

Jan 29, 2024

**RESULT REPORT Q3 FY24** | Sector: Financials

# AU Small Finance Bank

## Delivers lower profitability

### Delivers lower profitability with pressure on core NIMs, Opex and Credit Cost

AU SFB delivered a significant 14% miss on our PAT estimate, despite higher securitization income (change in accounting + larger quantum done in the quarter), on account of much higher-than-expected opex and credit cost. Reported NIM was flat qoq at 5.5% but included the higher securitization income, and the portfolio spread was lower by 30 bps sequentially with portfolio yield declining by 10 bps.

Bank's AUM grew by 6.4% qoq/30% yoy while its Gross Adv. grew 4% qoq/20% yoy on higher impetus on securitization (overall securitized portfolio reached 11% of AUM). Stronger growth continued in lower-yielding loan product segments of Home Loans, Business Banking and Agri Finance. Deposits growth was sturdy at 5.8% qoq/31% yoy with renewed traction in SA deposits (up 7.5% qoq) and consistent healthy mobilization of Retail TDs. The rise in Cost of Funds was higher than preceding quarter at 20 bps and the CD ratio moderated to 83% with higher growth in deposits v/s on-BS loans.

Other Income was 8% higher than estimate with strong growth in Loan Processing, TPD & Cross-sell and Credit Card fees. Non-employee opex growth remained elevated at 14% qoq/38% yoy. Besides investments in digital initiatives and wealth & transaction banking, Q3 FY24 had increased spend on Brand and marketing in the festive season. Credit cost increased to 90 bps on the back of higher NPL addition and write-offs, essentially in the Credit Cards business. RoA/RoE stood at multi-quarter low of 1.5%/12.5%.

### Management expects growth to stay strong and credit cost to normalize

With focus on becoming deposits-led asset franchise, the bank has calibrated loan growth to match deposits growth which is reflected in sharp moderation in CD ratio in the recent quarters. Management admitted to challenges around raising lending rates across products due to competition, and hence the pressure on portfolio spread. Credit Card delinquencies are coming through on account of seasoning of the portfolio and the credit cost is normalizing in other loan products, as per the Bank. A sizeable portion of Q3 FY24 credit cost was contributed by Credit Cards with the Bank providing 100% on 120+ dpd loans. During the quarter, elections in AU SFB's large markets of RJ and MP impacted NPL resolutions/recoveries in secured products with constraints on security enforcements. The bank has given a Credit Cost outlook of ~50 bps on non-Card book and 6-7% on Cards portfolio.

### Cut earnings by 5-6%, downgrade to Neutral

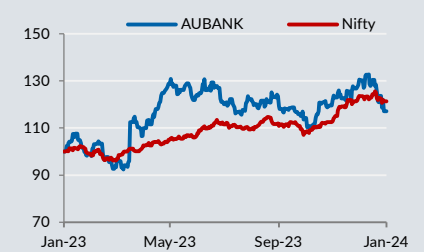
Our earnings estimates for FY25/26 undergo a material cut of 5-6% and we expect a slower RoE progression than thought earlier. Reduction in the earning has largely come from pruning of NIM outlook, assumption of sustained franchise investments and likely elevation of credit cost from the unsecured book. In the context of revised (pruned) growth and RoE delivery, the current valuation of the bank at 17x PE and 2.7x PABV doesn't offer any significant upside in coming 6-12 months. Hence, we downgrade our stock rating to Neutral from ADD with a 12m PT of Rs780 after rolling over target multiple to FY26. We haven't factored the Fincare SFB merger and would do so after receipt of all approvals and more clarity on the merged financials.

