

AU SMALL FINANCE BANK LIMITED

Growth momentum & lower provisions to aid profitability

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AU Small Finance Bank (AU SFB) reported a resilient quarterly performance, underpinned by strong loan and deposit growth that outpaced the industry, despite a drag on profitability from one-time provisions. While NIM remained healthy, we expect it to compress in the near term due to lower incremental yields, driven by the transmission of repo rate cuts and reduced exposure to high-yielding assets. Furthermore, the bank's asset quality improved and is expected to remain resilient in an improving macro environment, supported by stronger collection efficiencies and tighter underwriting standards. As a result, we expect provisions to moderate in the medium term, partly aiding profitability. We remain optimistic about AU SFB's long-term prospects, given its expanding distribution network and the potential to obtain a universal banking license. Hence, we maintain our **BUY** rating on the stock, based on 2.4x FY27E BVPS, with a revised target price of ₹760.

Strong core growth; one-time provisions weigh on profit

In Q4FY25, AU SFB's net-interest income (NII) grew 3.5% QoQ to ₹20,939 mn (+56.6% YoY), driven by healthy growth in advances (+7.6% QoQ/+46.4% YoY). The bank's net interest margin (NIM) shrank 10bps QoQ to 5.8%, owing to reduced exposure to high yielding assets and stable cost of funds. Further, pre-provision operating profit increased 4.2% QoQ to ₹12,559 mn, led by higher other income (+17.1% QoQ) on increased cross-selling and AD-I activities. Also, its cost-to-income (C/I) is at 55.4% aided by merger synergies, lower acquisition in credit cards and moderation in overhead cost. However, PAT de-grew 4.7% QoQ to ₹5,037 mn (+35.9% YoY), on higher provisions (₹5,987 mn vs. ₹5,017 mn in Q3FY24), as the bank made an accelerated provision of ₹1,500 mn (primarily in unsecured) to strengthen provision coverage. This was over and above the provision required as per the bank's provisioning policy.

Secured lending drives growth, asset quality sees sequential improvement

During the quarter, growth in advances was primarily led by robust growth in wheels (+11.1% QoQ), MSME (+5.7% QoQ) and business banking (+7.0% QoQ). While on a sequential basis, the bank de-grew its credit card, personal loans and microfinance portfolio by 17.5%, 10.8% and 6.5%, respectively. The bank's deposits increased 10.7% QoQ (+40.1% YoY), of which current account deposits and saving account deposits grew 24.0% QoQ and 1.7% QoQ, respectively; term deposits continue to grow at 13.0% QoQ, in a high-interest rate scenario. As a result, the share of CASA deposits in total deposits stood at 29.2%. Additionally, asset quality improved, with gross non-performing assets (NPAs) and net NPAs at 2.28% and 0.74%, respectively (vs. 2.31% and 0.91% in Q3FY25). This was supported by improvement in secured assets and MFI, coupled with higher recoveries and write-offs.

Key Financials (₹ mn)	FY23	FY24	FY25	FY26E	FY27E
Loans & Advances	5,84,215	7,31,627	10,70,925	12,88,323	15,34,392
Net Interest Income	44,253	51,571	80,116	1,01,049	1,21,078
PPP ex Except. Items	20,195	24,382	45,807	56,792	68,238
Reported Profits	14,279	15,347	21,059	29,642	37,974
Earnings Per Share(₹)	21.4	22.9	28.3	39.8	51.0
P/E (x)	30.9	28.9	23.4	16.6	13.0
Adj. BV (₹)	162.1	183.8	225.3	265.1	316.1
P/ABV (x)	4.1	3.6	2.9	2.5	2.1
Gross NPAs Ratio (%)	1.7	1.7	2.3	2.0	1.9
Adj. RoA (%)	1.8	1.4	1.6	1.7	1.8
Adj. RoE (%)	15.5	11.8	14.3	15.9	17.2

