

February 26, 2026

## AU Small Finance Bank Limited: Rating reaffirmed; rating simultaneously withdrawn for unutilised/matured bonds

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Basel II Lower Tier II bonds	1,004.00	1,004.00	[ICRA]AA (Stable); reaffirmed
Basel II Lower Tier II bonds	856.00	-	[ICRA]AA (Stable); reaffirmed and withdrawn
<b>Total</b>	<b>1,860.00</b>	<b>1,004.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating factors in AU Small Finance Bank Limited's (AUSFB) established retail asset franchise with a track record of maintaining comfortable asset quality, adequate capitalisation and healthy earnings. The bank registered a compound annual growth rate of around 30% in its gross loan portfolio (GLP) during March 2020 to March 2025 (Rs. 1,29,898 crore as on December 31, 2025) while deposits increased by 37% during this period. It has more than two decades of experience in the vehicle finance segment and more than a decade of experience in the micro, small and medium enterprise (MSME) segment; the share of secured retail loans stood at 68% of the GLP as on December 31, 2025. AUSFB has received in-principle approval from the Reserve Bank of India (RBI) to transition into a Universal Bank, which augurs well for its competitive positioning – the transition is expected to be completed in FY2027. ICRA expects AUSFB to maintain its growth momentum and keep scaling up its GLP at 20-25% per annum over the medium term with continued focus on the current target borrower segments.

ICRA takes note of the increase in gross non-performing assets (NPAs) to 2.3% as on December 31, 2025 (net NPAs of 0.9%) from 1.7% as on March 31, 2024 (net NPAs of 0.55%) primarily on account of stress in the microfinance and digital unsecured business, though the overall asset quality remains comfortable. The bank has been gradually expanding its product offerings over the years, adding new products like gold loans, home loans, agri MSME loans, personal loans, credit cards and business banking, etc. AUSFB's ability to maintain the asset quality as it grows in these segments remains monitorable.

As on December 31, 2025, AUSFB's reported capital adequacy ratio<sup>1</sup> (CAR) of 19.0% (Tier I: 17.1%) was well above the regulatory requirement of 15.0% (Tier I: 7.5%). In ICRA's opinion, the bank is adequately capitalised at present and shall continue to maintain adequate capital buffers even after its transition to a Universal Bank. AUSFB would, however, have to raise capital over the next 2-4 years in view of its long-term growth plans. Its earnings profile remains healthy with the return on assets (RoA) at 1.5% (annualised) in 9M FY2026 (1.5% in FY2025 as well as FY2024). While ICRA expects credit costs to remain slightly elevated in FY2026, the bank should be able to maintain its earnings profile supported by its good margins.

<sup>1</sup>Including profits for 9M FY2026

<sup>2</sup>Including certificates of deposit

ICRA takes note of the healthy traction in deposit mobilisation by the bank over the years. Nevertheless, the share of current account savings account (CASA) remained relatively moderate at 29% as on December 31, 2025 (29% as on March 31, 2025; 33% as on March 31, 2024). Also, the share of bulk deposits<sup>2</sup> was relatively high at 40% as on December 31, 2025 (38% as on March 31, 2025).

Furthermore, the bank vide a stock exchange disclosure dated February 22, 2026 intimated of its de-empanelment for Government business in the State of Haryana. The de-empanelment follows suspected unauthorised transactions between an account of a particular department of Government of Haryana and another customer account of the bank. The bank has initiated an internal review on the matter. The bank maintains that based on available facts and preliminary review, there has not been any indication of any fraudulent activity towards the bank. ICRA notes that the de-empanelment shall result in deposits outflow amounting to Rs. 735 crore (Rs. 538 crore as on February 21, 2026 or 0.4% of bank's overall deposits as on December 31, 2025). While this is not material in relation to the bank's overall deposits, the impact of the above on its deposit profile and its ability to improve its franchise shall remain a monitorable.

The Stable outlook reflects ICRA's expectation that the bank would be able to sustain a steady credit profile while expanding its scale of operations and maintaining a healthy profitability and an adequate capitalisation profile.

ICRA has simultaneously reaffirmed and withdrawn the rating for the Rs. 856-crore Basel II Lower Tier II bonds at the request of the bank/ instrument has been redeemed with no amount outstanding against the same. This is in accordance with ICRA's policy on the withdrawal of credit rating.

