

AU Small Finance Bank

Transition underway

Wading through challenges and uncertainty

AU Small Finance Bank (AUBANK IN) PAT of INR 3.75bn in Q3FY24 was marginally lower than our estimates driven by higher opex (sustained investment) and higher credit cost, although higher Other income and NII (benefitting from securitization), cushioned the impact. The key discussion points would be: 1) NIM trajectory as the bank runs toward the lower end of guidance range and limited near-term triggers for improvement, 2) deposit growth, which, in turn, would drive credit growth, 3) consequent ROA delivery – it has climbed down at a good clip from the earlier cycle delivery, and 4) merger outcomes, which we believe will have its challenges. Thus, merger integration challenges (seen with various entities), change in underlying business practices & likely increasing volatility during the downturn may hit structural valuation. Downside and longer time correction are likely until merger synergies play out.

Soft core; NIM trajectory is key

Q3 saw flat NIM at 5.5%; however, a part was supported by benefits of securitization and change in recognition method (one-time impact). We expect transitioning through this period to be challenging. Opex remains elevated as AUBANK continues to invest in building its franchise, which restrained core PPOP. This strategy may strain near-to-medium-term outlook, but is good for future capabilities.

Asset quality sees negative surprise

Slippages rose to INR 4bn, ~2.5% of lagged loans; however, higher write-offs (INR 1.19bn vs INR 310mn QoQ) cushioned headline GNPL. The credit cost increased, primarily driven by higher slippages in credit card book, an 18bp impact on overall credit cost of 62bp, which is from credit cards. While we agree credit card book is scaling up and may see transitional pressure, the outcome has been subdued to date.

Valuation: retain Reduce with a TP of INR 680

Q3 earnings were weak with pressure on core NIM, softer growth and higher credit cost. Near-term discussions may depend on merger outcome than earnings resilience. We have yet to move to merged financials, but we believe there is uncertainty to bake into our estimates in the near term with moving variables. The bank has taken a reasonable stepdown from the earlier cycle ROA delivery and it does face headwinds as it grows into the bigger league. We introduce FY26 earnings and roll forward to September 2025, resulting in a higher TP of INR 680 from INR 645 based on 3x (unchanged) Sept'25 P/BV. These transitional times entail challenges and would translate into a time correction; hence, we retain **Reduce**, given the limited scope for maneuverability.

Rating: Reduce

Target Price: INR 680

Downside: 4%

CMP: INR 708 (as on 25 January 2024)

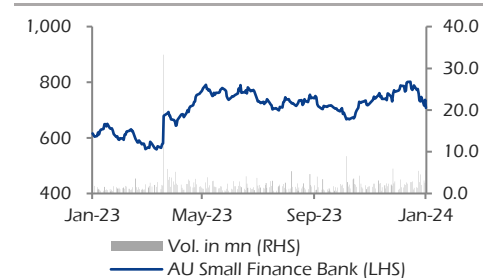
Key data

Bloomberg /Reuters Code	AUBANK IN/AUFI.BO
Current /Dil. Shares O/S (mn)	667/657
Mkt Cap (INR bn/USD mn)	473/5,699
Daily Vol. (3M NSE Avg.)	2,054,468
Face Value (INR)	10

1 USD = INR 83.1

Note: *as on 25 January 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	25.5	25.5	25.5	25.5
Institutional Investors	60.4	60.9	61.2	61.9
Other Investors	6.4	6.3	6.3	5.8
General Public	7.7	7.3	7.0	6.8

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	11.7	8.5	19.3
AU Small Finance Bank	0.2	(3.2)	14.9

Source: Bloomberg

YE March (INR mn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)	Q3FY24E	Variance (%)
Operating Profit	6,571	6,477	1.4	5,557	18.2	6,512	0.9
PBT	4,981	5,334	(6.6)	5,231	(4.8)	5,177	(3.8)
Net Profit	3,752	4,018	(6.6)	3,928	(4.5)	3,898	(3.7)

Key financials

YE March	PPoP (INR bn)	YoY (%)	NP (INR bn)	YoY (%)	EPS (INR)	YoY (%)	P/PPoP (x)	RoAE (%)	RoAA (%)	P/E (x)	P/BV (x)
FY23	20	11.3	14	26.4	23	26.4	23.4	15.4	1.8	31.1	4.4
FY24E	25	23.7	16	9.4	25	9.4	19.0	13.4	1.6	28.4	4.0
FY25E	31	55.1	20	38.0	31	38.0	15.1	14.9	1.6	22.5	3.5
FY26E	39	56.3	25	58.2	39	58.2	12.1	16.5	1.7	18.0	3.2