BUY

Current Market Price (₹) : 662

12M Price Target (₹) : 760

Potential Return (%) : 15

Stock Data

Sector :	:	Banking
Face Value (₹)	:	10
Total Mcap (₹ bn)	:	493
Free Float Mcap (₹ bn)	:	371
52-Week High / Low (₹)	:	755 / 479
BSE Code / NSE Symbol	:	540611 / AUBANK
Bloomberg	:	AUBANK IN
Sensex / Nifty:	:	79,873 / 24,249

Shareholding Pattern

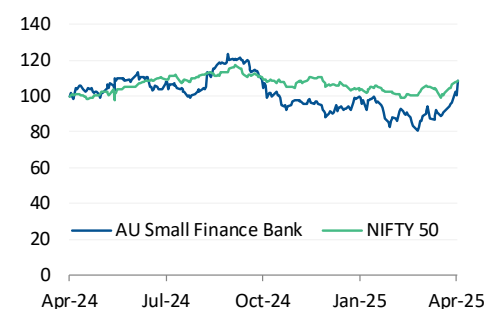
(%)	Mar-25	Dec-24	Sep-24	Jun-24
Promoter	22.87	22.88	22.90	22.92
FPIs	35.58	39.35	40.72	39.58
MFs	20.17	17.11	15.54	12.45
Insurance	4.07	3.30	3.26	2.79
Others	17.31	17.36	17.58	22.26

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
AU SFB	22.0%	13.7%	1.6%	8.6%
Nifty 50	4.2%	4.8%	-0.4%	8.8%

* To date / current date : April 23, 2025

AU SFB vs Nifty 50

Key Concall Highlights

Business highlights

- Within the secured retail assets (~66% of total loans), wheels segment saw strong performance with good off-take in the tractor side and the used vehicle segment picking up. The bank also plans to capitalize on the gold loan business, given the recent guidelines expected to favour the banks.
- In the unsecured retail assets (8.6% of total loans), the bank believes stress in the MFI is nearing end with continued improvement in collection efficiency. The bank has reduced credit card portfolio and have taken corrective actions, including changes in digital underwriting, adding gated conditions, restricting certain expenses, hiring a senior credit specialist, and focusing on existing bank customers.
- While the CASA has reduced similar to industry trend, deposit growth was led by wholesale deposits. As a result, the bank's credit-deposit (CD) ratio improved to 86.2% vs. 89% in Q3FY25.
- Likewise, the bank has reduced its peak deposit rates by 25bps on both term deposits and savings deposits in April'25. Specifically, the peak TD rate was brought down from 8% to 7.75% and the peak saving rate from 7.25% to 7%.
- Management aims to achieve a business growth rate of ~2-2.5x of nominal GDP over the medium to long term.

Operational highlights

- Management highlights the NIM to be impacted in the near term owing to repo rate cuts, as its loan portfolio (~30% are floating) re-price faster than the deposits.
- Moreover, the management expects credit costs to be substantially lower in the range of 75-85bps (as % of total average assets) in FY26, with advance provisioning and improving asset quality. Provision coverage ratio of the bank stands at ~68%.

Other key highlights

- Universal bank license – the application is under review and the management expects to receive response from the regulator in this calendar year.
- New LCR guidelines to have a neutral to positive impact, with the bank's LCR at 116%.

Outlook & Valuation

Given the easing liquidity conditions, we expect AU SFB to deliver a loan growth CAGR of 19.7% over FY25–FY27E, driven primarily by secured assets and expanded distribution particularly in South India by leveraging erstwhile Fincare distribution. This, coupled with a robust capital base and a comfortable CD ratio, positions the bank well to capture mid- to long-term growth. Furthermore, margins could improve over the medium term as the bank has 70% fixed rate book and could increase its exposure to unsecured assets as when the stress diminishes. Meanwhile, we expect reduction in credit costs could support profitability growth, reflecting RoA of 1.8% by FY27E. Additionally, the stock is currently trading at 2.1x FY27E BVPS, lower than its historical three-year average of 3.2x. Hence, we maintain our **BUY** rating on the stock, based on 2.4x FY27E BVPS with a revised target price of ₹760.

