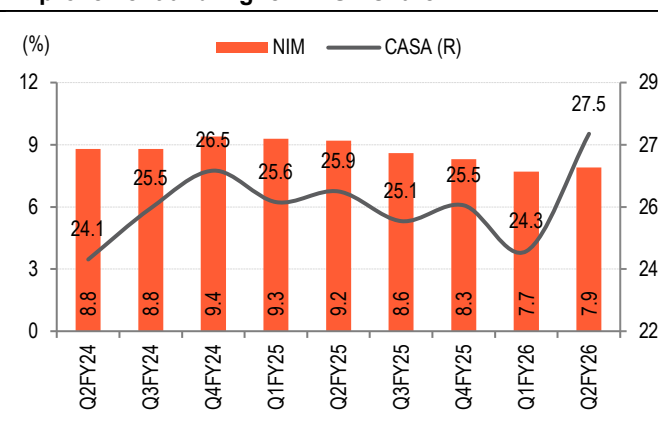
Source: Company, BOBCAPS Research

Fig 8 – Portfolio mix shifting towards secured segments


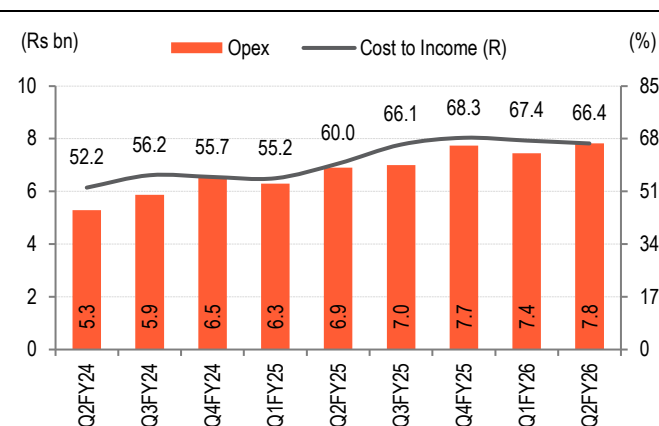
Source: Company, BOBCAPS Research

Fig 9 – CoF declined significantly in Q2FY26


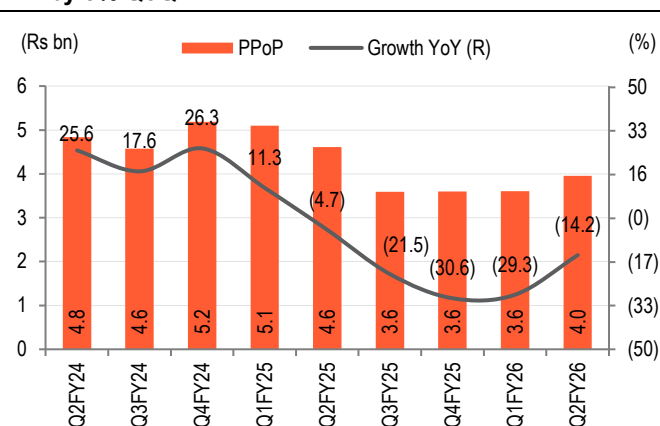
Source: Company, BOBCAPS Research

Fig 10 – NIMs improved due to liquidity absorption, COF improvement and higher CASA share