Note: pricing as on 25 January 2024; Source: Company, Elara Securities Estimate

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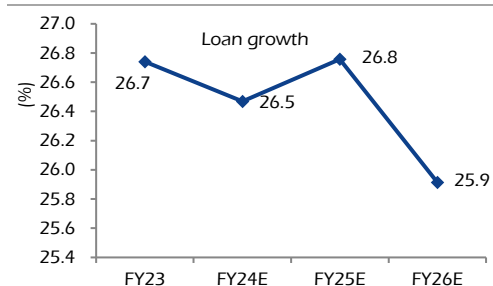
Elara Securities (India) Private Limited

Financials (YE March)

Income statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net interest income	44,253	52,155	63,408	78,334
<i>YoY growth (%)</i>	<i>36.8</i>	<i>17.9</i>	<i>21.6</i>	<i>23.5</i>
Non-interest income	10,345	16,757	21,296	26,128
Net operating revenue	54,597	68,912	84,704	104,462
<i>YoY growth (%)</i>	<i>29.1</i>	<i>26.2</i>	<i>22.9</i>	<i>23.3</i>
Operating expenses	34,403	43,937	53,389	65,425
<i>YoY growth (%)</i>	<i>42.6</i>	<i>27.7</i>	<i>21.5</i>	<i>22.5</i>
Pre-provisioning operating profit	20,195	24,975	31,315	39,038
<i>YoY growth (%)</i>	<i>11.3</i>	<i>23.7</i>	<i>25.4</i>	<i>24.7</i>
Provisions and Contingencies	1,548	4,211	4,979	6,027
Profit before tax	18,646	20,764	26,336	33,011
Tax	4,367	5,145	6,629	8,309
Profit after tax	14,279	15,619	19,707	24,702
<i>YoY growth (%)</i>	<i>26.4</i>	<i>9.4</i>	<i>26.2</i>	<i>25.3</i>
Balance sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Customer loans	584,215	738,846	936,541	1,179,243
<i>YoY growth (%)</i>	<i>26.7</i>	<i>26.5</i>	<i>26.8</i>	<i>25.9</i>
Investments	200,720	269,811	303,675	341,789
Cash & bank balances	94,252	48,973	57,291	67,022
Fixed assets	7,401	8,151	9,174	10,325
Other assets	15,573	17,776	20,007	22,518
Total Assets	902,161	1,083,557	1,326,688	1,620,897
Net worth	109,773	123,729	141,356	157,738
Deposits	687,340	821,078	1,018,857	1,266,456
CA	36,800	49,276	67,040	91,207
SA	229,800	243,634	285,017	333,430
Time deposits	420,740	528,168	666,800	841,819
<i>YoY growth (%)</i>	<i>34.6</i>	<i>19.5</i>	<i>24.1</i>	<i>24.3</i>
Borrowings	69,297	100,882	123,855	148,735
Other liabilities	35,751	37,867	42,619	47,968
Total Liabilities	902,161	1,083,557	1,326,688	1,620,897
Key operating ratios (%)	FY23	FY24E	FY25E	FY25E
Lending yield	14.7	14.6	14.0	13.6
Cost of Funds	5.6	6.3	6.3	6.2
Spreads	9.1	8.2	7.7	7.4
Net interest margin	5.7	5.4	5.4	5.4
CASA Ratio	38.8	35.7	34.6	33.5
Non-interest income / operating income	18.9	24.3	25.1	25.0
Cost/income	63.0	63.8	63.0	62.6
Operating expense/avg assets	4.3	4.4	4.4	4.4
Credit costs / avg loans	0.3	0.6	0.6	0.6
Effective tax rate	23.4	24.8	25.2	25.2
Loan deposit ratio	85.0	90.0	91.9	93.1
ROA decomposition (%)	FY23	FY24E	FY25E	FY26E
NII /Assets	5.70	5.39	5.38	5.43
Non-interest income/Assets	1.33	1.73	1.81	1.81
Opex /Assets	4.43	4.54	4.53	4.53
Provisions/Assets	0.20	0.43	0.42	0.42
Taxes/Assets	0.56	0.53	0.56	0.58
ROA	1.8	1.6	1.6	1.7
Equity/Assets	0.1	0.1	0.1	0.1
ROAE	15.4	13.4	14.9	16.5
Key financial ratios (%)	FY23	FY24E	FY25E	FY26E
Tier I Capital adequacy	21.5	18.7	17.5	16.0
Gross NPL	1.7	1.9	2.0	2.0
Net NPL	0.5	0.6	0.7	0.7
Per share data				
EPS (INR)	23	25	31	39
<i>YoY growth (%)</i>	<i>26.4</i>	<i>9.4</i>	<i>26.2</i>	<i>25.3</i>
BVPS (INR)	165	186	212	237
adj- BVPS (INR)	160	179	203	225
Dividend yield (%)	0	0	0	0
Valuation (x)				
P/BV	4.3	3.8	3.3	3.0
P/ABV	4.4	4.0	3.5	3.2
P/E	31.1	28.4	22.5	18.0