## Key rating drivers and their description

### Credit strengths

**Established retail asset franchise with track record of comfortable asset quality** – AUSFB operates in the retail asset segments with more than two decades of experience in vehicle financing and more than a decade of experience in MSME financing. It has been expanding its product offerings gradually over the years and has added new products like gold loans, home loans, agri MSME loans, personal loans, consumer durables, etc. Further, the bank has received in-principle approval from the RBI to transition into a Universal Bank. ICRA notes that AUSFB aims to complete this transition in FY2027. Nonetheless, focus shall remain on secured retail assets, which comprised 68% of the GLP as on December 31, 2025. Vehicle financing and mortgage-backed micro business loans continue to dominate the retail asset portfolio, amounting to 34% and 26%, respectively, of the GLP as of December 2025, and ICRA expects the same to continue as the bank scales up its GLP by 20-25% per annum over the medium term.

While gross NPAs rose to 2.3% as on December 31, 2025 (net NPAs of 0.9%) from 1.7% as on March 31, 2024 (net NPAs of 0.55%) primarily on account of stress in the microfinance and digital unsecured business, the overall asset quality remains comfortable. Nonetheless, the bank's ability to maintain the asset quality as it scales up the relatively newer segments remains monitorable.

**Adequate capitalisation profile** – The bank's CAR of 19.0% (Tier I: 17.1%), as on December 31, 2025, was well above the regulatory requirement of 15.0% (Tier I: 7.5%). Also, ICRA draws comfort from AUSFB's track record of capital raising. The bank last raised ~Rs. 2,000 crore of equity capital in FY2023 through a qualified institutional placement, which helped it maintain a comfortable capitalisation profile while scaling up its portfolio. Post transition to a Universal Bank, the CAR requirement would be lower, but it would have to provide for operational and market risks as per Basel III requirements. In ICRA's opinion, AUSFB would be adequately capitalised even after its transition to a Universal Bank. It would, however, have to raise capital over the next 2-4 years in view of its long-term growth plans.

**Healthy earnings profile** – AUSFB has been able to maintain a healthy earnings profile supported by its margins. ICRA notes that the bank's net interest margin (NIM) was 5.2% in 9M FY2026 compared to 5.6% in FY2025 (5.2% in FY2024). The contraction in NIMs was on account of the moderation in yields and the relatively slower repricing of its deposits. The earnings profile is also supported by healthy fee-based income, which stood at 1.7% in 9M FY2026 (1.8% in FY2025; 1.7% in FY2024). Operational expenses (on average total assets) reduced to 4.0% in 9M FY2026 (4.2% in FY2025) from 4.5% in FY2024 and AUSFB is expected to have some scale benefits on operational expenses, going forward. Nevertheless, keeping costs under control in view of the growth and transition to a Universal Bank shall be a key monitorable.

Although credit costs increased in FY2025 and 9M FY2026 owing to stress in the unsecured loan book, the overall earnings profile remained healthy with an RoA of 1.5% (annualised) in 9M FY2026 (1.5% in FY2025 as well as FY2024). While ICRA expects credit costs to remain somewhat elevated in FY2026, AUSFB is expected to maintain a healthy earnings profile over the near-to-medium term supported by its healthy margins.

### Credit challenges

**Relatively moderate CASA and retail deposits** – AUSFB has successfully built a large deposit base, constituting 92% of its external borrowings<sup>3</sup> as on December 31, 2025, up from 84% as on March 31, 2021. The bank continues to scale up its deposit franchise and reported a healthy year-on-year (YoY) growth of 23% in deposits in 9M FY2026, increasing the overall deposit base to Rs. 1,38,415 crore as on December 31, 2025 from Rs. 1,24,269 crore as on March 31, 2025. AUSFB's focus has been on building a stable retail deposit franchise. Nevertheless, the share of CASA has been declining, a trend witnessed across the industry, and remained relatively low at 29% as on December 31, 2025 (29% as on March 31, 2025; 33% as on March 31, 2024). Also, the share of bulk deposits<sup>4</sup> in total deposits was relatively high at 40% as on December 31, 2025 (38% as on March 31, 2025), though around 50% of the bulk deposits are non-callable.

### Environment and social risks

**Environmental considerations** – Given AUSFB's service-oriented business, its direct exposure to environmental risks as well as those stemming from regulations or policy changes is not material. While the bank is not materially exposed to physical climate risks, it indirectly encounters environmental risks through its portfolio of assets. Further, its lending typically involves short-to-medium-term durations, enabling it to adjust and incrementally invest in less environmentally vulnerable businesses.

