AU Small Finance Bank Limited

January 14, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II Bonds	2,000.00	CARE AA; Stable	Assigned
Tier-II Bonds	200.00	CARE AA; Stable	Reaffirmed
Tier-II Bonds	300.00	CARE AA; Stable	Reaffirmed
Tier-II Bonds	150.00	CARE AA; Stable	Reaffirmed
Tier-II Bonds	150.00	CARE AA; Stable	Reaffirmed
Tier-II Bonds	100.00	CARE AA; Stable	Reaffirmed
Certificate of deposit	2,400.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to the debt instruments of AU Small Finance Bank Limited (AUSFB) reflect its consistent growth in business and asset size and its status as the largest SFB in India. The bank's scale and portfolio were further enhanced by the merger with Fincare Small Finance Bank (Fincare), effective April 1, 2024. Ratings also reflect AUSFB's growing deposit base, its diversified retail-focused portfolio predominantly comprising secured lending, and the inclusion of microfinance and gold loans following the merger with Fincare. Additionally, ratings factor in AUSFB's robust capitalisation supported by periodic equity infusions, stable asset quality despite a slight increase in gross non-performing assets (GNPA) in H1FY25 and strong profitability metrics.

However, ratings remain constrained by regional concentration of advances and deposits, notwithstanding some improvement post-merger, a comparatively lower current account-saving account (CASA) ratio, and a relatively moderate scale compared to mid-sized private sector banks.

CARE Ratings Limited (CARE Ratings) also notes AUSFB has applied to the Reserve Bank of India (RBI) for a transition to Universal Bank.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade:

- Sustained improvement in scale of operations and profitability accompanied by high product and geographical diversification.
- Scale-up in deposits with increasing CASA and retail deposits base, to bring it at par with mid-sized private sector banking peers.

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade:

- Deteriorating asset quality, with gross non-performing assets (GNPA) remaining over 4% on a sustained basis.
- Weakening in capital buffers, with capital adequacy ratio (CAR) falling below 17% on a sustained basis.
- Drop in profitability, with return on total assets (ROTA) falling below 1% on a sustained basis.

Analytical approach: Standalone

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Outlook: Stable

The stable outlook is on expectations that AUSFB will attain a profitable scale-up in advances and deposits over the medium term while maintaining stable asset quality and comfortable capitalisation levels.

Detailed description of key rating drivers:

Key strengths

Continuous growth momentum in business

The company commenced operations as Small Finance Bank (SFB) in April 2017 and attained the status of scheduled commercial bank (SCB) in November 2017. The merger with Fincare Small Finance Bank (Fincare) was successfully completed and effective from April 1, 2024. Over seven years as an SFB, AUSFB has significantly expanded its operations, growing from 474 touchpoints as on March 31, 2018, to 2,408 touchpoints (including new and converted branches from Fincare) across 21 states and four Union Territories, supported by a workforce of over 47,950 employees as on September 30, 2024. AUSFB, the largest SFB by asset size, has demonstrated consistent growth, with total assets increasing from ₹18,833 crore as on March 31, 2018, to ₹1,38,829 crore (reported) as on September 30, 2024. CARE Ratings expects the bank to report a healthy growth in its advances and deposits in the near-to-medium term.

Comfortable capitalisation

Despite substantial growth in loan book, AUSFB continues to be sufficiently capitalised, helped by regular capital infusions through qualified institutional placement (QIP), latest being ₹2,000 crore in August 2022, and consistently healthy internal accruals. It reported a capital adequacy ratio (CAR) of 18.51% (March 31, 2024: 20.06% %) and Tier-I CAR of 17.38% (March 31, 2024: 18.80%) as on September 30, 2024, well above the minimum regulatory requirement of 15% and 7.5%, respectively. Going forward, CARE Ratings expects AUSFB to continue maintaining a comfortable buffer above the regulatory capital thresholds going forward.

Consistent track record of healthy earnings performance

AUSFB primarily focuses on the retail segment for its advances, entailing higher yields. As a result, despite its relatively higher cost of funds, its net interest margin (NIM) ranges between 5% and 6%, which are higher than universal banks. The NIM improved in H1FY25 post the merger of Fincare due to addition of microfinance book.

