MIRAE ASSET Sharekhan

AU Small Finance Bank Ltd

On a strong footing

Reco/View: **HOLD**	CMP: **Rs. 1,001**	Price Target: **Rs. 1,130**

AU SMALL FINANCE BANK
चलो आगे बढ़ें

STOCK UPDATE

Result Update - Q3FY2026

SECTOR

Banking

COMPANY DETAILS

Market cap:	Rs. 74,778 cr
52-week high/low:	Rs. 1,030 / 479
NSE volume: (No of shares)	26.0 lakh
BSE code:	540611
NSE code:	AUBANK
Free float: (No of shares)	57.6 cr

Source: NSE, BSE, Mirae Asset Sharekhan Research

SHAREHOLDING (%)

Promoters	22.8
FII	36.5
DII	31.3
Others	9.5

Source: NSE, BSE, Mirae Asset Sharekhan Research

PRICE CHART

Source: NSE, BSE, Mirae Asset Sharekhan Research

PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	1.6	15.8	33.7	65.2
Relative to Sensex	5.0	18.5	33.3	58.7

Source: Mirae Asset Sharekhan Research, Bloomberg

Quick Snapshot

- NII grew 15.7% y-o-y and 9.2% q-o-q, led by a sequential 25 bps improvement in NIMs. Fee income rose 22% y-o-y aided by business growth and higher distribution fee.
- Opex was up 29% y-o-y driven by higher business volumes, while improving stress scenario led to fall in credit cost at Rs331 crore, down 34% y-o-y. Healthy operational performance drove PAT up 26.3% y-o-y, ahead of our estimates.
- Credit growth was strong at 24% y-o-y while deposits were up 23.3% y-o-y.
- AUSFB is well-positioned to post healthy return ratios on sustainable basis along with superior business growth. However, valuations are stiff and factor in most positives, hence we maintain our Hold rating on the stock with revised PT of Rs. 1130.

Result overview

- Q3FY26 numbers were strong, with PAT growing by 26% y-o-y to Rs. 668 crore. Excluding a one-time impact of Rs. 20 crore from the implementation of the New Labour Code, PAT stood at Rs. 682 crore, representing a 29% y-o-y increase.
- NIM expanded by 25 bps q-o-q to 5.7% due to 22bps decline in the cost of funds to 6.61%, benefits from CRR cut and lower surplus liquidity. Impact of repo-rate cut on variable book will be visible in Q4.
- Fee income grew 22% y-o-y to Rs. 696 crore, aided by higher business volumes and increased traction in third-party product distribution. Opex jumped 29% y-o-y owing to increased business, investment in manpower, distribution and tech. On a 9MFY26 basis, opex-to-average assets ratio stood at 4.1%, showing improvement from 4.4% y-o-y.
- Credit cost fell 41 bps q-o-q to 78 bps driven by normalization in unsecured businesses and seasonal recovery in secured assets.
- Asset quality continued to improve. GNPA declined by 11 bps q-o-q to 2.30%, and NNPA remained flat at 0.88%. Slippages declined by 13% q-o-q to Rs. 791 crore. The MFI segment showed significant recovery, with non-overdue collection efficiency reaching 99.3% for the quarter and 99.5% for December, the highest in six quarters.
- Gross loan portfolio (including off-book loans) reached Rs. 1.29 lakh crore, up 19.3% y-o-y. Wheels remained a core growth engine, expanding 27% y-o-y to Rs. 43,700 crore. Commercial Banking segment grew 25.5% y-o-y to Rs. 27,743 crore. Microfinance portfolio turned around this quarter with a 1% sequential growth after several quarters of a decline.

Our Call

Our outlook is anchored by a once-in-a-lifetime transition into a universal bank; this is expected to lower funding costs and broaden market acceptance. Management targets a sustainable 1.8% ROA by FY27 and steady loan growth of 20-22%. Strategically, the bank is adopting an AI-native architecture, implementing an AI roadmap to transform engagement and efficiency. The stock trades at ~2.8xFY28 BVPS, we believe valuations are on the higher side, price in lot of positives. We fine-tune our estimates and maintain our Hold rating on the stock with revised PT of Rs. 1130.

Key Risks

NIM pressure or rise in delinquencies in unsecured book can impact performance.

