AU Small Finance Bank

Financials

RoA at cyclical low, multiple levers in place to improve profitability; upgrade to BUY

AU SFB's profitability, post merger in Apr'24, was impacted due to elevated credit cost on the back of higher-than-expected delinquencies in its credit card (CC)/microfinance (MFI) portfolios and NIM compression. While near-term challenges persist, we believe RoA at 1.5%, as on Dec'24, has bottomed out and shall witness a steady uptick Q1FY26E onwards. Key drivers for RoA expansion would be: 1) normalisation in MFI credit cost to ~3% (9MFY25 credit cost at 5.41%); 2) course correction in CC business to pare credit costs and align with industry average of 6–7%; and 3) a falling rate cycle auguring well for cyclical recovery in NIM (~64% of assets are fixed price). On balance, we expect RoA improving ~30bps to 1.8% by FY27E.

With likely improvement in profitability and the recent stock price correction (~15% in past 1–3 months), we upgrade the stock to **BUY** (*Hold* earlier) with a revised TP of INR 725 (earlier INR 625), based on ~3x Sep'25E BVPS (earlier: 2.5x). The stock is currently trading at 2x/1.7x FY26E/FY27E BVPS.

MFI/CC delinquencies to normalise over next 6–9 months...

Key segments adversely impacted AU SFB's credit cost trajectory during the past nine months are MFI and CC. Credit cost in the MFI segment stood at 5.4% for 9MFY25 and 9.2% in the CC segment during H1FY25. While the two portfolios together contribute ~10% of gross advances, they impacted credit cost by ~50% during 9MFY25. During 9MFY25, portfolio credit cost stood at 1.5%, of which MFI contributed 40bps and CC/PL contributed 38bps while secured retail contributed 65bps to overall credit cost and commercial banking contributed 9bps.

With X-bucket CE reaching ~99% in Jan'25, 39% unique customer base and ~50% portfolio being sourced in FY25, we expect MFI stress to subside meaningfully by Q2FY26E. The same should help rein in MFI credit costs to normalised level of ~3%.

AU SFB entered the CC business during H1FY22 to enhance its product offering and use it as a key tool to accelerate and retain liability customer. However, its execution track record in scaling the CC portfolio has remained subpar so far with >9% credit cost, warranting a course correction. Management acknowledged the challenges in CC business and initiated several measures to improve performance.

Financial Summary

Y/E March	FY24A	FY25E	FY26E	FY27E
NII (INR bn)	68.1	82.3	95.8	121.9
Op. profit (INR bn)	32.2	44.4	52.9	67.7
Net Profit (INR bn)	20.1	21.0	25.9	37.0
EPS (INR)	27.0	28.3	34.9	49.8
EPS % change YoY	26.3	4.5	23.3	42.8
P/E (x)	19.4	18.5	15.0	10.5
P/BV (x)	2.6	2.3	2.0	1.7
GNPA (%)	1.7	2.5	1.9	1.8
RoA (%)	1.9	1.5	1.6	1.8
RoE (%)	15.5	13.1	14.1	17.2

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Market Data

Market Cap (INR)	390bn
Market Cap (USD)	4,476mn
Bloomberg Code	AUBANK IN
Reuters Code	AUFI BO
52-week Range (INR)	755 /493
Free Float (%)	75.0
ADTV-3M (mn) (USD)	19.6

Price Performance (%)	3m	6m	12m
Absolute	(12.1)	(16.2)	(12.6)
Relative to Sensex	(5.2)	(8.2)	(14.6)

ESG Score	2023	2024	Change
ESG score	**80.7**	**79.5**	**(1.2)**
Environment	58.0	58.9	0.9
Social	79.1	77.9	(1.2)
Governance	91.9	90.7	(1.2)

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

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
PAT	3	13

Previous Reports

26-01-2025: Q3FY25 results review

24-10-2024: Q2FY25 results review

… the same should drive credit cost moderation in FY26E and beyond; asset quality in secured retail assets remained strong

AU SFB's secured retail asset portfolio consist of wheels, MBL, HL, GL and others and contributes ~69% of gross advances as on Dec'24. GNPL ratio remained broadly within a manageable range at 2.4% in wheels vs. 2.6% YoY, 3.3% in MBL vs. 3.1% YoY and 1.3% in HL, as on Dec'24, despite a challenging operating environment in terms of fear of MFI and unsecured loan stress percolating down to small-ticket loans and tight liquidity. Credit cost also remained stable at 95bps during 9MFY25 vs. 90bps during H1FY25; thereby, contributing 65bps to overall credit cost for 9MFY25. Management also highlighted that secured loans are well collateralised; hence, ultimate losses would be low, even if GNPL ratios remain elevated in the interim.

Overall credit cost remained elevated at 1.5% during 9MFY25 with ~50% of credit cost flowing from unsecured loans (~10% of loans). With early sign of revival in MFI segment (X-bucket CE at ~99%) and course correction in CC portfolio, we expect ~40bps moderation in overall credit cost over next 3–4 quarters. The same would be a key driver for RoA expansion.

Asset mix favourably placed to benefit from falling rate cycle; NIM likely to improve ahead

AU SFB's steady-state margin trajectory was structurally altered when it acquired Fincare SFB in FY24. Its NIM expanded 100bps with addition of high-yielding products of Fincare, especially MFI (25% yields) and gold loans (16% yield) upon merger. However, its NIM contracted 10bps to 5.9% owing to rising funding cost.

During the rising rate cycle, its standalone NIM contracted ~100bps to 5.1% by Q4FY24 from 6.1% in Q4FY23. NIM contraction was mainly driven by a 70bps increase in cost of funds between Q4FY23–24. During the same period, asset yields broadly remained stable at 13.-2–13.4%, mainly due to an ~64% fixed rate asset book.

We believe AU SFB's balance sheet structure augurs well to benefit the most during a falling rate cycle given its inverse correlation to the rate cycle. With a rate cut cycle likely playing out in the medium term, we expect its cost of funds to decline in tandem with the rate cuts; however, the degree of improvement in cost of fund may vary with respect to the quantum (bps) of rate cut. Disbursements yield at >15% vs. blended yields at 14.4% would also ensure asset yield holding up even during the falling rate cycle.

Profitability set to improve Q1FY26E onwards

Profitability for AU SFB remained under pressure during 9MFY25, as reflected in RoA settling at 1.5% during Q3FY25, lowest since covid. Key deterrents that impacted profitability was elevated credit cost in its unsecured portfolios and fixed rate asset book, limiting the bank's ability to reprice loans at higher rates. However, we believe RoA at 1.5%, as on Dec'24, has troughed and is set to gradually improve to ~1.8% by FY27E. Further, we expect RoA improvement will likely be largely driven by credit cost normalisation (3% in MFI from current level of 5.4% and ~6–7% in CC, from 9.2% currently), NIM expansion during a falling rate cycle and operating leverage due to merger synergies remain key upside risks to the RoA trajectory in the near-to-medium term. Further, the universal bank license could also add a few bps to RoA with better fee income and improvement in cost of funds. Steady >20% loan growth would help AU SFB surpass 17% RoE by FY27E.

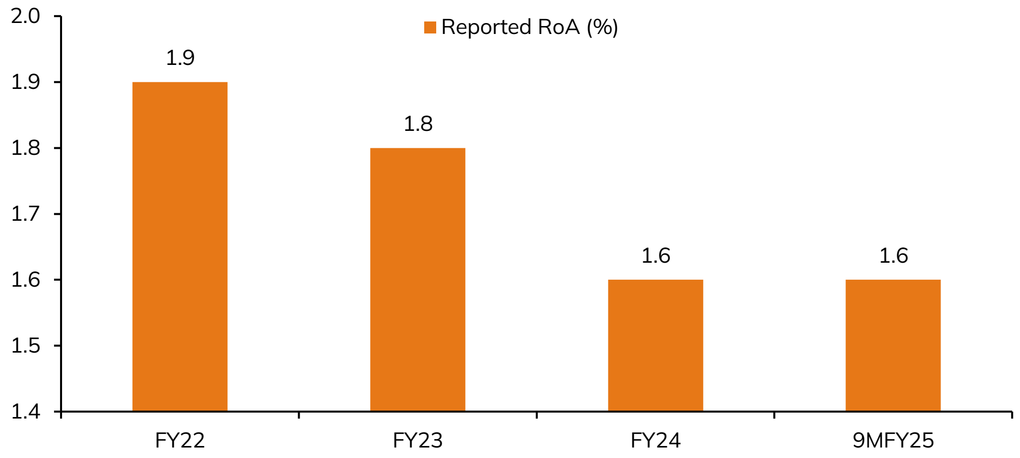
RoA, at 1.5%, near trough; multiple levers in place for expansion in FY26E

RoA now at 1.5% in Q3FY25 vs. 1.9% in FY22

AU RoA has shrunk from 1.9% in FY22 vs. 1.8% in FY23 vs. 1.6% in FY24/9MFY25 and 1.5% in Q3FY25. RoA moderation was on account of higher investments towards building new products (CC, QR code, video banking etc.), branding and network expansion. The same resulted in elevated opex to assets during FY22–24. During the same period, credit cost was in a tight range of ~20–60bps. Opex to assets (calculated) increased from ~4% in FY22 to ~5% in FY24.

During 9MFY25, opex to assets moderated as new businesses started contributing to top-line. However, MFI and CC witnessed higher-than-expected delinquencies during the period, resulting in its lowest quarterly (since covid) RoA at 1.5%, as on Q3FY25.

Exhibit 1: Reported RoA moderated to 1.6% during 9MFY25, from 1.9% in FY22



Source: Company data, I-Sec research

AU reported annualised credit cost of 1.52% for 9MFY25 on its gross loan portfolio, which was higher than its steady state credit cost due to higher delinquencies in unsecured portfolio namely MFI, CC and personal loans (PL). On a segmental basis, CC/PL' credit cost came in at 9.20% for 9MFY25 and MFI credit cost was at 5.41% for 9MFY25 vs. the overall credit cost of 1.52% for 9MFY25. From the secured portfolio, 9MFY25 credit cost was largely in-line with expectations.

AU entered the CC business in FY22 and the MFI business via an inorganic route with the acquisition of Fincare SFB (operations merged effective Q1FY25). CC is still at a nascent stage and forms 4.1% of the portfolio and MFI comprises 7.4% of the portfolio. However, despite the overall share in total loans is ~10%, MFI / CC/ PL contribution to credit cost is ~50%.

