



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade 022 67141442

Q2FY21 Result Update@ Dalal & Broacha

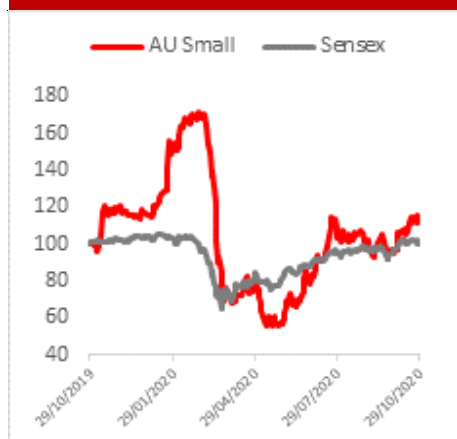
Neutral

Current Price	781
Target Price	835
Upside	7
52 Week Range	366/1218

Key Share Data

Market Cap (Rs.Bn)	240
Market Cap (US\$ Mn)	3219
No of o/s shares (Mn)	307
Face Value	10
BSE Code	540611
NSE Code	AUBANK
Bloomberg	AUBANK:IN

Price performance



AU Small Finance Bank (AU SFB) has reported a strong set of numbers for the quarter ended September 2020. The bank's profitability has been supported by better operating efficiencies and further stake sale in Aavas Financiers.

- NII came in at INR 5606 Mn, +8.7% QoQ / +24% YoY
- Other Income came in at INR 2857 Mn, 27% QoQ / +89% YoY
- Operating Expenses came in at INR 3800 Mn, 28% QoQ / 17% YoY
- PPOP came in at INR 4663 Mn, +5% QoQ / +68% YoY
- Provisions came in at INR 574 Mn, -68% QoQ / -6% YoY
- PAT came in at INR 3219 Mn, 60% QoQ / 87% YoY
- EPS stood at INR 10.5 vs INR 6.58 / INR 5.87 in Q1FY21 / Q2FY20 respectively

Other Financial Highlights

- The bank's AUMs grew by 10% YoY (2% QoQ) to Rs 305.9 Bn, with disbursements gradually picking up - Sep'20 at 99% of Sep'19 levels; Q2FY21 at 71% of Q2FY20. Disbursements are gradually picking up, with Sep'20 disbursements at 99% of Sep'19 levels and 2QFY21 disbursements at 71% of 2QFY20 levels.
- Deposits grew by 22% YoY/1% QoQ in Q2FY21 led by CASA growth of 60% YoY/38% QoQ taking CASA ratio at 21% (Vs 16% YoY). Retail deposits (CASA + Retail TD) now at 54% of deposits vs 45%/41% in Q1FY21/Q2FY20. Incremental COD in 2QFY21 declined by 90bp YoY to 6.7% while incremental COF declined to 6.1% from 7.5% in 2QFY20.
- Bank's asset quality improved during the quarter, with GNPA's sequentially down by 15 bps at 1.54% and NNPA's down by 17 bps to 0.45% on account of standstill levied by the Supreme Court. Excluding the same, GNPA's would have been 1.63% and NNPA would have been 0.53% as slippages would have been higher by Rs 250m. Bank has made provisions of Rs 55m (including reversal of interest income) on these slippages.
- Overall, Bank is carrying Rs 2.78 Bn (~1% of Advances) as COVID-19 related provisions. PCR improved to 71% (v/s 63.5% in 1QFY21).
- Collection efficiencies in Sep'20 (post-moratorium) reaching normalcy - 78% Activation in Sep'20 vs. 80% in normal course. The bank has reported significant reduction in its Moratorium book from 11% as on June 30 to 5.5% as on Aug'20 (end of Moratorium period). Bank is tracking this portfolio closely, and 2.5% of borrowers from this portfolio have become active in Sep/Oct FY21.

Valuation and outlook

AU SFB's Q2FY21 performance was better than our estimates. According to management, the on-ground situation has considerably improved in last few months and positive momentum observed across all key metrics which include activity levels, retail deposits, and disbursements. 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 835, valuing the stock at 4.5x FY22E Adj BV. We will wait for further clarity on asset quality before any meaningful change in our stance.

% Shareholding

	Sep-20	Jun-20
Promoters	29.00	29.01
Public	71.00	70.99
Others	0.00	0.00
Total	100	100

Consolidated Financials (In INR Mn)

Year	NII	PPOP	PAT	ROA	ROE	Adj. BVPS	P/ABVPS
FY20	19089	11972	6748	1.8	17.9	137	5.7
FY21E	22079	13845	7143	1.6	15.2	155	5.1
FY22E	27923	17146	9922	1.9	18.1	186	4.2



