

CMP: INR 652

Rating: BUY

Target Price: INR 803

Stock Info

BSE	540611
NSE	AUBANK
Bloomberg	AUBANK IN
Reuters	AUFI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Mn)	74,310
Mkt Cap (INR Mn)	481,440
52w H/L (INR)	813 / 554
Avg Yearly Vol (in 000')	1,786

Shareholding Pattern %

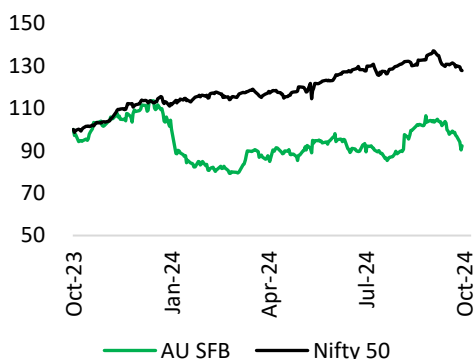
(As on September, 2024)

Promoters	22.91
Public & Others	77.09

Stock Performance (%)

	1m	6m	12m
AU Small Finance Bank	-7.9	-5.07	10.1
Nifty 50	-2.1	5.4	6.2

AU Small Finance Bank Vs Nifty 50



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AU Small Finance Bank beat our profit estimates posting INR 5.71 bn of Net Profits, up 14% QoQ & 42% YoY for Q2FY25, driven by better growth in other income by 17% QoQ / 50% YoY at INR 6.38 bn. NII for the quarter came at INR 19.74 bn up 3% QoQ / up 58% YoY. NIM of the bank came at 6.1%, up by 10 bps QoQ / 60 bps YoY, owing to the bank able to keep the Cost of Funds lower while yields staying flat sequentially at 14.4%. Operating profit increased by 15% QoQ / 75% YoY to INR 11.32 bn, driven by better performance in keeping expenses and overhead costs lower.

Other income grew by 17% QoQ/50% YoY, to fuel more in H2FY25: The other income during the quarter stood at INR 6.38 bn, and all this while Unsecured Portfolio degrew marginally on sequential basis. Hence, when the macros improve for the Micro-Finance and overall unsecured loans, the other Income will grow even faster when those unsecured loans start growing at their normalized levels.

Deposits growth helped keep Cost of Funds in check: The Banks focus in Q2FY24 was to avoid raising high cost deposits and hence used their excess liquidity. They had an LCR of 112% as of Sept 24. CASA growth at 11% QoQ matched the overall Deposits growth at 13% QoQ, helped maintain the Cost of Funds lower.

NIMs improved in the quarter as Yields remained high: NIMs during the quarter was at 6.1% v/s 6.0% in Q1FY25 (up 10 bps QoQ). We believe the Management has done an excellent job in managing higher yields despite rise in slippages which were expected during the Q2FY25, and going ahead the Bank's NIMs for FY25 may outperform the Management guidance of 6% of FY25 NIMs.

Valuation & View: AU Small Finance Bank has posted decent Profit growth with mere growth in the secured books, and going ahead with the unsecured book manifesting growth, we may see more surprises on the margin front as well. We expect the NNPA to come down by Q3Y25 for the bank as the rural economy revives after the harvesting season and festive events unfold during the Q3FY25. We expect the bank to outperform their enhanced NIM guidance of 6.0% by a minimum of 10-15 bps in the H2FY25, on account of some growth and a generally strong Q4FY25 as is the norm of the industry. Cost of Funds are expected to remain stable at current deposit mobilization helps maintain healthy CAS levels for the bank. While the Bank Management has increased the NIM guidance for the full year FY25, we too are confident of them outperforming it by a few notches. We maintain our BUY rating on the stock with target price of INR 803, based on 2.9x FY27E P/ABV (earlier 2.6x).