Exhibit 2: Deterioration in asset quality led to RoA contraction during FY25-YTD

DuPont Analysis (as a % of avg assets)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Interest earned	10.7	10.4	10.4	10.7	10.7	10.6	10.8	10.8	11.1	10.7	12.8	11.8	11.7
Interest expended	4.8	4.6	4.8	4.9	4.9	5.0	5.3	5.5	5.7	5.7	6.3	5.9	5.9
Gross Interest Spread	**5.9**	**5.9**	**5.6**	**5.8**	**5.8**	**5.7**	**5.5**	**5.3**	**5.4**	**5.1**	**6.5**	**6.0**	**5.7**
Credit cost	0.4	0.6	0.2	0.2	0.2	0.2	0.1	0.5	0.6	0.5	1.1	1.1	1.4
Net Interest Spread	**5.5**	**5.3**	**5.4**	**5.6**	**5.7**	**5.5**	**5.3**	**4.8**	**4.7**	**4.6**	**5.4**	**4.8**	**4.3**
Operating cost	4.6	4.8	4.2	4.5	4.5	4.6	4.5	4.4	4.5	4.7	5.0	4.5	4.1
Lending spread	**0.9**	**0.5**	**1.1**	**1.1**	**1.2**	**0.9**	**0.9**	**0.5**	**0.2**	**-0.1**	**0.4**	**0.4**	**0.2**
Non interest income	2.0	2.0	0.9	1.3	1.5	1.6	1.4	1.8	1.8	2.1	1.9	1.9	1.8
Final spread	**2.9**	**2.4**	**2.0**	**2.4**	**2.6**	**2.5**	**2.3**	**2.3**	**2.0**	**2.0**	**2.3**	**2.3**	**2.0**
Tax expenses	0.7	0.3	0.5	0.6	0.7	0.5	0.6	0.6	0.5	0.3	0.6	0.6	0.5
RoAA	**2.2**	**2.2**	**1.5**	**1.8**	**2.0**	**2.0**	**1.7**	**1.7**	**1.5**	**1.7**	**1.7**	**1.7**	**1.5**
Effective leverage - AA/AE (x)	8.0	8.7	9.2	8.3	7.7	7.9	8.1	8.1	8.2	8.5	8.4	8.4	8.6
RoAE	**17.4**	**18.9**	**14.0**	**15.3**	**15.2**	**15.8**	**13.8**	**13.9**	**12.5**	**14.5**	**14.3**	**14.5**	**13.0**

Source: Company data, I-Sec research

Improving CE in MFI and course correction CC to lower credit cost

While the MFI segment is still grappling with customer-level overleveraging and operational challenges in a few select states due to external events, our interaction with industry participants suggest that stress is subsiding and X-bucket CE is near to normal level of ~99%. In case of AU, its diversified loan mix (no single state contributing >15% of MFI loans) and higher share of unique borrowers (~39%) would ensure relatively lower credit cost than peers. X bucket collection efficiency for Dec'24 stood at 98.7% (second-best in H2CY24) and the same reflects moderation in early bucket delinquencies. Moreover, AU has strengthened its collection vertical to contain forward flows. However, GNPL at 4.1% (~66% coverage) and SMA pool at ~4.4% would keep credit cost elevated for the next 1–2 quarters, before we see improvement in the latter part of FY26.

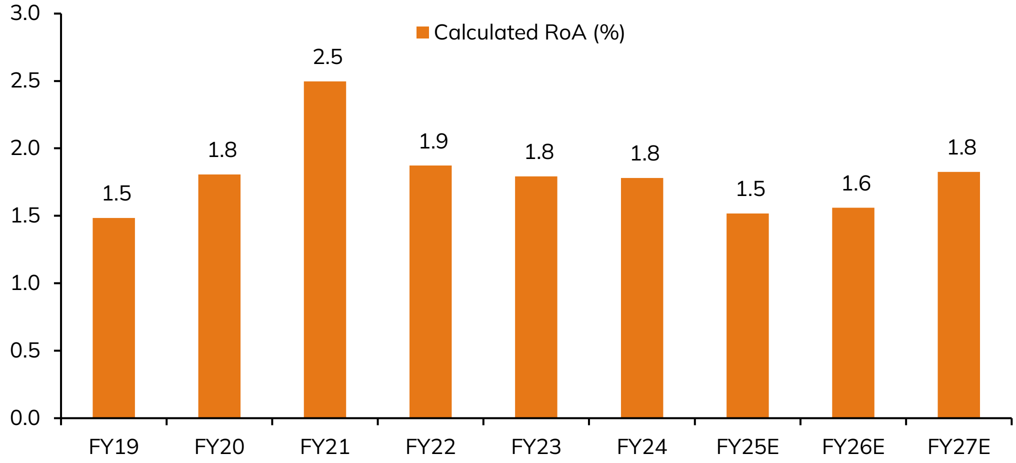
AU SFB has taken various course corrective measures to address the issues in the CC business and make it a sustainable and tenable business from a longer-term perspective. Taking cognizance of higher-than-expected delinquencies in this portfolio, it is calibrating new card issuance (down 9% QoQ in Q3FY25), altering business rule engines for better credit underwriting, incrementally focuses on super-prime customers (CIBIL score of 780+), staying away from business segment which went bad in recent past and strengthening collection team. These efforts could help AU bring credit cost under control in the next 2-4 quarters. Overall, we believe that credit cost is poised for decline in FY26, owing to the improvement in portfolio quality.

RoA likely to improve to ~1.8% in FY27 vs. ~1.5% for Q3FY25

We believe that RoA is near to bottoming out and expect it to retrace back to ~1.8% by FY27E vs. 1.5% during Q3FY25. RoA improvement would largely be driven by – 1) credit cost moderation especially in MFI and CC segments; 2) NIM expansion; and 3) gradual improvement in cost ratios.

Overall, management has guided for FY25 credit cost to be in the range of 1.5–1.6% on gross loan portfolio and RoA at ~1.6% for FY25. Notably, ~30bps of improvement in RoA is likely to be driven by normalisation of credit cost. NIM expansion due to favourable book mix during the falling rate cycle could be an upside risk to 1.8% RoA.

Exhibit 3: We expect gradual improvement in RoA to 1.8% by FY27E



Source: Company data, I-Sec research

Credit cost at 1.5% during 9MFY25 near peak; expect gradual improvement in FY26E

Unsecured portfolio credit cost elevated while secured portfolio credit cost well within expectations

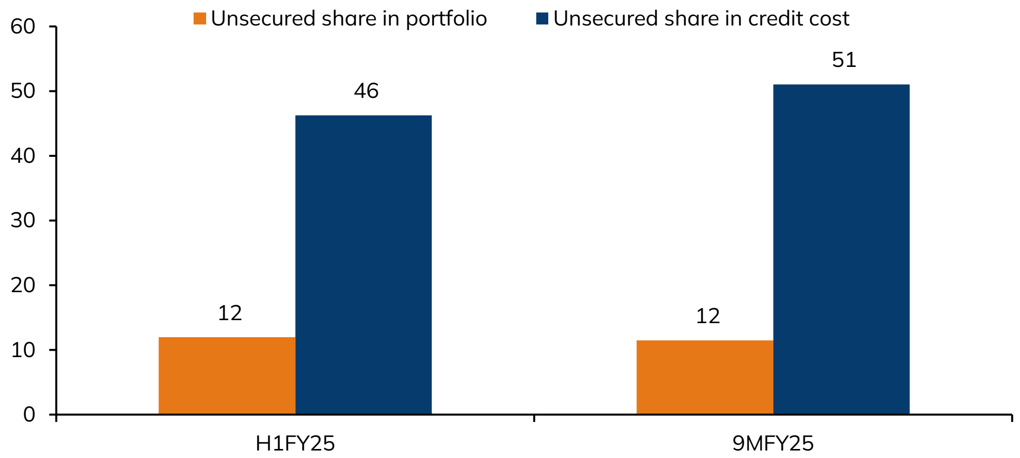
AU SFB's credit cost to average assets was in a tight range of 20–60bps from FY22–24. However, AU reported annualised credit cost of 1.52% for 9MFY25 on its gross loan portfolio, which was higher than its steady-state credit cost due to higher delinquencies in unsecured portfolio credit cost namely MFI, CC and PL. On a segmental basis, CC/PLs credit cost came in at 9.20% for 9MFY25 and MFI credit cost was at 5.41% for 9MFY25 vs. the overall credit cost of 1.52% for 9MFY25. From the secured portfolio, 9MFY25 credit cost was largely in-line with expectations and closer to its historical average.

Exhibit 4: Segment-wise credit cost suggests ~50% of total credit cost is flowing from unsecured segment

	H1FY25 on Gross Loan Portfolio (GLP)			9MFY25 on Gross Loan Portfolio (GLP)		
	GLP mix (%)	Annualised credit cost (%)	Weighted credit cost on B/s (%)	GLP mix (%)	Annualised credit cost (%)	Weighted credit cost on B/s (%)
Secured retail (Wheels, MBL, HL, GL, Others)	68.70	0.90	0.62	69.00	0.95	0.66
Commercial Banking	19.30	0.35	0.07	19.50	0.46	0.09
Secured (% of total)	**88.00**		**54%**	**88.50**		**49%**
Microfinance	7.80	3.08	0.24	7.40	5.41	0.40
Credit Cards + PL/BL	4.20	8.35	0.35	4.10	9.20	0.38
Unsecured (% of total)	**12.00**		**46%**	**11.50**		**51%**
Total credit cost	**100.00**		**1.28**	**100.00**		**1.52**

Source: Company data, I-Sec research

Exhibit 5: Share of unsecured loans in 9MFY25 credit cost stood at ~50% vs. ~12% share in overall loans



Source: Company data, I-Sec research

Secured retail and commercial banking credit cost largely in-line with its long-term trend

On the secured retail front for 9MFY25, credit cost was at 98bps vs. 90bps for H1FY25, which was broadly in-line with its historical trend. For the past seven years, average credit cost across different products in secured retail has been as follows: 110bps for wheels, ~70bps for MBL and ~40bps for HL. Overall, AU remains well-collateralised and ultimate losses on its secured retail portfolio have been historically low, even though GNPA may remain elevated in the interim. Secured retail includes wheels, MBL, GL and others and comprises ~69% of the overall portfolio, as of Dec'24.

For 9MFY25, credit cost from the commercial banking business was at 46bps vs. 35bps in H1FY25 and average credit cost for the past 7 years was ~0.4%. On the commercial banking front, it expects credit cost to be within the guided range of ~50bps. Commercial banking constitutes ~20% of the overall gross loan portfolio as of Dec'24.

In a nutshell, for the two major loan segments of AU mentioned above, we do not expect any major setbacks, particularly on the credit cost front from the secured retail as well as the commercial banking portfolio. Both these portfolios combined constitute ~89% of the overall gross loan portfolio for AU.

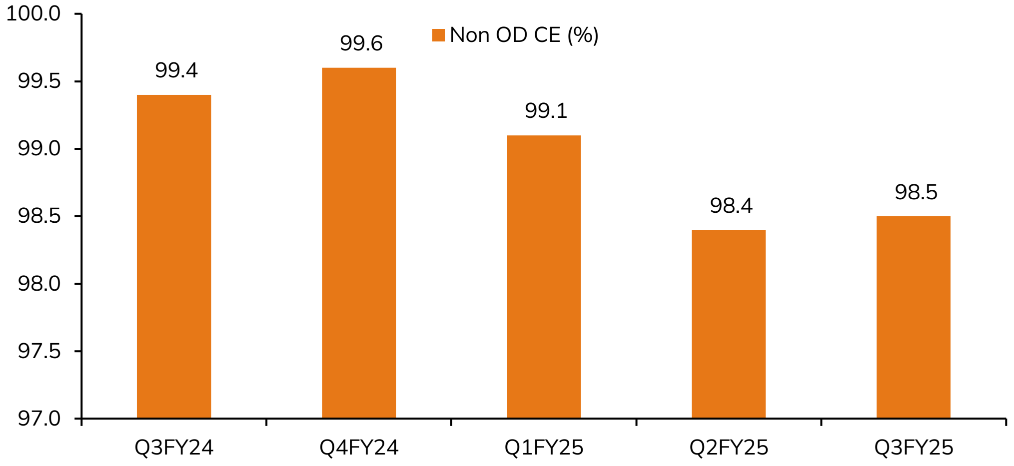
MFI Dec'24 CE offers ray of hope; credit cost likely to peak in H1CY25 and descend thereafter

GNPA currently stands at ~4.1% and SMA book currently stands at ~4.4%, which is evenly distributed across SMA0, SMA1 and SMA2. AU continues to carry INR 170mn of contingency provision towards their MFI portfolio. Management expects that slippages and credit cost is expected to remain elevated in Q4.

