

**CMP: INR 790**

**Rating: ACCUMULATE**

**Target Price: INR 893**

**Stock Info**

BSE	540611
NSE	AUBANK
Bloomberg	AUBANK IN
Reuters	AUFI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Mn)	74,310
Mkt Cap (INR Bn)	588.93
52w H/L (INR)	841 / 478
Avg Yearly Vol (in 000')	3,013

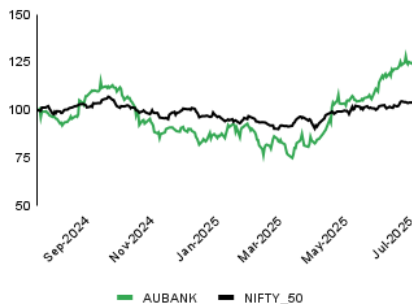
**Shareholding Pattern %**

(As on June, 2025)

Promoters	22.87
Public & Others	77.13

Stock Performance (%)	1m	6m	12m
AU Small Finance Bank	-0.78	30.4	20.6
Nifty 50	-0.01	6.96	1.87

**AU Small Finance Bank Vs Nifty 50**



Abhishek Jain  
[abhishek.jain@arihantcapital.com](mailto:abhishek.jain@arihantcapital.com)

Harshit Jain  
[harshit.jain@arihantcapital.com](mailto:harshit.jain@arihantcapital.com)

AU Small Finance Bank posted muted set of numbers during the Q1FY25 with fall in NIMs and deterioration in asset quality. NII for Q1FY26 stood at INR 20.45 bn against our estimates of INR 22.3 bn, down by 2% QoQ / up by 6% YoY. PPOP came at INR 13.12 bn against our estimates of INR 13.9 bn, up 2% QoQ / up by 33% YoY. Provisions stood at INR 5.33 bn down by 16% QoQ / up by 67% YoY. PAT stood at INR 5.81 bn against our estimates of INR 6.47 bn up by 15% QoQ / up by 16% YoY.

GNPA came at 2.41% up 13 bps QoQ / up by 63 bps YoY while NNPA was at 0.85% up 11 bps QoQ / up 23 bps YoY. Deposits increased by 3% QoQ / up 31% YoY to INR 1277 bn. Advances increased by 3% QoQ / up 23% YoY to INR 1098.3 bn.

**NIMs impacted due to various factors:**

Net interest margin (NIM), declined by ~38 bps to 5.4% in Q1 FY26 from 5.8% in Q4 FY25. This was driven by a 27 bps decline in loan yields due to repo rate cuts, an unfavourable asset mix, and lower yields particularly in credit cards; a ~20-25 bps decline in investment yields on account of lower interest rates and treasury gains; and a ~10 bps impact from excess liquidity and mutual fund investments, which is expected to reverse as the year progresses. The impact was partially offset by a 6 bps reduction in cost of funds (CoF). Gradual improvement in NIMs is expected from Q2 FY26 onwards. NII for Q1FY26 stood at INR 20.45 bn, down by 2% QoQ / up by 6% YoY

**Deterioration in asset quality driven by higher slippages:** Gross non-performing assets (GNPA) rose to 2.47% from 2.28% in Q4 FY25, primarily due to seasonality and higher slippages in credit cards and the secured mortgage portfolio in south India. Provision coverage ratio (PCR) stood at 83% in Q1 FY25 (~65% excluding technical write-offs). Slippages increased marginally to 1% in Q1 FY25, compared to 0.9% in Q4 FY25.

**Decline in unsecured segment due to the stress in MFI portfolio:** The unsecured segment saw de-growth of 23% YoY and 6.6% QoQ during the Q1FY26 which was driven by cautious approach towards MFI (Micro Finance) and Credit card business. The current MFI industry stress is visible with AU SFB too with high Credit Cost for MFI segment. Secured businesses, accounting for 90% of the loan portfolio, grew 22% YoY and 2.7% QoQ.

**Valuation & View:** The company delivered a muted performance in Q1 FY26, weighed down by subdued macroeconomic demand. Net Interest Margin (NIM), computed on the daily average of interest-earning assets including off-book exposures, contracted by ~38 bps QoQ to 5.4%. Weakness in the Microfinance and south-based mortgage portfolios led management to revise its full-year credit cost guidance upward by 10–15 bps, now pegging it at ~1% of average total assets, indicating a downside risk to earlier expectations. We downgrade our rating to ACCUMULATE on the stock with target price of INR 893, based on 3.2x FY27E P/ABV.

