

**AU Small Finance Bank's performance in Q2FY22 met our estimates on the profitability front. Asset quality improved during the quarter, with GNPA's sequentially down by 115 bps at 3.16% and NNPA's down by 61bps to 1.65%. Bank now carries total contingency provision of Rs 3Bn (84bps of loans).**

- **NII** came in at **Rs 7.53 Bn**, 4% QoQ / 34% YoY
- **Other Income** came in at **Rs 1.61 Bn**, -11% QoQ / -27% YoY
- **PPOP** came in at **Rs 3.91 Bn**, -19% QoQ / -11% YoY
- **Provisions** came in at **Rs 36 Mn**, -98% QoQ / 89% YoY
- **PAT** came in at **Rs 2.79 Bn**, 37% QoQ / -13% YoY
- **EPS** stood at **Rs 8.9** vs INR 6.5 / INR 10.5 in Q1FY22 / Q2FY21

### Financial Highlights

- Operating performance was adversely impacted by higher operating expenses, which surged by ~45% YoY/21% QoQ and thus the C/I ratio increased to 58.5% (vs 48.7% QoQ). The bank's higher opex cost was mainly due to increase in employee base, as well as investments in brand, products and people towards franchise building. Bank has opened 53 new branches and added 3000 plus employees in Q2FY22.
- On the other hand, strong growth of 34% in NII was supported by reduction in Cost of funds (CoF). Overall CoF for Q2'FY22 stood at 6.1% - decline of 22 bps over Q1'FY22 driven partly by improving deposits mix; Incremental cost for Q2FY22 was at 5.3% - down 4 bps QoQ. Besides, disbursement yields (12.7% vs 11.4% QoQ) improved sequentially partly aided by normalization in the disbursement mix.
- Disbursements grew by 57% YoY /171% QoQ to Rs 51.35 Bn in Q2FY22 as operating environment and economic activity improved significantly. AUM grew by 24% YoY/4% QoQ to reach Rs 380.11 Bn.
- Portfolio quality improved during Q2FY22, Collection efficiency at 109% for Sept'21 and for Q2FY22. Customer activation also remained stable at 91% in Sep 2021 vs to 92% in June 2021. Bank has created an additional contingency provision of Rs 1.1 Bn, by utilizing the entire provision released due to GNPA reduction, towards further building up of buffer provisions to further strengthen balance sheet.

### Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21	FY22E	FY23E
NII	19	24	30	39
Net profit	7	12	10	13
Net worth	44	63	72	84
Adj BVPS (Rs)	137	177	209	247
EPS (Rs)	22	37	32	41
P/E (x)	55	32	38	29
P/Adj BV (x)	8.8	6.8	5.8	4.9
RoA (%)	1.8	2.5	1.7	1.7
RoE (%)	18	22	15	16

Source: Dalal & Broacha Research, Company

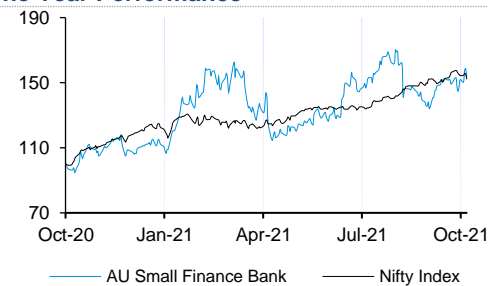
Rating	TP (Rs)	Up/Dn (%)
<b>HOLD</b>	<b>1308</b>	<b>8</b>

### Market data

<b>Current price</b>	<b>Rs</b>	<b>1210</b>
Market Cap (Rs.Bn)	(Rs Bn)	379
Market Cap (US\$ Mn)	(US\$ Mn)	5066
Face Value	Rs	10
52 Weeks High/Low	Rs	1389 / 723
Average Daily Volume	('000)	1160
BSE Code		540611
Bloomberg		AUBANK.IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	28.4	28.4
FII	32.5	31.9
DII	20.9	21.4
Others	18.3	18.3
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

**Avinash Tanawade**  
(022) 67141449

[avinash.tanawade@dalal-broacha.com](mailto:avinash.tanawade@dalal-broacha.com)

