

HOLD

TP: Rs 829 | ▼ 4%

**AU SMALL FINANCE
BANK**

| Banking

| 22 October 2025

Business momentum stays strong, asset quality improving

- PPOP largely in line with estimates; lower provisions resulted in higher PAT; business momentum stays strong
- Asset quality improved marginally, driven by lower slippages
- Maintain HOLD with revised TP of Rs 829 (from Rs 741) and roll over the valuation to 2.5x Sep'27E ABV

Niraj Jalan
Research Analyst
Vijiya Rao
Research Analyst
research@bobcaps.in

PPoP largely in line with estimates; lower provisions resulted in higher PAT:

PPoP was largely in line with estimates (-1%) at Rs 12.1bn (+6.9% YoY). This was supported by healthy loan growth (+22% YoY) and a sequential rise in NIMs to 5.5% (+10bps QoQ). Management expects NIMs to expand in the next couple of quarters as deposit reprices. However, PAT was 6% higher than our estimates at Rs 5.6bn (-1.8% YoY), mainly due to lower credit cost vs our estimates by 7%. However, provisions remain elevated at Rs 4.8bn (+28.9% YoY; -9.8% QoQ) or credit cost of 1.3% of ATA. Around 50% of CC was from credit card and MFI segments. With stress easing in MFI, management guided credit costs to be <1% of ATA for FY26.

Business momentum stays strong: AUBANK witnessed net advance growth of 22% YoY, which was twice the system growth. Secured retail assets (wheels, MBL, HL and GL) accounted for 67.3% of total loans, followed by Commercial Banking (CB) (20.7%) and unsecured (7.6%) and others (4.3%). Management stated that secured retail assets will continue to grow at a high pace, given rise in distribution expansion in the states of AP, Karnataka, TN, Telangana, UP and West Bengal. Deposit growth stays strong at 20.8% YoY (Sep'25) and was ~2x the system growth.

Asset quality improved marginally, driven by lower slippages: GNPA ratio improved marginally to 2.41% (-6bps QoQ), largely driven by lower slippages of Rs 9.1bn (-11.6% QoQ) or slippage ratio of 3.7% (-72 bps QoQ). The reduction in slippages was due to lower slippages in cards, mortgages and CB. Further, CE in non-overdue MFI loans improved to 98.9% in Q2FY26 vs 98.3% in Q1FY26. Also, the SMA book improved to 2.9% (Sep'25) vs 4.3% (Jun'25), indicating improving early bucket delinquency. Management expects high recovery in the Wheels segment in H2FY26 and expects credit card to normalise by the end of FY26.

Maintain HOLD: AUBANK received in-principle approval from RBI for conversion into a universal bank in Aug'25. We believe the bank's current valuations appear stretched relative to underlying fundamentals. We expect the bank to deliver RoA of 1.8% by FY28E. We maintain HOLD with revised TP of Rs 829 (from Rs 741) and roll over the valuation to 2.5x Sep'27E ABV.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AUBANK IN/Rs 861
Market cap	US\$ 7.3bn
Free float	77%
3M ADV	US\$ 24.5mn
52wk high/low	Rs 872/Rs 478
Promoter/FPI/DII	23%/35%/32%

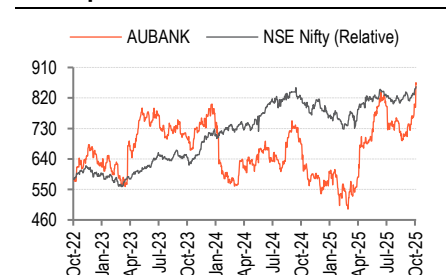
Source: NSE | Price as of 21 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	80,116	93,729	1,16,336
NII growth (%)	55.4	17.0	24.1
Adj. net profit (Rs mn)	21,059	25,587	35,401
EPS (Rs)	29.8	34.4	47.5
Consensus EPS (Rs)	28.2	34.4	46.6
P/E (x)	28.9	25.1	18.1
P/BV (x)	3.7	3.3	2.8
ROA (%)	1.6	1.5	1.7
ROE (%)	14.2	13.9	16.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

