

# AU Small Finance Bank

BSE Sensex  
80,623

S&P CNX  
24,596

**CMP: INR743**

**TP: INR875 (+18%)**

**Buy**



Bloomberg	AUBANK IN
Equity Shares (m)	745
M.Cap.(INRb)/(USDb)	554 / 6.3
52-Week Range (INR)	841 / 478
1, 6, 12 Rel. Per (%)	-5/21/17
12M Avg Val (INR M)	2093

## Financials & Valuations (INR b)

Y/E March	FY25	FY26E	FY27E
NII	80.1	88.3	112.5
PPoP	45.8	51.5	66.0
PAT	21.1	26.5	36.1
NIM (%)	6.0	5.1	5.3
EPS (INR)	29.8	35.5	48.3
EPS Gr. (%)	33.9	19.2	35.9
BV/Sh. (INR)	229	243	283
ABV/Sh. (INR)	223	235	274

## Ratios

RoA (%)	1.6	1.5	1.7
RoE (%)	14.3	15.0	18.3

## Valuations

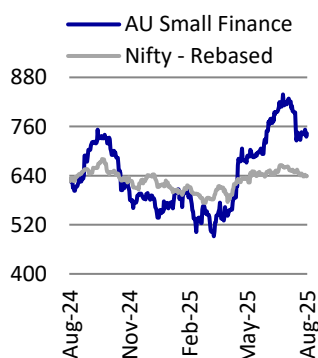
P/E(X)	25.0	20.9	15.4
P/BV (X)	3.3	3.1	2.6
P/ABV (X)	3.3	3.2	2.7

## Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	22.9	22.9	22.9
DII	28.9	27.2	18.4
FII	37.7	35.6	39.6
Others	10.6	14.4	19.1

FII Includes depository receipts

## Stock Performance (one-year)



## RBI grants in-principle approval for transition to Universal Bank

**Endorses franchise credentials; transition unlocks key to long-term growth**

RBI has granted in-principle approval to AU SFB (AUBANK) for its transition into a Universal Bank, marking a significant milestone in the bank's journey. This approval follows the revised guidelines issued in Apr'24, which established a voluntary transition framework for eligible SFBs that meet capital norms, demonstrate five years of consistent operational performance, and successfully meet RBI's due diligence criteria. Having started operations in 2017, AUBANK became the first SFB to formally apply under this route. This transition underscores the regulator's confidence in AU's governance, execution track record, and institutional maturity.

- The universal bank license enhances brand positioning and is expected to help narrow the gap in deposit rates that AUBANK offers vs peers, thereby reducing the cost of funds and improving CASA mobilization over time.
- The license removes limitations on loan ticket sizes and borrower exposure, opening new avenues of growth. However, the bank does not consider this a near-term focus area. In the medium term, this will enable AUBANK to scale up its presence in larger-ticket retail, SME, and mid-corporate segments, thereby enhancing portfolio diversification and boosting capital efficiency.

Reiterate BUY with a TP of INR875; the RBI approval serves as a strong re-rating catalyst, improving growth visibility and investor appeal. Earnings recovery in earnings over 2H as credit cost subsides along with industry leading loan growth, a potential capital raise to support robust growth, and the RBI's approval of CEO's (Sanjay Agarwal) term renewal—due in Apr'26—are additional near-term catalysts that reinforce confidence in the bank's operational capabilities and long-term growth outlook.

## Strengthening liability profile through better brand positioning

- One of the most powerful benefits of AUBANK obtaining a full license will be the strengthening and transformation of its liability franchise. As an SFB, AUBANK has consistently delivered strong balance sheet growth but has faced higher deposit rate burdens to attract growth, especially while competing with established private banks.
- As AU transitions into a Universal Bank, its perception among customers, corporates, and depositors is expected to shift meaningfully.
- Key benefits for the bank include: 1) Lower cost of funds, 2) Improved CASA ratio, 3) Better access to affluent and urban customers, 4) Broader liability product bundling, and 5) Improved cross-sell opportunities.

## Granularity restrictions removed; credit growth to remain resilient

The universal banking license removes key regulatory constraints that earlier limited AUBANK's ability to scale its advances book—particularly the requirement to maintain at least 50% of loans below INR2.5m and caps on exposure to individual/group borrowers. While AUBANK does not intend to make material near-term changes to its credit strategy, the license offers significant long-term flexibility

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to tap into larger-ticket secured retail, SME, and mid-corporate lending. This shift opens avenues to diversify the portfolio, improve capital allocation, and enhance risk-adjusted returns. Importantly, AUBANK can now selectively target higher-rated borrowers without regulatory caps, allowing for more efficient credit growth. The change does not impact FY26 plans but acts as a strategic lever for future scalability and product expansion.

