



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

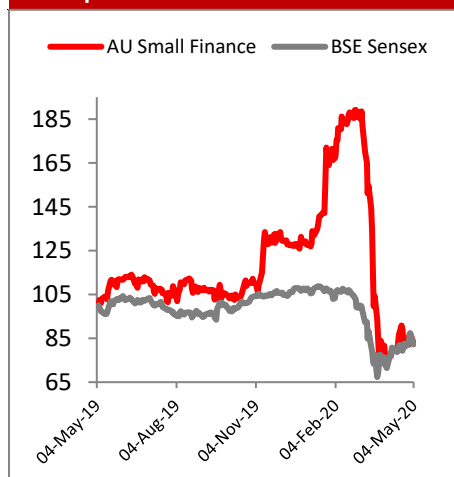
SELL

Current Price (Rs)	516
52 Week Range	444/1218
Target Price (Rs)	453
Downside (%)	12

Key Share Data

Market Cap (Rs.bn)	157.09
Market Cap (US\$ mn)	2076.26
No of o/s shares (mn)	304.12
Face Value	10
Monthly Avg. vol (BSE+NSE) Nos'000	840.5
BSE Code	540611
NSE Code	AUBANK
Bloomberg	AUBANK:IN

Price performance



% Shareholding

	Mar-20	Dec-19
Promoter	30.95	30.99
Public	69.05	69.01
Others	0.00	0.00
Total	100	100

AU small finance bank (AUSFB) has reported stable set of numbers for the quarter ended March 31, 2020. Bank's numbers were below our estimates on the profitability front due to higher COVID-19 related provisions, though operating performance was mostly better than our estimates.

- NII came in at INR 5549 Mn, +9.5% QoQ / +43.4% YoY and 4% above our est.
- Other Income stood at INR 1831 Mn, +13.6% QoQ / +40.3% YoY & 7% above our est.
- PPOP stood at INR 3158 Mn, +0.9% QoQ / +46.4% YoY and 2% below our est.
- Provisions stood at INR 1506 Mn, +275% QoQ / +284% YoY and 187% above our est.
- PAT came in at INR 1223 Mn, -36% QoQ / +3% YoY and 39% below our est.

Financial Highlights

- **Despite the economic headwinds, the bank's AUMs grew by 27% YoY/3% QoQ to Rs 308930 Mn, which includes Retail Assets (+31% YoY/6.5% QoQ) at 258920 Cr, SME (+21% YoY/-0.3% QoQ) at Rs 49760 Mn and Money Market Lending by Treasury (up -92% YoY/-96% QoQ) at 250 Mn.** With the slowdown in the auto industry, bank is focusing more on used vehicles. The share of used vehicles in Wheels segment has increased from 28% in Q4FY19 to around 35.5% in Q4FY20. The bank has indicated that the Covid-19 situation has impacted disbursements Opportunity of ~5-6%.
- **On the liabilities side, Bank's deposit book grew by 34.7% YoY/9.6% QoQ in Q4FY20, with CASA growth of 5.5% YoY (1.2% QoQ) taking CASA ratio at 15.9% (vs 17% QoQ/21% YoY).** Management is focusing on retail deposits, which reflect in strong traction retail TDs. On deposits, the bank will continue to pursue its strategy on retail of CASA and TD in which the bank has granular focus on high value acquisitions. Deposits now form 71% of total borrowings and cover 97% of balance sheet advances. The bank has indicated that macro issues in the banking sector and the Covid-19 situation has impacted deposit mobilization by ~8-10%.
- **Bank's operational efficiency has deteriorated during the quarter, with cost to income ratio (C/I) increasing by 761 bps QoQ to 57.2%, led by lower net income (NII + other income) growth of 10.5% QoQ vs opex growth of 18.9% QoQ in Q4FY20.** NIM (calculated) was flat QoQ at 5.4% despite higher AUM yields and lower cost of funds QoQ as the bank maintained excess liquidity in view of the current situation.
- **Bank's asset quality improved during the quarter, with gross NPAs stood at 1.68% (down by 20 bps QoQ), while net NPAs improved by 20 bps QoQ at 0.81%.** In absolute terms, GNPA's remains declined by 9.1% at Rs 4578 mn, while NNPAs declined by 19% QoQ to Rs 2173 Mn in Q3FY20.
- **Furthermore, the bank has increased the PCR to 52.5% from 46.8% in Q3FY20. Out of total provisions, standard provisions- Rs 1.2 Bn, COVID-19 provisions - Rs 1.38 Bn (for SMA-0 to SMA-2), NPA provisions- Rs 2.4 Bn.** GNPA's declined across the board in retail asset segments (down ~30 bps QoQ to 1.7%) while there was a marginal deterioration in wholesale segment (up ~10 bps QoQ to 1.8%).
- While 4Q numbers should be taken in the context of the moratorium, developments over the next few quarters will be key as the impact of the pandemic on overall book becomes clearer. As on Apr'20, full and partial EMIs paid amounting to 75% of the total outstanding EMIs due in April as against 94% in Mar'20 and 97% in Feb'20, respectively.

