

## AU Small Finance Bank Q1FY21

### Financial Results & Highlights

#### Brief Introduction:

AU Small Finance Bank is an Indian scheduled commercial bank that was founded as vehicle finance company AU Financiers (India) Ltd in 1996 and converted to a small finance bank on 19 April 2017.

AU Small Finance Bank has a long-standing track record of over two decades of being a retail-focused and customer-centric institution; serving low and middle income individuals and micro/small businesses that have limited or no access to formal banking and finance channels. The Bank offers a comprehensive suite of loan, deposit & payment products and services.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1410	1168	20.72%	1367	3.15%
PBT	264	259	1.93%	165	60.00%
PAT	201	190	5.79%	122	64.75%

#### Detailed Results:

1. The Q1 revenues for the company rose 21% YoY while profits rose 5.8% YoY. PBT was up only 1.9% YoY
2. The fall in PBT was mainly due to increased provisioning done by the bank for COVID-19. The provisioning for the quarter was Rs 181 Cr against the normal levels of Rs 31.5 Cr in Q1FY20.
3. The AUM for the company grew 17% YoY, while disbursements in Q1 were at Rs 1181 Cr including TLTRO 2.0 of Rs 246 Cr.
4. Retail loans continue to form the majority of the loan portfolio accounting for 84% of total loans in Q1.
5. Deposits have gone up 35% YoY as of 30<sup>th</sup> June '20.
6. CASA Ratio was at 16% in Q1.
7. Yield on AUM stayed stable at 14.6% in Q1 vs 14.5% a year ago. Cost of funds fell to 7.1% in Q1 vs 7.9% a year ago.
8. ROE for Q1 improved by 110 bps YoY to 15.8%. On including the profit from the sale of stake in Aavas, the ROE goes up to 17.9%.
9. Cost to income ratio for Q1 was at 41.4% vs 59.6% a year ago.
10. GNPA's declined to 1.7% vs 2.1% a year ago and NNPA followed a similar pattern and declined to 0.6% in Q1 vs 1.3% last year.

11. PCR rose to 63.7% in Q1.
12. CRAR for Q1 was maintained at 21.7%.
13. NII for the SFB rose 30% YoY while other income rose 48% YoY.
14. The company maintained a comfortable LCR of 150% in the quarter.
15. Rajasthan remains the biggest market for the company with 42% of AUM disbursed and 279 branches in the state.
16. Complete Moratorium has been availed by 11% of total customers by value.
17. The company has made Rs 181 Cr of the provision in Q1 including Rs 140 Cr for COVID-19. This brings total provision for COVID-19 up to Rs 278 Cr which is around 1% of total gross advances and 10% of moratorium book.
18. Overall collection efficiency improved to 90% in June from 54% in April.
19. SA deposits grew 14% QoQ despite the disruptions in Q1. Currently, all branches are operational for the company.

**Investor Conference Call Highlights:**

1. The number of employees in offices and field has improved to 93% in June.
2. The main focus of the company in Q1 was to maintain customer engagement and to ensure that NPAs stay stable for the company.
3. The company also saved a lot of discretionary expenses as no disbursements took place in the quarter.
4. The management is comfortable with the company's current other business lines and they are mostly looking to focus on their core business of providing banking and additional services like credit cards, etc in rural and semi-urban India.
5. The management admits that insurance, investment, and payments remain focus areas for the bank but it will take time to grow and consolidate its brand image in these spaces for AU.
6. The management maintains that it will continue to lend to NBFCs purely base on opportunity basis and it was never a franchise business for the company. The company has internally set a cap of NBFC lending at 10% of total assets.
7. The wheels segment has been lower than the industry average for the company as it is mainly concentrated in major cities like Bombay, Delhi, Pune, Ahmedabad, and these areas have seen commercial passenger vehicle usage remain subdued due to COVID-19.
8. In normal times, 80% of EMIs are expected to be paid each month. This % is expected to be at 72-73% in July and 77-78% in August.
9. The management states that as uncertainty due to COVID-19 & lockdown went down and businesses opened up, loan repayments also rose as customers realized that the interest outgo would be larger in the case of the moratorium. Collection efficiency was at near 95% which was also aided by the fact that the company built on momentum fast since opening after the lockdown.

10. Currently, the bank is carrying liquidity of Rs 7000 Cr. owing to uncertainty ahead.
11. According to the management, constant customer engagement was what enabled the bank to grow its deposit base despite setbacks to the industry like the Yes Bank crisis and COVID-19. The entire focus is to build a relationship-oriented granular retail business on the ground which is reflected in the retail and SA deposit base growth.
12. The company is also moving towards quality-oriented and profile-based customer acquisition particularly the professional and salaried segment.
13. 67% of all customers have made full payment on their pending EMIs.
14. Collections for Q1 was at Rs 2200 Cr.
15. All the disbursements in the wheels division have been made to existing customers only. The company has also made a conscious decision not to disburse in cash in this business segment.
16. Most of the NBFC book is lent to large NBFCs with AAA or AA rating.
17. The management expects the impact of COVID-19 to be worse than that of demonetization.
18. The company has a very small book in commercial loading vehicles and that too is mostly in rural.
19. There is an incremental growth of around Rs 700 Cr in retail term deposits in Q1.
20. The core focus of the bank is to build retail, granular deposit base with a larger focus on CASA this year.
21. Incremental funds raised in Q1 were at Rs 10,000 Cr.

**Analyst's View:**

AU Small Finance Bank has been a fast-rising player in the banking and microfinance sector in the country. The company has differentiated itself from other microfinance players by structuring themselves early as a commercial bank accepting savings and term deposits. The company made good progress in the quarter in almost all operational metrics and has been performing well in the tough economic conditions and strengthening its brand in the market. The bank has done well to keep engaging its customers in such trying times and to maintain enough provisioning and liquidity for uncertain situations. This has led to an exemplary operational display of growth in SA deposits of 14% in Q1 despite all the disruptions from COVID-19. It remains to be seen how the whole COVID-19 situation pans out and how will the moratorium ending pan out for the bank and the industry in general. Nonetheless, given the company's good performance record, its robust customer engagement, and its prudent management of its AUM, AU Small Finance Bank remains a good small finance stock to watch out for.

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