

CMP: INR 664

Rating: Accumulate

Target Price: INR 771

Stock Info

BSE	540611
NSE	AUBANK
Bloomberg	AUBANK IN
Reuters	AUFI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	668
Mkt Cap (INR Cr)	43,408
52w H/L (INR)	795/ 548
Avg Yearly Vol (in 000')	1,786

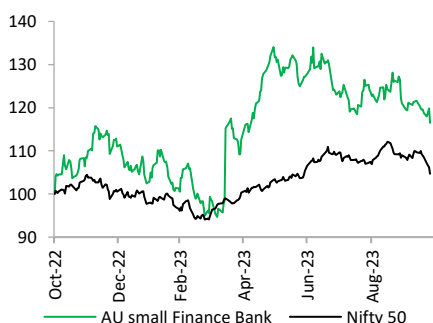
Shareholding Pattern %

(As on September, 2023)

Promoters	25.5
Public & Others	74.5

Stock Performance (%)	1m	6m	12m
AU Small Finance Bank	-7.9	-5.07	10.1
Nifty 50	-2.1	5.4	6.2

AU Small Finance Bank Vs Nifty 50



AU Small Finance Bank reported profit of INR 4.02 bn (+17% YoY/+4% QoQ), driven by better growth in other income by 72% YoY and 35% QoQ at INR 4.25 bn. NII for the quarter came at INR 12.49 bn (up 15% YoY/0.2% QoQ). NIM of the bank is at 5.5%, which is down by 20 bps QoQ, owing to the increase in deposit cost and yields remaining flat because of higher mix of low yielding product. Operating profit increased by 30% YoY/19% QoQ to INR 6.48 bn, driven by better performance on other income front.

Other income grew by 72% YoY, led by increasing credit card business:

The other income during the quarter stood at INR 4.25 bn v/s INR 2.47bn in the corresponding quarter, last year (up 72% YoY, up 35% 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 0.67 bn (up 186% YoY, up 22% QoQ), cross sell and deposit related fee was up by 177% YoY at INR 1.3 bn during the quarter, loan asset processing fee was up by 23% YoY to INR 1.84 bn and Miscellaneous income increased from INR 0.13 bn in Q2FY23 to INR 0.33 bn (up 165% YoY/ up 48% QoQ).

Deposit growth led by growth in CASA:

The banks focus in Q1FY24 was to avoid raising high cost deposits and hence used their excess liquidity. They had an LCR of 151% as on March 23. Thus, their focus was to consume this excess liquidity to help the control their cost of deposits. After choosing to consume excess liquidity in Q1, the Bank has grown its deposits by 9% QoQ/ 30% YoY during Q2FY24 led by a strong CASA growth of 6% QoQ. The deposits continue to reprice, and the cost of funds rose by 12bps QoQ to 6.70% with average CoF for H1'FY24 at 6.64%.

Pressure on NIMs continue, due to deposit repricing:

NIMs during the quarter was at 5.5% v/s 6.0% in corresponding quarter last year (down 20bps 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 during the quarter. We expect the NNPA to be in the range of 0.5 – 0.6%. 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. Further, merger with Fincare SFB will unlock synergy benefits for the bank. We upgrade our rating to Accumulate on the stock with target price of INR 771, based on 3.2x FY26E P/ABV. Our target price is upside of 16% from the current levels.

Exhibit 1: Financial Performance

Y/E Mar (INR Bn)	FY22	FY23	FY24E	FY25E	FY26E
NII	32	44	56	71	89
PAT	11	14	17	21	26
Network	75	110	126	145	170
Adj BVPS (Rs)	231	160	181	208	241
EPS (Rs)	36	21	25	31	39
P/E (x)	19	31	27	21	17
P/Adj BV (x)	2.9	4.2	3.7	3.2	2.8

Source: Arihant Research, Company Filings

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Q2FY24 - Quarterly Performance (Standalone)

P&L (INR in Bn)	Q2FY24	Q1FY24	Q2FY23	YoY	QoQ
Interest Earned	25.31	24.58	19.92	27%	3%
Interest Expended	12.82	12.12	9.09	41%	6%
NII	12.49	12.46	10.83	15%	0%
Other Income	4.25	3.15	2.47	72%	35%
Net Income	16.74	15.61	13.31	26%	7%
Opex	10.27	10.15	8.32	23%	1%
PPOP	6.48	5.46	4.99	30%	19%
Provisions	1.14	0.33	0.43	166%	247%
PBT	5.33	5.13	4.56	17%	4%
Tax	1.32	1.26	1.13	16%	4%
PAT	4.02	3.87	3.43	17%	4%
Asset Quality					
GNPA	12.45	11.21	9.97	25%	11%
NNPA	3.85	3.47	2.88	33%	11%
GNPA (%)	1.91%	1.76%	1.90%	15bps	1bps
NNPA (%)	0.60%	0.55%	0.56%	5bps	4bps

