

Company update and  
target price change

## Financials

Target price: Rs1,200

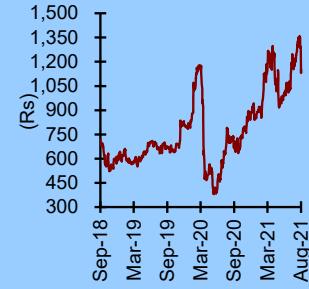
## Target price revision

Rs1,200 from 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

## AU Small Finance Bank

**HOLD**  
 Maintain

Attrition at top level remains key challenge; business momentum sustained in Jul/Aug'21

**Rs1,155**

AU Small Finance Bank (AU SFB) hosted an update call to address the key concern around higher attrition at the top-management level, triggered by resignation of Chief Risk Officer and Head of Internal Audit. The call was led by Chairman of the Board - Mr. Raj Vikas Verma, Chairman of NRC Committee - Mr. M S Sriram and MD & CEO Mr. Sanjay Agarwal. Key takeaway was the Board taking the ownership, ensuring no lapses in internal control and processes, and highlighting the strength of internal controls & strong risk management practices. While it believes attrition is the key challenge of late, it is more due to location issue (few key positions are based out of Jaipur) rather than culture issue. AU SFB remains committed in addressing this concern and is open to retain talent by offering employees the option of working remotely, helping them in settling down in Jaipur etc. Amid economic challenges for the industry, AU SFB's ability to sustain asset quality and manage attrition will be key monitorables. Maintain **HOLD** with revised TP of Rs1,200 (earlier: Rs1,250) to factor near-term concern around attrition.

- ▶ **Internal recruitment for CRO position.** Recent resignation of CRO Mr. Alok Gupta and Head of Internal Audit Mr. Sumit Dhir raised concerns over increasing attrition at top level. Notably, outgoing CRO, Mr. Alok Gupta replaced Mr. Mayank Markanday (the then-CRO) who has taken charge as Chief of Credit Card business within the organization after serving as CRO from August 2016 to March 2021. It appointed Mr. Deepak Jain as new CRO, who has been with AU for >11 years in positions of CFO and COO. It highlighted that the key reason for attrition is a location issue than cultural issue given both the roles, CRO & Head of Internal Audit, were based out of Jaipur.
- ▶ **Attrition remains the key challenge, but the SFB is committed to manage it in the best possible manner.** The Board acknowledged the challenges in retaining talents due to locational issue with Jaipur being its corporate headquarter and professionals joining the bank belonging to other cities. However, with its fully digitised operations and processes, it does offer work from remote location option to minimise attrition arising out of geographical constraints. While we note during build-out phase (>5 years as SFB) attrition does remain high, retaining talent to build sustainable long-term business model is equally important. Thus, HR management over the next couple of quarters is the key monitorable.
- ▶ **Business momentum sustained in Aug'21.** During the call, the management stated business momentum sustained in Jul/Aug'21, in terms of disbursements and collections.
- ▶ **No divergence in audit report.** The Board also highlighted that the bank has gone through three audit cycles by the regulator (RBI) and no material observation has been flagged off which requires disclosures.
- ▶ **Key risks.** Upside risk – lower-than-anticipated provisions in Q2FY22, and downside risk – further attrition at top level.

Market Cap	Rs362bn/US\$5bn	Year to March	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	AUFI.BO/AUBANK IN	NII (Rs mn)	19,094	23,654	30,356	36,385
Shares Outstanding (mn)	312.8	Net Profit (Rs mn)	6,753	11,707	9,250	11,856
52-week Range (Rs)	1360/634	EPS (Rs)	22.1	37.5	29.6	38.0
Free Float (%)	71.6	% Chg YoY	65.7	73.4	(21.0)	28.2
FII (%)	36.2	P/E (x)	52.4	30.8	39.0	30.4
Daily Volume (US\$'000)	27,800	P/BV (x)	8.1	5.7	5.1	4.4
Absolute Return 3m (%)	16.9	Net NPA (%)	0.8	2.2	1.4	1.2
Absolute Return 12m (%)	64.9	Cost / Income (%)	54.2	43.4	53.8	54.8
Sensex Return 3m (%)	10.9	RoA (%)	1.8	2.5	1.7	1.9
Sensex Return 12m (%)	48.9	RoE (%)	17.9	22.0	13.8	15.4

