

AU Small Finance Bank Ltd.

Industry Financial
Bloomberg AUBANK IN
BSE CODE 540611

Growth Remained Strong With Continued Downward Drift in Margins

RATING NEUTRAL

CMP 654
Price Target 669
Potential Upside 2%

Rating Change

Estimate Change

Target Change

Stock Info

52wk Range H/L 745/502
Mkt Capital (Rs Cr) 18860
Free float (%) 20%
Avg. Vol 1M (,000) 224
No. of Shares (Crore) 29
Promoters Pledged % 7.04%

KEY	FY19	FY20E	FY21E
NII	1342	1931	2671
PPP	722	1083	1492
PAT	382	540	738
NIM %	5.1	5.1	5.5
EPS (Rs)	13	18	24
EPS	28	37	37
ROE (%)	14.0	15.2	17.1
ROA (%)	1.5	1.5	1.6
BV	108	131	154
P/B (X)	5.5	5.0	4.2
P/E (x)	45.4	36.6	26.8

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1QFY20 Result Update

- NII has grown at the rate of 38% YoY on the back of strong AUM growth of 44%. Other income stood at Rs 211 Cr mainly led by 0.8% stake sale in the Aavas Housing finance subsidiary. C/I ratio improved at 52% from 61% YoY. PAT has grown almost three fold to Rs 190 Cr. NIM has declined from 6.2% to 5% YoY.
- AUM has grown at the rate of 44% YoY. The growth in retail portfolio stood at 49% while in corporate segment it stood at 36% YoY. It has grown 40% in wheels segment & 50% in MSME segment. In the wholesale segment, NBFC grew at 42%, business banking grew at 74% & real estate group remains muted at 6% YoY.
- GNPA has increased to 2.1% from 2% QoQ while NNPA remain stable at 1.3%. PCR has increased to 41% from 37% QoQ. Credit cost has decreased to 51 bps from 68 bps QoQ. Slippages during the quarter stood at Rs 140 Cr from Rs 152 QoQ while recovery stood at Rs 124 Cr from Rs 103 Cr.

AUM Growth has Remained Strong

AUM growth has remained 44% YoY on the back of strong retail growth by 49% YoY. The share of retail stood at 79% while that of corporate stood at 21%. Disbursement has grown strong at 40% YoY with 42% YoY growth in retail segment & 34% YoY growth in corporate segment but on QoQ basis it has remained almost stable. The disbursement on the wheel segment was mostly in the new segment contributing upto 47%, used segment stood at 31% while cash on wheels is at 21%.

GNPA Slightly Deteriorated QoQ

NPA has increased to 2.1% from 2% QoQ while NNPA remain stable 1.3%. PCR has increased to 41% from 37% QoQ. GNPA has increased in the retail segment from 2% to 2.1%, in small & mid corporate segment it has grown from 2.2% to 2.3%. GNPA in the wheels has increased to 2.3% from 2.1%, in SBL-MSME segment it has remained stable at 2.5%, In NBFC segment GNPA stood at 7 bps only, Real estate segment it stands at 2.8%, in SBL-SME segment it is at 6.8% & in business banking segment it stood at 8 bps.

Margin Continues to slip

NIM remained muted due to rise in cost of borrowings and liquidity buffer. The IRR in the disbursement has improved sequentially; IRR in retail has grown from 14.8% to 15% QoQ, IRR in small & mid corporate segment has increased from 14.3% to 14.5% QoQ. The IRR in wheel segment has increased from 15.8% to 16.6%, in SBL-MSME it has increased from 15% to 15.9% while in Home loan it has remained almost stable at 12.8%. Cost of Deposit increased to 7.56% from 7.27% QoQ and Cost of Funds has decreased by 10 bps to 7.60%.

