

AU Small Finance Bank

ADD

CMP Rs873

Target Rs950

Upside 8.8%

Growth is back and stress well provided for - Upgrade to ADD with 12 PT of Rs950

AU SFB posted a strong growth and core PPOP performance, while the Covid stress manifestation was in-line with expectations. On growth, the key positives were a robust 34% yoy growth in overall disbursements and 8-9% qoq expansion in Wheels and SBL MSME portfolios. Management expects business activity to further pick-up in Q4 FY21 and times to come. The core PPOP (ex. treasury, PSLC, stake sale and bad debts recovery) jumped 30% qoq (was higher 8% v/s our estimate) on solid AUM growth delivery, expansion in spread (benefits of improving liability franchise) and controlled cost growth despite sustained franchise investments.

The overall stress recognition, in the form of proforma slippages of Rs7.1bn (2.3% of AUM) and assessed restructuring of Rs4.7bn (1.5% of AUM), was well-contained considering the product mix and targeted customer segments. The bank holds significant provisions on this Covid stress - 55% on proforma slippages and ~30% on expected restructuring incl. the contingency buffer. These provisions were augmented in Q3 by utilizing the Aavas stake sale gains. Management expects much lower slippages and normalized credit cost from Q4 FY21, encouraged by reversion of customer activation (full and part payments against billing) and collection efficiency (including collection of overdues) to pre-Covid levels from December.

We expect 23-25% AUM growth for AU SFB over FY21-23 and a 2%+ RoA and 18%+ RoE delivery. Upgrade the stock to ADD from Reduce rating due to much better visibility on growth and credit cost post the Q3 results. Notably, the stock did underperform the market as envisaged when we tactically downgraded in Q1 FY21 result update (CMP was Rs792 then). We now anchor valuation to FY23 ABV which stands at 3.4x, palatable for a high-quality franchise on RoE expansion path. We upgrade 12m target to Rs950.

Exhibit 1: Financial Summary

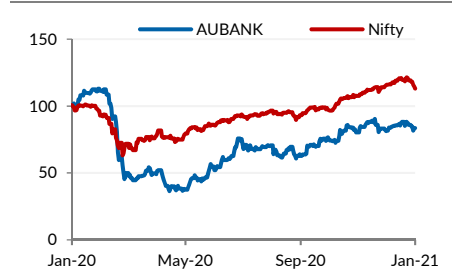
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	26,150	37,321	38,019	48,025
PPOP	11,972	21,583	17,953	22,943
Net profit	6,748	11,671	11,029	14,331
yoy growth (%)	76.7	73.0	(5.5)	29.9
EPS (Rs)	22.2	38.4	36.3	47.1
Adj. BVPS (Rs)	136.7	169.6	205.7	252.9
P/E (x)	39.2	22.7	24.0	18.5
P/adj.BV (x)	6.4	5.1	4.2	3.4
ROE (%)	17.9	23.5	18.1	19.5
ROA (%)	1.8	2.6	2.0	2.1
Tier I - CAR (%)	18.4	21.3	20.3	19.7

Source: Company, YES Sec - Research

Stock data (as on January 29, 2021)

Nifty	13,635
52 Week h/l (Rs)	1218 / 366
Market cap (Rs/USD mn)	267647 / 3669
Outstanding Shares (mn)	307
6m Avg t/o (Rs mn):	548
Div yield (%):	-
Bloomberg code:	AUBANK IN
NSE code:	AUBANK

Stock performance



	1M	3M	1Y
Absolute return	2.3%	12.5%	-18.0%

Shareholding pattern

Promoter	29.0%
FII+DII	51.7%
Others	19.1%

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Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Operating Income	12,611	12,125	4.0	11,116	13.4
Interest expended	(6,280)	(6,518)	(3.7)	(6,048)	3.8
Net Interest Income	6,331	5,606	12.9	5,068	24.9
Other income	6,634	2,857	132.2	1,612	311.5
Total Income	12,965	8,463	53.2	6,681	94.1
Operating expenses	(4,237)	(3,800)	11.5	(3,552)	19.3
PPOP	8,728	4,663	87.2	3,128	179.0
Provisions	(2,836)	(574)	394.1	(401)	607.2
PBT	5,892	4,089	44.1	2,727	116.0
Tax	(1,102)	(870)	26.6	(825)	33.5
PAT	4,790	3,219	48.8	1,902	151.9