Exhibit 1: Financial Performance

Particulars (Rs Bn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	32	44	52	67	89	112
PAT	11	14	15	18	25	32
Networth	75	110	126	142	166	197
Adj BVPS (Rs)	231	160	181	203	235	277
EPS (Rs)	36	21	23	26	38	48
P/E (x)	18	29	27	24	17	13
P/Adj BV (x)	2.7	3.9	3.5	3.1	2.7	2.3

Source: Arihant Research, Company Filings

Q2FY24 - Quarterly Performance (Standalone)

P&L (Rs Bn)	Q2FY25	Q2FY24	Q1FY25	YoY	QoQ
Interest Earned	39.11	25.31	37.69	55%	4%
Interest Expended	19.36	12.82	18.48	51%	5%
NII	19.74	12.49	19.21	58%	3%
Other Income	6.38	4.25	5.46	50%	17%
Net Income	26.12	16.74	24.66	56%	6%
Opex	14.81	11.85	14.78	25%	0%
PPOP	11.32	6.48	9.88	75%	15%
Provisions	3.73	1.14	3.19	226%	17%
PBT	7.59	5.33	6.69	42%	13%
Tax	1.88	1.32	1.66	43%	13%
PAT	5.71	4.02	5.03	42%	14%
Asset Quality					
GNPA	19.0	12.4	16.1	53%	18%
NNPA	7.1	3.8	5.6	84%	26%
GNPA (%)	1.98%	1.91%	1.78%	7bps	20bps
NNPA (%)	0.75%	0.60%	0.63%	15bps	12bps
Balance Sheet					
Advances	948.4	641.7	896.5	48%	6%
Deposits	1,096.9	757.4	972.9	45%	13%
Spreads					
Yield	14.4%	13.3%	14.4%	110bps	0bps
Cost of Funds	7.0%	6.7%	7.0%	30bps	0bps
NIM	6.1%	5.5%	6.0%	60bps	10bps

Source: Arianth Research, Company Filings

Q2FY24 – Key Concall Highlights

Guidance:

- The Management expects the Cost of Funds for FY25 to be at 7.1-7.15% against 7.2-7.25% as earlier expected.
- The Bank expects the Fee Income to further pick up in the Q3 & Q4 of FY25.
- The Management is seeing some early signs of recovery in leading indicators for Nov 2024. However, the Management expects that the Credit Cost will remain higher than their expectations.

Guidance :

- The Management intends to keep the RoA for the full year FY25 at 1.6%.
- The Management expects the NIMs to be 6% for the full year FY25 against earlier guidance of 5.7-5.8%.
- Regarding the LCR Circular expected to come, the Management said that they will be very comfortable with the LCR ratio at 115%, which is currently at 112%, which reflects enough liquid assets in the bank's hands.

Key Highlights:

- Net Interest Income for Q2FY25 stood at INR 19.74 bn against our estimates of INR 19.51, up by 3% QoQ / up by 58% YoY while NIMs came at 6.1%, up by 10 bps QoQ/ up by 60 bps YoY.
- PPOP came at INR 11.32 bn against our estimates of INR 9.67 bn, up by 15% QoQ / up by 75% YoY.
- Provisions stood at INR 3.73 bn against our estimates of INR 3.32 bn increasing by 17% QoQ / up by 226% YoY.
- PAT increased to INR 5.71 bn against our estimates of INR 5.29 bn increasing by 14% QoQ / up by 42% YoY.
- GNPA came at 1.98% against our estimates of 2.10%, up 7 bps QoQ/ up 20 bps YoY while NNPA was at 0.75% against our estimates of 0.71%, up 15 bps QoQ/ up 12 bps YoY.
- Advances increased by 6% QoQ / up 48% YoY to INR 948 bn.
- Deposits increased by 13% QoQ / up 45% YoY to INR 1,096 bn.
- The Management exuberated confidence of a better H2FY25 compared to H1 due to the H1 being impacted by a long election cycle, heat waves during Q1FY25 followed by intense monsoon season in Q2FY25.
- The Cost of Funds were at 7.04% against 7.03% in Q1FY25.
- The Management informed that 43% of the branches that were in existence in Dec 2023 are now profitable in comparison to 25% of the branches that were in existence in Dec 2023.
- The Cost to Income ratio has declined from 61% in Q1FY25 to 57% in Q2FY25.
- The Management informed that their MFI business is well diversified across 61,000 villages with no district more than 3% and no state more than 12% of exposure.
- 33% of the Bank's slippages in Q2FY25, which was 25% in Q1FY25 came from the unsecured books while 67% of the slippages came from the Secured book.
- 8% of the Borrowers of the Bank's MFI book have taken loans from 5 or more lenders, which was 11% at the end of June 2024, and the Management is expecting to come down over the next couple of quarters as the new lending to such borrowers has stopped almost across the industry.
- The Bank's most problematic state in terms of stress built up was Bihar and Odisha, with Bihar exposure at 7.86% of total MFI book and Odisha with a book of only INR 1.5 bn.

