

Equity Research

August 7, 2021

BSE Sensex: 54278

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Q1FY22 result review
and reco change

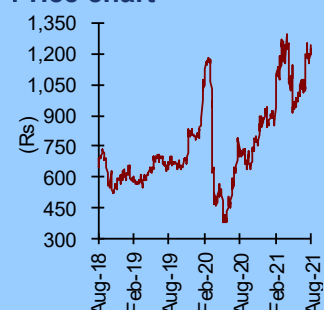
Financials

Target price: Rs1,250

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	29.0	28.5	28.4
Institutional investors	51.7	52.6	53.3
MFs and other	10.4	10.8	11.7
FIs/Banks	0.0	0.0	0.0
Insurance co.	1.2	5.4	5.4
FII	37.1	36.4	36.2
Others	19.3	18.9	18.3

Price chart



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INDIA

ICICI Securities

AU Small Finance Bank

HOLD

Downgrade from ADD

Rs1,248

Continues to display strong business resiliency

AU SFB (AU) reported strong all-round Q1FY22 financial performance with negative net slippages, collection (114%) reaching pre-covid level in June'21, sustained momentum in deposit mobilisation (up 38% YoY) and disbursement in July'21 at Rs13bn (at normalised level). Digital journey is progressing well, as reflected in accelerated digital adoption post AU 0101 Banking App launch with 2x increase in daily registration, 25% in monthly active users and 100k QRs with 60% activation rate. Total ECLGS (2.4% of loans) + GNPL (4.3%) + restructuring pool (3.6%) stand at ~10% of loans despite covid-led challenges is outcome of its granular asset book with conservative LTVs and expertise in underwriting new-to-credit (formal) customers. However, inactive customer pool of 8% as on June'21 and provisioning pool of 3.6% pose risk to earnings. Downgrade to HOLD (earlier: Add) with unchanged TP of Rs1,250 as we believe current valuation captures most positives.

- **Successfully navigating the current NPL cycle.** AU's asset quality performance over the past one year amid covid-led disruption reflects its strong business resiliency and ability of its customer base to bounce back once businesses open up. Customer activation rate remains healthy (at pre-covid level) as on June'21 with full paying customers at 88% and part paying at 4%. Further, incremental restructuring during Q1FY22 was contained at 1.9% of loans and SMA 1+2 at 6.7% with significant overlap from non-NPA moratorium book of ~6% as on March'21. Collections trending well at 114% in June'21 and sustaining the same level in July'21. Total ECLGS (2.4% of loans) + GNPL (4.3%) + restructuring pool (3.6%) stand at ~10% of loans against which it carries provision of 3.6% of loans. The bank prudently made contingency provisions of Rs1.2bn during Q1FY22 to strengthen its balance sheet. It now carries total contingency provision of Rs1.9bn (0.6% of loans). **Key risks: a) Stress unfolding higher than anticipated and b) delay in loan growth recovery.**
- **Digital journey progressing well.** AU leapfrogging its digital journey, launched AU 0101 banking super app in mid-June'21, ~90% of sales team digitised, 90% of deposit accounts on-boarded digitally by tabs, 100% merchants on-boarded digitally and in process of moving to 100% digital journey on asset side. Launch of AU 0101 accelerated digital adoption. It also focuses on data & analytics to improve cross selling and deepen customer relationship - ~0.225mn pre-approved offers extended in credit card, personal loans and auto loans.
- **Affordable housing to become 3rd largest portfolio over next 4-5 years.** Having >10 years of experience in AH space and >3 years on bank's platform, stabilisation of teams and processes, it plans to scale AHL in medium term.

Market Cap	Rs391bn/US\$5.3bn
Reuters/Bloomberg	AUFI.BO/AUBANK IN
Shares Outstanding (mn)	312.8
52-week Range (Rs)	1299/634
Free Float (%)	71.6
FII (%)	36.2
Daily Volume (US\$/'000)	23,529
Absolute Return 3m (%)	30.5
Absolute Return 12m (%)	69.5
Sensex Return 3m (%)	11.6
Sensex Return 12m (%)	44.3

