

AU SFB logged a muted performance with a 5% miss on PAT at Rs5.3bn/RoA at 1.5%, mainly on lower other income and elevated provisions owing to ongoing stress in unsecured loans (MFI, Cards, PL) and seasonality impact on the agri and wheels book. The management indicated that 20% of the MFI portfolio (MFI book is 7% of overall loans) will be impacted by the MFIN 2.0 guidelines, and thus expects higher slippages/credit cost in Q4. The bank has taken corrective measures in the Card business, but stress could remain elevated in 4Q. Given the strain in the unsecured portfolio, the bank plans to accelerate portfolio re-alignment toward secured loans, while we believe it should benefit from a policy rate cut on the margin front. Factoring in the Q3 earnings miss and higher LLP, we cut FY25-27E earnings by 3-5%, while we expect the bank to deliver 1.6-1.7% RoA. We retain REDUCE and TP of Rs625, rolling forward on 2.2x Dec-26E ABV, and await more clarity on asset quality and the Universal Bank license.

AU Small Finance Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	14,279	15,347	21,215	27,939	35,009
Loan growth (%)	26.7	25.2	45.2	23.7	25.7
NII growth (%)	36.8	16.5	56.0	31.8	25.1
NIM (%)	5.7	5.3	6.4	6.4	6.5
PPOP growth (%)	11.3	20.7	87.6	27.2	27.8
Adj. EPS (Rs)	21.4	22.9	28.5	37.5	47.0
Adj. EPS growth (%)	19.4	7.1	24.3	31.7	25.3
Adj. BV (INR)	161.4	183.2	215.8	250.1	294.0
Adj. BVPS growth (%)	39.1	13.5	17.8	15.9	17.6
RoA (%)	1.8	1.5	1.6	1.6	1.7
RoE (%)	15.4	13.0	14.5	15.4	16.6
P/E (x)	27.7	25.9	20.8	15.8	12.6
P/ABV (x)	3.7	3.2	2.8	2.4	2.0

Source: Company, Emkay Research ; Note : Merged Financials from FY25 onwards

Healthy growth aided by secured assets; margin dipped QoQ due to interest reversal

AU SFB posted a healthy credit growth of 28% YoY/5% QoQ (on merged basis), driven by continued traction seen in the wheels segment (39% YoY/10% QoQ), mortgages book (5% QoQ), and wholesale book (36% YoY/6.4% QoQ). However, the unsecured book (MFI/PL/CC) remains muted at 5% QoQ amid stress in the industry's unsecured book. Overall deposit growth moderated to 25% YoY/2.3% QoQ, mainly due to decline in CASA, which saw outflow from the government account. This, coupled with change in portfolio mix (9bps), interest reversal (4bps), and 12% higher average investment book (10bps), led to contraction in NIM by 20bps to 5.9% while the mgmt. indicates full-year NIM guidance of ~6%. Further, the management expects GLP growth of 20%, led by secured asset growth of 23-25% and unsecured asset de-growth of 10%.

Elevated stress in unsecured loans and seasonality impact on agri/wheels book leads to higher NPAs in 3Q

Fresh slippages were elevated at Rs9.6bn/5.7% of loans, mainly owing to ongoing stress in unsecured assets and seasonal impact on the agri and wheels book. This led to increase in GNPA/NNPA ratios to 2.3%/0.9%, resp, during 3Q. The management has indicated that 20% of the portfolio is impacted by the MFIN 2.0 guidelines, while ~17% of the borrowers have taken loans from more than 3 lenders, and the remainder have total unsecured exposure above-Rs0.2mn. The bank expects MFI slippages to remain elevated in 4Q, as also the credit cost. In the Credit card book, elevated stress was mainly due to the bank's contingency on digital underwriting with not enough guards, incl higher revolver portfolio. The bank expects card portfolio stress to stay elevated in 4Q too.

