

Credit Cost Pressure to Ease from H2FY26 Driving RoA Improvement!
Est. Vs. Actual for Q4FY25: NII – **INLINE**; PPOP – **BEAT**; PAT – **INLINE**
Changes in Estimates post Q4FY25
FY26E/FY27E (in %): NII -2.5/-1.3; PPOP -2.3/-5.1; PAT +1.2/+3.4

Recommendation Rationale

- **Credit costs pressure to ease from H2FY26:** AUSFB's credit costs stood at 1.3% (on total assets), primarily owing to elevated stress in the unsecured portfolios, mainly MFI and Credit cards. However, the bank has seen an improvement in collection efficiency (CE) in the MFI portfolio and expects the trend to continue into FY26. However, near-term headwinds owing to the implementation of the MFIN guardrails 2.0 could keep credit costs higher in H1FY26, while gradually trending downwards from H2FY26. Similarly, gauging the stress in the credit card portfolio, AUSFB tightened the underwriting and credit filters in the portfolio, thereby limiting the credit card issuance. With respite on asset quality stress expected in both the portfolio, **the management expects credit costs to improve meaningfully in FY26 to 85-90bps (on total assets), with MFI credit costs declining to 3.5% in FY26 (vs 7.7% in FY25) and Credit Card credit costs declining to 7-8% in FY26 and further normalising at 5-6% from FY27 onwards (vs 11% in FY25).** The secured book continues to behave well, and slippages in this portfolio are expected to remain under control in FY26. **Credit costs trending downwards (expected at 75-80bps in FY27E) would be a key RoA improvement driver.**
- **NIMs to remain under pressure in the near-term:** Post the repo-rate cut, AUSFB has reduced its peak TD rates by 25bps and also rationalised its SA rates by 25bps. However, owing to intense competition from peer banks on rates, the bank does not intend to tinker with rates further. That said, the bank intends to build a strong deposit franchise focusing on building customer relationships and cross-selling rather than purely on deposit pricing. With ~30% of the portfolio being floating rate, the bank expects yields to reprice downwards in Q1FY26. However, CoF will taper with a lag, resulting in near-term pressures on margins. However, we believe AUSFB's margins would find support from (i) fixed rate portfolio (~70%) as CoF trend downwards and (ii) pick-up in the growth in the higher-yielding unsecured portfolios. **Thus, we expect NIMs to range between 5.7 and 5.8% over FY26-27E.**

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 near-term headwinds on NIMs are likely to persist owing to immediate repricing in floating-rate book and higher slippages in the unsecured portfolio, we expect some support for margins over the medium-term, driven by a ~70% fixed-rate book and growth resumption in the higher-yielding unsecured products. The bank awaits the granting of the universal banking license (expected in the current calendar year), which would help AUSFB strengthen its market positioning and enable better deposit mobilisation at a more favourable cost. The management is confident of no adverse impact on the new LCR norms. Supported by healthy business growth, maintained margins in a tight range, and gradually moderating credit costs, AUSFB is expected to deliver RoA/RoE of 1.6-1.8%/16-18% over FY26-27E.

Current Valuation: 2.5x FY27E ABV Earlier Valuation: 2.6x Sep'26E ABV
Current TP: Rs 755/share, Earlier TP: Rs 700/share
Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance:

- **Operational Performance:** YoY numbers would not be comparable. Advances grew by 47/8% YoY/QoQ, with healthy growth across secured segments. The secured loans grew by 24/6% YoY/QoQ, Unsecured businesses de-grew by 18/10% YoY/QoQ driven by industry-wide deleverage in MFI and corrective actions taken in Credit Cards. Deposit growth was strong at 43/11% YoY/QoQ, primarily led by TDs (52/13% YoY/QoQ). CASA deposits grew by 24/5% YoY/QoQ. CASA Ratio stood at 29.2% vs 30.6% QoQ. LDR stood at 87.5% vs 90% QoQ
- **Financial Performance:** NII grew by 57/4% YoY/QoQ, with NIMs contracting by ~6bps QoQ (marginally lower contraction than expected). NIMs (reported) stood at 5.8% vs 5.9% QoQ and were impacted due to portfolio mix shift. Non-interest income grew by 37/23% YoY/QoQ. Opex grew by 27/9% YoY/QoQ. C-I Ratio declined to 54.7% vs 54.4% QoQ. PPOP grew by 95/7% YoY/QoQ. Credit costs inched up (higher than estimates) to 2.42% vs 2.04% QoQ as the bank made an accelerated provision of Rs 150 Cr to strengthen provision coverage, which improved to 84%. PAT grew by 36% YoY and was down 5% QoQ.
- **Asset Quality** remained broadly steady with GNPA/NNPA at 2.28/0.74% vs 2.31/0.91% QoQ. Slippages moderated sequentially, with the slippage ratio at 3.5% vs 3.9% QoQ, led by improved secured assets and MFI.

