



**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■
	+ Positive	= Neutral	- Negative

**What has changed in 3R MATRIX**

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

**ESG Disclosure Score** NEW

**ESG RISK RATING** **23.87**  
Updated Jan 08, 2022

**Medium Risk**

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

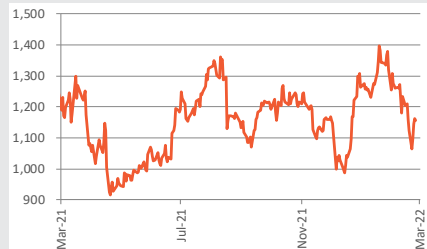
**Company details**

Market cap:	Rs. 36,494 cr
52-week high/low:	Rs. 1,421 / 910
NSE volume: (No of shares)	6.5 lakh
BSE code:	540611
NSE code:	AUBANK
Free float: (No of shares)	22.5 cr

**Shareholding (%)**

Promoters	28.3
FII	33.2
DII	20.0
Others	18.5

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-15.3	-0.2	0.6	-7.8
Relative to Sensex	-10.0	4.8	5.5	-16.8

Sharekhan Research, Bloomberg

**AU Small Finance Bank**  
Vehicle, home loans to steer growth

<b>Banks &amp; Finance</b>	<b>Sharekhan code: AUBANK</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 1,192</b>	<b>Price Target: Rs. 1,425</b> ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- In its analyst meet, AU Small Finance Bank highlighted its improved digital capabilities that helping it to deliver a superior customer performance and thus driving business growth. Earlier, the bank had formalised 10 strategic business units (SBUs) with independent leadership and which will operate as separate profit centres, driving growth. In the meet, the bank primarily focused on its two critical SBUs formed - Wheels and home loans.
- These two segments, which constitute ~37% and ~5% of the AUM respectively are key focus areas. The bank also reiterated a strong collection efficiency and credit capabilities in creating business assets.
- In the vehicle finance business, higher fuel prices and supply bottlenecks are near-term challenges. However, long-term growth levers remain intact with growth opportunities through expansion in new markets and customers. Though home loans contribute minimally to the AUM, it is one of the fast growing segments.
- At CMP, AUSFB is available at 4.2x/3.4x its FY2023E/FY2024E BPVS. The stock price has corrected by 16% from highs of Rs. 1,421 which offers a good buying opportunity from the lower levels. We maintain Buy on the stock with an unchanged PT of Rs. 1,425.

In its analyst meet, AU Small Finance Bank (AUSFB) highlighted key insights of its two strategic business units (SBUs) - Wheels and Housing Loans. The bank in its earlier communication had informed that it has divided its business into 10 SBUs with independent leadership. These will operate as a separate profit centres with an objective to drive growth. The bank reiterated its strong collection architecture and strong credit/underwriting capabilities in the aforesaid two business units. It intends to expand geographically beyond its core markets, deeper penetration and introduce new products which may aid growth in the long term. Additionally, AUSFB have been also taking initiatives for scaling up its digital footprint across its product range, which is also aiding its growth.

**Our Call**

**Valuation – We maintain a Buy with an unchanged PT of Rs. 1,425:** At CMP, AUSFB is available at 4.2x/3.4x its FY2023E/FY2024E BPVS. Factors such as AUSFB's long credit history and seasoned book are likely to support its asset quality and its superior return ratios and a long runway for growth are positives. With provision cover, helped by its strong underwriting track record, provides a cushion on profitability. However, its premium valuation as compared to its peers remains a constraint in valuation expansion. Further, the rising crude oil prices and persistent supply side issues is likely to affect its vehicle loan book and overall book. With augmented capital, the bank can move ahead to become a full-scale universal retail-focused bank adding to its products and features. We maintain Buy on the stock with an unchanged PT of Rs. 1,425

**Key Risks**

Deterioration in the asset quality owing to higher share in the risky segments and rising competition may affect yields.

