

HOLD
 TP: Rs 1,064 | ▲ 2%

AU SMALL FINANCE BANK

| Banking

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Strong growth and improving AQ; valuations limit re-rating

- PAT above estimates, largely on account of lower provisions; Return ratios improving
- Business momentum remains strong; Asset quality improved, driven by lower slippages
- Maintain HOLD with revised TP of Rs 1,064 (from Rs 1,035) and roll over the valuation to 3.0x Mar'28E ABV (unchanged) vs 3Y avg of 2.9x

PAT above estimates, largely due to lower provisions: PAT at Rs 8.3bn (+65% YoY) was higher than our estimates (Rs 7.5bn). This was mainly on the back of lower provisions at Rs 2.7bn (-58% YoY) — 27% lower vs estimates. Hence, credit cost improved to 0.6% (-16bps QoQ) of ATA in Q4FY26, given the normalisation in unsecured businesses and seasonal recovery in secured assets. With the stress is improving in MFI and credit card, management guided credit costs to be ~90bps of ATA for FY27. However, PPOP missed our estimates by -3.2% to Rs 13.5bn (+4.6% YoY) owing to the rise in C/I ratio to 59.2% in Q4FY26 (54.7% in Q4FY25); partially offset by rise in NIMs to 5.96% (+26bps QoQ). Return ratios improved with RoA/RoE of 1.8%/17% (Q4FY26) vs 1.4%/11.9% (Q4FY25). Management expects RoA of 1.8% for FY27, largely driven by operating efficiency and normalisation of credit costs.

Business momentum remains strong: AUBANK witnessed a strong net advance growth of 25.4% YoY. Secured retail assets (wheels, MBL, HL and GL) accounted for 66% of total loans, followed by commercial banking (CB) (20.3%), unsecured (7.2%) and others (6.5%). Management expects to maintain a loan growth of 2-2.5x of India's nominal GDP growth in FY27. Deposit growth stays strong at 22.8% YoY.

Asset quality improved: GNPA ratio improved sequentially to 2.03% (-27bps QoQ), largely driven by lower slippage across most segments of Rs 6.6bn (-16.7% QoQ) or slippage ratio of 2.4% (-63 bps QoQ). Further, CE in non-overdue MFI loans improved to 99.7% (Q4FY26) vs 99.3% (Q3FY26). MFI book witnessed an increase in the CGFMU cover to ~92% (Mar'26) vs 83% (Dec'25).

Maintain HOLD: We expect AUBANK to deliver RoA of 1.8% by FY28E. Performance is driven by a consistently high loan growth, improvement in return profile and visible recovery in unsecured book. However, given that current valuations appear stretched relative to underlying fundamentals, we maintain our HOLD rating with a revised TP of Rs 1,064 (from Rs 1,035), rolling over to 3.0x Mar'28E ABV (multiple unchanged) vs. the 3-year average P/ABV of ~2.9x.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AUBANK IN/Rs 1,043
Market cap	US\$ 8.2bn
Free float	77%
3M ADV	US\$ 30.3mn
52wk high/low	Rs 1,080/Rs 656
Promoter/FPI/DII	23%/37%/31%

