



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result update@ Dalal & Broacha

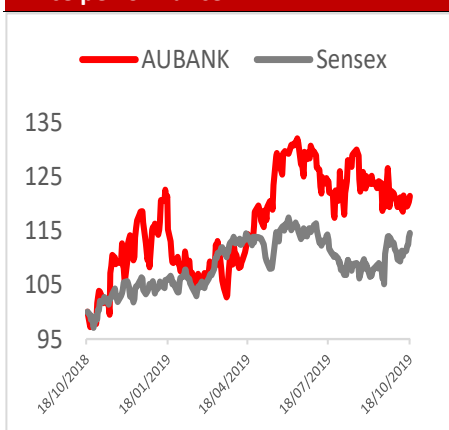
HOLD

Current Price	688
52 Week Range	502/719
Target Price	741
Upside (%)	8

Key Share Data

Market Cap (Rs.bn)	202.03
Market Cap (US\$ Mn)	2845.49
No of o/s shares (Mn)	293.42
Face Value	10
BSE Code	540611
NSE Code	AUBANK
Bloomberg	AUBANK:IN

Price performance



% Shareholding	Sep-19	June-19
FII	25.46	24.69
DII	15.67	13.11
Others	58.87	62.2
Total	100	100

Supported by strong growth in NII and better asset quality, AU small finance bank (AUSFB) has reported a robust net profit growth of 88% YoY at Rs 1719 mn for the quarter ended September 30, 2019. Bank's NII came at Rs 4516 mn (up 41% YoY/ 14% QoQ) led by higher AUM growth at 38% YoY (9% QoQ) at Rs 278.8 Bn. Bank's operational efficiency has improved during the quarter, with cost to income ratio falling by 660 bps YoY to 53.9%, backed by higher net income (NII + other income) growth of 36% vs opex growth of 21% in Q2FY20. Operating profit grew by 59% YoY to Rs 2777 Mn in Q2FY20.

Stable asset quality (NNPA at 1.14%): Bank's asset quality remained stable, with gross NPAs stood at 2.01% (down by 7 bps QoQ), while net NPAs improved by 11 bps QoQ at 1.14%. In absolute terms, GNPA's increased by 4% QoQ to Rs 5038 mn, while NNPA's declined by 2% QoQ to Rs 2829 Mn in the second quarter of current fiscal. The bank has used some amount of tax benefits for building up an additional provisioning buffer, and increased provision on standard assets from 0.4% to 1%. Because of which, provisions for bad loans increased by 74% YoY and 94% QoQ Rs 610 Mn in Q2FY20. With this, AUSFB's PCR improved by 336 bps QoQ/ 627 bps YoY to 43.9%. We don't expect substantial deterioration in asset quality in the near term, as the bank cautiously focusing on granular and secured retail loans.

Robust AUMs growth at 38% YoY: Notwithstanding the macro headwinds, Bank's AUMs grew by 38% YoY/9% QoQ to Rs 278770 Mn, which includes Retail Assets (+37% YoY/10% QoQ) at 220,480 Cr, SME (+36% YoY/2% QoQ) at Rs 53040 Cr and Money Market Lending by Treasury (up 133% YoY/75% QoQ) at 5250 Mn. Disbursements stood at 47210 Mn (up by 15% YoY/ 17% QoQ). 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 27.1% in Q2FY19 to around 33.6% in Q2FY20.

On the liabilities side, Bank's deposit book grew by 72% YoY/12% QoQ in Q2FY20, with CASA growth of 19% YoY (down 2% QoQ) taking CASA ratio at 15%. Management is focussing on retail deposits. The average ticket size of retail deposit stood between Rs 25000-35000. Bank's capital adequacy ratio stood at 17.9% (vs 17.8% YoY/18.6% QoQ), of which Tier I capital was 14.9% (vs 17.2% YoY/15.5% QoQ) and Tier II capital was 3% (vs 0.6% YoY/3.3% QoQ).

Valuation and outlook

With sufficient capital, lower competition from smaller NBFCs, increasing its focus towards high- yielding used vehicle segment and improving operating efficiency; we believe AU Small Finance Bank will continue its growth momentum for the next few years. Thus, we have maintained a 'Hold' rating on AU Small Finance Bank with a price target of Rs 741, valuing the stock at 4x FY22E standalone P/ABV.