- Standard Restructured accounts stood at 3.6% of gross advances as of Sep 30, 2021. Out of this pool, billing has started from 48% of the restructured book, wherein 14% of the book is NPA as on 30th, Sep 2021.
- Good part about asset quality numbers is that reduction in NPAs is largely due to resolution of NPAs instead of write-off. Bank saw 37% resolution in the opening NPA book. Out of which, 80% resolution happened due to repayment, while ~ 18% of resolution happened on account of security disposals. Furthermore, Bank has security in hand for ~ 10% of its NPA book.
- On the liability front, deposits growth was healthy at 45% YoY/5.5% QoQ with CASA deposits grew by 122% YoY/25% QoQ, taking CASA ratio at 30% (Vs 20% YoY). Overall capital adequacy ratio stood at 22% with Tier-I ratio at 20.5% (22.2% including profits), up by 222 bps on YoY basis.

**Standard Restructured accounts stood at 3.6% of advances as of Sep 30, 2021**

**Bank saw 37% resolution in the opening NPA book. Out of which 80% happened due to repayment.**

**Deposits growth was healthy at 45% YoY/5.5% QoQ with CASA deposits grew by 122% YoY/25% QoQ, taking CASA ratio at 30% (Vs 20% YoY).**

## Quarterly Financial

P&L (Rs Bn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY	QoQ
Interest Earned	12.12	12.61	12.92	13.53	14.05	15.9%	3.8%
Interest Expended	6.52	6.28	6.37	6.29	6.52	0.0%	3.5%
<b>NII</b>	<b>5.61</b>	<b>6.33</b>	<b>6.56</b>	<b>7.24</b>	<b>7.53</b>	<b>34.3%</b>	<b>4.0%</b>
Other Income	2.61	6.63	2.77	2.14	1.91	-26.9%	-10.8%
<b>Net Income</b>	<b>8.22</b>	<b>12.97</b>	<b>9.32</b>	<b>9.38</b>	<b>9.44</b>	<b>14.9%</b>	<b>0.6%</b>
Opex	3.80	4.24	5.59	4.57	5.53	45.4%	20.9%
<b>PPOP</b>	<b>4.42</b>	<b>8.73</b>	<b>3.74</b>	<b>4.81</b>	<b>3.91</b>	<b>-11.4%</b>	<b>-18.6%</b>
Provisions	0.33	2.84	1.78	2.06	0.04	-89.0%	-98.3%
<b>PBT</b>	<b>4.09</b>	<b>5.89</b>	<b>1.96</b>	<b>2.75</b>	<b>3.88</b>	<b>-5.2%</b>	<b>41.2%</b>
Tax	0.87	1.10	0.27	0.71	1.09	25.6%	53.0%
<b>PAT</b>	<b>3.22</b>	<b>4.79</b>	<b>1.69</b>	<b>2.03</b>	<b>2.79</b>	<b>-13.5%</b>	<b>37.1%</b>
BS (Rs Bn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY	QoQ
Networth	49.16	54.03	62.75	64.90	67.81	37.9%	4.5%
Deposits	269.80	297.08	359.79	370.14	390.34	44.7%	5.5%
Borrowings	101.23	91.71	70.30	61.01	49.68	-50.9%	-18.6%
Other Liabilities	19.95	23.24	23.07	17.52	24.53	23.0%	40.0%
<b>Total Liabilities</b>	<b>440.14</b>	<b>466.06</b>	<b>515.91</b>	<b>513.57</b>	<b>532.36</b>	<b>21.0%</b>	<b>3.7%</b>
Cash & Bank	43.26	33.39	47.81	47.98	41.91	-3.1%	-12.6%
Investments	112.41	115.62	108.15	111.51	116.79	3.9%	4.7%
Advances	272.33	302.93	346.09	339.57	358.45	31.6%	5.6%
Other Assets	12.15	14.11	13.86	14.51	15.20	25.2%	4.8%
<b>Total Assets</b>	<b>440.14</b>	<b>466.05</b>	<b>515.91</b>	<b>513.57</b>	<b>532.36</b>	<b>21.0%</b>	<b>3.7%</b>
BS (Rs Bn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY	QoQ
GNPA (%)	1.5	1.0	4.3	4.3	3.2	163 bps	-115 bps
NNPA (%)	0.5	0.2	2.2	2.3	1.7	120 bps	-61 bps
PCR (%)	71	76	50	49	49	-2238 bps	-19 bps
C/I Ratio (%)	46	33	60	49	59	1228 bps	982 bps
C/D Ratio (%)	101	102	96	92	92	-911 bps	9 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 90% 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 32% in FY21-23E, with growth in loans and deposits at ~28% and ~35% respectively. **At CMP the stock trades at 5.8x its FY22E ABV and 4.9x its FY23E ABV. We assign 'Hold' rating with Target Price of Rs 1308/share, valuing the stock at a target multiple of 5.3x FY23E ABV.**

