

AU Small Finance Bank Ltd

Sector: Banks/Mid Cap | Earnings Update – 4QFY21

BUY

4 May 2021

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 729 branches, 341 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 ₹377.1bn as of 4QFY21 with a deposit base of ₹359.7bn.

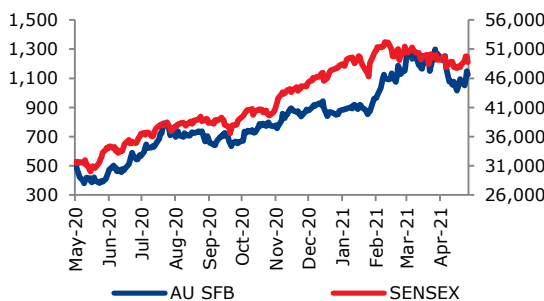
Sensex	48,279
Nifty	14,605
Price	₹ 929
Target Price (12 months)	₹ 1,143
Recommendation	BUY

52 Week High/Low	₹1,356.3/366.2
Bloomberg / Reuters	AUBANK IN/ AUFI.NS
Equity (shares in mn)	312.2
Mkt. Cap in bn	₹ 290.0/ \$ 3.9
Avg. Daily Vol. ('000)	1,129.9
Avg. Daily Vol. (mn)	₹ 1,049.6 / \$ 14.1

Shareholding	Mar-20	Dec-20	Mar-21
Promoters (%)	31.0	29.0	28.5
FII (%)	28.7	32.8	32.1
DII (%)	15.4	18.9	20.5
Others (%)	24.9	19.3	18.9
Pledge (% of promoter holding)	7.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Net Interest Inc	23.7	30.8	36.7
Other Inc	14.5	12.6	15.3
Pre Prov Profit	21.6	21.2	23.4
PAT	11.7	11.4	13.2
EPS (₹)	37.5	36.5	42.4
EPS growth (%)	69.0	-2.6	16.2
PE (X)	24.8	25.4	21.9
P /ABV (X)	5.3	4.2	3.3
Div Yield (%)	-	0.1	0.1
ROA (%)	1.3	1.9	1.9
ROE (%)	12.0	16.7	15.6
CAR (%)	22.7	21.5	21.5

Performance(%)	1M	3M	12M
AU SFB	-4.6	23.1	117.5
SENSEX	-2.7	-0.2	53.8



Strong show driven by robust CASA and AUM growth, though 4QFY21 PAT impacted by one off interest reversal, elevated provisions and higher opex

- The bank's loan AUM increased by 22% YoY (+14% QoQ) to ₹377.1bn, with retail constituting 91% of AUM. Retail AUM growth was driven by SBL-MSME (23% YoY, 8% QoQ). Within wholesale book, Business banking increased by 69% YoY. During the quarter, disbursements witnessed a sharp uptick of 21% QoQ driven by growth across segments and stood at ₹74bn. Management said that their strategy for AUM growth would be flexible and decide according to market environment as uncertainties hover around the impact of current covid crisis.
- In 4QFY21 deposit registered a sequential growth to ₹359.7bn (excluding CDs) compared to ₹297bn in 3QFY21 (up 38%/21% YoY/QoQ). The improvement in deposits was owing to conscious effort to shed bulk deposits. This led to a strong CASA growth (119% YoY/ 28% QoQ) was a clear positive led by savings (149% YoY/ 28% QoQ). The bank continues to focus on building granular deposits. Retail SA constitutes 91% of total SA deposits. CASA ratio stood at 23% in 4QFY21 (vs 16% in 4QFY20).
- On a sequential basis, NII improved by 18.2% QoQ to ₹6.5bn, driven by AUM growth and steady spreads. NIM decreased marginally 30bps QoQ and stood at 5.3% in 4QFY21, primarily impacted by one time interest reversal of ₹660mn. The interest reversal was on account of a NPA tagging of borrower accounts. During the quarter reliance on bulk deposits has reduced considerably with Bulk SA contributing 9% of total SA. In addition 64% of bulks TDs are non-callable. This has contributed to more granularities with deposit profile consisting of individuals going up to 58% (41% in 4QFY20). Retail TD constitutes 44% of total term deposits. A rise in CASA has aided in improving Cost of Funds sequentially at 6.5% (vs.6.7 in 3QFY21). The incremental cost of funds in 4QFY21 declined to 5.9% indicating an improving trajectory in the quarters ahead. This is likely to support margins going ahead.
- On asset quality, the GNPA increased to 4.3% in 4QFY21 (vs 3.3% pro forma GNPA in 3QFY21). Absolute GNPA/NNPA increased to ₹15bn/₹7.6bn. Total slippages stood at ₹12.4bn. This was on account of a particularly stressed pool, which was less than 90dpd and paying but was once NPA and tagged NPA now. Management expects this group to see gradual recovery as Collection Efficiency (CE) in this pool stood at 118% in March 2021. Nearly 88% of this pool had paid their EMIs in March 2021. On a positive note the overall CE (stood at 112% in March) and customer activation (90% in March) had crossed pre-covid levels. For 4QFY21 CE stood at 107% (vs 98% in 4QFY20).
- The operating expense increase of 32% (both in YOY/QoQ) was on account of one off increase in ESOP expense of ₹590mn. This led to an increase in C/I ratio to 59.9% (200bps YoY) in 4QFY21. The bank intends to continue its investment in technology. Launch of credit cards and video banking were also a factor that buoyed opex.
- The total restructuring book stood at ₹6.4bn (1.8% of loan book) of which ₹1.15bn provisions have been made. In addition contingent provisions stood at ₹700mn. Management mentioned that additional provisions would be made based on evolving situation. In 4QFY21 the bank's provisions stood at ₹1.7bn (up 18% YoY). PAT at ₹1.6bn (up 38% YoY, down 64% QoQ) was impacted by elevated opex and provisions. However, 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 FY22E. With CE at robust levels and management's focus to strengthen balance sheet, the bank is better positioned to tackle the current crisis. The stock is currently trading at 3.3x P/ABV of FY23E. Assigning a P/ABV of 4x for FY23E, we arrive at a target of ₹1,143 and upgrade our rating on the stock from MARKET PERFORMER to BUY.

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 4QFY21

Y/E March (₹ bn)	4QFY21	4QFY20	YoY Growth	3QFY21	QoQ Growth
Net Interest Income	6.6	5.5	18.2%	6.3	3.6%
Other Income	2.8	1.8	51.1%	6.6	-58.3%
Pre Provisioning Profit	3.7	3.2	18.4%	8.7	-57.2%
PAT	1.7	1.2	38.1%	4.8	-64.7%
Cost / Income (%)	59.9	57.9		51.9	
Gross NPA (%)	4.3	1.7		1.0	
Net NPA (%)	2.2	0.8		0.2	
Prov Coverage Ratio (%)	50.0	52.5		76.0	
CAR (%)	23.4	22.0		18.8	

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