HOLD
TP: Rs 933 | ▲ 7%

AU SMALL FINANCE BANK

| Banking | 27 October 2026

Strong growth but NIMs contract; valuations limit re-rating

- **PAT growth supported by decrease in specific PCR to 60% from 64% in Q1, may not be well received by the market**
- **Loan growth guidance maintained at ~2.5x nominal GDP, with deposit growth targeted at ~25% in FY27**
- **Maintain HOLD with revised TP of Rs 934 (from Rs 1,064) and roll over the valuation to 2.9x Sep'28E ABV**

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Business growth robust: Loans grew 25% YoY/7% QoQ, led by commercial assets (+35% YoY), rural banking (+38% YoY) and retail (+16% YoY). Within consumer assets, mortgages lagged, auto loans grew 24% YoY and CC 6% YoY, while PL and business loans rose 81% YoY from a small base. CV grew 30% YoY and BBG 25% YoY. Rural growth remained healthy, with MFI up 23% YoY, tractor finance 28% YoY and gold loans 102% YoY, although gold-loan growth moderated to 4% QoQ amid a reversal in gold prices. The bank targets overall loan growth of ~2.5x nominal GDP, supported by broad-based growth across secured/unsecured lending and commercial banking. Deposits grew 29% YoY/8% QoQ, driven by CA and TD growth; however, FCNR mobilization was limited to USD230mn due to the absence of an offshore presence, an opportunity missed according to the street. Management targets deposit growth of ~25% YoY, against nominal GDP growth of 10%.

Growth chase could lead to pressure in CoF and weigh on NIMs : NIM declined 9bps QoQ to 5.8%, driven by higher investments as a proportion of total assets and quarterly seasonality, (3–4bps day-count impact). Loan spreads remained broadly stable, with a 9bps decline in YoA largely offset by a 7bps reduction in CoF. ~30% of advances are floating-rate and 70% fixed-rate; the 25bps repo-rate hike is expected to over 3–4 months, with the full impact visible in the following quarter.

Credit cost guided 90% bps on assets: Slippages inched up QoQ to Rs 9bn/3.3% of loans, driven by seasonality and higher stress in tractor loans. Credit cost declined 45bps YoY to 0.8%, while specific PCR fell to ~60% from 64% in Q1 to support profitability. Management guides for FY27 credit cost of ~90bps on assets. However, deficient rainfall, El Niño and elevated oil prices pose asset-quality risks, warranting caution in Q3. GNPA improved 11bps QoQ to 1.99%.

Maintain HOLD: NIMs contracted 10bps QoQ due to rising CoF. Lower provisions from a reduction in specific PCR to ~60% to support profitability may not be well received by the market. FCNR mobilization remained sub-par due to no offshore presence. Rate-hike cycle/rising rural stress pose risks to NIMs and AQ.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AUBANK IN/Rs 869
Market cap	US$ 6.8bn
Free float	77%
3M ADV	US$ 18.3mn
52wk high/low	Rs 1,144/Rs 832
Promoter/FPI/DII	23%/37%/31%

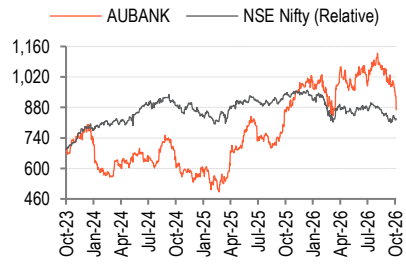
Source: NSE | Price as of 26 Oct 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
NII (Rs mn)	91,127	114,438	141,646
NII growth (%)	13.7	25.6	23.8
Adj. net profit (Rs mn)	26,413	35,353	45,191
EPS (Rs)	35.4	47.1	60.1
P/E (x)	24.6	18.4	14.4
P/BV (x)	3.3	2.8	2.3
ROA (%)	1.5	1.7	1.7
ROE (%)	14.2	16.3	17.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Quarterly snapshot: Income statement

