

AU Small Finance bank

Refer to important disclosures at the end of this report

Strong growth, but asset quality disappoints

- AU SFB reported higher PAT of Rs1.7bn (vs. est. of Rs1.4bn) in Q4FY21, up 38% yoy, mainly due to higher PSLC fees and lower provisions. FY21 PAT stood high at Rs11.8bn with RoA at a high of 2.5%, including one-off gains from Aavas Finance stake sale in Q3.
- GNPA ratio shot up to 4.2% (3.3% pro forma in Q3) of which <90 DPD pool is 1.5% (Once NPA – ONAN pool). Nearly 62% of this ONAN pool remains in 60-90 DPD, which could be at higher risk due to disruption related to the second Covid-19 wave. Lower specific PCR at 60% and contingent provisioning buffer at Rs0.7bn (0.2% of AUM) are also irritants.
- AU SFB scaled up its liability profile benefiting from general risk-averseness and focused approach, which should support slipping margins. We cut FY22 estimates by 10%, mainly factoring in higher NPAs/LLP, but raise FY23E by 5%. We expect the bank to clock healthy RoA of 1.8-2%/RoE of 15-21% over FY22-24E as growth accelerates and LLP moderates.
- We believe elevated asset quality risk amid the second Covid-19 wave, high dependence on the self-employed segment and recent news around resignation of internal auditor (possibly in normal course of business) could still weigh on the stock's near-term performance. Factoring in the recent correction, we retain Hold/UW in EAP with a TP of Rs1,000, valuing at 4x FY23E ABV.

Credit growth accelerates; liability profile improves but more to go: Credit growth was strong at 22% yoy/14% qoq, led by strong traction in SBL portfolio. Disbursements rose 48% yoy to Rs74bn mainly due to return of normalcy. The bank saw strong deposit growth of 21% qoq/37% yoy, led by strong CASA and Retail TD growth. CASA ratio is now 23% (14% in Q4FY20), but the bank needs to accelerate it further. Reported NIM was stable at 5.4% (FY21) despite high slippages as it used provision of Rs380mn held for interest reversals on NPA.

Near-term focus remains on managing asset quality: GNPA ratio spiked to 4.2% (3.3% Proforma GNPA in Q3), including <90 DPD pool of 1.5% who are paying but being still classified as NPA as they were once NPA (ONAN). Adjusted for <90 DPD pool, reported GNPA ratio would stand moderate at 2.7%. That said, 62% of ONAN portfolio (1.5% of loans) is in 60-90 DPD bucket and the second Covid-19 wave could lead to higher NPA formation in this pool. Restructuring pool too is higher at 1.8% of loans vs. earlier guidance of 1.5%. Specific PCR on >90 DPD pool too remains moderate at 60%, while the contingent provision buffer is at a low of Rs0.7bn (0.2% of AUM). Management claims that lower PCR is mainly due to its otherwise lower LGDs in wheels/SBL portfolios at around <40%/30%.

Outlook and valuations: FY21 was a roller-coaster year and has tested the relatively new bank. The stock has seen correction post sharp run-up to QIP in Feb'21, due to rising asset quality risk. We cut FY22 earnings estimates by 10% due to higher LLP but raise FY23 estimates by 5%, factoring in better growth/moderation in LLP as the impact of Covid-19 normalizes. However, factoring in recent capital raise at premium, our FY23 ABV estimates have slightly inched up (to Rs250), while we cut our target multiple to 4x (v/s 4.2x). Retain Hold/UW in EAP with a TP of Rs1,000. Key risks to our call are slowdown in CASA momentum and high NPA formation, mainly in the Wheels/SBL portfolio amid the second Covid-19 wave.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	26,150	38,169	38,206	47,423	58,840
Net profit	6,748	11,708	10,386	14,816	18,670
EPS (Rs)	22.6	38.0	33.3	47.5	59.8
ABV (Rs)	141.3	190.9	214.0	251.8	298.7
RoA (%)	1.8	2.5	1.8	2.1	2.1
RoE (%)	17.9	22.0	15.6	19.4	20.8
PE (x)	44.4	26.4	30.2	21.2	16.8
P/ABV	7.1	5.3	4.7	4.0	3.4

Source: Company, Emkay Research

CMP	Target Price
Rs 1,004 as of (5/1/2021)	Rs 1,000 (■) 12 months
Rating	Upside
HOLD(■)	(0.4) %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(10)/5
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	33.3	47.5
Consensus	33.4	43.3
Mean Consensus TP (12M)	Rs 1,123	

