

## AU Small Finance Bank Limited

November 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>
Tier-II bonds	200.00	CARE AA; Stable
Tier-II bonds	300.00	CARE AA; Stable
Tier-II bonds	150.00	CARE AA; Stable
Certificate of deposit	300.00	CARE A1+

### Material event update

AU Small Finance Bank Limited (AUSFB), vide announcement to the stock exchanges on October 29, 2023, has informed that its Boards of Directors and the Board of Directors of Fincare Small Finance Bank Limited (FSFB), at their respective meetings held on October 29, 2023, have approved an all-stock scheme of amalgamation for the amalgamation of FSFB with and into AUSFB. The amalgamation is subject to the approval of shareholders of AUSFB and FSFB, respectively, and regulatory approvals including approval from Reserve Bank of India (RBI) and the Competition Commission of India (CCI). As a condition of the proposed amalgamation, the promoter of FSFB, viz., Fincare Business Services Ltd, shall infuse ₹700 crore into FSFB prior to the completion of the merger. The proposed amalgamation is expected to take place by end of FY24 subject to the requisite approvals and compliance with the conditions precedent.

The amalgamation would be through share exchange ratio of 579 equity shares of face value of ₹10 each of AUSFB, for every 2,000 equity shares of face value of ₹10 each of FSFB. Post merger, existing shareholders of FSFB shall hold around 9.9% in AUSFB.

Furthermore, all FSFB employees shall be a part of AUSFB post-merger and the Managing Director and Chief Executive Officer (MD & CEO) of FSFB would be designated as the Deputy CEO of AUSFB. The current nominee director of FSFB's board will join the AUSFB's Board as non-independent non-executive director.

The merger will increase the geographical reach of the AUSFB in south India, make the advances profile more granular and diversified due to addition of FSFB's customer base as well as introduce new product line, namely, microfinance. Although the proportion of unsecured loans would increase mainly due to addition of microfinance loan book, the overall proportion of unsecured loans to total advances is expected to remain low.

MFI and wheels are the major segments for FSFB and AUSFB, respectively, and will constitute 7.5% and 27.40% of gross advances of ₹75,570 crore of the merged company on a proforma basis as on September 30, 2023. On the liability side, the combined deposits would be around ₹85,196 crore with CASA proportion of deposits at 32.86% on a proforma basis. The proforma capital adequacy ratio (CAR) for merged entity would be comfortable at around 23.50% assuming primary capital infusion of ₹700 crore by the promoters of FSFB.

CARE Ratings Limited (CARE Ratings) has taken cognisance of the announcement and will continue to monitor the developments. However, as per CARE Ratings' assessment, this event is unlikely to have any negative impact on the credit profile of AUSFB going forward.

For the detailed press release of AUSFB, please [click here](#).

### About the company and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Banks	Private sector bank

#### AUSFB

AUSFB (erstwhile AU Financiers [India] Limited) was incorporated in 1996 as a non-banking finance company (NBFC) and started the commercial vehicle (CV) lending business in 2003 as a franchisee originator for HDFC Bank under 'Channel Business' and

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

later moved to lend on its own books since 2007. Over the years, the company forayed into the MSME/SME, housing loans and structured financing as well as other types of vehicle financing.

The company received the license of an Small Finance Bank (SFB) from the RBI in December 2016, commenced banking operations from April 2017, and received the status of a Scheduled Commercial Bank (SCB) in November 2017. Post becoming an SFB, it has expanded its product portfolio and geographical footprint. As on September 30, 2023, it has established operations across 1,042 banking touchpoints serving around 44.3 lakh customers across 21 states and three union territories (UTs) with an employee base of 28,523 employees.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
	12M	12M	6M
Total income	6,915	9,240	5,730
PAT	1,130	1,428	789
Total assets#	68,936	90,123	95,886
Net NPA (%)	0.50	0.42	0.60
ROTA (%)	1.88	1.80	1.70

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Note: All analytical ratios are as per CARE Ratings' calculations.

# Total assets and net worth adjusted by DTA, revaluation reserve and intangible assets.

### FSFB

FSFB (erstwhile Disha Microfin Limited) is an Small Finance Bank (SFB), which started its banking operations on July 21, 2017, post receipt of the final license from the RBI on May 12, 2017. The bank has been accorded the scheduled commercial bank status in April 2019. As on September 30, 2023, FSFB operates in 23 states/ UTs with 1,292 touchpoints. Gross advances stood at ₹10,541 crore consisting of microfinance (54%), micro business loans (MBL) (19%), home loans (14%) and gold loans (10%).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
	12M	12M	6M
Total income	1,648	1,971	1,360
PAT	9	104	219
Total assets	10,813	12,388	14,716
Net NPA (%)	3.55	1.30	0.77
ROTA (%)	0.09	0.89	3.23

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Note: All analytical ratios are as per CARE Ratings' calculations.

# Total assets and net worth adjusted by DTA, revaluation reserve and intangible assets.

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### About us:

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