Key Financials (Standalone)

(Rs Cr)	Q4FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	2,094	+3.5	+56.6	2,095	0.0
PPOP	1,292	+7.2	+94.6	1,231	+5.0
Net Profit	504	-4.7	+35.9	502	+0.3
NNPA (%)	0.7	-17 bps	+19 bps	0.9	-13 bps
RoA (%)	1.3	-16 bps	-26 bps	1.3	0 bps

Source: Company, Axis Securities Research *YoY numbers are not comparable due to the merger

 (CMP as of 22nd April, 2025)

CMP (Rs)	613
Upside /Downside (%)	23%
High/Low (Rs)	755/479
Market cap (Cr)	45,662
Avg. daily vol. (6m) Shrs.	29,95,102
No. of shares (Cr)	74.5

Shareholding (%)

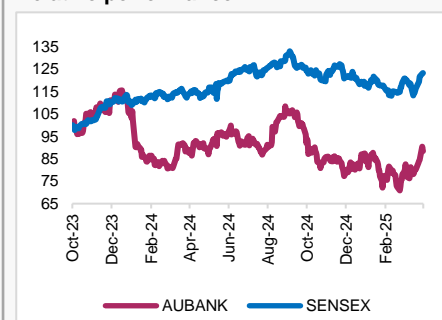
	Sep-24	Dec-24	Mar-25
Promoter	22.9	22.9	22.9
FII's	40.7	39.3	35.6
MFs / UTI	15.5	17.1	20.2
Others	20.9	20.7	21.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
NII	8,012	10,108	12,678
PPOP	4,581	5,589	7,014
Net Profit	2,106	2,818	3,815
EPS (Rs)	28.3	37.9	51.2
ABV (Rs)	219.9	255.4	302.5
P/ABV (x)	2.8	2.4	2.0
RoA (%)	1.6	1.6	1.8
NNPA (%)	0.6	0.6	0.6

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	-2.5	-1.3
PPOP	-2.3	-5.1
PAT	+1.2	+3.4

Relative performance


Source: AceEquity, Axis Securities Research

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Key Highlights

- **Controlled Opex growth:** AUSFB has been exercising control on Opex growth, thereby driving a sharp improvement of ~820 bps on C-I ratio to ~57% vs 65% in FY24. However, the bank will continue to invest in marketing and strengthening its distribution network (adding 70-80 branches in FY26), though judiciously. Thus, **the management has guided for a balanced Opex growth in FY26, with the C-I Ratio being controlled at <60%.**
- **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 MFI and Credit card portfolios (expected from Q3FY26 onwards). However, **the bank will continue to exercise caution and pursue balanced growth in the unsecured segment as it looks to cap the MFI book at 10% of the total portfolio, while the entire unsecured segment exposure would be capped at 15%. The management expects steady growth of ~20-25% in the secured segments to continue. We expect AUSFB to deliver a healthy ~21% CAGR over FY25-27E.**
- **Credit card segment to turn profitable by FY27:** AUSFB has taken corrective action in its credit card portfolio, thereby limiting its credit card issuance, which stands at ~10K vs 40-45K cards earlier. The bank intends to scale up the issuances to 20K post Sep'25. AUSFB will look to build this proposition with existing-to-bank (ETB) customers. The management expects the credit card business to break even by FY27 and contribute to overall RoA from FY28 onwards. **AUSFB will look at generating an RoA of 4-5% from the credit card portfolio on a sustainable basis.**
- **Cautious growth in the MFI pool:** ~65% of the MFI portfolio is sourced in FY25. The CGFMU scheme helps AUSFB lend to eligible MFI loans whilst mitigating downside risks. ~100% of the MFI disbursements in Q4FY25 were covered under the CGFMU scheme, taking the overall portfolio cover to 36% in FY25. Going forward, most of the disbursement will be under CGFMU with a target to have >75% book under coverage to limit credit costs in the portfolio. The bank will continue to target credit costs of ~3% in the MFI portfolio, while keeping growth in the portfolio measured.

Outlook

We revise our NII estimates downwards by ~1-3% over FY26-27E to reflect the lag in the transmission of a rate cut on CoF even as yields (on 30% floating book) are expected to reprice downwards immediately. However, on expectations of controlled Opex growth and moderating credit costs, we revise our earnings estimates marginally upwards by 1-4% over FY26-27E. We believe AUSFB remains well placed to deliver a strong Credit/Deposit/NII/Earnings growth of 21/23/26/35% CAGR over FY25-27E. We expect the bank to deliver RoA/RoE of 1.6-1.8%/16-18% over FY26-27E.