Income Statement Analysis

(₹ mn)	Q4FY25	Q4FY24	% yoy / bps	Q3FY25	% qoq / bps	FY25	FY24	% yoy / bps
Interest Inc.	42,706	28,295	50.9	41,135	3.8	1,60,637	1,05,547	52.2
Interest Expenses	21,767	14,925	45.8	20,908	4.1	80,521	53,976	49.2
Net Interest Income	20,939	13,370	56.6	20,227	3.5	80,116	51,571	55.4
NIM (%)	5.8	5.1	70	5.9	(10)	6.1	5.3	84
Other Income - Total	7,243	5,556	30.4	6,184	17.1	25,263	17,459	44.7
Net Operating Revenue	28,182	18,926	48.9	26,411	6.7	1,05,379	69,030	52.7
Employee Expenses	8,175	5,559	47.1	7,547	8.3	31,478	21,037	49.6
Other Opex	7,449	6,726	10.7	6,815	9.3	28,095	22,843	23.0
Total Opex	15,623	12,285	27.2	14,362	8.8	59,572	43,880	35.8
Cost to Income Ratio (%)	55.4	64.9	(947)	54.4	106	56.5	63.6	(704)
Pre Provision Profits	12,559	6,642	89.1	12,049	4.2	45,807	25,150	82.1
Exceptional Profit (Loss)	-	(768)	-	-	-	-	(768)	(100.0)
PPP ex Except. Items	12,559	5,874	113.8	12,049	4.2	45,807	24,382	87.9
Provisions & Contingencies - Total	5,987	1,325	351.8	5,017	19.3	17,926	4,387	308.6
Profit Before Tax	6,571	4,548	44.5	7,032	(6.6)	27,881	19,994	39.4
Tax	1,535	841.0	82.5	1,748	(12.2)	6,821	4,647	46.8
Reported Profits	5,037	3,707	35.9	5,284	(4.7)	21,059	15,347	37.2
Basic EPS	6.8	5.5	22.2	7.1	(4.6)	28.3	23.0	23.3

Source: Company, LKP Research

Balance Sheet Analysis

(₹ mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Net Worth	1,21,670	1,24,968	1,55,160	1,59,480	1,66,020	1,70,420	2.7	36.4
RoE (%)	12.3	11.9	13.0	14.3	12.7	11.8	(7)	(0)
Tier 1 %	19.6	18.8	18.9	17.4	16.9	18.1	7	(4)
Total CAR %	20.8	20.1	20.1	18.5	18.0	20.1	11	-
Advances - Total	6,67,400	7,31,627	8,96,520	9,48,382	9,95,590	10,70,925	7.6	46.4
Investments	2,67,140	2,71,334	2,73,150	3,18,608	3,36,130	3,78,475	12.6	39.5
Total Assets	10,11,750	10,94,257	12,59,420	13,88,292	14,30,440	15,78,457	10.3	44.2
RoA (%)	2.00	1.40	1.56	1.72	1.48	1.36	(8)	(3)
Deposits	8,01,200	8,71,821	9,72,900	10,96,931	11,22,600	12,42,685	10.7	42.5
CASA Deposits	2,64,460	2,91,260	3,20,350	3,55,210	3,44,020	3,62,530	5.4	24.5
CASA Ratio (%) reported	33.0	33.0	33.0	32.4	30.6	29.2	(5)	(12)
Term Deposits	5,36,740	5,80,561	6,52,550	7,41,721	7,78,580	8,80,155	13.0	51.6
Interest Bearing Liabilities - Total	8,55,340	9,26,615	10,62,210	11,84,703	12,22,480	13,59,284	11.2	46.7

Source: Company, LKP Research

Funding Profile Analysis

(₹ mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Deposits	8,01,200	8,71,821	9,72,900	10,96,931	11,22,600	12,42,685	10.7	42.5
CASA Deposits	2,64,460	2,91,260	3,20,350	3,55,210	3,44,020	3,62,530	5.4	24.5
Saving Deposit	2,26,150	2,37,880	2,72,990	2,95,400	2,87,580	2,92,560	1.7	23.0
Current Deposit	38,310	53,380	47,360	59,810	56,440	69,970	24.0	31.1
Term Deposits	5,36,740	5,80,561	6,52,550	7,41,721	7,78,580	8,80,155	13.0	51.6
Borrowings	54,140	54,794	89,310	87,771	99,880	1,16,599	16.7	112.8
Interest Bearing Liabilities - Total	8,55,340	9,26,615	10,62,210	11,84,703	12,22,480	13,59,284	11.2	46.7

