

**CMP: INR 621**

**Rating: HOLD**

**Target Price: INR 678**

**Stock Info**

BSE	540611
NSE	AUBANK
Bloomberg	AUBANK IN
Reuters	AUFI.BO
Sector	Banking
Face Value (INR)	10
Equity Capital (INR mn)	6665
Mkt Cap (INR mn)	413438
52w H/L (INR)	733 / 525
Avg Yearly Vol (in 000')	921

**Shareholding Pattern %**

(As on Sept, 2022)

Promoters	25.6
Public & Others	74.4

Stock Performance (%)	1m	3m	12m
AU SFB	-8.3	5.0	-1.0
Nifty	4.4	2.6	-0.1

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**AU posted Q3FY23 numbers - PAT came in at INR 3.9 bn up by 30% yoy and 14.6% qoq – although numbers looks good but there were couple of red liners which we have discussed below**

**Pace of credit growth is slowing down** – from 44% in Q2FY23 to 38% in this quarter. While disbursements were strong at INR 100 bn vs. INR 86 in Q2FY23. Despite strong NII growth of 41%; operating profit growth was just 21% yoy due to sharp opex cost increase of 40% yoy

**Other income growth was muted** at 7% yoy due to lower PSLC income which had come down to INR 14 cr vs. INR 77 cr in Q2 (as the PSLC marker continued to remain subdued during the quarter).

**Margins stable** – Blended margins were stable at 6.2% levels. While incremental spreads have risen by 23 bps to 6.3% resulting in commensurate decline in the incremental spreads by 30 bps from 7% to 6.7% qoq

**Total deposits growth was at 38% yoy**, however, CASA deposits (38% share) declined by 5% on sequential basis. Bulk TDs increased share increased marginally to 47% from 46% last quarter. This will be key monitorable going forward

**Asset quality performance was stable** - Incremental slippages were at INR 2.3 bn vs. INR 2.5 bn in Q2FY23. Standard restructured assets declined to 1.4% from 1.7% last quarter. In % terms GNPA's/NNPA's fall to 1.8%/0.5% from 2.6%/1.3% on yoy basis.

**New developments** - The bank has added 3.3 lac customers during the quarter; 42% of customer acquisitions via digital products. The bank has added HDFC Life & ICICI Lombard as Bancassurance partner with a view to expand its third party product offering to its customers

**Outlook & Valuations** – It is trading at 3.8x/3.3x FY23e/FY24e ABV on FY24e ROE/ROA 16%/1.9%. Rate of asset growth is coming down along with that pace profit growth too (which is partly also because of higher opex cost). Higher valuations is not justified given incremental quarterly performance is soft on many parameters as discussed above. We expect price performance to remain subdued in the near term. Our TP is at INR 678, upside of 9% from the current levels

**Exhibit 1: Financial Performance**

Y/E Mar (Rs Bn)	FY21	FY22	FY23E	FY24E	FY25E
NII	23.7	32.3	42.5	57.3	73.4
PAT	11.7	11.3	14.3	19.5	24.1
Networth	62.8	75.1	111.8	130.3	153.3
Adj BVPS (Rs)	176.8	231.3	163.1	188.3	219.1
EPS (Rs)	37.5	35.9	21.5	29.3	36.3
P/E (x)	16.6	17.3	28.9	21.2	17.1
P/Adj BV (x)	3.5	2.7	3.8	3.3	2.8

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Exhibit 2: Q3FY23 - Quarterly Performance (Standalone)