Source: Aриhant Research, Company Filings

Q2FY24 – Key Concall Highlights

- Company onboarded 3.6 lakh new customers during the quarter, reaching a total customer base of 45 lakhs.
- Overall deposits grew by 30% QoQ/ 9% YoY, supported by CASA growth of 6% QoQ.
- However, due to tight liquidity and higher pressure on the interest rates, there is pressure in CASA mobilization, and CASA ratio is down by 4% since March '23.
- They have created a new banking unit called Swadesh Banking to maximize organizational effectiveness and focus on the upcoming semi-urban and rural areas to unlock the potential.
- During the quarter, deposit rates increased by 25 basis points across savings and term deposits taking their FD rate to 8%. Consequently, there was an impact on a cost of fund which increased by about 12 bps QoQ reaching to 6.7%.
- While the cost of funds increased, their yields remained flat, putting a pressure on NIMs. NIMs for the quarter stood at 5.5%. However, it has increased yields on incremental disbursements, which will help them to improve their NIMs, going forward.
- The core PPOP grew by 28% YoY/ 20% QoQ, supported by other income from credit cards and distribution of third party products.
- They announced partnerships with Max Life Insurance, Bajaj Alliance Life Insurance, Star Health Insurance as Bancassurance partner to further strengthen Bank's third-party product offering to its customers.
- Further, they announced merger with Fincare Small Finance Bank, which is expected to be completed in next 2 quarters.

Benefits of merger

- This merger will help them gain geographical presence as AU is largely North/West focused (82% touchpoints) while Fincare has 49% touchpoints in south.
- It will also help them to fulfill PSL requirements as Fincare is lending to small and marginal farmers.
- Fincare also has Gold loan portfolio of Rs. 11bn
- They will be able to use Fincare's expertise in MFI segment. Rajeev will be deputy MD post-merger and will lead the MFI segment

Key Financials

P&L (INR Bn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	59.2	82.1	106.2	136.8	177.8
Interest expense	26.9	37.8	50.0	66.0	88.8
NII	32.3	44.3	56.2	70.8	89.0
Non-interest income	9.9	10.3	15.8	18.8	22.0
Net revenues	42.3	54.6	72.0	89.6	111.0
Operating expenses	24.1	34.4	43.4	53.1	65.0
PPOP	18.2	20.2	28.6	36.5	46.0
Provisions	3.6	1.5	6.4	8.5	11.2
PBT	14.5	18.6	22.3	28.0	34.8
Tax	3.2	4.4	5.6	7.0	8.8
PAT	11.3	14.3	16.7	20.9	26.0

Balance sheet	FY22	FY23	FY24E	FY25E	FY26E
Share capital	3	7	7	7	7
Reserves & surplus	72	103	119	139	164
Net worth	75	110	126	145	170
Deposits	526	694	931	1247	1686
Borrowings	60	63	51	56	61
Other liability	30	36	22	22	21
Total liabilities	691	902	1130	1471	1939
Fixed assets	6	7	8	9	9
Investments	153	201	253	364	526
Loans	461	584	747	938	1174
Cash	59	94	109	146	215
Other assets	11	16	13	14	15
Total assets	691	902	1130	1471	1939

Ratios	FY22	FY23	FY24E	FY25E	FY26E
Growth (%)					
NII	37	37	27	26	26
PPOP	-15	11	42	27	26
PAT	-3	26	17	25	24
Advances	33	27	28	26	25
Deposits	46	32	34	34	35
Spread (%)					
Yield on Funds	10.1	10.6	10.7	10.7	10.6
Cost of Funds	5.3	5.6	5.8	5.8	5.8
Spread	4.8	4.9	4.9	4.9	4.8
NIM	5.5	5.7	5.7	5.5	5.3
Asset quality (%)					
Gross NPAs	2.0	1.9	2.0	2.0	2.2
Net NPAs	0.5	0.6	0.6	0.7	0.8
Provisions	75	70	69	65	64
Return ratios (%)					
RoE	16.4	15.4	14.2	15.4	16.5
RoA	1.9	1.8	1.6	1.6	1.5
Per share (Rs)					
EPS	36	21	25	31	39
BV	239	165	188	218	255
ABV	231	160	181	208	241
Valuation (x)					
P/E	18.5	31.0	26.6	21.2	17.0
P/BV	2.8	4.0	3.5	3.0	2.6
P/ABV	2.9	4.2	3.7	3.2	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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