Reco	: NEUTRAL
CMP	: Rs 708
Target Price	: Rs 780
Potential Return	: 10.2%

#### Stock data (as on Jan 25, 2024)

Nifty	21,353
52 Week h/l (Rs)	813 / 548
Market cap (Rs/USD mn)	473392 / 5696
Outstanding Shares (mn)	669
6m Avg t/o (Rs mn):	1,381
Div. yield (%):	0.1
Bloomberg code:	AUBANK IN
NSE code:	AUBANK

#### Stock performance



	1M	3M	1Y
Absolute return	-10.2%	2.6%	17.2%

#### Shareholding pattern

Promoter	25.5%
FII+DII	61.2%
Others	13.3%

#### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	780	840

#### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	24.1	33.5	42.1
EPS (Old)	26.6	35.2	44.9
% Change	-9.3%	-4.9%	-6.2%

#### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	69,245	89,986	1,12,686
PPOP	25,898	35,368	44,413
Net profit	16,086	22,349	28,090
Growth (%)	12.7	38.9	25.7
EPS (Rs)	24.1	33.5	42.1
ABVPS (Rs)	184.5	216.9	257.7
P/E (x)	29.3	21.1	16.8
P/ABV (x)	3.8	3.3	2.7
ROE (%)	13.7	16.3	17.3
ROA (%)	1.6	1.8	1.9

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## Exhibit 1: Result Table

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Operating Income	27,358	25,311	8.1	21,181	29.2
Interest expended	(14,109)	(12,821)	10.1	(9,653)	46.2
Net Interest Income	13,249	12,490	6.1	11,527	14.9
Other Income	4,497	4,255	5.7	2,949	52.5
Total Income	17,746	16,744	6.0	14,476	22.6
Operating expenses	(11,175)	(10,267)	8.8	(8,919)	25.3
PPOP	6,571	6,477	1.4	5,557	18.2
Provisions	(1,589)	(1,143)	39.0	(326)	387.0
PBT	4,981	5,334	(6.6)	5,231	(4.8)
Tax	(1,229)	(1,315)	(6.6)	(1,302)	(5.6)
Reported PAT	3,752	4,018	(6.6)	3,928	(4.5)

Source: Company, YES Sec

## Exhibit 2: Business Data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
AUM	7,61,770	7,16,200	6.4	5,85,860	30.0
Deposits	8,01,200	7,57,430	5.8	6,11,010	31.1
CA	38,310	46,360	(17.4)	28,190	35.9
SA	2,26,150	2,10,300	7.5	2,06,520	9.5
TD	5,25,570	4,90,840	7.1	3,70,840	41.7
CD	11,170	9,930	12.5	5,460	104.6
Investments	2,67,140	2,32,200	15.0	1,92,700	38.6
Borrowings	54,140	53,440	1.3	61,910	(12.6)

Source: Company, YES Sec

## Exhibit 3: Key Ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
NIM*	5.5	5.5	-	6.2	(0.7)
Portfolio Yield	13.2	13.3	(0.1)	13.4	(0.2)
Cost of Funds	6.9	6.7	0.2	6.0	0.9
CASA*	33.5	34.3	(0.9)	38.8	(5.3)
C/D	83.3	84.7	(1.4)	91.0	(7.7)
Cost to Income	63.0	61.3	1.7	61.6	1.4
Opex/ATA*	4.5	4.4	0.2	4.5	0.0
Gross NPA	2.0	1.9	0.1	1.8	0.2
Net NPA	0.7	0.6	0.1	0.5	0.2
RoA	1.5	1.7	(0.2)	2.0	(0.5)
RoE	12.5	13.9	(1.4)	15.2	(2.7)
CAR	20.8	22.4	(1.6)	22.0	(1.2)

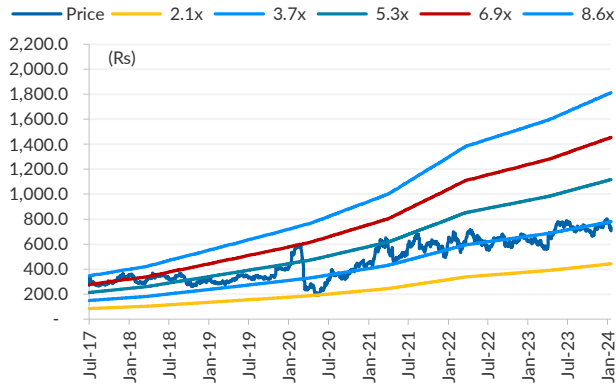
Source: Company, YES Sec; \*Calculated.