View and Valuation

AUBANK has maintained its AUM growth at a higher range of 44% YoY. However, slowdown in the auto sale, real estate and NBFC segment possesses risk for such high growth rate. NIM has contracted with rise in cost of deposit & maintenance of liquidity buffer while on the yield front there has been improvement in the disbursement IRR due to limited competition. Management has judiciously maintained asset quality at 2% level. Going ahead growth is expected to be driven by retail segment (used & COW segment) while management cautiously grows NBFC & REG book managing NIL delinquency. Management has remained optimistic of the asset quality and maintained its credit cost guidance at 60-70 bps for FY20. In the medium term we expect NIM to improve as the share of high yield segment increase or based on low cost deposit franchise. AUBANK is trading at higher valuation than its peers and recent pressure in the segment of its operation possesses risk for premium valuation. We maintain our NEUTRAL stance. We value the stock 4.2x for FY21 at Rs 669.

Risks to our rating and target

- CASA % improvement will be vital for NIM performance.
- Persistent slow down in NBFC & Real estate segment will impact disbursement growth.

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1QFY20 Results Above Our Expectations

Strong Growth

Fig in Rs Cr

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	600	683	788	877	957	59.5%	9.2%	1,767	2,949	66.9%
Interest Exp.	314	362	440	490	562	79.0%	14.7%	827	1,606	94.3%
NII	286	321	348	387	396	38.1%	2.2%	940	1,342	42.7%
Other Income	103	123	106	131	211	104.7%	61.6%	388	462	19.1%
Total Income	389	444	454	517	607	55.7%	17.2%	1,329	1,805	35.8%
Opex	237	268	275	302	316	33.2%	4.6%	753	1,083	43.8%
PPP	152	175	179	216	291	90.9%	34.9%	576	722	25.3%
Provisions	35	35	32	39	32	-10.2%	-19.7%	133	142	6.9%
PBT	117	140	146	176	259	121.2%	47.0%	443	580	30.9%
Tax	40	49	51	58	70	72%	19.4%	151	198	31.1%
Extra Items	-	-	-	-	-			-	-	
Net Profit	77	91	95	118	190	147.1%	60.5%	292	382	31%

