

Company Update and  
target price revision

## Financials

Target price: Rs700

Target price revision

Rs700 from Rs625

## Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	28.2	28.2	25.6
Institutional investors	53.5	53.5	59.9
MFs and other	11.0	10.8	13.0
FIs/Banks	0.0	0.0	0.0
Insurance co.	3.7	3.6	4.3
FII	38.8	39.1	42.6
Others	18.3	18.3	14.5

## ESG disclosure score

Year	2021	2022	Chg
ESG score	41.6	45.1	3.5
Environment	16.5	22.7	6.3
Social	24.6	28.8	4.2
Governance	83.6	83.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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## INDIA



## AU Small Finance Bank

HOLD  
Maintain

Reorganises itself into 10 SBUs to ensure sustainability and scalability; insights into two SBUs

Rs682

Recognising the massive structural growth opportunity across segments, AU Small Finance Bank (AU) has reorganised itself into 10 strategic business units (SBUs) to ensure sustainability and scalability. With this backdrop, AU hosted an event to discuss key strategic priorities for two of its SBUs: i) commercial banking (~19% of advances), and ii) SBL (~33% of advances).

The successful scale-up of SBL book, as reflected in its 51% CAGR during FY12-FY22 with GNPL of 2.7% as of Sep'22, is an outcome of AU's cashflow-based secured lending with focus on NTB / NTC customers, local teams for sourcing given state- / district-wise diversity in India, in-house technical and legal teams with vintage of >4 years, and highly motivated collections team. Preference for higher contribution from customers (LTV at 46%) and self-occupied properties (~85%), 100% dual legal check, focus on acquiring quality customers (~68% of SBL book is towards customers having CIBIL score 700 & above), and in-house sourcing at 73% -- has ensured steady asset quality in the SBL segment for almost a decade.

AU carved out a commercial banking (CB) division in FY18 focused on scaling new products like business banking and agri financing. As of Sep'22, these two segments contributed ~70% of total CB portfolio. Pristine asset quality at <0.5% and 48% CAGR in the CB portfolio speak of successful execution. Maintain HOLD with a revised target price of Rs700 (earlier: Rs625), valuing the stock at 3.5x (earlier: 3.2x) FY24E BVPS.

- ▶ Secured business loans (SBL) – AU created niche in loans to informal self-employed segment with <Rs2mn-3mn ticket-size. Considering the huge MSME credit gap of Rs20trn-25trn and ~63mn registered MSME units in India, AU strategically focused on servicing micro enterprises (~99% of total MSME units are in the micro category). Micro-enterprises have low operating expenses and high margins and capability to pay, but lack documented income proofs. During a decade-old journey, AU has crafted a niche in the informal self-employed segment with ticket-size <Rs3mn.
- ▶ Replicating Rajasthan's learnings while entering new states – NPL at 2.7% speaks of successful diversification. AU started its SBL journey in its home market of Rajasthan, but is now present in 9 states and 2 UTs. AU followed the contiguous expansion strategy while entering new states and preferred hyperlocal model rather than centralized model. Built local manpower for collateral and customer assessment to mitigate communication and geographical barriers. Further, 100% house / workplace visits, work profile based assessment rather than template-based assessment and in-house legal / technical team / sourcing / collection team helped AU in building niche in self-employed small ticket lending. Notably, AU follows the decentralised underwriting and sanctioning model as it believes local people know the territory much better and has therefore built local capabilities to ensure quality customer acquisition.

Market Cap	Rs455bn/US\$5.5bn	Year to March	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	AUFI.BO/AUBANK IN	NII (Rs mn)	23,654	32,341	44,327	51,878
Shares Outstanding (mn)	666.4	Net Profit (Rs mn)	11,707	11,298	13,119	17,756
52-week Range (Rs)	718/493	EPS (Rs)	18.7	18.0	20.8	28.2
Free Float (%)	71.4	% Chg YoY	68.3	(3.8)	15.4	35.3
FII (%)	42.6	P/E (x)	33.3	34.6	30.0	22.2
Daily Volume (US\$/000)	15,359	P/BV (x)	6.2	5.2	3.7	3.2
Absolute Return 3m (%)	4.5	Net NPA (%)	2.2	0.5	0.5	0.4
Absolute Return 12m (%)	17.2	Cost / Income (%)	43.4	57.1	62.9	56.9
Sensex Return 3m (%)	4.2	RoA (%)	2.5	1.5	1.7	1.9
Sensex Return 12m (%)	7.1	RoE (%)	22.0	16.4	14.4	15.4

Please refer to important disclosures at the end of this report

- ▶ **Large under-served market with deep understanding of rural & semi-urban market (low competition) to ensure continued growth momentum.** Even in its oldest geography, Rajasthan, AU has served only 80,000 units out of a total of 2.67mn registered units; in Madhya Pradesh it served only 60,000 units out of a total of 2.6mn units. As of Sep'22, active customer base stood at 0.17mn vs ~63mn registered MSME units, of which ~51% are in rural areas.

A key enabler of AU's successful scale-up of SBL business is its differentiated approach towards serving the informal self-employed segment with hyperlocal approach. Over the years, it has built strong expertise in assessing local collateral with most functions being conducted in-house. AU has state- / region-wise policies and guidelines, follows decentralised operations with local talents (average vintage of senior team is >4 years) and has nurtured a highly motivated collections team.

- **Building alternate channel networks to expand catchment area.** With most businesses back to normalcy and highly impacted sub-segments like hospitality, tourism, education, etc. likely to normalise by March'23, AU is strategically building alternate channel networks like digital, local connectors, BC, etc. to expand its catchment area. As a result, local connectors network increased to >7,500 in Sep'22 from ~2,150 in Mar'21 and is likely to reach 15,000 in the near term. Business from connectors is up 3x, digital 2x and BO / BC 2x between Oct'21-Sep'22 vs FY21. Currently, it offers SBL from >450 branches.
- **Initialising use of liability branch network in SBL to enhance customer service by providing a bouquet of products.** While entering the next leg of growth post pandemic, AU is focusing on enhancing customer experience and cross-selling other banking products to SBL customers. Thus, it is initialising use of liability branch network to improve SBL customer acquisition, product offerings and cross-sell.
- **Geographical expansion – Uttar Pradesh, Uttarakhand, Karnataka, Andhra Pradesh and Telangana to drive growth going forward.** While growing its SBL book, AU remained committed to building a diversified portfolio. The same reflects in the share of RJ falling to 42% by Sep'22 from 54% in Mar'17; similarly, the share of non-RJ book improved to 58% by Sep'22. Incrementally, it focuses on growing SBL business in Uttar Pradesh, Uttarakhand, Karnataka, Andhra Pradesh and Telangana with cumulative registered MSME units at 19.2mn.
- ▶ **Careful customer selection, stringent risk management and robust collection mechanism resulted in pristine asset quality over the years.** AU has always remained focused on careful assessment of customers before onboarding them. The same reflects in the fact that ~85% of SBL loans is towards new-to-credit (23%) and customers with >700 CIBIL score (68%). Customers with CIBIL score below 600 form only 1% of the total pool. Further, 73% of customers are directly sourced, ~75% of exposure is below Rs2.5mn ticket-size and >60% of customers offer >14% RoI as of Sep'22. Asset quality in the SBL book remained stable throughout the covid phase as reflected in 2.7% GNPL ratio as of Sep'22 vs 2.5% in Mar'19.
- **Tightened credit filters during covid in highly impacted sub-segments.** AU's deep understanding of the informal customer segment and varied business performance depending upon profile helps it pre-empt credit cycle

and modify credit filters accordingly. For example, during covid, it tightened credit filters in segments like hospitality, education, dairy & allied activities, and tours & travels as reflected in only 1.5% of bookings in education sector during Apr'21-Sep'22 vs 6.3% booking till FY21. Similarly, business bookings in hospitality segment fell to 1.3% from 2.2% earlier.

- **Diversified customer base across >150 profiles with no sub-segment contributing >15% of total exposure.** One of the critical elements of assessing the informal segment is to arrive at a steady cashflow given varied range of business profiles / sub-segments within sectors and state- / district-wise diversity. AU understood this and adopted profile-based assessment of customers rather than template-based assessment. Over the years, it has built a profile-based underwriting model for >150 businesses. Further, it has ensured that segment-wise exposure is maintained at >15% and lowest exposure is to jewellery business at 3% as of Sep'22.
- **In-house operations and expertise in collateral assessment gives an edge.** AU has built most SBL-related operations in-house – legal, technical, sourcing and collection – which helped it in building a strong local talent pool. While it focuses on cashflow-based credit underwriting, collateral cover supports debt-servicing discipline. Hence, AU relies on self-occupied residential property (75%), maintains low LTV (46%) to ensure higher equity from customers, 100% dual legal check (external & internal) to prevent fraud and title clearance, 100% of cases visited by the in-house team for reference check and business viability.
- **Unique engagement, counselling and resolution approach in collections.** Dedicated MIS team for real-time ground support and strong ground team ensures constant dialogues with customers on an ongoing basis. Hence, in case of default, sales and collection teams jointly work towards providing suitable solutions to regularise the payment. This reflects in ~70% of legally initiated cases getting resolved by empathetic counselling.

► **Commercial banking – sustainable RoA at 2.5%.** While AU was already catering to formal segment like NBFCs and real estate developers, in FY18 it shifted its focus towards servicing formal MSME clients to utilise its banking platform. RoA at ~2.5%, 98% current book and GNPL at <0.5% speak for successful scale-up of the CB business post commencement of SFB operations. Even during the covid phase, peak GNPL stood at 1.5% in FY21. After testing the waters for almost 5 years in the formal MSME segment, AU rolled out transaction banking division to improve cross-sell and deepen relationship with its existing MSME customer-base.

Combination of low cost of customer acquisition (cost / income ratio ~35%), pristine asset quality (GNPL at 0.48%), floating rate book (EBLR-linked, reset on quarterly basis) and recurring fee income pool (~28% of NIM) helped AU build a business model that can generate sustainable long-term RoA of ~2.5%.

► **Commercial banking book is only 0.2% of sectoral credit and offers 360 opportunities.** While AU has successfully scaled up its CB division over the past 5 years (53% CAGR between FY17-FY22), as of Sep'22 it commanded only 0.2% market share in sectoral credit. Further, serving formal segment customers enabled AU to improve cross-sell and upsell – it provides opportunity to offer

insurance, current accounts, salary mandate, corporate credit card, TD, PSL book and large fee income pool. For example, deposits from the CB division stands at Rs53bn vs total loanbook at Rs97bn.

- **Business banking – 80% self-funded book, 80% PSL compliant, 58% in urban market and GNPA of 0.17%.** A stable team, with 95% of the national and regional leadership intact since inception, localised decisioning (faster TAT), 3<sup>rd</sup> party audits & verification helped AU deliver 10x growth in business banking during FY18-FY22 with GNPL of 0.17% as of Sep'22. Its successful execution also reflects in peak GNPL of only 0.74% during FY21.

BB book is well diversified with presence in 13 states and 2 UTs, covering 275 locations and average ticket-size at Rs8.5mn. It generates 10.15% IRR and 1.7% other income. It sources customers through multiple channels – 32% through branches, 29% self-sourced and 39% through channel partners. ~70% are working capital loans and 65% of exposure is towards trade & services segment.

Strong team-building backed by local hiring to avoid geographical and communication barriers, comprehensive 360-degree assessment based on cashflow sensitivity, market feedback, actual end-use, collections by originator, low ticket-size (~53% of book <Rs50mn ticket size), only 35% exposure to manufacturing sector are key enablers of AU's pristine asset quality.

- **Agri banking – 93% PSL compliant, 54% in urban market and GNPA of 0.74%.** Agri book stands at Rs30bn (~6% of total loans) and is well diversified across sub-segments with highest exposure of 17% to food processing units and lowest exposure (1%) to seed manufacturing units. Agri advances are a floating rate book linked to repo rate. Average ticket-size stands at Rs10mn and IIR at 10.11%. ~64% of the book is below Rs50mn ticket-size. GNPL ratio stands at 0.74% as of Sep'22.

The book is well diversified across 13 states and 2 UTs covering 220 locations. Rajasthan accounts for 40% of book, followed by Delhi 16%, Madhya Pradesh 12% and Gujarat 11%.

- **NBFC lending – granular book with 146 NBFCs; ~90% of the book is towards investment grade companies and 78% towards NBFCs in secured lending.** While AU has been lending to NBFCs for over a decade, post commencing SFB operations in FY18 it has calibrated its NBFC lending book – 7% CAGR between FY18-FY22 to Rs20.36bn (~4% of total loans). It further declined to Rs18.8bn as of Sep'22. It is a floating-rate book linked to repo rate with average ticket-size of Rs0.13bn, average residual tenure of ~21 months, and IIR of 10.8%. Driven by strong credit underwriting process for NBFC lending, it has kept its GNPL low at 0.0.1% as of Sep'22.
- **Real estate group (REG) – relatively smaller in size with strong growth in recent years; focus on cashflow-controlled lending in tier-1 locations.** Real estate financing is one of the oldest portfolio, despite that it contributes only 2% to total advances. Its calibrated approach in scaling REG book specially post commencing SFB operations (no customers onboarded post Apr'17 have turned NPA) and the inherent nature of higher repayments (average tenure 2.5 years), the real estate book has remained stagnant around Rs8bn between FY18-20. However, with cyclical recovery in RE sector

post pandemic, AU accelerated disbursements in REG segment during 1HFY23, REG portfolio grew 22% FY23YTD. Its REG book is mainly concentrated in Tier 1 location (~60% of total REG book) - Rajasthan / Mumbai / Ahmedabad / Surat contributing 29% / 35% / 11% / 11%, respectively, as of Sep'22. Peak GNPL in REG book was 4.9% in FY21 but its concentrated efforts on collection and business recovery helped AU reducing GNPL to 1.9% by Sep'22. Furthermore, the bank is carrying 100% provisioning coverage over GNPL with a security cover of 15.x to 2.0x.