Year to March	FY20	FY21	FY22E	FY23E
NII (Rs mn)	19,094	23,654	30,356	36,385
Net Profit (Rs mn)	6,753	11,707	9,250	11,856
EPS (Rs)	22.1	37.5	29.6	38.0
% Chg YoY	65.7	73.4	(21.0)	28.2
P/E (x)	46.9	27.6	42.1	32.9
P/BV (x)	7.2	5.1	5.5	4.7
Net NPA (%)	0.8	2.2	1.4	1.2
Cost / Income (%)	54.2	43.4	53.8	54.8
RoA (%)	1.8	2.5	1.7	1.9
RoE (%)	17.9	22.0	13.8	15.4

Please refer to important disclosures at the end of this report

- **Disbursement trend encouraging.** While second covid wave led disruption derailed business momentum in Q1FY22, disbursements of Rs13bn (pre-covid level) in July'21 improve visibility on AUM growth trajectory. Products like affordable housing loans, credit card, personal loans to remain key growth drivers given strategic focus and low base.
- **Liabilities shaping up well both in terms of growth & granularisation.** Deposits continue to scale with increasing share of retail deposits driven by increasing brand awareness, branch expansion and improved digital offering. Total deposits grew 38% YoY to Rs370bn driven largely by 166% YoY growth in savings account balances. CASA ratio improved to 26% vs 23% in Q4FY21. Retail deposits mix improved to 59%. Overall cost of funds in Q1FY22 was 6.3% (88bps YoY decline) driven by granularisation of deposits and overall decline in cost of funds. Incremental CoF stands at 5.4%.
- **Earnings at Rs2bn was driven by strong 40% YoY NII growth and higher treasury income.** Sharp 70bps QoQ NIM expansion to 6% and robust 22% YoY AUM growth enabled strong 40% YoY NII growth. It utilised strong treasury gain of Rs1bn to strengthen balance sheet, create further Rs1.2bn provision buffer. Opex flexibility reflects in 18% QoQ decline in total cost with lower business activities during Q1FY22.

Table 1: Q1FY22 result review – P&L statement*(Rs mn, year ending March 31)*

	Q1FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Interest Income	11,841	12,924	13,535	4.7	14.3
Interest Expense	6,683	6,365	6,295	-1.1	-5.8
Net Interest Income (NII)	5,158	6,558	7,240	10.4	40.4
Other Income	2,258	2,766	1,842	-33.4	-18.4
Total Income	7,416	9,325	9,082	-2.6	22.5
Employee Expenses	1,793	3,368	2,826	-16.1	57.6
Other Operating Expenses (incl. depreciation)	1,167	2,218	1,743	-21.4	49.4
Total Operating Expenses	2,961	5,587	4,570	-18.2	54.3
Pre-Provisioning Operating Profit (PPoP)	4,456	3,738	4,513	20.7	1.3
Provisions and write offs	1,813	1,778	1,766	-0.7	-2.6
Profit Before Tax	2,643	1,960	2,747	40.1	3.9
Tax Expenses	635	271	715	164.1	12.5
Tax Rate	24.0	13.8	26.0		
Profit / (Loss) - Total Operations	2,008	1,690	2,032	20.3	1.2

