

AU Small Finance Bank Limited

REDUCE

CMP Rs791

Target Rs700

Downside 11.5%

HIGHLIGHTS

- ✓ AU delivered a better-than-expected operating performance adjusted for the huge treasury income (Rs1.58bn), gains on partial stake sale in Aavas (Rs270m) and large covid provisions (Rs1.4bn). PPOP was 15% higher versus our estimate.
- ✓ AUM shrank 3% qoq and annual growth moderated to 17% (27% in FY20). Disbursement were down 70% yoy; included significant portion of funds provided under TLTRO at lower yields. Wheels and NBFC book saw a notable qoq decline.
- ✓ While AUM IRR was stable and CoF witnessed a steep decline, the NIM (calc.) came-off sequentially due to decline in LDR, increase in BS liquidity and lower incremental yield on funds.
- ✓ Structurally, the deposit franchise is taking good shape with accelerated traction in SA and Retail TDs. Cost of funds fell 30 bps qoq, also supported by TLTRO opportunity.
- ✓ Core fees (-74% qoq/-66% qoq) and operating expenses (-30% qoq/-6% yoy) stood much below expectations primarily on substantially lower loan originations.
- ✓ Complete moratorium has been availed by 11% borrowers by value as on 30 June. Full EMI recovery improved to 67% in June from 53% in April.
- ✓ Collection efficiency was 90% in June including some arrears of preceding months being received. Total covid-related provisions stand at Rs2.8bn, near 1% of loan book.

Our View

- ✓ Though management expects collections to further improve in July-August, we believe delinquencies could spike as certain applications/occupations in retail portfolio may take longer time to revive.
- ✓ Downgrade from BUY to Reduce as the recent sharp rerating (trades at 4.6x FY22 P/ABV) assumes a rather smooth sailing through the pandemic. Equity raising (not factored by us) could support price.

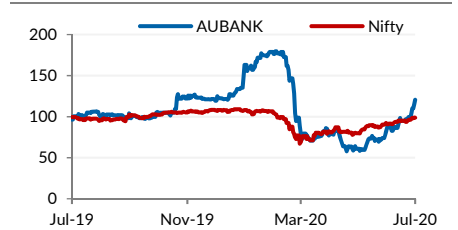
Risk to our call

- ✓ Quicker flattening of Covid and arresting of its spread

Stock data (as on Jul 24, 2020)

Nifty	11,194
52 Week h/l (Rs)	1218 / 366
Market cap (Rs/USD mn)	242460 / 3240
Outstanding Shares (mn)	306
6m Avg t/o (Rs mn):	662
Div yield (%):	-
Bloomberg code:	AUBANK IN
NSE code:	AUBANK

Stock performance



	1M	3M	1Y
Absolute return	40.6%	52.7%	25.0%

Shareholding pattern

Promoter	31.0%
FII+DII	44.1%
Others	24.9%

Δ in earnings estimates

	FY20e	FY21e	FY22e
EPS (New)	22.2	18.3	32.3
EPS (Old)	22.2	19.3	36.0
% change	-	(5.1)	(10.3)

Exhibit 1: Financial Summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	18,047	26,150	28,675	36,522
yoy growth (%)	35.9	44.9	9.7	27.4
PPOP	7,221	11,972	13,646	17,435
Net profit	3,820	6,748	5,567	9,819
yoy growth (%)	30.9	76.7	(17.5)	76.4
EPS (Rs)	13.1	22.2	18.3	32.3
ABV (Rs)	98.1	136.7	144.2	174.2
P/E (x)	60.5	35.6	43.2	24.5
P/adj.BV (x)	8.1	5.8	5.5	4.5
ROE (%)	14.0	17.9	12.0	18.1
ROA (%)	1.5	1.8	1.2	1.7

Source: Company, YES Sec - Research

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Exhibit 2: Result Table

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Total Operating Income	11,841	11,835	0.1	9,574	23.7
Interest expended	(6,683)	(6,285)	6.3	(5,618)	18.9
Net Interest Income	5,159	5,549	(7.0)	3,956	30.4
Other income	2,258	1,831	23.3	2,109	7.0
Total Income	7,416	7,381	0.5	6,065	22.3
Operating expenses	(2,961)	(4,223)	(29.9)	(3,157)	(6.2)
PPOP	4,456	3,158	41.1	2,908	53.2
Provisions	(1,813)	(1,506)	20.4	(315)	475.1
PBT	2,643	1,652	60.0	2,593	1.9
Tax	(635)	(429)	48.1	(690)	(7.9)
PAT	2,008	1,223	64.2	1,903	5.5

