

AU Small Finance Bank Ltd.

Industry	Financial
Bloomberg	AUBANK IN
BSE CODE	540611

Strong Performance driven by Growth and Margins Expansion

RATING **NEUTRAL**

CMP	688
Price Target	674
Potential Upside	-2%

Rating Change

Estimate Change

Target Change

Stock Info

52wk Range H/L	719/502
Mkt Capital (Rs Cr)	20203
Free float (%)	20%
Avg. Vol 1M (,000)	451
No. of Shares (Crore)	29
Promoters Pledged %	7.04%

Fig in Rs Cr

KEY	FY19	FY20E	FY21E
NII	1342	1777	2190
PPP	722	1068	1335
PAT	382	611	745
NIM %	5.1	4.8	4.6
EPS (Rs)	13	20	25
EPS	28	55	22
ROE (%)	14.0	17.0	17.0
ROA (%)	1.5	1.7	1.6
BV	108	133	157
P/B (X)	5.5	5.2	4.4
P/E (x)	45.4	34.0	27.9

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2QFY20 Result Update

- ❑ NII has grown at the rate of 41% as at 2QFY20 majorly on the back of strong growth and NIM expansion. PAT stands boosted at Rs 172 Cr due to tax benefits coming in this quarter. NIM has improved to 5.3% from 5% on the back of higher IRR in the disbursement. The cost of the deposit has declined from 7.56% to 7.5% QoQ, the Cost of the fund remains steady at 7.9% QoQ while the incremental cost of the fund as of September is 7.33%.
- ❑ Other income has grown 8% QoQ to Rs 151 Cr excluding Rs 71 Cr stake sale of aavas in the last quarter. Fee income has shown a growth of 21% to Rs 81 Cr.
- ❑ Cost to Income continues to decline with improving the operational efficiency of branches – 54% as at 2QFY20; During the quarter, 10 branches have achieved break-even.
- ❑ AUM has grown at a rate of 38% driven by both retail and wholesale segments. The retail segment was driven by used vehicle segment & MSME segment by 64% & 57%, while in the wholesale segment growth was mainly driven by business banking while the NBFC segment grew at 3%.
- ❑ Deposit stands at 67% of the total liability with retail TD & CASA contributing to 42% of the total deposit. Only CASA contributes 16% of the total deposit.
- ❑ GNPA has improved sequentially from 2.1% to 2% QoQ while the NNPA has improved from 1.30% to 1.10% QoQ. PCR stood at 44% as of 2QFY20. Stricter Standard Asset provisioning at 1% v/s prudential 0.4%.
- ❑ Equity infusion of Rs 525 Cr on exercise of Convertible Warrants into Equity Shares to be on or before 3QFY20 by Temasek.

Margins Improved

Disbursement loan yields improved to 15.6% in 1HFY20 as against 13.7% while AUM IRR continues to improve in Q2FY20 at 14.7%, with declining in the Cost of Fund to 7.8% thus improving spreads to 6.9% from 6.6% in Q1FY20.

AUM Growth Driven By Retail Segment

Disbursement growth was driven by 86% in the used wheels & cash on wheels segment seconded by the MSME segment with a growth of 48.4%. Real estate group & Agri SME have grown at 38% and 40% respectively. The share of new vehicles stands at 64%, used vehicles at 21%, cash on wheels at 13% and Trade advances at 2%. The majority of the Wheels segment is dominated by 27% in cars, 20% in MUVs, 20% SCVs, 10% SUVs, and Others stands at 23%.

Steady Asset Quality

GNPA in the new vehicle segment stands at 2.4% while used and CoW segment is at 2.2%, MSME, HL, GL+CD+PL stands improved at 2.3%, 0.2% & 0.7%. GNPA in real estate & Agri SME stands at 3.1% & 5.6%. GNPA for NBFC book is NIL .

View and Valuation

Loan asset growth has slowed down from its 40% range on the back of limited disbursement in wholesale & real estate segment. NIM has improved marginally on the back of strong disbursement in high IRR products, management renews focus in the used wheels segment. Management remains confident of NIM expansion by 20-25 bps going ahead supported by falling the cost of funds. Asset quality remains steady in the retail & NBFC segment but real estate & Agri SME has shown some spike. Management has guided Capital infusion of Rs 525 Cr from Tamasek to come in 3QFY20 to provide adequate growth capital. We value the stock at 4.3x for FY21 at Rs 674. We remain NEUTRAL.