Concall Highlights

- IRR of incremental disbursement has gone up by 90 bps while on cost front there is a marginal 10 bps decline. Yield in investment is at 5%. Management is comfortable in maintaining buffer liquidity at the rate of 8-10% of the BS liquidity as long as the yield is more than CoF. Higher leverage and liquidity has affected the margins. NIM expansion is expected in Q3 & Q4 on the back of higher disbursement IRR and better liability franchise.
- Incremental yield rate has increased in SBL Agri segment, business banking segment and NBFC segment on the back of lower competition IRR of NBFC stands at 16.5%-17%, IRR of MSME is at 15.5% & IRR of Mid corporate is at 13.5%
- Rate of average Retail is at 6.2%. Management is incrementally focusing on the retail TD & building CASA franchise. PSLC premium is in the range of 50-70 bps. Other banks are offering TD at 7% so it is very competitive for AUBANK to build the liability franchise. AUBANK mobilized retail term deposit to the tune of Rs 850 Cr in 1QFY20.
- Most of customer is at B2C phase which are in the semi-urban & rural market where no challenges of slowing market.
- New product launches include personal loan and 3 in 1 bank demat and trading account. Management continues to generate business purely through internally lead generations.
- Share of Retail segment is expected to remain in the same proportion till FY22. Management has discontinued SBL-SME as they were not growing it for last 8-10 quarters. They have merged SBL-SME with AGRI SME given significant overlap in the borrower's profile. Rs 1336 Cr of securitization was done in this quarter.
- AUBANK shifted to used segment and COW (Cash on wheel) segment on the back lower pricing and decline in market share in the new vehicle. With traction on the used business the entire segment has moved into more organized player. Used segment is similar to new vehicle segment in terms of asset class, dealer management, channel management & geography. Rejection rate stand at 15% on both new and used segment. The difference in the credit cost of used and new is almost 50-60 bps higher but it is compensated by the risk based return. Average ticket size for used is at Rs 3,00,000 while age of the used vehicle is 5-7 years.
- Cash On wheel is basically giving money as top up to existing customer. The IRR is at 17-18%.
- C/I ratio is expected to decline to 52-53% in next 2-3 years. Cost to asst has declined 3.8% from 4% YoY. Management it to decline in 3.25% by FY22.
- Management has guided RoA of 1.8-1.9% is achievable in FY22.
- Moving into daily recognition of NPA norm has led to elevated amount of GNPA. Management has guided credit cost estimate is around 60-70 bps going ahead.
- Management has diluted 0.8% of its stake in Aavas Housing Finance from total 7.23% of holding. The stake sale was on a prudential basis majorly relating to the pricing pressure. Going ahead management will further sell stake of aavas on the basis of favourable business conditions.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	57.1	63.3	60.9	60.5	60.6	58.3	52.0	-8.82	-6.27
Empl. Cost/ Tot. Exp. %	33.2	32.2	36.1	33.8	33.3	30.8	31.0	-5.09	0.16
Other Exp/Tot. Exp.%	23.9	31.2	24.8	26.7	27.3	27.5	28.0	3.22	0.52
Provision/PPP %	21.5	19.2	23.0	20.0	18.2	18.2	10.8	-12.21	-7.35
Tax Rate %	34.2	33.5	34.5	34.8	34.8	33.0	35.0	0.51	2.01
Int Exp./Int Inc. (%)	46.0	46.0	52.3	53.0	55.9	55.9	58.7	6.39	2.80
Other Inc./NII %	0.8	0.8	0.6	0.6	0.5	0.5	0.8	0.23	0.29
PPP/ Net Income %	42.9	36.7	39.1	39.5	39.4	41.7	48.0	8.82	6.27
PAT/ Net Income %	22.1	19.7	19.7	20.6	21.0	22.9	31.3	11.57	8.45
NII Growth % (YoY)	27.5	26.7	56.1	46.1	39.0	34.9	38.1	-17.95	3.27
PPP Growth YoY %	(4.3)	6.8	22.4	21.6	16.8	39.6	90.9	68.44	51.30
PAT Growth %	(4.8)	6.6	24.2	34.0	20.8	42.4	147.1	122.85	104.72

Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances(%)	15.3	14.7	14.6	14.2	14.3	14.3	14.5	-0.10	0.20
Cost Of Funds (%)	8.3	8.0	7.9	7.8	7.9	8.0	7.9	0.00	-0.10
Spreads (%)	7.0	6.7	6.7	6.4	6.4	6.3	6.6	-0.10	0.30
NIM (%)	6.8	7.0	6.2	6.0	5.6	5.5	5.0	-1.20	-0.50

Exhibit: Yield and Cost

Yield improved with stable Cost of fund while cost of deposit increases

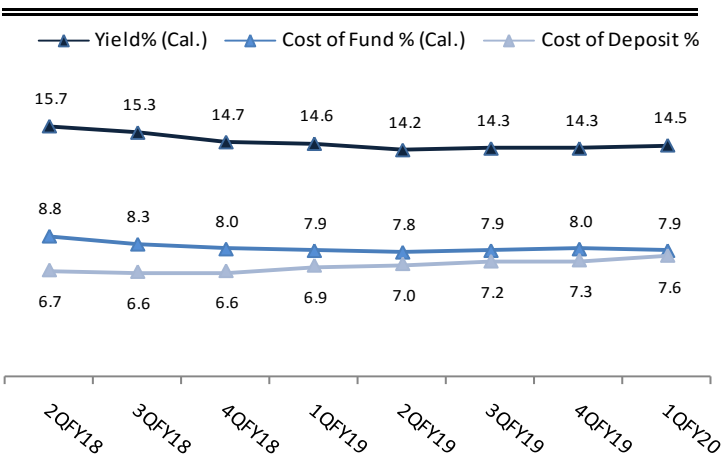
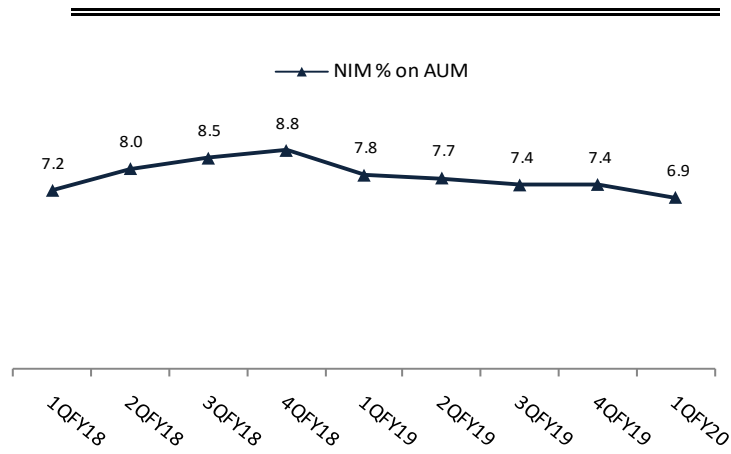


