



AU Small Finance Bank has reported its Q1FY22 performance which beat our estimates on the profitability front.

- **NII** came in at INR 7240 Mn, 10% QoQ / 40% YoY and 1% above our est.
- **Net Income** came in at INR 9082 Mn, -3% QoQ / 22% YoY and -3% below our est.
- **PPOP** came in at INR 4513 Mn, 21% QoQ / 1% YoY and 9% above our est.
- **Provisions** came in at INR 1766 Mn, -4% QoQ / -3% YoY and 7% above our est.
- **PAT** came in at INR 2032 Mn, 20% QoQ / 1% YoY and 10% above our est.
- **EPS** stood at INR 6.5 vs INR 5.49 / INR 6.58 in Q4FY21 / Q1FY21 respectively

Financial Highlights

- Bank's asset quality remains largely stable, with GNPA's sequentially up by 6 bps at 4.31% and NNPA's up by 8 bps to 2.26%. PCR has declined by 93 bps sequentially to 48.8% in Q1FY22. Bank is also carrying total contingency provision of Rs 1.90 Bn (0.6% of loans) to strengthen its balance sheet and be better prepared for any unforeseen risks.
- On a positive note, Collection efficiency improved to 114% in Jun'21 after dips in April'21 (95%) and May'21 (94%). Collection efficiency for July '21 remained strong at 110%. Similarly, the customer activation also improved to 92% in June vs 87-88% in April'21 and May'21.
- Absence of moratorium led to requests for restructuring in Q1'FY22. Bank has done restructuring worth Rs 6.58 Bn during Q1FY22, which led to total standard restructured asset at Rs 12.65 Bn (3.60% of advances). We remain watchful of asset quality in the near term.
- The bank's disbursements stood at Rs 18.96 Bn vs Rs 11.81 Bn (+61% YoY) and Rs 78.12 Bn (-76% QoQ). These included ECLGS disbursements of Rs 3.02 Bn. Muted disbursements resulted in sequential de-growth in AUM on a QoQ basis. AUM stood at Rs 366.35 Bn, up by 22% YoY and -3% QoQ.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21	FY22E	FY23E
NII	19	24	31	40
Adjusted net profit	7	12	10	14
Net worth	44	63	72	85
Adj BVPS (Rs)	137	177	209	247
EPS (Rs)	22	37	32	44
P/E (x)	56	33	39	29
P/Adj BV (x)	9.1	7.1	6.0	5.1
RoA (%)	1.8	2.5	1.7	1.8
RoE (%)	18	22	15	17

Source: Dalal & Broacha Research, Company

Rating	TP (Rs)	Up/Dn (%)
HOLD	1309	5

Market data

Current price	Rs	1248
Market Cap (Rs.Bn)	(Rs Bn)	391
Market Cap (US\$ Mn)	(US\$ Mn)	5269
Face Value	Rs	10
52 Weeks High/Low	Rs	1356/616
Average Daily Volume	('000)	1357
BSE Code		540611
Bloomberg		AUBANK

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	28.4	28.5
FII	31.9	32.1
DII	21.4	20.5
Others	18.3	18.9
Total	100	100

Source: BSE

Avinash Tanawade

- On liabilities, Deposits grew by 38.5% YoY/2.9% QoQ in Q1FY21 led by Savings account growth of 166% YoY/22% QoQ taking CASA ratio at 26% (Vs 14% YoY/23% QoQ). The bank continues to focus on building granular deposits. Retail SA constitutes 91% of total SA deposits.
- AUM spreads improved by 40bps YoY/10 bps QoQ to 7.8% in Q1FY22, supported by reduction in cost of funds. Overall cost of funds stood at 6.3%, down by 88bps YoY driven by granularization of deposits. Incremental cost of funds for Q1'FY22 stood at 5.4%, down by 67 bps over Q1'FY21
- Bank's operational efficiency has improved during the quarter, with cost to income ratio (C/I) falling by 960 bps QoQ to 50.3%. According to management, Bank's C/I ratio will remain in the range of 52-55% in near term, given the investment in technology and branch expansion.

