

**Strong growth with improving asset quality drives earnings recovery.**

**CMP: INR 1,028**

**Rating: Accumulate**

**Target Price: INR 1,325**

**Stock Info**

BSE	540611
NSE	AUBANK
Bloomberg	AUBANK IN
Reuters	AUFI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Mn)	7,480
Mkt Cap (INR Bn)	770
52w H/L (INR)	1080 / 655
Avg Yearly Vol (in 000')	2,775

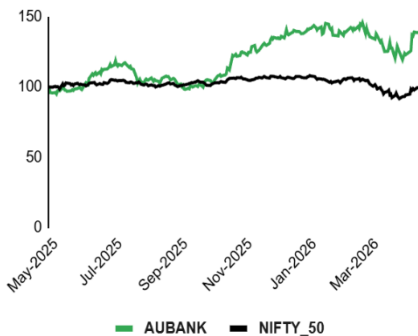
**Shareholding Pattern %**

(As on March 2026)

Promoters	22.79
Public & Others	77.21

Stock Performance (%)	1m	6m	12m
AU Small Finance Bank	22.51	16.99	46.22
Nifty 50	8.92	(6.64)	(0.05)

**AU Small Finance Bank Vs Nifty 50**



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AU Small Finance Bank reported a strong performance in Q4FY26, with NII marginally above our estimates while PPOP came in broadly in line, and sharply lower provisions supported earnings beat. Asset quality improved meaningfully, with GNPA at 2.03% vs 2.30% in Q3FY26 and NNPA at 0.74% vs 0.88% in Q3FY26. NII stood at INR 25.8 bn, marginally ahead of our estimate of INR 25.7 bn, up 10.30% QoQ and 23.31% YoY. PPOP came in at INR 13.5 bn compared with our estimate of INR 13.6 bn, up 9.47% QoQ and 4.64% YoY. Provisions declined to INR 2.7 bn vs our estimate of INR 3.2 bn, down 18.73% QoQ and 57.64% YoY. PAT stood at INR 8.3 bn, above our estimate of INR 7.8 bn, up 24.55% QoQ and 65.08% YoY. Gross advances increased to INR 1,342.76 bn, up 8.65% QoQ and 25.06% YoY, while deposits grew to INR 1,526.6 bn, rising 10.29% QoQ and 22.85% YoY. NIM expanded 24bps QoQ to 5.96%, supported by lower cost of funds, while improved asset quality and lower credit costs further strengthened the quarter.

**Loan growth remained healthy while asset quality improved further:** The bank continued to deliver strong growth, with gross advances rising 25% YoY, supported by traction across retail and MSME segments, while asset quality strengthened meaningfully. Gross NPA improved to 2.03% from 2.30% QoQ, while Net NPA declined to 0.74% from 0.88%, reflecting lower stress and improving collections. Lower slippages and moderation in provisions indicate credit costs may be past their peak, while management commentary around universal bank transition and integration progress adds confidence to medium-term growth visibility.

**Margin expansion and sharply lower provisions drove strong earnings growth:** NIM improved to 5.96%, up 24bps QoQ, supported by lower cost of funds and favorable mix, while deposit growth remained healthy aiding funding stability. Significantly lower provisions supported profitability, driving 65% YoY growth in PAT, while RoA/RoE improved to 1.8%/17.0%, reinforcing confidence in earnings normalization. With margins holding firm, asset quality improving and provisioning pressures easing, the quarter strengthens confidence in the sustainability of the bank's profitability trajectory.

**Valuation & View:** The company expects healthy growth momentum in FY27, driven by continued traction in secured retail, commercial banking and benefits from the Fincare integration, while the universal bank transition could provide an added medium-term catalyst. Margins are expected to remain resilient, supported by lower cost of funds and improving liability mix, while moderating credit costs and operating leverage should support further improvement in profitability. With asset quality improving, ROA/RoE trajectory strengthening and execution remaining robust, **we maintain our Accumulate rating on the stock with a target price of INR 1,325, based on 2.5x FY28E P/ABV, implying 28.9% upside from the CMP of INR 1,028.**

**Exhibit 1: Financial Performance**

Y/E Mar (Rs Bn)	FY24	FY25	FY26A	FY27E	FY28E	FY29E
NII	52	80	91	113	141	176
PAT	15	21	27	36	47	59
Networth	126	172	200	234	278	400
Adj BVPS (Rs)	181	219	254	298	355	530
EPS (Rs)	23	28	35	48	62	79
P/E (x)	44	35	28	21	16	13
P/Adj BV (x)	5.5	4.6	3.9	3.4	2.8	2.0

