



Strong Quarter; Improving Collection Efficiency

AU Small Finance Bank (AU SFB) has reported a stable set of numbers for Q3FY21. Strong operational performance was supported by better margin and further stake sale in Aavas Financiers (Rs 4.8 Bn), while profitability was adversely impacted by higher Provisions.

- **NII came in at INR 6331 Mn**, 13% QoQ / 25% YoY and 9% above our est.
- **Net Income came in at INR 12965 Mn**, 53% QoQ / 94% YoY and 0.1% above our est.
- **PPOP came in at INR 8728 Mn**, 87% QoQ / 179% YoY and 3% below our est.
- **Provisions came in at INR 2836 Mn**, 394% QoQ / 607% YoY and 244% above our est.
- **PAT came in at INR 4790 Mn**, 49% QoQ / 152% YoY and 22% below our est.
- **EPS stood at INR 15.62 vs INR 10.5 / INR 6.43 in Q2FY21 / Q3FY20** respectively.

Financial Highlights

- Bank's GNPA's sequentially down by 55 bps at 0.99% and NNPA's down by 21 bps to 0.24% on account of standstill levied by the Supreme Court. Excluding the same, GNPA's would have been 3.3% and NNPA would have been 1.3% as per the proforma approach.
- Bank has used part of Aavas sale proceeds to make additional provisions which management is believe sufficiently cover potential losses that could arise due to COVID. Bank is currently carrying Rs 7.33 Bn (72% coverage) on Proforma GNPA and Rs 0.48 Bn on Restructured Assets (19% coverage).
- Bank's disbursements grew 34% YoY / 91% QoQ in Q3FY21, driven by growth in demand across most key segments. AUM stood at Rs 332.22 Bn, up by 11% YoY and 9% QoQ. According to management, demand has normalized in most segments in Q3FY21 and is likely to be better in Q4FY21.
- On liabilities, deposits grew by 24% YoY/10% QoQ in Q3FY21 led by CASA growth of 72% YoY/21% QoQ taking CASA ratio at 22% (Vs 16% YoY). Continued traction in retailization of deposits, with retail deposits (CASA + Retail TD) stood at 55% vs 43% in YoY.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	19	24	29	35
Adjusted net profit	7	13	10	13
Net worth	44	56	66	78
EPS (Rs)	22	42	33	41
Growth (%)	77	92	-22	24
P/E (x)	39	21	26	21
P/Adj BV (x)	6.4	5.2	4.4	3.7
RoA (%)	1.8	2.8	1.9	1.9
RoE (%)	18	26	17	18

Source: Dalal & Broacha Research, Company

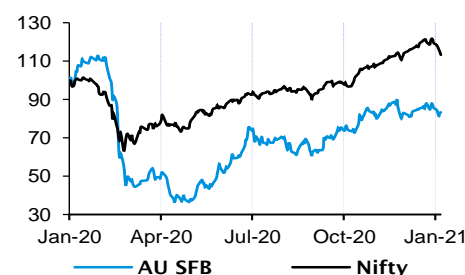
Rating	TP (Rs)	Up/Dn (%)
BUY	1061	22

Market data

Current price	Rs	873
Market Cap (Rs.Bn)	(Rs Bn)	268
Market Cap (US\$ Mn)	(US\$ Mn)	3671
Face Value	Rs	10
52 Weeks High/Low	Rs	1218/366
Average Daily Volume	('000)	430
BSE Code		540611
Bloomberg		AUBANK:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	28.98	29.00
Public	71.02	71.00
Others	0.00	0.00
Total	100	100

Source: BSE

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Highlights of the Conference Call

- Certain segments like commercial taxis, hospitality and schools have been severely impacted and will take slightly longer time to recover. Even though the bank's historical credit losses have been limited in these segments, as assets remain secured, the bank has used Aavas stake sale proceeds to make additional provision buffers to fortify itself against any future stress.
- Management believe the bank is now has more than enough provisioning for both losses arising from the stressed assets as well as any potential near term stress due to Covid.
- According management, the bank has recognized most of its stress & does not expect significant slippages going forward. Collection efficiencies and activation rates have achieved normalcy across most segments. Pro-forma NPAs have almost peaked and credit cost will normalize in next few quarters.
- Bank restructured Rs 251 Bn (0.8% of advances), mainly in the bus, taxi (within wheels) and schools, apparels (within SBL); Overall restructured advances should stabilize at ~1.5% of gross advances including fresh restructuring that the Bank may undertake in Q4FY21
- The bank's cost to income ratio will remain elevated between 50 and 55% for next few years as it will continue to invest in franchise, which should yield returns in the medium term.
- The bank's disbursements grew 34% YoY / 91% QoQ in Q3FY21. Out of which, 89% came from retail segment, while remaining 10% came corporate segment. AUM growth is likely to pick up going forward.
- Management said Bank is adequately capitalized (Tier 1 capital ratio including 9M interim profits stood at 20.3%) and will not need to raise funds in FY22.
- Bank has made provision for the interest reversal worth Rs 38 Cr.
- Diversifying Fee income avenues by expanding payments ecosystem, Bancassurance partnerships and introduction of credit cards

