

**HOLD**

TP: Rs 741 | ▼ 2%

**AU SMALL FINANCE  
BANK**

| Banking

| 21 July 2025

## NIMs and asset quality pose near-term headwinds

- Operating profits mainly supported by treasury gains; deposit growth remains 3x of the system growth
- Credit cost guidance revised, driven by higher delinquency; credit growth led by secured portfolio
- Downgrade to HOLD from BUY with revised TP of Rs 741 (from Rs 717) and roll over the valuation to 2.3x Jun'27E

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**PPoP mainly supported by treasury gains:** PPoP grew by 1.5% QoQ to Rs 13.1bn in Q1FY26, largely driven by higher other income (+6.6% QoQ) that was partially offset by the decline in NII (-2.4% QoQ). Other income was mainly supported by higher trading gains of Rs 3bn vs Rs 1bn in Q4FY25, due to lower yields. NIMs declined to 5.4% (-38bps QoQ) driven by: a) reduction in asset yield to 14.1% (-27bps QoQ) on repricing of 30% floating rate book due to repo rate cut and change in loan mix to lower yielding book with share of unsecured falling to 8.1% (Jun'25) from 9.1% (Mar'25) b) investment yield down by 20-25bps, c) higher liquidity impacting 10bps. Management expects NIMs to bottom out in Q2FY26 and improve thereafter.

**Revision in credit cost guidance due to higher delinquency:** GNPA ratio deteriorated to 2.47% (+19bps QoQ), mainly due to the rise in slippages to Rs 10.3bn (+14.9% QoQ) in Q1FY26. The rise was due to seasonality and higher slippages in credit cards and secured mortgage portfolio in South India. Further, credit cost was higher than the bank's expectations due to lower CE in MFI (98.3% in Q1FY26 vs 98.7% in Q4FY25) and slippages in South-based mortgages book. Management stated that MFI recovery is likely to be delayed by a quarter; hence revised its credit cost guidance to 1% for FY26 vs earlier estimate of 85-90bps (1.4% annualised in Q1FY26 vs 1.3% in FY25).

**Secured portfolio drove credit growth:** AUBANK witnessed gross advances growth of 3% QoQ, driven by secured portfolio (retail + commercial) growth of 2.7% QoQ. Further, there was degrowth by 6.6% QoQ in the unsecured portfolio, given the industry-wide deleverage in MFI book and corrective actions undertaken in its credit card segment. Deposit growth stays strong at 31.3% YoY as of Jun'25 — 3x the system growth.

**Downgrade to HOLD:** We believe the bank is well placed to deliver RoA of 1.8% by FY27E. However, there are some headwinds in the near term related to NIMs and challenges in the asset quality. Hence, we downgrade to HOLD from BUY with revised TP of Rs 741 (from Rs 717) and roll over the valuation to 2.3x Jun'27E.

## Key changes

Target	Rating
▲	▼

Ticker/Price	AUBANK IN/Rs 753
Market cap	US\$ 6.5bn
Free float	77%
3M ADV	US\$ 29.3mn
52wk high/low	Rs 841/Rs 478
Promoter/FPI/DII	23%/36%/27%

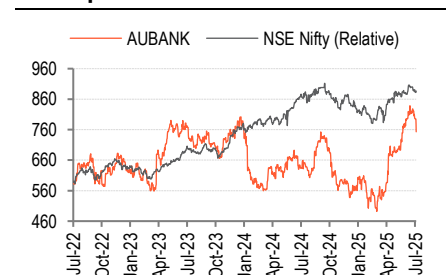
Source: NSE | Price as of 21 Jul 2025

## Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	80,116	95,176	1,17,874
NII growth (%)	55.4	18.8	23.8
Adj. net profit (Rs mn)	21,059	26,402	37,512
EPS (Rs)	29.8	35.5	50.4
Consensus EPS (Rs)	28.2	36.4	48.2
P/E (x)	25.3	21.2	14.9
P/BV (x)	3.3	2.8	2.4
ROA (%)	1.6	1.5	1.8
ROE (%)	14.2	14.3	17.4

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly snapshot: Income statement**

