AU Small Finance Bank (formerly known as AU Financiers (India) Ltd)

March 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities- Term Loan	491.59 (reduced from Rs.542.18 crore)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)**
Long term Bank Facilities- Cash Credit	-	**-**	**Withdrawn**
Total	**491.59 (Rs. Four Hundred Ninety One crore and Fifty Nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings factors in AU Small Finance Bank's (AUSFB)continued growth momentum post conversion into Small Finance Bank in April, 2017andability to mobilise considerable amount of deposits in a short span of time. The rating also takes into account the improvement in financial flexibility of the company post its listing of its equity shares on stock exchanges in July, 2017 and grant of schedule commercial bank status in November, 2017. The rating continues to factor in experienced management team, comfortable capitalization levels, comfortable liquidity profile, good resource profile and moderate asset quality.

The ratings are constrained by AUSFB's low seasoning of the non vehicle finance portfolio and regional concentration. Growing scale of operations while maintaining asset quality & profitability and diversification of the liability profile are key rating sensitivities.

CARE has withdrawn the rating assigned to the Long term Bank Facilities- Cash Credit of Rs. 557.82 crore of AUSFB with immediate effect, as the bank has fully repaid the amounts under the said issue and there is no amount outstanding under the issue as on date.

Detailed description of the key rating drivers

Key Rating Strengths

Transition to small finance bank (SFB): The company commenced operations as SFB from April 2017. During this period of operations, the company has been able to ramp up its operations to 306 branches, 105 Asset centers, 23 Offices and 291 ATMs. It has also been able to mobilize deposits to the extent of Rs.3,716 crore forming 34% of its total borrowings as on December 31, 2017. The total asset size(net of intangibles and deferred tax assets) increased from Rs. 9,706 crore as on March 31, 2017 to Rs. 14,039 crore as on December 31, 2017. AUSFB's equity shares got listed on stock exchanges in July, 2017 and the bank also got the status of

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

a scheduled commercial bank from RBI on November 1, 2017 which has improved the financial flexibility of the company.

Experienced management: AU SFB is professionally managed under the overall guidance of the bank's Board of Directors (BoD) which includes individuals with wide experience in the financial services. The bank is led Mr. Sanjay Agarwal, promoter, a Chartered Accountant by qualification with over 2 decades of experience in the fields of finance and credit. He is assisted by senior management team members who are experienced in their respective fields.

Comfortable capitalization: As on December 31, 2017, the company's Tier I CAR and overall CAR Ratio were 20.0% and 21.0% respectively (21.5% and 23.0% respectively as on March 31, 2017).Capital adequacy improved in FY17 due to stake sale in subsidiaries / associates. AUSFB's management intends to maintain gearing levels at around 7 times in the medium term.

Good resource profile: Post conversion into SFB, AUSFB has been able to raise low cost deposits as compared to earlier reliance on only borrowings by way of bank facilities and market borrowings. This will reduce its cost of borrowing and further diversify its resource profile. The borrowing profile as on December 31, 2017 was NCD and deposits – 34% each, Refinance from FIs – 23%, Bank borrowings - 5%, Subordinated Debt – 3%, CBLO & Others -1%.The bank's Current Accounts Savings Account (CASA) deposits as proportion of total deposits was 37% as on December 31, 2017 (September 30, 2017: 33%).

Comfortable liquidity profile: As on December 31, 2017, the liquidity profile of the company was comfortable with positive cumulative mismatches upto 1 year time buckets. As on December 31, 2017 the company had committed bank lines of credit of Rs.240 crore to bridge any liquidity gaps. AUSFB had a liquidity coverage ratio of 118% as on December 31, 2017. Further, grant of schedule commercial bank status provides AUSFB an option to raise short term funds from RBI via the liquidity adjustment facility.

Moderate asset quality: As on March 31, 2017, Gross NPA ratio and Net NPA ratio stood at 1.89% [1.28% as on March 31, 2016] and 1.23% [0.81% as on March 31, 2016] respectively. Net NPA/ Tangible Net Worth was 4.28% as on March 31, 2017 [4.75% as on March 31, 2016].