Source: Company, LKP Research

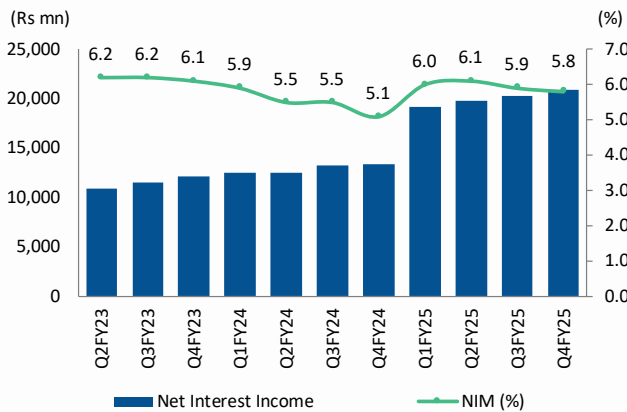
Assets Quality Analysis

(₹ mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Total Slippages	4,030	2,960	7,428	7,360	9,560	8,940	(6.5)	202.0
Slippages Ratio (%)	0.69	0.51	1.02	1.01	1.31	1.22	(8)	72
Gross NPA	13,397	12,374	16,132	19,017	23,355	24,770	6.1	100.2
Gross NPAs Ratio (%)	1.98	1.67	1.78	1.98	2.31	2.28	(3)	61
PCR - Adjusted (%)	66.0	67.6	65.1	62.8	61.2	68.1	683	46
PCR - Inc. Tech w/o (%)	72.0	76.0	84.0	82.0	80.0	84.0	400	800
Net NPA	4,562	4,010	5,626	7,067	9,056	7,913	(12.6)	97.3
Net NPAs Ratio (%)	0.68	0.55	0.63	0.75	0.91	0.74	(17)	19