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Valuation & outlook

We like AUSFB's ability to deliver strong operating performance across parameters, particularly in challenging environs. Impressive recovery in collection efficiency from covid lows adds to positivity. With sufficient capital, lower competition from smaller NBFCs, reasonable presence in non-metro and improving operating efficiency; we believe AUSFB will continue its growth momentum for the next few years. We expect total business to grow at CAGR of 24% in FY20-23E, with growth in loans and deposits at ~23% and ~24% respectively. In turn, this is expected to lead to NII/PPoP/PAT CAGR of 22%/24%/23% over FY20-23E. At CMP the stock trades at 4.4x its FY22E Adj BV & 3.7x its FY23E Adj Bv. We recommend investors to buy this stock, with a price target of Rs 1061, valuing the stock at 4.5x FY23E Adj BV.

Quarterly Financial

P&L (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY	QoQ
Interest Earned	11.1	11.8	11.8	12.1	12.6	13%	4%
Interest Expended	6.0	6.3	6.7	6.5	6.3	4%	-4%
NII	5.1	5.5	5.2	5.6	6.3	25%	13%
Other Income	1.6	1.8	2.3	2.9	6.6	312%	132%
Net Income	6.7	7.4	7.4	8.5	13.0	94%	53%
Opex	3.6	4.2	3.0	3.8	4.2	19%	11%
PPOP	3.1	3.2	4.5	4.7	8.7	179%	87%
Provisions	0.4	1.5	1.8	0.6	2.8	607%	394%
PBT	2.7	1.7	2.6	4.1	5.9	116%	44%
Tax	0.8	0.4	0.6	0.9	1.1	34%	27%
PAT	1.9	1.2	2.0	3.2	4.8	152%	49%
BS (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY	QoQ
Networth	42	44	46	49	54	28%	10%
Deposits	239	262	267	270	297	24%	10%
Borrowings	87	103	115	101	92	6%	-9%
Other Liabilities	16	13	15	20	23	43%	16%
Total Liabilities	384	421	443	440	466	21%	6%
Cash & Bank	21	34	55	43	33	57%	-23%
Investments	86	107	114	112	116	35%	3%
Advances	266	270	263	272	303	14%	11%
Other Assets	11	11	12	12	14	28%	16%
Total Assets	384	421	443	440	466	21%	6%
BS (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY	QoQ
GNPA (%)	1.9	1.7	1.7	1.5	1.0	-89 bps	-54 bps
NNPA (%)	1.0	0.8	0.6	0.5	0.2	-77 bps	-21 bps
PCR (%)	47	52	64	71	76	2922 bps	501 bps
C/I Ratio (%)	53	57	40	45	33	-2049 bps	-1222 bps
C/D Ratio (%)	111	103	98	101	102	-937 bps	103 bps

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs Mn)	FY 20	FY 21	FY 22	FY 23
Interest income	42.9	50.4	59.1	74.3
Interest expense	23.8	26.9	30.4	39.5
NII	19.1	23.5	28.7	34.8
Non-interest income	7.1	15.2	8.9	11.1
Net revenues	26.2	38.7	37.7	45.8
Operating expenses	14.2	15.4	19.2	23.2
PPOP	12.0	23.3	18.5	22.6
Provisions	2.8	6.1	4.9	5.8
PBT	9.1	17.3	13.5	16.8
Tax	2.4	4.4	3.4	4.2
PAT	6.7	12.9	10.1	12.6
Balance sheet	FY 20	FY 21	FY 22	FY 23
Share capital	3	3	3	3
Reserves & surplus	41	53	63	75
Net worth	44	56	66	78
Deposits	262	315	394	498
Borrowings	103	107	119	133
Other liability	13	18	13	14
Total liabilities	421	496	592	722
Fixed assets	4	5	5	5
Investments	107	121	143	174
Loans	270	317	399	508
Cash	34	45	35	27
Other assets	7	9	9	8
Total assets	421	496	592	722

Ratios	FY 20	FY 21	FY 22	FY 23
Growth (%)				
NII	42	23	22	21
PPOP	66	95	-21	22
PAT	77	92	-22	24
Advances	18	17	26	27
Deposits	35	21	25	26
Spread (%)				
Yield on Funds	11.8	11.3	11.2	11.5
Cost of Funds	7.1	6.6	6.3	6.8
Spread	4.7	4.7	4.9	4.8
NIM	5.2	5.3	5.4	5.4
Asset quality (%)				
Gross NPAs	1.7	3.7	2.6	2.0
Net NPAs	0.8	1.6	1.2	1.1
Provisions	53	58	54	48
Return ratios (%)				
RoE	17.9	25.9	16.6	17.5
RoA	1.8	2.8	1.9	1.9
Per share (Rs)				
EPS	22	42	33	41
BV	144	183	214	253
ABV	137	166	198	236
Valuation (x)				
P/E	39.3	20.7	26.4	21.3
P/BV	6.1	4.8	4.1	3.4
P/ABV	6.4	5.2	4.4	3.7

Source: Dalal & Broacha Research, Company

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