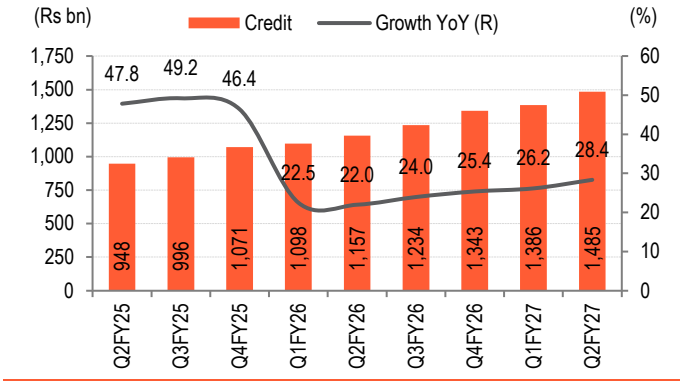
(Rs mn)	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27	YoY (%)	QoQ (%)
Income Statement							
Interest Income	37,862	40,164	42,436	45,105	47,466	25.4	5.2
Income on investments	6,444	6,500	7,078	7,506	8,088	25.5	7.8
Int. on bal. with RBI & inter-bank funds & Others	807	611	677	417	564	(30.0)	35.5
Interest income	**45,113**	**47,275**	**50,191**	**53,027**	**56,118**	**24.4**	**5.8**
Interest expense	23,669	23,862	24,368	26,072	27,917	18.0	7.1
Net interest income	**21,444**	**23,413**	**25,823**	**26,955**	**28,201**	**31.5**	**4.6**
Growth YoY (%)	11.7	15.7	23.3	31.8	31.5		
Fee Income	6,340	6,960	7,480	6,800	7,360	16.1	8.2
Trading gains/(losses)	790	270	(170)	90	340	(57.0)	277.8
Others	(4)	8	(0)	2	2	(143.3)	(16.2)
Non-interest income	**7,126**	**7,238**	**7,310**	**6,892**	**7,702**	**8.1**	**11.7**
Growth YoY (%)	30.6	17.0	(3.9)	(15.0)	8.1		
Total income	**28,570**	**30,651**	**33,133**	**33,847**	**35,903**	**25.7**	**6.1**
Growth YoY (%)	15.8	16.1	16.1	18.5	25.7		
Staff expenses	9,187	10,190	10,449	10,639	10,939	19.1	2.8
Other operating expenses	7,286	8,307	9,169	8,853	9,827	34.9	11.0
Operating expenses	16,473	18,498	19,618	19,492	20,766	26.1	6.5
Pre-Provisioning Profit (PPoP)	**12,097**	**12,153**	**13,515**	**14,355**	**15,137**	**25.1**	**5.4**
Growth YoY (%)	22.4	0.9	4.6	9.4	25.1		
Provisions	4,808	3,311	2,694	3,715	3,594	(25.3)	(3.3)
Growth YoY (%)	50.6	(34.0)	(57.6)	(30.3)	(25.3)		
Exceptional Item	-	-	-	-	-	-	-
PBT	**7,289**	**8,842**	**10,821**	**10,640**	**11,543**	**58.4**	**8.5**
Tax	1,680	2,165	2,502	2,680	2,966	76.5	10.7
PAT	**5,609**	**6,677**	**8,319**	**7,960**	**8,577**	**52.9**	**7.8**
Growth YoY (%)	11.6	26.3	65.2	37.0	52.9		
Per Share							
FV (Rs)	10	10	10	10	10	**0.0**	**0.0**
EPS (Rs)	7.5	8.9	11.1	10.6	11.4	**52.1**	**7.6**
Book Value (Rs)	245.5	255.8	266.9	278.8	290.3	**18.2**	**4.1**

Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

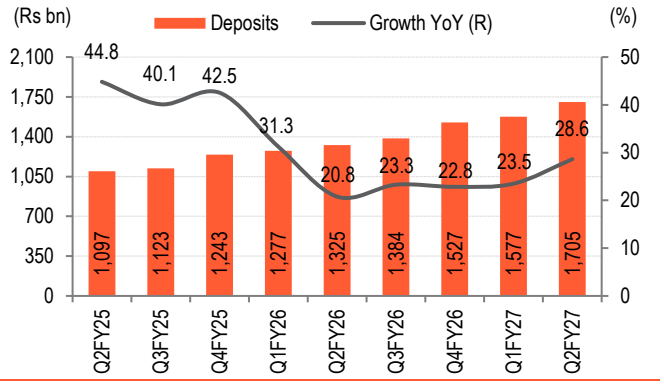
(Rs mn)	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27	YoY (%)	QoQ (%)
Deposits	**13,25,092**	**13,84,150**	**15,26,612**	**15,77,270**	**17,04,601**	**28.6**	**8.1**
Growth YoY (%)	36.2	23.3	22.8	23.5	28.6		
Advances	**11,57,050**	**12,34,200**	**13,42,756**	**13,85,720**	**14,85,078**	**28.4**	**7.2**
Growth YoY (%)	29.1	24.0	25.4	26.2	28.4		
Investment	3,83,822	3,97,930	4,47,937	4,57,930	4,75,297	23.8	3.8
Equity	1,83,162	1,90,850	1,99,735	2,08,850	2,18,096	19.1	4.4
Assets	16,37,877	17,40,520	19,02,473	19,71,240	20,79,099	26.9	5.5
Growth YoY (%)	30.0	21.7	21.2	22.6	26.9		
Yield							
Yield on Funds	11.35	11.42	11.24	11.15	11.23	(12bps)	8bps
Cost of Funds	6.73	6.51	6.15	6.18	6.28	(46bps)	10bps
Spread	4.61	4.91	5.09	4.97	4.95	34bps	(2bps)
Net Interest Margin	**5.50**	**5.70**	**5.96**	**5.90**	**5.88**	**38bps**	**(2bps)**
Ratios							
Other Income / Net Income	24.9	23.6	22.1	20.4	21.5	(349bps)	109bps
Cost to Income ratio	57.7	60.3	59.2	57.6	57.8	18bps	25bps
CASA ratio	29.4	28.9	28.4	28.8	29.5	10bps	72bps
C/D ratio	87.3	89.2	88.0	87.9	87.1	(20bps)	(73bps)
Investment to Assets	23.4	22.9	23.5	23.2	22.9	(57bps)	(37bps)
Assets Quality							
GNPA	28,353	28,805	27,556	29,482	29,883	5.4	1.4
NNPA	10,157	10,915	9,899	10,596	12,053	18.7	13.8
Provision	18,197	17,891	17,657	18,886	17,830	(2.0)	(5.6)
GNPA (%)	2.41	2.30	2.03	2.03	1.99	(42bps)	(4bps)
NNPA (%)	0.88	0.88	0.74	0.74	0.81	(7bps)	7bps
Provision (%)	64.18	62.11	64.08	64.05	59.66	(452bps)	(439bps)

