Ref. No.: AUSFB/SEC/2026-27/304
Date: November 18, 2026

To,

National Stock Exchange of India Ltd. Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai 400051, Maharashtra. **NSE Symbol: AUBANK**	**BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400001, Maharashtra. **BSE Scrip Code: 540611**

Dear Sir/Madam,

Sub: Credit Rating

We wish to inform that India Ratings and Research has affirmed IND A1+ rating to the certificate of deposits of the Bank on November 18, 2026.

Rating Rationale in this regard is enclosed herewith.

This is for your information and records.

Thanking You,

Yours faithfully,
For AU SMALL FINANCE BANK LIMITED

MANMOHAN PARNAMI
Digitally signed by MANMOHAN PARNAMI
Date: 2026.11.18 19:18:44 +05'30'

Manmohan Parnami
Company Secretary and Compliance Officer
Membership No.: F9999

Encl.: As above

India Ratings Affirms AU Small Finance Bank's Certificate of Deposits at 'IND A1+'

Nov 18, 2026 | AU Small Finance Bank Limited | Private Sector Bank

India Ratings and Research (Ind-Ra) has affirmed AU Small Finance Bank Limited's (AU SFB) debt instruments as follows:

Details of Instruments

Instrument Type	Regulator of Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (INR billion)	Rating Assigned along with Outlook/ Watch	Rating Action
Certificate of deposits*	RBI	-	-	7-365 days	30.0	IND A1+	Affirmed

*Unutilised

Analytical Approach

Ind-Ra continues to take a standalone view of AU SFB to arrive at the ratings.

Detailed Rationale of the Rating Action

The rating reflects AU SFB's fast-growing franchise, above-average profitability and adequate capital buffers. AU SFB benefits from its long operating track record and strong expertise in commercial retail assets, while gradually expanding into newer products. Adequate provisioning against stress in unsecured segments provides some cushion to asset quality, although the impact of weather-related factors and the interest-rate environment remains monitorable. The transition to a Universal Bank could strengthen its deposit franchise and brand recognition, lower funding costs over time, and provide regulatory benefits, including lower capital and priority-sector lending requirements.

However, its business profile remains constrained by limited asset diversification, with auto and micro-small and medium enterprises (MSME) loans still dominating the portfolio, alongside geographic concentration. While liability granularity has improved, reliance on bulk deposits remains relatively high, resulting in its cost of funds remaining above peers. The bank's ability to realise these liability-side benefits while containing operating costs remains a key rating monitorable. The bank's granular, higher-yielding retail asset franchise partly offsets the higher funding costs, although diversification into gold and unsecured lending remains modest. The bank's medium-term net interest margins (NIMs) could moderate in medium term, given that higher proportion of the loan book at fixed rate.

List of Key Rating Drivers

Strengths

- Well-positioned retail asset franchise
- Scaling secured products for market leadership
- Healthy capital base with earnings resilience
- Profitability buffers stable
- Asset quality stable, but economic sensitivity remains monitorable

Weaknesses

- Liability franchise relies on wholesale funding

Detailed Description of Key Rating Drivers

Well-Positioned Retail Asset Franchise: AU SFB is the largest small finance bank (SFB) in India in terms of assets. The bank has a demonstrated track record of three decades of catering to the unorganised customer segment, which has enabled it to maintain a balance between profitability and asset quality across economic cycles. AU SFB has a well-defined strategic business unit structure, enabling a clear focus on product segments, along with teams that possess local knowledge across operating geographies. However, its business profile remains constrained by limited asset diversification, with auto and MSME loans dominating the portfolio, alongside continuing geographic concentration in Rajasthan, though share of its home state's gross loan portfolio moderated to 25% in 2QFY27 (FY23: 35%, FY18: 54%).

Scaling Secured Products for Market Leadership: The bank's portfolio largely comprising retail secured portfolio (65.6%), commercial banking (23.0%), unsecured (7.5%), and others (3.9%). AU SFB had been operating in the retail secured segments and commercial segment even before turning into a bank. At end-2QFY27, its loans grew 25% yoy or 7% qoq to INR1.54 trillion, led by strong growth in auto loans (24% yoy /7% qoq), MFI (23% yoy /6% qoq) and commercial vehicles (CV; 30% yoy /6% qoq), while mortgage growth remained moderate at 12% yoy/2% qoq amid management's calibrated approach to affordable housing. The management expects mortgage growth of 13%-14% in FY27, accelerating to about 20% from FY28 as the southern and western franchises scale up. Ind-Ra expects the bank to continue to grow its loan book at above-industry rates due to its smaller scale, and it is in better position to grow compared to non-banking financial companies (NBFCs) due to the cost of fund advantage.