However, our interactions with industry participant suggest that X-bucket collection, efficiency is near normal at ~99% and the same would ensure business normalcy by Q2–Q3FY26. X-bucket for AU SFB's also shows similar trend as reflect in Dec'24 CE reaching 98.7% (X-bucket), which was the second-best in the last six months of CY24. On the collection front, AU has increased its headcount from ~600, as of Jun'24, to ~1,500, as of Dec'24. With higher manpower, it witnessed better collection efficiency in SMA book and in NPA books has also started seeing improvements.

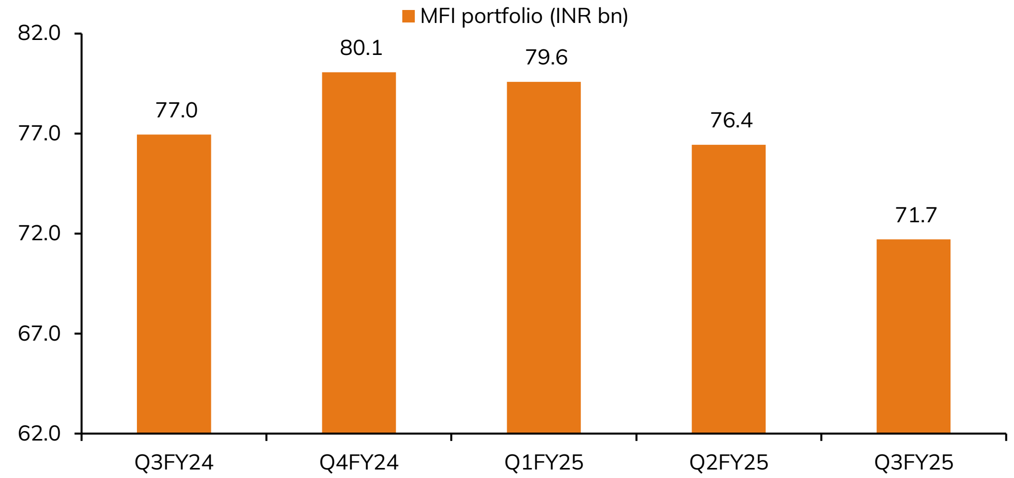
While the MFI segment is grappling with customer level overleveraging challenge, which is leading to higher delinquencies, inherent portfolio quality metrics remain robust for AU. Some of the portfolio metrics are: 1) no single state contributing more than 12% of MFI loans and no single district contributing more than 3% of MFI loans; 2) ~99% districts have GLP concentration of <1.5% 3) limited exposure in Odisha at 2% and 8% in Bihar; 4) 39% unique borrowers; 5) ~20% of portfolio being covered under CGFMU; and 6) only 8% of borrowers having more than five-lender relationships, would ensure credit cost in MFI would remain lower than the industry.

Exhibit 6: MFI X-bucket CE improved to 98.5% after falling for three consecutive quarters; Jan'25 collection >Dec'24 suggesting stress subsiding



Source: Company data, I-Sec research

Exhibit 7: MFI portfolio down 10% YTD as management calibrated growth owing to increasing stress



Source: Company data, I-Sec research

Course-corrective actions taken in CC business to improve portfolio quality

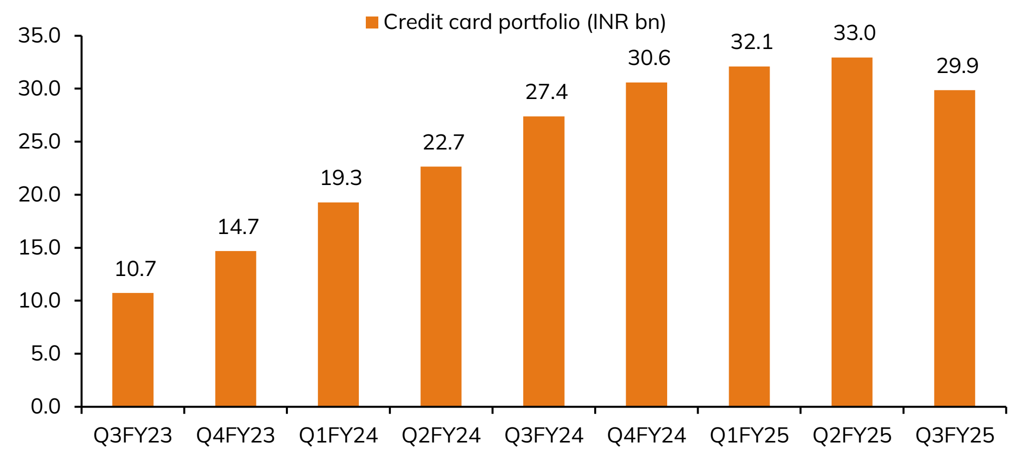
Unsecured retail portfolio (ex MFI) for AU consists of CC and PLs with total GLP at ~INR40bn or ~4% of the total portfolio. Of this, PL is ~INR 10bn, which is primarily disbursed to existing customer base. PL book is performing broadly in-line with industry from an asset quality perspective, while CC book performance on the asset quality front is inferior vs. peers.

AU SFB was first to launch own CC within SFB space; however, given its limited experience and exposure to unsecured business, the bank remained cautious in scaling CC business at accelerated pace. The strategy works in favour of AU SFB, as delinquencies in this portfolio came higher-than-expectation. At end-Mar'24, contribution from CC business was only ~2% and hence despite higher credit cost overall profitability was impacted marginally. Given low base, it allowed AU SFB to relook at processes and underwriting standards and course correct. Initial learning was some slip-ups in incorrect digital underwriting, higher reliance on card-for-card sourcing, and issuing higher credit limits. This coincided with some industry-level challenges as well, driven by over-leverage, inflation, and misuse of certain merchant categories through fintech aggregators.

However, AU was early to resort to course-corrective measures since it believes that from a longer-term perspective, getting this business right is important, as it provides a hook for deposit customers and increases bank's brand. In order to better manage CC business, it has taken a number of corrective steps. These include strengthening credit team, tightening underwriting criteria to include documented income only and reducing credit limits both for new issuances and existing cards based on risk assessment. They have also done a detailed evaluation of existing customer base and taken appropriate pre-emptive actions on potentially delinquent customers. It has strengthened daily transaction monitoring to identify and restrict misusing customers and merchants, and has proactively blocked certain misused categories of merchants such as rent and education. Most of these actions were taken in Q3, post the spike in credit cost; hence, it will likely take a couple of quarters to have an impact.

With regards to CC underwriting, it is not building up CC on digital mode anymore, but it is now doing underwriting basis physical applications or physical data. In a nutshell, AU expects credit cost to moderate in the ensuing quarters, particularly from the CC business due to the aforementioned measures and business to get back on track in a gradual manner.

Exhibit 8: CC portfolio down 9% QoQ and 2% YTD



Source: Company data, I-Sec research

Asset quality improvement in MFI, CC and sustained stability in secured retail would lead to gradual moderation in FY26 credit cost

On the MFI business, though lead indicators suggest that the portfolio is on improving trend, credit cost in the MFI business usually comes with 4–5 months lag and hence in the interim, credit cost could remain elevated. CC business is also undergoing some transformation and hence could keep credit cost elevated for a quarter or so. However, secured assets credit cost is largely stable even for 9MFY25 and since that constitutes majority of the portfolio at ~89%, we believe credit cost is unlikely to see a rise in FY26. Overall, we expect credit cost to therefore remain elevated in Q4, but expect moderation in FY26. Management has guided for FY25 credit cost in the range of 1.5–1.6% vs. 1.52% for 9MFY25.

Exhibit 9: AU SFB follows a more conservative provisioning policy vs. the regulatory requirement

Overdue bucket / Days Past Due (DPD)	Asset Classification	RBI policy		Bank's internal provisioning policy			
		Secured	Unsecured	All Other Products - Secured	All Other Products - Unsecured	Credit card	MFI
91-120	Sub Standard	15%	25%	25%	50%	50%	50%
121-150	Sub Standard	15%	25%	25%	50%	100%	65%
151-180	Sub Standard	15%	25%	25%	50%	100%	80%
181-365	Sub Standard	15%	25%	50%	100%	Write – Off (W/Off)	100%* (W/Off)
366-455	Sub Standard	15%	25%	75%	100% * (W/Off)	-	100%* (W/Off)
456-730	Doubtful 1	25%	100%	100%	-	-	W/Off
731-820	Doubtful 1	25%	100%	100% * (W/Off)	-	-	-
821-1,551	Doubtful 2	40%	100%	-	-	-	-
1,552 and above	Doubtful 3	100%	100%	-	-	-	-
Loss asset	Loss	100%	100%	-	-	-	-

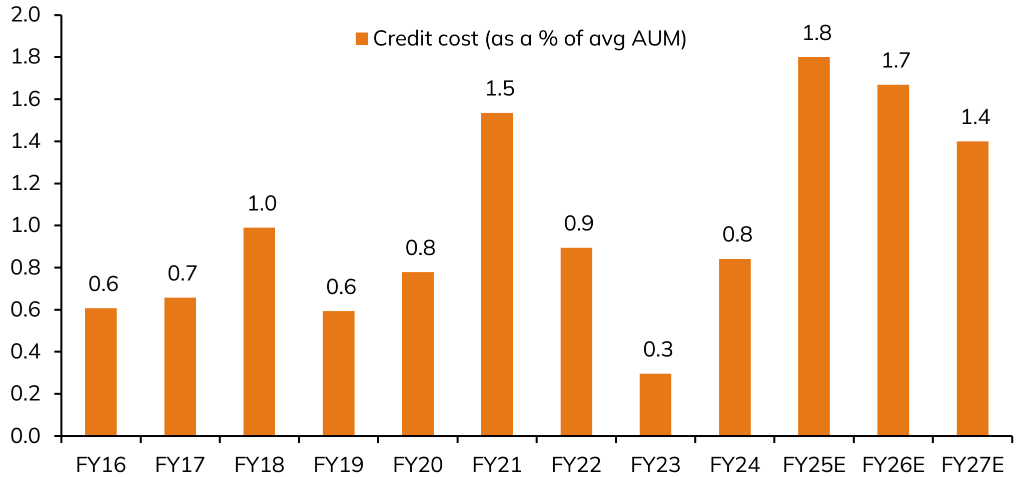
Source: Company data, I-Sec research

Exhibit 10: GNPA inched up QoQ across segments in Q3FY25, but remained within manageable level in secured retail asset segment