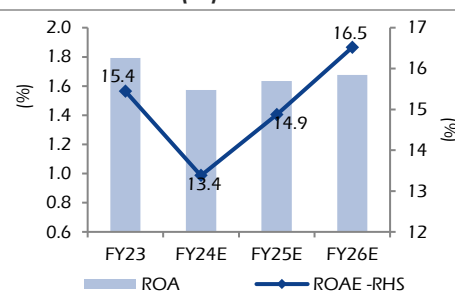
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Loan growth (%)



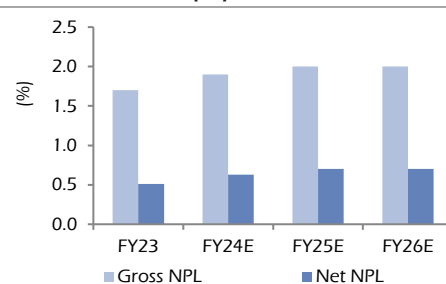
Source: Company, Elara Securities Estimate

ROA and RoAE (%)



Source: Company, Elara Securities Estimate

Gross & net NPL (%)



Source: Company, Elara Securities Estimate

Key focus areas

- Business has been reorganized into business groups: out of which urban branch banking will primarily focus on the affluent market,
- *Swadesh Banking* – primary focus on government and wholesale deposit, rural banking, financial inclusion and impact banking; small & marginal farming also would be embedded,
- Retail assets including wheels, micro business & home loans
- commercial banking including business, NBFC, agri; once AD-1 license comes in, trade and transaction banking would be the new addition; and
- digital banking group including credit card, UPI, merchant & personal loans and AU0101

Some segments support loan growth

- Gross AUM growth (including securitization and assignment) was at 30% YoY and 6.4% QoQ while gross loans (on-book) grew 20% YoY and 4% QoQ, with securitization volume of INR 27.4bn in Q4FY24. Growth was primarily led by vehicular finance, home loans and commercial banking. Vehicular finance, comprising ~30% of the loan book grew 4.6% YoY, and the bank went live with the wheels loan origination system in collaboration with SFDC (Cloud-based Customer relationship Management software) and FICO (Finance and cost controlling accounting) for auto and two-wheeler loans, which have shown an improvement in STP rates for the wheels business. Home loans saw strong growth momentum of 43.6% YoY and 4.7% QoQ albeit on low base
- The overall commercial banking portfolio continues to grow across segments – NBFC, business banking, real estate and agri SME banking. Business banking loans, which are primarily working capital book, grew 56% YoY and 11% QoQ
- Regarding the unsecured portfolio, credit card book grew 21% QoQ on low base. With the festival season in Q3, AUBANK issued 149,000 cards, with total base of ~0.83mn active credit cards. Around 75% of the book is from new-to-bank customers, with quarterly spend of INR ~49.5bn. Unsecured personal loans grew 37.8% YoY and 6.7% QoQ. GNPA would be higher than the other portfolio's since most customers of this portfolio are new to bank
- Given the strong business momentum, management expects loanbook growth to be in the range of 26-27% YoY while sustaining the ratio of fixed-to-floating at similar levels (Q3FY24: fixed-to-floating at 62:38)

Term deposits drive deposits growth

- Q2FY24 saw robust deposit momentum sequentially, with a growth rate of 5.8% QoQ and 31.1% YoY, led by term deposits growth of 41.7% YoY and 7.1% QoQ. CASA deposits grew 12.7% YoY and 3.0% QoQ and CASA deposits continue to witness strain, which led to a decline of 530bp YTD to 33.5% in Q3FY24
- AUBANK would like to build a deposit book through brand pull rather than rate pull. It aims to build a sustainable and granular franchise with focus on SA and retail TD, pivoting toward more CA offerings through operationalization of AD-1 license and transaction banking channels. Its newly launched initiative of *Swadesh Banking* in FY23 is doing well in rural & semi-urban geographies and has helped garner ~INR 76.6bn in deposits in 9MFY24. AUBANK is focused on the emerging affluent customer base with higher average balances, in line with its strategy
- The bank aims to achieve asset growth guidance via growing its liability franchise

Asset quality remains key monitorable

- Reported slippages were stable at ~2.4% of lagged loans. The restructuring book declined to 0.7% of gross advances from 1.0% in Q1FY24. With reduction in the restructuring pool, the overall stress pool stood at 2.7% of loans from 2.8% in Q1FY24. As per management, asset quality performance remains within the expected range with seasonal cyclicality in H1FY24, which would stabilize in H2. As per management, there has been no signs of stress or early warning signals in any portfolio
- GNPA rose 7bp QoQ to ~2.0% and NNPA by 12bp to ~0.7% in Q3. The rise in GNPA could be attributed to the base effect of securitization
- PCR (including TWO) stood at 72%. AUBANK has additional contingency buffers of INR 830mn
- Overall credit came in at 62bp, out of which 18bp pertains to the impact from credit card amounting to INR 430-450mn on a quarterly basis. With respect to credit card, the bank has set a target for normalized credit cost (ex-credit card) of 0.5-0.6bp with annualized credit cost of 6-7% for credit card book. It aims to even out the MFI book by providing credit cost of 3.0% pa

