

BUY**TP: Rs 72 | ▲ 16%****UJJIVAN SMALL
FINANCE BANK**

| Banking

| 23 January 2026

Asset quality improvement to support earnings growth

- **PAT marginally above our 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 72 (from Rs 59), ascribing 1.7x Dec'27E ABV (1.5x earlier)**

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PAT marginally above our estimates: UJJIVANS's PAT was marginally above our estimates by 1.4% at Rs 1.9bn (+71% YoY; +53% QoQ). Sequential improvement in PAT was mainly supported by the rise in NIMs to 8.2% (+30bps QoQ) and decline in C/I ratio to 66.1% (-39bps QoQ). Rise in NIMs was due to reduction in cost of funds (CoF) by ~20bps QoQ to 7.1%. CoF declined, mainly due to deposit rate cuts done in FY26 and better liquidity planning. Further, provisions declined to Rs 1.95bn (-12% YoY; -17% QoQ) in Q3FY26. Management expects RoA to improve to 1.8-2.0% by FY30 (1.5% in Q3FY26), mainly on the back of lower C/I and CC.

Rising focus on secured book: Lower CC will be largely driven by UJJIVANS's strategy to de-risk the balance sheet through increasing focus on secured portfolio. Share of secured book in the total disbursement was ~43% in Q3FY26. As a result, share of secured loans increased to 48% of gross loans (target of 65-70% by FY30) as of Dec'25 from 39% (Dec'24). In the unsecured space, the bank is undergoing a structural shift to IL vs MGL, given their better yields and AQ. We expect loans to grow at 19.5% CAGR in FY25-28E, largely led by secured and IL book.

Asset quality remains better vs peers: UJJIVANS's GNPA ratio improved marginally to 2.38% (-7bps QoQ), as of Dec'25, and remains better vs peers. Slippage ratio improved to 2.7% (Q3FY26) vs 3.5% (Q2FY26) due to reduced stress in MFI portfolio. However, ~80% of the slippage was from MFI book. GL & IL X-bucket CE improved to 99.7% (Dec'25) vs 99.5% (Sep'25). With the rise in CE, SMA book declined to 1.6% (Dec'25) vs 1.99% (Sep'25), indicating improvement in the early delinquency bucket.

Maintain BUY: AQ stress in MFI book seems to be peaking out, credit costs are expected to decline, driving improvements in RoA/ RoE to 1.3-1.8%/10.7-16.4% during FY26-28E. We maintain BUY and roll over the valuation to 1.7x Dec'27E ABV (1.5x earlier) with TP of Rs 72 (from Rs 59). UJJIVANS's adequate capital position, healthy credit growth with MFI stress receding, recovering earnings (increase estimates by ~3%/5% in FY27/28E), and awaited RBI's approval for conversion to a universal bank (applied in Feb'25) will lead to stock re-rating.

Key changes

Target	Rating
▲	◀ ▶

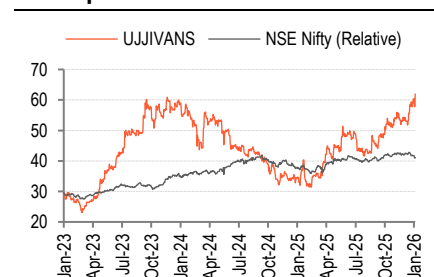
Ticker/Price	UJJIVANS IN/Rs 62
Market cap	US\$ 1.3bn
Free float	100%
3M ADV	US\$ 7.7mn
52wk high/low	Rs 63/Rs 31
Promoter/FPI/DII	0%/17%/20%

Source: NSE | Price as of 22 Jan 2026

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	36,363	39,035	46,549
NII growth (%)	6.7	7.4	19.2
Adj. net profit (Rs mn)	7,261	6,857	10,361
EPS (Rs)	3.8	3.5	5.3
Consensus EPS (Rs)	3.7	3.4	5.2
P/E (x)	16.5	17.5	11.6
P/BV (x)	2.0	1.8	1.6
ROA (%)	1.6	1.3	1.7
ROE (%)	12.4	10.7	14.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Fig 1 – Quarterly snapshot: Income statement