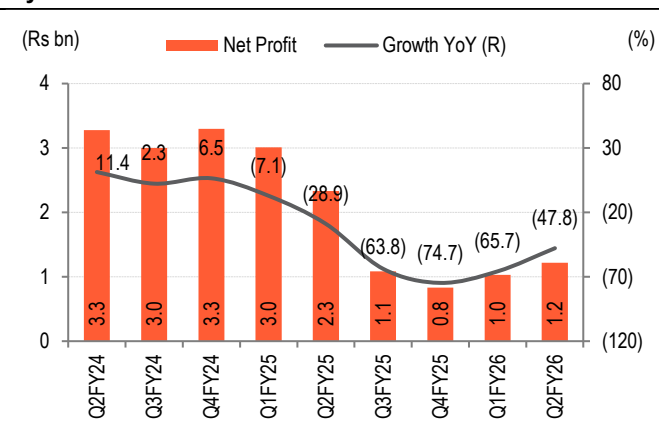
Source: Company, BOBCAPS Research

Fig 11 – Cost to Income stood at 66.4%


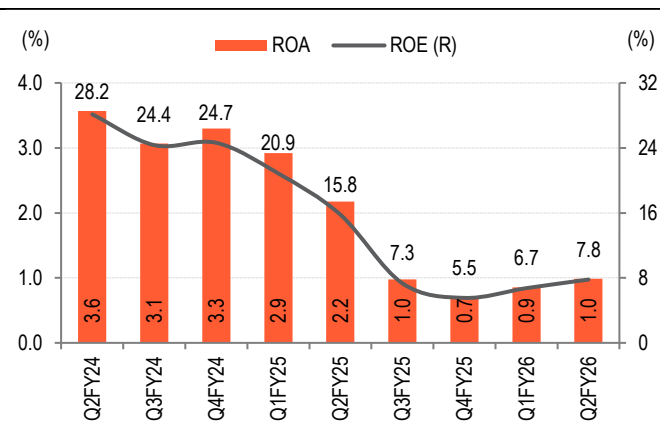
Source: Company, BOBCAPS Research

Fig 12 – PPoP grew 10% QoQ mainly supported by rise in NII by 8% QoQ


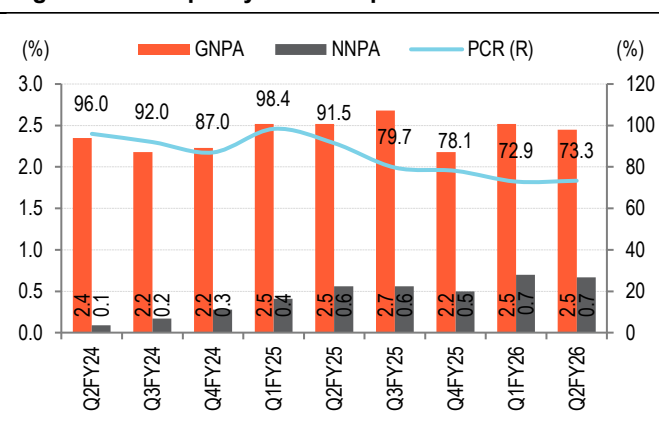
Source: Company, BOBCAPS Research

Fig 13 – Despite rise in provisions by 4% QoQ, PAT grew by 18% QoQ


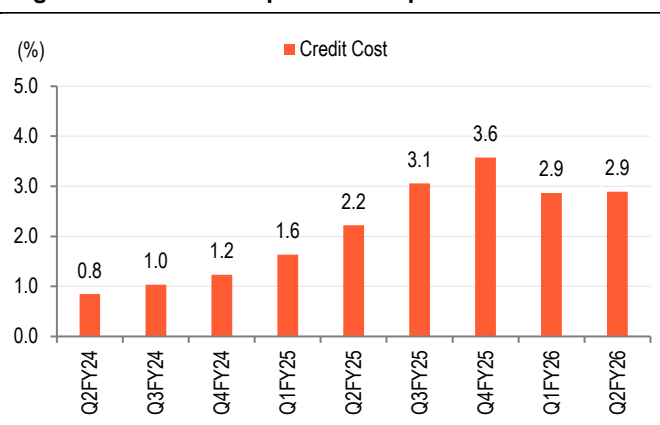
Source: Company, BOBCAPS Research

Fig 14 – Return ratios improve marginally


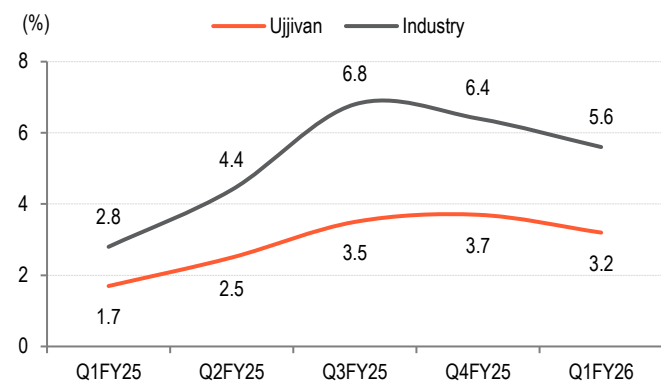
Source: Company, BOBCAPS Research

Fig 15 – Asset quality better vs peers


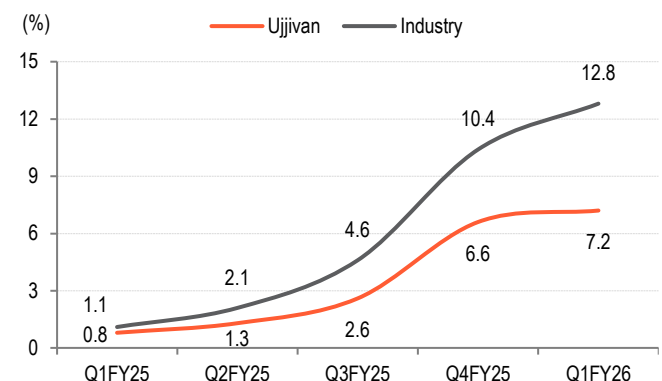
Source: Company, BOBCAPS Research

Fig 16 – Credit cost expected to improve


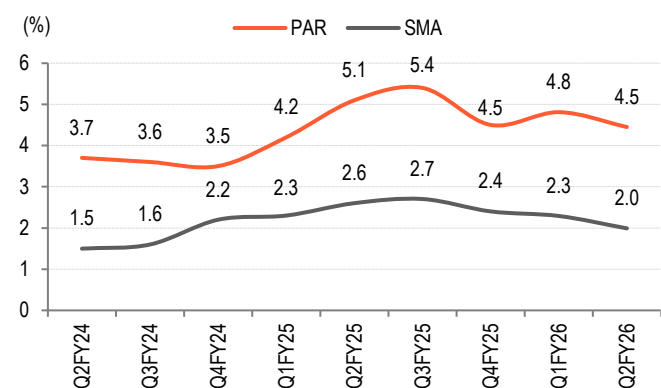
Source: Company, BOBCAPS Research

Fig 17 – MGL PAR 31-180 better vs industry


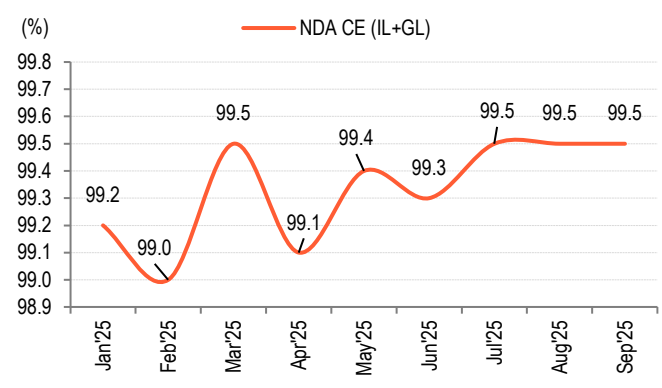
Source: Company, BOBCAPS Research

Fig 18 – Karnataka PAR 31-180 better vs industry


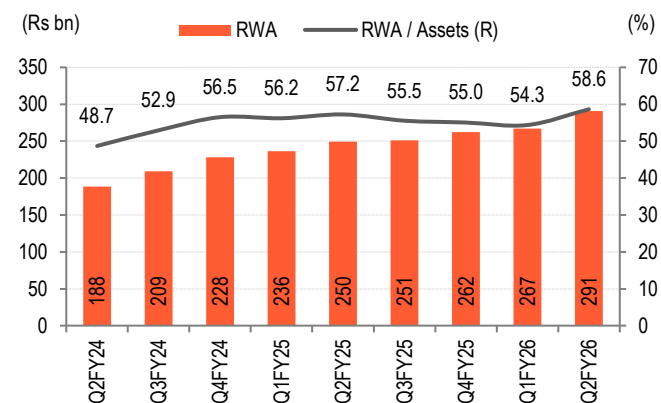
Source: Company, BOBCAPS Research

Fig 19 – PAR & SMA improving


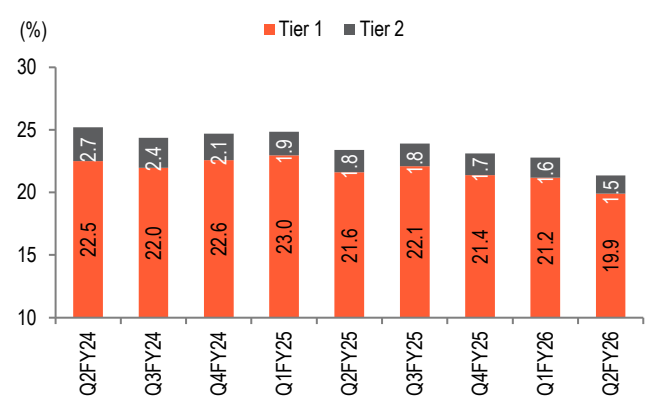
Source: Company, BOBCAPS Research

Fig 20 – Collection efficiency improving gradually


Source: Company, BOBCAPS Research

Fig 21 – RWA/Asset increased sequentially


Source: Company, BOBCAPS Research