**Valuation**

Particulars	FY21	FY22E	FY23E	FY24E
Net Interest Income	2,365	3,193	3,863	4,713
Net profit	1,170	1,094	1,302	1,588
EPS (Rs)	37.5	35.0	41.7	50.9
P/E (x)	31.1	33.3	28.0	22.9
BVPS (Rs)	198	233	278	339
P/BV (x)	5.9	5.0	4.2	3.4
RoE (%)	22.3	16.3	16.3	16.5
RoA (%)	2.5	1.9	1.9	1.8

Source: Company; Sharekhan estimates

## Key highlights:

### Wheels:

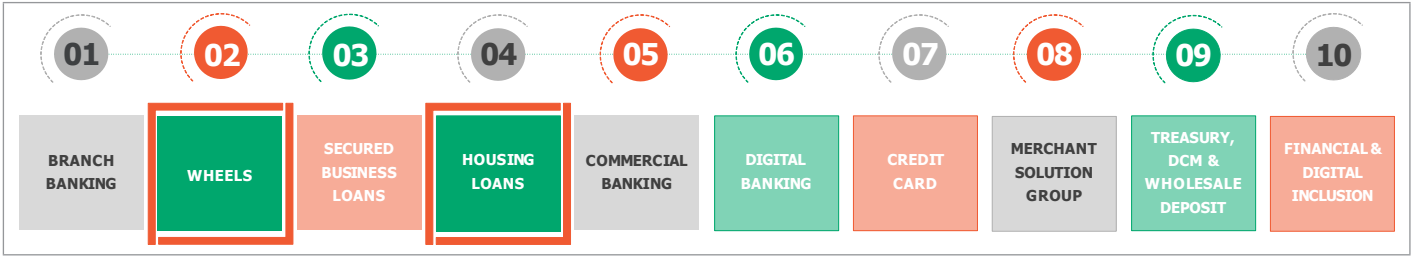
- ◆ Wheels business has remained its core for many years for the bank and only strengthened in its banking format.
- ◆ The bank expects the automobile industry to witness strong growth aided by strong push by the government.
- ◆ About 5 lakh electric cars are expected to be sold in FY2027.
- ◆ The CNG vehicle segment is making inroads with share of CV segment reaching to 19% in Dec'21 and PVs forming 7.6% in FY22.
- ◆ CAGR growth (FY21 to FY25E) in the business segments are expected at - New cars (10.3%), used cars (16%), Commercial vehicles (17%) and two wheelers (11.2%). While Tractor is expected to grow in single digits at 4.5% in FY21 through FY25.
- ◆ New car finance penetration is likely to reach 80% in FY25E from 77% in FY21 with non-metro mix to grow faster at mix of 45%: 55% non-metro to metro mix (from 35: 65 in FY21).
- ◆ The car density remains lower for India at 22 cars per thousand as of FY19 as compared to 200 cars per thousand in China, 479 cars per thousand in France and 750 cars per thousand in USA.
- ◆ Used car finance is pegged to grow by 35% in FY25 from 21% in FY21. More than 70% of used cars sales are below the price range of Rs. 5 lakh.
- ◆ Wheels business remained the core franchise for many years and has gained strength under banking format and forms ~37% of the book.
- ◆ The wheels book was relatively less affected by the pandemic and continues to grow with opportunities through expansion in the new markets, customers segments and gaining market share.
- ◆ Overall GNPA for wheels book was at 3.3% as on Dec'21.
- ◆ The partnership with the HDFC Bank had laid down foundation of strong credit and collections procedures within the bank.
- ◆ The bank foresees growth opportunity in used and new vehicles especially in the rural areas. It plans to grow and gain market share through increase its footprint in the newer geographies. It has most 42% touch points in Rajasthan signaling that the state is structurally safer market.

### Home loans:

- ◆ The real estate sector is expected to reach a size of \$1,000 billion by 2030 with a CAGR growth of 19% in 2020 to 2030. Housing sector is likely to contribute 13% to GDP by 2025. The contribution by the residential segment is ~80% to the total real estate sector.
- ◆ Overall home loans portfolio stood at Rs. 22.4 trillion and affordable home loans having ticket size of less than Rs. 35 lakh, stood at Rs. 13 trillion.
- ◆ The home loan business which constitutes ~5% of the AUM, although small but has witnessed strong growth. The product mix is 89% is housing portfolio and 11% is non housing portfolio.
- ◆ The customer profile is similar to the affordable housing players with average ticket size of Rs. 10.97 lakh, yields at 11.5% and 61% share is of self employed. GNPLs for the portfolio stood at 0.6% in December 2021.
- ◆ ~89% of the housing book is variable rate book linked to external benchmark.
- ◆ The management highlighted that 85% of the sourcing is done in-house with 70% is through direct sourcing with strong ground presence.