Exhibit: Net Interest Margin

Declining NIM



Asset & Borrowings Growth Trend

Fig in Rs Cr

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Disbursements	1513	2520	2588	4205	2885	4109	4048	5030	4033
Growth YoY %	(2)	45	110	90	91	63	56	20	40
AUM	10757	12133	13416	16038	17322	20221	21765	24246	25610
Growth YoY %	25	30	38	45	61	67	62	51	44
Borrowings	8208	9404	11041	15562	16874	20699	23502	28036	28856
Growth YoY %	70	98	0	120	106	120	113	80	71

AUM Composition %

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Retail (%)	89	85	83	83	76	80	81	78	79
Wholesale (%)	11	15	17	17	21	19	17	21	20

Exhibit: AUM Growth %

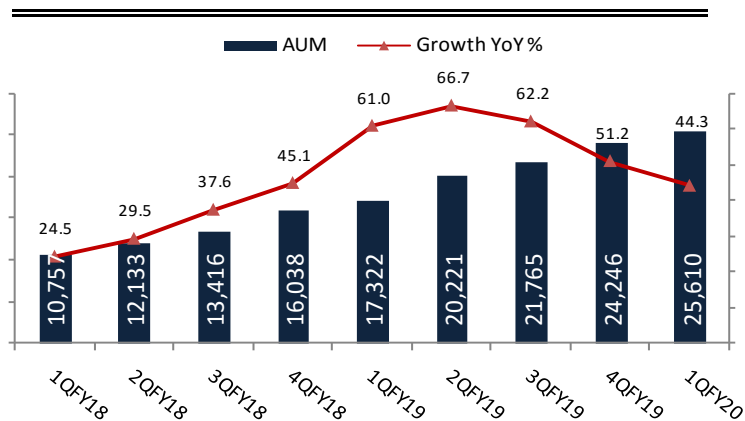
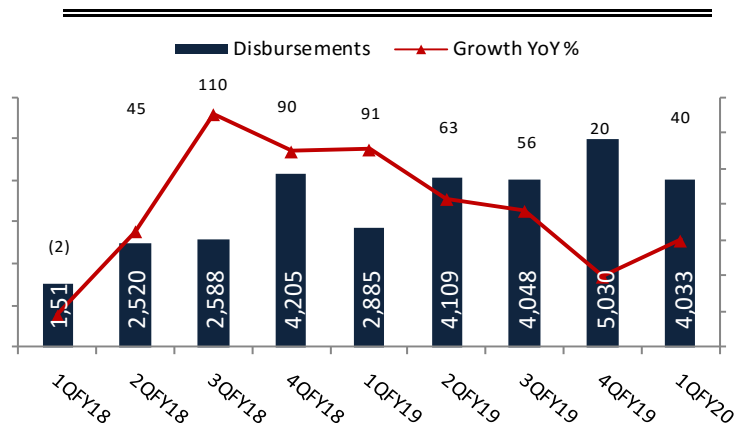


