AU Small Finance Bank Ltd.

28th October 2026 | Close* – ₹848/- | View – **Buy**

Key Highlights – Q2FY27: Deposits accelerate, PAT up 53%

- AU Small Finance Bank delivered a strong Q2FY27, anchored by deposit mobilisation. **Net Profit rose 53.0% YoY to ₹8.58bn** (+7.8% QoQ), with annualised RoA of 1.7% and RoE of 16.1% (Q2FY26: 1.4% / 12.4%). H1FY27 PAT of ₹16.54bn is up 45% YoY.
- **Growth Ahead of the Sector:** The gross loan portfolio grew **25.1% YoY to ₹1.54tn** (+6.6% QoQ) against sector credit growth of ~19%, while deposits grew **28.6% YoY to ₹1.70tn** (+8.1% QoQ) versus ~18% for the system. Disbursements were up 33% YoY.
- **Margin Resilience:** NIM expanded **33bps YoY to 5.8%** on a 43bps YoY fall in cost of funds to 6.41%, but eased 9bps QoQ on a higher investment-book share and seasonality. NII rose 31.5% YoY to ₹28.20bn.
- **Asset-Quality Improvement:** GNPA improved to **1.99%** (Q2FY26: 2.41%) and NNPA to 0.81% (0.88%). Credit cost, including the CGFMU premium, fell to 0.8% from 1.2%. The one blemish is a lower PCR of 60% excluding technical write-offs (Q1FY27: 64%).
- **The Cost Drag:** Opex rose 26% YoY (+6.6% QoQ) to ₹20.77bn, keeping cost-to-income at ~57.9%. Reported PPOP grew 25% YoY to ₹15.14bn and core PPOP (ex-treasury) 31% YoY to ₹14.80bn.
- The stock may react negatively in near term on the 9bps QoQ NIM dip, the lower PCR and seasonal tractor slippages. We see these as transient against ~25% deposit growth, 1.7% RoA and the universal-bank transition, and maintain our **BUY** rating with a revised target of ₹1,175.

Important Statistics

Nifty	22,749
Sensex	73,598
Close* (₹)	848
M.CAP (₹ crs)	₹63,750.31
52 Week H/L (₹)	1,145/832
NSE Code	AUBANK
BSE Code	540611
Bloomberg Code	AUBANK:IN

Close as on 27th October 2026*

Shareholding (%)	Mar-26	Jun-26	Sep-26
Promoter	22.80%	22.70%	22.70%
FII	37.30%	36.00%	36.10%
DII	31.30%	32.80%	32.80%
Public	8.70%	8.50%	8.50%

Q2FY27 Result Update

- **Business Efficiency**
  - **Net Interest Income (NII):** Up 31.5% YoY to ₹28.20bn (+4.6% QoQ), driven by 25% loan growth and 33bps of YoY margin expansion. H1FY27 NII was ₹55.16bn, up 32% YoY.
  - **Net Interest Margin (NIM):** 5.8%, up 33bps YoY but down 9bps QoQ on a higher share of the investment book and seasonality. Cost of funds eased to 6.41% (Q1FY27: 6.48%), while gross advance yield slipped ~27bps YoY to 13.6% on portfolio mix. About 70% of the book is fixed-rate and the floating 30% reprices within 3–4 months; management offered no margin guidance.
  - **Other Income:** ₹7.70bn, up 8% YoY (+11.8% QoQ). Core fee income grew 16% YoY to ₹7.36bn, led by credit cards (+68% YoY) and transaction banking and forex (+51%), while treasury income fell 57% YoY to ₹0.34bn.
  - **Expense Management:** Opex rose 26% YoY and 6.6% QoQ to ₹20.77bn on disbursement-linked costs and investment in distribution, brand and technology; ~2,400 largely customer-facing employees were added. Cost-to-assets excluding the CGFMU premium improved to 3.9% from 4.0% a year ago.
  - **Cost-to-Income (C/I):** ~57.9% (our calculation) versus 57.6% in both Q2FY26 and Q1FY27. AU remains the widest outlier versus larger private peers (cost-to-assets of 2.5–3.5%); management expects cost-to-assets to improve on a full-year basis.
  - **Operating Profit:** Reported PPOP grew 25% YoY to ₹15.14bn (+5.5% QoQ); core PPOP excluding treasury grew 31% YoY to ₹14.80bn, as weak treasury gains again held reported growth below core.
  - **Provisions & Tax:** Provisions fell 25% YoY to ₹3.59bn (−3% QoQ), led by normalisation in the unsecured segments. PBT rose ~58% YoY to ₹11.55bn and, at an effective tax rate of ~25.7% (our calculation), PAT of ₹8.58bn was 7.8% above Q1FY27.

