

**Stress to Ease from H2FY26 Onwards; Confident of 1.8% RoA in FY27!**
**Est. Vs. Actual for Q1FY26: NII – MISS; PPOP – BEAT; PAT – BEAT**
**Changes in Estimates post Q1FY26**
**FY26E/FY27E (in %): NII -4.8/-4.9; PPOP +0.2/+1.6; PAT -2.6/+0.6**
**Recommendation Rationale**

- **Asset Quality pressures to ease in H2FY26; Credit costs guidance revised upwards:** AUSFB's overall credit costs tapered QoQ to stand at 1.94% (vs 2.42% QoQ); however, the credit costs in the unsecured portfolios continue to remain elevated. Additionally, apart from the lower collection efficiency (CE) in the MFI book, owing to the more stringent MFIN guardrails, the management has flagged concerns in the mortgage book in the southern states (eFincare book, stress likely owing to the transition). The bank has taken appropriate steps to strengthen the collections and expects a pull-back in H2FY26. On the MFI front, the CE has improved MoM, and the trend is expected to continue. The management expects MFI credit costs to peak out in Q2FY26 and improve thereafter. Currently, the asset quality in the credit card portfolio continues to remain elevated, but the bank's corrective actions have ensured better quality in new acquisitions for both NTB and ETB customers. The credit costs in the credit card portfolio have peaked and should recede from Q2FY26 onwards. The asset quality trends in the secured businesses are not a cause of concern. **However, given the delay in MFI recovery being pushed back by another quarter, credit costs (to total assets) are expected to rise by another 10-15 bps and settle at 1% in FY26.**
- **Near-term NIMs under Pressure; FY27 NIMs to be Higher:** NIM pressures during the quarter were visible owing to a sharp decline in asset yields (27 bps), decline in investment yields (20-25 bps) and excess liquidity (~10 bps). The management expects another quarter of pain before NIMs witness improvement from Q3FY26 onwards. Currently, ~70% of AUSFB's portfolio is fixed rate and should benefit in the declining rate cycle. NIM improvement will be driven by declining CoF. The bank has seen a marginal 6 bps CoF improvement in Q1FY26. Further improvement will be led by the rate action taken with peak SA rates reduced 50 bps (~100 bps in certain buckets) and peak TD rates slashed by 90 bps. While some recovery in NIMs is possible in H2FY26, margins are slated to improve meaningfully in FY27E. We expect AUSFB's margins to improve to range between 5.5-5.6% over FY26-28E.
- **Controlled Opex:** AUSFB will continue to exercise discipline over Opex growth as it intends to keep the C-I Ratio under 60% and expects the C-A Ratio to improve in FY26 vs FY25. The bank's focus remains on improving productivity and rationalising expenses on digital marketing and branding. AUSFB plans to add 70-80 deposit branches in FY26, primarily in major cities. We expect the C-I Ratio to remain range-bound between 54-55% over FY26-28E, supported by balanced Opex growth.

**Sector Outlook: Positive**

**Company Outlook:** The bank is marching towards achieving its FY27E RoA target of 1.8%, with tight control on costs and focused efforts on improving asset quality to drive meaningful improvement in credit costs. While another quarter of pain on NIMs will continue, we expect some support of margins from H2FY26 and beyond, driven by a ~70% fixed rate book, downward repricing of CoF with rate action reflecting and growth resumption in the higher-yielding unsecured products. Supported by healthy business growth, margin improvement slated for FY27, controlled opex growth, and gradually moderating credit costs, AUSFB is expected to deliver RoA/RoE of 1.6-1.8%/15-18% over FY26-28E.

**Current Valuation: 3.0x FY27E ABV Earlier Valuation: 2.5x FY27E ABV**
**Current TP: Rs 900/share, Earlier TP: Rs 755/share**
**Recommendation:** We maintain our **BUY** recommendation on the stock.

