

**Post-Merger NIMs Strong; Maintaining RoA at 1.6% in FY25 Remains Priority!**
**Est. Vs. Actual for Q1FY25: NII – BEAT; PPOP – MISS; PAT – MISS**
**Changes in Estimates post Q1FY25**
**FY25E/FY26E: NII+3.0%/+1.9%; PPOP +8.3%/+1.8%; PAT +1.4%/0.1%**
**Recommendation Rationale**

- **Asset Quality to remain stable, credit costs under control:** AUSFB does not expect any vulnerability around asset quality and is confident of containing credit costs at 110-115bps in FY25E vs ~125bps currently. Amongst the unsecured businesses, the bank expects credit costs to settle at 6.5-7% for the credit card business and ~3% for the microfinance business. The bank remains confident of maintaining strong asset quality in the MFI book. While collections in the MFI book have been impacted in Q1, which was in line with trends visible in the industry, the management expects trends to stabilise in a couple of quarters. Similarly, AUSFB continues to tread cautiously on the credit card portfolio and has tightened filters and cut down on card issuances.
- **RoA to be maintained at 1.6% with gradual improvement over the medium term:** AUSFB's management remains confident of delivering RoA of 1.6% in FY25, with a possibility of a positive surprise. While pursuing profitable growth remains a priority, AUSFB will not forego growth opportunities to defend RoA at 1.6%. During Q1FY25, NIMs have been aided by the inclusion of the microfinance book in the portfolio post the merger. The bank has intensified its efforts around controlling CoF, improving disbursements, and growing better-yielding assets. While yields have seen an improvement, CoF is likely to inch up, resulting in NIMs coming off from current levels. NIMs are expected to range between 5.7-5.8% vs ~6% currently. The traction on fee income is expected to remain healthy with improving business volumes and AD-I licenses contributing positively to the fee income. C-I Ratio during FY25E is expected to range between 61-62% and credit costs at ~1.1-1.15%. Improving share of higher RoA segments, improving branch productivity and calibrating investment remain key levers to drive RoA improvement to ~1.8% by FY27E

**Sector Outlook: Positive**

**Company Outlook:** With AUSFB calibrating growth and prioritising profitability, we expect the bank to deliver a RoA of 1.6% in FY25E. Focused efforts towards improving the share of better-yielding products, calibrating investments and improving fee income profile should collectively drive RoA improvement to 1.8% by FY27E. The bank plans to apply for a Universal Banking license in FY25.

**Current Valuation: 2.9x FY26E ABV Earlier Valuation: 2.8x FY26E ABV**

**Current TP: Rs 725/share Earlier TP: Rs 715/share**

**Recommendation:** We maintain our BUY recommendation on the stock.

**Alternative BUY Ideas from our Sector Coverage**

**Ujivan SFB (TP – Rs 52/share)**

**Financial Performance**

- **Operational Performance:** Given that Q1FY25 is the first quarter post the merger with Fincare SFB, the YoY and QoQ numbers would not be comparable. Advances grew by 42/23% YoY/QoQ, while deposits registered a growth of 40/12% YoY/QoQ. Deposit growth was driven by both CASA (+32/10% YoY/QoQ) and TDs (+45/12% YoY/QoQ). C-D Ratio stood at 92.1% vs 90.7/83.9% YoY/QoQ.
- **Financial Performance:** NII grew by 54/44% YoY/QoQ driven by a sharp improvement in NIMs. NIMs stood at 6% (post-merger) vs 5.1% QoQ. Non-interest income growth was primarily driven by healthy fee income (+67/30% YoY/QoQ). Opex grew by 46/20% YoY/QoQ. C-I Ratio improved to 59.9% vs 65/64.9% YoY/QoQ. Credit costs (calc.) stood at 155 bps vs. 21/75 bps YoY/QoQ. PAT grew by 30/36% YoY/QoQ. RoA stood at 1.8% during the quarter. **GNPA/NNPA** stood at 1.8/0.6% vs. 1.7/0.6% QoQ. Slippages during the quarter stood at Rs 367 Cr (slippage ratio of 2.4% vs 2/1.6% YoY/QoQ), with a bulk of the slippages from the MFI and credit card portfolio.