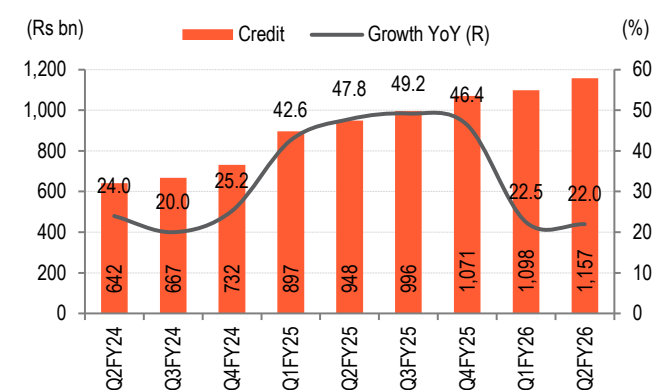
(Rs mn)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	32,796	34,412	35,555	36,649	37,862	15.4	3.3
Income on investments	5,082	5,685	6,184	6,450	6,444	26.8	(0.1)
Int. on bal. with RBI & inter-bank funds & Others	1,228	1,037	967	686	807	(34.3)	17.6
Interest income	39,106	41,135	42,706	43,784	45,113	15.4	3.0
Interest expense	19,363	20,908	21,767	23,338	23,669	22.2	1.4
Net interest income	19,744	20,227	20,939	20,447	21,444	8.6	4.9
Growth YoY (%)	58.1	52.7	56.6	6.5	8.6		
Fee Income	5,700	5,720	6,580	5,110	6,340	11.2	24.1
Trading gains/(losses)	680	460	1,020	3,000	790	16.2	(73.7)
Others	(0)	4	7	(4)	(4)	-	6.0
Non-interest income	6,380	6,184	7,607	8,106	7,126	11.7	(12.1)
Growth YoY (%)	57.0	39.8	36.9	48.6	11.7		
Total income	26,123	26,411	28,546	28,553	28,570	9.4	0.1
Growth YoY (%)	57.8	49.5	50.8	15.8	9.4		
Staff expenses	7,855	7,547	8,175	8,655	9,187	17.0	6.1
Other operating expenses	6,951	6,815	7,449	6,775	7,286	4.8	7.5
Operating expenses	14,806	14,362	15,623	15,431	16,473	11.3	6.8
Pre-Provisioning Profit (PPoP)	11,318	12,049	12,923	13,122	12,097	6.9	(7.8)
Growth YoY (%)	80.0	85.5	94.6	32.8	6.9		
Provisions	3,730	5,017	6,351	5,333	4,808	28.9	(9.8)
Growth YoY (%)	291.5	231.2	379.3	67.1	28.9		
Exceptional Item	-	-	-	-	-	-	-
PBT	7,588	7,032	6,571	7,789	7,289	(3.9)	(6.4)
Tax	1,876	1,748	1,535	1,980	1,680	(10.4)	(15.2)
PAT	5,712	5,284	5,037	5,809	5,609	(1.8)	(3.4)
Growth YoY (%)	42.1	40.8	12.5	15.6	(1.8)		
Per Share							
FV (Rs)	10	10	10	10	10	-	-
EPS (Rs)	8	7	7	8	8	(2.1)	(3.6)
Book Value (Rs)	216	223	231	239	245	13.8	2.7

Source: Company, BOBCAPS Research

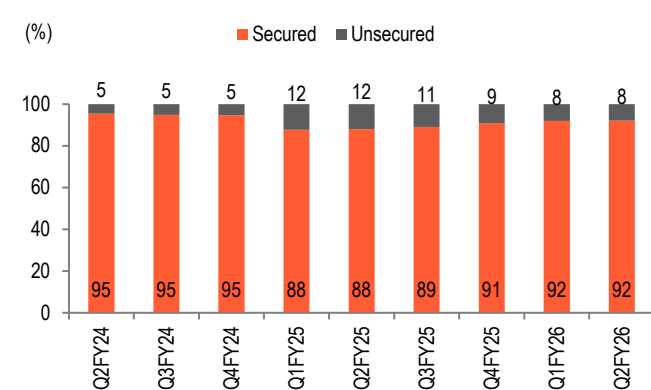
Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

