

Oct 19, 2025

**RESULT REPORT Q2 FY26** | Sector: Financials

# AU Small Finance Bank

## Improved visibility of RoE recovery

### Good growth, asset quality and margin delivery

AU SFB delivered a healthy operational performance in Q2 FY26 which was characterized by 1) 12% sequential decline in Slippages, 2) marginal reduction in credit cost (30 bps v/s 34 bps in Q1 FY26), 3) 5 bps improvement in NIM aided by a sharp 25 bps reduction in CoF and reversal of excess liquidity, 4) sustained brisk traction in Secured loan book (92% of GLP - grew by 5% qoq/22% yoy), and 5) acceleration in core fee income growth (lending/deposits related, cross-sell and AD-1 products).

Lower slippages were seen in Cards, Mortgages (higher-yielding low-ticket segments in South) and Commercial Banking portfolios. While credit cost related to slippages was lower sequentially, the write-offs remained elevated, and the provisions related to NPL settlements were higher. Slippages decline in Mortgages was aided by strengthening of collection and security enforcement mechanisms. Delinquency trend in Wheels portfolio was in-line with the seasonal pattern and there was absence of any undue stress. Collection efficiency in non-overdue MFI loans improved to 98.95% in Q2 FY26 from 98.33% in Q1 FY26.

Growth in Wheels portfolio remained strong at 26% yoy, aided by distribution expansion and market share gains. Growth in MBL portfolio was moderate at 15% yoy, owing to a likely calibrated business approach and intensified competition. Within Commercial Banking segment, the Business Banking and REG portfolios have been witnessing stronger growth. Yield on gross adv. declined by 19 bps qoq, which was primarily on account of repricing of ~29% variable rate book and changes in loan mix.

### Bank expects better growth and credit costs in H2, and margins to improve

Credit cost expectations have been maintained at within 100 bps (Net Credit Cost on TA) for the full year despite incurring 64 bps in H1 FY26. Slippages are expected to further come down in Mortgages and Cards portfolios, recoveries are expected to improve in Wheels, and delinquency flows are estimated to materially improve in MFI with reduction in SMA book and improvement in X-Bucket CE. Bank expects normalization of asset quality trends in Credit Cards portfolio by end of the year. On growth front, improving delinquency and recovery trends and distribution penetration (Fincare synergies) and geographic expansion would drive much stronger-than-system growth for AU Bank. The bank aspires to double distribution for Wheels products and achieve 20% growth in MBL book despite increased competition. AU has further reduced SA rates by 25 bps across most buckets from Oct 3rd, and this along with further re-pricing of Bulk and Retail TDs would drive CoF lower in coming quarters. Portfolio Yield would be relatively resilient with ~65% of loans on fixed rate and the impact of 100 bps Repo cut behind on variable rate book.

### Stock to re-rate along with Growth and RoE improvement; upgrade to BUY

AU Bank's RoE delivery should improve from H2 FY26 aided by decline in credit cost, some recovery in NIM, sustenance of strong fee growth, broad-based acceleration in loan growth, and controlled opex growth. Bank aspires to grow at 2-2.5x of nominal GDP growth, implying a loan portfolio growth of 20-25% pa. We estimate the bank to deliver a CAGR of 21% in loan book, 19% in PPOP and 30% in PAT over FY25-27. RoA/RoE are likely to reach 1.8%/16% in FY27. Stock is trading at reasonable valuation of 2.6x P/BV and 16x P/E for the envisaged earnings growth and RoE delivery. We expect valuation to re-rate on account of improved visibility of better performance over the coming quarters. Upgrade to BUY with 12m PT of Rs921.