## Exhibit 4: Other Income break-up

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Loan Assets & Pro.	2,000	1,840	8.7	1,710	17.0
Gen. Banking & Deposits	1,250	1,300	(3.8)	740	68.9
PSLC Premium / Fees	-	-	-	140	-
Treasury Operations	170	110	54.5	70	142.9
Credit cards	880	670	31.3	300	193.3
Misc.	190	330	(42.4)	200	(5.0)

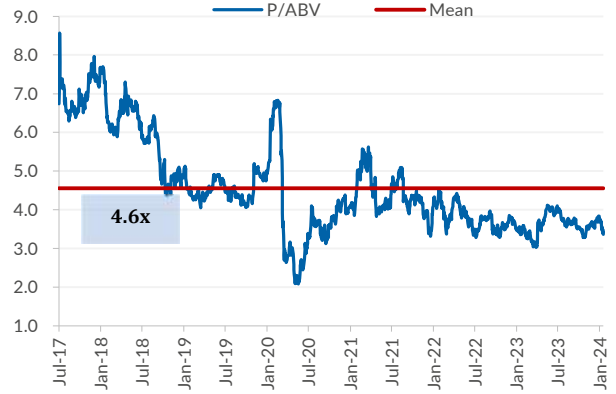
Source: Company, YES Sec

**Exhibit 5: 1-yr rolling P/ABV band**



Source: Company, YES Sec

**Exhibit 6: 1-year rolling P/ABV vis-a-vis the mean**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 7: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	59,285	94,252	66,437	71,539	77,594
Investments	1,53,065	2,00,720	2,81,008	3,51,260	4,39,075
Advances	4,60,953	5,84,215	7,08,102	8,85,128	11,06,409
<b>Total interest-earning assets</b>	<b>6,73,303</b>	<b>8,79,187</b>	<b>10,55,547</b>	<b>13,07,927</b>	<b>16,23,079</b>
Fixed assets	6,226	7,401	8,882	10,658	12,790
Other assets	11,250	15,573	19,466	24,332	30,415
<b>Total assets</b>	<b>6,90,778</b>	<b>9,02,161</b>	<b>10,83,894</b>	<b>13,42,917</b>	<b>16,66,284</b>
Net worth	75,140	1,09,773	1,25,859	1,48,208	1,76,299
Deposits	5,25,846	6,93,650	8,56,658	10,70,822	13,38,527
Borrowings	59,908	62,987	56,688	68,025	81,631
<b>Total interest-bearing liabilities</b>	<b>5,85,754</b>	<b>7,56,636</b>	<b>9,13,345</b>	<b>11,38,847</b>	<b>14,20,158</b>
Non-interest-bearing liabilities	29,884	35,751	44,689	55,862	69,827
<b>Total liabilities</b>	<b>6,15,638</b>	<b>7,92,388</b>	<b>9,58,035</b>	<b>11,94,709</b>	<b>14,89,985</b>
<b>Equity &amp; Total liabilities</b>	<b>6,90,778</b>	<b>9,02,161</b>	<b>10,83,894</b>	<b>13,42,917</b>	<b>16,66,284</b>

Source: Company, YES Sec

### Exhibit 8: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	59,217	82,054	1,06,716	1,36,098	1,70,122
Interest expense	(26,876)	(37,801)	(54,332)	(66,767)	(83,256)
<b>Net interest income</b>	<b>32,341</b>	<b>44,253</b>	<b>52,384</b>	<b>69,331</b>	<b>86,866</b>
Non-interest income	9,937	10,345	16,862	20,656	25,820
<b>Total op income</b>	<b>42,278</b>	<b>54,597</b>	<b>69,245</b>	<b>89,986</b>	<b>1,12,686</b>
<b>Total op expenses</b>	<b>(24,128)</b>	<b>(34,403)</b>	<b>(43,347)</b>	<b>(54,618)</b>	<b>(68,272)</b>
<b>PPoP</b>	<b>18,150</b>	<b>20,195</b>	<b>25,898</b>	<b>35,368</b>	<b>44,413</b>
Provisions	(3,610)	(1,548)	(4,732)	(5,962)	(7,452)
<b>Profit before tax</b>	<b>14,541</b>	<b>18,646</b>	<b>21,166</b>	<b>29,406</b>	<b>36,961</b>
Taxes	(3,242)	(4,367)	(5,080)	(7,058)	(8,871)
<b>Net profit</b>	<b>11,298</b>	<b>14,279</b>	<b>16,086</b>	<b>22,349</b>	<b>28,090</b>