**Exhibit 1: Financial Performance**

Y/E Mar (Rs Bn)	FY22	FY23	FY24	FY25	FY26E	FY27E
NII	32	44	52	80	93	111
PAT	11	14	15	21	24	26
Networth	75	110	126	172	195	219
Adj BVPS (Rs)	231	160	181	221	248	279
EPS (Rs)	36	21	23	28	33	35
P/E (x)	22	37	34	28	24	23
P/Adj BV (x)	3.4	5.0	4.4	3.6	3.2	2.8

Source: Arihant Research, Company Filings

## Q1FY26 - Quarterly Performance (Standalone)

P&L (Rs Bn)	Q1FY26	Q1FY25	Q4FY25	YoY	QoQ
Interest Earned	43.78	37.69	42.71	16%	3%
Interest Expended	23.34	18.48	21.77	26%	7%
<b>NII</b>	<b>20.45</b>	<b>19.21</b>	<b>20.94</b>	<b>6%</b>	<b>-2%</b>
Other Income	8.11	5.46	7.61	49%	7%
<b>Net Income</b>	<b>28.55</b>	<b>24.66</b>	<b>28.55</b>	<b>16%</b>	<b>0%</b>
Opex	15.43	14.78	15.62	4%	-1%
<b>PPOP</b>	<b>13.12</b>	<b>9.88</b>	<b>12.92</b>	<b>33%</b>	<b>2%</b>
Provisions	5.33	3.19	6.35	67%	-16%
<b>PBT</b>	<b>7.79</b>	<b>6.69</b>	<b>6.57</b>	<b>16%</b>	<b>19%</b>
Tax	1.98	1.66	1.53	19%	29%
<b>PAT</b>	<b>5.81</b>	<b>5.03</b>	<b>5.04</b>	<b>16%</b>	<b>15%</b>
<b>Asset Quality</b>					
GNPA	27.5	16.1	24.8	71%	11%
NNPA	9.7	5.6	7.9	73%	23%
GNPA (%)	2.41%	1.78%	2.28%	63bps	13bps
NNPA (%)	0.85%	0.62%	0.74%	23bps	11bps
<b>Balance Sheet</b>					
Advances	1,098.3	896.5	1,070.9	23%	3%
Deposits	1,277.0	972.9	1,242.7	31%	3%
<b>Spreads</b>					
Yield	14.1%	14.4%	14.4%	-30bps	-30bps
Cost of Funds	7.1%	7.0%	7.1%	8bps	-2bps
NIM	5.4%	6.0%	5.9%	-60bps	-54bps

Source: Arianth Research, Company Filings

## Q1FY26 – Key Concall Highlights

### Guidance

- The company aims to drive growth through its vehicle financing, commercial banking, and gold loan portfolios, targeting an overall growth of ~20%-25% in these segments, going forward.
- This year it envisages to add 70-80 branches mostly in top tier cities.
- RBI's policy rate cuts and decrease in CRR has provided support on the deposits side. The company expects the broader economic environment to improve in H2 FY26 supported by buoyant rural demand, revival in urban demand, uptick in investment activities and governments continued thrust on capex.
- It continued to focus on growing its granular retail deposits
- Following the weaker performance in the microfinance (MFI) and south-based mortgage portfolios book during the quarter, management sees downside risk to its earlier guidance and has revised its full-year credit cost estimate upward by ~10-15 bps, taking it to ~1% of average total assets.

### Highlights

- Net interest margin (NIM) declined by ~38 bps to 5.4% in Q1 FY26 from 5.8% in Q4 FY25.
- This was driven by a 27 bps decline in loan yields due to repo rate cuts, an unfavourable asset mix, and lower yields particularly in credit cards; a ~20-25 bps decline in investment yields on account of lower interest rates and treasury gains; and a ~10 bps impact from excess liquidity and mutual fund investments, which is expected to reverse as the year progresses. The impact was partially offset by a 6 bps reduction in cost of funds (CoF).
- Gradual improvement in NIMs is expected from Q2 FY26 onwards.
- Other income expanded by 59% YoY backed by higher treasury income; and core other income increased by 4% YoY.
- Total operating expenses stood at INR 15.43 bn in Q1 FY26, up 4% YoY from INR 14.78 bn in Q1 FY25.
- The cost-to-income (C/I) ratio improved to 54% in Q1 FY26 from 60.8% a year ago, aided by higher treasury gains.
- The company has guided that the C/I would remain below ~60%.
- PPOP increased by 38% YoY to INR 13.12 bn in Q1 FY26 from INR 9.52 bn in Q1 FY25, driven by operating expense discipline and higher treasury gains.
- The company's credit cost remained elevated in Q1, primarily due to stress in the unsecured segment.
- Cost of funds declined by 6 bps to 7.08% in Q1 FY26 from 7.14% in Q4 FY25. Incremental CoF declined by ~62 bps over the same period to 7.08% in Q1 FY26 from 7.7% in Q4 FY25.
- Credit cost was slightly above expectations, primarily due to lower collection efficiency (CE) in the microfinance (MFI) segment and some slippages in the south-based mortgage portfolio (~15% of the total book)
- The company has undertaken further measures to enhance security and expects normalisation in the southern region by the end of the year

