

CMP: INR 710

Rating: HOLD

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)	47,339
52w H/L (INR)	813/ 548
Avg Yearly Vol (in 000')	1,929

Shareholding Pattern %

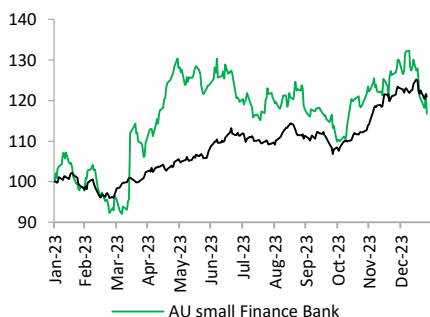
(As on December, 2023)

Promoters	25.5
Public & Others	74.5

Stock Performance (%)

	1m	6m	12m
AU Small Finance Bank	-9.8	-2.72	17.11
Nifty 50	-1.74	8.09	20.99

AU Small Finance Bank Vs Nifty 50



AU Small Finance Bank reported profit of INR 3.74 bn (down 4% YoY/ down 7% QoQ), driven by decline in NIMs and increase in provisions. Other income grew by 52% YoY at INR 4.50 bn and provisions by 387% YoY at INR 1.59 bn. NII for the quarter came at INR 13.25 bn (up 15% YoY/6% QoQ). NIM of the bank is at 5.5%, which is down by 6 bps QoQ and 70 bps YoY, owing to the increase in cost of funds. Operating profit increased by 18% YoY/1% QoQ to INR 6.57 bn.

Other income grew by 52% YoY, led by increasing credit card business:

The other income during the quarter stood at INR 4.50 bn v/s INR 2.95bn in the corresponding quarter, last year (up 52% YoY, up 6% 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 0.88 bn (up 191% YoY, up 31% QoQ), cross sell and deposit related fee was up by 141% YoY at INR 1.25 bn during the quarter, loan asset processing fee was up by 17% YoY to INR 2.00 bn and Miscellaneous income increased from INR 0.33 bn in Q2FY23 to INR 0.19 bn (down 3% YoY).

Deterioration of asset quality, led by higher slippages:

The asset quality for the bank deteriorated as GNPA and NNPA ratio were up by 7 bps and 8 bps sequentially to 1.98% and 0.68% respectively. Asset quality was partly impacted due to lower recoveries. Bad debts recovery came at INR 0.07 bn v/s INR 0.19 bn in Q2FY24 v/s 0.11 bn in Q3FY23.

NIMs under pressure due to rising cost of funds:

NIMs during the quarter was at 5.5% v/s 5.7% in Q2FY24 v/s 6.1% in Q3FY23 (down 6bps QoQ/ down 70 bps YoY). NIM is expected to be at the lower end of the guided range of 5.5%-5.7%. Cost of funds increased by 20 bps QoQ/ 110 bps YoY at 6.9%, led by deposits repricing.

Valuation & View:

AU Small Finance Bank experienced a decline in asset quality due to elevated slippages, resulting in increased provisions for bad loans, which consequently impacted profitability. Additionally, margins were adversely affected by escalating funding costs. Despite these challenges, loan growth remained robust, reaching approximately 20%, while deposits exhibited a significant year-on-year increase of 31%. NIMs are expected to be in the range of 5.5 – 5.7%. We have HOLD rating on the stock with target price of INR 771, based on 3.2x FY26E P/ABV. Our target price is upside of 9% from the current levels.

Y/E Mar (Rs Bn)	FY22	FY23	FY24E	FY25E	FY26E
NII	32	44	56	71	89
PAT	11	14	17	21	26
Networth	75	110	126	145	170
Adj BVPS (Rs)	231	160	181	208	241
EPS (Rs)	36	21	25	31	39
P/E (x)	20	33	28	23	18
P/Adj BV (x)	3.1	4.4	3.9	3.4	2.9

Source: Arihant Research, Company Filings

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Q3FY24 - Quarterly Performance (Standalone)

P&L (Rs Bn)	Q3FY24	Q2FY24	Q3FY23	YoY	QoQ
Interest Earned	27.36	25.31	21.18	29%	8%
Interest Expended	14.11	12.82	9.65	46%	10%
NII	13.25	12.49	11.53	15%	6%
Other Income	4.50	4.25	2.95	52%	6%
Net Income	17.75	16.74	14.48	23%	6%
Opex	11.17	10.27	8.92	25%	9%
PPOP	6.57	6.48	5.56	18%	1%
Provisions	1.59	1.14	0.33	387%	39%
PBT	4.98	5.33	5.23	-5%	-7%
Tax	1.23	1.32	1.30	-6%	-7%
PAT	3.75	4.02	3.93	-4%	-7%

	Asset Quality				
GNPA	13.40	12.45	10.19	8%	31%
NNPA	4.56	3.85	2.85	19%	60%
GNPA (%)	1.98%	1.91%	1.81%	7bps	17bps
NNPA (%)	0.68%	0.60%	0.51%	8bps	17bps

Source: Arianth Research, Company Filings

Q3FY24 – Key Concall Highlights

- The Net interest income was up 14.9% YoY/ 6.1% QoQ to INR 13.25 bn, largely aided by growth in loan book.
- Net interest margin declined 6 bps to 5.5% on sequential basis while on YoY basis they were down 70 bps, mainly due to rising cost of funds.
- Non-interest income increased by 52.5% YoY and 5.7% QoQ which was mainly driven by fee income from credit card segment and general banking fees.
- Cost to income ratio increased by 165 bps QoQ and 136 bps YoY to 63%, as opex increased with branch and business expansion.
- In Q3 FY24, AU Small Finance Bank posted net advances growth of 20% YoY/ 4% QoQ to INR 667.40 bn.
- Deposit growth for the quarter came in at 31.1% YoY and 5.8% QoQ to INR 801.20 bn ,wherein CASA growth stood at 12.7% YoY and CASA ratio thus declined 541 bps YoY to 33%.
- The bank has received CCI approval for merger with Fincare SFB.
- With AD-I operationalization expected in next few months and on completion of the proposed merger with Fincare, the Bank will be in a position to offer every product to all category of customers – be it domestic or cross border, be it bottom of the pyramid customer or ultra HNI.
- The bank has done securitization worth INR 27 bn in the quarter.
- Launched co-branded credit card with Exigo a travel company.
- NIM is expected to be at the lower end of the guided range of 5.5%-5.7%.
- Cost to income for FY24 is expected to be similar to FY23 levels.
- The bank looks to acquire around 1 million customers next year.
- Asset growth to be around 25% by the end of FY24.

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	19.8	33.2	28.4	22.6	18.2
P/BV	3.0	4.3	3.8	3.3	2.8
P/ABV	3.1	4.4	3.9	3.4	2.9

Source: Arianth 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%

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