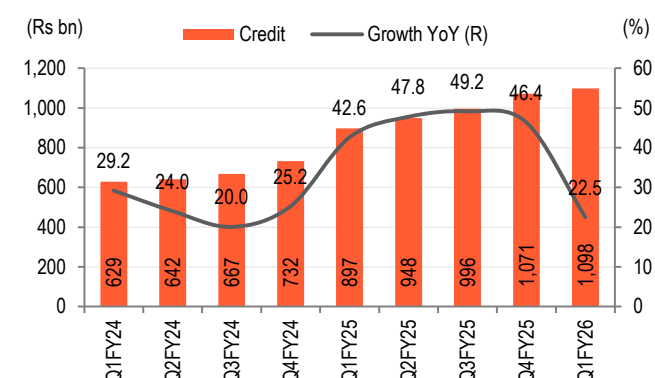
(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	QoQ (%)	YoY (%)
<b>Income Statement</b>							
Interest Income	30,920	32,796	34,412	35,555	36,649	3.1	18.5
Income on investments	5,431	5,082	5,685	6,184	6,450	4.3	18.8
Int. on bal. with RBI & inter-bank funds & Others	1,340	1,228	1,037	967	686	(29.1)	(48.8)
<b>Interest income</b>	<b>37,690</b>	<b>39,106</b>	<b>41,135</b>	<b>42,706</b>	<b>43,784</b>	<b>2.5</b>	<b>16.2</b>
Interest expense	18,485	19,363	20,908	21,767	23,338	7.2	26.3
<b>Net interest income</b>	<b>19,206</b>	<b>19,744</b>	<b>20,227</b>	<b>20,939</b>	<b>20,447</b>	<b>(2.4)</b>	<b>6.5</b>
Growth YoY (%)	54.1	58.1	52.7	56.6	6.5		
Fee Income	5,270	5,700	5,720	6,580	5,110	(22.3)	(3.0)
Trading gains/(losses)	190	680	460	1,020	3,000	194.1	1478.9
Forex Income	-	-	-	-	-	-	-
Others	(3)	(0)	4	7	(4)	(159.2)	15.2
<b>Non-interest income</b>	<b>5,457</b>	<b>6,380</b>	<b>6,184</b>	<b>7,607</b>	<b>8,106</b>	<b>6.6</b>	<b>48.6</b>
Growth YoY (%)	73.2	57.0	39.8	36.9	48.6		
<b>Total income</b>	<b>24,662</b>	<b>26,123</b>	<b>26,411</b>	<b>28,546</b>	<b>28,553</b>	<b>0.0</b>	<b>15.8</b>
Growth YoY (%)	58.0	57.8	49.5	50.8	15.8		
Staff expenses	7,901	7,855	7,547	8,175	8,655	5.9	9.5
Other operating expenses	6,880	6,951	6,815	7,449	6,775	(9.0)	(1.5)
Operating expenses	14,781	14,806	14,362	15,623	15,431	(1.2)	4.4
<b>Pre-Provisioning Profit (PPoP)</b>	<b>9,881</b>	<b>11,318</b>	<b>12,049</b>	<b>12,923</b>	<b>13,122</b>	<b>1.5</b>	<b>32.8</b>
Growth YoY (%)	81.0	80.0	85.5	94.6	32.8		
Provisions	3,192	3,730	5,017	6,351	5,333	(16.0)	67.1
Growth YoY (%)	868.0	291.5	231.2	379.3	67.1		
Exceptional Item	-	-	-	-	-	-	-
<b>PBT</b>	<b>6,689</b>	<b>7,588</b>	<b>7,032</b>	<b>6,571</b>	<b>7,789</b>	<b>18.5</b>	<b>16.4</b>
Tax	1,663	1,876	1,748	1,535	1,980	29.1	19.1
<b>PAT</b>	<b>5,026</b>	<b>5,712</b>	<b>5,284</b>	<b>5,037</b>	<b>5,809</b>	<b>15.3</b>	<b>15.6</b>
Growth YoY (%)	29.9	42.1	40.8	12.5	15.6		
<b>Per Share</b>							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	7	8	7	7	8	15.2	15.2
Book Value (Rs)	209	216	223	231	239	3.7	14.6

Source: Company, BOBCAPS Research

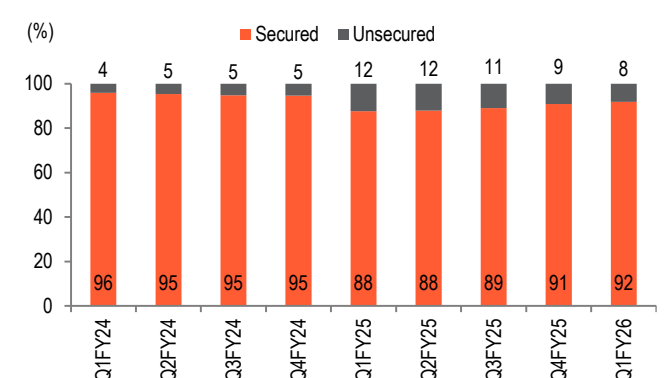
**Fig 2 – Quarterly snapshot: Balance sheet & other key metrics**