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Profit & Loss Account												
Rs Mn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY	QoQ	Q2FY21
Interest Earned	6003	6834	7883	8769	9574	10334	11116	11835	11841	17	2	12125
Interest Expended	3139	3623	4404	4900	5618	5818	6048	6285	6683	12	-2	6518
NII	2864	3210	3480	3869	3956	4516	5068	5549	5158	24	9	5606
Other Income	1031	1225	1059	1306	2109	1508	1612	1831	2258	89	27	2857
Net Income	3894	4436	4539	5175	6065	6024	6681	7381	7416	40	14	8463
Operating expenses	2370	2684	2752	3018	3157	3247	3552	4223	2961	17	28	3800
PPoP	1524	1752	1787	2157	2908	2777	3128	3158	4456	68	5	4663
Provisions	351	350	325	392	315	610	401	1506	1813	-6	-68	574
Profit Before Tax	1173	1402	1462	1765	2593	2167	2727	1652	2643	89	55	4089
Tax	404	488	509	582	690	447	825	429	635	94	37	870
Net Profit	768	914	953	1182	1903	1719	1902	1223	2008	87	60	3219
Balance Sheet												
Net worth	28430	29290	30350	31630	33610	35159	42370	43769	45870	40	7	49161
Deposits	99990	128690	146860	194220	198490	221492	238650	261639	267340	22	1	269804
Borrowings	68750	78300	88280	86130	90070	85831	86680	103353	114540	18	-12	101227
Other liabilities	12250	11520	12530	14240	15450	15779	16230	12670	14910	26	34	19952
Total liabilities	209420	247800	278020	326220	337620	358261	383930	421432	442660	23	-1	440144
Cash & Balances	11550	17880	13160	17400	12620	15261	21290	33697	54680	183	-21	43260
Investments	37410	39980	55980	71620	83830	84337	85880	106682	113740	33	-1	112407
Advances	152650	181170	200000	228190	231020	248092	265720	269924	262500	10	4	272332
Fixed Assets	3860	4360	4380	4470	4460	4417	4490	4480	4460	2	1	4521
Other Assets	3950	4400	4490	4550	5680	6154	6560	6648	7290	24	5	7625
Total Assets	209420	247800	278020	326220	337610	358261	383930	421432	442671	23	-1	440145
Important ratios (%)												
Gross NPAs	2.2	2.0	2.1	2.0	2.1	2.0	1.9	1.7	1.7	-47bps	-14bps	1.5
Net NPAs	1.4	1.3	1.3	1.3	1.3	1.1	1.0	0.8	0.6	-69bps	-17bps	0.5
PCR	36.8	37.6	37.6	37.4	40.5	43.9	46.8	52.7	63.5	2711bps	747bps	71.0
Cost to income ratio	60.9	60.5	60.6	58.3	52.0	53.9	53.2	57.2	39.9	-900bps	498bps	44.9
CASA	27.6	25.9	23.6	21.0	18.8	16.2	17.0	15.9	15.6	489bps	548bps	21.1
CAR	20.7	17.8	19.0	19.3	18.6	17.9	19.3	22.0	21.7	363bps	-18bps	21.5

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<i>P&L (Rs mn)</i>	FY19	FY20	FY21E	FY22E
Interest Earned	29488	42859	49800	59626
Interest Expended	16064	23769	27721	31702
NII	13425	19089	22079	27924
Other Income	4620	7061	7864	8924
Net Income	18045	26150	29943	36848
Opex	10826	14179	15946	19518
PPOP	7219	11972	13997	17330
Provisions	1418	2832	4014	3754
PBT	5801	9140	9983	13577
Tax	1983	2392	2516	3421
PAT	3818	6748	7468	10155

<i>BS (Rs mn)</i>	FY19	FY20	FY21E	FY22E
Capital	2924	3041	3041	3041
Reserves	28705	40728	47598	56941
Deposits	194224	261630	311161	388820
Borrowings	86134	103353	99292	95746
Other Liabilities	14241	12670	16684	20437
Total	326228	421423	477777	564986
Cash & Bank	17402	33689	49700	55366
Investments	71617	106682	99572	108870
Advances	228187	269924	316891	387875
Fixed Assets	4470	4480	4680	4930
Other Assets	4552	6648	6934	7946
Total	326228	421423	477777	564986

<i>Ratios (%)</i>	FY19	FY20	FY21E	FY22E
Growth				
NII	43	42	16	26
Operating profit	25	66	17	24
Net profit	31	77	11	36
Advances	71	18	17	22
Deposits	145	35	19	25
Returns				
ROA	1.5	1.8	1.7	1.9
ROE	14.0	17.9	15.8	18.4

<i>Ratios (%)</i>	FY19	FY20	FY21E	FY22E
Asset quality				
GNPA	2.0	1.7	2.2	1.9
NNPA	1.3	0.8	1.1	0.9
PCR	37	53	51	52
Per share (Rs)				
EPS	13	22	25	33
ABVPS	98	137	155	186
P/E	60	35	32	23
P/ABVPS	8.0	5.7	5.0	4.2



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Mrs.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. Mayank Babla	mayank.babladalal-broacha.com	022 67141412	I.T/Telecom/Media
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021
Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com