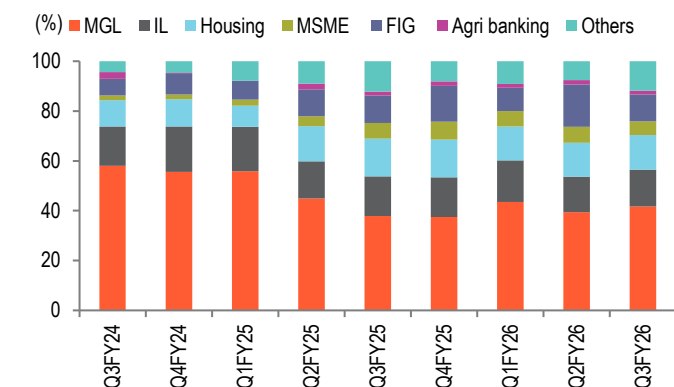
(Rs mn)	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	13,818	13,596	13,988	14,727	15,476	12.0	5.1
Income on investments	2,020	2,087	2,119	2,030	1,994	(1.3)	(1.8)
Int. on bal. with RBI & inter-bank funds & Others	73	50	81	66	49	(32.5)	(25.8)
Interest income	15,911	15,734	16,188	16,823	17,519	10.1	4.1
Interest expense	7,043	7,091	7,629	7,606	7,515	6.7	(1.2)
Net interest income	8,867	8,643	8,560	9,217	10,005	12.8	8.5
Growth YoY (%)	7.7	0.5	(8.3)	(2.1)	12.8		
Fee Income	990	1,790	1,570	1,600	1,830	84.8	14.4
Others	442	597	760	734	875	98.1	19.3
Non-interest income	1,722	2,697	2,490	2,564	2,955	71.6	15.3
Growth YoY (%)	(8.7)	46.0	5.4	30.1	71.6		
Total income	10,589	11,340	11,049	11,780	12,960	22.4	10.0
Growth YoY (%)	4.6	8.5	(5.5)	3.5	22.4		
Staff expenses	3,712	4,196	4,118	4,355	4,738	27.6	8.8
Other operating expenses	3,286	3,546	3,327	3,473	3,823	16.4	10.1
Operating expenses	6,997	7,742	7,445	7,828	8,562	22.4	9.4
Pre-Provisioning Profit (PPoP)	3,592	3,598	3,605	3,952	4,398	22.4	11.3
Growth YoY (%)	(25.7)	(21.3)	(30.5)	(22.4)	22.4		
Provisions	2,228	2,645	2,249	2,350	1,953	(12.3)	(16.9)
Growth YoY (%)	374.9	320.4	184.7	113.9	(12.3)		
Exceptional Item	-	-	-	-	-	-	-
PBT	1,364	953	1,355	1,603	2,445	79.3	52.5
Tax	278	119	323	386	587	111.7	52.3
PAT	1,086	834	1,032	1,217	1,857	71.0	52.6
Growth YoY (%)	(66.9)	(72.2)	(68.7)	(59.6)	71.0		
Per Share							
FV (Rs)	10	10	10	10	10		
EPS (Rs)	0.6	0.4	0.5	0.6	1.0	71.4	52.4
Book Value (Rs)	31.0	31.4	32.0	32.6	33.6	8.6	3.1

Source: Company, BOBCAPS Research

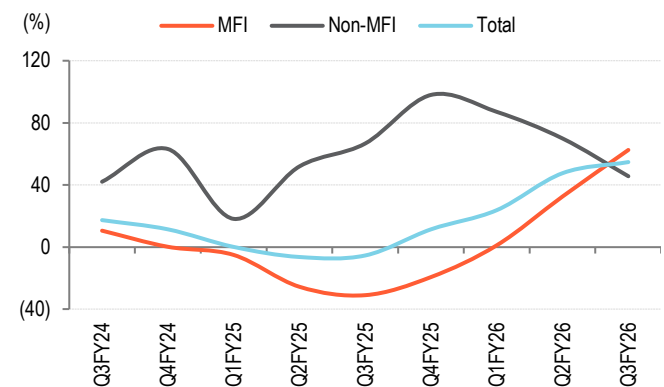
Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

(Rs mn)	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Deposits	3,44,940	3,76,305	3,86,190	3,92,109	4,22,230	22.4	7.7
Growth YoY (%)	18.4	26.8	22.7	20.6	22.4		
Advances	2,96,210	3,13,900	3,25,010	3,38,076	3,62,280	22.3	7.2
Growth YoY (%)	21.8	22.5	20.9	24.7	22.3		
Investment	1,17,970	1,17,300	1,23,390	1,16,035	1,17,680	(0.2)	1.4
Equity	59,960	60,834	61,910	63,232	65,190	8.7	3.1
Assets	4,52,260	4,76,892	4,91,110	4,96,139	5,22,990	15.6	5.4
Growth YoY (%)	16.9	20.6	21.5	18.0	15.6		
Yield							
Yield on Funds	14.78	13.97	13.79	14.06	14.19	(59bps)	13bps
Cost of Funds	7.52	7.21	7.43	7.26	6.93	(59bps)	(33bps)
Spread	7.26	6.76	6.36	6.81	7.27	1bps	46bps
Net Interest Margin	8.24	7.67	7.29	7.70	8.11	(13bps)	40bps
Ratios							
Other Income / Net Income	16.3	23.8	22.5	21.8	22.8	654bps	104bps
Cost to Income ratio	66.1	68.3	67.4	66.4	66.1	(2bps)	(39bps)
CASA ratio	25.1	25.5	24.3	27.5	27.3	221bps	(18bps)
C/D ratio	85.9	83.4	84.2	86.2	85.8	(7bps)	(42bps)
Investment to Assets	26.1	24.6	25.1	23.4	22.5	(358bps)	(89bps)
Assets Quality							
GNPA	8,112	6,959	8,344	8,431	8,794	8.4	4.3
NNPA	1,649	1,524	2,261	2,250	2,081	26.2	(7.5)
Provision	6,463	5,435	6,082	6,181	6,713	3.9	8.6
GNPA (%)	2.68	2.18	2.52	2.45	2.38	(30bps)	(7bps)
NNPA (%)	0.56	0.50	0.70	0.67	0.57	1bps	(10bps)
Provision (%)	79.67	78.10	72.90	73.31	76.34	(333bps)	303bps
Others							
Branches	753	753	752	766	777	24	11
ATMs	611	613	613	613	613	2	-

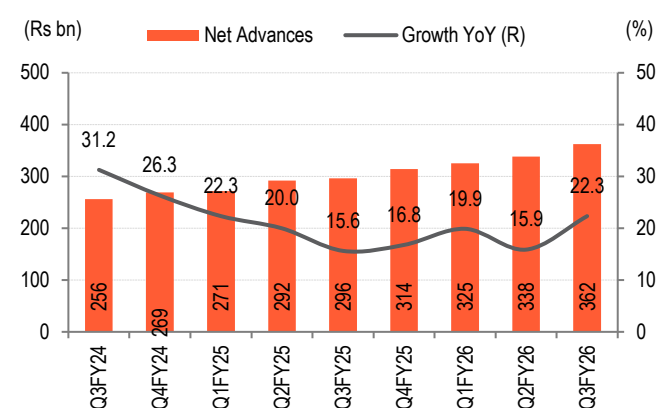
Source: Company, BOBCAPS Research

Fig 3 – UJJIVANS disbursed 43% towards secured segments...