(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	QoQ (%)	YoY (%)
<b>Deposits</b>	<b>9,72,900</b>	<b>10,96,932</b>	<b>11,22,600</b>	<b>12,42,685</b>	<b>12,76,960</b>	<b>2.8</b>	<b>31.3</b>
Growth YoY (%)	40.4	44.8	40.1	42.5	31.3		
<b>Advances</b>	<b>8,96,520</b>	<b>9,48,382</b>	<b>9,95,590</b>	<b>10,70,925</b>	<b>10,98,340</b>	<b>2.6</b>	<b>22.5</b>
Growth YoY (%)	42.6	47.8	49.2	46.4	22.5		
Investment	2,73,150	3,18,608	3,36,130	3,78,475	3,83,440	1.3	40.4
Equity	1,55,160	1,60,412	1,66,020	1,71,663	1,78,000	3.7	14.7
Assets	12,59,430	13,88,292	14,30,440	15,78,457	16,08,140	1.9	27.7
Growth YoY (%)	37.5	44.6	41.4	44.2	27.7		
<b>Yield</b>							
Yield on Funds	13.15	12.14	11.98	11.63	11.26	(37bps)	(189bps)
Cost of Funds	7.44	6.89	6.95	6.74	6.81	6bps	(63bps)
Spread	5.72	5.24	5.04	4.88	4.45	(43bps)	(127bps)
<b>Net Interest Margin</b>	<b>6.70</b>	<b>6.13</b>	<b>5.89</b>	<b>5.70</b>	<b>5.26</b>	<b>(44bps)</b>	<b>(144bps)</b>
<b>Ratios</b>							
Other Income / Net Income	22.1	24.4	23.4	26.6	28.4	174bps	626bps
Cost to Income ratio	59.9	56.7	54.4	54.7	54.0	(69bps)	(589bps)
CASA ratio	32.9	32.4	30.6	29.2	29.1	(4bps)	(380bps)
C/D ratio	92.1	86.5	88.7	86.2	86.0	(17bps)	(614bps)
Investment to Assets	21.7	22.9	23.5	24.0	23.8	(13bps)	216bps
<b>Assets Quality</b>							
GNPA	16,132	19,017	23,355	24,770	27,513	11.1	70.6
NNPA	5,626	7,067	9,056	7,910	9,713	22.8	72.7
Provision	10,506	11,950	14,299	16,860	17,800	5.6	69.4
GNPA (%)	1.78	1.98	2.31	2.28	2.47	19bps	69bps
NNPA (%)	0.63	0.75	0.91	0.74	0.88	14bps	25bps
Provision (%)	84.00	82.00	80.00	84.00	83.00	(100bps)	(100bps)
<b>Others</b>							
Branches	2,414	2,408	2,400	2,456	2,505	49	91
ATMs	695	688	674	677	678	1	(17)
Employees	46,600	48,000	49,100	50,946	53,235	2,289	6,635