GNPA (%)	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Retail assets	**2.20%**	**2.20%**	**2.50%**	**2.80%**
Secured (A)		**2.20%**	**2.40%**	**2.60%**
Wheels	2.00%	2.10%	2.30%	2.40%
Mortgage-backed loans	1.80%	2.40%	2.60%	2.80%
Micro business loans	2.70%	2.90%	3.10%	3.30%
Housing loan	0.50%	0.90%	1.00%	1.30%
Gold loans	0.60%	0.80%	0.90%	1.20%
Unsecured (B)		**2.00%**	**2.80%**	**4.40%**
Microfinance		1.10%	2.30%	4.10%
Credit cards	2.00%	2.60%	3.20%	4.40%
Personal loans	4.50%	6.00%	5.10%	6.30%
Commercial banking	**0.30%**	**0.40%**	**0.50%**	**0.80%**
Business banking	0.50%	0.50%	0.60%	0.60%
Agri banking	0.30%	0.30%	0.60%	1.50%
EEFI	0.30%	0.30%	0.30%	0.30%
REG	0.10%	0.40%	0.30%	0.30%
SME (run down)	**9.90%**	**14.20%**	**16.30%**	**16.20%**
Others	0.50%	0.00%	0.10%	0.10%
Total	**1.67%**	**1.78%**	**1.98%**	**2.30%**

Source: Company data, I-Sec research

Exhibit 11: Credit cost likely to descend going ahead in the next 2 years

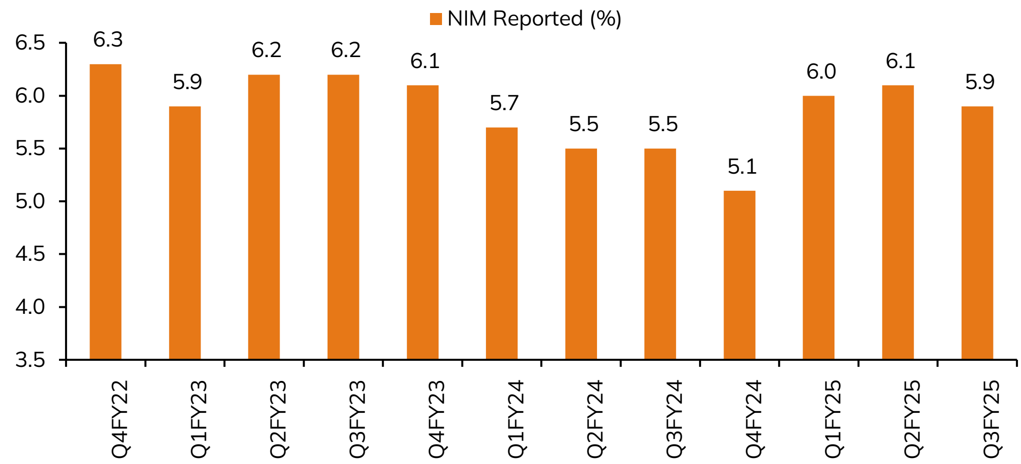


Source: Company data, I-Sec research

Book mix and historical trends suggest AU SFB to be a likely beneficiary during declining interest rate cycle

Margin trajectory for AU SFB has witnessed a declining trend during the past two years, mainly due to two reason – 1) 70bps increase in cost of funds between Q4FY23-24 during rising rate cycle; and 2) its strategy to improve CD ratio resulting in deposit growth outpacing credit growth thus leading to Interest expense. Its standalone NIM contracted ~100bps to 5.1% by Q4FY24, from 6.1% in Q4FY23. Notably, during the same period, asset yields broadly remained stable at 13.2%-13.4%, mainly due to ~64% fixed rate asset book.

Exhibit 12: Margins have fallen off from 2022 highs due to increase in cost of funds; repo rate cut likely to provide impetus to margins, though with a lag

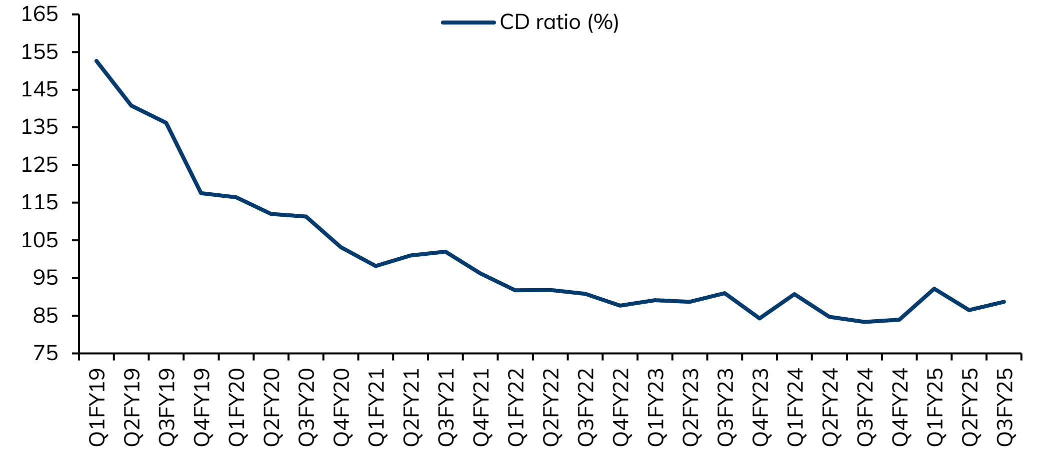


Source: Company data, I-Sec research

CD ratio now at ~89% and in-line with peers

AU has strategically opted to improve its CD ratio, in line with large banks – as a result, its CD ratio improved to ~84%, as on FY24, from ~96%, as of FY21-end. AU SFB's deposits have grown at an ~34% CAGR from FY21–24 vs. 28% loan growth during the same period. However, post the Fincare SFB merger, CD ratio has inched up a bit to ~89% as of Q3FY25, but this is still largely in-line with majority of its peers. Hence, we believe negative drag of CD ratio is largely captured in NIM, as on Dec'24; going ahead, stable CD ratio between 85-88% would ensure no adverse impact on NIM.

Exhibit 13: CD ratio seems to be stabilising now, implying no negative carry on NIMs going ahead

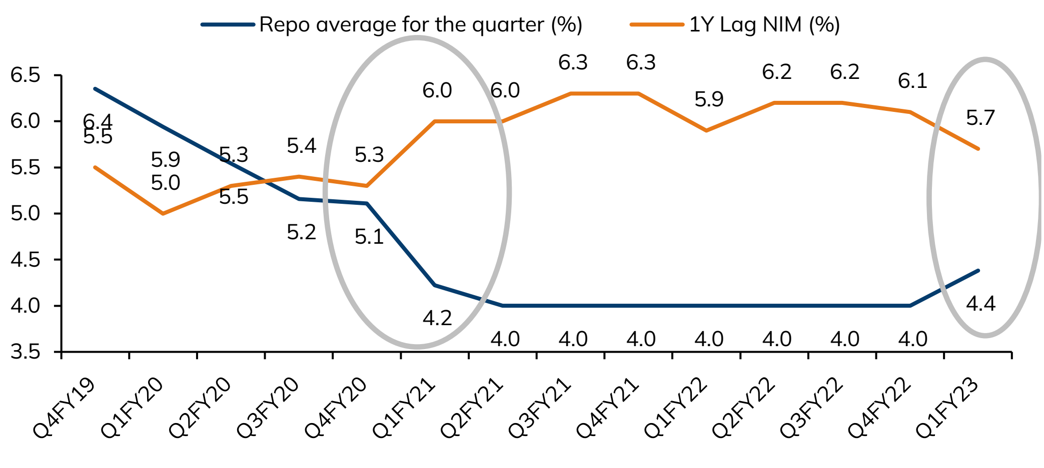


Source: Company data, I-Sec research

Declining interest rate to benefit margins with a 2–3-quarter lag

We analysed how AU SFB's balance sheet mix is well-placed with respect to interest rate cycle and its historical NIM movement suggests that it tends to benefit during a falling rate cycle and the rising rate cycle is not so favourable given ~64% fixed rate assets. We note that during the last falling rate cycle, wherein repo fell from 6.5% in Dec'18 to 4% in May'20, AU SFB's margins expanded by 100–120bps over the next one year post the repo rate hike. Hence, we believe during the current falling rate cycle AU SFB is well placed to benefit the most. RBI has cut repo rate for the first time in almost five years in Feb'25 to 6.25%, from 6.50%. Additionally, fixed rate book is ~64% of the portfolio and additionally ~7% book is on floating rates (but currently in fixed interest period). We expect, similar to past cycle, AU SFB margins are poised for an uptick and the quantum would vary depending upon the quantum of repo rate cut.

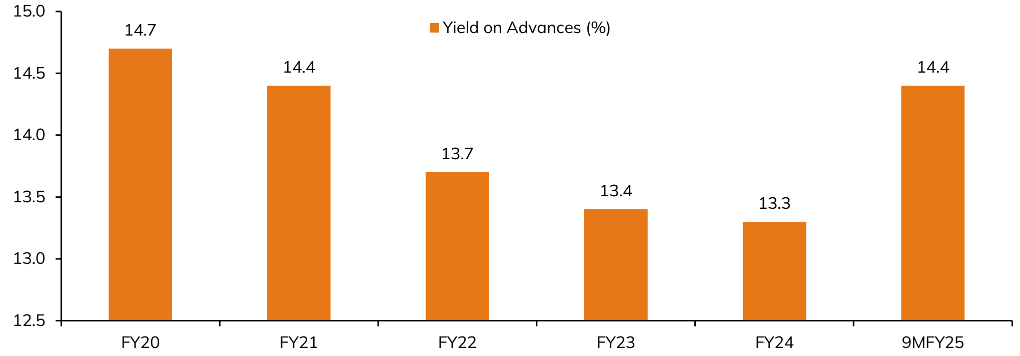
Exhibit 14: AU SFB's one-year lag margins expanded and sustained at higher levels in event of rate cut cycle between FY20–22



Source: Company data, I-Sec research

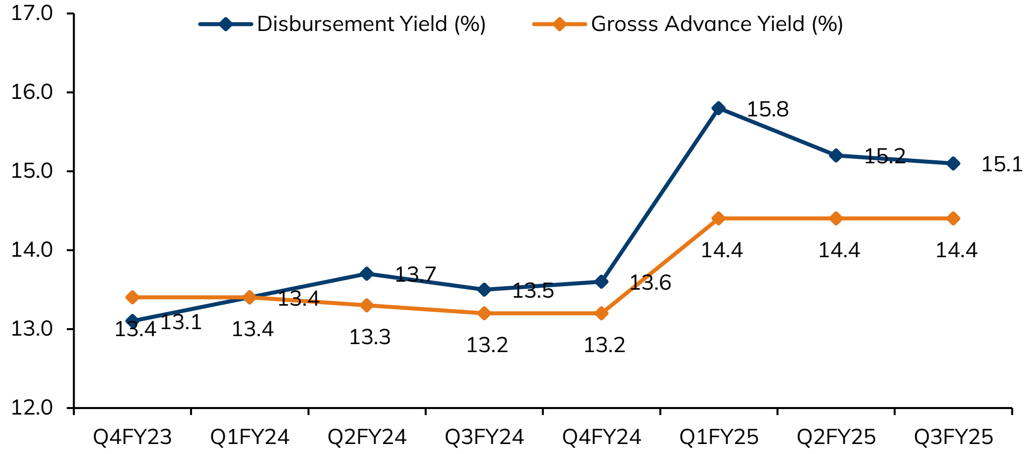
Management has increased its NIM guidance (for merged entity) to ~6% vs. 5.7–5.8% earlier owing to better disbursement yields during H1FY25. Disbursement yield stood at 15.1% vs. blended yield of 14.4%, as on Q3FY25. Overall, for 9MFY25, disbursement yields have inched up by 32bps in wheels, 33bps in MBL and 146bps in housing (vs. FY24) in the core AU SFB pre-merger loan books.