Net interest income (NII) is growing consistently, aligned with the expansion of its advances and deposits. For the year-ended March 31, 2024 NII saw steady growth, driven by a 29% year-over-year (y-o-y) increase in interest income, supported by a 25% y-o-y growth in gross advances. Additionally, non-interest-income witnessed a significant surge of 69% y-o-y in FY24 driven by fee income, treasury income, third-party product distribution and credit cards. The bank's operating expenses increased by 30% reflecting its active spending on business expansion, capacity building and investments in digital initiatives, which resulted in pre-provision operating profit (PPOP) growing by 21% for FY24 compared to FY23. However, credit costs increased notably in FY24 due to higher slippages (majorly in credit cards and personal loans) and additional provisions made by AUSFB. Profit after tax (PAT) saw a marginal increase of 7% for FY24 post an exceptional item whereas ROTA moderated to 1.54% post exceptional item (FY23: 1.80%).

Post merger, AUSFB reported a net profit of ₹1,074 crore on a total income of ₹8,827 crore with ROTA of 1.62% (annualised) for H1FY25 even with significant increase in credit cost due to deterioration of asset quality. CARE Ratings expects AUSFB to continue maintaining healthy profitability over the medium term.

Asset quality remains monitorable

Historically, AUSFB has been able to manage its asset quality at comfortable levels, despite having significant exposure to segments that are more vulnerable to economic downturns. The bank's asset quality was impacted during COVID-19 and has improved significantly with the bank reporting GNPA ratio at 1.67% as on March 31, 2024.

In H1FY25, the asset quality saw deterioration across segments especially in unsecured loans (credit card, micro finance and personal loan) with AUSFB reporting GNPA of 1.98% as on September 30, 2024, aligned with industry trend and is monitorable. Post merger, micro finance which is a relatively risky segment has become an important segment for AUSFB contributing 7.3% to its total gross loan portfolio as on September 30, 2024, and witnessed an increase in delinquencies in H1FY25. However, CARE Ratings notes the company's stated intent to keep the proportion of unsecured book will be limited to 15-20% with microfinance book capped at 10% of loan portfolio (including securitisation) in the medium term, which provides comfort.

The bank's ability to manage its asset quality in the current challenging environment remains a key monitorable.

Key weaknesses

Relatively lower CASA proportion

AUSFB transformed its liabilities profile by developing deposit base since becoming a Small Finance Bank in FY18. Deposit franchise has consistently increased, with deposits increasing from ₹7,923 crore as on March 31, 2018, to ₹87,812 crore as on March 31, 2024. The bank's CASA stood at 33.41% March 31, 2024 (March 31, 2023: 38.43%). It continues to granularise deposit book with a focus on increasing retail deposits. Post merger, AUSFB reported a total deposit of ₹1,12,260 as on December 31, 2024 (provisional), of which CASA was at 30.64% (32.38% as on September 30, 2024). CASA plus retail term deposits stood at 67% as on September 30, 2024.

While CASA is increasing in absolute terms, CASA ratio has shown a declining trend aligned with the industry and remains relatively lower in comparison to a few mid-sized private sector banks. The scaling-up of CASA over next few years will be a key rating monitorable.

Regional concentration and relatively moderate size

AUSFB remains exposed to regional concentration risks as top three states account for over 54% of gross advances and 56% deposits of AUSFB as on September 30, 2024. However, concentration of advances exposure to Rajasthan, which is the largest state, reduced from 52% as on March 31, 2018, to 27% as on September 30, 2024. While the recent merger has enabled AUSFB to diversify geographically in the southern states of India, the scale up is yet to materialise. Although AUSFB has seen strong growth in the last few years, its merged asset size continues to be relatively smaller compared to private sector universal banks in India.

Liquidity: Adequate

AUSFB's asset liabilities maturity (ALM) profile as on September 30, 2024, had no negative cumulative mismatches per the structural liquidity statement in time buckets up to three months. To manage gaps in an optimum manner, the bank has been focusing on increasing granular deposit, where retail term deposits and CASA contributed 67% of total deposits. Post merger, AUSFB's average liquidity coverage ratio (LCR) stood at 112% for the quarter-ended September 30, 2024, against the regulatory requirement of 100%. The bank maintained excess statutory liquidity ratio (SLR) and high-quality non-SLR instruments, which can be readily used for repo or liquidated in the secondary market. The bank can also resort to Rupee borrowing as corporate deposits (CDs), term money, portfolio securitisation, and re-finance from domestic financial institutions in case of liquidity need. The bank also has access to facilities such as liquidity adjustment facility (LAF), marginal standing facility (MSF), and call money market to meet liquidity requirements.