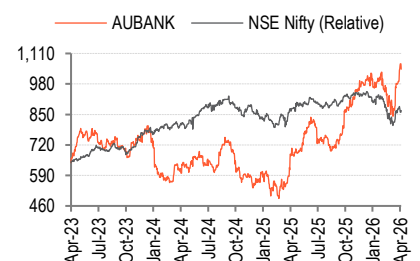
Source: NSE | Price as of 27 Apr 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
NII (Rs mn)	91,127	1,19,475	1,47,476
NII growth (%)	13.7	31.1	23.4
Adj. net profit (Rs mn)	26,413	36,070	46,960
EPS (Rs)	35.4	48.2	62.8
Consensus EPS (Rs)	34.5	46.7	58.8
P/E (x)	29.5	21.6	16.6
P/BV (x)	3.9	3.3	2.8
ROA (%)	1.5	1.7	1.8
ROE (%)	14.2	16.6	18.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	35,555	36,649	37,862	40,164	42,436	19.4	5.7
Income on investments	6,184	6,450	6,444	6,500	7,078	14.5	8.9
Int. on bal. with RBI & inter-bank funds & Others	967	686	807	611	677	(30.0)	10.9
Interest income	42,706	43,784	45,113	47,275	50,191	17.5	6.2
Interest expense	21,767	23,338	23,669	23,862	24,368	12.0	2.1
Net interest income	20,939	20,447	21,444	23,413	25,823	23.3	10.3
Growth YoY (%)	58.0	52.9	11.7	15.7	23.3		
Fee Income	6,580	5,110	6,340	6,960	7,480	13.7	7.5
Trading gains/(losses)	1,020	3,000	790	270	(170)	(116.7)	(163.0)
Others	7	(4)	(4)	8	(0)	(107.2)	(106.0)
Non-interest income	7,607	8,106	7,126	7,238	7,310	(3.9)	1.0
Growth YoY (%)	72.0	45.9	30.6	17.0	(3.9)		
Total income	28,546	28,553	28,570	30,651	33,133	16.1	8.1
Growth YoY (%)	61.5	50.9	15.8	16.1	16.1		
Staff expenses	8,175	8,655	9,187	10,190	10,449	27.8	2.5
Other operating expenses	7,449	6,775	7,286	8,307	9,169	23.1	10.4
Operating expenses	15,623	15,431	16,473	18,498	19,618	25.6	6.1
Pre-Provisioning Profit (PPoP)	12,923	13,122	12,097	12,153	13,515	4.6	11.2
Growth YoY (%)	98.9	97.6	22.4	0.9	4.6		
Provisions	6,351	5,333	4,808	3,311	2,694	(57.6)	(18.6)
Growth YoY (%)	319.3	302.5	50.6	(34.0)	(57.6)		
Exceptional Item	-	-	-	-	-	-	-
PBT	6,571	7,789	7,289	8,842	10,821	64.7	22.4
Tax	1,535	1,980	1,680	2,165	2,502	63.1	15.6
PAT	5,037	5,809	5,609	6,677	8,319	65.2	24.6
Growth YoY (%)	34.2	29.8	11.6	26.3	65.2		