**Financial Performance:**

- **Operational Performance:** Advances grew by 23/3% YoY/QoQ, with healthy growth across secured segments. The secured loans grew by 22/3% YoY/QoQ. Unsecured businesses de-grew by 23/7% YoY/QoQ, driven by industry-wide de-leveraging in MFI, along with implementation of MFIN guardrails and corrective actions taken in Credit Cards. Deposit growth was strong at 31/3% YoY/QoQ, with strong growth in both TDs (+39/3% YoY/QoQ) and CASA Deposits (+16/3% YoY/QoQ). CASA Ratio stood at 29.2%, flat QoQ. LDR stood at 87.4% vs 87.5% QoQ.
- **Financial Performance:** NII grew by 6/-2% YoY/QoQ, with NIMs contracting by 38 bps QoQ (sharper contraction than expected). NIMs (reported) stood at 5.4% vs 5.8% QoQ. Non-interest income grew by 49/7% YoY/QoQ, led by treasury gains. Opex grew by 4/-1% YoY/QoQ, with the bank exercising control on costs. C-I Ratio declined to 54% vs 54.7% QoQ. PPOP grew by 33/2% YoY/QoQ. Credit costs moderated to 1.94% vs 2.42% QoQ, though credit costs in the unsecured portfolios continue to remain elevated. Higher credit costs in the secured book were owing to seasonality. PAT grew by 15/16% YoY/QoQ.
- **Asset Quality** deteriorated with GNPA/NNPA inching up to 2.47/0.88% vs 2.28/0.74% QoQ. Slippages inched up sequentially, with the slippage ratio at 3.8% vs 3.5% QoQ. PCR stood at 83% incl. TWO.

**Key Financials (Standalone)**

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	2,045	-2.4	+6.5	2,144	-4.6
PPOP	1,312	+1.5	+32.8	1,258	+4.3
Net Profit	581	+15.3	+15.6	511	+13.7
NNPA (%)	0.9	+14 bps	+25 bps	0.8	+8 bps
RoA (%)	1.5	+6 bps	-14 bps	1.3	+19 bps

Source: Company, Axis Securities Research

 (CMP as of 18<sup>th</sup> July, 2025)

CMP (Rs)	795
Upside /Downside (%)	13%
High/Low (Rs)	841/479
Market cap (Cr)	59,230
Avg. daily vol. (6m) Shrs.	33,68,395
No. of shares (Cr)	74.5

**Shareholding (%)**

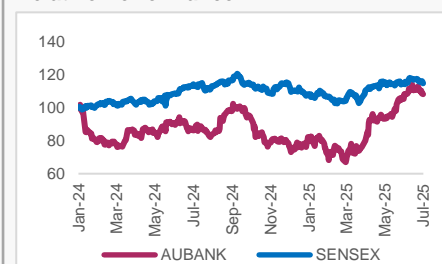
	Sep-24	Dec-24	Mar-25
Promoter	22.9	22.9	22.9
FII's	40.7	39.4	35.6
MFs / UTI	15.5	17.1	20.2
Others	20.9	20.6	21.3

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	9,622	12,056	14,748
PPOP	5,601	7,125	8,704
Net Profit	2,744	3,837	4,681
EPS (Rs)	36.9	51.5	62.9
ABV (Rs)	253.0	300.7	358.2
P/ABV (x)	3.1	2.6	2.2
RoA (%)	1.5	1.8	1.8
NNPA (%)	0.7	0.7	0.6

**Change in Estimates (%)**

Y/E Mar	FY26E	FY27E
NII	-4.8	-4.9
PPOP	+0.2	+1.6
PAT	-2.6	+0.6

**Relative Performance**


Source: AceEquity, Axis Securities Research

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## Key Highlights

- **Credit growth to remain healthy:** AUSFB expects growth momentum to remain strong, delivering a credit growth of 2-2.5x of nominal GDP growth (~20-25%). In the near term, growth would be primarily driven by secured segments. As the stress in the unsecured portfolios recedes, the bank will resume growth in the MFI and Credit card portfolios. The MFI book is likely to have bottomed out and should stabilise in Q2FY26. AUSFB expects to exit FY26 with a modest 5% growth in the MFI portfolio. **The bank's focus continues to remain on Vehicle Finance, Commercial Banking, and Gold Finance to drive advances growth. The mortgage book has been growing at a steady ~15% growth and is expected to scale up gradually to 17-18%/20% by FY26/27E. This growth will be aided by strengthened distribution reach despite heightened competition. We expect AUSFB to deliver a healthy 22% CAGR credit growth over FY25-28E.**
- **Growing Distribution Footprint:** The management believes that the existing distribution network offers a large opportunity to grow by expanding product presence across existing touchpoints. In the Wheels portfolio, the bank plans to expand the offering to another 200-250 touchpoints over the next 12 months. Mainly in UP and South India. Similarly, in the MBL segment, the bank plans to add another 200-250 touchpoints.

