

Strong growth with improving asset quality drives earnings recovery.

CMP: INR 1,000

Rating: Accumulate

Target Price: INR 1,143

Stock Info

BSE	540611
NSE	AUBANK
Bloomberg	AUBANK IN
Reuters	AUFI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Mn)	7,461
Mkt Cap (INR Bn)	748
52w H/L (INR)	840 / 479
Avg Yearly Vol (in 000')	2,999

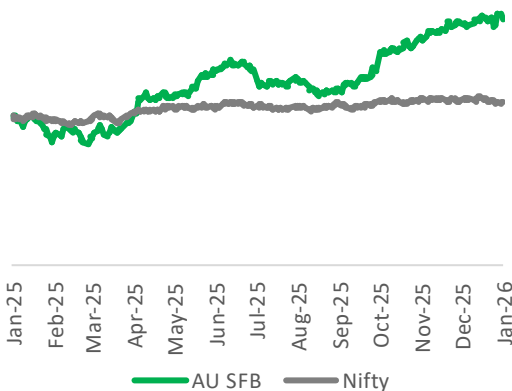
Shareholding Pattern %

(As on Dec 2025)

Promoters	22.79
Public & Others	77.21

Stock Performance (%)	3m	6m	12m
AU Small Finance Bank	16.2	33.0	65.2
Nifty 50	-1.1	2.0	9.6

AU Small Finance Bank Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com

AU SFB reported a relatively strong performance in Q3FY26, with both NII and PAT coming in above our estimates, while provisions were lower than expected. Asset quality remained stable, with GNPA at 2.30% vs our estimate of 2.39%, improving 11bps QoQ and 1bp YoY. NII stood at INR 23.4 Bn, ahead of our estimate of INR 22.5 Bn, up by 9.18% QoQ and 15.75% YoY. PPOP came in at INR 12.2 Bn compared to the estimate of INR 12.8 Bn, up 0.46% QoQ and 0.86% YoY. Provisions declined sharply to INR 3.3 Bn vs our estimate of INR 4.3 Bn, down 31.13% QoQ and 33.99% YoY. PAT stood at INR 6.7 Bn, above our estimate of INR 6.4 Bn, up 19.04% QoQ and 26.34% YoY. Deposits rose to INR 1,384.2 Bn, exceeding our estimate of INR 1,364.8 Bn, up 4.46% QoQ and 23.30% YoY, while advances increased to INR 1,234.2 Bn vs our estimate of INR 1,203.3 Bn, registering growth of 6.67% QoQ and 23.97% YoY.

Loan growth remains strong as asset quality continues to improve: The Company continues to deliver healthy loan growth of ~24% YoY, driven by steady traction in retail, vehicle finance, and MSME segments, while maintaining asset quality. Gross NPA improved to 2.3% from 2.41% QoQ and Net NPA remains comfortable at 0.88%. Lower slippages and stable collections led to a moderation in credit cost to 1.12%. With legacy stress largely behind and incremental loans performing well, the bank appears to be past the peak of its provisioning cycle, improving confidence in earnings sustainability.

Margin improvement and lower provisions drive strong profit growth: NIM improved to 5.7% (up ~20 bps QoQ), supported by a better loan mix and timely repricing, while strong deposit traction helped manage funding costs. Management expects margins to remain broadly stable. Lower provisions supported profitability, resulting in 26% YoY growth in PAT and reinforcing confidence that earnings are normalizing.

Valuation & View: The company expects high-teen loan growth in FY27, driven by secured retail loans and commercial banking, while unsecured segments recover gradually. Margins should remain stable, supported by deposit repricing and lower cost of funds, despite some asset yield pressure. With credit costs around 1%, cost-to-income below 60%, and benefits from operating leverage and AI-led efficiencies, ROA is targeted to improve toward ~1.8% in FY27. **We maintain our Accumulate rating on the stock with target price of INR 1,143, based on 3.25x FY28E P/ABV**

Exhibit 1: Financial Performance

Y/E Mar (Rs Bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	44	52	80	92	109	134
PAT	14	15	21	26	32	43
Networth	110	126	172	196	227	267
Adj BVPS (Rs)	160	181	219	252	296	352
EPS (Rs)	21	23	28	35	43	57
P/E (x)	47	44	35	29	23	17
P/Adj BV (x)	6.2	5.5	4.6	4.0	3.4	2.8

