

CMP: INR 620

Rating: BUY

Target Price: INR 748

Stock Info

BSE	540611
NSE	AUBANK
Bloomberg	AUBANK IN
Reuters	AUFI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	743
Mkt Cap (INR Cr)	45,229
52w H/L (INR)	813/ 553
Avg Yearly Vol (in 000')	2,385

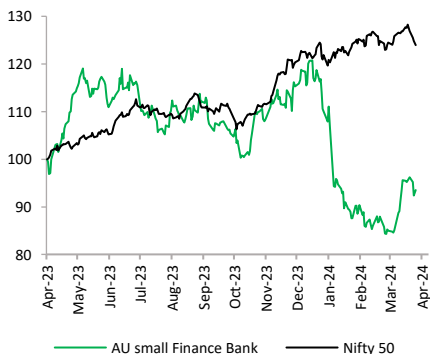
Shareholding Pattern %

(As on March, 2024)

Promoters	22.93
Public & Others	77.07

Stock Performance (%)	1m	6m	12m
AU Small Finance Bank	8.2	-13.7	-8.2
Nifty 50	1.92	17.3	26.4

AU Small Finance Bank Vs Nifty 50



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AU Small Finance Bank reported profit of INR 3.71 bn (down 13% YoY/ down 1% QoQ), driven by decline in NIMs and increase in provisions. Other income grew by 67% YoY and 24% QoQ at INR 5.56 bn and provisions by 224% YoY at INR 1.33 bn. NII for the quarter came at INR 13.37 bn (up 10% YoY/ 1% QoQ). NIM of the bank is at 5.1%, which is down by 4 bps QoQ and 100 bps YoY, owing to the increase in cost of funds. Operating profit increased by 16% YoY/1% QoQ to INR 6.64 bn.

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

The other income during the quarter stood at INR 5.56 bn v/s INR 3.33 bn in the corresponding quarter, last year (up 67% YoY, up 24% 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 113% YoY, Flat QoQ), cross sell and deposit related fee was up by 165% YoY at INR 1.88 bn during the quarter, loan asset processing fee was up by 29% YoY to INR 2.35 bn and Miscellaneous income increased from INR 0.19 bn in Q3FY24 to INR 0.35 bn (up 70% YoY/ up 79% QoQ).

Improvement in asset quality, led by lower slippages and higher recoveries:

The asset quality for the bank improved as GNPA and NNPA ratio were down by 31 bps and 13 bps sequentially to 1.67% and 0.55% respectively. Asset quality improved due to higher recoveries. Bad debts recovery came at INR 0.15 bn v/s INR 0.07 bn in Q3FY24 v/s 0.06 bn in Q4FY23. Further, slippages came in at INR 2.96 bn as compared to INR 3.08 bn in Q3FY24.

NIMs under pressure due to rising cost of funds:

NIMs during the quarter was at 5.1% v/s 5.5% in Q3FY24 v/s 6.1% in Q4FY23 (down 4bps QoQ/ down 100 bps YoY). NIMs are likely to remain under pressure. Cost of funds increased by 10 bps QoQ/ 70 bps YoY at 7.0%, led by deposits repricing.

Valuation & View:

AU Small Finance Bank experienced an improvement NII, led by healthy credit growth but profitability was impacted. Additionally, margins were adversely affected by escalating funding costs. Despite these challenges, loan growth remained robust. NIMs are likely to remain under pressure. The bank has completed the merger with Fincare Small Finance Bank with effect from 1st April 2024. The management would focus on improving its RoA for the next 3 years by disbursing loans in high yielding business verticals. They have given balance sheet growth guidance of 25% annually for the next 3 years We upgrade our rating to BUY on the stock with target price of INR 748, based on 2.2x FY27E P/ABV. Our target price is upside of 21% from the current levels.

Exhibit 1: Financial Performance

Y/E Mar (Rs Bn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	32	44	52	67	89	112
PAT	11	14	15	18	25	32
Networth	75	110	126	142	166	197
Adj BVPS (Rs)	231	160	181	203	235	277
EPS (Rs)	36	21	23	26	38	48
P/E (x)	17	29	27	23	16	13
P/Adj BV (x)	2.7	3.9	3.4	3.1	2.6	2.2

Source: Arihant Research, Company Filings

Q4FY24 - Quarterly Performance (Standalone)

P&L (Rs Bn)	Q4FY24	Q3FY24	Q4FY23	YoY	QoQ
Interest Earned	28.29	27.36	22.75	24%	3%
Interest Expended	14.92	14.11	10.62	41%	6%
NII	13.37	13.25	12.13	10%	1%
Other Income	5.56	4.50	3.33	67%	24%
Net Income	18.93	17.75	15.46	22%	7%
Opex	12.28	11.17	9.75	26%	10%
PPOP	6.64	6.57	5.71	16%	1%
Provisions	1.33	1.59	0.41	224%	-17%
PBT	4.55	4.98	5.30	-14%	-9%
Tax	0.84	1.23	1.05	-20%	-32%
PAT	3.71	3.75	4.25	-13%	-1%

Asset Quality

GNPA	12.37	13.40	9.81	26%	-8%
NNPA	4.01	4.56	2.45	64%	-12%
GNPA (%)	1.67%	1.98%	1.66%	1bps	-31bps
NNPA (%)	0.55%	0.68%	0.42%	13bps	-13bps

Source: Arianth Research, Company Filings

Key Concall Highlights

Guidance

- The management guided to grow their balance sheet by 25% annually for the next 3 years.
- Cost of funds for FY25 is expected to be higher by 40-45 bps over FY24
- They also aim to achieve a healthy current account book of at least 7.5% of the total deposits from current levels of 5% by FY27 and improve branch profitability.