(in Mn)	Q3FY23	Q3FY22	yoy (%)	Q3FY22	qoq (%)	9MFY23	9MFY22	yoy (%)
<b>Interest earned</b>	<b>21180.7</b>	<b>14964.4</b>	<b>41.5</b>	<b>19922.9</b>	6.3	<b>59305.5</b>	<b>42546.9</b>	<b>39.4</b>
-Interest/discount on advances/bills	17504.1	12235.2	<b>43.1</b>	16488.6	6.2	48973.5	35016.9	<b>39.9</b>
-Income on investments	3125.2	1969.6	<b>58.7</b>	2958.5	5.6	8629.3	5531.8	<b>56.0</b>
-Interest on bal. with RBI	72.7	236.0	<b>-69.2</b>	103.3	-29.7	447.8	625.7	<b>-28.4</b>
-Others	478.7	523.6	<b>-8.6</b>	372.4	28.6	1254.9	1372.4	<b>-8.6</b>
Interest expenses	9653.4	6760.3	<b>42.8</b>	9089.4	6.2	27184.7	19571.3	<b>38.9</b>
<b>Net Interest Income (NII)</b>	<b>11527.3</b>	<b>8204.1</b>	<b>40.5</b>	<b>10833.4</b>	6.4	<b>32120.8</b>	<b>22975.6</b>	<b>39.8</b>
Other Income	2948.9	2756.4	<b>7.0</b>	2473.6	19.2	7014.0	6823.2	<b>2.8</b>
Total income	<b>14476.2</b>	<b>10960.6</b>	<b>32.1</b>	<b>13307.0</b>	8.8	<b>39134.8</b>	<b>29798.8</b>	<b>31.3</b>
Operating expenses	<b>8919.2</b>	<b>6376.3</b>	<b>39.9</b>	<b>8319.2</b>	7.2	<b>24649.2</b>	<b>16471.6</b>	<b>49.6</b>
-Employee cost	4651.9	3558.8	<b>30.7</b>	4513.0	3.1	13105.1	9652.5	<b>35.8</b>
-Other operating expenses	4267.2	2817.5	<b>51.5</b>	3806.2	12.1	11544.1	6819.1	<b>69.3</b>
<b>Operating profit</b>	<b>5557.1</b>	<b>4584.2</b>	<b>21.2</b>	<b>4987.8</b>	11.4	<b>14485.6</b>	<b>13327.1</b>	<b>8.7</b>
Provision for contingencies	326.4	559.7	<b>-41.7</b>	429.6	-24.0	1139.6	2677.4	<b>-57.4</b>
<b>PBT</b>	<b>5230.7</b>	<b>4024.6</b>	<b>30.0</b>	<b>4558.2</b>	14.8	<b>13346.0</b>	<b>10649.7</b>	<b>25.3</b>
Provision for taxes	1302.4	1004.2	<b>29.7</b>	1132.3	15.0	3313.1	2812.0	<b>17.8</b>
<b>Net profit</b>	<b>3928.3</b>	<b>3020.4</b>	<b>30.1</b>	<b>3426.0</b>	14.7	<b>10033.0</b>	<b>7837.7</b>	<b>28.0</b>
Equity	6665.1	3137.7	<b>112.4</b>	6656.7	0.1	6665.1	3137.7	<b>112.4</b>
EPS	5.89	9.63	<b>-38.8</b>	5.15	14.5	15.05	24.98	<b>-39.7</b>
<b>Ratios (%)</b>								
Int. exp/Int earned (%)	45.6	45.2	-	45.6	-	45.8	46.0	-
Cost/Income ratio (%)	61.6	58.2	-	62.5	-	63.0	55.3	-
Gross NPAs (Rs)	10188.6	10575.6	<b>-3.7</b>	9967.0	2.2	10188.6	10575.6	<b>-3.7</b>
Net NPAs (Rs)	2845.6	5201.8	<b>-45.3</b>	2882.2	-1.3	2845.6	5201.8	<b>-45.3</b>
Gross NPAs (%)	1.81	2.60	-	1.90	-	1.8	2.6	-
Net NPAs (%)	0.51	1.3	-	0.6	-	0.5	1.3	-
PCR (%)	72.1	50.8	-	71.1	-	72.1	50.8	-
ROA (%)	0.5	0.5	-	0.5	-	1.5	1.5	-
CAR (%)	22.0	19.6	-	23.4	-	22.0	19.6	-
<b>Balance Sheet (Rs.mn)</b>								
<b>Sources of Funds</b>								
Capital	6,665	3,138	<b>112.4</b>	6,657	0.1	6,665	3,138	<b>112.4</b>
Reserves and Surplus	98,735	68,132	<b>44.9</b>	94,103	4.9	98,735	68,132	<b>44.9</b>
Deposits	6,11,010	4,42,780	<b>38.0</b>	5,83,354	4.7	6,11,010	4,42,780	<b>38.0</b>
-CASA Deposits	234710	173800	<b>35.0</b>	246740	-4.9	234710	173800	<b>35.0</b>
Advances	5,56,010	4,01,810	<b>38.4</b>	5,17,431	7.5	5,56,010	4,01,810	<b>38.4</b>