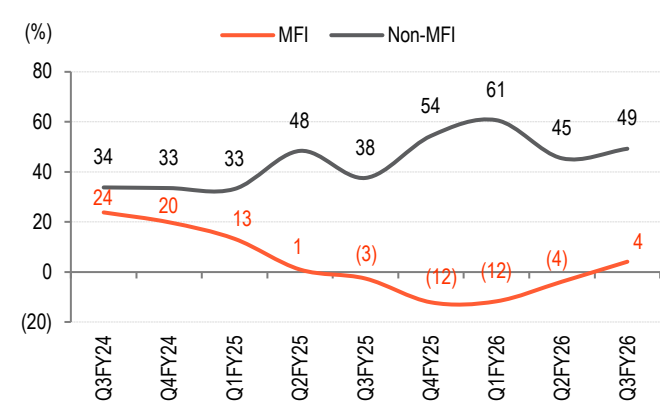
Source: Company, BOBCAPS Research

Fig 4 – ...increasing disbursement in non-MFI segment by 45% YoY

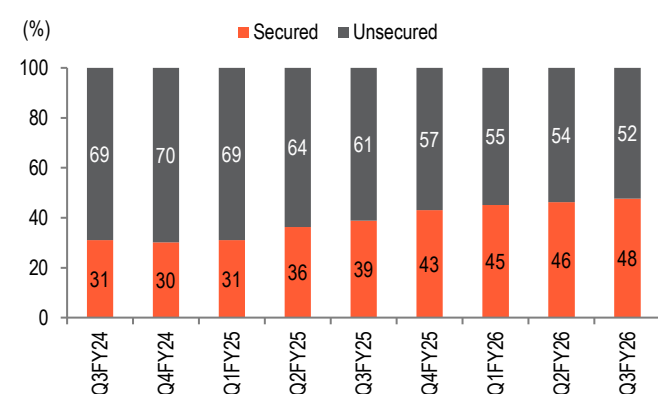
Source: Company, BOBCAPS Research

Fig 5 – Overall advances grew 22% YoY...


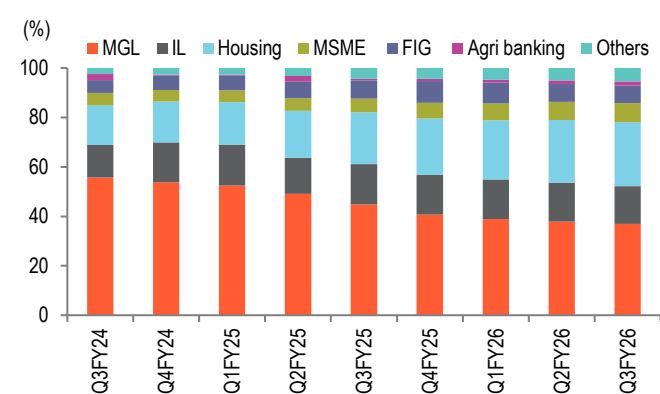
Source: Company, BOBCAPS Research

Fig 6 – ...with 49% YoY growth in non-MFI segments...


