

24 June 2026

CMP\* – ₹1,026

View – **Buy**



**Buy Range: ₹1000-1020 | Target: ₹1249 (~22%)**

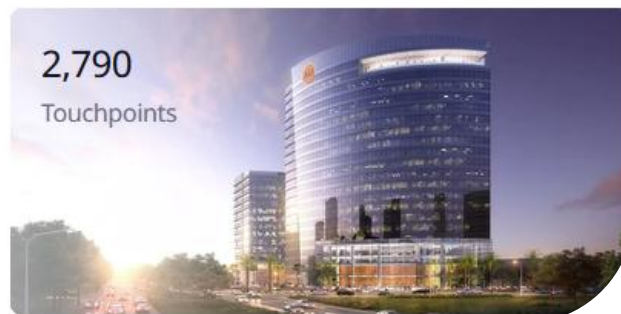


Image Source: Bank website

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W2W Lighthouse - A Quick Perspective

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**The Positive Growth Story & Structural Catalysts**

AU Small Finance Bank continues to differentiate itself from its peer group through superior execution, secular asset quality improvement, and structural transformations that favor long-term compounding.

- **Transition to Universal Banking:** AU SFB has formally applied for a final **Universal Bank License** following the RBI's in-principle approval. Transitioning to a universal bank will dramatically lower its cost of funds over time, eliminate geographic and product-specific regulatory lending caps, and allow it to compete directly with mainstream private lenders.
- **Technology and Operational Leverage:** The bank has aggressively deployed **Agentic AI** systems across loan origination (including its AI-native gold loan setup), collections, and fraud decisioning. While initial operating expenses have been high, its **cost-to-assets ratio declined sequentially to 4.1% in FY26** (from 4.3% in FY25), signalling that the platform is beginning to yield strong operating leverage.
- **Fincare CBS Integration:** The integration of Fincare SFB's core banking systems was completed cleanly in FY26. This has consolidated the entity under a single core banking platform, unlocking immediate cross-selling potential in high-yield microfinance (MFI) and Southern Indian retail market.
- **Scale leadership.** At a ₹1.40 lakh crs gross loan portfolio and ₹1.53 lakh crs deposits, AU Bank's balance sheet is approximately three times larger than Ujjivan and Equitas SFB— a durable funding, brand and distribution advantage.
- **Quality of book over quantity of growth.** ~77% of the book is secured (wheels, SBL, home, commercial banking). Secured advances grew 23% YoY in Q4FY26 while the unsecured (MFI/cards) pool was roughly flat — lower-volatility growth that weathered the FY25–26 microfinance cycle far better than MFI-heavy peers.
- **Profitability inflection.** Q4FY26 PAT increased 65% YoY to a record ₹832crs; exit RoA reached 1.8% and RoE 17%, with NIM recovering to ~6.0% from the 5.4% H1 trough. Management has guided to 1.8% RoA for FY27.
- **Improving asset quality.** GNPA declined to 2.03% with 85% provision coverage; Q4 provisions were down 58% YoY – evidence the unsecured credit cycle has turned.

Driven by expanding net interest margin (NIMs), normalizing credit costs, and steady business momentum, AU SFB is well-positioned to lead its peer group in earnings growth over the medium term. Maintaining our current financial projections, we anticipate a robust PAT CAGR of 32% across FY27–28. **We initiate BUY on AU Bank with a target price of ₹1249 at 3.5x P/ABV FY28E.**

**Important Statistics**

Nifty	23,824
Sensex	76,200
CMP* (₹)	1,026
MCAP (₹ bn)	76,914.27
52-week H/L (₹)	1,080 / 682
BSE Code	540611
NSE Code	AUBANK
Bloomberg Code	AUBANK:IN

\* CMP is close as on 23<sup>rd</sup> June 2026

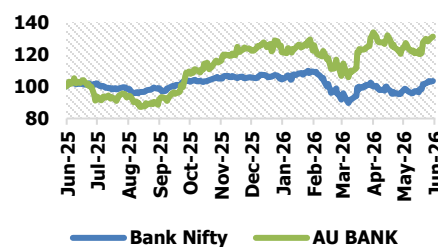
Shareholding Pattern (%)	Sep'25	Dec'25	Mar'26
Promoters	22.82	22.79	22.76
FII	34.5	36.45	37.27
DII	31.91	31.27	31.3
Public	10.78	9.51	8.67

**Financial Snapshot**

Particulars	FY25	FY26	FY27E	FY28E	FY29E
Net interest income	8,012	9,113	11,374	13,889	17,222
Pre-provision profit	4,581	5,089	6,733	8,576	11,169
<b>Net profit</b>	<b>2,106</b>	<b>2,641</b>	<b>3,515</b>	<b>4,603</b>	<b>6,187</b>
EPS (₹)	28.3	35.3	47	61.5	82.7
PAT growth (%)	37	25	33	31	34

Source: Company, Way2Wealth Research

**Relative Comparison**



**Balance sheet (₹ crs) & ratios**

Metric	FY24	FY25	FY26	FY27E	FY28E	FY29E
Deposits	87,182	1,24,269	1,52,661	1,87,773	2,30,961	2,84,082
Advances / GLP	73,163	1,07,092	1,30,117	1,58,743	1,93,667	2,36,273
NIM (%)	5.17	5.99	5.21	5.41	5.48	5.58
Cost-to-income (%)	64.7	56.5	57.9	54.3	51.5	48.1
RoAA (%)	1.54	1.58	1.51	1.67	1.82	2.00
Core RoE (%)	13.0	14.2	14.2	16.4	18.2	20.3
GNPA (%)	1.67	2.28	2.15	1.80	1.81	1.81
Adj. BVPS (₹)	183	223	248	300	357	436
P/Adj. BV (x)	5.6	4.6	4.1	3.4	2.9	2.3

Source: Company, Way2Wealth Research

**Balance sheet (₹ crs) & ratios**

Factor	AU BANK	Large Pvt Bank	SFB Peers
<b>Lending Focus</b>	Secured Retail (High Yield)	Prime/ Corporate (Low Yield)	Microfinance (High Risk)
<b>Cost of Funds</b>	~6.7%(Improving)	~4.5%-5.5%	~7.5%-8.5%
<b>NIMs</b>	~5.9%	~4.0%	~8% volatile
<b>Risk Profile</b>	Low (90% Secured)	Very Low	High

Source: Company, Way2Wealth Research

**The Unique Selling Proposition (USP) of AU Small Finance Bank**

AU Small Finance Bank (AU SFB) occupies a unique “Middle Ground” in the Indian financial landscape. It effectively combines the **high-yield, fast-moving DNA of an NBFC** with the **trust and low-cost stability of a Scheduled Commercial Bank**.

**1. The “Informal Income” Underwriting Moat**

Unlike large private sector banks (HDFC, ICICI) that rely heavily on CIBIL scores and salaried income proofs, AU’s core strength is its **30-year history of lending to the “unreached” segment**.

- **Expertise:** They specialize in assessing the creditworthiness of customers who deal mostly in cash (small shopkeepers, transport operators, and MSMEs).
- **Wheels & Mortgages:** This “NBFC-DNA” allows them to lend at higher yields (13–14%) in the vehicle and property markets where competition from prime banks is minimal but risk is lower than microfinance.

**2. High-Yield Productivity (The “Yield Moat”)**

AU SFB has consistently maintained superior margins because it focuses on high-yield retail assets.

- **Asset Mix:** Over 67% of the book is in **Retail Secured** assets (Wheels and Mortgages).
- **Outcome:** Even in high-interest-rate environments, AU maintains a **Net Interest Margin (NIM) of ~5.9%**, significantly higher than the 3.5–4.5% seen in large universal banks.

**3. “Tech-First” Branch Banking**

For a “small” bank, AU has outspent almost all its peers on digital infrastructure, creating a “Digital Moat.”

