

AU Small Finance Bank

Set for subdued H1 and recovery in H2

Margin compression and credit cost were higher v/s est.; RoA protected by treasury income and opex control

AU Bank delivered a miss on street's margin and credit cost expectations, but still managed to deliver 1.5% RoA with the support of substantial treasury income/gains and astute opex management. Loan growth was tepid at 1.7% in the quarter, impacted by continued decline in MFI and Card portfolios and moderation in growth of Mortgages and Commercial Banking. Sequential NIM compression was 38 bps, driven by lower asset and investment yield and higher liquidity carried during the quarter. Yield on gross advances declined by 27 bps on account of changes in loan mix (lower MFI), repo repricing impact on the ~30% floating rate book, and lower yield in credit card portfolio. Cost of Funds declined by 6 bps qoq with peak SA and TD rate having been cut by 50 bps and 90 bps respectively since March. Income from treasury operations was Rs3bn v/s Rs1.02bn in preceding quarter.

Slippages increased marginally to 1% (non-annualized) in Q1 FY26 as compared to 0.9% in Q4 FY25, and were primarily driven by MFI, Cards, some deterioration in South Mortgage book and used SCV/HCV portfolio. Banks's GNPLs rose by 20 bps qoq to 2.5% and the credit cost stood at 34 bps (on ATA). PCR was stable at 83%. Opex grew by just 4% yoy and declined to 3.9% of ATA. The lower growth in Opex represented 1) subdued business volume, 2) rationalization of marketing & branding expenses, 3) decline in credit card issuances, 4) synergies from the merger and 5) focused efficiency efforts in certain areas.

Key Comments on Business and Profitability

Vehicle Finance: 1) significant expanding distribution by leveraging Fincare network, 2) portfolio growth to remain strong, 3) credit cost largely in-line with expectation notwithstanding some pain seen in Used SCV/HCV (small contribution), 4) delinquency trends to normalize in H2, 5) consistent RoA delivery of >2%.

Mortgages: 1) expect 20% growth in FY26 with substantial expansion of distribution through Fincare, 2) has been >2.5% RoA generating portfolio, 3) increasing competitive intensity impacting growth and pricing at the margin, 4) credit cost is above expectation due to deterioration in higher-yielding South Book (15% of portfolio), 5) AQ trends to normalize by year-end with measures already taken to strengthen collection/security enforcement.

MFI: 1) portfolio to stabilize in Q2 and grow in H2 (4-5% yoy growth in FY26), 2) CE drop in Q1 due to KTK and Guardrail implementation, but June and July have shown improvement, 3) have augmented collection team, 4) estimate credit cost to be 5% v/s 3-4% earlier.

Cards: 1) credit cost remains elevated but may have peaked in absolute terms, 2) flows have been coming from the identified pool, 3) normalization of asset quality trends to start from H2.

Gold Loans: 1) portfolio yield is 16-17% and RoA is >3%, 2) operations compliant with new RBI regulations, 3) distribution has increased from around 350 branches to 850 post merger, 4) will improve processes and TAT.

NIM & Credit Cost: 1) NIM to bottom in Q2 and thereafter start improving, 2) 64% of loan on fixed rate and additionally 6% book under fixed interest period, 3) credit cost guidance for FY26 increased by 10-15 bps to 1% of Average Assets.

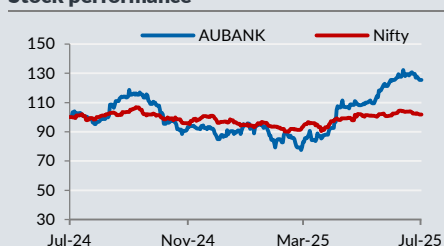
Growth & RoA: 1) no specific loan growth guidance given, but bank would grow much higher than system, 2) no specific RoA guidance given for FY26, but management remains confident that franchise is on track to deliver 1.8% RoA in FY28.

Reco	: NEUTRAL
CMP	: Rs 795
Target Price	: Rs 780
Potential Return	: -1.9%

Stock data (as on Jul 18, 2025)

Nifty	24,968
52 Week h/l (Rs)	841 / 478
Market cap (Rs/USD mn)	593882 / 6894
Outstanding Shares (mn)	745
6m Avg t/o (Rs mn):	2,142
Div. yield (%)	0.2
Bloomberg code:	AUBANK IN
NSE code:	AUBANK

Stock performance



	1M	3M	1Y
Absolute return	-0.1%	35.5%	25.4%

Shareholding pattern

Promoter	22.9%
FII+DII	62.8%
Others	14.4%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	BUY
Target Price	780	740

Δ in earnings estimates

	FY25	FY26E	FY27E
EPS (New)	28.3	33.0	44.6
EPS (Old)	28.3	35.4	46.1
% Change	-	-6.7%	-3.3%