Risks to our rating and target

- ❑ Asset quality concern in real estate and agri SME.
- ❑ Persistent slow down in NBFC & Real estate segment will impact disbursement growth.

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2QFY20 Results Above Our Expectations

Margin Improvement

Fig in Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	683	788	877	957	1,033	51.2%	7.9%	1,767	2,949	66.9%
Interest Exp.	362	440	490	562	582	60.6%	3.6%	827	1,606	94.3%
NII	321	348	387	396	452	40.7%	14.2%	940	1,342	42.7%
Other Income	123	106	131	211	151	23.1%	-28.5%	388	462	19.1%
Total Income	444	454	517	607	602	35.8%	-0.7%	1,329	1,805	35.8%
Opex Exp.	268	275	302	316	325	21.0%	2.9%	753	1,083	43.8%
PPP	175	179	216	291	278	58.5%	-4.5%	576	722	25.3%
Provisions	35	32	39	32	61	74.4%	93.6%	133	142	6.9%
PBT	140	146	176	259	217	54.5%	-16.4%	443	580	30.9%
Tax	49	51	58	70	45	-8%	-35.6%	151	198	31.1%
Extra Items	-	-	-	-	-			-	-	
Net Profit	91	95	118	190	172	88.1%	-9.4%	292	382	31%

Concall Highlights

- Disbursement yield has increased to 15.6% in the 1HFY20 as against 13.7% YoY, leading to improvement in the spreads. The cost of deposit in 2QFY20 is 7.5%, the fixed deposit stands at 7.65% while saving deposit is at 6%. Portfolio IRR is at 14.7 %, spread stands at 6.9%. Increment cost of funds is at 7.45% v/s 7.55% QoQ which further declines in September to 7.33%. Decreasing reliance on Certificate of Deposit, high-cost grandfathered borrowing is expected to get repaid in the next 12 months will lead to margin expansion by 20-30 bps going ahead. NIM stands improved at 5.3% from 5% QoQ. Management is presently focusing on Used vehicle as the IRR is used is 15%+ while in new IRR is at 12%.
- The employee numbers have increased by 11% because of the rise in the housing book. C/I ratio is improving with rising in the operational efficiency, 10 branches have achieved break-even in the last quarter. Management has guided to C/I ratio to remain at a 54% level in 2HFY20.
- Management has taken the benefit of tax gain to improve provision level. The standard asset has increased to 1% in the wheels portfolio. There is no specific account on which provision needs to be done. PCR will keep improving as provision coverage policy changes. Whenever there is a need for capital management will capitalize on stake sale of aavas (Rs 800 Cr).
- Management has guided the overall book to grow by 35-40% with disbursement at 25%.
- Management focuses on retail deposits. The average ticket size of retail deposit stood between Rs 25000-35000. Further, the ticket size is improving to Rs 40000- 45000. 40% of Deposit franchises are noncallable in nature, which is priced at 15-20 bps higher. 60% of Bulk deposits are non-callable.
- Warrant conversion of Rs 525 Cr from Tamasek is expected to come in 3QFY20.
- Management has increased Used vehicle segment channels from 700 to 2000. The used vehicle segment is launched in the same geography, with similar applications and customer profiles as a new vehicle. Limited growth in NBFC has led to gain market share in this segment. Management has increased proactive engagement program for a used vehicle which led to strong disbursement.
- Even if BBB & Below exposure is half of the total NBFC segment, management remains confident in this segment. Construction finance is showing better traction due to the higher share of the affordable housing segment.