Exhibit 15: Asset yield expanded sharply in 9MFY25 due to Fincare merger and also aided by better disbursement yields in legacy portfolios



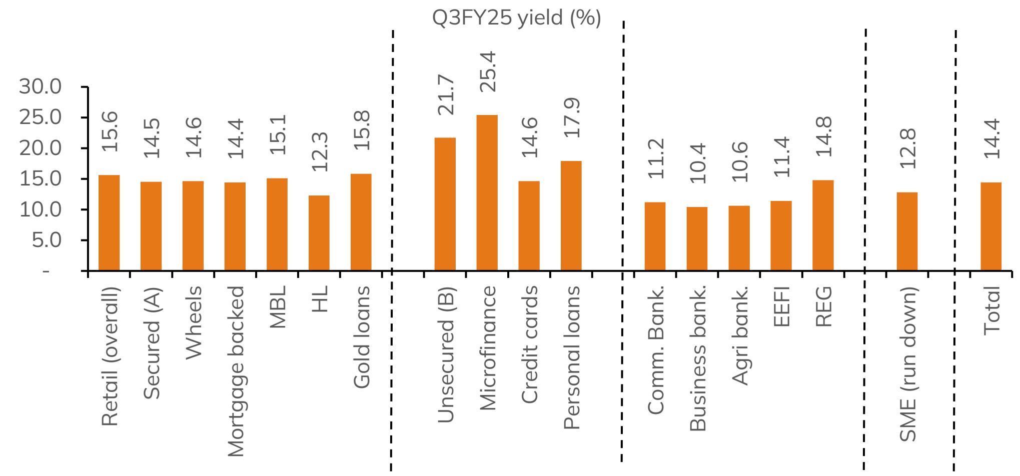
Source: Company data, I-Sec research

Exhibit 16: Disbursement yield higher than book yield, aided by growth in high yielding segments



Source: Company data, I-Sec research

Exhibit 17: Segment-wise yield as of Q3FY25



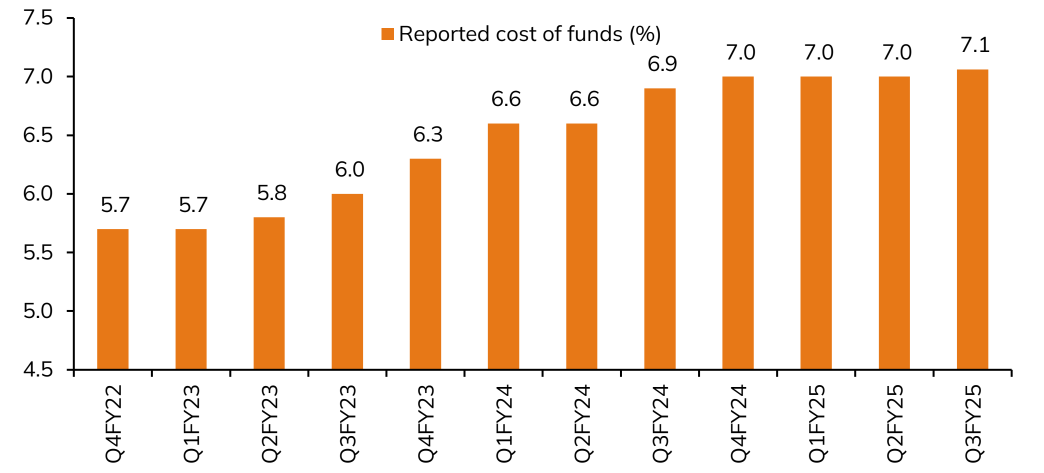
Source: Company data, I-Sec research

Exhibit 18: Yields have largely remained stable over the past 2-3 quarters

	Q1FY25 yield (%)	Q2FY25 yield (%)	Q3FY25 yield (%)
Retail (overall)	**15.6**	**15.7**	**15.6**
Secured (A)	**14.5**	**14.5**	**14.5**
Wheels	14.5	14.5	14.6
Mortgage backed	14.4	14.4	14.4
MBL	15.1	15.1	15.1
HL	12.1	12.2	12.3
Gold loans	16.0	15.9	15.8
Unsecured (B)	**21.4**	**21.7**	**21.7**
Microfinance	25.3	25.3	25.4
Credit cards	13.8	14.3	14.6
Personal loans	18.1	18.0	17.9
Comm. Bank.	**11.0**	**11.1**	**11.2**
Business bank.	10.3	10.4	10.4
Agri bank.	10.4	10.5	10.6
EEFI	11.5	11.6	11.4
REG	14.8	14.8	14.8
SME (run down)	**12.7**	**12.8**	**12.8**
Total	**14.4**	**14.4**	**14.4**

Source: Company data, I-Sec research

Exhibit 19: Cost of funds has stabilised around current levels; repo rate cut could lead to downtick here as well

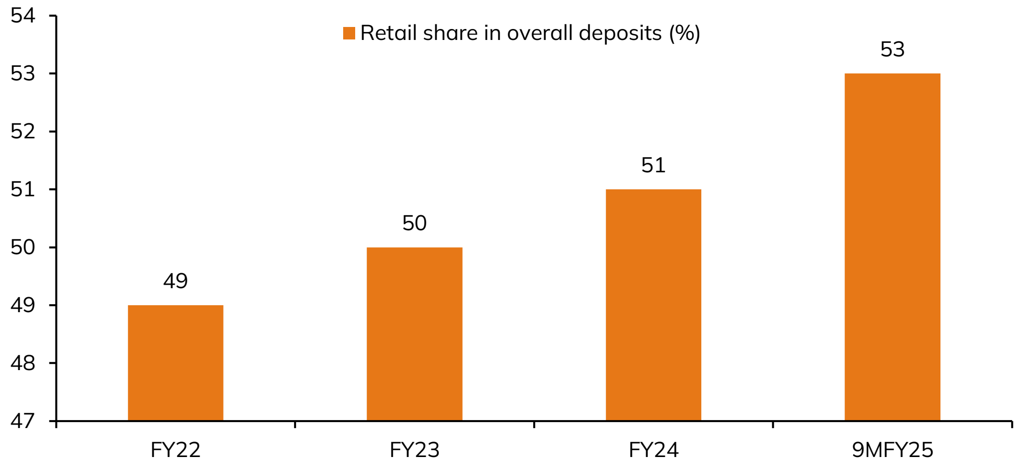


Source: Company data, I-Sec research

Deposit growth healthy, despite tight liquidity and heightened competition

Despite the challenging environment due to tight liquidity and high competition, AU deposit growth remains healthy at 15% YTD-F25 and CASA is also up 9% YTD-FY25. This growth rate is nearly ~2x of total deposits in the banking system and faster than growth rate of most of the private sector banking peers. Overall, deposits growth has been quite strong at 32% CAGR from FY22-Q3FY25, leading to decline in CD ratio as well as market share gains. Moreover, growth has been granular as reflected in rising share of retail in overall deposits since FY21.

Exhibit 20: Steady uptick in retail deposits share in overall deposits

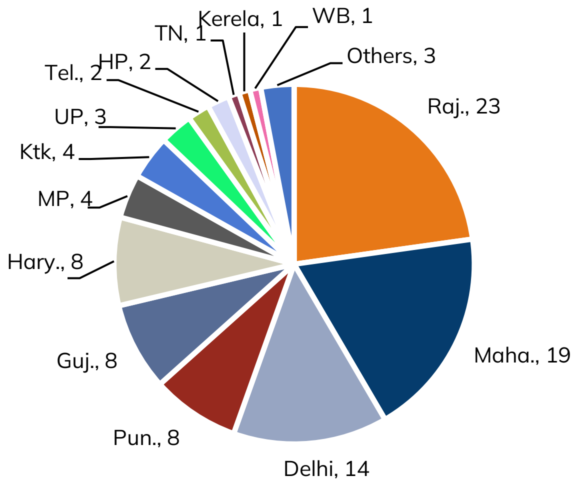


Source: Company data, I-Sec research

Going ahead, management is focused on strengthening its deposit growth franchise by building a strong individual and retail deposit base. It plans to enhance its liability-side product proposition to acquire new customers and deepen relationships with existing customers. It is planning to strategically accelerate growth in top 20 cities, which contribute ~57% of total deposits in the country. Around 75–80% of its deposit book is from 400 urban branches, of which 60% is located in top 20 cities. Within these, cities such as Delhi, Bangalore, and Jaipur are doing well, and it is working on improving productivity in Mumbai, Chennai, Hyderabad, and Calcutta. It has fully integrated 100 plus urban deposit branches from Fincare in terms of people, product, process, and technology.

On current account side, it is working to create a right to win in terms of product, services, and distribution. However, this is a tough market and hence it will take time to evolve. On savings account front, it has established a strong proposition backed by cutting edge digital channels. AU has industry-leading deposit products for various segments, which includes recently launched remittance products and comprehensive wealth and insurance distribution platforms. Overall, we believe that AU is heading towards the right direction in terms of building its deposit franchise.

Exhibit 21: Top 3 states constitute ~56% of total deposits



Source: Company data, I-Sec research

Universal bank transition to further aid deposit cost

AUSFB has ambitions to transition into a universal bank, which would significantly enhance its credibility and market positioning. This shift could help attract a broader customer base, further strengthening deposit mobilization. Importantly, gaining universal banking status would likely aid AU SFB reduce its deposits rates and benchmark it against large banking peers. Moreover, it could also expand avenues to cheaper retail and corporate deposits, thereby improving its overall cost of deposits. RBI has recently announced setting up of a standing external advisory committee, which will evaluate applications for universal banks. The bank does not have clarity on timing, but management believes that this is a welcome step and should speed up the process of evaluation of its application.

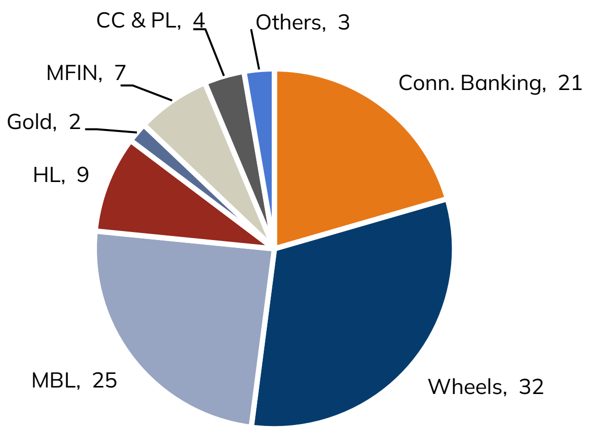
Loan portfolio to expand at 21% CAGR from FY25–27E

Loan portfolio of INR 1.09trn encompasses four asset classes

AU's loan portfolio of INR 1.09trn encompasses four asset classes namely retail secured assets, commercial banking, inclusive finance (includes MFI, SMF, and FPO) and lastly digital retail (unsecured, which includes credit cards and PLs).

On a merged basis, the largest segment remains wheels at 32% followed by micro business loans at 25%, HL at 9%, MFI at 7%, business banking at 8%, agri banking at 6%, CC at 3%, NBFC at 4%, REG at 2%, gold loans at 2%, PL at 1% and others at 3%. Total unsecured exposure (MFI + CC + PL) contributed ~11% of the portfolio.