Exhibit: Disbursement Growth %



Wheel Mix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Cars (%)	29	28	28	27	28	27	27
Multi-utility Vehicle (%)	25	24	23	22	21	21	20
Small commercial Vehicle (%)	22	22	21	20	21	20	20
Sports Utility Vehicle (%)	7	8	8	9	9	10	10
Light commercial vehicle(%)	5	6	6	6	6	6	6
Tractor(%)	3	3	3	3	4	4	5
Heavy commercial vehicle(%)	3	4	4	5	5	5	5
Three wheeler(%)	3	2	2	2	1	1	1
Construction Equipment(%)	1	2	2	2	2	3	2
Two wheeler (%)	0	0	0	1	1	1	1
Trade Advance to dealers(%)	2	2	2	3	2	2	1
Other (%)							1

Borrowings Mix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Money Market / CBLO/ Line of Credit / others (%)	1	0	1	2	2	3	3
Deposits (%)	34	51	59	62	62	69	69
Tier II Capital (%)	3	2	2	1	3	3	3
Loans from banks & NBFC (%)	5	5	2	2	1	1	1
CPS (%)	-	-					
Refinance from FIs (%)	23	23	22	23	23	19	20
NCDs (%)	34	20	14	10	9	6	5
Total Borrowings	11041	15562	16874	20699	23502	28036	28856
Deposits%	32.8	43.3	47.8	52.2	53.5	60.9	62.6
CASA%	38.2	31.6	27.6	25.9	23.6	21.0	18.8

Other Income

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Current Account	17022	22838	28869	35377	41761	47783	54167
Saving Account	286319	450204	555639	666597	768675	873031	961949
Term Deposit	38371	58020	62177	74984	97988	107912	127962

Branches

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Asset Centers	105	97	96	88	84	83	81
Bank Branches	306	377	395	395	396	408	418