**Key risks.** *Upside:* Higher-than-anticipated growth in near term. *Downside:* Further attrition at top level.

## Secured Business Loans snapshot

**Chart 1: Targeting low ticket-size fully secured MSME segment (informal) backed by strong proprietary credit underwriting framework**

Presence in India 9 States 2 UTs	Average Tenure 8.5 Years	Average Ticket Size Rs. 992k	Team Strength 6,600+	Low LTV 46%
Active Loan Count 2,08,529	Average EMI Amount Rs 16,870	NTB Acquisition 75%	Self Occupied Properties 85%	Gross NPA 2.69%

Source: Company data, I-Sec research

**Chart 2: AU's deep understanding of servicing informal segment reflects in redefined credit filters during covid phase**

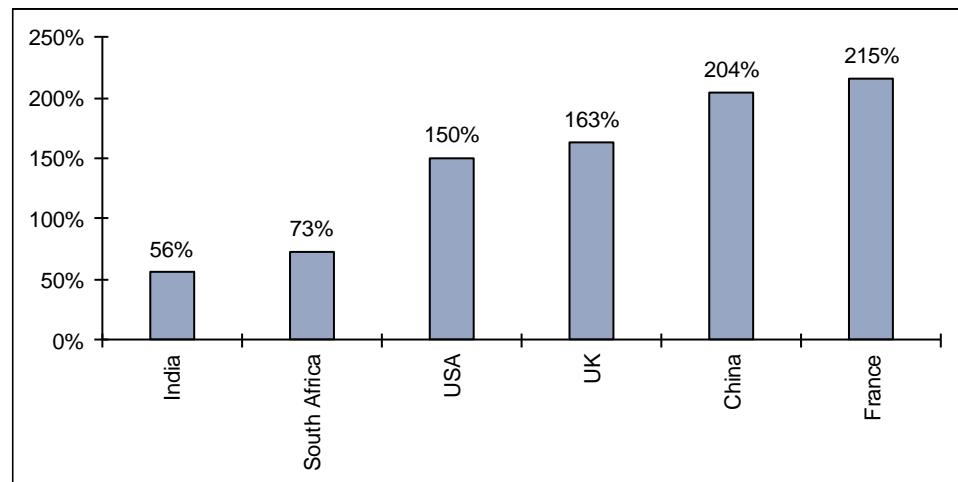
Reduction of exposure towards certain sectors wherein covid impact was very high



Sector	Additional Due Diligence	Portfolio concentration (Till FY21)	Portfolio concentration (Apr'21 to Sep'22)
Education	<ul style="list-style-type: none"> <li>Income assessment basis actual student strength</li> <li>Enhanced monitoring over pre covid &amp; post covid student strength</li> </ul>	6.3% of portfolio	1.5% of booking
Hospitality	<ul style="list-style-type: none"> <li>Focus over Pre covid &amp; post covid customer footfall.</li> <li>Detailing of unaccounted debts</li> </ul>	2.2% of portfolio	1.3% of booking
Dairy & Allied Activities	<ul style="list-style-type: none"> <li>Focus over ownership &amp; validation of number of mitch cattle.</li> <li>Income revalidation through Dairy statement</li> </ul>	1.8% of portfolio	0.7% of booking

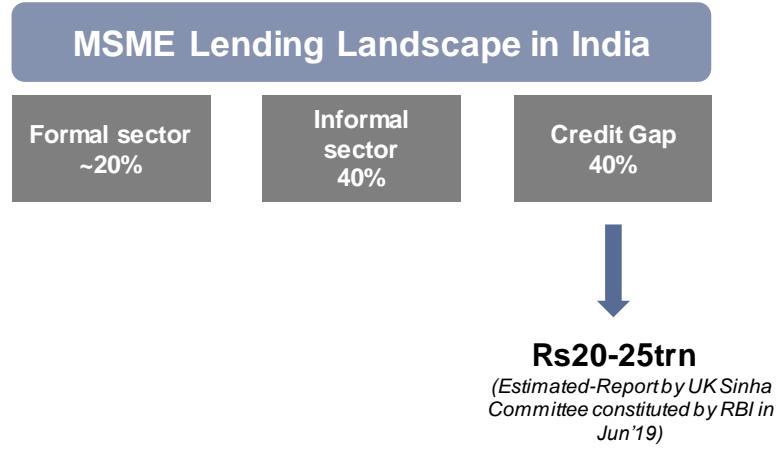
Source: Company data, I-Sec research

**Chart 3: India growth story remains strong as low 'credit to GDP' ratio amidst peers**



Source: Company data, I-Sec research

**Chart 4: MSME credit opportunity stands at Rs20trn-25trn**



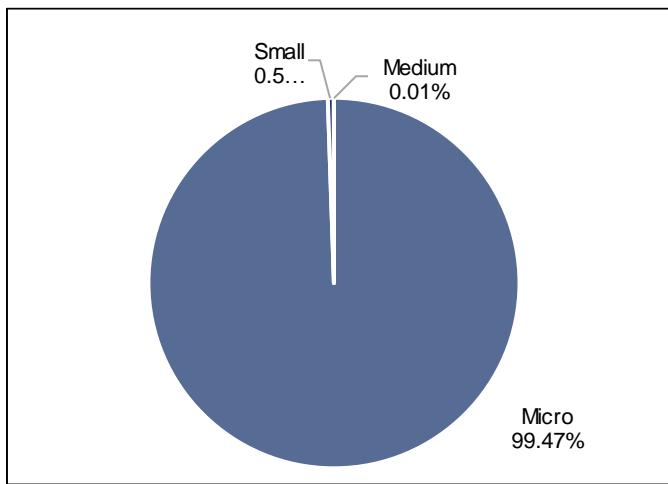
Source: Company data, I-Sec research

**Table 1: AU serviced only handful of units, even in its oldest locations; long runway to growth in SBL segment**

State	No. of Micro MSME (in '000)	AU's presence (in '000)
<b>Existing states</b>		
Maharashtra	4,760	
Gujarat	3,270	
<b>Rajasthan</b>	<b>2,670</b>	<b>80</b>
<b>Madhya Pradesh</b>	<b>2,640</b>	<b>60</b>
Punjab	1,460	
Haryana	950	
Delhi	930	
Chhattisgarh	850	
Himachal Pradesh	390	
<b>Total</b>	<b>17,920</b>	
<b>Prospective states</b>		
Uttar Pradesh	8,960	
Karnataka	3,830	
Andhra Pradesh	3,370	
Telangana	2,590	
Uttarakhand	410	
<b>Total</b>	<b>19,160</b>	

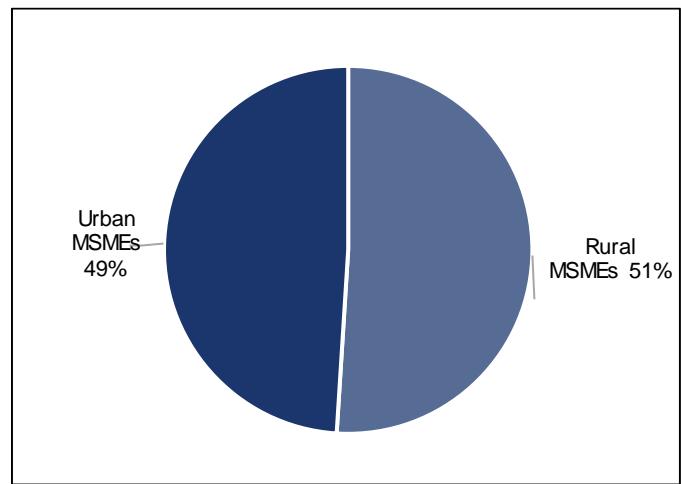
Source: Company data, I-Sec research

**Chart 5: >99% of businesses in India are micro-MSMEs – AU created niche in...**



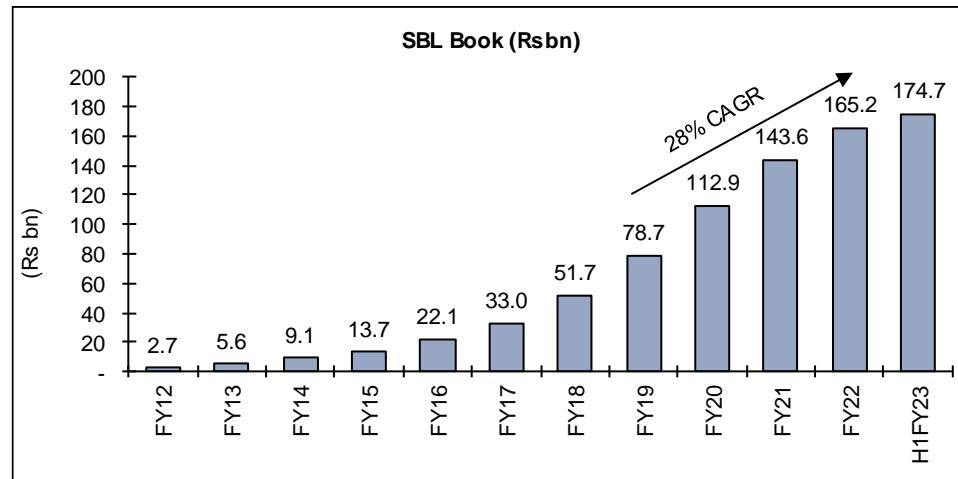
Source: Company data, I-Sec research

**Chart 6: ...servicing self-employed informal segment in Rural area; of total registered units ~51% units are located in rural regions of India**



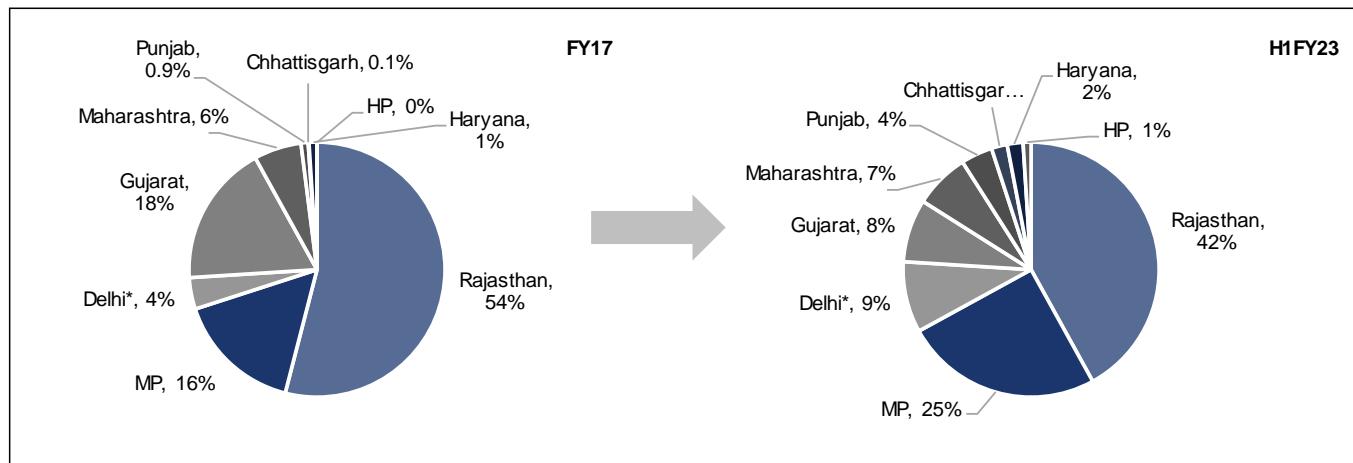
Source: Company data, I-Sec research

**Chart 7: While scaling SBL portfolio...**



Source: Company data, I-Sec research

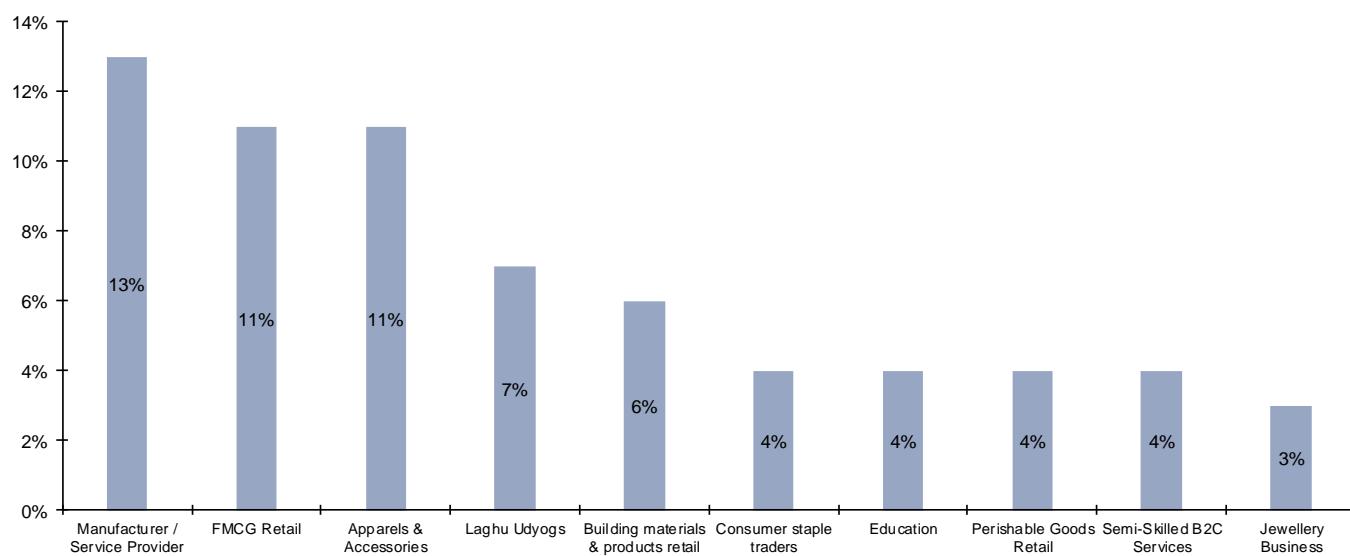
**Chart 8: ... AU remained committed in building granular and geographically diversified portfolio**



