AU Small Finance Bank Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	1569	1367	14.78%	1925	-18.49%	6402	4992	28.25%
PBT	196	165	19%	589	-66.72%	1459	914	60%
PAT	169	122	39%	479	-64.72%	1171	675	73.48%

Detailed Results:

1. AU had a decent quarter with revenue growth of 15% YoY and PAT growth of 39% YoY in Q4. Removing the effect from Aavas stake sale, FY21 revenues grew 17% YoY and PAT grew 1% YoY.
2. The AUM for the company grew 22% YoY, while disbursements in FY21 were flat YoY.
3. Deposits have gone up 38% YoY.
4. CASA Ratio was at 23% in Q4FY21 vs 14% last year.
5. The yield on AUM stayed stable at 14.1% in FY21 vs 14.7% a year ago. The cost of funds fell to 6.8% in FY21 vs 7.7% a year ago. Thus, Yield spread grew to 7.3% in FY21 vs 7% a year ago.
6. ROE for FY21 fell by 380 bps YoY to 12%. On including the profit from the sale of a stake in Aavas, the ROE goes up to 23.4% in FY21.
7. The cost to income ratio for Q4 was at 59.9% vs 57.9% a year ago. The same in FY21 was at 52.4% vs 56.1% a year ago.
8. Opex was at 4.6% in Q4 vs 4.2% a year ago. The same was 3.5% in FY21 vs 3.8% a year ago.
9. GNPAs rose to 4.3% vs 3.7% last quarter & 1.7% last year and NNPA followed a similar pattern and rose to 2.2% in Q4 vs 0.8% last year.
10. PCR was at 50% in Q4 vs 43% a year ago.
11. CRAR for Q4 was maintained at 23.4% with tier 1 capital at 21.5%.

12. NII for the SFB rose 24% YoY in FY21 while other income rose 29% YoY in FY21. NIM is at 5.3% in Q4.
13. The company maintained a comfortable LCR of 119% in the quarter.
14. Retail deposits (CASA + Retail TD) now at 55% of deposits in Q4.
15. Overall collection efficiency in Q4 was at >100%.

Investor Conference Call Highlights:

1. AUM growth was aided by disbursals of vehicles, secured business, and housing loans rebounded back. Disbursements grew 48% YoY.
2. The sharp increase in GNPAs is due to the relaxation of the Supreme Court directive issued in H1FY21.
3. The local lockdowns in key states of Rajasthan, Gujarat & Maharashtra are expected to result in lower collections in Q1.
4. Collection efficiency in April has already gone down 5-7% with the taxi segment dipping the most.
5. Opex growth was higher as the bank invested in technology, launching credit cards, and strengthening collection teams along with expanding branch network to 729 vs 528 in FY20.
6. The management stated that the bank will continue to invest in expanding branch network expansion and technology and thus cost to income should remain high in the next few years.
7. The bank restructured loans of Rs 641 Cr during Q4 which brings the total to 1.8% of total advances.
8. The management has indicated that the cab aggregators segment will remain under pressure due to local lockdowns.
9. The bank has also made its credit screening stricter and thus rejection rate has risen by 10%.
10. The customer base for AU is now at over 20 lakhs.
11. The average collection efficiency of Q4 was above 120%.
12. Although PCR has fallen to 50%, the management is confident that the LGD will remain low as most of the loans are secured by the vehicle or property.
13. All costs in Q4 were at normal levels except ESOPs which were elevated and should come back to normal soon according to the management.
14. the management assures that despite the high disbursements in FY21 despite the pandemic situation, the bank has not relaxed its underwriting and it remains confident that after the initial shock at the start of the pandemic, customer repayment should get more and more steady as we get more used to operating during the pandemic.
15. The average cost of SA was 5.7% for AU.

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 had a decent quarter with 39% PAT growth & a good rise in disbursements in Q4. But it also saw the GNPAs rise swiftly to 4.3% with the withdrawal of the Supreme Court directive. The bank has also seen collections rising above 120% in Q4. The bank remains committed to maintaining its current spending levels in tech and expansion. Despite the rise in GNPAs and the corresponding decline in PCR, the management remain confident that the bank has enough provisions to tide over the current situation. It remains to be seen whether Au will be able to maintain its robust growth momentum with the advent of the 2nd wave of COVID-19 in India 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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