**Outlook**

While the bank has identified and charted a strategy to improve the RoA over the medium term and reclaim RoA of 1.8% by FY27E, its near-term focus continues to remain on protecting FY25E RoA at 1.6%. Backed by a strong NIM delivery in Q1FY25 and expectations of NIMs being maintained at healthy levels, we revise our NII estimates upwards by 2-3% over FY25-26E. While we reduce our Opex ratio estimates impacting PPOP growth positively, the increased credit cost estimates result in broadly similar earnings estimates over FY25-26E.

**Valuation & Recommendation:**

The stock currently trades at 2.5x FY26E ABV. We value the stock at 2.9x FY26E to arrive at a target price of Rs 725/share, implying an upside of 15% from CMP. We maintain our BUY recommendation on the stock.

**Key Financials (Standalone)**

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	1,921	+43.6	+54.1	1,851	+3.8
PPOP	988	+48.8	+81.0	1,027	-3.8
Net Profit	503	+35.6	+30.4	586	-14.2
NNPA (%)	0.6	+8 bps	+8 bps	0.5	+15 bps
RoA (%)	1.7	+11 bps	+1 bps	1.8	-10 bps

Source: Company, Axis Securities Research \*YoY & QoQ numbers are not comparable due to the merger

(CMP as of 25 Jul, 2024)

CMP (Rs)	631
Upside /Downside (%)	15%
High/Low (Rs)	813/554
Market cap (Cr)	46,916
Avg. daily vol. (6m) Shrs.	41,21,472
No. of shares (Cr)	74.3

**Shareholding (%)**

	Dec-23	Mar-24	Jun-24
Promoter	25.5	25.5	22.9
FII's	41.1	39.4	39.6
MFs / UTI	11.7	14.5	12.5
Others	21.7	20.6	25.0

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	7,904	10,319	12,832
PPOP	3,868	5,180	6,547
Net Profit	2,082	2,940	3,745
EPS (Rs)	28.0	39.6	50.4
ABV (Rs)	214.5	250.3	295.9
P/ABV (x)	2.9	2.5	2.1
RoA (%)	1.6	1.7	1.8
NNPA (%)	0.6	0.7	0.7

**Change in Estimates (%)**

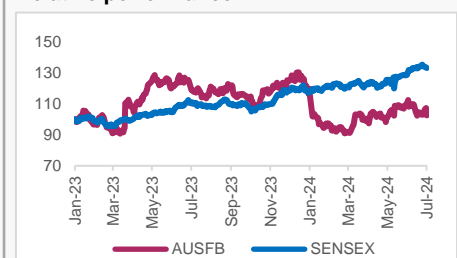
Y/E Mar	FY25E	FY26E
NII	+3.0	+1.9
PPOP	+8.3	+1.8
PAT	+1.4	+0.1

**ESG disclosure Score\*\***

Environmental Disclosure	22.7
Social Disclosure Score	28.8
Governance Disclosure Score	83.6
<b>Total ESG Disclosure Score</b>	<b>45.1</b>
<b>Sector Average</b>	<b>39.1</b>

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

**Relative performance**


Source: AceEquity, Axis Securities Research

**Dnyanada Vaidya**

Research Analyst

Email: dnyanada.vaidya@axissecurities.in

**Pranav Nawale**

Research Associate

Email: pranav.nawale@axissecurities.in

## Key Highlights

- Deposit-led Credit Growth:** AUSFB continues to witness strong traction segments - Wheels, MBL, Microfinance, Affordable Housing and Commercial Banking and expects to clock disbursements of ~Rs 60,000 Cr during FY25E (~19-20% done in Q1FY25). Amongst the businesses forming part of the book post the merger, AUSFB will continue to grow the gold loan book in line with erstwhile Fincare SFB's strategy. The bank's focus remains on pursuing growth in the higher-yielding businesses. While growth opportunities are aplenty, the bank will look to calibrate growth around deposit growth. Deposit growth is not a constraint, however AUSFB would aim at deposit mobilisation while simultaneously keeping a close watch on the CoF. Additionally, the bank remains well placed in terms of C-D Ratio which stood at ~84% (ex-refinance assets), broadly within the regulators' prescribed range. The management indicated that AUSFB will look to clock a deposit growth of 25% in FY25 with a focus on granular retail deposits and retiring high-cost deposits.
- Strengthening CA proposition:** As a part of the bank's efforts to strengthen the CA proposition, AUSFB will (i) leverage the AD-I product to ensure better penetrations, (ii) Offer segmented propositions to customers, (iii) flex the capacity of the business banking/commercial banking team to ensure CA deposit mobilisation and (iv) improving cross-selling and product penetration using Credit cards, QR codes and other asset products.

## Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum which could potentially derail earnings momentum for the bank.

## Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	7,904	10,319	12,832	7,675	10,132	-	3.0	1.9	-
PBP	3,868	5,180	6,547	3,573	5,088	-	8.3	1.8	-
PAT	2,082	2,940	3,745	2,054	2,938	-	1.4	0.1	-

Source: Company, Axis Securities Research

## Results Review

Result Update	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ
Net Interest Income	1,921	1,246	54.1	1,337	43.6
Non-Interest Income	546	315	73.2	556	-1.8
Operating expenses	1,478	1,015	45.6	1,228	20.3
Staff Cost	790	507	55.8	556	42.1
Pre provision profits	988	546	81.0	664	48.8
Provisions and contingencies	319	33	868.0	133	140.9
PBT	669	513	30.4	455	47.1
Provision for Tax	166	128	30.2	84	97.8
PAT	503	385	30.4	371	35.6

### Business Update

<b>Advances</b>	<b>90,702</b>	<b>63,635</b>	<b>42.5</b>	<b>73,999</b>	<b>22.6</b>
<b>Deposits</b>	<b>97,290</b>	<b>69,315</b>	<b>40.4</b>	<b>87,182</b>	<b>11.6</b>
CASA Deposits	32,035	24,286	31.9	29,126	10.0
CASA Ratio	32.9	35.0		33.4	

NIM (%)	6.0	5.7	30 bps	5.1	90 bps
Cost-Income ratio (%)	59.9	65.0	-509 bps	64.9	-497 bps

### Asset Quality

Gross NPA (%)	1.8	1.8	2 bps	1.7	11 bps
Net NPA (%)	0.6	0.6	8 bps	0.6	8 bps
PCR (%)	65.1	69.0	-391 bps	68	-247 bps
Slippages (Rs. Cr.)	543.0	317.0	71.3	296.0	83.4
Slippage Ratio (%)	2.4	2.0		1.6	

### Capital Adequacy

CRAR	20.1	21.5	-140 bps	20.1	0 bps
Tier I	18.9	19.9	-100 bps	18.8	10 bps
Tier II	1.2	1.0	20 bps	1.3	-10 bps

Source: Company, Axis Securities Research; YoY and QoQ numbers would not be comparable due to the merger

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>Net Interest Income</b>	<b>5,157</b>	<b>7,904</b>	<b>10,319</b>	<b>12,832</b>
Other Income	1,746	2,453	3,115	3,785
<b>Total Income</b>	<b>6,903</b>	<b>10,357</b>	<b>13,434</b>	<b>16,616</b>
Total Operating Exp	4,465	6,489	8,254	10,070
<b>PPOP</b>	<b>2,438</b>	<b>3,868</b>	<b>5,180</b>	<b>6,547</b>
Provisions & Contingencies	439	1,085	1,249	1,540
<b>PBT</b>	<b>1,999</b>	<b>2,783</b>	<b>3,931</b>	<b>5,006</b>
Provision for Tax	465	701	991	1,262
<b>PAT</b>	<b>1,535</b>	<b>2,082</b>	<b>2,940</b>	<b>3,745</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>SOURCES OF FUNDS</b>				
Share Capital	669	743	743	743
Reserves	11,890	15,874	18,702	22,298
<b>Shareholder's Funds</b>	<b>12,560</b>	<b>16,618</b>	<b>19,445</b>	<b>23,042</b>
<b>Total Deposits</b>	<b>87,182</b>	<b>1,09,165</b>	<b>1,35,236</b>	<b>1,67,654</b>
Borrowings	<b>5,479</b>	<b>21,262</b>	<b>25,073</b>	<b>29,430</b>
Other Liabilities & Provisions	4,205	5,850	7,151	8,757
<b>Total Liabilities</b>	<b>1,09,426</b>	<b>1,52,895</b>	<b>1,86,905</b>	<b>2,28,883</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	6,376	10,932	12,866	15,950
Investments	27,133	33,320	39,925	47,819
Advances	73,163	1,04,414	1,28,944	1,58,782
Fixed Assets & Other Assets	2,753	4,229	5,170	6,331
<b>Total Assets</b>	<b>1,09,426</b>	<b>1,52,895</b>	<b>1,86,905</b>	<b>2,28,883</b>