Source: Company data, I-Sec research

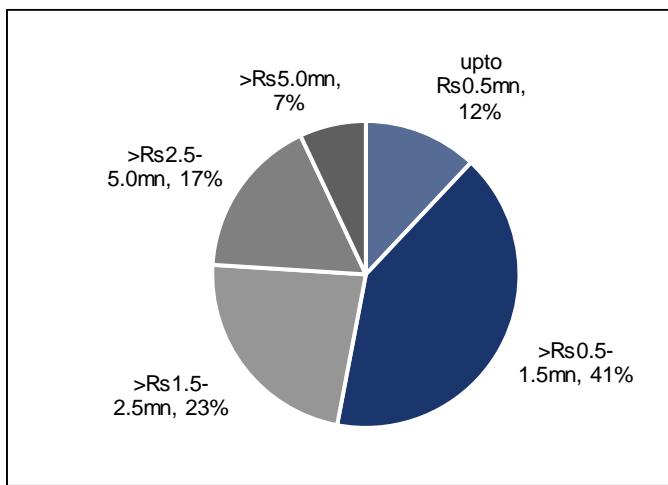
**Chart 9: Granularity remained key focus are while growing SBL book – as on Sep'22 no single segment contributes >15% of total exposure...**

Manufacturer & Service Providers	Apparels & Accessories	Laghu Udyogs	Building Material & Products	Semi skilled B2C Services
<ul style="list-style-type: none"> <li>Food &amp; Agro Processing</li> <li>Building &amp; Civil contractors</li> <li>Industrial &amp; Medical Equipment</li> <li>Scrap &amp; Waste management</li> <li>Agri Equipment Traders</li> </ul>	<ul style="list-style-type: none"> <li>Readymade Garments</li> <li>Suiting, Shirting &amp; Textiles</li> <li>Saree Shops</li> <li>Fancy stores</li> <li>Footwear Traders</li> <li>Garment Manufacturers</li> </ul>	<ul style="list-style-type: none"> <li>Engineering &amp; Fabrication Business</li> <li>Carpenters</li> <li>Stone cutting &amp; Sizing</li> <li>Bangle Manufacturers</li> <li>Masala Grah Udyog</li> </ul>	<ul style="list-style-type: none"> <li>AC / Mobile / Computer / Electronic Items repair</li> <li>Automobile service centers</li> <li>Advertisement Business / Printing Press</li> <li>Water Supply</li> </ul>	<ul style="list-style-type: none"> <li>Building &amp; Construction Material Trader</li> <li>Tiles &amp; Sanitary</li> <li>Hardware &amp; Plywood</li> <li>Stone / Marble Supplier</li> </ul>



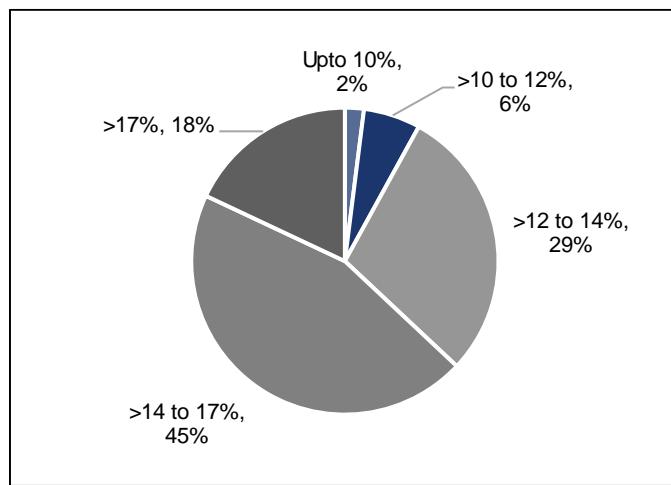
Source: Company data, I-Sec research

**Chart 10: ... and >75% of the book is <Rs2.5mn ticket size**



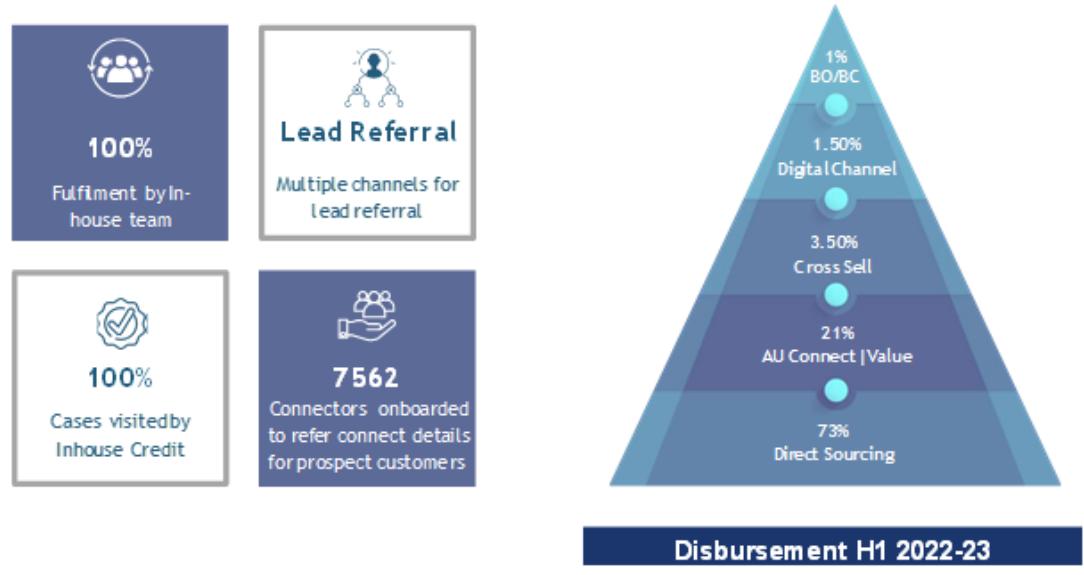
Source: Company data, I-Sec research

**Chart 11: >60% of the book is earning >14% IRR**



Source: Company data, I-Sec research

**Chart 12: Focus on building In-house capabilities (73% of loans disbursed in 1HFY23 was sourced in-house)...**



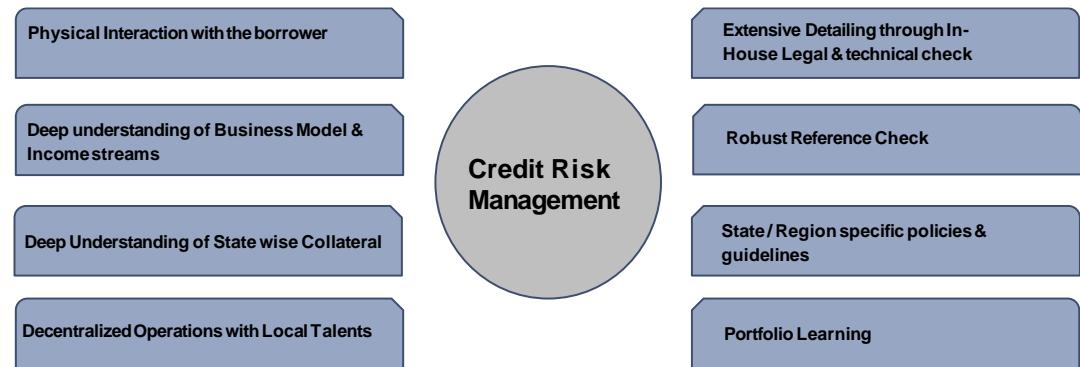
Source: Company data, I-Sec research

**Chart 13: ... and local talents (credit, technical, and legal) with average vintage of >4 year**



Source: Company data, I-Sec research

**Chart 14: Strong credit risk management...**



Source: Company data, I-Sec research

**Table 2:... as reflect in careful customer selection; ~68% of AU's loanbook is towards customers with >=700 CIBIL score**

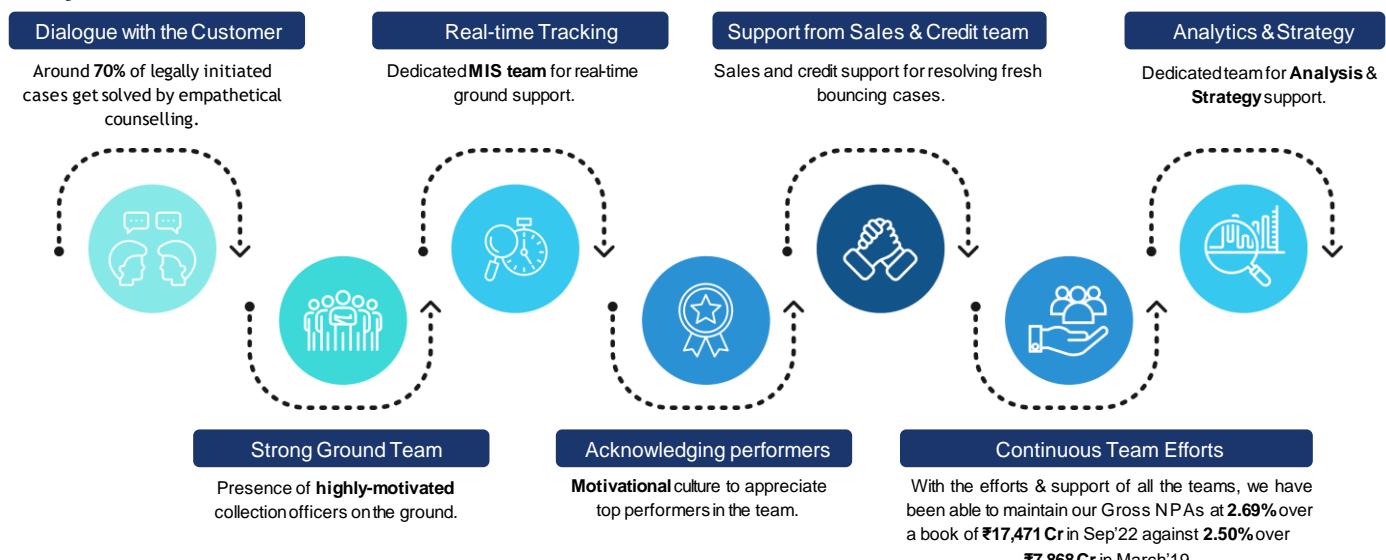
CIBIL Score Bucket (FY22-FY23 Business)	Customers	SBL Book
New to credit (NTC)	23%	16%
>=700	62%	68%
650 to 699	11%	12%
600 to 649	3%	3%
Less than 600	1%	1%

Source: Company data, I-Sec research

### Chart 15: Expertise built in collateral assessment given state-wise legal diversity

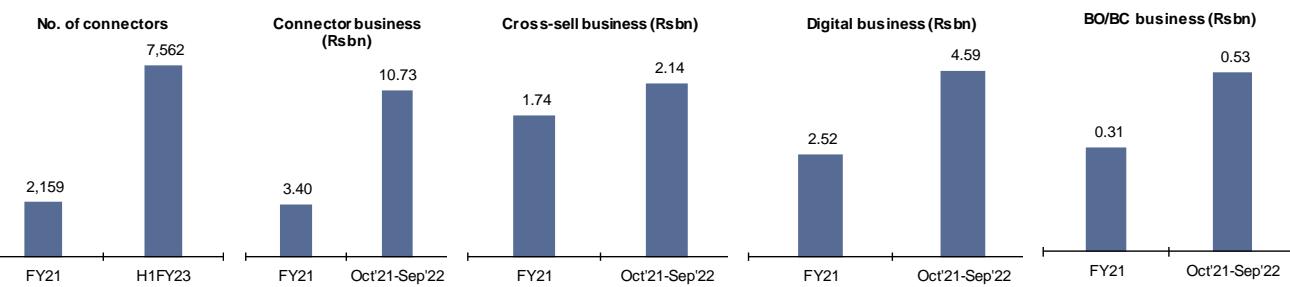
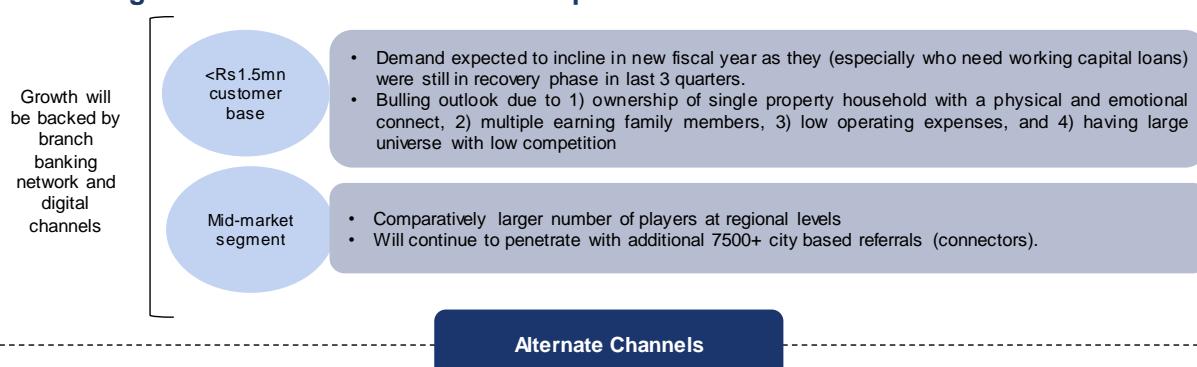