Source: Company, YES Sec – Research

Exhibit 3: Business Data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
AUM	332,220	305,900	8.6	298,670	11.2
Retail	303,800	258,000	17.8	243,020	25.0
Wheels	134,730	123,260	9.3	124,110	8.6
SBL MSME	128,580	118,870	8.2	104,730	22.8
HL	9,870	7,070	39.6	4,620	113.6
Others	30,620	8,800	248.0	9,560	220.3
SMC	28,420	47,900	(40.7)	49,900	(43.0)
NBFC	13,860	14,780	(6.2)	20,850	(33.5)
Real Estate	5,430	7,380	(26.4)	8,200	(33.8)
Business Banking	4,290	12,550	(65.8)	9,600	(55.3)
Deposits	297,080	269,804	10.1	238,650	24.5
CA	12,540	10,410	20.5	9,320	34.5
SA	51,910	42,960	20.8	28,110	84.7
TD	217,580	201,000	8.2	183,090	18.8
CD	15,050	15,430	(2.5)	18,130	(17.0)
Investments	115,620	112,407	2.9	85,880	34.6
Borrowings	91,710	101,227	(9.4)	86,680	5.8

Source: Company, YES Sec – Research

Exhibit 4: Key Ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM*	5.8	5.2	0.5	5.6	0.1
Portfolio Yield	14.3	14.4	(0.1)	14.7	(0.4)
Cost of Funds	7.0	7.0	-	7.6	(0.6)
CASA*	22.9	21.0	1.9	17.0	5.9
C/D	102.0	100.9	1.0	111.3	(9.4)
Cost to Income	51.9	54.1	(2.2)	53.2	(1.3)
Opex/ATA*	3.7	3.4	0.3	3.8	(0.1)
Gross NPA	1.0	1.5	(0.6)	1.9	(0.9)
Credit Cost	2.5	0.5	2.0	0.4	2.1
Net NPA	0.2	0.5	(0.2)	1.0	(0.8)
RoA	1.6	1.8	(0.2)	2.1	(0.5)
RoE	14.0	16.5	(2.5)	19.6	(5.6)
CAR	18.8	21.5	(2.6)	19.3	(0.5)

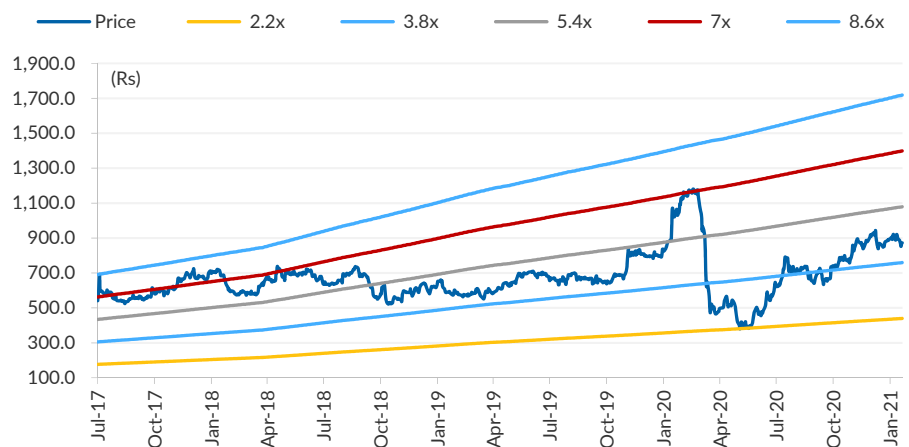
Source: Company, YES Sec – Research; *Calculated

