

# AU Small Finance Bank

**BSE SENSEX**  
60,836

**S&P CNX**  
18,053

**CMP: INR615**

**TP: INR700 (+14%)**

**Buy**



## Stock Info

	AUBANK IN
Bloomberg	AUBANK IN
Equity Shares (m)	1,331
M.Cap.(INRb)/(USDb)	409.5 / 4.9
52-Week Range (INR)	733 / 468
1, 6, 12 Rel. Per (%)	-4/-17/0
12M Avg Val (INR M)	1570
Free float (%)	74.4

## Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
NII	32.3	43.9	55.1
PPoP	18.2	21.2	27.3
PAT	11.3	14.1	17.5
NIM (%)	5.4	5.6	5.6
EPS (INR)	18.0	21.8	26.4
EPS Gr (%)	-5.1	21.0	21.1
BV/Sh. (INR)	118.7	163.8	190.2
ABV/Sh. (INR)	116.7	161.2	186.3

## Ratios

RoE (%)	16.6	15.4	14.9
RoA (%)	1.9	1.8	1.8

## Valuations

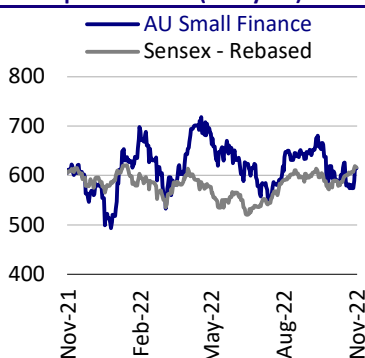
P/E (x)	34.1	28.2	23.3
P/BV (x)	5.2	3.7	3.2
P/ABV (x)	5.3	3.8	3.3

## Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	25.6	28.2	28.4
DII	21.3	18.4	20.9
FII	38.5	35.1	32.5
Others	14.6	18.3	18.3

FII Includes depository receipts

## Stock's performance (one-year)



## Taking strides towards building a granular liability franchise

### Urban areas to drive its branch expansion strategy

We attended the third session of AUBANK's virtual Insights Day, where the management dwelled upon its two SBUs – Branch Banking and Treasury, DCM, and Wholesale Liability. The management has been focusing on building a granular Retail deposit franchise by expanding into urban areas. It is looking at selective opportunities in Wholesale deposits (Government, Corporate and FIG business, etc.). The key strategy is to cross-sell its wide bouquet of services to liability customers, while delivering a superior customer experience. Here are the key takeaways from that interaction:

### Opening remarks by Mr. Uttam Tibrewal – Executive Director

Over the past few years, AUBANK has focused on building a granular deposit base. It has successfully transitioned to a Retail deposit franchise from a Wholesale one, with CASA and Retail deposits constituting ~73% of total deposits. The bank has more than doubled its urban branch network in the past two years, which remains the key source for garnering deposits. The government business is progressing well, and the bank will soon look to taper the agency business. The focus remains on 'quality over quantity' and cross-selling products by leveraging technology.

### Branch Banking – Mr. Rishi Dhariwal (Group Head – Liability) and team

- Total deposits for the industry/SFB clocked 9%/48% CAGR since Mar'17, within which AUBANK clocked 56% CAGR, despite the constant increase in the share of Private Banks.
- In FY18, Branch Banking was used to source 100% of its liabilities. Currently, Branch Banking is focusing on garnering Retail deposits, while the management has formed a separate team for Wholesale and Video Banking.
- The share of deposits sourced from Branch Banking has moderated to 71% in Sep'22 from 100% in FY18, with the bulk of it being quite granular and sticky Retail deposits.
- As the branch expansion strategy for AUBANK is predominantly in urban areas, the number of branches in urban areas has sharply risen to 215 v/s 98 in FY20, while the same in core geographies stood at 232 v/s 215 in FY20.
- As ~136 cities contribute ~65% of total deposits for the system as a whole, it will focus on these cities. It already has a presence in 60% of these cities.
- AUBANK is planning to raise its coverage in the NCR region by opening 80-85 branches in the medium term. It has diversified in Uttar Pradesh and in South and East India, with a total of 29 branches v/s eight in the past 18 months.
- In core geographies, ~23 branches of AUBANK have a market share of over 10% in RBI's deposit base of that center.
- The focus on building a predictable, scalable, sustainable, and a replicable deposit franchise continues.
- This vertical has over 200 leadership personnel, of which 45% have moved up from within the organization.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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- The bank is now offering a comprehensive product suite, which aids in garnering incremental customers and improving the cross-sell.
- The management's focus remains on Royal SA, Platinum SA, and the CA (RPC) accounts, with ~10%/23% of its sales force opening more than 10/seven-to-10 such accounts in Sep'22 v/s 2%/7% in Jun'21.
- The cost of acquisition for a RPC account is 10-15% higher than other accounts, while the difference in acquisition cost between urban and core regions stood ~30%.
- The bank is deepening its customer engagement, with the percentage of transacting SA customers rising to 57% from 48% in Jun'21. The average transaction per monthly transacting customers has risen to 28.6 v/s 16.6 in Jun'21.
- Within CA customers, the percentage of transacting customers rose to 72% from 63% in Jun'21, while the average transaction per monthly transacting customers increased to 69 v/s 48 in Jun'21.
- Average Ticket Size (ATS) for CA customers stood ~INR0.12m. The same for CA (Max and above) customers stood at INR0.26m. ATS for Retail term deposits stood ~INR1m.
- The renewal rate for Retail TD stood at 55-60%.
- Branches have a monthly walk in of over 1m customers.
- Around 97% of transactions are being undertaken digitally.