Exhibit: Total Borrowings & Deposit%

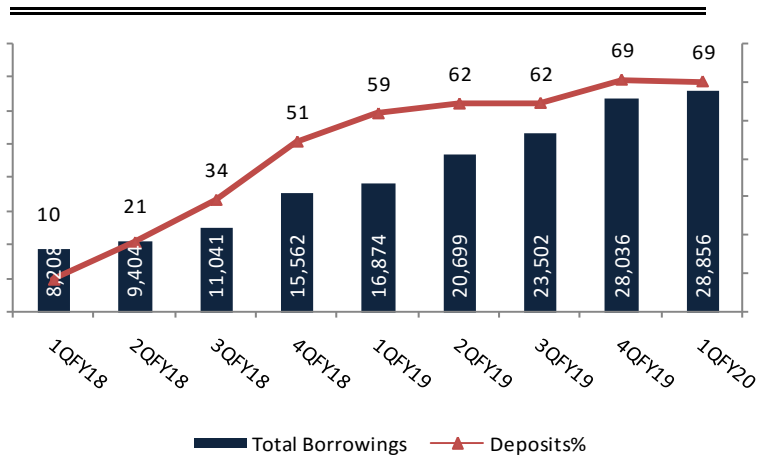


Exhibit: On Book & Off Book %

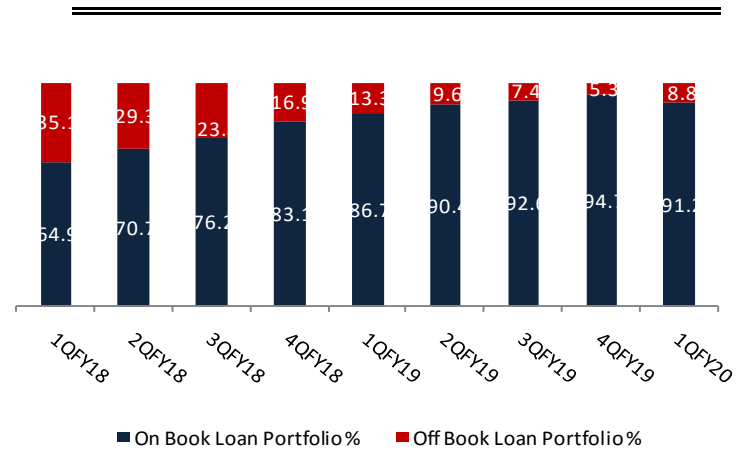


Exhibit: AUM MIX New v/s Old

Wheels AUM break up – New vs Old

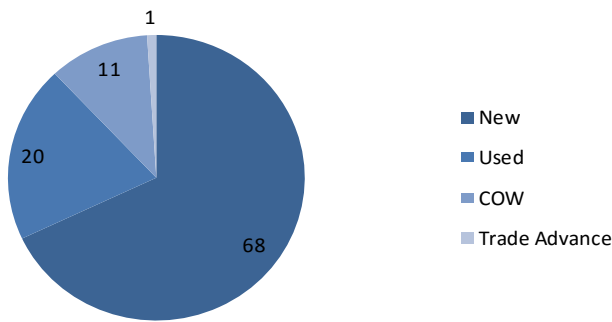
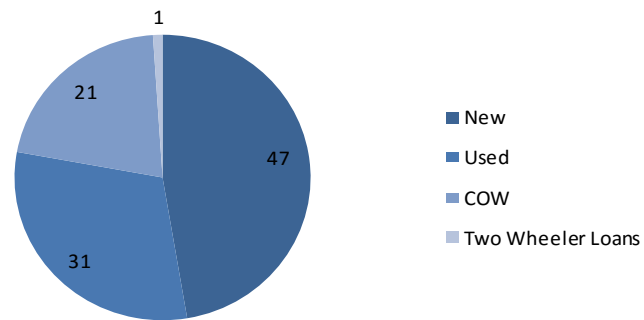


Exhibit: Disbursement MIX on Wheels

Break Up of Wheel Segment



Asset Quality

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA	286	270	334	371	421	470	486	152	16
GNPA %	2.8	2.0	2.2	2.0	2.1	2.0	2.1	(0.1)	0.1
NNPA	188	169	211	232	263	295	289	78	(6)
NNPA %	1.9	1.3	1.4	1.3	1.3	1.3	1.3	(0.1)	-
Total Specific PCR %	34	37	37	38	38	37	41	4	4

Exhibit: Asset Quality

Stable Assets Quality

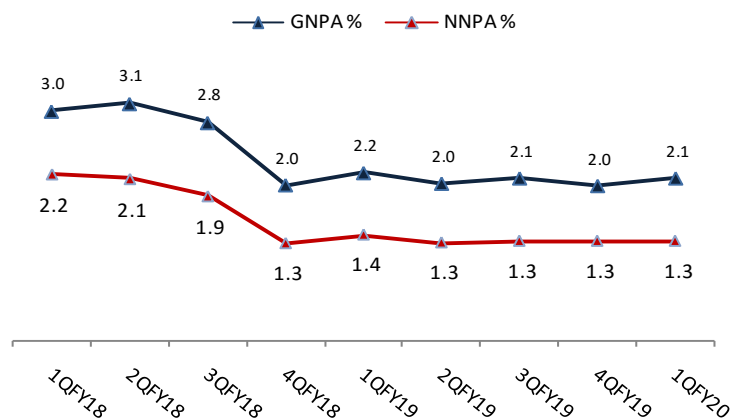
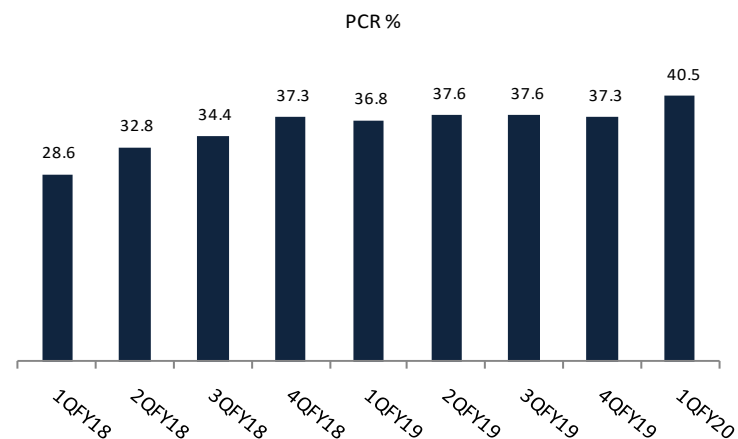