GNPA in the Real estate book consists of-

- Construction finance book- which is 100% cash flow backed. There as the unit gets sold the recovery comes in, management remains confident to get recovery in these accounts.
- Legacy book of builder LAP - AU SFB has witnessed rundown of GNPA up to Rs 2.55 Cr NPA account. There is 5 NPA account out of which 3 accounts still paying dues.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	63.3	60.9	60.5	60.6	58.3	52.0	53.9	-6.60	1.85
Empl. Cost/ Tot. Exp. %	32.2	36.1	33.8	33.3	30.8	31.0	31.0	-2.77	0.00
Other Exp/Tot. Exp.%	31.2	24.8	26.7	27.3	27.5	28.0	28.0	1.26	0.00
Provision/PPP %	19.2	23.0	20.0	18.2	18.2	10.8	22.0	2.00	11.13
Tax Rate %	33.5	34.5	34.8	34.8	33.0	35.0	20.7	-14.15	-14.35
Int Exp./Int Inc. (%)	46.0	52.3	53.0	55.9	55.9	58.7	56.3	3.28	-2.38
Other Inc./NII %	0.8	0.6	0.6	0.5	0.5	0.8	0.5	-0.06	-0.28
PPP/ Net Income %	36.7	39.1	39.5	39.4	41.7	48.0	46.1	6.60	-1.85
PAT/ Net Income %	19.7	19.7	20.6	21.0	22.9	31.3	28.5	7.93	-2.75
NII Growth % (YoY)	26.7	56.1	46.1	39.0	34.9	38.1	40.7	-5.48	2.53
PPP Growth YoY %	6.8	22.4	21.6	16.8	39.6	90.9	58.5	36.87	-32.36
PAT Growth %	6.6	24.2	34.0	20.8	42.4	147.1	88.1	54.13	-59.01

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances(%)	14.7	14.6	14.2	14.3	14.3	14.5	14.7	0.50	0.20
Cost Of Funds (%)	8.0	7.9	7.8	7.9	8.0	7.9	7.8	0.00	-0.10
Spreads (%)	6.7	6.7	6.4	6.4	6.3	6.6	6.9	0.50	0.30
NIM (%)	7.0	6.2	6.0	5.6	5.5	5.0	5.3	-0.70	0.30

Exhibit: Yield and Cost

Yield improved with stability in Cost of fund & cost of deposit

Yield% (Cal.) Cost of Fund % (Cal.) Cost of Deposit %

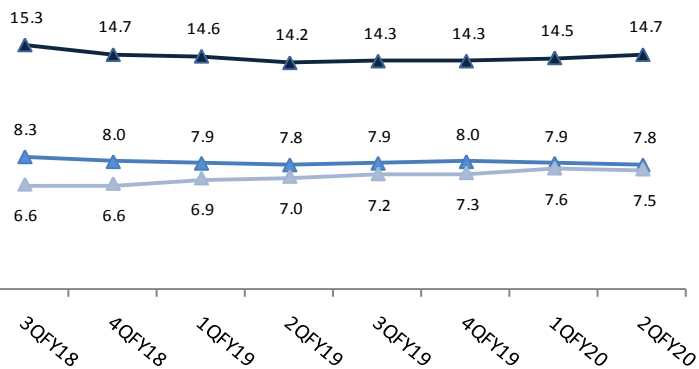
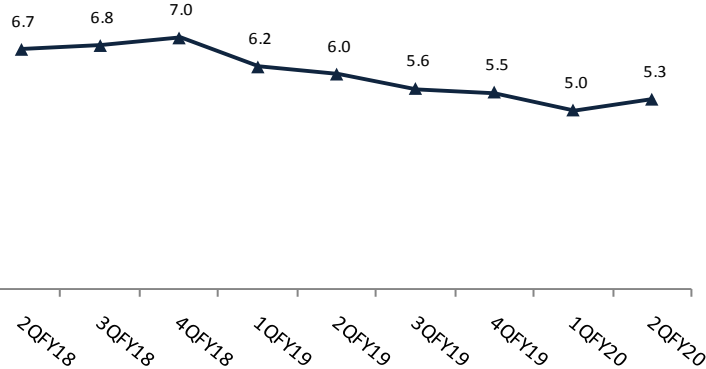


Exhibit: Net Interest Margin

NIM Improvement QoQ

NIM % on AUM



Asset & Borrowings Growth Trend

Fig in Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	2520	2588	4205	2885	4109	4048	5030	4033	4729
Growth YoY %	45	110	90	91	63	56	20	40	15
AUM	12133	13416	16038	17322	20221	21765	24246	25610	27876
Growth YoY %	30	38	45	61	67	62	51	44	38
Borrowings	9404	11041	15562	16874	20699	23502	28036	28856	30732
Growth YoY %	98	0	120	106	120	113	80	71	48

