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Q1FY27 - Result Update
27th July 2026

AU Small Finance Bank

Strong growth with improving asset quality drives earnings recovery.

CMP: INR 1,004

Rating: Buy

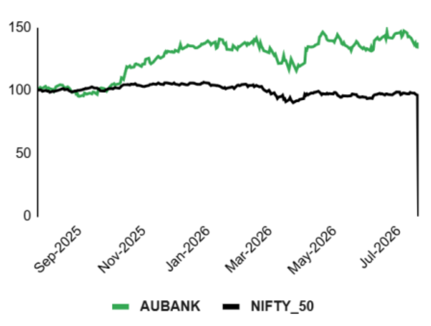
Target Price: INR 1,222

Stock Info	
BSE	540611
NSE	AUBANK
Bloomberg	AUBANK IN
Reuters	AUFI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Mn)	7,490
Mkt Cap (INR Bn)	753
52w H/L (INR)	1090 / 682
Avg Yearly Vol (in 000')	2,502

Shareholding Pattern % *(As on March 2026)*	
Promoters	22.79
Public & Others	77.21

Stock Performance (%)	1m	6m	12m
AU Small Finance Bank	(1.68)	5.14	1.37
Nifty 50	(0.75)	(5.59)	(9.10)

AU Small Finance Bank Vs Nifty 50



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AU Small Finance Bank reported a steady operating performance in Q1FY27, with healthy growth across deposits and advances and sharply lower provisions supporting earnings. Asset quality remained broadly stable, with GNPA at 2.10% vs 2.47% YoY and NNPA at 0.76% vs 0.88% YoY. NII stood at INR 27.0 bn, up 4% QoQ and 32% YoY, aided by lower cost of funds. Core PPOP came in at INR 14.3 bn, up 4% QoQ and 41% YoY, while reported PPOP was INR 14.4 bn, up 6% QoQ and 9% YoY. Provisions declined to INR 3.7 bn, down 30% YoY though up 38% QoQ, and included an additional one-time provision of INR 0.23 bn from further strengthening of the provisioning policy. PAT stood at INR 8.0 bn, up 37% YoY though down 4% QoQ. Gross loan portfolio grew to INR 1,442.50 bn, up 3% QoQ and 23% YoY, with disbursements up ~42% YoY, while deposits grew to INR 1,577.27 bn, up 3% QoQ and 24% YoY. NIM stood at 5.9%, expanding 47bps YoY, supported by a 60bps YoY decline in cost of funds to 6.48%.

Loan growth remained healthy while asset quality stayed broadly stable: The bank continued to deliver healthy growth, with gross loan portfolio up 23% YoY and 3% QoQ, supported by 25% YoY growth in secured (retail plus commercial) businesses and 11% YoY growth in unsecured businesses, while disbursements rose ~42% YoY. Asset quality remained broadly stable, with GNPA at 2.10% and NNPA at 0.76%, both improving YoY from 2.47% and 0.88%. Slippages declined 22% YoY to INR 7.98 bn and annualized credit cost improved to 0.8% from 1.4% in Q1FY26, indicating easing stress and controlled provisioning.

Margin resilience and lower provisions supported earnings growth: NIM stood at 5.9%, expanding 47bps YoY, supported by lower cost of funds and an improving liability mix, while the CASA ratio held at 29%. Significantly lower provisions, down 30% YoY, supported profitability and drove 37% YoY growth in PAT, while RoA and RoE stood at 1.7% and 15.6% respectively. Core other income grew 33% YoY to INR 6.80 bn, aiding operating income, even as reported other income de-grew 15% YoY on lower treasury gains.

Valuation & View: The bank expects healthy growth momentum in FY27, driven by continued traction in secured retail and commercial banking, with the universal bank transition providing a medium-term catalyst. Margins are expected to remain resilient, supported by lower cost of funds and an improving liability mix, while moderating credit costs and operating leverage should aid further improvement in profitability. With asset quality broadly stable, the RoA/RoE trajectory holding firm and execution remaining robust, **we maintain our Buy rating on the stock with a target price of INR 1,222, based on 3x FY29E P/ABV, implying 21.7% upside from the CMP of INR 1,004.**