(Rs mn)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Deposits	10,96,932	11,22,600	12,42,685	12,76,960	13,25,092	20.8	3.8
Growth YoY (%)	44.8	40.1	42.5	31.3	20.8		
Advances	9,48,382	9,95,590	10,70,925	10,98,340	11,57,050	22.0	5.3
Growth YoY (%)	47.8	49.2	46.4	22.5	22.0		
Investment	3,18,608	3,36,130	3,78,475	3,83,440	3,83,822	20.5	0.1
Equity	1,60,412	1,66,020	1,71,663	1,78,000	1,83,162	14.2	2.9
Assets	13,88,292	14,30,440	15,78,457	16,08,140	16,55,419	19.2	2.9
Growth YoY (%)	44.6	41.4	44.2	27.7	19.2		
Yield							
Yield on Funds	12.14	11.98	11.63	11.26	11.35	(79bps)	9bps
Cost of Funds	6.89	6.95	6.74	6.81	6.73	(16bps)	(7bps)
Spread	5.24	5.04	4.88	4.45	4.61	(63bps)	16bps
Net Interest Margin	6.10	5.90	5.80	5.40	5.40	(70bps)	0bps
Ratios							
Other Income / Net Income	24.4	23.4	26.6	28.4	24.9	52bps	(345bps)
Cost to Income ratio	56.7	54.4	54.7	54.0	57.7	98bps	361bps
CASA ratio	32.4	30.6	29.2	29.1	29.0	(338bps)	(13bps)
C/D ratio	86.5	88.7	86.2	86.0	87.3	86bps	131bps
Investment to Assets	22.9	23.5	24.0	23.8	23.2	24bps	(66bps)
Assets Quality							
GNPA	19,017	23,355	24,770	27,513	28,353	49.1	3.1
NNPA	7,067	9,056	7,910	9,713	10,157	43.7	4.6
Provision	11,950	14,299	16,860	17,800	18,197	52.3	2.2
GNPA (%)	1.98	2.31	2.28	2.47	2.41	43bps	(6bps)
NNPA (%)	0.75	0.91	0.74	0.88	0.88	13bps	0bps
Provision (%)	62.82	61.22	68.05	64.70	64.18	136bps	(52bps)
Others							
Branches	2,408	2,400	2,456	2,505	2,626	218	121
ATMs	688	674	677	678	707	19	29
Employees	48,000	49,100	50,946	53,235	57,786	9,786	4,551

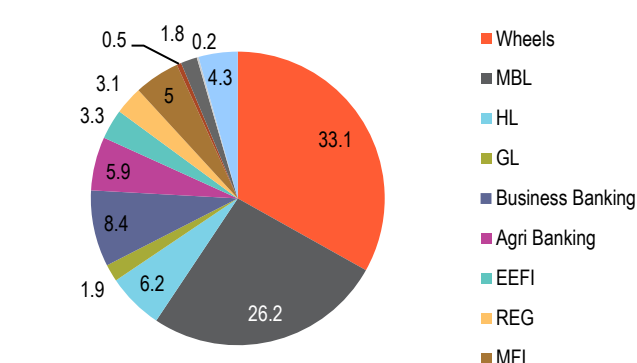
Source: Company, BOBCAPS Research

Fig 3 – Credit growth ~2x of system growth...


