

# AU Small Finance Bank Ltd

Sector: Banks/Mid Cap | Earnings Update – 3QFY22

**MARKET PERFORMER**

31 January 2022

**Background:** AU SFB, initially incorporated as a vehicle finance company in 1996, was transformed into a Small Finance Bank in April 2017. The bank has presence in 15 states and 2 union territories, with 880 branches, 496 ATMs, 31 asset centers and ~6,59,904 loan accounts. The bank offers a comprehensive and tailor made range of products (both asset and liability) and services to cater to the needs of various businessmen (SME and MSME) and other middle and low income customers. Loan book of the bank grew at a CAGR of 36% over FY12 to FY20 and stood at ₹420bn as of 3QFY22 with a deposit base of ₹442bn.

Sensex	58,187
Nifty	17,368
Price	₹ 1,284
Target Price (12 months)	₹ 1,342
Recommendation	MARKET PERFORMER

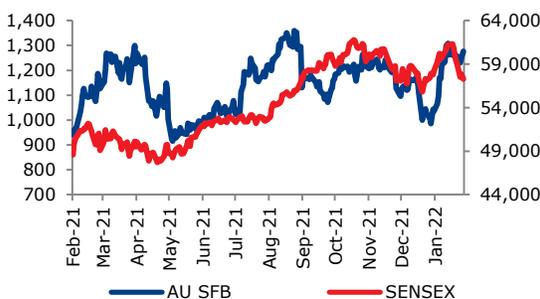
52 Week High/Low	₹1,389/863
Bloomberg / Reuters	AUBANK IN/ AUFI.NS
Equity (shares in mn)	313.7
Mkt. Cap in bn	₹ 397.5/ \$ 5.3
Avg. Daily Vol. ('000)	1,526
Avg. Daily Vol. (mn)	₹ 1,959.3 / \$ 26.1

Shareholding	Dec-20	Sep-21	Dec-21
Promoters (%)	29.0	28.4	28.3
FII (%)	32.8	32.5	33.2
DII (%)	18.9	20.9	20.0
Others (%)	19.3	18.3	18.5
Pledge (% of promoter holding)	0.0	0.0	0.0

## Valuation Summary (₹ bn)

Y/E March	2022E	2023E	2024E
Net Interest Inc	31.4	40.3	53.2
Other Inc	9.7	14.9	19.9
Pre Prov Profit	17.9	24.9	32.9
PAT	10.4	13.9	18.4
EPS (₹)	33.1	44.4	58.7
EPS growth (%)	-13.2	34.0	32.2
PE (X)	38.8	28.9	21.9
P /ABV (X)	5.9	4.8	3.5
Div Yield (%)	0.1	0.1	0.1
ROA (%)	1.8	1.8	2.1
ROE (%)	15.2	18.1	18.3
CAR (%)	21.5	21.5	21.5

Performance(%)	1M	3M	12M
AU SFB	25.8	3.6	45.7
SENSEX	-1.0	-4.6	23.6



## Healthy quarter characterized by strong NIM and improved asset quality metrics; Robust CASA growth aids in keeping CoF low thereby enabling steady spreads; Management confident of business on track