Valuation & Recommendation

The stock currently trades at 2.0x FY27E ABV. We value the stock at 2.5x FY27E to arrive at a target price of Rs 755/share, implying an upside of 23% 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 the bank's earnings momentum.
- Continued Asset quality challenges in the unsecured book, weighing on earnings, remain a key risk to our estimates

Change in Estimates

Rs Cr	Revised		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
NII	10,108	12,678	10,365	12,849	-2.5	-1.3
PBP	5,589	7,014	5,720	7,394	-2.3	-5.1
Provisions	1,857	1,963	2,017	2,487	-7.9	-21.1
PAT	2,818	3,815	2,784	3,690	1.2	3.4

Source: Company, Axis Securities Research

Results Review (Standalone)

Result Update	Q4FY25	Q4FY24	% YoY	Q3FY25	% QoQ	FY25	FY24	% YoY
Net Interest Income	2,094	1,337	56.6	2,023	3.5	8,012	5,157	55.4
Non-Interest Income	761	556	36.9	618	23.0	2,563	1,746	46.8
Operating expenses	1,562	1,228	27.2	1,436	8.8	5,957	4,388	35.8
Staff Cost	817	556	47.1	755	8.3	3,148	2,104	49.6
Pre provision profits	1,292	664	94.6	1,205	7.2	4,617	2,515	83.6
Provisions and contingencies	635	133	379.3	502	26.6	1,829	439	316.9
PBT	657	455	44.5	703	-6.6	2,788	1,999	39.4
Provision for Tax	153	84	82.5	175	-12.2	682	466	46.3
PAT	504	371	35.9	528	-4.7	2,106	1,533	37.4
Business Update								
Advances	1,08,778	73,999	47.0	1,00,989	7.7	1,08,778	73,999	47.0
Deposits	1,24,269	87,182	42.5	1,12,260	10.7	1,24,269	87,182	42.5
CASA Deposits	36,253	29,126	24.5	34,402	5.4	36,253	29,126	24.5
CASA Ratio	29.2	33.4	-424 bps	30.6	-147 bps	29.2	33.4	-424 bps
NIM (%)	5.8	5.1	70 bps	5.9	-10 bps	6.0	5.5	50 bps
Cost-Income ratio (%)	54.7	64.9	-1018 bps	54.4	35 bps	56.4	63.6	-713 bps
Asset Quality								
Gross NPA (%)	2.3	1.7	61 bps	2.3	-3 bps	2.3	1.7	61 bps
Net NPA (%)	0.7	0.6	19 bps	0.9	-17 bps	0.7	0.6	19 bps
PCR (%)	88.8	67.6	2121 bps	80	891 bps	89	68	2121 bps
Slippages (Rs. Cr.)	894.0	296.0	202.0	956.0	-6.5	3129.0	1287.0	143.1
Slippage Ratio (%)	3.5	1.7	177 bps	3.9	-47 bps	2.2	1.6	177 bps
Capital Adequacy								
CRAR	20.1	20.1	0 bps	18.0	210 bps	20.1	20.1	0 bps
Tier I	18.1	18.8	-70 bps	16.9	120 bps	18.1	18.8	-70 bps
Tier II	2.0	1.0	100 bps	1.1	90 bps	2.0	1.0	100 bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
Net Interest Income	5,157	8,012	10,108	12,678
Other Income	1,620	2,526	3,075	3,674
Total Income	6,777	10,538	13,183	16,352
Total Operating Exp	4,388	5,957	7,594	9,338
PPOP	2,389	4,581	5,589	7,014
Provisions & Contingencies	390	1,793	1,857	1,963
PBT	1,999	2,788	3,731	5,051
Provision for Tax	465	682	913	1,236
PAT	1,535	2,106	2,818	3,815

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
SOURCES OF FUNDS				
Share Capital	669	745	745	745
Reserves	11,890	16,422	19,118	22,761
Shareholder's Funds	12,560	17,166	19,863	23,506
Total Deposits	87,182	1,24,269	1,53,768	1,89,479
Borrowings	5,479	11,660	16,403	16,258
Other Liabilities & Provisions	4,205	4,751	5,897	7,114
Total Liabilities	1,09,426	1,57,846	1,95,931	2,36,357
APPLICATION OF FUNDS				
Cash & Bank Balance	6,376	9,466	12,329	15,192
Investments	27,133	37,848	50,676	58,656
Advances	73,163	1,07,092	1,28,657	1,57,360
Fixed Assets & Other Assets	2,753	3,439	4,269	5,150
Total Assets	1,09,426	1,57,846	1,95,931	2,36,357

