

CMP: INR 616

Rating: BUY

Target Price: INR 810

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 Bn)	462.54
52w H/L (INR)	755 / 478
Avg Yearly Vol (in 000')	3,178

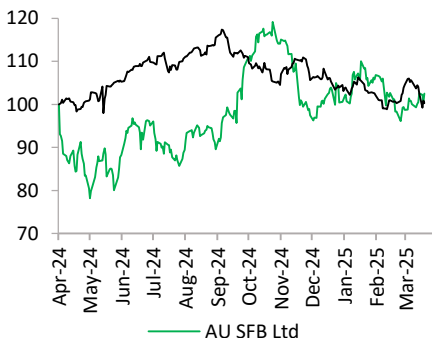
Shareholding Pattern %

(As on December, 2024)

Promoters	22.87
Public & Others	77.13

Stock Performance (%)	1m	6m	12m
AU Small Finance Bank	13.1	-2.6	2.3
Nifty 50	2.2	-1.2	8.3

AU Small Finance Bank Vs Nifty 50



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AU Small Finance Bank posted decent set of numbers during the Q4FY25 with marginal fall in NIMs but asset quality saw improvement on a sequential basis. NII for Q4FY25 stood at INR 20.94 bn against our estimates of INR 21.54 bn, up by 4% QoQ / up by 51% YoY. PPOP came at INR 12.92 bn against our estimates of INR 13.05 bn, up 7% QoQ / up by 95% YoY. Provisions stood at INR 6.35 bn Increasing by 27% QoQ / down by 379% YoY. PAT stood at INR 5.04 bn against our estimates of INR 7.66 bn down by 5% QoQ / up by 36% YoY.

GNPA came at 2.28% down 3 bps QoQ / up by 61 bps YoY while NNPA was at 0.74% down 16 bps QoQ / up 20 bps YoY. Deposits increased by 10.7% QoQ / up 42.5% YoY to INR 1242.69 bn. Advances increased by 7.7% QoQ / up 47% YoY to INR 1087.78 bn.

NIMs impacted due to lower yields:

The Net interest income jumped 56.6% YoY, partly due to merger, while on a sequential basis it was up 3.5%. Net interest margin (NIM) was down 10 bps QoQ to 5.8% and was impacted by lower yields. Disbursement yields for the quarter declined 30 bps QoQ to 14.8% driven by change in business mix.

Improvement in asset quality driven by lower slippages and higher recoveries: In Q4FY25, the asset quality for the bank improved on an overall basis as GNPA and NNPA ratio were down by 3 bps and 16 bps sequentially to 2.28% and 0.74% respectively. Fresh slippages during the quarter stood at INR 8.94 bn v/s INR 9.56 bn in Q3FY25. Further, recoveries during the quarter came at INR 7.52 bn v/s INR 5.22 bn QoQ.

Decline in unsecured segment due to the stress in MFI portfolio: The unsecured segment saw de-growth of 17.6% YoY and 10.1% QoQ during the Q4FY25 which was driven by cautious approach towards MFI (Micro Finance) and Credit card business. The current MFI industry stress is visible with AU SFB too with high Credit Cost for MFI segment.

Valuation & View: AU Small Finance Bank has posted decent Profit growth with mere growth in the secured books, and going ahead is expected to weather the stress in the Unsecured books over the next 2-3 quarters. Company saw a decline in NIMs, due to lower yields, which was driven by the change in product mix. Further, their asset quality improved because of higher recoveries and lower slippages during the quarter. We maintain our BUY rating on the stock with target price of INR 810, based on 2.9x FY27E P/ABV (earlier 2.6x).

Exhibit 1: Financial Performance

Y/E Mar (Rs Bn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	32	44	52	80	93	111
PAT	11	14	15	21	24	26
Networth	75	110	126	172	195	219
Adj BVPS (Rs)	231	160	181	221	248	279
EPS (Rs)	36	21	23	28	33	35
P/E (x)	17	28	26	21	18	17
P/Adj BV (x)	2.6	3.7	3.3	2.7	2.4	2.1

Source: Arihant Research, Company Filings

Q4FY25 - Quarterly Performance (Standalone)

P&L (Rs Bn)	Q4FY25	Q3FY25	Q4FY24	YoY	QoQ
Interest Earned	42.71	41.13	28.29	51%	4%
Interest Expended	21.77	20.91	14.92	46%	4%
NII	20.94	20.23	13.37	57%	4%
Other Income	7.61	6.18	5.56	37%	23%
Net Income	28.55	26.41	18.93	51%	8%
Opex	15.62	14.36	12.28	27%	9%
PPOP	12.92	12.05	6.64	95%	7%
Provisions	6.35	5.02	1.33	379%	27%
PBT	6.57	7.03	4.55	44%	-7%
Tax	1.53	1.75	0.84	82%	-12%
PAT	5.04	5.28	3.71	36%	-5%
Asset Quality					
GNPA	24.8	23.4	12.4	100%	6%
NNPA	7.9	9.1	4.0	98%	-13%
GNPA (%)	2.28%	2.31%	1.67%	61bps	-3bps
NNPA (%)	0.74%	0.90%	0.54%	20bps	-16bps
Balance Sheet					
Advances	1,070.9	995.6	731.6	46%	8%
Deposits	1,242.7	1,122.6	871.8	43%	11%
Spreads					
Yield	14.4%	14.4%	13.2%	120bps	0bps
Cost of Funds	7.1%	7.1%	7.0%	10bps	0bps
NIM	5.9%	5.9%	5.5%	49bps	4bps

