

AU Small Finance Bank Q2FY21

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1498	1184	26.52%	1410	6.24%	2908	2353	23.59%
PBT	409	217	88.48%	264	54.92%	673	476	41.39%
PAT	322	172	87.21%	201	60.20%	523	362	44.48%

Detailed Results:

1. The Q2 revenues for the company rose 26.5% YoY while profits rose 87% YoY.
2. The provisioning for the quarter was back to normal levels at Rs 57 Cr vs Rs 61 Cr in Q1FY20.
3. The AUM for the company grew 10% YoY, while disbursements in Q2 was at 71% of Q2FY20.
4. Deposits have gone up 22% YoY.
5. CASA Ratio was at 21% in Q2.
6. The yield on AUM stayed stable at 14.4% in H1 vs 14.7% a year ago. The cost of funds fell to 7.1% in H1 vs 7.9% a year ago.
7. ROE for H1 fell by 140 bps YoY to 16.1%. On including the profit from the sale of a stake in Aavas, the ROE goes up 80 bps YoY to 22.5% in H1.
8. The cost to income ratio for Q2 was at 54.1% vs 53.9% a year ago. The same in H1 was at 47.7% vs 56.6% a year ago.
9. Opex was at 3.4% in Q2 vs 3.7% a year ago.
10. GNPA's declined to 1.5% vs 2% a year ago and NNPA followed a similar pattern and declined to 0.5% in Q2 vs 1.1% last year.
11. PCR rose to 71.1% in Q2.
12. CRAR for Q2 was maintained at 21.5% with tier 1 capital at 18.3%.

13. NII for the SFB rose 24% YoY in Q2 and 27% YoY in H1 while other income fell 6% YoY in Q2 and rose 19% YoY in H1.
14. The company maintained a comfortable LCR of 140% in the quarter.
15. Retail deposits (CASA + Retail TD) now at 54% of deposits vs 45% in Q1FY21 and 41% in Q2FY20.
16. Rajasthan remains the biggest market for the company with 42% of AUM disbursed and 27% deposit book.
17. Overall collection efficiency post moratorium was at 78% vs the normal 80%.
18. Overall collection efficiency was at 96% in Q2 against monthly billing.
19. The Bank carries Rs 278 Cr of COVID-19 related provisions.

Investor Conference Call Highlights:

1. AU recently piloted an end-to-end digital lending platform for personal loans, where it integrated 48 different APIs in 1 system, including its own credit rule engine for credit underwriting and all the decision making of these engines.
2. It has also gone live with Maruti Suzuki for an end-to-end lending journey for buying personal cars. Using a completely digital platform with other OEMs is also in the works.
3. The bank revamped its internet banking system and mobile banking platform.
4. For the credit card journey, AU has partnered with Fiserv which is a global leader in credit card platforms.
5. The retail-led focus has helped the bank to retire 2,000-plus crores of bank deposits in Q2. This has led to an 80 bps YoY reduction in the cost of deposits.
6. The bank will be adding new branches in Bhuvaneshwar, Hyderabad, and Kolkata.
7. As part of its retail penetration strategy, the company is not only providing offers on national brands like Amazon, Myntra, Swiggy, but also in local city-based merchants and shops like Laxmi Misthan Bhandar which is a historical sweet shop in Jaipur.
8. Customers who had availed complete moratorium has reduced from 11% in June to 5.5% of gross advances as on 31st of August 2020.
9. 5% of this 5.5% of customers have paid 1 EMI or more in September and October and are active again.
10. The bank is not looking to create extra provisions and will review and decide in the coming quarters whether any new provisions need to be created.
11. The larger focus in terms of activation of customers is to get the customers to primarily transact using the AU Bank account. This is done by providing access and operations across all digital channels and mediums and releasing strong offers for use of debit cards or payment mechanisms in different online platforms.

12. The company is reducing interest rates in lower buckets but is keeping the flagship rate of 7% in the bucket of 10 lakh and above.
13. The company is looking at a strategy where at least 1% of customers have at least 5, 6 products in use at a time. The bank is striving is to increase wallet share for each customer and to ensure the longer customer stays.
14. The bank is looking to maintain the interest benefit of 1.25-1.5% in TD as compared to the top 4 private banks in India to attract new customers from PSU and large private sector banks.
15. The retention rate in terms of retail TD is at 70% which is around the industry average.
16. The long-term general strategy for AU is to build the retail and granular deposit franchise, which is primarily led by the transacting customers and the active customers on the bank side.
17. The management believes that deposit generation and deposit retention will revolve around how well the bank is equipped in terms of their digital journeys. Thus all efforts are being concentrated on building a digitally-led retail granular franchise.
18. The bank has been able to generate growth in CASA mainly due to focusing on targeted products for specific customer bases like nonresident Indians, housewives, retired pensioners, and senior citizens.
19. Disbursement in Sep-20 was at 99% of Sep-19.
20. The bank has no restructured cases to date and it has not received any inquiries regarding it.

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 good growth in the deposit franchise in Q2. 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 in providing different digital products and offers to its existing customers. It remains to be seen how the whole COVID-19 situation pans out and whether there are any surprises in store for the banking industry in the near future. 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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