

BUY

TP: Rs 717 | ▲ 17%

**AU SMALL FINANCE
BANK**

| Banking

| 23 April 2025

Secured growth with cost efficiency supported PPoP

- Advances growth driven by secured loans; deposit growth was strong compared to system levels
- Profitability impacted by accelerated provisions in unsecured book, but was partially offset by higher operating efficiency
- Asset quality improved marginally with ~100% PCR on unsecured book; Maintain BUY

 Niraj Jalan | Vijiya Rao
 research@bobcaps.in

Credit growth led by secured portfolio: AUBANK reported gross advances growth of 6% QoQ, driven by secured portfolio (retail + commercial) growth of 6.3% QoQ. Further, the bank witnessed a degrowth in its unsecured portfolio by 10% QoQ, given the industry-wide deleverage in the MFI book and corrective actions undertaken in its credit card segment. The bank has set an internal cap of unsecured book mix to be <15% (9% now), of which MFI will be <10% (6% now). CD ratio declined to 86% in Q4FY25 vs 89% in Q3FY25, given strong growth in deposits (+27% YoY; +11% QoQ) vs system deposit growth of ~10.1% YoY. Deposit growth was largely supported by term deposits (+13% QoQ) and CASA deposits (+5% QoQ). However, CASA ratio declined to 29.2% in Q4FY25 vs 33.4% in Q4FY24.

PPoP mainly supported by operating efficiency: PPoP grew by 7.2% QoQ to Rs 12.9bn in Q4FY25, largely driven by higher operating efficiency. With control on overheads and marketing costs and synergies from Fincare merger, the bank's cost to income ratio improved to 54.7% in Q4FY25 vs 64.9% in Q4FY24. However, we expect the C/I ratio to rise to ~58% in FY26, given technology investments and ~70-80 branch addition. However, PAT declined by 4.7% QoQ in Q4FY25, due to higher credit cost at 2.4% in Q4FY25 (2.0% in Q3FY25). The steep rise in credit cost was due to accelerated provision of Rs 1.5bn in Q4FY25, largely pertaining to the unsecured segment. We expect NIMs (5.9% in FY25) to remain under pressure in FY26, given the onset of rate cut cycle; but will be partly cushioned by 63% fixed rate book. PAT is likely to be largely supported by a normalisation of credit cost in FY26.

Asset quality improved marginally; ~100% PCR on unsecured book: With lower slippages at 4.4% in Q4FY25 (-1.1% QoQ), asset quality improved marginally with GNPA at 2.28% (-3bps QoQ) and NNPA at 0.74% (-17bps QoQ). The accelerated provisions in Q4FY25 resulted in ~100% PCR on unsecured book. Also, MFI book improved with SMA book falling to 3.7% in Q4FY25 (4.4% in Q3FY25).

Maintain BUY: The bank expects to receive universal bank license by 2025 which is likely to support its growth and improve its market positioning. We expect bank to deliver RoA of 1.6-1.8% in FY25-FY28E. Our TP is Rs 717, set at 2.3x FY27E ABV.

Key changes

Target	Rating
▲	◀ ▶

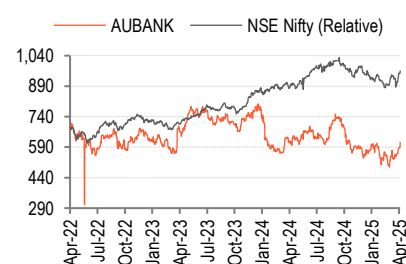
Ticker/Price	AUBANK IN/Rs 614
Market cap	US\$ 5.4bn
Free float	77%
3M ADV	US\$ 22.3mn
52wk high/low	Rs 755/Rs 478
Promoter/FPI/DII	23%/36%/27%

Source: NSE | Price as of 22 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	80,116	99,072	1,25,841
NII growth (%)	55.4	23.7	27.0
Adj. net profit (Rs mn)	21,059	27,749	37,696
EPS (Rs)	29.8	37.3	50.6
Consensus EPS (Rs)	28.2	35.9	46.2
P/E (x)	20.6	16.5	12.1
P/BV (x)	2.7	2.3	1.9
ROA (%)	1.6	1.6	1.8
ROE (%)	14.2	15.0	17.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Fig 1 – Quarterly snapshot: Income statement

