



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✗	✓	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✗
RQ	✗	↑	✗
RV	✗	↓	✗

Company details

Market cap:	Rs. 56,148 cr
52-week high/low:	Rs. 841/ 479
NSE volume: (No of shares)	33.8 lakh
BSE code:	540611
NSE code:	AUBANK
Free float: (No of shares)	56.1 cr

Shareholding (%)

Promoters	22.9
FII	35.6
DII	27.2
Others	14.4

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-4.7	28.3	25.9	18.8
Relative to Sensex	-5.7	23.6	18.6	16.7

Source: Mirae Asset Sharekhan Research, Bloomberg

AU Small Finance Bank Ltd

Mixed Q1, improving outlook from H2FY26 onwards

Banks	Sharekhan code: AUBANK		
Reco/View: Buy	↔	CMP: Rs. 753	Price Target: Rs. 900 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Core operating performance was below expectations led by sharp decline in NIMs partially offset by lower opex growth. Although earnings were lifted by higher treasury gains.
- Slippages increased by 15% q-o-q primarily driven by credit cards, lower collection efficiency in MFI segment, stress in secured mortgage portfolio in south India, and seasonality in wheels portfolio.
- Bank guided that stress is peaking in credit cards and incremental flows are mainly from identified pool of customers where corrective actions have already been initiated. In MFI segment, recovery is expected to be delayed by one quarter to Q4FY26. For Wheels & mortgage portfolio, it expects a pullback in H2.
- We maintain buy rating on the stock with an unchanged PT of Rs. 900. Profitability to improve from H2FY26 onwards. RoA likely to expand by 20-30 bps over FY25-27E led by NIMs and lower credit cost. Besides, growth outlook remains strong at ~20-25%. The stock trades at 2.9x/2.4x its FY2026E/FY2027E ABV estimates.

Q1FY26 numbers were a mixed bag. Net interest income (NII) at Rs. 2,045 crore (below estimates) grew 6% y-o-y/ down 2% q-o-q. NIMs fell by ~38 bps q-o-q reported at 5.41% led by a sharp decline in yields from re-pricing of EBLR-linked loans, lower share of unsecured retail loans, interest reversals and surplus liquidity on the balance sheet. This was partly offset by the lower cost of savings account /term deposits. If there are no further repo rate cuts, NIMs would bottom out in the next two quarters. Core fee income grew by 4% y-o-y/ down 22% q-o-q. The bank reported treasury profit to tune of Rs. 300 crore versus Rs. 103 crore in last quarter and Rs. 19 crore y-o-y. Opex growth was lower at ~4% y-o-y/ down 1% q-o-q. PPOP at Rs. 1,312 crore (broadly in line due to treasury gains), grew 38% y-o-y/ 2% q-o-q. Core PPOP (ex. treasury gains) grew by 4% y-o-y. Total credit cost (as a % of average loans) stood at 2.0% versus 2.5% q-o-q. PAT at Rs. 581 crore (higher than estimates, up 16% y-o-y/ 15% q-o-q), led by lower than expected credit cost. Net advances rose by 23% y-o-y/ 3% q-o-q. Deposits grew by 31% y-o-y/ 3% q-o-q. CASA grew by 16% y-o-y/ 3% q-o-q. Retail term deposits grew by 16% y-o-y/ 2% q-o-q while wholesale bulk deposits grew by 60% y-o-y/ 2% q-o-q. Share of total retail deposits was stable at 62% q-o-q. Headline asset quality ratios deteriorated with GNPA/ NNPA ratio at 2.47%/ 0.88% versus 2.28%/ 0.74% q-o-q. PCR at 65% versus 68% q-o-q. Restructured book at 0.3% of gross advances stable q-o-q. Gross slippages were higher at 3.7% of net advances versus 3.3% q-o-q. Net slippages at Rs. 709 crore versus Rs. 530 crore q-o-q. SMA book in MFI segment at 4.3% as on Jun 2025 versus 3.7% q-o-q. 12.5% of the MFI portfolio is affected by MFIN 2.0 guidelines (~9% loans has >3 lenders and remainder have total unsecured exposure > Rs.2 Lakh). Bank guided that stress is peaking in credit cards and incremental flows are mainly from identified pool of customers, where corrective actions have already been initiated. In MFI segment, recovery is expected to be delayed by one quarter to Q4FY26. For Wheels & mortgage portfolio, it expects a pullback in H2. The bank is reasonably confident that improvement will be largely seen in H2FY26 led by lower policy rate (supporting NIMs as 70% book is fixed rate in nature) along with normalisation of credit costs.