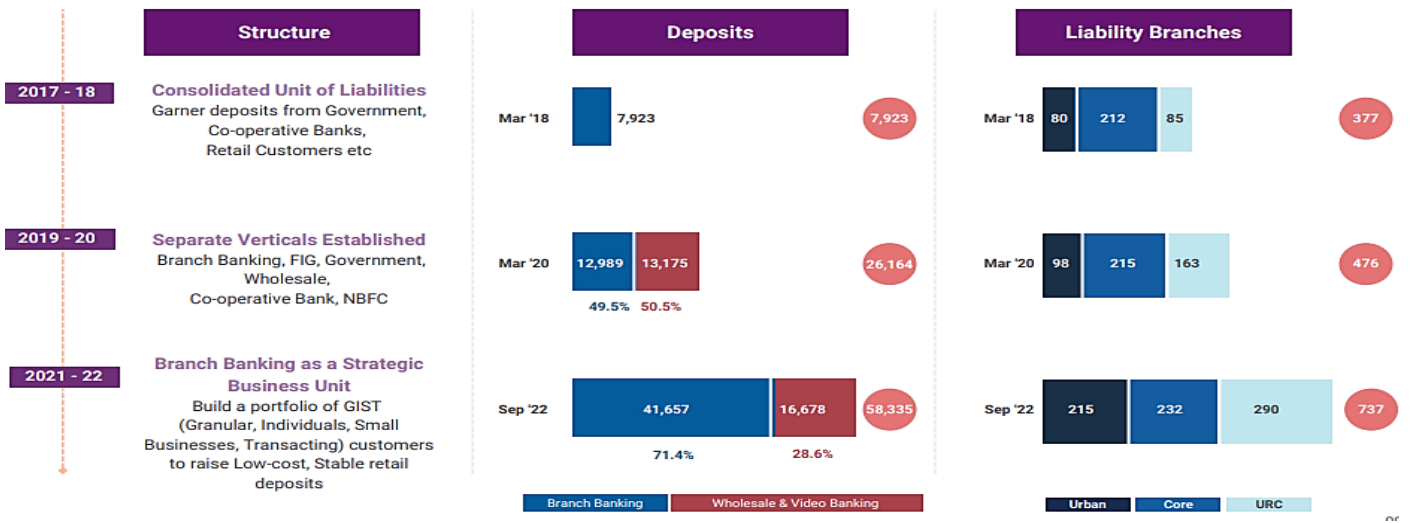
#### Treasury, DCM, and Wholesale Liability – Mr. Yogesh Jain (Chief of Staff), Mr. Shantanu Prasad (Head Treasury and Wholesale Liability), and team

- This SBU contributes ~35% to total deposits (25%) and borrowing (10%). It also contributes 28% to total investments and advances.
- It has a team of 50 employees.
- **Wholesale liability mix:** Government business (44%), Cooperative and FIG (34%), NBFC (11%), Wholesale deposits (7%), and CDs (4%).
- The Government business has a CASA ratio of 59% in Sep'22 v/s 23% in Mar'20.
- The mix of Wholesale deposits has fallen to 15% in Sep'22 v/s 44% in Mar'20.
- The pricing of bulk deposits is lower than Retail deposits. The cost of funds has moderated to 5.8% in Sep'22 v/s 8.4% in FY18.
- The mix of borrowings has fallen to 10% in Sep'22 from 28% in Mar'20.
- The duration of the NSLR book stood at less than one-year (82% of the book is maturing in less than one-year) and constitutes 28% of total investments.

#### Valuation and view

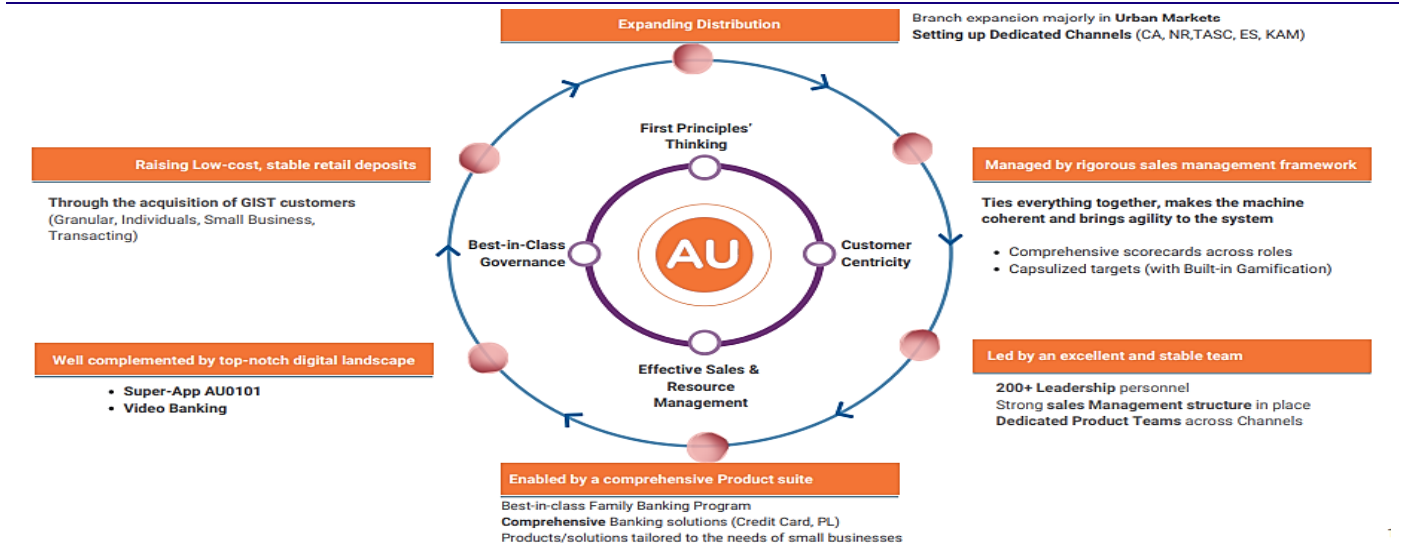
AUBANK has been reporting a healthy performance, led by an expansion in margin and controlled credit cost. On the business front, growth in advances remains strong, while the traction in deposits, particularly Retail deposits, remains healthy. It carries contingent reserves of INR1.29b (25bp of loans), which, coupled with 17% coverage on restructured assets, provides comfort. We expect 25% earnings CAGR over FY22-24, with a RoA/RoE of 1.8%/14.9% in FY24. **We maintain our Buy rating, with a TP of INR700 (premised on 3.7x FY24E BV).**

