Arihant Capital
Generating Wealth

Q2FY26 - Result Update
04th November 2025

AU Small Finance Bank

Retail and MSME growth driving strong, stable performance

CMP: INR 880

Rating: Accumulate

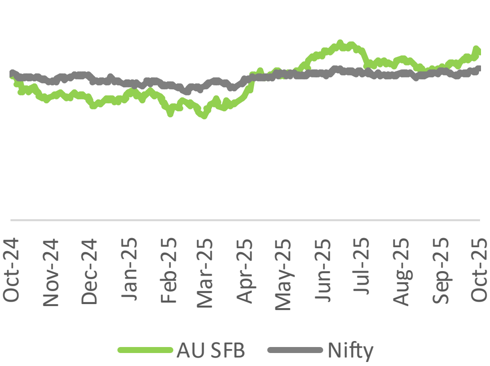
Target Price: INR 992

Stock Info	
BSE	540611
NSE	AUBANK
Bloomberg	AUBANK IN
Reuters	AUFI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Mn)	7,445
Mkt Cap (INR Bn)	592
52w H/L (INR)	840 / 479
Avg Yearly Vol (in 000')	2,979

Shareholding Pattern % *(As on June 2025)*	
Promoters	22.85
Public & Others	77.15

Stock Performance (%)	3m	6m	12m
AU Small Finance Bank	-0.3	27.1	15.4
Nifty 50	2.5	6.1	3.4

AU Small Finance Bank Vs Nifty 50



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AU Small Finance Bank reported a relatively modest set of Q2FY26 results, with both NII and PAT coming in above our estimates, while provisions were broadly in line with expectations. NII stood at INR 21.4 Bn compared to our estimate of INR 20.7 Bn, up 4.88% QoQ and 8.61% YoY. PPOP came in at INR 12.1 Bn vs our estimate of INR 11.7 Bn, down 7.81% QoQ but up 6.89% YoY. Provisions were at INR 4.8 Bn, in line with estimates, down 9.84% QoQ and up 28.91% YoY. PAT stood at INR 5.6 Bn vs our estimate of INR 5.2 Bn, down 3.44% QoQ and up 1.81% YoY. GNPA declining to 2.41% from 2.47% in Q1FY26 and vs our estimated 2.43%, while Net NPA was 0.88% vs our estimate of 0.86%. Deposits increased to INR 1,325.1 Bn compared to the estimate of INR 1,315.3 Bn, up 3.77% QoQ and 20.80% YoY, and advances up to INR 1,157.0 Bn vs estimate of INR 1,120.3 Bn, up 5.35% QoQ and 22.0% YoY.

Margins Improve, Asset Quality Remains Strong : NIM rising 5 bps QoQ to 5.5%, helped by lower deposit costs down 25 bps QoQ to 6.83% and a better mix of assets. Credit costs are improving as slippages across cards, mortgages, and commercial banking fell 12% QoQ. The bank's strong risk management and high provisioning (PCR of 84% including write-offs) provide confidence that asset quality will remain stable.

Strong Loan Growth with Diversified Expansion: The bank delivered healthy performance with 17% YoY loan growth overall and 22% YoY growth excluding unsecured segments. The retail secured and MSME portfolios now account for 67% of total advances, underscoring a high-quality, granular asset base. Growth was well diversified across newer geographies such as Andhra Pradesh, Karnataka, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal.

Valuation & View: The bank plans to expand its branch network to 1,000 by March 2026, up from 550 in March 2024, with a strong focus on retail and MSME growth. Management targets maintaining loan growth of 20–25% over the medium term, supported by stable credit costs. In H1, the bank opened 95,000 new savings accounts from retail asset customers, adding INR 1,800 Mn in deposits. Additionally, it received in-principle approval from the RBI to transition into a Universal Bank within the next 18 months, marking a significant milestone in its growth journey. **We maintain our Accumulate rating on the stock with target price of INR 992, based on 2.90x FY28E P/ABV .**

Exhibit 1: Financial Performance

Y/E Mar (Rs Bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	44	52	80	89	102	119
PAT	14	15	21	26	30	37
Networth	110	126	172	196	225	259
Adj BVPS (Rs)	160	181	219	252	294	342
EPS (Rs)	21	23	28	34	40	49
P/E (x)	41	38	31	26	22	18
P/Adj BV (x)	5.5	4.9	4.0	3.5	3.0	2.6

Source: Arihant Research, Company Filings

Q2FY26 - Quarterly Performance (Standalone)

P&L (Rs Bn)	Q2FY26	Q2FY25	Q1FY26	YoY	QoQ
Interest Earned	45.11	39.11	43.78	15%	3%
Interest Expended	23.67	19.36	23.34	22%	1%
NII	**21.44**	**19.74**	**20.45**	**9%**	**5%**
Other Income	7.13	6.38	8.11	12%	-12%
Net Income	**28.57**	**26.12**	**28.55**	**9%**	**0%**
Opex	16.47	14.81	15.43	11%	7%
PPOP	**12.10**	**11.32**	**13.12**	**7%**	**-8%**
Provisions	4.81	3.73	5.33	29%	-10%
PBT	**7.29**	**7.59**	**7.79**	**-4%**	**-6%**
Tax	1.68	1.88	1.98	-10%	-15%
PAT	**5.61**	**5.71**	**5.81**	**-2%**	**-3%**
Asset Quality					
GNPA	28.4	19.0	27.5	49%	3%
NNPA	10.2	7.1	9.7	44%	5%
GNPA (%)	2.41%	1.98%	2.47%	43bps	-6bps
NNPA (%)	0.88%	0.75%	0.88%	13bps	-1bps
Balance Sheet					
Advances	1,157.0	948.4	1,098.3	22%	5%
Deposits	1,325.1	1,096.9	1,277.0	21%	4%
Spreads					
Yield	13.9%	14.4%	14.1%	-50bps	-20bps
Cost of Funds	6.8%	7.0%	7.1%	-17bps	-25bps
NIM	5.5%	6.1%	5.2%	-60bps	30bps