Fig 22 – Adequate capital to fund growth


Source: Company, BOBCAPS Research

Concall Highlights

Advances and Deposits

- **Advances:** Gross advances increased by 4% QoQ to Rs 345.9bn (Sep'25).
 - **Secured Book-** Growth was primarily driven by the non-MFI segment, which grew by 45% YoY. Here, housing was up 51% YoY (+10%QoQ), MSME up 69% YoY (+14% QoQ). New verticals also saw traction - gold loans (+41% QoQ), vehicle loans (+17% QoQ).
 - **MFI book-** MGL book consciously downsized (-12% YoY) and accounted for 38% of the gross advances as of Sep'25 vs 49% as of Sep'24. IL book grew 23% YoY as of Jun'25.
- **Deposits:** Total deposits stood at Rs 392bn, marking 2% QoQ and 15% YoY growth. The surge was fueled by continued traction in CASA deposits (22% YoY and 15% QoQ), given higher interest rates offered by the bank.
- **CD Ratio:** Credit-deposit ratio increased to 86.2% in Q2FY26 from 82.6% in Q1FY25. Management guided it to be maintained at 88% for FY26.
- **CASA Ratio:** CASA ratio surged to 27.5% in Q2FY26 vs 24.29% in Q1FY26. Within CASA deposits, the bank witnessed an uptick in CA deposits (18% YoY); and SA deposits 22% YoY. Share of CASA + Retail TD maintained above 70%. Management targets CASA to be ~27% for FY26.

Profitability

- **Net Interest Income (NII):** NII grew by 7.7% QoQ to Rs 9.22 bn, reversing the declining trend seen over previous three quarters. Net interest margin (NIM) improved to 7.9% in Q2FY26 from 7.7% in Q1FY26.