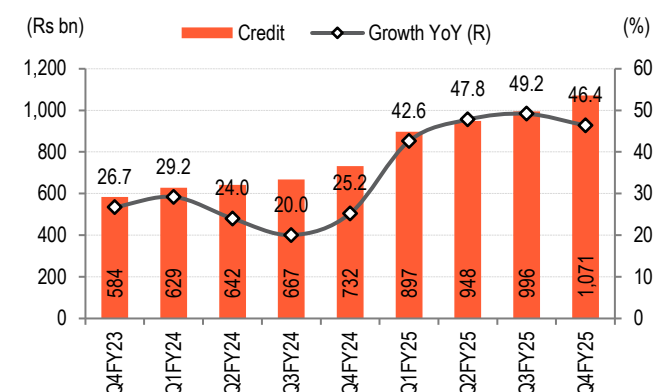
(Rs mn)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ (%)	YoY (%)
Income Statement							
Interest Income	22,431	30,920	32,796	34,412	35,555	3.3	58.5
Income on investments	4,698	5,431	5,082	5,685	6,184	8.8	31.6
Int. on bal. with RBI & inter-bank funds & Others	1,166	1,340	1,228	1,037	967	(6.8)	(17.1)
Interest income	28,295	37,690	39,106	41,135	42,706	3.8	50.9
Interest expense	14,925	18,485	19,363	20,908	21,767	4.1	45.8
Net interest income	13,370	19,206	19,744	20,227	20,939	3.5	56.6
Growth YoY (%)	10.2	54.1	58.1	52.7	56.6		
Fee Income	4,320	5,270	5,700	5,720	6,580	15.0	52.3
Trading gains/(losses)	-	190	680	460	1,020	121.7	
Forex Income	-	-	-	-	-	-	-
Others	1,236	(3)	(0)	4	7	62.3	(99.5)
Non-interest income	5,556	5,457	6,380	6,184	7,607	23.0	36.9
Growth YoY (%)	66.8	73.2	57.0	39.8	36.9		
Total income	18,927	24,662	26,123	26,411	28,546	8.1	50.8
Growth YoY (%)	22.4	58.0	57.8	49.5	50.8		
Staff expenses	5,559	7,901	7,855	7,547	8,175	8.3	47.1
Other operating expenses	6,726	6,880	6,951	6,815	7,449	9.3	10.7
Operating expenses	12,285	14,781	14,806	14,362	15,623	8.8	27.2
Pre-Provisioning Profit (PPoP)	6,642	9,881	11,318	12,049	12,923	7.2	94.6
Growth YoY (%)	16.3	81.0	80.0	85.5	94.6		
Provisions	1,325	3,192	3,730	5,017	6,351	26.6	379.3
Growth YoY (%)	224.2	868.0	291.5	231.2	379.3		
Exceptional Item	-	-	-	-	-	-	-
PBT	5,316	6,689	7,588	7,032	6,571	(6.6)	23.6
Tax	841	1,663	1,876	1,748	1,535	(12.2)	82.5
PAT	4,475	5,026	5,712	5,284	5,037	(4.7)	12.5
Growth YoY (%)	5.4	29.9	42.1	40.8	12.5		
Per Share							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	6	7	8	7	7	(4.7)	22.2
Book Value (Rs)	188	209	226	233	241	3.3	28.2

Source: Company, BOBCAPS Research

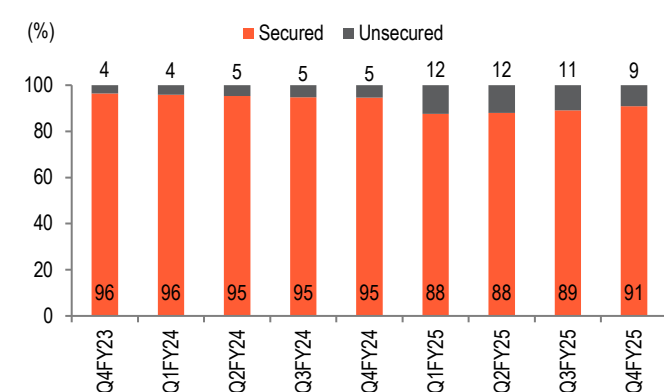
Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