Margin pressure likely to continue

- With liquidity constraints and elevated interest rates, increased competition existed in the market, which led to cost of deposits to increase by 20bp in this quarter and 77bp YTD. Along with this, disbursement yield rose 38bp YTD
- Following this, NIM witnessed slightly lower compression of 6bp OoQ to 5.5%. Management expects margin to be in the range of 5.5-5.7% for FY24
- AUBANK's focus on the fixed rate retail book (62% of total advances) will help the bank in managing earnings volatility during reversal of interest rates

Other highlights

- Its merger with Fincare SFB received approval from the Competition Commission of India (CCI) earlier this week and now is subject to RBI approval
- Fee income grew 52% YoY and 6% QoQ, primarily led by third-party product distribution (insurance) and credit card fees. With consistent increase in the credit card portfolio, AUBANK expects it to accrue on a sustainable basis
- The cost-income ratio came in at 63% for Q3FY24 vs 61.3% in the previous quarter. This increase was primarily led by brand and marketing spend in this quarter. For FY24, management expects it to be around FY23 levels. But the focus is on digital and headcount efficiency, with the aim to pare down the cost-income ratio to ~60% in the next two years

Exhibit 1: Profit and loss – Core continues to be soft

(INR mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
NII	9,366	9,760	10,833	11,527	12,132	12,462	12,490	13,249
Other Income	3,114	1,592	2,474	2,949	3,331	3,151	4,255	4,497
Net revenue	12,479	11,352	13,307	14,476	15,463	15,613	16,744	17,746
Opex	7,656	7,411	8,319	8,919	9,753	10,153	10,267	11,175
PPoP	4,823	3,941	4,988	5,557	5,709	5,460	6,477	6,571
Provisions	932	384	430	326	409	330	1,143	1,589
PAT	3,461	2,679	3,426	3,928	4,246	3,869	4,018	3,752
YoY (%)								
NII	42.8	34.8	43.8	40.5	29.5	27.7	15.3	14.9
Other Income	12.6	(13.6)	29.6	7.0	7.0	98.0	72.0	52.5
Net revenue	33.8	25.0	41.0	32.1	23.9	37.5	25.8	22.6
Opex	37.0	62.2	50.6	39.9	27.4	37.0	23.4	25.3
PPoP	29.0	(12.7)	27.4	21.2	18.4	38.6	29.9	18.2
Provisions	(47.6)	(78.3)	1,093.2	(41.7)	(56.2)	(14.0)	166.1	387.0
PAT	104.8	31.8	23.0	30.1	22.7	44.4	17.3	(4.5)
QoQ (%)								
NII	14.2	4.2	11.0	6.4	5.2	2.7	0.2	6.1
Other Income	13.0	(48.9)	55.4	19.2	12.9	(5.4)	35.0	5.7
Net revenue	13.9	(9.0)	17.2	8.8	6.8	1.0	7.2	6.0
Opex	20.1	(3.2)	12.3	7.2	9.4	4.1	1.1	8.8
PPoP	5.2	(18.3)	26.6	11.4	2.7	(4.4)	18.6	1.4
Provisions	66.6	(58.8)	12.0	(24.0)	25.2	(19.3)	246.6	39.0
PAT	14.6	(22.6)	27.9	14.7	8.1	(8.9)	3.9	(6.6)

Source: Company, Elara Securities Research

Exhibit 2: Loan growth of 20% YoY driven by agri and credit card

	(INR bn)								YoY (%)							
	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Gross loans																
<i>Wheels</i>	164.4	179.5	190.0	194.8	190.2	210.5	207.4	203.8	26.3	44.2	46.8	34.9	15.7	17.3	9.1	4.6
<i>SBL-MSME</i>	163.1	167.3	173.3	181.0	185.4	190.2	186.0	192.3	17.4	22.4	23.0	20.3	13.6	13.7	7.3	6.3
<i>SBL-SME</i>	3.6	3.4	3.1	2.8	2.5	2.3	2.1	1.9	(16.7)	(28.3)	(29.5)	(30.1)	(31.7)	(31.6)	(31.8)	(33.0)
<i>Home loans</i>	26.6	30.1	33.7	37.0	42.8	47.0	50.7	53.1	91.7	111.7	99.1	76.0	61.3	56.3	50.6	43.6
<i>Others</i>	30.3	27.5	27.4	36.1	43.1	51.8	56.1	61.4	85.6	36.8	25.3	51.6	42.1	88.3	104.6	70.3
Total Retail Assets	388.0	407.7	427.5	451.6	464.0	501.8	502.3	512.4	27.8	35.8	36.3	31.4	19.6	23.1	17.5	13.5
<i>REG</i>	7.9	8.6	9.5	10.5	12.4	12.5	13.6	15.5	27.4	53.6	53.7	48.7	56.8	45.1	42.9	47.2
<i>Business Banking</i>	29.0	32.6	38.6	43.7	49.7	55.1	61.3	68.1	59.0	89.5	104.6	89.3	71.3	68.8	59.0	55.7
<i>Agriculture - SME</i>	22.6	26.9	30.1	34.5	40.0	43.4	47.6	53.4	100.4	130.4	117.8	99.4	77.0	61.3	57.9	54.9
<i>NBFC</i>	20.4	17.7	18.8	23.1	25.5	23.6	25.5	27.0	42.8	44.1	61.7	42.5	25.3	33.5	35.5	16.6
Small and Mid-corporate	79.9	85.8	97.0	111.8	127.6	134.6	148.0	163.9	59.8	83.5	92.1	75.6	59.8	56.8	52.5	46.6
Gross loans	467.9	493.5	524.5	563.4	591.6	636.4	650.3	676.3	32.3	42.3	44.1	38.4	26.4	28.9	24.0	20.0