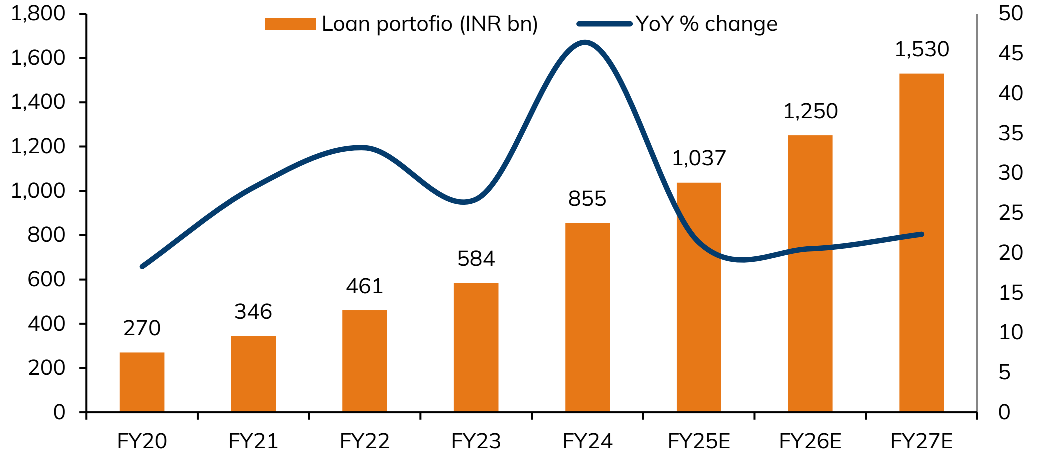
Exhibit 22: Loan mix well diversified across segments



Source: Company data, I-Sec research

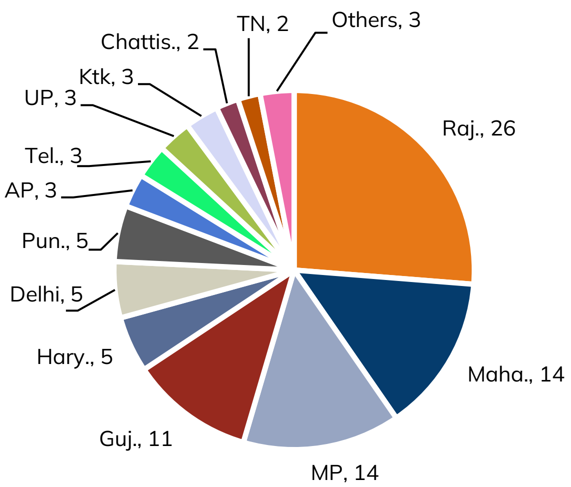
Owing to the challenging environment, management has revised its FY25 credit growth guidance downward to 20% in Q3 vs. 25% earlier. Overall, for FY25, even if we consider deceleration in some products which is retail digital unsecured, AU should clock ~20% credit growth at the consolidated level, which would be >1.5x of the banking system. Growth still looks higher, since secured assets share may continue to grow – and it forms ~89% of the overall portfolio. Overall, AU portfolio has grown at ~13% YTD, which is ~1.6x of the banking system, thereby, resulting in continued market share gains. We expect AU to expand its loan portfolio at a 21% CAGR from FY25–27E.

Exhibit 23: Strong growth momentum to sustain going ahead; we expect 21% loan CAGR over FY25–27E



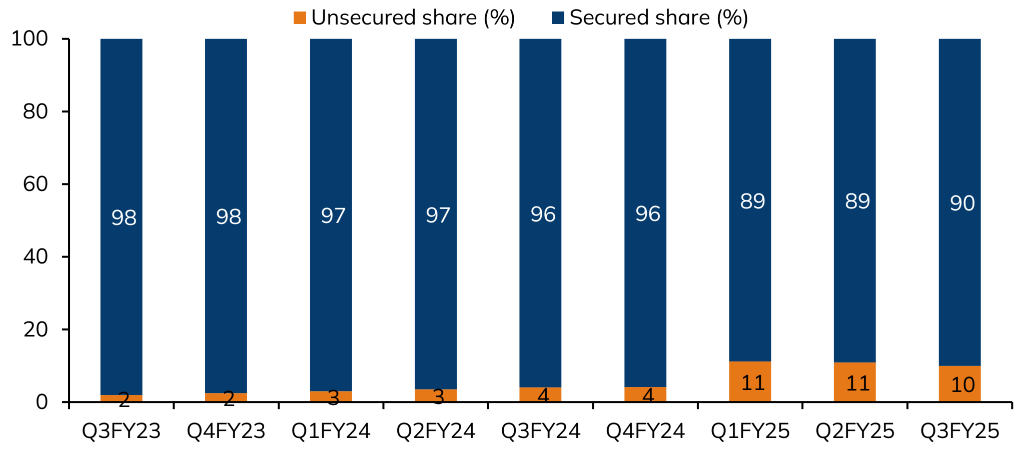
Source: Company data, I-Sec research

Exhibit 24: Top 3 states constitute ~54% of total advances



Source: Company data, I-Sec research

Exhibit 25: Loan mix evolution in terms of secured and unsecured; it plans to restrict unsecured exposure at maximum 10%



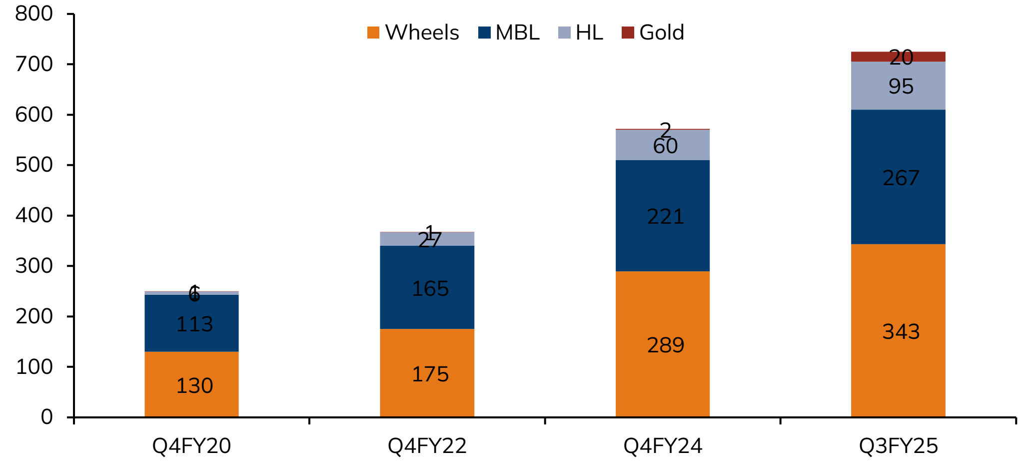
Source: Company data, I-Sec research

Secured retail – pillar of AU's loan book (~2/3rd of loan portfolio)

Retail secured assets book stands at INR 725bn, forms ~2/3rd of its total loan portfolio and includes wheels, mortgages and gold loan. This is AU's leading franchise with a vintage of over two decades and is a unique combination of high yield (14.5% yield) and strong asset quality (2.6% GNPA) along with scale and growth (5-year CAGR at ~24%).

AU has a strong right to win in this business with its deep distribution and underwriting expertise in informal segments in semi-urban and rural areas, stable leadership, strong operational processes, collection framework and robust people practices. In terms of performance, portfolio has grown at ~14% YTD and ~24% CAGR over the past five years. AU has a long growth runway in this segment, as it expands gradually to pan India. AU shall particularly benefit from increased distribution through Fincare touch points in south India. Asset quality remains broadly in-line with its expectations. Moreover, it is not seeing any signs of contagion with unsecured assets.

Exhibit 26: Consistent growth in secured retail assets across segments



Source: Company data, I-Sec research

Wheels: ~50% of secured retail with stable yields and asset quality

Within secured retail, AU's wheels book is ~INR 343bn, which is ~1/3rd of its total loan portfolio and ~1/2 of its secured retail portfolio. This includes personal and commercial cars, SCVs, LCVs, tractors, and two-wheelers. Wheels portfolio has outpaced overall loan growth, thereby growing at 19% YTD and FY25 growth is expected to be more than 25%. Since Mar'20, this book has grown at 25% CAGR. The book is also high-yielding at ~14% portfolio yield and asset quality is largely stable with no signs of contagion effects from unsecured retail. In terms of network, wheels' book is currently present in ~570 touchpoints, which is ~35% of its total touchpoints, excluding BO/BC outlets. Hence, there is significant headroom to expand distribution within its existing network. By FY26-end, AU expects to expand its touchpoints by another 250–300, including UP and South India, aided by Fincare SFB integration.

Mortgage business – low risk, granular and scalable

Within secured retail, AU's mortgage-backed loans book is ~INR 362bn, which is ~1/3rd of its total loan portfolio and ~1/2 of its secured retail portfolio. This includes micro business loans of INR 267bn and housing loans of INR95bn. These are both granular products with ATS of INR 1.2mn-1.3mn and yield of ~15% and ~12% respectively. This book has expanded at 10% YTD within which micro business loans has grown at 8% YTD and home loans growth is higher at 16% YTD. For FY25, MBL is expected to grow in mid-teens, while housing loan is expected to grow in the range of 20-25%. Asset quality remains pristine with past seven years average credit cost at 70bps for MBL and 40bps for housing loans. Also, there is no contagion impact from unsecured retail. In terms of scale-up, AU has a big opportunity to expand its distribution network. It is present in ~900 touchpoints or ~55% of its total touchpoints in MBL and looking to expand its presence by another 130-150 touchpoints in FY26.

Exhibit 27: Significant headroom to expand product range within existing branches

As on	Total unique touchpoints (excl. BO/BC/URC)	Deposits		Retail assets				Commercial banking	Inclusive banking	
		Urban banking	Swadesh banking	Wheels	MBL	HL	Gold		Agri SMF	MFI
Dec'24	1,656	440	177	574	911	596	861	507	98	798
Expansion plan within existing touchpoints by FY26		-	70-80	250-300	130-150	50-60	40-50	30-40		Pan is WIP
New branches (FY26)		60-70	42,278							

Source: Company data, I-Sec research

Commercial banking asset segment - 21% of gross loan portfolio

Second key asset segment in AU's portfolio is commercial banking, which is ~21% of its total loan portfolio and includes 5 businesses namely business banking, agri banking, NBFC, real estate and transaction banking. NBFC lending and real estate business is more than a decade old, while business banking and agri banking was started some 7-8 years ago. AU mainly competes with banks in these businesses. It has developed a full product suite and tech capability, including the AD1 business, which AU started earlier in FY25. Growth and asset quality is largely on track with some cyclical challenges in agri-commodity linked businesses. Overall, this portfolio garners yield of 11.2% with GNPA of less than 1% at 0.8% and has non-fund exposure of INR80bn. For FY25-TD, this portfolio is up 22% YTD and is expected to grow by >30% for FY25. Over the past 5 years, this portfolio has expanded at 36% CAGR and average credit cost for the past 7 years has been just ~40bps.

Commercial banking business is also important from liability franchise standpoint. AU plans to move this business to Mumbai over the next 1-2 years, which will provide an opportunity to stitch this business even more closely with its deposit franchise and other asset businesses. AU believes that there is a large opportunity to grow in these segments. Its AD-I business is also gaining traction, which is important from cross-sell, current account float, and export import perspective. With most of the products being already live and investments already done, AU will continue to scale this business.