(Rs mn)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ (%)	YoY (%)
Deposits	8,71,821	9,72,900	10,96,932	11,22,600	12,42,685	10.7	42.5
Growth YoY (%)	25.7	40.4	44.8	40.1	42.5		
Advances	7,31,627	8,96,520	9,48,382	9,95,590	10,70,925	7.6	46.4
Growth YoY (%)	25.2	42.6	47.8	49.2	46.4		
Investment	2,71,334	2,73,150	3,18,608	3,36,130	3,78,475	12.6	39.5
Equity	1,25,595	1,55,160	1,67,848	1,73,462	1,79,105	3.3	42.6
Assets	10,94,257	12,59,430	13,88,292	14,30,440	15,78,457	10.3	44.2
Growth YoY (%)	21.3	37.5	44.6	41.4	44.2		
Yield							
Yield on Funds	11.03	13.15	12.14	11.98	11.63	(36bps)	60bps
Cost of Funds	6.70	7.44	6.89	6.95	6.74	(20bps)	4bps
Spread	4.33	5.72	5.24	5.04	4.88	(15bps)	56bps
Net Interest Margin	5.21	6.70	6.13	5.89	5.70	(19bps)	49bps
Ratios							
Other Income / Net Income	29.4	22.1	24.4	23.4	26.6	323bps	(271bps)
Cost to Income ratio	64.9	59.9	56.7	54.4	54.7	35bps	(1,018bps)
CASA ratio	33.4	32.9	32.4	30.6	29.2	(147bps)	(424bps)
C/D ratio	83.9	92.1	86.5	88.7	86.2	(251bps)	226bps
Investment to Assets	24.8	21.7	22.9	23.5	24.0	48bps	(82bps)
Assets Quality							
GNPA	12,374	16,132	19,017	23,355	24,770	6.1	100.2
NNPA	4,010	5,626	7,067	9,056	7,910	(12.7)	97.3
Provision	8,364	10,506	11,950	14,299	16,860	17.9	101.6
GNPA (%)	1.67	1.78	1.98	2.31	2.28	(3bps)	61bps
NNPA (%)	0.55	0.63	0.75	0.91	0.74	(17bps)	19bps
Provision (%)	76.00	84.00	82.00	80.00	84.00	400bps	800bps
Others							
Branches	1,074	764	630	617	616	(1)	(458)
ATMs	682	695	688	674	677	3	(5)
Employees	29,738	46,600	48,000	49,100	50,946	1,846	21,208

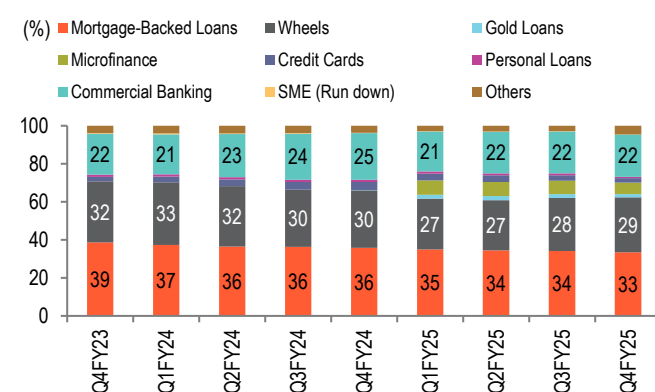
Source: Company, BOBCAPS Research

Fig 3 – Credit growth accelerates 46% YoY...