Exhibit 5: Other Income break-up

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Other Income					
Loan Assets & Pro.	1,010	540	87.0	870	16.1
Gen. Bkg & Deposits	280	230	21.7	180	55.6
Cross Sell, Distribution	70	60	16.7	100	(30.0)
PSLC Premium / Fees	80	80	-	250	(68.0)
Treasury Operations	360	460	(21.7)	160	125.0
Sale of Shares of AFL*	4,800	1,440	233.3	-	-
Bad Debt Recovery	50	40	25.0	50	-

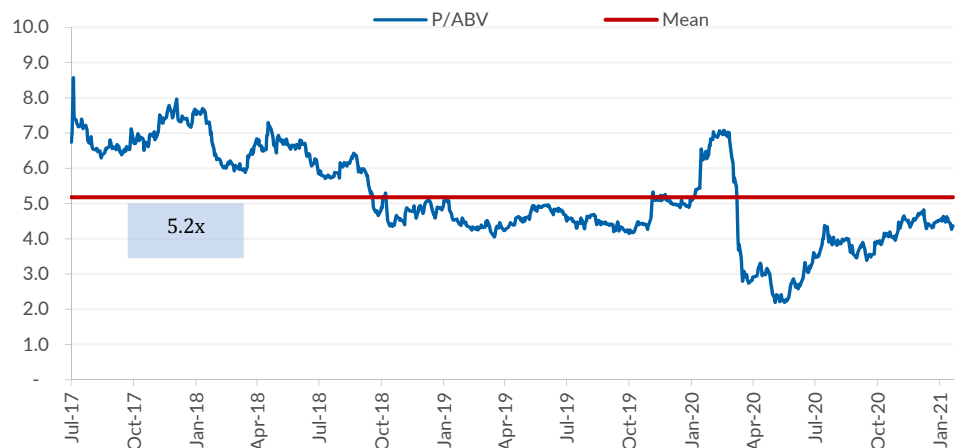
Source: Company, YES Sec - Research; * Income from sale of equity shares of Aavas Financiers Limited

Exhibit 6: 1-year rolling P/ABV band



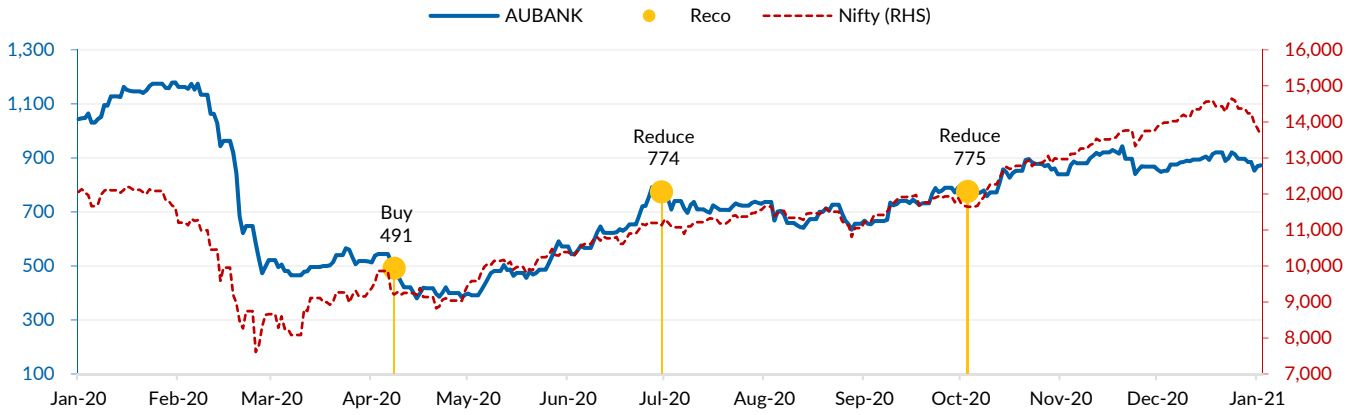
Source: Company, YES Sec - Research

Exhibit 7: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec - Research

Recommendation Tracker



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