

# AU Small Finance bank

Refer to important disclosures at the end of this report

## Needs to arrest top-level churn and bring more transparency

- As per media reports, Mr. Sumit Dhir, who was recently hired as Chief Audit Officer (ex-KMB with 19 yrs of experience), has resigned from the post. He was hired to replace Chief Audit Officer Mr. Nitin Gupta who resigned four months ago. This is the third top-level exit at AU SFB after Mr. Alok Gupta (Chief Risk Officer) and earlier Chief Audit Officer Mr. Nitin Gupta.
- In our view, steadily rising asset-quality concerns (higher NPAs + RSA + ECLGS) amid the Covid-induced disruption, the series of resignations in the audit/risk functions and delayed disclosure of these resignations have irked investors. We believe the bank's rich valuations (~4.4x FY24E ABV, pre-correction) leave no margin for error. This was reflected in today's stock reaction - ~13% correction in the stock price at day's close.
- Management clarification confirms his resignation. Management has mentioned that -Mr. Sumit Dhir expressed his desire to move back to his hometown (Delhi) due to changes in his personal circumstances post Covid 2nd wave, but the bank is trying to retain him. Change in personal preferences of an incoming candidate at such an important position in such a short span of time raises questions on hiring policy. Notably, personal health reasons were cited after resignation of Chief Risk Officer as well. As per our discussions earlier, management had clarified that it has hired about 100 people in the recent past and some may have left due to the misalignment w.r.t. expectations. According to management, poaching by peer banks has been rising too, leading to increased attrition.
- We believe the resignations in audit/risk functions may raise investor concerns about the sanctity of the books/ risk management practices. However, management has tried to allay such concerns and indicated that there were no red flags by the RBI in its recently completed audit.
- Our external checks suggest that possibly aggressive management style, and more so in the transition to a Universal Bank call for stricter risk management and compliance practices, could have partly contributed to the resignations.
- That said, we believe the bank's management needs to come out clean and explain the back-to-back resignations as a damage control measure. It also needs to be more transparent and should make timely disclosures to avoid unpleasant surprises.
- We take comfort in the bank's strong capital adequacy ratios and superior return metrics. The bank has steadily ramped up its liability profile, with the CASA pool standing at 26%, but it still remains sub-par compared to best-in-class peers like Bandhan and Equitas, leaving scope for improvement. Management instability could impact the trust of investors and depositors as well, and so it needs to be addressed swiftly.
- Currently, we have a Hold rating/UW in EAP on the stock with a TP of Rs1,230 (based on 4.5x Sept'23E ABV), given concerns about asset-quality and expensive valuations. Management attrition has added to these concerns, and thus, we will be closely monitoring the corrective measures to be taken by the bank.

Note: Bank is hosting an investor call to address concerns related to senior management resignations at 8.30 am IST on 1<sup>st</sup> Sep'21. Diamond link is as follows:

<https://services.choruscall.in/DiamondPassRegistration/register?confirmationNumber=8114829&linkSecurityString=1e74764c0b>

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 6\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	26,150	38,169	38,623	47,608	59,612
Net profit	6,748	11,708	10,386	14,816	20,298
EPS (Rs)	22.6	38.0	33.3	47.5	65.0
ABV (Rs)	141.3	185.0	207.8	245.9	297.6
RoA (%)	1.8	2.5	1.8	2.1	2.2
RoE (%)	17.9	22.0	15.6	19.4	22.4
PE (x)	50.0	29.8	34.0	23.8	17.4
P/ABV	8.8	6.7	6.0	5.1	4.2

Source: Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 1,131</b> as of (August 31, 2021)	<b>Rs 1,230 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>HOLD (■)</b>	<b>8.8 %</b>

### Change in Estimates

EPS Chg FY22E/FY23E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	33.3	47.5
Consensus	29.3	40.6
Mean Consensus TP (12M)	Rs 1,245	

### Stock Details

Bloomberg Code	AUBANK IN
Face Value (Rs)	10
Shares outstanding (mn)	313
52 Week H/L	1,390 / 616
M Cap (Rs bn/USD bn)	354 / 4.85
Daily Avg Volume (nos.)	1,502,265
Daily Avg Turnover (US\$ mn)	24.0