Source: Company, LKP Research

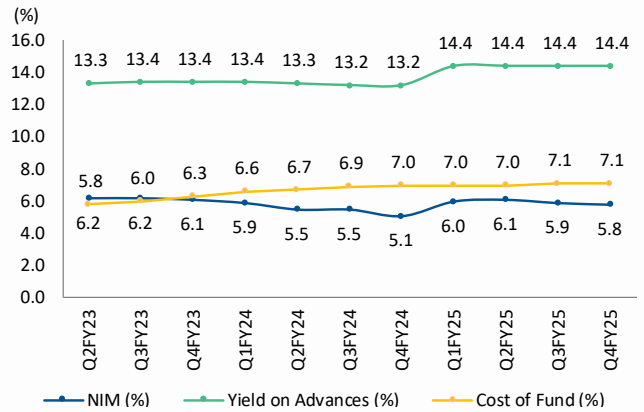
Quarterly story in charts

NII Trend



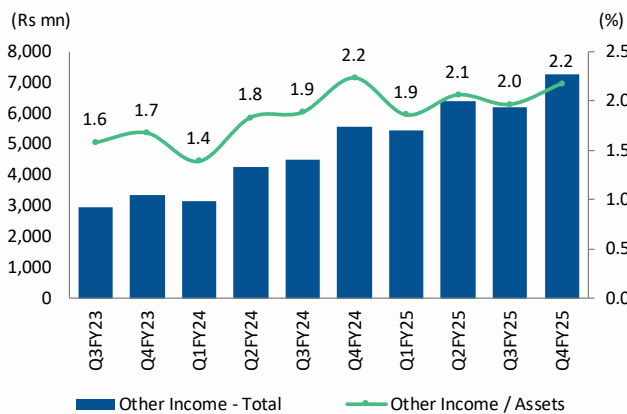
Source: Company, LKP Research

Yields and Margin Trend



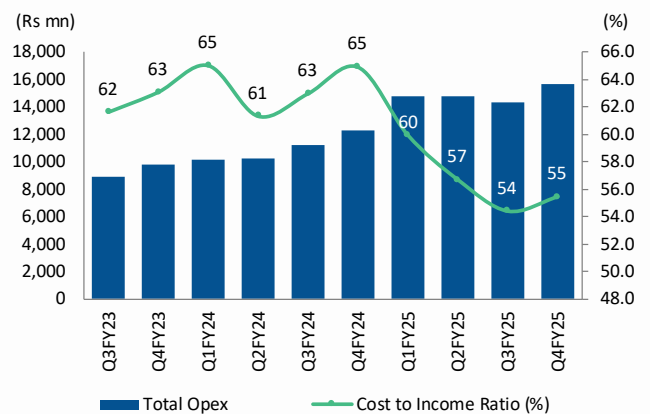
Source: Company, LKP Research

Other Income Trend



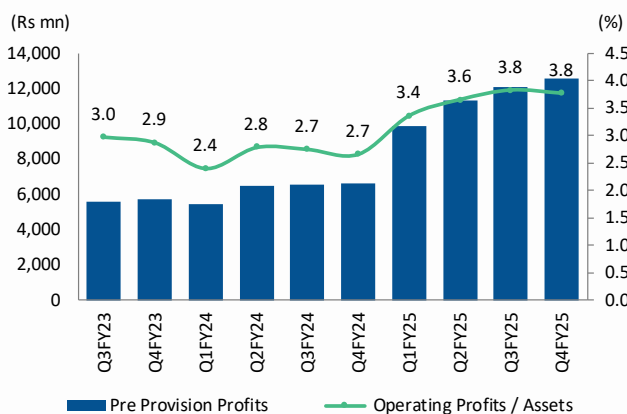
Source: Company, LKP Research

Total OPEX Trend



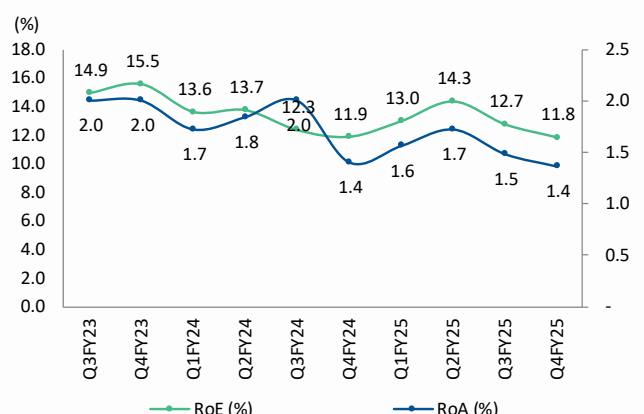
Source: Company, LKP Research

Reported Profit Trend



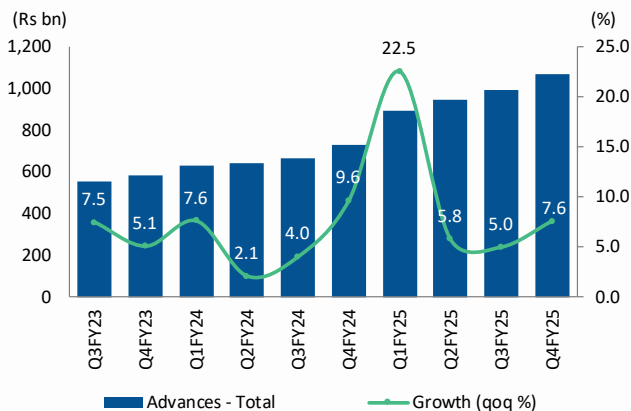
Source: Company, LKP Research

Return Ratio Trend



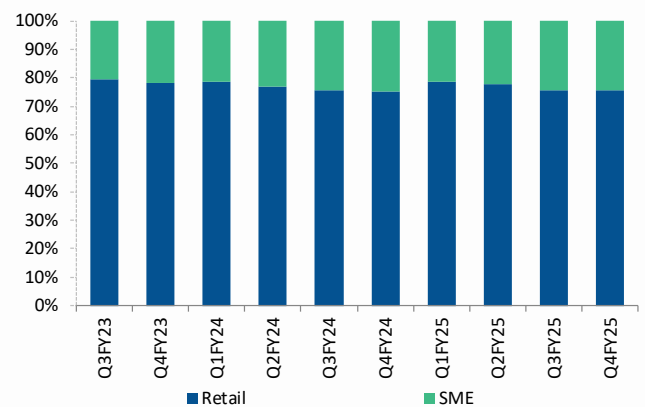
Source: Company, LKP Research

Loan Book Trend



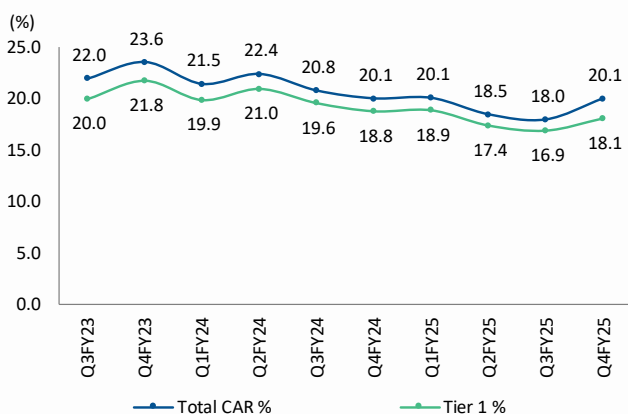
Source: Company, LKP Research

Loan Book Mix



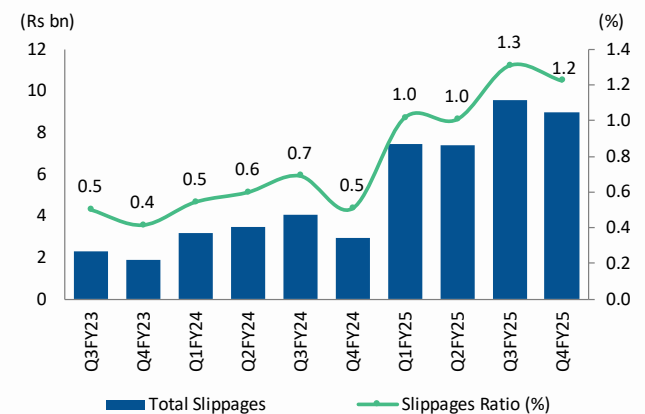
Source: Company, LKP Research

CAR & Tier 1 Ratio Trend



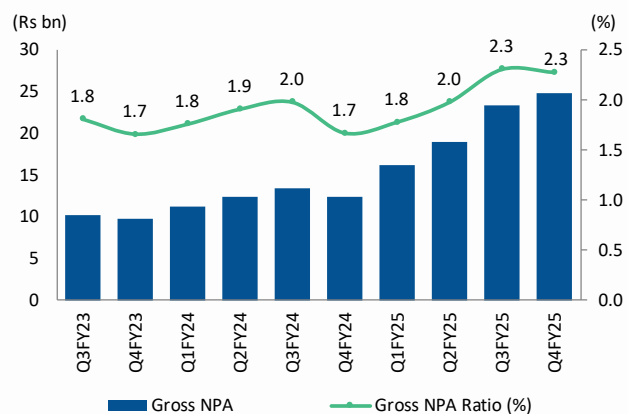
Source: Company, LKP Research

Slippages



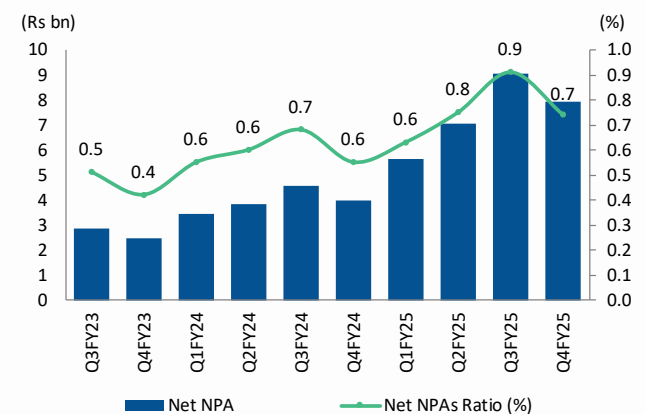
Source: Company, LKP Research

Gross NPA Trend



Source: Company, LKP Research