- **Other Income:** Other income stood at Rs 2.56 bn (+24% YoY, +3% QoQ), driven by higher processing fees, insurance income, and treasury gains of Rs 0.25 bn.
- **Provisions:** Provisions stood at Rs 2.35 bn (+4% QoQ), maintaining credit costs at approximately 2.8% of average gross loan book.
- **Return Ratios:** Return on Assets (RoA) improved to 1.0% (+14 bps QoQ) and Return on Equity (RoE) rose to 7.7% (+103 bps QoQ). Management reiterated FY26 guidance of 1.2%-1.4% ROA and 10%-12%.

Asset quality

- The bank is close to 99.5% X bucket CE in MFI book, even in Karnataka. Around 20% of the incremental slippages were from Karnataka in Q2FY26, which improved from 33% in Q1FY26.
- Management expects credit cost to improve meaningfully in 2HFY26.

Valuation Methodology

UJJIVANS is currently trading at a favourable risk-reward proposition at 1.2x Sep'27E ABV vs 5Y average of 1.4x. Current valuation remains attractive supported by a well-diversified portfolio, better asset quality relative to peers, and signs of stress in the MFI book peaking out likely to result in lower credit cost and improvement in its return metrics. We expect the bank to deliver RoA/ RoE to 1.4-1.8%/11.1-15.6% during FY26-28E. We maintain BUY and roll over the valuation to 1.5x Sep'27E ABV with TP of Rs 59 (unchanged).