Stock Details

Bloomberg Code	AUBANK IN
Face Value (Rs)	10
Shares outstanding (mn)	312
52 Week H/L	1,356 / 366
M Cap (Rs bn/USD bn)	314 / 4.23
Daily Avg Volume (nos.)	1,424,346
Daily Avg Turnover (US\$ mn)	22.0

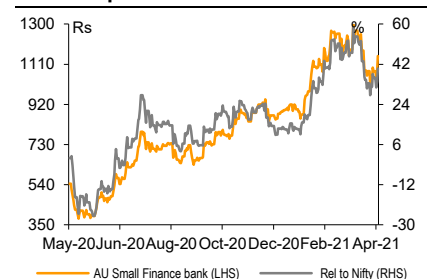
Shareholding Pattern Mar '21

Promoters	28.5%
FIIs	32.1%
DIIIs	20.5%
Public and Others	19.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(18)	15	30	85
Rel. to Nifty	(18)	7	3	24

Relative price chart



Source: Bloomberg

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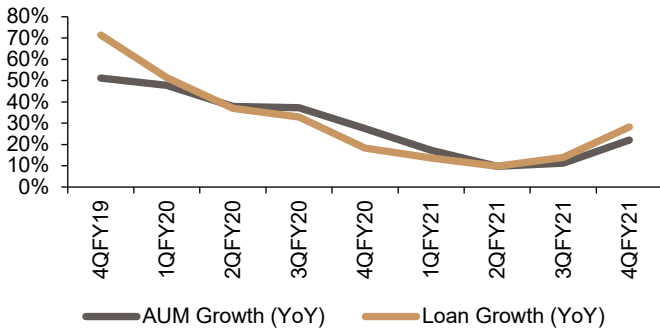
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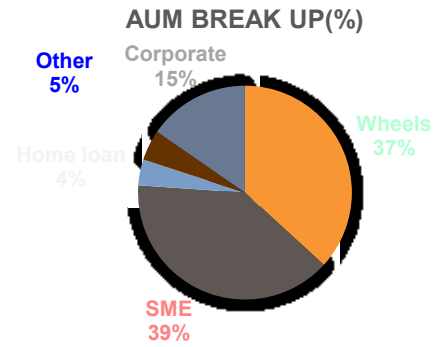
Story in Charts

Exhibit 1: Credit growth accelerates, but could see some near-term pressure due to Covid-19 second wave



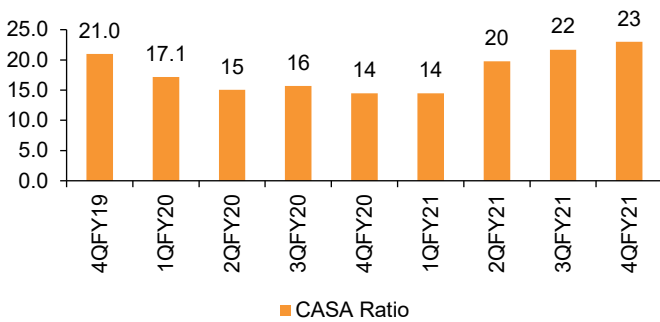
Source: Company, Emkay Research

Exhibit 2: Retail loans are now 85% of total AUM and mainly secured



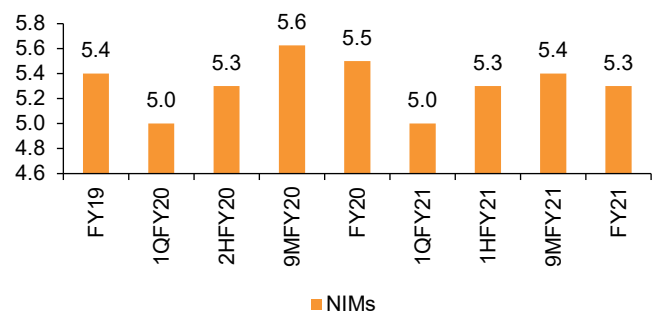
Source: Company, Emkay Research

Exhibit 3: CASA ratio improves 130bps qoq



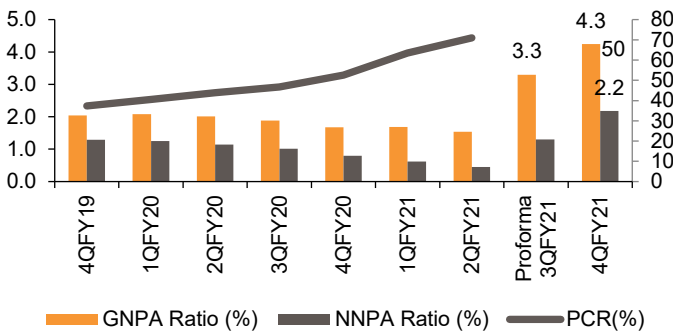
Source: Emkay Research, Company

Exhibit 4: Provision of Rs380mn made earlier for interest on NPA led to stable margins