### Chart 16: Strong collection infrastructure backed by experienced people and digitisation and data analytics



Source: Company data, I-Sec research

### Chart 17: Building alternate channel network to expand catchment area and enhance customer service



Source: Company data, I-Sec research

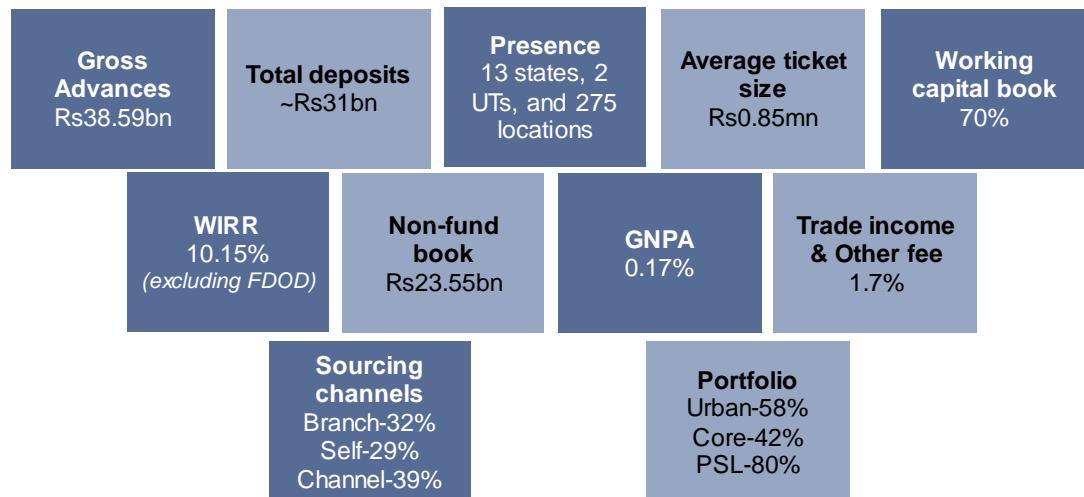
## Commercial banking snapshot

**Chart 18: Commercial banking is divided into four sub verticals along with transaction banking services**

Commercial Banking			
Business Banking	Agri Banking	NBFC Lending	Real Estate Group
<b>TG:</b> MSMEs engaged in Manufacturing, Trading, EPC and Services	<b>TG:</b> MSMEs engaged in Agri Value Chain	<b>TG:</b> Small and Mid Size NBFCs and HFCs	<b>TG:</b> Small and Mid Size Developers in select T1 Markets
<b>Products:</b> CC/OD, LC/BG for Working Capital & Term Loans for Capex	<b>Products:</b> CC/OD, LC/BG for Working Capital & Term Loans for Capex	<b>Products:</b> Term Loan, Cash Credit / WCDL for Onward Lending Purpose	<b>Products:</b> Construction Linked Project Loan, RERA Collection & Escrow Accounts
Transaction Banking			
Providing CMS Solutions including Doorstep Banking, API Banking, UPI/QR, and Trade Solutions to Commercial Banking & Current Account Customers			

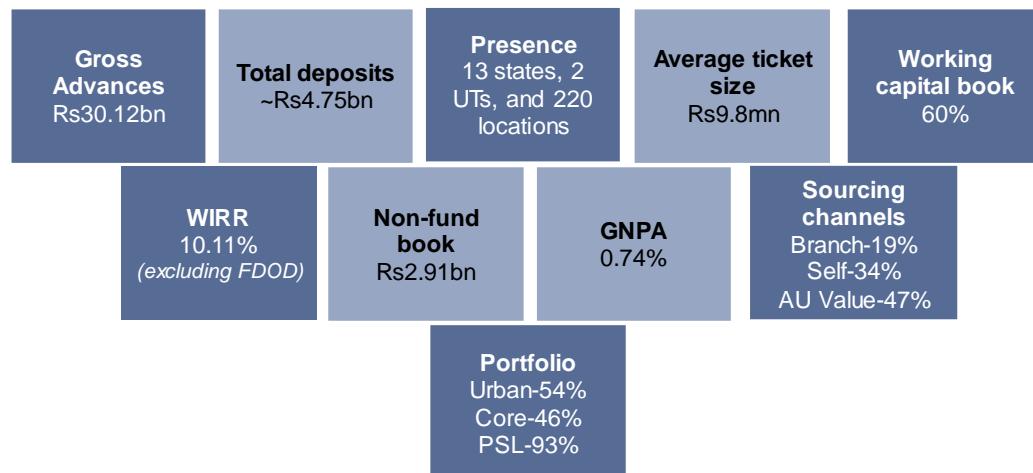
Source: Company data, I-Sec research

**Chart 19: Business banking: 80% self-funded book with pristine asset quality, adequate yields, and fee income opportunity**



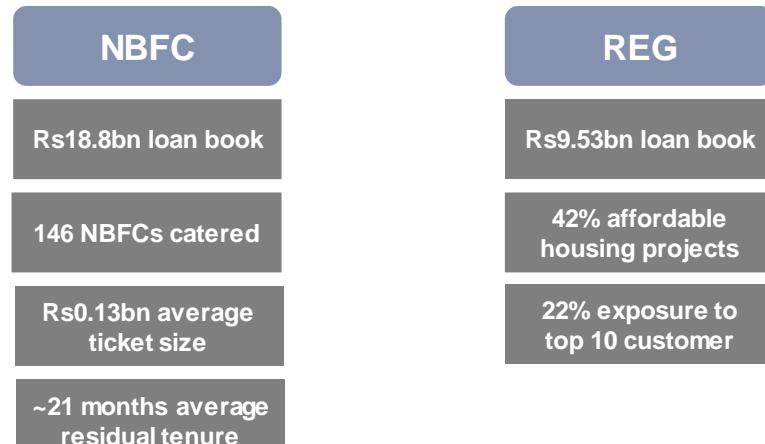
Source: Company data, I-Sec research

**Chart 20: Agri banking: 93% PSL book catering to agri value-chain enterprises while maintaining strong asset quality and fairly high income**



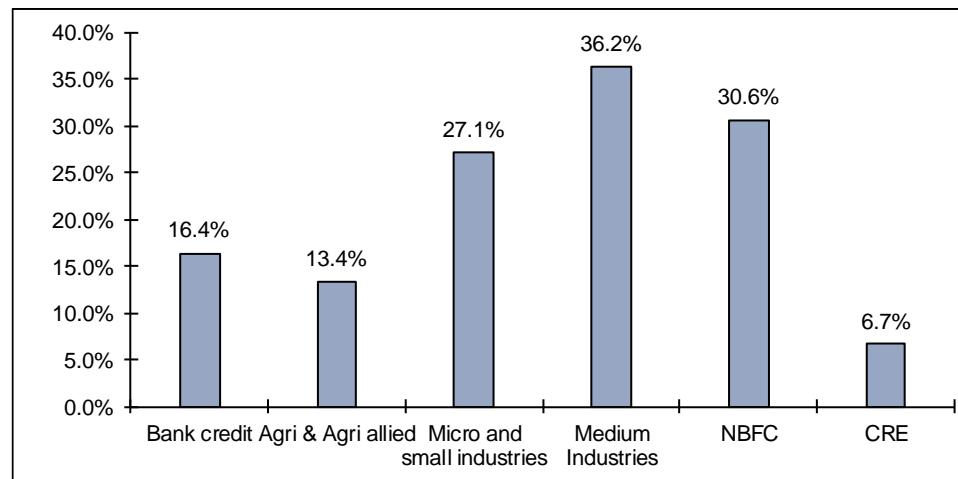
Source: Company data, I-Sec research

**Chart 21: Relatively lower-sized NBFC and REG funding books**



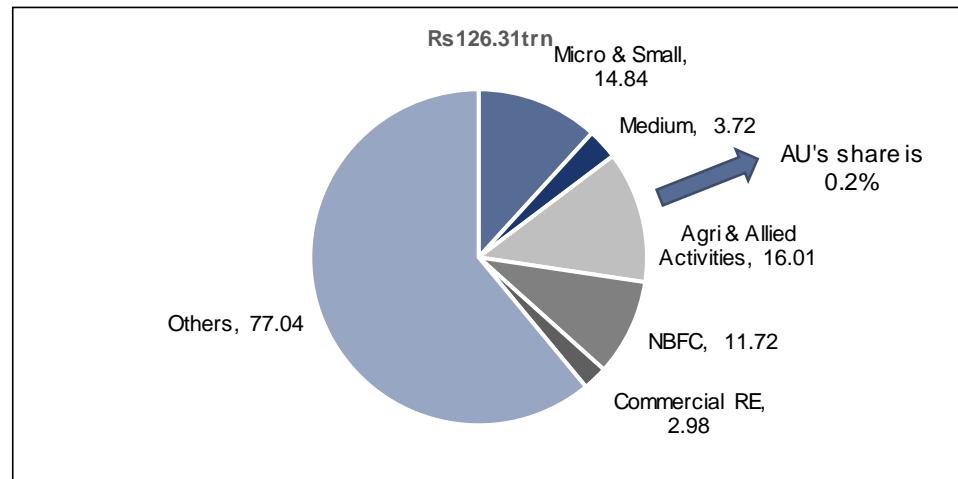
Source: Company data, I-Sec research

**Chart 22: Bank credit in recent past was mainly driven by non-individual lending segments**



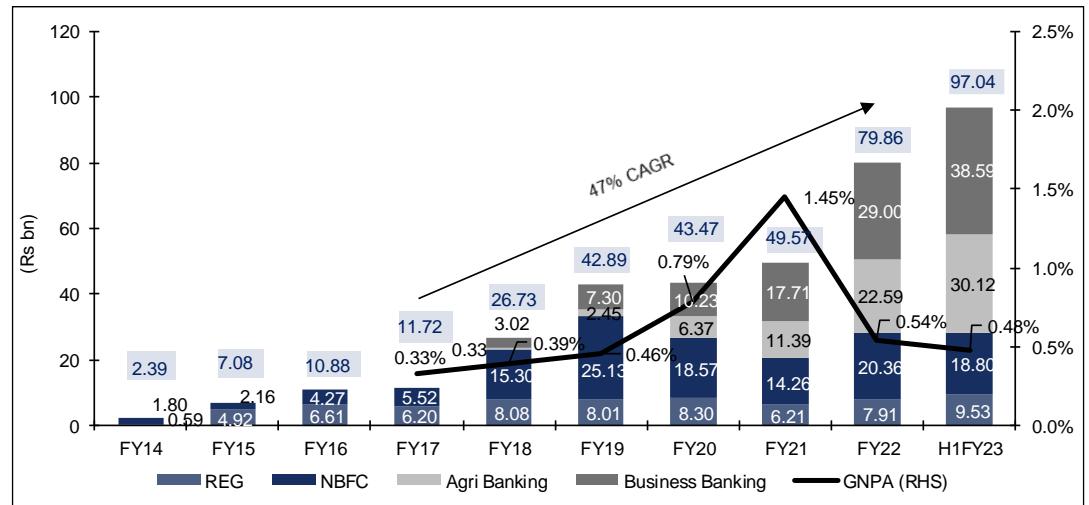
Source: Company data, I-Sec research

**Chart 23: AU command only 0.2% market share in sectoral credit**

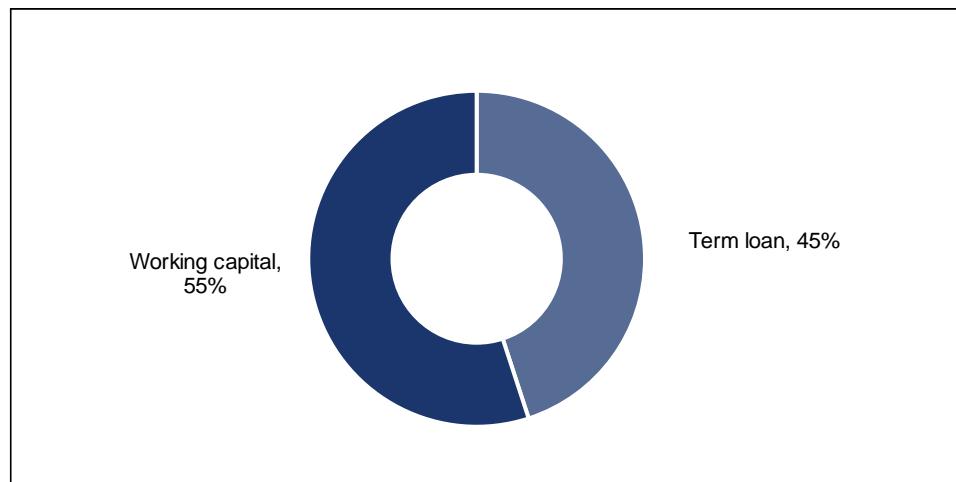


Source: Company data, I-Sec research

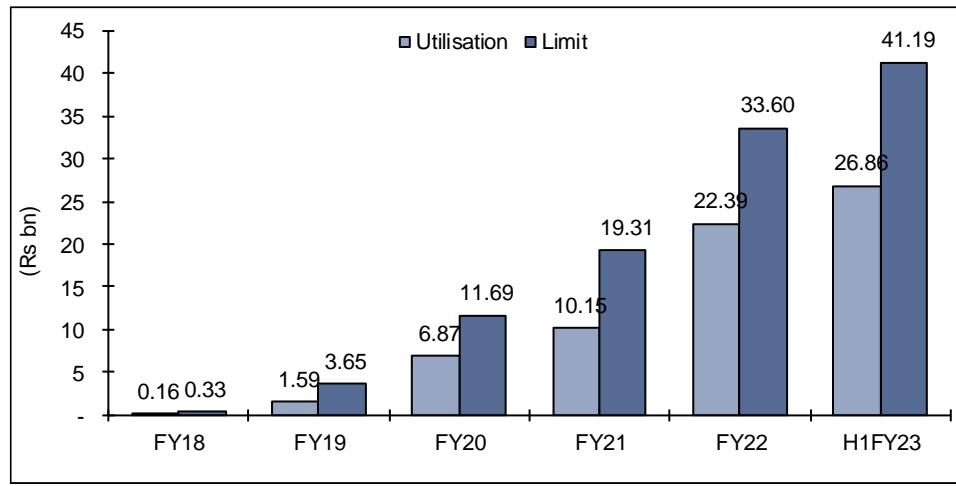
**Chart 24: Strong growth demonstrated with Business / Agri banking outpacing NBFC / REG book growth**