Source: Company, YES Sec – Research

Exhibit 3: Business Data

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
AUM	300,440	308,930	(2.7)	256,100	17.3
Retail	251,680	258,920	(2.8)	201,210	25.1
Wheels	124,310	129,850	(4.3)	108,120	15.0
SBL MSME	112,580	112,870	(0.3)	85,090	32.3
HL	5,630	5,670	(0.7)	2,050	174.6
Others	9,160	10,530	(13.0)	5,950	53.9
SMC	45,680	49,760	(8.2)	51,890	(12.0)
NBFC	15,090	18,560	(18.7)	25,790	(41.5)
Real Estate	7,950	8,260	(3.8)	8,010	(0.7)
Business Banking	10,710	10,810	(0.9)	8,070	32.7
Deposits	267,340	261,640	2.2	198,490	34.7
CA	8,240	11,140	(26.0)	7,660	7.6
SA	30,450	26,730	13.9	26,380	15.4
TD	209,620	200,810	4.4	146,560	43.0
CD	19,030	22,960	(17.1)	17,890	6.4
Investments	113,740	106,680	6.6	83,830	35.7
Borrowings	114,540	103,350	10.8	90,070	27.2

Source: Company, YES Sec – Research

Exhibit 4: Key Ratios

(%)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	chq yoy
NIM *	4.9	5.7	(0.8)	4.9	(0.0)
Portfolio Yield	14.6	14.7	(0.1)	14.5	0.1
Cost of Funds	7.2	7.5	(0.3)	7.9	(0.7)
CASA *	15.6	15.9	(0.3)	18.8	(3.3)
C/D	98.2	103.2	(5.0)	116.4	(18.2)
Cost to Income	41.4	57.9	(16.5)	59.6	(18.2)
Opex/ATA *	2.7	4.2	(1.5)	3.8	(1.1)
Gross NPA	1.7	1.7	0.0	2.1	(0.4)
Credit Cost	1.7	1.5	0.2	0.4	1.3
Net NPA	0.6	0.8	(0.2)	1.3	(0.6)
RoA	1.6	1.1	0.5	2.3	(0.7)
RoE	15.8	10.7	5.1	14.7	1.1
CAR	21.7	22.0	(0.3)	18.6	3.1

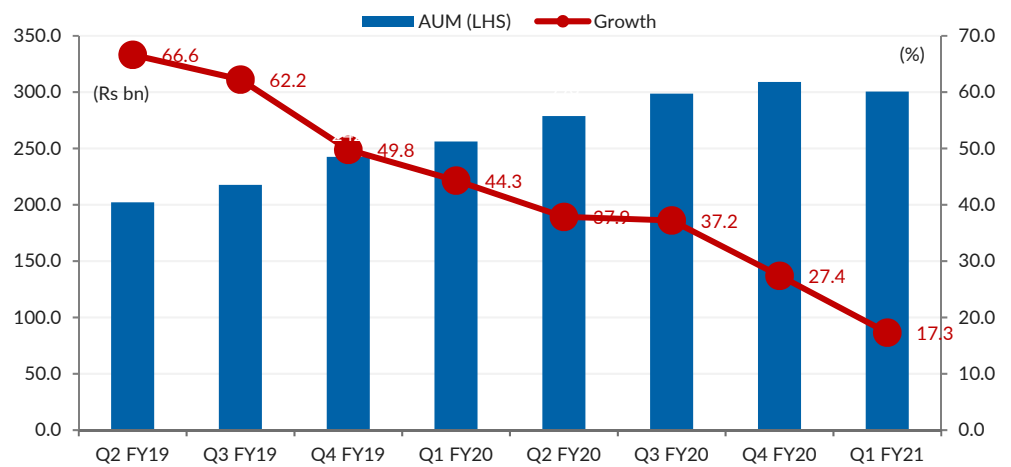
Source: Company, YES Sec – Research, *Calculated