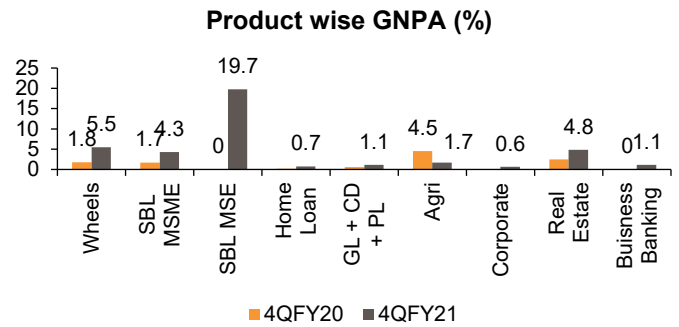
Source: Emkay Research, Company

Exhibit 5: GNPA ratio is higher due to removal of SC stay, which includes 1.5% of the loans <90DPD



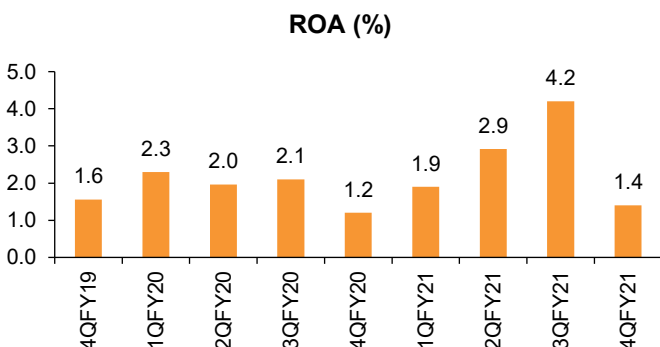
Source: Company, Emkay Research

Exhibit 6: Wheel and SBL portfolio saw significant stress in FY21



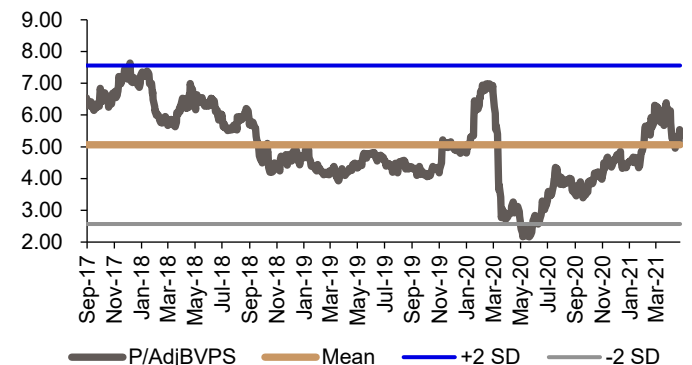
Source: Company, Emkay Research

Exhibit 7: ROA was lower qoq due to absence of one-off gain



Source: Company, Emkay Research

Exhibit 8: The stock trades at 4.8x 1-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actual vs Estimates-Q4FY21

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	9,325	8,821	8,952	6%	4%	Income from PSLC led to beat
PPOP	3,739	4,585	3,664	-18%	2%	Higher staff cost dragged PPOP
PAT	1,690	1,480	1,660	14%	2%	Lower provisions led to beat