Key Financials

P&L (INR Bn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest income	59.2	82.1	105.5	133.6	177.8	232.9
Interest expense	26.9	37.8	54.0	66.2	89.0	120.6
NII	32.3	44.3	51.6	67.4	88.8	112.3
Non-interest income	9.9	10.3	17.5	18.4	22.0	25.7
Net revenues	42.3	54.6	69.0	85.8	110.8	138.0
Operating expenses	24.1	34.4	43.9	53.7	65.8	80.5
PPOP	18.2	20.2	25.2	32.1	45.0	57.5
Provisions	3.6	1.5	4.4	8.4	11.2	14.8
Exceptional Items	0.0	0.0	0.8	0.0	0.0	0.0
PBT	14.5	18.6	20.0	23.6	33.8	42.7
Tax	3.2	4.4	4.6	6.0	8.5	10.8
PAT	11.3	14.3	15.3	17.7	25.3	31.9

Balance sheet	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share capital	3	7	7	7	7	7
Reserves & surplus	72	103	119	136	160	190
Net worth	75	110	126	142	166	197
Deposits	526	694	872	1247	1686	2295
Borrowings	60	63	55	60	65	71
Other liability	30	36	42	22	21	18
Total liabilities	691	902	1094	1472	1939	2581
Fixed assets	6	7	9	9	10	10
Investments	153	201	271	364	526	761
Loans	461	584	732	938	1174	1471
Cash	59	94	64	147	215	323
Other assets	11	16	19	14	15	15
Total assets	691	902	1094	1472	1939	2581

Source: Arianth Research, Company Filings

Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth (%)						
NII	37	37	17	31	32	26
PPOP	-15	11	25	28	40	28
PAT	-3	26	7	15	43	26
Advances	33	27	25	28	25	25
Deposits	46	32	26	43	35	36
Spread (%)						
Yield on Funds	10.1	10.6	10.8	10.6	10.6	10.4
Cost of Funds	5.3	5.6	6.4	5.9	5.8	5.9
Spread	4.8	4.9	4.4	4.7	4.8	4.6
NIM	5.5	5.7	5.3	5.4	5.3	5.0
Asset quality (%)						
Gross NPAs	2.0	1.9	2.0	2.0	2.2	2.2
Net NPAs	0.5	0.6	0.6	0.7	0.8	0.8
Provisions	75	70	69	65	64	66
Return ratios (%)						
RoE	16.4	15.4	13.0	13.2	16.4	17.6
RoA	1.9	1.8	1.5	1.4	1.5	1.4
Per share (Rs)						
EPS	36	21	23	26	38	48
BV	239	165	188	213	249	294
ABV	231	160	181	203	235	277
Valuation (x)						
P/E	17.5	29.3	27.4	23.8	16.6	13.2
P/BV	2.6	3.8	3.3	3.0	2.5	2.1
P/ABV	2.7	3.9	3.5	3.1	2.7	2.3

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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