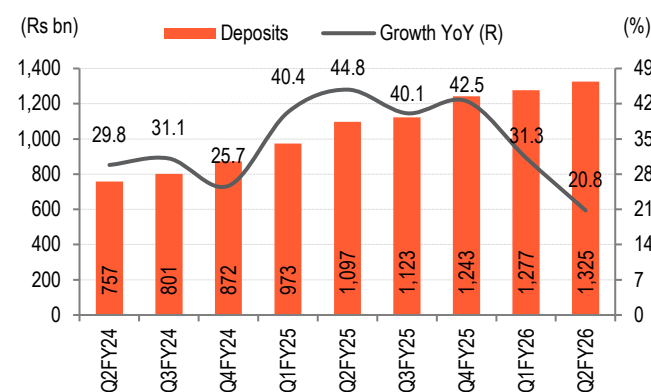
Source: Company, BOBCAPS Research

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


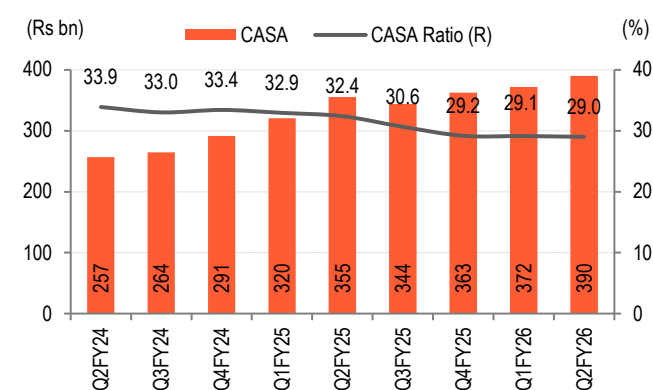
Source: Company, BOBCAPS Research

Fig 5 – Advances mix with ~92% of secured – Q2FY26


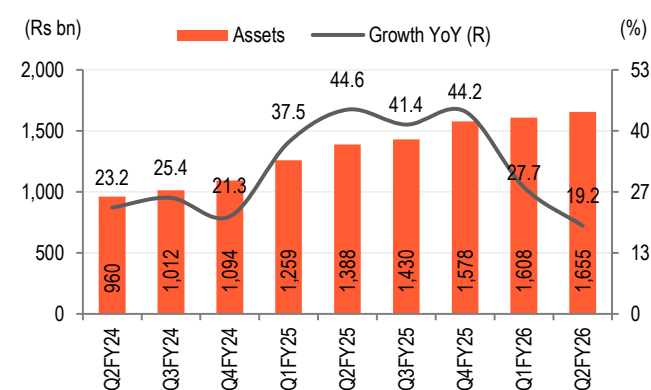
Source: Company, BOBCAPS Research

Fig 6 – Deposits growth ~2.2x than system growth


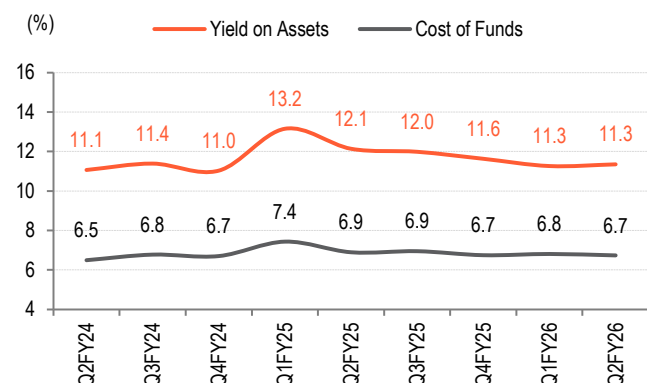
Source: Company, BOBCAPS Research

Fig 7 – ... CASA ratio remains steady


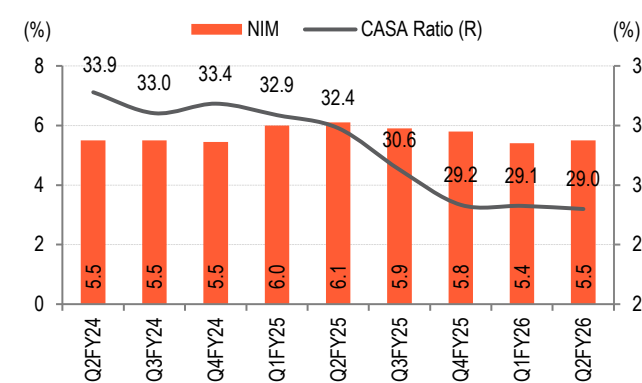
Source: Company, BOBCAPS Research

Fig 8 – Asset growth remains steady


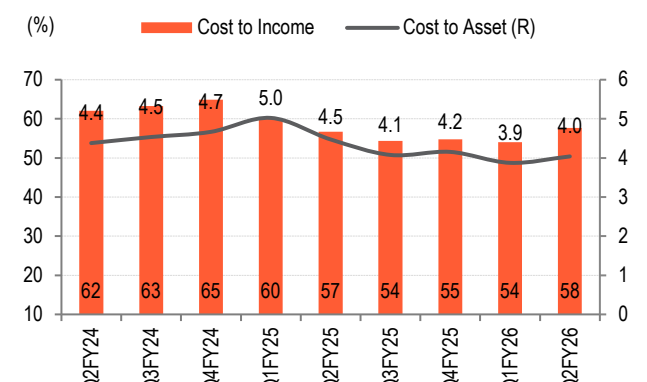
Source: Company, BOBCAPS Research

Fig 9 – Spreads improve as asset yields stable & cost of funds decline...