Net NPA Trend



Source: Company, LKP Research

Annual Projections

Profit and Loss Statement

(₹ mn)	FY23	FY24	FY25	FY26E	FY27E
Int. Income	82,054	1,05,547	1,60,637	2,06,752	2,46,957
Interest Expenses	37,801	53,976	80,521	1,05,703	1,25,879
Net Interest Income	44,253	51,571	80,116	1,01,049	1,21,078
<i>NIM (%)</i>	5.7	5.5	5.9	5.9	5.9
Other Income - Total	10,345	17,459	25,263	33,564	42,489
Net Operating Revenue	54,597	69,030	1,05,379	1,34,613	1,63,567
Employee Exp.	17,930	21,037	31,478	41,299	51,830
Other Opex	16,472	22,843	28,095	36,523	43,499
Total Opex	34,403	43,880	59,572	77,822	95,329
C/I Ratio	63.01	63.57	56.53	57.81	58.28
Pre Provision Profits	20,195	25,150	45,807	56,792	68,238
<i>PPP Growth (yoy %)</i>	11.3	24.5	82.1	24.0	20.2
Provisions & Contingencies - Total	1,548	4,387	17,926	17,548	17,964
Credit Cost (As % of Op. AUM)	0.27	0.60	1.67	1.00	0.80
Profit Before Tax	18,646	19,994	27,881	39,243	50,274
Tax	4,367	4,647	6,821	9,601	12,300
Effective Tax Rate	23.4	24.2	24.5	24.5	24.5
Reported Profits	14,279	15,347	21,059	29,642	37,974