We retain REDUCE on AU SFB

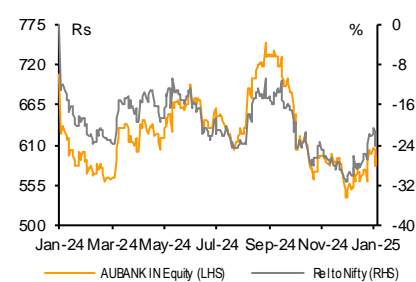
Factoring in the 3Q earnings miss and higher LLP, we cut FY25-27E earnings by 3-5%, and expect the bank to deliver 1.6-1.7% RoA. We retain REDUCE on the stock, with unchanged TP of Rs625, rolling forward on 2.2x Dec-26E ABV. Separately, the bank has applied for a Universal Banking license, which it is hopeful of receiving from the RBI in due course; if this happens, it should ease the restrictions under the SFB framework.

Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	5.1
CMP (24-Jan-25) (Rs)	594.7

Stock Data	Ticker
52-week High (Rs)	755
52-week Low (Rs)	534
Shares outstanding (mn)	744.2
Market-cap (Rs bn)	443
Market-cap (USD mn)	5,134
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	1,486.4
ADTV-3M (USD mn)	17.2
Free float (%)	72.0
Nifty-50	23,092
INR/USD	86.2
Shareholding, Sep-24	
Promoters (%)	22.9
FPIs/MFs (%)	40.7/20.1

Price Performance

(%)	1M	3M	12M
Absolute	6.9	(7.9)	(19.3)
Rel. to Nifty	9.9	(2.7)	(25.1)

1-Year share price trend (Rs)

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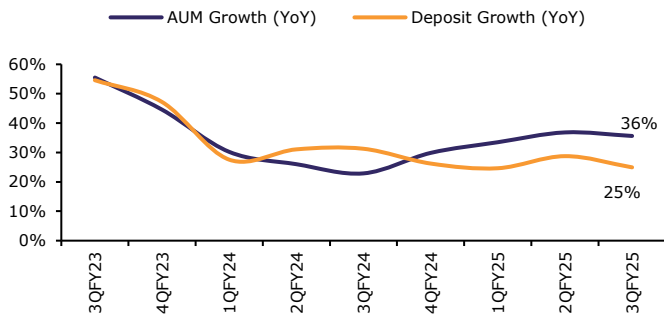
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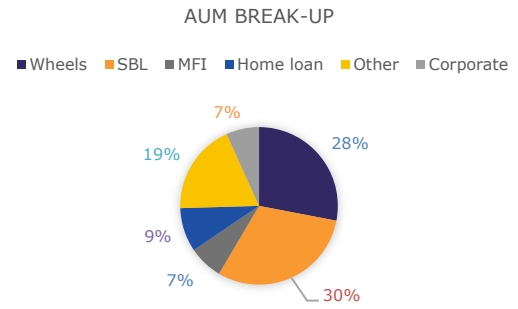
Story in Charts

Exhibit 1: AUM growth remains healthy, led by secured assets; deposit growth dipped owing to decline in CASA



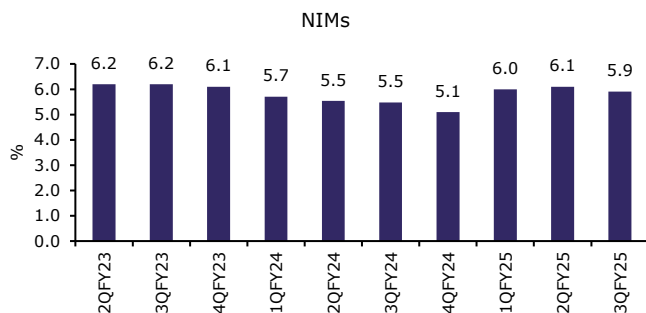
Source: Company, Emkay Research; Note: The figures are adjusted for the Fincare merger impact