Fig 23 – Actual vs Estimates

(Rs mn)	Q2FY26A	Q2FY26E	Change (%)
Loans	3,38,076	3,38,962	(0.3)
Deposits	3,92,109	3,91,010	0.3
Assets	4,96,139	5,07,878	(2.3)
NII	9,217	8,901	3.6
PPOP	3,952	3,912	1.0
Provisions	2,350	2,307	1.8
PAT	1,217	1,213	0.3

Source: Company, BOBCAPS Research

Fig 24 – Key operational assumptions

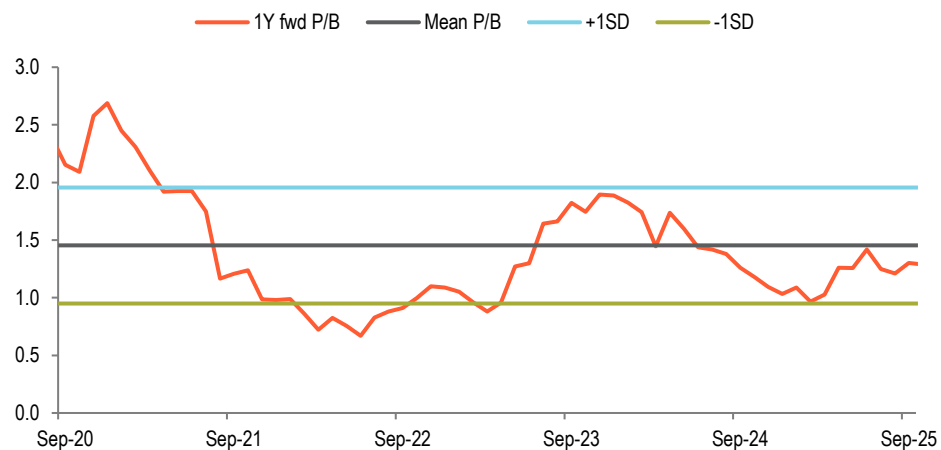
(%)	FY25	FY26E	FY27E	FY28E
Advances growth	16.8	17.0	18.5	19.0
NII growth	6.7	8.6	20.2	19.8
PPoP growth	(11.9)	2.2	24.4	20.4
PAT growth	(43.3)	(2.7)	42.6	24.9
NIM	8.8	8.0	8.3	8.5
GNPA	2.2	2.3	2.1	1.9
CAR	23.1	21.7	21.7	21.3

Source: Company, BOBCAPS Research

Fig 25 – Valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.4
Equity risk premium (%)	5.0
Beta	1.2
Cost of equity (%)	12.1
Blended ROE (%)	14.0
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	15.0
Long-term growth (%)	3.5
Long term dividend payout ratio (%)	75.0
Justified P/BV Multiple (x)	1.5

Source: Company, BOBCAPS Research

Fig 26 – PB band chart

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates:

- Relatively lower CASA ratio vs peers; ability to raise deposits at competitive rates consistently
- Operating expenses higher than expected levels
- Marginal profile of borrowers and prolongation of MFI asset quality stress

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	34,095	36,363	39,490	47,481	56,875
NII growth (%)	26.4	6.7	8.6	20.2	19.8
Non-interest income	7,868	8,462	9,644	11,317	13,354
Total income	41,962	44,825	49,134	58,798	70,229
Operating expenses	22,791	27,932	31,877	37,337	44,394
PPOP	19,171	16,892	17,257	21,461	25,836
PPOP growth (%)	29.1	(11.9)	2.2	24.4	20.4
Provisions	2,149	7,477	7,833	8,025	9,054
PBT	17,022	9,416	9,423	13,436	16,781
Tax	4,207	2,155	2,356	3,359	4,195
Reported net profit	12,815	7,261	7,067	10,077	12,586
Adjustments	0	0	0	0	0
Adjusted net profit	12,815	7,261	7,067	10,077	12,586

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	19,314	19,350	19,350	19,350	19,350
Reserves & surplus	36,821	41,484	47,562	56,027	66,599
Net worth	56,135	60,834	66,912	75,377	85,949
Deposits	3,14,622	3,76,305	4,38,395	5,20,813	6,19,247
Borrowings	21,708	28,454	30,161	34,685	39,888
Other liab. & provisions	11,757	11,299	13,613	11,326	18,433
Total liab. & equities	4,04,222	4,76,892	5,49,081	6,42,201	7,63,516
Cash & bank balance	25,368	31,698	29,533	31,414	37,337
Investments	97,660	1,17,300	1,37,547	1,60,264	1,90,090
Advances	2,68,829	3,13,900	3,67,263	4,35,207	5,17,896
Fixed & Other assets	12,365	13,994	14,738	15,316	18,193
Total assets	4,04,222	4,76,891	5,49,081	6,42,201	7,63,516
Deposit growth (%)	23.2	19.6	16.5	18.8	18.9
Advances growth (%)	26.3	16.8	17.0	18.5	19.0

