AU Small Finance Bank
(formerly known as AU Financiers (India) Ltd)
April 04, 2019

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities – Term Loans	309.46 (Rs. Three Hundred Nine Crore and Forty Six Lakh only) (Reduced from Rs.491.59 crore)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Certificate of Deposit (CD)	500.00 (Rs. Five Hundred Crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to debt instruments of AU Small Finance Bank's (AUSFB) continues to factor in growth momentum post conversion into Small Finance Bank (SFB) in April, 2017 and ability to mobilize 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 status of schedule commercial bank (SCB) in November, 2017. The rating continues to factor in experienced management team, presence of strong institutional investors, comfortable capitalization levels, moderate liquidity profile, good resource profile, moderate profitability parameters and average asset quality.
The ratings are constrained by AUSFB's new asset verticals (business banking, gold loan, consumer durable, 2 – wheeler, home loan and agri SME) and regional concentration in the states of Rajasthan, Madhya Pradesh & Maharashtra.
Growing scale of operations while maintaining asset quality & profitability, diversification of the liability profile and maintaining capital adequacy are key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Strengths
Transition to small finance bank (SFB) and status of a scheduled commercial bank
The company commenced operations as SFB from April 2017 and has completed more than two years of operation. During this period of operations, the company has been able to ramp up its operations. As on December 31, 2018, AUSFB has geographical distribution across 11 states with 396 branches (306 Bank Branches & 90 Business Correspondent Banking Outlets) [March 31, 2018: 377 branches (306 Bank Branches & 71 Business Correspondent Banking Outlets)], 84 asset centers, 49 business correspondent agents, 12,572 employees, 15 offices, and 292 ATMs. It has also been able to mobilize deposits to the extent of Rs.12,573 crore (excluding Certificate of Deposits (CD) of Rs.2,113 crore) as on December 31, 2018. The company continued its growth momentum after the transition period with asset size increasing from Rs.18,882 crore as on March 31, 2018 to Rs.27,802 crore as on December 31, 2018 (growth – 48%). The bank also got the status of a SCB from RBI from November 1, 2017 which has increased the financial flexibility of the bank.

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 BoD of the bank is headed by Mr. M Venugopalan (Independent Non–Executive Chairman) who has over 48 years of experience in the banking industry and was associated with Bank of India as Chairman and Managing Director and was also CEO & MD of Federal Bank and has served as Executive Director of Union Bank of India. The operations of the bank are led by Mr. Sanjay Agarwal (Promoter & Managing Director), 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.

Presence of strong institutional investors
As on December 31, 2018, the bank has presence of strong institutional investors like Redwood Investment (Warburg Pincus group) holding 6.94%, Temasek Holdings (4.77%), Nomura (4.61%) and many other marquee investors comprising of both domestic and international investors along with various mutual funds through their various mutual fund schemes. The foreign shareholding of the bank stood at 39% while the promoters held 31.13% shareholding.
Comfortable capitalization
AUSFB has been reporting comfortable capital adequacy ratio (CAR) over the last two years. During June 2018, Temasek Holdings Private Limited proposed to infused Rs.1,000 crore of capital via their indirect wholly-owned subsidiary Camas

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

Investments Pte. Ltd. with 30% equity capital and remaining 70% by way of convertible warrants issued at a price of Rs.692.77 per unit. As on December 31, 2018, Camas Investments Pte. Ltd. had infused Rs.475 crore (47.5%) in the form of Equity capital of Rs.300 crore (30% of issue size) and convertible warrants application money of Rs.175 crore i.e. 25% of convertible warrants (70% of issue size) and carries a right to convert the warrants into equivalent equity shares on or before December 2019 by paying the balance 75% of convertible warrants amounting to Rs.525 crore.

As a result, AUSFB reported Capital Adequacy Ratio[2] (CAR) of 19.00% with Tier I CAR: 15.50% as on December 31, 2018 (March 31, 2018: CAR: 19.30% with Tier I CAR: 18.40%) against minimum regulatory requirement of 15%.