Per Share							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	6.8	7.8	7.5	8.9	11.1	64.3	24.4
Book Value (Rs)	230.6	239.1	245.5	255.8	266.9	15.8	4.4

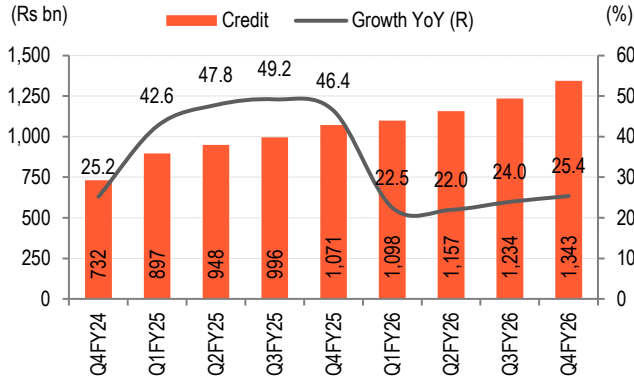
Source: Company, BOBCAPS Research

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

(Rs mn)	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	YoY (%)	QoQ (%)
Deposits	12,42,685	12,76,960	13,25,092	13,84,150	15,26,612	22.8	10.3
Growth YoY (%)	55.1	46.5	36.2	23.3	22.8		
Advances	10,70,925	10,98,340	11,57,050	12,34,200	13,42,756	25.4	8.8
Growth YoY (%)	60.5	50.1	29.1	24.0	25.4		
Investment	3,78,475	3,83,440	3,83,822	3,97,930	4,47,937	18.4	12.6
Equity	1,71,663	1,78,000	1,83,162	1,90,850	1,99,735	16.4	4.7
Assets	15,78,457	16,08,140	16,55,419	17,40,520	19,17,975	21.5	10.2
Growth YoY (%)	56.0	47.0	31.4	21.7	21.5		
Yield							
Yield on Funds	11.63	11.26	11.35	11.42	11.24	(39bps)	(18bps)
Cost of Funds	6.74	6.81	6.73	6.51	6.15	(59bps)	(36bps)
Spread	4.88	4.45	4.61	4.91	5.09	20bps	17bps
Net Interest Margin	5.80	5.40	5.50	5.70	5.96	16bps	26bps
Ratios							
Other Income / Net Income	26.6	28.4	24.9	23.6	22.1	(459bps)	(155bps)
Cost to Income ratio	54.7	54.0	57.7	60.3	59.2	448bps	(114bps)
CASA ratio	29.2	29.1	29.4	28.9	28.4	(74bps)	(43bps)
C/D ratio	86.2	86.0	87.3	89.2	88.0	178bps	(121bps)
Investment to Assets	24.0	23.8	23.2	22.9	23.4	(62bps)	49bps
Assets Quality							
GNPA	24,770	27,513	28,353	28,805	27,556	11.2	(4.3)
NNPA	7,910	9,713	10,157	10,915	9,899	25.1	(9.3)
Provision	16,860	17,800	18,197	17,891	17,657	4.7	(1.3)
GNPA (%)	2.28	2.47	2.41	2.30	2.03	(25bps)	(27bps)
NNPA (%)	0.74	0.88	0.88	0.88	0.74	0bps	(14bps)
Provision (%)	68.05	64.70	64.18	62.11	64.08	(397bps)	197bps
Others							
Branches	2,456	2,505	2,626	2,726	2,790	334	64
ATMs	677	678	707	742	762	85	20
Employees	50,946	53,235	57,786	59,872	59,207	8,261	(665)