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	6.6	3.8	3.7	5.2	6.5
Dividend per share	1.5	0.0	0.5	0.8	1.0
Book value per share	29.1	31.4	34.6	39.0	44.4

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	7.4	13.0	13.3	9.4	7.5
P/BV	1.7	1.5	1.4	1.3	1.1
Dividend yield (%)	3.1	0.0	1.0	1.7	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	9.2	8.3	7.7	8.0	8.1
Non-interest income	2.1	1.9	1.9	1.9	1.9
Operating expenses	6.2	6.3	6.2	6.3	6.3
Pre-provisioning profit	5.2	3.8	3.4	3.6	3.7
Provisions	0.6	1.7	1.5	1.3	1.3
PBT	4.6	2.1	1.8	2.3	2.4
Tax	1.1	0.5	0.5	0.6	0.6
ROA	3.5	1.6	1.4	1.7	1.8
Leverage (x)	7.7	7.5	8.0	8.4	8.7
ROE	26.6	12.4	11.1	14.2	15.6

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	26.4	6.7	8.6	20.2	19.8
Pre-provisioning profit	29.1	(11.9)	2.2	24.4	20.4
EPS	10.4	(43.1)	(2.8)	42.6	24.9
Profitability & Return ratios (%)					
Net interest margin	9.1	8.8	8.0	8.4	8.5
Fees / Avg. assets	53.3	48.0	47.0	47.5	47.5
Cost-Income	54.3	62.3	64.9	63.5	63.2
ROE	26.6	12.4	11.1	14.2	15.6
ROA	3.5	1.6	1.4	1.7	1.8
Asset quality (%)					
GNPA	2.2	2.2	2.3	2.1	1.9
NNPA	0.3	0.5	0.6	0.5	0.4
Slippage ratio	2.3	4.2	3.7	2.3	2.0
Credit cost	0.9	2.6	2.3	2.0	1.9
Provision coverage	87.3	77.7	75.6	76.6	76.7
Ratios (%)					
Credit-Deposit	85.4	83.4	83.8	83.6	83.6
Investment-Deposit	31.0	31.2	31.4	30.8	30.7
CAR	24.7	23.1	21.7	21.7	21.3
Tier-1	22.6	21.4	20.3	20.2	20.0

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

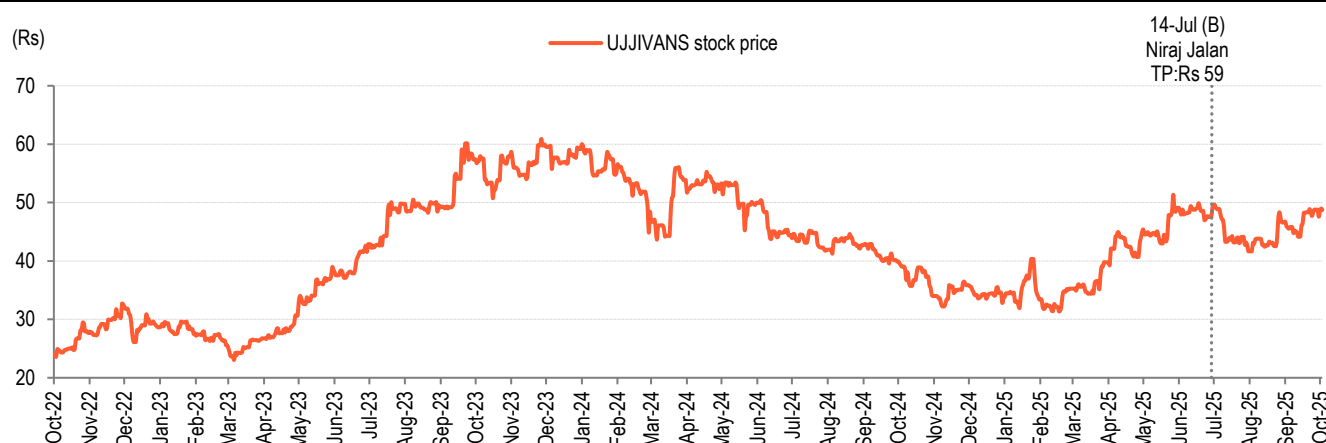
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): UJJIVAN SMALL FINANCE BANK (UJJIVANS IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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