Good resource profile

Post conversion into SFB in December, 2016, the AUSFB got access to raising funds via deposits and further getting status of a scheduled commercial bank, the financial flexibility of AUSFB improved significantly as the bank can borrowing and lending under Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) and also raise funds through Certificate of Deposit (CD). As on December 31, 2018, the bank's funding profile constituted deposits (62.4%), refinance from FIs (22.7%), Non-Convertible Debentures (NCD) (8.5%), borrowing through CBLO/LC/Others (2.1%) ad loans from Banks & NBFC (1.2%). The bank has significantly scaled up its Current Account Savings Account (CASA) deposits which stood at 24% of total deposits as on December 31, 2018 (March 31, 2018: 32%).

The bank's off-balance sheet portfolio was Rs.1,618 crore as on December 31, 2018 compared to Rs.3,188 crore as on December 31, 2017 (March 31, 2018: 2,710 crore).

Liquidity profile

The bank is relatively a new bank and is in the process of building a depositor base. The ALM profile had cumulative negative mismatches up to one year time bucket on account of deposit maturity. However, the mismatches in all buckets were within the limits set by the board. As on December 31, 2018, the bank has SLR investment of Rs.3,852 crore as against regulatory requirement of Rs.3,412 crore and Non SLR investment of more than Rs.1,746 crore. The liquidity coverage ratio was 108% as against regulatory requirement of 80% for SFBs (LCR for SFBs increased to 80% w.e.f. January 1, 2019).

The bank's Certificate of Deposits has an outstanding of Rs.2,113 crore (board approved limit of Rs.3,500 crore) which forms less than 10% of external liabilities as on December 31, 2018. Further, the bank having status of a SCB, has increased its resource raising ability by providing access to facilities like LAF, MSF and CD to meet any liquidity requirement.

Financial performance

Post conversion to SFB and access to deposits, the cost of funds has declined over the last two years for AUSFB. However, with diversification in lending book, the yields have seen marginal reduction. The Net Interest Margin (NIM) for FY18 stood at 6.58% as compared to 9.77% for FY17 (For 9MFY19: 5.46%). During FY18, the Net Interest Income increased by 20% from Rs.784 crore in FY17 to Rs.940 crore in FY18 (Rs.955 crore during 9MFY19). The Profit after Tax (PAT) during FY18 decreased by 4.3% during FY18 from Rs.305 crore (excluding exceptional item) in FY17 to Rs.292 crore in FY18 (During 9MFY19: Rs.264 crore). During FY17 the Company sold its investment in subsidiary companies viz. Avas Financers Limited and Index Money Ltd and other associate Companies. The profit on sale these investments was Rs.670 crore. The ROTA for FY18 stood at 2.04% as compared to 3.80% (excluding exceptional item) for FY17 and 1.51% for 9MFY19. The operating cost/ average adjusted assets were 5.26% for FY18 as compared to 4.40% in FY17 on account of higher operating cost due to expansion of banking franchise. The profitability parameters were expected to moderate on account of conversion to bank.

Moderate asset quality

From Q1FY18, AUSFB started recognizing NPA based on 90 days past due (DPD). Post conversion into SFB, the company is recognizing NPAs till the entire amount is recovered. As a result, NPA ratios have increased post conversion into SFB. As on December 31, 2018, GNPA and NNPA ratios were 2.09% (March 31, 2018: 2.00%) and 1.31% (March 31, 2018: 1.30%) respectively. The bank's Net NPA / Tangible Net worth ratio stood at 8.65% as on December 31, 2018 (March 31, 2018: 7.46%). AUSFB is expanding its scale of operations by introducing new asset verticals; the asset quality of these asset verticals is yet to be witnessed.

Key Rating Weakness

Regional concentration

As on December 31, 2018, AUSFB's distribution network is spread around 11 states having 396 branches of which 13% are in metros, 26% in urban areas, 33% in semi-urban and remaining 28% in rural areas.

Of the 396 branches, 204 branches (52%) are present in Rajasthan followed by Madhya Pradesh having 53 branches (13%) and Gujarat having 42 branches (11%). These top 3 states account for 76% of the total branch distribution. In terms of

[2] *CAR & Tier I CAR for interim period is excluding interim profit.*

AUM as well, top three states of Rajasthan, Madhya Pradesh and Maharashtra collectively constituted 70% of AUM. The state of Rajasthan alone comprised 42% of AUM whereas Maharashtra constituted 15% and Madhya Pradesh constituted 13%.
The company intends to leverage their branch network to drive greater and deeper penetration in the western and northern states of India in which they operate, focusing on low- and middle-income individuals and businesses that have limited or no access to formal banking and finance channels, spanning rural, semi-urban and urban markets.