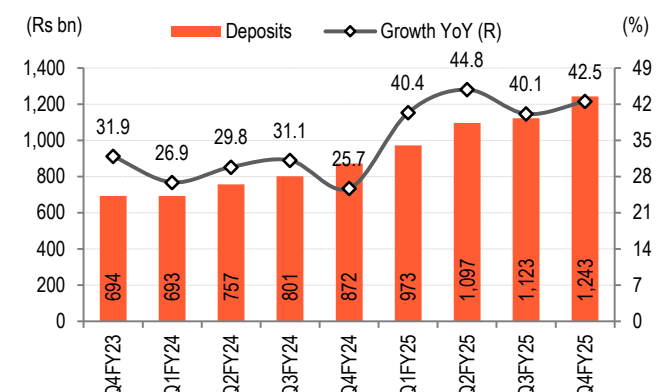
Source: Company, BOBCAPS Research

Fig 4 –led by secured book growth of 42% YoY


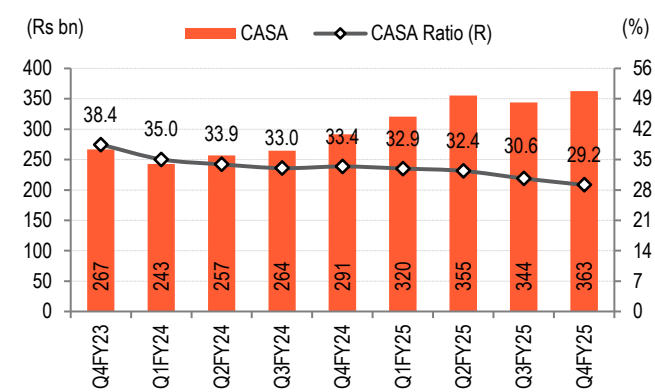
Source: Company, BOBCAPS Research

Fig 5 – Rising granularity of loan mix


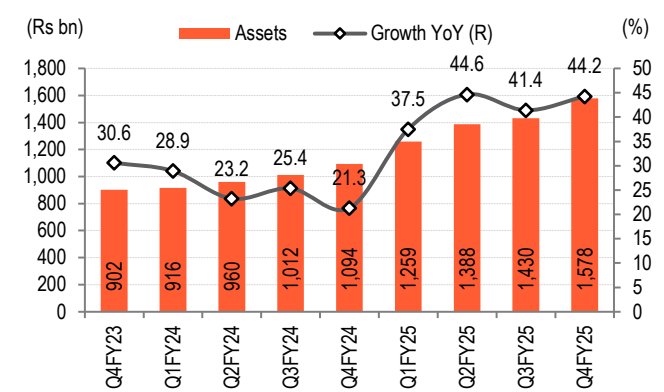
Source: Company, BOBCAPS Research

Fig 6 – Deposits growth stronger than system growth


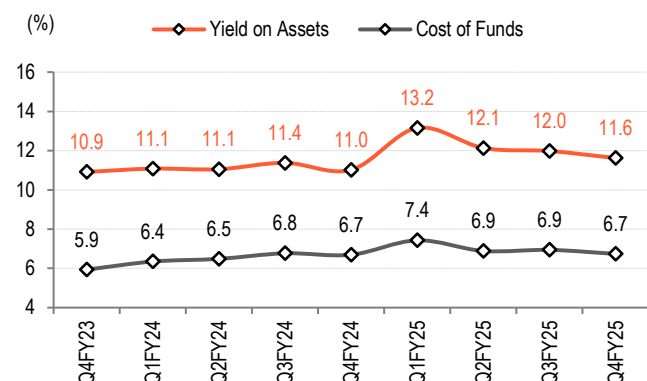
Source: Company, BOBCAPS Research

Fig 7 – ... but CASA ratio continues to slip


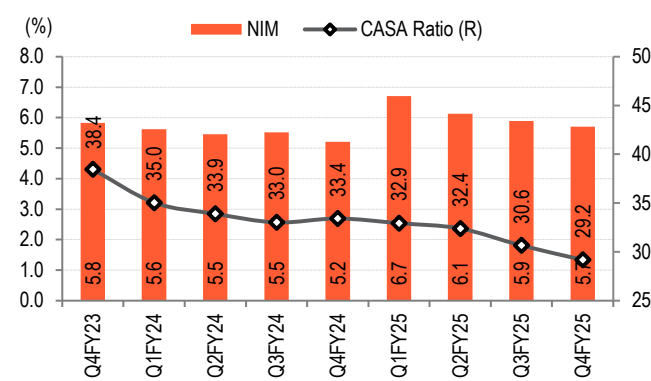