### Shareholding Pattern Jun '21

Promoters	28.4%
FIIs	31.9%
DIIIs	21.4%
Public and Others	18.3%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(7)	14	-	69
<b>Rel. to Nifty (15)</b>		4	(15)	13

### Relative price chart



Source: Bloomberg

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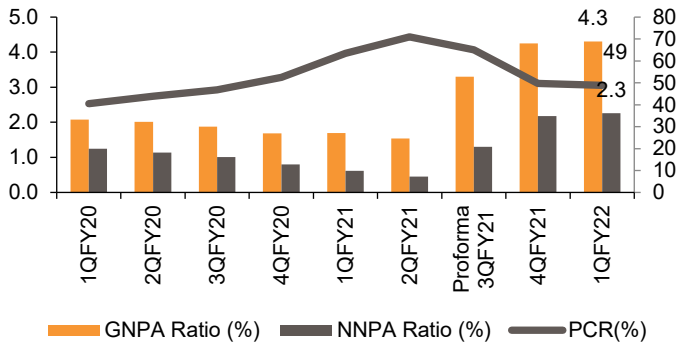
# Story in Charts

**Exhibit 1: Recent key managerial resignations**

Name of Employee	Designation	Total Experience	Previous companies	Date of Joining	Date of resignations	Intimation of resignation by Bank to Exchange	Delay in intimation to Exchange (Days)	Replaced by
Sumit Dhir	Chief Audit officer	19	Kotak Bank	Apr-21	NA	NA	NA	NA
Alok Gupta	Chief Risk Officer	21	Equitas, Kotak AMC, Others	Mar-21	14-Jul-21	28-Aug-21	45	Deepak Jain
Nitin Gupta	Chief Audit officer	19	Teradata, Deloitte	Oct-15	3-Mar-21	30-Apr-21	58	Sumit Dhir