Valuation Rs cr

Particulars	FY24	FY25	FY26E	FY27E	FY28E
Net Interest Income	5,157	8,012	8,835	11,421	14,276
Net profit	1,535	2,106	2,559	3,454	4,524
EPS (Rs)	23.0	28.3	34.2	46.2	60.6
P/E (x)	43.6	35.3	29.2	21.7	16.5
P/BV (x)	5.5	4.5	3.9	3.3	2.8
RoE	13.5	13.1	13.9	16.1	17.8
RoA	1.6	1.5	1.5	1.6	1.8

Source: Company; Mirae Asset Sharekhan estimates

Note: CMP as on Jan 20, 2026

Concall Highlights

- **Deposit Franchise:** Total deposits reached Rs. 1,38,415 crore, growing 23% y-o-y, which is 1.8x the system growth. CASA ratio remained stable at 29%, with CASA deposits growing 16% y-o-y.
- **Loan portfolio:** The overall loan portfolio grew 19.3% y-o-y to Rs. 1,29,898 crore. Within this, secured assets grew 23% y-o-y, led by strong performance in the Wheels segment (up 27% y-o-y) and Gold loans (up 52% y-o-y).
- **Unsecured Segment turns around:** The Microfinance (MFI) and credit card businesses are nearing the end of their credit cycle. MFI returned to growth with a 1% sequential increase, and 83% of the MFI book is now covered under the CGFMU guarantee scheme.
- **Technology and AI:** The bank is accelerating its "Agentic AI" roadmap, with voice bots handling nearly 25% of inbound calls and AI-based fraud systems auto-decisioning over 60% of alerts.
- **Universal Banking & FDI:** The bank highlighted the once-in-a-lifetime opportunity of transitioning to a universal banking platform. Additionally, the Ministry of Finance approved an increase in the foreign investment limit to 74% from 49%.
- **NIM Outlook:** Management expects two more quarters of term deposit repricing to benefit margins. While the RBI's 25 bps repo rate cut will impact the variable book (~30% of loans) in Q4, the bank expects yields to be supported by a potential mix shift toward MFI and credit cards. Rationalisation of savings account rate will also support margins.
- **Loan growth:** The bank targets an overall growth of 20% to 22%, maintaining a pace of 2.25x to 2.5x the nominal GDP growth. The Wheels segment is expected to maintain a 25% growth rate, while Mortgages are targeted to reach 17-18% growth next year.
- **Cost-to-Income (C/I) Ratio:** Management aims to keep the C/I ratio below 60%. The ideal range for next year is 56% to 57%, aided by technology-led operational efficiencies.
- **Credit cost:** FY26 guidance for credit cost remains at 100 bps (1%) of average assets.
- **Return on Assets (ROA):** The bank maintains its goal of reaching a sustainable 1.8% ROA by FY27 as operating leverage begins to play a larger role.
- **Slippages:** Management expects credit costs and slippages in the unsecured segments (MFI and Credit Cards) to remain in a stable, normalized zone for coming quarters.
- **Branch expansion:** The bank is on track to add 80 new fully-fledged liability branches this year, primarily focusing on urban markets.
- **Product launches:** The bank expects the credit card book to return to growth in the next financial year. It will also launch an AI-powered gold loan system in Q1FY27. During the third quarter of FY26, AU Small Finance Bank launched two innovative product offerings aimed specifically at Chartered Accountants and women to deepen segment-specific engagement.
- **Governance:** The bank strengthened its board by inducting three new independent directors

Results Rs cr

Particulars	Q3FY26	Q3FY25	y-o-y	Q2FY26	q-o-q
Net Interest Income	**2,341**	**2,023**	**15.7%**	**2,144**	**9.2%**
Other income	724	618	17.0%	713	1.6%
Net Income	**3,065**	**2,641**	**16.1%**	**2,857**	**7.3%**
Opex	1,850	1,436	28.8%	1,647	12.3%
Operating Profit	**1,215**	**1,205**	**0.9%**	**1,210**	**0.5%**
Provisions	331	502	-34.0%	481	-31.1%
PAT	**668**	**528**	**26.3%**	**561**	**19.0%**
Advances	**1,23,420**	**99,559**	**24.0%**	**1,15,705**	**6.7%**
Deposits	**1,38,415**	**1,12,260**	**23.3%**	**1,32,509**	**4.5%**
NIMs %	5.7	5.9	-20 bps	5.5	25 bps
GNPA %	2.30	2.31	-1 bps	2.41	-11 bps
NNPA %	0.88	0.91	-3 bps	0.88	0 bps
PCR %	62.1	61.2	88 bps	64.2	-207 bps

Source: Company; Mirae Asset Sharekhan Research

Additional Data

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Sanjay Agarwal	15.68
2	HDFC AMC	7.12
3	Capital Group CO	4.80
4	CAMAS INV PTE	3.61
5	Agarwal Jyoti	3.16
6	Nippon Life India	2.74
7	Agarwal Shakuntala	2.49
8	Vanguard Group INC	2.12
9	Blackrock INC	2.08
10	Aditya Birla SunLife	1.90

Source: Bloomberg

Key management personnel

Name	Designation
MD & CEO	Sanjay Agarwal
CFO & ED	Gaurav Jain
Chairman	H. R. Khan

Source: Company Website

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