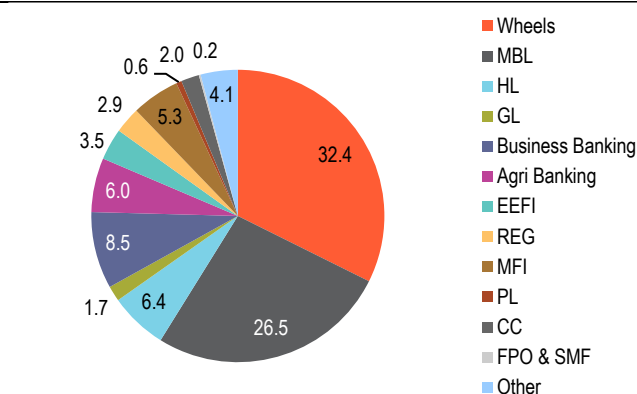
Source: Company, BOBCAPS Research

**Fig 3 – Credit growth healthy at 22.5% YoY...**


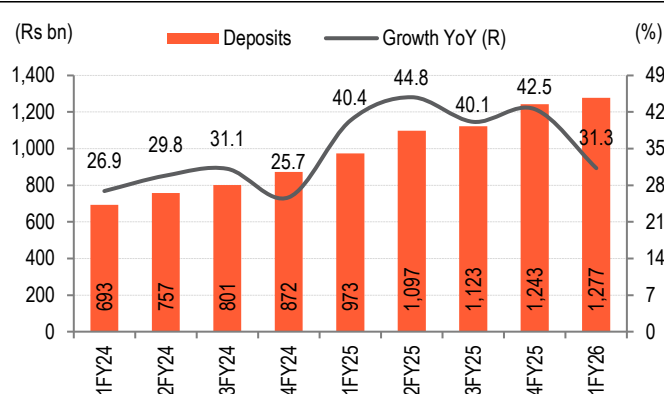
Source: Company, BOBCAPS Research

**Fig 4 – .... led by secured book growth of 22% YoY**


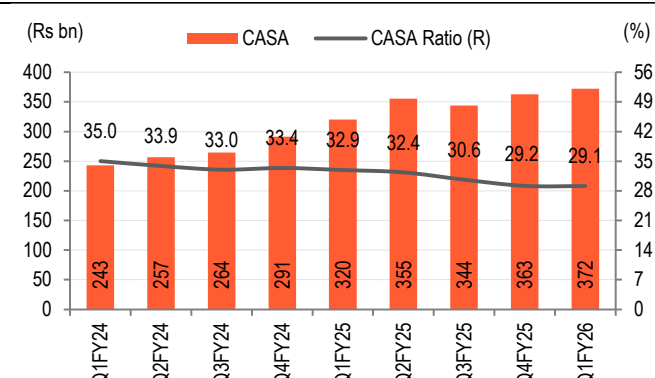
Source: Company, BOBCAPS Research

**Fig 5 – Advances mix with ~92% of secured - Q1FY26**


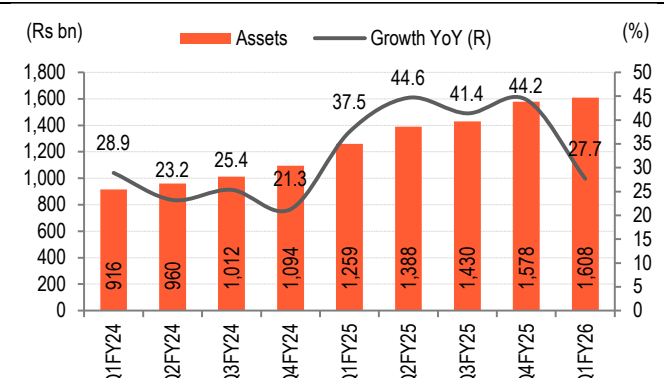
Source: Company, BOBCAPS Research

**Fig 6 – Deposits growth ~3x than system growth**


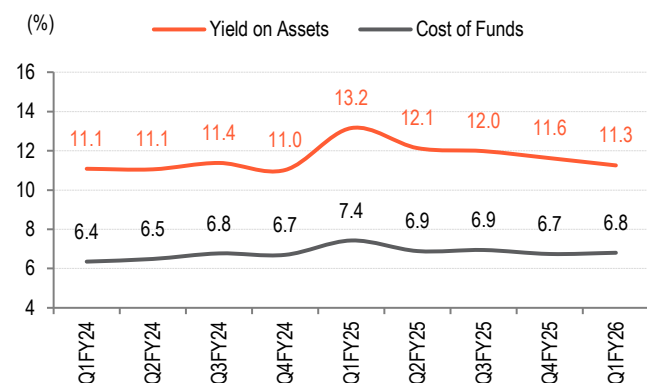
Source: Company, BOBCAPS Research

**Fig 7 – ... but CASA ratio continues to slip**


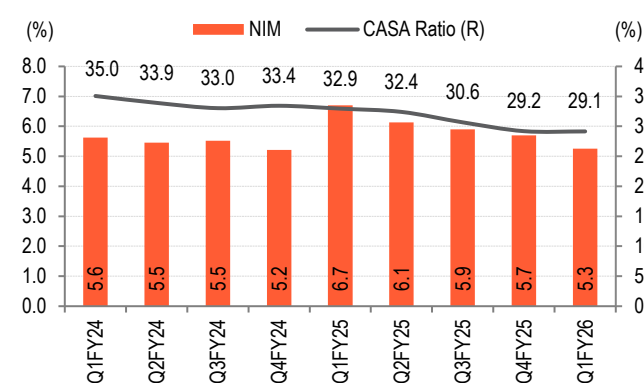
Source: Company, BOBCAPS Research

**Fig 8 – Asset growth remains steady**


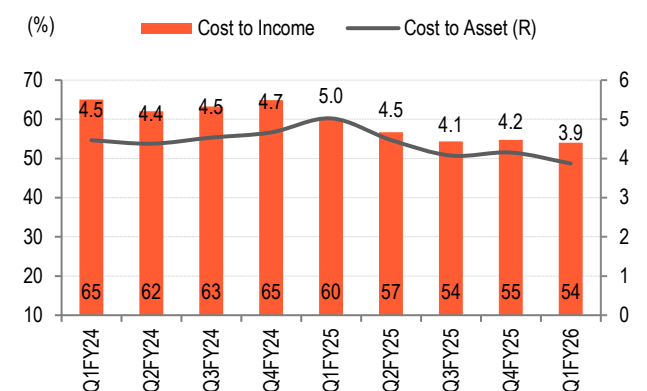
Source: Company, BOBCAPS Research

**Fig 9 – Spreads narrow as asset yields decline more than cost of funds**


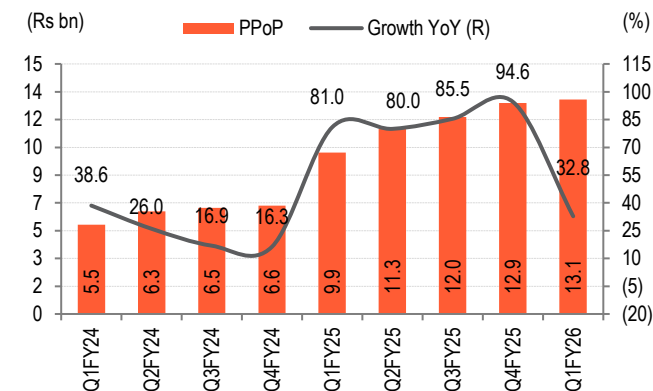
Source: Company, BOBCAPS Research

**Fig 10 – NIMs decline largely due to fall in loan yields**


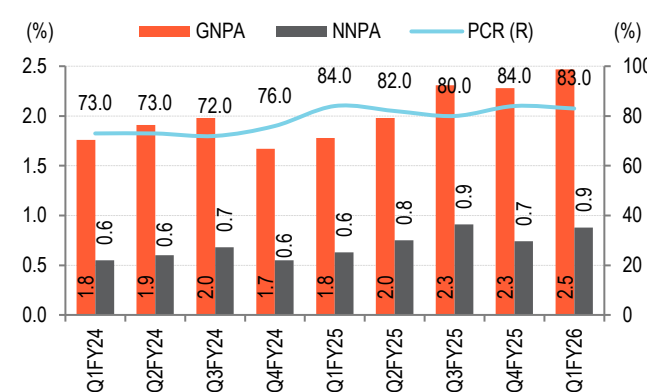
Source: Company, BOBCAPS Research

**Fig 11 – Improvement in operating efficiency**


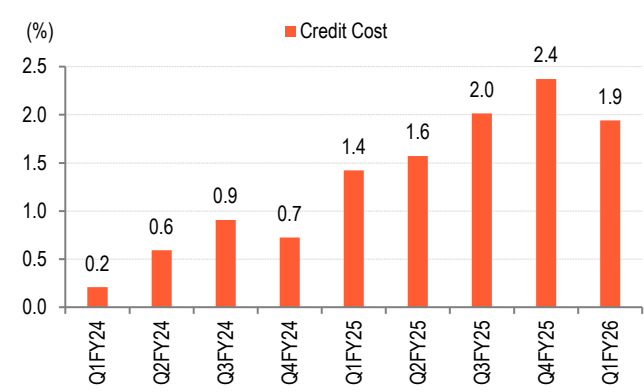
Source: Company, BOBCAPS Research

**Fig 12 – PPOP growth backed by trading gains in Q1FY26**


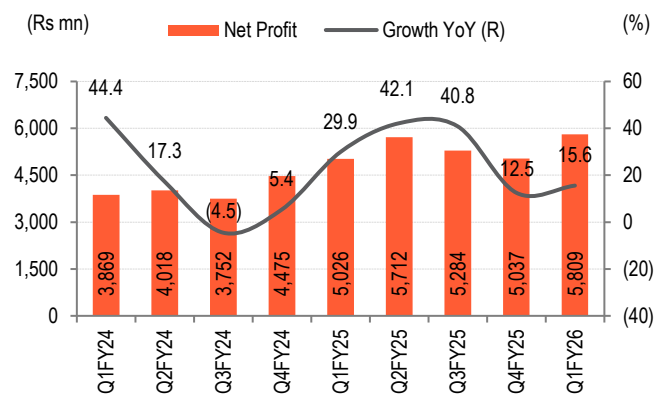
Source: Company, BOBCAPS Research

**Fig 13 – Asset quality deteriorated**


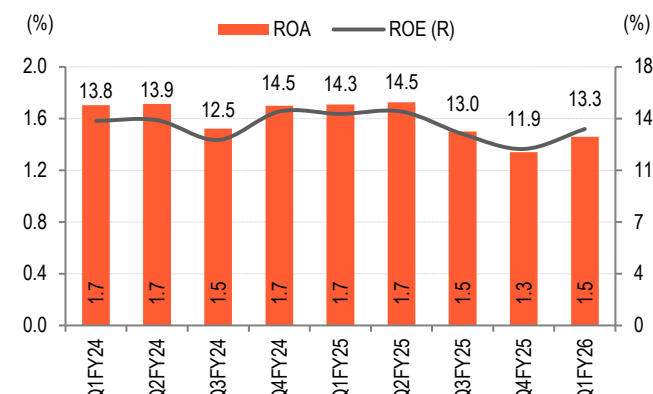