## Outlook

We revise our NII estimates downwards by ~5% over FY26-27E to reflect the lag in the transmission of the rate cut on CoF, even as yields (on 30% floating book) reprice downwards immediately. However, on expectations of marginally higher credit costs, we revise our earnings estimates marginally downwards by 3% for FY26E, while maintaining our FY27E earnings estimates. We believe AUSFB remains well placed to deliver a strong Credit/Deposit/NII/Earnings growth of 22/23/23/31% CAGR over FY25-28E. We expect the bank to deliver RoA/RoE of 1.6-1.8%/15-18% over FY26-28E.

## Valuation & Recommendation

The stock currently trades at 2.6x FY27E ABV, following a sharp run-up of 27% over the last 3 months. We value the stock at 3.0x FY27E to arrive at a target price of Rs 900/share, implying an upside of 13% from the CMP. **We maintain our BUY recommendation on the stock.**

## Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum, which could potentially derail earnings momentum for the bank.
- Continued Asset quality challenges in the unsecured book, weighing on earnings, remain a key risk to our estimates.
- Non-issuance of Universal Banking License.

## Change in Estimates

	Change in Estimates								
	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	9,622	12,056	14,748	10,108	12,678	-	-4.8	-4.9	-
PBP	5,601	7,125	8,704	5,589	7,014	-	0.2	1.6	-
Provisions	1,932	1,995	2,446	1,857	1,963	-	4.0	1.6	-
PAT	2,744	3,837	4,681	2,818	3,815	-	-2.6	0.6	-

Source: Company, Axis Securities Research

## Results Review (Standalone)

Result Update	Q1FY26	Q1FY25	% YoY	Q4FY25	% QoQ
Net Interest Income	2,045	1,921	6.5	2,094	-2.4
Non-Interest Income	811	546	48.6	761	6.6
Operating expenses	1,543	1,478	4.4	1,562	-1.2
Staff Cost	866	790	9.5	817	5.9
Pre-provision profits	1,312	988	32.8	1,292	1.5
Provisions and contingencies	533	319	67.1	635	-16.0
PBT	779	669	16.4	657	18.5
Provision for Tax	198	166	19.1	153	29.1
PAT	581	503	15.6	504	15.3

### Business Update

<b>Advances</b>	<b>1,11,614</b>	<b>90,702</b>	<b>23.1</b>	<b>1,08,778</b>	<b>2.6</b>
<b>Deposits</b>	<b>1,27,696</b>	<b>97,290</b>	<b>31.3</b>	<b>1,24,269</b>	<b>2.8</b>
CASA Deposits	37,241	32,035	16.3	36,253	2.7
CASA Ratio	29.2	32.9	-376 bps	29.2	-1 bps

NIM (%)	5.4	6.0	-60 bps	5.8	-40 bps
Cost-Income ratio (%)	54.0	59.9	-589 bps	54.7	-69 bps

### Asset Quality

Gross NPA (%)	2.5	1.8	69 bps	2.3	19 bps
Net NPA (%)	0.9	0.6	25 bps	0.7	14 bps
PCR (%)	83.0	76.0	700 bps	89	-580 bps
Slippages (Rs. Cr.)	1027.0	543.0	89.1	894.0	14.9
Slippage Ratio (%)	3.8	2.7	112 bps	3.5	33 bps

### Capital Adequacy

CRAR	20.0	20.1	-10 bps	20.1	-10 bps
Tier I	18.2	18.9	-70 bps	18.1	10 bps
Tier II	1.8	1.0	80 bps	2.0	-20 bps

