MIRAE ASSET Sharekhan

AU Small Finance Bank

Better times ahead

Banks	Sharekhan code: AUBANK		
Reco/View: Buy ↔	CMP: Rs. 782	Price Target: Rs. 900 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

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	+	↓	=

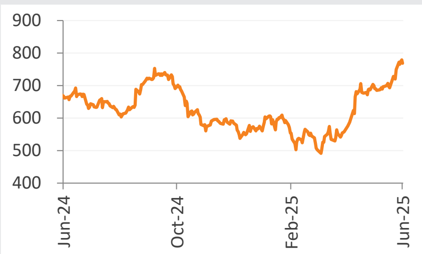
Company details

Market cap:	Rs. 58,245 cr
52-week high/low:	Rs. 785/479
NSE volume: (No of shares)	34.1 lakh
BSE code:	540611
NSE code:	AUBANK
Free float: (No of shares)	56.0 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	14.2	55.5	35.3	18.3
Relative to Sensex	14.8	44.7	35.2	12.5

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- We reiterate a Buy rating on AUSFB with a revised PT of Rs. 900, given steady growth and improving profitability outlook. RoA to expand by 20-30 bps over FY25-27E.
- Profitability to improve from H2FY26 as headwinds recedes on margin and asset quality front. Lower repo rate (supporting NIMs as ~70% of asset book is fixed rate) and normalisation of credit cost (in unsecured segment) will aid profitability from H2FY26 onwards.
- Bank is confident of clocking strong loan growth (20-25%) in FY26. It expects to secure a universal banking license within CY25 and subsequently decide on capital-raising.
- Stock trades at 2.9x/2.4x its FY2026E/FY2027E ABV estimates.

Overall, FY25 has been tough owing to higher interest rates, tight liquidity, and high stress in unsecured loans. Profitability is expected to rebound from H2FY26 as headwinds recede on the margin and asset quality fronts. A lower repo rate (supporting NIMs as ~70% of asset book is fixed rate) and normalization of credit cost (in unsecured segment) will aid profitability from H2FY26 onwards. The bank has guided that NIMs are likely to remain under pressure in H1FY26 due to lower repo rates. Although bank has taken cut in deposit rates in select buckets of savings account/ Term deposits in the month of April and June 2025, which should help the bank to partially counter, but it is confident that lower deposit rates, lower interest reversals on NPA and ~70% fixed rate asset book should gradually support margins with a lag. Further, the unsecured book delinquency trends are showing signs of reversal, and it has taken accelerated provisions towards unsecured loans and thus expects a sharp improvement in credit cost in FY26E. Credit cost to moderate to 75–85bps in FY26 vs. 1.3% of avg. assets in FY25, implying better asset quality performance. Besides this, bank remains confident of clocking strong loan growth (~20-25%) in FY26. Also, it expects to secure a universal banking license within CY25 and subsequently decide on capital-raising.

NIMs to improve with a lag: Management has guided that NIMs are likely to remain under pressure in near term due to lower repo rates given ~30% of asset book is based on floating rate. The bank has taken cut in SA deposit rates by 25 bps each in April and June 2025. Currently, the bank's peak SA rate currently stands at 6.75%. The bank has also tweaked term deposits rate lower in certain buckets. Cumulatively, all these should help the bank to partially counter margin pressure, but it is confident that lower deposit rates, lower interest reversals on NPA and ~70% fixed rate asset book should gradually support margins with a lag.

Asset quality is weak, but outlook seems to be improving: Overall asset quality remained weak in Q4FY25, as slippages remained elevated at 3.3% annualised (as a percentage of TTM loans) in Q4FY25 mainly led by unsecured loans but slippages were lower versus Q3 -3.8% q-o-q. Credit cost surged to ~ 1.7% annualised (as a percentage of avg. assets) vs 1.4% q-o-q as bank took accelerated provisions towards unsecured loans, which resulted in elevated provisions and ~100% PCR on unsecured book. The bank is now guiding that the unsecured book delinquency trends are showing signs of reversal along with improvement in collection efficiency thus expects sharp improvement in slippages/ credit cost in H2FY26E. Credit cost to moderate to 75–85bps in FY26 versus 1.3% of avg. assets in FY25, implying better asset quality performance. It expects credit cost in the MFI segment to normalise to 3-3.5% in FY26 vs 8% in FY25 and in credit card segment at 6-7% vs 11% in FY25.