Source: Company, Elara Securities Research

Exhibit 3: Vehicular finance continues to dominate while the share of agri-SME and credit card improves

(%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<i>Wheels</i>	35.1	36.4	36.2	34.6	32.2	33.1	31.9	30.1
<i>SBL-MSME</i>	34.9	33.9	33.0	32.1	31.3	29.9	28.6	28.4
<i>SBL-SME</i>	0.8	0.7	0.6	0.5	0.4	0.4	0.3	0.3
<i>Home loans</i>	5.7	6.1	6.4	6.6	7.2	7.4	7.8	7.8
<i>Others</i>	6.5	5.6	5.2	6.4	7.3	8.1	8.6	9.1
Total Retail Assets	82.9	82.6	81.5	80.2	78.4	78.9	77.2	75.8
<i>REG</i>	1.7	1.7	1.8	1.9	2.1	2.0	2.1	2.3
<i>Business Banking</i>	6.2	6.6	7.4	7.8	8.4	8.7	9.4	10.1
<i>Agriculture - SME</i>	4.8	5.4	5.7	6.1	6.8	6.8	7.3	7.9
<i>NBFC</i>	4.4	3.6	3.6	4.1	4.3	3.7	3.9	4.0
Small and Mid-corporate	17.1	17.4	18.5	19.8	21.6	21.1	22.8	24.2

Source: Company, Elara Securities Research

Exhibit 4: Higher TD growth leads to decline in the CASA ratio of 33%

(INR mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Deposits	525,846	546,310	583,354	611,010	693,650	693,150	757,429	801,200
-YoY (%)	46.2	47.6	49.4	38.0	31.9	26.9	29.8	31.1
-QoQ (%)	18.8	3.9	6.8	4.7	13.5	(0.1)	9.3	5.8
CA	25,690	22,110	28,670	28,190	36,800	32,400	46,360	38,310
-YoY (%)	57.4	59.4	79.2	58.0	43.2	46.5	61.7	35.9
-QoQ (%)	44.0	(13.9)	29.7	(1.7)	30.5	(12.0)	43.1	(17.4)
SA	170,390	190,060	218,070	206,520	229,800	210,460	210,300	226,150
-YoY (%)	156	135	113	32	35	11	(4)	10
-QoQ (%)	9.3	11.5	14.7	(5.3)	11.3	(8.4)	(0.1)	7.5
CASA ratio (%)	37.3	38.8	42.3	38.4	38.4	35.0	33.9	33.0

Source: Company, Elara Securities Research

Exhibit 5: Cost of funds continues to rise while hike in yield cushions margin compression

-Reported (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Yield on advances	13.4	13.3	13.3	13.4	13.4	13.4	13.3	13.2
Cost of funds	5.7	5.7	5.8	6.0	6.3	6.6	6.7	6.0
Spreads	7.7	7.6	7.5	7.4	7.1	6.8	6.6	7.2
NIM	6.3	5.9	6.2	6.2	6.1	5.7	5.5	5.5

Source: Company, Elara Securities Research

Exhibit 6: Asset quality moderates slightly' GNPA increases by 7bp to 1.98%

(INR mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Opening GNPA	10,580	9,240	9,690	9,970	10,190	9,810	11,210	12,440
Additions	1,950	2,530	2,620	2,310	1,910	3,170	3,490	4,030
Reductions	3,290	2,080	2,340	2,090	2,290	1,770	2,260	3,080
Closing GNPA	9,240	9,690	9,970	10,190	9,810	11,210	12,440	13,390
GNPL (%)	2.0	2.0	1.9	1.8	1.7	1.8	1.9	2.0
NNPL (%)	0.5	0.6	0.6	0.5	0.4	0.6	0.6	0.7
PCR (%)	75.0	71.7	71.1	72.1	75.0	69.0	69.1	66.0
Slippages as % of lagged loans	1.7	2.1	2.0	1.6	1.3	2.0	2.1	2.4
Credit cost (%) - annualized	0.9	0.3	0.3	0.2	0.3	0.2	0.7	1.0

