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**CMP: INR 765**

**Rating: Hold**

**Target Price: INR 832**

**Stock Info**

BSE	540611
NSE	AUBANK
Bloomberg	AUBANK IN
Reuters	AUFI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	667
Mkt Cap (INR Cr)	413438
52w H/L (INR)	795/ 548
Avg Yearly Vol (in 000')	1,786

**Shareholding Pattern %**

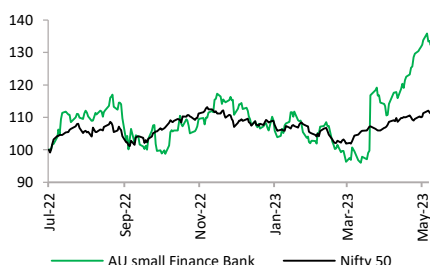
(As on June, 2023)

Promoters	25.5
Public & Others	74.5

**Stock Performance (%)**

	1m	6m	12m
AU Small Finance Bank	2.6	20.5	31.5
Nifty 50	5.6	8.9	18.7

**AU Small Finance Bank Vs Nifty 50**



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AU Small Finance Bank reported profit of INR 3.87 bn (+44% YoY/-9% QoQ), driven by better growth in other income by 98% YoY at INR 3.15 bn and decline in provisions by 14% YoY. NII for the quarter came at INR 12.46 bn (up 28% YoY/3% QoQ). NIM of the bank is at 5.7%, which is down by 38 bps QoQ, owing to the increase in deposit cost and drag from excess liquidity buffers. Operating profit increased by 39% YoY/-4% QoQ to INR 5.46 bn, driven by better performance on other income front.

**Other income grew by 98% YoY, led by increasing credit card business:**

The other income during the quarter stood at INR 3.15 bn v/s INR 1.59bn in the corresponding quarter, last year (up 98% YoY, down 5% QoQ). This YoY increase in other income was driven by the increase in credit card business, cross sell and processing fees. Credit card income came at INR 0.55 bn (up 232% YoY, up 33% QoQ), cross sell and deposit related fee was up by 34% YoY at INR 0.55 bn during the quarter, loan asset processing fee was up by 24% YoY to INR 1.65 bn and Miscellaneous income increased from INR 0.1 bn in Q1FY23 to INR 0.23 bn (up 118% YoY).

**Flat Deposit during the quarter, due to the consumption of excess liquidity buffer created during last quarter:**

The banks focus during the quarter was to avoid raising high cost deposits. They had an LCR of 151% as on March 23. Thus, their focus was to consumer this excess liquidity to help the control their cost of deposits. While deposits grew 27% YoY to INR 693.15 bn, it remained flat QoQ.

**Slight pressure on NIMs due to deposit repricing:** NIMs during the quarter was at 5.7% v/s 6.1% in corresponding quarter last year (down 38bps QoQ). We expect the NIMs to be in the range of 5.5 – 5.7% going forward, as the deposits reprice.

**Valuation & View:** AU Small Finance Bank has performed well in a seasonally weak quarter. We expect the NNPA to be in the range of 0.5 – 0.6%. Cost to income ratio is expected to be same levels during the year and is expected to come down to 60% on next 2 years. NIMs are expected to be in the range of 5.5 – 5.7%. Cost of deposits will see a marginal increase owing to deposit repricing. We maintain our Hold rating on the stock with target price of INR 832, based on 4x FY25E P/ABV. Our target price is upside of 9% from the current levels.

**Exhibit 1: Financial Performance**

Y/E Mar (Rs Bn)	FY21	FY22	FY23	FY24E	FY25E
NII	24	32	44	56	71
PAT	12	11	14	17	21
Networth	63	75	110	126	145
Adj BVPS (Rs)	177	231	160	181	208
EPS (Rs)	37	36	21	25	31
P/E (x)	20	21	36	31	24
P/Adj BV (x)	4.3	3.3	4.8	4.2	3.7

Source: Arihant Research, Company Filings

## Q1FY24 - Quarterly Performance (Standalone)

P&L (Rs Bn)	Q1FY24	Q1FY23	Q4FY23	YoY	QoQ
Interest Earned	24.58	18.20	22.75	35%	8%
Interest Expended	12.12	8.44	10.62	44%	14%
<b>NII</b>	<b>12.46</b>	<b>9.76</b>	<b>12.13</b>	<b>28%</b>	<b>3%</b>
Other Income	3.15	1.59	3.33	98%	-5%
<b>Net Income</b>	<b>15.61</b>	<b>11.35</b>	<b>15.46</b>	<b>38%</b>	<b>1%</b>
Opex	10.15	7.41	9.75	37%	4%
<b>PPOP</b>	<b>5.46</b>	<b>3.94</b>	<b>5.71</b>	<b>39%</b>	<b>-4%</b>
Provisions	0.33	0.38	0.41	-14%	-19%
<b>PBT</b>	<b>5.13</b>	<b>3.56</b>	<b>5.30</b>	<b>44%</b>	<b>-3%</b>
Tax	1.26	0.88	1.05	44%	20%
<b>PAT</b>	<b>3.87</b>	<b>2.68</b>	<b>4.25</b>	<b>44%</b>	<b>-9%</b>

Source: Arianth Research, Company Filings

## Q1FY24 – Key Concall Highlights

## Financial Performance:

- The LCR declined from 151% as of March 31, 2023, to 119% as of June 30, 2023.
- Deposits increased by 27% YoY and remained flat QoQ.
- PPOP grew at 39% YoY, driven by the 28% YoY growth in NII.
- Gross advances increased by 29% YoY and 8% QoQ, with no loan securitization during Q1 FY24.
- The bank reduced its peak deposit rates by 25 bps across SA and TD.
- For Q1 FY24, PAT grew by 44% YoY, amounting to Rs. 387 Crores compared to Rs. 268 Crores in Q1 FY23.
- ROA Q1 FY24 stands at 1.7%, and ROE is at 13.8%.