**Exhibit 1: Evolution of branch banking for AUBANK over the past five years**



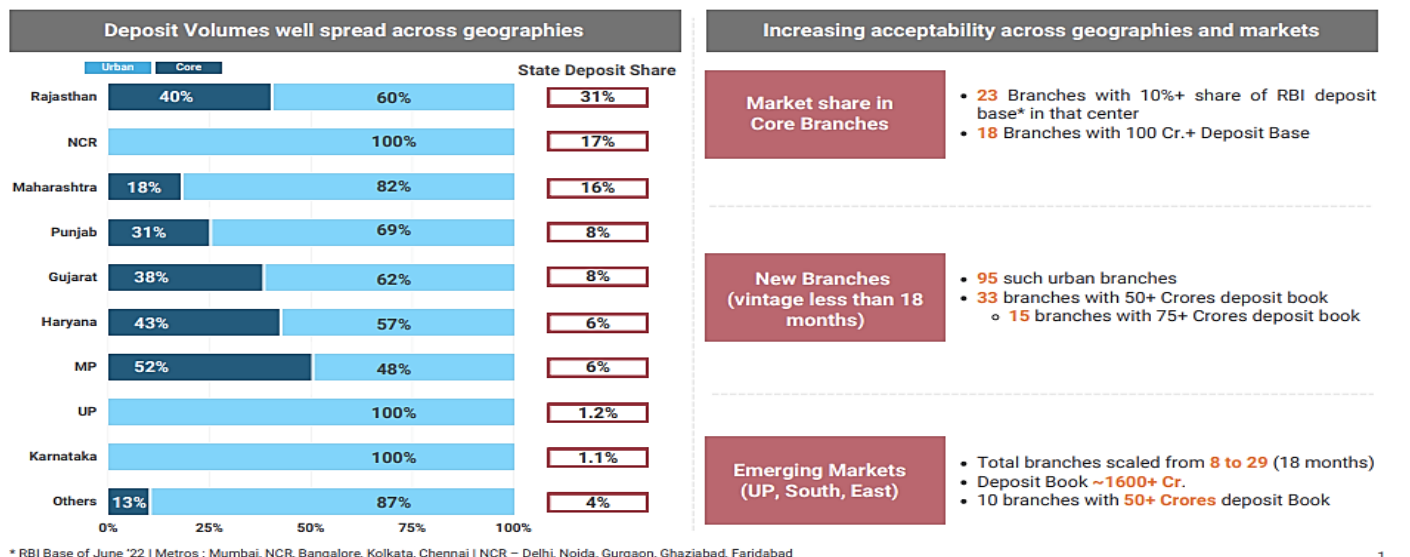
Source: MOFSL, Company

**Exhibit 2: Building a predictable, scalable, sustainable, and replicable deposit franchise**



Source: MOFSL, Company

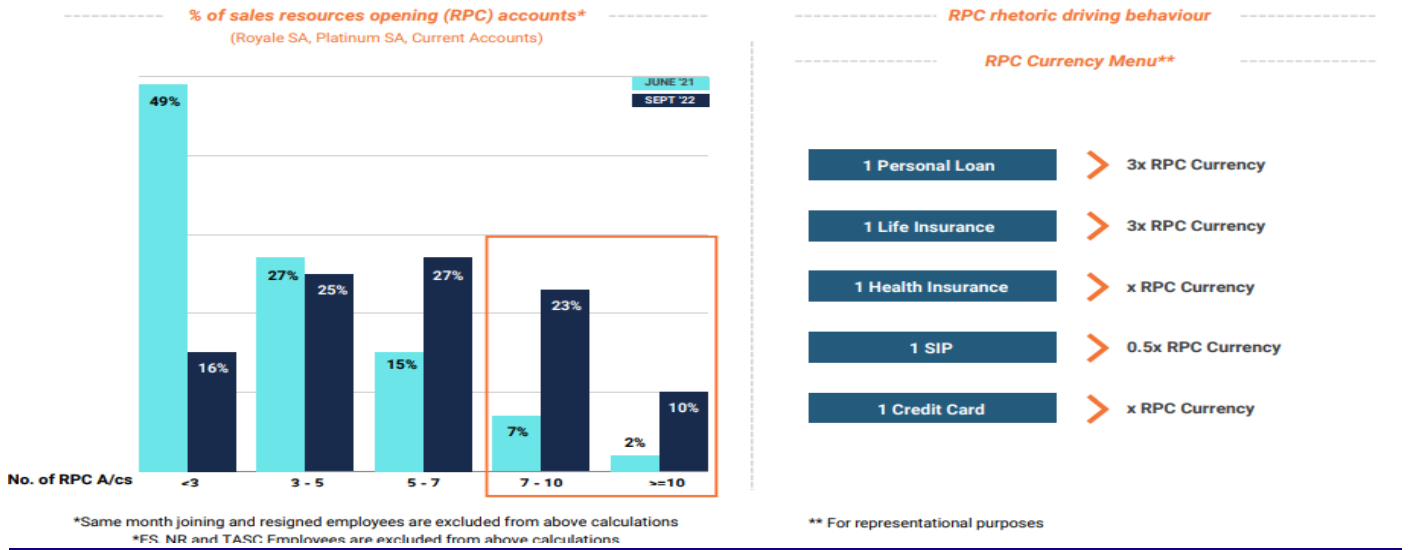
**Exhibit 3: Deposit profile across geographies for AUBANK**



\* RBI Base of June '22 | Metros : Mumbai, NCR, Bangalore, Kolkata, Chennai | NCR - Delhi, Noida, Gurgaon, Ghaziabad, Faridabad