Source: Company data, I-Sec research

Table 2: Q1FY22 result review – balance sheet*(Rs mn, year ending March 31)*

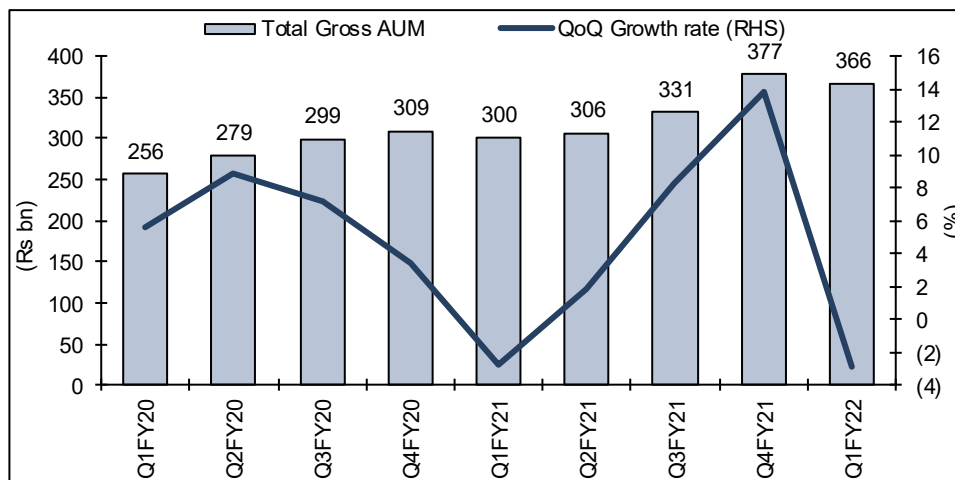
	Q1FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Shareholders Funds	45,870	62,752	64,900	3.4	41.5
Borrowings	1,14,540	70,297	61,010	-13.2	-46.7
Deposits	2,67,340	3,59,793	3,70,140	2.9	38.5
Other Liabilities & Provisions	14,910	23,071	17,520	-24.1	17.5
Total Sources Of Funds	4,42,660	5,15,913	5,13,570	-0.5	16.0
Fixed Assets	4,460	4,824	4,950	2.6	11.0
Investments	1,13,740	1,08,154	1,11,510	3.1	-2.0
-Of which SLR Investments	0	0	0		
Cash & Bank	54,680	47,813	47,980	0.3	-12.3
Other Assets (Incl Deferred tax Assets)	7,290	9,033	9,560	5.8	31.1
Loans Outstanding	2,62,500	3,46,089	3,39,570	-1.9	29.4
Total Utilisation Of Funds	4,42,670	5,15,913	5,13,570	-0.5	16.0

Source: Company data, I-Sec research

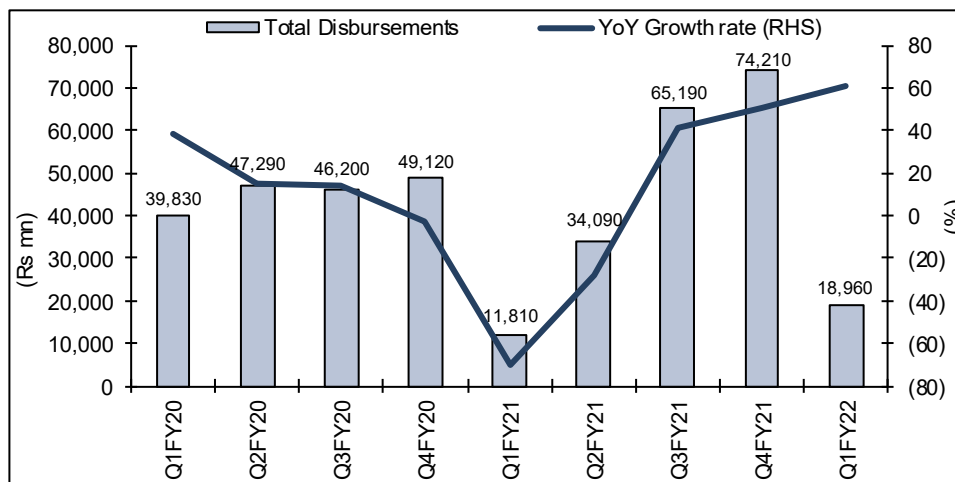
Table 3: Q1FY22 result review – key ratios*(Rs mn, year ending March 31)*

	Q1FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Loan AuM	3,00,360	3,77,120	3,66,349	-2.9	22.0
Vehicle FINANCE	1,24,310	1,50,848	1,34,143	-11.1	7.9
MSME	1,12,580	1,43,306	1,42,726	-0.4	26.8
Other Retail (ex money market)	14,790	26,398	34,290	29.9	131.8
Wholesale	45,680	56,568	51,440	-9.1	12.6
Loan disbursements	11,810	74,210	18,960	-74.5	60.5
Yields on loans (%)	14.6	14.1	14.0	-10.0	-60.0
Cost of funds (%)	7.2	6.8	6.3	-53.0	-90.0
NIM on interest earning assets(%)	5.0	5.3	6.0	70.0	100.0
Total deposits (ex CD)	2,48,310	3,43,320	3,53,590	3.0	42.4
-CASA Ratio (%)	16.0	23.0	26.0	300.0	1,000.0
Gross NPA - on gross loans (%)	1.7	4.3	4.3	6.0	262.0
Net NPA - on gross loans (%)	0.6	2.2	2.3	8.0	164.0
Provision coverage ratio (%)	63.3	48.7	47.6	-114.2	-1,575.0
Cost to Income (%)	39.9	59.9	50.3	-959.8	1,039.5
RoA (%) - annualised	1.6	1.4	1.6	20.0	0.0
RoE (%) - annualised	15.8	12.2	12.7	50.0	-310.0
CRAR (%)	21.7	23.4	23.1	-30.0	140.0
-Tier 1 (%)	18.5	21.5	21.6	10.0	310.0
-Tier 2 (%)	3.2	1.9	1.5	-40.0	-170.0
Branches (including asset centres)	658	744	758	1.9	15.2
Employees	16,092	22,484	23,486	4.5	45.9

