



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

Analyst: AVINASH TANAWADE (022 67141449)

## Q1FY21 Result Update@ Dalal&Broacha

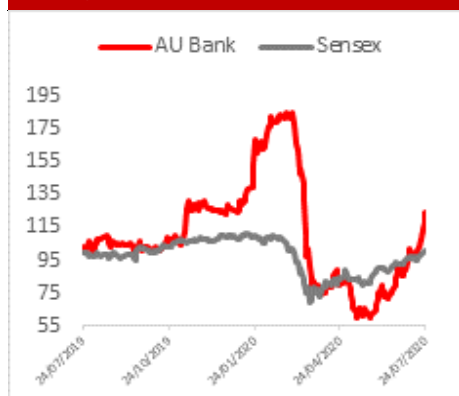
### Neutral

Current Price	790
Target Price	809
Upside	2
52 Week Range	366/1218

### Key Share Data

Market Cap (Rs.Bn)	242.06
Market Cap (US\$ Mn)	3237.83
No of o/s shares (Mn)	306.41
Face Value	10
Monthly Avg.	
Vol(BSE+NSE)'000	767.15
BSE Code	540611
NSE Code	AUBANK
Bloomberg	AUBANK:IN

### Price performance



% Shareholding	Jun-20	Mar-20
Promoters	74.51	74.53
Public	25.49	25.47
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

### Financials (In INR Mn)

Year	NII	PPOP	PAT	ROA	ROE	Adj.BVPS	P/ABVPS
FY20	19089	11972	6748	1.8	17.9	137	5.8
FY21	22079	13845	7143	1.6	15.2	154	5.1
FY22	27923	17146	9922	1.9	18.1	184	4.3

AU Small Finance Bank (AU SFB) has reported a strong set of numbers for the quarter ended June 2020. The bank's profitability has been supported by lower operating cost and further stake sale in Aavas Financiers. The bank has reported significant reduction in its Moratorium book from 25% in Q4FY20 to 11% in Q1FY21. Full EMI recovery has also improved to 67% in June from 53% in April, whereas monthly Collection efficiency improved to 90% in June from 54% in April 2020.

- NII came in at INR 515.8 Cr, -7.0% QoQ / +30% YoY
- Other Income came in at INR 225.8 Cr, 7% QoQ / +23% YoY
- Operating Expenses came in at INR 296.1 Cr, -30% QoQ / -6% YoY
- PPOP came in at INR 445.6 Cr, +41% QoQ / +53% YoY
- Provisions came in at INR 181.3 Cr, +20% QoQ / +475% YoY
- PAT came in at INR 200.8 Cr, 64% QoQ / 6% YoY
- EPS stood at INR 6.6 vs INR 4.0 / INR 6.5 in Q4FY20 / Q1FY20 respectively

### Financial Highlights

- The bank's AUMs grew by 17.3% YoY (-2.8% QoQ) to Rs 30036 Cr, which includes Retail Assets (+25% YoY/-2.8% QoQ) at 25168Cr, SME (-12% YoY/-8.2% QoQ) at Rs 4,568 Cr and Money Market Lending by Treasury (up flat YoY/+1100% QoQ) at 300 Cr. AUM growth will likely to remain tepid in near term, given its higher exposure in two most vulnerable segments (auto and SME). However, diversified loan mix, focus on lower-ticket income generation loans, and strategic shift towards used vehicle financing would help the bank to restore loan growth faster than most of its peers.
- On liabilities side, Bank's deposit book grew by 34.7% YoY/2.2% QoQ in Q1FY21, with CASA growth of 13.7% YoY/2.2% QoQ taking CASA ratio at 15.6% (vs 15.9% QoQ/ 18.8% YoY).
- Bank's asset quality remained stable, with gross NPAs stood at 1.69% (up by 1 bps QoQ), while net NPAs improved by 18 bps QoQ at 0.62%. Bank has increased the PCR to 63.5% from 52.7% in Q4FY20. SMA pool, which was Rs 2,768 Cr (including securitized portfolio of Rs 298 Cr) as on Feb 2020 has now reduced to Rs 1,133 Cr (including securitized portfolio of Rs 113 Cr) as on June 2020.
- While slowdown in economic activities and its impact on customer behavior is likely to increase credit cost in the current fiscal, the bank's loan portfolio (~99% secured), which is largely towards income generation loans, is better position to achieve normalcy faster than peers.
- Bank has taken proactive steps to shore up the liquidity position, with LCR further improved to ~150% (vs 133% in Q4FY20) against regulatory requirement of 80%, to create adequate cushion in this uncertain scenario. Bank's capital adequacy ratio stood at 21.7% (vs 18.6% YoY/ 22% QoQ), of which Tier I capital was 18.5% (vs 15.5% YoY/ 18.4% QoQ).