Source: Company, BOBCAPS Research

**Fig 14 – Credit cost remains elevated**


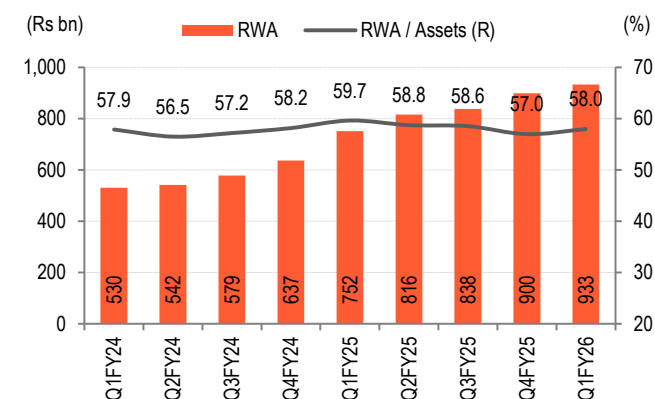
Source: Company, BOBCAPS Research

**Fig 15 – PAT supported by treasury gains**


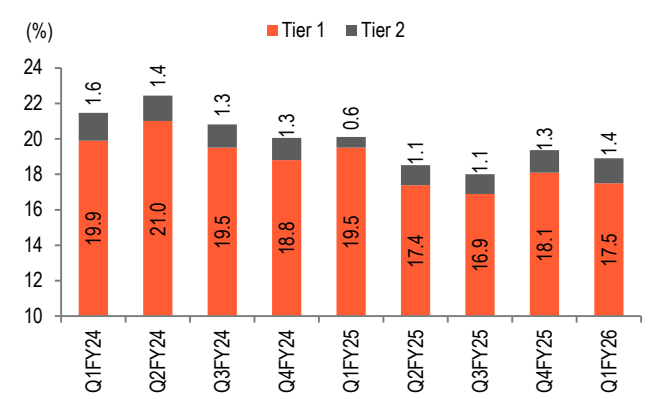
Source: Company, BOBCAPS Research

**Fig 16 – Return ratios remains steady**


Source: Company, BOBCAPS Research

**Fig 17 – Risk-weighted assets expand**


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

**Fig 18 – Adequate capital position**


Source: Company, BOBCAPS Research

## Concall Highlights

### Advances and deposits

- **Advances:** Gross advances increased by 3% QoQ to Rs 1,116bn, up from Rs 1,088bn in Q4FY25. The growth was primarily driven by the wheels and micro business loans (MBL) segments.
- **Deposits:** Total deposits stood at Rs 1,278 bn, marking 3% QoQ and 31% YoY growth. The surge was fueled by continued traction in both current and wholesale term deposits.
- **CD Ratio:** Credit-deposit ratio was stable at 86% in Q1FY26 from 86.2% in Q4FY25; reflecting a more balanced funding profile.
- **CASA Ratio:** CASA ratio declined to 29.1% in Q1FY26 vs 32.9% in Q1FY25. Within CASA deposits, the bank witnessed a decline in CA deposits (-10% QoQ); however, SA deposits increased 5.6% QoQ. As a result, the share of CASA + Retail TD remained stable at 62% in Q1FY26.