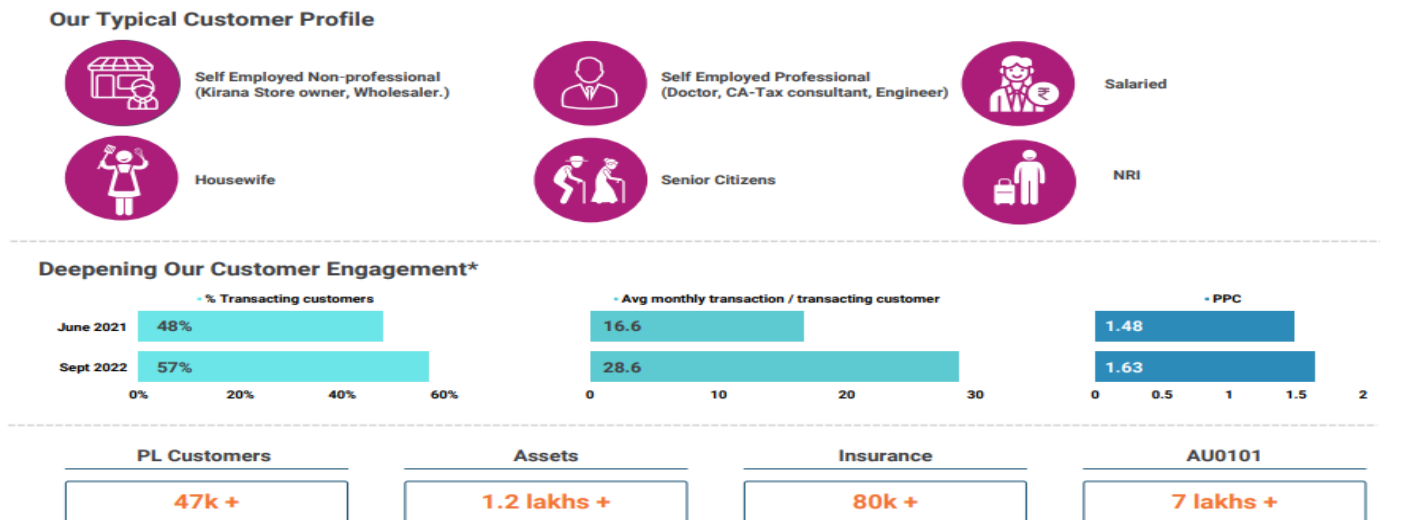
Source: MOFSL, Company

**Exhibit 4: Focus remains on garnering RPC customers**



Source: MOFSL, Company

**Exhibit 5: Customer engagement for Savings account customers**

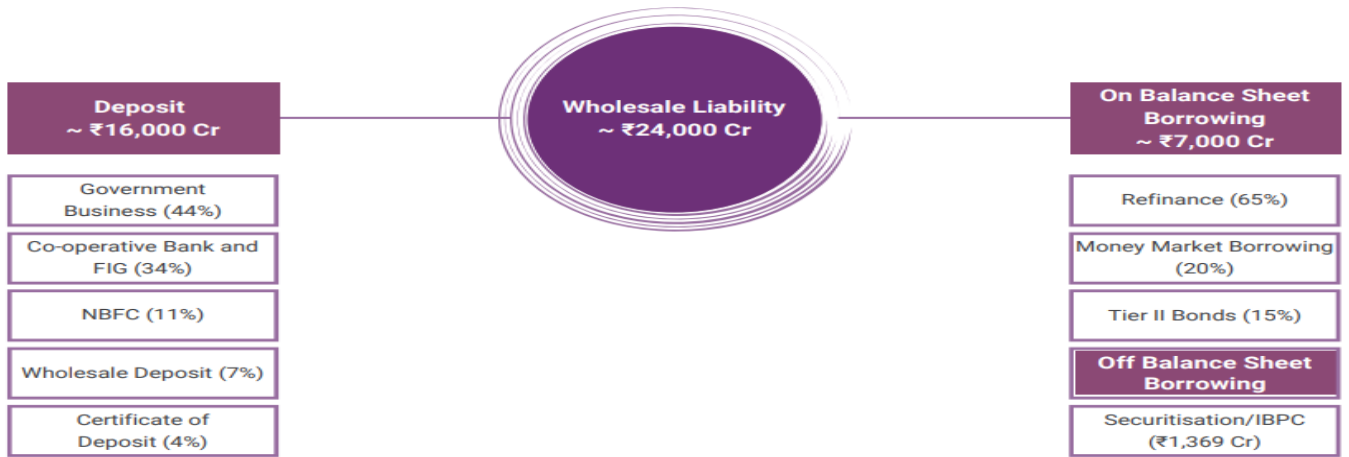


Source: MOFSL, Company

**Exhibit 6: Customer engagement for Current account customers**

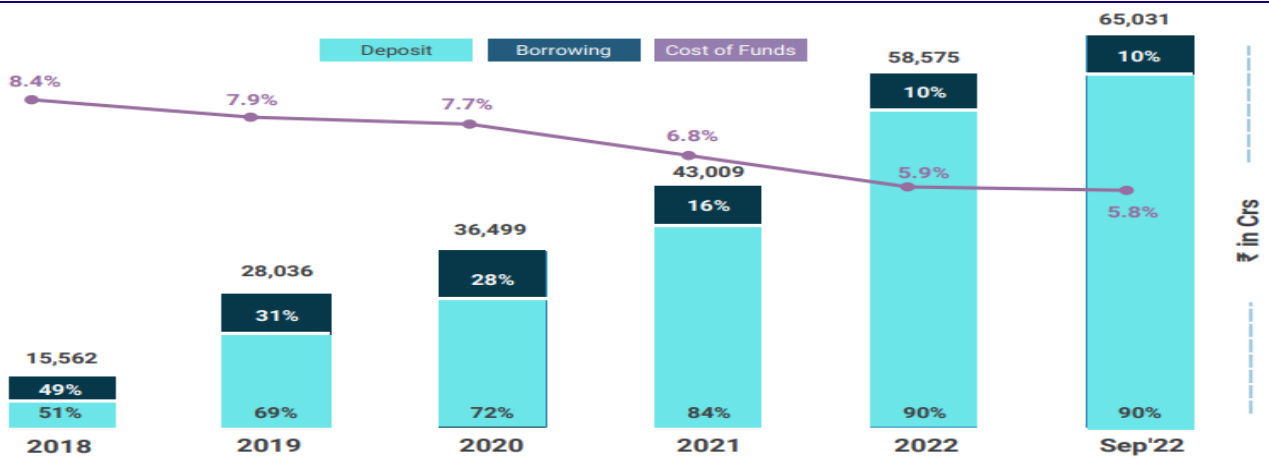