Exhibit: Provisions

PCR stable



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	43	44	44	284	286	292	302	302
>> Equity Capital	43	44	44	284	286	292	302	302
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	598	767	965	1,703	1,995	2,871	3,657	4,358
Networth	641	811	1,009	1,988	2,281	3,163	3,959	4,661
Deposit	-	-	-	-	6,743	17,079	27,479	36,702
Change (%)	N/A	N/A		N/A	N/A	153	61	34
CASA Deposit	-	-	-	-	2,134	3,590	5,523	7707.44
Change (%)	N/A	N/A	N/A	N/A	N/A	68	53.9	39.5
Total Borrowings	1,742	2,552	3,817	7,071	15,562	28,036	35,842	45,384
Provisions	1,271	1,483	2,477	674	989	1,424	1,505	1,588
Total Liabilities	3,013	4,035	6,294	9,812	18,833	32,623	41,306	51,634
Cash & Bank	-	-	123	625	1,761	1,740	2,040	3,165
Investments	114	140	232	2,150	3,051	7,162	7,914	8,441
Change (%)	(85)	23	66	829	42	135	11	7
Advances	2,637	3,624	5,842	6,551	13,312	22,819	30,337	38,831
Change (%)	37	37	61	12	103	71	33	28
Fixed Assets	17	19	25	276	386	447	561	633
Other Assets	245	253	72	179	323	455	455	563
Total Assets	3,013	4,035	6,294	9,812	18,833	32,623	41,306	51,634

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	611	704	1,010	1,280	1,767	2,949	4,277	5,555
Interest expended	289	282	395	496	827	1,606	2,346	2,884
Net Interest Income	322	422	615	784	940	1,342	1,931	2,671
Change (%)	36	31	46	27	20	43	44	38
Other Income	8	2	5	140	388	462	575	608
Change (%)	168	(70)	110	2,682	178	19	24	6
Total Net Income	330	424	620	923	1,329	1,805	2,506	3,278
Operating Expenses	115	155	258	353	753	1,083	1,423	1,787
Change (%)	18	35	66	37	113	44	31	26
>> Employee Expenses	70	95	158	193	425	601	768	967
Pre-provisioning Profit	215	269	362	570	576	722	1,083	1,492
Change (%)	51	25	35	57	1	25	50	38
Provisions	77	61	40	97	133	142	285	357
Change (%)	173	(21)	(34)	145	36	7	101	25
PBT	138	208	323	1,143	443	580	799	1,135
Tax	46	68	111	321	151	198	258	397
Profit After Tax	92	140	212	822	292	382	540	738
Change (%)	15	52	51	288	(64)	31	42	37
Adjusted Profit After Tax	92	140	212	822	292	382	540	738
Change (%)	15	52	51	288	(64)	31	42	37

Financial Details

Key Ratios

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	4,449	5,568	8,221	11,055	16,038	24,246	32,975	42,207
AUM Growth (%)	20	25	48	34	45	51	36	28
Borrowing Growth (%)	(19)	47	50	85	120	80	28	27
Loan/Borrowing (%)	151	142	153	93	86	81	85	86
CASA Ratio	-	-	-	18	32	21	20	21
CRAR (%)	20.4	18.5	17.1	23.0	19.3	19.3	16.4	15.4
>> Tier 1 (%)	17.5	17.1	13.7	21.5	18.4	16.0	16.0	15.0
>> Tier 2 (%)	2.9	1.5	3.4	1.6	0.9	3.3	0.4	0.3