- **24x7 Video Banking:** AU was the first in India to launch a full-service virtual branch, allowing rural customers to access high-end banking without visiting a physical location.
- **AU 0101 App:** With over 1.2 Crore customers, their super-app rivals those of top-tier private banks, creating a sticky ecosystem that lowers customer acquisition costs over time.

**4. The Universal Bank Catalyst**

AU is currently the **first SFB in a decade** to receive “in-principle” approval to transition to a **Universal Bank**. This is a massive structural advantage:

- **Lower Regulatory Cost:** Currently, as an SFB, they must lend 75% of their money to “Priority Sectors” (PSL). As a Universal Bank, this requirement drops to 40%, allowing them to deploy more capital into high-growth, high-margin corporate lending.
- **Brand Perception:** Shedding the “Small Finance” tag will lower their cost of deposits (the “Cost of Funds”) as institutional and large corporate depositors become more comfortable placing money with them.

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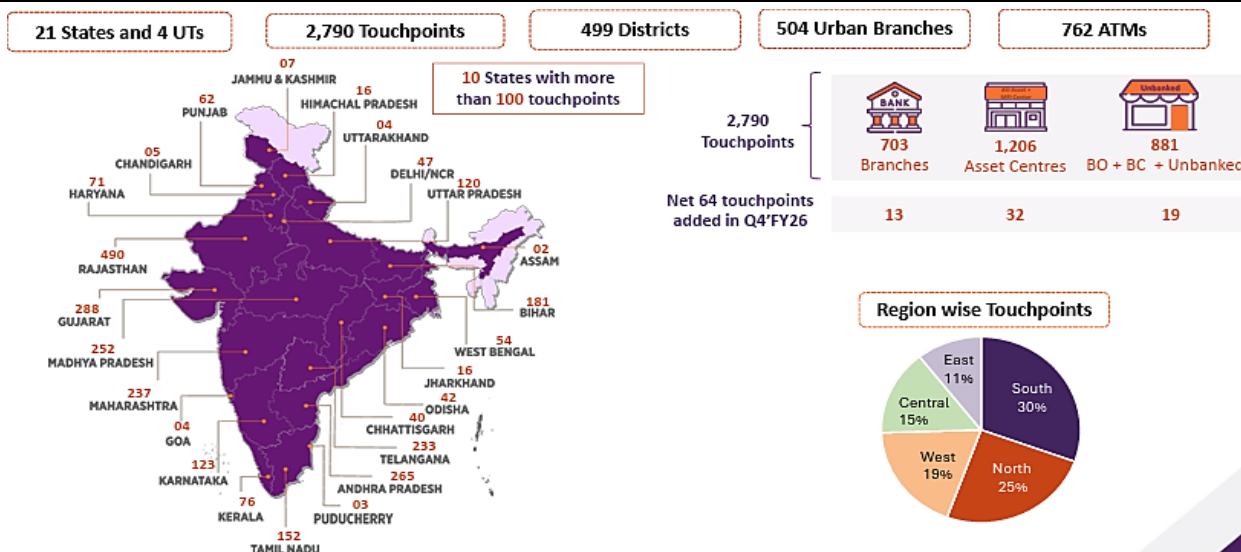
View – **Buy**

**Company Profile**

AU Small Finance Bank, headquartered in Jaipur (corporate office in Mumbai/BKC), traces its roots to *AU BANK Financiers*, an NBFC founded by Sanjay Agarwal in 1996 to bridge the credit gap for small entrepreneurs and underserved customers in rural and semi-urban India. The company received an SFB license in 2015 and commenced banking operations in April 2017, listing the same year. Today it is India’s largest small finance bank by market capitalization and balance sheet, with a pan-India distribution footprint and a workforce of ~50,000+.

The Bank operates a diversified retail-and-commercial banking model – vehicle finance, secured business loans (SBL/MSME), home loans, commercial banking, plus deposits, cards, payments and third-party distribution. On 7-AU Bankg-2025 it became the first SFB to receive RBI in-principle approval to convert into a universal bank, and in June-2026 it sharpened its NRI franchise by lifting peak FCNR(B) USD deposit rates to 7.10%.

**Pan-India Presence**



Source: Company, Way2Wealth Research

**Pan-India Presence**

Metric	FY26	Q4FY26	YoY (Q4)
<b>Gross Loan Portfolio</b>	₹1.40 L crs	₹1.40 L crs	<b>+21%</b>
<b>Total Deposits</b>	₹1.53 L crs	₹1.53 L crs	<b>+23%</b>
<b>Net Interest Income</b>	₹9,078 crs	₹2,582 crs	<b>+23%</b>
<b>PAT</b>	₹2,641 crs	₹832 crs	<b>+65%</b>
<b>NIM</b>	~5.6%	5.96%	<b>+24 bps</b>
<b>RoA / RoE</b>	1.55% / 14%	1.8% / 17%	<b>↑</b>
<b>GNPA / PCR</b>	2.03% / 85%	2.03% / 85%	<b>improving</b>
<b>BVPS</b>	~₹264	~₹264	<b>+14%</b>

Source: Company, Way2Wealth Research

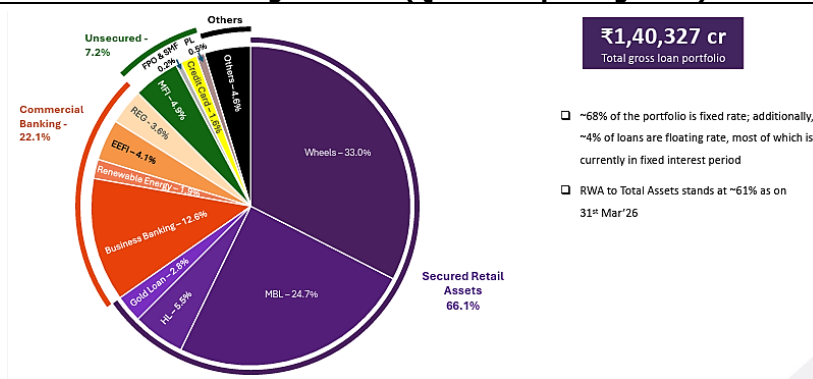
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**Business Model**

AU BANK operates a deposit-funded, secured-led lending franchise that monetizes three engines: (i) high-yield secured retail assets, (ii) a granular liability franchise, and (iii) fee/cross-sell income. The pending universal-bank status is the structural lever that should lower funding costs and widen the product perimeter.

**Exhibit 1: Segment mix (Q4FY26 reporting basis)**



Source: Company, Way2Wealth Research

**How the Bank makes money**

- **Asset side:** ~77% secured — wheels (used/new vehicles), secured business loans, home loans and commercial banking — carrying healthy risk-adjusted yields. The remaining unsecured slice (MFI, credit cards, personal loans) adds yield but is being grown cAU Banktiously after the FY25–26 cycle.
- **Liability side:** a granular retail deposit base (₹1.53 lakh crs, +23% YoY) with a building CASA franchise; cost of funds eased to ~6.5% by Q4FY26. Universal-bank status should structurally aid CASA and CoF.
- **Fee & other income:** core fees, third-party product distribution (insurance, MF), cards and payments — a rising, capital-light contributor.
- **Digital & technology:** a digital-first stack (AU BANK0101, video banking, credit cards) supports cross-sell and lowers cost-to-serve, aiding the cost-income trajectory.

**Management & Governance Profile**

AU BANK is a founder-led franchise with a stable and execution-oriented leadership team. Experienced, independent-majority board chaired by a former RBI Deputy Governor.