Exhibit 7: Wholesale liability mix



Source: MOFSL, Company

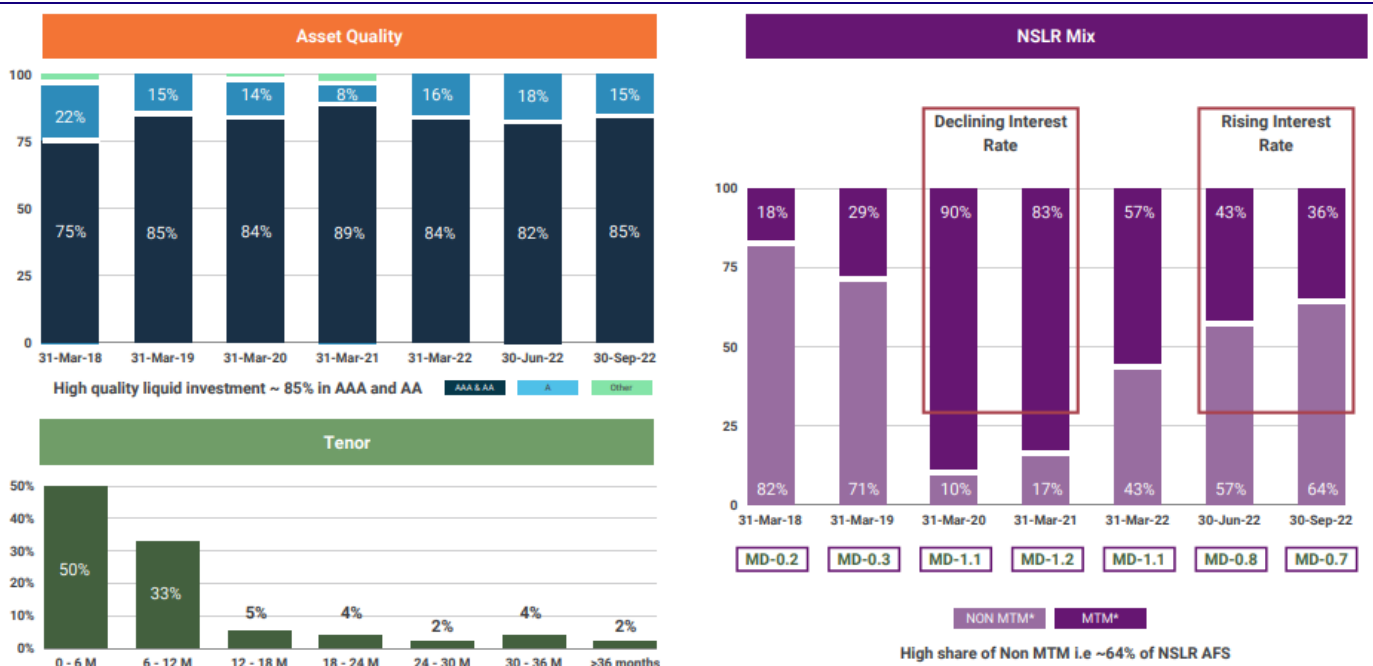
Exhibit 8: Improving funding profile



Since bank inception, Reduced COF by 380 bps with active rate management and optimising borrowing/deposit mix

Source: MOFSL, Company

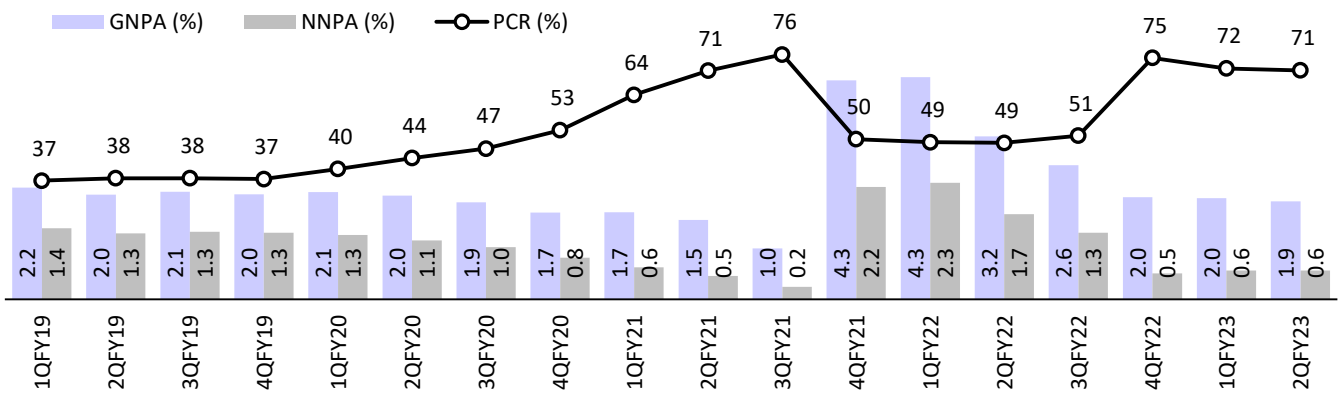
Exhibit 9: NSLR investment profile of the bank