Fig 3 – Credit growth higher vs system growth…



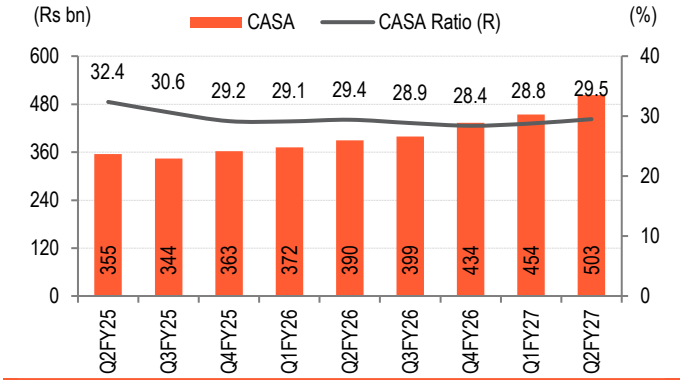
Source: Company, BOBCAPS Research

Fig 4 – …Deposit growth of 28.6% YoY



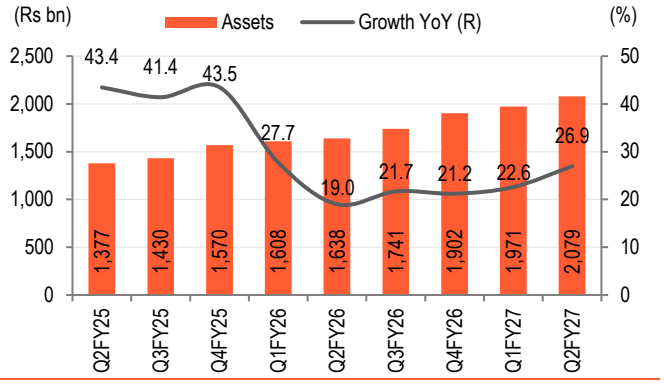
Source: Company, BOBCAPS Research

Fig 5 – CASA ratio improves QoQ



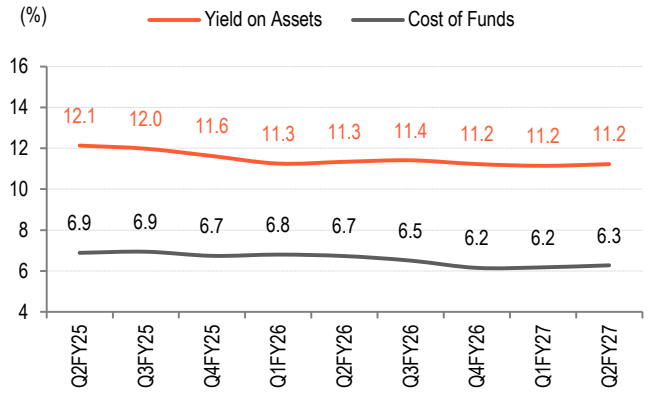
Source: Company, BOBCAPS Research

Fig 6 – Asset growth improving



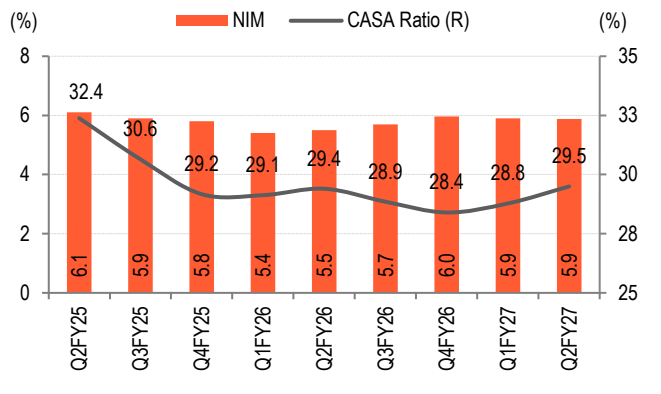
Source: Company, BOBCAPS Research

Fig 7 – Loan spreads remained broadly stable, with a 9bps decline in YoA largely offset by a 7bps reduction in CoF



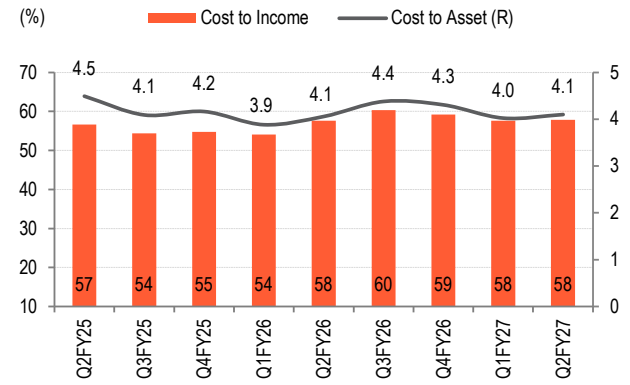
Source: Company, BOBCAPS Research

Fig 8 – … NIM declined 9bps QoQ, driven by higher investments as a proportion of total assets and quarterly seasonality