<i>PAT Growth (yoy %)</i>	26.4	7.5	37.2	40.8	28.1

Source: Company, LKP Research

Balance Sheet

(₹ mn)	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	6,667	6,692	7,445	7,445	7,445
Reserves (ex Revel. Reserve)	1,02,666	1,18,276	1,64,218	1,93,860	2,31,833
Net Worth - Ex Revaluation	1,09,333	1,24,968	1,71,663	2,01,305	2,39,279
Equity Warrant & Other	440	627	1,242	1,242	1,242
Deposits	6,93,650	8,71,821	12,42,685	15,45,211	18,56,880
Borrowings	62,987	54,794	1,16,599	1,23,483	1,39,765
Interest Bearing Liabilities	7,56,636	9,26,615	13,59,284	16,68,694	19,96,645
Other Lia. & Prov.	35,751	42,046	47,509	53,258	57,625
Total Liabilities	9,02,161	10,94,257	15,78,457	19,24,499	22,94,792
Assets					
Cash & Cash Equivalent	94,252	63,763	94,664	1,30,823	1,54,207
Investments	2,00,720	2,71,334	3,78,475	4,57,616	5,44,245
Credit Equivalent	41,454	56,038	78,166	80,511	82,926
Loans & Advances	5,84,215	7,31,627	10,70,925	12,88,323	15,34,392
Fixed Assets	7,401	8,516	9,125	15,394	20,548
Other Assets	15,573	19,017	25,268	32,343	41,400
Total Assets	9,02,161	10,94,257	15,78,457	19,24,499	22,94,792