Assets Quality Metrics

Gross NPA (Rs)	-	-	-	125	270	470	563	694
Gross NPA (%)	-	-	1.3	1.9	2.0	2.0	1.8	1.8
Net NPA (Rs)	-	-	-	80	169	295	333	413
Net NPA (%)	-	-	0.8	1.2	1.3	1.3	1.1	1.1
Provision Coverage (%)	-	-	-	35	37	37	45	45
Provision/Average Advances (%)	1.9	1.2	0.6	1.0	1.0	0.7	1.0	0.9

Margin Metrics

Yield On Advances (%)	-	-	-	10.2	9.2	11.7	11.9	11.6
Yield On Investment (%)	-	-	-	0.8	4.9	5.4	7.1	6.6
Yield On Earning Assets (%)	-	-	14.7	11.6	10.3	11.2	11.3	11.4
Cost Of Funds (%)	-	-	-	14.0	7.3	7.4	7.3	7.1
Spread (%)	-	-	-	(2.4)	3.0	3.8	4.0	4.3
NIM on AUM (%)	7.9	8.4	8.9	8.1	6.9	6.7	6.7	7.1
NIM on Earning Assets (%)	-	-	-	7.1	5.5	5.1	5.1	5.5

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	-	-	39.1	38.8	46.8	54.5	54.8	51.9
Fee Income/NII (%)	2.5	0.6	0.8	17.8	41.3	34.4	29.8	22.8
Cost to Income (%)	34.8	36.6	41.6	38.2	56.7	60.0	56.8	54.5
Cost on Average Assets (%)	3.7	4.4	5.0	4.4	5.3	4.2	3.8	3.8
Tax Rate (%)	33.2	32.7	34.4	28.1	34.1	34.2	32.3	35.0

Valuation Ratio Metrics

EPS (Rs)	21	32	48	29	10	13	18	24
Change (%)	7.9	48.9	50.9	(39.8)	(64.7)	28	36.9	36.5
ROAE (%)	-	-	-	10.1	13.7	14.0	15.2	17.1
ROAA (%)	-	-	-	10.2	2.0	1.5	1.5	1.6
Dividend Payout (%)	-	-	-	-	5.9	6.9	6.7	6.1
Dividend yield (%)	-	-	-	-	0.1	0.1	0.2	0.2
Book Value (Rs)	74	184	229	70	80	108	131	154
Change (%)	28.9	148.1	24.5	(69.5)	14.2	35	21.0	17.7
ABVPS (Rs)	74	184	229	67	74	98	120	140
P/B (X)	-	-	-	-	7.7	5.5	5.0	4.2
P/E (X)	-	-	-	-	60.5	45.4	36.6	26.8

Financial Details

Exhibit: DuPont Analysis

	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	15.9	12.3	11.5	11.6	12.0
<i>Interest expended</i>	6.2	5.8	6.2	6.3	6.2
<i>Net Interest Income</i>	9.7	6.6	5.2	5.2	5.7
<i>Non-Fund Based Income</i>	1.7	2.7	1.8	1.6	1.3
<i>Total Income</i>	11.5	9.3	7.0	6.8	7.1
<i>Total Operating Expenses</i>	4.4	5.3	4.2	3.8	3.8
>> <i>Employee Expenses</i>	2.4	3.0	2.3	2.1	2.1
>> <i>Other Expenses</i>	2.0	2.3	1.9	1.8	1.8
<i>Operating Profit</i>	7.1	4.0	2.8	2.9	3.2
<i>Provisions</i>	1.2	0.9	0.6	0.8	0.8
<i>Others</i>					
<i>PBT</i>	5.9	3.1	2.3	2.2	2.4
<i>Tax</i>	4.0	1.1	0.8	0.7	0.9
<i>PAT/RoAA</i>	1.9	2.0	1.5	1.5	1.6
<i>Equity Multiplier (x)</i>	5.4	6.7	9.5	10.4	10.8
<i>ROAE</i>	10.1	13.7	14.0	15.2	17.1

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