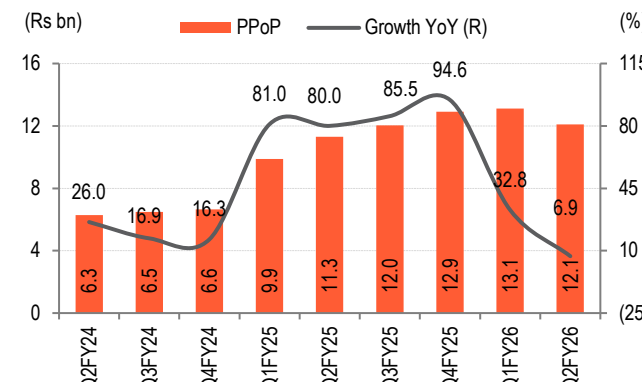
Source: Company, BOBCAPS Research

Fig 10 – ...leading to improvement in NIMs


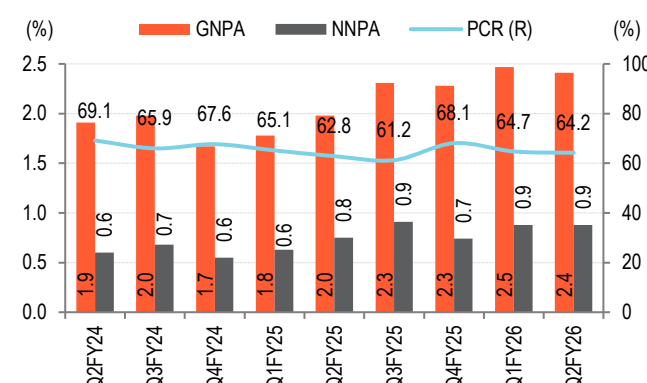
Source: Company, BOBCAPS Research

Fig 11 – C/I ratio remain below 60% in FY26


Source: Company, BOBCAPS Research

Fig 12 – PPOP growth moderated in Q2FY26


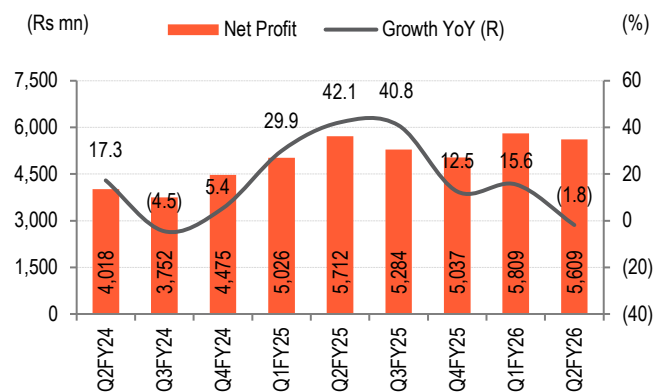
Source: Company, BOBCAPS Research

Fig 13 – Asset quality improved


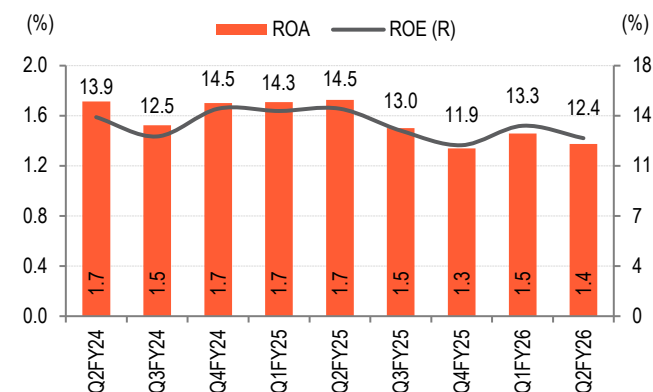
Source: Company, BOBCAPS Research

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

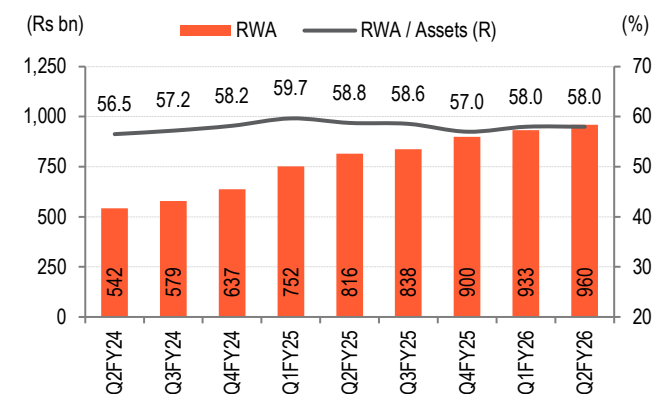

Source: Company, BOBCAPS Research

Fig 15 – PAT declined 1.8% YoY but came in higher than our expectations


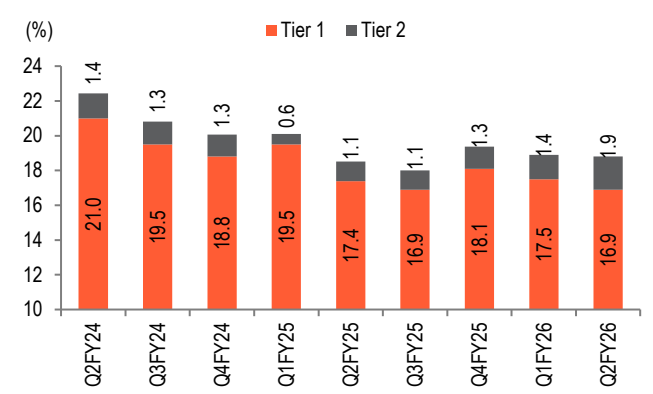
Source: Company, BOBCAPS Research

Fig 16 – Return ratios marginally lower but remains steady


Source: Company, BOBCAPS Research

Fig 17 – Risk-weighted to assets remains stable


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

Fig 18 – Adequate capital position


Source: Company, BOBCAPS Research

Concall Highlights

Advances and Deposits

- **Advances:** Gross loan portfolio increased by 4.5% QoQ to Rs 1,128.8bn, up from Rs 1,050bn in Q1FY26. The growth was primarily driven by the wheels (+26% YoY) and micro business loans (MBL) (+15% YoY) segments. Management targets the advances to grow 2-2.5x of the nominal GDP growth rate.
- Commercial Banking (21% of total book) has established strong CAGR of 30% in the last 5 years, stable AQ in line with expectations and an ROA of ~2%. A significant proportion of this book is self-funded.
- Gold portfolio yields 16% and ROA of ~3%, which currently forms only ~2% of total loan portfolio. Management expects this book to grow multi-fold.
- **Deposits:** Total deposits stood at Rs 1,325bn, marking 4% QoQ and 21% YoY growth. The surge was fueled by continued traction in both the current and wholesale term deposits.
- **CD Ratio:** Credit-deposit ratio increased to 87.4% in Q2FY26 from 86% in Q1FY26; reflecting a more balanced funding profile.
- **CASA Ratio:** CASA ratio remained largely stable at 29% in Q2FY26 vs 29.1% in Q1FY26. Within CASA deposits, the bank witnessed an uptick in CA deposits (+21% QoQ) and SA deposits grew 1.6% QoQ. As a result, share of CASA + Retail TD remained stable at 61% in Q2FY26.

Profitability

- **Net Interest Income (NII):** NII grew by 24.9% QoQ and 8.6% YoY to Rs 21.4bn.
- **Net Interest Margins (NIMs):** NIMs came in better than expected, improved 5 bps to 5.5% in Q2 FY26, driven by a 25 bps reduction in the cost of funds (CoF) through repricing and liquidity normalisation, which offset a 19 bps drop in loan yields, with further expansion expected as deposits continue to reprice without additional rate cuts.
