Ref. No.: AUSFB/SEC/2024-25/41
Date: April 11, 2024

To,

National Stock Exchange of India Ltd.	BSE Limited
Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai 400051, Maharashtra. **NSE Symbol**: AUBANK	Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400001, Maharashtra. **BSE Scrip Code**: 540611, 957863, 957864, 959025, 974963, 975017, 958400, 974093, 974094, 974095

Dear Sir/Madam,

Sub: Update on Credit Rating

Ref: Regulation 30, 51 and 55 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations')

We wish to inform that pursuant to amalgamation of Fincare Small Finance Bank Limited (Fincare SFB) with and into AU Small Finance Bank Limited (AU SFB) with effect from April 01, 2024, the Non-Convertible Debentures (Tier II Bonds) of Fincare SFB have been transferred to AU SFB.

In view of abovementioned transfer of the Non-Convertible Debentures (Tier II Bonds) of Fincare SFB to AUSFB, India Ratings & Research Limited, CARE Ratings Ltd. and CRISIL Ratings have reaffirmed/assigned/upgraded credit rating as mentioned on below:

The details required pursuant to Regulation 55 of the Listing Regulations read with SEBI Master Circular no. SEBI/HO/DDHS/PoD1/P/CIR/2023/108 dated June 30, 2023, as amended from time to time are as follows:

Sr. No.	ISIN	Name of the Credit Rating Agency	Credit Rating Assigned	Outlook	Rating Action	Specify other rating action	Date of Credit rating	Verification status of Credit Rating Agencies	Date of verification
1	INE949L08418	CRISIL Ratings	CRISIL AA	Stable	Reaffirm	-	10-04-2024	Verified	10-04-2024
		India Ratings	IND AA	Stable	Reaffirm	-	10-04-2024	Verified	10-04-2024
2	INE949L08442	CRISIL Ratings	CRISIL AA	Stable	Reaffirm	-	10-04-2024	Verified	10-04-2024
		CARE Ratings	CARE AA	Stable	Reaffirm	-	10-04-2024	Verified	10-04-2024
3	INE949L08434	CRISIL Ratings	CRISIL AA	Stable	Reaffirm	-	10-04-2024	Verified	10-04-2024
		CARE Ratings	CARE AA	Stable	Reaffirm	-	10-04-2024	Verified	10-04-2024
4	INE949L08426	CRISIL Ratings	CRISIL AA	Stable	Reaffirm	-	10-04-2024	Verified	10-04-2024
		CARE Ratings	CARE AA	Stable	Reaffirm	-	10-04-2024	Verified	10-04-2024
5	INE519Q08137*	India Ratings	IND AA	Stable	Upgrade	-	10-04-2024	Verified	10-04-2024
		CARE Ratings	CARE AA	Stable	Upgrade		10-04-2024	Verified	10-04-2024
6	INE519Q08145*	India Ratings	IND AA	Stable	Upgrade	-	10-04-2024	Verified	10-04-2024
		CARE Ratings	CARE AA	Stable	Upgrade		10-04-2024	Verified	10-04-2024
7	INE519Q08152*	CARE Ratings	CARE AA	Stable	Upgrade	-	10-04-2024	Verified	10-04-2024
8	INE519Q08178*	CARE Ratings	CARE AA	Stable	Upgrade	-	10-04-2024	Verified	10-04-2024
9	INE519Q08186*	CARE Ratings	CARE AA	Stable	Upgrade	-	10-04-2024	Verified	10-04-2024

*Post Amalgamation, all NCDs of Fincare SFB have been transferred to AU SFB, accordingly ratings have been upgraded.

The rating on Short-term Instruments (Certificate of Deposits) of the Bank has also been reaffirmed.

Rating Rationale of the India Ratings & Research Limited, CARE Ratings Ltd. and CRISIL Ratings are enclosed herewith.

This for your information and records.