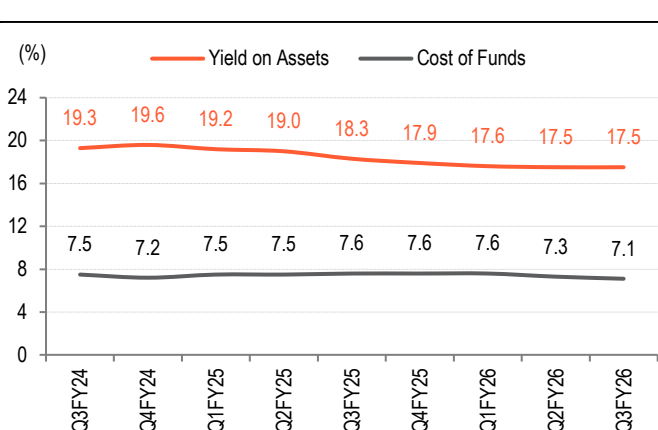
Source: Company, BOBCAPS Research

Fig 7 – ...leading to 48:52 secured vs unsecured mix


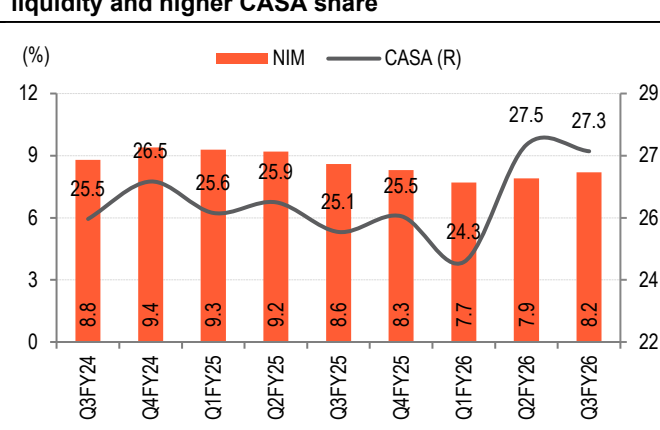
Source: Company, BOBCAPS Research

Fig 8 – Portfolio mix shifting towards secured segments


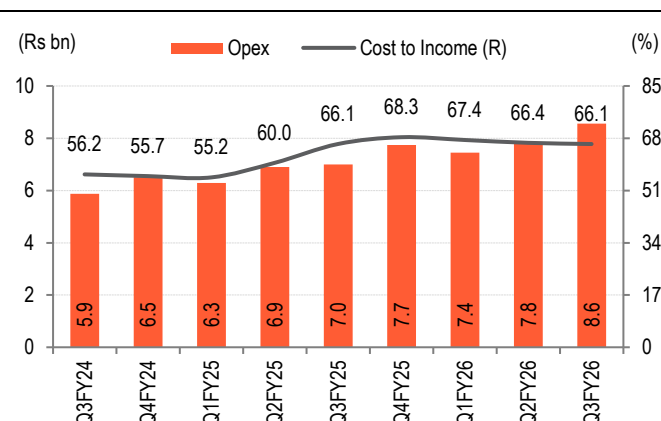
Source: Company, BOBCAPS Research

Fig 9 – CoF declined in Q3FY26


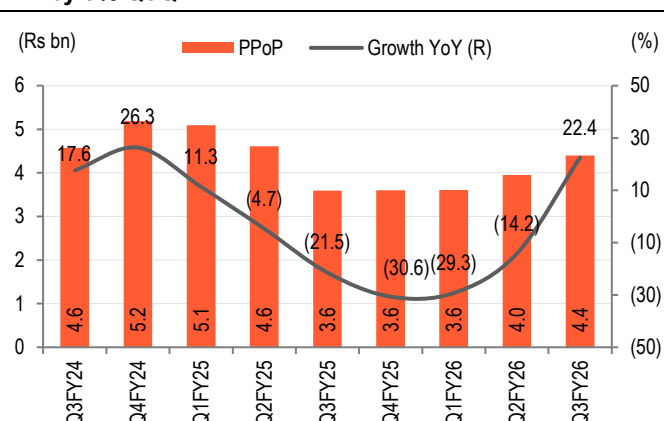
Source: Company, BOBCAPS Research

Fig 10 – NIMs improved due to deposit repricing, better liquidity and higher CASA share


