

Ujjivan Small Finance Bank (UJJIVANS) - BUY

Company Update

Current Market Price (CMP) Rs.60	Fair Value (FV) Rs.72
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Rationale:

- The RBI has returned Ujjivan SFB's application for a universal bank license, citing the need for further loan portfolio diversification.
- While the outcome is clearly not favorable, the regulator has flagged no concerns relating to governance, compliance or operational soundness.
- Our investment thesis did not factor in any benefit from a potential transition to a universal bank.
- Hence, we maintain BUY on Ujjivan with a Fair Value (FV) of Rs72 but remain watchful of any sharp changes in asset mix strategy in response to the RBI's feedback.

👍 Positives:

- RBI has not cited any deficiencies pertaining to governance standards, regulatory compliance or objective eligibility criteria for such a transition.
- Ujjivan has steadily reduced its dependence on microfinance group loans (share down from 85% in Mar 17 to 37% in Dec 25).
- We continue to like Ujjivan SFB for its relative asset quality outperformance through the recent microfinance downturn.

👎 Negatives:

- In its communication, the RBI acknowledged the bank's recent efforts toward loan portfolio diversification but indicated that further progress is required.
- A rapid shift away from higher-yielding microfinance loans, if not accompanied by a commensurate reduction in cost of funds and operating leverage gains, could exert pressure on operating profitability in the medium term.



The content of this document has been derived from KIE research report. Kotak's PCG Research has summarized the report (Research Team: shrikant.chouhan@kotak.com). Readers who wish to access the complete report are kindly requested to contact their respective Relationship Manager. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 months

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Definitions of ratings

- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
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- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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