Source: Arihant Research, Company Filings

## Q4FY26 - Quarterly Performance (Standalone)

P&L (Rs Bn)	Q4FY26	Q4FY25	Q3FY26	YoY	QoQ
Interest Earned	50.19	42.71	47.27	18%	6%
Interest Expended	24.37	21.77	23.86	12%	2%
<b>NII</b>	<b>25.82</b>	<b>20.94</b>	<b>23.41</b>	<b>23%</b>	<b>10%</b>
Other Income	7.31	7.61	7.24	-4%	1%
<b>Net Income</b>	<b>33.13</b>	<b>28.55</b>	<b>30.65</b>	<b>16%</b>	<b>8%</b>
Opex	19.62	15.62	18.50	26%	6%
<b>PPOP</b>	<b>13.51</b>	<b>12.92</b>	<b>12.15</b>	<b>5%</b>	<b>11%</b>
Provisions	2.69	6.35	3.31	-58%	-19%
<b>PBT</b>	<b>10.82</b>	<b>6.57</b>	<b>8.84</b>	<b>65%</b>	<b>22%</b>
Tax	2.50	1.53	2.17	63%	15%
<b>PAT</b>	<b>8.32</b>	<b>5.04</b>	<b>6.68</b>	<b>65%</b>	<b>25%</b>
<b>Asset Quality</b>					
GNPA	27.6	24.8	28.8	11%	-4%
NNPA	9.9	7.9	10.9	25%	-9%
GNPA (%)	2.05%	2.31%	2.30%	-26bps	-25bps
NNPA (%)	0.74%	0.74%	0.88%	0bps	-14bps
<b>Balance Sheet</b>					
Advances	1,342.8	1,070.9	1,234.2	25%	9%
Deposits	1,526.6	1,242.7	1,384.2	23%	10%
<b>Spreads</b>					
Yield	13.8%	14.4%	13.8%	-60bps	0bps
Cost of Funds	6.5%	7.1%	6.6%	-65bps	-11bps
NIM	6.0%	5.6%	5.7%	36bps	26bps

Source: Arihant Research, Company Filings

## Concall KTA

*AU Small Finance Bank (AU SFB) concluded FY26 on a robust note, characterized by significant sequential margin expansion and stable asset quality. The quarter showcased strong operational momentum with deposits and loan growth significantly outperforming estimated private sector benchmarks. Sentiment remains highly positive as the institution enters its 10th year of operations, bolstered by the final application for a universal banking license and a decisive strategic pivot toward an AI-native operating model to drive long-term efficiency.*

### Strong Balance Sheet Growth and Granularity Deposit Outperformance:

- Total deposits reached INR 1,526.61 bn, reflecting a growth of 23% YoY and 10% QoQ.
- Liability Profile: The CASA ratio remained broadly stable at 28%, with CASA deposits growing 20% YoY to support a granular funding base.
- Loan Book Expansion: The total loan portfolio expanded to INR 1,342.76 bn, a 21% YoY increase.
- Sector-Specific Growth: The Wheels book grew by 27% YoY to ~INR 464 bn, while Commercial Banking grew 29% YoY to reach INR 310 bn.
- Liquidity Buffer: The average Liquidity Coverage Ratio (LCR) stood at a healthy 119%, with an additional 15% liquidity maintained in non-LCR investments.

### Margin Expansion and Cost Efficiency NIM Expansion:

- Net Interest Margin (NIM) expanded by 24 bps QoQ to 5.96%, aided by lower cost of funds and seasonal benefits.
- Improved Funding Costs: Q4 cost of funds was 6.49%, down 12 bps during the quarter, while full-year costs declined by 32 bps YoY to 6.75%.
- Operating Leverage: The cost-to-assets ratio (excluding CGFMU premium) improved to 4.1% for the full year from 4.3% in FY25.
- Profitability Metrics: Net profit for the quarter grew 65% YoY to INR 8.32 bn, resulting in a quarterly Return on Assets (ROA) of 1.8% and a full-year Return on Equity (ROE) of 14.2%.

### Asset Quality and Credit Costs NPA Improvement:

- The Gross NPA ratio declined by 27 bps QoQ to 2.03%.
- Stable Net NPA: The Net NPA ratio stood at 0.74%.
- Normalized Credit Costs: Quarterly credit costs declined to 0.6%, with full-year credit costs at 96 bps (approx. 1% inclusive of CGFMU premium).
- Reduced Slippages: Gross slippages declined by 17% QoQ to INR 6.59 bn.
- Provisioning Strength: Provision coverage ratio (PCR) is maintained at ~70% when excluding the credit guarantee book.

### Strategic Technology and AI Integration Agentic AI Adoption:

- The bank is systematically integrating "Agentic AI" to reimagine customer and employee journeys.
- AI-Native Systems: The first AI-native loan origination system is live for the gold loan business.
- Operational Automation: Approximately 60% of Anti-Money Laundering (AML) alerts are now resolved through AI-based models.
- Customer Service Scaling: Targeted scale-up of AI-led outbound campaigns to 25% of total calls within the next two quarters.

**Forward Guidance :**

- **Universal Banking:** The final license application was filed in March 2026; the bank expects significant franchise benefits upon transition.
- **Growth Trajectory:** The franchise is expected to sustainably compound at 2.0x to 2.5x of India's nominal GDP growth rate.
- **ROA Target:** The objective is to achieve a full-year ROA of 1.8% in FY27, driven by operating efficiency and lower credit costs. **Sustainable Credit Costs:** Management guidance for credit costs is benchmarked around 90 bps to maintain necessary risk-taking capabilities.
- **Operating Efficiency:** The cost-to-assets ratio is expected to drop below 4% organically in the next financial year.
- **Capital Raising:** The Board has approved an enabling resolution to raise up to INR 75.00 bn in equity and INR 60.00 bn in debt instruments.
- **Dividends:** A dividend of Re. 1 per equity share (10% of face value) has been recommended for FY26.