Reco	: BUY
CMP	: Rs 792
Target Price	: Rs 921
Potential Return	: +16.2%

#### Stock data (as on Oct 17, 2025)

Nifty	25,710
52 Week h/l (Rs)	841 / 478
Market cap (Rs/USD mn)	595898 / 6774
Outstanding Shares (mn)	746
6m Avg t/o (Rs mn):	2,226
Div. yield (%):	0.1
Bloomberg code:	AUBANK IN
NSE code:	AUBANK

#### Stock performance



#### Shareholding pattern

Promoter	22.9%
FII+DII	66.6%
Others	10.6%

#### △ in stance

(1-Yr)	New	Old
Rating	BUY	NEUTRAL
Target Price	921	780

#### △ in earnings estimates

	FY25	FY26E	FY27E
EPS (New)	28.3	34.8	48.5
EPS (Old)	28.3	33.0	44.6
% Change	-	5.4%	8.7%

#### Financial Summary

(Rs mn)	FY25	FY26E	FY27E
Op. income	105,379	117,447	142,503
PPoP	45,807	51,322	64,145
Net profit	21,059	25,905	36,090
Growth (%)	30.7	23.0	39.3
EPS (Rs)	28.3	34.8	48.5
ABVPS (Rs)	219.8	254.9	303.1
P/E (x)	28.0	22.8	16.3
P/ABV (x)	3.6	3.1	2.6
ROAE (%)	14.2	14.0	16.7
ROAA (%)	1.6	1.5	1.8

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# AU Small Finance Bank

## Exhibit 1: Snapshot Overview

Parameter (Rs mn)	Q2 FY26	QoQ (%)	YoY (%)	vs Est
Net Interest Income	21,444	4.9%	8.6%	In-line
PPoP	12,097	-7.8%	6.9%	In-line
PAT	5,609	-3.4%	-1.8%	Beat
Gross Advances	1,228,770	4.5%	17.0%	In-line

Source: Company, YES Sec

## Exhibit 2: Key Monitorables & Triggers

What to Watch	Why it Matters	Timeline
Delinquencies in MFI, Cards and Mortgage	Significantly influences credit cost	H2 FY26
Growth in Wheels, Mortgages and Gold portfolios	Significantly influences loan growth	H2 FY26
Decline in CoF and further rate actions	Determines NIM recovery	H2 FY26
Incremental room to manage Opex growth	Influences RoA path	H2 FY26

Source: Company, YES Sec

## Exhibit 3: Estimate Revisions

Metric	Old Est (FY27E)	New Est	% Change	Reason
NII	109,601	110,267	0.6%	-
PPoP	59,931	64,145	7.0%	Revision in Growth
PAT	33,196	36,090	8.7%	Revision in Growth

Source: Company, YES Sec

# AU Small Finance Bank

## Exhibit 4: Result Table

(Rs mn)	Q2 FY26	Q1 FY26	% qoq	Q2 FY25	% yoy
Operating Income	45,113	43,784	3.0	39,106	15.4
Interest expended	(23,669)	(23,338)	1.4	(19,363)	22.2
<b>Net Interest Income</b>	<b>21,444</b>	<b>20,447</b>	<b>4.9</b>	<b>19,744</b>	<b>8.6</b>
Other Income	7,126	8,106	(12.1)	6,380	11.7
Total Income	28,570	28,553	0.1	26,123	9.4
Operating expenses	(16,473)	(15,431)	6.8	(14,806)	11.3
<b>PPOP</b>	<b>12,097</b>	<b>13,122</b>	<b>(7.8)</b>	<b>11,318</b>	<b>6.9</b>
Provisions	(4,808)	(5,333)	(9.8)	(3,730)	28.9
PBT	7,289	7,789	(6.4)	7,588	(3.9)
Tax	(1,680)	(1,980)	(15.2)	(1,876)	(10.4)
<b>Adjusted PAT</b>	<b>5,609</b>	<b>5,809</b>	<b>(3.4)</b>	<b>5,712</b>	<b>(1.8)</b>

Source: Company, YES Sec

## Exhibit 5: Business Data

(Rs mn)	Q2 FY26	Q1 FY26	% qoq	Q2 FY25	% yoy
AUM	1,228,770	1,176,240	4.5	1,050,310	17.0
<b>Deposits</b>	<b>1,325,092</b>	<b>1,276,960</b>	<b>3.8</b>	<b>1,096,930</b>	<b>20.8</b>
CA	76,000	63,000	20.6	59,810	27.1
SA	314,000	309,000	1.6	295,400	6.3
TD	882,090	852,960	3.4	699,270	26.1
CD	53,000	52,000	1.9	42,450	24.9
<b>Investments</b>	<b>383,822</b>	<b>383,440</b>	<b>0.1</b>	<b>318,610</b>	<b>20.5</b>
<b>Borrowings</b>	<b>103,190</b>	<b>106,490</b>	<b>(3.1)</b>	<b>87,770</b>	<b>17.6</b>