Inclusive Finance - Cautiously optimistic and gradually expanding its footprints in this business

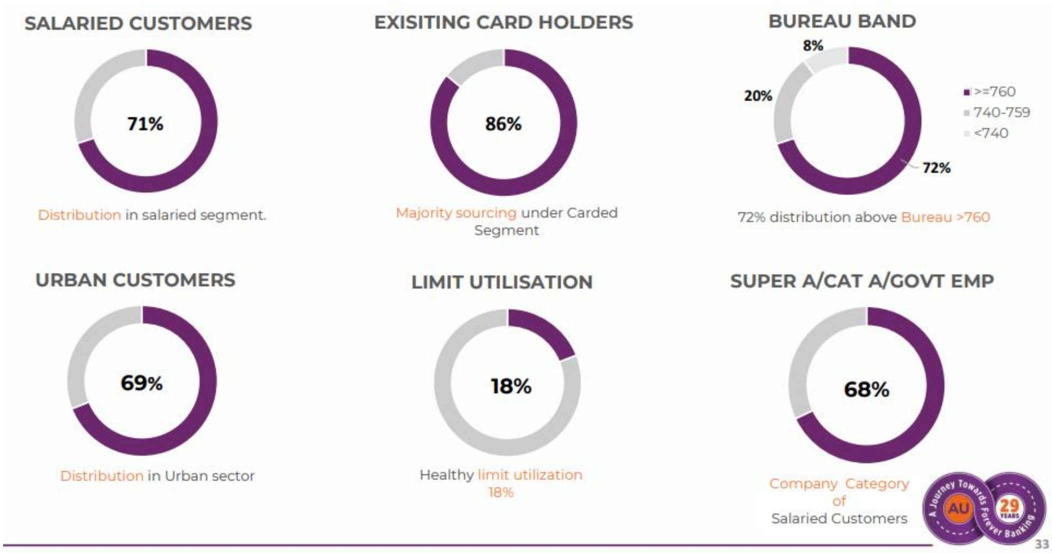
Third key segment for AU is its Inclusive Finance book which is unsecured in nature. This includes MFI and lending to small marginal farmers and FPOs and is important for fulfilling its financial inclusion charter and meeting PSL obligations in SMF and Agri. Book size is INR 74bn, which is ~7% of its total loan portfolio and ~97% of it is towards MFI , which has an outstanding book of ~INR 71.5bn. AU has a strong MFI franchise with conservative underwriting policies, strong operational processes and one of the lowest average exposure in industry at ~INR25k per customer. Book is also well diversified across more than 60k villages, top 3 districts contribute ~6% and all remaining districts are less than 1.5%.

However, MFI industry as a whole is reeling under the stress of over leveraging and the outcome of which has been elevated slippages, lower disbursements, and high credit costs. From AU perspective, it has taken some corrective actions in terms of strengthening its collection efforts and improving disbursements under the CGFMU Guarantee Scheme, with 60% of Q3 disbursement covered in CGFMU. This is expected to increase to 70%-75% in Q4, which will alleviate concerns from asset quality perspective in the future. Moreover, MFIN stricter guidelines is likely to bring some sanity back in the industry and normalisation could be expected in FY26.

Retail digital – in learning phase

Fourth asset segment for AU is retail digital, which is unsecured in nature and includes CC and PLs business. Total GLP is ~INR 40bn, which is 4% of the total portfolio, but annualised credit cost on this book stands at 9.2% for 9MFY25. PL size is ~INR10n and is primarily for its existing customers while CC portfolio stands at ~INR30bn. This book is performing broadly in-line with industry from an asset quality perspective, while CC delinquencies have been higher. However, management acknowledged the fact that getting CC business is important from a longer term perspective and it has taken various corrective actions to get this business back in shape.

Exhibit 28: Key portfolio metrics for CC business



Source: Company data, I-Sec research

Calibrated investments, merger synergies, improved productivity and cross-sell to aid decline in C/I

Cost calibration and productivity gains to aid decline in cost to assets

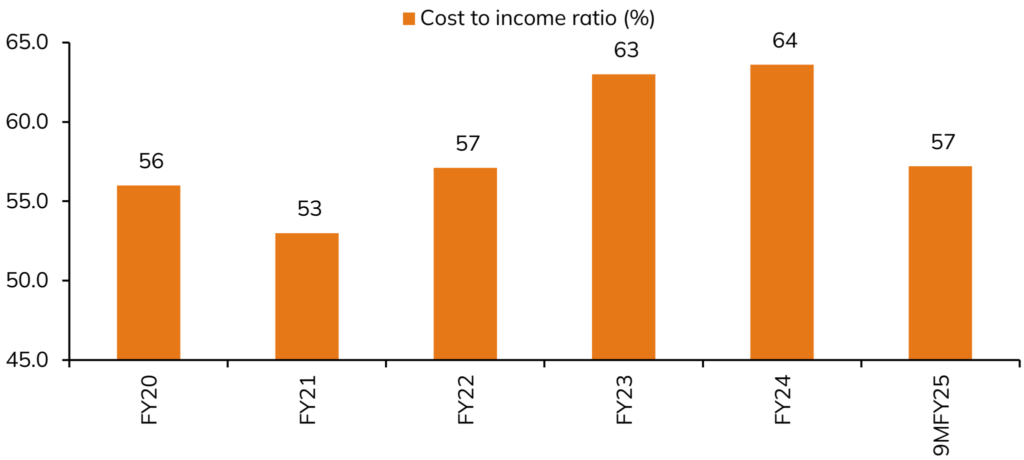
AU has identified several key areas for investment recalibration to enhance its profitability which includes CCs, QR codes, video banking and other digital initiatives. The Bank has already made adequate investments in past and hence incremental investment towards these initiatives would be minimal until FY27. Cautious stance in new CC issuances to help manage cost in near-term and also aligning QR code merchant sourcing with branch banking to deepen CA penetration, enhancing customer integration and service accessibility to help manage cost.

AU is optimising its video banking channel and transforming it to act as a channel for liabilities and customer acquisition. In Oct'23, AU launched the 2nd edition of Badlaav Humse Hai, featuring its brand ambassador, Kiara Advani with the primary objective to reinforce AU's brand identity and build recall for AU's key offerings, namely SA, CA, and video banking.

AU is now focusing on driving productivity, especially in SBL and AHL businesses of erstwhile Fincare, which integrated with MBL and housing businesses of AU and gold under the retail asset umbrella. Further, leadership at Bangalore under the Fincare unit is now aligned with the entire verticalisation of AU. It expects, by Q4FY25, to completely move away from a two-unit existence; and operational efficiency should start emerging in FY26.

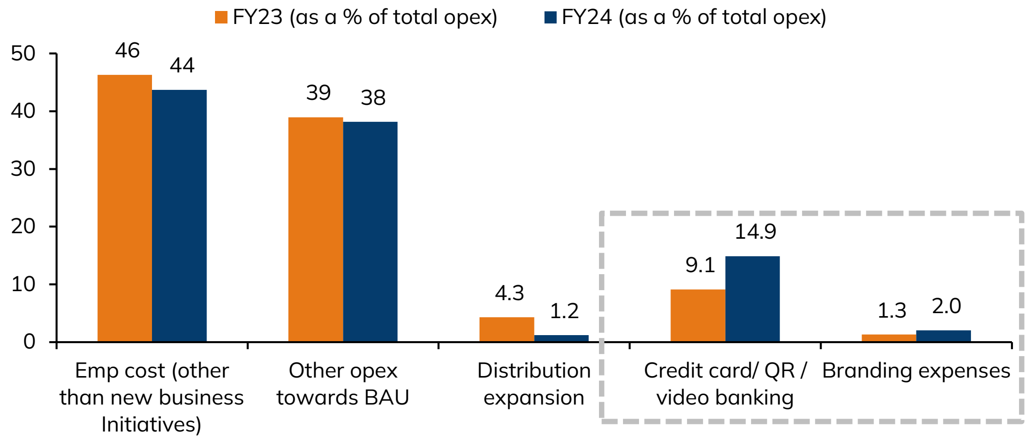
Investments towards the various aforementioned initiatives has resulted in steep increase in cost to assets (calculated) from ~3.5% in FY21 to ~4.9% for FY24. However, given that AU doesn't anticipate any sizeable new investments over the next 2 years, synergies from merger and improved efficiency from the stated investment should aid AU yield positive outcome in cost to assets (calculated) over the ensuing years. We expect ~50bps moderation in cost to assets from FY24-FY27E, which would be a key driver for RoA improvement, apart from credit cost.

Exhibit 29: Cost income ratio moderated in 9MFY25 as it calibrated fresh investment towards new product development and branding



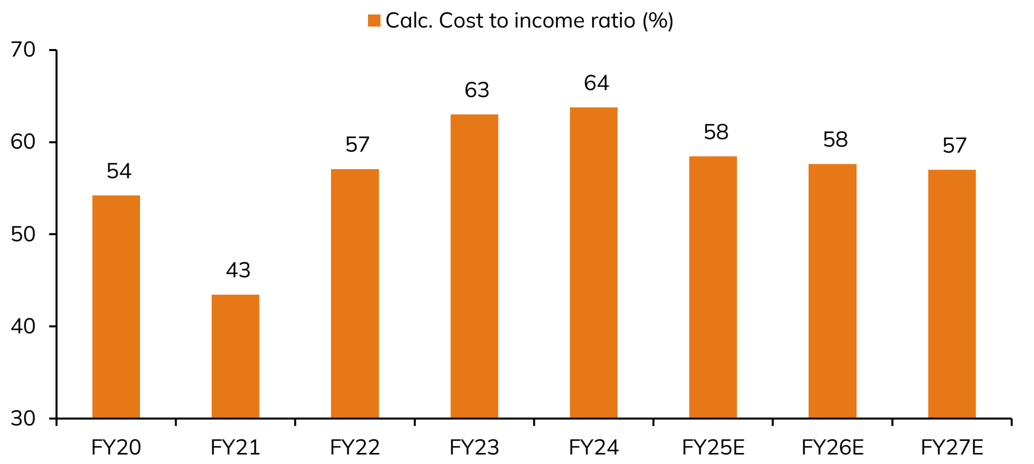
Source: Company data, I-Sec research

Exhibit 30: Discretionary cost as a % total opex has seen a spurt in FY24, benefits likely to follow



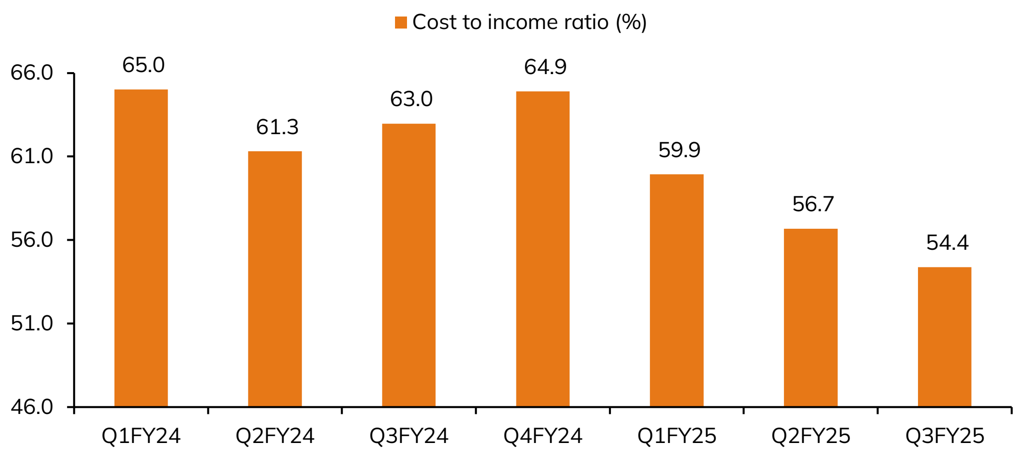
Source: Company data, I-Sec research

Exhibit 31: Cost to income likely to moderate as operational efficiency and synergy benefits kick in



Source: Company data, I-Sec research

Exhibit 32: Cost to income on a declining spree as synergy benefits play out



Source: Company data, I-Sec research

Merger to bring synergies and widen cross-sell opportunities

The merger with Fincare SFB is expected to enhance AU SFB's profitability by improving its NIM's and RoA over the medium term. Fincare brings a strong presence across the country; hence, could help diversify AU SFB's loan book and improve its overall asset mix. Additionally, cost synergies from the integration are likely to drive operating efficiency, while a larger customer base could lead to better cross-selling opportunities. AU SFB has a robust customer base that provides ample opportunities to cross-sell financial products. This may not only diversify its revenue streams, but also improve fee-based income and thereby augmenting total income. Additionally, an increase in cross-selling efforts can enhance customer stickiness.

