February 27, 2025

AU Small Finance Bank Limited: [ICRA]AA (Stable) assigned/reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Basel II lower Tier II bonds	0.00	1,500.00	[ICRA]AA (Stable); assigned
Basel II lower Tier II bonds	260.00	260.00	[ICRA]AA (Stable); reaffirmed
Basel II lower Tier II bonds	100.00	100.00	[ICRA]AA (Stable); reaffirmed
Total	**360.0**	**1,860.0**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in AU Small Finance Bank Limited's (AU) established retail asset franchise with a track record of comfortable asset quality, healthy capitalisation and adequate earnings. The bank registered a compound annual growth rate of around 31% in its gross loan portfolio (GLP) during March 2018 to March 2024. ICRA notes that AU operates in the retail asset financing segment with the share of secured retail assets at 67% of the GLP as on December 31, 2024. It has more than two decades of experience in the vehicle finance segment and more than a decade of experience in the micro, small and medium enterprise (MSME) segment. While GLP growth moderated to 17% (annualised) in 9M FY2025, given the asset quality headwinds for some of its product offerings, AU continues to scale up its portfolio at a healthy pace.

ICRA takes note of the increase in gross non-performing assets (NPAs) to 2.31% as on December 31, 2024 (net NPAs of 0.91%) from 1.67% as on March 31, 2024 (net NPAs of 0.55%), though the overall asset quality remains comfortable. The bank has been gradually expanding its product offerings over the years, adding new products like gold loans, home loans, agri small and medium enterprise (SME) loans, personal loans, credit cards and business banking, etc. AU's ability to maintain the asset quality as it grows in these segments and diversifies into other segments remains a key monitorable.

As on December 31, 2024, AU's reported capital adequacy ratio[1] (CAR) of 19.9% (Tier I: 18.8%) was well above the regulatory requirement of 15.0% (Tier I: 7.5%). In ICRA's opinion, the bank is fairly capitalised to support its envisaged growth in the near to medium term. AU's earnings profile remains adequate with the return on assets (RoA) at 1.6% (annualised) in 9M FY2025 (1.5% in FY2024; 1.8% in FY2023). While ICRA expects the credit costs to remain slightly elevated in FY2025, the bank should be able to maintain an adequate earnings profile supported by the improving operating efficiency.

ICRA takes note of the healthy traction in deposit mobilisation by the bank over the years. Nevertheless, the share of current account savings account (CASA) remained relatively low at 31% as on December 31, 2024 (33% as on March 31, 2024; 38% as on March 31, 2023). Also, the share of bulk deposits[2] was quite high at 35% as on December 31, 2024 (36% as on March 31, 2024).

The Stable outlook reflects ICRA's expectation that the bank would be able to sustain a steady credit profile while expanding its scale of operations and maintaining adequate profitability and comfortable capitalisation.

---

[1] *Including profits for 9M FY2025*

[2] *Including certificate of deposits*

Key rating drivers and their description

Credit strengths

Established retail asset franchise with track record of comfortable asset quality – AU operates in the retail asset financing segment with the share of secured retail assets at 67% of the GLP as on December 31, 2024. Vehicle financing and micro business loans continue to dominate the retail asset portfolio, amounting to 32% and 33%, respectively, of the GLP as of December 2024. ICRA notes that AU has more than two decades of experience in the vehicle finance segment and more than a decade of experience in the MSME segment. It has been expanding its product offerings gradually over the years and added new products like gold loans, home loans, agri SME loans, personal loans, consumer durables, etc.

ICRA takes note of the increase in gross NPAs to 2.31% as on December 31, 2024 (net NPAs of 0.91%) from 1.67% as on March 31, 2024 (net NPAs of 0.55%), though the overall asset quality remains comfortable. The bank's ability to maintain the asset quality as it scales up the aforementioned relatively newer segments and diversifies into other segments remains monitorable.

