

Short Term Fundamental Pick

Thursday, 07 May 2026



Rating : **Buy**
Cmp : ₹1015.95 as on 06th May 2026
Sector : **Financial Services**
Target : ₹1240
Upside Potential : 22.05%
Time Frame : 9-12 Months



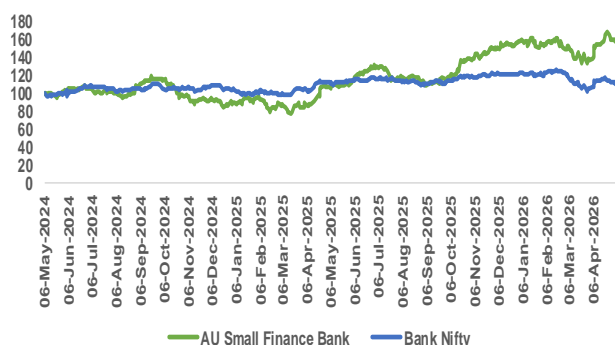
Key Data

Nifty/Sensex	24330.95/77958.52
BSE Code	532174
NSE Code	AUBANK
Bloomberg Code	AUBANK:IN
Industry	Bank
Market Cap	76,054.02
No. of Shares(Cr.)	74.86
Face Value	10
52 Week High/Low	1079.65/655

Shareholding Pattern

Promoter	22.76%
MF	23.22%
FII	37.27%
Public	8.67%
Others	8.10%

Relative Price Performance



Well-positioned to deliver sustainable growth driven by strong traction in secured lending; stellar quarterly performance strengthens visibility of achieving 1.8% RoA...

AU Small Finance Bank Ltd, India's largest Small Finance Bank, has become the first SFB in the country to receive in-principle approval from the Reserve Bank of India for transition into a Universal Bank. The bank has built a strong nationwide presence with 703 branches, 762 ATMs, and 2,790 touchpoints across 21 states and 4 Union Territories. As of FY26, AU SFB reported a total loan book of ₹1.40 lakh crore and a deposit base of ₹1.52 lakh crore. The bank continues to maintain a healthy liquidity profile with a strong LCR of 119%. It also remains well-capitalised, with a capital adequacy ratio of 18.7% in FY26, providing sufficient cushion for future growth.

Highlights and Investment Rationale

- **Strong credit growth across segments:** Bank continued to deliver robust advances growth of 25% YoY and 9% QoQ, driven by healthy traction in retail secured assets and a recovery in unsecured lending. The wheels portfolio grew 27% YoY, gold loans nearly doubled YoY, while mortgage loans recorded steady 11% growth despite rising competition.
- **Stabilisation in unsecured portfolio:** The unsecured book showed signs of improvement with the MFI portfolio growing ~8% QoQ and personal loans rebounding sharply by 19% QoQ. Collection efficiency in the MFI segment improved to 99.7% from 99.3% in Q3, while the credit card portfolio also stabilised, supporting improving asset quality trends.
- **Disciplined Risk Management Approach:** Management remains focused on calibrated growth and prudent risk-taking, avoiding aggressive expansion in segments such as affordable housing where risk-adjusted returns remain compressed. The bank continues to target growth at 2.25–2.5x nominal GDP growth through deeper distribution and cross-selling opportunities.

- **Healthy NIM Performance:** Net Interest Margin (NIM) expanded 24 bps QoQ to 5.96% in Q4FY26, supported by lower cost of funds and reduced slippages. However, management expects margin normalisation ahead following deposit rate hikes in April 2026, including a 25 bps increase in peak savings account rates and a 15 bps hike in peak term deposit rates.
- **Improving asset quality:** Asset quality strengthened significantly during the quarter with slippages declining 17% QoQ and credit costs moderating sharply. The bank expects credit costs to stabilise at around 90 bps, supported by its largely secured loan portfolio and improving collection efficiencies.
- **Operational Efficiency Improving:** Despite continued investments in branch expansion, branding, manpower, and technology, the cost-to-assets ratio improved to 4.1% in FY26 from 4.5% in FY25. Management aims to reduce this ratio below 4% in FY27E and further towards 3.5% over the medium term through operating leverage and technology-driven efficiencies.
- **Strong Deposit Franchise & Liquidity:** Deposits grew 23% YoY and 10% QoQ, driven by healthy CASA and retail term deposit growth. Nearly 79% of deposits now comprise CASA, retail TDs, and non-callable wholesale deposits, improving granularity and funding stability over time.
- **Leadership Continuity & Management Strengthening:** The extension of the MD & CEO's tenure till April 2029 provides strategic stability for the franchise. The appointment of senior leaders, including a new Executive Director and CFO, further strengthens the management bench as the bank progresses toward its transition into a Universal Bank.