Financial Summary

(Rs mn)	FY25	FY26E	FY27E
Op. income	105,379	114,914	139,876
PPoP	45,807	49,384	59,931
Net profit	21,059	24,589	33,196
Growth (%)	30.7	16.8	35.0
EPS (Rs)	28.3	33.0	44.6
ABVPS (Rs)	219.8	253.5	297.8
P/E (x)	28.1	24.1	17.8
P/ABV (x)	3.6	3.1	2.7
ROAE (%)	14.2	13.4	15.6
ROAA (%)	1.6	1.5	1.7

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Earnings revised downwards; rating changed to Neutral

Our earnings estimates have been cut by 3-7% for FY26/27 on lowering of growth and mild increase in credit cost expectations. Key monitorables for next couple of quarters will be 1) delinquency trends in MFI, Cards and Mortgage portfolios, 2) distribution-led growth push in Wheels, Mortgages and Gold portfolios, 3) trends in MFI disbursements and acquisitions in Cards, 4) decline in CoF and further rate actions and 5) incremental room to manage Opex growth. RoE will likely recover over FY27/28 aided by stronger growth, margin, and credit cost trends. Valuation at 2.7x PBV and 18x P/E on FY27 estimates leaves little room for upside. Move rating to Neutral.

Exhibit 1: Snapshot Overview

Parameter (Rs mn)	Q1 FY26	QoQ (%)	YoY (%)	vs Est
Net Interest Income	20,447	-2.4%	6.5%	Miss
PPoP	13,122	1.5%	37.9%	Miss (Core)
PAT	5,809	15.3%	15.6%	Miss (Core)
Gross Advances	11,16,140	2.6%	23.1%	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	Q2-Q3 FY26
Growth in Wheels, Mortgages and Gold portfolios	Significantly influences loan growth	Q2-Q4 FY26
Decline in CoF and further rate actions	Determines NIM recovery	H2 FY26
Incremental room to manage Opex growth	Influences RoA path	Q2-Q4 FY26

Source: Company, YES Sec

Exhibit 3: Estimate Revisions

Metric	Old Est (FY27E)	New Est	% Change	Reason
NII	117,307	109,601	-6.6%	Revision in Growth
PPoP	61,828	59,931	-3.1%	Revision in Growth
PAT	34,312	33,196	-3.3%	Revision in Grth & Prov

Source: Company, YES Sec

Exhibit 4: Result Table

(Rs mn)	Q1 FY26	Q4 FY25	% qoq	Q1 FY25	% yoy
Operating Income	43,784	42,706	2.5	37,690	16.2
Interest expended	(23,338)	(21,767)	7.2	(18,485)	26.3
Net Interest Income	20,447	20,939	(2.4)	19,206	6.5
Other Income	8,106	7,607	6.6	5,093	59.2
Total Income	28,553	28,546	0.0	24,299	17.5
Operating expenses	(15,431)	(15,623)	(1.2)	(14,781)	4.4
PPOP	13,122	12,923	1.5	9,517	37.9
Provisions	(5,333)	(6,351)	(16.0)	(2,828)	88.5
PBT	7,789	6,571	18.5	6,689	16.4
Tax	(1,980)	(1,535)	29.1	(1,663)	19.1
Adjusted PAT	5,809	5,037	15.3	5,026	15.6

Source: Company, YES Sec

Exhibit 5: Business Data

(Rs mn)	Q1 FY26	Q4 FY25	% qoq	Q1 FY25	% yoy
AUM	1,176,240	1,157,040	1.7	997,910	17.9
Deposits	1,276,960	1,242,685	2.8	972,900	31.3
CA	63,000	69,970	(10.0)	47,360	33.0
SA	309,000	292,560	5.6	272,990	13.2
TD	852,960	831,870	2.5	631,450	35.1
CD	52,000	48,290	7.7	21,100	146.4
Investments	383,440	378,475	1.3	273,150	40.4
Borrowings	106,490	116,599	(8.7)	89,310	19.2

Source: Company, YES Sec

Exhibit 6: Key Ratios

(%)	Q1 FY26	Q4 FY25	chg qoq	Q1 FY25	chg yoy
NIM*	5.4	5.8	(0.4)	6.0	(0.6)
Portfolio Yield	14.1	14.4	(0.3)	14.4	(0.3)
Cost of Funds	7.1	7.1	(0.1)	7.0	0.1
CASA*	30.4	30.4	0.0	33.7	(3.3)
C/D	86.0	86.2	(0.2)	92.1	(6.1)
Cost to Income	54.0	54.7	(0.7)	60.8	(6.8)
Opex/ATA*	3.9	4.2	(0.3)	5.0	(1.2)
Gross NPA	2.5	2.3	0.2	1.8	0.7
Net NPA	0.9	0.7	0.1	0.6	0.3
RoA	1.5	1.4	0.1	1.6	(0.1)
RoE	13.3	11.9	1.4	13.2	0.1
CAR	19.4	20.1	(0.6)	20.1	(0.7)

Source: Company, YES Sec; *Calculated.