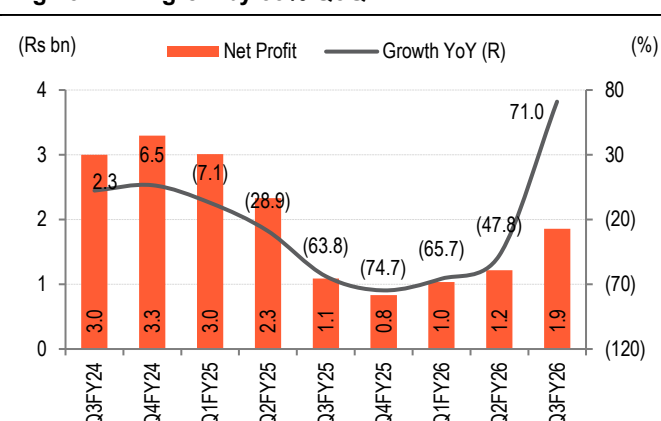
Source: Company, BOBCAPS Research

Fig 11 – Cost to Income stood at 66.1%


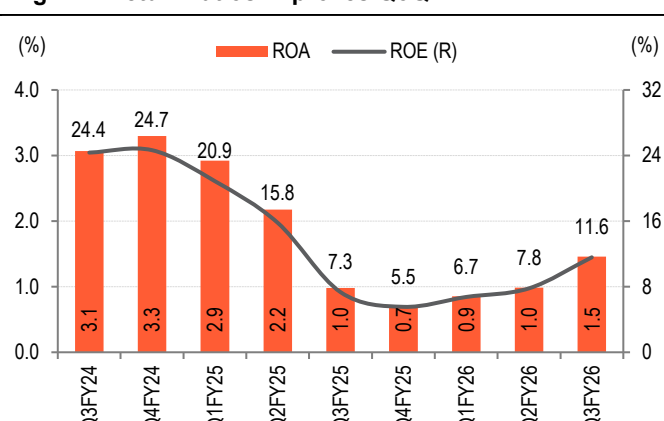
Source: Company, BOBCAPS Research

Fig 12 – PPoP grew 11% QoQ mainly supported by rise in NII by 9% QoQ


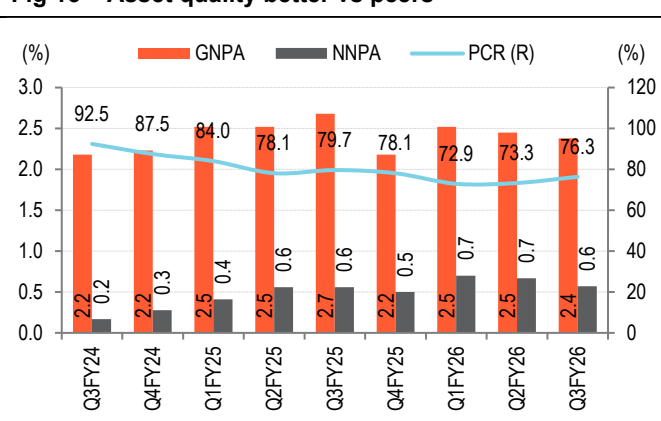
Source: Company, BOBCAPS Research

Fig 13 – PAT grew by 53% QoQ


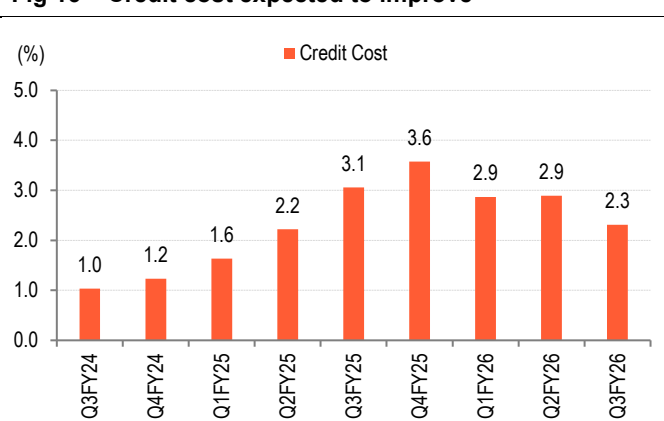
Source: Company, BOBCAPS Research

Fig 14 – Return ratios improves QoQ


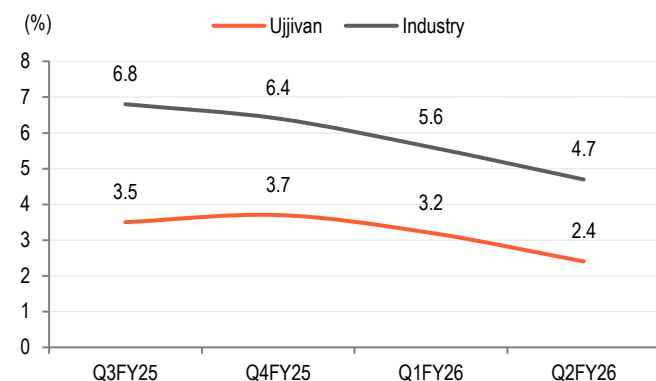
Source: Company, BOBCAPS Research

Fig 15 – Asset quality better vs peers


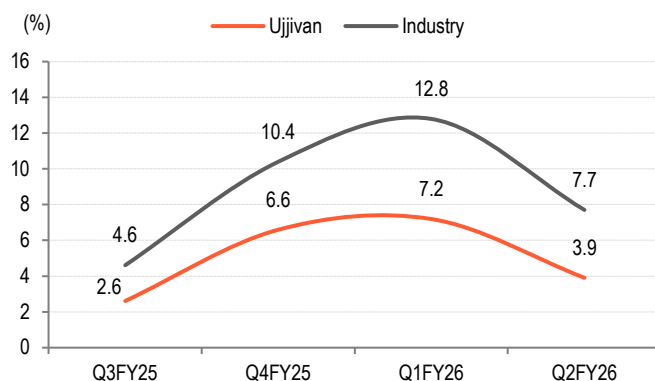
Source: Company, BOBCAPS Research

Fig 16 – Credit cost expected to improve


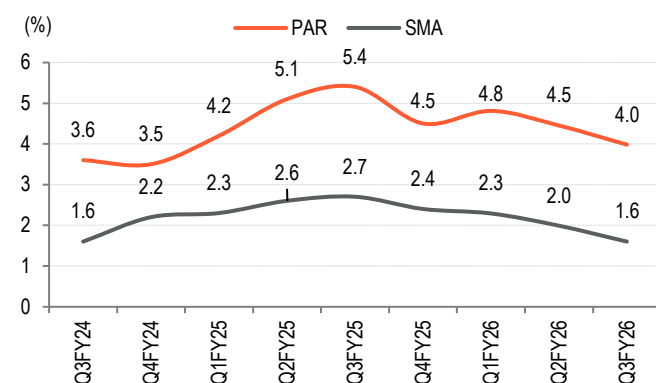
Source: Company, BOBCAPS Research

Fig 17 – MGL PAR 31-180 better vs industry


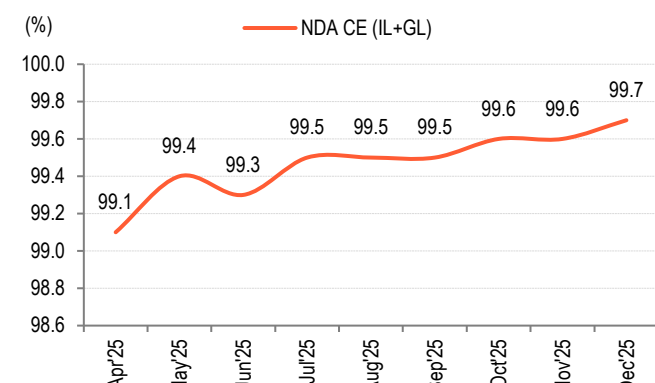
Source: Company, BOBCAPS Research

Fig 18 – Karnataka PAR 31-180 better vs industry


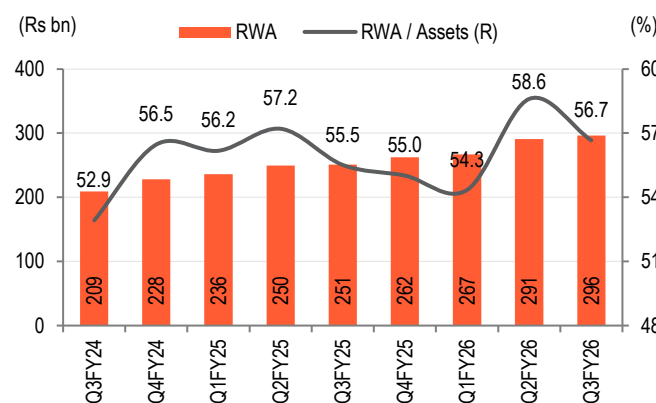
Source: Company, BOBCAPS Research

Fig 19 – PAR & SMA improving


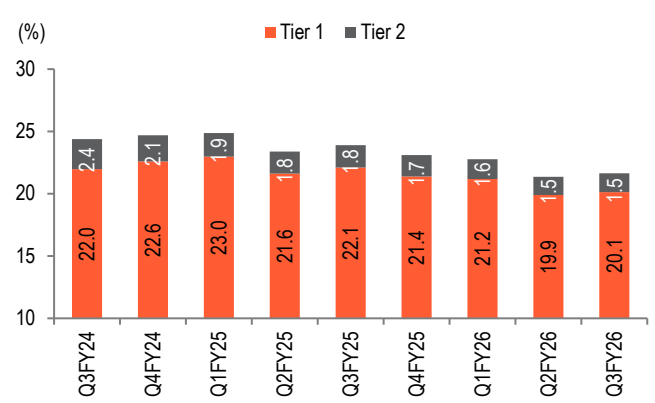
Source: Company, BOBCAPS Research

Fig 20 – Collection efficiency improving gradually


Source: Company, BOBCAPS Research

Fig 21 – RWA/Asset healthy


Source: Company, BOBCAPS Research

Fig 22 – Adequate capital to fund growth


Source: Company, BOBCAPS Research

Concall Highlights

Advances and Deposits

- Management stated **standing by their previous guidance**, which includes a target for **advances growth of ~20%** for FY26.
- The bank aims to aggressively shift its portfolio toward secured lending. By **FY30**, the bank envisages a mix where **65% to 70% of the book is secured** and only 30% to 35% remains unsecured.
- Management expects the shift toward a secured book to progress at a rate of roughly **5% every year**.
- **Advances:** Gross advances increased by 7% QoQ to Rs 370.6bn (Dec'25).
 - **Secured Book-** Growth was primarily driven by the non-MFI segment, which grew by 49% YoY. Here, housing was up 50% YoY (+9%QoQ), MSME up 69% YoY (+12% QoQ). New verticals also saw traction - gold loans (+35% QoQ) & vehicle loans (+25% QoQ), given the festivities in Q3.
 - **MFI book-** MGL book consciously downsized (flat YoY) and accounted for 37% of the gross advances as of Dec'25 vs 45% as of Dec'24. IL book grew 15% YoY as of Dec'25.
- Management highlighted that MFI rejection rates, which had peaked at ~46–47% post the implementation of Guardrail 2.0, have moderated to **~35–36%**, driven by a sharp reduction in customers with 3+ lenders. **Rejection levels are expected to stabilise at this range**, supporting sustained improvement in new customer acquisition momentum.