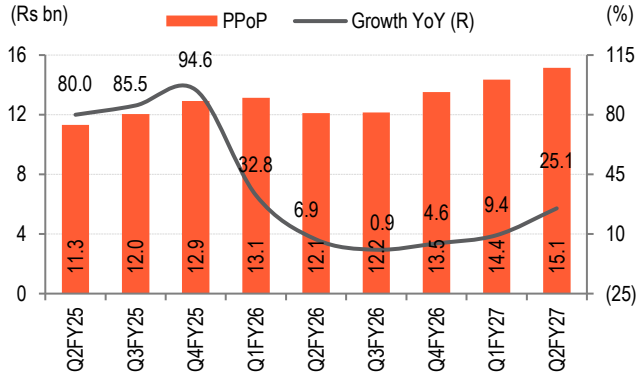
Source: Company, BOBCAPS Research

Fig 9 – C/I ratio stable QoQ



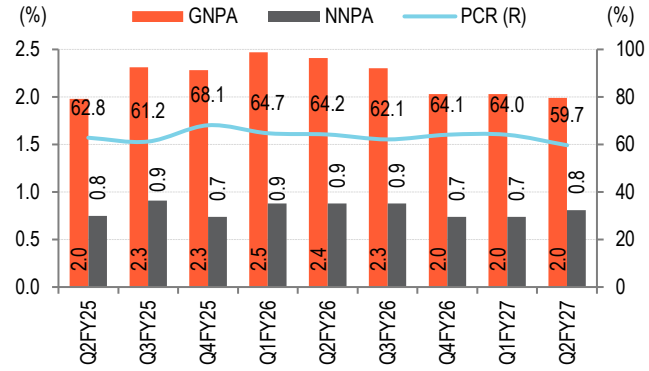
Source: Company, BOBCAPS Research

Fig 10 – PPOP grew 25.1% YoY



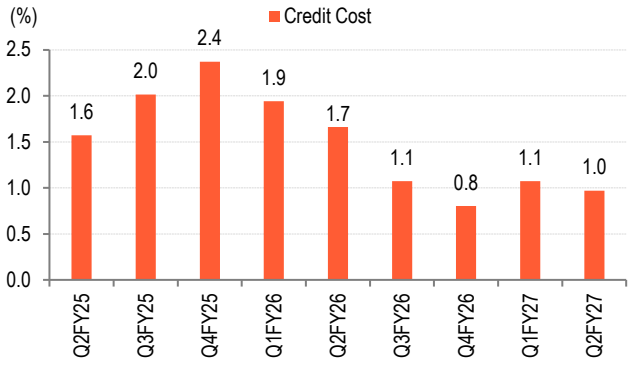
Source: Company, BOBCAPS Research

Fig 11 – Asset quality stable QoQ



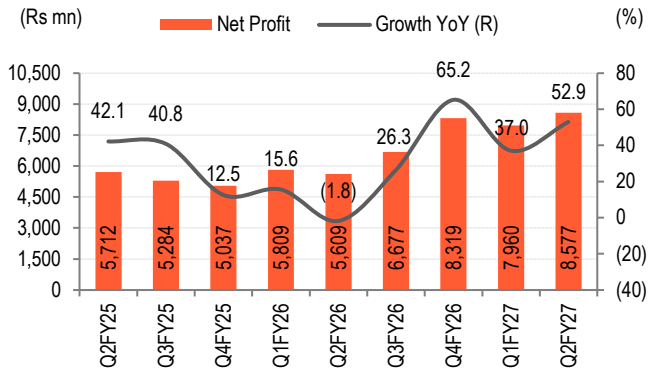
Source: Company, BOBCAPS Research

Fig 12 – Credit cost improved QoQ, due to decrease in specific PCR



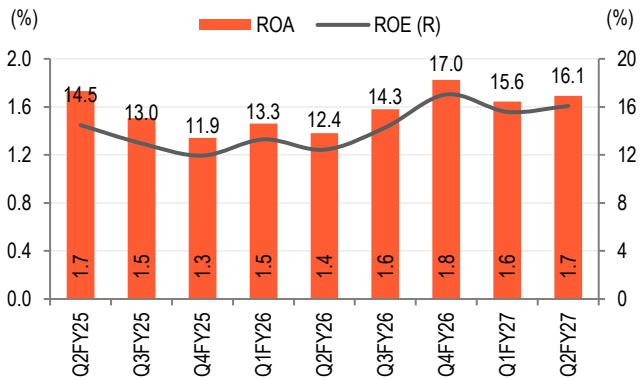
Source: Company, BOBCAPS Research

Fig 13 – PAT up 53% YoY on lower CC



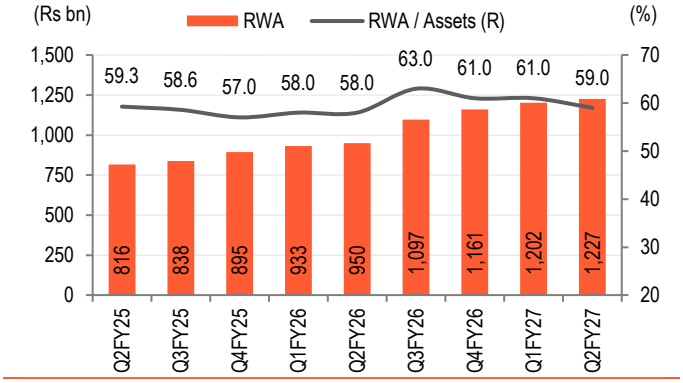
Source: Company, BOBCAPS Research

Fig 14 – Return ratios improve



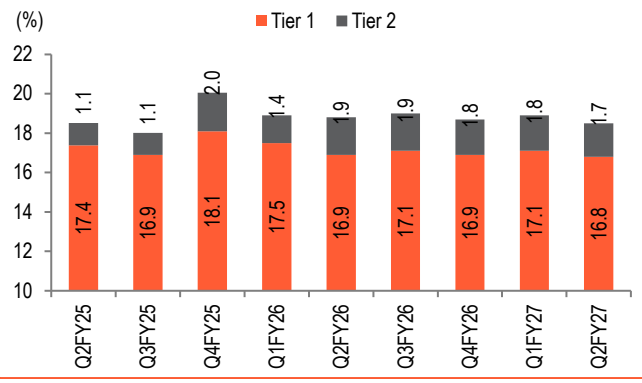
Source: Company, BOBCAPS Research

Fig 15 – Risk-weighted to assets stable



Source: Company, BOBCAPS Research | RWA: Risk-Weighted Asset

Fig 16 – Adequate capital position



Source: Company, BOBCAPS Research

Concall Highlights

1.Advances

Management continues to target overall growth of around 2.5x nominal GDP, supported by broad-based growth across secured lending, commercial banking and unsecured businesses.

The vehicle finance franchise remains well positioned, supported by healthy demand across new vehicles and improving traction in newer geographies. The bank aims to establish itself as a prime lender across 2W, PV and CV while maintaining calibrated growth.

Gold loan growth moderated sequentially due to the reversal in gold prices, which affected customer renewals and balance-transfer opportunities from competitors. Management continues to view the segment as attractive, with significant distribution-led growth headroom, while portfolio LTV remained stable at around 75%.

Mortgage growth continues to be led by micro-business loans and the loan-against-property (LAP) business. The bank is rebuilding the southern mortgage franchise acquired through Fincare Bank under AU's operating strategy, which may take time as the business is integrated.

The bank does not intend to aggressively pursue affordable housing loans on a standalone basis, given its cost of funds (CoF) and competitive intensity. However, it will continue to offer mortgage loans to existing customers where the customer relationship and lending economics are attractive.