Key positives

- Treasury gains and lower opex growth supported operating performance despite weak NII.

Key negatives

- NIMs fell by ~38 bps q-o-q (significantly higher than estimates) reported at 5.41% led by a sharp decline in yield from re-pricing of EBLR-linked loans, lower share of unsecured retail loans, interest reversals and surplus liquidity on the balance sheet, although it was partly offset by the lower cost of savings account/ term deposits.
- Credit cost guidance has been raised from 80-85 bps to 100 bps (as a % of avg .assets) for FY26E.

Management Commentary

- The bank is confident of better performance in FY26 versus FY25 but reiterated RoA guidance of ~1.8% for FY27.
- Stress is peaking in credit cards and incremental flows are mainly from identified pool of customers where corrective actions have already been initiated. In MFI segment, recovery is expected to be delayed by one quarter to Q4FY26. For Wheels & mortgage portfolio, it expects a pullback in H2.
- Structurally, credit cost could settle at 75-80bps over medium to long term.
- If there are no further repo rate cuts, NIMs are likely to bottom out in next two quarters.
- The bank will add 70-80 new branches, mostly in top tier cities.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 900: Growth momentum continues to sustain in secured business aided by expanding distribution network. We believe current headwinds to recede over the next two quarter led by policy tailwinds, improving system liquidity, stress in unsecured loans is likely to peak out in H1FY26 which could further aid growth and profitability in FY26E. The bank is reasonably confident that improvement will be largely seen in H2FY26, led by lower policy rate and normalization of credit cost. Guidance on growth remained intact at 20-25%. We maintain our Buy rating on the stock from with an unchanged PT of Rs. 900. RoA likely to expand by 20-30 bps over FY25-27E. The stock trades at 2.9x/2.4x its FY2026E/FY2027E ABV estimates.

Key Risks

Lower than-expected growth in advances, lower margins and higher credit cost than expected.

Valuation (Standalone)

Particulars	FY23	FY24	FY25	FY26E	FY27E
Net Interest Income	4,425	5,157	8,012	9,338	12,253
Net profit	1,428	1,535	2,106	2,724	4,028
EPS (Rs.)	21.9	23.0	28.3	36.3	53.7
P/E (x)	34.4	32.8	26.6	20.7	14.0
P/BV (x)	4.7	4.1	3.4	2.9	2.4
RoE	15.4	13.5	13.1	14.7	18.4
RoA	1.8	1.6	1.5	1.5	1.8

Source: Company; Mirae Asset Sharekhan estimates

Result Table

Particulars	1QFY26	1QFY25	4QFY25	Y-o-Y	Rs cr Q-o-Q
Interest Inc.	4,378	3,769	4,271	16%	3%
Interest Expenses	2,334	1,848	2,177	26%	7%
Net Interest Income	2,045	1,921	2,094	6%	-2%
NIM (%)	5.4	6.0	5.8		
Core Fee Income	511	491	658	4%	-22%
Other Income	300	18	103	1540%	192%
Net Income	2,855	2,430	2,855	18%	0%
Employee Expenses	866	790	817	10%	6%
Other Opex	678	688	745	-2%	-9%
Total Opex	1,543	1,478	1,562	4%	-1%
Cost to Income Ratio	54.0%	60.8%	54.7%		
Pre Provision Profits	1,312	952	1,292	38%	2%
Provisions & Contingencies - Total	533	283	635	89%	-16%
Profit Before Tax	779	669	657	16%	19%
Tax	198	166	153	19%	29%
Effective Tax Rate	25%	25%	23%		
Reported Profits	581	503	504	16%	15%
Basic EPS (Rs)	7.8	6.8	6.8	15%	15%
Diluted EPS (Rs)	7.8	6.7	6.8	15%	15%
RoA (%)	1.5	1.6	1.4		
Advances	1,09,834	89,652	1,07,092	23%	3%
Deposits	1,27,696	97,290	1,24,269	31%	3%
Gross NPA	2,751	1,613	2,477	71%	11%
Gross NPA Ratio (%)	2.47	1.78	2.28		
Net NPA	971	563	791	73%	23%
Net NPAs Ratio (%)	0.88	0.63	0.74		
PCR - Calculated	64.7%	65.1%	68.1%		