**Exhibit 2: Team Details**

Name	Role	Background
<b>Sanjay Agarwal</b>	Founder, MD & CEO	First-generation entrepreneur; merit-rank CA (ICAI, 1995); founded AU BANK Financiers (1996). EY Entrepreneur of the Year 2018. RBI re-approved as MD & CEO for 3 years w.e.f. 19-Apr-2026.
<b>Uttam Tibrewal</b>	Executive Director / WTD	Long-serving senior leader; central to building the Bank's retail asset and distribution franchise. Leads Commercial Banking; credited with disciplined credit expansion and digital trade/remittance build-out for MSMEs.
<b>Vivek Tripathi</b>	Executive Director	Finance leadership; key managerial personnel for regulatory disclosures.
<b>Gaurav Jain</b>	Interim CFO	Former Deputy Governor, RBI — lends strong regulatory and governance credibility.
<b>H R Khan</b>	Chairman (Independent)	Includes Kamlesh S. Vikamsey and Pushpinder Singh; independent-majority board underpinning governance standards.
<b>Indep. Directors</b>	Board	

Source: Company, Way2Wealth Research

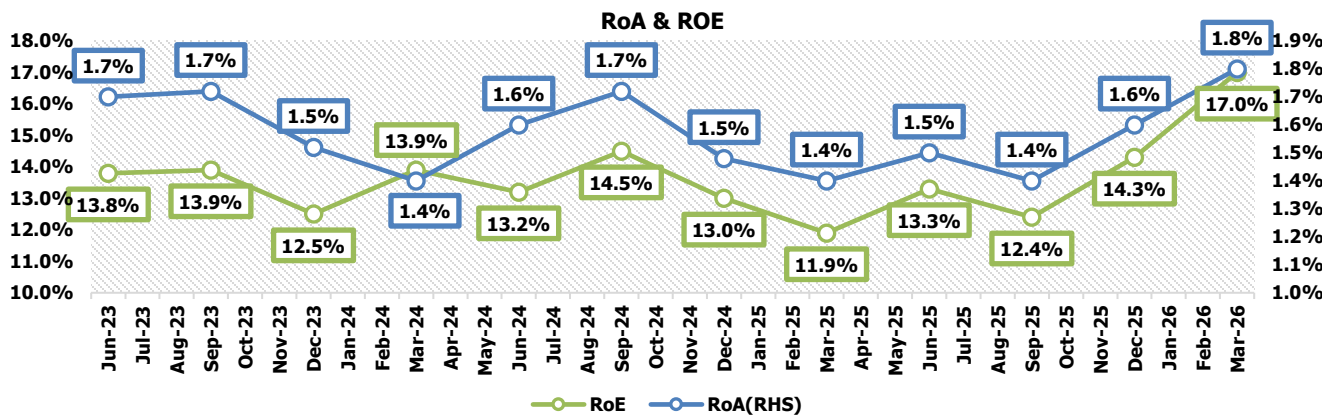
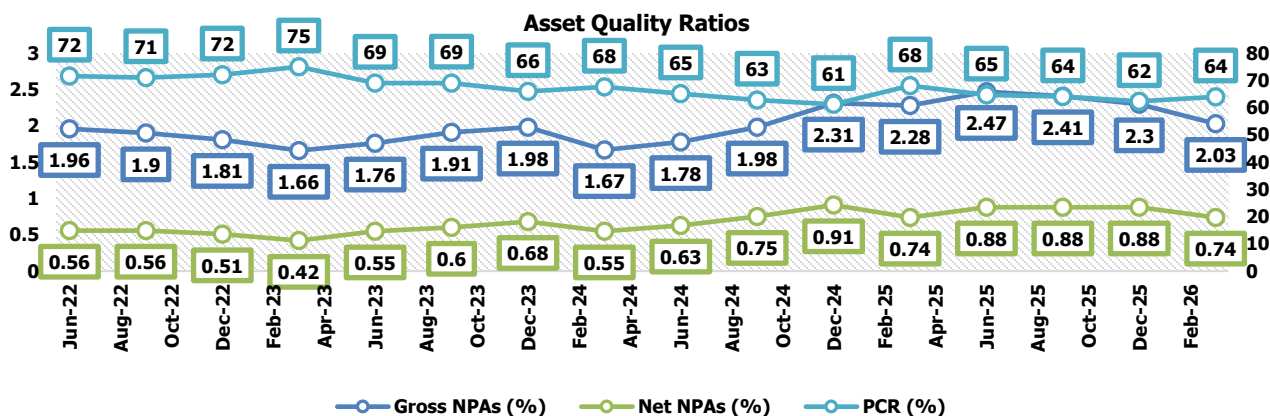
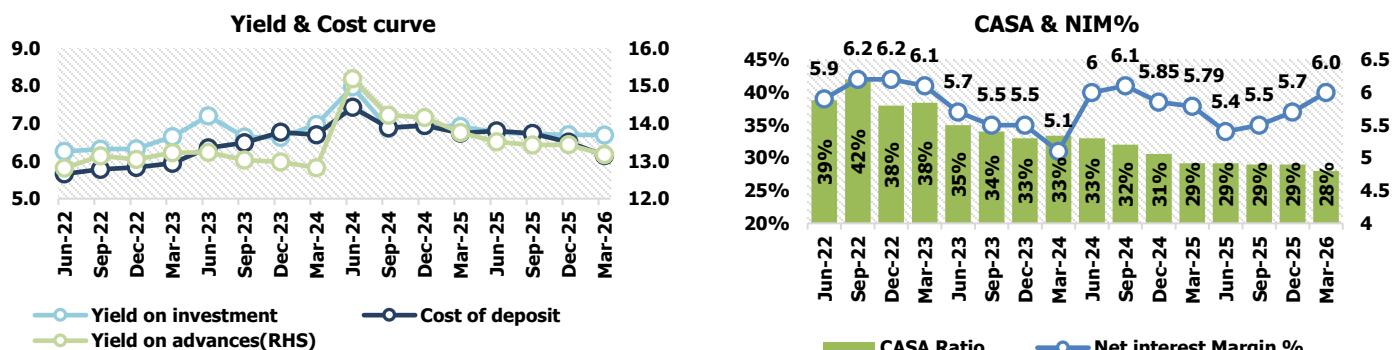
**Governance read:** Promoter stake at ~23% keeps them highly involved for growth, while institutional ownership (~68.6%) is high and rising, which is positive for the company. Key-man dependence on the founder remains a structural consideration to monitor.

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**Story in Charts**



Source: Company, Way2Wealth Research

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**Investment Rationale**

**a. Universal-Bank Transition as a Re-Rating Catalyst**

**The core idea**

- AU BANK's transition from small finance bank to universal bank is treated as a genuine widening of the franchise, not a cosmetic relabelling — affecting product range, funding, regulation and valuation.
- AU BANK is the clear pioneer among SFBs making this move.

**What the licence changes**

- Priority-sector lending obligation drops from 75% to the standard 40%, and small-ticket sub-limits fall away.
- AU BANK is repositioned as a mainstream private bank in the eyes of corporate treasuries, large depositors, counterparties and rating agencies.
- **Three practical benefits:** lower marginal deposit costs and better CASA access; latitude for larger corporate/commercial lending, trade finance and fee income; freedom to optimise the asset mix toward the highest risk-adjusted returns.

**The valuation argument**

- SFBs trade at a discount to mid-size private banks. AU BANK sits at a premium to SFB peers but below comparable universal banks.
- As returns converge toward private-bank levels (RoAA ~2%, RoE ~20%), the valuation anchor should migrate from an SFB to a private-bank framework — a potential move from ~3x book to 4–5x, a 30–50% re-rating lever independent of earnings growth.