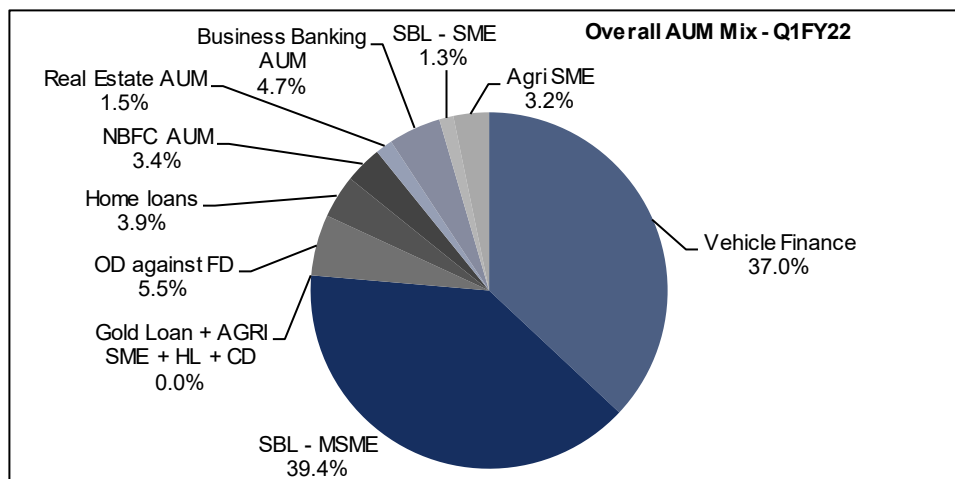
Source: Company data, I-Sec research

Chart 1: AuM fell 3% QoQ due to covid led disruption

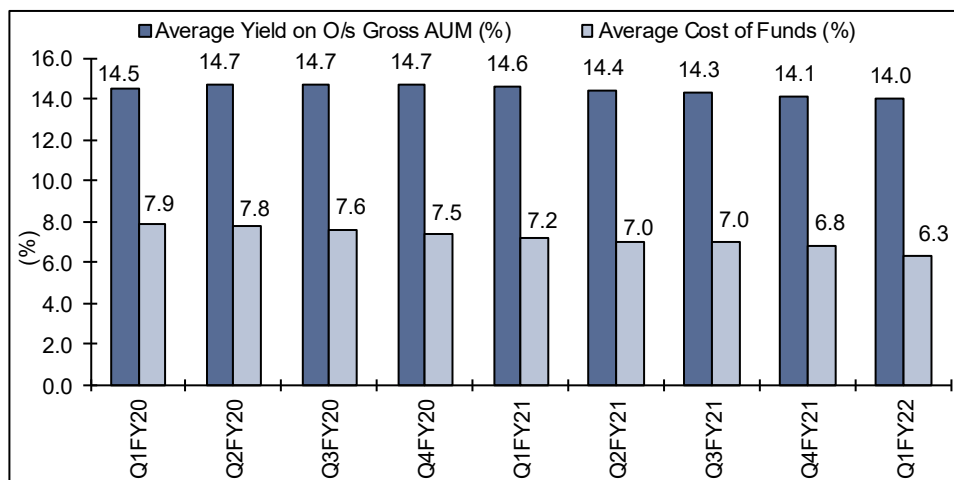
Source: Company data, I-Sec research

Chart 2: Trend in disbursements

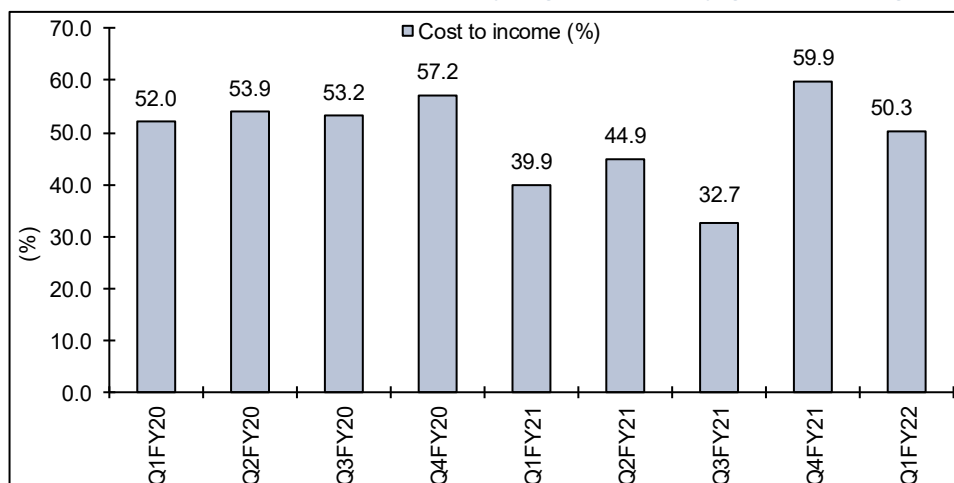
Source: Company data, I-Sec research

Chart 3: Mix dominated by vehicle finance and SBL segments

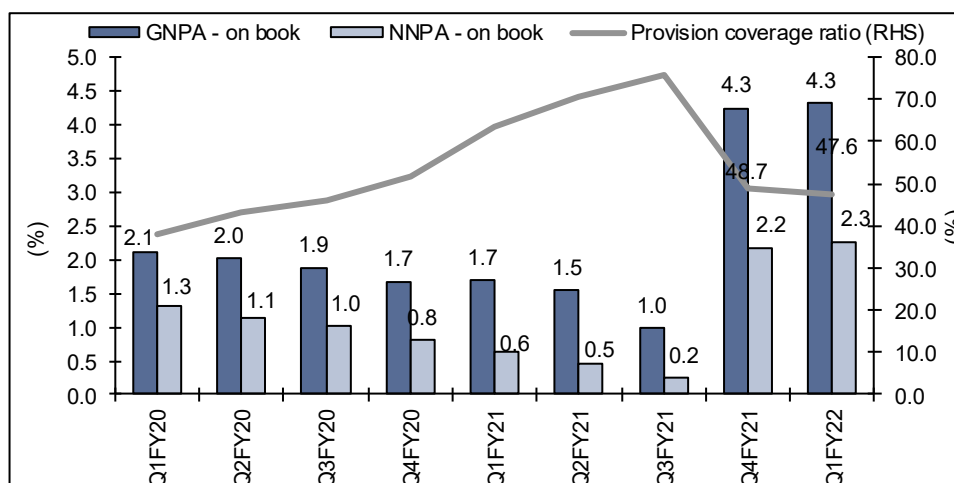
Source: Company data, I-Sec research

Chart 4: Spread at AUM level holding up well

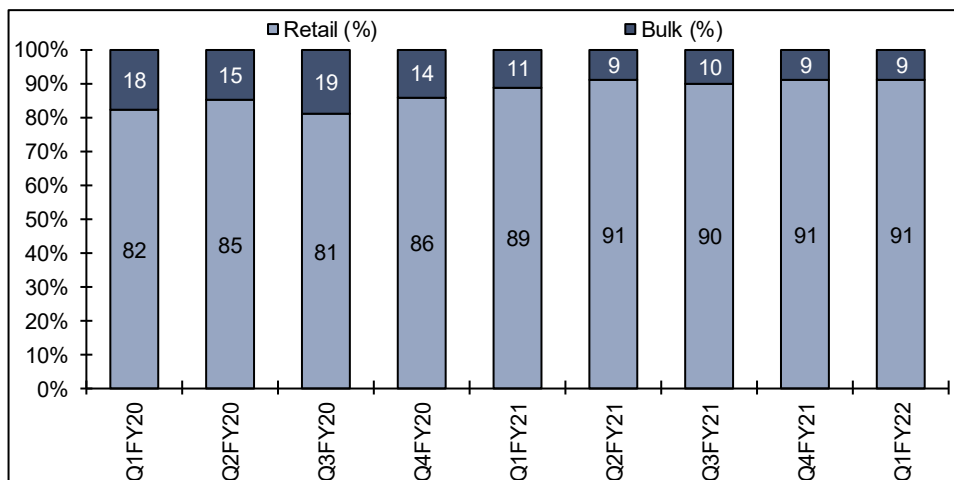
Source: Company data, I-Sec research

Chart 5: C/I ratio at 50% supported by higher treasury gain & strong NII growth

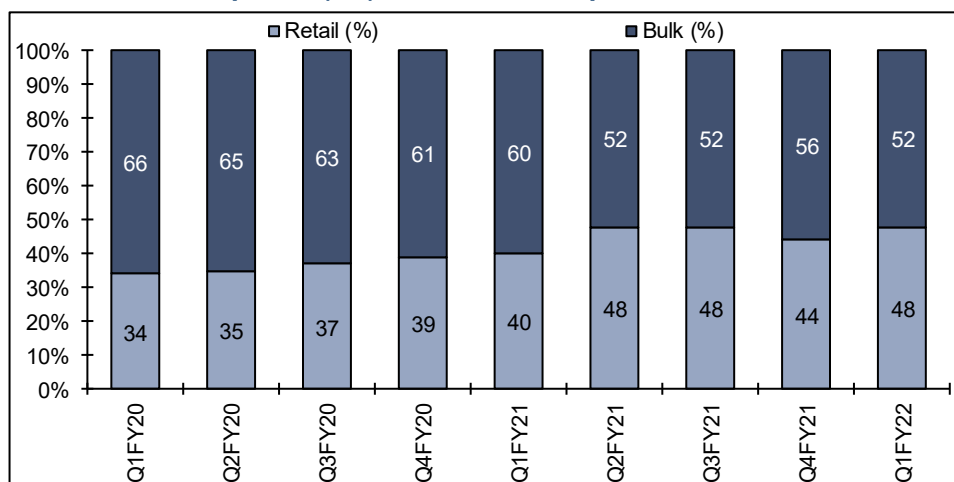
Source: Company data, I-Sec research

Chart 6: Fresh NPL accretion well under control

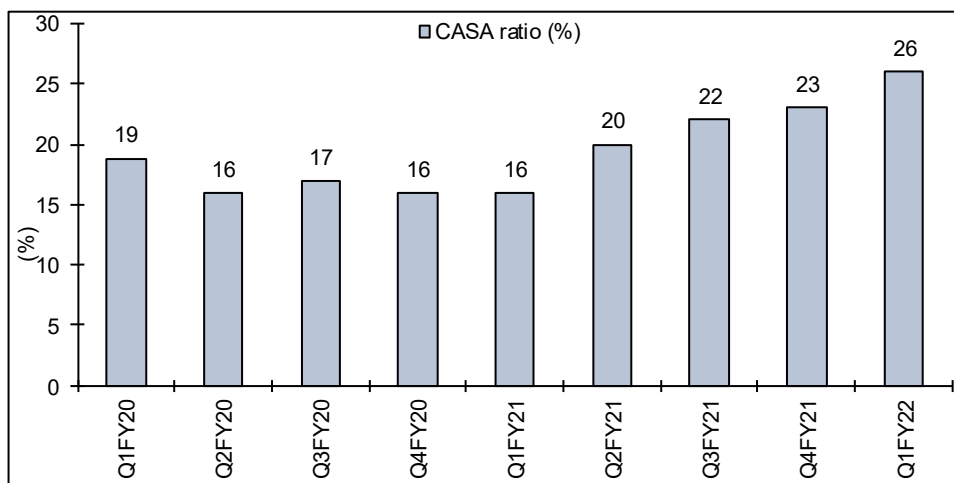
Source: Company data, I-Sec research

Chart 7: Savings accounts, retail mix broadly improving

Source: Company data, I-Sec research