### Valuation and outlook

AU SFB's Q1FY21 performance was better than our estimates. Sharp reduction in the moratorium book, drop in SMA numbers, and improving collection trends eased some concerns around asset quality. However, we remain watchful of recovery trends over the near term due to partial lockdown (in major cities), coupled with the bank's otherwise high risk wheels and SME portfolio. Out of total AUM, Rajasthan, Maharashtra, Gujarat and Delhi (with higher number of red zone areas) contribute nearly 74% of AUM. The duration of the bank's loan book is lower and a prolonged slowdown could have a higher impact on its revenue growth. The high valuation of AU SFB is partly driven by the superior growth it has demonstrated in past few years. Therefore, we assign a NEUTRAL rating to AU SFB with a price target of Rs 809, valuing the stock at 4.4x FY22E Adj BV. We will wait for further clarity on asset quality before any meaningful change in our stance.



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Profit & Loss Account											
Rs Mn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY	QoQ	Q1FY21
Interest Earned	6003	6834	7883	8769	9574	10334	11116	11835	24	0	11841
Interest Expended	3139	3623	4404	4900	5618	5818	6048	6285	19	6	6683
<b>NII</b>	<b>2864</b>	<b>3210</b>	<b>3480</b>	<b>3869</b>	<b>3956</b>	<b>4516</b>	<b>5068</b>	<b>5549</b>	<b>30</b>	<b>-7</b>	<b>5158</b>
Other Income	1031	1225	1059	1306	2109	1508	1612	1831	7	23	2258
<b>Net Income</b>	<b>3894</b>	<b>4436</b>	<b>4539</b>	<b>5175</b>	<b>6065</b>	<b>6024</b>	<b>6681</b>	<b>7381</b>	<b>22</b>	<b>0</b>	<b>7416</b>
Operating expenses	2370	2684	2752	3018	3157	3247	3552	4223	-6	-30	2961
<b>PPoP</b>	<b>1524</b>	<b>1752</b>	<b>1787</b>	<b>2157</b>	<b>2908</b>	<b>2777</b>	<b>3128</b>	<b>3158</b>	<b>53</b>	<b>41</b>	<b>4456</b>
Provisions	351	350	325	392	315	610	401	1506	475	20	1813
<b>Profit Before Tax</b>	<b>1173</b>	<b>1402</b>	<b>1462</b>	<b>1765</b>	<b>2593</b>	<b>2167</b>	<b>2727</b>	<b>1652</b>	<b>2</b>	<b>60</b>	<b>2643</b>
Tax	404	488	509	582	690	447	825	429	-8	48	635
<b>Net Profit</b>	<b>768</b>	<b>914</b>	<b>953</b>	<b>1182</b>	<b>1903</b>	<b>1719</b>	<b>1902</b>	<b>1223</b>	<b>6</b>	<b>64</b>	<b>2008</b>
Balance Sheet											
Net worth	28430	29290	30350	31630	33610	35159	42370	43769	36	5	45870
Deposits	99990	128690	146860	194220	198490	221492	238650	261639	35	2	267340
Borrowings	68750	78300	88280	86130	90070	85831	86680	103353	27	11	114540
Other liabilities	12250	11520	12530	14240	15450	15779	16230	12670	-3	18	14910
<b>Total liabilities</b>	<b>209420</b>	<b>247800</b>	<b>278020</b>	<b>326220</b>	<b>337620</b>	<b>358261</b>	<b>383930</b>	<b>421432</b>	<b>31</b>	<b>5</b>	<b>442660</b>
Cash & Balances	11550	17880	13160	17400	12620	15261	21290	33697	333	62	54680
Investments	37410	39980	55980	71620	83830	84337	85880	106682	36	7	113740
Advances	152650	181170	200000	228190	231020	248092	265720	269924	14	-3	262500
Fixed Assets	3860	4360	4380	4470	4460	4417	4490	4480	0	0	4460
Other Assets	3950	4400	4490	4550	5680	6154	6560	6648	28	10	7290
<b>Total Assets</b>	<b>209420</b>	<b>247800</b>	<b>278020</b>	<b>326220</b>	<b>337610</b>	<b>358261</b>	<b>383930</b>	<b>421432</b>	<b>31</b>	<b>5</b>	<b>442660</b>
Important ratios (%)											
Gross NPAs	2.2	2.0	2.1	2.0	2.1	2.0	1.9	1.7	-40bps	1bps	1.7
Net NPAs	1.4	1.3	1.3	1.3	1.3	1.1	1.0	0.8	-63bps	-18bps	0.6
PCR	36.8	37.6	37.6	37.4	40.5	43.9	46.8	52.7	2300bps	1085bps	63.5
Cost to income ratio	60.9	60.5	60.6	58.3	52.0	53.9	53.2	57.2	-1213bps	-1730bps	39.9
CASA	27.6	25.9	23.6	21.0	18.8	16.2	17.0	15.9	-327bps	-29bps	15.6
CAR	20.7	17.8	19.0	19.3	18.6	17.9	19.3	22.0	314bps	-29bps	21.7



