



Near term challenges, but best in class

AU Small Finance Bank's operational performance was adversely impacted by interest reversals of INR 0.66 Bn and one-off increase in ESOP expense of INR 0.59 Bn, while profitability was supported by lower Provisions and higher other income, which was driven by PSLC fee of INR 1.04 Bn in Q4FY21.

- **NII came in at INR 6.56 Bn**, 18% YoY/4% QoQ and 3% below our est.
- **Other Income came in at INR 2.77 Bn**, 51% YoY/-58% QoQ and 35% above our est.
- **PPOP came in at INR 3.74 Bn**, 18% YoY/-57% QoQ and -13% below our est.
- **Provisions came in at INR 1.78 Bn**, 18% YoY/-37% QoQ and 17% below our est.
- **PAT came in at INR 1.69 Bn**, 38% YoY/ -65% QoQ and 4% above our est.
- **EPS stood at INR 5.49** vs INR 15.62 / INR 4.03 in Q3FY21 / Q4FY20 respectively.

Financial Highlights

- Bank's GNPA & NNPA stood at 4.3% & 2.2% as against 3.3% & 1.3% on a proforma basis in the previous quarter. Increase in NPA driven by 1.5% pool of customers who are less than 90 DPD and paying but were Once NPA (ONAN) and have been tagged as NPA now. However, 90 plus DPD NPAs reduced to 2.7% as on 31-Mar'21 from 3.3% as on 31-Dec'20.
- PCR stood at 50% on GNPL; (~60% PCR against > 90 DPD). While Wheels - constitutes 47% of GNPA, SBL - constitutes 40% of GNPA. Historically, loss on repossession and settlement has been below 40% for Wheels and below 30% for SBL.
- Collection Efficiency in Q4FY21 above pre-Covid levels. Customer activation of 90% in March'21 (86% Full and 4% Part) vs. 85% in the period April'19 - Feb'20 (80% Full and 5% Part). Restructured loans stood at INR 6.4 Bn (1.8% of loans; Wheels & SBL constitute ~90%).

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	19	24	31	40
Adjusted net profit	7	12	9	13
Networth	44	63	72	84
Adj BVPS (Rs)	137	177	207	244
EPS (Rs)	22	37	30	43
P/E (x)	45	27	33	23
P/Adj BV (x)	7.3	5.7	4.9	4.1
RoA (%)	1.8	2.5	1.6	1.8
RoE (%)	18	22	14	17

Source: Dalal & Broacha Research, Company

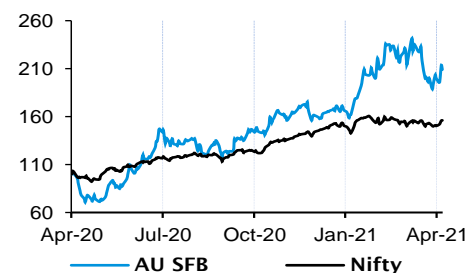
Rating	TP (Rs)	Up/Dn (%)
HOLD	1100	10

Market data

Current price	Rs	1,003
Market Cap (Rs.Bn)	(Rs Bn)	313
Market Cap (US\$ Mn)	(US\$ Mn)	4227
Face Value	Rs	10
52 Weeks High/Low	Rs	1356/366
Average Daily Volume	('000)	2299
BSE Code		540611

Bloomberg **AUBANK:IN**
Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	28.47	28.98
FII	32.05	32.78
DII	20.54	18.93
Others	18.94	19.32
Total	100	100

Source: BSE

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- Advances growth was solid (28% YoY/14% QoQ) at INR 346.09 Bn, while disbursements saw strong bounce back at INR 74.21 Bn (21% QoQ).
- Deposits stood at Rs 359.79 Bn (38% YoY/21% QoQ). CASA ratio increased to 23% vs 22% QoQ and 14% YoY. Share of Deposits in external funding (Deposits + Borrowings) continues to increase both YoY (84% from 72%) and QoQ (84% from 76%).
- Post capital raise of Rs6.3bn in Q4 Tier-1 stands strong at 21.5%, which is comforting.
- Bank's both incremental spreads (7.9% vs 8.0% QoQ) and AUM Spreads (7.7% vs 7.6% QoQ) remain stable with disbursement yields in Q4FY21 being in line with Q3FY21. Overall cost of funds for Q4FY21 was at 6.5%, reduced by 20bps QoQ, while incremental cost stood at 5.9%, up by 10 bps QoQ.

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Highlights of the Conference Call

Asset Quality

- ~81% of loans are current (0dpd) as on 31st Mar'21 – same level as 31st Mar'20
- Average ticket on a 90 DPD book is ~ Rs 2 lakh, which is secured either by vehicle or real estate property
- ~13% is current (i.e. 0 dpd) but tagged as NPA mainly as the customer has other linked loans which are between 1-90dpd

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Collection Efficiency

- Collection Efficiency in March 2021 stood at 112%
- Overall Collection Efficiency for Q4FY21 stood at 107%
- Collection efficacy in month of April 2021 could be 5% lower than pre covid level (eg April 2019).

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Provision

- Accelerated provisioning of Rs 3.80 Bn made in FY21
- Management is comfortable on current provisions of 50%, given historically LGD was ~ 1/3rd of GNPA

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Deposit

- Peak rates for retail TD over last 12 month are came down from 7.77% to 6.5%
- Cost of average Saving Account at 5.7%
- Over the last few quarters, Bank has reduced dependence on bulk deposit and focused remained on a granular deposits base.