Please refer to important disclosures at the end of this report

## Financial summary

**Table 1: 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
<b>Net interest income</b>	<b>13,423</b>	<b>19,094</b>	<b>23,654</b>	<b>30,356</b>	<b>36,385</b>
<b>Other income</b>	<b>4,620</b>	<b>7,061</b>	<b>14,515</b>	<b>8,159</b>	<b>10,402</b>
<i>Staff cost</i>	6,011	7,596	9,802	12,295	14,941
<i>Depreciation</i>	639	767	920	1,104	1,325
<i>Other operating expenses</i>	4,174	5,816	5,862	7,330	9,387
<b>Total operating cost</b>	<b>10,824</b>	<b>14,179</b>	<b>16,584</b>	<b>20,729</b>	<b>25,653</b>
<b>Pre-provisioning op profit</b>	<b>7,219</b>	<b>11,977</b>	<b>21,586</b>	<b>17,786</b>	<b>21,134</b>
Provisions & contingencies	4,813	6,582	6,783	8,434	10,712
			6.2%	4.4%	4.1%
Provisions & contingencies	1,418	2,832	7,001	5,390	5,284
<b>Profit before tax &amp; exceptional items</b>	<b>5,801</b>	<b>9,145</b>	<b>14,585</b>	<b>12,396</b>	<b>15,850</b>
Exceptional items					
<b>Profit before tax &amp; exceptional items</b>	<b>5,801</b>	<b>9,145</b>	<b>14,585</b>	<b>12,396</b>	<b>15,850</b>
Income taxes	1,983	2,392	2,878	3,146	3,994
<b>PAT</b>	<b>3,818</b>	<b>6,753</b>	<b>11,707</b>	<b>9,250</b>	<b>11,856</b>

Source: Company data, I-Sec research

**Table 2: 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
<b>Net worth</b>	<b>31,629</b>	<b>43,768</b>	<b>62,752</b>	<b>71,368</b>	<b>82,475</b>
<b>Total borrowings</b>	<b>2,80,358</b>	<b>3,64,993</b>	<b>4,30,087</b>	<b>4,77,388</b>	<b>6,08,178</b>
Borrowings	86,134	1,03,353	70,297	39,714	59,994
Term Deposits & CASA	1,94,224	2,61,630	3,59,793	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
<b>Total liabilities &amp; stockholders' equity</b>	<b>3,26,228</b>	<b>4,21,431</b>	<b>5,15,913</b>	<b>5,67,901</b>	<b>7,12,200</b>
<b>Loans &amp; advances</b>	<b>2,28,187</b>	<b>2,69,924</b>	<b>3,46,089</b>	<b>4,05,636</b>	<b>5,11,561</b>
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
<b>Total Assets</b>	<b>3,26,228</b>	<b>4,21,431</b>	<b>5,15,913</b>	<b>5,67,901</b>	<b>7,12,200</b>

Source: Company data, I-Sec research

**Table 3: Key ratios**

	FY19	FY20	FY21	FY22E	FY23E
<b>Growth (%):</b>					
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
<b>Yields, interest costs and spreads (%)</b>					
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
<b>Operating efficiencies</b>					
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
<b>Balance Sheet Structure</b>					
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
<b>Capital Structure</b>					
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
<b>Asset quality and provisioning</b>					
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
<b>Return ratios</b>					
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

	FY19	FY20	FY21	FY22E	FY23E
<b>Valuation Ratios</b>					
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	88.4	52.4	30.8	39.0	30.4
Price to Earnings (fully diluted)	92.6	52.4	30.8	39.0	30.4
Book Value (fully diluted)	103	143	201	229	264
Adjusted book value (fully diluted)	96	138	183	215	249
Price to Book	11.2	8.1	5.7	5.1	4.4
Price to Adjusted Book	12.0	8.4	6.3	5.4	4.6
DPS	0.8	-	-	-	-
Dividend yield (%)	0.1	-	-	-	-

Source: Company data, I-Sec research

**Table 4: 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
<b>Gross Interest Spread</b>	<b>5.2</b>	<b>5.1</b>	<b>5.0</b>	<b>5.6</b>	<b>5.7</b>
Credit cost	0.6	0.8	1.5	1.0	0.8
<b>Net Interest Spread</b>	<b>4.7</b>	<b>4.4</b>	<b>3.6</b>	<b>4.6</b>	<b>4.9</b>
Operating cost	4.2	3.8	3.5	3.8	4.0
<b>Lending spread</b>	<b>0.5</b>	<b>0.6</b>	<b>0.0</b>	<b>0.8</b>	<b>0.9</b>
Non-interest income	1.8	1.9	3.1	1.5	1.6
<b>Operating spread</b>	<b>2.3</b>	<b>2.4</b>	<b>3.1</b>	<b>2.3</b>	<b>2.5</b>
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Final Spread</b>	<b>2.3</b>	<b>2.4</b>	<b>3.1</b>	<b>2.3</b>	<b>2.5</b>
Tax rate (%)	0.8	0.6	0.6	0.6	0.6
<b>ROAAUM</b>	<b>1.5</b>	<b>1.8</b>	<b>2.5</b>	<b>1.7</b>	<b>1.9</b>
Effective leverage (AAUM/ AE)	9.5	9.9	8.8	8.1	8.3
<b>RoAE</b>	<b>14.0</b>	<b>17.9</b>	<b>22.0</b>	<b>13.8</b>	<b>15.4</b>

Source: Company data, I-Sec research

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