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P&L (Rs mn)	FY19	FY20	FY21E	FY22E
Interest Earned	29488	42859	49800	59625
Interest Expended	16064	23769	27721	31702
<b>NII</b>	<b>13425</b>	<b>19089</b>	<b>22079</b>	<b>27923</b>
Other Income	4620	7061	7864	8924
<b>Net Income</b>	<b>18045</b>	<b>26150</b>	<b>29943</b>	<b>36847</b>
Opex	10826	14179	16098	19701
<b>PPOP</b>	<b>7219</b>	<b>11972</b>	<b>13845</b>	<b>17146</b>
Provisions	1418	2832	4295	3881
<b>PBT</b>	<b>5801</b>	<b>9140</b>	<b>9550</b>	<b>13265</b>
Tax	1983	2392	2407	3343
<b>PAT</b>	<b>3818</b>	<b>6748</b>	<b>7143</b>	<b>9922</b>

BS (Rs mn)	FY19	FY20	FY21E	FY22E
Capital	2924	3041	3041	3041
Reserves	28705	40728	47300	56428
Deposits	194224	261630	311161	388820
Borrowings	86134	103353	99292	95746
Other Liabilities	14241	12670	16966	20846
<b>Total</b>	<b>326228</b>	<b>421423</b>	<b>477760</b>	<b>564882</b>
Cash & Bank	17402	33689	49691	55266
Investments	71617	106682	99572	108870
Advances	228187	269924	316891	387875
Fixed Assets	4470	4480	4680	4930
Other Assets	4552	6648	6927	7942
<b>Total</b>	<b>326228</b>	<b>421423</b>	<b>477760</b>	<b>564882</b>

Ratios (%)	FY19	FY20	FY21E	FY22E
<b>Growth</b>				
NII	43	42	16	26
Operating profit	25	66	16	24
Net profit	31	77	6	39
Advances	71	18	17	22
Deposits	145	35	19	25
<b>Returns</b>				
ROA	1.5	1.8	1.6	1.9
ROE	14.0	17.9	15.2	18.1

Ratios (%)	FY19	FY20	FY21E	FY22E
<b>Asset quality</b>				
GNPA	2.0	1.7	2.2	1.9
NNPA	1.3	0.8	1.1	0.9
PCR	37	53	51	52
<b>Per share (Rs)</b>				
EPS	13	22	23	33
ABVPS	98	137	154	184
P/E	60	36	34	24
P/ABVPS	8.1	5.8	5.1	4.3



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