Exhibit 5: Fee Income mix

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Loan assets & processing	150	860	(82.6)	670	(77.6)
Gen. Bking & deposits related	120	210	(42.9)	170	(29.4)
Cross-sell, distribtn & others	40	130	(69.2)	70	(42.9)
PSLC premium / fees	80	350	(77.1)	100	(20.0)
Income from treasury	1,580	130	1,115.4	290	444.8
Income from sale of shares *	270	87	210.3	771	(65.0)
Bad debt recovery	10	60	(83.3)	40	(75.0)

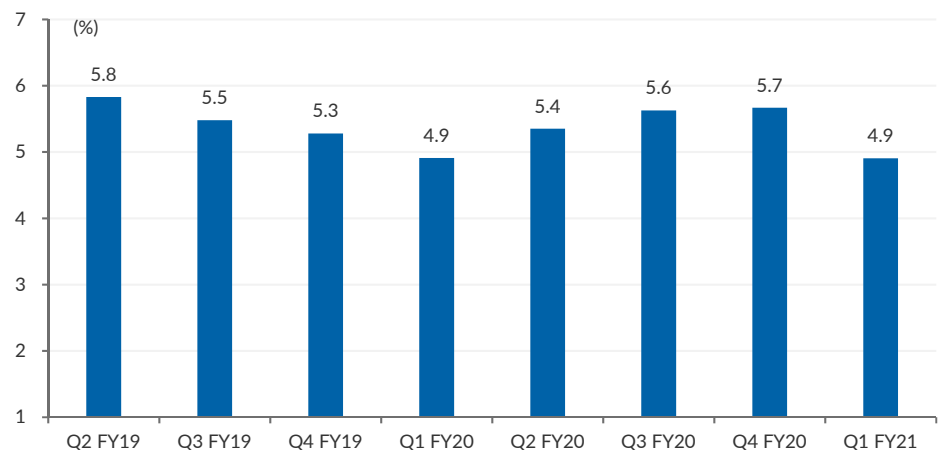
Source: Company, YES Sec – Research, * equity share sale in Aavas Financiers Ltd.

Exhibit 6: Covid significantly impacts AUM growth



Source: Company, YES Sec – Research

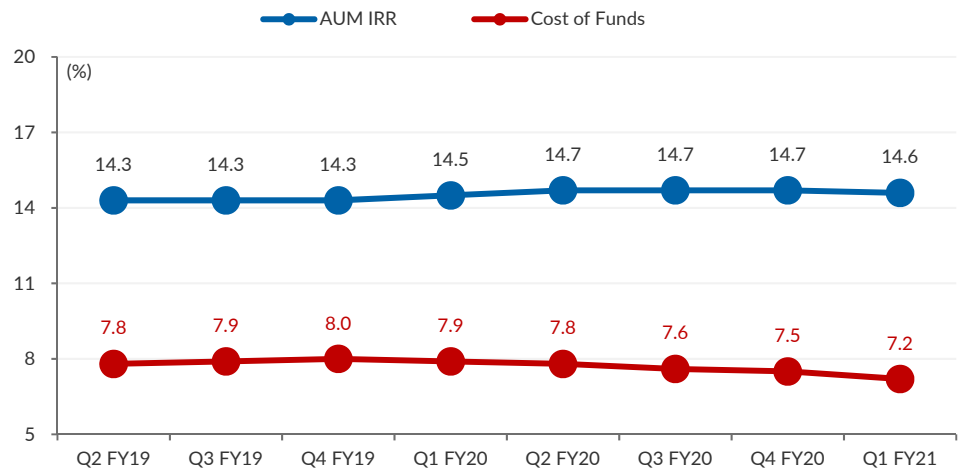
Exhibit 7: NIM (Calc.) impacted by decline in LDR, increase in BS liquidity and lower incremental yield on funds