Key Segmental numbers – Q2FY27

Loan Portfolio	YoY Growth %
Gross Loan Portfolio	25.1%
Retail Secured Assets	21.9%
– Wheels	27.0%
– Mortgages	12.0%
– Gold Loans	102.0%
Commercial Banking	38.9%
Inclusive Banking (MFI)	22.8%
Digital Unsecured	23.0%
Total Deposits	28.6%
CASA Deposits	29.1%
Disbursements	~33%

Source: Company, Way2wealth Research

Relative Performance

Return (%)	1 Yr	3 Yr	5 Yr
AU SFB	1.0%	26.6%	37.8%
Nifty 50	-5.9%	20.7%	24.5%
Sensex	-7.3%	16.6%	20.0%

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₹ bn	Q2FY27	Q2FY26	YoY	Q1FY27	QoQ
Current account	117	75	55%	70	n.m.
Savings account	386	314	23%	384	n.m.
CASA	**503**	**389**	**29%**	**454**	**11%**
Term Deposits	1,202	936	28%	1,123	7%
Total Deposits	**1,705**	**1,325**	**29%**	**1,577**	**8%**
CASA ratio (%)	29.5	29.4	–	28.8	–

Source: Company, Way2wealth Research

- **Strengthening Liability Franchise**

Deposit mobilisation was again the standout of the quarter and comfortably funded 25% loan growth:

- **Total Deposits:** Up 28.6% YoY and 8.1% QoQ to ₹1.70tn — roughly 10 percentage points ahead of estimated system deposit growth of ~18%. The bank garnered ~US$230mn of gross FCNR deposits; excluding this, QoQ growth was 6.7%.
- **CASA Trends:** CASA deposits grew 29.1% YoY and 10.8% QoQ to ₹503bn, crossing ₹500bn; the CASA ratio rose ~70bps QoQ to 29.5% (Q1FY27: 28.8%). Current-account balances grew 55% YoY to ₹117bn and savings balances 23% YoY to ₹386bn (daily averages +60% and +24%).
- **Deposit Quality:** Stable deposits — CASA plus retail term deposits plus non-callable bulk TDs — were 79% of the book. About 84% of deposits come from urban markets, with Rajasthan (24%) and Maharashtra (20%) the largest states.
- **Cost of Funds:** Eased 43bps YoY to 6.41% (Q1FY27: 6.48%). Management intends to price deposits at an ~80–90bps premium to peers, retail deposit tenures have lengthened (peak rate bucket moved from 18 to 36 months) and deposit rates have not yet fully reflected the 125bps of repo cuts.
- The bank added 45 liability branches in Q2 (183 net touchpoints including 100-plus asset centres) and remains on track for ~100 liability branches in FY27. The network stands at **3,103 touchpoints** across 21 states and 4 union territories, serving over 1.28 crore customers with a workforce of ~61,000.

- **Asset Quality**

- Headline asset quality improved again, with GNPA down both YoY and QoQ; the market's concerns were a lower PCR and seasonally higher tractor-linked slippages. GNPA at **1.99%** is down 42bps YoY and 11bps QoQ; NNPA at **0.81%** is down 7bps YoY but up 5bps QoQ.
- **Slippages:** The slippage ratio improved to 2.6% from 3.3% a year ago, driven by recovery in unsecured businesses while secured slippages were stable. Q1 and Q2 are not strictly comparable because of twice-yearly tractor-loan billing (tractors are 12–13% of Wheels). Segment GNPAs: retail secured 2.4%, commercial banking 0.9%, inclusive banking 3.3% and digital unsecured 1.9%.
- **Coverage:** PCR stands at 83% including technical write-offs (Q1FY27: 85%) and 60% excluding them (64%); including contingency provisions and government-guarantee cover it is ~67% (~71%). Management said PCR is not a targeted metric and the fall reflects alignment of write-off policies. Around 8.4% of gross advances carry a government guarantee, with ~99% of the MFI book under CGFMU.
- **Credit Cost:** Annualised credit cost including the CGFMU premium fell to 0.8% from 1.2% a year ago. H1FY27 is running at ~73–74bps against full-year guidance of ~90bps. Collection efficiency on non-overdue MFI loans was 99.6%,

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and management saw no stress through September while flagging El Niño and drought risk in Central India.