Exhibit 2: AUM mix remains dominated by Wheels and SBL; MFI share stands at ~7%



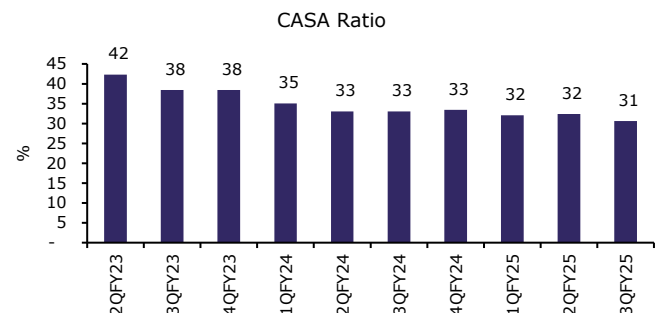
Source: Company, Emkay Research

Exhibit 3: NIM dipped to 5.9% led by portfolio mix, higher CoF, interest reversal, and higher investment book



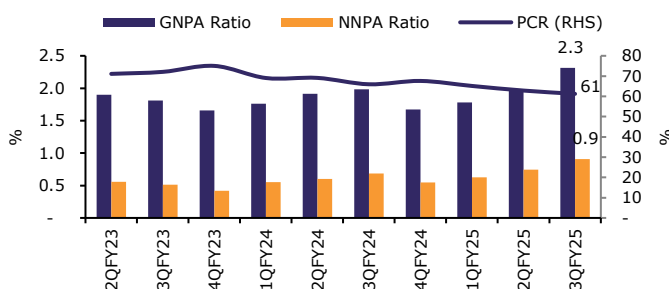
Source: Company, Emkay Research; Note: 1QFY25 numbers include the Fincare merger impact

Exhibit 4: CASA dipped owing to outflow in the government account, while TD growth remains healthy



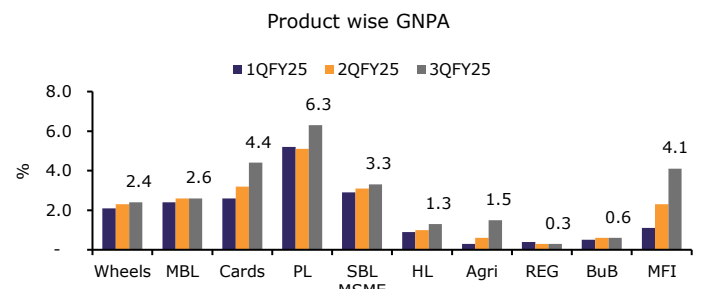
Source: Company, Emkay Research; Note: 1QFY25 numbers include the Fincare merger impact

Exhibit 5: NPAs inch up due to stress in MFI and Cards as well as owing to the seasonal rise in slippages in the wheels and agri book



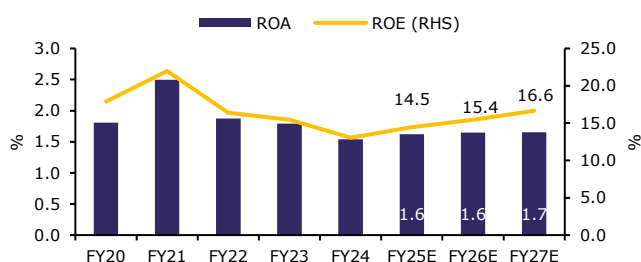
Source: Company, Emkay Research

Exhibit 6: Product-wise GNPA – Higher stress in unsecured products as well as marginal rise in HL/SBL MSME