Source: Company, YES Sec

## Exhibit 6: Key Ratios

(%)	Q2 FY26	Q1 FY26	chg qoq	Q2 FY25	chg yoy
NIM*	5.5	5.4	0.1	6.1	(0.6)
Portfolio Yield	13.9	14.1	(0.2)	14.4	(0.5)
Cost of Funds	6.8	7.1	(0.3)	7.0	(0.2)
CASA	30.7	30.4	0.3	33.7	(3.0)
C/D	87.3	86.0	1.3	86.5	0.9
Cost to Income	57.7	54.0	3.6	56.7	1.0
Opex/ATA*	4.0	3.9	0.2	4.5	(0.4)
Gross NPA	2.4	2.5	(0.1)	2.0	0.4
Net NPA	0.9	0.9	-	0.8	0.1
RoA	1.4	1.5	(0.1)	1.7	(0.3)
RoE	12.4	13.3	(0.9)	14.5	(2.1)
CAR	18.8	19.4	(0.6)	18.5	0.3

Source: Company, YES Sec; \*Calculated.

## Exhibit 7: Other Income break-up

Particulars (Rs mn)	Q2 FY26	Q1 FY26	% qoq	Q2 FY25	% yoy
Loan Assets & Pro.	3,190	2,620	21.8	2,720	17.3
Gen. Banking & Deposits	2,230	1,570	42.0	1,720	29.7
PSLC Premium / Fees	-	-	-	20	-
Treasury Operations	790	3,000	(73.7)	680	16.2
Credit cards	560	570	(1.8)	980	(42.9)
Misc.	360	350	2.9	250	44.0

Source: Company, YES Sec

## Exhibit 8: Gross Loan Portfolio break-up (New Classification from Q1FY26)

Particulars (Rs mn)	Q2 FY26	Q1 FY26	% qoq	Q2 FY25	% yoy
Retail Secured Assets	827,350	787,390	5.1	690,830	19.8
Commercial Banking	254,460	245,010	3.9	207,940	22.4
Inclusive Banking	64,580	65,060	(0.7)	78,740	(18.0)
Digital Unsecured	29,070	30,510	(4.7)	43,290	(32.8)
Others and SME	53,310	48,270	10.4	29,510	80.7
<b>Total</b>	<b>1,228,770</b>	<b>1,176,240</b>	<b>4.5</b>	<b>1,050,310</b>	<b>17.0</b>

Source: Company, YES Sec.

## Exhibit 9: Valuation Snapshot

Valuation Metric	FY25	FY26E	FY27E
P/E (x)	28.0	22.8	16.3
P/ABV (x)	3.6	3.1	2.6
RoAA (%)	1.6	1.5	1.8
RoAE (%)	14.2	14.0	16.7

Source: Company, YES Sec

## PRICE CHARTS

Exhibit 10: 1-yr rolling P/ABV band

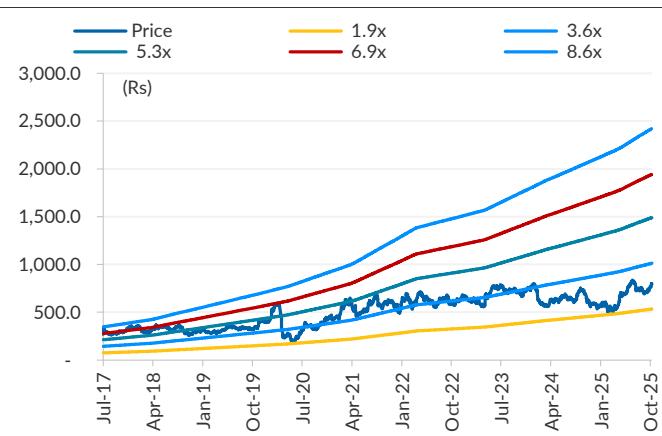
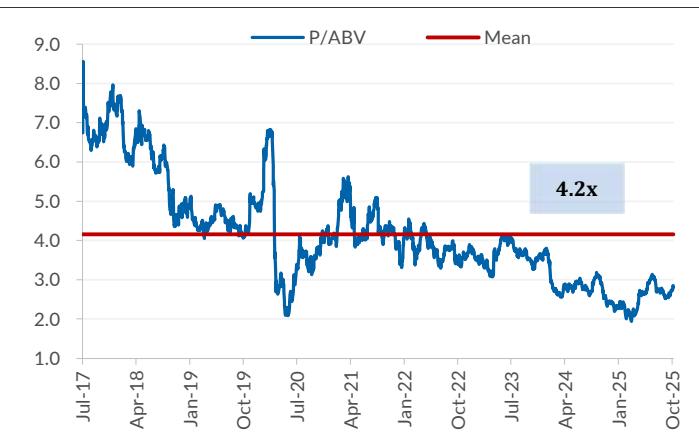