Source: Company, BOBCAPS Research

Fig 8 – Asset growth remains steady


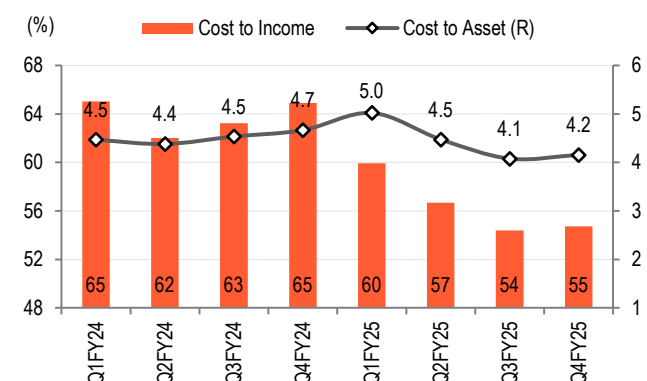
Source: Company, BOBCAPS Research

Fig 9 – Spreads narrow as asset yields decline more than cost of funds


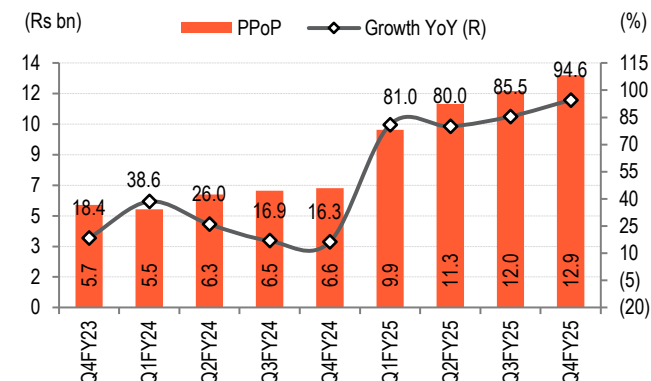
Source: Company, BOBCAPS Research

Fig 10 – NIMs decline with fall in CASA ratio


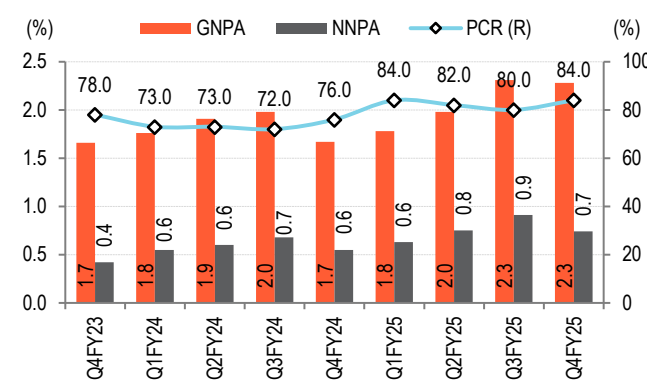
Source: Company, BOBCAPS Research

Fig 11 – Improvement in operating efficiency with control on overheads and marketing cost