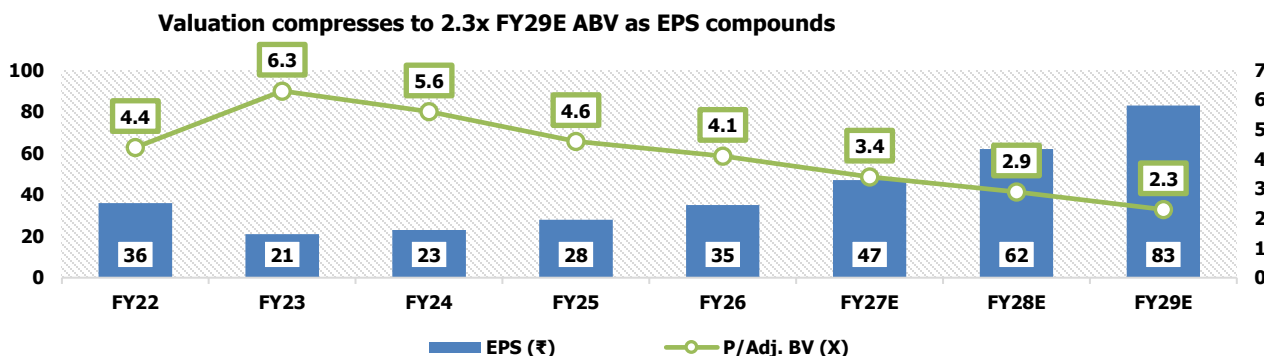
**Why AU BANK differs from precedent**

- Bandhan and IDFC (2014) showed a licence alone guarantees nothing without a profitable franchise behind it.
- AU BANK converts already profitable, at scale, generating mid-teens RoE (heading to ~20%), with a secured, granular book — removing constraints from a bank that already works rather than building one from scratch.
- Conversion is an enabler at the margin, not a reinvention; AU BANK stays rooted in secured retail and small-business lending.

**The asymmetry**

- The base-case ₹1,249 target (3.5x FY28E ABV) deliberately excludes the re-rating, leaving more upside potential.
- Limited downside multiple (P/B) de-rating already absorbed against meaningful upside on conversion — with EPS compounding ~33%, the stock "grows into" a cheaper multiple.

**Exhibit 3: Valuation**



Source: Company, Way2Wealth Research

**b. A genuine profitability inflection: RoAA toward 2%, RoE toward 20%**

The heart of our earnings story is a structural lift in profitability. We forecast RoAA to rise from 1.51% in FY26 to 1.67% in FY27E, 1.82% in FY28E and ~2.00% in FY29E, with core RoE climbing in parallel from 14.2% to roughly 20.3%. Management has publicly anchored a near-term RoA target of ~1.8% for FY27, consistent with our trajectory. This is not a heroic assumption; it is the arithmetic consequence of four reinforcing drivers that we quantify below.

**Driver A – funding-cost repricing**

AU BANK's cost of deposits peaked around 7.0% in FY25 amid a tight-liquidity, high-rate environment, and we model a gradual decline to ~6.0% in FY27E and ~5.9% by FY29E as the rate cycle eases, as bulk and high-cost term deposits reprice, and as the universal-bank label lowers the marginal cost of new liabilities. Because yields on AU BANK's predominantly fixed-rate retail-asset book are stickier than its liability costs, this asymmetry is margin-accretive. In our model, net interest margin troughs around 5.21% in FY26 (a year of elevated liability costs and mix normalization) and recovers to 5.41% / 5.48% / 5.58% across FY27E–FY29E.

**Driver B – secured-mix improvement and yield discipline**

AU BANK is deliberately re-weighting toward secured products – wheels, secured business banking, housing, gold and commercial banking – while letting the higher-loss unsecured book (credit cards and inherited MFI) run at a controlled share. Secured businesses grew ~23% YoY in FY26. While secured loans carry lower headline yields than unsecured, they carry significantly lower credit costs, so the risk-adjusted yield improves and the volatility of returns falls. We hold yield on advances broadly stable at ~13.2% across the forecast, with the quality of that yield improving as the mix shifts.

**Driver C – operating leverage**

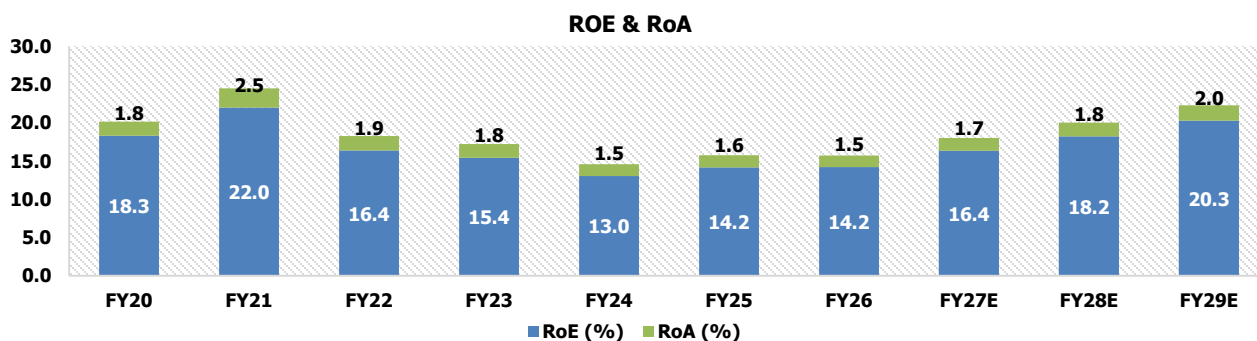
As discussed under Pillar 4, cost-to-income falls from ~57.9% in FY26 to ~48.1% by FY29E. Every rupee of pre-provision operating profit retained from cost discipline flows to returns; the ~10-point C/I improvement is, on our numbers, worth a meaningful slice of the RoAA expansion.

**Driver D – credit-cost normalization**

FY25 and FY26 absorbed elevated provisioning as the unsecured and MFI cycle turned. With slippages already moderating (down 17% sequentially in Q4FY26) and the secured mix rising, we expect credit costs to normalize toward ~1% of average assets over FY27E–FY28E, versus the ~1.3% peak. Lower provisions directly lift the bottom line and return ratios.

The combined effect is the clean upward step in returns shown below. We would highlight that the FY26 RoAA dip is the trough; the inflection from FY27E is the investable thesis.

**Exhibit 3: RoAA (bars, %) and RoE (bar, %), FY20–FY29**



Source: Company, Way2Wealth Research

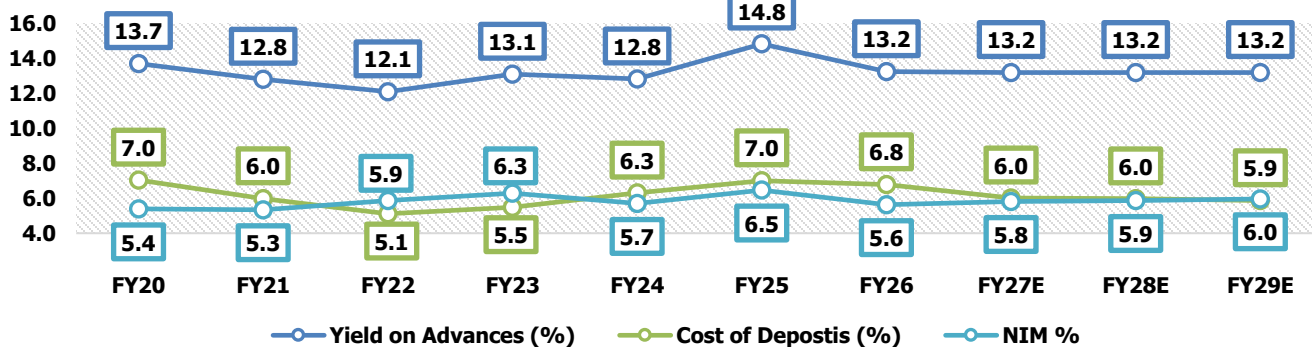
The margin engine underlying this inflection is summarized in Figure 3, which decomposes the spread: a broadly stable yield on advances, a declining cost of deposits, and a NIM that holds in the ~5.4–5.6% band – comfortably above the 3.0–3.5% NIMs typical of large private banks, reflecting AU BANK's retail-asset DNA and the credit premium it earns in underserved segments.

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**Exhibit 4: NIM, Yield on Advances and Cost of Deposits (%), FY20–FY29E**



Source: Company, Way2Wealth Research

**c. A Compounding, Granular and Increasingly Secured Balance Sheet**

**Growth trajectory**

- Advances modelled at ~22% CAGR over FY26–FY29E, taking the loan book from ₹1.30 lakh crs to ₹2.36 lakh crs.
- Deposits modelled at ~23% CAGR, rising from ₹1.53 lakh crs to ₹2.84 lakh crs.
- This pace is well above ~13–14% system credit growth, reflecting an under-penetrated market, expanding distribution and the wider product latitude universal-bank status confers.