Source: Company, YES Sec – Research

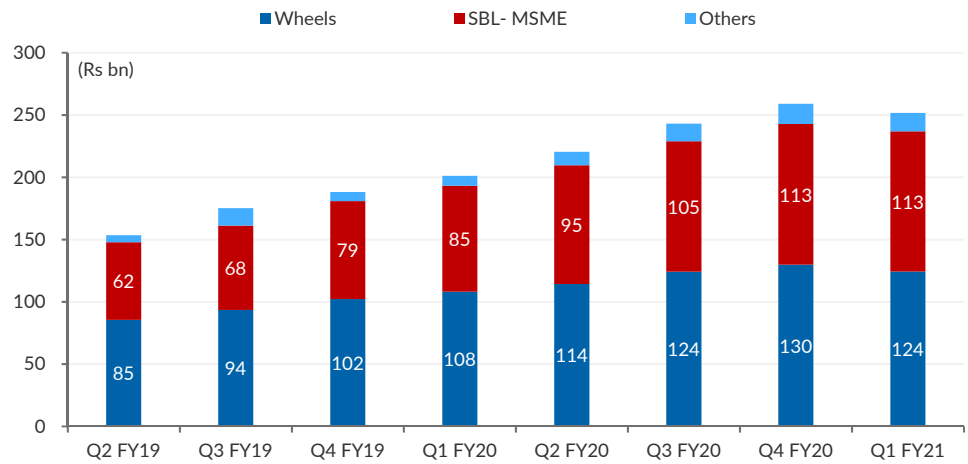
AU Small Finance Bank Limited

Exhibit 8: AUM IRR stable, while CoF witness a steep decline



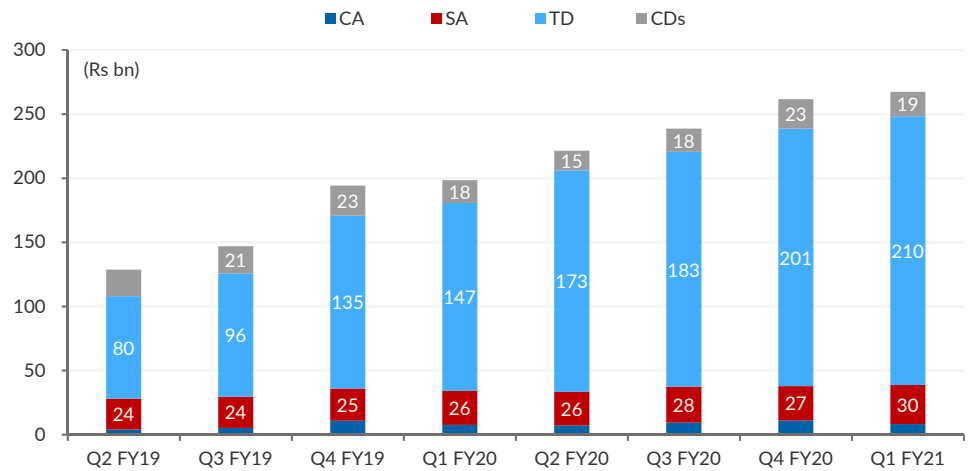
Source: Company, YES Sec - Research

Exhibit 9: Retail portfolio also contracts on sequential basis



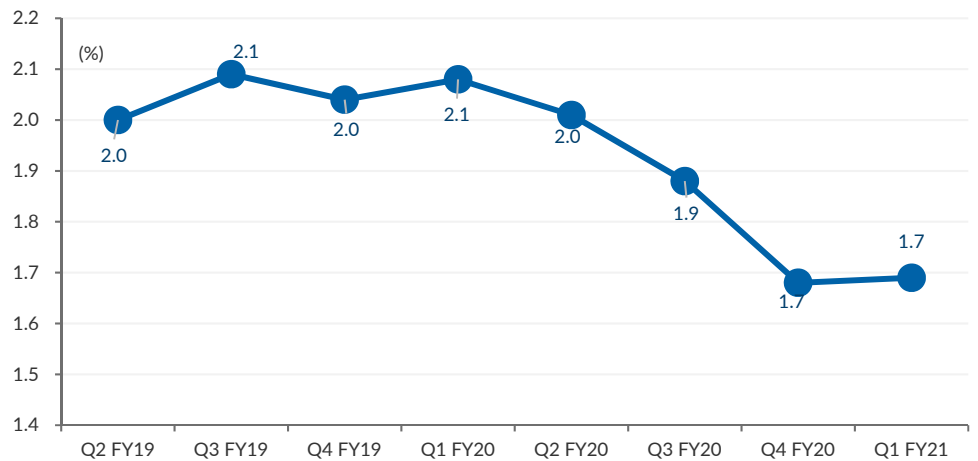
Source: Company, YES Sec - Research

Exhibit 10: Focus on granular CASA; robust mobilization of retail TDs