- The bank remains highly confident about the performance of IL, which continues to outperform MGL on a historical basis.
- **Deposits:** Total deposits stood at Rs 422bn, marking 8% QoQ and 22% YoY growth. The surge was fueled by continued traction in CASA deposits (33% YoY and 7% QoQ), given higher interest rates offered by the bank.
- **CD Ratio:** Credit-deposit ratio improved to 85.8% in Q3FY26 from 86.2% in Q2FY25. Management guided it to be maintained at ~88% for FY26.
- **CASA Ratio:** CASA ratio remains stable at 27.3% in Q3FY26 vs 27.5% in Q2FY26. Within CASA deposits, the bank witnessed an uptick in CA deposits (32% YoY); and SA deposits 33% YoY. Share of CASA + Retail TD maintained ~70%. Management targets CASA to be ~27% for FY26.

Profitability

- **Net Interest Income (NII):** NII grew by 9% QoQ to Rs 10 bn. Net interest margin (NIM) improved to 8.2 in Q3FY26 from 7.9% in Q2FY26.
- **Opex to ATA** was **6.7% for Q3FY26**, an increase of 40 basis points compared to the previous quarter.

- **One-time Gratuity Impact:** A provision of **Rs 180mn** was taken during the quarter due to the new Labour Code, which impacted the Opex-to-asset ratio by 10 basis points.
- The bank maintains a **CI ratio guidance of ~67%** for the full fiscal year.
- **Other Income:** Other income stood at Rs 2.95 bn (+72% YoY, +15% QoQ), driven by higher processing fees, insurance income, and treasury gains of Rs 0.15 bn.
- **Provisions:** Provisions stood at Rs 1.95bn (-17% QoQ), maintaining credit costs at approximately 2.3% of average gross loan book.
- **Return Ratios:** Return on Assets (RoA) improved to 1.5% (+45 bps QoQ) and Return on Equity (RoE) rose to 11.5% (+378 bps QoQ). Management reiterated FY26 guidance of 1.2%-1.4% ROA and 10%-12%.
- The bank aims to deliver an **RoA of 1.8%–2.0%** and an **RoE of 16%–18%** by FY30

NIMS

- NIM improved **30 bps QoQ to 8.2%**, driven by lower cost of funds and reduced interest reversals.
- **Key drivers:** CoF declined to **7.08%** (deposit repricing, better liquidity), while improved collections supported microbanking yields.
- **Structural pressure:** Increasing share of **secured loans (48%)**, higher housing ticket sizes, and repo rate pass-through continue to moderate overall yields.
- **Outlook:** Management guides for **NIM normalization to 6–7%** over the medium term, supported by a lower **exit CoF (~7%)** despite ongoing yield compression.