Source: Company, Emkay Research

Exhibit 10: Quarterly summary

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	11,834	11,841	12,125	12,611	12,924	9	2	49,500	59,495	20
Interest Exp	6,285	6,683	6,518	6,280	6,365	1	1	25,846	31,528	22
Net Interest Income	5,549	5,158	5,606	6,331	6,558	18	4	23,654	27,967	18
Global NIMs (reported)	5.50	5.00	5.30	5.40	5.30	-20bps	-10bps	4.70	4.61	-8bps
Non-interest Income	1,831	2,258	2,857	6,634	2,766	51	-58	14,515	9,174	-37
Operating Expenses	4,223	2,960	3,800	4,237	5,586	32	32	16,583	19,774	19
Pre Provisioning Profit	3,158	4,456	4,663	8,728	3,739	18	-57	21,586	17,367	-20
Provision & Contingencies	1,506	1,813	574	2,836	1,778	18	-37	7,001	5,411	-23
PBT	1,652	2,644	4,089	5,892	1,961	19	-67	14,586	11,956	-18
Income Tax Expense (Gain)	429	635	870	1,102	271	-37	-75	2,878	3,009	5
Net Profit/(Loss)	1,223	2,009	3,219	4,790	1,690	38	-65	11,708	8,946	-24
Gross NPA (%)	1.68	1.69	1.54	0.99	4.25	257bps	326bps	4.22	3.80	-43bps
Net NPA (%)	0.80	0.62	0.45	0.24	2.18	138bps	194bps	1.52	1.17	-35bps
Deposits (Rs in bn)	262	267	270	297	360	38	21	360	474	32
Net Advances (Rs in bn)	270	263	272	303	346	28	14	346	431	25

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	
Net income	37,038	38,206	3.2%	40,952	47,423	15.80%	58,840
PPOP	20,225	19,403	-4.1%	21,619.9	25,309	17.1%	33,165
PAT	11,504	10,386	-9.7%	14,027.4	14,816	5%	18,670
EPS (Rs)	35	33.3	-9.7%	44.3	47.5	5%	59.8
BV (Rs)	198	226.3	14.1%	238.9	263.7	10.4%	311.5

Source: Company, Emkay Research

We cut FY22 earnings estimates by 10% due to higher LLP, but raise FY23 estimates by 5%, factoring in better growth/moderation in LLP as the impact of Covid-19 normalizes.

Exhibit 12: Key assumptions

	FY21	FY22E	FY23E	FY24E
AUM Growth %	22.1	24.0	30.0	30.0
Deposit Growth %	37.5	29.6	28.4	32.3
NIM %	4.7	4.8	4.7	4.7
GNPA %	4.2	3.5	2.9	2.4
Credit Cost %	2.5	1.6	1.3	1.2

Source: Company, Emkay Research

Exhibit 13: Key ratio and trends

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans Rs mn	242,460	256,100	278,760	298,670	308,930	300,360	305,900	332,220	377,120
Growth YoY %	51.2	47.8	37.9	37.2	27.4	17.3	9.7	11.2	22.1
Growth QoQ %	11.4	5.6	8.8	7.1	3.4	(2.8)	1.8	8.6	13.5
Composition %									
Corporate	17	20	19	17	16	15	16	14	14
Retail & Treasury	79	80	81	83	84	85	84	86	86
Liability Profile									
Deposits	194,224	198,490	221,492	238,650	261,639	267,340	269,804	297,080	359,793
Growth YoY %	145.1	98.5	72.1	62.5	34.7	34.7	21.8	24.5	37.5
Growth QoQ %	32.3	2.2	11.6	7.7	9.6	2.2	0.9	10.1	21.1
Liability Profile									
CASA %	21.0	17.1	15.0	15.7	14.5	14.5	19.8	21.7	23.0
CA %	5.6	3.9	3.3	3.9	4.3	3.1	3.9	4.2	4.5
SA %	15.4	13.3	11.8	11.8	10.2	11.4	15.9	17.5	18.5
No. of Branches	408	418	428	496	528	594	686	0	729
NIM %	5.4	5.0	5.3	5.6	5.5	5.0	5.3	5.4	5.3
Asset Quality									
GNPA (%)	2.0	2.1	2.0	1.9	1.7	1.7	1.5	1.0	4.3
NNPA (%)	1.3	1.3	1.1	1.0	0.8	0.6	0.5	0.2	2.2
PCR (%)	37.4	40.5	43.9	46.8	52.5	63.5	71.0	76.0	49.7
Slippages (Rs mn)	1,520	1,400	1,420	1,300	810	50	230	60	12,440
Slippages - annualized (%)	3.8	3.2	2.8	2.4	1.3	0.1	0.3	0.1	16.1
CAR %	19.3	18.6	17.9	19.3	21.3	21.7	21.5	18.8	23.4
Tier I %	16.0	15.5	14.9	16.5	18.5	18.5	18.3	16.3	21.5
ROE Decomposition % (on total assets)									
NII	5.1	4.8	5.2	5.5	5.5	4.8	5.1	5.6	5.3
Other Income (Ex Treasury)	1.6	2.2	1.4	1.6	1.7	0.6	2.2	5.5	2.3
Opex	4.0	3.8	3.7	3.8	4.2	2.7	3.4	3.7	4.6
PPOP	2.9	3.5	3.2	3.4	3.1	4.1	4.2	7.7	3.0
Provisioning Cost	0.5	0.4	0.7	0.4	1.5	1.7	0.5	2.5	1.4
PBT	2.3	3.1	2.5	2.9	1.6	2.4	3.7	5.2	1.6
Tax	0.8	0.8	0.5	0.9	0.4	0.6	0.8	1.0	0.2
ROA	1.57	2.29	1.98	2.05	1.21	1.86	2.92	4.23	1.38
ROE	15.8	24.1	20.0	19.6	11.4	17.9	27.1	39.0	12.1

