

Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
565	622	10%

MARKET DATA

No. of Shares	74.4 Cr
Market Cap	42,073 Cr
52-week High / Low	755/493
BSE Code	540611
NSE Code	AUBANK

Why AU Small Finance Bank Ltd?

- ✓ **Healthy 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**

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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'24, the bank operates through 2,400 touchpoints across India.

Investment Rationale

- Growth to be driven by secured assets:** With challenges persisting in the unsecured segment, the bank has shifted its focus toward growing its secured portfolio. Management has guided 23-25% growth in the secured book, while the unsecured book is expected to decline by ~10% in FY25. Overall GLP growth is projected at ~20% for the year. The bank sees the integration of eFincare and AUSFB's secured retail franchise as a key enabler for expansion into newer geographies, particularly UP and South India, with management targeting 30%+ growth in this portfolio for FY25. We estimate an advanced growth of ~23% CAGR over FY25-27E, primarily led by the secured portfolio.
- Strengthening deposit franchise:** AUSFB's branch banking strategy is centered on driving growth in the Top-20 cities, contributing ~57% of its total deposits in India. Around 75-80% of the bank's deposit book comes from 400 urban branches, with 60% of these located in the Top-20 cities. Deposit growth will be driven by efforts to optimise CASA growth and increase the proportion of stable deposits while maintaining a stable LDR. The bank remains focused on securing the right deposit mix at optimal pricing.
- Near-term asset quality challenges persist; Stability likely from Q2FY26:** AUSFB continues to focus primarily on collections rather than disbursements in the MFI segment, which is essential from a PSL perspective. Apart from the stress in the unsecured book (~11% mix), the asset quality performance in the bank's secured book remains resilient. The management expects a pull-back in performance in the secured book in Q4FY25. However, it will take one more quarter for more clarity on the asset quality movement of the unsecured book. AUSFB has guided for credit costs of 1.5-1.6% for FY25.
- Outlook & Guidance:** AUSFB aims to deliver an RoA of 1.6% by the end of FY25 despite asset quality challenges leading to higher credit costs. While near-term pressures on asset quality persist, keeping credit costs elevated, the bank is expected to see some relief in Opex ratios through effective cost control and efforts to strengthen its fee income profile. Heading into FY26, NIMs are expected to benefit from the anticipated rate-cut cycle. Additionally, a gradual improvement in Opex ratios, with the C-I Ratio expected to trend below 55% over the next two years, should support RoA. As asset quality headwinds in the unsecured segment ease, credit costs are expected to moderate, aiding RoA delivery of 1.6-1.8% in FY26-27E.
- Recommendation:** We recommend a **BUY** rating on the stock with a target price of Rs 622/share, implying an upside of 10% from the CMP

Financial Summary

Y/E	NII	PPOP	PAT	EPS	ABV	P/ABV	RoA	NNPA
March	(Rs Cr)	(Rs Cr)	(Rs Cr)	(Rs)	(Rs)	(x)	(%)	(%)
FY24	5,157	2,438	1,535	22.9	181.1	3.1	1.5	0.6
FY25E	8,001	4,477	2,044	27.5	210.1	2.7	1.6	0.8
FY26E	10,365	5,720	2,784	37.4	245.4	2.3	1.6	0.7
FY27E	12,849	7,394	3,690	49.6	290.9	1.9	1.8	0.6

Source: Axis Securities Research. CMP as on 28th February, 2025

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