Key risks:

- **Slowdown in Credit Growth Momentum:** A moderation in overall credit demand or slower-than-expected loan growth could impact advances expansion and potentially weaken earnings momentum for the bank.
- **Asset Quality Pressure in Unsecured Portfolio:** Any deterioration in unsecured segments such as MFI, personal loans, or credit cards could lead to higher slippages, elevated credit costs, and pressure on profitability.
- **Competitive Intensity Across Segments:** Aggressive competition in secured retail products, mortgages, and deposits from larger private banks and NBFCs may impact growth, pricing power, and risk-adjusted returns.

Key Financial Indicators(Standalone)					
YE March (Cr.)	FY24	FY25	FY26	FY27E	FY28E
NII	5,157.1	8,011.6	9,112.7	11,479.1	14,350.6
PPOP	2,473.9	4,580.7	5,088.8	6,404.3	8,057.9
PAT	1,534.7	2,105.9	2,641.3	3,629.6	4,666.2
GNPA	2.47%	2.28%	2.03%	1.58%	1.69%
NNPA	0.88%	0.74%	0.74%	0.52%	0.52%
CAR	20.1%	20.1%	18.7%	19.8%	19.4%
EPS	22.9	28.3	35.3	48.5	62.4
PE	26.7	36.9	29.6	20.9	16.3
ROA	1.6%	1.5%	1.6%	1.8%	1.8%
BVPS	188	231	267	310	354
ABVS	181	219	253	299	347
P/ABVS	3.4	4.8	4.1	3.4	2.9

Variance Analysis(Standalone)					
Particulars (Rs. In Cr.)	Mar-26	Mar-25	YoY (%)	Dec-25	QoQ (%)
Interest Earned	5,019.15	4,270.60	17.53%	4,727.47	6.17%
Total Income	5,750.10	5,031.27	14.29%	5,451.26	5.48%
Interest Expended	2,436.82	2,176.68	11.95%	2,386.20	2.12%
Operating Profit	1,351.52	1,292.26	4.59%	1,215.31	11.21%
PAT	831.87	503.70	65.15%	667.66	24.59%
OPM%	26.93%	30.26%	-11.00%	25.71%	4.75%
PATM%	16.57	11.79	40.54%	14.12	17.35%
Adj. EPS(Rs)	11.12	6.77	64.25%	8.94	24.38%

Valuation and Outlook:

AU Small Finance Bank remains well-positioned to deliver steady and sustainable growth, supported by strong momentum in secured lending, gradual recovery in unsecured segments, a strengthening liability franchise with improved granularity, and improving asset quality trends. Lower credit costs and operating leverage are expected to offset the impact of marginally lower NIMs following the strong Q4FY26 performance, enabling the bank to improve RoA to ~1.8% during FY27–28E from 1.5% in FY26. **We expect NII, PPOP, and PAT to register a CAGR of 25.5%, 25.8%, and 32.9%, respectively, over FY26–28E.** The stock is currently trading at ~3.4x FY27E P/ABV and ~2.9x FY28E P/ABV, and given the robust growth outlook, we maintain a positive stance with a target price of ₹1,240, implying an upside potential of ~22.05% from the May 6, 2026 closing price of ₹1,015.95 over the next 9–12 months.

Profit And Loss(Standalone)

YE March (Cr.)	FY24	FY25	FY26	FY27E	FY28E
INCOME					
Interest Income	10,554.71	16,063.73	18,636.34	23,668.15	29,348.51
Interest Expenses	5,397.63	8,052.16	9,523.66	12,189.10	14,997.86
Net Interest Income	5,157.08	8,011.57	9,112.68	11,479.05	14,350.65
Other Income	1,704.78	2,526.31	2,977.94	3,781.98	4,689.66
Net Total Income	6,861.86	10,537.88	12,090.62	15,261.04	19,040.31
EXPENSES					
Employee Cost	2,103.68	3,147.76	3,848.16	4,717.35	5,849.51
Other Operating Cost	2,284.32	2,809.46	3,153.69	4,139.43	5,132.90
Operating Expenses	4,388.00	5,957.22	7,001.85	8,856.78	10,982.41
PPOP	2,473.86	4,580.66	5,088.77	6,404.26	8,057.90
Provisions and Contingencies	474.43	1,792.63	1,614.71	1,630.24	1,920.45
Profit before Tax	1,999.43	2,788.03	3,474.06	4,774.02	6,137.45
Taxes	464.70	682.12	832.79	1,144.41	1,471.25
Profit After Tax	1,534.73	2,105.91	2,641.27	3,629.61	4,666.20
Equity Shares In Cr.(FV- 10)	66.92	74.45	74.83	74.83	74.83
EPS	22.93	28.29	35.30	48.50	62.36

Investment Rating Matrix

Ratings	Expected Return
Buy	>15%
Accumulate	10% to 15%
Hold	0% to 15%
Sell	< - 15%

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