Source: Arianth Research, Company Filings

Q4FY24 – Key Concall Highlights

Guidance

- The bank plans to add 70-80 new branches in FY26.
- Long term ROA target is ~1.8% mark.
- Credit growth is expected to be around 2-2.5x of nominal GDP growth in long term.
- The bank expects H2 to be stronger than H1 in terms of performance for FY26.
- Credit cost is expected to be ~85 bps for FY26.
- In credit card business, the credit cost is expected to be around 6%-7% for FY26.
- The bank looks to have ~75% of MFI book to be covered under CGFMU.
- It expects credit card business to break even by FY26.

Highlights

- The Net interest income jumped 56.6% YoY (partly due to merger) while on a sequential basis it was up 3.5%.
- Net interest margin (NIM) was down 10 bps QoQ to 5.8% and was impacted by lower yields.
- Non-interest income increased by 40.6% YoY and 23% QoQ.
- Operating expense were up 8.8% on QoQ basis as a result of which cost-to-income ratio jumped 35 bps sequentially to 54.7%.
- Net profit was up 35.9% YoY, however was down by 4.7% on a sequential basis due to higher level of credit cost.
- In Q4 FY25, AU Small Finance Bank (AU SFB) posted a strong net advances growth of 7.6% QoQ to INR 1.07 lakh crore. Gross loan portfolio (merged basis) was up ~20% YoY.
- Growth in secured business stood at 25.3% YoY and 8.1% QoQ.
- Unsecured segment saw de-growth of 17.6% YoY and 10.1% QoQ and was driven by cautious approach towards MFI (Micro Finance) and Credit card business.
- Wheels (vehicle finance) business saw a growth 11.1% QoQ while MBL (mortgage-backed loans) were up 5.3% QoQ.
- The bank reduced peak deposit rates by 25 bps.
- 100% of new disbursement in MFI (micro finance institution) loans is covered under CGFMU (Credit Guarantee Funds for Micro Units)
- The bank expects to get universal banking license in this calendar year.

Key Financials

P&L (INR Bn)	FY22	FY23	FY24	FY25	FY26E	FY27E
Interest income	59.2	82.1	105.5	160.6	180.9	234.6
Interest expense	26.9	37.8	54.0	80.5	87.7	123.7
NII	32.3	44.3	51.6	80.1	93.2	110.9
Non-interest income	9.9	10.3	17.5	25.3	22.4	25.3
Net revenues	42.3	54.6	69.0	105.4	115.6	136.2
Operating expenses	24.1	34.4	43.9	59.6	71.5	87.5
PPOP	18.2	20.2	25.1	45.8	44.1	48.7
Provisions	3.6	1.5	4.4	17.9	11.7	14.2
Exceptional Items	0.0	0.0	0.8	0.0	0.0	0.0
PBT	14.5	18.6	20.0	27.9	32.4	34.5
Tax	3.2	4.4	4.6	6.8	8.2	8.7
PAT	11.3	14.3	15.3	21.1	24.2	25.8

Balance sheet	FY22	FY23	FY24	FY25	FY26E	FY27E
Share capital	3	7	7	7	7	7
Reserves & surplus	72	103	119	164	187	212
Net worth	75	110	126	172	195	219
Deposits	526	694	872	1243	1686	2295
Borrowings	60	63	55	117	127	139
Other liability	30	36	42	48	21	17
Total liabilities	691	902	1094	1578	2029	2671
Fixed assets	6	7	9	9	10	10
Investments	153	201	271	378	526	761
Loans	461	584	732	1071	1128	1419
Cash	59	94	64	95	351	465
Other assets	11	16	19	25	15	15
Total assets	691	902	1094	1578	2029	2671

Source: Arianth Research, Company Filings

Ratios	FY22	FY23	FY24	FY25	FY26E	FY27E
Growth (%)						
NII	37	37	17	55	16	19
PPOP	-16	11	25	82	-4	11
PAT	-6	26	7	37	15	7
Advances	33	27	25	46	5	26
Deposits	46	32	26	43	36	36
Spread (%)						
Yield on Funds	10.1	10.6	10.8	12.3	10.2	10.1
Cost of Funds	5.3	5.6	6.4	7.0	5.5	5.8
Spread	4.8	4.9	4.4	5.3	4.7	4.3
NIM	5.5	5.7	5.3	6.1	5.3	4.8
Asset quality (%)						
Gross NPAs	2.0	1.9	2.0	1.8	2.4	2.3
Net NPAs	0.5	0.6	0.6	0.7	0.9	0.8
Provisions	75	70	69	64	63	66
Return ratios (%)						
RoE	16.4	15.4	13.0	14.2	13.2	12.5
RoA	1.9	1.8	1.5	1.6	1.3	1.1
Per share (Rs)						
EPS	36	21	23	28	33	35
BV	239	165	188	231	261	294
ABV	231	160	181	221	248	279
Valuation (x)						
P/E	16.6	27.8	25.9	21.0	18.3	17.2
P/BV	2.5	3.6	3.2	2.6	2.3	2.0
P/ABV	2.6	3.7	3.3	2.7	2.4	2.1

Source: Arihant Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return

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