Chart 8: Term deposits (TD) – consistent improvement in retail TD

Source: Company data, I-Sec research

Chart 9: Trend in CASA ratio

Source: Company data, I-Sec research

Financial summary

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21	FY22E	FY23E
Interest earned	29,488	42,864	49,501	58,006	69,617
Interest expended	16,066	23,769	25,846	27,650	33,232
Net interest income	13,423	19,094	23,654	30,356	36,385
Other income	4,620	7,061	14,515	8,159	10,402
Staff cost	6,011	7,596	9,802	12,295	14,941
Depreciation	639	767	920	1,104	1,325
Other operating expenses	4,174	5,816	5,862	7,330	9,387
Total operating cost	10,824	14,179	16,584	20,729	25,653
	4,813	6,582	6,783	8,434	10,712
Pre-provisioning op profit	7,219	11,977	21,586	17,786	21,134
			6.2%	4.4%	4.1%
Provisions & contingencies	1,418	2,832	7,001	5,390	5,284
Profit before tax & exceptional items	5,801	9,145	14,585	12,396	15,850
Exceptional items					
Profit before tax & exceptional items	5,801	9,145	14,585	12,396	15,850
Income taxes	1,983	2,392	2,878	3,146	3,994
PAT	3,818	6,753	11,707	9,250	11,856

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21	FY22E	FY23E
Capital	2,924	3,041	3,122	3,122	3,122
Reserves & surplus	28,705	40,727	59,630	68,246	79,353
Net worth	31,629	43,768	62,752	71,368	82,475
Total borrowings	2,80,358	3,67,478	4,30,087	4,77,388	6,08,178
Banks	54,173	69,349	56,238	31,771	47,995
NCDs/Bonds	24,391	18,250	7,030	3,971	5,999
Commercial papers/CDs	7,570	18,250	7,030	3,971	5,999
Term Deposits & CASA	1,94,224	2,61,630	3,59,790	4,37,674	5,48,183
Provisions	7,477	7,477	7,477	7,477	7,477
Other Liabilities	6,764	5,193	15,593	11,667	14,070
Total liabilities & stockholders' equity	3,26,228	4,23,916	5,15,910	5,67,901	7,12,200
Loans & advances	2,28,187	2,69,924	3,46,089	4,05,636	5,11,561
Investments	71,617	1,06,682	1,08,154	1,17,766	1,46,303
Cash and Balance	17,402	33,697	47,813	28,643	36,491
Fixed Assets	4,470	4,480	4,824	5,409	6,088
Current & other assets	4,552	6,648	9,033	10,446	11,758
Total Assets	3,26,228	4,21,431	5,15,913	5,67,901	7,12,200