Source: Company data, I-Sec research

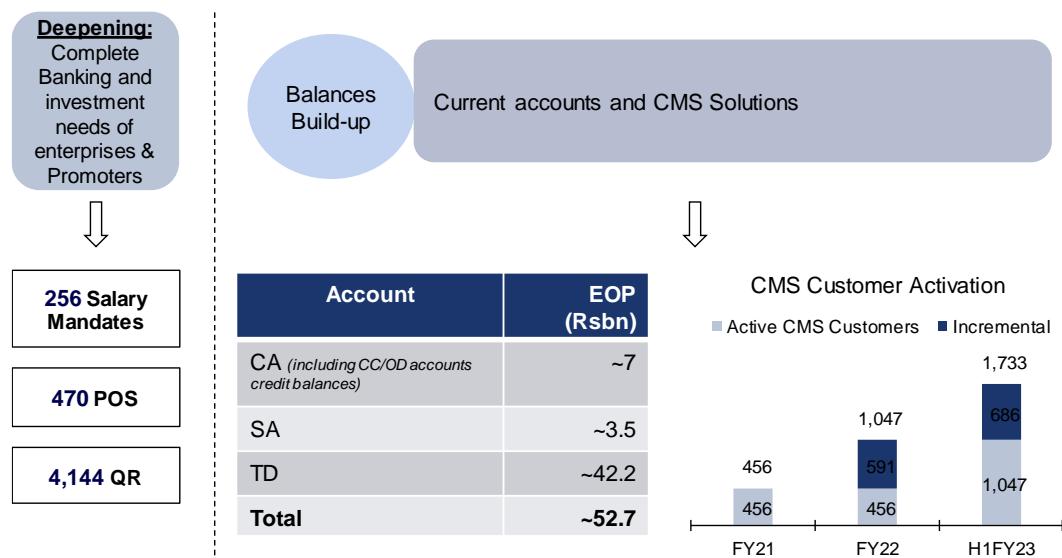
**Chart 25: Book is more or less equally divided in terms of type of facility**

Source: Company data, I-Sec research

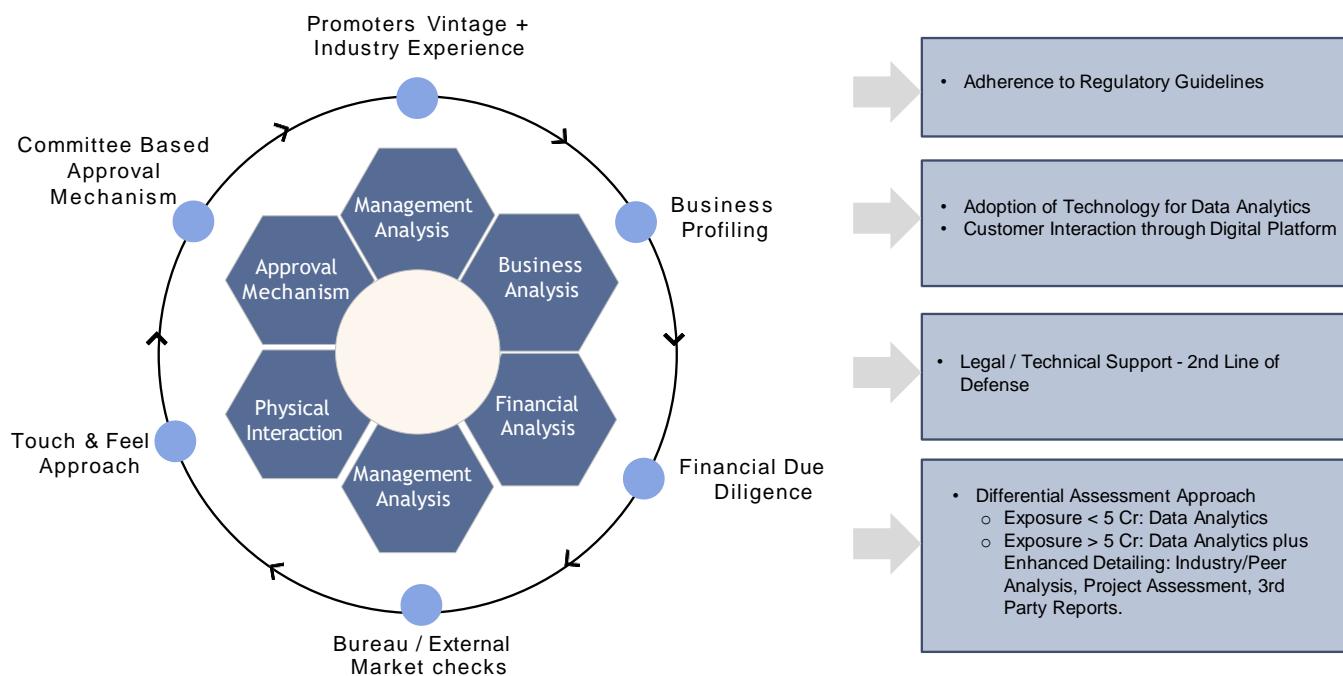
**Chart 26: Gradually building non-fund based book (majorly bank guarantee)**

Source: Company data, I-Sec research

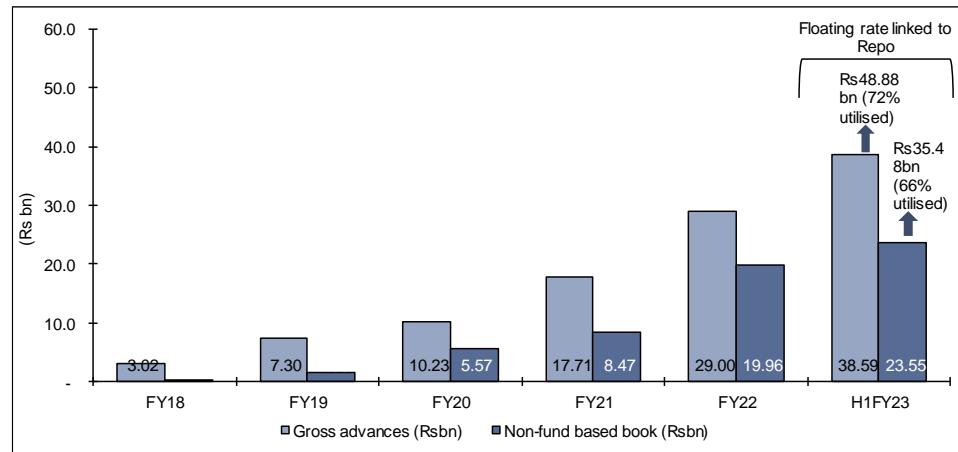
**Chart 27: Commercial banking book is increasingly becoming self-funded as the bank is scaling up its liability franchise amidst commercial banking customers**



**Chart 28: 360-degree credit assessment is done while onboarding commercial banking clients involving management, business, financial analysis, etc.**

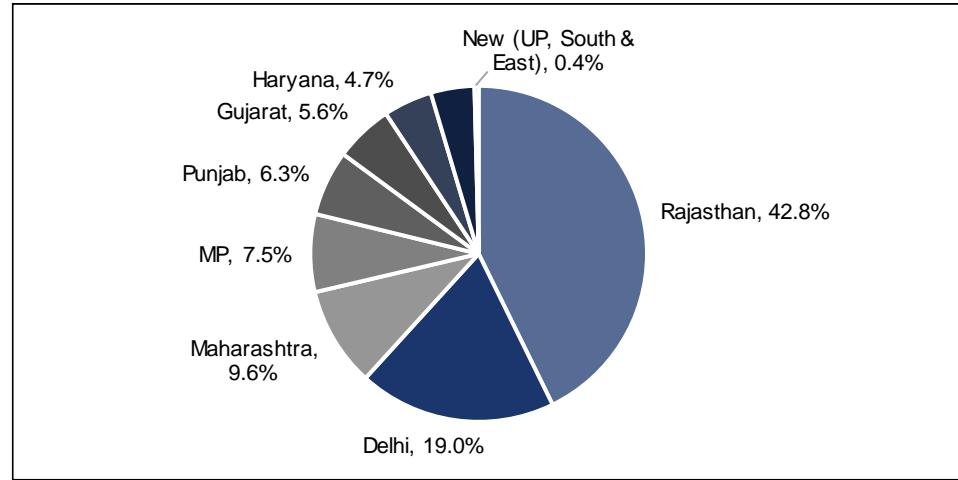


**Chart 29: Business Banking portfolio grew by 58% CAGR between FY18-22 with equal focus on scaling non-fund based book**



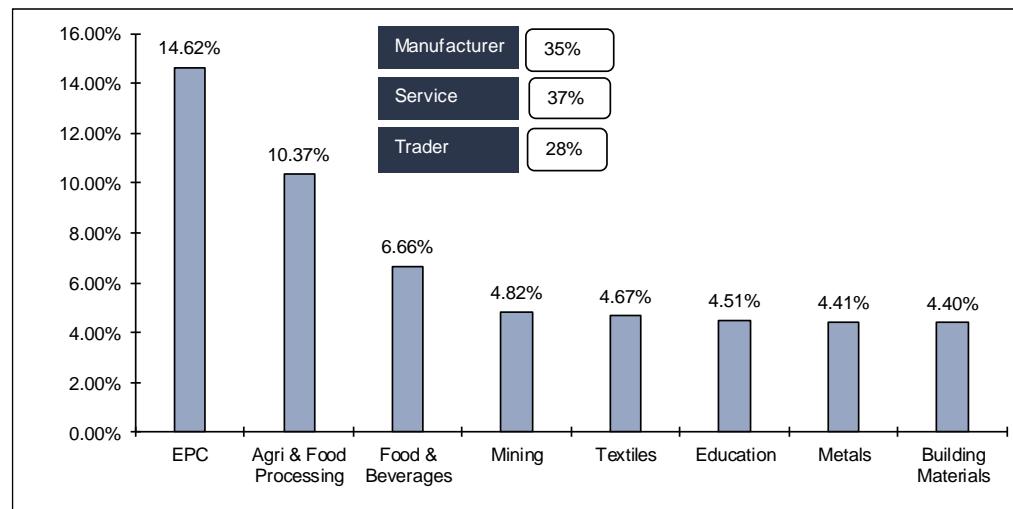
Source: Company data, I-Sec research

**Chart 30: Gradually expanding Business banking portfolio in newer geographies; the share of Rajasthan (home state) fell to 43% as on Sep'22**



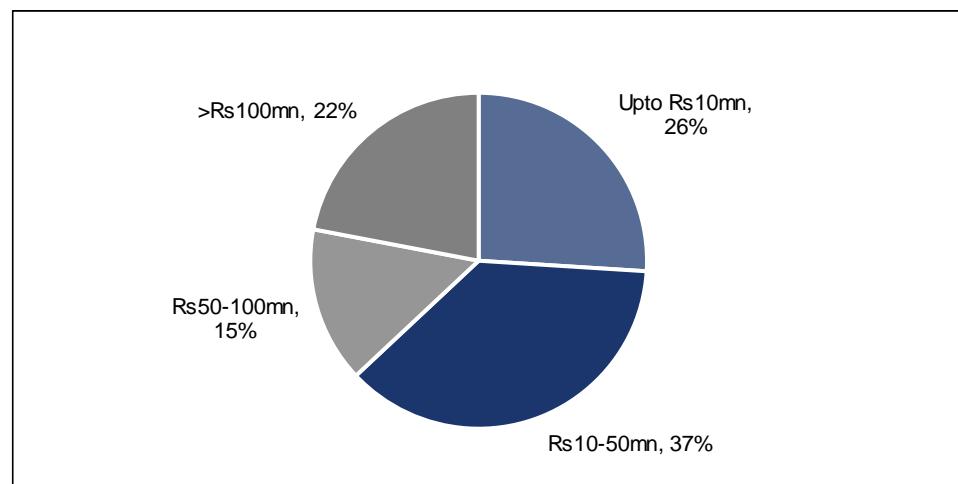
Source: Company data, I-Sec research

**Chart 31: Business Banking portfolio is well diversified across industries; with no single sectors contributing >15% of total exposure**



Source: Company data, I-Sec research

**Chart 32: Granular fund-based portfolio with >60% of the book is towards <Rs50mn ticket-size**



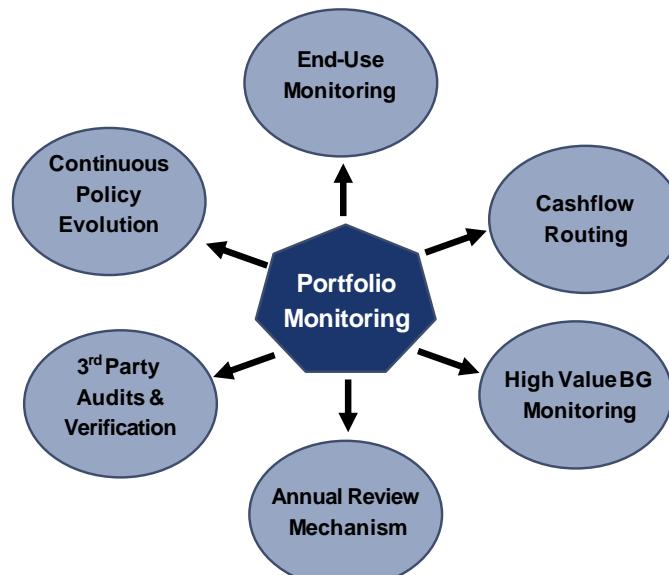
Source: Company data, I-Sec research

**Chart 33: Localised decision-making, comprehensive check (involving business analysis, market feedback, end usage check etc.) and collateral-based lending...**