Source: Aриhant Research, Company Filings

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Key Financials

P&L (Rs bn)	FY20	FY21	FY22	FY23e	FY24e	FY25e
Interest income	42.9	49.5	59.2	79.2	105.4	135.7
Interest expense	23.8	25.8	26.9	36.6	48.1	62.2
<b>NII</b>	<b>19.1</b>	<b>23.7</b>	<b>32.3</b>	<b>42.5</b>	<b>57.3</b>	<b>73.4</b>
Non-interest income	7.1	14.2	9.9	11.9	15.3	17.6
<b>Net revenues</b>	<b>26.2</b>	<b>37.9</b>	<b>42.3</b>	<b>54.4</b>	<b>72.6</b>	<b>91.1</b>
Operating expenses	14.2	16.6	24.1	32.6	42.3	52.9
<b>PPOP</b>	<b>12.0</b>	<b>21.3</b>	<b>18.2</b>	<b>21.8</b>	<b>30.2</b>	<b>38.1</b>
Provisions	2.8	6.7	3.6	2.8	4.2	5.9
<b>PBT</b>	<b>9.1</b>	<b>14.6</b>	<b>14.5</b>	<b>19.1</b>	<b>26.0</b>	<b>32.3</b>
Tax	2.4	2.9	3.2	4.8	6.6	8.1
<b>PAT</b>	<b>6.7</b>	<b>11.7</b>	<b>11.3</b>	<b>14.3</b>	<b>19.5</b>	<b>24.1</b>

Balance sheet	FY20	FY21	FY22	FY23e	FY24e	FY25e
Share capital	3	3	3	7	7	7
Reserves & surplus	41	60	72	105	124	147
<b>Net worth</b>	<b>44</b>	<b>63</b>	<b>75</b>	<b>112</b>	<b>130</b>	<b>153</b>
Deposits	262	360	526	722	951	1204
Borrowings	103	70	60	51	42	45
Other liability	13	23	30	37	45	54
<b>Total liabilities</b>	<b>421</b>	<b>516</b>	<b>691</b>	<b>922</b>	<b>1168</b>	<b>1457</b>

Fixed assets	h	5	6	7	8	8
Investments	107	108	153	199	247	301
Loans	270	346	461	645	852	1065
Cash	34	48	59	58	47	68
Other assets	7	9	11	13	15	15
<b>Total assets</b>	<b>417</b>	<b>516</b>	<b>691</b>	<b>922</b>	<b>1168</b>	<b>1457</b>

Ratios	FY20	FY21	FY22	FY23e	FY24e	FY25e
<b>Growth (%)</b>						
NII	42	24	37	32	35	28
PPOP	66	78	-15	20	38	26
PAT	77	73	-3	26	37	24
Advances	18	28	33	40	32	25
Deposits	35	38	46	37	32	27
<b>Spread (%)</b>						
Yield on Funds	11.8	10.9	10.1	10.0	10.3	10.5
Cost of Funds	7.4	6.5	5.3	5.4	5.4	5.6
Spread	4.4	4.3	4.8	4.7	4.8	5.0
NIM	5.2	5.2	5.5	5.4	5.6	5.7
<b>Asset quality (%)</b>						
Gross NPAs	1.7	4.3	2.0	1.8	1.9	2.0
Net NPAs	0.8	2.2	0.5	0.5	0.6	0.7
Provisions	53	50	75	70	68	64
<b>Return ratios (%)</b>						
RoE	17.9	22.0	16.4	15.3	16.1	17.0
RoA	1.8	2.5	1.9	1.8	1.9	1.8
<b>Per share (Rs)</b>						
EPS	22	37	36	21	29	36
BV	144	201	239	168	196	231
ABV	137	177	231	163	188	219
<b>Valuation (x)</b>						
P/E	28.0	16.6	17.3	28.9	21.2	17.1
P/BV	4.3	3.1	2.6	3.7	3.2	2.7
P/ABV	4.5	3.5	2.7	3.8	3.3	2.8

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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