Commercial banking is being developed into a progressively self-funded franchise, with management aiming to attach current accounts, cash management services, collections and payments propositions to lending, supply-chain and corporate banking relationships. The entire commercial banking loan book is floating-rate.

Personal loan (PL) growth continues to be supported by analytics-led cross-sell to existing customers and calibrated new-to-bank acquisition. Credit card issuance is recovering, with 150,000 new cards issued during the quarter.

2. Deposits

Management is targeting deposit growth of around 25% YoY in FY27, linked to nominal GDP growth of around 10%. H1 growth of 29% was marginally ahead of expectations, with the bank focused on sustaining growth through its expanding retail and commercial deposit franchises.

The bank garnered around USD230mn of FCNR (B) deposits during the quarter but did not meaningfully participate in broader system inflows due to its limited overseas footprint. Management remains confident of sustaining deposit growth through its own franchise-building initiatives.

The bank intends to maintain a pricing premium of around 80–100bps on term deposits relative to other banks, as deposit franchise expansion remains a priority. Pricing will continue to be calibrated to business requirements and market conditions rather than short-term industry movements, with improving customer recognition gradually reducing acquisition costs.

CoF benefited from calibrated wholesale deposit pricing and higher transactional current account (CA) balances. However, management indicated that further improvement could be limited as FCNR (B)-related system liquidity normalises, short-term rates rise and competition for deposits intensifies.

3. NIMs

NIM declined 9bps QoQ to 5.8%, primarily due to higher investments as a proportion of total assets and quarterly seasonality, including a 3–4bps day-count impact. Loan spreads remained broadly stable, with a 9bps decline in loan yields largely offset by a 7bps reduction in CoF.

Around 30% of the loan book is floating-rate, while 70% is fixed-rate. The recent 25bps repo-rate increase is likely to be transmitted to the floating-rate portfolio over the next 3–4 months, with the full impact becoming visible in the following quarter. Improvement in yields on the fixed-rate book will depend on market pricing, disbursement yields and portfolio mix.

Management believes the bank is better positioned to navigate the current interest-rate cycle than in 2022, supported by a larger deposit franchise, wider branch distribution and a higher floating-rate share of advances. The tenure over which peak deposit rates are offered has also been extended from 18 months to 36 months.

Going forward, margin performance will depend on deposit competition, liquidity conditions and the pace of repricing across the loan book. Management expects the recovering unsecured franchise and a stronger liability franchise to provide additional support.

4. Asset Quality

Management attributed the improvement in unsecured asset quality primarily to the stabilisation of the credit card and microfinance franchises, while secured retail and commercial portfolios have remained stable.

Sequential slippages need to be viewed in the context of seasonality in tractor finance, which follows a six-monthly billing cycle. Billings in June and December can lead to higher slippages in September and March, respectively.

Management remains watchful of potential risks from El Niño, deficient rainfall and elevated oil prices. However, no material stress was observed through September, and the bank expects credit costs to remain within guidance. Q3 would be an important period to monitor for any emerging impact.

The decline in PCR was attributed to write-offs and the alignment of provisioning and write-off policies across unsecured products, rather than deterioration in the underlying portfolio. Management does not target a specific PCR, while the increasing share of guaranteed loans, currently around 7–8% of the overall book, also reduces the reported coverage ratio.

Slippages in the mortgage portfolio improved both QoQ and YoY, while collection efficiency and SMA levels remained stable, with no material deterioration observed through September.

The inclusive banking franchise continues to demonstrate stable collections, with collection efficiency at 99.6% and 99% of the microfinance book covered under the CGFMU guarantee scheme.

5. IRDAI Impact on Bancassurance Income

The proposed changes to insurance distribution regulations are likely to create a headwind for insurance-related fee income, although the final impact would depend on the eventual form of the regulations.

Management expects growth in forex, trade finance and credit card businesses to offset part of the pressure, with UPI and MDR income providing additional potential fee pools.

6. Rating Upgrade

ICRA upgraded the bank's credit rating outlook to Positive from Stable on October 1, while reaffirming its long-term rating at AA.

7. Management Guidance

Deposit growth: Management is targeting deposit growth of around 25% YoY in FY27, linked to nominal GDP growth of around 10%. H1 growth of 29% was marginally ahead of expectations, with the bank focused on sustaining growth through its expanding retail and commercial deposit franchises.

FY27 credit cost: Guidance remains at around 90bps, against 73–74bps in H1FY27, providing a cushion against potential macroeconomic vulnerabilities. Through-the-cycle credit cost is anticipated at 90–100bps.

Cost-to-assets ratio: Management expects the cost-to-assets ratio to improve YoY on a full-year basis, excluding guarantee premium, despite continued investments in distribution, technology and branding.