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	19,089	23,654	29,087	36,186	45,419
Other income	7,061	14,515	9,119	11,236	13,420
Fee income	4,291	2,970	3,861	4,826	6,033
Net income	26,150	38,169	38,206	47,423	58,840
Operating expenses	14,179	16,583	18,803	22,113	25,675
Pre provision profit	11,972	21,586	19,403	25,309	33,165
PPP excl treasury	10,246	12,756	17,403	22,809	30,665
Provisions	2,832	7,001	5,523	5,509	8,214
Profit before tax	9,140	14,586	13,880	19,800	24,951
Tax	2,392	2,878	3,494	4,984	6,280
Tax rate	26	20	25	25	25
Profit after tax	6,748	11,708	10,386	14,816	18,670

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	3,041	3,122	3,122	3,122	3,122
Reserves	40,727	59,630	67,518	79,213	94,137
Net worth	43,768	62,752	70,640	82,335	97,259
Deposits	261,639	359,793	466,349	598,903	792,524
Borrowings	93,053	57,997	51,037	44,913	39,523
Total liabilities	421,431	515,913	636,171	802,955	0
Cash and bank	10,496	15,693	21,249	27,651	36,388
Investments	106,682	108,154	123,416	144,984	172,495
Loans	269,924	346,089	427,880	559,284	727,069
Others	6,648	9,033	24,973	30,689	38,284
Total assets	421,431	515,913	636,171	802,955	0

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	5.3	5.2	5.3	5.3	5.3
Non-ll/avg assets	1.9	3.1	1.6	1.6	1.5
Fee income/avg assets	1.1	0.6	0.7	0.7	0.7
Opex/avg assets	3.8	3.5	3.3	3.1	2.8
Provisions/avg assets	0.8	1.5	1.0	0.8	0.9
PBT/avg assets	2.4	3.1	2.4	2.8	2.7
Tax/avg assets	0.6	0.6	0.6	0.7	0.7
RoA	1.8	2.5	1.8	2.1	2.1
RoAE	17.9	22.0	15.6	19.4	20.8
GNPA (%)	1.7	4.2	3.5	2.9	2.4
NNPA (%)	0.8	1.5	1.2	0.9	0.7

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	22.6	38.0	33.3	47.5	59.8
BVPS	146.8	203.6	226.3	263.7	311.5
ABVPS	141.3	190.9	214.0	251.8	298.7
DPS	0.0	0.0	8.0	10.0	12.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	44.4	26.4	30.2	21.2	16.8
P/BV	7.1	5.3	4.7	4.0	3.4
P/ABV	7.1	5.3	4.7	4.0	3.4
P/PPOP	25.5	14.5	16.1	12.4	9.4
Dividend Yield (%)	0.0	0.0	0.8	1.0	1.2

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	42.2	23.9	23.0	24.4	25.5
PPOP	65.8	80.3	(10.1)	30.4	31.0
PAT	76.7	73.5	(11.3)	42.7	26.0
Loans	18.3	28.2	23.6	30.7	30.0

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	5,549	5,158	5,606	6,331	6,558
NIM(%)	5.5	5.0	5.3	5.4	5.3
PPOP	3,158	4,456	4,663	8,728	3,739
PAT	1,223	2,009	3,219	4,790	1,690
EPS (Rs)	4.02	6.57	10.50	15.60	5.51

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	31.0	29.0	29.0	29.0	28.5
FIIs	28.7	30.0	30.6	32.8	32.1
DIIs	15.4	13.5	15.6	18.9	20.5
Public and Others	24.9	27.5	24.9	19.3	19.0