### **Transition to Universal Bank enables improved operational flexibility and offers long-term scalability**

As a Universal Bank, AUBANK will benefit from significantly reduced regulatory constraints, thereby unlocking substantial headroom for growth, profitability, and franchise deepening.

Other key benefits include:

- 1). **Lower PSL mandate** – PSL requirements decrease to 40% from the existing 60%. The bank can now reallocate capital towards more RoA-accretive segments like secured SME, mid-corporate, and higher ticket retail loans.
- 2). **No restrictions on loan disbursement** – With SFB-specific granularity and ticket size restrictions removed, AU can now target larger, better-rated borrowers within the overall exposure limits applicable to all commercial banks, enabling it to scale in segments like mid-market and supply chain finance.
- 3). **Unlocking of Para banking** – While AU was already offering third-party products like insurance and mutual funds, the universal bank status now allows broader participation in para-banking activities, including wealth management, structured products, and forex services, enabling stronger fee income growth.

### **Valuation and view: Reiterate BUY with TP of INR875**

- The in-principle approval to transition into a Universal Bank catapults AUBANK into the big league and underscores RBI's confidence in the bank's business operations and governance standards. This transition will be critical in shaping the bank's long-term trajectory, providing regulatory advantages over private banks and offering new avenues for growth through reduced requirements on regulatory compliance.
- The recovery in earnings over 2H as credit cost subsides along with industry leading loan growth, a potential capital raise to support robust growth, and the RBI's approval for the CEO's (Mr. Sanjay Agarwal) term renewal—due in Apr'26—are additional near-term catalysts that reinforce confidence in the bank's operational capabilities and long-term growth outlook.
- During the 1Q results note, we reiterated our BUY rating on the stock with a TP of INR875, even as the bank delivered a 60% return over the prior quarter, as we awaited this approval and anticipated the franchise gaining strength in the coming years. We expect this transition to support overall growth and profitability outlook while significantly enhancing the bank's profile with this coveted upgrade.

## Story in charts

**Exhibit 1: Key regulatory differences between SFBs and Universal Banks**

Regulation	SFBs	Universal banks
<b>Capital adequacy</b>	❖ Minimum CRAR of 15% of its RWA, with Tier 1 of 7.5% and CET-1 of 6%.	❖ Minimum CRAR of 9%, with 2.5% additional CCB as a conservative buffer, CET 1 of 8%.
<b>Calculation of RWAs</b>	❖ SFBs are required to calculate RWAs based on only credit risk; market risks and operational risks are excluded from RWA calculations.	❖ Banks are required to calculate RWAs based on all three (credit, market, and operational risks).
<b>Para banking activities</b>	❖ They offer basic banking services like savings accounts, fixed deposits, recurring deposits, digital banking, debit cards, and so on. SFB loans include microfinance loans, small personal loans, micro-business loans, and loans to marginal farmers and industries.	❖ Apart from basic banking services, commercial banks offer a wide range of financial services, including credit cards, wealth management, corporate banking services, etc. A broader range of loan products can be accessed, including large corporate loans, housing loans, personal loans, etc.
<b>PSL requirements</b>	❖ 60% of ANBC or CEOBE, whichever is higher (from FY26). SFBs shall continue to allocate 40% of their ANBC or CEOBE, whichever is higher, to different sub-sectors under PSL as per the existing guidelines, while the balance 20% shall be allocated to any one or more PSL sub-sectors, where the bank holds a competitive advantage.	❖ This limit is 40% of ANBC for universal banks.
<b>Restrictions on loan disbursement %</b>	❖ The maximum loan size and investment limit exposure to a single and group obligor would be restricted to 10% and 15% of its capital funds, respectively. Further, in order to ensure that the bank extends loans primarily to small borrowers, at least 50% of its loans portfolio should constitute loans and advances of up to INR2.5m.	❖ No such restrictions on loan disbursements.
<b>Branch presence requirement</b>	❖ At least 25% of branches in unbanked rural areas.	❖ No such mandatory distribution norm.
<b>Listing</b>	❖ Must be listed within 3 years of reaching a net worth of INR5b.	❖ Governed by general SEBI/RBI norms.
<b>Eligible customer base</b>	❖ Primarily underbanked /unbanked segments; focus on small borrowers.	❖ Entire population, including large corporates, HNIs, urban mass market.
<b>Regulatory oversight</b>	❖ Subject to tighter scrutiny due to the financial inclusion mandate.	❖ Broader compliance, but with more operational freedom.