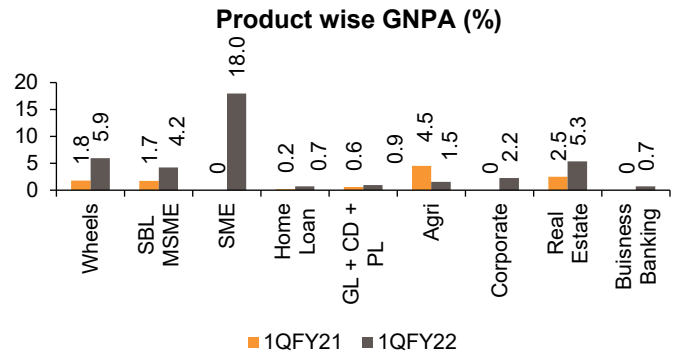
Source: Company, Emkay Research

**Exhibit 2: Asset-quality deterioration due to Covid-induced disruption; PCR remains sub-par vs. peers**



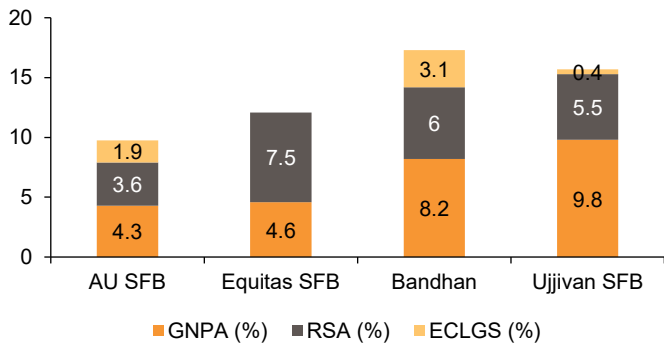
Source: Company, Emkay Research

**Exhibit 3: Stress in Wheels, SBL and SME needs to be contained**



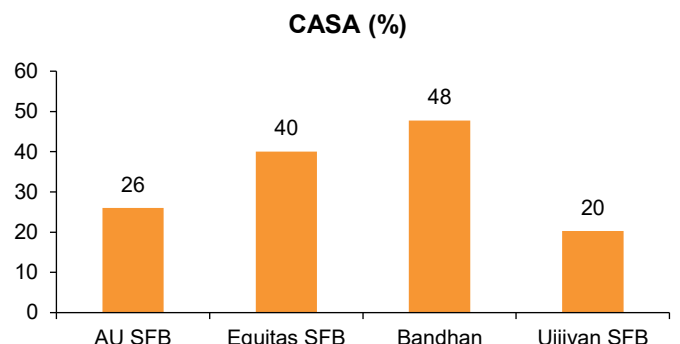
Source: Company, Emkay Research

**Exhibit 4: Overall stressed book of AU SFB is now 9.8% of AUM**



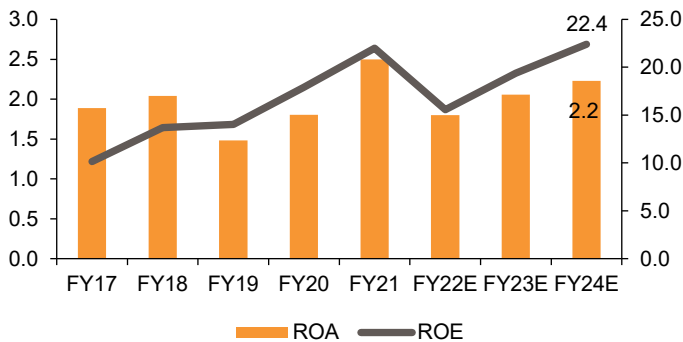
Source: Company, Emkay Research

**Exhibit 5: CASA ratio is lower than peers**



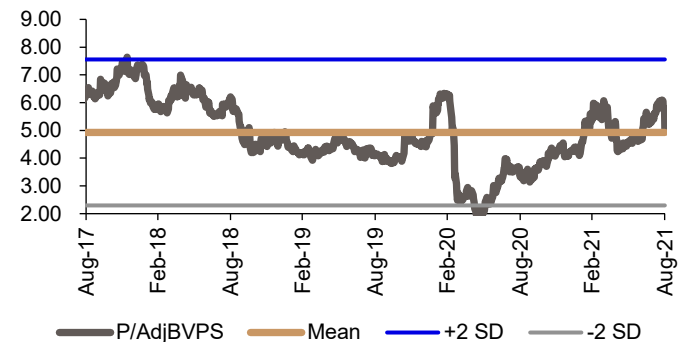
Source: Company, Emkay Research

**Exhibit 6: Return ratios to improve on lower LLP and growth**



Source: Company, Emkay Research

**Exhibit 7: The stock trades at 5x -1 year forward ABV**



Source: Bloomberg, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net interest income</b>	<b>19,089</b>	<b>23,654</b>	<b>29,504</b>	<b>36,372</b>	<b>46,192</b>
<b>Other income</b>	<b>7,061</b>	<b>14,515</b>	<b>9,119</b>	<b>11,236</b>	<b>13,420</b>
Fee income	4,291	2,970	3,861	4,826	6,033
<b>Net income</b>	<b>26,150</b>	<b>38,169</b>	<b>38,623</b>	<b>47,608</b>	<b>59,612</b>
Operating expenses	14,179	16,583	19,388	22,674	26,263
<b>Pre provision profit</b>	<b>11,972</b>	<b>21,586</b>	<b>19,235</b>	<b>24,934</b>	<b>33,349</b>
<b>PPP excl treasury</b>	<b>10,246</b>	<b>12,756</b>	<b>17,235</b>	<b>22,434</b>	<b>30,849</b>
Provisions	2,832	7,001	5,355	5,135	6,224
<b>Profit before tax</b>	<b>9,140</b>	<b>14,586</b>	<b>13,879</b>	<b>19,800</b>	<b>27,125</b>
Tax	2,392	2,878	3,493	4,984	6,827
Tax rate	26	20	25	25	25
<b>Profit after tax</b>	<b>6,748</b>	<b>11,708</b>	<b>10,386</b>	<b>14,816</b>	<b>20,298</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	3,041	3,122	3,122	3,122	3,122
Reserves	40,727	59,630	67,518	79,212	95,763
<b>Net worth</b>	<b>43,768</b>	<b>62,752</b>	<b>70,640</b>	<b>82,334</b>	<b>98,885</b>
Deposits	261,639	359,793	466,349	598,903	792,524
Borrowings	93,053	57,997	51,037	44,913	39,523
<b>Total liabilities</b>	<b>421,431</b>	<b>515,913</b>	<b>638,509</b>	<b>802,955</b>	<b>1,017,053</b>
Cash and bank	10,496	15,693	21,249	27,651	36,388
Investments	106,682	108,154	123,416	144,984	172,495
Loans	269,924	346,089	430,218	559,284	727,069
Others	6,648	9,033	24,973	30,689	38,284
<b>Total assets</b>	<b>421,431</b>	<b>515,913</b>	<b>638,509</b>	<b>802,955</b>	<b>1,017,053</b>