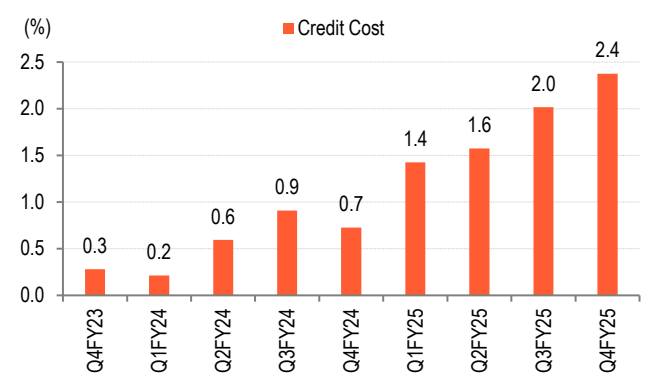
Source: Company, BOBCAPS Research

Fig 12 – PPOP rises steadily


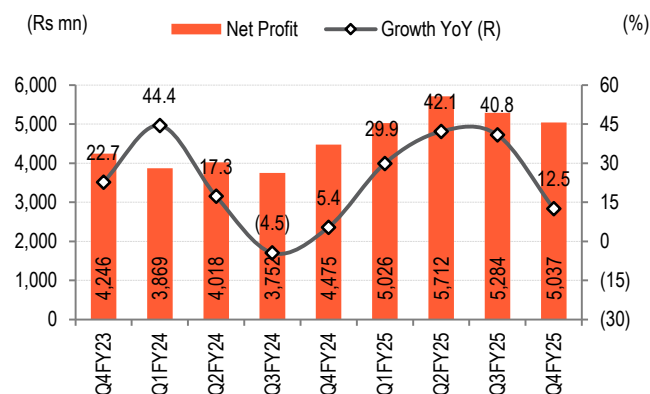
Source: Company, BOBCAPS Research

Fig 13 – Asset quality improved marginally


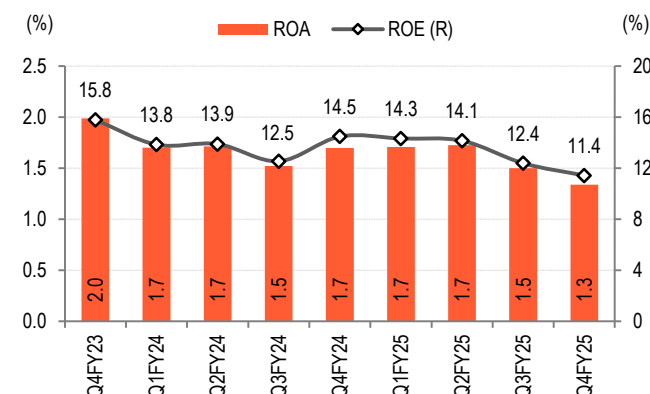
Source: Company, BOBCAPS Research

Fig 14 – Credit cost hikes driven by accelerated provisions


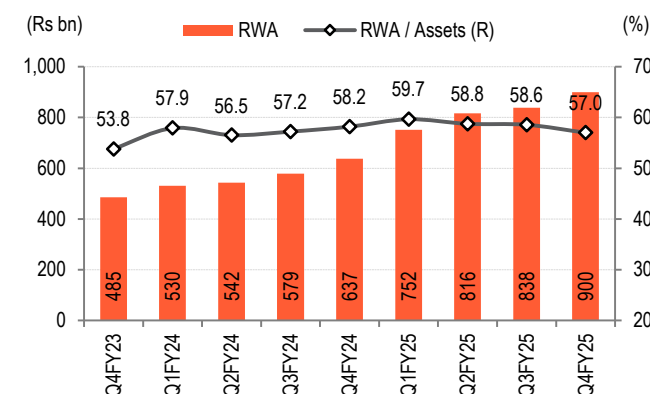
Source: Company, BOBCAPS Research

Fig 15 – PAT supported by operating efficiency


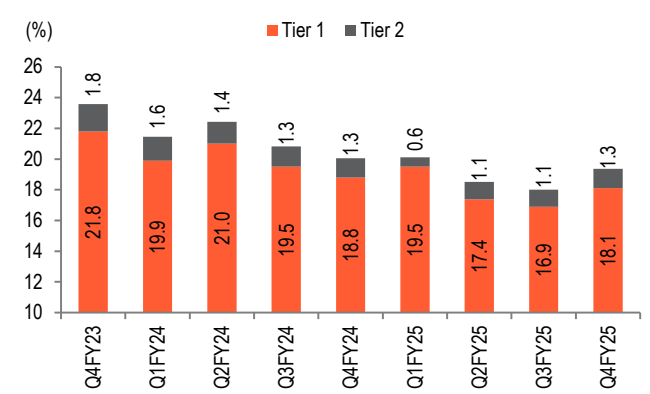
Source: Company, BOBCAPS Research

Fig 16 – Return ratios


Source: Company, BOBCAPS Research

Fig 17 – Risk-weighted assets expand; capital efficiency improves


Source: Company, BOBCAPS Research | RWA: Risk-Weighted Asset

Fig 18 – Well capitalised with ~20% CAR


Source: Company, BOBCAPS Research

Key concall highlights

Advances and deposits

- **Advances:** Gross advances increased by 7.6% QoQ to Rs 1,071 bn, up from Rs 996 bn in Q3 FY25. This growth was primarily driven by the Wheels and Micro Business Loans (MBL) segments.
- **Deposits:** Total deposits stood at Rs 1,243 bn, marking a 10.7% QoQ and 42.5% YoY growth. The surge was fuelled by continued traction in both current and wholesale term deposits.
- **CD Ratio:** Credit-Deposit ratio moderated to 86.2% in Q4 FY25 from 88.75% in Q3 FY25; reflecting a more balanced funding profile.
- **CASA Ratio:** CASA ratio declined to 29.2% in Q4 FY25 vs 33.4% in Q4 FY24. Within CASA deposits, the bank witnessed strong traction in CA deposits (+24% QoQ), however, SA deposits accretion was low at 2% QoQ. As a result, share of CASA + Retail TD declined to 61.7% in Q4 FY25 vs 65% in Q3 FY25.

Profitability

- **Net Interest Income (NII):** NII grew by 3.5% QoQ and 56.6% YoY to Rs 21 bn. However, net interest margin (NIMs) declined by 10bps QoQ, suggesting margin compression mainly driven by decline in high-yielding MFI book.
- **Other Income:** Other income rose to Rs 7.6 bn (+23% QoQ), primarily driven by higher fee income of Rs 6.6 bn (+15% QoQ) and improved treasury performance contributing Rs 1 bn.
- **Provisions:** Provisions for the quarter stood at Rs 6.3 bn, up 27% QoQ, translating to a credit cost of 2.4% from 2.0% in Q3 FY25. This was driven by accelerated provisioning of Rs 1.5 bn, particularly in the unsecured loan segment.
- **Return Ratios:** RoA moderated 16bps QoQ to 1.3% and RoE declined 96bps to 11.4%, driven by higher provisions.

Valuation methodology

Resilience continues across asset quality, operational execution, and capital buffers. While compression in NIMs may marginally impact near-term earnings, AU SFB's ability to scale granular secured lending is expected to support growth. The bank expects to receive universal bank license by 2025, which will likely aid growth and improve its market positioning. We expect the bank to deliver RoA of 1.6-1.8% in FY25-FY28E. Our TP is Rs 717, set at 2.3x FY27E ABV.