- **Other Income:** Other income declined to Rs 7.1bn (-12% QoQ), primarily driven by lower treasury performance this quarter, contributing just Rs 0.79bn. Other income, as % of NII, stands at 33% vs 40% in the last quarter.
- **Provisions:** Provisions stood at Rs 4.8bn, (-10% QoQ), translating to a credit cost of 1.7% from 1.9% in Q1FY26. The decline was driven by a 12% reduction in fresh slippages, notably lower slippages in credit cards, mortgages, and commercial banking.
- **Return Ratios:** RoA was healthy at 1.4% and RoE at 12.4%, driven by higher profits.

Asset quality

- GNPA improved 6bps to 2.41% in Q2FY26, while NNPA remained the same as the last quarter at 0.88%. PCR (ex-TWO) stood at 64.2% vs 64.7% in Q1, PCR (Incl-TWO) stood at 84% vs 83% in Q1.
- In the unsecured segment, MFI and credit card (~8% of advances) has been going through its own reset cycle. Management said that the MFI book will start picking up pace from this quarter while the credit card will pick up from the next couple of quarters.
- Management expects to see continued recovery in unsecured and seasonal recovery in secured assets in H2FY26.
- Credit cost guidance remains unchanged at less than 1% for the year.

Universal License

- The bank aims to officially start its 11th year as a universal bank, with six quarters remaining for the completion of the transition.
- RBI has granted an 18-month period for completing the universal banking setup, which the bank expects to meet.
- In-principle license already provides market recognition, enhancing credibility as a forward-looking financial institution.
- Universal banking license will broaden product offering, but asset mix will remain retail-focused, with mortgages and gold loans as key growth engines.
- Commercial banking growth will be selective and sector-focused, targeting areas like renewable energy and infrastructure, leveraging subject-matter expertise.
- Sectoral approach will enable better risk management, stronger borrower relationships, and improved lending terms.
- Minimum ticket sizes and core customer segments remain unchanged, focusing on medium enterprises and retail clients.

Valuation Methodology

AUBANK received in-principle approval from the RBI for its conversion into a universal bank in Aug'25. We believe the bank's current valuations appear stretched relative to the underlying fundamentals. We expect the bank to deliver RoA of 1.8% by FY28E. We maintain HOLD with revised TP of Rs 829 (from Rs 741) and roll over the valuation to 2.5x Sep'27E ABV.