Source: Company; Mirae Asset Sharekhan Research; Note: YoY numbers are not comparable

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation, NIMs and asset quality to be in focus

System credit growth has further declined to ~9% y-o-y from 16% year ago as per the latest fortnight data, mainly driven by slower deposit growth, slower growth in secured retail segment and stress in the unsecured retail segment. Deposit growth for the system has been broadly at ~10% y-o-y. However, deposit growth is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to lower repo rates. Overall, asset quality outlook is stable to positive for the sector, except for the unsecured retail loans and the MFI segment but it appears that stress in unsecured segment has also broadly peaked out. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Improving outlook from H2FY26 onwards

AU SFB has had a long and successful history (since its days as an NBFC and now as a bank) in secured credit and its underwriting quality, mainly in the under/unbanked self-employed customer segment that lacks formal income documentation. The bank has a strong skill-sets and deep experience in its core secured segments. It entered the unsecured business to enhance its product offering/ geographic reach and use these to accelerate and retain liability customer. However, its execution track record in scaling the unsecured portfolio has remained sub-par so far, warranting a course correction. Management acknowledged the challenges and initiated corrective measures to improve performance. We believe profitability/ return ratios have broadly bottomed out. The bank is reasonably confident that improvement in profitability/ return ratio will be largely seen in H2FY26 led by lower policy rate and normalisation of credit cost. Growth outlook remains strong.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 900

Growth momentum continues to sustain in secured business aided by expanding distribution network. We believe current headwinds to recede over the next two quarter led by policy tailwinds, improving system liquidity, stress in unsecured loans is likely to peak out in H1FY26 which could further aid growth and profitability in FY26E. The bank is reasonably confident that improvement will be largely seen in H2FY26, led by lower policy rate and normalization of credit cost. Guidance on growth remained intact at 20-25%. We maintain our Buy rating on the stock from with an unchanged PT of Rs. 900. RoA likely to expand by 20-30 bps over FY25-27E. The stock trades at 2.9x/2.4x its FY2026E/FY2027E ABV estimates.

About company

AU SFB has had a long and successful history (since its days as an NBFC and now as a bank) in secured credit and its underwriting quality, mainly in the under/unbanked self-employed customer segment that lacks formal income documentation. The bank has a strong skill-sets and a deep experience in its core secured segments. It entered the unsecured business to enhance its product offering/ geographic reach and use it as a key tool to accelerate and retain liability customer.

Investment theme

Its execution track record in scaling the unsecured portfolio has remained subpar so far warranting a course correction. Management acknowledged the challenges and initiated corrective measures to improve performance. We believe profitability/ return ratios have broadly bottomed out. The bank is reasonably confident that improvement in profitability/ return ratio will be largely seen in H2FY26 led by lower policy rate and normalization of credit cost. Growth outlook is strong.

Key Risks

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Additional Data

Key management personnel

Name	Designation
Sanjay Agarwal	Managing Director/CEO
Uttam Tibrewal	Deputy CEO and ED
Rajeev Yadav	Deputy CEO
Vimal Jain	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Agarwal Sanjay	15.73
2	HDFC Asset Management Co Ltd	6.37
3	Capital Group Cos Inc/The	5.53
4	CAMAS INV PTE LTD	3.62
5	Agarwal Jyoti	3.17
6	Nippon Life India Asset Management	2.93
7	Agarwal Shakuntala	2.50
8	DSP Investment Managers Pvt Ltd	2.40
9	Aditya Birla Sun Life Asset Manage	2.20
10	Blackrock Inc	2.12

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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