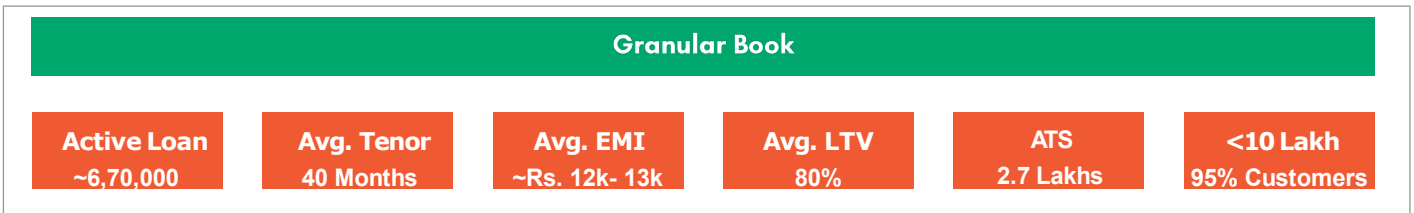
**Charts**

**Business divided into ten strategic business units**



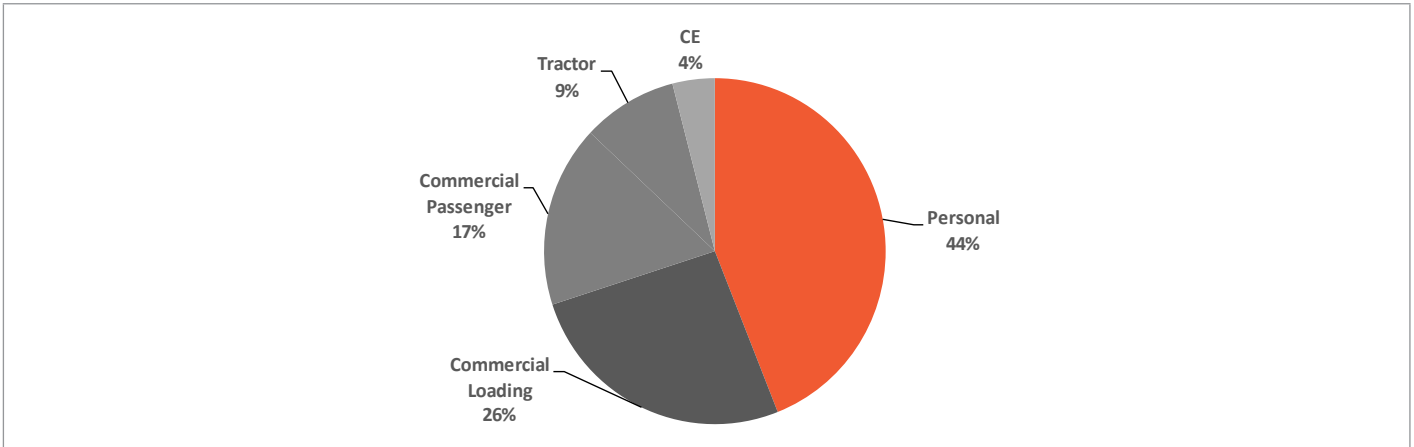
Source: Company; Sharekhan Research

**Wheels book**



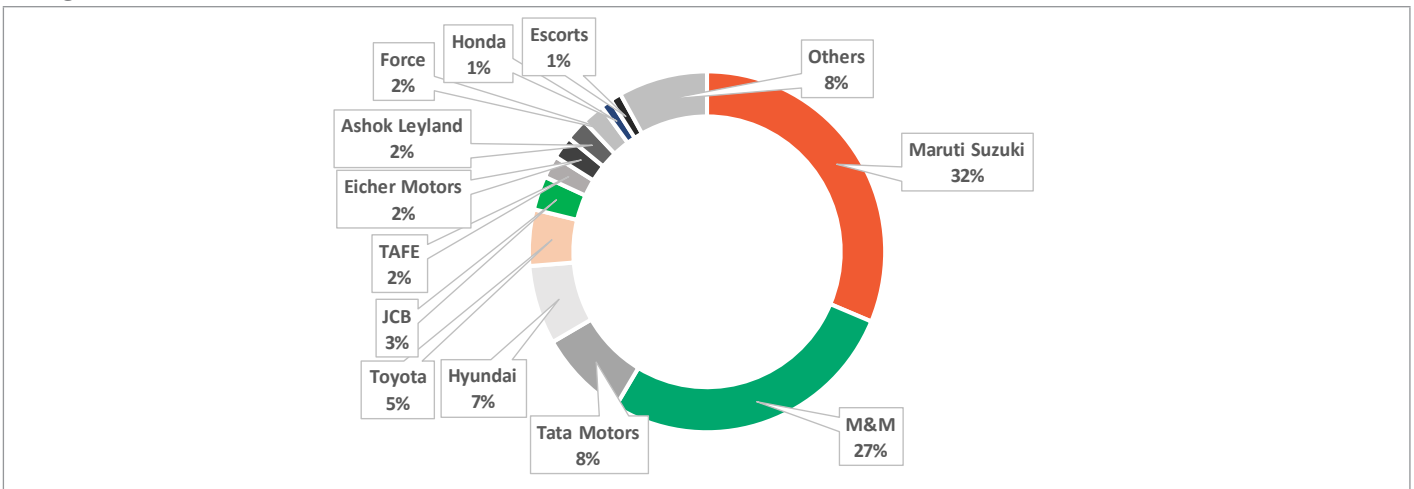
Source: Company; Sharekhan Research

**Category Wise Book (%)**



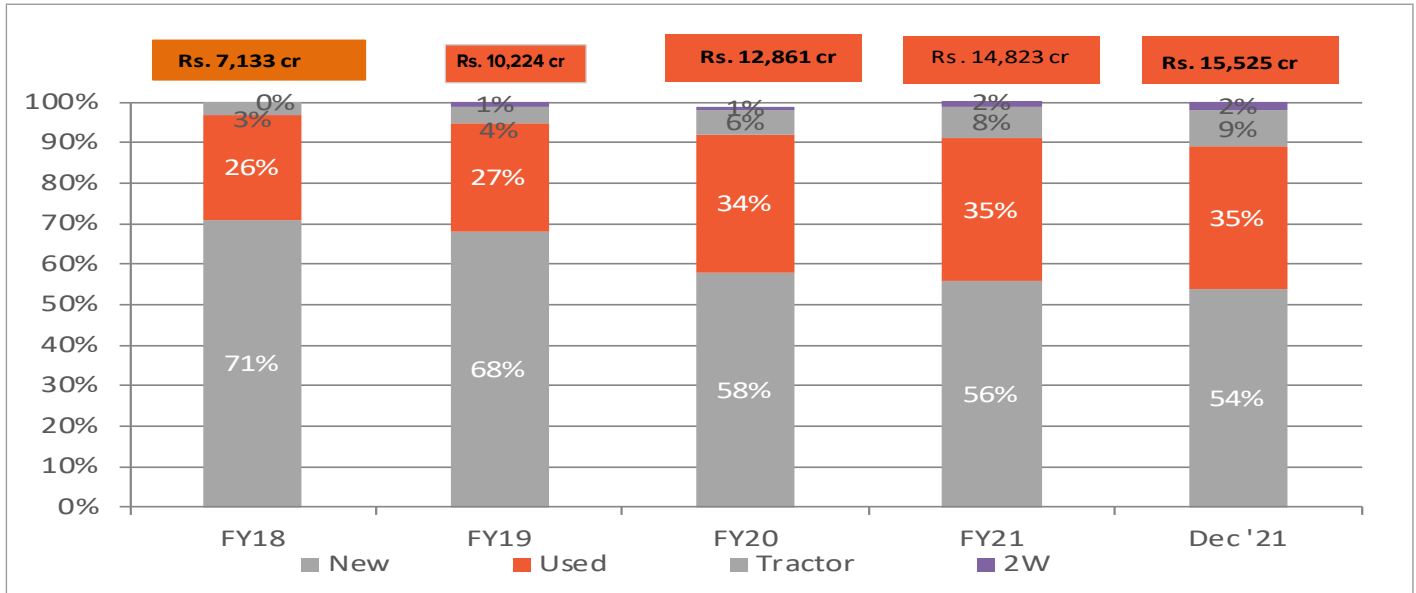
Source: Company; Sharekhan Research

**Strong OEMs dominate the book**



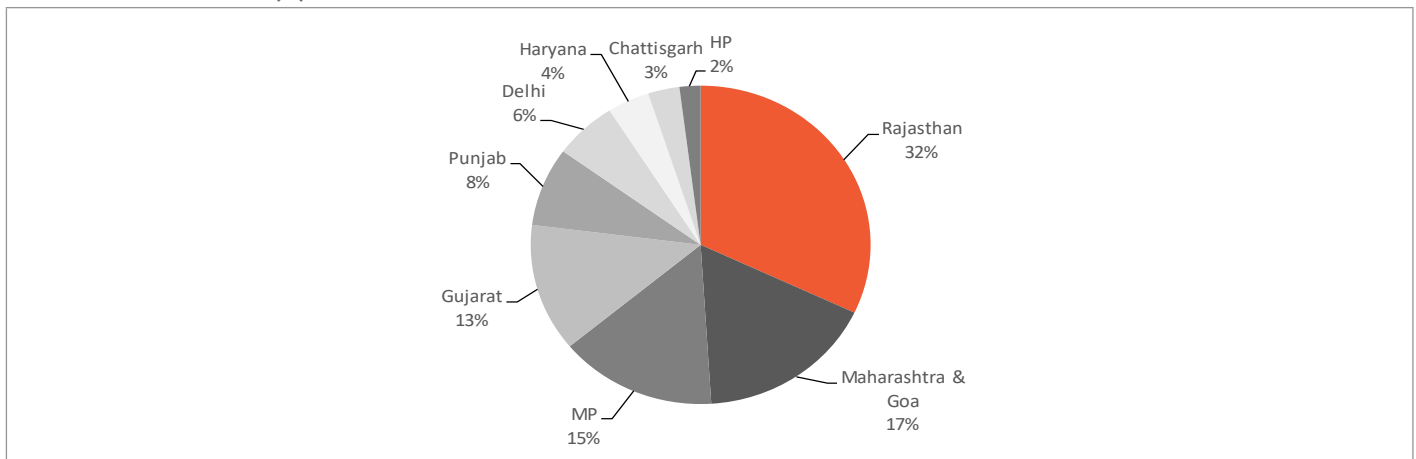