**Social considerations** – Data security and customer privacy are among the key sources of vulnerability for AUSFB, as any material lapse could be detrimental to its reputation and could invite regulatory censure. Customer preference is increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. However, subpar execution of information technology strategies and inability to meet customer requirements adequately may result in more costs than benefits. On the positive side, AUSFB contributes to the enhancement of financial inclusion by providing several products and

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<sup>3</sup> Including deposits

<sup>4</sup> Including certificates of deposit

services that are specifically targeted towards the marginalised sections of society and attempts to address and cater to social concerns. Prudent lending to such under-served segments could create growth opportunities. However, these opportunities must be seen in conjunction with asset quality risks that could impact the bank’s credit quality.

### Liquidity position: Strong

The average liquidity coverage ratio was healthy at 118% for the quarter ended December 31, 2025 (115% for the quarter ended December 31, 2024). The net stable funding ratio (NSFR) stood at 107% as on December 31, 2025 (109% for the quarter ended December 31, 2024), remaining above the regulatory level of 100%. AUSFB’s liquidity profile is supported by its strong borrowing ability on account of its ‘scheduled’ status and healthy deposit renewal rate. The liquidity profile is also supported by the availability of funding lines from financial institutions.

### Rating sensitivities

**Positive factors** – A significant scale-up in the operations and an improvement in deposit granularity, while maintaining healthy profitability and prudent capitalisation, could positively impact the rating.

**Negative factors** – Deterioration in the asset quality or profitability (RoA below 1.2%) on a sustained basis could negatively impact the rating. A decline in the capital cushions to less than 3%, in relation to the Tier I regulatory levels, on a sustained basis could also negatively impact the rating.

### Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Banks and Financial Institutions Policy on Withdrawal of Credit Ratings</a>
Parent/group Support	Not Applicable
Consolidation/standalone	Standalone

### About the company

AU Small Finance Bank (AUSFB) is a scheduled commercial bank, which transitioned to a small finance bank (SFB) from an asset financing non-banking financial company (NBFC). While it was incorporated in 1996 as an NBFC, it commenced SFB operations on April 19, 2017, after receiving the final licence on December 20, 2016. The Reserve Bank of India (RBI) had granted in-principle approval in September 2015. AUSFB was listed on the stock exchanges in July 2017 and was granted scheduled commercial bank status in November 2017.

During its early years of operations, AUSFB (formerly AU Financiers (India) Limited) was primarily engaged in vehicle financing through funds raised from high-net-worth individuals in Jaipur. Over the years, it raised equity from private investors at regular intervals and expanded its product portfolio. AUSFB has an established market position in Rajasthan and has expanded its operations to Maharashtra, Gujarat, and other states over the years. As on December 31, 2025, it had 2,726 touchpoints across 21 states and 4 Union Territories.

AUSFB operates in the retail asset financing segment, with the vehicle financing segment accounting for 34% of its gross loan portfolio (GLP) as on December 31, 2025. Its product portfolio also includes micro business loans, home loans, loans to NBFCs, loans to real estate groups, business banking, agri-banking, credit cards, personal loans, etc. AUSFB’s liability product offerings include current accounts, savings accounts, recurring & term deposits, transaction banking, and insurance covers, among others.

AUSFB reported a profit after tax (PAT) of Rs. 2,106 crore on a total asset base of Rs. 1,57,846 crore in FY2025. It reported a PAT of Rs. 1,809 crore in 9M FY2026 on a total asset base of Rs. 1,74,052 crore compared to Rs. 1,602 crore and Rs. 1,43,044 crore, respectively, in 9M FY2025.

#### Key financial indicators (audited)

AUSFB	FY2023	FY2024	FY2025	9M FY2026
<b>Total income</b>	9,240	12,252	18,590	15,864
<b>PAT</b>	1,428	1,535	2,106	1,809
<b>Total assets</b>	90,216	1,09,426	1,57,846	1,74,052
<b>CET I</b>	21.8%	18.8%	18.1%	17.1%
<b>CRAR</b>	23.6%	20.1%	20.1%	19.0%
<b>PAT/ATA</b>	1.8%	1.5%	1.5%	1.5%
<b>Gross NPAs</b>	1.7%	1.7%	2.3%	2.3%
<b>Net NPAs</b>	0.4%	0.6%	0.7%	0.9%

Source: AU, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore; Gross NPAs were 1.66 and 1.67 as on March 31, 2023 and March 31, 2025, respectively; Net NPAs were 0.42 and 0.55 as on March 31, 2023 and March 31, 2025, respectively