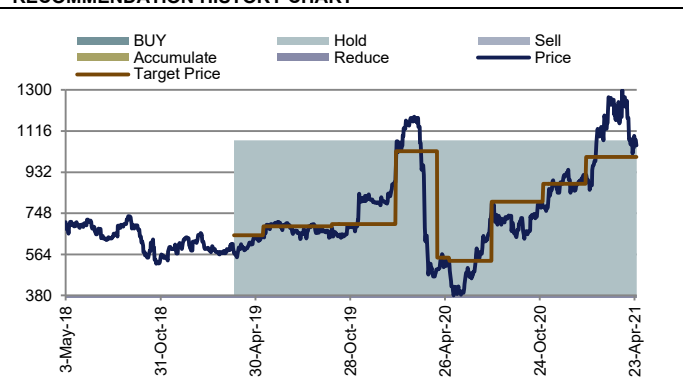
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
9-Mar-21	1,233	1,000	12m	Hold	Anand Dama
30-Jan-21	873	1,000	12m	Hold	Anand Dama
20-Jan-21	920	1,000	12m	Hold	Anand Dama
30-Oct-20	775	880	12m	Hold	Anand Dama
24-Jul-20	791	800	12m	Hold	Anand Dama
4-May-20	517	535	12m	Hold	Anand Dama
11-Apr-20	496	550	12m	Hold	Anand Dama
23-Jan-20	975	1,025	12m	Hold	Anand Dama
22-Oct-19	689	700	12m	Hold	Anand Dama
9-Oct-19	641	700	12m	Hold	Anand Dama
23-Sep-19	683	700	12m	Hold	Anand Dama
26-Jul-19	659	690	12m	Hold	Anand Dama
15-May-19	650	690	12m	Hold	Anand Dama
23-Apr-19	609	650	12m	Hold	Anand Dama
20-Mar-19	569	650	12m	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	20.98	20.95	-0.1%	-3	100.00
Axis Bank	2.22	2.31	4%	9	11.00
AU Small Finance Bank	0.29	0.25	-13%	-4	1.19
Bandhan Bank	0.28	0.33	18%	5	1.59
Bank of Baroda	0.15	0.10	-31%	-5	0.50
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.15	0.22	48%	7	1.05
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.23	23%	4	1.09
HDFC Bank	7.16	7.29	2%	13	34.73
ICICI Bank	5.11	5.26	3%	15	25.08
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.63	0.71	13%	8	3.38
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.82	2.32	-18%	-50	11.08
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.12	0.12	0%	0	0.55
State Bank of India	1.66	1.81	9%	15	8.62
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.03	NA	3	0.15

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	01-Apr-19	29-Apr-20	28-Oct-20	27-Jan-21	26-Mar-21	28-Apr-21
EAP - BFSI-Banks	100.0	72.9	84.7	104.1	113.8	115.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	72.0	83.4	102.4	111.6	113.5

*Performance measurement base date 1st April 2019

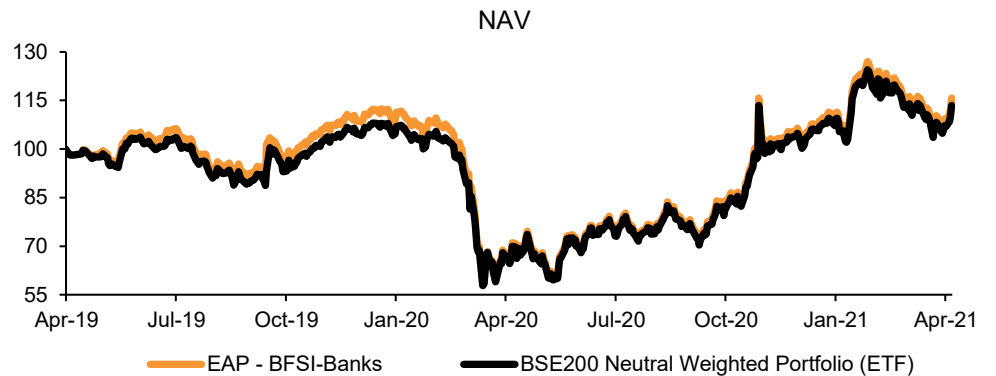
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	1.7%	11.1%	36.7%	58.7%
BSE200 Neutral Weighted Portfolio (ETF)	1.7%	10.8%	36.0%	57.6%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 01 May 2021 23:05:33 (SGT)
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