Source: Arihant Research, Company Filings

Q3FY26 - Quarterly Performance (Standalone)

P&L (Rs Bn)	Q3FY26	Q3FY25	Q2FY26	YoY	QoQ
Interest Earned	47.27	41.13	45.11	15%	5%
Interest Expended	23.86	20.91	23.67	14%	1%
NII	23.41	20.23	21.44	16%	9%
Other Income	7.24	6.18	7.13	17%	2%
Net Income	30.65	26.41	28.57	16%	7%
Opex	18.50	14.36	16.47	29%	12%
PPOP	12.15	12.05	12.10	1%	0%
Provisions	3.31	5.02	4.81	-34%	-31%
PBT	8.84	7.03	7.29	26%	21%
Tax	2.17	1.75	1.68	24%	29%
PAT	6.68	5.28	5.61	26%	19%
Asset Quality					
GNPA	28.8	23.4	28.4	23%	2%
NNPA	10.9	9.1	10.2	20%	7%
GNPA (%)	2.30%	2.31%	2.41%	-1bps	-11bps
NNPA (%)	0.88%	0.91%	0.88%	-3bps	0bps
Balance Sheet					
Advances	1,234.2	995.6	1,157.0	24%	7%
Deposits	1,384.2	1,122.6	1,325.1	23%	4%
Spreads					
Yield	13.8%	14.4%	13.9%	-60bps	-10bps
Cost of Funds	6.6%	7.1%	6.8%	-50bps	-23bps
NIM	5.7%	5.9%	5.5%	-20bps	20bps

Source: Aриhant Research, Company Filings

Q3FY26 – Key Concall Highlights

Business Growth

Deposits grew 23% YoY, among the highest in the sector, at ~1.8x system growth. The loan book expanded 19.3% YoY, translating to ~2.5x nominal GDP growth. Growth was led by secured loans, which increased 23% YoY and now account for ~68% of the total loan book, indicating a continued shift towards a more secured portfolio. The unsecured book declined on a YoY basis but turned positive QoQ (+1%), driven by a recovery in the MFI segment. Credit card balances have stabilized, with meaningful growth expected to resume from FY27.

Asset Mix – Key Segments

Wheels (vehicle finance) continued to deliver strong momentum, recording 27% YoY growth and remaining a key driver of overall expansion. Gold loans grew sharply by 52% YoY from a low base, with management remaining bullish and expecting multi-fold growth over the medium term. Mortgages (MBL and affordable housing) grew 13% YoY despite a highly competitive environment, with growth expected to improve through expansion in southern markets. The Commercial Banking loan book increased 25% YoY to INR 2,77,000 Mn and remains largely self-funded and capital efficient.

Asset Quality & Credit Cost

Asset quality improved during the quarter, with gross NPA declining 11 bps QoQ to 2.3%. Credit costs also moderated, with Q3 annualized credit cost down 41 bps QoQ, while FY26 credit cost guidance was maintained at 1.1% of average assets. In the MFI business, collection efficiency improved to 99.3% in Q3 and further to 99.5% in December. About 83% of the MFI book is now covered under the CGFMU guarantee, which is expected to increase to ~90–95%. The recovery has been broad-based across geographies and is not driven by any overlap with the gold loan portfolio.

Deposits & Funding

Total deposits stood at INR 1.38 lakh crore, registering 23% YoY growth. The CASA ratio remained stable at ~29%. Cost of funds declined 22 bps QoQ to 6.61%, with further repricing of term deposits expected over the next two quarters. The deposit mix remained stable, with no increased reliance on bulk deposits.

Operating Costs & Efficiency

Operating expenses to average assets stood at 4.1% in 9M FY26, while the cost-to-income ratio was 57%. Management remains confident of maintaining the cost-to-income ratio below 60%. The near-term increase in operating expenses is driven by branch expansion, higher business volumes, and hiring to support future growth. Over the medium term, cost efficiency is expected to improve through operating leverage and increased use of AI.