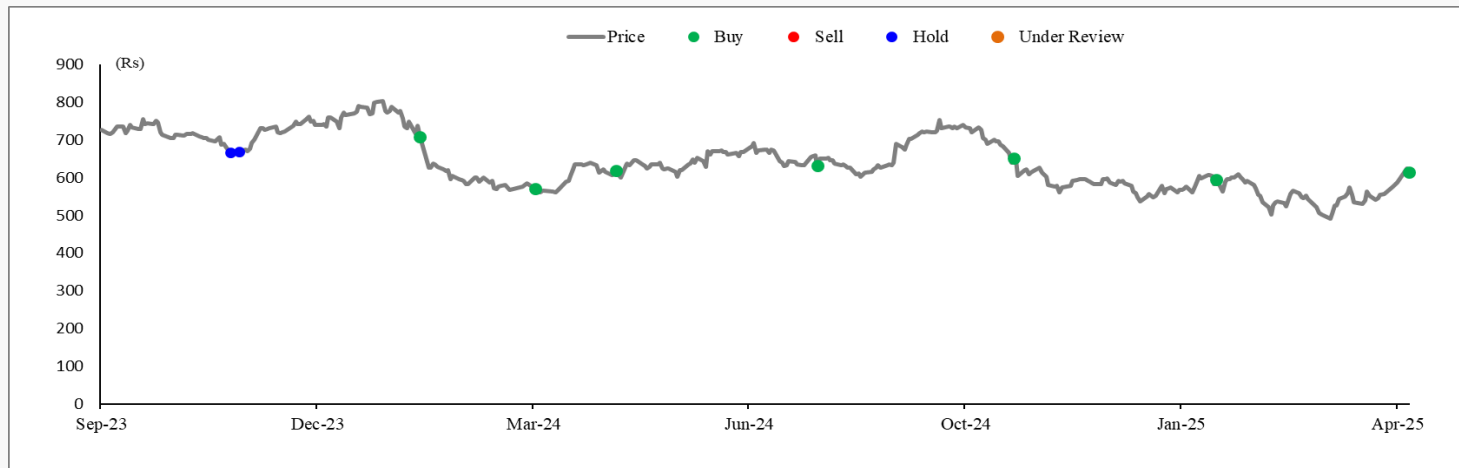
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25	FY26E	FY27E
VALUATION RATIOS				
EPS	22.9	28.3	37.9	51.2
Earnings Growth (%)	7.1	23.3	33.8	35.4
BVPS	187.7	230.6	266.8	315.7
Adj. BVPS	181.1	219.9	255.4	302.5
ROAA (%)	1.5	1.6	1.6	1.8
ROAE (%)	13.0	14.2	15.2	17.6
P/E (x)	26.7	21.7	16.2	12.0
P/ABV (x)	3.4	2.8	2.4	2.0
PROFITABILITY				
NIM (%)	5.5	5.9	5.7	5.8
Cost-Income Ratio	64.7	56.5	57.6	57.1
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	25.2	46.4	20.1	22.3
Deposit Growth (%)	25.7	42.5	23.7	23.2
C/D Ratio (%)	83.9	86.2	83.7	83.0
Equity to Assets (%)	11.5	10.9	10.1	9.9
Equity to Loans (%)	17.2	16.0	15.4	14.9
CAR	20.1	17.1	16.6	16.0
CAR Tier I	18.8	16.0	15.6	15.1
ASSET QUALITY				
Gross NPLs (%)	1.7	2.3	2.2	2.1
Net NPLs (%)	0.6	0.7	0.7	0.6
Coverage Ratio (%)	64.3	68.1	70.0	70.0
Credit Costs	0.6	2.0	1.6	1.4
ROAA TREE				
Net Interest Income	5.2	6.0	5.7	5.9
Non-Interest Income	1.7	1.9	1.7	1.7
Operating Cost	4.5	4.5	4.3	4.3
Provisions	0.4	1.3	1.1	0.9
Tax	0.5	0.5	0.5	0.6
ROAA	1.5	1.6	1.6	1.8
Leverage (x)	8.5	9.0	9.6	10.0
ROAE	13.0	14.2	15.2	17.6

Source: Company, Axis Securities Research

AU Small Finance Bank Price Chart and Recommendation History



Date	Reco	TP	Research
31-Oct-23	HOLD	685	Result Update
06-Nov-23	HOLD	685	Company Update
29-Jan-24	BUY	780	Result Update
19-Mar-24	BUY	680	Result Update
25-Apr-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

Source: Axis Securities Research

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