Source: Company; Sharekhan Research

**Segment wise AUM trend**



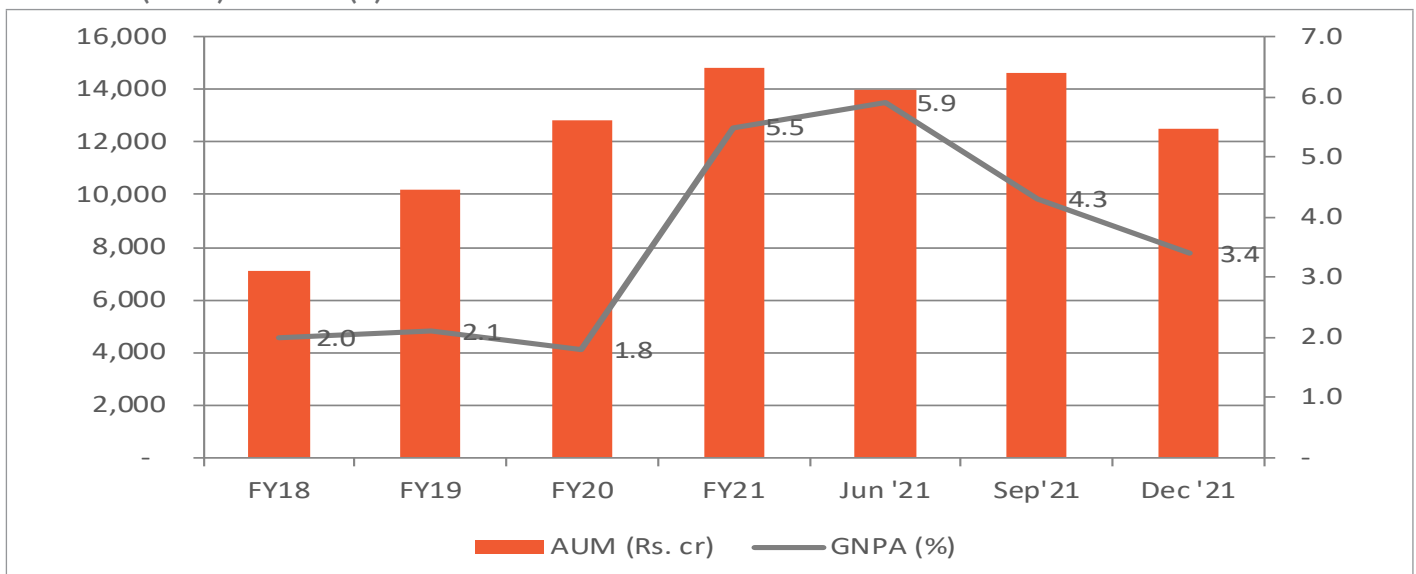
Source: Company; Sharekhan Research

**State wise Wheels book (%) - December 2021**



Source: Company; Sharekhan Research

**Wheel AUM (Rs. Cr.) and GNPA (%) trend**



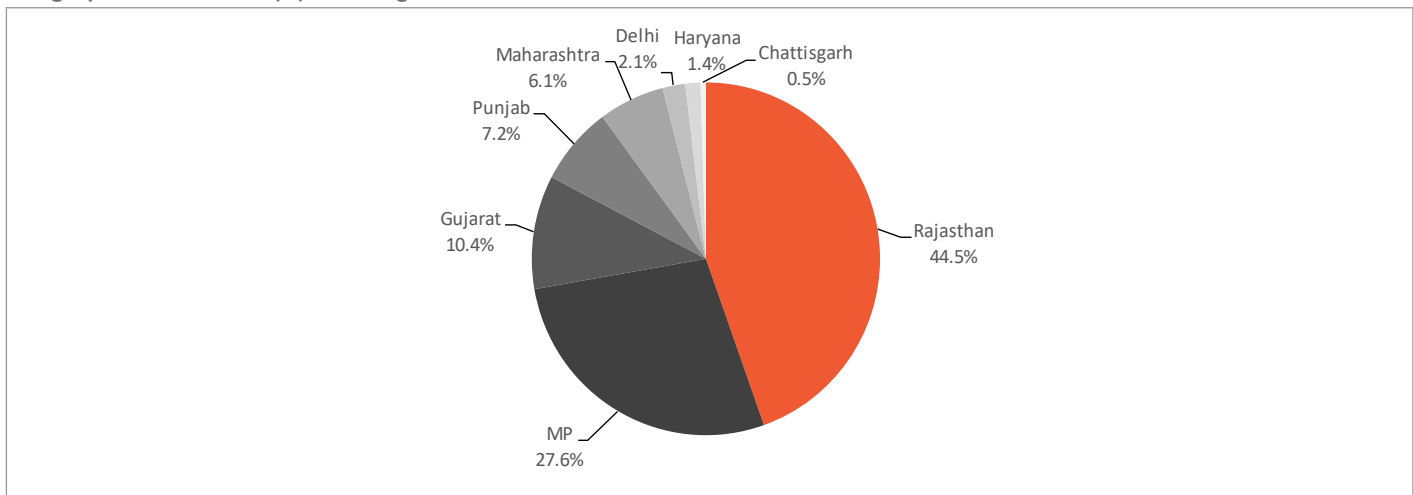
Source: Company; Sharekhan Research

**Housing Portfolio**

AUM	Net Disbursement	Average Ticket Size	Average Booking Tenure	Average EMI	WIRR	Average LTV	Housing PSL Contribution	NPA
2,099 Cr.	2,245 Cr.	10.97 Lacs	194 months	10.65k	11.54%	52%	71%	0.61%

Source: Company; Sharekhan Research

**Geographic Distribution (%) - Housing Loans**



Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector outlook – Long-term positive outlook for SFBs

While financial inclusion (in terms of deposits, bank channels, and services accessibility) has reached a significant penetration level in India, we believe credit delivery and accessibility still lag for the non-salaried as well as non-urban centre clients. Therefore, there exists a large market that can be effectively catered to by special entities such as SFBs, which we believe have a structural advantage of access to low-cost retail deposits (and opportunity for asset growth as well) compared to NBFCs, which will enable them to sustain margins and have sustainable growth. We believe the largely underpenetrated market segment is an attractive space with a large headroom for growth.