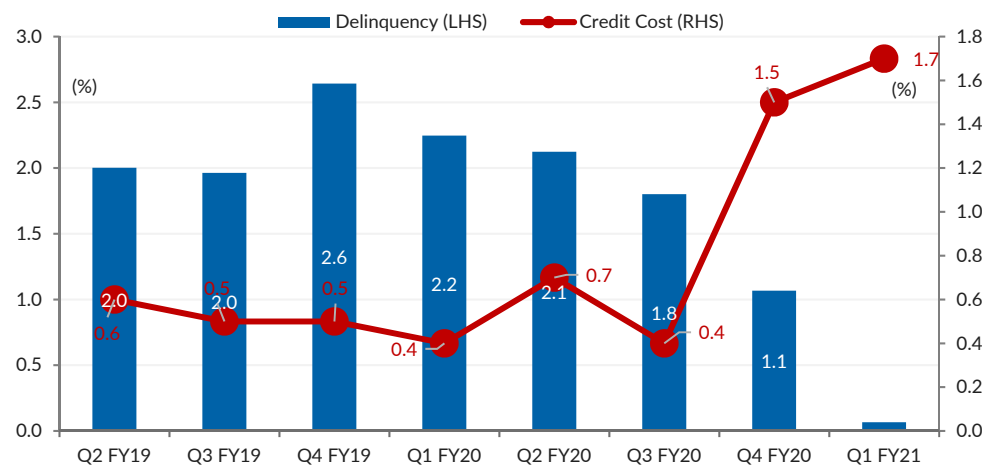
Source: Company, YES Sec - Research

Exhibit 11: GNPL stable; coverage increased significantly



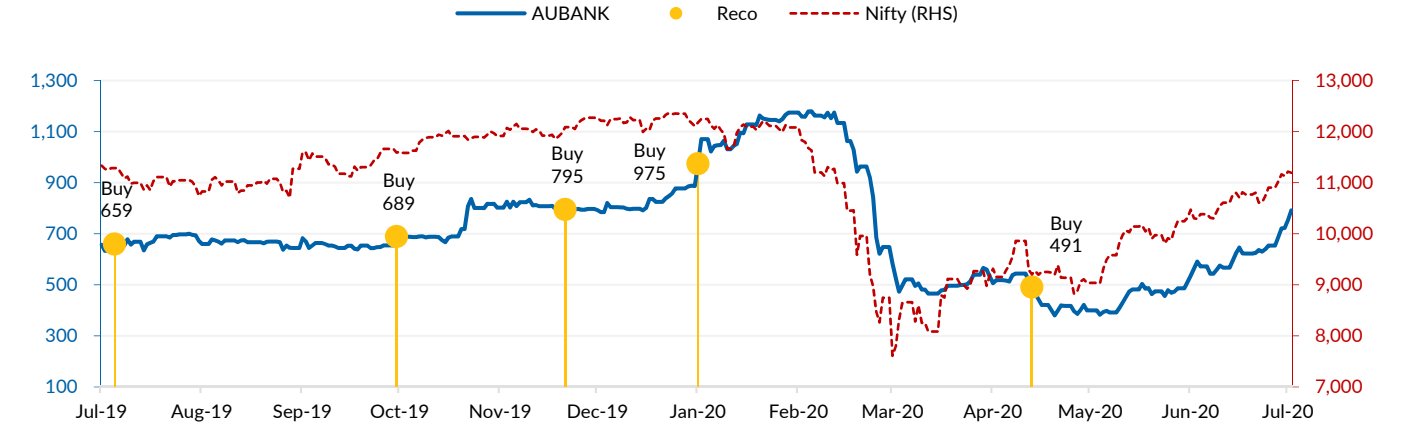
Source: Company, YES Sec - Research

Exhibit 12: Delinquencies decline due to moratorium; credit cost spikes on additional Covid provisioning



Source: Company, YES Sec - Research

Recommendation Tracker



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