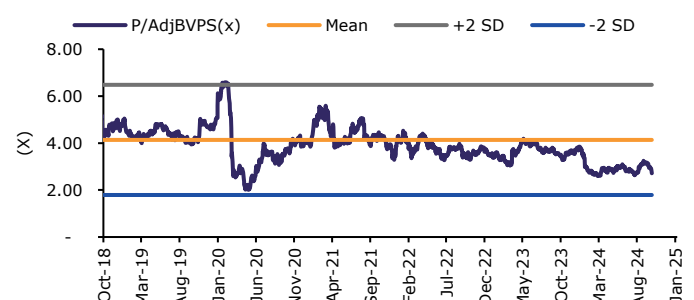
Source: Company, Emkay Research

Exhibit 7: We expect RoA to settle at around 1.6% over FY25-26E, before improving to 1.7% in FY27E



Source: Company, Emkay Research

Exhibit 8: The stock trades at 2.8x one-year forward P/ABV



Source: Company, Emkay Research

Exhibit 9: Actuals vs. Estimates (Q3FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	26,411	28,063	26,429	-6%	0%	Decline in NIM and lower other income led to a miss
PPOP	12,049	12,241	11,264	-2%	7%	Lower net income and contained opex led to a PPOP miss
PAT	5,284	5,566	5,186	-5%	2%	Decline in PPOP and higher LLP led to a PAT miss

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)	FY24A	FY25E	YoY (%)
Interest Earned	27,358	28,295	37,690	39,106	41,135	50	5	105,547	161,319	53
Interest Expenses	14,109	14,925	18,485	19,363	20,908	48	8	53,976	80,853	50
Net Interest Income	13,249	13,370	19,206	19,743	20,227	53	2	51,571	80,466	56
Global NIMs (reported)	5.48	5.10	6.00	6.10	5.90	42bps	-20bps	5.32	6.36	104bps
Non-interest Income	4,497	5,556	5,457	6,380	6,184	38	-3	17,458	24,175	38
Operating Expenses	11,175	12,285	14,781	14,806	14,362	29	-3	44,647	58,894	32
Pre-Provisioning Profit	6,571	6,642	9,881	11,317	12,049	83	6	24,382	45,747	88
Provision & Contingencies	1,589	1,325	3,192	3,730	5,017	216	35	4,388	17,536	300
PBT	4,981	5,316	6,689	7,588	7,032	41	-7	19,994	28,211	41
Income Tax Expense (Gain)	1,229	841	1,663	1,876	1,748	42	-7	4,647	6,996	51
Net Profit/(Loss)	3,752	3,707	5,026	5,712	5,284	41	-7	15,347	21,215	38
Gross NPA (%)	1.98	1.67	1.78	1.98	2.31	33bps	33bps	1.67	2.33	66bps
Net NPA (%)	0.68	0.55	0.63	0.75	0.91	23bps	16bps	0.55	0.90	35bps
Deposits (Rs bn)	801	872	973	1,097	1,123	40	2	872	1,186	36
Net Advances (Rs bn)	667	732	897	948	996	49	5	732	1,062	45

Source: Company, Emkay Research

Exhibit 11: Key Assumptions

(%)	FY24A	FY25E	FY26E	FY27E
AUM Growth	25.2	53.0	23.0	25.0
Deposit Growth	9.0	34.0	25.9	28.3
NIM	5.3	6.4	6.4	6.5
GNPA	1.7	2.3	2.2	2.2
Credit Cost	0.7	1.9	1.7	1.8