Technology & AI Focus

The company has maintained consistent technology investments at 8–10% of opex over the last eight years. Its digital platform delivers 99.9% uptime, processes over 3.5 million UPI transactions per day, and handles more than 10 million API calls daily. AI has been increasingly adopted across underwriting, fraud monitoring, and customer service, with around 60% of fraud alerts now auto-decided and nearly 25% of customer calls handled through voice bots. An AI-powered gold loan LOS is scheduled to go live in Q1 FY27.

Distribution & Franchise Expansion

The company added 100 touchpoints in Q3, taking the total network to 2,726 touchpoints. During FY26, 66 new liability branches have been added so far, with a full-year target of 80 branches. CASA acquisition momentum strengthened, crossing 1 lakh accounts per month in December. Cross-sell traction remains strong, with increasing conversion from asset customers to liability relationships.

Key Financials

P&L (INR Bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest income	82.1	105.5	160.6	180.0	213.3	258.7
Interest expense	37.8	54.0	80.5	88.3	104.5	124.8
NII	44.3	51.6	80.1	91.8	108.8	133.9
Non-interest income	10.3	17.0	25.3	30.3	36.1	43.2
Net revenues	54.6	68.5	105.4	122.1	144.9	177.2
Operating expenses	34.4	43.9	59.6	69.7	82.2	97.0
PPOP	20.2	24.7	45.8	52.4	62.7	80.1
Provisions	1.5	3.9	17.9	17.7	19.9	23.1
Exceptional Items	0.0	0.8	0.0	0.0	0.0	1.0
PBT	18.6	20.0	27.9	34.7	42.8	57.0
Tax	4.4	4.6	6.8	8.7	10.8	14.4
PAT	14.3	15.3	21.1	26.0	32.0	42.6

Balance sheet	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	7	7	7	7	7	7
Reserves & surplus	103	119	164	189	219	260
Net worth	110	126	172	196	227	267
Deposits	694	872	1243	1456	1722	2058
Borrowings	63	55	117	127	139	152
Other liability	36	42	48	22	17	11
Total liabilities	902	1094	1578	1802	2105	2488
Fixed assets	7	9	9	10	12	14
Investments	201	271	378	386	413	444
Loans	584	732	1071	1287	1551	1872
Cash	94	64	95	82	82	96
Other assets	16	19	25	37	48	61
Total assets	902	1094	1578	1802	2105	2488

Source: Arianth Research, Company Filings

Ratios	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth (%)						
NII	37	17	55	15	19	23
PPOP	11	22	86	14	20	28
PAT	26	7	37	23	23	33
Advances	27	25	46	20	21	21
Deposits	32	26	43	17	18	20
Spread (%)						
Yield on Funds	10.6	10.8	12.3	10.9	11.2	11.6
Cost of Funds	5.6	6.4	7.0	6.0	6.1	6.1
Spread	4.9	4.4	5.3	4.9	5.2	5.5
NIM	5.7	5.3	6.1	5.6	5.7	6.0
Asset quality (%)						
Gross NPAs	1.7	1.7	2.3	2.3	2.2	2.1
Net NPAs	0.5	0.6	0.8	0.6	0.4	0.3
Provisions	71	64	66	72	83	88
Return ratios (%)						
RoE	15.4	13.0	14.2	14.1	15.1	17.3
RoA	1.8	1.5	1.6	1.5	1.6	1.9
Per share (Rs)						
EPS	21	23	28	35	43	57
BV	165	188	231	263	304	358
ABV	160	181	219	252	296	352
Valuation (x)						
P/E	46.7	43.6	35.4	28.7	23.3	17.5
P/BV	6.1	5.3	4.3	3.8	3.3	2.8
P/ABV	6.2	5.5	4.6	4.0	3.4	2.8

Source: Arian Research, Company Filings

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
 Building No. 10, 1st Floor
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E)
 Mumbai – 400093
 Tel: (91-22) 42254800

Registered Office

6 Lad Colony,
 Y.N. Road,
 Indore - 452003, (M.P.)
 Tel: (91-731) 4217100/101
 CIN: L66120MP1992PLC007182

Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Research Analyst
Registration No.****Contact****Website****Email Id**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.cominstresearch@arihantcapital.com**Arihant Capital Markets Ltd.**

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)
 Tel. 022-42254800

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800