### ■ Company outlook – Strong fundamentals are long-term positives

AUSFB has had a long and successful history (since it was an NBFC and now as a bank) in credit underwriting quality, mainly in the under/unbanked self-employed customer segment that lacks formal income documentation. AUSFB is predominantly present in underpenetrated states such as Rajasthan and Madhya Pradesh (~41% and 17% of its AUM, respectively), which have significantly low credit and deposit penetration. We believe AUSFB's presence in these states provides the bank a competitive edge to pursue growth, along with its niche customer profile with low competition from peer banks and NBFCs. The drivers for loan growth are expected to remain for core segments of AUSFB, namely vehicles and small business loans, and home loans are expected to pick up meaningfully as a strong growth driver. The bank has a strong skill set and deep experience in its core segments. We find business metrics are strong and believe disbursements normalising and CASA improving are long-term positives. Despite near-term challenges, we expect AUSFB to tide over them, backed by its strong balance sheet and business model strength.

### ■ Valuation – We maintain Buy on the stock with an unchanged PT of Rs. 1,425

At CMP, AUSFB is available at 4.2x/3.4x its FY2023E/FY2024E BPVS. Factors such as AUSFB's credit long history and seasoned book are likely to support its asset quality and its superior return ratios and a long runway for growth are positives. With provision cover, helped by its strong underwriting track record, provides a cushion on profitability. However, its premium valuation as compared to its peers remains a constraint in valuation expansion. Further, the rising crude oil prices and persistent supply side issues is likely to affect its vehicle loan book and overall book. With augmented capital, the bank can move ahead to become a full-scale universal retail-focused bank adding to its products and features. We maintain Buy on the stock with an unchanged PT of Rs. 1,425.

#### Peer Comparison

Particulars	CMP Rs/Share	MCAP Rs/Share	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
AU Small Finance Bank	1,192	36,456	33.3	28.0	5.0	4.2	16.3	16.3	1.9	1.9
City Union Bank	123	9,119	12.3	9.1	1.4	1.2	9.5	13.0	0.8	1.1

Source: Company, Sharekhan research

## About the company

AUSFB is a scheduled commercial bank and a Fortune India 500 Company. Starting its journey from the hinterlands of Rajasthan, today AUSFB is the largest small finance bank with a deep understanding of the rural and semi-urban markets that have enabled it to build a robust business model facilitating inclusive growth. With 25 years legacy of being a retail-focused and customer-centric institution, AUSFB started its banking operations in April 2017; and as on March 31, 2021, the bank has established operations across 744 banking touchpoints while serving 20.2 lakh customers in 15 states and two union territories with a talent base of 22,484 employees. The bank has consistently maintained a high external credit rating from all major rating agencies such as CRISIL, ICRA, CARE, and India Ratings.

## Investment theme

AUSFB has expanded and strengthened its business model to offer a diverse suite of banking products and services by leveraging its asset-based lending strengths, NBFC customer base, and cost-efficient, technology-driven hub-and-spoke branch operating model to successfully operate its SFB. In addition to its vehicle finance, MSME, and SME offerings, the bank's asset product offerings include working capital facilities, gold loans, agriculture-related term loans, Kisan credit cards for farmers, and loans against securities. The liability franchise has shaped up well with deposits presently forming ~70% of the total borrowings. Of the same, deposits are dominated by retail deposits, forming ~55% of the mix and low-cost CASA deposits form 23% of the deposit base.

## Key Risks

Any deterioration in the asset quality owing to higher share in the risky segments and rising competition may adversely impact the yields.

## Additional Data

### Key management personnel

Mr.Sanjay Agarwal	Managing Director/CEO
Mr.Uttam Tibrewal	Whole Time Director
Mr. Vimal Jain	Chief Financial Officer
Mr.Deepak Jain	Chief Operating Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc/The	6.0
2	Kotak Mahindra Asset Management	4.7
3	CAMAS INVESTMENTS	4.6
4	Smallcap World Fund	3.8
5	WESTBRIDGE AIF I	3.7
6	Nomura India Invst Fund	2.7
7	Nippon Life India Asset Management	2.2
8	HDFC Life Insurance Co Ltd	2.2
9	MYS HOLDINGS PVT LTD	2.1
10	New World Fund Inc	2.0

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



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