Source: Company, Elara Securities Research

Exhibit 7: Total stressed book declines further to 2.7% of loans vs 2.8% in the past quarter

(INR mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
GNPA	9,244	9,700	9,967	10,189	9,810	11,212	12,448	13,397
Restructured loans	11,800	10,440	8,950	7,790	7,099	6,364	5,202	4,734
Total stress book (INR mn)	21,044	20,140	18,917	17,979	16,909	17,576	17,650	18,131
GNPA (%)	2.0	2.0	1.9	1.8	1.7	1.8	1.9	2.0
Restructured loans (%)	2.5	2.1	1.7	1.4	1.2	1.0	0.8	0.7
Total stress book (%)	4.5	4.1	3.6	3.2	2.9	2.8	2.7	2.7
Provisions (INR mn)								
Std. restructuring provision	1,920	1,700	1,480	1,270	1,160	1,000	880	770
NPA provision	6,530	6,540	6,670	6,930	6,950	7,330	8,190	8,430
Contingency + floating provision	1,980	1,850	1,700	1,390	1,310	690	480	460
Total Provisions	10,430	10,090	9,850	9,590	9,420	9,020	9,550	9,660
Coverage on stress loans (%)	49.6	50.1	52.1	53.3	55.7	51.3	54.1	53.3

Source: Company, Elara Securities Research

Exhibit 8: GNPA increases across segments; however, personal loans and credit card are major contributors

GNPA across segments (INR mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Wheels	4,080	4,220	4,260	4,320	4,090	4,660	5,190	5,330
SBL-MSME	4,210	4,480	4,650	4,860	4,700	5,190	5,650	5,960
SBL-SME	270	240	210	240	220	250	210	190
Home loans	120	140	150	150	140	200	240	300
Others	130	180	230	280	390	60	80	990
Total retail assets	8,810	9,260	9,500	9,850	9,540	10,360	11,370	12,770
REG	180	180	180	60	40	30	30	20
Business Banking	60	70	60	90	90	140	160	350
Agri - SME	170	170	220	190	150	170	150	180
NBFC	30	30	0	0	0	0	90	90
Small and mid-corporate	440	450	460	340	280	340	430	640
Total GNPA	9,250	9,710	9,960	10,190	9,820	10,700	11,800	13,410
GNPA across segment (%) - calculated								
Wheels	2.5	2.4	2.2	2.2	2.2	2.2	2.5	2.6
SBL-MSME	2.6	2.7	2.7	2.7	2.5	2.7	3.0	3.1
SBL-SME	7.4	7.2	6.8	8.7	8.9	10.9	10.0	10.3
Home loans	0.5	0.5	0.4	0.4	0.3	0.4	0.5	0.6
Others	0.4	0.7	0.8	0.8	0.9	0.1	0.1	1.6
Total Retail Assets	2.3	2.3	2.2	2.2	2.1	2.1	2.3	2.5
REG	2.3	2.1	1.9	0.6	0.3	0.2	0.2	0.1
Business Banking	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.5
Agri - SME	0.8	0.6	0.7	0.6	0.4	0.4	0.3	0.3
NBFC	0.1	0.2	0.0	0.0	0.0	0.0	0.4	0.3
Small and mid-corporate	0.6	0.5	0.5	0.3	0.2	0.3	0.3	0.4
Total GNPA	2.0	2.0	1.9	1.8	1.7	1.7	1.8	2.0

Source: Company, Elara Securities Research

Earnings conference call highlights

Opening remarks

- The bank expects five significant trends to have a fundamental impact on India's growth: regulatory impact on governance, tech acumen & digital infrastructure, MSME to create its own niche, capital market participation and vibrant democracy
- With AD-I operationalization and completion of merger, the bank will offer products to domestic and cross-border customers
- Festival season provided momentum to consumption

Business momentum

- Business (advances and deposits) is registering a 25% CAGR consistently and the balance sheet crossed INR 1tn mark in this quarter. Loanbook crossed INR 750bn mark
- Wheels business: traction came largely from two-wheeler and passenger vehicular portfolio. The bank has disbursed INR 45bn in this quarter. Average yield is ~14.6% and average ticket size (ATS) of INR 0.53mn, GNPA has been retained at 2.6%. Rajasthan and Madhya Pradesh contribute ~40-50% of wheels and small business loans
- Micro business loans have an average yield of 14.8%; the bank has disbursed INR 16 Bn in this quarter. ATS of the book is INR 1.26mn
- Commercial banking grew, led by business banking and the agri-banking portfolio with disbursement of INR 30bn in Q3FY24. Business banking and agri-banking constitutes 61% of this business. Disbursement for business banking and agri-banking amounted to INR 1.0bn and INR 7.8bn, respectively
- Home loans business grew 8% QoQ, and disbursements of INR 5.8bn in this quarter. ATS was at INR 0.8mn
- The insurance business increased 23% YoY, leading to total distribution of INR 1.94bn
- Wealth Banking – PMS and differentiated AIFs led to increase of 51% QoQ in AUM to INR 5.2 Bn