**Key Ratios (%)**

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	5.3	5.2	5.4	5.4	5.4
Non-ll/avg assets	1.9	3.1	1.6	1.6	1.5
Fee income/avg assets	1.1	0.6	0.7	0.7	0.7
Opex/avg assets	3.8	3.5	3.4	3.1	2.9
Provisions/avg assets	0.8	1.5	0.9	0.7	0.7
PBT/avg assets	2.4	3.1	2.4	2.7	3.0
Tax/avg assets	0.6	0.6	0.6	0.7	0.8
RoA	1.8	2.5	1.8	2.1	2.2
RoAE	17.9	22.0	15.6	19.4	22.4
GNPA (%)	1.7	4.3	3.5	2.9	2.4
NNPA (%)	0.8	2.2	1.8	1.3	1.1

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	22.6	38.0	33.3	47.5	65.0
BVPS	146.8	203.6	226.3	263.7	316.7
ABVPS	141.3	185.0	207.8	245.9	297.6
DPS	0.0	0.0	8.0	10.0	12.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	50.0	29.8	34.0	23.8	17.4
P/BV	8.0	6.1	5.4	4.6	3.8
P/ABV	8.8	6.7	6.0	5.1	4.2
P/PPOP	31.7	18.0	20.3	15.6	11.7
Dividend Yield (%)	0.0	0.0	0.7	0.9	1.1

Source: Company, Emkay Research

<b>Growth (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
NII	42.2	23.9	24.7	23.3	27.0
PPOP	65.8	80.3	(10.9)	29.6	33.7
PAT	76.7	73.5	(11.3)	42.7	37.0
Loans	18.3	28.2	24.3	30.0	30.0

<b>Quarterly (Rs mn)</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>Q3FY21</b>	<b>Q4FY21</b>	<b>Q1FY22</b>
NII	5,158	5,606	6,331	6,558	7,240
NIM(%)	5.0	5.3	5.4	5.3	6.0
PPOP	4,456	4,663	8,728	3,739	4,513
PAT	2,009	3,219	4,790	1,690	2,032
EPS (Rs)	6.57	10.50	15.60	5.41	6.51

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>	<b>Jun-21</b>
Promoters	29.0	29.0	29.0	28.5	28.4
FIIs	30.0	30.6	32.8	32.1	31.9
DII	13.5	15.6	18.9	20.5	21.4
Public and Others	27.5	24.9	19.3	19.0	18.3