Source: Emkay Research

Exhibit 12: Key Ratios and Trends

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Loans (Rs mn)	634,298	671,240	726,601	746,380	780,387	855,207	896,520	948,382	995,590
Growth YoY (%)	50.9	40.3	30.6	26.3	23.0	27.4	23.4	27.1	27.6
Growth QoQ (%)	7.3	5.8	8.2	2.7	4.6	9.6	4.8	5.8	5.0
Composition (%)									
Corporate	19	21	21	22	24	24	19	20	21
Retail and Treasury	81	79	79	78	76	76	81	80	79
Liability Profile									
Deposits (Rs mn)	684,511	773,981	780,582	851,961	898,540	977,031	972,900	1,096,931	1,122,600
Growth YoY (%)	54.6	47.2	27.6	31.1	31.3	26.2	24.6	28.8	24.9
Growth QoQ (%)	5.3	13.1	0.9	9.1	5.5	8.7	(0.4)	12.7	2.3
CASA (%)	34.3	34.4	31.1	29.4	29.4	29.8	32.0	32.4	30.6
CA (%)	4.1	4.8	4.2	4.8	4.5	4.1	4.2	5.5	4.9
SA (%)	30.2	29.7	27.0	24.6	25.0	25.7	27.9	26.9	25.7
No. of Branches	1,015	1,027	1,038	1,042	1,049	1,133	2,414	2,408	2,400
NIM (%)	6.2	6.1	5.7	5.5	5.5	5.1	6.0	6.1	5.9
Asset Quality									
GNPA (%)	1.8	1.7	1.8	1.9	2.0	1.7	1.8	2.0	2.3
NNPA (%)	0.5	0.4	0.6	0.6	0.7	0.5	0.6	0.7	0.9
PCR (%)	72.1	75.0	69.0	69.1	66.0	67.6	65.1	62.8	61.2
Slippages (Rs mn)	2,310	1,910	3,170	3,490	4,030	2,960	5,430	7,360	9,560
Slippages – Annualized (%)	2.2	1.6	2.3	2.4	2.5	1.8	3.0	3.9	4.9
CAR (%)	22.0	23.6	21.5	22.4	20.8	20.1	20.1	18.5	18.0
Tier I (%)	20.0	21.8	20.7	21.0	19.1	18.8	18.9	17.4	16.9
ROE Decomposition (on total assets)									
NII (%)	5.8	5.7	5.5	5.3	5.4	5.1	6.5	6.0	5.7
Other Income (Ex. Treasury; %)	1.5	1.6	1.3	1.8	1.8	2.1	1.8	1.7	1.6
Opex (%)	4.5	4.6	4.5	4.4	4.5	4.7	5.0	4.5	4.1
PPOP (%)	2.8	2.7	2.4	2.8	2.7	2.5	3.4	3.4	3.4
Provisioning Cost (%)	0.2	0.2	0.1	0.5	0.6	0.5	1.1	1.1	1.4
PBT (%)	2.6	2.5	2.3	2.3	2.0	2.0	2.3	2.3	2.0
Tax (%)	0.7	0.5	0.6	0.6	0.5	0.3	0.6	0.6	0.5
ROA (%)	1.98	1.99	1.70	1.71	1.52	1.41	1.71	1.73	1.50
ROE (%)	15.2	15.8	13.8	13.9	12.5	12.0	14.3	14.5	13.0

Source: Company, Emkay Research; Note: Advances and Deposit figures for the past years are adjusted for the merger impact

AU Small Finance Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	82,054	105,547	161,319	205,526	249,588
Interest Expense	37,801	53,976	80,853	99,471	116,864
Net interest income	44,253	51,571	80,466	106,056	132,724
NII growth (%)	36.8	16.5	56.0	31.8	25.1
Other income	10,345	17,458	24,175	28,625	34,397
Total Income	54,597	69,029	104,641	134,681	167,121
Operating expenses	34,403	44,647	58,894	76,495	92,778
PPOP	20,195	24,382	45,747	58,186	74,343
PPOP growth (%)	11.3	20.7	87.6	27.2	27.8
Core PPOP	20,638	23,864	44,088	55,787	71,345
Provisions & contingencies	1,548	4,388	17,536	20,834	27,539
PBT	18,646	19,994	28,211	37,351	46,804
Extraordinary items	0	0	0	0	0
Tax expense	4,367	4,647	6,996	9,413	11,794
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	14,279	15,347	21,215	27,939	35,009
PAT growth (%)	26.4	7.5	38.2	31.7	25.3
Adjusted PAT	14,279	15,347	21,215	27,939	35,009
Diluted EPS (Rs)	21.4	22.9	28.5	37.5	47.0
Diluted EPS growth (%)	19.4	7.1	24.3	31.7	25.3
DPS (Rs)	1.0	1.0	2.0	2.5	2.5
Dividend payout (%)	4.7	4.4	7.0	6.7	5.3
Effective tax rate (%)	23.4	23.2	24.8	25.2	25.2
Net interest margins (%)	5.7	5.3	6.4	6.4	6.5
Cost-income ratio (%)	63.0	64.7	56.3	56.8	55.5
Shares outstanding (mn)	666.7	669.2	744.2	744.2	744.2