**The liability franchise is the real prize**

- AU BANK’s transformation from asset financier into a credible deposit-gatherer is the most underappreciated part of the story.
- Deposits have outgrown advances, pulling the credit-deposit ratio down toward a healthier ~83–85% band.
- CASA is modelled to improve from ~28% (FY26) toward ~30% (FY29E) as branches mature and the universal-bank label strengthens standing with institutional depositors.
- A richer CASA mix both lowers funding costs (supporting NIM) and reduces sensitivity to wholesale-funding stress.

**Why deposit-building matters**

- The process is slow, cumulative and hard to replicate — which is what makes it valuable.
- New branches take years to gather low-cost balances, salary mandates and transaction relationships; this has kept cost-to-income elevated and CASA still maturing.
- The pay-off comes as the vintage curve matures build costs are largely behind AU BANK while sticky, low-cost deposits accrue for years — the same dynamic that powered the best private banks’ scaling phases.

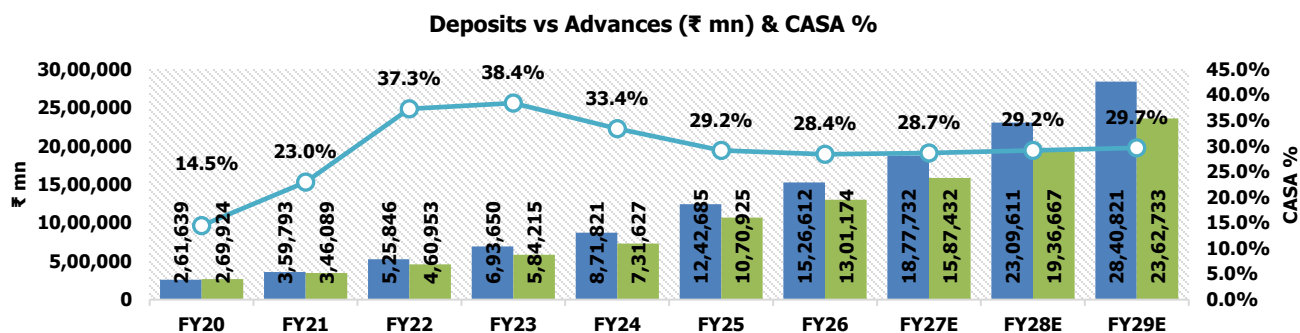
**Granularity and security reduce tail risk**

- The book is granular and increasingly secured: vehicle finance, secured business banking, housing, gold and commercial banking dominate; unsecured cards and inherited MFI are a controlled minority.
- Collateral contains loss-given-default in stress, and single-name risk is low.
- High growth plus low concentration lets AU BANK compound book value rapidly without a matching rise in tail risk.

**Bottom line**

- A balance sheet compounding in the low-twenties on both sides, with the funding mix quietly improving.

**Exhibit 5: Deposits and Advances (bars, ₹ crs) vs CASA ratio (line, %), FY20–FY29E.**



Source: Company, Way2Wealth Research

**d. Operating Leverage and a Technology-/AI-Led Cost Trajectory**

**Elevated costs are latent leverage, not weakness**

- AU BANK's historically high cost-to-income reflects a young branch network in investment mode, the cost of building a deposit franchise from scratch, and Fincare integration.
- As branches season, the deposit franchise scales, and digital/AI investments substitute for headcount and physical cost, the ratio should fall steadily.

**The modelled trajectory**

- Cost-to-income improves from ~64.7% (FY24) and ~56.5% (FY25) to ~57.9% (FY26, absorbing integration and build costs).
- It then declines durably to ~54.3% (FY27E), ~51.5% (FY28E) and ~48.1% (FY29E).
- A sub-50% ratio would place AU BANK among well-run mid-size private banks and is a key driver of the RoAA inflection.

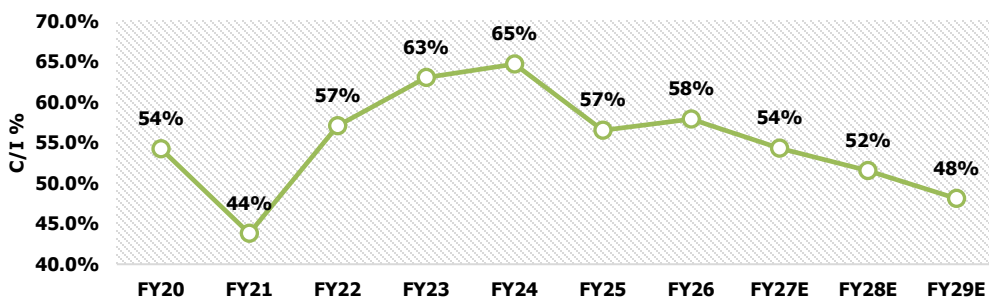
**The technology angle**

- AU BANK is embedding AI/ML across its stack — an AI-native loan-origination system for gold loans, plus AI in credit underwriting, fraud decisioning, collections and customer service.
- The strategic aim is to grow the balance sheet in the low-twenties without growing costs at the same pace, widening the gap between revenue and cost growth.
- Successful execution could make the cost-to-income trajectory prove conservative.

**A note of discipline**

- Operating leverage in banking is rarely linear, and the universal-bank build-out (new product teams, compliance, treasury, corporate-banking infrastructure) carries its own cost.
- The ~48% FY29E assumption already allows for this reinvestment – an improving-but-not-heroic path.
- Quarter-to-quarter cost lumpiness should be treated as noise around a clearly downward trend.

**Exhibit 6: Cost-to-Income ratio (%) - operating leverage**



Source: Company, Way2Wealth Research

**e. Asset-Quality Normalization Underwritten by Strong Capital**

**Normalisation from a manageable peak**

- GNPA rose to ~2.28% (FY25) and ~2.15% (FY26, reported ~2.03% in the audited Q4 print) as the unsecured/MFI cycle turned, before settling at ~1.80–1.81% across FY27E–FY29E.
- FY26's net NPA and coverage reflect a deliberately conservative provisioning reset; coverage is expected to rebuild toward ~68–73% as the secured mix rises and slippages moderate.
- Slippages were down 17% sequentially in Q4FY26, and full-year FY26 credit cost improved to ~0.96% of average assets (from ~1.3% in FY25).

**Volatility is contained and shrinking**

- Asset-quality stress is concentrated in a small, identified, shrinking part of the book — credit cards and inherited microfinance.
- Dominant secured segments (vehicle finance, secured business banking, housing, gold) have a long, resilient record.
- As the unsecured share falls, the through-cycle credit-cost profile improves and volatility declines — supporting a GNPA that stays below 2% even with low-twenties book growth.

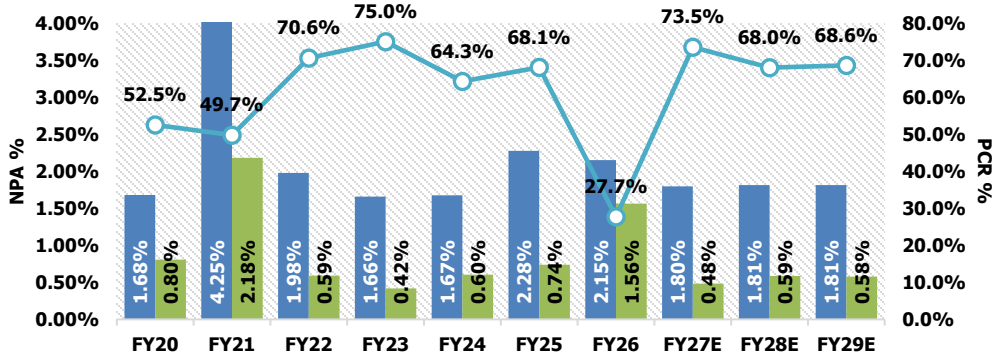
**Context for the recent stress**

- Elevated FY25–FY26 provisioning was largely the industry-wide microfinance cycle turning (borrower over-leverage, tighter collections), compounded by Fincare's MFI integration.
- The stress was cyclical and inherited, not a sign of deteriorating underwriting in the core secured book.
- This distinction matters: such losses normalise as the cycle turns, underpinning the forecast of credit costs settling near ~1% rather than re-accelerating.