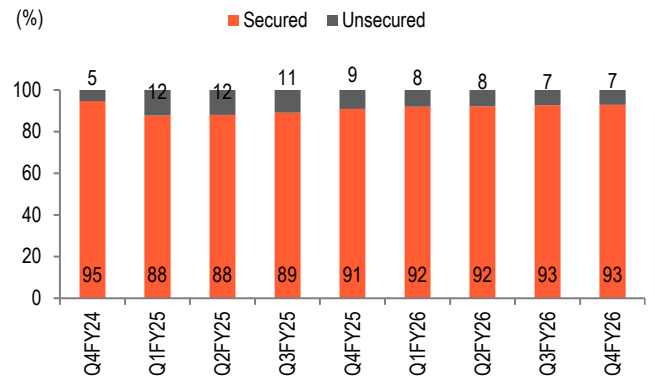
Source: Company, BOBCAPS Research

Fig 3 – Credit growth higher vs system growth...



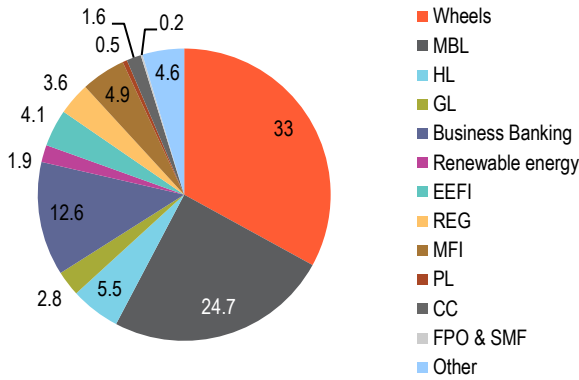
Source: Company, BOBCAPS Research

Fig 4 – ...led by secured book growth of 21% YoY



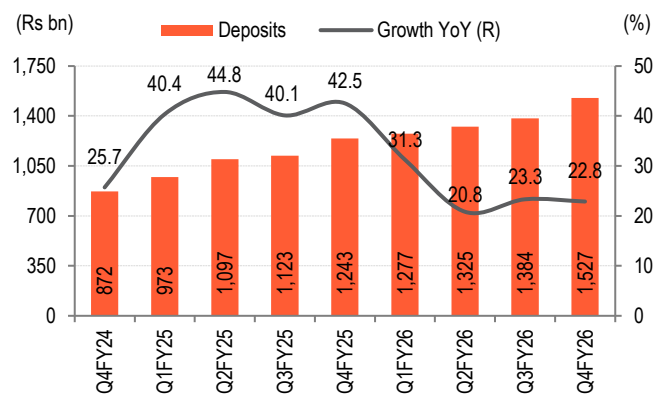
Source: Company, BOBCAPS Research

Fig 5 – Advances mix with ~93% of secured – Q4FY26



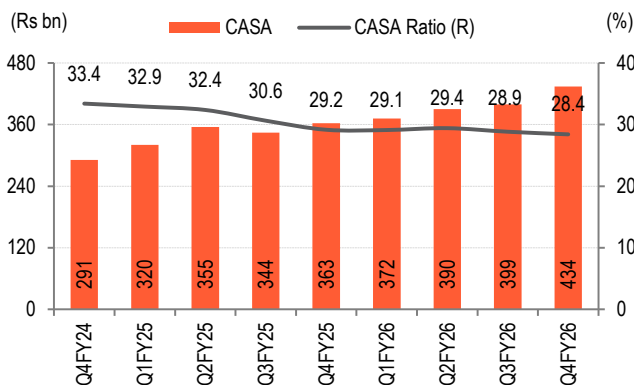
Source: Company, BOBCAPS Research

Fig 6 – Deposits growth higher than system growth



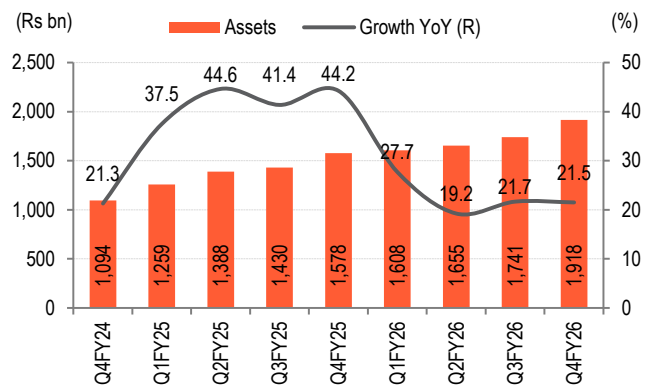
Source: Company, BOBCAPS Research

Fig 7 – CASA ratio falls 43bps QoQ



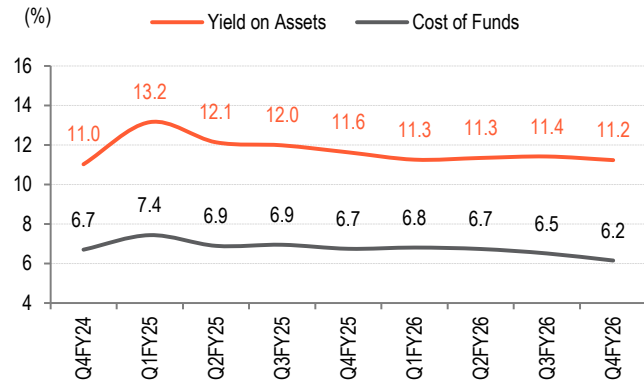
Source: Company, BOBCAPS Research

Fig 8 – Asset growth improving



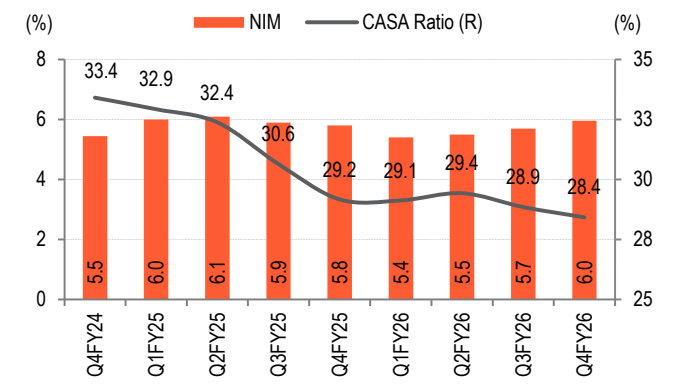
Source: Company, BOBCAPS Research

Fig 9 – Spreads improve as asset yields are stable and CoF declines...