As on December 31, 2017, Gross NPA ratio and Net NPA was 2.80% and 1.90% respectively while Net NPA/ Tangible Net Worth stood at 9.07%.The asset quality ratios have seen a moderation in 9MFY18 (refers to period April 1- December 31)on account of transition from 120+days past due (DPD) to 90+DPD from Q1FY18 onwards. However, the 90+DPD ratios of its vehicle portfolio remain relatively better than of its peers.

Key Rating Weakness

Regional concentration: As on March 31, 2017, for the retail assets (i.e. Vehicle loan, Secured Business Loan, Secured Business Loan-High Value Ticket, Gold loan, Agri loan, Consumer Durable loan), top three states of Rajasthan, Gujarat and Maharashtra collectively constituted 76% of AUM. (FY16-80%). Top 3 states accounted for 74% of the AUM as on December 31, 2017

Lower seasoning portfolio: Post conversion of SFB, while the bank has started new products like Business Banking, Gold Loan, Agri Loan and Consumer durables, The performance of its recently originated portfolio needs to be seen.

Industry Prospects

The banking sector is reeling under asset quality pressure thereby impacting profitability. The asset quality review conducted by RBI led to build up of non-performing assets. Credit growth has been subdued due to slowdown in the economy and capital constraints especially in the case of PSU banks. Going forward, asset quality stress is expected to continue and profitability will be subdued. Only with the turnaround in the economy and resolution of NPAs, the banking sector would embark on a growth trajectory. Though GOI has announced the plan for recapitalization of public sector banks which is a positive for the industry, the implementation of the same is yet to be seen.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning outlook to Credit Ratings
CARE's policy on default recognition
Financial Ratios-Financial Sector
CARE's Criteria for NBFC
CARE's Rating Methodology for Banks

About AU Small Finance Bank

AU Small Finance Bank (erstwhile AU Financiers (India) Ltd) (AUSFB)was incorporated in 1996 as an NBFC, by Mr. Sanjay Agarwal.The company received license of SFB from Reserve Bank of India on December 20, 2016 and commenced the banking operation from April 19, 2017. The company got listed on BSE and NSE on July 10, 2017.The company also received Schedule Commercial bank status in November 2017. The company started CV lending business in 1996 and later became franchisee originator for HDFC Bank under 'Channel Business' in 2003 where the risk was being fully borne by the company. The Company moved to lending on its own books since 2007. Over the years, the company has also forayed into MSME / SME, Housing, NBFC financing & Construction financing to small builders and other types of vehicle financing. As part of the transition process to SFB, the company sold 90.10 % stake in AU Housing Finance (renamed as Avas Financiers

Ltd).Post becoming SFB it has expanded its portfolio to Gold loans, Agri Loan and Consumer Durables. As on December 31, 2017, AUSFB an AUM of Rs.13,415 crore.

Brief Financials (Rs. Crore)	FY16 (A)	FY17 (A)
Total Income	1,105	1,387
PAT	212	822*
Total Assets^	6,270	9,706
Gross NPA (%)	1.28	1.89
ROTA (%)	2.86	7.27*

A-Audited; *including profit on sale of investment in subsidiaries/ associates; ^ net of intangibles and deferred tax assets

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long term Bank Facilities- Term loan	-	-	10-Feb-2022	491.59	**CARE AA-; Stable**

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	-	-	1)CARE A+; Stable (03-Apr-17)	-	1)CARE A+ (20-Jan-16)	1)CARE A+ (17-Dec-14)
2.	Debt-Subordinate Debt	LT	-	-	1)Withdrawn (03-Apr-17)	-	1)CARE A+ (20-Jan-16)	1)CARE A (17-Dec-14)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (20-Jan-16)	1)CARE A+ (17-Dec-14)
4.	Fund-based - LT-Term Loan	LT	491.59	CARE AA-; Stable	1)CARE A+; Stable (03-Apr-17)	-	-	-

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CIN - L67190MH1993PLC071691