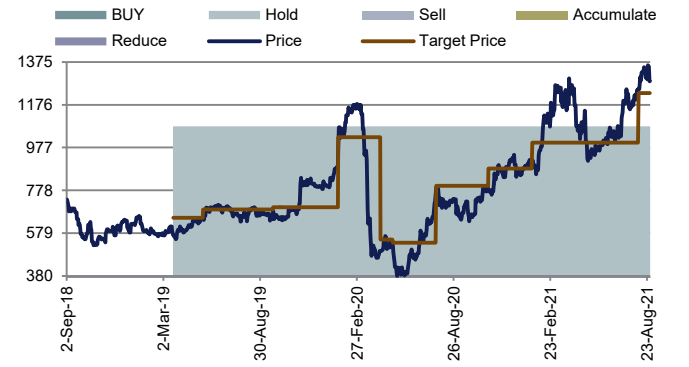
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
7-Aug-21	1,249	1,230	12m	Hold	Anand Dama
1-May-21	1,004	1,000	12m	Hold	Anand Dama
30-Apr-21	1,004	1,000	12m	Hold	Anand Dama
9-Mar-21	1,233	1,000	12m	Hold	Anand Dama
30-Jan-21	873	1,000	12m	Hold	Anand Dama
20-Jan-21	920	1,000	12m	Hold	Anand Dama
30-Oct-20	775	880	12m	Hold	Anand Dama
24-Jul-20	791	800	12m	Hold	Anand Dama
4-May-20	517	535	12m	Hold	Anand Dama
11-Apr-20	496	550	12m	Hold	Anand Dama
23-Jan-20	975	1,025	12m	Hold	Anand Dama
22-Oct-19	689	700	12m	Hold	Anand Dama
9-Oct-19	641	700	12m	Hold	Anand Dama
23-Sep-19	683	700	12m	Hold	Anand Dama
26-Jul-19	659	690	12m	Hold	Anand Dama
15-May-19	651	690	12m	Hold	Anand Dama
23-Apr-19	610	650	12m	Hold	Anand Dama
20-Mar-19	570	650	12m	Hold	Anand Dama

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

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#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Banks</b>	<b>19.70</b>	<b>19.70</b>	<b>0.0%</b>	<b>0</b>	<b>100.00</b>
Axis Bank	2.13	2.23	5%	10	11.31
AU Small Finance Bank	0.25	0.17	-30%	-7	0.87
Bandhan Bank	0.21	0.21	0%	0	1.07
Bank of Baroda	0.15	0.15	0%	0	0.75
Canara Bank	0.08	0.00	-100%	-8	0.00
City Union Bank	0.12	0.12	0%	0	0.58
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.02	NA	2	0.10
Federal Bank	0.17	0.21	24%	4	1.05
HDFC Bank	6.63	6.71	1%	9	34.08
ICICI Bank	5.11	5.26	3%	15	26.71
Indian Bank	0.00	0.02	NA	2	0.08
Indusind Bank	0.59	0.70	18%	11	3.55
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.36	2.02	-14%	-34	10.25
Punjab National Bank	0.11	0.00	-100%	-11	0.00
RBL Bank	0.09	0.06	-27%	-2	0.32
State Bank of India	1.68	1.83	9%	15	9.27
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.04	0.00	-100%	-4	0.00
Yes Bank	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	1-Sep-20	2-Mar-21	1-Jun-21	30-Jul-21	31-Aug-21
EAP - BFSI-Banks	100.0	82.0	120.3	120.8	118.3	125.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	80.7	118.0	118.3	115.7	123.0

\*Performance measurement base date 1st April 2019

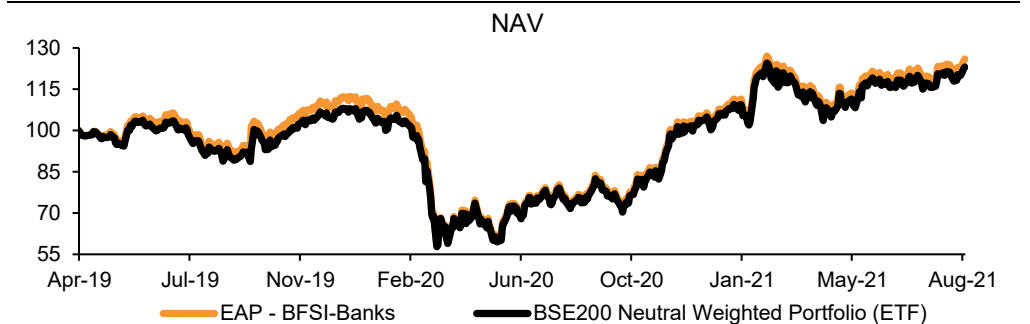
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	6.4%	4.2%	4.6%	53.6%
BSE200 Neutral Weighted Portfolio (ETF)	6.3%	4.0%	4.3%	52.4%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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

Completed Date: 01 Sep 2021 01:28:17 (SGT)

Dissemination Date: 01 Sep 2021 01:29:17 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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