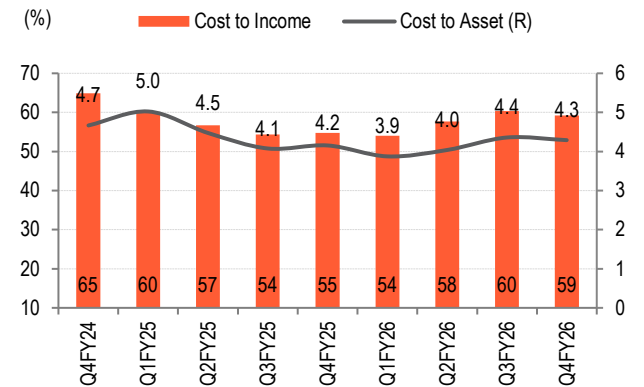
Source: Company, BOBCAPS Research

Fig 10 – ...leading to a 26bps QoQ improvement in NIMs



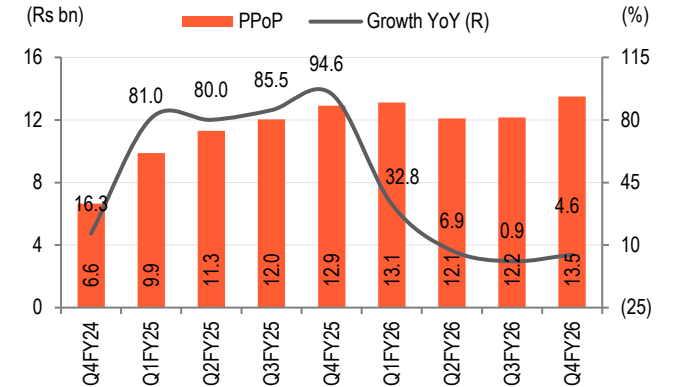
Source: Company, BOBCAPS Research

Fig 11 – C/I ratio expected to remain below 60%



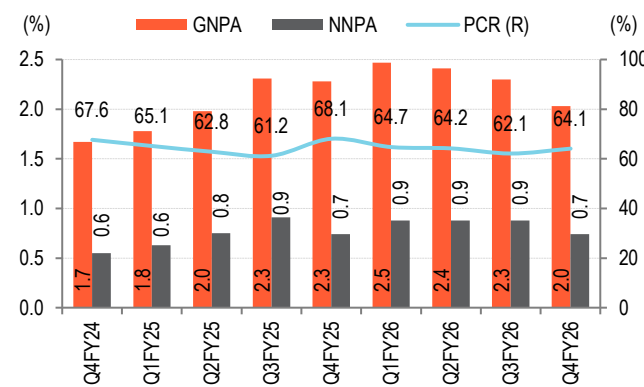
Source: Company, BOBCAPS Research

Fig 12 – PPOP grew 4.6% YoY



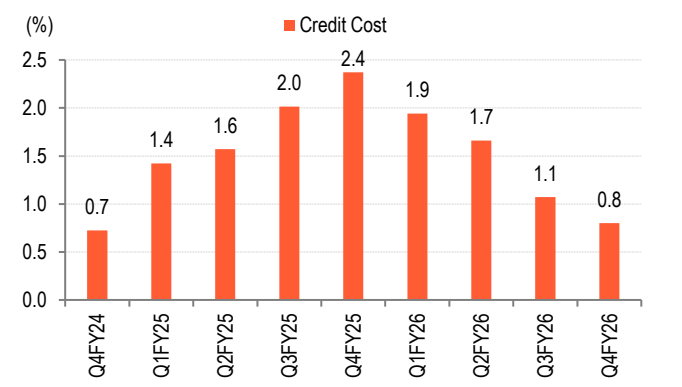
Source: Company, BOBCAPS Research

Fig 13 – Asset quality improved



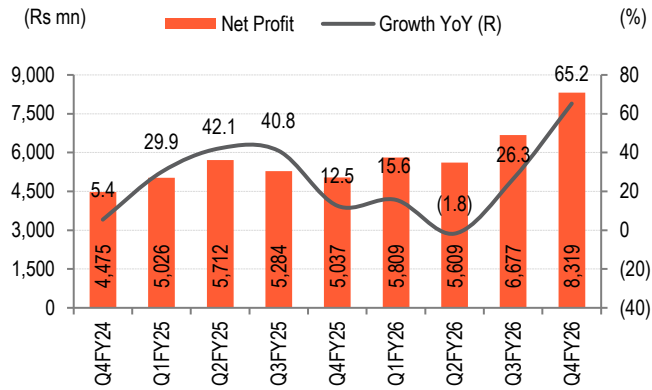
Source: Company, BOBCAPS Research

Fig 14 – Credit cost improved QoQ, on account of lower fresh slippages



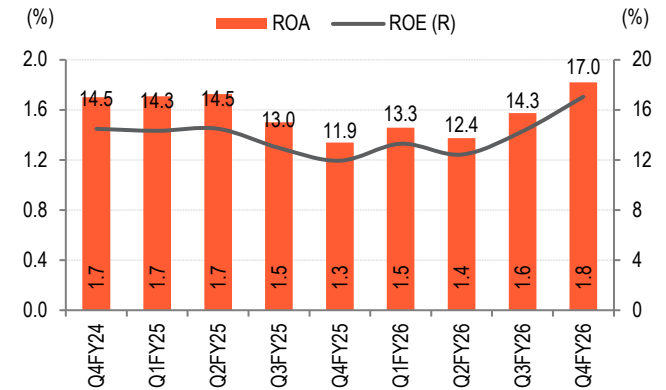
Source: Company, BOBCAPS Research

Fig 15 – PAT up 65% YoY on lower CC



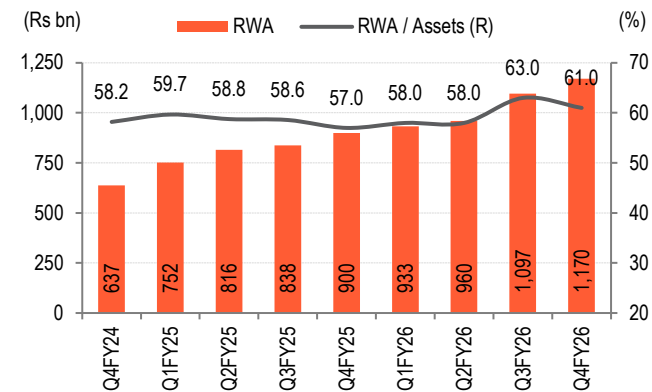
Source: Company, BOBCAPS Research

Fig 16 – Return ratios improve



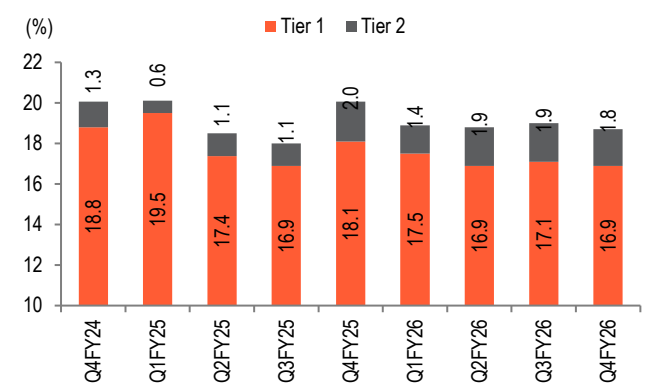
Source: Company, BOBCAPS Research

Fig 17 – Risk-weighted to assets stable



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

Fig 18 – Adequate capital position



Source: Company, BOBCAPS Research

Concall Highlights

- **Management guided for sustainable growth at 2–2.5x India's nominal GDP**, underpinned by franchise strength and long-term compounding.
- **Universal Banking license** application filed in March 2026 post RBI amendment; transition **expected to reduce cost of funds, improve brand positioning, and aid prime customer acquisition**.
- **The bank to add 80–100 branches annually** to scale liability franchise across geographies.
- **Management guided for full-year FY27 ROA at 1.8%**; Q4FY26 exit ROA of 1.8% was seasonally aided and not reflective of a steady-state run-rate.
- **Credit cost guidance for FY27 set at 90 bps**; Q4FY26 credit cost of 60 bps attributed to seasonality and not indicative of the full-year trajectory.
- **Cost-to-assets ratio targeted below 4% in FY27** vs 4.2% in FY26; long-term benchmark set at 3.5% over a 3–5-year horizon, largely driven by investments in technology.