Fig 19 – Key operational assumptions

(%)	FY25	FY26E	FY27E	FY28E
Advances growth	46.4	20.0	22.0	22.5
NII growth	55.4	17.0	24.1	24.4
PPoP growth	91.7	14.5	25.6	24.7
PAT growth	37.2	21.5	38.4	29.3
NIM	5.9	5.9	6.1	6.2
GNPA	2.3	2.4	2.1	1.9
CAR	20.1	19.8	18.8	18.2

Source: Company, BOBCAPS Research

Fig 20 – Revised estimates

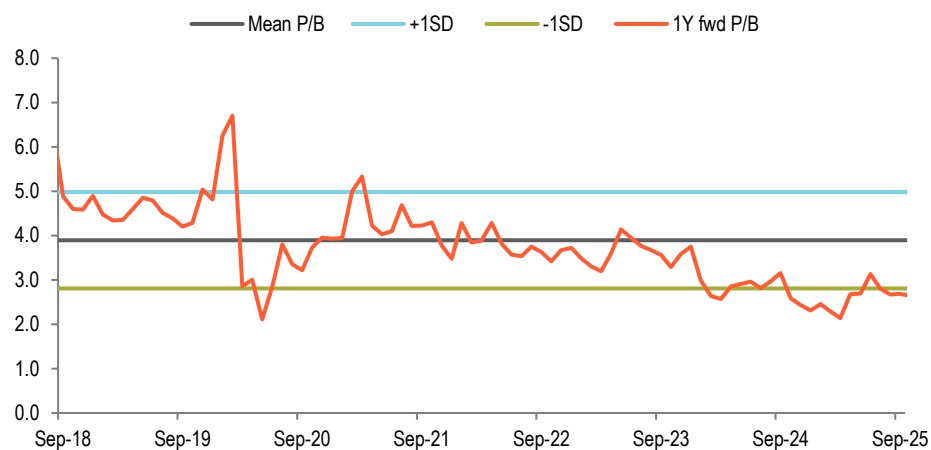
Key Parameters (Rs mn)	New			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Loan	12,85,110	15,67,834	19,20,597	12,90,464	15,80,819	19,44,407	(0.4)	(0.8)	(1.2)
Deposits	15,40,930	19,26,162	23,88,441	15,47,143	19,38,571	24,13,520	(0.4)	(0.6)	(1.0)
Assets	18,83,391	23,01,700	28,21,244	19,05,976	23,49,426	28,83,511	(1.2)	(2.0)	(2.2)
NII	93,729	1,16,336	1,44,748	95,176	1,17,874	1,44,389	(1.5)	(1.3)	0.2
PPOP	52,466	65,871	82,132	53,597	68,670	85,324	(2.1)	(4.1)	(3.7)
Provision	18,259	18,544	20,931	18,301	18,520	20,270	(0.2)	0.1	3.3
PAT	25,587	35,401	45,778	26,402	37,512	48,660	(3.1)	(5.6)	(5.9)
ABV (Rs)	250	296	355	251	300	362	(0.0)	(1.3)	(2.0)

BOBCAPS Research

Fig 21 – Valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.5
Equity risk premium (%)	5.5
Beta	0.7
Cost of equity (%)	10.5
Blended ROE (%)	13.9
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)	2.5

Source: Company, BOBCAPS Research

Fig 22 – 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

Key upside risks to our estimates:

- Quick improvement in asset quality metrics, particularly unsecured segments than expected

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	51,571	80,116	93,729	1,16,336	1,44,748
NII growth (%)	16.5	55.4	17.0	24.1	24.4
Non-interest income	16,971	25,263	31,676	37,038	43,545
Total income	68,542	1,05,379	1,25,405	1,53,374	1,88,293
Operating expenses	44,648	59,572	72,939	87,503	1,06,162
PPOP	23,894	45,807	52,466	65,871	82,132
PPOP growth (%)	18.3	91.7	14.5	25.6	24.7
Provisions	3,900	17,926	18,259	18,544	20,931
PBT	19,994	27,881	34,207	47,327	61,201
Tax	4,647	6,821	8,620	11,926	15,423
Reported net profit	15,347	21,059	25,587	35,401	45,778
Adjustments	0	0	0	0	0
Adjusted net profit	15,347	21,059	25,587	35,401	45,778