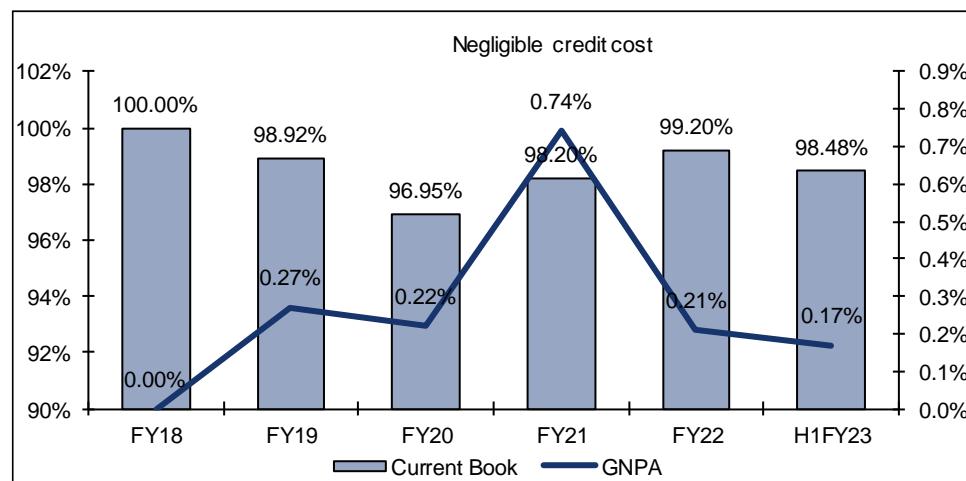
Source: Company data, I-Sec research

**Chart 34: ...coupled with strong portfolio monitoring mechanism ensured best-in-class asset quality over the years**

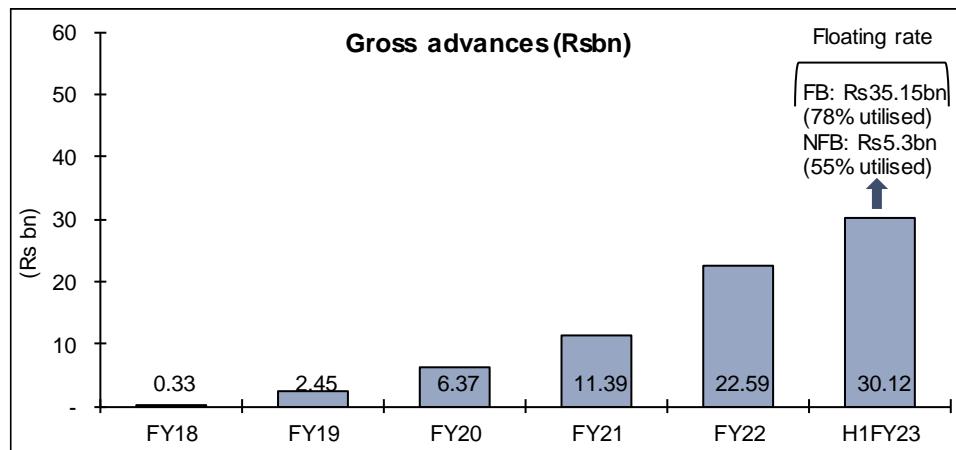


Source: Company data, I-Sec research

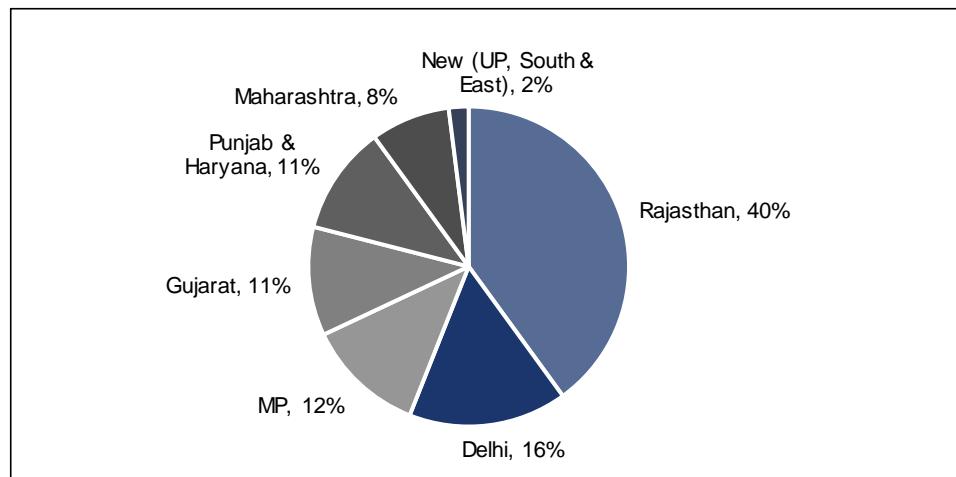
**Chart 35: GNPL has never crossed 1% and credit cost is negligible since inception**



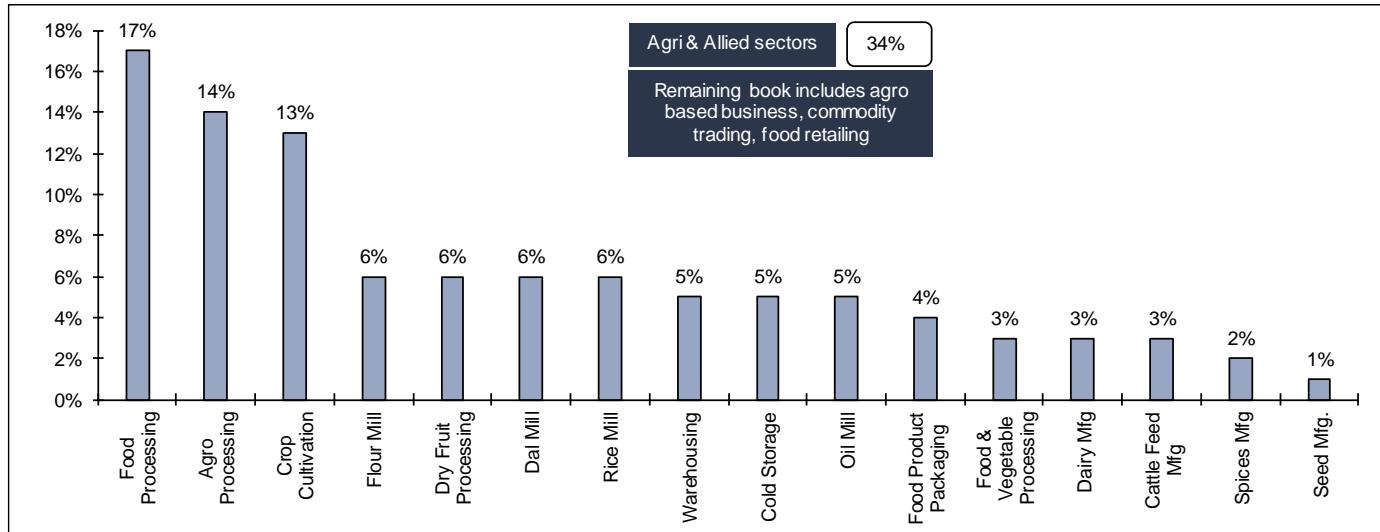
Source: Company data, I-Sec research

**Chart 36: Agri Banking - Strong growth over the years...**

Source: Company data, I-Sec research

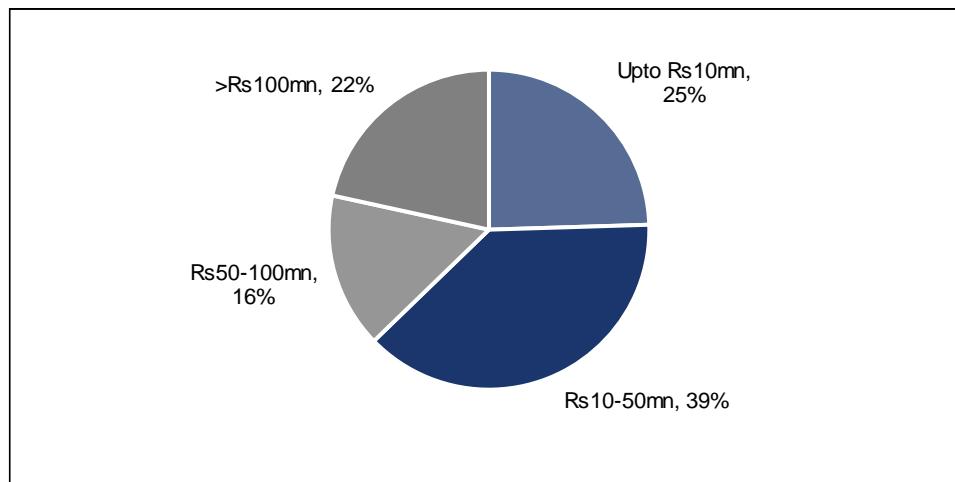
**Chart 37: ...well diversified with non-RJ book contributing 60% of the portfolio**

Source: Company data, I-Sec research

**Chart 38: Industry-wise exposure – Food processing contributed highest 17% to total Agri portfolio**

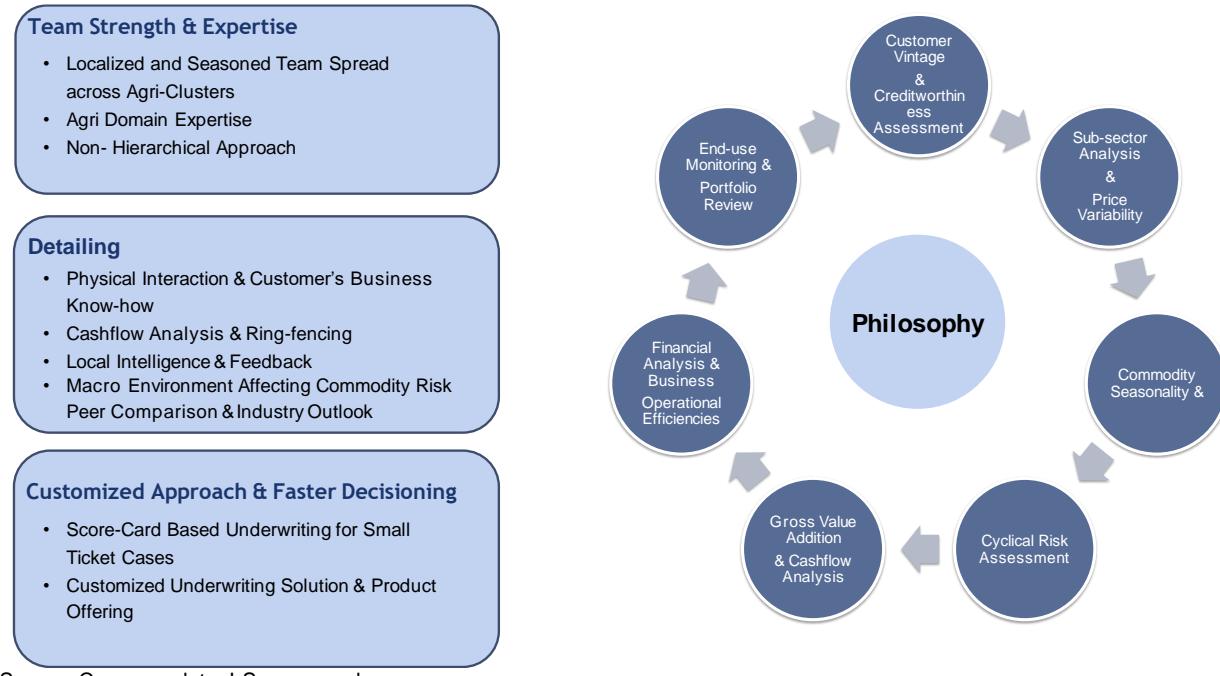
Source: Company data, I-Sec research

**Chart 39: Granular fund-based portfolio with >60% portfolio towards <Rs50mn ticket-size**



Source: Company data, I-Sec research

**Chart 40: Stringent credit assessment...**



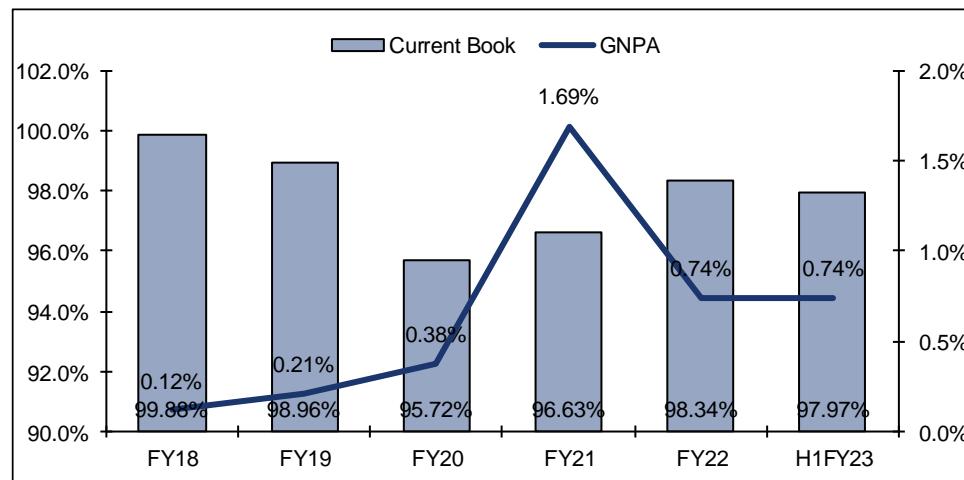
Source: Company data, I-Sec research

**Chart 41: ... coupled with detailed Portfolio monitoring ensured better asset quality in Agri book as compared to peers**

Portfolio Monitoring	
<ul style="list-style-type: none"> <li>Dealing Seasonality Through <b>Product Offering</b> (Peak/Lean Seasons)</li> <li>Monitoring of <b>Agri Commodity Prices &amp; Climatic Conditions</b></li> <li><b>Macro</b> Environment Affecting Commodity Risk</li> <li><b>Cashflow</b> Routing</li> <li><b>Periodic Review &amp; Regular Client Visits</b></li> <li><b>Risk Identification</b> Through EWS Monitoring</li> </ul>	