**Capital as the foundation**

- FY26 closed with ~19.5% total capital adequacy and Tier-I comfortably above minimums, against the 15% CRAR threshold for universal-bank conversion.
- This is more than enough to fund low-twenties balance-sheet growth organically; the board has also approved enabling authority to raise up to ~₹13,500crs of equity and debt.
- Strong capital removes the risk of growth being choked and buffers against credit shocks — the main trade-off being potential dilution if capital is raised at a sub-optimal price.

**Exhibit 7: GNPA / NNPA and PCR**



Source: Company, Way2Wealth Research

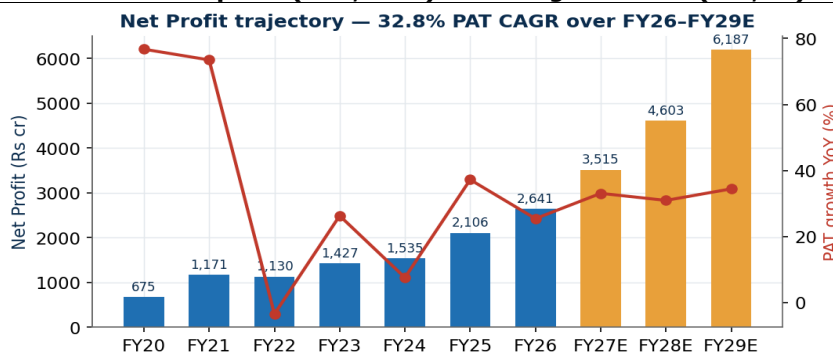
**Detailed Outlook (FY27E–FY29E)**

This section lays out our forward view in detail, walking the profit-and-loss account, the balance sheet and the key ratios across the three forecast years, and distinguishing the near-term (FY27E) from the medium-term (FY28E–FY29E).

**Earnings trajectory**

We forecast net profit of ₹3,515crs in FY27E (+33% YoY), ₹4,603crs in FY28E (+31%) and ₹6,187crs in FY29E (+34%), a three-year CAGR of ~32.8% off the FY26 base of ₹2,641crs. The growth is broad-based: net interest income rises from ₹9,113crs in FY26 to ₹11,374crs / ₹13,889crs / ₹17,222crs across FY27E–FY29E, pre-provision operating profit climbs from ₹5,089crs to ₹11,169crs, and the bottom line is further helped by the operating-leverage and credit-cost dynamics already described. Earnings per share advances from ₹35.3 to ₹47.0, ₹61.5 and ₹82.7 over the period.

**Exhibit 8: Net profit (bars, ₹ crs) and PAT growth YoY (line, %)**



Source: Company, Way2Wealth Research

**Near term – FY27E**

FY27E is the year the inflection becomes visible in reported numbers. We expect deposit growth of ~23% and advances growth of ~22%, NIM recovering ~20bps to ~5.41% as liability costs begin to ease, cost-to-income improving ~360bps to ~54.3%, and credit costs normalising as the unsecured cycle matures. RoAA improves to ~1.67% (close to management's ~1.8% RoA aspiration) and core RoE to ~16.4%. The potential grant of the final universal-bank license within this window is a plausible re-rating trigger that is not in our base-case multiple.

**Medium term – FY28E–FY29E**

By FY28E–FY29E we expect the franchise to be operating much closer to its structural potential: NIM in the ~5.5–5.6% band, cost-to-income through 50% and toward ~48%, RoAA reaching ~1.82% then ~2.00%, and core RoE reaching ~18.2% then ~20.3%. At ~20% RoE with ~22% asset growth, AU BANK would be compounding book value rapidly and would, in our view, merit a valuation framework closer to a mid-size private bank than to a small finance bank. The CASA mix improving toward ~30%, the credit-deposit ratio easing toward ~83%, and provision coverage rebuilt all point to a higher-quality, lower-volatility earnings stream by the end of the forecast.

**What would make us more positive**

- Faster-than-expected grant of the final universal-bank license, triggering an earlier and larger valuation re-rating.
- A sharper fall in cost of deposits if system liquidity eases and the universal-bank label compresses funding spreads more quickly than modelled.
- CASA improvement beyond ~30% as the deposit franchise and current-account relationships scale, lifting NIM above our band.
- Quicker normalization of unsecured credit costs, allowing provision write-backs and a faster RoAA climb.

24 June 2026

CMP\* – ₹1,026

View – Buy

**Financials**

Profit & Loss (₹ mn)	FY25	FY26	FY27E	FY28E	FY29E
Interest Income	1,60,637	1,86,363	2,25,674	2,72,934	3,32,897
Interest Expense	80,521	95,237	1,11,929	1,34,047	1,60,675
<b>Net Interest Income</b>	<b>80,116</b>	<b>91,127</b>	<b>1,13,745</b>	<b>1,38,887</b>	<b>1,72,222</b>
% Growth	55.4	13.7	24.8	22.1	24.0
Treasury Income	3,362	5,380	1,678	1,763	1,867
Other Inc. exc Treasury	21,901	24,399	31,973	36,263	41,102
<b>Total Income</b>	<b>1,05,379</b>	<b>1,20,906</b>	<b>1,47,395</b>	<b>1,76,912</b>	<b>2,15,191</b>
Employees Expenses	31,478	38,482	45,408	53,582	63,227
Other Op. Expenses	28,094	31,537	34,660	37,569	40,279
<b>Operating Profit</b>	<b>45,807</b>	<b>50,888</b>	<b>67,327</b>	<b>85,761</b>	<b>1,11,685</b>
% Growth	87.9	11.1	32.3	27.4	30.2
Total Provisions	17,926	16,147	20,461	24,394	29,187
Tax	6,821	8,328	11,716	15,342	20,625
<b>Net Profit</b>	<b>21,059</b>	<b>26,413</b>	<b>35,149</b>	<b>46,025</b>	<b>61,874</b>
% Growth	37.2	25.4	33.1	30.9	34.4

Source: Company, Way2Wealth Research

Balance Sheet (₹ mn)	FY25	FY26	FY27E	FY28E	FY29E
Capital	7,445	7,483	7,483	7,483	7,483
Reserves and Surplus	1,64,218	1,92,253	2,22,668	2,67,571	3,28,323
<b>Shareholders Funds</b>	<b>1,71,663</b>	<b>1,99,735</b>	<b>2,30,151</b>	<b>2,75,054</b>	<b>3,35,805</b>
Deposits	12,42,685	15,26,612	18,77,732	23,09,611	28,40,821
Borrowings	1,16,599	1,38,715	1,20,116	1,28,042	1,36,602
Other Liabilities & Provisions	47,509	52,912	60,849	69,977	80,473
<b>Total liabilities</b>	<b>15,78,457</b>	<b>19,17,975</b>	<b>22,88,848</b>	<b>27,82,683</b>	<b>33,93,701</b>
Cash & Balances with RBI	86,046	99,920	1,09,882	1,34,071	1,63,758
Bal. with banks/ call money	8,617	21,649	19,978	24,377	29,774
Investments	3,78,475	4,57,396	5,28,831	6,39,340	7,83,012
Advances	10,70,925	13,01,174	15,87,432	19,36,667	23,62,733
Fixed Assets	9,125	9,536	10,179	10,802	11,381
Other Assets	25,268	28,301	32,546	37,427	43,042
<b>Total assets</b>	<b>15,78,457</b>	<b>19,17,975</b>	<b>22,88,848</b>	<b>27,82,683</b>	<b>33,93,701</b>
% Growth	44.2	21.5	19.3	21.6	22.0