## Highlights of the Conference Call

### Asset quality

- Bank saw 37% resolution in the opening NPA book. More than 80% resolutions happened due to repayment, while ~ 18% of resolutions happened on account of security disposals. Bank has security in hand for ~ 10% of its NPA book.
- Bank has not done any write-off, though will start cleaning the book going forward.
- Standard Restructured accounts stood at 3.6% of gross advances. Out of this pool, billing has started from 48% of the restructured book, wherein 14% of the book is NPA as on 30th, Sep 2021.
- On moratorium book, outstanding four plus months stood at Rs 45.0 Bn, which is contributing to 76% of NPA and 70% of restructured assets. However, 43% of this book is current and another 27% in the first and second bucket.

**Bank has not done any write-off, though will start cleaning the book going forward.**

**More than 80% resolutions happened due to repayment, while ~ 18% of resolutions happened on account of security disposals**

**Billing has started from 48% of the restructured book, wherein 14% of the book is NPA as on 30th, Sep 2021.**

### Wheels (36% of Advances)

- Second quarter saw a strong demand revival in both the new and used vehicle segment, leading to its disbursement rising by 86% YoY to Rs 19.06 Bn during Q2 FY22.
- Wheels AUM stood at Rs 142.80 Bn across 6.5 lakh vehicles, with 52% booked being under personal segment and average LTV of 80%.
- Bank's new vehicles to used vehicles ratio have reached 62:38, and over time this ratio can change to 50:50 (new vehicles to used vehicles).
- Bank has increased its focus on this segment forming a separate sales team and building a robust channel distribution network of over 3,000 used car dealers and their associates.

**Wheels AUM stood at Rs 142.80 Bn across 6.5 lakh vehicles, with 52% booked being under personal segment and average LTV of 80%.**

**Bank formed separate sales team for wheels segment and built robust channel distribution network of over 3,000 used car dealers**

### SBL (39% of Advances)

- AUM of Rs 143.78 Bn spared across 1.5 lakh MSME businesses
- NPAs in SBL improve by 106 bps to 3.14%
- It is a highly granular book with average ticket size of Rs 10 lakh and average LTV of 50%
- September disbursements for the quarter was at Rs 9.78 Bn, down by 7% YoY

**SBL is a highly granular book with an average ticket size of Rs 10 lakh and average LTV of 50%**

### Home Loan (5% of Advances)

- Total AUM in housing vertical has reached Rs 16.90 Bn across 18,012 units.
- The portfolio comprises 80% home loans and 20% non-housing loans like LAP and top-up loans.
- Bank's disbursements in Q2 FY22 stood at Rs 3.76 Bn vs Rs 0.68 Bn in Q1 FY22 and total disbursement of Rs 1.77 Bn in FY21.

**Housing portfolio comprises 80% home loan and 20% non-housing loan like LAP and top-up loans.**

**GNPAs in housing Loan stood at 0.6% with only 84 cases**

- GNPA's in Home Loan stood at 0.6% with only 84 cases
- Average ticket size stood at Rs 11 lakhs and Average LTV stood at ~53%

**Commercial Banking (15% of Advances)**

- Two main businesses on commercial banking platform are business banking and agri banking, which spread across 6,000-plus SME & MSME businesses and reported GNPA's of 0.6%.
- Commercial Banking disbursement stood at Rs 7.78 Bn, up by 130% YoY.

**Credit cards**

- Credit card traction building up (300,000 transactions amounting to Rs 120 Bn), with ~49 thousand credit cards issued till end-Q2'FY22; 55% issued to first time credit card users.
- Out of 50,000 Credit cards, ~ 80% is existing to bank clients, while 20% is new to bank clients, with 60% salaried and 40% are self-employed.