## Key Financials

P&L (INR Bn)	FY24	FY25	FY26A	FY27E	FY28E	FY29E
Interest income	105.5	160.6	186.4	224.4	274.2	336.9
Interest expense	54.0	80.5	95.2	111.6	133.7	161.3
<b>NII</b>	<b>51.6</b>	<b>80.1</b>	<b>91.1</b>	<b>112.8</b>	<b>140.5</b>	<b>175.5</b>
Non-interest income	17.0	25.3	29.8	35.3	41.8	49.6
<b>Net revenues</b>	<b>68.5</b>	<b>105.4</b>	<b>120.9</b>	<b>148.1</b>	<b>182.3</b>	<b>225.1</b>
Operating expenses	43.9	59.6	69.8	83.8	102.2	126.7
<b>PPOP</b>	<b>24.7</b>	<b>45.8</b>	<b>51.1</b>	<b>64.3</b>	<b>80.1</b>	<b>98.3</b>
Provisions	3.9	17.9	16.2	16.6	17.8	19.8
Exceptional Items	0.8	0.0	0.15	0.0	0.0	0.0
<b>PBT</b>	<b>20.0</b>	<b>27.9</b>	<b>34.9</b>	<b>47.7</b>	<b>62.3</b>	<b>78.5</b>
Tax	4.6	6.8	8.4	12.0	15.7	19.8
<b>PAT</b>	<b>15.3</b>	<b>21.1</b>	<b>26.4</b>	<b>35.7</b>	<b>46.6</b>	<b>58.7</b>

Balance sheet	FY24	FY25	FY26A	FY27E	FY28E	FY29E
Share capital	7	7	7	7	7	7
Reserves & surplus	119	164	192	226	270	270
<b>Net worth</b>	<b>126</b>	<b>172</b>	<b>200</b>	<b>234</b>	<b>278</b>	<b>278</b>
Deposits	872	1243	1527	1885	2335	2919
Borrowings	55	117	139	172	210	254
Other liability	42	48	53	19	12	22
<b>Total liabilities</b>	<b>1094</b>	<b>1578</b>	<b>1918</b>	<b>2310</b>	<b>2835</b>	<b>3472</b>
Fixed assets	9	9	14	17	19	23
Investments	271	378	448	452	504	630
Loans	732	1071	1343	1668	2075	2586
Cash	64	95	85	123	169	150
Other assets	19	25	28	50	67	83
<b>Total assets</b>	<b>1094</b>	<b>1578</b>	<b>1918</b>	<b>2310</b>	<b>2835</b>	<b>3472</b>

Source: Arianth Research, Company Filings

Ratios	FY21	FY22	FY23	FY24	FY25	FY26A	FY27E	FY28E	FY29E
<b>Growth (%)</b>									
NII	24	37	37	17	55	14	24	25	25
PPOP	80	-16	11	22	86	12	26	25	23
PAT	78	-6	26	7	37	25	35	31	26
Advances	28	33	27	25	46	25	24	24	25
Deposits	38	46	32	26	43	23	24	24	25
<b>Spread (%)</b>									
Yield on Funds	10.9	10.1	10.6	10.8	12.3	10.9	10.9	11.0	11.0
Cost of Funds	6.5	5.3	5.6	6.4	7.0	6.3	6.0	5.8	5.6
Spread	4.4	4.8	4.9	4.4	5.3	4.6	4.9	5.2	5.4
NIM	5.2	5.5	5.7	5.3	6.1	5.3	5.5	5.6	5.7
<b>Asset quality (%)</b>									
Gross NPAs	4.3	2.0	1.7	1.7	2.3	2.0	1.8	1.6	1.6
Net NPAs	2.2	0.6	0.5	0.6	0.8	0.7	0.6	0.6	0.6
Provisions	50	71	71	64	66	64	64	64	64
<b>Return ratios (%)</b>									
RoE	22.6	16.4	15.4	13.0	14.2	14.2	16.5	18.2	21.1
RoA	2.6	1.9	1.8	1.5	1.6	1.5	1.7	1.8	1.9
<b>Per share (Rs)</b>									
EPS	38	36	21	23	28	35	48	62	79
BV	201	239	165	188	231	267	312	371	535
ABV	177	230	160	181	219	254	298	355	530
<b>Valuation (x)</b>									
P/E	26.0	27.9	46.7	43.6	35.4	28.3	21.0	16.0	12.7
P/BV	5.0	4.2	6.1	5.3	4.3	3.7	3.2	2.7	1.9
P/ABV	5.7	4.3	6.2	5.5	4.6	3.9	3.4	2.8	2.0

Source: Aриhant Research, Company Filings

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**Stock Rating Scale**

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

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