Valuation and outlook

While Bank has maintained healthy asset quality during the quarter, AUSFB has asset quality risks from its core SME and vehicle financing portfolios. Besides being a small finance bank, its liability franchise is very young (it has performed the best amongst SFBs on this front) and not so granular (CASA 15.9% and retail deposits at 43%). Despite the sharp correction, AU is still trading at a significant premium to peers (other large private sector banks) and substantial rise in GNPA's could drive the stock price even lower. Thus, we downgrade AUSFB to sell on unfavorable risk-reward (valuing stock at 2.6x FY22E P/Adj BV), but the evolving situation needs to be monitored.

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	BVPS	P/B (X)
FY20	19089	43	11972	66	6748	77	137	3.8
FY21E	22045	42	13476	13	6407	-5	148	3.5
FY22E	25933	15	15988	19	7937	24	174	3.0



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P&L (Rs mn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	YoY	QoQ	Q4FY20
Interest Earned	6834	7883	8769	9574	10334	11116	35%	6%	11835
Interest Expended	3623	4404	4900	5618	5818	6048	28%	4%	6285
NII	3210	3480	3869	3956	4516	5068	43%	9%	5549
Other Income	1225	1059	1306	2109	1508	1612	40%	14%	1831
Net Income	4436	4539	5175	6065	6024	6681	43%	10%	7381
Opex	2684	2752	3018	3157	3247	3552	40%	19%	4223
PPOP	1752	1787	2157	2908	2777	3128	46%	1%	3158
Provisions	350	325	392	315	610	401	284%	275%	1506
PBT	1402	1462	1765	2593	2167	2727	-6%	-39%	1652
Tax	488	509	582	690	447	825	-26%	-48%	429
PAT	914	953	1182	1903	1719	1902	3%	-36%	1223
BS (Rs Mn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	YoY	QoQ	Q4FY20
Networth	29290	30350	31630	33610	35159	42370	38%	3%	43769
Deposits	128690	146860	194220	198490	221492	238650	35%	10%	261639
Borrowings	78300	88280	86130	90070	85831	86680	20%	19%	103353
Other Liabilities	11520	12530	14240	15450	15779	16230	-11%	-22%	12670
Total Liabilities	247800	278020	326220	337620	358261	383930	29%	10%	421432
Cash & Bank	17880	13160	17400	12620	15261	21290	94%	58%	33697
Investments	39980	55980	71620	83830	84337	85880	49%	24%	106682
Advances	181170	200000	228190	231020	248092	265720	18%	2%	269924
Other Assets	8760	8870	9020	10140	10571	11050	23%	1%	11128
Total Assets	247790	278010	326230	337610	358261	383940	29%	10%	421431
Aum Mix (Rs Mn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	YoY	QoQ	Q4FY20
Retail Assets	161080	175210	197920	201210	220480	243010	31%	7%	258920
SME	38860	37890	41290	51890	53040	49900	21%	0%	49760
Money Market	2250	4550	3250	3000	5250	5750	-92%	-96%	250
Total	202190	217650	242460	256100	278770	298660	27%	3%	308930
GNPA (%)	2.03	2.09	2.04	2.08	2.01	1.88	(36 bps)	(20 bps)	1.68
NNPA (%)	1.28	1.31	1.29	1.25	1.14	1.01	(48 bps)	(20 bps)	0.81
PCR (%)	37.6	37.6	37.4	40.5	43.9	46.8	1517 bps	576 bps	52.5



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P&L (Rs mn)	FY19	FY20	FY21E	FY22E
Interest Earned	29488	42859	50468	58833
Interest Expended	16064	23769	28423	32900
NII	13425	19089	22045	25933
Other Income	4620	7061	8030	9974
Net Income	18045	26150	30075	35907
Opex	10826	14179	16599	19919
PPOP	7219	11972	13476	15988
Provisions	1418	2832	4910	5376
PBT	5801	9140	8566	10611
Tax	1983	2392	2159	2674
PAT	3818	6748	6407	7937

BS (Rs mn)	FY19	FY20	FY21E	FY22E
Capital	2924	3041	3041	3041
Reserves	28705	40727	46814	54116
Deposits	194224	261630	307941	378450
Borrowings	86134	103353	116789	140147
Other Liabilities	14241	12670	13430	14505
Total	326228	421421	488015	590260
Cash & Bank	17402	33697	32454	32354
Investments	71617	106682	135486	162584
Advances	228187	269924	307714	381565
Fixed Assets	4470	4470	4783	5118
Other Assets	4552	6648	7578	8639
Total	326228	421421	488015	590260

Ratios (%)	FY19	FY20	FY21E	FY22E
Growth				
NII	43	42	15	18
Operating profit	25	66	13	19
Net profit	31	77	-5	24
Advances	71	18	14	24
Deposits	145	35	18	23
Returns				
ROA	1.5	1.8	1.4	1.5
ROE	14.0	17.9	13.7	14.8

Ratios (%)	FY19	FY20	FY21E	FY22E
Asset quality				
GNPA	2.0	1.7	3.4	2.6
NNPA	1.3	0.8	1.6	1.1
PCR	37.4	52.5	54.4	58.9
Per share (Rs)				
EPS	13	22	21	26
ABVPS	98	137	148	174
P/E	40	23	25	20
P/ABVPS	5.3	3.8	3.5	3.0



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