Asset quality

- **GNPA** improved to **2.38%**, down from 2.45% in Q2FY26 and 2.68% in Q3FY25.
- **NNPA** stood at **0.58%**, down from 0.67% QoQ.
- Slippages moderated to Rs 2.2bn, with ~80% of total slippages from microbanking (GL: 70%, IL: 30%), reflecting easing stress and improving collections.
- The bank reached an efficiency of 99.7% in December 2025. All 10 of the bank's top states showed efficiencies above 99.6% during the quarter.
- Management guides for FY26 credit cost of 2.3–2.4%, with normalization expected in H2FY27 and steady-state credit cost of 1.0–1.5% as the secured mix rises.

Valuation Methodology

AQ stress in MFI book seems to be peaking out, credit costs are expected to decline, driving improvements in RoA/ RoE to 1.3-1.8%/10.7-16.4% during FY26-28E. We maintain BUY and roll over the valuation to 1.7x Dec'27E ABV (1.5x earlier) with TP of Rs 72 (from Rs 59). UJJIVANS's adequate capital position, healthy credit growth with MFI stress receding, recovering earnings (increase estimates by ~3%/5% in FY27/28E), and awaited RBI's approval for its conversion to a universal bank (applied in Feb'25), will lead to stock re-rating.

Fig 23 – Actual vs Estimates

(Rs mn)	Q3FY26A	Q3FY26E	Change (%)
Loans	3,62,280	3,60,191	0.6
Deposits	4,22,230	4,22,190	0.0
Assets	5,22,990	5,29,945	(1.3)
NII	10,005	9,726	2.9
PPOP	4,398	4,245	3.6
Provisions	1,953	1,833	6.6
PAT	1,857	1,831	1.4

Source: Company, BOBCAPS Research

Fig 24 – Key operational assumptions

(%)	FY25	FY26E	FY27E	FY28E
Advances growth	16.8	20.0	19.4	19.0
NII growth	6.7	7.4	19.2	18.4
PPoP growth	(11.9)	0.3	28.3	19.8
PAT growth	(43.3)	(5.6)	51.1	28.0
NIM	8.8	7.8	8.0	8.0
GNPA	2.2	2.3	2.1	1.9
CAR	23.1	21.3	21.1	20.9
ABV (Rs)	30.7	33.4	37.9	43.5

Source: Company, BOBCAPS Research

Fig 25 – Revised estimates

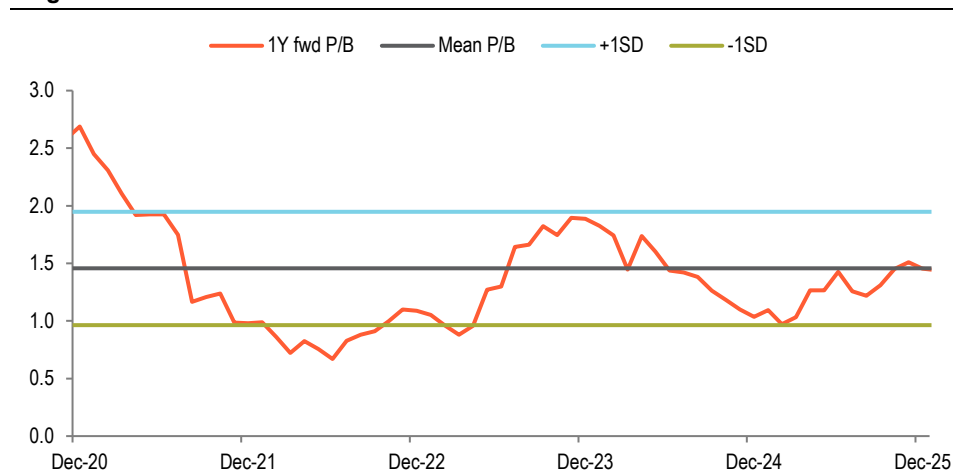
Key Parameters (Rs mn)	New			Old Estimates			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Loan	3,76,680	4,49,756	5,35,210	3,67,263	4,35,207	5,17,896	2.6	3.3	3.3
Deposits	4,40,277	5,26,571	6,34,518	4,38,395	5,20,813	6,19,247	0.4	1.1	2.5
Assets	5,59,219	6,58,832	7,85,366	5,49,081	6,42,201	7,63,516	1.8	2.6	2.9
NII	39,035	46,549	55,093	39,490	47,481	56,875	(1.2)	(2.0)	(3.1)
PPOP	16,946	21,749	26,062	17,257	21,461	25,836	(1.8)	1.3	0.9
Provision	7,804	7,934	8,372	7,833	8,025	9,054	(0.4)	(1.1)	(7.5)
PAT	6,857	10,361	13,267	7,067	10,077	12,586	(3.0)	2.8	5.4
ABV (Rs)	33	38	44	33	38	43	(0.3)	0.1	0.7

Source: Company, BOBCAPS Research

Fig 26 – Valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.5
Equity risk premium (%)	5.5
Beta	1.0
Cost of equity (%)	12.0
Blended ROE (%)	14.9
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	15.0
Long-term growth (%)	3.7
Long term dividend payout ratio (%)	75.0
Justified P/BV Multiple (x)	1.7