Comfortable capitalisation profile – The bank's CAR of 19.9% (Tier I: 18.8%), as on December 31, 2024, was well above the regulatory requirement of 15.0% (Tier I: 7.5%). Also, ICRA draws comfort from AU's demonstrated track record of capital raising. The bank last raised ~Rs. 2,000 crore of equity capital in FY2023 through a qualified institutional placement, which helped it maintain a comfortable capitalisation profile while scaling up its portfolio. In ICRA's opinion, AU is fairly capitalised to support its envisaged growth in the near to medium term.

Adequate earnings profile – AU has been able to maintain an adequate earnings profile, supported by healthy yields and contained credit costs. The net interest margin remained healthy in 9M FY2025, partly supported by the addition of relatively higher-yielding loan assets, following the merger with Fincare Small Finance Bank Limited w.e.f. April 01, 2024. Also, the operating efficiency, which was impacted in FY2024 because of merger-related expenses and higher employee benefit expenses, has started improving as the bank continues to scale up its operations. Although credit costs increased in 9M FY2025 owing to the uptick in NPAs, the overall earnings profile remained adequate with an RoA of 1.6% (annualised) in 9M FY2025 (1.5% in FY2024; 1.8% in FY2023). While ICRA expects the credit costs to remain slightly elevated in FY2025, AU should be able to maintain an adequate earnings profile supported by the improving operating efficiency.

Credit challenges

Relatively moderate CASA and retail deposits – AU has successfully built a large deposit base, constituting 92% of its external borrowings[3] as on December 31, 2024, up from 72% as on March 31, 2020. The bank continues to scale up its deposit franchise and reported a healthy growth of 20% (annualised) in deposits in 9M FY2025, increasing the overall deposit base to Rs. 1,12,260 crore as on December 31, 2024 from Rs. 97,704 crore as on March 31, 2024, on a merged basis. AU's focus has been on building a stable retail deposit franchise. Nevertheless, the share of CASA remained relatively low at 31% as on December 31, 2024 (33% as on March 31, 2024; 38% as on March 31, 2023). Also, the share of bulk deposits[4] was quite high at 35% as on December 31, 2024 (36% as on March 31, 2024).

Environmental and social risks

Environmental considerations – Given AU's service-oriented business, its direct exposure to environmental risks as well as those stemming from regulations or policy changes is not material. While the bank is not materially exposed to physical climate risks, it indirectly encounters environmental risks through its portfolio of assets. Further, its lending typically involves short-to-medium-term durations, enabling it to adjust and incrementally invest in less environmentally vulnerable businesses.

[3] *Including deposits*

[4] *Including certificate of deposits*

Social considerations – Data security and customer privacy are among the key sources of vulnerability for AU, as any material lapse could be detrimental to its reputation and could invite regulatory censure. Customer preference is increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. However, subpar execution of information technology strategies and the inability to meet the customers' requirements adequately may result in more costs than benefits. On the positive side, AU contributes to the enhancement of financial inclusion by providing several products and services that are specifically targeted towards the marginalised sections of society and attempts to address and cater to social concerns. Prudent lending to such under-served segments could create growth opportunities. However, these opportunities must be seen in conjuncture with asset quality risks that could impact the bank's credit quality.

Liquidity position: Strong

The average liquidity coverage ratio was healthy at 115% for the quarter ended December 31, 2024 (123% for the quarter ended December 31, 2023). The net stable funding ratio (NSFR) stood at 109% as on December 31, 2024, remaining above the regulatory level of 100%. AU's liquidity profile is supported by its strong borrowing ability on account of its 'scheduled' status and healthy deposit renewal rate. The liquidity profile is also supported by the availability of funding lines from financial institutions.

Rating sensitivities

Positive factors – A significant scale-up in the operations and an improvement in deposit granularity, while maintaining healthy profitability and prudent capitalisation, could positively impact the rating.