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: Not applicable**

### Rating history for past three years

Instrument	Current (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Feb-26-26	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
<b>Basel II Lower Tier II bonds</b>	Long term	1,004.00	[ICRA]AA (Stable)	Feb-27-2025	[ICRA]AA (Stable)	-	-	-	-
				May-17-2024	[ICRA]AA (Stable)				
<b>Basel II Lower Tier II bonds</b>	Long term	856.00	[ICRA]AA (Stable); withdrawn	Feb-27-2025	[ICRA]AA (Stable)				
				May-17-2024	[ICRA]AA (Stable)	-	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity indicator
Basel II Lower Tier II bonds	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click here](#)

### Annexure I: Instrument details

ISIN	Instrument name	Date of issuance/Sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
INE949L08459	Basel II Lower Tier II bonds	Mar-28-2025	9.20%	Mar-28-2035	770.00	[ICRA]AA (Stable)
Yet to be placed	Basel II Lower Tier II bonds	-	-	-	756.00	[ICRA]AA (Stable); withdrawn
INE519Q08194	Basel II Lower Tier II bonds	Aug-23-2023	10.7%	Feb-23-2029	60.00	[ICRA]AA (Stable)
INE519Q08160	Basel II Lower Tier II bonds	Jun-15-2023	10.75%	Dec-15-2028	49.00	[ICRA]AA (Stable)
INE519Q08178	Basel II Lower Tier II bonds	Jul-05-2023	10.75%	Jan-05-2029	75.00	[ICRA]AA (Stable)
INE519Q08186	Basel II Lower Tier II bonds	Aug-09-2023	10.75%	Feb-09-2029	50.00	[ICRA]AA (Stable)
INE519Q08152	Basel II Lower Tier II bonds	Sep-30-2019	12.87%	Sep-30-2025	100.00	[ICRA]AA (Stable); withdrawn

Source: AUSFB

### Annexure II: List of entities considered for consolidated analysis: Not applicable

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## ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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## ICRA Limited

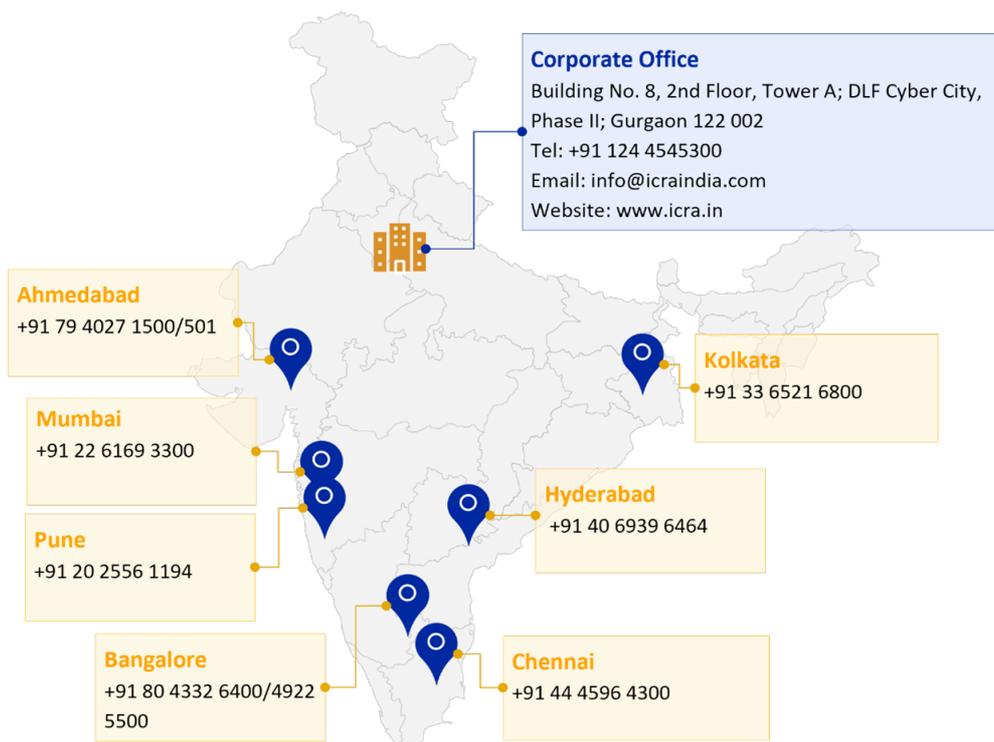


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