## Vehicle Finance:

- Sold 53.61 lakh units, showing 4% YoY growth and 12% QoQ growth.
- The average ticket size remained around 5 lakhs for disbursements and 3.1 lakhs at the total asset level, excluding two-wheelers.

## Home Loan:

- Witnessed a disbursement growth of 32% YoY, reaching Rs. 572 crores.
- The total portfolio now stands at Rs. 4,698 crores, comprising over 44,000 loans with an average ticket size of Rs. 11.71 lakhs and a portfolio yield of 11.7%.
- Being an affordable housing book, a significant portion is eligible for long-term refinance from NHP.

## Commercial Banking:

- The commercial banking portfolio grew 57% YoY, reaching Rs. 13,461 crores.
- Disclosed a volume of Rs. 2,419 crores, with Business Banking and Agribanking accounting for 75% of the total disbursements.
- Growth in portfolios was driven by leveraging the branch network, yields from existing customers, and cross-selling to existing current account customers.

## Asset Quality:

- GNPA increased by 10 bps during the quarter to 1.76%.
- PCR stands at 73% including technical write-off and floating provision.

## Branch Network:

- Added 11 new touchpoints during the quarter, bringing the total touchpoints to 1,038.
- Plans to open an additional 50+ branches and touchpoints in this financial year.

## Digital Initiatives:

- Scaling Digital Current Account through a video KYC process.
- Corporate salary account journey on video banking gone live.
- Implemented a credit card cloud data warehouse.
- On-boarded ~3.75 Lacs new customers, with 45% of them through digital products and channels.

## Key Financials

P&L (INR Bn)	FY21	FY22	FY23	FY24E	FY25E
Interest income	49.5	59.2	82.1	106.2	136.8
Interest expense	25.8	26.9	37.8	50.0	66.0
<b>NII</b>	<b>23.7</b>	<b>32.3</b>	<b>44.3</b>	<b>56.2</b>	<b>70.8</b>
Non-interest income	14.2	9.9	10.3	15.8	18.8
<b>Net revenues</b>	<b>37.9</b>	<b>42.3</b>	<b>54.6</b>	<b>72.0</b>	<b>89.6</b>
Operating expenses	16.6	24.1	34.4	43.4	53.1
<b>PPOP</b>	<b>21.3</b>	<b>18.2</b>	<b>20.2</b>	<b>28.6</b>	<b>36.5</b>
Provisions	6.7	3.6	1.5	6.4	8.5
<b>PBT</b>	<b>14.6</b>	<b>14.5</b>	<b>18.6</b>	<b>22.3</b>	<b>28.0</b>
Tax	2.9	3.2	4.4	5.6	7.0
<b>PAT</b>	<b>11.7</b>	<b>11.3</b>	<b>14.3</b>	<b>16.7</b>	<b>20.9</b>

Balance sheet	FY21	FY22	FY23	FY24E	FY25E
Share capital	3	3	7	7	7
Reserves & surplus	60	72	103	119	139
<b>Net worth</b>	<b>63</b>	<b>75</b>	<b>110</b>	<b>126</b>	<b>145</b>
Deposits	360	526	694	931	1247
Borrowings	70	60	63	51	56
Other liability	23	30	36	22	22
<b>Total liabilities</b>	<b>516</b>	<b>691</b>	<b>902</b>	<b>1130</b>	<b>1471</b>
Fixed assets	5	6	7	8	9
Investments	108	153	201	253	364
Loans	346	461	584	747	938
Cash	48	59	94	109	146
Other assets	9	11	16	13	14
<b>Total assets</b>	<b>516</b>	<b>691</b>	<b>902</b>	<b>1130</b>	<b>1471</b>

Ratios	FY21	FY22	FY23	FY24E	FY25E
<b>Growth (%)</b>					
NII	24	37	37	27	26
PPOP	78	-15	11	42	27
PAT	73	-3	26	17	25
Advances	28	33	27	28	26
Deposits	38	46	32	34	34
<b>Spread (%)</b>					
Yield on Funds	10.9	10.1	10.6	10.7	10.7
Cost of Funds	6.5	5.3	5.6	5.8	5.8
Spread	4.3	4.8	4.9	4.9	4.9
NIM	5.2	5.5	5.7	5.7	5.5
<b>Asset quality (%)</b>					
Gross NPAs	4.3	2.0	1.9	2.0	2.0
Net NPAs	2.2	0.5	0.6	0.6	0.7
Provisions	50	75	70	69	65
<b>Return ratios (%)</b>					
RoE	22.0	16.4	15.4	14.2	15.4
RoA	2.5	1.9	1.8	1.6	1.6
<b>Per share (Rs)</b>					
EPS	37	36	21	25	31
BV	201	239	165	188	218
ABV	177	231	160	181	208
<b>Valuation (x)</b>					
P/E	20.4	21.3	35.7	30.6	24.4
P/BV	3.8	3.2	4.6	4.1	3.5
P/ABV	4.3	3.3	4.8	4.2	3.7

Source: Arian Research, Company Filings

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Absolute Return****Research Analyst  
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