Source: Company, LKP Research

Detailed ROA Tree

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
<u>Yields / Margins</u>					
Yield on Advance	13.1	13.3	14.4	14.3	14.1
Yield on Funds	10.6	10.8	12.3	12.1	12.0
Cost of Funds (CoF)	5.6	6.8	7.1	7.0	6.9
Interest Spread	4.9	4.4	5.3	5.1	5.1
NIM's	5.7	5.5	5.9	5.9	5.9
Interest Income / Assets	10.3	10.6	12.0	11.8	11.7
Interest Exp. / Assets	4.7	5.4	6.0	6.0	6.0
NII / Assets	5.6	5.2	6.0	5.8	5.7
Fee Income / Assets	1.2	1.6	1.8	1.8	1.9
Other Non Core Income / Assets	(0.1)	0.1	0.1	0.0	0.0
Other Income / Assets	1.3	1.7	1.9	1.9	2.0
Net Operating Income / Assets	6.9	6.9	7.9	7.7	7.8
<u>Operating Ratios</u>					
NII to Net Operative Income	81.1	74.7	76.0	75.1	74.0
Other Income to Net Operative Income	18.9	25.3	24.0	24.9	26.0
Empl. Cost/Oper. Exps.	52.1	47.9	52.8	53.1	54.4
Other Op. Exps./Oper. Exps.	47.9	52.1	47.2	46.9	45.6
C/I Ratio	63.0	63.6	56.5	57.8	58.3
Provisions as % PPP	2.8	6.4	17.0	13.0	11.0
Credit Cost (As % of Op. AUM)	0.3	0.6	1.7	1.0	0.8
Effective Tax Rate	23.4	24.2	24.5	24.5	24.5
Employee Exp. / Assets	2.3	2.1	2.4	2.4	2.5
Other Opex/ Assets	2.1	2.3	2.1	2.1	2.1
Total Opex / Assets	4.3	4.4	4.5	4.4	4.5
Operating Profits / Assets	2.5	2.5	3.4	3.2	3.2
Exceptional Items / Assets	-	(0.1)	-	-	-
Op Profit ex Except Items / Assets	2.5	2.4	3.4	3.2	3.2
Provisions / Assets	0.2	0.4	1.3	1.0	0.9
Profit Before Tax / Assets	2.3	2.0	2.1	2.2	2.4
Tax Expenses / Assets	0.5	0.5	0.5	0.5	0.6
RoA	1.8	1.5	1.6	1.7	1.8
Leverage (x)	8.3	8.8	9.2	9.6	9.6
RoE	15.5	13.1	14.3	15.9	17.2
Adj. RoA	1.8	1.4	1.6	1.7	1.8
Adj. RoE	15.5	11.8	14.3	15.9	17.2

Source: Company, LKP Research

Capital and Asset-Liability Profile (%)

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
Risk Weighted Assets	4,89,852	5,94,341	8,15,266	9,90,930	11,78,942
<i>RWA as % of Total Assets</i>	54.3	54.3	51.6	51.5	51.4
<i>Total Shareholders' Equity to Assets</i>	12.1	11.4	10.9	10.5	10.4
<i>CET 1 Ratio</i>	21.8	20.5	20.6	19.9	19.8
<i>Tier 1 Ratio</i>	21.8	20.5	20.6	19.9	19.8
<i>Total CAR Ratio</i>	21.8	20.5	20.6	19.9	19.8

Source: Company, LKP Research

Key Assumptions & Forecasts

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
Loans & Advances	5,84,215	7,31,627	10,70,925	12,88,323	15,34,392
Growth (yoy %)		25.2	46.4	20.3	19.1
Interest Bearing Liabilities	7,56,636	9,26,615	13,59,284	16,68,694	19,96,645
Growth (yoy %)		22.5	46.7	22.8	19.7
Yield on Funds	10.6	10.8	12.3	12.1	12.0
Cost of Funds (CoF)	5.6	6.8	7.1	7.0	6.9
Interest Spread	4.9	4.4	5.3	5.1	5.1
NIM's	5.7	5.5	5.9	5.9	5.9
Other Income Growth	4.1	68.8	44.7	32.9	26.6
C/I Ratio	63.0	63.6	56.5	57.8	58.3
Effective Tax Rate	23.4	24.2	24.5	24.5	24.5
Return Ratios					
Adj. RoA	1.8	1.4	1.6	1.7	1.8
Adj. RoE	15.5	11.8	14.3	15.9	17.2
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	0.3	0.6	1.7	1.0	0.8
Gross NPAs Ratio (%)	1.7	1.7	2.3	2.0	1.9
Net NPAs Ratio (%)	0.4	0.4	0.7	0.7	0.7

Source: Company, LKP Research

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