Deposits

- Deposits grew 6% QoQ growth to INR 800bn. CASA + Retail TD was 64% of total deposits
- Current account franchise is set to be acquired through AD-1 license products & transaction banking
- The bank has started three differentiated products for CASA mobilization: Swadesh SA, Swadesh CA and Kisan SA
- With an LCR ratio of 128% and excess SLR of INR 40-50bn, the bank expects to fuel credit growth

- The bank continues to retain its stance for loan mix – 10% for unsecured book and MFI book (post-merger) of 10% of total loanbook
- The bank has set a target for loan growth of 26-27% for exit FY24

Credit card portfolio

- Credit card book has ~0.8mn active cards. existing to bank (ETB) customers at 75% vs industry standard of 60-70%. Average limit per card is INR 174,000. Blended cost of acquisition is INR 2,000 for credit card customers
- Credit card: the bank has launched its first cobranded IXIGO credit card targeting 150mn users
- Annual shopping bonanza: *heart to card* resulted in spend of INR 22bn for Amazon Great Indian Sale

Asset quality

- Asset quality has deteriorated, with GNPL and NNPL came in at ~2.0% and ~0.7% vs ~1.9% and 0.6% in Q2FY24, respectively
- Slippages were INR 4.03bn vs INR 3.5bn in Q2FY24. With credit card book scaling up, slippages were in line with industry trends
- The bank has set a target for normalized credit cost (ex-credit card) at 0.5-0.6bp. Annualized credit cost was 6-7% for credit card book and it aims to even out the MFI book by providing credit cost at 3.0%
- Overall credit came in at 62bp (including the impact of 18bp from the credit card book. The credit card credit cost in this quarter is INR 430-450mn
- The bank saw lower recoveries due to enforcement of collateral in Rajasthan and Madhya Pradesh
- It securitized INR 27bn of loans during the quarter across wheels and home loans. It has total securitized book of INR 85bn as on December 2023
- There were no signs of stress buildup in advances

Cost and margin

- NIM remains stable sequentially at 5.5%. NIM is expected to be at the lower end of the guidance in the range of 5.5-5.7%
- With change in regulatory requirements for credit card book for "interest on interest", yield on the credit card book has declined
- The cost of deposits remains a challenge, which increased 78bp YTD and 20bp QoQ to 6.9%
- The fixed retail book will be advantageous to sustain yield in a reversal cycle

Other highlights

- Operating expenses grew 25% YoY and 10% QoQ, led by new business initiatives, such as QR Banking, branding and credit cost
- The change in accounting treatment during the quarter was seen in interest income on securitization; earlier, the bank used to charge income on quarter + 1 basis, i.e., in the following quarter. Hence, the bank will charge interest income and expenses in the same quarter. This quarter, income of Q2FY24 and Q3FY24 have been booked together
- With respect to its merger with Fincare, the bank received a CCI approval earlier this week, and an RBI approval is awaited
- The cost-income ratio for 9MFY24 at 63%, at a similar level to FY23. The guidance for FY24 is expected to be around FY23 levels.

- The bank has 17 renewable projects worth ~INR 1.8bn
- The cross-selling business added INR 8.90bn to branch banking

Operational steps

- Key focus segments: wealth management & transaction banking by focus on tech innovation, building data centers and establishing digital Infra
- Pace of customer acquisition shoots up, and the bank expects to acquire one million customers next year through digital channels
- The bank has hired AON to improve its HR practices
- Digital banking: digital SA acquisition was up 30% YoY, and 3,500 accounts were added in this quarter. There was an 11% QoQ increase in monthly active users (MAU) on AU 01010, and video banking solution serving ~1,000 customers daily

Exhibit 9: Q3FY24 results highlights

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Interest income	27,358	21,181	29.2	25,311	8.1
Interest expenses	14,109	9,653	46.2	12,821	10.1
Net interest income	13,249	11,527	14.9	12,490	6.1
Other income	4,497	2,949	52.5	4,255	5.7
Operating expenses	11,175	8,919	25.3	10,267	8.8
Staff expense	5,287	4,652	13.7	5,120	3.3
Other opex	5,887	4,267	38.0	5,147	14.4
Pre prov op profit (PPP)	6,571	5,557	18.2	6,477	1.4
Provisions	1,589	326	387.0	1,143	39.0
Profit before tax	4,981	5,231	(4.8)	5,334	(6.6)
Provision for tax	1,229	1,302	(5.6)	1,315	(6.6)
Profit after tax	3,752	3,928	(4.5)	4,018	(6.6)
EPS (INR)	6.4	6.4		5.9	
Ratios (%)					
NII / GII	74.7	79.6		74.6	
Cost - income	63.0	61.6		61.3	
Provisions / PPOP	24.2	5.9		17.6	
Tax rate	24.7	24.9		24.7	
Balance sheet data					
Advances	667,400	556,010	20.0	641,685	4.0
Deposits	801,200	611,010	31.1	757,429	5.8
CD ratio (%)	83.3	91.0		84.7	
Asset quality					
Gross NPA	13,397	13,397	-	12,448	7.6
Gross NPA (%)	2.0	1.8		1.9	
Net NPA	4,562	4,562	-	3,847	18.6
Net NPA(%)	0.7	0.5		0.6	
Provision coverage (%)	66.0	72.1		69.1	