Environment, social, and governance (ESG) risks

Environmental

- The bank sourced 11,177 green fixed deposits amounting to ₹725 crore upto September 2024.
- ~₹291 crore deployed in Green Assets Lending upto September 2024.

Social

- Skill development is the bank's flagship project. Till Q2FY25, 23,560 youth were trained, of which 77% were linked to employment across 16 centres of Rajasthan.
- Rural Sports Initiative Project, aimed at holistic development of rural children, is live across 62 locations with over 8,100 children benefitted across seven sports.
- The bank supports women entrepreneurs for livelihood generation and capacity building by providing support and access. To date, over 2,920 women are engaged and 1,215 are nurtured.

Governance

- The bank has 70% independent directors and 20% women directors.
- Board committee on sustainability is driving the sustainability agenda.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Bank
Financial Ratios - Financial Sector
Rating Basel III - Hybrid Capital Instruments issued by Banks
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Other bank

AUSFB

AUSFB (erstwhile AU Financiers [India] Limited) was incorporated in 1996 as an NBFC and started the Vehicle lending business in 2003 as a franchisee originator for HDFC Bank under 'Channel Business' and later moved to lend on its own books since 2007. Over the years, the company forayed in MSME, housing loans, and structured financing and other types of vehicle financing.

The company received the license of SFB from the RBI in December 2016 and commenced banking operations from April 2017; it received the status of Scheduled Commercial Bank (SCB) in November 2017. Post becoming an SFB, it expanded its product portfolio and geographical footprint. Fincare was merged with AUSFB effective from April 1, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
	12M (Standalone)	12M (Standalone)	6M (Merged)
Total income	9,240	12,301	8,827
PAT	1,428	1,535	1,074
Total assets#	90,123	1,09,310	1,38,556
Net NPA (%)	0.42	0.55	0.75
ROTA (%)	1.80	1.54	1.62