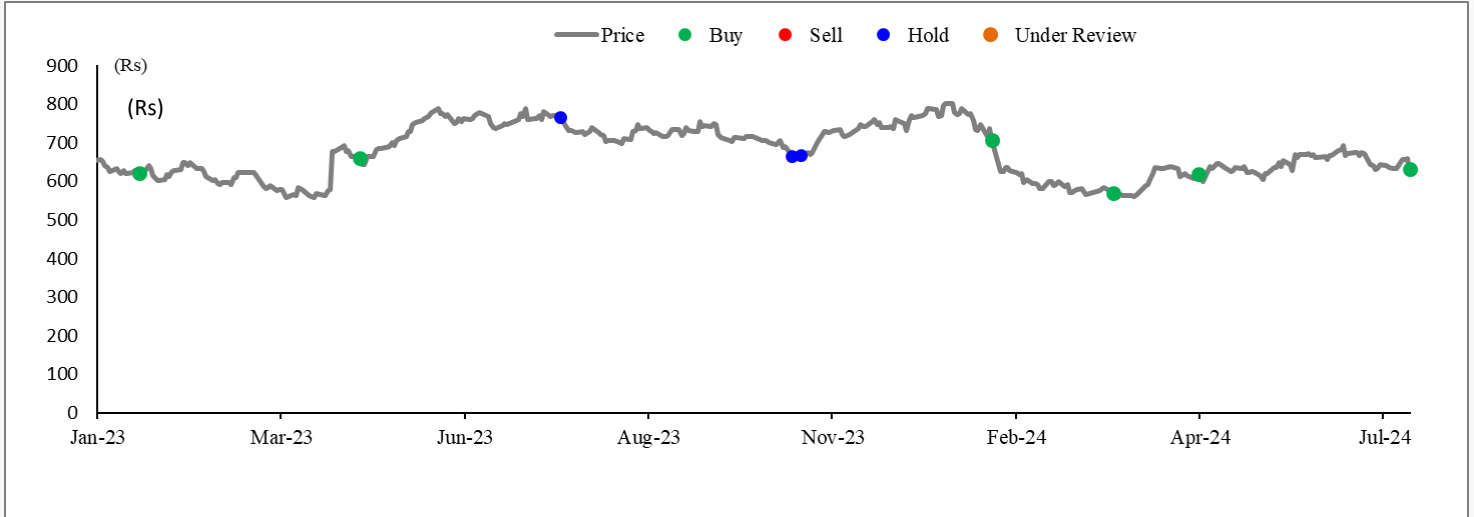
Source: Company, Axis Securities Research