AUM Composition %

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Retail (%)	85	83	83	82	80	80	80	80	80
Wholesale (%)	15	17	17	18	19	19	19	19	19

Exhibit: AUM Growth %

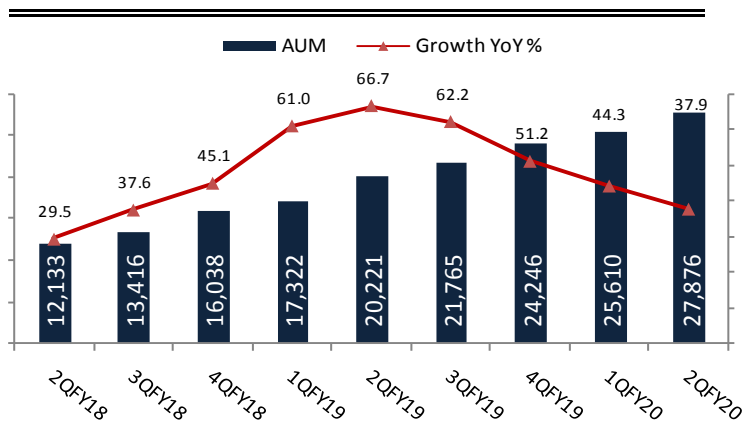
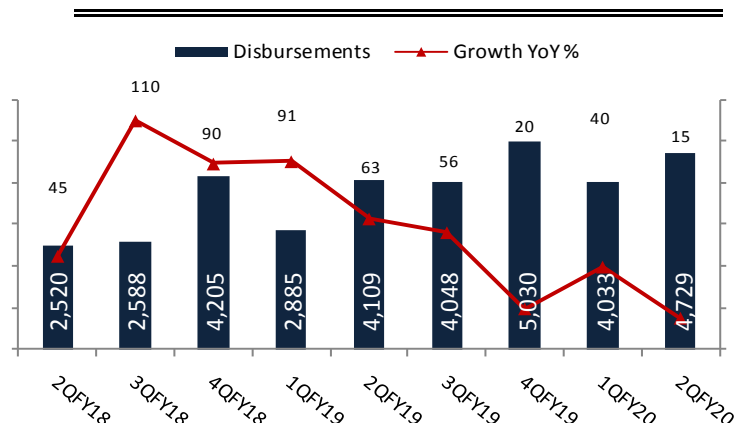


Exhibit: Disbursement Growth %



Wheel Mix

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

Borrowings Mix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Money Market / CBLO/ Line of Credit / others (%)	0	1	2	2	3	3	3
Deposits (%)	51	59	62	62	69	69	69
Tier II Capital (%)	2	2	1	3	3	3	3
Loans from banks & NBFC (%)	5	2	2	1	1	1	1
CPs (%)	-						
Refinance from FIs (%)	23	22	23	23	19	20	20
NCDs (%)	20	14	10	9	6	5	5
Total Borrowings	100	100	100	100	100	100	100
Deposits%	43.3	47.8	52.2	53.5	60.9	62.6	67.1
CASA%	31.6	27.6	25.9	23.6	21.0	18.8	16.2

Number of Account

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Current Account	22838	28869	35377	41761	47783	54167	62281
Saving Account	450204	555639	666597	768675	873031	961949	1045423
Term Deposit	58020	62177	74984	97988	107912	127962	154659

Branches

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Asset Centers	97	96	88	84	83	81	78
Bank Branches	377	400	395	306	408	418	428