Fig 19 – Key operational assumptions

(%)	FY25	FY26E	FY27E	FY28E
Advances growth	46.4	22.0	23.5	24.0
NII growth	55.4	23.7	27.0	24.8
PPoP growth	89.4	17.1	28.3	24.0
PAT growth	37.2	31.8	35.8	27.7
NIM	6.4	6.2	6.4	6.5
GNPA	2.3	2.1	2.0	1.8
CAR	20.1	19.1	18.4	18.0

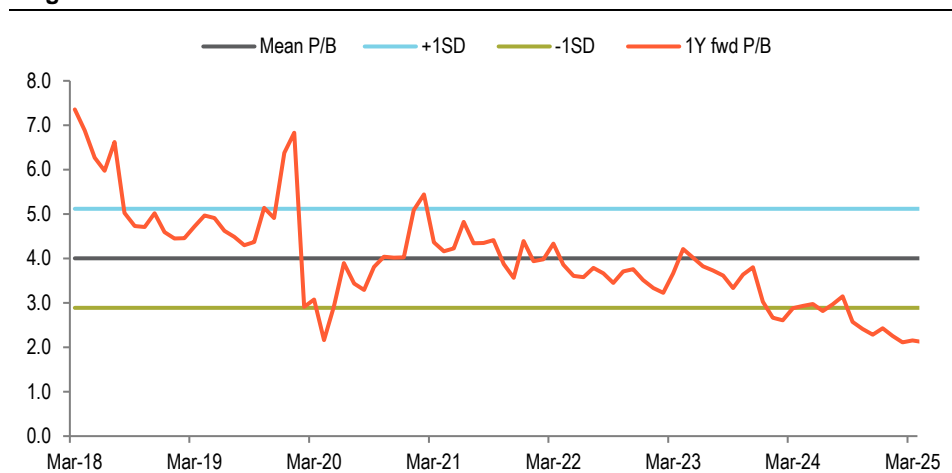
Source: Company, BOBCAPS Research

Fig 20 – Valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.4
Equity risk premium (%)	5.5
Beta	0.9
Cost of equity (%)	11.1
Blended ROE (%)	14.3
Initial high growth period (yrs)	15.0
Payout ratio of high-growth phase (%)	18.0
Long-term growth (%)	6.4
Long term dividend payout ratio (%)	55.0
Justified P/BV Multiple (x)	2.3

Source: Company, BOBCAPS Research

Fig 21 – PB band chart



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Unexpected asset quality shocks leading to higher credit cost.
- Slowdown in credit growth.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	51,571	80,116	99,072	1,25,841	1,57,054
NII growth (%)	16.5	55.4	23.7	27.0	24.8
Non-interest income	17,459	25,627	30,796	37,616	46,500
Total income	69,030	1,05,743	1,29,868	1,63,457	2,03,554
Operating expenses	44,648	59,572	75,797	94,080	1,17,514
PPOP	24,382	46,171	54,071	69,377	86,040
PPOP growth (%)	20.7	89.4	17.1	28.3	24.0
Provisions	4,387	18,290	16,974	18,981	21,686
PBT	19,994	27,881	37,098	50,396	64,354
Tax	4,647	6,821	9,349	12,700	16,217
Reported net profit	15,347	21,059	27,749	37,696	48,137
Adjustments	0	0	0	0	0
Adjusted net profit	15,347	21,059	27,749	37,696	48,137

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	6,692	7,445	7,445	7,445	7,445
Reserves & surplus	1,18,904	1,64,218	1,91,966	2,29,663	2,77,799
Net worth	1,25,595	1,71,663	1,99,412	2,37,108	2,85,245
Deposits	8,71,821	12,42,685	15,40,930	19,18,458	24,07,665
Borrowings	54,794	1,16,599	1,42,251	1,74,968	2,16,961
Other liab. & provisions	42,046	47,509	38,506	47,321	26,565
Total liab. & equities	10,94,257	15,78,457	19,21,099	23,77,855	29,36,435
Cash & bank balance	63,763	94,664	1,31,559	1,65,227	2,06,623
Investments	2,71,334	3,78,475	4,38,115	5,43,831	6,60,527
Advances	7,31,627	10,70,925	13,06,528	16,13,562	20,00,817
Fixed & Other assets	27,533	34,393	44,897	55,235	68,467
Total assets	10,94,257	15,78,457	19,21,099	23,77,855	29,36,435
Deposit growth (%)	25.7	42.5	24.0	24.5	25.5
Advances growth (%)	25.2	46.4	22.0	23.5	24.0