- Management **repositioned AI as a core operating model transformation**, targeting pan-India scalability without proportional headcount additions.
- Agentic AI platform operationalised; AI-native Loan Origination System live for gold loan business as the first use case.
- Margins up by 24bps QoQ to 5.96%, driven by a 12bps decline in cost of funds (CoF), benefit from lower gross slippages and higher NPA resolution of 6bps, seasonal benefit from lower day count in Feb'25 of ~7bps.
- **CoF indicated to have bottomed in Q4FY26**; long-term target aligned to prevailing repo rate.
- **Credit card portfolio stabilised** following five quarters of degrowth; **gradual recovery expected**.
- Management guided the Commercial Banking segment toward full self-funding, with 56% of funding requirements currently being sourced internally.
- Management indicated **disciplined pricing stance in affordable housing**; market share will not be pursued where the risk-reward is deemed unfavourable.

Valuation Methodology

We expect the bank to deliver RoA of 1.8% by FY28E, driven by consistently strong loan growth, an improving return profile, and a visible recovery in the unsecured book. However, given that current valuations appear stretched relative to underlying fundamentals, we maintain our HOLD rating with a revised TP of Rs 1,064 (from Rs 1,035), rolling over to 3.0x Mar'28E ABV (multiple unchanged) vs. the 3-year average P/ABV of ~2.9x.

Fig 19 – Actual vs Estimates

Key Parameters (Rs mn)	Q4FY26A	Q4FY26E	Change (%)
Loan	13,42,756	13,38,656	0.3
Deposits	15,26,612	15,26,600	0.0
Assets	19,17,975	19,13,230	0.2
NII	25,823	25,532	1.1
PPOP	13,515	13,957	(3.2)
Provision	2,694	3,690	(27.0)
PAT	8,319	7,477	11.3

Source: Company, BOBCAPS Research

Fig 20 – Key operational assumptions

(%)	FY26A	FY27E	FY28E	FY29E
Advances growth	25.4	22.5	22.0	21.0
NII growth	13.7	31.1	23.4	23.7
PPoP growth	11.1	28.5	26.1	29.0
PAT growth	25.4	36.6	30.2	32.4
NIM	5.7	5.5	5.6	5.8
GNPA	2.0	1.8	1.7	1.6
CAR	18.7	20.0	20.2	20.4

