

AU Small Finance Bank Ltd

Sector: Banks/Mid Cap | Earnings Update – 3QFY21

MARKET PERFORMER

5 February 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 714 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 ₹332.2bn as of 3QFY21 with a deposit base of ₹282bn.

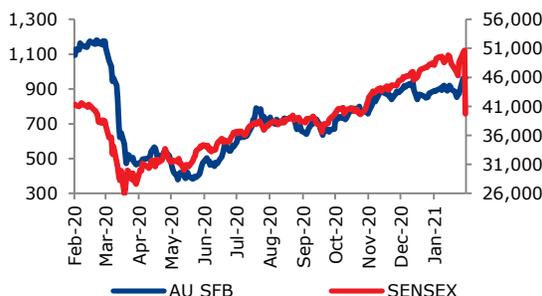
Sensex	50,614
Nifty	14,895
Price	₹ 968
Target Price (12 months)	₹ 1,002
Recommendation	MARKET PERFORMER

52 Week High/Low	₹1,217.7/366.2
Bloomberg / Reuters	AUBANK.IN/ AUFI.NS
Equity (shares in mn)	306.8
Mkt. Cap in bn	₹ 296.9 / \$ 3.9
Avg. Daily Vol. ('000)	688.4
Avg. Daily Vol. (mn)	₹ 666.3 / \$ 8.9

Shareholding	Dec-19	Sep-20	Dec-20
Promoters (%)	31.0	29.0	29.0
FII (%)	26.8	30.6	32.8
DII (%)	15.5	15.6	18.9
Others (%)	26.7	24.9	19.3
Pledge (% of promoter holding)	7.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2021E	2022E	2023E
Net Interest Inc	23.7	29.2	36.5
Other Inc	14.8	11.1	13.1
Pre Prov Profit	22.6	18.1	22.3
PAT	11.5	9.7	13.0
EPS (₹)	37.7	31.6	42.4
EPS growth (%)	69.7	-16.2	34.4
PE (X)	25.7	30.7	22.8
P /ABV (X)	5.5	4.8	3.7
Div Yield (%)	0.1	0.1	0.1
ROA (%)	2.6	1.9	2.3
ROE (%)	23.3	16.1	17.6
CAR (%)	22.7	21.5	21.5

Performance(%)	1M	3M	12M
AU SFB	8.5	25.0	-11.8
SENSEX	-17.3	-2.1	-3.8



Strong quarter characterized by normalization of collection efficiency, improved NIMs and moderating cost of funds; CASA improvement to be margin accretive

- The bank's loan AUM increased by 11.2% YoY (+8.6% QoQ) to ₹332.2bn driven by growth in Retail segment, up 25% YoY (constituting 91.4% of book). Within retail segment Housing loans increased by 1.7x YoY, coupled with SBL-MSME and Gold loan (including CD + PL) segment which registered 22.9% YoY and 26.5% YoY, growth respectively. The management will continue to maintain its retail book with granular focus.
- During the quarter, disbursements witnessed a sharp uptick of 34% YoY driven by growth across segments and stood at ₹65bn. Total Disbursements under ECLGS stood at ₹5.5bn of which ₹1.5bn were in 3QFY21. Management expects the momentum to sustain as overall growth outlook continues to improve.
- In 3QFY21 deposit registered a sequential growth to ₹282bn (excluding CDs) compared to ₹253.4bn in 2QFY21 (up 17%/11% YoY/QoQ). The improvement in deposits was owing to conscious effort to shed bulk deposits. This led to a strong CASA growth (72% YoY/ 21% QoQ) was a clear positive led by savings (85% YoY/ 35% QoQ). The bank continues to focus on building granular deposits. CASA ratio stood at 22% in 3QFY21 (vs 17% in 3QFY20).
- On a sequential basis, NIMs improved to 5.4% (up 30 bps QoQ), driven by 12.9% QoQ improvement in NII. A rise in CASA has partly aided in muting Cost of Funds sequentially at 6%. The incremental cost of funds in 3QFY21 declined to 5.8% indicating an improving trajectory in the quarters ahead. On asset quality, the bank improved GNPA (%) to 1% (down 90bps YoY, down 50bps QoQ) in 3QFY21. This was on account of negligible slippages of ₹60mn (vs ₹1.3bn in 3QFY20). However, pro-forma GNAP stood at 3.29% as slippages would have been higher by ₹7.1bn in 3QFY21. The management believes the impact of covid on asset quality was clear only in December. The bank has taken sufficient provisions to factor the stress. Collection efficiency has reached normal levels across segments. CE in Jan 2021 reached 100%.
- The C/I ratio improved to 51.9% (220bps QoQ) in 3QFY21. However the management expects it to hover around 55% as the focus lies on building the franchise. There has been uptick in number of branches (up 28 branches) during the quarter and the management believes the network expansion strategy would continue in the near term. The new branches are expected to be profitable in 3 years' time.
- The bank's provisions stood at ₹2.8bn (up 5x QoQ). Around ₹1.1bn was owing to pro-forma slippages taking total provisions for pro-forma slippages to ₹3.9bn. The bank smartly utilized gains from Aavas stake sale for provisions. In 3QFY21, restructuring stood at 0.8% of book and the bank expects it to stablize at 1.5% of book in 4QFY21. 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 FY21E. However, we believe that the stock price has factored in the near term positives. The stock is currently trading at 3.8x P/ABV of FY23E. Assigning a P/ABV of 4x for FY23E, we arrive at a target of ₹1,002 and downgrade our rating on the stock from OUT PERFORMER to 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 3QFY21

Y/E March (₹ bn)	3QFY21	3QFY20	YoY Growth	2QFY21	QoQ Growth
Net Interest Income	6.3	5.1	24.9%	5.6	12.9%
Other Income	6.6	1.6	311.5%	2.9	132.2%
Pre Provisioning Profit	8.7	3.1	179.0%	4.7	87.2%
PAT	4.8	1.9	151.9%	3.2	48.8%
Cost / Income (%)	51.9	53.2		54.1	
Gross NPA (%)	1.0	1.9		1.5	
Net NPA (%)	0.2	1.0		0.5	
Prov Coverage Ratio (%)	76.0	46.8		71.1	
CAR (%)	18.8	19.3		21.5	

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Served as an officer, director or employee	No

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MARKET PERFORMER : The stock's total return is expected to be between -5% to +5% over the next 12 months.

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