



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Result update@ Dalal & Broacha

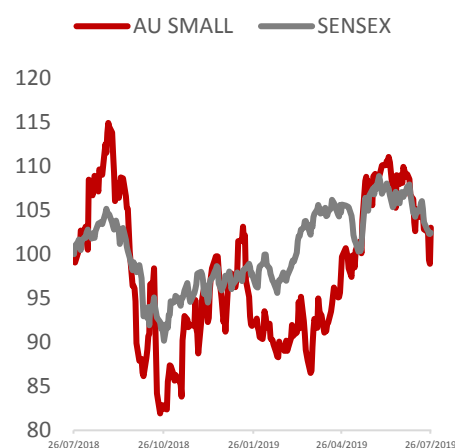
### HOLD

Current Price (Rs)	650
52 Week Range	792/527
Target Price (Rs)	711
Upside (%)	9

### Key Share Data

Market Cap (Rs.bn)	190
Market Cap (US\$ mn)	2760
No of o/s shares (mn)	292
Face Value	2
Monthly Avg. vol (BSE+NSE) Nos'000	170
BSE Code	540611
NSE Code	AUBANK
Bloomberg	AUBANK:IN

### Price performance



### % Shareholding

	Jun-19	Mar-19
Promoter	32.19	32.19
FII	24.69	23.76
Others	43.12	44.05
Total	100	100

AU small finance bank has reported a good set of the numbers for the quarters ended June 2019. Bank reported 1QFY20 PAT at Rs 190 Cr (+148% YoY/+61% QoQ), which includes profit from sale of equity shares in Aavas Financiers, without it growth would have been 56% YoY. NII stood at Rs 396 Cr (+38% YoY /+2% QoQ). PPOP increased by 91% YoY/35% QoQ to Rs 291 Cr in Q1FY20. Bank's cost-to-income ratio stood at 59.6% up by 130 bps QoQ/down by 125 bps YoY, (excluding Profit from sale of equity shares in Aavas Financiers). Opex stood at Rs 316 Cr, up 33% YoY/5% QoQ. Management is looking to bring down the cost to income ratio to 52-53% over the next two to three years.

Bank's Asset quality remains stable, with GNPA's at 2.08%, down by 9 bps YoY / up by 4 bps QoQ, while NNPA's at 1.25% (-13 bps YoY and -4 bps QoQ). PCR stood at 40.5% (+366 bps YoY/ +314 bps QoQ). Bank has provided Rs 315 Cr as provisions during the quarter, down by 10% YoY/ 20% QoQ. Bank expect a credit cost between 50-70 basis points in long run.

AUMs grew by 44% YoY/6% QoQ to Rs 25,610 Cr, which includes Retail Assets (+49% YoY/7% QoQ) at 20,121 Cr, SME (+36% YoY/2% QoQ) at Rs 5,189 Cr and Money Market Lending by Treasury (down 29% YoY/8% QoQ) at 300 Cr. Disbursements stood at 4,033 Cr (up by 40% YoY/ down 20% QoQ). Loan Disbursement Yields improved up by ~90 bps QoQ; Cost of Fund marginally declined by 10 bps QoQ to 7.9%. On the liabilities side, Bank's deposit book grew by 99% YoY/2% QoQ in Q1FY20, with CASA growth of 53% YoY (down 5% QoQ) taking CASA ratio at 17%. Bank's capital adequacy ratio stood at 18.6% (vs 20.7% YoY/19.3% QoQ), of which Tier I capital was 15.5% (vs 20.1% YoY/16% QoQ) and Tier II capital was 3% (vs 0.6% YoY/3.3% QoQ).