Strong loan growth outlook: The bank is confident of growing the loan book by 20-25% in FY26E. Deposit growth is expected to be in similar lines. Loan growth is expected to be broad based across secured segments. Also, as stress is subsiding in unsecured segment and it would see a gradual recovery in this portfolio in FY26E.

Our Call

Valuation – Maintain buy with a revised PT of Rs. 900: Overall, FY25 has been tough for the bank on higher interest rates, tight liquidity, and high stress in unsecured loans. Profitability is expected to rebound from H2FY26 as headwinds recedes on margin and asset quality front. 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 remains intact at 20-25%. We reiterate our Buy rating on AU SFB with a revised TP of Rs. 900 given steady growth and improving profitability outlook. RoA likely to expand by 20-30 bps over FY25-27E, led by lower credit cost and marginally higher NIMs. 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.

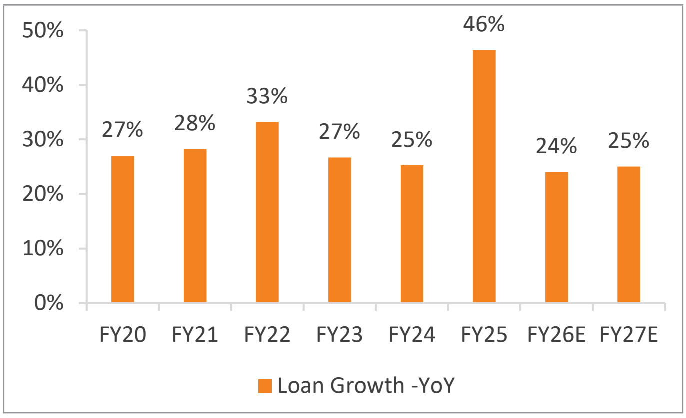
Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
Net Interest Income	4,425	5,157	8,012	9,655	12,268
Net profit	1,428	1,535	2,106	2,934	3,929
EPS (Rs.)	21.9	23.0	28.3	39.1	52.4
P/E (x)	35.0	33.3	27.0	19.6	14.6
P/BV (x)	4.7	4.2	3.4	2.9	2.4
RoE	15.4	13.5	13.1	15.7	17.8
RoA	1.8	1.6	1.5	1.7	1.8

Source: Company; Mirae Asset Sharekhan estimates

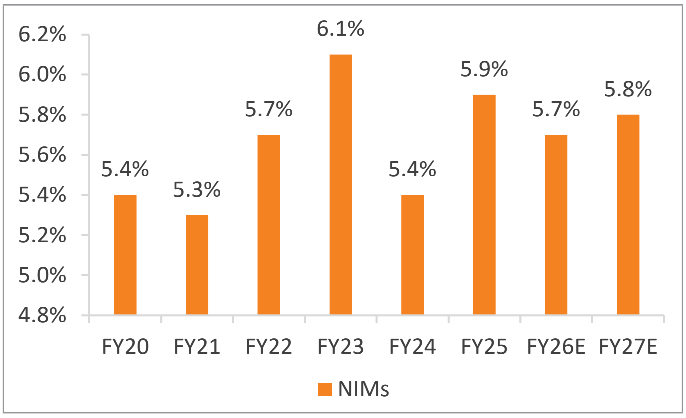
Financials in charts

Trend in Loan Growth



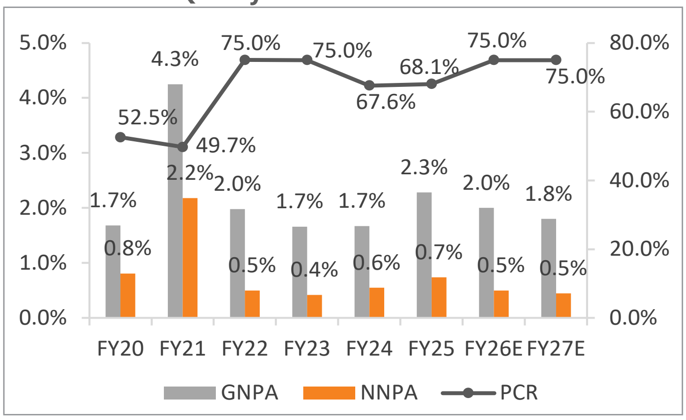
Source: Company; Mirae Asset Sharekhan Research
Note: FY25 number is not directly comparable to the previous year numbers due to Fincare merger effective from 1st April 2024.