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	23.0	29.8	37.3	50.6	64.7
Dividend per share	1.0	1.0	1.3	1.5	1.8
Book value per share	187.7	230.6	267.8	318.5	383.1

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	26.7	20.6	16.5	12.1	9.5
P/BV	3.3	2.7	2.3	1.9	1.6
Dividend yield (%)	0.2	0.2	0.2	0.2	0.3

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	5.2	6.0	5.7	5.9	5.9
Non-interest income	1.7	1.9	1.8	1.8	1.8
Operating expenses	4.5	4.5	4.3	4.4	4.4
Pre-provisioning profit	2.4	3.5	3.1	3.2	3.2
Provisions	0.4	1.4	1.0	0.9	0.8
PBT	2.0	2.1	2.1	2.3	2.4
Tax	0.5	0.5	0.5	0.6	0.6
ROA	1.5	1.6	1.6	1.8	1.8
Leverage (x)	8.5	9.0	9.4	9.8	10.2
ROE	13.0	14.2	15.0	17.3	18.4

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	16.5	55.4	23.7	27.0	24.8
Pre-provisioning profit	20.7	89.4	17.1	28.3	24.0
EPS	4.3	29.7	25.1	35.8	27.7
Profitability & Return ratios (%)					
Net interest margin	0.0	6.4	6.2	6.4	6.5
Fees / Avg. assets	43.7	47.9	44.0	43.8	43.8
Cost-Income	64.7	56.3	58.4	57.6	57.7
ROE	13.0	14.2	15.0	17.3	18.4
ROA	1.5	1.6	1.6	1.8	1.8
Asset quality (%)					
GNPA	1.7	2.3	2.1	2.0	1.8
NNPA	0.6	0.7	0.6	0.6	0.5
Slippage ratio	2.9	4.3	2.8	2.8	2.6
Credit cost	0.7	1.7	1.4	1.3	1.2
Provision coverage	63.9	67.5	69.7	70.1	70.3
Ratios (%)					
Credit-Deposit	83.9	86.2	84.8	84.1	83.1
Investment-Deposit	31.1	30.5	28.4	28.3	27.4
CAR	20.1	20.1	19.1	18.4	18.0
Tier-1	18.8	18.1	17.0	16.3	15.9

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

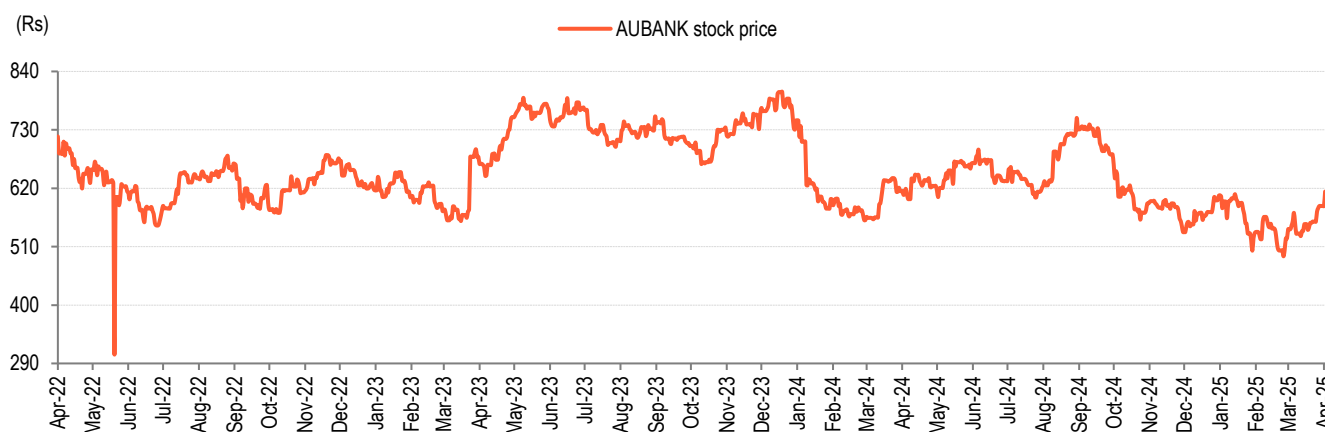
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AU SMALL FINANCE BANK (AUBANK IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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