Exhibit: Total Borrowings & Deposit%

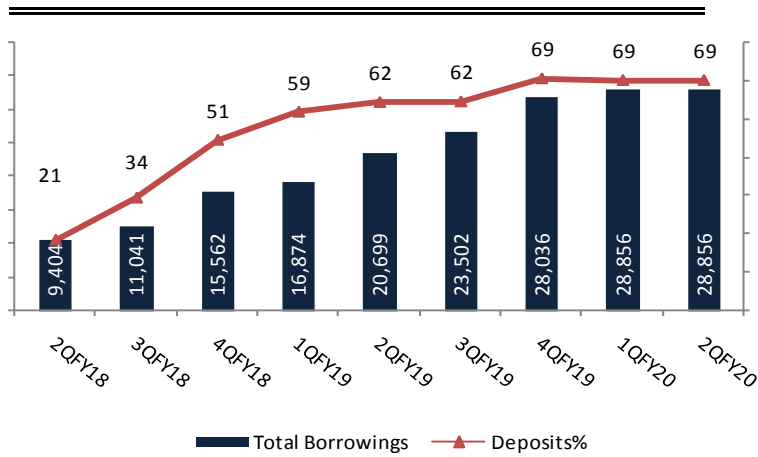


Exhibit: On Book & Off Book %

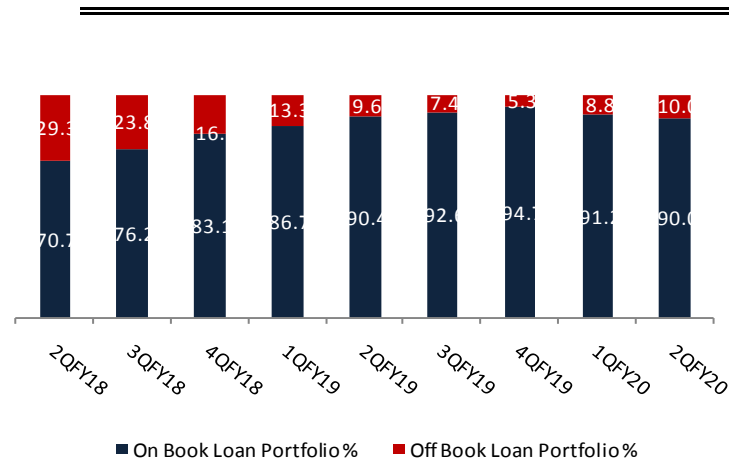


Exhibit: AUM MIX New v/s Old

Break Up of Wheel Segment

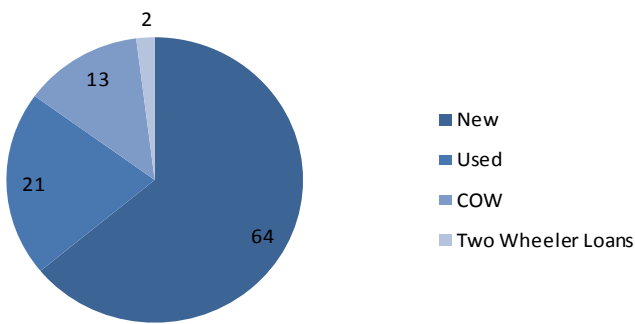
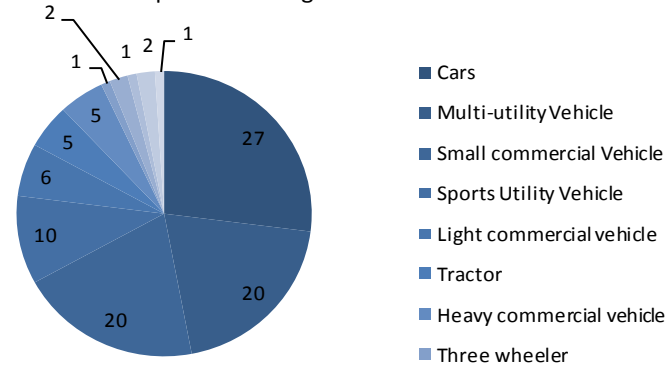


Exhibit: Break Up on Wheels

Break Up of Wheel Segment



Asset Quality

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA	270	334	371	421	470	486	504	133	18
GNPA %	2.0	2.2	2.0	2.1	2.0	2.1	2.0	(0.0)	(0.1)
NNPA	169	211	232	263	295	289	283	51	(6)
NNPA %	1.3	1.4	1.3	1.3	1.3	1.3	1.1	(0.2)	(0.2)
Total Specific PCR %	37	37	38	38	37	41	44	6	3