Source: Company, Emkay Research ; Note : Merged Financials from FY25 onwards

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	9,813.1	12,363.1	25,165.5	29,640.0	36,742.4
Net NPLs	2,861.6	4,006.4	9,562.9	10,374.0	11,022.7
GNPA ratio (%)	1.7	1.7	2.3	2.2	2.2
NNPA ratio (%)	0.5	0.5	0.9	0.8	0.7
Provision coverage (%)	70.8	67.6	62.0	65.0	70.0
Gross slippages	12,398.8	13,650.0	31,181.4	29,830.2	35,512.1
Gross slippage ratio (%)	2.1	1.8	2.7	2.1	2.0
LLP ratio (%)	0.5	0.8	1.9	1.7	1.8
NNPA to networth (%)	2.5	3.1	5.6	5.2	4.7
Capital adequacy					
Total CAR (%)	23.7	20.4	21.2	19.9	18.7
Tier-1 (%)	21.9	19.1	19.7	18.5	17.3
CET-1 (%)	21.9	19.1	19.7	18.5	17.3
RWA-to-Total Assets (%)	53.8	58.5	55.0	55.0	55.0
Miscellaneous					
Total income growth (%)	33.6	33.1	50.8	26.2	21.3
Opex growth (%)	42.6	29.8	31.9	29.9	21.3
Core PPOP growth (%)	23.4	15.6	84.7	26.5	27.9
PPOP margin (%)	21.9	19.8	24.7	24.8	26.2
PAT/PPOP (%)	70.7	62.9	46.4	48.0	47.1
LLP-to-Core PPOP (%)	7.5	18.4	39.8	37.3	38.6
Yield on advances (%)	13.1	12.8	15.0	14.7	14.4
Cost of funds (%)	5.7	6.5	7.3	6.9	6.4

Source: Company, Emkay Research ; Note : Merged Financials from FY25 onwards

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	6,667	6,692	7,442	7,442	7,442
Reserves & surplus	103,106	118,903	160,353	186,431	219,580
Net worth	109,773	125,595	167,795	193,874	227,022
Deposits	693,650	871,821	1,185,987	1,493,448	1,916,724
Borrowings	52,987	54,794	99,358	110,369	108,688
Interest bearing liab.	746,636	926,615	1,285,345	1,603,817	2,025,412
Other liabilities & prov.	45,751	42,046	65,401	79,118	100,498
Total liabilities & equity	902,161	1,094,256	1,518,541	1,876,808	2,352,932
Net advances	584,215	731,627	1,062,477	1,313,949	1,651,314
Investments	200,720	271,334	339,606	420,421	525,074
Cash, other balances	94,252	63,763	77,121	96,229	121,525
Interest earning assets	879,187	1,066,723	1,479,203	1,830,599	2,297,913
Fixed assets	7,401	8,516	11,768	15,139	19,509
Other assets	15,573	19,017	27,570	31,071	35,510
Total assets	902,161	1,094,256	1,518,541	1,876,808	2,352,932
BVPS (Rs)	164.6	187.7	225.5	260.5	305.0
Adj. BVPS (INR)	161.4	183.2	215.8	250.1	294.0
Gross advances	529,527	665,575	909,031	1,205,647	1,505,124
Credit to deposit (%)	84.2	83.9	89.6	88.0	86.2
CASA ratio (%)	38.4	34.4	29.0	28.4	28.6
Cost of deposits (%)	5.5	6.3	6.8	6.4	6.0
Loans-to-Assets (%)	64.8	66.9	70.0	70.0	70.2
Net advances growth (%)	26.7	25.2	45.2	23.7	25.7
Deposit growth (%)	31.9	27.6	34.0	25.9	28.3
Book value growth (%)	38.0	14.0	20.1	15.5	17.1