The bank also has a competitive advantage in terms of reach and local knowledge in Rajasthan. In addition, it has a reasonable presence in Madhya Pradesh and Maharashtra, which, along with Rajasthan, accounted for 53% of the loan portfolio in 2QFY27 (2QFY26: 55%; FY24: 62%). While this creates geographical concentration risk, the contribution of the south region stood 12% at end-2QFY27 (2QFY26: 10%); moreover, the bank has been focusing on expanding its franchise in newer geographies such as Uttar Pradesh, east India and southern markets, as well as broadening its product offerings.

Healthy Capital Base with Earnings Resilience: AU SFB has a demonstrated track record of equity capital raising along with maintaining healthy internal accruals. During FY23, AU SFB raised INR20 billion of equity capital through the qualified institutional placements and INR7.7 billion through Tier-II bonds. At end-2QFY27, the bank's capital buffers remained adequate, with shareholder funds of INR218.1 billion and capital adequacy ratio and Tier -1 ratio of 18.5% and 16.8%, respectively (FY26: 18.7%/16.9%, FY25: 20.1%/18.1%).

Profitability buffers Stable: AU SFB primarily focuses on the granular retail segment and MSME segment, which carry higher yields compared with its peers, but remain sensitive to higher interest rate environment and weather-related conditions. The bank's average cost of funds decreased to 6.1% in 1HFY27 (1HFY26: 6.7%) due to the cut in deposit rates in FY26 and inflow of FCNR(B) deposits of USD230 million, which helped bank to maintain a healthy net interest margin (NIM) of 5.8% in 2QFY27 (2QFY26: 5.5%). Although the current profitability remains healthy with ongoing return on assets (ROA) of 1.7% in 1HFY27 (FY26: 1.6%), margin pressure could persist, given the predominantly fixed-rate loan book (about 70%), limiting the ability to immediately pass on higher funding costs and repricing benefits should emerge with a lag, as floating-rate assets (about 30%) reset over three-to-six months, while higher yields on incremental disbursements should partly cushion funding-cost pressures.

On the liability side, to build and sustain the liability franchise, the bank needs to spend upfront on operating investments to create brand awareness. Its operating expenses remain elevated due to continued technology investments, which account for around 25% of expenditure. As a result, the cost-to-income ratio of the bank remained elevated at 57.7% in 2QFY27 (FY26: 57.9%; FY25: 56.5%). AU SFB had a healthy pre-provision operating profit (PPOP) buffer (PPOP/provision cost) of 4.2x in 2QFY27 (FY26:3.2x, FY25: 2.6x). AU SFB has adequate PPOP and capital adequacy buffers to absorb incremental asset quality pressures in a stress case scenario. Although potential regulatory changes affecting insurance fee income pose additional headwinds, growing contributions from forex, trade finance, credit cards, processing fees and transaction banking should partly diversify fee income.

Asset Quality Stable, but Economic Sensitivity Remains Monitorable: AU SFB lends to self-employed individuals who run small businesses, which are largely earn-and-pay in nature. Hence, the cash flows of such borrowers remain vulnerable to external economic shocks, inflationary pressures on ground and amid higher interest rate environment over medium term. At end-September 2026, 92.5% of the assets were secured in nature, based on the products.

AU SFB's asset quality continued to improve, with gross non-performing assets (NPA) declining 42bp yoy to 1.99% and net NPA falling 7bp yoy to 0.81%, despite a 31bp qoq increase in slippages to 2.66%, primarily due to seasonal stress in the tractor portfolio; slippages in the unsecured segments, however, moderated. Stress in unsecured segments has largely normalised, particularly across the microfinance institutions (MFIs) and credit card portfolios, contributing to lower credit costs, though the provision cover ratio (PCR, ex technical write-offs) at 59.7% in 2QFY27 remained lower than peers. Risks in the MFI portfolio remain well mitigated, with around 99% of the portfolio covered under the credit guarantee fund for micro units (CGFMU) guarantee. Asset quality across the retail and commercial portfolios also remains resilient. Nevertheless, potential asset-quality pressures arising from deficient rainfall and drought conditions remain monitorable over the near term. H1FY27 credit costs stood at around 73bp, below the FY27 guidance of 90bp, providing some buffer to absorb potential one-off stress during the remainder of the year. Ind-Ra will monitor steady-state asset quality trends with adequate vintage in the unsecured segment.