Negative factors – Deterioration in the asset quality or profitability (RoA below 1.2%) on a sustained basis could negatively impact the rating. A decline in the capital cushions to less than 3%, in relation to the Tier I regulatory levels, on a sustained basis could also negatively impact the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[Banks and Financial Institutions]
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

AU Small Finance Bank (AU) is a scheduled commercial bank, which transitioned to a small finance bank (SFB) from an asset financing non-banking financial company (NBFC). While it was incorporated in 1996 as an NBFC, it commenced SFB operations on April 19, 2017, after receiving the final licence on December 20, 2016. The Reserve Bank of India (RBI) had granted in-principle approval in September 2015. AU was listed on the stock exchanges in July 2017 and was granted scheduled commercial bank status in November 2017.

During its early years of operations, AU (formerly AU Financiers (India) Limited) was primarily engaged in vehicle financing through funds raised from high-net-worth individuals in Jaipur. Over the years, it raised equity from private investors at regular intervals and expanded its product portfolio. AU has an established market position in Rajasthan and has expanded its operations to Maharashtra, Gujarat, and other states over the years. As on December 31, 2024, it had 2,400 touchpoints across 21 states and 4 Union Territories.

AU operates in the retail asset financing segment, with the vehicle financing segment accounting for 31.5% of its GLP as on December 31, 2024. Its product portfolio also includes micro business loans, home loans, loans to NBFCs, loans to real estate groups, business banking, agri-banking, credit cards, personal loans, etc. AU's liability product offerings include current accounts, savings accounts, recurring & term deposits, transaction banking, and insurance covers, among others.

AU reported a profit after tax (PAT) of Rs. 1,535 crore on a total asset base of Rs. 1,09,426 crore in FY2024 compared to a PAT of Rs. 1,428 crore on a total asset base of Rs. 90,216 crore in FY2023. It reported a PAT of Rs. 1,602 crore in 9M FY2025 on a total asset base of Rs. 1,43,044 crore compared to Rs. 1,164 crore and Rs. 1,01,176 crore, respectively, in 9M FY2024.

Key financial indicators

AU	FY2023	FY2024	9M FY2025
Total income	9,240	12,252	13,559
PAT	1,428	1,535	1,602
Total assets	90,216	1,09,426	1,43,044
CET I	21.8%	18.8%	18.8%
CRAR	23.6%	20.1%	19.9%
PAT/ATA	1.8%	1.5%	1.6%
Gross NPAs	1.66%	1.67%	2.31%
Net NPAs	0.42%	0.55%	0.91%

Source: AU, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for past three years

Instrument	Current (FY2025)					Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Feb 27,2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Basel II lower Tier II bonds	Long term	1,500.00	[ICRA]AA (Stable)	-	-	-	-	-	-	-	-
Basel II lower Tier II bonds	Long term	260.00	[ICRA]AA (Stable)	17-May-2024	[ICRA]AA (Stable)	-	-	-	-	-	-
Basel II lower Tier II bonds	Long term	100.00	[ICRA]AA (Stable)	17-May-2024	[ICRA]AA (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Basel II lower Tier II bonds	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance/Sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
Yet to be placed	Basel II lower Tier II bonds	-	-	-	1,500.00	[ICRA]AA (Stable)
Yet to be placed	Basel II lower Tier II bonds	-	-	-	26.00	[ICRA]AA (Stable)
INE519Q08194	Basel II lower Tier II bonds	Aug-23-2023	10.7%	23-Feb-2029	60.00	[ICRA]AA (Stable)
INE519Q08160	Basel II lower Tier II bonds	Jun-15-2023	10.75%	15-Dec-2028	49.00	[ICRA]AA (Stable)
INE519Q08178	Basel II lower Tier II bonds	Jul-05-2023	10.75%	05-Jan-2029	75.00	[ICRA]AA (Stable)
INE519Q08186	Basel II lower Tier II bonds	Aug-09-2023	10.75%	09-Feb-2029	50.00	[ICRA]AA (Stable)
INE519Q08152	Basel II lower Tier II bonds	Sep-30-2019	12.87%	30-Sep-2025	100.00	[ICRA]AA (Stable)

Source: AU

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Prateek Mittal
+91 33 7150 1100
prateek.mittal@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com

Chandni
+91 124 4545 844
chandni@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches