

AU Small Finance Bank | BUY



Controlled opex and treasury gains drive PAT beat; credit costs elevated

In 2QFY25, AU SFB reported strong PAT of INR5.7bn (+13.7% QoQ, +16.2% JMFe) on account of higher other income (+17% QoQ, due to higher treasury gains and processing fees) and moderated opex growth (0.2% QoQ) despite higher provisions (credit cost on AUM at 1.46%, +16bps QoQ). Nil was steady at INR19.7bn (+2.8% QoQ) as NIM improved marginally to 6.1% (avg. CoF and gross yields stabilised sequentially). Disbursement yields declined as the bank slowed down its MFI book due to higher credit cost (3.51% of GLP in H1FY25). Off the incremental slippages of INR1.9bn, around 33% came in from unsecured businesses (CC+PL+MFI) vs ~25% in 1Q25. Mgmt. expects to maintain credit costs at levels seen in H1 on the back of strong recovery from secured businesses and seasonally strong H2. Cost to income ratio improved 326bps QoQ to 56.7% led by increasing productivity and synergies derived from Fincare merger. AUM growth (+5.2% QoQ) was led by commercial businesses while deposit growth (+13% QoQ) was led by TD. CASA ratio declined marginally to 32.4% (vs 32.9% QoQ). GNPA/NNPA increased to 1.98%/0.75% (+20bps/+12bps QoQ) with coverage ratio at 62.8%. AU reported ROA of 1.7% in 2QFY25 led by controlled opex and adroit NIM management. However, high credit cost from unsecured portfolio continues to be a key concern. While credit environment remains challenging, AUSFB's stance on moderating growth in credit cards and microloans as well as stringent opex control should see RoAs sustaining at current levels. Maintain BUY with revised TP of INR710 (2.6x FY26e P/BV with FY26e ROE of 16.3%).

- Strong growth trends in AUM and deposits:** In 2QFY25, AU witnessed AUM growth of 5.2% QoQ led by commercial banking +10% QoQ (NBFC, real estate & business banking) while deposits grew (+13% QoQ) led by TD (+11% QoQ). CASA ratio declined marginally to 32.4% (vs 32.9% QoQ) and CD ratio improved to 86.5% vs 92.1% in 1Q25. While the mgmt. expects to grow the balance sheet at around 25% in FY25, we build in growth of 22.5% CAGR over FY25E-26E. Avg. CoF and gross yields stabilised sequentially with NIMs increasing marginally to 6.1% (vs 6.0% in 1Q25). Mgmt. reduced its expectation of higher CoF in FY25 by around 10-15bps, which should support any decline in margins.
- Higher other income and lower opex leads to PAT beat:** AU bank reported PAT of INR5.7bn (+13.7% QoQ, +16.2% JMFe) on account of higher other income (+17% QoQ, due to higher treasury gains and processing fees) and moderated opex growth (+0.2% QoQ) despite higher provisions (credit cost on AUM at 1.46%, +16bps QoQ). Cost to income ratio (CIR) reduced to 56.7% vs 60% on 1Q25. Mgmt. expects to end FY25 at CIR of c.60% on the back of increasing productivity and synergies derived from Fincare merger. ROA of 1.73% vs 1.59% in 1Q25 was a positive outcome in our view.
- Credit costs surge in unsecured businesses:** Headline GNPA/NNPA for the quarter increased to 1.98%/0.75% (+20bps/+12bps QoQ). Off the incremental slippages of INR1.9bn, c.33% came in from unsecured businesses (CC+PL+MFI) vs c.25% in 1Q25. Mgmt. expects to maintain credit costs at levels seen in H1 on the back of strong recovery from secured businesses and seasonally strong H2. In MFI segment the bank holds contingency buffer of INR 170mn (H1 credit cost of 3.51% of GLP, incl buffers). We expect avg. credit cost of 133bps over FY25-26e.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	710
Upside/(Downside)	8.9%
Previous Price Target	675
Change	5.2%

Key Data – AUBANK IN

Current Market Price	INR652
Market cap (bn)	INR484.8/US\$5.8
Free Float	70%
Shares in issue (mn)	629.8
Diluted share (mn)	
3-mon avg daily val (mn)	INR2,025.2/US\$24.1
52-week range	813/554
Sensex/Nifty	80,082/24,436
INR/US\$	84.1

Price Performance

%	1M	6M	12M
Absolute	-11.4	7.0	-6.2
Relative*	-6.0	-1.3	-24.4

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Profit	11,298	14,279	15,347	22,571	30,203
Net Profit (YoY) (%)	-3.5%	26.4%	7.5%	47.1%	33.8%
Assets (YoY) (%)	33.9%	30.6%	21.3%	40.4%	21.6%
ROA (%)	1.9%	1.8%	1.5%	1.7%	1.8%
ROE (%)	16.6%	15.5%	13.1%	15.3%	16.3%
EPS	17.9	21.4	22.9	30.4	40.7
EPS (YoY) (%)	-4.3%	19.4%	7.1%	32.5%	33.8%
PE (x)	36.3	30.4	28.4	21.5	16.0
BV	119	164	187	230	269
BV (YoY) (%)	20.0%	38.2%	13.9%	23.2%	17.1%
P/BV (x)	5.50	3.98	3.49	2.83	2.42

Source: Company data, JM Financial. Note: Valuations as of 23/Oct/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Valuation and view:** AU reported ROA of 1.7% in 2QFY25 led by controlled opex and adroit NIM management. However, high credit cost from unsecured portfolio continues to be a key concern. While credit environment remains challenging, AUSFB's stance on moderating growth in credit cards and microloans as well as stringent opex control should see RoAs sustaining at current levels. Maintain BUY with revised TP of INR710 (2.6x FY26e P/BV with FY26e ROE of 16.3%).

Key trends: 2QFY25

Exhibit 1. AU SFB: Results Summary

Earnings Table (Rs mn)	2Q'24	1Q'25	2Q'25	YoY (%)	QoQ (%)
NII	12,490	19,206	19,744	58.1%	2.8%
Misc Income	4,145	5,267	5,700	37.5%	8.2%
Non-Interest income	4,255	5,457	6,380	49.9%	16.9%
Total Income	16,744	24,662	26,123	56.0%	5.9%
Employee Cost	5,120	7,901	7,855	53.4%	-0.6%
Other Operating Expenses	5,147	6,880	6,951	35.0%	1.0%
Total Operating Expenses	10,267	14,781	14,806	44.2%	0.2%
Operating Profit	6,477	9,881	11,318	74.7%	14.5%
Loan Loss Provisions	1,143	3,192	3,730	226.3%	16.8%
Total Provisions	1,143	3,192	3,730	226.3%	16.8%
PBT	5,334	6,689	7,588	42.3%	13.4%
Tax	1,315	1,663	1,876	42.6%	12.8%
PAT (Pre-Extraordinaries)	4,018	5,026	5,712	42.2%	13.7%
Extraordinaries (Net of Tax)	0	0	0	0.0%	0.0%
Reported Profit	4,018	5,026	5,712	42.2%	13.7%
Balance sheet (Rs bn)					
Deposits	757.4	972.9	1,096.9	44.8%	12.7%
Net Advances	641.7	896.5	948.4	47.8%	5.8%
Total Assets	959.8	1,259.4	1,388.3	44.6%	10.2%
Low-cost Deposits (%)	34.3%	33.7%	33.7%	-0.7%	0.0%
Loan-Deposit ratio (%)	84.7%	92.1%	86.5%	1.7%	-5.7%
Key Ratios					
Credit Quality					
Gross NPAs (Rs. mn.)	12,448	16,132	19,017	52.8%	17.9%
Net NPAs (Rs. mn.)	3,847	5,626	7,067	83.7%	25.6%
Gross NPA (%)	1.91%	1.78%	1.98%	0.07%	0.20%
Net NPA (%)	0.60%	0.63%	0.75%	0.15%	0.12%
Loan Loss Provisions (%)	0.79%	1.67%	1.88%	1.09%	0.20%
Coverage Ratio (%)	69.1%	65.1%	62.8%	-6.3%	-2.3%
Capital Adequacy					
Tier I (%)	21.00%	18.88%	17.40%	-3.60%	-1.48%
CAR (%)	22.43%	20.11%	18.51%	-3.92%	-1.60%
Du-pont Analysis					
NII / Assets (%)	5.33%	6.08%	5.97%	0.64%	-0.12%
Non-Interest Inc. / Assets (%)	1.81%	1.73%	1.93%	0.11%	0.20%
Operating Cost / Assets (%)	4.38%	4.68%	4.47%	0.09%	-0.21%
Operating Profits / Assets (%)	2.76%	3.13%	3.42%	0.66%	0.29%
Provisions / Assets (%)	0.49%	1.01%	1.13%	0.64%	0.12%
ROA (%)	1.71%	1.59%	1.73%	0.01%	0.13%

Source: Company, JM Financial, YoY numbers are not comparable due to Fincare merger wef 1st Apr'24

Exhibit 2. AU SFB: Gross advances composition

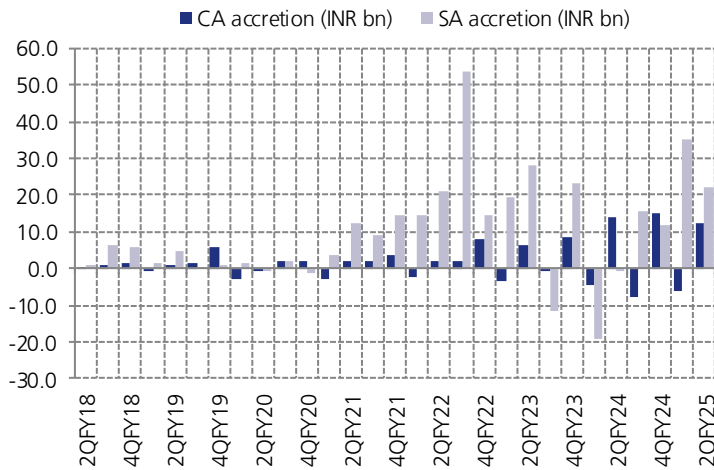
Gross Advances Composition (Rs bn)	2Q'24	1Q'25	2Q'25	YoY (%)	QoQ (%)
Retail Assets	451.5	656.0	687.7	52.3%	4.8%
- Wheels	207.4	242.2	255.0	23.0%	5.3%
- Mortgage-Backed loans	236.7	317.4	330.2	39.5%	4.0%
MBL	186.0	235.5	243.5	30.9%	3.4%
HL	50.7	81.9	86.8	71.2%	6.0%
- Microfinance	-	69.4	72.2	NA	4.0%
- Gold Loans	-	17.9	19.9	NA	10.9%
- Personal Loans	7.4	9.1	10.4	39.1%	13.6%
Commercial Banking	148.0	190.8	210.3	42.1%	10.2%
Business Banking	61.3	75.3	82.8	35.0%	10.0%
Agri Banking	47.6	63.0	66.9	40.6%	6.1%
EEFI	25.5	31.7	37.3	46.5%	17.8%
Real Estate Group (REG)	13.6	20.9	23.3	70.8%	11.5%
- Credit cards	22.7	32.1	33.0	45.5%	2.7%
- Others	26.0	26.6	28.0	7.8%	5.5%
- SME (rundown)	2.1	1.5	1.4	-31.9%	-7.1%
Gross Advances	650.3	907.0	960.4	47.7%	5.9%
AUM mix (%)					
Retail Assets	69.4%	72.3%	71.6%	0.9%	5.1%
- Wheels	31.9%	26.7%	26.6%	-6.4%	-3.7%
- Mortgage-Backed loans	36.4%	35.0%	34.4%	-2.3%	-0.8%
MBL	28.6%	26.0%	25.4%	-3.9%	-1.8%
HL	7.8%	9.0%	9.0%	1.6%	1.1%
- Microfinance	0.0%	7.7%	7.5%	7.7%	7.7%
- Gold Loans	0.0%	2.0%	2.1%	2.0%	2.0%
- Personal Loans	1.1%	1.0%	1.1%	-0.1%	-0.2%
Commercial Banking	22.8%	21.0%	21.9%	-0.1%	-3.5%
Business Banking	9.4%	8.3%	8.6%	-0.4%	-1.6%
Agri Banking	7.3%	7.0%	7.0%	0.1%	-1.1%
EEFI	3.9%	3.5%	3.9%	-0.2%	-0.5%
Real Estate Group (REG)	2.1%	2.3%	2.4%	0.3%	-0.3%
- Credit cards	3.5%	3.5%	3.4%	0.5%	-0.6%
- Others	4.0%	2.9%	2.9%	-1.1%	-0.9%
- SME (rundown)	0.3%	0.2%	0.1%	-0.2%	-0.1%
Gross Advances	100.0%	100.0%	100.0%		

Source: Company, JM Financial; YoY numbers are not comparable due to Fincare merger wef 1st Apr'24**Exhibit 3. AU SFB: Deposit Composition**

Deposits Composition (Rs bn)	2Q'24	1Q'25	2Q'25	YoY (%)	QoQ (%)
Current	46.4	47.4	59.8	29.0%	26.3%
Saving	210.3	273.0	295.4	40.5%	8.2%
CASA	256.7	320.4	355.2	38.4%	10.9%
Time Deposits	490.8	631.5	699.3	42.5%	10.7%
Total Deposits (ex-CDs)	747.5	951.8	1,054.5	41.1%	10.8%
Certificate of Deposits	9.9	21.1	42.5	327.5%	101.2%
Total Deposits	757.4	972.9	1,096.9	44.8%	12.7%
Deposit Mix (%)					
Current	6.2%	5.0%	5.7%	-0.5%	0.7%
Saving	28.1%	28.7%	28.0%	-0.1%	-0.7%
CASA	34.3%	33.7%	33.7%	-0.7%	0.0%
Time Deposits	65.7%	66.3%	66.3%	0.7%	0.0%
Total Deposits (ex-CDs)	100.0%	100.0%	100.0%		

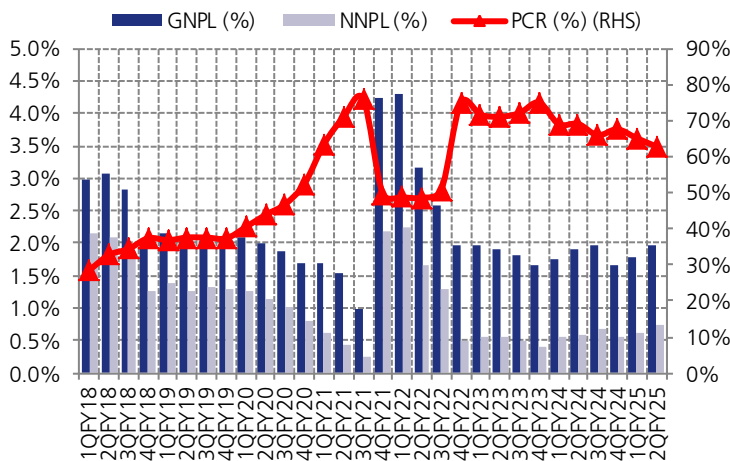
Source: Company, JM Financial; YoY numbers are not comparable due to Fincare merger wef 1st Apr'24

Exhibit 4. AU SFB: Trend in accretion to loans and deposits



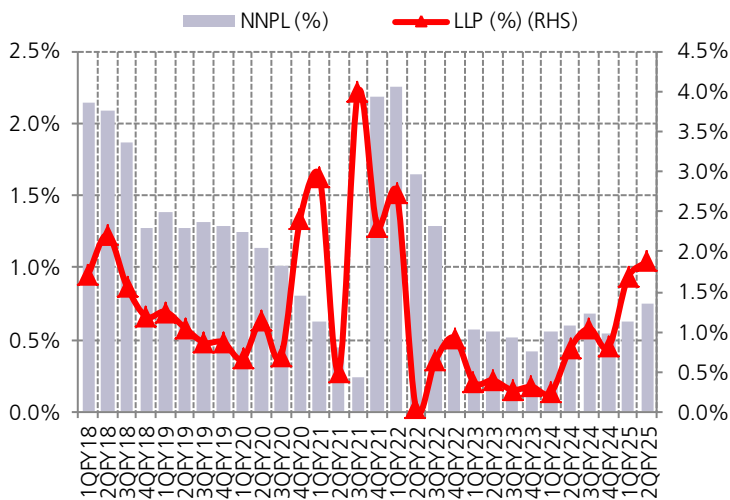
Source: Company, JM Financial

Exhibit 5. AU SFB: Trend in asset quality



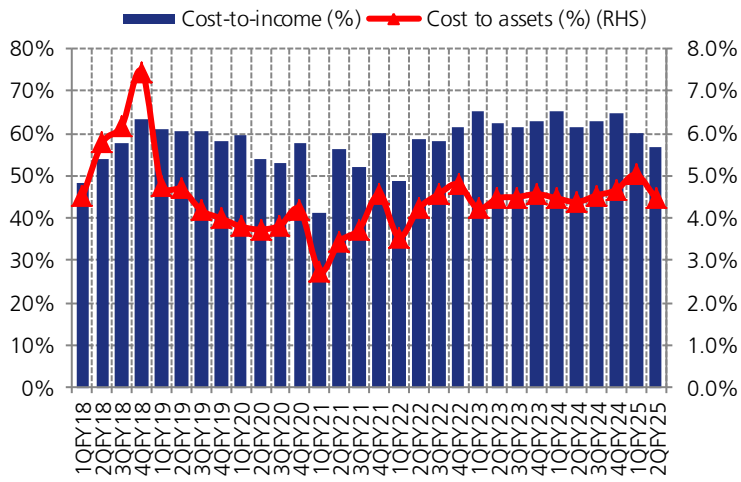
Source: Company, JM Financial

Exhibit 6. AU SFB: Net NPLs and LLP trends



Source: Company, JM Financial

Exhibit 7. AU SFB: Trend in cost ratios



Source: Company, JM Financial

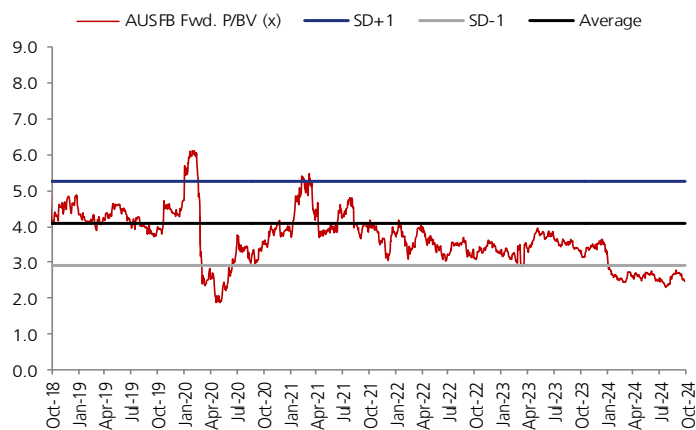
Valuations

We value AU SFB using 2-stage Gordon Growth model. Our assumptions and target price are given below.

Exhibit 8. AU SFB: Valuation Summary	
Initial no of years	10
Growth rate for the first 10 years (%)	14.8%
Pay out ratio for the first 10 years (%)	15.0%
Perpetual growth rate (%)	6.1%
Perpetual payout ratio (%)	65.0%
K1	1.7
K2	13.5
FY26E BVPS	268
Target P / BV (x)	2.6
Fair Value (INR)	710

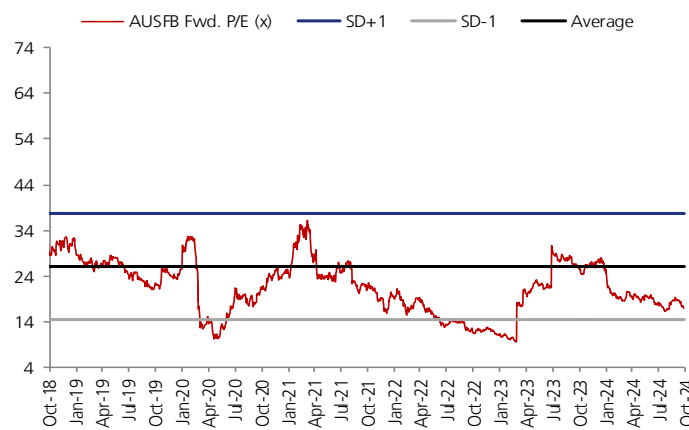
Source: Company, JM Financial

Exhibit 9. AU SFB: One year forward P/B chart



Source: Company, JM Financial

Exhibit 10. AU SFB: One year forward P/E chart



Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Interest Income	32,341	44,253	51,571	80,607	1,04,926	
Profit on Investments	1,430	-443	517	600	600	
Exchange Income	0	0	0	0	0	
Fee & Other Income	8,507	10,787	16,941	24,537	29,444	
Non-Interest Income	9,937	10,345	17,459	25,137	30,044	
Total Income	42,278	54,597	69,030	1,05,744	1,34,970	
Operating Expenses	24,128	34,403	44,648	60,825	77,914	
Pre-provisioning Profits	18,150	20,195	24,382	44,919	57,056	
Loan-Loss Provisions	2,067	2,434	5,386	14,825	16,785	
Provisions on Investments	0	0	0	0	0	
Others Provisions	1,543	-886	-998	0	0	
Total Provisions	3,610	1,548	4,387	14,825	16,785	
PBT	14,541	18,646	19,994	30,094	40,271	
Tax	3,242	4,367	4,647	7,524	10,068	
PAT (Pre-Extraordinaries)	11,298	14,279	15,347	22,571	30,203	
Extra ordinaries (Net of Tax)	0	0	0	0	0	
Reported Profits	11,298	14,279	15,347	22,571	30,203	
Dividend paid	315	667	669	817	1,040	
Retained Profits	10,983	13,613	14,678	21,754	29,164	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (YoY) (%)					
Deposits	46.2%	31.9%	25.7%	40.1%	24.0%
Advances	33.2%	26.7%	25.2%	48.5%	24.2%
Total Assets	33.9%	30.6%	21.3%	40.4%	21.6%
NII	36.7%	36.8%	16.5%	56.3%	30.2%
Non-interest Income	29.1%	4.1%	68.8%	44.0%	19.5%
Operating Expenses	45.5%	42.6%	29.8%	36.2%	28.1%
Operating Profits	22.9%	11.3%	20.7%	84.2%	27.0%
Core Operating profit	31.3%	23.4%	15.6%	85.7%	27.4%
Provisions	-46.1%	-57.1%	183.4%	237.9%	13.2%
Reported PAT	-3.5%	26.4%	7.5%	47.1%	33.8%
Yields / Margins (%)					
Interest Spread	4.79%	4.94%	4.43%	5.25%	5.32%
NIM	5.50%	5.70%	5.30%	6.24%	6.26%
Profitability (%)					
Non-IR to Income	23.5%	18.9%	25.3%	23.8%	22.3%
Cost to Income	57.1%	63.0%	64.7%	57.5%	57.7%
ROA	1.87%	1.79%	1.54%	1.72%	1.77%
ROE	16.6%	15.5%	13.1%	15.3%	16.3%
Assets Quality (%)					
Slippages	4.26%	2.71%	2.92%	3.90%	3.70%
Gross NPA	1.98%	1.66%	1.67%	2.13%	2.23%
Net NPAs	0.59%	0.49%	0.60%	0.76%	0.75%
Provision Coverage	70.6%	70.8%	64.3%	65.0%	67.0%
Specific LLP	0.29%	0.48%	0.79%	1.48%	1.29%
Net NPAs / Networth	3.6%	2.6%	3.5%	4.8%	5.0%
Capital Adequacy (%)					
Tier I	19.69%	21.78%	18.80%	18.53%	17.92%
CAR	20.99%	23.59%	20.10%	19.42%	18.65%

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Equity Capital	3,149	6,667	6,692	7,426	7,426	
Reserves & Surplus	71,578	1,02,666	1,18,276	1,63,505	1,92,669	
Deposits	5,25,846	6,93,650	8,71,821	12,21,842	15,15,084	
Borrowings	59,908	62,987	54,794	92,333	96,950	
Other Liabilities	29,884	35,751	42,046	50,966	56,063	
Total Liabilities	6,90,778	9,02,161	10,94,257	15,36,701	18,68,820	
Investments	1,53,065	2,00,720	2,71,334	3,54,936	3,94,073	
Net Advances	4,60,953	5,84,215	7,31,627	10,86,655	13,50,100	
Cash & Equivalents	59,285	94,252	63,763	76,442	92,655	
Fixed Assets	6,226	7,401	8,516	11,991	13,829	
Other Assets	11,250	15,573	19,017	6,677	18,163	
Total Assets	6,90,778	9,02,161	10,94,257	15,36,701	18,68,820	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
NII / Assets	5.36%	5.56%	5.17%	6.13%	6.16%
Other Income / Assets	1.65%	1.30%	1.75%	1.91%	1.76%
Total Income / Assets	7.01%	6.85%	6.92%	8.04%	7.93%
Cost / Assets	4.00%	4.32%	4.47%	4.62%	4.58%
PBP / Assets	3.01%	2.54%	2.44%	3.41%	3.35%
Provisions / Assets	0.60%	0.19%	0.44%	1.13%	0.99%
PBT / Assets	2.41%	2.34%	2.00%	2.29%	2.37%
Tax rate	22.3%	23.4%	23.2%	25.0%	25.0%
ROA	1.87%	1.79%	1.54%	1.72%	1.77%
RoRWAs	3.51%	3.36%	2.74%	2.95%	3.05%
Leverage	9.2	8.3	8.8	9.0	9.3
ROE	16.6%	15.5%	13.1%	15.3%	16.3%

Source: Company, JM Financial

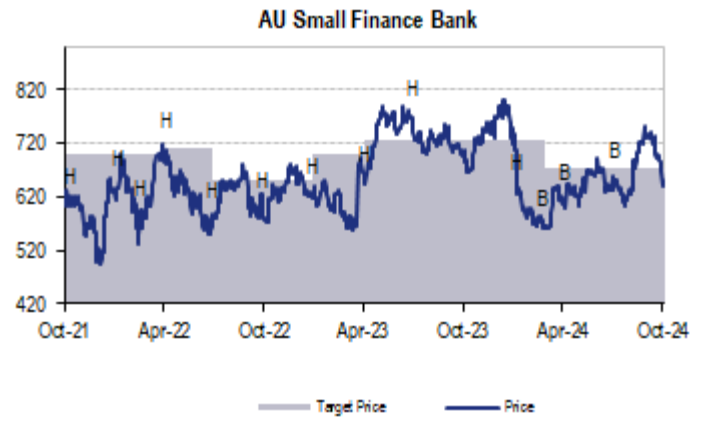
Valuations					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shares in Issue	629.8	666.7	669.2	742.6	742.6
EPS (INR)	17.9	21.4	22.9	30.4	40.7
EPS (YoY) (%)	-4.3%	19.4%	7.1%	32.5%	33.8%
PER (x)	36.3	30.4	28.4	21.5	16.0
BV (INR)	119	164	187	230	269
BV (YoY) (%)	20.0%	38.2%	13.9%	23.2%	17.1%
ABV (INR)	119	164	186	229	268
ABV (YoY) (%)	26.3%	38.2%	13.2%	23.1%	17.3%
P/BV (x)	5.50	3.98	3.49	2.83	2.42
P/ABV (x)	5.50	3.98	3.51	2.85	2.43
DPS (INR)	0.5	1.0	1.0	1.1	1.4
Div. yield (%)	0.1%	0.2%	0.2%	0.2%	0.2%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Oct-20	Buy	395	
29-Oct-20	Buy	418	5.7
29-Jan-21	Buy	475	13.8
8-Aug-21	Buy	700	47.4
1-Nov-21	Hold	700	0.0
28-Jan-22	Hold	700	0.0
10-Mar-22	Hold	700	0.0
26-Apr-22	Hold	713	1.8
20-Jul-22	Hold	650	-8.8
20-Oct-22	Hold	650	0.0
19-Jan-23	Hold	700	7.7
26-Apr-23	Hold	725	3.6
23-Jul-23	Hold	725	0.0
29-Jan-24	Hold	725	0.0
19-Mar-24	Buy	675	-6.9
25-Apr-24	Buy	675	0.0
26-Jul-24	Buy	675	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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