Source: Arihant Research, Company Filings

Q2FY26 – Key Concall Highlights

Guidance

- Branch count doubled from 550 to ~1000 branches planned by March 2026, driving retail expansion in new and existing geographies
- Expects to maintain credit cost around 1% for the full financial year,
- Deposit growth is targeted at healthy double-digit levels with continued emphasis on improving CASA ratio and granular retail deposit sourcing.
- The bank targeting a consistent ROE above 14% and sustainable margin expansion.
- The bank remains focused on retail and MSME segments, aiming to sustain loan growth of 20–25% over the medium term.

Key Highlights

- **Core retail secured assets—including auto loans, mortgages, and gold loans up 20% YoY, with the mortgage book up 14% YoY and the gold loan book expanding 19% QoQ.**
- **The commercial banking book grew 22% YoY and 4% QoQ, driven by focused growth across MSME, real estate, agri-banking, and transaction banking segments.**
- **The unsecured loan book declined 23% YoY but is stabilizing, with microfinance and credit card segments expected to see growth starting Q3.**
- **Added 95,000 new savings accounts from retail asset customers in H1FY26, contributing INR 1,800 Mn to deposits.**
- **The credit card and microfinance portfolios recorded a notable decline in slippages and credit costs.**
- **Digital banking and AI initiatives have improved customer acquisition, streamlined processing, and boosted product cross-selling.**
- **New products, such as multi-currency forex cards, are being launched to enhance customer engagement.**
- **The bank plans to maintain its focus on retail assets and core SME lending, rather than pursuing aggressive expansion into wholesale or corporate lending.**
- **The bank continues to maintain strict expense control, aiming to keep its cost-to-income ratio below 60% over the medium term.**
- **The unsecured portfolio declined 23% YoY, while collection efficiency improved to 99%.**
- **The bank added new bancassurance partners, including LIC and SBI Life, taking the total to over 15 partners. Wealth management AUM stood at INR 16,000 crore, serving around 2.4 lakh customers.**
- **The bank has received in-principle approval from the RBI to transition into a Universal Bank within 18 months, marking a significant milestone in its growth journey.**
- **Margins improved earlier than expected, supported by a 25-bps decline in the cost of funds to 6.83%. Further NIM expansion is anticipated as deposits continue to reprice.**

Key Financials

P&L (INR Bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest income	82.1	105.5	160.6	177.8	206.4	243.3
Interest expense	37.8	54.0	80.5	88.3	104.5	124.8
NII	**44.3**	**51.6**	**80.1**	**89.5**	**101.9**	**118.5**
Non-interest income	10.3	17.0	25.3	30.1	35.4	41.9
Net revenues	**54.6**	**68.5**	**105.4**	**119.6**	**137.3**	**160.4**
Operating expenses	34.4	43.9	59.6	67.9	78.1	89.8
PPOP	**20.2**	**24.7**	**45.8**	**51.7**	**59.2**	**70.6**
Provisions	1.5	3.9	17.9	17.4	19.1	21.6
Exceptional Items	0.0	0.8	0.0	0.0	0.0	1.0
PBT	**18.6**	**20.0**	**27.9**	**34.3**	**40.2**	**49.0**
Tax	4.4	4.6	6.8	8.6	10.1	12.3
PAT	**14.3**	**15.3**	**21.1**	**25.6**	**30.0**	**36.6**

Balance sheet	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	7	7	7	7	7	7
Reserves & surplus	103	119	164	189	217	252
Net worth	**110**	**126**	**172**	**196**	**225**	**259**
Deposits	694	872	1243	1456	1722	2058
Borrowings	63	55	117	127	139	152
Other liability	36	42	48	21	17	10
Total liabilities	**902**	**1094**	**1578**	**1801**	**2102**	**2479**
Fixed assets						
Investments	7	9	9	10	12	14
Loans	201	271	378	386	413	444
Cash	584	732	1071	1254	1471	1731
Other assets	94	64	95	115	160	232
Total assets	16	19	25	36	45	57

Source: Arihant Research, Company Filings

Ratios	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth (%)						
NII	37	17	55	12	14	16
PPOP	11	22	86	13	15	19
PAT	26	7	37	22	17	22
Advances	27	25	46	17	17	18
Deposits	32	26	43	17	18	20
Spread (%)						
Yield on Funds	10.6	10.8	12.3	10.8	10.9	10.9
Cost of Funds	5.6	6.4	7.0	6.0	6.1	6.1
Spread	4.9	4.4	5.3	4.8	4.8	4.8
NIM	5.7	5.3	6.1	5.4	5.4	5.3
Asset quality (%)						
Gross NPAs	1.7	1.7	2.3	2.3	2.3	2.2
Net NPAs	0.5	0.6	0.8	0.7	0.4	0.3
Provisions	71	64	66	72	83	88
Return ratios (%)						
RoE	15.4	13.0	14.2	13.9	14.3	15.1
RoA	1.8	1.5	1.6	1.5	1.5	1.6
Per share (Rs)						
EPS	21	23	28	34	40	49
BV	165	188	231	263	302	348
ABV	160	181	219	252	294	342
Valuation (x)						
P/E	41.1	38.4	31.1	25.6	21.8	17.9
P/BV	5.3	4.7	3.8	3.3	2.9	2.5
P/ABV	5.5	4.9	4.0	3.5	3.0	2.6

Source: Arihant Research, Company Filings

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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%

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