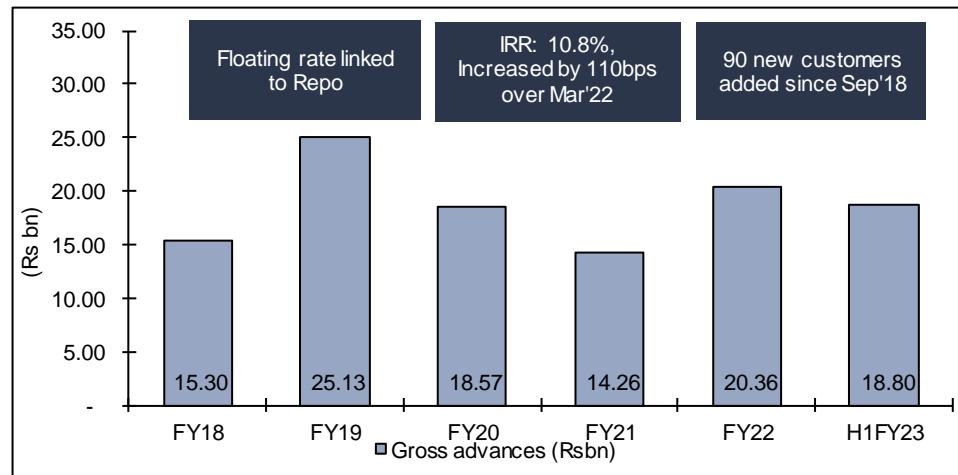
Source: Company data, I-Sec research

**Chart 42: Steady GNPL at 0.74% since past 1.5 years**



Source: Company data, I-Sec research

**Chart 43: Calibrated growth in NBFC lending book**



Source: Company data, I-Sec research

Chart 44: Exposure towards NBFCs into secured lending is ~78%

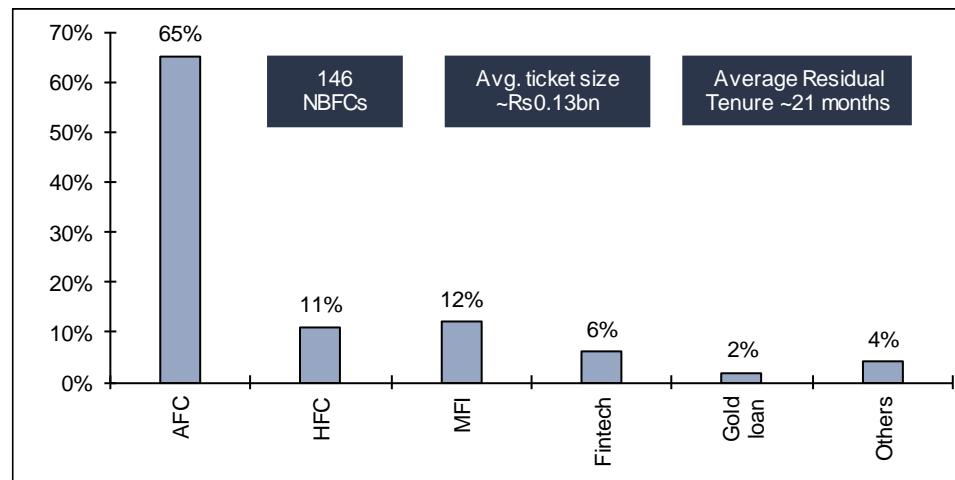
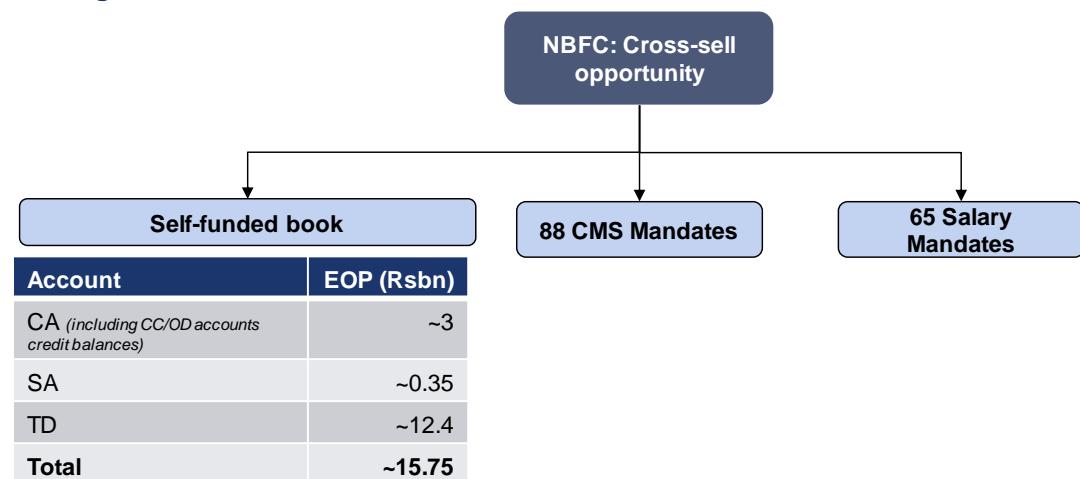


Table 3: 90% exposure towards investment grade NBFCs – of which, 62% is towards A and above rating

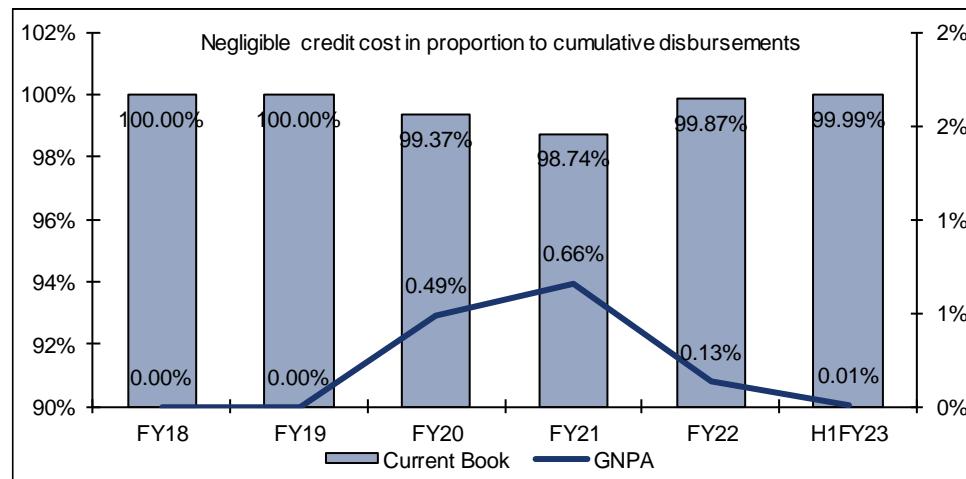
Credit Rating	Gross Advances (Rs bn)	Percentage
Investment grade	16.91	90%
AAA	0.56	3%
AA	1.85	10%
A	9.29	49%
BBB	5.2	28%
Unrated and others	1.89	10%
Total	18.8	

Source: Company data, I-Sec research

Chart 45: Strong and steady cross-selling opportunities arising out of NBFC lending business

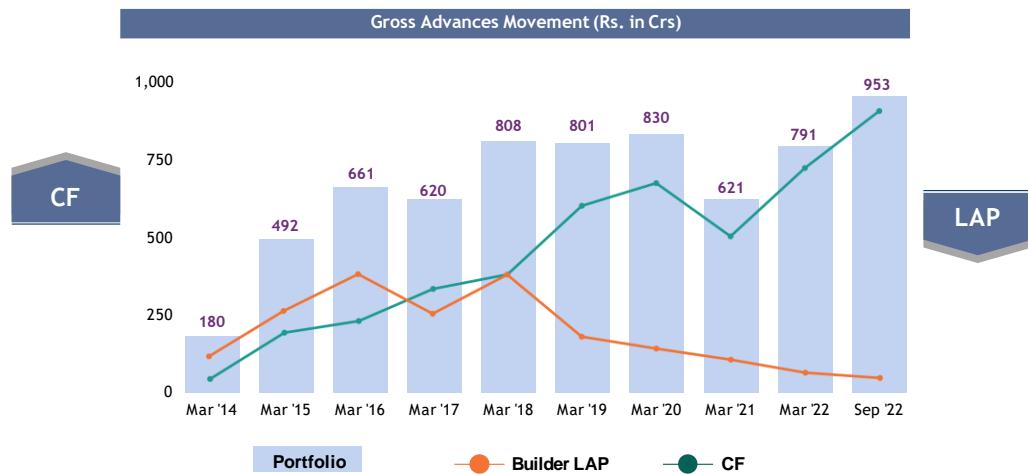


**Chart 46: Asset quality performance has been superior with negligible credit cost**



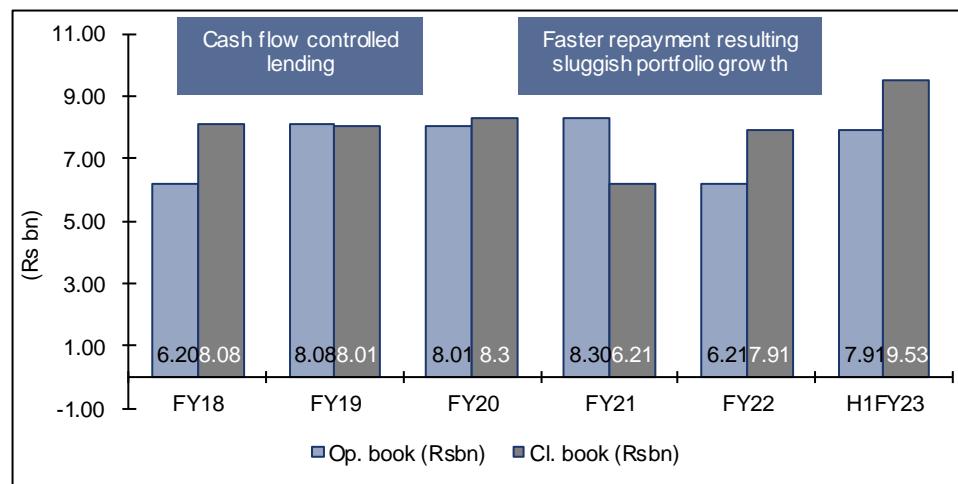
Source: Company data, I-Sec research

**Chart 47: Real estate financing – relatively low base (~2% of total advances as on March'22) and cyclical recovery RE segment...**



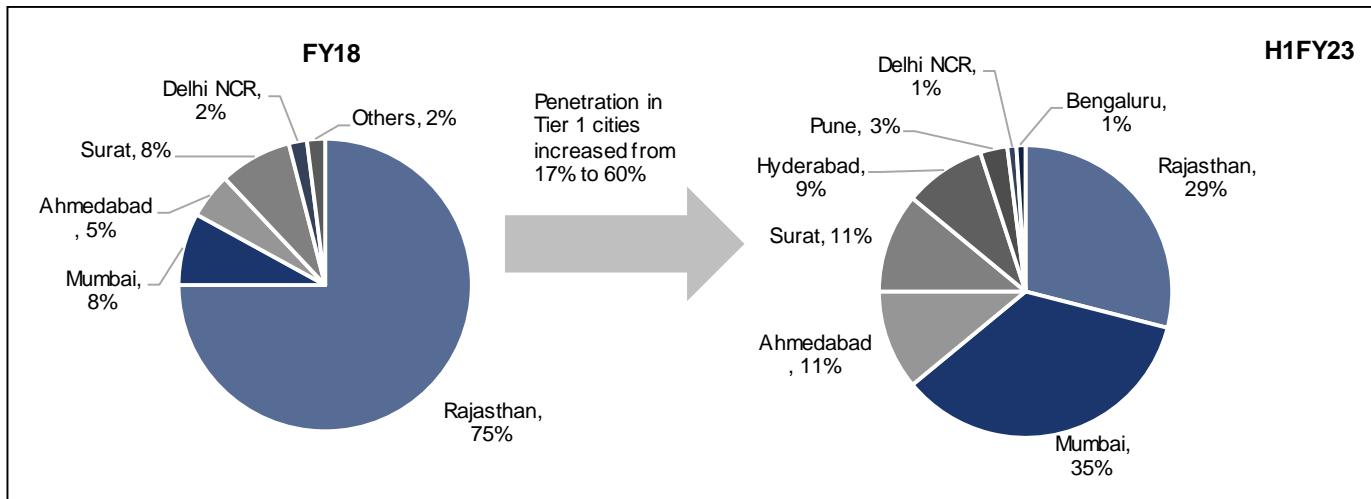
Source: Company data, I-Sec research

**Chart 48: ...resulted in strong Rs6.3bn disbursements (~74% of disbursements in FY21)**



Source: Company data, I-Sec research

Chart 49: Geographical diversification leading to improving concentration risk



Source: Company data, I-Sec research

Chart 50: Portfolio feature

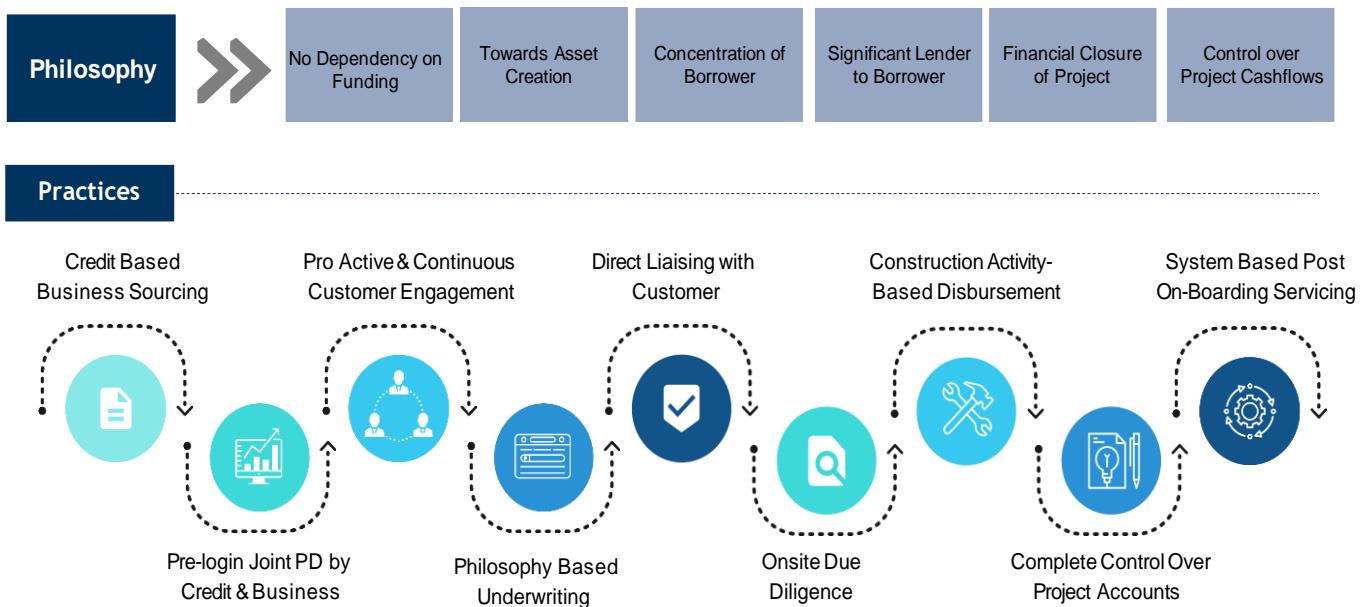
Affordable housing projects 42%	Top 10 customers 22% exposure (18 projects)	Active RERA Projects 173 (92% of portfolio)
Average RERA Project ticket size Rs0.14bn	Average retail ticket size Rs9mn	Average loan lifecycle 2.5 years