C/I likely to moderate to ~57% by FY27E vs. ~64% in FY24

Management highlighted that the bulk of Fincare SFB integration is already completed and merger synergies have already started yielding positive results. This is evident in steady decline in C/I for the first 3 quarters of FY25 to ~54% for Q3FY25 and ~57% for 9MFY25 from ~64% for FY24. Overall, a host of factors (as highlighted above) namely opex calibration, cross-selling, merger synergies, higher other income and productivity gains are likely to play out in AU's favour over the ensuing years. We therefore expect C/I ratio to at 57% over the next two years vs. ~59% in FY25E, implying an annual reduction of ~100bps over the next two years.

Upgrade to BUY on improving RoA and reasonable valuation; current entry point lucrative from a risk-reward standpoint

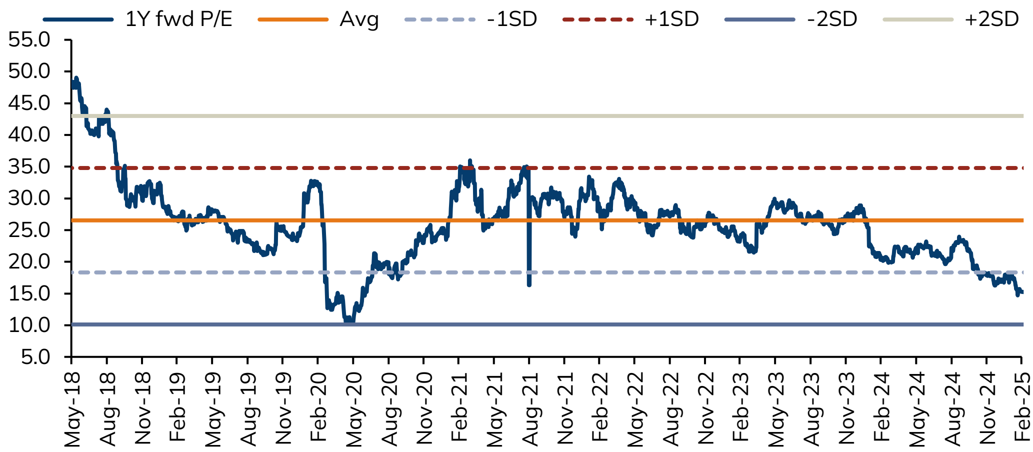
Why AU has seen sharp de-rating and where is the current multiple vis-à-vis historical average?

AU 1-year forward P/B has fallen from its 5-year peak of 5.5x in Mar'21 to ~2x currently. Current multiple is close to its multiple of ~2x in May'20 (Covid-19 low), while AU has on an average traded at ~3.5x for the past five years.

Exhibit 33: Current multiple close to covid lows and hence provides comfort on valuation

Source: Company data, Bloomberg, I-Sec research

Exhibit 34: Trading at ~15x 1-year forward P/E vs. 5-year average of ~25x, thereby offering attractive entry point



Source: Company data, Bloomberg, I-Sec research

Historically, AU has been able to deliver a steady and consistent financial performance Its RoA has averaged at 1.8% from FY22-24 and it has delivered a loan CAGR of 25% from FY21-FY24. However, for YTD-FY25, AU growth has been relatively slow at 13% YTD, primarily due to 8% YTD de-growth in unsecured portfolio, while secured portfolio is up 16% YTD. Over the past few quarters, AU has been grappling with its own challenges associated with the merger and expanding the businesses which are relatively new for AU, particularly on the unsecured front. This has led to some hiccups in the normal course of business and induced volatility in its profitability. However, despite the elevated credit cost in unsecured portfolio its RoA still remained at 1.5% as on Q3FY25.

What lies ahead for AU?

Despite short-term credit cost pressures, AU seems to be well-positioned to maintain its RoA in-line with management guidance of 1.6% for FY25 and reach ~1.8% by FY27E. This resilience is driven by strong loan growth, rising contribution from fee-based income and cost efficiencies as bank gains scale and led by synergies. RoA seems to be nearing its bottom and is poised to see a gradual improvement in FY26E, largely on the back of improving credit cost. We believe that AU SFB has been taking the right steps, which should eventually aid in building a sustainable and scalable franchise. Overall, we expect ~30bps RoA improvement to 1.8% by FY27E. With a likely improvement in profitability and recent stock price correction (~15% in past 1–3 months), we upgrade the stock to **BUY** (*Hold* earlier) with a revised TP of INR 725 (earlier INR 625), valuing at ~3x Sep'25E BVPS (~2.5x earlier). The stock is currently trading at 2x/1.7x FY26E/FY27E BVPS.

Key risks: 1) Stress unfolding lower than expected; and 2) deceleration in loan growth.

Exhibit 35: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	22.9	22.9	22.9
Institutional investors	58.1	60.7	59.8
MFs and other	12.5	15.4	17.1
Banks/ FIs	0.0	0.0	0.0
Insurance Cos.	2.8	3.3	3.3
FIIs	42.8	42.0	39.4
Others	19.0	16.4	17.3

Source: Bloomberg, I-Sec research

Exhibit 36: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 37: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Interest income	1,32,257	1,62,686	1,93,519	2,40,061
Interest expense	(64,206)	(80,411)	(97,729)	(1,18,208)
Net interest income	**68,051**	**82,276**	**95,789**	**1,21,853**
Non interest income	20,889	24,744	29,089	35,667
Operating income	**88,940**	**1,07,019**	**1,24,879**	**1,57,520**
Operating expense	(56,710)	(62,573)	(71,980)	(89,794)
- Staff expense	(28,977)	(31,449)	(35,719)	(42,371)
Pre-provisions profit	**32,230**	**44,447**	**52,898**	**67,726**
Core operating profit	**32,230**	**44,447**	**52,898**	**67,726**
Provisions & Contingencies	(6,057)	(17,034)	(19,088)	(19,461)
Pre-tax profit	**26,172**	**27,413**	**33,810**	**48,265**
Tax (current + deferred)	(6,087)	(6,420)	(7,919)	(11,304)
Net Profit	**20,085**	**20,992**	**25,892**	**36,961**
% Growth	**40.7**	**4.5**	**23.3**	**42.8**

Source Company data, I-Sec research

Exhibit 38: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Capital	7,427	7,427	7,427	7,427
Reserve & surplus	1,42,378	1,63,371	1,89,262	2,26,223
Deposits	9,77,041	12,21,302	15,26,627	19,08,284
Borrowings	92,387	55,058	37,039	29,552
Other liabilities	47,697	52,466	57,713	57,713
Total liabilities	**12,66,930**	**14,99,623**	**18,18,068**	**22,29,198**
Cash and Bank balance	63,763	85,491	1,06,864	1,33,580
Investments	3,03,184	3,29,751	4,12,189	5,15,237
Advances	8,55,207	10,37,464	12,50,386	15,29,772
Fixed assets	8,516	10,552	12,135	13,955
Other assets	36,261	36,364	36,493	36,654
Total assets	**12,66,930**	**14,99,623**	**18,18,068**	**22,29,198**
% Growth	**40.4**	**18.4**	**21.2**	**22.6**

Source Company data, I-Sec research

Exhibit 39: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
No. of shares and per share data				
No. of shares (mn)	743	743	743	743
Adjusted EPS (Rs)	27.0	28.3	34.9	49.8
Nominal Book Value per share (Rs)	202	230	265	315
Adjusted BVPS (Rs)	198	225	260	309
Subs Value per share (Rs)	-	-	-	-
Valuation ratio				
PER (x)	19.4	18.5	15.0	10.5
Price/ Nominal Book (x)	2.6	2.3	2.0	1.7
Price/ Adjusted book (x)	2.6	2.3	2.0	1.7
Dividend Yield (%)	-	-	-	-
Profitability ratio				
Yield on advances (%)	15.3	14.3	14.3	14.4
Yields on Assets	12.6	12.2	12.0	12.2
Cost of deposits (%)	7.7	7.3	7.1	6.9
Cost of funds	7.0	6.9	6.9	6.8
NIMs (%)	6.5	6.2	5.9	6.2
Cost/Income (%)	63.8	58.5	57.6	57.0
Dupont Analysis (as % of Avg Assets)				
Interest Income	12.2	11.8	11.7	11.9
Interest expended	(5.9)	(5.8)	(5.9)	(5.8)
Net Interest Income	**6.3**	**5.9**	**5.8**	**6.0**
Non-interest income	1.9	1.8	1.8	1.8
Total Income	**8.2**	**7.7**	**7.5**	**7.8**
Staff costs	(2.7)	(2.3)	(2.2)	(2.1)
Total Cost	(5.2)	(4.5)	(4.3)	(4.4)
PPoP	**3.0**	**3.2**	**3.2**	**3.3**
Non-tax Provisions	(0.6)	(1.2)	(1.2)	(1.0)
PBT	2.4	2.0	2.0	2.4
Tax Provisions	(0.6)	(0.5)	(0.5)	(0.6)
ROA (%)	**1.9**	**1.5**	**1.6**	**1.8**
Leverage (x)	8.5	8.8	9.2	9.5
ROE (%)	**15.7**	**13.3**	**14.4**	**17.4**
Asset quality ratios				
Gross NPLs (%)	1.7	2.5	1.9	1.8
Net NPLs (%)	0.6	0.5	0.4	0.4
PCR (%)	67.6	80.0	80.0	80.0
Gross Slippages (% of PY loans)	2.3	3.3	2.7	2.4
Total provisions/ Avg loans (%)	0.8	1.8	1.7	1.4
Net NPLs / Networth (%)	2.7	3.1	2.4	2.3
Capitalisation ratios				
Tier I cap.adequacy (%)	20.5	19.4	18.4	17.8
Total cap.adequacy (%)	23.3	22.1	21.1	20.6

Source Company data, I-Sec research

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