Liability Franchise relies on Wholesale Funding: The bank's deposit franchise remained supported by stronger mobilisation efforts led by USD230 million raised through FCNR(B) deposits. However, the current account savings account (CASA) ratio remained modest at 29.5% in 1HFY27 (FY26: 28.4%, FY25: 29.2%; FY24: 33.4%), driven by the overall industry trend of a shift in CASA towards term deposits due to the attractiveness of high rates offered to the depositors. More importantly, granular retail liabilities franchise strength (CASA+ retail term deposit / total deposit) remain weak at 58.5% in 1HFY27 (FY26: 57.3%; FY25: 61.6%) and the bank continue to depend on relatively higher share of bulk deposits at 38.0% in 1HFY27 (FY24: 33.5%), though it remains compensated by higher yields on its retail product portfolio. This high share remains moniotorable for asset liability mismatch, which could be triggered during tightened liquidity environment. The share of the 20 largest depositors to the total deposits of the bank stood at 13.33% in FY26 (FY25: 11.75%, FY24: 10.8%).

Over the longer term, AU SFB's transition to a universal bank is expected to strengthen brand recognition and facilitate greater diversification of its retail liability franchise, potentially supporting lower funding costs. The transition could also provide regulatory benefits through lower minimum capital requirements and priority-sector lending obligations, thereby supporting growth. However, deposit pricing will remain influenced by industry dynamics and competitive intensity, while stronger brand recognition should gradually reduce customer acquisition costs. The bank's ability to realise these liability-side and regulatory benefits remains a key rating monitorable.

Liquidity

Adequate: AU SFB operated with gap of 9.1% (of total inflows) in asset-liability tenors in the up-to-one-year bucket as of September 2026. The bank largely covers the gap with rollover of deposits and refinancing lines. It maintains adequate refinance funding lines from refinancing institutions at any given point in time. The bank also benefits from access to liquidity support mechanisms such as the liquidity adjustment facility, marginal standing facility, and the call money market, enabling it to efficiently manage short-term liquidity requirements. During 2QFY27, the bank had a quarterly average liquidity coverage ratio of 116%, which is above the regulatory requirement (100% for small finance banks).

Rating Sensitivities

Positive: Not applicable.

Negative: Events that could, individually or collectively, lead to a negative rating action are:

- a material decline in liquidity coverage ratio
- an absence of a sustained improvement in the liability profile or a material decline in the CASA deposits proportion or retail deposits.
- a significant drop in the capital buffers
- GNPAs as a percentage of the gross advances exceeding 5% on a sustained basis, thereby impacting the profitability

Any Other Information

Not applicable

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on AU SFB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

AU SFB is a scheduled commercial bank that commenced its operations as an SFB on 19 April 2017. As on 30 September 2026, the bank was the largest SFB in terms of gross advances and deposits. The bank had a total asset base of INR2,118 billion at end-September 2026, with 3,103 touchpoints across 21 states and four union territories, supported by a workforce of 60,947. The bank has shareholder funds of INR218.1 billion, deposit base of INR1,704.6 billion and gross advances of INR1,502.9 billion. AU SFB is listed on the National Stock Exchange of India Limited and BSE Ltd. The bank has received in-principle approval from the RBI for transitioning to universal bank.

Key Financial Indicators

Particulars	FY26	FY25
Total assets (INR million)	1,917,975	1,578,457
Total equity (INR million)	1,99,735	171,663
Net profit (INR million)	26,413	21,059
Return on average assets (%, annualised)	1.51*	1.58*
Equity/assets (%)	10.4	10.9
Tier 1 capital (%)	16.9	18.1
Source: AU SFB, Ind-Ra; * Return on average assets calculated on a merged basis		

Status of Non-Cooperation with Previous Rating Agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook						
	Rating Type	Rated Limits (INR billion)	Rating	21 November 2025	29 November 2024	9 September 2024	10 April 2024	19 March 2024	5 March 2024	20 July 2023
Tier II bonds	Long-term	5.0	-	WD	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Certificate of deposits	Short-term	30.0	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+

Disclosure on instruments / activities and names of regulators:

A list of products/activities or ratings of instruments falling under the purview of various financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by Ind-Ra on its website. A link to the same has been provided below for ready reference:

Rating Activities

Note: Kindly note that for activities or instruments falling under the purview of FSRs other than SEBI, the grievance/dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Certificate of deposit	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA AND POLICIES

Financial Institutions Rating Criteria

Rating Bank Subordinated and Hybrid Securities

The Rating Process

Evaluating Corporate Governance

DISCLAIMER

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