AU Small Finance Bank Limited

October 16, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II Bonds	2,000.00	CARE AA; Stable	Reaffirmed
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Tier-II Bonds	-	-	Withdrawn
Certificate of deposit	3,900.00 (enhanced from 2,400)	CARE A1+	Reaffirmed

Details of instruments in Annexure-1.

[&]Tier-II bonds under Basel-III are characterised by a 'point of non-viability' (PONV) trigger due to which the investor may suffer a loss of principal. The PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus, enable it to continue as a going concern. In addition, difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier-I (CET I) capital of the bank should be considered the most appropriate way to prevent the bank from turning non-viable.

Rationale and key rating drivers

Ratings assigned to debt instruments of AU Small Finance Bank Limited (AUSFB) reflect consistent growth in business and asset base, underscoring its position as the largest small finance bank (SFB) in India. Ratings also derive strength from the bank's comfortable capitalisation, supported by periodic equity infusions and healthy profitability. However, there has been slight moderation in return on assets in FY25 (FY refers to April 01 to March 31) and Q1FY26 due to higher credit costs following the integration of the Fincare Small Finance Bank (Fincare) portfolio from April 01, 2024, and its credit costs are likely to remain elevated in FY26. Asset quality remains monitorable as there has been an uptick in gross non-performing assets (GNPA), primarily driven by stress in the microfinance and credit card segments.

However, ratings remain constrained by high, though reducing, regional concentration of advances and deposits, a relatively lower current account-saving account (CASA) ratio, and moderate scale compared to mid-sized private sector banks.

CARE Ratings Limited (CareEdge Ratings) also notes AUSFB has received in-principle approval from the Reserve Bank of India (RBI) for a transition to Universal Bank.

CareEdge Ratings has withdrawn the rating assigned to tier-II bonds (Basel III; ISIN No. INE519Q08152) of AUSFB with immediate effect in line with CareEdge Ratings withdrawal policy, as the company has redeemed the instrument and there is no amount outstanding under the issue.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating actions/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 actions/downgrade:

- Deteriorating asset quality, with 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 ratings assigned are available at www.careratings.com and other CARE Ratings Limited'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 SFB in April 2017 and attained the status of scheduled commercial bank (SCB) in November 2017. Over eight years as an SFB, AUSFB has significantly expanded its operations, growing from 474 touchpoints as on March 31, 2018, to 2,505 touchpoints across 21 states and four Union Territories, supported by a workforce of over 53,235 employees as on June 30, 2025. 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 ₹160,813 crore (reported) as on June 30, 2025. CareEdge Ratings expects the bank to report a healthy growth in its advances and deposits in the near-to-medium term.

Comfortable capitalisation
AUSFB remains adequately capitalised, supported by strong internal accruals and periodic capital infusions, including ₹2,000 crore in FY23 and ₹770 crore raised through Tier-II bonds in FY25. As on June 30, 2025, the bank reported a capital to risk-weighted assets ratio (CRAR) of 19.42% (March 31, 2025: 20.06%) and a Tier-I capital adequacy ratio (CAR) of 17.54% (March 31, 2025: 18.14%), well above the regulatory requirements of 15% and 7.5%, respectively. CareEdge Ratings anticipates the bank will continue to maintain a comfortable capital buffer over the regulatory thresholds in the near term.

Healthy profitability
AUSFB primarily focuses on the retail segment, which carries higher yields. Despite its relatively higher cost of funds, the bank continues to maintain a strong net interest margin (NIM) in the range of 5%–6%, higher than that of universal banks. NIM further improved following the addition of the higher-yielding Fincare portfolio, which included microfinance.

Although profitability improved on absolute basis due to increase in the bank’s size, the ROTA fell to 1.48% and 1.46% in FY25 and Q1FY26, respectively, against 1.54% in FY24. The moderation in return ratios was primarily driven by elevated credit costs and interest income reversals arising from higher slippages in the microfinance and credit card segments. Credit costs are expected to remain elevated in FY26 due to continued stress in the microfinance portfolio. However, CareEdge Ratings expects AUSFB to maintain healthy profitability over the medium term.