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Highlights of the Conference Call

Asset Quality

- Collection efficiency improved to 114% in Jun'21 after dips in April'21 (95%) and May'21 (94%). Further, collection efficiency for July '21 remained strong at 110%.
- Similarly, the customer activation has also improved to 92% in June vs to 87% in April'21 and 88% in May'21.
- Only 1.9% of book avail restructuring in Q1FY22 vs 11% customers who had availed complete moratorium in FY21.
- Out of total advances, 58% of advances were originated before March 2020, while remaining 42% of advances were originated post March'20. Bank saw strong resilience in post-March'20 book with 92% current and contributes ~2% of GNPA and ~2% of restructured assets. This validated the bank's calibrated approach to underwriting during pandemic times.
- Bank also been cautious on fresh exposures to sectors certain hospitality, education, food and travel, which are yet to recover from the impact of COVID.
- On moratorium, the bank has an outstanding 4+ months moratorium book of Rs 49 Bn, which contributes ~79% of the bank's NPA and ~72% of restructured assets. However, ~45% of this book is current and another ~20% will first in the second bucket. Therefore, the bank's management expects further stress to be minimal from this growth.
- NPA book is quite granular with ATS of almost Rs 1.5 lakh in Wheels, which is secured by the vehicle, ~ Rs 7 lakh in SBL, which is secured by the residential property where average LTVs on NPA book is ~ 29%.

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Strong Asset Franchise

Wheels (36% of Gr. Advances)

- NPAs in this book is currently elevated to 5.9%
- ~Rs 12.5K AUM across 6 lakh customers.
- Bank remains watchful of the upcoming opportunity in EV space and is cautiously starting funding EVs.
- Bank is digitizing its internal processes to drive efficiency and cost optimization.

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SBL-MSME (39% of Gr. Advances)

- ~Rs 13.7K AUM across 1.5 lakh customers.
- 50% LTV, lending to unorganized MSMEs for business purposes and secured by collateral
- NPAs in this book is resilient to 4.2%
- Bank will continue to target profiles, which performed relatively better during the pandemic, like FMCG retail traders, foods & vegetable retailers etc

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Business Banking & Agri Banking (8.3% of Gr. Advances)

- Bank has on-boarded more than 6,000 MSME/SME customers in these businesses in the last few years
- Bank will continue to grow this segment by focusing on expanding the geographic footprint, differentiating itself with better solutions, and will focus on liability and transaction banking business from these customers.

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Home Loan (4% of Gr. Advances)

- ~Rs 1.42K AUM across 13k customers.
- Currently, operating in 7 states and offer home loans at 190 plus locations
- Bank is doing its asset business from 600-plus locations, and thus expanding home loans will be on a plug-and-play mode.

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Credit Card

- First and only small finance bank to have its own credit card and that's too in visa.
- Till date, the bank had issued 25k credit cards

Scaling retail-focused sustainable liability franchise

- The bank has close to 15 lakh savings accounts & 1.25 lakh current accounts as of June '21.
- Improving CASA balances and optimum pricing on its savings and term deposits will help the bank to reduce the overall cost of deposits. Bank activated ~72K debit cards in this quarter.
- Branch banking follows the philosophy of AAEDRR, which stands for acquisition, activation, engagement, deepening, retention and referral.
- During the quarter, Bank has launched 3 new products, AU Platinum (a family branching program), Royal World (targeted towards NR customers), and AU power (current account to fulfill the needs of retail merchants and traders who are tech-savvy).

Branch banking follows the philosophy of AAEDRR, which stands for acquisition, activation, engagement, deepening, retention and referral.

Digital initiatives

- Bank's digital strategy has five pillars; Digital, Digitization led Automation, Data Analytics, It Infra & Security and Digital Marketing.
- Launched its digital bank – AU 0101, a comprehensive mobile and internet banking platform
- Launched Credit Cards offering to customers with attractive product features including Industry's first digital device protection plan, and end-to-end digital onboarding.