Exhibit 1: Financial Performance

Y/E Mar (Rs Bn)	FY24	FY25	FY26A	FY27E	FY28E	FY29E
NII	52	80	91	110	135	165
PAT	15	21	27	34	42	50
Networth	126	172	200	232	271	400
Adj BVPS (Rs)	181	219	254	295	347	407
EPS (Rs)	23	28	35	45	56	67
P/E (x)	44	35	28	22	18	15
P/Adj BV (x)	5.5	4.6	4.0	3.4	2.9	2.5

Source: Arihant Research, Company Filings

Q1FY27 - Quarterly Performance (Standalone)

P&L (Rs Bn)	Q1FY27	Q1FY26	Q4FY26	YoY	QoQ
Interest Earned	53.03	43.78	50.19	21%	6%
Interest Expended	26.07	23.34	24.37	12%	7%
NII	**26.96**	**20.45**	**25.82**	**32%**	**4%**
Other Income	6.89	8.11	7.31	-15%	-6%
Net Income	**33.85**	**28.55**	**33.13**	**19%**	**2%**
Opex	19.49	15.43	19.62	26%	-1%
PPOP	**14.36**	**13.12**	**13.51**	**9%**	**6%**
Provisions	3.71	5.33	2.69	-30%	38%
PBT	**10.65**	**7.79**	**10.82**	**37%**	**-2%**
Tax	2.68	1.98	2.50	35%	7%
PAT	**7.97**	**5.81**	**8.32**	**37%**	**-4%**
Asset Quality					
GNPA (%)	2.10%	2.47%	2.05%	-37bps	5bps
NNPA (%)	0.76%	0.88%	0.74%	-12bps	2bps
Balance Sheet					
Advances	1,385.7	1,098.3	1,342.8	26%	3%
Deposits	1,577.3	1,277.0	1,526.6	24%	3%
Spreads					
Yield	0.0%	14.1%	13.8%	-1410bps	-1380bps
Cost of Funds	0.0%	7.1%	6.5%	-708bps	-649bps
NIM	5.9%	5.2%	6.0%	70bps	-6bps

Source: Arihant Research, Company Filings

Con-call KTA

AU Small Finance Bank KTA Q1FY27
CMP: INR 1,004 | MCap: INR 752.59 bn

AU Small Finance Bank reported a strong Q1FY27 with steady loan and deposit growth, wider interest margins, and better asset quality. Total deposits increased 24% YoY to INR 1,577.27 bn, and gross advances grew 23% YoY to INR 1,442.50 bn, backed by a 42% YoY rise in disbursements. Net interest income went up 32% YoY to INR 26.95 bn as the net interest margin widened by 47 bps YoY to 5.9%. Profit after tax grew 37% YoY to INR 7.96 bn, resulting in an annualized RoA of 1.7% and RoE of 15.6%.

Profitability & Margins
- Net interest income increased 32% YoY to INR 26.95 bn, helped by 23% YoY loan growth and a 47 bps YoY increase in net interest margin to 5.9%.
- Core pre-provision operating profit (excluding treasury) grew 41% YoY to INR 14.26 bn.
- Core other income rose 33% YoY to INR 6.80 bn, led by higher business volumes and growing fee income from transaction banking and forex.
- Profit after tax increased 37% YoY to INR 7.96 bn due to strong core operating earnings and lower credit costs.

Deposits & Liabilities
- Total deposits grew 24% YoY to INR 1,577.27 bn.
- CASA deposits increased 22% YoY to INR 453.99 bn, keeping the CASA ratio steady at 29%.
- Cost of funds dropped 60 bps YoY to 6.48%.
- Stable deposits (CASA, Retail TDs, and Non-callable bulk TDs) make up 79% of total deposits, and the CD ratio stands at 80% (excluding DFI refinance).

Asset Growth by Segment
- Gross loan portfolio grew 23% YoY to INR 1,442.50 bn.
- Retail secured assets (Wheels, Mortgages, and Gold loans) increased 23% YoY to form 67% of total loans. This was led by Wheels (+28% YoY to INR 486.00 bn) and Gold Loans (+130% YoY to INR 45.00 bn).
- Commercial Banking advances rose 34% YoY to INR 328.00 bn.
- Unsecured loans grew 11% YoY, with microfinance and personal loans showing a recovery in growth.