Source: Company, BOBCAPS Research

Fig 21 – Revised estimates

Estimates Key Parameters (Rs mn)	New		Old		Change (%)	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Loan	16,44,876	20,06,749	16,13,562	19,84,682	1.9	1.1
Deposits	18,54,833	22,59,187	18,49,582	22,73,136	0.3	(0.6)
Assets	23,33,645	28,19,786	23,35,501	28,54,056	(0.1)	(1.2)
NII	1,19,475	1,47,476	1,18,415	1,47,996	0.9	(0.4)
PPOP	65,400	82,499	66,700	83,494	(1.9)	(1.2)
Provision	17,179	19,719	17,911	19,431	(4.1)	1.5
PAT	36,070	46,960	36,495	47,919	(1.2)	(2.0)
ABV (Rs)	300	360	296	358	1.2	0.6

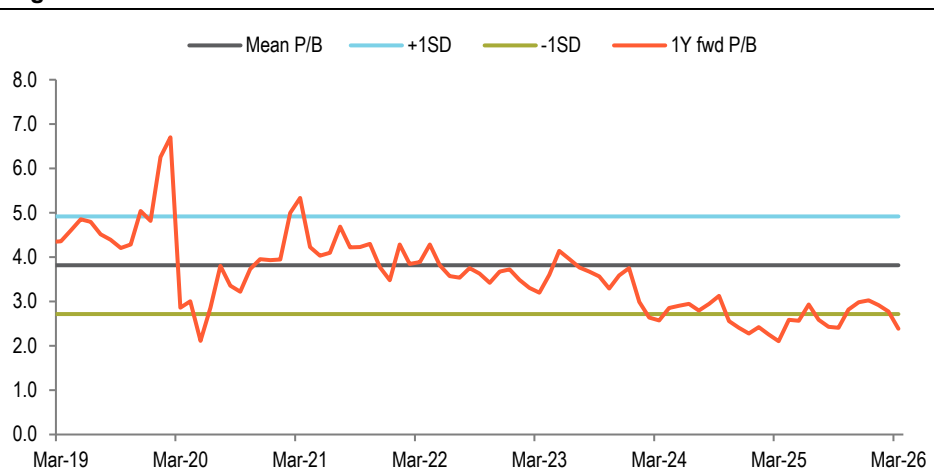
Source: Company, BOBCAPS Research

Fig 22 – Valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.9
Equity risk premium (%)	5.5
Beta	1.0
Cost of equity (%)	12.2
Blended ROE (%)	16.6
Initial high growth period (yrs)	15.0
Payout ratio of high-growth phase (%)	18.0
Long-term growth (%)	7.5
Long term dividend payout ratio (%)	55.0
Justified P/BV Multiple (x)	3.0

Source: Company, BOBCAPS Research

Fig 23 – PB band chart



Source: Company, BOBCAPS Research

Key Risks

Key downside risks to our estimates:

- Unexpected AQ shocks leading to higher credit costs
- Slowdown in credit growth

Key upside risks to our estimates:

- Quicker-than-expected improvement in AQ metrics, particularly unsecured segments

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	80,116	91,127	1,19,475	1,47,476	1,82,477
NilI growth (%)	55.4	13.7	31.1	23.4	23.7
Non-interest income	25,263	29,779	35,714	41,743	48,147
Total income	1,05,379	1,20,906	1,55,188	1,89,218	2,30,624
Operating expenses	59,572	70,019	89,788	1,06,719	1,24,232
PPOP	45,807	50,888	65,400	82,499	1,06,392
PPOP growth (%)	91.7	11.1	28.5	26.1	29.0
Provisions	17,926	16,147	17,179	19,719	23,283
PBT	27,881	34,740	48,222	62,781	83,109
Tax	6,821	8,328	12,152	15,821	20,943
Reported net profit	21,059	26,413	36,070	46,960	62,165
Adjustments	0	0	0	0	0
Adjusted net profit	21,059	26,413	36,070	46,960	62,165

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Equity capital	7,445	7,483	7,483	7,483	7,483
Reserves & surplus	1,64,218	1,92,253	2,27,601	2,73,763	3,35,057
Net worth	1,71,663	1,99,735	2,35,084	2,81,245	3,42,540
Deposits	12,42,685	15,26,612	18,54,833	22,59,187	27,60,726
Borrowings	1,16,599	1,38,715	1,55,361	1,75,558	1,98,381
Other liab. & provisions	47,509	52,912	88,367	1,03,796	91,076
Total liab. & equities	15,78,457	19,17,975	23,33,645	28,19,786	33,92,723
Cash & bank balance	94,664	85,234	1,08,206	1,15,193	1,21,733
Investments	3,78,475	4,47,937	5,32,951	6,44,516	7,82,109
Advances	10,70,925	13,42,756	16,44,876	20,06,749	24,28,167
Fixed & Other assets	34,393	42,048	47,611	53,328	60,715
Total assets	15,78,457	19,17,975	23,33,645	28,19,786	33,92,723
Deposit growth (%)	42.5	22.8	21.5	21.8	22.2
Advances growth (%)	46.4	25.4	22.5	22.0	21.0