- AU SFB's loan AUM registered a robust growth of 26% YoY (11% QoQ) to ₹420bn in 3QFY22. The improvement in AUM was on account of sharp uptick in quarterly disbursements of ₹81.5bn (59%/33% QoQ/YoY). The disbursement growth was led by healthy performance across segments. Retail AUM increased by 25% YoY (+8.5% QoQ) while Wholesale AUM increased by 41% YoY (+23% QoQ).
- From a segment perspective, Wheels registered 14% YoY growth (₹30bn disbursement for 3QFY22) taking the segment AUM to ₹155bn. Wheel's Mix stood at 60% new vehicles, 25% used and 13% cash. Demand for used vehicles is strong as there continues to be shortage of new vehicles in market. In addition the used vehicle industry is in the phase of formalization and the bank is prepared to capitalize on this opportunity. The bank believes the industry mix between used and new cars is expected to reach 2:1 (vs 1.5:1 at present) in the next five years. Wheels (37% of book) segment yields stood at 14.3% (vs 13.7% for the total book) as on 3QFY22 making it an important driver of income for the bank.
- In 3QFY22 deposit registered a robust growth to ₹442bn compared to ₹390bn in 2QFY22 (up 49%/13% YoY/QoQ). The improvement in deposits was driven by conscious efforts to shed bulk deposits. Retail TDs form 51% of total deposits. The total growth was driven by strong growth in strong CASA growth (170%/47% YoY/QoQ) was a clear positive led by savings deposits (200%/52% YoY/QoQ). The bank continues to focus on building granular deposits. This helped support CASA ratio further up to 39% in 3QFY22 (vs 30% in 2QFY22).
- NII improved by 9% to ₹8.2bn on a sequential basis, driven by improvement in NIM. NIM improved to 6.3% (+30bps QoQ) supported by low cost of funds (CoF). A strong growth in low-cost deposits aided improvement in CoF which stood at 5.9% (down 30 bps QoQ) in 3QFY22. The bank is confident of keeping the CoF low on account of improving CASA ratio and optimizing of the same. The management expects NIMs to stabilize in the range of 5.8-6.3%.
- On asset quality, the GNPA improved to 2.6% in 3QFY22 (vs 3.2% in 2QFY22). This was on account of robust collection efficiency of 106% in 3QFY22. Slippages for 3QFY22 was at ₹2.4bn (vs ₹2.1bn in 2QFY22) while strong recoveries of ₹3.4bn further supported asset quality improvement. The bank's restructuring book declined to ₹12.6bn (3.1% of book) during the quarter (vs ₹13bn in 2QFY22). The billing has commenced for 92% of the restructured advances. On a positive side as most borrowers were self-employed with businesses opening the overall CE improved to pre-covid level and stood at 106% in 3QFY22. CE for Oct/Nov/Dec 2021 stood between 105-107%.
- The operating expense increased 50% YoY (15% QoQ) to ₹6.3bn in 3QFY22 on account of increase in hiring, branch expansion and investments in digital initiatives. This led to an increase in C/I ratio to 58% (~800bps QoQ) in 2QFY22. The bank intends to continue investing in technology and branches. The bank added 36 new branches in 3QFY22. The C/I ratio is likely to stay elevated and range bound between 50-55% in the coming quarters.
- PAT at ₹3bn (down 36% YoY, +8% QoQ) improved sequentially as a result of lower credit costs. Given the experienced management, diversified loan mix/geographies and improved collection efficiency the bank remains well positioned to capitalize on the current macro environment.

**Valuation:** CASA growth coupled with improving disbursement yields should support NIMs in the short term. High provisions provide comfort for stress in the book. Improving fee income trend and recovery in AUM growth will support earnings for FY23E. With CE at robust pre-covid levels and management's focus to strengthen balance sheet, the bank is better positioned to continue its growth trajectory amidst the current crisis. However given the elevated C/I and uncertainty in the coming quarters on account of covid we believe the stock is fairly valued capturing the near term positives. The stock is currently trading at 3.5x P/ABV of FY24E. Assigning a P/ABV of 5x for FY24E, we revise the target to ₹1,342 (Earlier: ₹1,289) thereby maintain our rating on the stock as MARKET PERFORMER.

**Risks:** Rising competition may put pressure on yields; asset quality deterioration owing to higher share of riskier segments; state specific issues may have greater impact owing to regional concentration.

## Results Summary 3QFY22

Y/E March (₹ bn)	3QFY22	3QFY21	YoY Growth	2QFY22	QoQ Growth
Net Interest Income	8.2	6.3	29.6%	7.5	8.9%
Other Income	2.8	6.6	-58.5%	1.9	44.4%
Pre Provisioning Profit	4.6	8.7	-47.5%	3.9	17.1%
PAT	3.0	4.8	-36.9%	2.8	8.4%
Cost / Income (%)	58.2	32.7		58.5	
Gross NPA (%)	2.6	1.0		3.2	
Net NPA (%)	1.3	0.2		1.7	
Prov Coverage Ratio (%)	51.0	76.0		49.0	
CAR (%)	0.0	18.8		22.0	

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