A: Audited; UA: Unaudited. Note: These are latest available financial results.
Note: All analytical ratios are per CARE Ratings' calculations.
#Total assets and net worth adjusted by DTA, revaluation reserve, and intangible assets.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds- Tier-II bonds	INE519Q08152	30-Sep-19	12.87%	30-Sep-25	100	CARE AA; Stable
Bonds- Tier-II bonds	INE519Q08178	05-Jul-23	10.75%	05-Jan-29	75	CARE AA; Stable
Bonds- Tier-II bonds	INE519Q08186	09-Aug-23	10.75%	09-Feb-29	50	CARE AA; Stable
Bonds- Tier-II bonds	INE949L08442	03-Aug-22	9.30%	03-Aug-32	350	CARE AA; Stable
Bonds- Tier-II bonds	INE949L08434	03-Aug-22	9.30%	13-Aug-32	100	CARE AA; Stable
Bonds- Tier-II bonds	INE949L08426	03-Aug-22	9.30%	23-Aug-32	50	CARE AA; Stable
Bonds- Tier-II bonds	Proposed	-	-	-	2,175	CARE AA; Stable
Certificate of deposit	INE949L16DE1	02-Dec-24	8.05%	02-Dec-25	250	CARE A1+
Certificate of deposit	INE949L16CN4	31-Jul-24	7.8%	03-Feb-25	50	CARE A1+
Certificate of deposit	INE949L16CN4	31-Jul-24	7.8%	03-Feb-25	75	CARE A1+
Certificate of deposit	INE949L16CN4	31-Jul-24	7.8%	03-Feb-25	25	CARE A1+
Certificate of deposit	INE949L16CN4	31-Jul-24	7.8%	03-Feb-25	50	CARE A1+
Certificate of deposit	INE949L16CF0	06-Mar-24	8.17%	05-Mar-25	100	CARE A1+
Certificate of deposit	INE949L16CG8	07-Mar-24	8.17%	06-Mar-25	100	CARE A1+
Certificate of deposit	INE949L16CH6	11-Mar-24	8.15%	10-Mar-25	50	CARE A1+
Certificate of deposit	INE949L16CH6	11-Mar-24	8.15%	10-Mar-25	200	CARE A1+
Certificate of deposit	INE949L16CT1	29-Aug-24	7.94%	19-Aug-25	50	CARE A1+
Certificate of deposit	INE949L16CT1	29-Aug-24	7.94%	19-Aug-25	50	CARE A1+
Certificate of deposit	INE949L16CT1	29-Aug-24	7.94%	19-Aug-25	150	CARE A1+
Certificate of deposit	INE949L16CI4	13-Mar-24	8.15%	20-Feb-25	50	CARE A1+
Certificate of deposit	INE949L16CI4	13-Mar-24	8.15%	20-Feb-25	200	CARE A1+
Certificate of deposit	INE949L16CZ8	30-Oct-24	7.75%	21-May-25	100	CARE A1+
Certificate of deposit	INE949L16CZ8	30-Oct-24	7.75%	21-May-25	75	CARE A1+
Certificate of deposit	INE949L16CZ8	22-Nov-24	7.8%	21-May-25	200	CARE A1+
Certificate of deposit	INE949L16CS3	29-Aug-24	7.94%	25-Aug-25	200	CARE A1+
Certificate of deposit	INE949L16CP9	31-Jul-24	7.8%	28-Jan-25	100	CARE A1+
Certificate of deposit	INE949L16CP9	31-Jul-24	7.8%	28-Jan-25	100	CARE A1+
Certificate of deposit	INE949L16CY1	30-Oct-24	7.9%	28-Oct-25	25	CARE A1+
Certificate of deposit	INE949L16CY1	30-Oct-24	7.9%	28-Oct-25	50	CARE A1+
Certificate of deposit	INE949L16CY1	30-Oct-24	7.9%	28-Oct-25	150	CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (23-Mar-22)
2	Certificate Of Deposit	ST	2400.00	CARE A1+	1)CARE A1+ (22-Oct-24) 2)CARE A1+ (14-Aug-24) 3)CARE A1+ (10-Apr-24)	1)CARE A1+ (15-Mar-24) 2)CARE A1+ (11-Mar-24) 3)CARE A1+ (03-Oct-23) 4)CARE A1+ (04-Apr-23)	1)CARE A1+ (27-Jul-22)	1)CARE A1+ (23-Mar-22)
3	Bonds-Tier II Bonds	LT	200.00	CARE AA; Stable	1)CARE AA; Stable (22-Oct-24) 2)CARE AA; Stable (14-Aug-24) 3)CARE AA; Stable (10-Apr-24)	1)CARE AA; Stable (15-Mar-24) 2)CARE AA; Stable (11-Mar-24) 3)CARE AA; Stable (03-Oct-23) 4)CARE AA; Stable (04-Apr-23)	1)CARE AA; Stable (27-Jul-22)	1)CARE AA; Stable (23-Mar-22)
4	Bonds-Tier II Bonds	LT	300.00	CARE AA; Stable	1)CARE AA; Stable (22-Oct-24) 2)CARE AA; Stable (14-Aug-24)	1)CARE AA; Stable (15-Mar-24) 2)CARE AA; Stable	1)CARE AA; Stable (27-Jul-22)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
					3)CARE AA; Stable (10-Apr-24)	(11-Mar-24) 3)CARE AA; Stable (03-Oct-23) 4)CARE AA; Stable (04-Apr-23)		
5	Bonds-Tier II Bonds	LT	150.00	CARE AA; Stable	1)CARE AA; Stable (22-Oct-24) 2)CARE AA; Stable (14-Aug-24) 3)CARE AA; Stable (10-Apr-24)	1)CARE AA; Stable (15-Mar-24) 2)CARE AA; Stable (11-Mar-24) 3)CARE AA; Stable (03-Oct-23) 4)CARE AA; Stable (04-Apr-23)	1)CARE AA; Stable (27-Jul-22)	-
6	Bonds-Lower Tier II	LT	-	-	1)Withdrawn (22-Oct-24) 2)CARE AA; Stable (14-Aug-24) 3)CARE AA; Stable (10-Apr-24)	-	-	-
7	Bonds-Tier II Bonds	LT	150.00	CARE AA; Stable	1)CARE AA; Stable (22-Oct-24) 2)CARE AA; Stable (14-Aug-24)	-	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
					3)CARE AA; Stable (10-Apr-24)			
8	Bonds-Tier II Bonds	LT	100.00	CARE AA; Stable	1)CARE AA; Stable (22-Oct-24) 2)CARE AA; Stable (14-Aug-24) 3)CARE AA; Stable (10-Apr-24)	-	-	-
9	Bonds-Tier II Bonds	LT	2000.00	CARE AA; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier II Bonds	Complex
2	Certificate Of Deposit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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