Lower seasoning portfolio
Further to significant portfolio growth in MSME / SME segments, AUSFB, post conversion to SFB has started new asset verticals like business banking, gold loan, consumer durable, 2 – wheeler, home loan and agri SME. The performance of its recently originated portfolio needs to be seen. Further, seasoning of the portfolio built up in new geographies is still low.

Analytical approach: Standalone

Liquidity Profile:
As on December 31, 2018, the bank has SLR investment of Rs.3,852 crore as against regulatory requirement of Rs.3,412 crore and Non SLR investment of more than Rs.1,746 crore. The liquidity coverage ratio was 108% as against regulatory requirement of 80% for SFBs (LCR for SFBs increased to 80% w.e.f. January 1, 2019). The bank's Certificate of Deposits has an outstanding of Rs.2,113 crore (board approved limit of Rs.3,500 crore) which forms less than 10% of external liabilities as on December 31, 2018. Further, the bank having status of a SCB, has increased its resource raising ability by providing access to facilities like LAF, MSF and CD to meet any liquidity requirement.

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 started CV lending business in 2003 as a franchisee originator for HDFC Bank under 'Channel Business' and later moved to lending on its own books since 2007. Over the past few years, the company forayed into MSME / SME & structured financing and other types of vehicle financing.
The company received license of Small Finance Bank (SFB) from Reserve Bank of India (RBI) on December 20, 2016 and commenced the banking operation from April 19, 2017. The company got its shares listed on BSE and NSE on July 10, 2017. The company also received Schedule Commercial bank status in November, 2017. As part of the transition process to SFB, the company sold 90.10 % stake in AU Housing Finance (renamed as Avas Financiers Ltd) for Rs.828.35 crore. Post becoming SFB it has expanded its portfolio to Gold loans, Agri Loan and Consumer Durables.
As on December 31, 2018, AUSFB had a tangible Net-worth of Rs.3,035 crore with Assets Under Management (AUM) of Rs.21,765 crore. Retail Portfolio (including Vehicles, SBL – MSME, SBL – SME, etc.) accounted for 81% of AUM and Small & Mid Corporates for 17% while Money Market Lending accounted for just 2% of Total Gross AUM. In the Retail portfolio, Vehicles portfolio (including Cars, MUV, SCV, SUV, LCV, etc.) contributed for 53%, MSME – 39% and SME – 5% of the total Retail Portfolio. As on December 31, 2018, AUSFB has geographical distribution across 11 states with 396 branches (306 Bank Branches and 90 Business Correspondent Banking Outlets), 84 asset centers, 12,572 employees, 15 offices, and 485 ATMs (292 ATMs and 193 RISL/CMS ATMs at Atal Seva Kendras). As on December 31, 2018, the top three states of Rajasthan (42%), Madhya Pradesh (13%) and Maharashtra (15%) collectively constituted 70% of AUM.

Brief Financials

(Rs. crore)

	FY17 (A)	FY18 (A)
Total Income	2,090*	2,155
PAT	822*	292
Total Assets^	9,772	18,822
Gross NPA (%)	1.89	2.01
ROTA (%)	10.18*	2.04

*A: Audited; *: Including profit on sale of investment in subsidiaries/ associates;*
^: Net of intangibles and deferred tax assets (DTA)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Analyst Contact
Name: Aditya Acharekar
Tel: 022–67543558
Email: aditya.acharekar@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	309.46	**CARE AA-; Stable**
Certificate of Deposit	-	-	-	500.00	**CARE A1+**

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (19-Mar-18) 2)CARE A+; Stable (03-Apr-17)	-	1)CARE A+ (20-Jan-16)
2.	Debt-Subordinate Debt	LT	-	-	-	1)Withdrawn (03-Apr-17)	-	1)CARE A+ (20-Jan-16)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (20-Jan-16)
4.	Fund-based - LT-Term Loan	LT	491.59	CARE AA-; Stable	-	1)CARE AA-; Stable (19-Mar-18) 2)CARE A+; Stable (03-Apr-17)	-	-
5.	Certificate of Deposit	ST	500.00	CARE A1+	1)CARE A1+ (09-Nov-18)	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691