Source: Company data, I-Sec research

Table 6: Key ratios

	FY19	FY20	FY21	FY22E	FY23E
Growth (%):					
AUM	49.2	29.0	22.2	14.4	26.1
Loan book (on balance sheet)	72.2	19.0	28.4	15.7	26.1
Total Assets	73.2	29.9	21.7	10.1	25.4
Total Deposits	145.7	34.7	37.5	21.6	25.2
Total NDTL	80.2	31.1	17.0	11.0	27.4
Total Investments	134.8	49.0	1.4	8.9	24.2
Interest Income	66.9	45.4	15.5	17.2	20.0
Interest Expenses	94.3	48.0	8.7	7.0	20.2
Net Interest Income (NII)	42.7	42.3	23.9	28.3	19.9
Non-interest income	19.1	52.8	105.6	-43.8	27.5
Net Income	35.8	45.0	45.9	0.9	21.5
Total Non-Interest Expenses	52.1	39.3	0.8	25.0	28.1
Pre provisioning operating profits (PPoP)	25.3	65.9	80.2	-17.6	18.8
PAT	30.7	76.9	73.4	-21.0	28.2
EPS	30.7	65.7	73.4	-21.0	28.2
CA	176.0	3.0	46.5	1.2	26.2
SA	44.0	6.6	148.5	45.3	26.2
Time deposits	192.7	48.9	29.8	18.2	26.2
Yields, interest costs and spreads (%)					
NIM on AUM	6.7	7.0	6.9	7.5	7.5
Yield on loan assets	11.0	12.5	11.5	11.8	11.9
Average cost of funds	7.4	7.3	6.5	6.1	6.1
Interest Spread on loan assets	3.6	5.1	5.0	5.7	5.8
Operating efficiencies					
Non interest income as % of net income	34.4	37.0	61.4	26.9	28.6
Cost to income ratio (%)	60.0	54.2	43.4	53.8	54.8
Op.costs/avg AUM (%)	4.2	3.8	3.5	3.8	4.0
No of employees	12623	17112	17512	17912	18312
Average annual salary (Rs '000)	476.2	443.9	559.7	686.4	815.9
Salaries as % of non-int.costs (%)	55.5	53.6	59.1	59.3	58.2
AUM/employee(Rsm)	19.0	18.0	21.5	24.1	29.7
Number of asset branches	83	31	51	71	91
AUM/asset branch(Rsm)	2882.0	9957.4	7394.5	6077.9	5980.4
Balance Sheet Structure					
Loans/ deposits (%)	117.5	103.2	96.2	92.7	93.3
Loans/ Total assets	69.9	64.0	67.1	71.4	71.8
Loans/NDTL	81.4	73.5	80.5	85.0	84.1
CA% of NDTL	3.9	3.0	3.8	3.5	3.4
SA% of NDTL	8.9	7.3	15.4	20.2	20.0
CASA% of NDTL	12.8	10.3	19.2	23.7	23.5
Total deposits as % of NDTL	69.3	71.2	83.7	91.7	90.1
Capital Structure					
Leverage (x)	7.2	6.2	5.5	5.7	6.2
CAR (%)	19.4	22.0	22.0	23.3	21.7
Tier 1 CAR (%)	16.0	18.4	19.2	20.6	18.9
