

AU Small Finance Bank

Investment mode; operating leverage a while away

AUBANK marginally beat estimates on the back of lower-than-expected credit costs (30bps annualised), partly offset by a miss on other income. Loan growth maintained sequential momentum (+7.6% QoQ), while deposits were relatively flat. With very limited room for yield reflation (fixed-rate loans at 66% of AUM) and surplus liquidity, AUBANK witnessed a 40bps QoQ compression in NIMs (5.7%) as low-cost CASA dropped 300bps sequentially. AUBANK continues to invest in franchise-building activities, credit cards and digital initiatives, which are likely to drag medium-term profitability before we begin seeing operating leverage benefits accrue in FY25 (as per management guidance). We believe that efficiency gains are likely to be gradual while reflation in margins is contingent on a turn in the rate cycle. We tweak our FY24E/FY25E estimates marginally, factoring in continued moderation in margins and higher opex; maintain REDUCE, with a TP of INR580 (2.7x Mar-25 ABVPS).

- **Deceleration in loan growth continues:** Loan growth continued to moderate (+29% YoY), even as QoQ NIM compression (5.7%) and elevated opex from continued investments in new businesses, tech and distribution led to a miss on PPOP (-4.4% QoQ). We believe, higher incremental cost of funds is likely to further drag NIMs, partly offset by absorption of surplus liquidity.
- **Seasonality impacts asset quality:** Gross slippages were elevated at 2.3% due to seasonality, with 30% emanating from the restructured book, resulting in GNPA clocking in at 1.8%. Given the high mix of secured loans in the portfolio (92%), the management expects credit costs to stay flat compared to FY23.
- **Balance sheet mix to keep return ratios in check:** AUBANK is exploring new business initiatives to scale its unsecured businesses, merchant loans, and build out its cross-sell efforts. We appreciate the bank's efforts to diversify its deposit base through various sourcing channels; however, these are likely to keep return ratios in check until we see operating leverage kicking in.

Financial summary

(INR bn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
NII	12.5	9.8	27.7%	12.1	2.7%	32.3	44.3	54.1	66.0
PPOP	5.5	3.9	38.6%	5.7	-4.4%	18.2	20.2	25.1	33.3
PAT	3.9	2.7	44.4%	4.2	-8.9%	11.3	14.3	16.9	21.8
EPS (INR)	5.8	4.2	36.7%	6.3	-9.0%	35.9	21.4	25.4	32.7
ROAE (%)						16.4	15.5	14.4	15.9
ROAA (%)						1.9	1.8	1.7	1.8
ABVPS (INR)						229.9	159.7	185.0	215.5
P/ABV (x)						3.4	4.9	4.3	3.7
P/E (x)						22.0	36.8	31.0	24.1

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
Net advances	724	724	0.0%	890	890	0.0%
NIM (%)	6.0	5.9	-10 bps	6.2	6.1	-8 bps
NII	53.9	54.1	0.4%	67.0	66.0	-1.4%
PPOP	25.2	25.1	-0.7%	33.8	33.3	-1.5%
PAT	17.1	16.9	-0.8%	22.2	21.8	-1.7%
Adj. BVPS (INR)	186.4	185.0	-0.8%	217.5	215.5	-0.9%

Source: Company, HSIE Research

REDUCE

CMP (as on 21 Jul 2023)	INR 767
Target Price	INR 580
NIFTY	19,745

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR580	INR580
	FY24E	FY25E
EPS %	-0.8%	-1.7%

KEY STOCK DATA

Bloomberg code	AUBANK IN
No. of Shares (mn)	667
MCap (INR bn) / (\$ mn)	512/6,258
6m avg traded value (INR mn)	1,342
52 Week high / low	INR 795/548

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.2	24.5	30.8
Relative (%)	3.4	14.5	11.0

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	25.5	25.5
FIs & Local MFs	20.6	19.3
FPIs	39.7	41.6
Public & Others	14.2	13.6
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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