### Concall key takeaways

- Around 80% of its loans are secured, granular and generating risk adjusted return; going forward bank will continue to grow diversified retail book and targeting Rs 70,000 Cr total assets by FY22. Bank is also targeting RoA of 1.8-1.9 by FY22
- Bank maintains a liquidity cushion of around 8-10% of its balance sheet size. As far as non SLR investment giving higher yields than cost of funds, bank is ready to maintain this kind of liquidity.
- Risk Adjusted IRR is higher in used vehicles than new vehicles. Yields difference between used vehicle and new vehicle is around 600 bps, while difference between loan delinquency is around 50 bps. Average ticket size for used vehicle is around Rs 3 lacs. The average age of the used vehicle is 5-7 years.
- Bank has securitized AAA rated vehicle loan pool of Rs 1,336 Cr in Q1FY20. Sold PSLC Certificates of Rs 5700 Cr. Currently, PSLC premium is trailing around 50-70 bps.
- Bank has further tightened risk monitoring and supervision mechanism across all asset classes; assigning higher focus to solvency, governance, and liquidity in NBFC & real estate book. Furthermore, secured Business Loans to SME (SBL-SME) vertical has been discontinued from Q1FY20 and the team has been merged with Agri SME vertical.

### Valuation and outlook

With sufficient capital, lower competition from smaller NBFCs, increasing its focus towards high- yielding used vehicle segment and improving operating efficiency; we believe AU Small Finance Bank will continue its growth momentum for the next few years. Thus, we have maintained a 'Hold' rating on AU Small Finance Bank with a price target of Rs 711, valuing the stock at 4.1x FY22E standalone P/ABV.

### Key Financials (Rs in Mn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	BVPS	P/B (X)
FY19	13425	43	7219	25	3818	31	108	6.0
FY20E	18557	38	10140	40	5236	37	137	4.7
FY21E	25943	40	14280	41	7431	42	159	4.1



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<i>P&amp;L (Rs mn)</i>	FY19	FY20E	FY21E	FY22E
<b>Interest Earned</b>	29488	42183	57732	76964
<b>Interest Expended</b>	16064	23626	31789	41455
<b>NII</b>	13425	18557	25943	35509
<b>Other Income</b>	4620	6030	7327	9023
<b>Net Income</b>	18045	24587	33270	44532
<b>Opex</b>	10826	14447	18990	24687
<b>PPOP</b>	7219	10140	14280	19845
<b>Provisions</b>	1418	2184	2989	4079
<b>PBT</b>	5801	7956	11291	15767
<b>Tax</b>	1983	2720	3860	5390
<b>PAT</b>	3818	5236	7431	10377

<i>BS (Rs mn)</i>	FY19	FY20E	FY21E	FY22E
<b>Capital</b>	2924	3025	3025	3025
<b>Reserves</b>	28705	38462	45001	54133
<b>Deposits</b>	194224	278542	388614	525732
<b>Borrowings</b>	86134	97809	105687	114010
<b>Other Liabilities</b>	14241	16425	19415	23493
<b>Total</b>	<b>326228</b>	<b>434263</b>	<b>561742</b>	<b>720392</b>
<b>Cash &amp; Bank</b>	17402	31519	36430	43543
<b>Investments</b>	71617	86500	109024	136998
<b>Advances</b>	228187	303489	400606	520409
<b>Fixed Assets</b>	4470	5170	5970	6820
<b>Other Assets</b>	4552	7584	9712	12623
<b>Total</b>	<b>326228</b>	<b>434263</b>	<b>561742</b>	<b>720392</b>

<i>Ratios (%)</i>	FY19	FY20E	FY21E	FY22E
<b>Growth</b>				
<b>NII</b>	43	38	40	37
<b>Operating profit</b>	25	40	41	39
<b>Net profit</b>	31	37	42	40
<b>Advances</b>	71	33	32	30
<b>Deposits</b>	145	43	40	35
<b>Returns</b>				
<b>ROA</b>	1.5	1.4	1.5	1.6
<b>ROE</b>	14	14	17	20

<i>Ratios (%)</i>	FY18	FY19	FY20	FY21
<b>Asset quality</b>				
<b>GNPA</b>	2.0	2.1	1.9	1.7
<b>NNPA</b>	1.3	1.2	1.1	0.9
<b>PCR</b>	37	42	44	46
<b>Per share (Rs)</b>				
<b>EPS</b>	13	17	25	34
<b>ABVPS</b>	98	125	145	173
<b>P/E</b>	50	38	26	19
<b>P/ABVPS</b>	6.6	5.2	4.5	3.8



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