Source: MOFSL, Company

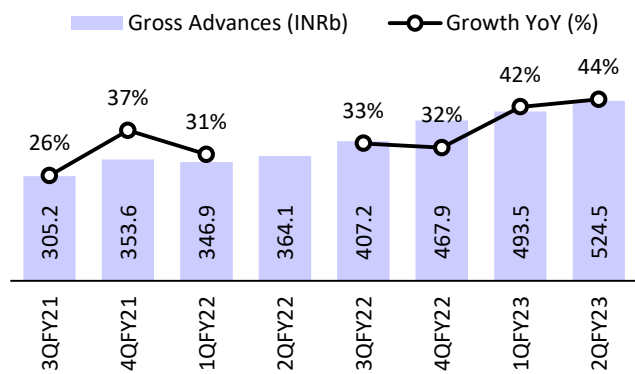
## Story in charts

**Exhibit 10: PCR stands healthy ~71%; the GNPA/NNPA ratio improves to 1.9%/0.6% in Sep'22**



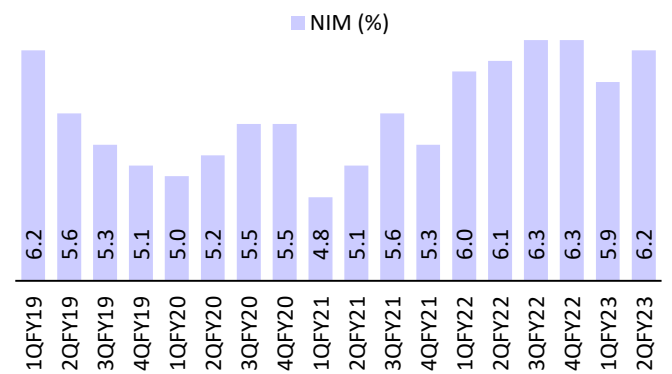
Source: Company, MOFSL

**Exhibit 11: Gross advances grew 44% YoY and 6.3% QoQ in 2QFY23**



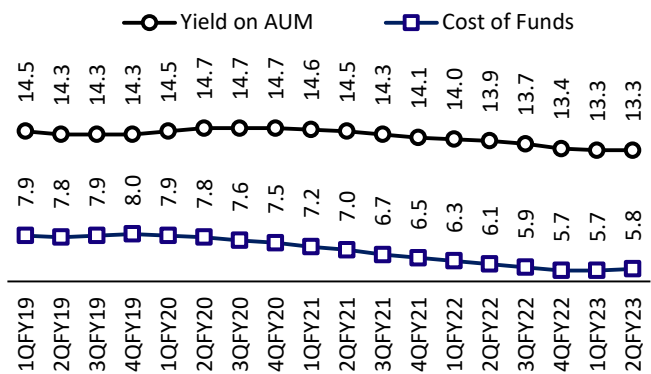
Source: Company, MOFSL

**Exhibit 12: Margin improves by 30bp QoQ to 6.2% in 2QFY23**



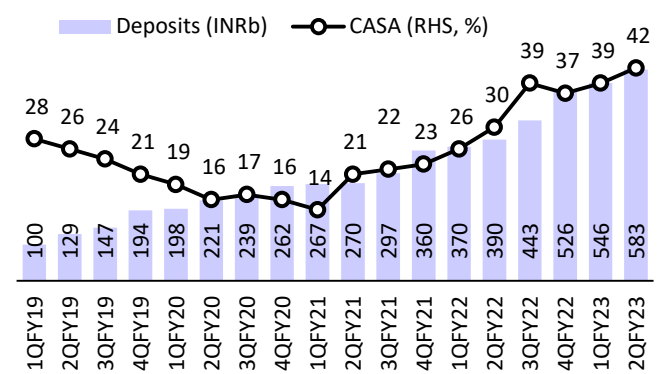
Source: Company, MOFSL

**Exhibit 13: Yields on gross advances stood flat QoQ, while cost of funds increases by 10bp in 2QFY23**



Source: Company, MOFSL

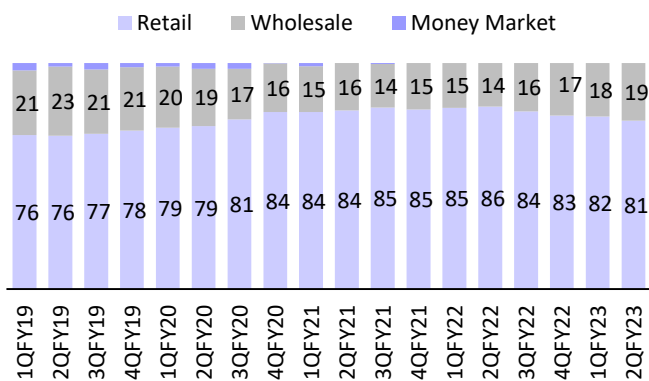
**Exhibit 14: Robust traction in deposit mobilization (up ~49% YoY); the CASA ratio stands healthy ~42%**



Source: Company, MOFSL

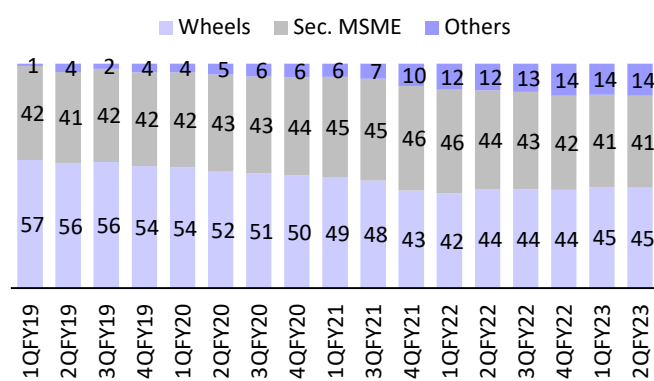


**Exhibit 15: Retail mix dominates with a share of ~81%**



Source: Company, MOFSL

**Exhibit 16: Vehicles and MSME constitute ~86% of Retail loans**



Source: Company, MOFSL

**Valuation and view**

- The management’s focus is on scaling up its key business lines of Vehicle/MSME loans. It aims to expand the new segments of Housing and Gold loans, Consumer Durable Financing, Credit Cards, among others. Growth has picked up over the last few quarters, with demand accruing across segments. We expect a 28% loan CAGR over FY22-24.
- AUBANK has shown strong progress in building a granular liability franchise, with the proportion of deposits in overall funding constantly improving. The proportion of Retail TD rose to 54%. CASA and Retail TD increased to 73%, and is expected to grow further as the customer vintage increases. As the bank has increased deposit rates by 60bp in Oct’22, which can result in an increase in the cost of funds, its impact on margin will be key monitorable going forward.
- GNPA ratio improved by 6bp to 1.9%, while the NNPA ratio stood stable at 0.5%. Collection efficiency remained healthy at 108% in 2QFY23. PCR was stable at 71%. The total restructuring book fell to INR8.95b (~1.7% of total loans v/s 2.1% in Jun’22), on which the management made provisions of INR1.5b. The bank carries additional contingent provisions of INR1.29b (0.25% of loans). We estimate credit costs at 05%/0.6% over FY23/FY24.
- **Maintain our Buy rating with a TP of INR700:** AUBANK has been reporting a healthy performance, led by an expansion in margin and controlled credit cost. On the business front, growth in advances remains strong, while the traction in deposits, particularly Retail deposits, remains healthy. It carries contingent reserves of INR1.29b (25bp of loans), which, coupled with 17% coverage on restructured assets, provides comfort. We expect 25% earnings CAGR over FY22-24, with a RoA/RoE of 1.8%/14.9% in FY24. **We maintain our Buy rating, with a TP of INR700 (premised on 3.7x FY24E BV).**