Trend in NIMs



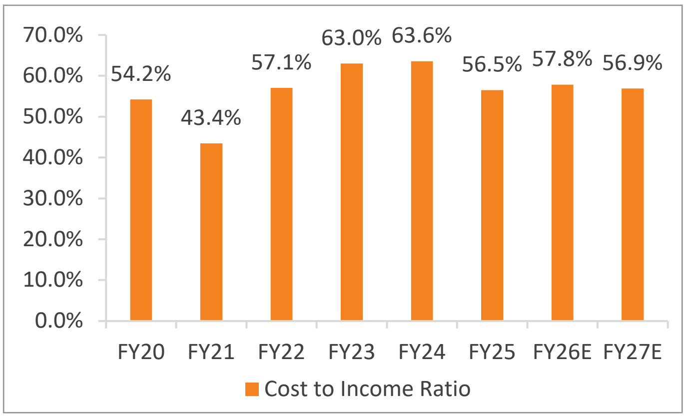
Source: Company; Mirae Asset Sharekhan Research
Note: FY25 number is not directly comparable to the previous year numbers due to Fincare merger effective from 1st April 2024.

Trend in Asset Quality



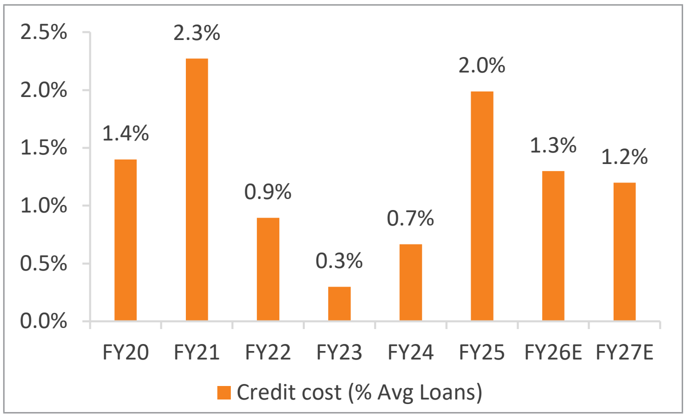
Source: Company; Mirae Asset Sharekhan Research

Trend in Cost to Income Ratio



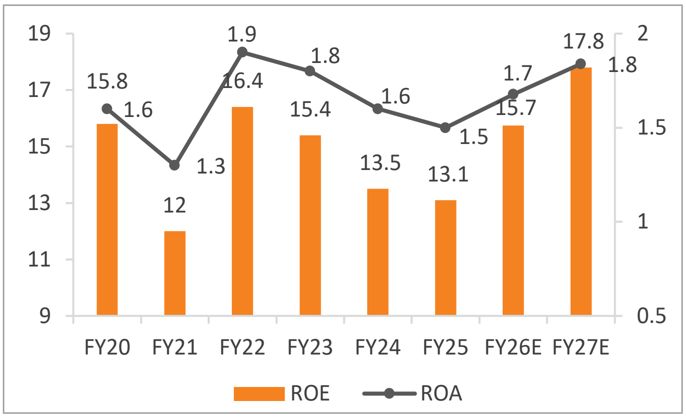
Source: Company; Mirae Asset Sharekhan Research

Trend in Credit cost



Source: Company; Mirae Asset Sharekhan Research

Trend in Return Ratio



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

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

System credit growth is slowing and has declined to ~10% y-o-y from 16% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth, slowdown in unsecured retail segment and a high credit-deposit ratio. Deposit growth has been at ~10%. 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 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 – Better outlook ahead

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. However, 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 will broadly bottomed out in H1FY26. 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 a revised PT of Rs. 900

Overall, FY25 has been tough for the bank on higher interest rates, tight liquidity, and high stress in unsecured loans. Profitability is expected to rebound from H2FY26 as headwinds recedes on margin and asset quality front. 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 remains intact at 20-25%. We reiterate our Buy rating on AU SFB with a revised TP of Rs. 900 given steady growth and improving profitability outlook. RoA likely to expand by 20-30 bps over FY25-27E, led by lower credit cost and marginally higher NIMs. The stock trades at 2.9x/2.4x its FY2026E/FY2027E ABV estimates.

About company

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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

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

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	6.14
3	Capital Group Cos Inc/The	5.53
4	CAMAS INV PTE LTD	3.62
5	Nippon Life India Asset Management	3.31
6	Agarwal Jyoti	3.17
7	Agarwal Shakuntala	2.50
8	DSP Investment Managers Pvt Ltd	2.46
9	Aditya Birla Sun Life Asset Manage	2.21
10	Blackrock Inc	2.08

Source: Bloomberg

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 detoriating 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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Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

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