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Quarterly Financial

P&L (Rs Bn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY	QoQ
Interest Earned	11.83	11.84	12.12	12.61	12.92	13.53	14%	5%
Interest Expended	6.29	6.68	6.52	6.28	6.37	6.29	-6%	-1%
NII	5.55	5.16	5.61	6.33	6.56	7.24	40%	10%
Other Income	1.83	2.26	2.86	6.63	2.77	1.84	-18%	-33%
Net Income	7.38	7.42	8.46	12.97	9.32	9.08	22%	-3%
Opex	4.22	2.96	3.80	4.24	5.59	4.57	54%	-18%
PPOP	3.16	4.46	4.66	8.73	3.74	4.51	1%	21%
Provisions	1.51	1.81	0.57	2.84	1.78	1.77	-3%	-1%
PBT	1.65	2.64	4.09	5.89	1.96	2.75	4%	40%
Tax	0.43	0.64	0.87	1.10	0.27	0.71	12%	164%
PAT	1.22	2.01	3.22	4.79	1.69	2.03	1%	20%
BS (Rs Bn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY	QoQ
Networth	43.77	45.87	49.16	54.03	62.75	64.90	41%	3%
Deposits	261.64	267.34	269.80	297.08	359.79	370.14	38%	3%
Borrowings	103.35	114.54	101.23	91.71	70.30	61.01	-47%	-13%
Other Liabilities	12.67	14.91	19.95	23.24	23.07	17.52	18%	-24%
Total Liabilities	421.43	442.66	440.14	466.06	515.91	513.57	16%	0%
Cash & Bank	33.70	54.68	43.26	33.39	47.81	47.98	-12%	0%
Investments	106.68	113.74	112.41	115.62	108.15	111.51	-2%	3%
Advances	269.92	262.50	272.33	302.93	346.09	339.57	29%	-2%
Other Assets	11.13	11.75	12.15	14.11	13.86	14.51	23%	5%
Total Assets	421.43	442.67	440.14	466.05	515.91	513.57	16%	0%
BS (Rs Bn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY	QoQ
GNPA (%)	1.7	1.7	1.5	1.0	4.3	4.3	262 bps	6 bps
NNPA (%)	0.8	0.6	0.5	0.2	2.2	2.3	164 bps	8 bps
PCR (%)	52	64	71	76	50	49	-1472 bps	-94 bps
C/I Ratio (%)	57	40	45	33	60	50.3	1039 bps	-960 bps
C/D Ratio (%)	103	98	101	102	96	92	-645 bps	-445 bps

Source: Dalal & Broacha Research, Company

Valuation & outlook

We like AUSFB's ability to deliver strong operating performance across parameters, particularly in a challenging environment. Impressive recovery in collection efficiency from covid lows adds to positivity. Given the secured nature of its lending book (over 95% secured loan book), conservative underwriting mechanism, efficient risk management capabilities, and long runway for growth, we find the stock attractive. We expect total business to grow at CAGR of 36% in FY21-23E, with growth in loans and deposits at ~34% and ~37% respectively. At CMP the stock trades at 6x its FY22E ABV and 5.1x its FY23E ABV. We assign 'Hold' rating with Target Price of Rs 1309/share, valuing the stock at a target multiple of 5.3x FY23E ABV.

Financials

P&L (Rs Mn)	FY20	FY21	FY22	FY23
Interest income	42.9	49.5	62.3	83.2
Interest expense	23.8	25.8	31.1	42.9
NII	19.1	23.7	31.2	40.3
Non-interest income	7.1	14.5	10.6	13.9
Net revenues	26.2	38.2	41.8	54.2
Operating expenses	14.2	16.6	22.1	29.1
PPOP	12.0	21.6	19.7	25.0
Provisions	2.8	7.0	6.4	6.8
PBT	9.1	14.6	13.3	18.2
Tax	2.4	2.9	3.4	4.6
PAT	6.7	11.7	10.0	13.6
Balance sheet	FY20	FY21	FY22	FY23
Share capital	3	3	3	3
Reserves & surplus	41	60	69	82
Net worth	44	63	72	85
Deposits	262	360	490	680
Borrowings	103	70	80	92
Other liability	13	23	18	20
Total liabilities	421	516	660	876
Fixed assets	4	4	5	5
Investments	107	108	140	177
Loans	270	346	458	618
Cash	34	48	49	66
Other assets	7	9	8	9
Total assets	421	515	659	876

Ratios	FY20	FY21	FY22	FY23
Growth (%)				
NII	42	24	32	29
PPOP	66	80	-9	27
PAT	77	73	-15	37
Advances	18	28	32	35
Deposits	35	38	36	39
Spread (%)				
Yield on Funds	11.8	10.9	10.8	11.0
Cost of Funds	7.4	6.5	6.2	6.4
Spread	4.4	4.3	4.6	4.6
NIM	5.2	5.2	5.4	5.3
Asset quality (%)				
Gross NPAs	1.7	4.3	2.9	2.4
Net NPAs	0.8	2.2	1.5	1.3
Provisions	53	50	47	45
Credit Cost	1.0	2.0	1.4	1.1
Return ratios (%)				
RoE	17.9	22.0	14.7	17.3
RoA	1.8	2.5	1.7	1.8
Per share (Rs)				
EPS	22	37	32	44
BV	144	201	231	273
ABV	137	177	209	247
Valuation (x)				
P/E	56.3	33.3	39.2	28.6
P/BV	8.7	6.2	5.4	4.6
P/ABV	9.1	7.1	6.0	5.1

Source: Dalal & Broacha Research, Company

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