Exhibit 11: 1-year rolling P/ABV vis-a-vis the mean



## FINANCIALS

### Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs m)	FY23	FY24	FY25	FY26E	FY27E
Total cash & equivalents	94,252	63,763	94,664	93,120	116,260
Investments	200,720	271,334	378,475	435,247	522,296
Advances	584,215	731,627	1,070,925	1,279,369	1,569,091
Total interest-earning assets	879,187	1,066,724	1,544,064	1,807,736	2,207,648
Fixed assets	7,401	8,516	9,125	10,037	11,041
Other assets	15,573	19,017	25,268	29,059	34,870
<b>Total assets</b>	<b>902,161</b>	<b>1,094,257</b>	<b>1,578,457</b>	<b>1,846,831</b>	<b>2,253,559</b>
<b>Net worth</b>	<b>109,773</b>	<b>125,595</b>	<b>171,663</b>	<b>197,568</b>	<b>233,658</b>
Deposits	693,650	871,821	1,242,685	1,466,369	1,803,634
Borrowings	62,987	54,794	116,599	128,259	150,704
Total interest-bearing liabilities	756,636	926,615	1,359,284	1,594,628	1,954,338
Non-interest-bearing liabilities	35,751	42,046	47,509	54,636	65,563
<b>Total liabilities</b>	<b>792,388</b>	<b>968,661</b>	<b>1,406,794</b>	<b>1,649,264</b>	<b>2,019,901</b>
<b>Equity &amp; Total liabilities</b>	<b>902,161</b>	<b>1,094,257</b>	<b>1,578,457</b>	<b>1,846,831</b>	<b>2,253,559</b>

Source: Company, YES Sec

### Exhibit 13: Income statement

Y/e 31 Mar (Rs m)	FY23	FY24	FY25	FY26E	FY27E
Interest Income	82,054	105,547	160,637	185,179	220,641
Interest expense	(37,801)	(53,976)	(80,521)	(97,037)	(110,374)
<b>Net interest income</b>	<b>44,253</b>	<b>51,571</b>	<b>80,116</b>	<b>88,142</b>	<b>110,267</b>
Non-interest income	10,345	16,971	25,263	29,305	32,236
Total op income	54,597	68,542	105,379	117,447	142,503
Total op expenses	(34,403)	(43,880)	(59,572)	(66,125)	(78,358)
<b>PPoP</b>	<b>20,195</b>	<b>24,662</b>	<b>45,807</b>	<b>51,322</b>	<b>64,145</b>
Provisions	(1,548)	(3,900)	(17,926)	(17,026)	(16,365)
Profit before tax	18,646	20,762	27,881	34,296	47,780
Taxes	(4,367)	(4,647)	(6,821)	(8,391)	(11,690)
<b>Net profit</b>	<b>14,279</b>	<b>16,115</b>	<b>21,059</b>	<b>25,905</b>	<b>36,090</b>