Source: RBI, MOFSL

**Exhibit 2: Key comparison of AUBANK's SA rates vs a large private peer**

AU Bank	
Savings Account Incremental amount slab	Rate of Interest applicable (per annum)
Less than INR 0.3mn	2.75%
INR 0.3mn to Less than INR 0.5mn	3.00%
INR 0.5mn to less than INR 1mn	4.00%
INR 1mn to less than INR 2.5mn	6.50%
INR 2.5mn to less than INR 100mn	6.75%
INR 100mn to less than INR 250mn	6.50%
Large private banks	
On Balances (in INR)	Rate of Interest applicable (per annum)
Across all account balances	2.50%

Source: MOFSL, Company

**Exhibit 3: Key comparison of AUBANK's TD rates vs a large private peer**

AU Bank	
Fixed Deposits rate (less than INR30mn)	Interest Rates (Per annum)
7 Days to 1 Month 15 Days	3.50%
1 Month 16 Days to 3 Months	4.75%
3 Months 1 Day to 6 Months	5.25%
6 Months 1 Day to 12 Months	6.35%
12 Months 1 Day to 24 Months	6.90%
24 Months 1 Day to 36 Months	7.10%
36 Months 1 Day to 45 Months	7.00%
45 Months 1 Day to 120 Months	6.75%
ICICI Bank	
Fixed Deposits rate (less than INR30mn)	Interest Rates (Per annum)
7 to 45 Days	2.75%
46 to 90 Days	4.00%
91 to 184 Days	4.50%
185 to < 1 Year	5.50%
1 Year to < 18 Months	6.25%
18 Months to 2 Years	6.40%
2 Years 1 Day to 10 Years	6.60%
5Y (Tax Saver FD)	6.60%

Source: MOFSL, Company

## Financials and valuations

Income Statement							(INRb)
Y/E MARCH	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	59.2	82.1	105.5	160.6	193.7	239.0	290.8
Interest Expense	26.9	37.8	54.0	80.5	105.3	126.5	150.2
<b>Net Interest income</b>	<b>32.3</b>	<b>44.3</b>	<b>51.6</b>	<b>80.1</b>	<b>88.3</b>	<b>112.5</b>	<b>140.6</b>
- growth (%)	36.7	36.8	16.5	55.4	10.3	27.3	25.0
Other Income	9.9	10.3	17.0	25.3	31.1	37.0	45.1
<b>Total Income</b>	<b>42.3</b>	<b>54.6</b>	<b>68.5</b>	<b>105.4</b>	<b>119.4</b>	<b>149.4</b>	<b>185.7</b>
- growth (%)	11.7	29.1	25.5	53.7	13.3	25.1	24.3
<b>Operating Expenses</b>	<b>24.1</b>	<b>34.4</b>	<b>44.6</b>	<b>59.6</b>	<b>67.9</b>	<b>83.5</b>	<b>102.5</b>
- growth (%)	45.5	42.6	29.8	33.4	14.1	22.9	22.8
<b>Operating Profits</b>	<b>18.2</b>	<b>20.2</b>	<b>23.9</b>	<b>45.8</b>	<b>51.5</b>	<b>66.0</b>	<b>83.1</b>
- growth (%)	-14.7	11.3	18.3	91.7	12.3	28.2	26.1
<b>Core Operating Profits</b>	<b>16.7</b>	<b>20.6</b>	<b>23.4</b>	<b>43.5</b>	<b>47.6</b>	<b>61.2</b>	<b>77.2</b>
- growth (%)	31.3	23.4	13.3	85.9	9.5	28.5	26.2
Total Provisions	3.6	1.5	4.4	17.9	17.9	17.9	19.6
% to operating income	19.9	7.7	18.4	39.1	34.9	27.1	23.6
<b>PBT</b>	<b>14.5</b>	<b>18.6</b>	<b>19.5</b>	<b>27.9</b>	<b>33.5</b>	<b>48.1</b>	<b>63.5</b>
Tax	3.2	4.4	4.6	6.8	7.0	12.0	15.9
<i>Tax Rate (%)</i>	<i>22.3</i>	<i>23.4</i>	<i>23.8</i>	<i>24.5</i>	<i>21.0</i>	<i>25.0</i>	<i>25.0</i>
<b>PAT</b>	<b>11.3</b>	<b>14.3</b>	<b>14.9</b>	<b>21.1</b>	<b>26.5</b>	<b>36.1</b>	<b>47.6</b>
- growth (%)	-3.5	26.4	4.1	41.7	25.7	36.3	32.0