Loan growth: The bank continues to target overall growth of around 2.5x nominal GDP, supported by broad-based growth across secured lending, commercial banking and unsecured businesses.

Valuation Methodology

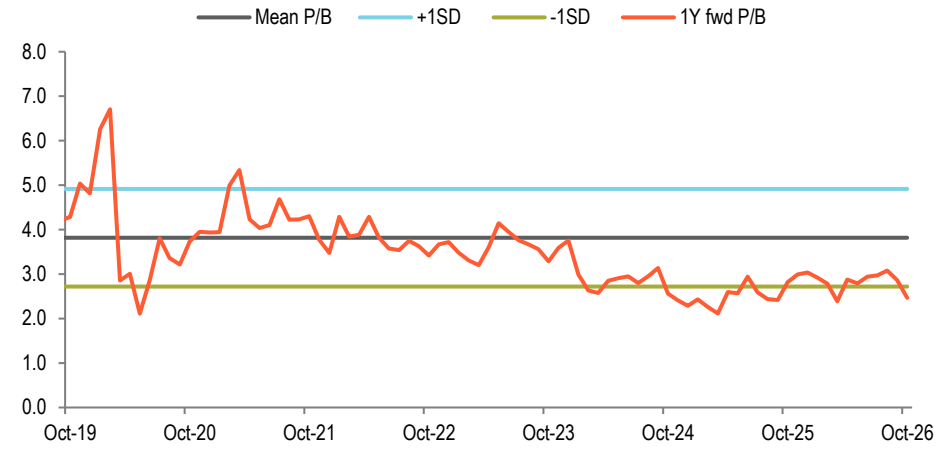
AU SFB reported strong AUM growth of 25% YoY, but NIM contracted 10bps QoQ to 5.8% due to rising CoF. The reduction in specific PCR to ~60% from 64% in Q1 lowered provisions and supported profitability, but may not be well received by the market. FCNR deposit mobilization remained sub-par due to the lack of offshore presence. We believe the rate-hike cycle, rising rural stress could pose risks to AQ and NIMs, with funding pressures due to high growth chase could potentially weigh further on NIMs. Maintain HOLD with revised TP of Rs 934 (from Rs 1,064). We cut the valuation multiple to 2.9x Sep'28E ABV, reflecting expensive valuations and a less reassuring outlook on margins and asset quality.

Fig 17 – Key operational assumptions

(%)	FY26A	FY27E	FY28E	FY29E
Advances growth	25.4	24.7	25.1	25.1
NII growth	13.7	25.6	23.8	24.0
PPoP growth	11.1	20.6	27.8	29.1
PAT growth	25.4	33.9	27.8	27.6
NIM	5.7	5.5	5.5	5.5
GNPA	2.0	1.9	1.9	1.9
CAR	18.7	17.6	16.8	16.1

Source: Company, BOBCAPS Research

Fig 18 – PB band chart



Source: Company, BOBCAPS Research

Key Risks

Key downside risks to our estimates:

- Funding pressures due to chasing high growth could potentially weigh further on NIM
- Higher-than-expected stress in unsecured retail, microfinance in Q3 is key watchful due to deficient rainfall, El Niño and elevated oil prices

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	**80,116**	**91,127**	**114,438**	**141,646**	**175,612**
NII growth (%)	55.4	13.7	25.6	23.8	24.0
Non-interest income	25,263	29,779	31,303	36,625	43,392
Total income	105,379	120,906	145,741	178,271	219,004
Operating expenses	59,572	70,019	84,371	99,845	117,748
PPOP	45,807	50,888	61,370	78,426	101,256
PPOP growth (%)	91.7	11.1	20.6	27.8	29.1
Provisions	17,926	16,147	14,232	18,171	24,350
PBT	27,881	34,740	47,138	60,255	76,906
Tax	6,821	8,328	11,784	15,064	19,226
Reported net profit	**21,059**	**26,413**	**35,353**	**45,191**	**57,679**
Adjustments	0	0	0	0	0
Adjusted net profit	**21,059**	**26,413**	**35,353**	**45,191**	**57,679**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Equity capital	7,445	7,483	7,514	7,514	7,514
Reserves & surplus	164,218	192,253	227,677	272,100	328,972
Net worth	171,663	199,735	235,190	279,613	336,485
Deposits	1,242,685	1,526,612	1,913,691	2,390,566	2,996,488
Borrowings	116,599	138,715	121,350	127,418	133,788
Other liab. & provisions	47,509	52,912	76,976	116,022	157,343
Total liab. & equities	**1,578,457**	**1,917,975**	**2,347,207**	**2,913,619**	**3,624,104**
Cash & bank balance	94,664	85,234	103,116	126,980	157,755
Investments	378,475	447,937	521,540	631,779	770,381
Advances	1,070,925	1,342,756	1,674,277	2,095,220	2,621,926
Fixed & Other assets	34,393	42,048	48,274	59,640	74,042
Total assets	**1,578,457**	**1,917,975**	**2,347,207**	**2,913,619**	**3,624,104**
Deposit growth (%)	42.5	22.8	25.4	24.9	25.3
Advances growth (%)	46.4	25.4	24.7	25.1	25.1