Exhibit: Asset Quality

Assets Quality Slightly Improved Sequentially

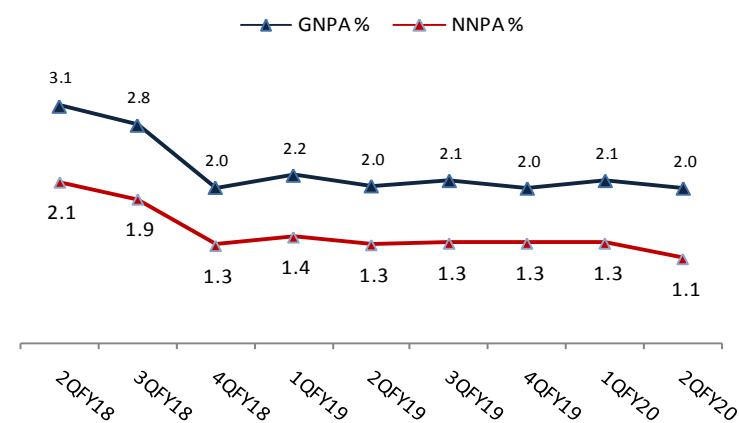
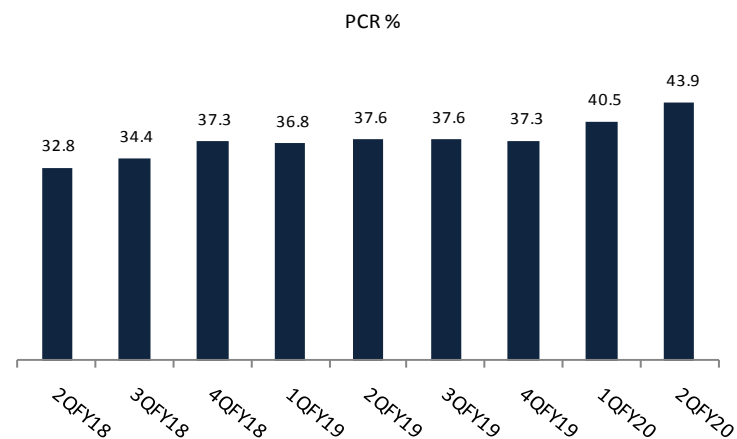


Exhibit: Provisions

PCR Improved QoQ



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	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	3,728	4,437
Networth	641	811	1,009	1,988	2,281	3,163	4,030	4,739
Deposit	-	-	-	-	6,743	17,079	26,671	35,623
Change (%)	N/A	N/A		N/A	N/A	153	56	34
CASA Deposit	-	-	-	-	2,134	3,590	5,361	7480.76
Change (%)	N/A	N/A	N/A	N/A	N/A	68	49.3	39.5
Total Borrowings	1,742	2,552	3,817	7,071	15,562	28,036	34,788	44,050
Provisions	1,271	1,483	2,477	674	989	1,424	1,461	1,542
Total Liabilities	3,013	4,035	6,294	9,812	18,833	32,623	40,279	50,330
Cash & Bank	-	-	123	625	1,761	1,740	2,168	3,287
Investments	114	140	232	2,150	3,051	7,162	7,681	8,193
Change (%)	(85)	23	66	829	42	135	7	7
Advances	2,637	3,624	5,842	6,551	13,312	22,819	29,444	37,689
Change (%)	37	37	61	12	103	71	29	28
Fixed Assets	17	19	25	276	386	447	544	614
Other Assets	245	253	72	179	323	455	442	546
Total Assets	3,013	4,035	6,294	9,812	18,833	32,623	40,279	50,330

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	611	704	1,010	1,280	1,767	2,949	4,218	5,289
Interest expended	289	282	395	496	827	1,606	2,441	3,099
Net Interest Income	322	422	615	784	940	1,342	1,777	2,190
Change (%)	36	31	46	27	20	43	32	23
Other Income	8	2	5	140	388	462	619	743
Change (%)	168	(70)	110	2,682	178	19	34	20
Total Net Income	330	424	620	923	1,329	1,805	2,396	2,934
Operating Expenses	115	155	258	353	753	1,083	1,329	1,599
Change (%)	18	35	66	37	113	44	23	20
>> Employee Expenses	70	95	158	193	425	601	730	865
Pre-provisioning Profit	215	269	362	570	576	722	1,068	1,335
Change (%)	51	25	35	57	1	25	48	25
Provisions	77	61	40	97	133	142	235	315
Change (%)	173	(21)	(34)	145	36	7	66	34
PBT	138	208	323	1,143	443	580	832	1,020
Tax	46	68	111	321	151	198	221	275
Profit After Tax	92	140	212	822	292	382	611	745
Change (%)	15	52	51	288	(64)	31	60	22
Adjusted Profit After Tax	92	140	212	822	292	382	611	745
Change (%)	15	52	51	288	(64)	31	60	22