Asset Quality & Provisions
- Fresh slippages fell 22% YoY to INR 7.98 bn.
- Gross NPA ratio improved to 2.10% and Net NPA ratio dropped to 0.76%. The Provision Coverage Ratio stayed strong at 85%.
- Annualized credit cost (including CGFMU premium) decreased to 0.8% from 1.4% a year ago.
- Total provisions of INR 3.71 bn included an extra one-time provision of INR 230 mn to tighten policies across specific loan segments.

Forward Guidance
- Growth: Target is to grow advances at 2.0x to 2.5x of India's nominal GDP growth rate.
- Profitability: Goal is to improve Return on Assets (RoA) from 1.7% toward 1.8% by controlling costs and increasing fee income.
- Expansion & Transition: Planning to open over 100 new deposit branches this year. The transition to a Universal Bank is on track for February or March.
- Capital: Capital adequacy is comfortable at 18.9%, providing enough room for near-term growth.

Key Financials

P&L (INR Bn)	FY24	FY25	FY26A	FY27E	FY28E	FY29E
Interest income	105.5	160.6	186.4	221.0	265.8	321.5
Interest expense	54.0	80.5	95.2	110.9	131.2	156.5
NII	**51.6**	**80.1**	**91.1**	**110.1**	**134.6**	**164.9**
Non-interest income	17.0	25.3	29.8	35.0	40.9	47.8
Net revenues	**68.5**	**105.4**	**120.9**	**145.1**	**175.4**	**212.7**
Operating expenses	43.9	59.6	69.8	83.8	102.2	126.7
PPOP	**24.7**	**45.8**	**51.1**	**61.3**	**73.2**	**85.9**
Provisions	3.9	17.9	16.2	16.4	17.3	19.0
Exceptional Items	0.8	0.0	0.0	0.0	0.0	0.0
PBT	**20.0**	**27.9**	**34.9**	**44.9**	**55.9**	**66.9**
Tax	4.6	6.8	8.4	11.3	14.1	16.9
PAT	**15.3**	**21.1**	**26.6**	**33.6**	**41.8**	**50.1**

Balance sheet	FY24	FY25	FY26A	FY27E	FY28E	FY29E
Share capital	7	7	7	7	7	7
Reserves & surplus	119	164	192	224	264	311
Net worth	**126**	**172**	**200**	**232**	**271**	**319**
Deposits	872	1243	1527	1858	2274	2809
Borrowings	55	117	139	172	210	254
Other liability	42	48	53	18	12	1
Total liabilities	**1094**	**1578**	**1918**	**2280**	**2767**	**3382**
Fixed assets	9	9	14	17	19	23
Investments	271	378	448	446	491	607
Loans	732	1071	1343	1641	2009	2463
Cash	64	95	85	128	183	211
Other assets	19	25	28	49	64	79
Total assets	**1094**	**1578**	**1918**	**2280**	**2767**	**3382**

Source: Arihant Research, Company Filings

Ratios	FY24	FY25	FY26A	FY27E	FY28E	FY29E
Growth (%)						
NII	17	55	14	21	22	23
PPOP	22	86	12	20	19	17
PAT	7	37	25	27	24	20
Advances	25	46	25	22	22	23
Deposits	26	43	23	22	22	24
Spread (%)						
Yield on Funds	10.8	12.3	10.9	10.8	10.9	10.8
Cost of Funds	6.4	7.0	6.3	6.0	5.8	5.6
Spread	4.4	5.3	4.6	4.8	5.0	5.1
NIM	5.3	6.1	5.3	5.4	5.5	5.5
Asset quality (%)						
Gross NPAs	1.7	2.3	2.0	1.8	1.6	1.6
Net NPAs	0.6	0.8	0.7	0.6	0.6	0.6
Provisions	64	66	64	64	64	64
Return ratios (%)						
RoE	13.0	14.2	14.2	15.6	16.6	17.0
RoA	1.5	1.6	1.5	1.6	1.7	1.6
Per share (Rs)						
EPS	23	28	35	45	56	67
BV	188	231	267	310	363	426
ABV	181	219	254	295	347	407
Valuation (x)						
P/E	43.8	35.5	28.5	22.3	18.0	15.0
P/BV	5.3	4.4	3.8	3.2	2.8	2.4
P/ABV	5.5	4.6	4.0	3.4	2.9	2.5

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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