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
EPS	29.8	35.4	47.1	60.1	76.8
Dividend per share	1.0	1.0	0.9	1.0	1.1
Book value per share	230.6	266.9	313.0	372.1	447.8

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
P/E	29.2	24.6	18.4	14.4	11.3
P/BV	3.8	3.3	2.8	2.3	1.9
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	6.0	5.2	5.4	5.4	5.4
Non-interest income	1.9	1.7	1.5	1.4	1.3
Operating expenses	4.5	4.0	4.0	3.8	3.6
Pre-provisioning profit	3.4	2.9	2.9	3.0	3.1
Provisions	1.3	0.9	0.7	0.7	0.7
PBT	2.1	2.0	2.2	2.3	2.4
Tax	0.5	0.5	0.6	0.6	0.6
ROA	1.6	1.5	1.7	1.7	1.8
Leverage (x)	9.0	9.4	9.8	10.2	10.6
ROE	14.2	14.2	16.3	17.6	18.7

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Net interest income	55.4	13.7	25.6	23.8	24.0
Pre-provisioning profit	91.7	11.1	20.6	27.8	29.1
EPS	29.7	18.8	33.2	27.6	27.6
Profitability & Return ratios (%)					
Net interest margin	5.9	5.7	5.5	5.5	5.5
Fees / Avg. assets	47.3	42.6	36.7	34.8	33.2
Cost-Income	56.5	57.9	57.9	56.0	53.8
ROE	14.2	14.2	16.3	17.6	18.7
ROA	1.6	1.5	1.7	1.7	1.8
Asset quality (%)					
GNPA	2.3	2.0	1.9	1.9	1.9
NNPA	0.8	0.8	0.7	0.7	0.7
Slippage ratio	5.2	3.8	2.8	2.8	2.8
Credit cost	2.0	1.3	0.9	1.0	1.0
Provision coverage	65.9	62.1	63.6	63.6	63.6
Ratios (%)					
Credit-Deposit	86.2	88.0	87.5	87.6	87.5
Investment-Deposit	30.5	29.3	27.3	26.4	25.7
CAR	20.1	18.7	17.6	16.8	16.1
Tier-1	18.1	16.9	16.3	15.6	15.1

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

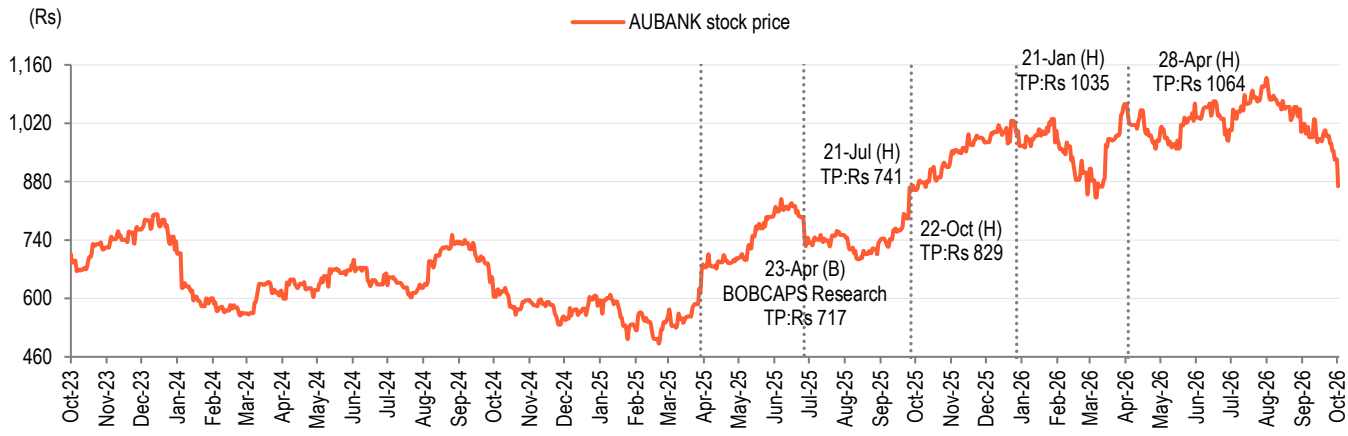
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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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