**Out of 50,000 Credit cards, ~ 80% is existing to bank clients, while 20% is new to bank clients, with 60% salaried and 40% are self-employed.**

**Other highlights**

- Bank had total of Rs 8.87 Bn of ECLGS book, which is 78% current and 1.1% of NPA.
- Out of 23,000-plus people, ~30% is salesforce, ~10% is collection force, and ~20% is in the front-end job like credit, operation and all those things.

**Bank had total of Rs 8.87 Bn of ECLGS book, which is 78% current and 1.1% of NPA.**

**Financials**

P&L (Rs Mn)	FY20	FY21	FY22	FY23	Ratios	FY20	FY21	FY22	FY23
Interest income	42.9	49.5	61.8	80.6	<b>Growth (%)</b>				
Interest expense	23.8	25.8	31.3	42.0	NII	42	24	29	27
<b>NII</b>	<b>19.1</b>	<b>23.7</b>	<b>30.5</b>	<b>38.6</b>	PPOP	66	80	-13	21
Non-interest income	7.1	14.5	10.5	13.3	PAT	77	73	-15	30
<b>Net revenues</b>	<b>26.2</b>	<b>38.2</b>	<b>40.9</b>	<b>51.9</b>	Advances	18	28	27	29
Operating expenses	14.2	16.6	22.1	29.1	Deposits	35	38	36	34
<b>PPOP</b>	<b>12.0</b>	<b>21.6</b>	<b>18.8</b>	<b>22.8</b>	<b>Spread (%)</b>				
Provisions	2.8	7.0	5.6	5.6	Yield on Funds	11.8	10.9	10.8	11.0
<b>PBT</b>	<b>9.1</b>	<b>14.6</b>	<b>13.2</b>	<b>17.2</b>	Cost of Funds	7.4	6.5	6.3	6.4
Tax	2.4	2.9	3.3	4.3	Spread	4.4	4.3	4.5	4.5
<b>PAT</b>	<b>6.7</b>	<b>11.7</b>	<b>9.9</b>	<b>12.9</b>	NIM	5.2	5.2	5.3	5.3
<b>Balance sheet</b>					<b>Asset quality (%)</b>				
Share capital	3	3	3	3	Gross NPAs	1.7	4.3	2.8	2.3
Reserves & surplus	41	60	69	81	Net NPAs	0.8	2.2	1.6	1.3
<b>Net worth</b>	<b>44</b>	<b>63</b>	<b>72</b>	<b>84</b>	Provisions	53	50	43	45
Deposits	262	360	490	658	Credit Cost	1.0	2.0	1.3	1.0
Borrowings	103	70	80	76	<b>Return ratios (%)</b>				
Other liability	13	23	17	18	RoE	17.9	22.0	14.7	16.5
<b>Total liabilities</b>	<b>421</b>	<b>516</b>	<b>660</b>	<b>836</b>	RoA	1.8	2.5	1.7	1.7
Fixed assets	4	4	5	5	<b>Per share (Rs)</b>				
Investments	107	108	140	172	EPS	22	37	32	41
Loans	270	346	439	567	BV	144	201	231	270
Cash	34	48	68	83	ABV	137	177	209	247
Other assets	7	9	8	8	<b>Valuation (x)</b>				
<b>Total assets</b>	<b>421</b>	<b>515</b>	<b>659</b>	<b>836</b>	P/E	54.5	32.3	38.2	29.3
					P/BV	8.4	6.0	5.2	4.5
					P/ABV	8.8	6.8	5.8	4.9

Dalal & Broacha Research, Company

## Disclaimer

**Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B** (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. [www.dalal-broacha.com](http://www.dalal-broacha.com)

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

### **Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-**

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

### **Disclosures in respect of Research Analyst:**

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any

copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Name	Designation	Email	Phone	Sector
Mr.Kunal Bhatia	Head of Research	kunal.bhatia@dalal-broacha.com	022 67141442	Retail   FMCG   Logistics
Mrs.Charulata Gaidhani	Sr.Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma   Healthcare
Mr.Mayank Babla	Sr.Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT   Telecom   Media
Mr.Avinash Tanawade	Sr.Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr.Akshay Ashok	Sr.Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr.Bhavya Gandhi	Associate	bhavya.gandhi@dalal-broacha.com	022 67141444	Midcaps
Mr.Miraj Shah	Associate	miraj.shah@dalal-broacha.com	022 67141489	FMCG   Retail

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173, E-mail: [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)