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
EPS	29.8	35.4	48.2	62.8	83.1
Dividend per share	1.0	1.0	1.0	1.1	1.2
Book value per share	230.6	266.9	314.2	375.9	457.8

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
P/E	35.0	29.5	21.6	16.6	12.6
P/BV	4.5	3.9	3.3	2.8	2.3
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	5.6	5.7	5.9
Non-interest income	1.9	1.7	1.7	1.6	1.6
Operating expenses	4.5	4.0	4.2	4.1	4.0
Pre-provisioning profit	3.4	2.9	3.1	3.2	3.4
Provisions	1.3	0.9	0.8	0.8	0.7
PBT	2.1	2.0	2.3	2.4	2.7
Tax	0.5	0.5	0.6	0.6	0.7
ROA	1.6	1.5	1.7	1.8	2.0
Leverage (x)	9.0	9.4	9.8	10.0	10.0
ROE	14.2	14.2	16.6	18.2	19.9

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Net interest income	55.4	13.7	31.1	23.4	23.7
Pre-provisioning profit	91.7	11.1	28.5	26.1	29.0
EPS	29.7	18.8	36.2	30.2	32.4
Profitability & Return ratios (%)					
Net interest margin	5.9	5.7	5.5	5.6	5.8
Fees / Avg. assets	47.3	42.6	42.0	40.5	38.8
Cost-Income	56.5	57.9	57.9	56.4	53.9
ROE	14.2	14.2	16.6	18.2	19.9
ROA	1.6	1.5	1.7	1.8	2.0
Asset quality (%)					
GNPA	2.3	2.0	1.8	1.7	1.6
NNPA	0.8	0.7	0.7	0.6	0.5
Slippage ratio	5.2	3.2	2.5	2.3	2.1
Credit cost	2.0	1.3	1.2	1.1	1.1
Provision coverage	65.9	63.5	64.6	65.6	66.6
Ratios (%)					
Credit-Deposit	86.2	88.0	88.7	88.8	88.0
Investment-Deposit	30.5	29.3	28.7	28.5	28.3
CAR	20.1	18.7	20.0	20.2	20.4
Tier-1	18.1	16.9	18.2	18.5	18.8

Source: Company, BOBCAPS Research

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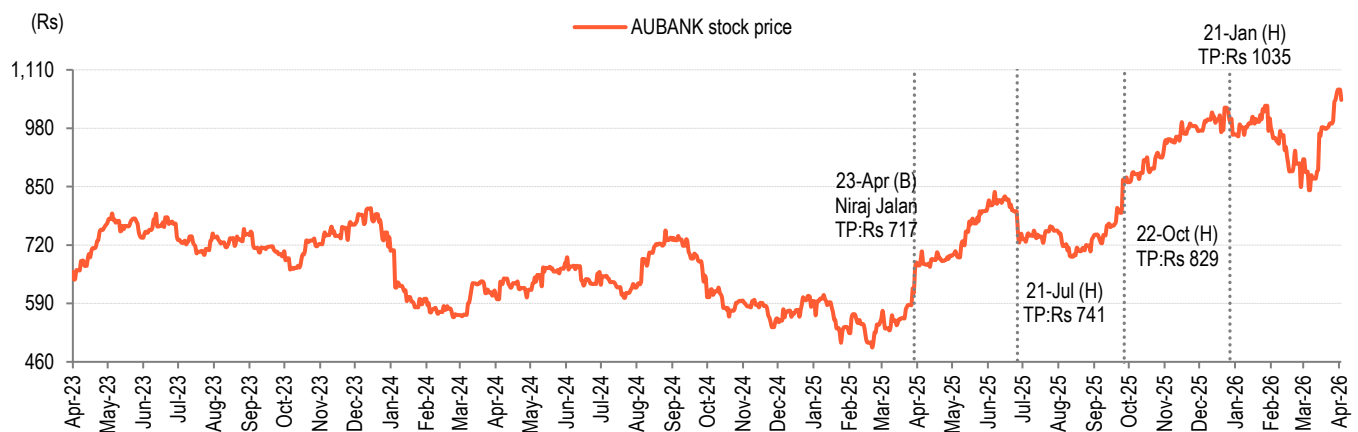
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- BUY** – Expected return >+15%
- HOLD** – Expected return from -6% to +15%
- SELL** – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AU SMALL FINANCE BANK (AUBANK IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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