



CMP (Rs)	Target (Rs)	Potential Upside (%)
638	702	10%

MARKET DATA

No. of Shares 74.2 Cr

Market Cap 42,683 Cr

52-week High / Low 813/554

BSE Code 540611

NSE Code AUBANK

Why AU Small Finance Bank Ltd.?

- ✓ **Strong Growth Opportunities**
- ✓ **NIM improvement levers identified**
- ✓ **Merger Synergies with Fincare SFB to support RoA improvement**
- ✓ **Asset quality performance to remain stable despite near term challenges**

About the Company

AU Small Finance Bank (AUSFB) is a retail-focused small finance bank offering a diverse range of products including Vehicle Finance, SME, Home Loans, and Business Banking, among others. Its target market comprises low and middle-income individuals and businesses with limited or no access to formal banking and finance channels. As of Dec'23, the bank operates through 1,049 touch points across India.

Investment Rationale

- A. Strong business growth to continue; merger offers diversification benefits:** AUSFB aims to maintain its growth momentum by targeting a 23-25% CAGR in deposits by FY27E, focusing primarily on individual and retail deposits. This growth strategy extends to its asset side, aligning the loan book expansion with deposit growth. Following the completion of the merger with Fincare SFB, AUSFB will have the capability to offer a comprehensive range of products catering to diverse customer segments. The merger will significantly enhance the bank's distribution network, provide opportunities for geographical expansion, and broaden its customer base, thereby facilitating healthy growth prospects. We anticipate AUSFB to achieve a 32/34% CAGR growth (inclusive of merger impact) in terms of deposits/advances over FY24-26E.
- B. Margins likely to improve gradually:** The shift in portfolio mix towards higher credit quality but lower-yield products, coupled with ~75% of the loan book being fixed, resulted in spread compression for AUSFB. Moreover, unexpected liquidity tightening, prolonged higher interest rates, and heightened competition exacerbated margin pressure during 9MFY24. However, there are signs of improvement as incremental CoF experienced a slight moderation in Q4FY24 (down by 4bps QoQ), while incremental disbursement yields have seen improvement (up by 8bps QoQ). Additionally, the merger with Fincare presents AUSFB with the opportunity to venture into the microfinance segment (a 'Higher RoA-Higher Risk' segment). Furthermore, AUSFB's strategic shift towards enhancing the share of higher yielding businesses should provide further support to the bank's margins.
- C. Asset quality to remain stable:** Except for the credit card portfolio, credit costs and asset quality trends have largely normalized. The management has noted that in the near term, until the credit card book is built and seasons, credit costs will stay between 6-7% and will eventually stabilize near industry averages. Similarly, on the secured book, credit costs are projected to remain steady at 0.5-0.6%. Following the merger with Fincare SFB, microfinance credit costs are expected to be limited to around 3%. We anticipate that AUSFB's asset quality will remain mostly stable over the medium term, barring any external shocks.
- D. Recommendation:** We recommend a BUY rating on the stock with a TP of Rs 702/share, implying an upside of 10% from the CMP.

Financial Summary

Y/E	NII (Rs Cr)	PPOP (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoA (%)	NNPA (%)
Mar								
FY23	4,425	2,019	1,428	21.4	161.0	3.9	1.8	0.4
FY24E	5,205	2,523	1,573	23.5	182.1	3.5	1.6	0.4
FY25E	7,852	3,795	2,135	28.8	217.0	2.9	1.6	0.5
FY26E	10,202	5,175	2,937	39.6	252.6	2.5	1.7	0.5

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