**Exhibit 17: DuPont Analysis | Expect return ratios to remain healthy**

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	12.35	11.46	11.46	10.56	9.81	10.24	10.73
Interest Expense	5.78	6.24	6.36	5.51	4.45	4.65	5.18
<b>Net Interest Income</b>	<b>6.57</b>	<b>5.22</b>	<b>5.11</b>	<b>5.05</b>	<b>5.36</b>	<b>5.59</b>	<b>5.56</b>
Core Fee	2.45	1.71	1.43	1.21	1.41	1.19	1.15
<b>Non-Interest income</b>	<b>2.71</b>	<b>1.80</b>	<b>1.89</b>	<b>3.10</b>	<b>1.65</b>	<b>1.33</b>	<b>1.37</b>
<b>Total Income</b>	<b>9.29</b>	<b>7.01</b>	<b>7.00</b>	<b>8.14</b>	<b>7.01</b>	<b>6.92</b>	<b>6.93</b>
<b>Operating Expenses</b>	<b>5.26</b>	<b>4.21</b>	<b>3.79</b>	<b>3.54</b>	<b>4.00</b>	<b>4.22</b>	<b>4.17</b>
Employee cost	2.97	2.34	2.03	2.09	2.29	2.37	2.35
Others	2.29	1.87	1.76	1.45	1.71	1.85	1.83
<b>Operating Profit</b>	<b>4.03</b>	<b>2.81</b>	<b>3.20</b>	<b>4.61</b>	<b>3.01</b>	<b>2.70</b>	<b>2.75</b>
<b>Core operating Profit</b>	<b>3.76</b>	<b>2.72</b>	<b>2.74</b>	<b>2.72</b>	<b>2.77</b>	<b>2.56</b>	<b>2.54</b>
<b>Provisions</b>	<b>0.93</b>	<b>0.55</b>	<b>0.76</b>	<b>1.49</b>	<b>0.60</b>	<b>0.30</b>	<b>0.39</b>
NPA	0.39	0.29	0.17	1.08	0.19	0.25	0.34
Others	0.53	0.26	0.58	0.41	0.40	0.05	0.05
<b>PBT</b>	<b>3.10</b>	<b>2.25</b>	<b>2.44</b>	<b>3.11</b>	<b>2.41</b>	<b>2.40</b>	<b>2.36</b>
Tax	1.06	0.77	0.64	0.61	0.54	0.60	0.60
<b>RoA</b>	<b>2.04</b>	<b>1.48</b>	<b>1.81</b>	<b>2.50</b>	<b>1.87</b>	<b>1.80</b>	<b>1.77</b>
Leverage (x)	6.7	9.5	10.0	8.9	8.8	8.6	8.4
<b>RoE</b>	<b>13.7</b>	<b>14.0</b>	<b>18.0</b>	<b>22.3</b>	<b>16.6</b>	<b>15.4</b>	<b>14.9</b>

Source: MOFSL, Company



## Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
Interest Income	17,672	29,488	42,859	49,501	59,217	80,414	106,450	
Interest Expense	8,267	16,064	23,769	25,846	26,876	36,491	51,320	
<b>Net Interest income</b>	<b>9,405</b>	<b>13,425</b>	<b>19,089</b>	<b>23,654</b>	<b>32,341</b>	<b>43,923</b>	<b>55,130</b>	
Growth (%)	20.0	42.7	42.2	23.9	36.7	35.8	25.5	
Other Income	3,881	4,620	7,061	14,209	9,937	10,434	13,564	
<b>Total Income</b>	<b>13,285</b>	<b>18,045</b>	<b>26,150</b>	<b>37,864</b>	<b>42,278</b>	<b>54,356</b>	<b>68,694</b>	
Growth (%)	-16.6	35.8	44.9	44.8	11.7	28.6	26.4	
<b>Operating Expenses</b>	<b>7,526</b>	<b>10,826</b>	<b>14,179</b>	<b>16,584</b>	<b>24,128</b>	<b>33,154</b>	<b>41,374</b>	
Growth (%)	113.3	43.8	31.0	17.0	45.5	37.4	24.8	
<b>Operating Profit</b>	<b>5,759</b>	<b>7,219</b>	<b>11,972</b>	<b>21,279</b>	<b>18,150</b>	<b>21,203</b>	<b>27,320</b>	
Growth (%)	-53.6	25.3	65.8	77.7	-14.7	16.8	28.8	
<b>Core Operating Profit</b>	<b>5,377</b>	<b>6,998</b>	<b>10,246</b>	<b>12,737</b>	<b>16,721</b>	<b>20,079</b>	<b>25,163</b>	
Growth (%)	-4.8	30.1	46.4	24.3	31.3	20.1	25.3	
Total Provisions	1,326	1,418	2,832	6,694	3,610	2,350	3,880	
<b>PBT</b>	<b>4,433</b>	<b>5,801</b>	<b>9,140</b>	<b>14,585</b>	<b>14,541</b>	<b>18,853</b>	<b>23,440</b>	
Tax	1,513	1,984	2,392	2,878	3,242	4,751	5,907	
Tax Rate (%)	34.1	34.2	26.2	19.7	22.3	25.2	25.2	
<b>PAT</b>	<b>2,920</b>	<b>3,818</b>	<b>6,748</b>	<b>11,707</b>	<b>11,298</b>	<b>14,102</b>	<b>17,533</b>	
Growth (%)	-64.5	30.7	76.8	73.5	-3.5	24.8	24.3	
<b>Adj. PAT</b>	<b>2,920</b>	<b>3,818</b>	<b>5,962</b>	<b>6,002</b>	<b>11,298</b>	<b>14,102</b>	<b>17,533</b>	
Growth (%)	-12.4	30.7	56.2	0.7	88.2	24.8	24.3	

