

# AU Small Finance Bank

Refer to important disclosures at the end of this report

## Plans to mobilize growth capital; asset quality remains key monitorable

<b>CMP</b>	<b>Target Price</b>
Rs 1,233 as of (March 9, 2021)	Rs 1,000 (■) 12 months
<b>Rating</b>	<b>Upside</b>
HOLD (■)	(18.9) %

- According to media reports, AU Small Finance Bank (AU SFB) plans to raise ~Rs6.15bn-Rs6.32bn (US\$0.08bn-US\$0.09bn) at an indicative price band of Rs1,230-Rs1,265 vs. CMP of Rs1,231 (SEBI floor price: Rs1,181 per equity share). The issue will open on March 9 and close on March 10 by 8.30 am IST (with an option to close earlier).
- Despite lumpy stake sale in Aavas Financiers, AU SFB's Tier 1/CRAR ratio, ex-9M profit, dropped to 16.3%/18.8% in Q3 while including profits stood at 20%/23.5%, mainly due to a sharp rise in RWA. AU SFB's CAR is based on credit risk as the bank still enjoys the leeway to not maintain capital on operational/market risk. After the capital raise, Tier-1 ratio will increase by 244bps/251bps (based on Q3FY21 RWA).
- Though the capital ratios remain well above the regulatory requirement of 7.5%/15% even including operational/market risk-weighted assets, we believe the capital raise is primarily to fund future growth and also a preparatory measure to apply for Universal Banking license once it completes 5 years of operations as SFB in April 2022.
- The bank remains well-complied with promoter stake norm which stands at 28.5% and post capital raise should further reduce by ~0.5%. Unlike other SFBs, the bank does not have any holdco structure, and thus the journey toward a Universal Bank should be relatively smooth.
- In Q3, the bank had reported higher-than-expected pro forma GNPA at 3.3% vs. reported GNPA of 1%, mainly due to higher NPAs, majorly in the relatively vulnerable wheels/SBL portfolio. The bank has restructured 0.8% of loans till now, and expects the overall pool at 1.5% by Q4. However, it holds a healthy contingent provision buffer ex-RSA of Rs4bn (1.2% of AUM) and pro forma PCR of 62%, including specific provisions.
- We expect the bank to report healthy pre-money RoE of 23%/19%/20% over FY21/FY22/FY23, which post-money without factoring in the benefits of capital raised, should stand at 22%/17%/18%. At the higher QIP band of Rs1,265, the stock is valued at 5.3x FY23 ABV pre-money and 4.9x FY23 ABV post-money. Currently, we have a Hold rating on the stock, given rich valuations. Asset-quality movement too remains a key monitorable given its relatively vulnerable portfolio.

**Note:** Separately, WTD and Executive Director, Mr. Uttam Tibrewal, intends to sell 1mn shares (0.33% of pre-money o/s of bank shares/19% of his own holding) out of his current holding of 5.4mn shares, representing a 1.76% stake in the bank, due to personal commitment, after QIP.

**Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks](#)**

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## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 10 Mar 2021 12:52:12 (SGT)

Dissemination Date: 10 Mar 2021 12:53:12 (SGT)

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