- **Capital & Liquidity:** CRAR of 18.5% with Tier-I at 16.8% (Q1FY27: 18.9% / 17.1%) leaves ample growth headroom. Average LCR for the quarter was 116% (119%) and the credit-deposit ratio was 87%, or 80% excluding refinance. ICRA revised its outlook to Positive and affirmed AA.

Exhibit 1: Net Interest Income & YoY growth

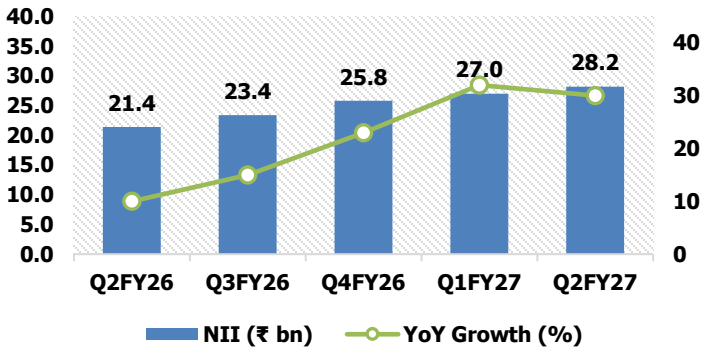


Exhibit 2: Net Profit & YoY growth

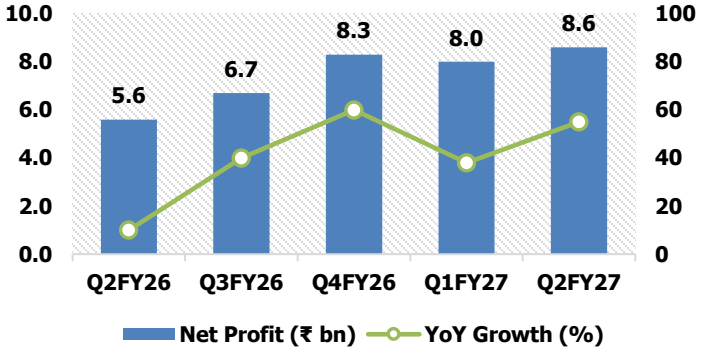


Exhibit 3: Asset Quality Trend

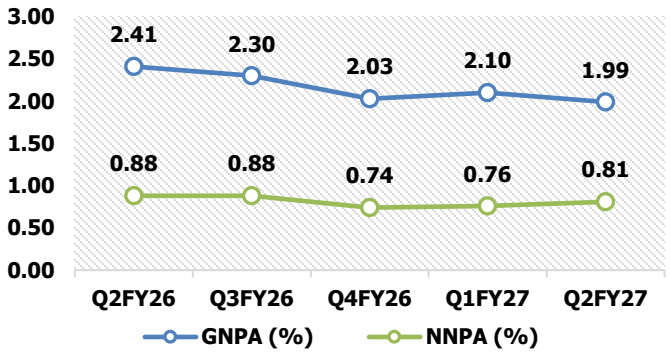
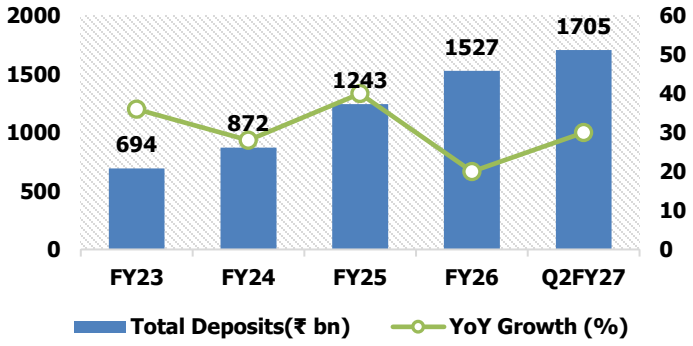


Exhibit 4: Total deposits & YoY growth



Source: Company, Way2wealth Research

Conference Call Key takeaways

- **Margins — dip is mix and seasonality, not cost of funds**
  - The 9bps QoQ NIM decline reflects a higher investment-book share and seasonality. About 70% of the book is fixed-rate, the 30% floating book reprices within 3–4 months, and the commercial banking book is fully floating. Management will hold an ~80–90bps deposit-rate premium to peers and gave no NIM guidance.
- **The RoA path — 1.8% ambition intact**
  - The medium-term RoA ambition of 1.8% (1.7% delivered) is to be reached through cost-to-assets improvement and credit cost, not margin. Possible insurance-fee regulation is a 7–8bps RoA risk, with forex, cards, trade finance and potential UPI MDR income as offsets.
- **Growth guidance**
  - Deposit growth is guided at ~25% (H1FY27: 29%) and overall growth at 2–2.5x nominal GDP. Wheels should grow 27–28% on festive demand; mortgages should reach ~20% growth by next year (MBL/LAP disbursements +17% YoY), with no standalone affordable-housing book.