Asset quality remains monitorable
Historically, AUSFB has managed its asset quality at comfortable levels across cycles, despite having large exposures to segments more vulnerable to economic downturns. However, in FY25 and Q1FY26, asset quality weakened across segments, particularly in unsecured products such as credit cards, personal loans and microfinance, with GNPA rising to 2.47% as on June 30, 2025, compared to 1.78% in June 2024. The net stressed assets (net stressed assets = Net NPA +Net Std. Restructured + Net Security Receipts) to net worth ratio also deteriorated marginally from 6.13% as on March 31, 2024 to 6.92% as on June 30, 2025. In response to the stress in the microfinance portfolio, the bank reduced its microfinance exposure from 8% of the loan book in June 2024 to 5.3% as on June 30, 2025.

CareEdge Ratings notes that the bank’s secured book stood at a healthy 92% as on June 30, 2025, and its stated intent to cap the unsecured portfolio at 10% over the medium term provides comfort.

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

Key weaknesses
Relatively lower CASA proportion
AUSFB’s deposit franchise has strengthened steadily since its conversion into a bank, with deposits rising 21% YoY to ₹1,32,510 crore as on September 30, 2025. The bank’s CASA ratio stood at 29.40% as on September 30, 2025 (March 31, 2025: 29.17%), and it continues to focus on granularising its deposit base by increasing the share of retail deposits. CASA plus retail term deposits accounted for a healthy 62% of total deposits as on June 30, 2025.

While CASA has grown in absolute terms, the CASA ratio has trended downward broadly in line with the industry and remains lower than that of mid-sized private sector banks, resulting in a relatively higher cost of funds. The bank's ability to scale up CASA over the next few years and reduction in cost of deposits 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 56% of gross loan portfolio and 55% deposits of AUSFB as on June 30, 2025. However, the bank has significantly reduced its reliance on Rajasthan, its largest state, with advances exposure declining from 52% as on March 31, 2018, to 26% as on June 30, 2025. The recent merger has provided AUSFB access to southern markets, aiding geographic diversification, although meaningful scale-up in these regions is yet to materialise. Despite strong growth in recent years, AUSFB's asset base remains relatively smaller compared to private sector universal banks in India.

Liquidity: Adequate

AUSFB's liquidity profile remained adequate with no negative cumulative mismatches in time buckets up to one month per asset liability maturity (ALM) statement as on June 30, 2025. AUSFB's average liquidity coverage ratio (LCR) stood at 123% and Net Stable Funding Ration (NSFR of 110%) for the quarter-ended June 30, 2025, 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

Although AUSFB's service-oriented business model limits its direct exposure to environmental risks, credit risk may arise if operations of asset class of the portfolio are adversely impacted by environmental factors. The bank has a well-articulated board approved ESG policy and institutionalised quarterly ESG reviews through Board level Sustainability Committee.

Social risks in the form of cybersecurity threat or customer data breach or mis-selling practices can affect AUSFB's regulatory compliance and reputation, and hence, remain a key monitorable.

The Board comprises 12 Directors, nine of whom are Independent Directors including two women Directors.

Applicable criteria

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

About the company and industry

Industry classification

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

AUSFB (erstwhile AU Financiers [India] Limited) was incorporated in 1996 as a non-banking finance company (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 01, 2024.

AUSFB Standalone

Brief Financials (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)	Q1FY26 (UA)
Total income	12,301	18,590	5,189
PAT	1,535	2,106	581
Total assets	109,310	157,610	160,578
Net NPA (%)	0.60	0.74	0.88
ROTA (%)	1.54	1.48	1.46
Interest coverage (times)	NM	NM	NM

A: Audited UA: Unaudited; NM: Not meaningful; Note: these are latest available financial results
Net worth and total assets are net of intangible assets, revaluation reserve and deferred tax
All calculations per CareEdge Ratings.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