Source: Company, Axis Securities Research

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
<b>Net Interest Income</b>	<b>8,012</b>	<b>9,622</b>	<b>12,056</b>	<b>14,748</b>
Other Income	2,526	3,184	3,785	4,499
<b>Total Income</b>	<b>10,538</b>	<b>12,806</b>	<b>15,841</b>	<b>19,247</b>
Total Operating Exp	5,957	7,206	8,716	10,544
<b>PPOP</b>	<b>4,581</b>	<b>5,601</b>	<b>7,125</b>	<b>8,704</b>
Provisions & Contingencies	1,793	1,932	1,995	2,446
<b>PBT</b>	<b>2,788</b>	<b>3,669</b>	<b>5,130</b>	<b>6,258</b>
Provision for Tax	682	924	1,293	1,577
<b>PAT</b>	<b>2,106</b>	<b>2,744</b>	<b>3,837</b>	<b>4,681</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
<b>SOURCES OF FUNDS</b>				
Share Capital	745	745	745	745
Reserves	16,422	19,048	22,711	27,176
<b>Shareholder's Funds</b>	<b>17,166</b>	<b>19,792</b>	<b>23,456</b>	<b>27,921</b>
<b>Total Deposits</b>	<b>1,24,269</b>	<b>1,53,768</b>	<b>1,88,387</b>	<b>2,31,128</b>
Borrowings	<b>11,660</b>	<b>17,179</b>	<b>18,396</b>	<b>23,049</b>
Other Liabilities & Provisions	4,751	5,919	7,145	8,754
<b>Total Liabilities</b>	<b>1,57,846</b>	<b>1,96,659</b>	<b>2,37,384</b>	<b>2,90,852</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	9,466	12,329	15,104	18,531
Investments	37,848	49,138	56,434	69,237
Advances	1,07,092	1,30,513	1,60,199	1,96,165
Fixed Assets & Other Assets	3,439	4,678	5,647	6,919
<b>Total Assets</b>	<b>1,57,846</b>	<b>1,96,659</b>	<b>2,37,384</b>	<b>2,90,852</b>

Source: Company, Axis Securities Research

**Ratio Analysis**
**(%)**

Y/E March	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>				
EPS	28.3	36.9	51.5	62.9
Earnings Growth (%)	23.3	30.3	39.8	22.0
BVPS	230.6	265.8	315.0	375.0
Adj. BVPS	219.4	253.0	300.7	358.2
ROAA (%)	1.6	1.5	1.8	1.8
ROAE (%)	14.2	14.8	17.7	18.2
P/E (x)	28.1	21.6	15.4	12.6
P/ABV (x)	3.6	3.1	2.6	2.2
<b>PROFITABILITY</b>				
NIM (%)	5.9	5.4	5.5	5.5
Cost-Income Ratio	56.5	56.3	55.0	54.8
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	46.4	21.9	22.7	22.5
Deposit Growth (%)	42.5	23.7	22.5	22.7
C/D Ratio (%)	86.2	84.9	85.0	84.9
Equity to Assets (%)	10.9	10.1	9.9	9.6
Equity to Loans (%)	16.0	15.2	14.6	14.2
CAR	20.1	19.1	18.5	18.0
CAR Tier I	18.1	17.2	16.7	16.4
<b>ASSET QUALITY</b>				
Gross NPLs (%)	2.3	2.2	2.0	1.9
Net NPLs (%)	0.8	0.7	0.7	0.6
Coverage Ratio (%)	66.4	67.0	67.0	67.0
Credit Costs	2.0	1.6	1.4	1.4
<b>ROAA TREE</b>				
Net Interest Income	6.0	5.4	5.6	5.6
Non-Interest Income	1.9	1.8	1.7	1.7
Operating Cost	4.5	4.1	4.0	4.0
Provisions	1.3	1.1	0.9	0.9
Tax	0.5	0.5	0.6	0.6
ROAA	1.6	1.5	1.8	1.8
Leverage (x)	9.0	9.6	10.0	10.3
ROAE	14.2	14.8	17.7	18.2

Source: Company, Axis Securities Research

## AU Small Finance Bank Price Chart and Recommendation History



Date	Reco	TP	Research
31-Jan-24	BUY	780	Result Update
19-Mar-23	BUY	680	Analyst Meet Update
25-Jan-24	BUY	715	Result Update
26-Jul-24	BUY	725	Result Update
24-Oct-24	BUY	800	Result Update
27-Jan-25	BUY	700	Result Update
23-Apr-25	BUY	755	Result Update
21-Jul-25	BUY	900	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.