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- **Credit cost and asset quality**
  - FY27 credit cost is guided at ~90bps (through-the-cycle 90–100bps) against ~73–74bps in H1FY27. Management said comparisons with 2022–23 slippages are invalid given the changed book mix, and Q1/Q2 slippages are not comparable because of tractor billing seasonality.
- **The unsecured cycle — growth is back, selectively**
  - Inclusive banking (largely MFI) grew 23% YoY with 99.6% collection efficiency and ~99% CGFMU cover. Personal loans grew 81% YoY off a low base and digital unsecured 14% QoQ; the card book grew only marginally despite 1.5 lakh new cards. Scorecard-led unsecured disbursements exceeded ₹500cr in the quarter.
- **Gold, commercial banking and renewables**
  - Gold loans roughly doubled YoY to ₹47bn (LTV ~75%); the +4% QoQ slowdown was attributed to the gold-price reversal hitting renewals and balance transfers. Commercial banking grew 39% YoY to ₹354bn and renewable-energy funding 116% YoY to ₹36bn.
- **AI, technology and productivity**
  - AI-enabled cross-sell contributed ~5% of disbursements and 19 voice bots originated ~₹500cr YTD at ~50% lower opex. The gold-loan agentic origination system is live in 40 branches and will extend to other products; over 95% of transactions are digital.
- **Liquidity, leadership and rating**
  - Average LCR was 116% and the credit-deposit ratio 80% excluding refinance. Anil Agarwal joined as Senior Executive Group Head (Commercial & Institutional Banking) and Amol Padhye as Chief Risk Officer. ICRA moved the outlook to Positive (AA affirmed).
- **Universal bank and long-term framing**
  - The bank holds in-principle approval for the universal bank transition; we expect the final application around February–March 2027, as indicated at Q1. Management reiterated its ambition to compound at 2–2.5x nominal GDP growth.

View

AU Small Finance Bank delivered a strong Q2FY27 on deposit-led growth. Net profit rose 53% YoY to ₹8.58bn on 32% NII growth, a 25% fall in provisions and 33bps of YoY margin expansion, with RoA at 1.7% and RoE at 16.1% — a ~365bps YoY improvement in RoE. Loans (+25%) and deposits (+29%) are growing six to ten percentage points ahead of the system, and CASA has crossed ₹500bn.

Three concerns: the 9bps QoQ NIM dip to 5.8%, a lower PCR (60% excluding technical write-offs versus 64% in Q1FY27) and tractor-linked slippages. We read the first as mix and seasonality, the second as a write-off policy alignment, and the third as seasonal. The more durable issue is cost: opex grew 26% YoY at a ~57.9% cost-to-income ratio, so the 1.8% RoA ambition rests on opex and credit cost rather than margin.

Against that, H1FY27 credit cost of ~73–74bps sits well below ~90bps guidance, ~25%-plus deposit growth gives a visible funding runway, and the universal bank transition would remove branch-authorisation and priority-sector friction. We trim FY27E/FY28E PAT by ~1% to ₹35.6bn/₹44.3bn for higher opex and a ~5.8% NIM and lower our target multiple to 3.2x from 3.5x.

We revised our BUY rating with a target price of ₹1,175 (from 1,230 earlier), valuing the bank at 3.2x FY28E ABV of ₹367 — implying ~39% upside from the CMP of ₹848.

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Website: www.way2wealth.com Email: research@way2wealth.com *Way2wealth Research is also available on Bloomberg WTWL<GO>*

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Quarterly Performance

(₹ bn)