Tier 2 CAR (%)	3.4	3.6	2.8	2.8	2.8
Tier 1 Capital (Rs mn)	30,530	41,320	56,477	64,232	74,228
Tier 2 Capital (Rs mn)	6,410	8,180	8,087	8,590	10,772
RWA (Rs mn)	1,91,330	2,25,100	2,94,070	3,12,346	3,91,710
Asset quality and provisioning					
GNPA (%)	2.0	1.7	4.3	3.5	3.2
NNPA (%)	1.3	0.8	2.2	1.4	1.2
GNPA (Rs mn)	4701	4578	15028	14197	16370
NNPA (Rs mn)	2945	2173	7555	5537	6302
Coverage ratio (%)	37.4	52.5	49.7	61.0	61.5
Credit costs as % of average AUM	0.7	1.0	2.0	1.3	1.1
Return ratios					
RoAA (%)	1.5	1.8	2.5	1.7	1.9
RoAE (%)	14.0	17.9	22.0	13.8	15.4
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Valuation Ratios					

	FY19	FY20	FY21	FY22E	FY23E
EPS (Rs)	13.1	22.1	37.5	29.6	38.0
EPS fully diluted (Rs)	12.5	22.1	37.5	29.6	38.0
Price to Earnings	95.5	56.6	33.3	42.1	32.9
Price to Earnings (fully diluted)	100.1	56.6	33.3	42.1	32.9
Book Value (fully diluted)	103	143	201	229	264
Adjusted book value (fully diluted)	96	138	183	215	249
Price to Book	12.1	8.7	6.2	5.5	4.7
Price to Adjusted Book	13.0	9.1	6.8	5.8	5.0
DPS	0.8	-	-	-	-
Dividend yield (%)	0.1	-	-	-	-

Source: Company data, I-Sec research

Table 7: DuPont analysis (on average AUM)

(%)	FY19	FY20	FY21	FY22E	FY23E
Interest earned	11.5	11.5	10.6	10.7	10.9
Interest expended	6.2	6.4	5.5	5.1	5.2
Gross Interest Spread	5.2	5.1	5.0	5.6	5.7
Credit cost	0.6	0.8	1.5	1.0	0.8
Net Interest Spread	4.7	4.4	3.6	4.6	4.9
Operating cost	4.2	3.8	3.5	3.8	4.0
Lending spread	0.5	0.6	0.0	0.8	0.9
Non-interest income	1.8	1.9	3.1	1.5	1.6
Operating spread	2.3	2.4	3.1	2.3	2.5
Exceptional items	0.0	0.0	0.0	0.0	0.0
Final Spread	2.3	2.4	3.1	2.3	2.5
Tax rate (%)	0.8	0.6	0.6	0.6	0.6
ROAAUM	1.5	1.8	2.5	1.7	1.9
Effective leverage (AAUM/ AE)	9.5	9.9	8.8	8.1	8.3
RoAE	14.0	17.9	22.0	13.8	15.4

Source: Company data, I-Sec research

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New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)

BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

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