Synergy with liability	
Account	EOP (Rsbn)
CA incl. RERA (including CC/OD accounts credit balances)	~0.75
SA	~0.05
TD	~0.35
<b>Total</b>	<b>~1.15</b>

Activities	Avg. quarterly volumes
NOC Issuance	~1,000+
Escrow Transfers	~3,500+
Subsequent Tranches	~350+

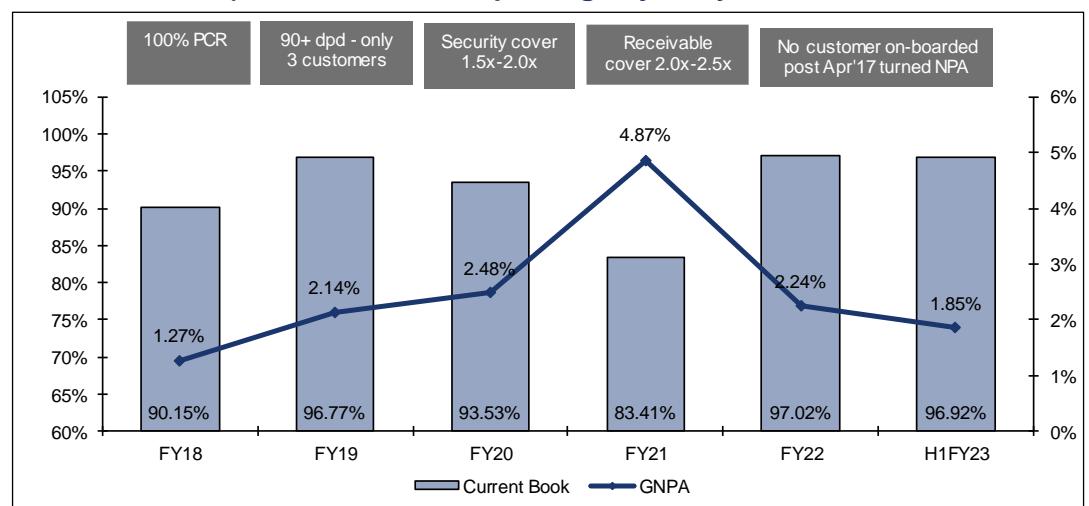
Source: Company data, I-Sec research

### Chart 51: Cashflow based lending with focus on control over project cashflows



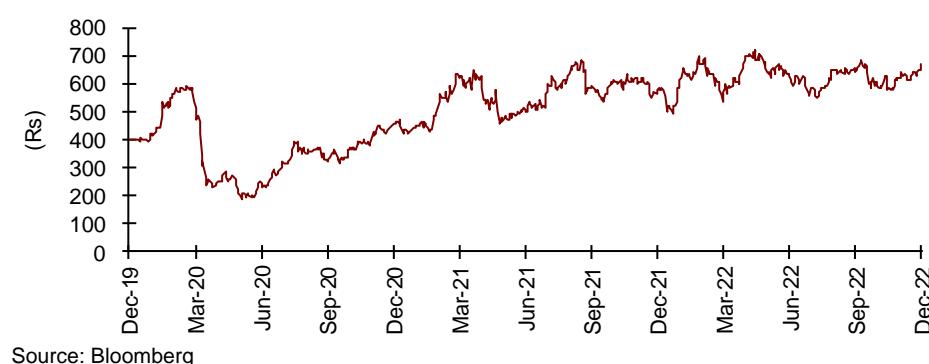
Source: Company data, I-Sec research

### Chart 52: GNPL after peaking in FY21 (also due to base effect as the book declined in FY21) has been on an improving trajectory



Source: Company data, I-Sec research

### Price chart



Source: Bloomberg

## Financial summary

**Table 4: Profit and Loss statement**

(Rs mn, year ending March 31)

	FY20	FY21	FY22	FY23E	FY24E
Interest earned	42,864	49,501	59,217	81,589	97,723
Interest expended	23,769	25,846	26,876	37,263	45,846
<b>Net interest income</b>	<b>19,094</b>	<b>23,654</b>	<b>32,341</b>	<b>44,327</b>	<b>51,878</b>
<b>Other income</b>	<b>7,061</b>	<b>14,515</b>	<b>9,937</b>	<b>10,423</b>	<b>14,095</b>
Staff cost	7,596	9,802	13,789	18,878	22,009
Depreciation	767	920	-	-	-
Other operating expenses	5,816	5,862	10,339	15,577	15,524
<b>Total operating cost</b>	<b>14,179</b>	<b>16,584</b>	<b>24,128</b>	<b>34,455</b>	<b>37,533</b>
<b>Pre-provisioning op profit</b>	<b>11,977</b>	<b>21,586</b>	<b>18,150</b>	<b>20,295</b>	<b>28,439</b>
Provisions & contingencies	2,832	7,001	3,610	2,802	4,763
<b>Profit before tax &amp; exceptional items</b>	<b>9,145</b>	<b>14,585</b>	<b>14,541</b>	<b>17,493</b>	<b>23,676</b>
Exceptional items	-	-	-	-	-
<b>Profit before tax &amp; exceptional items</b>	<b>9,145</b>	<b>14,585</b>	<b>14,541</b>	<b>17,493</b>	<b>23,676</b>
Income taxes	2,392	2,878	3,242	4,374	5,920
<b>PAT</b>	<b>6,753</b>	<b>11,707</b>	<b>11,298</b>	<b>13,119</b>	<b>17,756</b>

Source: Company data, I-Sec research

**Table 5: Balance sheet**

(Rs mn, year ending March 31)

	FY20	FY21	FY22	FY23E	FY24E
Capital	3,041	3,122	3,122	6,302	6,302
Reserves & surplus	40,727	59,630	72,018	1,00,342	1,18,098
<b>Net worth</b>	<b>43,768</b>	<b>62,752</b>	<b>75,140</b>	<b>1,06,644</b>	<b>1,24,400</b>
<b>Total borrowings</b>	<b>3,64,983</b>	<b>4,30,087</b>	<b>5,85,754</b>	<b>7,07,719</b>	<b>8,48,992</b>
Banks	66,854	56,238	47,926	47,099	37,935
NCDs/Bonds	18,250	7,030	5,991	5,887	-
Commercial papers/CDs	18,250	7,030	5,991	5,887	-
Term Deposits & CASA	2,61,630	3,59,790	5,25,846	6,48,845	8,11,057
Provisions	7,115	7,115	7,115	7,115	7,115
Other Liabilities	5,555	15,956	22,769	21,881	26,258
<b>Total liabilities &amp; stockholders' equity</b>	<b>4,21,431</b>	<b>5,15,913</b>	<b>6,90,778</b>	<b>8,43,359</b>	<b>10,06,765</b>
<b>Loans &amp; advances</b>	<b>2,69,924</b>	<b>3,46,089</b>	<b>4,60,953</b>	<b>5,64,525</b>	<b>7,05,656</b>
Investments	1,06,682	1,08,154	1,53,065	2,08,436	2,02,764
Cash and Balance	33,697	47,813	59,285	49,540	72,995
Fixed Assets	4,480	4,824	6,226	7,229	8,314
Current & other assets	6,648	9,033	11,250	13,629	17,036
<b>Total Assets</b>	<b>4,21,431</b>	<b>5,15,913</b>	<b>6,90,778</b>	<b>8,43,359</b>	<b>10,06,765</b>

Source: Company data, I-Sec research

**Table 6: Key ratios**

	FY20	FY21	FY22	FY23E	FY24E
<b>Growth (%):</b>					
AUM	29.0	23.4	25.6	22.9	25.0
Loan book (on balance sheet)	19.0	28.4	24.1	29.7	25.0
Total Assets	29.2	22.4	33.9	22.1	19.4
Total Deposits	34.7	37.5	46.2	23.4	25.0
Total NDTL	30.2	17.8	36.2	20.8	20.0
Total Investments	49.0	1.4	41.5	36.2	-2.7
Interest Income	45.4	15.5	19.6	37.8	19.8
Interest Expenses	48.0	8.7	4.0	38.6	23.0
Net Interest Income (NII)	42.3	23.9	36.7	37.1	17.0
Non-interest income	52.8	105.6	-31.5	4.9	35.2
Net Income	45.0	45.9	10.8	29.5	20.5
Total Non-Interest Expenses	39.3	0.8	76.4	50.7	-0.3
Pre provisioning operating profits (PPoP)	65.9	80.2	-15.9	11.8	40.1
PAT	76.9	73.4	-3.5	16.1	35.3
EPS	65.7	73.4	-3.5	16.1	35.3
CA	3.0	46.5	57.4	25.4	20.0
SA	6.6	148.5	156.5	43.8	20.0
Time deposits	48.9	29.8	20.8	18.1	28.7
<b>Yields, interest costs and spreads (%)</b>					
NIM on AUM	5.2	5.2	5.5	5.9	5.8
Yield on loan assets	13.7	12.8	12.1	13.1	13.0
Average cost of funds	7.4	6.0	4.6	5.3	5.4
Interest Spread on loan assets	6.3	6.8	7.5	7.8	7.6
<b>Operating efficiencies</b>					
Non interest income as % of net income	37.0	61.4	30.7	23.5	27.2
Cost to income ratio (%)	54.2	43.4	57.1	62.9	56.9
Op.costs/avg AUM (%)	3.8	3.5	4.0	4.5	4.1
No of employees	17112	22484	23435	24435	25435
Average annual salary (Rs '000)	443.9	435.9	588.4	772.6	865.3
Salaries as % of non-int.costs (%)	53.6	59.1	57.2	54.8	58.6
AUM/employee(Rs mn)	24.0	22.3	28.7	33.7	38.6
Number of asset branches	31	51	71	91	0
<b>Balance Sheet Structure</b>					
Loans/ deposits (%)	103.2	96.2	87.7	87.0	87.0
Loans/ Total assets	64.0	67.1	66.7	66.9	70.1
Loans/NDTL	74.0	80.5	78.7	79.8	83.1
CA% of NDTL	3.1	3.8	4.4	4.6	4.6
SA% of NDTL	7.3	15.4	29.1	34.6	34.6
CASA% of NDTL	10.4	19.2	33.5	39.2	39.2
Total deposits as % of NDTL	71.7	83.7	89.8	91.7	95.5
<b>Capital Structure</b>					
Leverage (x)	6.2	5.5	6.1	5.3	5.7
CAR (%)	22.0	22.0	21.0	23.4	21.2
Tier 1 CAR (%)	18.4	19.2	19.7	20.7	18.4
Tier 2 CAR (%)	3.6	2.8	1.3	2.8	2.8
Tier 1 Capital (Rs mn)	41,320	56,477	67,626	95,980	1,05,740
Tier 2 Capital (Rs mn)	8,180	8,087	4,939	12,756	15,781
RWA (Rs mn)	2,25,100	2,94,070	3,79,928	4,63,848	5,73,856
<b>Asset quality and provisioning</b>					
GNPA (%)	2.1	3.1			
NNPA (%)	1.7	4.3	2.0	2.0	2.0
GNPA (Rs mn)	0.8	2.2	0.5	0.5	0.4
NNPA (Rs mn)	4578	15028	9244	11290	14113
Coverage ratio (%)	2173	7555	2308	2823	2823
Credit costs as % of average AUM	52.5	49.7	75.0	75.0	80.0
	1.1	2.3	0.9	0.5	0.8
<b>Return ratios</b>					
RoAA (%)	1.8	2.5	1.9	1.7	1.9
RoAE (%)	17.9	22.0	16.4	14.4	15.4
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0

	FY20	FY21	FY22	FY23E	FY24E
<b>Valuation Ratios</b>					
EPS (Rs)	11.1	18.7	18.0	20.8	28.2
EPS fully diluted (Rs)	11.1	18.7	18.0	20.8	28.2
Price to Earnings	56.1	33.3	34.6	30.0	22.2
Price to Earnings (fully diluted)	56.1	33.3	34.6	30.0	22.2
Book Value (fully diluted)	72	100	120	169	197
Adjusted book value (fully diluted)	69	91	117	166	194
Price to Book	8.7	6.2	5.2	3.7	3.2
Price to Adjusted Book	9.0	6.8	5.3	3.8	3.2
DPS	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-

Source: Company data, I-Sec research

**Table 7: DuPont analysis (on average AUM)**

(%)	FY20	FY21	FY22	FY23E	FY24E
Interest earned	11.5	10.6	9.8	10.6	10.6
Interest expended	6.4	5.5	4.5	4.9	5.0
<b>Gross Interest Spread</b>	<b>5.1</b>	<b>5.0</b>	<b>5.4</b>	<b>5.8</b>	<b>5.6</b>
Credit cost	0.8	1.5	0.6	0.4	0.5
<b>Net Interest Spread</b>	<b>4.4</b>	<b>3.6</b>	<b>4.8</b>	<b>5.4</b>	<b>5.1</b>
Operating cost	3.8	3.5	4.0	4.5	4.1
<b>Lending spread</b>	<b>0.6</b>	<b>0.0</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>
Non-interest income	1.9	3.1	1.6	1.4	1.5
<b>Operating spread</b>	<b>2.4</b>	<b>3.1</b>	<b>2.4</b>	<b>2.3</b>	<b>2.6</b>
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Final Spread</b>	<b>2.4</b>	<b>3.1</b>	<b>2.4</b>	<b>2.3</b>	<b>2.6</b>
<i>Tax rate (%)</i>	0.6	0.6	0.5	0.6	0.6
<b>ROAAUM</b>	<b>1.8</b>	<b>2.5</b>	<b>1.9</b>	<b>1.7</b>	<b>1.9</b>
Effective leverage (AAUM/ AE)	9.9	8.8	8.8	8.4	8.0
<b>RoAE</b>	<b>17.9</b>	<b>22.0</b>	<b>16.4</b>	<b>14.4</b>	<b>15.4</b>

Source: Company data, I-Sec research

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#### **ANALYST CERTIFICATION**

I/We, *Renish Bhuva, CFA (ICFAI); Kunal Shah, CA; Chintan Shah, CA; Vishal Singh, MBA* authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

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