Source: Company, BOBCAPS Research

Fig 27 – 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	39,035	46,549	55,093
NII growth (%)	26.4	6.7	7.4	19.2	18.4
Non-interest income	7,868	8,462	9,584	11,571	13,720
Total income	41,962	44,825	48,619	58,120	68,813
Operating expenses	22,791	27,932	31,674	36,371	42,751
PPOP	19,171	16,892	16,946	21,749	26,062
PPOP growth (%)	29.1	(11.9)	0.3	28.3	19.8
Provisions	2,149	7,477	7,804	7,934	8,372
PBT	17,022	9,416	9,142	13,815	17,690
Tax	4,207	2,155	2,286	3,454	4,422
Reported net profit	12,815	7,261	6,857	10,361	13,267
Adjustments	0	0	0	0	0
Adjusted net profit	12,815	7,261	6,857	10,361	13,267

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	19,314	19,350	19,372	19,372	19,372
Reserves & surplus	36,821	41,484	47,464	56,168	67,312
Net worth	56,135	60,834	66,836	75,540	86,684
Deposits	3,14,622	3,76,305	4,40,277	5,26,571	6,34,518
Borrowings	21,708	28,454	30,161	34,685	39,888
Other liab. & provisions	11,757	11,299	21,946	22,036	24,277
Total liab. & equities	4,04,222	4,76,892	5,59,219	6,58,832	7,85,366
Cash & bank balance	25,368	31,698	29,601	31,664	38,026
Investments	97,660	1,17,300	1,37,843	1,61,460	1,93,381
Advances	2,68,829	3,13,900	3,76,680	4,49,756	5,35,210
Fixed & Other assets	12,365	13,994	15,094	15,951	18,750
Total assets	4,04,222	4,76,891	5,59,219	6,58,832	7,85,366
Deposit growth (%)	23.2	19.6	17.0	19.6	20.5
Advances growth (%)	26.3	16.8	20.0	19.4	19.0

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	6.6	3.8	3.5	5.3	6.8
Dividend per share	1.5	0.0	0.5	0.9	1.1
Book value per share	29.1	31.4	34.5	39.0	44.7

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	9.4	16.5	17.5	11.6	9.0
P/BV	2.1	2.0	1.8	1.6	1.4
Dividend yield (%)	2.4	0.0	0.8	1.4	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	9.2	8.3	7.5	7.6	7.6
Non-interest income	2.1	1.9	1.9	1.9	1.9
Operating expenses	6.2	6.3	6.1	6.0	5.9
Pre-provisioning profit	5.2	3.8	3.3	3.6	3.6
Provisions	0.6	1.7	1.5	1.3	1.2
PBT	4.6	2.1	1.8	2.3	2.4
Tax	1.1	0.5	0.4	0.6	0.6
ROA	3.5	1.6	1.3	1.7	1.8
Leverage (x)	7.7	7.5	8.1	8.6	8.9
ROE	26.6	12.4	10.7	14.6	16.4

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	26.4	6.7	7.4	19.2	18.4
Pre-provisioning profit	29.1	(11.9)	0.3	28.3	19.8
EPS	10.4	(43.1)	(5.7)	51.0	28.0
Profitability & Return ratios (%)					
Net interest margin	9.1	8.8	7.8	8.0	8.0
Fees / Avg. assets	53.3	48.0	46.3	47.5	47.5
Cost-Income	54.3	62.3	65.1	62.6	62.1
ROE	26.6	12.4	10.7	14.6	16.4
ROA	3.5	1.6	1.3	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	3.5	2.3	2.0
Credit cost	0.9	2.6	2.3	1.9	1.7
Provision coverage	87.3	77.7	75.6	76.6	76.7
Ratios (%)					
Credit-Deposit	85.4	83.4	85.6	85.4	84.3
Investment-Deposit	31.0	31.2	31.3	30.7	30.5
CAR	24.7	23.1	21.3	21.1	20.9
Tier-1	22.6	21.4	19.8	19.8	19.6

Source: Company, BOBCAPS Research

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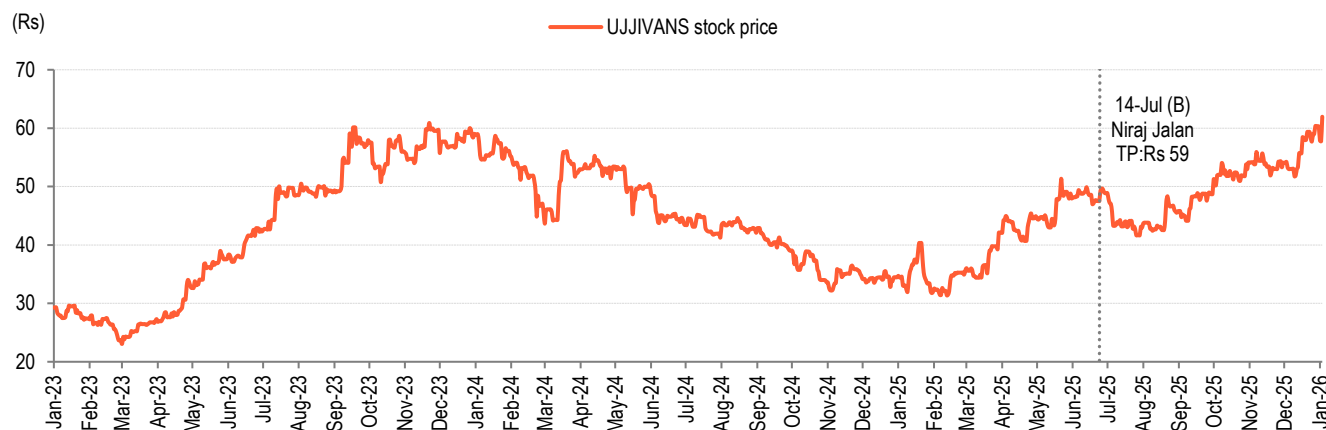
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