

## AU Small Finance Bank Limited

December 01, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Infrastructure bonds	1,000.00	CARE AA; Stable	Assigned
Tier-II bonds	770.00 (Reduced from 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	125.00 (Reduced from 150.00)	CARE AA; Stable	Reaffirmed
Tier II Bonds	-	-	Withdrawn
Certificate of deposit	3,900.00	CARE A1+	Reaffirmed

Details of instruments in Annexure-1.

### 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 H1FY26 due to higher credit costs following the integration of the Fincare Small Finance Bank (Fincare) portfolio from April 01, 2024, with credit costs 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-principal approval from the Reserve Bank of India (RBI) for a transition to Universal Bank.

CareEdge Ratings has withdrawn the rating assigned to the proposed Tier-II bonds of AUSFB with immediate effect, in line with its withdrawal policy. The withdrawal follows a request from AUSFB, as the instruments were only proposed, remained unutilised, and have no outstanding amount as on date.

### 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

### Outlook: Stable

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

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

## 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 2,626 touchpoints across 21 states and four Union Territories, supported by a workforce of over 57,786 employees as on September 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 ₹165,542 crore (reported) as on September 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 September 30, 2025, the bank reported a capital to risk-weighted assets ratio (CRAR) of 18.78% (March 31, 2025: 20.06%) and a Tier-I CAR of 16.94% (March 31, 2025: 18.14%), well-above regulatory requirements of 15% and 7.5%, respectively. CareEdge Ratings anticipates the bank will continue to maintain a comfortable capital buffer over 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 1.41% in FY25 and H1FY26, respectively, against 1.54% in FY24. 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 in 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. 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 2.41% as on September 30, 2025, compared to 1.98% in September 2024. The net stressed assets (net stressed assets = Net NPA + Net Std. Restructured + Net Security Receipts) to net worth ratio also deteriorated marginally from 6.08% as on March 31, 2024, to 6.89% as on September 30, 2025. In response to the stress in the microfinance portfolio, the bank reduced its microfinance exposure from 7.3% of the loan book in September 2024, to 5.0% as on September 30, 2025.

CareEdge Ratings notes that the bank's secured book stood at a healthy 92% as on September 30, 2025, and its stated intent to cap the unsecured portfolio at 10% in 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% y-o-y to ₹1,32,509 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 61% of total deposits as on September 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 in 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 55% of gross loan portfolio and 56% deposits of AUSFB as on September 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 September 30, 2025. The 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 September 30, 2025. AUSFB's average liquidity coverage ratio (LCR) stood at 119% and Net Stable Funding Ratio (NSFR of 108%) for the quarter-ended September 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](#)

[Withdrawal Policy](#)

[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 (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 micro, small and medium enterprise (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 SCB in November 2017. Post becoming an SFB, it expanded its product portfolio and geographical footprint. Fincare was merged with AUSFB effective April 01, 2024.

**AUSFB Standalone**

Brief Financials (₹ crore)	March 31, 2024 (A)*	March 31, 2025 (A)	H1FY26 (UA)
Total income	12,252	18,590	10,413
Profit after tax (PAT)	1,535	2,106	1,142
Total assets	109,310	157,610	165,162
Net interest margin (NIM) (%)	5.17	5.64	5.19
ROTA (%)	1.54	1.48	1.41
Gross non-performing assets (NPA) (%)	1.67	2.28	2.41
Net non-performing assets (NPA) (%)	0.55	0.74	0.88
Capital adequacy ratio (CAR) (%)	20.06	20.06	18.78

\*Figures are prior to merger with Fincare and hence not comparable.

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
Infrastructure Bonds	Proposed	-	-	-	1,000.00	CARE AA; Stable
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%	28-03-2035	770.00	CARE AA; Stable
Bonds- Tier-II bonds	Proposed	-	-	-	-	Withdrawn
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	INE949L16DX1	27-10-25	6.77	20-08-26	250.00	CARE A1+
Certificate of deposit	INE949L16DY9	29-10-25	6.77	21-08-26	250.00	CARE A1+

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
Certificate of deposit	INE949L16DQ5	30-10-25	6.90	28-08-26	150.00	CARE A1+
Certificate of deposit	INE949L16DZ6	10-11-25	6.90	06-11-26	200.00	CARE A1+
Certificate of deposit	INE949L16EA7	14-11-25	6.90	13-11-26	300.00	CARE A1+
Certificate of deposit	Proposed	-	-	Upto 365 days	525.00	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+ (16-Oct-25)	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 (16-Oct-25)	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	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
							(04-Apr-23)	
3	Bonds-Tier II Bonds	LT	300.00	CARE AA; Stable	1)CARE AA; Stable (16-Oct-25)	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)
4	Bonds-Tier II Bonds	LT	-	-	1)CARE AA; Stable (16-Oct-25)	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)	-	-

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 (10-Apr-24)		
6	Bonds-Tier II Bonds	LT	125.00	CARE AA; Stable	1)CARE AA; Stable (16-Oct-25)	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)	-	-
7	Bonds-Tier II Bonds	LT	-	-	1)Withdrawn (16-Oct-25)	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	770.00	CARE AA; Stable	1)CARE AA; Stable (16-Oct-25)	1)CARE AA; Stable (14-Jan-25)	-	-
9	Bonds-Infrastructure Bonds	LT	1000.00	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
3	Infrastructure Bonds	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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