## Key Financials

P&L (INR Bn)	FY22	FY23	FY24	FY25	FY26E	FY27E
Interest income	59.2	82.1	105.5	160.6	180.9	234.6
Interest expense	26.9	37.8	54.0	80.5	87.7	123.7
<b>NII</b>	<b>32.3</b>	<b>44.3</b>	<b>51.6</b>	<b>80.1</b>	<b>93.2</b>	<b>110.9</b>
Non-interest income	9.9	10.3	17.5	25.3	22.4	25.3
<b>Net revenues</b>	<b>42.3</b>	<b>54.6</b>	<b>69.0</b>	<b>105.4</b>	<b>115.6</b>	<b>136.2</b>
Operating expenses	24.1	34.4	43.9	59.6	71.5	87.5
<b>PPOP</b>	<b>18.2</b>	<b>20.2</b>	<b>25.1</b>	<b>45.8</b>	<b>44.1</b>	<b>48.7</b>
Provisions	3.6	1.5	4.4	17.9	11.7	14.2
Exceptional Items	0.0	0.0	0.8	0.0	0.0	0.0
<b>PBT</b>	<b>14.5</b>	<b>18.6</b>	<b>20.0</b>	<b>27.9</b>	<b>32.4</b>	<b>34.5</b>
Tax	3.2	4.4	4.6	6.8	8.2	8.7
<b>PAT</b>	<b>11.3</b>	<b>14.3</b>	<b>15.3</b>	<b>21.1</b>	<b>24.2</b>	<b>25.8</b>

Balance sheet	FY22	FY23	FY24	FY25	FY26E	FY27E
Share capital	3	7	7	7	7	7
Reserves & surplus	72	103	119	164	187	212
<b>Net worth</b>	<b>75</b>	<b>110</b>	<b>126</b>	<b>172</b>	<b>195</b>	<b>219</b>
Deposits	526	694	872	1243	1686	2295
Borrowings	60	63	55	117	127	139
Other liability	30	36	42	48	21	17
<b>Total liabilities</b>	<b>691</b>	<b>902</b>	<b>1094</b>	<b>1578</b>	<b>2029</b>	<b>2671</b>
Fixed assets	6	7	9	9	10	10
Investments	153	201	271	378	526	761
Loans	461	584	732	1071	1128	1419
Cash	59	94	64	95	351	465
Other assets	11	16	19	25	15	15
<b>Total assets</b>	<b>691</b>	<b>902</b>	<b>1094</b>	<b>1578</b>	<b>2029</b>	<b>2671</b>

Source: Arianth Research, Company Filings

Ratios	FY22	FY23	FY24	FY25	FY26E	FY27E
Growth (%)						
NII	37	37	17	55	16	19
PPOP	-16	11	25	82	-4	11
PAT	-6	26	7	37	15	7
Advances	33	27	25	46	5	26
Deposits	46	32	26	43	36	36
Spread (%)						
Yield on Funds	10.1	10.6	10.8	12.3	10.2	10.1
Cost of Funds	5.3	5.6	6.4	7.0	5.5	5.8
Spread	4.8	4.9	4.4	5.3	4.7	4.3
NIM	5.5	5.7	5.3	6.1	5.3	4.8
Asset quality (%)						
Gross NPAs	2.0	1.9	2.0	1.8	2.4	2.3
Net NPAs	0.5	0.6	0.6	0.7	0.9	0.8
Provisions	75	70	69	64	63	66
Return ratios (%)						
RoE	16.4	15.4	13.0	14.2	13.2	12.5
RoA	1.9	1.8	1.5	1.6	1.3	1.1
Per share (Rs)						
EPS	36	21	23	28	33	35
BV	239	165	188	231	261	294
ABV	231	160	181	221	248	279
Valuation (x)						
P/E	22.0	36.9	34.4	27.9	24.3	22.8
P/BV	3.3	4.8	4.2	3.4	3.0	2.7
P/ABV	3.4	5.0	4.4	3.6	3.2	2.8

Source: Arihant Research, Company Filings

## Arihant Research Desk

Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

### Head Office

#1011, Solitaire Corporate Park  
Building No. 10, 1<sup>st</sup> Floor  
Andheri Ghatkopar Link Road  
Chakala, Andheri (E)  
Mumbai – 400093  
Tel: (91-22) 42254800

### Registered Office

6 Lad Colony,  
Y.N. Road,  
Indore - 452003, (M.P.)  
Tel: (91-731) 4217100/101  
CIN: L66120MP1992PLC007182

### Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

### Absolute Return

Research Analyst  
Registration No.

Contact

Website

Email Id

INH000002764

SMS: 'Arihant' to 56677

[www.arihantcapital.com](http://www.arihantcapital.com)

[instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

## Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800

Arihant Capital Markets Ltd

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**Arihant Capital Markets Ltd.**

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800