

AU Small Finance Bank Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	1925	1273	51.22%	1498	28.50%	4833	3625	33.32%
PBT	589	273	116%	409	44.01%	1262	749	68.49%
PAT	479	190	152%	322	48.76%	1002	552	81.52%

Detailed Results:

- AU had a great quarter with revenue growth of 51% YoY and PAT growth of 152% YoY in Q3. Removing the effect from Aavas stake sale, 9M revenues grew 18% YoY and PAT grew 15% YoY.
- The AUM for the company grew 11% YoY, while disbursements in Q3 grew 34% YoY. Retail AUM remained high at 91% of total AUM.
- Deposits have gone up 24% YoY.
- CASA Ratio was at 22% in Q3FY21 vs 16% last year.
- The yield on AUM stayed stable at 14.3% in Q3 vs 14.7% a year ago. The cost of funds fell to 6.7% in Q3 vs 7.6% a year ago. Thus Yield spread grew to 7.6% in Q3 vs 7.1% a year ago.
- ROE for 9M fell by 230 bps YoY to 15.1%. On including the profit from the sale of a stake in Aavas, the ROE goes up to 27.3% in 9M.
- The cost to income ratio for Q3 was at 51.9% vs 53.2% a year ago. The same in 9M was at 49.2% vs 55.3% a year ago.
- Opex was at 3.7% in Q3 vs 3.8% a year ago. The same was 3.3% in 9M vs 3.7% a year ago.
- GNPAs declined to 1% vs 1.9% a year ago and NNPA followed a similar pattern and declined to 0.2% in Q3 vs 1% last year.
- PCR rose to 76% in Q3 vs 46.8% a year ago.
- CRAR for Q3 was maintained at 18.8% with tier 1 capital at 16.3%.

12. NII for the SFB rose 25% YoY in Q3 and 26% YoY in 9M while other income rose 14% YoY in Q3 and 17% YoY in 9M.
13. The company maintained a comfortable LCR of 111% in the quarter.
14. Retail deposits (CASA + Retail TD) now at 55% of deposits vs 54% in Q2FY21 and 43% in Q2FY20.
15. Overall collection efficiency in Q3 was at 97%.

Investor Conference Call Highlights:

1. The management is expecting a positive surprise in growth in Q4.
2. The management feels that the provisioning done already is sufficient enough and AU won't be seeing a lot more extra provisioning in the balance sheet in the next 3-5 quarters.
3. The management is also expecting NPAs to remain down in the period of the next 3-5 quarters.
4. The bank will maintain provisions covering 60% of NPAs and will probably not add more provisions according to the management. This situation will become clear in the next 1 to 2 quarters.
5. The expenses will rise YoY due to the bank being in expansion mode. However, the management assures that the cost to income ratio will be kept stable at current levels.
6. Opex levels will remain high at near 50-55% of income over the next maybe 2 years as the bank is looking to set up the franchise for the next 10-15 years.
7. The wheels business has seen full customer activation of 81% and partial activation of 6%. The management states that this business is steadily normalizing as the customers' activation levels are increasing. As the activation % rises, the collections will eventually rise to near 100%.
8. The average number of transactions per customer is growing every month for AU. It has risen from 11 in Sep to 13.8 in Dec.
9. AU has also seen an improvement of at least 21% in terms of average balances which are being maintained with the bank. This indicates that customers are starting to use their AU account for most of their spending which results in higher balances maintained in these accounts.
10. Momentum in the wheels business is expected to sustain going forward as the personal segment in auto is seeing good sales numbers and rural pickup remains strong. Entry level car makers like Maruti and Hyundai are also seeing good momentum going forward which is reinforcing the belief in wheels business going forward.
11. AU is also seeing good demand in the commercial banking space with many greenfield projects approaching AU for lending. Most of these commercial banking customers are small corporates. Real estate lending is also seeing good growth.
12. 89% of disbursement in Q3 was on the retail side and 11% was on the corporate side.
13. In ECLGS, AU has disbursed Rs 546 Cr YTD across 11000 customers. It did disbursement of close to Rs 150 Cr in Q3.
14. ECLGS funds are mostly used by the customers for operational expenses and not for incremental capex.
15. The bank will look for a capital raise round after FY22 only as it has enough capital for the next 3-5 quarters according to the management.
16. The credit card segment is still in the development and strategy stage. The formal launch can be expected in Q4.
17. The management has stated that AU is aiming to cover all facets of the digital banking space in the next 2 years.

18. The average cost of books is just below 6%.
19. The restructuring of loans is done on a customer case basis and moratorium is provided on principal payments for 3 to 6 month tenure depending on the customer's request and circumstances.
20. The expansion strategy on new states is to first establish branches in the state capital and then to go into other big cities. For example, when going into UP, the branch is first set up in Lucknow and then AU goes to other cities like Kanpur, Agra, etc. The management has stated that it intends to expand deeper in UP for the next 3 to 5 years.
21. The deposit franchise will remain driven by cities but digital adoption and video banking should enable the bank to acquire customers faster than before.
22. As the company consolidates its presence in these new states, the exposure to Rajasthan, which now accounts for 42% of assets, will come down organically due to the rise of other states.
23. The management maintains a view that slippages will remain bound at 3.5-4% at the upper level.
24. The management expects to restructure around 1-1.3% of the book and it is confident that most of this segment will not result in NPL.
25. The bank remains bullish on digital banking and has already launched its super app, for both internet and mobile platforms. It has also launched video banking which should enhance acquisition, engagement, service, the transition of customers.
26. AU already has 40,000 QR codes with an activation rate of 75% vs the industry benchmark of 50%. It plans to expand this number to 1 Lac by March.

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 itself 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 seen a good rise in disbursements in Q3. The bank has also seen collections improving steadily and reach near pre-covid levels. The bank remains committed to its goal to build a granular customer led by digital and this is reflected in its efforts like the super app and the upcoming launch of its credit card and the adoption of video banking. The management is confident that the bank has enough provisions and capital for expansion for the next 3-5 quarters. It remains to be seen whether Au will be able to maintain its robust growth momentum and how will the company's digital journey pan out. 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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