Balance Sheet							
Y/E MARCH	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	6.3	6.7	6.7	7.4	7.5	7.5	7.5
Reserves & Surplus	68.4	102.7	118.3	163.0	174.0	204.5	251.4
<b>Equity Networkh</b>	<b>74.7</b>	<b>109.3</b>	<b>125.0</b>	<b>170.4</b>	<b>181.5</b>	<b>212.0</b>	<b>258.9</b>
<b>Deposits</b>	<b>525.8</b>	<b>693.6</b>	<b>871.8</b>	<b>1,242.7</b>	<b>1,519.8</b>	<b>1,884.6</b>	<b>2,338.7</b>
- growth (%)	46.2	31.9	25.7	42.5	22.3	24.0	24.1
<b>of which CASA Dep</b>	<b>196.1</b>	<b>266.6</b>	<b>291.3</b>	<b>362.5</b>	<b>462.0</b>	<b>597.4</b>	<b>755.4</b>
- growth (%)	136.9	36.0	9.3	24.5	27.4	29.3	26.4
Borrowings	59.9	63.0	54.8	116.6	138.2	171.3	212.4
Other liabilities	29.9	35.8	42.0	47.5	58.4	71.3	87.0
- growth (%)	29.5	19.6	17.6	13.0	23.0	22.0	22.0
<b>Total Liabilities</b>	<b>690.8</b>	<b>902.2</b>	<b>1,094.3</b>	<b>1,578.5</b>	<b>1,899.2</b>	<b>2,340.4</b>	<b>2,898.3</b>
Current Assets	59.3	94.3	63.8	94.7	100.2	113.7	129.0
<b>Investments</b>	<b>153.1</b>	<b>200.7</b>	<b>271.3</b>	<b>378.5</b>	<b>454.2</b>	<b>560.4</b>	<b>696.1</b>
- growth (%)	41.5	31.1	35.2	39.5	20.0	23.4	24.2
<b>Loans</b>	<b>461.0</b>	<b>584.2</b>	<b>731.6</b>	<b>1,070.9</b>	<b>1,318.3</b>	<b>1,642.6</b>	<b>2,045.1</b>
- growth (%)	33.2	26.7	25.2	46.4	23.1	24.6	24.5
Net Fixed Assets	6.2	7.4	8.5	9.1	10.0	10.8	11.7
Other assets	11.2	15.6	19.0	25.3	16.5	12.8	16.5
<b>Total Assets</b>	<b>690.8</b>	<b>902.2</b>	<b>1,094.3</b>	<b>1,578.5</b>	<b>1,899.2</b>	<b>2,340.4</b>	<b>2,898.3</b>
<b>Total Assets (incl. off BS)</b>	<b>708.1</b>	<b>909.5</b>	<b>1,192.1</b>	<b>1,669.5</b>	<b>1,999.8</b>	<b>2,450.0</b>	<b>2,898.3</b>

Asset Quality	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
GNPA (INR b)	9.2	9.8	12.4	24.8	29.8	36.4	44.6
NNPA (INR b)	2.3	2.9	4.4	8.3	10.2	11.7	13.3
Slippages (INR b)	14.4	12.4	17.0	40.0	31.1	35.5	44.3
GNPA Ratio (%)	2.0	1.7	1.7	2.3	2.26	2.22	2.18
NNPA Ratio (%)	0.5	0.5	0.6	0.8	0.77	0.71	0.65
Slippage Ratio (%)	3.6	2.4	2.6	4.4	2.6	2.4	2.4
Credit Cost (%)	0.7	0.3	0.6	1.9	1.4	1.1	1.0
PCR (Excl Tech. write off)	75.0	70.8	64.3	66.4	66.0	67.9	70.2
E: MOFSL Estimates							