Source: Company, Way2Wealth Research

Asset Quality	FY25	FY26	FY27E	FY28E	FY29E
Gross NPA (₹ mn)	24,770	28,125	28,924	35,557	43,366
Gross NPA (%)	2.3	2.1	1.8	1.8	1.8
Net NPA (₹ mn)	7,913	20,339	7,669	11,389	13,617
Net NPA (%)	0.7	1.6	0.5	0.6	0.6
<b>% coverage of NPA</b>	<b>68.1</b>	<b>27.7</b>	<b>73.5</b>	<b>68.0</b>	<b>68.6</b>
Delinquencies (%)	3.5	3.5	2.1	2.1	2.1

Source: Company, Way2Wealth Research

Per Share Data	FY25	FY26	FY27E	FY28E	FY29E
Book value per share (₹)	230.6	266.9	307.6	367.6	448.8
Adj. BVPS (₹)	223.1	247.9	300.4	356.9	436.0
<b>Price/ Adj. Book value</b>	<b>4.6</b>	<b>4.1</b>	<b>3.4</b>	<b>2.9</b>	<b>2.3</b>
EPS (₹)	28.3	35.3	47.0	61.5	82.7
<b>P/E Ratio</b>	<b>36.1</b>	<b>28.9</b>	<b>21.7</b>	<b>16.6</b>	<b>12.3</b>
% EPS Growth	23.3	24.8	33.1	30.9	34.4

Source: Company, Way2Wealth Research

Business Ratios	FY25	FY26	FY27E	FY28E	FY29E
Credit-Deposit(%)	86.2	85.2	84.5	83.9	83.2
Investment / Deposit (%)	30.5	30.0	28.2	27.7	27.6
Cash / Deposit (%)	7.6	8.0	6.9	6.9	6.8
RoAA (%)	1.58	1.51	1.67	1.82	2.00
Core RoE (%)	14.2	14.2	16.4	18.2	20.3
Dividend Yield (%)	0.01	0.01	0.01	0.01	0.01
CASA ratio (%)	29.17	28.43	28.70	29.20	29.70

Source: Company, Way2Wealth Research

Earnings Ratios	FY25	FY26	FY29E	FY27E	FY28E
Yield on Advances (%)	14.83	13.25	13.20	13.20	13.20
Yield on Investments (%)	6.89	6.34	6.35	6.50	6.35
Interest Income/ Avg.assets	12.0%	10.7%	10.8%	10.7%	10.8%
Interest Expense/ Avg. assets	6.0%	5.4%	5.2%	5.3%	5.3%
Net Interest Margin (%)	6.0	5.2	5.6	5.4	5.5
NIM based on avg. earning assets (%)	6.5	5.6	6.0	5.8	5.9

Source: Company, Way2Wealth Research

Cost Ratio	FY25	FY26	FY27E	FY28E	FY29E
Interest Expended/ Interest Earned (%)	50.1	51.1	49.6	49.1	48.3
Cost/ Income Ratio (%)	56.5	57.9	54.3	51.5	48.1
Cost of Deposit (%)	7.0	6.8	6.0	6.0	5.9
Provisioning/ Operating Profit (%)	39.1	31.7	30.4	28.4	26.1
other income as % of total income	24%	25%	23%	21%	20%

Source: Company, Way2Wealth Research

## Key Monitorables and Earnings Sensitivity

### Five variables to watch quarter by quarter

- **Cost of deposits and CASA ratio** – the clearest read on whether the margin-recovery engine is firing.
- **Slippages and credit costs in the unsecured/MFI book** – the principal source of downside surprise.
- **Cost-to-income ratio (ex one-offs)** – the test of the operating-leverage thesis.
- **Universal-bank licence news flow** – the single largest discrete re-rating catalyst.
- **Pace and pricing of any equity raise** under the board's enabling authority – bears directly on per-share value.

### Where the earnings leverage sits

- NIM and credit cost have the greatest impact, as each flows to the bottom line with little offset.
- Rule of thumb: a 10bp move in NIM shifts net interest income (and broadly pre-tax profit) meaningfully across the book; a 25bp change in the credit-cost ratio similarly moves provisions and earnings.
- The asymmetry is reassuring: the dominant secured book anchors both – margins via sticky fixed-rate retail yields against falling liability costs, credit costs via collateral.
- Risk variables (unsecured stress, deposit-cost spikes) are real but confined to the smaller, identified part of the franchise – hence downside is contained relative to upside, with no single line relying on heroic assumptions.

### Conservatism built into the base case

- Yield on advances held broadly flat (no mix-driven upside assumed).
- Only partial CASA improvement to ~30%.
- Universal-bank re-rating excluded from the base-case target multiple.
- Each is a potential positive surprise rather than a stretch – an appropriate posture for an initiating-coverage note that prefers to under-promise on assumptions and let execution deliver the upside.

**Peer Comparison**

The comparison frames both AU BANK's premium within the SFB universe and the re-rating runway toward the private-bank cohort.

**AU Bank Vs Small Finance Banks**

Within the SFB universe, AU Bank is the scale leader and quality anchor: it is the largest SFB by a wide margin (~40% sector business share), the only SFB with universal-bank in-principle approval, and the franchise with the strongest governance and most diversified secured-asset base. Equitas stands out for the highest NIM among listed SFBs (above 8%) and a high CASA, but with thinner scale; Ujjivan has executed a strong turnaround in asset quality and returns from its MFI base; Jana is fast-growing but has a record of missing its own guidance, underscoring execution risk; ESAF and Suryoday are smaller, more microfinance-skewed and more cyclical. AU BANK's premium multiple within this group is, in our view, justified by its scale, secured mix, profitability and the conversion optionality.

Bank (SFB)	Size / scale	NIM band	Asset-quality / RoA profile	Key distinction
<b>AU BANK SFB</b>	<b>Largest (~40% SFB business)</b>	<b>~5.4–6.0%</b>	<b>RoAA ~1.5–2.0%; GNPA &lt;2.3%</b>	<b>Universal-bank front-runner; secured, granular</b>
<b>Equitas SFB</b>	Mid	Highest (8%+)	RoE ~14%; CASA toward ~40%	Quality growth SFB; vehicle + MFI roots
<b>Ujjivan SFB</b>	Mid-large	High	Sharp asset-quality turnaround	MFI-to-retail transformation; applied for UB
<b>Jana SFB</b>	Mid	High	Improving but guidance misses	Fast growth; 80% MSME/SME mix; applied for UB
<b>ESAF SFB</b>	Small	High	More cyclical	Kerala/rural microfinance + gold roots
<b>Suryoday SFB</b>	Small	High	Most cyclical / volatile	Pure-play inclusion lender

Source: Company disclosures and market commentary, 2026. Qualitative framing; figures indicative.

**AU Bank Vs Mid-size Private Banks**

The more important comparison for the re-rating thesis is against mid-size private banks. The table below contrasts AU BANK's forecast profitability with the recent profile of IDFC First, Federal, RBL, City Union, Bandhan and Karur Vysya. The striking observation is that AU BANK's forecast FY28E–FY29E return profile (RoAA ~1.8–2.0%, RoE ~18–20%) is superior to most of this cohort, several of which currently generate sub-1.2% RoAA and high-single-digit-to-low-teens RoE – yet AU BANK trades on an SFB framing. As AU BANK converts and its returns are seen through a private-bank lens, the valuation gap should narrow.

Bank	Type	RoAA (recent)	RoE (recent)	NIM	P/B (approx)
<b>AU BANK SFB (FY26)</b>	<b>SFB</b>	<b>~1.5%</b>	<b>~14%</b>	<b>~5.2%</b>	<b>~4.1x</b>
<b>Federal Bank</b>	Mid-size pvt	~1.15%	~11.7%	~3.2%	~1.3–1.5x
<b>IDFC First Bank</b>	Mid-size pvt	~0.4–0.5%	~3.5%	~6%*	~1.2–1.5x
<b>City Union Bank</b>	Mid-size pvt	~1.5%	~13–14%	~3.6%	~1.4–1.6x
<b>Karur Vysya Bank</b>	Mid-size pvt	~1.6%	~16–17%	~4%	~1.4–1.6x
<b>RBL Bank</b>	Mid-size pvt	~0.9–1.0%	~8–9%	~5%	~0.9–1.1x
<b>Bandhan Bank</b>	Mid-size pvt	~1.5–2.0%	~12–14%	~7%	~1.3–1.6x

Source: Company results and market data, FY26/recent quarters, 2026.