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	32,005	40,966
AUM Growth (%)	20	25	48	34	45	51	32	28
Borrowing Growth (%)	(19)	47	50	85	120	80	24	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	17.1	16.1
>> Tier 1 (%)	17.5	17.1	13.7	21.5	18.4	16.0	16.7	15.7
>> Tier 2 (%)	2.9	1.5	3.4	1.6	0.9	3.3	0.4	0.4

Assets Quality Metrics

Gross NPA (Rs)	-	-	-	125	270	470	556	684
Gross NPA (%)	-	-	1.3	1.9	2.0	2.0	1.9	1.8
Net NPA (Rs)	-	-	-	80	169	295	329	407
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	0.8	0.9

Margin Metrics

Yield On Advances (%)	-	-	-	10.2	9.2	11.7	11.9	11.7
Yield On Investment (%)	-	-	-	0.8	4.9	5.4	8.0	7.5
Yield On Earning Assets (%)	-	-	14.7	11.6	10.3	11.2	11.4	11.2
Cost Of Funds (%)	-	-	-	14.0	7.3	7.4	7.8	7.9
Spread (%)	-	-	-	(2.4)	3.0	3.8	3.6	3.3
NIM on AUM (%)	7.9	8.4	8.9	8.1	6.9	6.7	6.3	6.0
NIM on Earning Assets (%)	-	-	-	7.1	5.5	5.1	4.8	4.6

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	-	-	39.1	38.8	46.8	54.5	57.9	58.6
Fee Income/NII (%)	2.5	0.6	0.8	17.8	41.3	34.4	34.8	33.9
Cost to Income (%)	34.8	36.6	41.6	38.2	56.7	60.0	55.4	54.5
Cost on Average Assets (%)	3.7	4.4	5.0	4.4	5.3	4.2	3.6	3.5
Tax Rate (%)	33.2	32.7	34.4	28.1	34.1	34.2	26.6	26.9

Valuation Ratio Metrics

EPS (Rs)	21	32	48	29	10	13	20	25
Change (%)	7.9	48.9	50.9	(39.8)	(64.7)	28	54.8	21.9
ROAE (%)	-	-	-	10.1	13.7	14.0	17.0	17.0
ROAA (%)	-	-	-	10.2	2.0	1.5	1.7	1.6
Dividend Payout (%)	-	-	-	-	5.9	6.9	5.9	6.1
Dividend yield (%)	-	-	-	-	0.1	0.1	0.1	0.2
Book Value (Rs)	74	184	229	70	80	108	133	157
Change (%)	28.9	148.1	24.5	(69.5)	14.2	35	23.2	17.6
ABVPS (Rs)	74	184	229	67	74	98	122	143
P/B (X)	-	-	-	-	7.7	5.5	5.2	4.4
P/E (X)	-	-	-	-	60.5	45.4	34.0	27.9

Financial Details

Exhibit: DuPont Analysis

	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	15.9	12.3	11.5	11.6	11.7
<i>Interest expended</i>	6.2	5.8	6.2	6.7	6.8
<i>Net Interest Income</i>	9.7	6.6	5.2	4.9	4.8
<i>Non-Fund Based Income</i>	1.7	2.7	1.8	1.7	1.6
<i>Total Income</i>	11.5	9.3	7.0	6.6	6.5
<i>Total Operating Expenses</i>	4.4	5.3	4.2	3.6	3.5
>> <i>Employee Expenses</i>	2.4	3.0	2.3	2.0	1.9
>> <i>Other Expenses</i>	2.0	2.3	1.9	1.6	1.6
<i>Operating Profit</i>	7.1	4.0	2.8	2.9	2.9
<i>Provisions</i>	1.2	0.9	0.6	0.6	0.7
<i>Others</i>					
<i>PBT</i>	5.9	3.1	2.3	2.3	2.3
<i>Tax</i>	4.0	1.1	0.8	0.6	0.6
<i>PAT/RoAA</i>	1.9	2.0	1.5	1.7	1.6
<i>Equity Multiplier (x)</i>	5.4	6.7	9.5	10.1	10.3
<i>ROAE</i>	10.1	13.7	14.0	17.0	17.0

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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