Balance Sheet							
Y/E MARCH	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	5,714	5,847	6,082	6,244	6,298	6,643	6,643
Reserves and Surplus	17,098	25,782	37,164	55,477	68,429	102,186	119,719
<b>Equity Net worth</b>	<b>22,812</b>	<b>31,629</b>	<b>43,247</b>	<b>61,721</b>	<b>74,727</b>	<b>108,829</b>	<b>126,362</b>
<b>Deposits</b>	<b>79,233</b>	<b>194,224</b>	<b>261,639</b>	<b>359,793</b>	<b>525,846</b>	<b>667,825</b>	<b>854,816</b>
Growth (%)	NA	145%	35%	38%	46%	27.0%	28.0%
Borrowings	76,389	86,134	103,353	70,297	59,908	69,313	81,790
Other liabilities	9,894	14,241	12,670	23,071	29,884	33,769	39,847
<b>Total Liabilities</b>	<b>188,328</b>	<b>326,228</b>	<b>421,431</b>	<b>515,913</b>	<b>690,778</b>	<b>880,149</b>	<b>1,103,228</b>
Current Assets	17,612	17,402	33,697	47,813	59,285	63,830	66,478
<b>Investments</b>	<b>30,506</b>	<b>71,617</b>	<b>106,682</b>	<b>108,154</b>	<b>153,065</b>	<b>198,985</b>	<b>254,700</b>
Growth (%)	41.9	134.8	49.0	1.4	41.5	30.0	28.0
<b>Loans</b>	<b>133,121</b>	<b>228,187</b>	<b>269,924</b>	<b>346,089</b>	<b>460,953</b>	<b>593,789</b>	<b>759,367</b>
Growth (%)	103.2	71.4	18.3	28.2	33.2	28.8	27.9
Net Fixed Assets	3,861	4,470	4,480	4,824	6,226	7,160	8,234
Other assets	3,227	4,552	6,648	9,033	11,250	16,386	14,449
<b>Total Assets</b>	<b>188,328</b>	<b>326,228</b>	<b>421,431</b>	<b>515,913</b>	<b>690,778</b>	<b>880,149</b>	<b>1,103,228</b>
<b>Total Assets (incl. off BS)</b>	<b>215,586</b>	<b>340,501</b>	<b>460,437</b>	<b>546,944</b>	<b>708,135</b>	<b>904,890</b>	<b>1,130,770</b>

Asset Quality	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
GNPA (INR m)	2,697	4,701	4,578	15,028	9,244	10,825	14,276
NNPA (INR m)	1,693	2,945	2,173	7,555	2,308	3,104	4,283
GNPA Ratio	2.0	2.1	1.7	4.3	2.0	1.8	1.9
NNPA Ratio	1.3	1.3	0.8	2.2	0.5	0.5	0.6
Slippage Ratio	2.1	2.5	2.5	4.2	3.6	2.0	2.0
Credit Cost	1.0	0.6	1.0	2.0	0.7	0.4	0.5
PCR (Exc. Tech. write-off)	37.2	37.4	52.5	49.7	75.0	71.3	70.0

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Yield and Cost Ratios (%)</b>							
<b>Avg. Yield - on IEA</b>	<b>13.1</b>	<b>12.1</b>	<b>12.1</b>	<b>11.2</b>	<b>10.4</b>	10.9	11.3
Avg. Yield on loans	9.4	11.7	12.4	11.5	11.4	12.0	12.4
Avg. Cost of funds	7.3	7.4	7.4	6.5	5.3	5.5	6.1
<b>NIM (On total assets)</b>	<b>6.6</b>	<b>5.2</b>	<b>5.1</b>	<b>5.0</b>	<b>5.4</b>	5.6	5.6
<b>NIM (On IEA)</b>	<b>7.0</b>	<b>5.5</b>	<b>5.4</b>	<b>5.3</b>	<b>5.7</b>	<b>5.9</b>	<b>5.9</b>

### Capitalization Ratios (%)

CAR	19.3	19.3	22.0	23.4	21.0	23.7	21.2
Tier I	18.4	16.0	18.4	21.5	19.7	22.8	20.6
Tier II	0.9	3.4	3.6	1.8	1.3	0.9	0.6

### Business and Efficiency Ratios (%)

Loan/Deposit Ratio	168.0	117.5	103.2	96.2	87.7	88.9	88.8
CASA Ratio	26.9	18.5	14.5	23.0	37.3	34.3	35.4
Cost/Assets	5.3	4.2	3.8	3.5	4.0	4.2	4.2
Cost/Total Income ratio	56.7	60.0	54.2	43.8	57.1	61.0	60.2
Cost/Core Income ratio	58.3	60.7	58.1	56.6	59.1	62.3	62.2
Int. Expense/Int. Income ratio	46.8	54.5	55.5	52.2	45.4	45.4	48.2
Fee Income/Total Income ratio	26.3	24.4	20.4	15.0	20.1	17.1	16.6
Non-Int. Income/Total Income ratio	29.2	25.6	27.0	37.5	23.5	19.2	19.7
Investment/Deposit Ratio	38.5	36.9	40.8	30.1	29.1	29.8	29.8
Emp. Cost/Total Expense ratio	56.5	55.5	53.6	59.1	57.2	56.1	56.2

### Profitability and Valuations

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
RoE	13.7	14.0	18.0	22.3	16.6	15.4	14.9
RoA	2.0	1.5	1.8	2.5	1.9	1.8	1.8
RoRWA	2.5	2.0	3.0	4.2	3.1	3.0	2.9
Book Value (INR)	39.9	54.1	71.1	98.8	118.7	163.8	190.2
Growth (%)	14.2	35.5	31.4	39.0	20.0	38.1	16.1
<b>Price-to-BV (x)</b>	<b>15.4</b>	<b>11.4</b>	<b>8.6</b>	<b>6.2</b>	<b>5.2</b>	<b>3.7</b>	<b>3.2</b>
Adjusted BV (INR)	38.2	51.3	69.5	92.0	116.7	161.2	186.3
Growth (%)	12.0	34.5	35.4	32.5	26.9	38.1	15.6
<b>Price-to-ABV (x)</b>	<b>16.1</b>	<b>12.0</b>	<b>8.8</b>	<b>6.7</b>	<b>5.3</b>	<b>3.8</b>	<b>3.3</b>
EPS (INR)	5.1	6.6	11.3	19.0	18.0	21.8	26.4
Growth (%)	-79.5	28.9	71.3	67.9	-5.1	21.0	21.1
<b>Price-to-Earnings (x)</b>	<b>119.8</b>	<b>93.0</b>	<b>54.3</b>	<b>32.4</b>	<b>34.1</b>	<b>28.2</b>	<b>23.3</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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