### Profitability

- **Net Interest Income (NII):** NII de-grew by 2.4% QoQ and grew 6.5% YoY to Rs 20.4 bn. However, net interest margin (NIMs) declined by 40bps QoQ, suggesting margin compression mainly driven by a decline in high-yielding MFI book.
- **Other Income:** Other income rose to Rs 8.1bn (+6.6% QoQ), primarily driven by treasury performance contributing Rs 3bn. Other Income, as % of NII, stands at 40% vs 36% last quarter.
- **Provisions:** Provisions stood at Rs 5.3 bn, (-16% QoQ), translating to a credit cost of 1.9% from 2.4% in Q4FY25. This was driven by accelerated provisioning in the unsecured loan segment.
- **Return Ratios:** RoA was healthy at 1.5% and grew 12bps QoQ and RoE grew 136bps to 13.3%, driven by higher profits.

### Asset quality

- The bank witnessed some weakness in wheels segments, particularly in higher yielding used SCV / HCV; but these are small part (~6%) of overall book.
- The bank witnessed slightly elevated slippages in the higher-yielding South-based mortgage book. Management stated that they have already taken further measures to strengthen collection / security enforcement infrastructure in these geographies and expect a pull-back in H2.
- In the unsecured segment, MFI book saw lower CE; the recovery is expected to be delayed by one quarter to Q4.
- Credit card asset quality stays elevated. Management stated that the stress is peaking and incremental flows are mainly from the identified pool of customers where corrective actions have already been initiated.