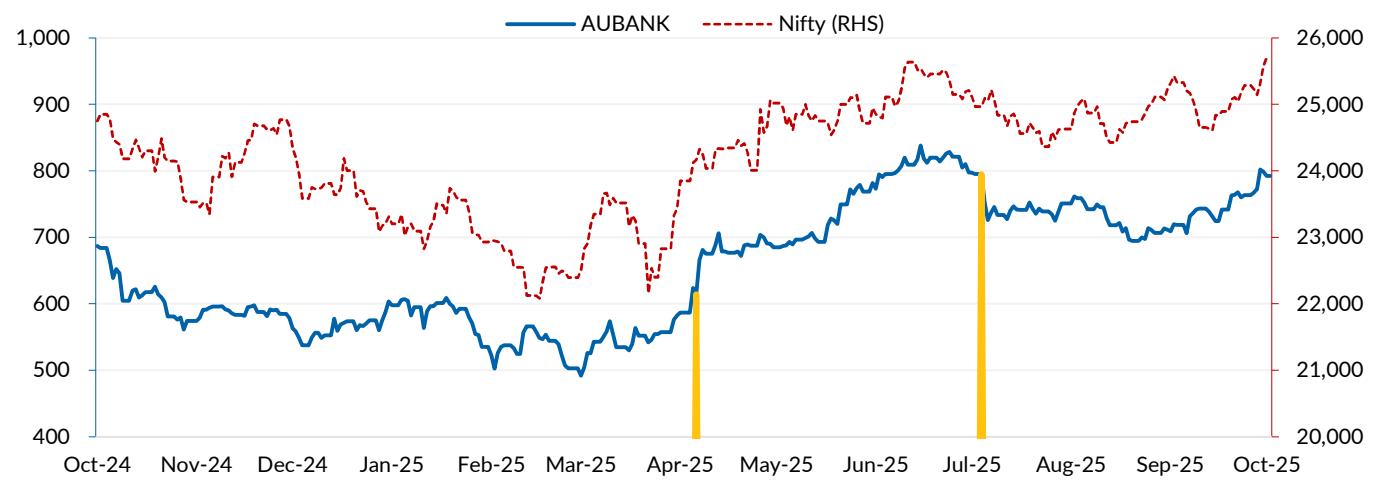
Source: Company, YES Sec

## Exhibit 14: Growth and Ratio matrix

Y/e 31 Mar	FY23	FY24	FY25	FY26E	FY27E
<b>Growth matrix (%)</b>					
Net interest income	36.8	16.5	55.4	10.0	25.1
Total op income	29.1	25.5	53.7	11.5	21.3
Op profit (pre-provision)	11.3	22.1	85.7	12.0	25.0
Net profit	26.4	12.9	30.7	23.0	39.3
Advances	26.7	25.2	46.4	19.5	22.6
Deposits	31.9	25.7	42.5	18.0	23.0
Total assets	30.6	21.3	44.2	17.0	22.0
<b>Profitability Ratios (%)</b>					
NIM	6.3	5.8	6.5	5.6	5.8
Non-interest income /Total income	18.9	24.8	24.0	25.0	22.6
Return on Equity	15.4	13.0	14.2	14.0	16.7
Return on Assets	1.8	1.5	1.6	1.5	1.8
<b>Per share ratios (Rs)</b>					
EPS	21.4	22.9	28.3	34.8	48.5
Adj. BVPS	160.9	181.6	219.8	254.9	303.1
<b>Other key ratios (%)</b>					
Credit/Deposits	84.2	83.9	86.2	87.2	87.0
Cost/Income	63.0	64.0	56.5	56.3	55.0
Gross NPLs/Loans	1.7	1.7	2.3	2.0	1.7
Net NPLs/Net loans	0.4	0.6	0.7	0.6	0.5
Tax rate	23.4	23.2	24.5	24.5	24.5

Source: Company, YES Sec

## Recommendation Tracker



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In adopting Rule 15a-6, the SEC sought "to facilitate access to foreign markets by U.S. institutional investors through foreign broker-dealers and the research that they provide, consistent with maintaining the safeguards afforded by broker-dealer registration." [Rule 15a-6 Adopting Release at 54 FR 30013; see also Registration Requirements for Foreign Broker-Dealers, Exchange Act Release No. 25801 (June 14, 1988), 53 FR 23645 (June 23, 1988)].

# AU Small Finance Bank

## DISCLOSURE OF INTEREST

Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

## NOT RATED / UNDER REVIEW

Analyst signature

Analyst signature

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