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 and Rating Outlook
Bonds- Tier-II bonds	INE519Q08152	30-09-2019	12.87%	30-09-2025	-	Withdrawn
Bonds- Tier-II bonds	INE519Q08178	05-07-2023	10.75%	05-01-2029	75.00	CARE AA; Stable
Bonds- Tier-II bonds	INE519Q08186	09-08-2023	10.75%	09-02-2029	50.00	CARE AA; Stable
Bonds- Tier-II bonds	INE949L08442	03-08-2022	9.30%	03-08-2032	350.00	CARE AA; Stable
Bonds- Tier-II bonds	INE949L08434	03-08-2022	9.30%	13-08-2032	100.00	CARE AA; Stable
Bonds- Tier-II bonds	INE949L08426	03-08-2022	9.30%	23-08-2032	50.00	CARE AA; Stable
Bonds- Tier-II bonds	INE949L08459	28-03-2025	9.20%	28-03-2030	770.00	CARE AA; Stable
Bonds- Tier-II bonds	Proposed	-	-	-	1,405.00	CARE AA; Stable
Certificate of deposit	INE949L16DL6	01-04-25	7.25%	25-03-26	500.00	CARE A1+
Certificate of deposit	INE949L16DK8	01-04-25	7.31%	27-02-26	250.00	CARE A1+
Certificate of deposit	INE949L16DE1	01-04-25	7.45%	02-12-25	250.00	CARE A1+
Certificate of deposit	INE949L16DP7	30-05-25	6.85%	29-05-26	200.00	CARE A1+
Certificate of deposit	INE949L16DP7	02-06-25	6.85%	29-05-26	100.00	CARE A1+
Certificate of deposit	INE949L16DQ5	29-08-25	6.70%	28-08-26	50.00	CARE A1+
Certificate of deposit	INE949L16DR3	09-09-25	6.84%	15-06-26	300.00	CARE A1+
Certificate of deposit	INE949L16DT9	22-09-25	6.75%	18-09-26	50.00	CARE A1+
Certificate of deposit	INE949L16DT9	22-09-25	6.75%	18-09-26	50.00	CARE A1+
Certificate of deposit	INE949L16DT9	25-09-25	6.80%	18-09-26	250.00	CARE A1+
Certificate of deposit	INE949L16DT9	25-09-25	6.80%	18-09-26	25.00	CARE A1+
Certificate of deposit	INE949L16DT9	30-09-25	6.80%	18-09-26	200.00	CARE A1+
Certificate of deposit	Proposed	-	-	Upto 365 days	1,675.00	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 2025-2026	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
1	Certificate Of Deposit	ST	3900.00	CARE A1+	-	1)CARE A1+ (14-Jan-25) 2)CARE A1+ (22-Oct-24) 3)CARE A1+ (14-Aug-24) 4)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)
2	Bonds-Tier II Bonds	LT	200.00	CARE AA; Stable	-	1)CARE AA; Stable (14-Jan-25) 2)CARE AA; Stable (22-Oct-24) 3)CARE AA; Stable (14-Aug-24) 4)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)
3	Bonds-Tier II Bonds	LT	300.00	CARE AA; Stable	-	1)CARE AA; Stable (14-Jan-25) 2)CARE AA; Stable (22-Oct-24)	1)CARE AA; Stable (15-Mar-24) 2)CARE AA; Stable (11-Mar-24)	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 2025-2026	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
						3)CARE AA; Stable (14-Aug-24) 4)CARE AA; Stable (10-Apr-24)	3)CARE AA; Stable (03-Oct-23) 4)CARE AA; Stable (04-Apr-23)	
4	Bonds-Tier II Bonds	LT	150.00	CARE AA; Stable	-	1)CARE AA; Stable (14-Jan-25) 2)CARE AA; Stable (22-Oct-24) 3)CARE AA; Stable (14-Aug-24) 4)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)
5	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (22-Oct-24) 2)CARE AA; Stable (14-Aug-24) 3)CARE AA; Stable (10-Apr-24)	-	-
6	Bonds-Tier II Bonds	LT	150.00	CARE AA; Stable	-	1)CARE AA; Stable (14-Jan-25) 2)CARE AA; Stable (22-Oct-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 2025-2026	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
						3)CARE AA; Stable (14-Aug-24) 4)CARE AA; Stable (10-Apr-24)		
7	Bonds-Tier II Bonds	LT	-	-	-	1)CARE AA; Stable (14-Jan-25) 2)CARE AA; Stable (22-Oct-24) 3)CARE AA; Stable (14-Aug-24) 4)CARE AA; Stable (10-Apr-24)	-	-
8	Bonds-Tier II Bonds	LT	1500.00	CARE AA; Stable	-	1)CARE AA; Stable (14-Jan-25)	-	-
9	Bonds-Tier II Bonds	LT	500.00	CARE AA; Stable				

ST: Short term, LT: Long 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 lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CareEdge 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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