**Ratio Analysis**
**(%)**

Y/E March	FY24	FY25E	FY26E	FY27E
<b>VALUATION RATIOS</b>				
EPS	22.9	28.0	39.6	50.4
Earnings Growth (%)	7.1	22.1	41.2	27.4
BVPS	187.7	223.6	261.7	310.0
Adj. BVPS	181.1	214.5	250.3	295.9
ROAA (%)	1.5	1.6	1.7	1.8
ROAE (%)	13.0	14.3	16.3	17.6
P/E (x)	27.5	22.5	16.0	12.5
P/ABV (x)	3.5	2.9	2.5	2.1
<b>PROFITABILITY</b>				
NIM (%)	5.5	6.4	6.4	6.5
Cost-Income Ratio	64.7	62.7	61.4	60.6
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	25.2	42.7	23.5	23.1
Deposit Growth (%)	25.7	25.2	23.9	24.0
C/D Ratio (%)	83.9	95.6	95.3	94.7
Equity to Assets (%)	11.5	10.9	10.4	10.1
Equity to Loans (%)	17.2	15.9	15.1	14.5
CAR	20.1	17.1	16.4	15.6
CAR Tier I	18.8	15.9	15.4	14.7
<b>ASSET QUALITY</b>				
Gross NPLs (%)	1.7	1.8	1.9	1.9
Net NPLs (%)	0.6	0.6	0.7	0.7
Coverage Ratio (%)	64.3	65.0	65.0	65.0
Credit Costs	0.7	1.2	1.1	1.1
<b>ROAA TREE</b>				
Net Interest Income	5.2	6.0	6.1	6.2
Non-Interest Income	1.7	1.9	1.8	1.8
Operating Cost	4.5	4.9	4.9	4.8
Provisions	0.4	0.8	0.7	0.7
Tax	0.5	0.5	0.6	0.6
ROAA	1.5	1.6	1.7	1.8
Leverage (x)	8.5	9.0	9.4	9.8
ROAE	13.0	14.3	16.3	17.6

Source: Company, Axis Securities Research

## AU Small Finance Bank Price Chart and Recommendation History



Date	Reco	TP	Research
20-Jan-23	BUY	755	Result Update
26-Apr-23	BUY	765	Result Update
24-Jul-23	HOLD	700	Result Update
31-Oct-23	HOLD	685	Result Update
06-Nov-23	HOLD	685	Company Update
29-Jan-24	BUY	780	Result Update
19-Mar-24	BUY	680	Result Update
25-Apr-24	BUY	715	Result Update
26-Jul-24	BUY	725	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. Jatin Sanghani, Tel No. – 022-6855574, Email id – [compliance.officer@axisdirect.in](mailto:compliance.officer@axisdirect.in).; Registered Office Address – Axis House, 8th Floor, Wadia International Centre, P.B. Marg, Worli, Mumbai-400025.

Corporate Office Address – Axis Securities Limited, Unit No.002 A, Ground Floor, Agastya Corporate Park- Piramal Realty, Near Phoenix Market City Mall, Kurla (W), Mumbai – 400070.

Administrative office address: Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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**List of Research Analyst (Fundamental):**

Sr. No	Name	Designation	Sector	E-mail
1	Neeraj Chadawar	Head of Research	All Sectors	neeraj.chadawar@axissecurities.in
2	Preeyam Tolia	Research Analyst	FMCG and Retail, Real Estate	preeyam.tolia@axissecurities.in
3	Omkar Tanksale	Research Analyst	IT, Telecom, Internet	omkar.tanksale@axissecurities.in
4	Uttamkumar Srimal	Research Analyst	Cement, Infra, Railway	uttamkumar.srimal@axissecurities.in
5	Ankush Mahajan	Research Analyst	Pharmaceutical, Hospital, Hotel	ankush.mahajan@axissecurities.in
6	Dnyanada Vaidya	Research Analyst	BFSI	dnyanada.vaidya@axissecurities.in
7	Aditya Welekar	Research Analyst	Metal and Mining, Power Utilities	aditya.welekar@axissecurities.in
8	Sani Vishe	Research Analyst	Chemicals, Capital Goods, Mid-cap	sani.vishe@axissecurities.in
9	Eesha Shah	Research Analyst	Real Estate, Special Situation	eesha.shah@axissecurities.in
10	Shridhar Kallani	Research Associate	Auto and Auto ancillaries	shridhar.kallani@axissecurities.in
11	Shikha Doshi	Research Associate	Cement, Infra, Railway	shikha.doshi@axissecurities.in
12	Suhanee Shome	Research Associate	FMCG and Retail	suhanee.shome@axissecurities.in
13	Shivani More	Research Associate	Chemicals Capital Goods, Mid-cap	shivani.more@axissecurities.in
14	Pranav Nawale	Research Associate	BFSI	pranav.nawale@axissecurities.in
15	Darsh Solanki	Research Associate	Metal and Mining, Power Utilities	darsh.Solanki@axissecurities.in
16	Arundhati Bagchi	Research Associate	Database Analyst, Economy	Arundhati.Bagchi@axissecurities.in