Source: Company, Emkay Research ; Note : Merged Financials from FY25 onwards

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	27.7	25.9	20.8	15.8	12.6
P/B (x)	3.6	3.2	2.6	2.3	1.9
P/ABV (x)	3.7	3.2	2.8	2.4	2.0
P/PPOP (x)	19.6	16.3	9.7	7.6	5.9
Dividend yield (%)	0.2	0.2	0.3	0.4	0.4
DuPont-RoE split (%)					
NII/avg assets	5.6	5.2	6.2	6.2	6.3
Other income	1.3	1.7	1.9	1.7	1.6
Fee income	1.4	1.7	1.7	1.5	1.5
Opex	4.3	4.5	4.5	4.5	4.4
PPOP	2.5	2.4	3.5	3.4	3.5
Core PPOP	2.6	2.4	3.4	3.3	3.4
Provisions	0.2	0.4	1.3	1.2	1.3
Tax expense	0.5	0.5	0.5	0.6	0.6
RoA (%)	1.8	1.5	1.6	1.6	1.7
Leverage ratio (x)	8.6	8.5	8.9	9.4	10.0
RoE (%)	15.4	13.0	14.5	15.4	16.6

Quarterly data					
Rs mn, Y/E Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
NII	17,612	17,979	19,206	19,743	20,227
NIM (%)	6.4	6.1	6.2	6.1	5.9
PPOP	8,444	8,306	9,515	11,317	12,049
PAT	4,642	5,347	5,016	5,712	5,284
EPS (Rs)	6.96	8.02	7.52	8.57	7.93

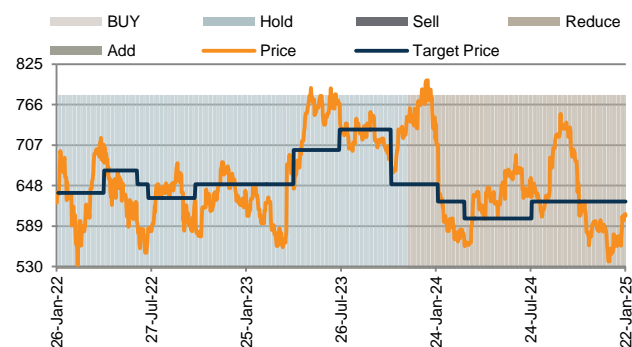
Source: Company, Emkay Research ; Note : Merged Financials from FY25 onwards

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
23-Oct-24	652	625	Reduce	Anand Dama
26-Jul-24	650	625	Reduce	Anand Dama
26-Apr-24	600	600	Reduce	Anand Dama
19-Mar-24	560	600	Reduce	Anand Dama
28-Jan-24	708	625	Reduce	Anand Dama
30-Nov-23	741	650	Reduce	Anand Dama
06-Nov-23	674	650	Hold	Anand Dama
30-Oct-23	666	650	Hold	Anand Dama
23-Jul-23	767	730	Hold	Anand Dama
26-Apr-23	643	700	Hold	Anand Dama
09-Mar-23	624	650	Hold	Anand Dama
20-Jan-23	616	650	Hold	Anand Dama
19-Oct-22	626	650	Hold	Anand Dama
21-Jul-22	587	630	Hold	Anand Dama
30-Jun-22	592	650	Hold	Anand Dama
27-Apr-22	681	670	Hold	Anand Dama
11-Feb-22	660	638	Hold	Anand Dama
29-Jan-22	636	638	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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