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	1,88,909	2,23,247	2,67,744
Net worth	1,25,595	1,71,663	1,96,354	2,30,693	2,75,189
Deposits	8,71,821	12,42,685	15,40,930	19,26,162	23,88,441
Borrowings	54,794	1,16,599	1,23,595	1,28,539	1,34,966
Other liab. & provisions	42,046	47,509	22,512	16,306	22,648
Total liab. & equities	10,94,257	15,78,457	18,83,391	23,01,700	28,21,244
Cash & bank balance	63,763	94,664	1,18,304	1,40,417	1,70,427
Investments	2,71,334	3,78,475	4,35,429	5,39,288	6,63,826
Advances	7,31,627	10,70,925	12,85,110	15,67,834	19,20,597
Fixed & Other assets	27,533	34,393	44,549	54,161	66,395
Total assets	10,94,257	15,78,457	18,83,391	23,01,700	28,21,244
Deposit growth (%)	25.7	42.5	24.0	25.0	24.0
Advances growth (%)	25.2	46.4	20.0	22.0	22.5

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	23.0	29.8	34.4	47.5	61.5
Dividend per share	1.0	1.0	1.2	1.4	1.7
Book value per share	187.7	230.6	263.7	309.9	369.6

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	37.5	28.9	25.1	18.1	14.0
P/BV	4.6	3.7	3.3	2.8	2.3
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	5.2	6.0	5.4	5.6	5.7
Non-interest income	1.7	1.9	1.8	1.8	1.7
Operating expenses	4.5	4.5	4.2	4.2	4.1
Pre-provisioning profit	2.4	3.4	3.0	3.1	3.2
Provisions	0.4	1.3	1.1	0.9	0.8
PBT	2.0	2.1	2.0	2.3	2.4
Tax	0.5	0.5	0.5	0.6	0.6
ROA	1.5	1.6	1.5	1.7	1.8
Leverage (x)	8.5	9.0	9.4	9.8	10.1
ROE	13.0	14.2	13.9	16.6	18.1

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	16.5	55.4	17.0	24.1	24.4
Pre-provisioning profit	18.3	91.7	14.5	25.6	24.7
EPS	4.3	29.7	15.3	38.4	29.3
Profitability & Return ratios (%)					
Net interest margin	5.5	5.9	5.9	6.1	6.2
Fees / Avg. assets	42.5	47.3	45.8	44.3	42.5
Cost-Income	65.1	56.5	58.2	57.1	56.4
ROE	13.0	14.2	13.9	16.6	18.1
ROA	1.5	1.6	1.5	1.7	1.8
Asset quality (%)					
GNPA	1.7	2.3	2.4	2.1	1.9
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	68.0	69.0	70.3
Ratios (%)					
Credit-Deposit	83.9	86.2	83.4	81.4	80.4
Investment-Deposit	31.1	30.5	28.3	28.0	27.8
CAR	20.1	20.1	19.8	18.8	18.2
Tier-1	18.8	18.1	18.1	17.4	16.9

Source: Company, BOBCAPS Research

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Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

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BUY – Expected return >+15%

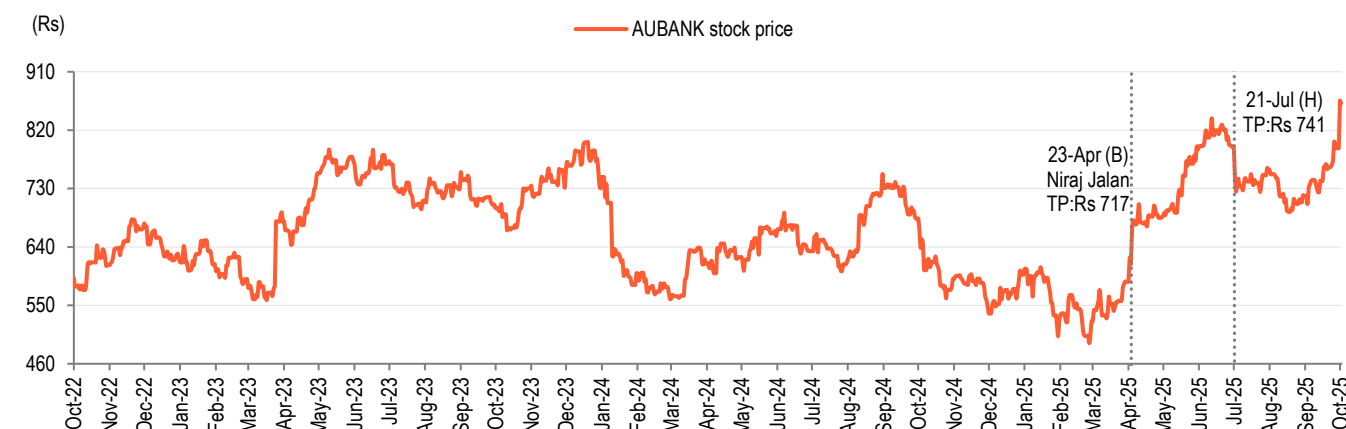
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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



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