Highlights

- Core Other Income grew by 69% YoY to INR 17.46 bn in FY24, driven by fee income from treasury income, third-party product distribution and credit cards.
- Pre-provision operating profit increased by 25% YoY to INR 25.15 bn, led by growth in the net interest income and other income in FY24.
- Operating expenses have grown 28% YoY, primarily due to continued investment in cards, digital, distribution expansion and brand buildout.
- In Q4 FY24, the profit was impacted by INR 0.77 bn on account of one-time pre-tax exceptional item pertaining to Fincare merger related expenses.
- During the quarter, the loan book grew by 25% YoY and 9% sequentially on account of strong credit demand.
- The bank would moderate credit card issuances to around FY24 levels to control upfront acquisition costs. Moreover, they will focus on increasing the proportion of cards sourced from branches.
- The bank would focus on disbursing loan towards high RoA generating business like vehicle loan, micro business loans, etc. They anticipate to grow this segment to 72% - 75% of the portfolio by FY27 from current level of 70%.
- The management expects ROA on merged basis, to be maintained at FY24 levels of 1.6% in FY25 and to expand RoA to 1.8% by FY27.
- Cost-to-income ratio to be maintained at FY24 range because of continued investment in distribution, credit cards, digital, wealth and transaction banking. However, in next 2-3 years it should come down.
- The bank has completed the merger with Fincare Small Finance Bank with effect from 1st April 2024. This allows them the ability for significant market expansion and deeper customer penetration
- Fincare brings a robust geographic footprint, particularly in South India, while AU offers a comprehensive product suite backed by cutting-edge digital capabilities.

Key Financials

P&L (INR Bn)	FY22	FY23	FY24A	FY25E	FY26E	FY27E
Interest income	59.2	82.1	105.5	133.6	177.8	232.9
Interest expense	26.9	37.8	54.0	66.2	89.0	120.6
NII	32.3	44.3	51.6	67.4	88.8	112.3
Non-interest income	9.9	10.3	17.5	18.4	22.0	25.7
Net revenues	42.3	54.6	69.0	85.8	110.8	138.0
Operating expenses	24.1	34.4	43.9	53.7	65.8	80.5
PPOP	18.2	20.2	25.2	32.1	45.0	57.5
Provisions	3.6	1.5	4.4	8.4	11.2	14.8
Exceptional Items	0.0	0.0	0.8	0.0	0.0	0.0
PBT	14.5	18.6	20.0	23.6	33.8	42.7
Tax	3.2	4.4	4.6	6.0	8.5	10.8
PAT	11.3	14.3	15.3	17.7	25.3	31.9

Balance sheet	FY22	FY23	FY24A	FY25E	FY26E	FY27E
Share capital	3	7	7	7	7	7
Reserves & surplus	72	103	119	136	160	190
Net worth	75	110	126	142	166	197
Deposits	526	694	872	1247	1686	2295
Borrowings	60	63	55	60	65	71
Other liability	30	36	42	22	21	18
Total liabilities	691	902	1094	1472	1939	2581
Fixed assets	6	7	9	9	10	10
Investments	153	201	271	364	526	761
Loans	461	584	732	938	1174	1471
Cash	59	94	64	147	215	323
Other assets	11	16	19	14	15	15
Total assets	691	902	1094	1472	1939	2581

Source: Arianth Research, Company Filings

Ratios	FY22	FY23	FY24A	FY25E	FY26E	FY27E
Growth (%)						
NII	37	37	17	31	32	26
PPOP	-15	11	25	28	40	28
PAT	-3	26	7	15	43	26
Advances	33	27	25	28	25	25
Deposits	46	32	26	43	35	36
Spread (%)						
Yield on Funds	10.1	10.6	10.8	10.6	10.6	10.4
Cost of Funds	5.3	5.6	6.4	5.9	5.8	5.9
Spread	4.8	4.9	4.4	4.7	4.8	4.6
NIM	5.5	5.7	5.3	5.4	5.3	5.0
Asset quality (%)						
Gross NPAs	2.0	1.9	2.0	2.0	2.2	2.2
Net NPAs	0.5	0.6	0.6	0.7	0.8	0.8
Provisions	75	70	69	65	64	66
Return ratios (%)						
RoE	16.4	15.4	13.0	13.2	16.4	17.6
RoA	1.9	1.8	1.5	1.4	1.5	1.4
Per share (Rs)						
EPS	36	21	23	26	38	48
BV	239	165	188	213	249	294
ABV	231	160	181	203	235	277
Valuation (x)						
P/E	17.3	28.9	27.0	23.5	16.4	13.0
P/BV	2.6	3.8	3.3	2.9	2.5	2.1
P/ABV	2.7	3.9	3.4	3.1	2.6	2.2

Source: Arian 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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