\*IDFC First NIM reflects a high-yield retail mix offset by elevated costs/credit; its RoA is currently depressed. Multiples are indicative and on differing book definitions.

**Conclusions follow:**

**First**, on fundamentals AU BANK screens better than most mid-cap private banks on returns and growth, justifying a premium multiple within that cohort, not merely within SFBs.

**Second**, the de-rating already absorbed (from >7x book in FY20 to ~4x today and ~2.3x on FY29E ABV) means the valuation risk is asymmetric to the upside: AU BANK is converging on private-bank-quality returns while its multiple converges down toward private-bank levels — a combination that historically precedes outperformance.

24 June 2026

CMP\* – ₹1,026

View – **Buy**

**Valuation**

We value AU BANK on a price-to-adjusted-book-value (P/ABV) basis, the most appropriate framework for a growth bank where book accretion and return on equity drive value. Our target price of ₹1,249 applies a 3.5x multiple to FY28E adjusted book value of ₹357 per share. From the current market price of ₹1,045, this implies approx. ~25% upside over 2 years horizon.

**Why 3.5x FY28E ABV**

The chosen multiple reflects a deliberately balanced stance. AU BANK currently trades at ~4.1x trailing adjusted book; our model implies ~2.9x on FY28E book and ~2.3x on FY29E book as the stock 'grows into' its valuation. A 3.5x multiple on FY28E ABV therefore sits between the current trailing multiple and the de-rated forward multiple and is internally consistent with a bank generating ~18–20% RoE — for which 3.0–4.0x book is a defensible range. We regard this as a base case that does not require a universal-bank re-rating to be realized; the conversion is upside optionality.

**Forward 12 Months P/B Chart**



Source:

**Scenario analysis**

We frame three scenarios around the FY28E ABV anchor to bracket the range of outcomes:

Scenario	Multiple (FY28E ABV)	Implied value (₹)	Vs CMP	Key assumptions
<b>Bull</b>	4.5x	~1,607	+58%	Final UB licence granted; RoAA → 2%+ early; re-rating to private-bank multiple; CASA > 30%
<b>Base</b>	<b>3.5x</b>	<b>1,249</b>	<b>+22%</b>	<b>Profitability inflection on track; partial re-rating; credit costs normalise to ~1%</b>
<b>Bear</b>	2.5x	~893	-12%	Unsecured stress persists; deposit-cost pressure; licence/timeline delay; dilution overhang

Source: Company, Way2Wealth Research

**The skew is favorable:** our bull case (+58%) involves the universal-bank re-rating that we deliberately exclude from the base, while our bear case (-12%) requires a simultaneous deterioration in both the credit cycle and funding costs alongside a license delay. Given the de-rating already absorbed and the strength of the capital position, we view the downside as reasonably contained and the upside as substantial.

**Risk Factors**

We would highlight the following key risks to our BUY thesis and target. Several of these are interlinked, and a simultaneous adverse turn in more than one would underpin our bear case.

- **Unsecured-credit and microfinance cycle:** AU BANK's recent credit-cost volatility has been concentrated in its unsecured book — credit cards and the microfinance exposure inherited via the Fincare merger. While this is a controlled minority of the loan book and is being re-weighted toward secured products, a deeper or more prolonged stress in unsecured/MFI — driven by over-indebtedness in low-income borrower segments, regulatory tightening on collections, or a macro shock to informal-sector incomes — could keep credit costs elevated above our ~1% assumption, delaying the RoAA inflection that anchors our thesis.
- **Deposit-cost and liquidity pressure:** Our margin recovery assumes a gradual decline in the cost of deposits. In a tight-liquidity environment, or if competition for retail deposits intensifies, AU BANK may have to pay up for funding, compressing NIM. As a still-maturing deposit franchise with a CASA ratio of ~28% (below the best private banks), AU BANK is more exposed to term-deposit repricing than larger peers. A sticky or rising cost of deposits is the most direct threat to the profitability inflection story.
- **Execution risk in the universal-bank transition:** Building a universal-bank operating model — corporate banking, treasury, trade finance, broader compliance — is a material undertaking. Execution missteps, slower-than-expected revenue diversification, or a heavier-than-modelled cost build-out could mean the operating-leverage and re-rating benefits arrive later or smaller than we assume. The final license is also subject to the RBI's residual assessment; while we view grant as high-probability, timing is uncertain and a delay would push out the re-rating catalyst.
- **Equity dilution:** The board has approved enabling authority to raise up to ~₹13,500crs of equity and debt. While additional capital supports growth, an equity raise — particularly at a sub-optimal price — would dilute existing shareholders and could temporarily weigh on per-share metrics and on the stock as an overhang. Our per-share forecasts assume organic capital generation funds growth over the forecast horizon; a large, dilutive raise would be a downside risk to EPS and target.
- **Key-person and governance concentration:** AU BANK's underwriting culture and strategic direction are closely associated with its founder-CEO. While the RBI's approval of his three-year reappointment provides continuity, the franchise carries a degree of key-person dependence typical of founder-led banks. Any unexpected leadership transition, or governance lapse, could affect both fundamentals and the valuation premium the market awards for management quality.
- **Macro, rate and regulatory risk:** As a high-growth retail lender, AU BANK is sensitive to the broader Indian macro cycle: a sharp slowdown in consumption, employment or small-business activity would hit both growth and asset quality. Interest-rate moves affect the yield-cost asymmetry on which our NIM forecast depends. And as a bank straddling the SFB and universal-bank frameworks, AU BANK is exposed to evolving regulation on priority-sector norms, unsecured-lending risk weights, microfinance, and provisioning — any of which could alter the growth-profitability trade-off.

**Valuation and sentiment risk:** Even on our de-rated multiple, AU BANK trades at a clear premium to its SFB peers and to several mid-cap private banks. If the profitability inflection disappoints, or if a risk-off rotation away from high-multiple financials occurs, the premium could compress faster than fundamentals deteriorate. Our bear case 2.5x multiple illustrates this sensitivity.

**Conclusion — Why We Initiate with BUY**

**The opportunity**

- AU offers a rare combination: a balance sheet compounding in the low-twenties, a quantifiable path to ~50bps RoAA and ~600bps RoE expansion over three years, a structural re-rating catalyst in universal-bank conversion, a secured/granular asset base that limits tail risk, and strong capital to fund it.
- All of this is available at a multiple that has already de-rated substantially and that the company will grow into.

**Recommendation**

- Initiate with **BUY**, target price **₹1,249** (3.5x FY28E adjusted book value), implying ~25% upside.
- Universal-bank re-rating is upside optionality beyond the base case.
- Accumulate on weakness; view AU as a core multi-year holding in Indian private banking.

24 June 2026

CMP\* – ₹1,026

View – **Buy**

**The case in its simplest form**

- Earnings grow faster than book (rising returns on a compounding base).
- Book grows faster than the system (under-penetrated market, widening product perimeter).
- The multiple has already fallen to a level a bank of this quality can support – with the universal-bank licence as discrete, high-probability, un-priced optionality.

**Risk-reward skew**

- The bear case needs several things to go wrong at once — a stickier unsecured cycle, a deposit-cost spike, a licence delay and a dilutive raise.
- The bull case needs only that conversion completes and the profitability inflection already visible in the FY26 exit run-rate continues.
- Compelling risk-reward — a multi-year compounder to own through the transition, not a tactical trade.

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**Disclosure of Interest Statement: AU Small Finance Bank Ltd. as on June 24, 2026**

Name of the Security	AU Small Finance Bank Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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