Exhibit 7: Other Income break-up

Particulars (Rs mn)	Q1 FY26	Q4 FY25	% qoq	Q1 FY25	% yoy
Loan Assets & Pro.	2,620	3,360	(22.0)	2,300	13.9
Gen. Banking & Deposits	1,570	2,270	(30.8)	1,420	10.6
PSLC Premium / Fees	-	20	-	-	-
Treasury Operations	3,000	1,020	194.1	190	1,478.9
Credit cards	570	580	(1.7)	1,010	(43.6)
Misc.	350	350	-	180	94.4

Source: Company, YES Sec

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

Particulars (Rs mn)	Q1 FY26	Q4 FY25	% qoq	Q1 FY25	% yoy
Retail Secured Assets	787,390	766,160	2.8	658,140	19.6
Commercial Banking	245,010	239,520	2.3	188,810	29.8
Inclusive Banking	65,060	69,380	(6.2)	81,600	(20.3)
Digital Unsecured	30,510	32,900	(7.3)	42,620	(28.4)
Others and SME	48,270	49,090	(1.7)	26,740	80.5
Total	1,176,240	1,157,050	1.7	997,910	17.9

Source: Company, YES Sec.

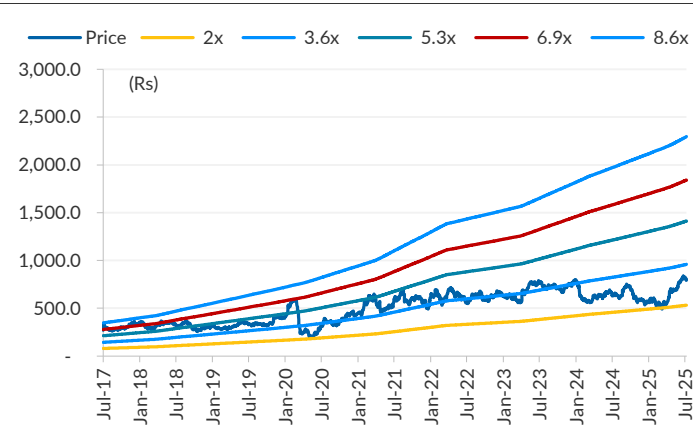
Exhibit 9: Valuation Snapshot

Valuation Metric	FY25	FY26E	FY27E
P/E (x)	28.1	24.1	17.8
P/ABV (x)	3.6	3.1	2.7
RoAA (%)	1.6	1.5	1.7
RoAE (%)	14.2	13.4	15.6

Source: Company, YES Sec

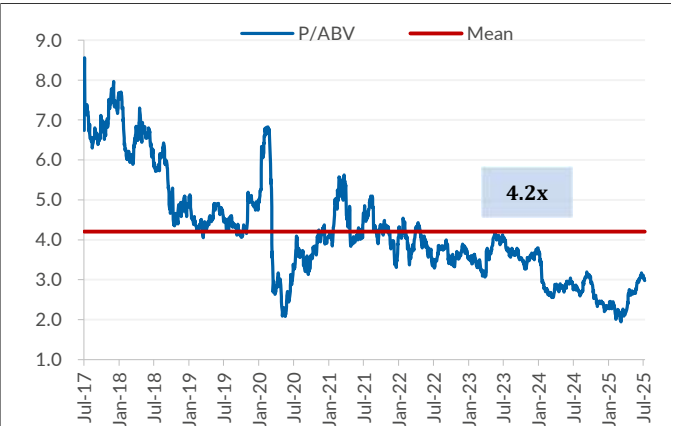
PRICE CHARTS

Exhibit 10: 1-yr rolling P/ABV band



Source: Company, YES Sec

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



Source: Company, YES Sec

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	95,210	119,014
Investments	200,720	271,334	378,475	435,247	522,296
Advances	584,215	731,627	1,070,925	1,236,918	1,515,225
Total interest-earning assets	879,187	1,066,724	1,544,064	1,767,375	2,156,534
Fixed assets	7,401	8,516	9,125	10,037	11,041
Other assets	15,573	19,017	25,268	29,059	34,870
Total assets	902,161	1,094,257	1,578,457	1,806,470	2,202,445
Net worth	109,773	125,595	171,663	196,252	229,448
Deposits	693,650	871,821	1,242,685	1,447,729	1,780,706
Borrowings	62,987	54,794	116,599	107,854	126,729
Total interest-bearing liabilities	756,636	926,615	1,359,284	1,555,583	1,907,435
Non-interest-bearing liabilities	35,751	42,046	47,509	54,636	65,563
Total liabilities	792,388	968,661	1,406,794	1,610,218	1,972,998
Equity & Total liabilities	902,161	1,094,257	1,578,457	1,806,470	2,202,445