## Financials and valuations

### Ratios

Y/E MARCH	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Yield and Cost Ratios (%)</b>							
Avg. Yield - on IEA	10.7	11.7	11.7	13.0	12.0	12.0	11.7
Avg. Yield on loans	11.4	12.8	11.9	13.4	12.5	12.6	12.8
Avg. Cost of funds	5.3	5.6	6.4	7.0	7.0	6.8	6.5
<b>Spreads</b>	<b>6.1</b>	<b>7.2</b>	<b>5.5</b>	<b>6.4</b>	<b>5.5</b>	<b>5.8</b>	<b>6.3</b>
<b>NIM (On total assets)</b>	<b>5.4</b>	<b>5.6</b>	<b>5.2</b>	<b>6.0</b>	<b>5.1</b>	<b>5.3</b>	<b>5.4</b>
<b>NIM (On IEA)</b>	<b>5.9</b>	<b>6.3</b>	<b>5.7</b>	<b>6.5</b>	<b>5.5</b>	<b>5.6</b>	<b>5.7</b>
<b>Capitalization Ratios (%)</b>							
CAR	21.0	23.6	20.1	20.1	18.3	17.2	16.5
Tier I	19.7	21.8	18.8	18.1	16.9	16.2	15.8
CET 1	19.7	21.8	18.8	18.1	16.9	16.2	15.8
Tier II	1.3	1.8	1.3	1.9	1.4	1.0	0.7
<b>Business Ratios (%)</b>							
Loan/Deposit Ratio	87.7	84.2	83.9	86.2	86.7	87.2	87.4
CASA Ratio	37.3	38.4	33.4	29.2	30.4	31.7	32.3
Cost/Assets	4.0	4.3	4.5	4.5	3.9	3.9	3.9
Cost/Total Income	57.1	63.0	65.1	56.5	56.9	55.9	55.2
Cost/Core Income	59.1	62.5	65.6	57.8	58.8	57.7	57.0
Int. Expense/Int. Income	45.4	46.1	51.1	50.1	54.4	52.9	51.7
Fee Income/Total Income	20.1	19.8	24.0	21.4	22.8	21.6	21.1
Other Inc./Total Income	23.5	18.9	24.8	24.0	26.0	24.7	24.3
<b>Efficiency Ratios (%)</b>							
Employee per branch (in nos)	40.2	51.5	47.3	65.9	51.9	47.0	42.5
Staff cost per employee (INR m)	0.5	0.6	0.7	0.6	0.7	0.8	1.0
CASA per branch (INR m)	283	485	463	469	460	526	589
Deposits per branch (INR m)	760	1,261	1,386	1,608	1,512	1,660	1,823
Bus. Per Employee (INR m)	35	45	54	45	54	66	80
Profit per Employee (INR m)	0.4	0.5	0.5	0.4	0.5	0.7	0.9

<b>Profitability and Valuations</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
RoE	16.6	15.5	12.7	14.3	15.0	18.3	20.2
RoA (On bal Sheet)	1.9	1.8	1.5	1.6	1.5	1.7	1.8
RoRWA	3.1	2.9	2.3	2.3	2.4	2.6	2.8
Book Value (INR)	118.7	164.0	186.8	228.9	243.1	283.2	345.0
- growth (%)	20.0	38.2	13.9	22.6	6.2	16.5	21.8
<b>Price-BV (x)</b>	<b>6.3</b>	<b>4.5</b>	<b>4.0</b>	<b>3.3</b>	<b>3.1</b>	<b>2.6</b>	<b>2.2</b>
Adjusted BV (INR)	116.7	161.6	183.1	222.7	235.3	274.0	334.2
- growth (%)	26.9	38.5	13.3	21.7	5.6	16.4	22.0
<b>Price-ABV (x)</b>	<b>6.4</b>	<b>4.6</b>	<b>4.1</b>	<b>3.3</b>	<b>3.2</b>	<b>2.7</b>	<b>2.2</b>
EPS (INR)	18.0	22.0	22.2	29.8	35.5	48.3	63.5
- growth (%)	-5.1	22.3	1.0	33.9	19.2	35.9	31.7
<b>Price-Earnings (x)</b>	<b>41.3</b>	<b>33.8</b>	<b>33.4</b>	<b>25.0</b>	<b>20.9</b>	<b>15.4</b>	<b>11.7</b>

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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