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Impact of second wave of Covid-19

- Business volume has come down
- Branch footfall is also gone down
- Team spirit is also very low because sudden surge in Covid-19 cases

Other important highlights

- ~10% of customers are overlapping in asset side
- Login to credit rejection ratio gone up by 10%

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Valuation & outlook

We believe that the bank has performed well on business growth, but asset quality remains a key risk in the near term. Bank has reported higher GNPA ratio at 4.3% (vs 3.3% in Q3FY21), while restructuring pool under the RBI RE framework which also came in higher at 1.8% of loans compared with the earlier guidance of 1.5%. However, adequate provision buffer towards elevated slippages provides some comfort over asset quality. Given the secured nature of its lending book (98% of the loan book is secured), 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 37% in FY21-23E, with growth in loans and deposits at ~36% and ~37% respectively. In turn, this is expected to lead to NII/PPoP/PAT CAGR of 31%/8%/7% over FY21-23E. At CMP the stock trades at 4.9x its FY22E ABV and 4.1x its FY23E ABV. We assign 'Hold' rating with Target Price of Rs 1100/share, valuing the stock at a target multiple of 4.5x FY23E ABV.

Quarterly Financial

P&L (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Interest Earned	11.1	11.8	11.8	12.1	12.6	12.9	9%	2%
Interest Expended	6.0	6.3	6.7	6.5	6.3	6.4	1%	1%
NII	5.1	5.5	5.2	5.6	6.3	6.6	18%	4%
Other Income	1.6	1.8	2.3	2.9	6.6	2.8	51%	-58%
Net Income	6.7	7.4	7.4	8.5	13.0	9.3	26%	-28%
Opex	3.6	4.2	3.0	3.8	4.2	5.6	32%	32%
PPOP	3.1	3.2	4.5	4.7	8.7	3.7	18%	-57%
Provisions	0.4	1.5	1.8	0.6	2.8	1.8	18%	-37%
PBT	2.7	1.7	2.6	4.1	5.9	2.0	19%	-67%
Tax	0.8	0.4	0.6	0.9	1.1	0.3	-37%	-75%
PAT	1.9	1.2	2.0	3.2	4.8	1.7	38%	-65%
BS (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Net worth	42	44	46	49	54	63	43%	16%
Deposits	239	262	267	270	297	360	38%	21%
Borrowings	87	103	115	101	92	70	-32%	-23%
Other Liabilities	16	13	15	20	23	23	82%	-1%
Total Liabilities	384	421	443	440	466	516	22%	11%
Cash & Bank	21	34	55	43	33	48	42%	43%
Investments	86	107	114	112	116	108	1%	-6%
Advances	266	270	263	272	303	346	28%	14%
Other Assets	11	11	12	12	14	14	25%	-2%
Total Assets	384	421	443	440	466	516	22%	11%
BS (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
GNPA (%)	1.9	1.7	1.7	1.5	1.0	4.3	257 bps	326 bps
NNPA (%)	1.0	0.8	0.6	0.5	0.2	2.2	138 bps	194 bps
PCR (%)	47	52	64	71	76	50	-269 bps	-2626 bps
C/I Ratio (%)	53	57	40	45	33	60	270 bps	2723 bps
C/D Ratio (%)	111	103	98	101	102	96	-698 bps	-578 bps

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs Mn)	FY 20	FY 21	FY 22	FY 23
Interest income	42.9	49.5	61.4	82.5
Interest expense	23.8	25.8	30.4	42.2
NII	19.1	23.7	31.0	40.3
Non-interest income	7.1	14.5	10.7	13.8
Net revenues	26.2	38.2	41.6	54.1
Operating expenses	14.2	16.6	22.6	29.1
PPOP	12.0	21.6	19.1	25.0
Provisions	2.8	7.0	6.5	7.0
PBT	9.1	14.6	12.6	18.0
Tax	2.4	2.9	3.2	4.5
PAT	6.7	11.7	9.4	13.4
Balance sheet	FY 20	FY 21	FY 22	FY 23
Share capital	3	3	3	3
Reserves & surplus	41	60	69	81
Net worth	44	63	72	84
Deposits	262	360	490	680
Borrowings	103	70	78	87
Other liability	13	23	17	20
Total liabilities	421	516	657	872
Fixed assets	4	5	5	6
Investments	107	108	140	177
Loans	270	346	467	641
Cash	34	48	38	39
Other assets	7	9	7	8
Total assets	421	516	657	872

Ratios	FY 20	FY 21	FY 22	FY 23
Growth (%)				
NII	42	24	31	30
PPOP	66	80	-12	31
PAT	77	73	-19	42
Advances	18	28	35	37
Deposits	35	38	36	39
Spread (%)				
Yield on Funds	11.8	10.9	10.7	11.0
Cost of Funds	7.4	6.5	6.1	6.3
Spread	4.4	4.3	4.6	4.7
NIM	5.2	5.2	5.4	5.4
Asset quality (%)				
Gross NPAs	1.7	4.3	2.8	2.3
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	14.0	17.2
RoA	1.8	2.5	1.6	1.8
Per share (Rs)				
EPS	22	37	30	43
BV	144	201	230	271
ABV	137	177	207	244
Valuation (x)				
P/E	45.2	26.8	33.2	23.3
P/BV	7.0	5.0	4.4	3.7
P/ABV	7.3	5.7	4.9	4.1

Source: Dalal & Broacha Research, Company

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