Key Financials (Rs Mn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	ABVPS	P/ABV
FY19	13425	43	7219	25	3818	31	98	7.0
FY20	18483	38	11359	57	6508	70	129	5.3
FY21	25366	37	15354	35	9080	40	153	4.5
FY22	32600	29	19698	28	11628	28	185	3.7



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Rs in Mn	Q2FY20	YoY	QoQ	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19
Interest Earned	10334	51%	8%	9574	8769	7883	6834	6003
Interest Exp	5818	61%	4%	5618	4900	4404	3623	3139
NII	4516	41%	14%	3956	3869	3480	3210	2864
Other Income	1508	23%	-29%	2109	1306	1059	1225	1031
Net Income	6024	36%	-1%	6065	5175	4539	4436	3894
Operating Expenses								
Employees Exp	1821	22%	-2%	1859	1596	1512	1498	1405
Other opex	1425	20%	10%	1298	1422	1240	1186	965
Total	3247	21%	3%	3157	3018	2752	2684	2370
PPOP	2777	59%	-5%	2908	2157	1787	1752	1524
Provisions	610	74%	94%	315	392	325	350	351
PBT	2167	55%	-16%	2593	1765	1462	1402	1173
Taxes	447	-8%	-35%	690	582	509	488	404
PAT	1719	88%	-10%	1903	1182	953	914	768
Rs in Mn	Q2FY20	YoY	QoQ	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19
Liabilities								
Net Worth	35159	20%	5%	33610	31630	30350	29290	28430
Deposits	221492	72%	12%	198490	194220	146860	128690	99990
Borrowings	85831	10%	-5%	90070	86130	88280	78300	68750
Other Liabilities	15779	37%	2%	15450	14240	12530	11520	12250
Total Liabilities	358261	45%	6%	337620	326220	278020	247800	209420
Assets								
Cash & Balances	15261	-15%	21%	12620	17400	13160	17880	11550
Investments	84337	111%	1%	83830	71620	55980	39980	37410
Advances	248092	37%	7%	231020	228190	200000	181170	152650
Fixed Assets	4417	1%	-1%	4460	4470	4380	4360	3860
Other Assets	6154	40%	8%	5680	4550	4490	4400	3950
Total Assets	358261	45%	6%	337610	326230	278010	247790	209420
Rs in Mn	Q2FY20	YoY	QoQ	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19
Important ratios (%)								
Gross NPAs	2.0	(7 bps)	(2bps)	2.1	2.0	2.1	2.0	2.2
Net NPAs	1.1	(11 bps)	(14 bps)	1.3	1.3	1.3	1.3	1.4
% of PCRs	43.9	336 bps	627 bps	40.5	37.4	37.6	37.6	36.8
Cost / Income Ratio	53.9	185 bps	(660 bps)	52.0	58.3	60.6	60.5	60.9
CASA	16.2	(268 bps)	(978 bps)	18.8	21.0	23.6	25.9	27.6
CAR	17.9	(69 bps)	10 bps	18.6	19.3	19.0	17.8	20.7



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P&L (Rs mn)	FY19	FY20E	FY21E	FY22E
Interest Earned	29488	42244	57698	75749
Interest Expended	16064	23761	32332	43149
NII	13425	18483	25366	32600
Other Income	4620	6783	7711	9331
Net Income	18045	25266	33077	41931
Opex	10826	13907	17723	22233
PPOP	7219	11359	15354	19698
Provisions	1418	2194	3214	4153
PBT	5801	9166	12139	15545
Tax	1983	2658	3059	3917
PAT	3818	6508	9080	11628

BS (Rs mn)	FY19	FY20E	FY21E	FY22E
Capital	2924	3025	3025	3025
Reserves	28705	39581	47572	57804
Deposits	194224	278542	388614	525732
Borrowings	86134	97809	105687	114010
Other Liabilities	14241	16435	19649	23802
Total	326228	435391	564547	724372
Cash & Bank	17402	30363	36272	43758
Investments	71617	86500	109024	136998
Advances	228187	305771	403618	524321
Fixed Assets	4470	5170	5970	6820
Other Assets	4552	7587	9662	12475
Total	326228	435391	564547	724372

Ratios (%)	FY19	FY20E	FY21E	FY22E
Growth				
NII	43	38	37	29
Operating profit	25	57	35	28
Net profit	31	70	40	28
Advances	71	34	32	30
Deposits	145	43	40	35
Returns				
ROA	1.5	1.7	1.8	1.8
ROE	14.0	17.5	19.5	20.9

Ratios (%)	FY19	FY20E	FY21E	FY22E
Asset quality				
GNPA	2.0	2.0	1.9	1.7
NNPA	1.3	1.2	1.1	0.9
PCR	37	42	44	46
Per share (Rs)				
EPS	13	22	30	38
ABVPS	98	129	153	185
P/E	53	32	23	18
P/ABVPS	7.0	5.3	4.5	3.7



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