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	183,102	219,033
Interest expense	(37,801)	(53,976)	(80,521)	(96,483)	(109,432)
Net interest income	44,253	51,571	80,116	86,619	109,601
Non-interest income	10,345	16,971	25,263	28,295	30,275
Total op income	54,597	68,542	105,379	114,914	139,876
Total op expenses	(34,403)	(43,880)	(59,572)	(65,529)	(79,946)
PPoP	20,195	24,662	45,807	49,384	59,931
Provisions	(1,548)	(3,900)	(17,926)	(16,831)	(15,982)
Profit before tax	18,646	20,762	27,881	32,554	43,948
Taxes	(4,367)	(4,647)	(6,821)	(7,965)	(10,752)
Net profit	14,279	16,115	21,059	24,589	33,196

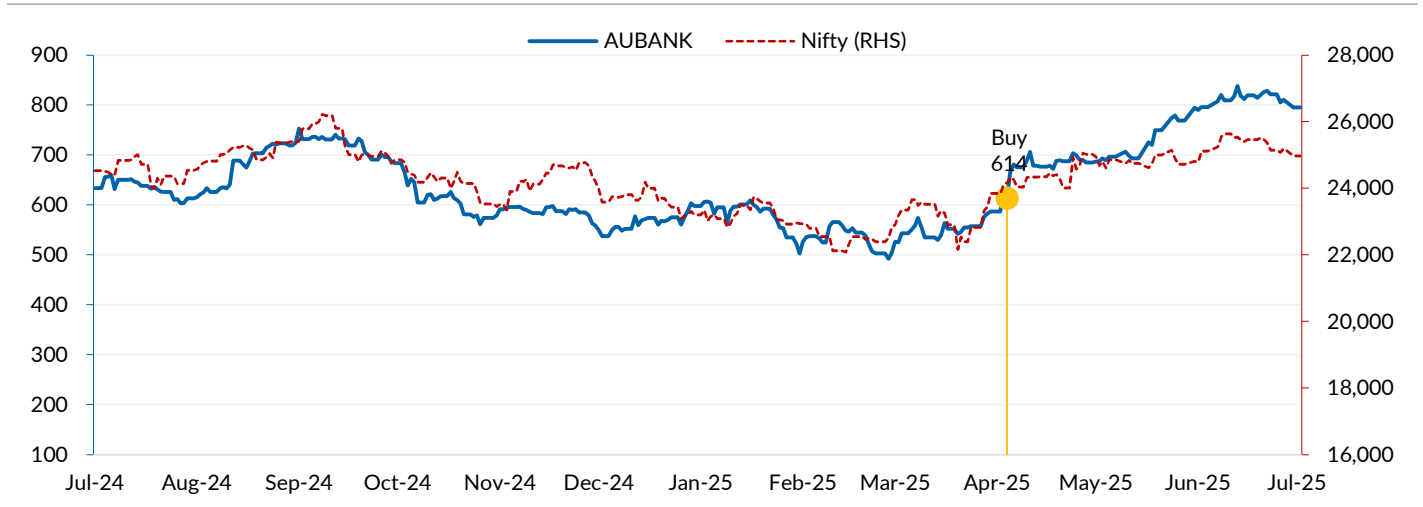
Source: Company, YES Sec

Exhibit 14: Growth and Ratio matrix

Y/e 31 Mar	FY23	FY24	FY25	FY26E	FY27E
Growth matrix (%)					
Net interest income	36.8	16.5	55.4	8.1	26.5
Total op income	29.1	25.5	53.7	9.0	21.7
Op profit (pre-provision)	11.3	22.1	85.7	7.8	21.4
Net profit	26.4	12.9	30.7	16.8	35.0
Advances	26.7	25.2	46.4	15.5	22.5
Deposits	31.9	25.7	42.5	16.5	23.0
Total assets	30.6	21.3	44.2	14.4	21.9
Profitability Ratios (%)					
NIM	6.3	5.8	6.5	5.5	5.9
Non-interest income /Total income	18.9	24.8	24.0	24.6	21.6
Return on Equity	15.4	13.0	14.2	13.4	15.6
Return on Assets	1.8	1.5	1.6	1.5	1.7
Per share ratios (Rs)					
EPS	21.4	22.9	28.3	33.0	44.6
Adj. BVPS	160.9	181.6	219.8	253.5	297.8
Other key ratios (%)					
Credit/Deposits	84.2	83.9	86.2	85.4	85.1
Cost/Income	63.0	64.0	56.5	57.0	57.2
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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Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

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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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