Particulars (₹ bn)	Q2FY27	Q2FY26	YoY Change	Q1FY27	QoQ Change
Interest earned*	54.8	45.4	20.6%	52.3	4.8%
Interest expended*	26.6	24.0	10.8%	25.4	4.7%
Net interest income	**28.20**	**21.44**	**31.5%**	**26.96**	**4.6%**
NIM (%)	5.8	5.5	+33bps	5.9	-9bps
Non-interest income	7.70	7.13	8.0%	6.89	11.8%
Total income	35.90	28.57	25.7%	33.84	6.1%
Operating expenses	20.77	16.47	26.1%	19.49	6.6%
Pre-provision operating profit (PPOP)	**15.14**	**12.10**	**25.1%**	**14.35**	**5.5%**
Total provisions	3.59	4.81	-25.4%	3.71	-3.2%
PBT	11.55	7.29	58.4%	10.64	8.6%
Provision for taxes	2.97	1.68	76.8%	2.68	10.8%
PAT	**8.58**	**5.61**	**52.9%**	**7.96**	**7.8%**
Gross Advances	1,502.9	1,175.1	27.9%	1,404.6	7.0%
Gross Loan Portfolio	1,537.7	1,229.2	25.1%	1,442.5	6.6%
Deposits	1,704.6	1,325.4	28.6%	1,577.3	8.1%
BVPS (₹)	284.7	244.4		273.3	
RoA (%)	1.70	1.43		1.70	
RoE (%)	16.1	12.4		15.6	
EPS (₹)	11.46	7.52		10.63	
GNPA (%)	1.99	2.41	-42bps	2.10	-11bps
NNPA (%)	0.81	0.88	-7bps	0.76	+5bps

Source: Company, Way2wealth Research

Financials & Valuation

Per Share Data	FY26	FY27E	FY28E	FY29E
Book value per share, Rs	266.9	310.5	377.9	459.6
Adj. Book value per share, Rs.	249.3	303.4	367.3	446.9
Price/ Adj. Book value	3.5	2.9	2.37	1.9
EPS, Rs.	35.3	49.9	68.9	83.2
EPS Growth	25%	41%	38%	21%
P/E Ratio	24.6	17.4	12.6	10.4

Source: Company, Way2wealth Research

(₹ mn)

Profit & Loss	FY26	FY27E	FY28E	FY29E
Interest Income	1,86,363	2,28,635	2,80,298	3,33,401
Interest Expense	95,237	1,11,929	1,34,047	1,60,675
Net Interest Income	91,127	1,16,705	1,46,251	1,72,726
% Growth	***14%***	***28%***	***25%***	***18%***
Treasury Income	5,380	1,678	1,763	1,867
Other Income (non treasury)	24,399	31,973	36,263	41,102
Gross income	1,20,906	1,50,356	1,84,277	2,15,695
Employees Expenses	38,482	45,408	53,582	63,227
Other Operational Expenses	31,537	34,660	37,569	40,279
Operating Profit	50,888	70,288	93,126	1,12,189
% Growth	***11%***	***38%***	***32%***	***20%***
Tax	8,328	12,457	17,183	20,750
Loan Loss Provisions	16,147	20,461	24,394	29,187
Net Profit	26,413	37,370	51,549	62,251

Source: Company, Way2Wealth estimates. FY25–FY26 opex/provision split is a Way2Wealth estimate; reported revenue, PBT and PAT are as filed.

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(₹ mn)

Balance Sheet	FY26	FY27E	FY28E	FY29E
Capital	7,483	7,483	7,483	7,483
Reserves and Surplus	1,92,253	2,24,889	2,75,315	3,36,444
Deposits	15,26,612	18,77,732	23,09,611	28,40,821
Borrowings	1,38,715	1,20,116	1,28,042	1,36,602
Other Liabilities & Provisions	52,912	60,849	69,977	80,473
TOTAL	**19,17,975**	**22,91,069**	**27,90,427**	**34,01,823**
Cash & Balances with RBI	99,920	1,09,882	1,34,071	1,63,758
Balances with Banks & money at Call & Short Notice	21,649	19,978	24,377	29,774
Investments	4,57,396	5,31,052	6,47,084	7,91,134
Advances	13,01,174	15,87,432	19,36,667	23,62,733
Fixed Assets	9,536	10,179	10,802	11,381
Other Assets	28,301	32,546	37,427	43,042
TOTAL	**19,17,975**	**22,91,069**	**27,90,427**	**34,01,823**

Source: Company, Way2wealth Research

Business Ratios	FY26	FY27E	FY28E	FY29E
Credit-Deposit(%)	85.2	84.5	83.9	83.2
Investment / Deposit (%)	30.0	28.3	28.0	27.8
Cash / Deposit (%)	8.0	6.9	6.9	6.8
RoAA (%)	1.51	1.78	2.03	2.01
Core RoE (%)	14.2	17.3	20.0	19.9
Dividend Yield (%)	0.01	0.02	0.02	0.02
CASA ratio (%)	28.43	28.70	29.20	29.70

Source: Company, Way2wealth Research

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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 Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No 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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