## Valuation Methodology

AUBANK expects to receive universal bank license by 2025, which is likely to support growth and improve market positioning. We believe the bank is well placed to deliver RoA of 1.8% by FY27E. However, there are some headwinds in the near term related to NIMs and challenges in the asset quality. Hence, we downgrade to HOLD from BUY with revised TP of Rs 741 (from Rs 717) and roll over the valuation to 2.3x Jun'27E.

**Fig 19 – Key operational assumptions**

(%)	FY25	FY26E	FY27E	FY28E
Advances growth	46.4	20.5	22.5	23.0
NII growth	55.4	18.8	23.8	22.5
PPoP growth	91.7	17.0	28.1	24.3
PAT growth	37.2	25.4	42.1	29.7
NIM	5.9	6.0	6.1	6.0
GNPA	2.3	2.6	2.2	2.0
CAR	20.1	19.8	19.2	18.8

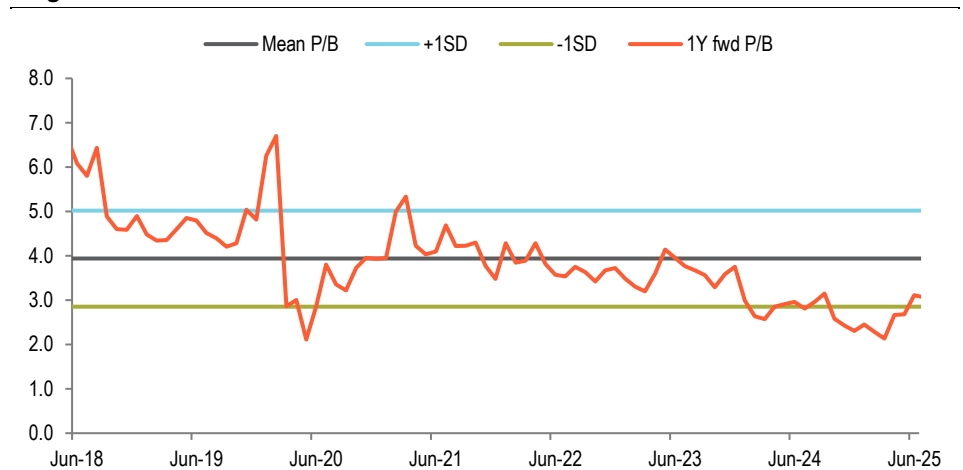
Source: Company, BOBCAPS Research

**Fig 20 – Valuation assumptions**

Gordon growth model	Assumptions
Risk-free rate (%)	6.4
Equity risk premium (%)	5.5
Beta	0.8
Cost of equity (%)	10.9
Blended ROE (%)	14.0
Initial high growth period (yrs)	15.0
Payout ratio of high-growth phase (%)	18.0
Long-term growth (%)	6.3
Long term dividend payout ratio (%)	55.0
Justified P/BV Multiple (x)	2.3

Source: Company, BOBCAPS Research

**Fig 21 – PB band chart**



Source: Company, BOBCAPS Research



## Key risks

Key downside risks to our estimates:

- Unexpected asset quality shocks leading to higher credit cost.
- Slowdown in credit growth.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	51,571	80,116	95,176	1,17,874	1,44,389
NII growth (%)	16.5	55.4	18.8	23.8	22.5
Non-interest income	16,971	25,263	31,360	38,299	47,096
Total income	68,542	1,05,379	1,26,536	1,56,172	1,91,485
Operating expenses	44,648	59,572	72,939	87,503	1,06,162
PPOP	23,894	45,807	53,597	68,670	85,324
PPOP growth (%)	18.3	91.7	17.0	28.1	24.3
Provisions	3,900	17,926	18,301	18,520	20,270
PBT	19,994	27,881	35,297	50,150	65,054
Tax	4,647	6,821	8,895	12,638	16,394
Reported net profit	15,347	21,059	26,402	37,512	48,660
Adjustments	0	0	0	0	0
Adjusted net profit	15,347	21,059	26,402	37,512	48,660

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	6,692	7,445	7,445	7,445	7,445
Reserves & surplus	1,18,904	1,64,218	1,89,695	2,26,082	2,73,380
Net worth	1,25,595	1,71,663	1,97,141	2,33,527	2,80,825
Deposits	8,71,821	12,42,685	15,47,143	19,38,571	24,13,520
Borrowings	54,794	1,16,599	1,42,251	1,74,968	2,16,961
Other liab. & provisions	42,046	47,509	19,441	2,360	(27,796)
Total liab. & equities	10,94,257	15,78,457	19,05,976	23,49,426	28,83,511
Cash & bank balance	63,763	94,664	1,31,852	1,66,484	2,07,864
Investments	2,71,334	3,78,475	4,39,010	5,47,622	6,64,163
Advances	7,31,627	10,70,925	12,90,464	15,80,819	19,44,407
Fixed & Other assets	27,533	34,393	44,650	54,501	67,077
Total assets	10,94,257	15,78,457	19,05,976	23,49,426	28,83,511
Deposit growth (%)	25.7	42.5	24.5	25.3	24.5
Advances growth (%)	25.2	46.4	20.5	22.5	23.0

### Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	23.0	29.8	35.5	50.4	65.4
Dividend per share	1.0	1.0	1.2	1.5	1.8
Book value per share	187.7	230.6	264.8	313.7	377.2

### Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	32.8	25.3	21.2	14.9	11.5
P/BV	4.0	3.3	2.8	2.4	2.0
Dividend yield (%)	0.1	0.1	0.2	0.2	0.2

### DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	5.2	6.0	5.5	5.5	5.5
Non-interest income	1.7	1.9	1.8	1.8	1.8
Operating expenses	4.5	4.5	4.2	4.1	4.1
Pre-provisioning profit	2.4	3.4	3.1	3.2	3.3
Provisions	0.4	1.3	1.1	0.9	0.8
PBT	2.0	2.1	2.0	2.4	2.5
Tax	0.5	0.5	0.5	0.6	0.6
ROA	1.5	1.6	1.5	1.8	1.9
Leverage (x)	8.5	9.0	9.4	9.9	10.2
ROE	13.0	14.2	14.3	17.4	18.9

### Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
<b>YoY growth (%)</b>					
Net interest income	16.5	55.4	18.8	23.8	22.5
Pre-provisioning profit	18.3	91.7	17.0	28.1	24.3
EPS	4.3	29.7	19.0	42.1	29.7
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	5.5	5.9	6.0	6.1	6.0
Fees / Avg. assets	42.5	47.3	45.0	45.0	45.0
Cost-Income	65.1	56.5	57.6	56.0	55.4
ROE	13.0	14.2	14.3	17.4	18.9
ROA	1.5	1.6	1.5	1.8	1.9
<b>Asset quality (%)</b>					
GNPA	1.7	2.3	2.6	2.2	2.0
NNPA	0.6	0.8	0.8	0.6	0.6
Slippage ratio	2.9	5.2	3.2	2.8	2.6
Credit cost	0.6	2.0	1.6	1.3	1.2
Provision coverage	63.9	65.9	67.9	70.0	70.3
<b>Ratios (%)</b>					
Credit-Deposit	83.9	86.2	83.4	81.5	80.6
Investment-Deposit	31.1	30.5	28.4	28.2	27.5
CAR	20.1	20.1	19.8	19.2	18.8
Tier-1	18.8	18.1	17.9	17.3	16.9

Source: Company, BOBCAPS Research

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**BUY** – Expected return >+15%

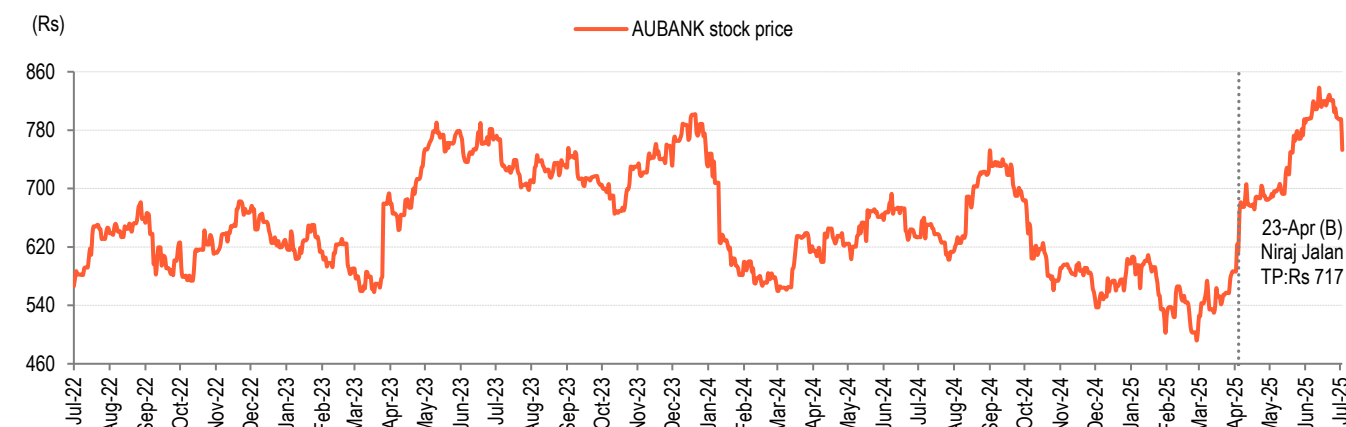
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**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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