Source: Company, Elara Securities Research

Exhibit 10: Change in estimates

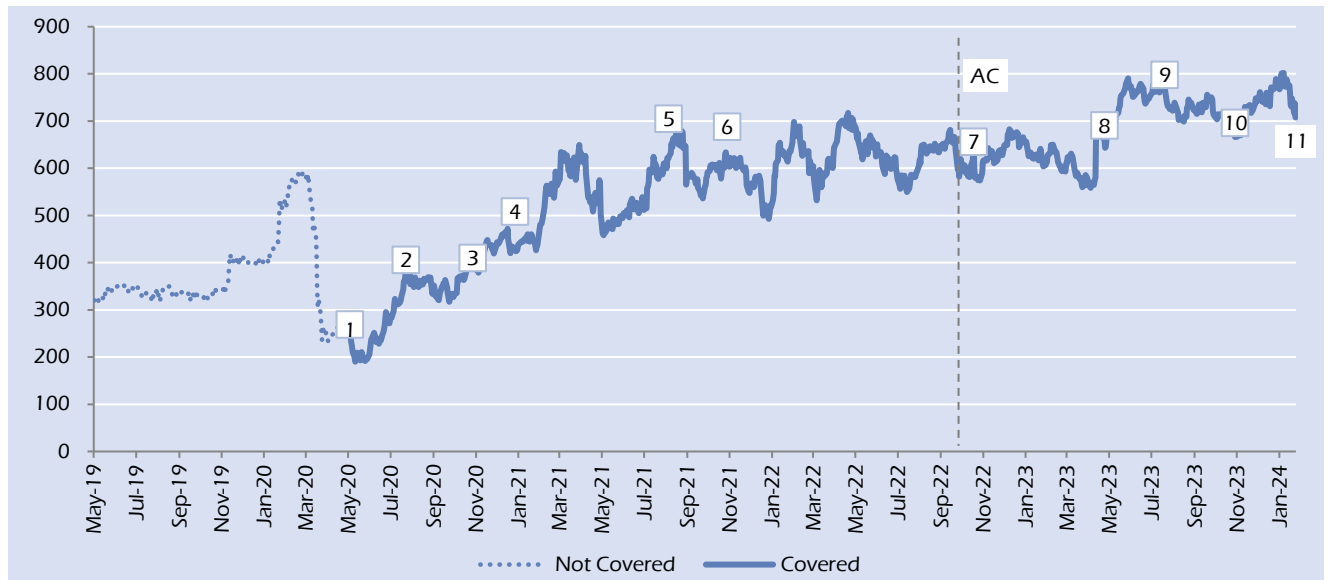
(INR mn)	Revised		Old		% Change		New
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	
Net Interest Income	52,155	63,408	53,309	66,017	(2.2)	(4.0)	78,334
Operating Profit	24,975	31,315	23,802	32,015	4.9	(2.2)	39,038
Net Profit	15,619	19,707	15,803	19,920	(1.2)	(1.1)	24,702
TP (INR)		680		645		5.4	

Source: Elara Securities Estimate

Abbreviations

ABV	Adjusted book value per share
BVPS	Book value per share
CASA Ratio	Current and savings account ratio
ECLG	Emergency Credit Line Guarantee Scheme
EPS	Earnings per share
GNPL	Gross non-performing loans
MSME	Micro, Small and Medium Enterprises
NII	Net interest income
NIM	Net interest margin
NNPL	Net non-performing loans
PPoP	Pre-provision operating profit
REG	Real Estate Group
ROA	Return on Assets
ROE	Return on Equity
SBL-MSME	Secured business loans
SME	Small and medium-sized enterprises
SR	Security Receipts
Wheels loans	Vehicle finance

Coverage History



AC=Analyst change

	Date	Rating	Target Price	Closing Price
6	29-Oct-2021	Sell	INR 950	INR 1,216
	6-Sept-2022*	Sell	INR 475	INR 608
7	19-Oct-2022	Accumulate	INR 675	INR 626
8	25-Apr-2023	Accumulate	INR 695	INR 660
9	22-Jul-2023	Reduce	INR 730	INR 767
10	30-Oct-2023	Reduce	INR 645	INR 666
12	25-Jan-2024	Reduce	INR 680	INR 708

* Bonus 1:1

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BUY	Absolute Return >+20%
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REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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