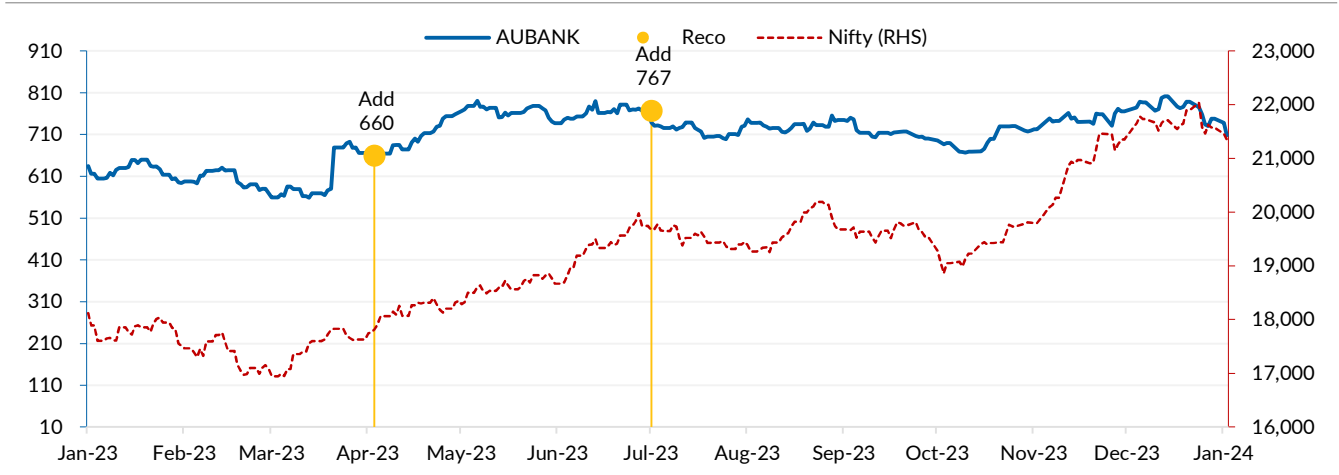
Source: Company, YES Sec

## Exhibit 9: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	36.7	36.8	18.4	32.4	25.3
Total op income	11.7	29.1	26.8	30.0	25.2
Op profit (pre-provision)	(14.7)	11.3	28.2	36.6	25.6
Net profit	(3.5)	26.4	12.7	38.9	25.7
Advances	33.2	26.7	21.2	25.0	25.0
Deposits	46.2	31.9	23.5	25.0	25.0
Total assets	33.9	30.6	20.1	23.9	24.1
<b>Profitability Ratios (%)</b>					
NIM	6.1	6.3	5.9	6.2	6.2
Non-interest income /Total income	23.5	18.9	24.4	23.0	22.9
Return on Equity	16.4	15.4	13.7	16.3	17.3
Return on Assets	1.9	1.8	1.6	1.8	1.9
<b>Per share ratios (Rs)</b>					
EPS	17.9	21.4	24.1	33.5	42.1
Adj. BVPS	115.6	160.9	184.5	216.9	257.7
<b>Other key ratios (%)</b>					
Credit/Deposits	87.7	84.2	82.7	82.7	82.7
Cost/Income	57.1	63.0	62.6	60.7	60.6
Gross NPLs/Loans	2.0	1.7	1.5	1.5	1.5
Net NPLs/Net loans	0.5	0.4	0.4	0.4	0.4
Tax rate	22.3	23.4	24.0	24.0	24.0

Source: Company, YES Sec

## Recommendation Tracker



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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

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