Thanking You,
Yours faithfully,
For AU SMALL FINANCE BANK LIMITED

Manmohan Parnami Digitally signed by Manmohan Parnami
Date: 2024.04.11 17:56:38 +05'30'

Manmohan Parnami
Company Secretary and Compliance Officer
Membership No.: F9999
investorrelations@aubank.in
Encl.: As above

India Ratings Assigns AU Small Finance Bank's Additional Tier-II Bonds 'IND AA'/Stable; Affirms Existing Ratings

Apr 10, 2024 | Private Sector Bank

India Ratings and Research (Ind-Ra) has taken the following rating actions on AU Small Finance Bank Limited's (AU SFB) debt instruments:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating Assigned along with Outlook/ Watch	Rating Action
Tier II bonds*^	-	-	-	INR0.75	IND AA/Stable	Assigned
Tier II bonds*	-	-	-	INR5.00	IND AA/Stable	Affirmed
Certificate of deposits	-	-	7-365 days	INR10.0	IND A1+	Affirmed

*Details in Annexure
^Post-merger, all debt instruments of Fincare have been migrated to AU SFB

Analytical Approach

Ind-Ra continues to take a standalone view of AU SFB to arrive at the ratings.

Detailed Rationale of the Rating Action

The merger of Fincare Small Finance Bank Limited (Fincare) with AU SFB was concluded with the effective date of the merger as 1 April 2024 following the companies receiving all the regulatory approvals. Post-merger, all debt instruments of Fincare were migrated to AU SFB. Ind-Ra has withdrawn the ratings of Fincare.

The rating affirmation reflects the bank's liability franchise with progressing granularity, increasing diversification in assets and liabilities from its home state (Rajasthan), and adequately managed asset quality. The affirmation also factors in the bank's small but fast-growing franchise, with above-average operating metrics and high capital buffers, which are likely to be maintained.

Furthermore, the ratings factor in the bank's strong franchise in granular retail assets, which bolsters its competitive position to generate higher yields than its peers, offsetting the higher cost of funds. AU SFB has a long track record and strong experience in its core segment of commercial retail assets as it expands its base in newer products. Asset quality performance of newer products with seasoning, the bank's ability to control the operating cost and the progress on the merger of Fincare remain key monitorables.

List of Key Rating Drivers

Strengths:

- Established retail secured asset franchise
- Secured products to continue to drive growth
- Improved equity buffers and adequate profitability
- Stable asset quality

Weakness:

- Higher operating cost structure
- Moderate current and savings account (CASA) ratio

Detailed Description of Key Rating Drivers

Established Retail Secured Asset Franchise: The bank's continued focus on the unorganised customer segment has enabled it to maintain a balance between profitability and asset quality across economic cycles. The bank has a well-defined strategic business unit structure, enabling a clear focus on product segments, along with teams that possess local knowledge across operating geographies. Moreover, it has a competitive advantage in its core geography, backed by its long operating experience. AU SFB has a well-established business model with a track record of over 28 years, with retail and secured loans contributing majority to the 9MFY24 loan book. Ind-Ra considers AU SFB's continued expansion within its home state and outside as well, with its share in its home state moderating to 33.0% in 9MFY24 (FY18: 53.8%). Furthermore, the bank has expanded its product lines while maintaining its growth trajectory in its core verticals of wheels and small business loans. The bank had 1,049 banking touchpoints (including 727 unique locations) across 21 states and three union territories at 9MFYE24. Moreover, post the bank's merger with Fincare, 1,303 touchpoints and 5.8 million new customers have been added to the AUSFB to reach 2,352 touchpoints and 10.5 million customers at December-end 2023. The combined assets under management and deposit base is expected to improve to INR895 billion (INR762 billion pre-merger) and INR899 billion (INR801 billion pre-merger).

Secured Products to Continue to Drive Growth: At 9MFYE24, the bank's gross advances increased 20% yoy to INR676.2 billion (9MFYE23: INR563.3 billion, FYE22: INR467.9 billion) with a secured portfolio across products such as wheels (accounted for 30% of gross advances), micro business loans (28%), business banking (10%), home finance (8%) and others (24%). AU SFB has been operating in these segments even before turning into a bank. Ind-Ra expects the bank to continue to grow at above-industry growth rates due to its smaller scale and better position to grow than that for non-banking financial companies due to the cost of fund advantage.

The bank also has a competitive advantage in terms of reach and local knowledge in Rajasthan. In addition, it has a reasonable presence in Madhya Pradesh and Maharashtra, which, along with Rajasthan, accounted for 63% of the gross advances at 9MFYE24 (FYE23: 65%, FYE22: 71%). While this creates geographical concentration risk, the bank has been focusing on expanding its franchise in newer geographies such as Uttar Pradesh, East India, and southern markets, as well as broadening of product offerings and gaining sizeable scale in those segments compared to peers'. Moreover, in terms of branch presence, the contribution of the south region to total branch network have increased from 2% pre-merger to 28% post-merger, based on end-September 2023 proforma financials (AU SFB+Fincare).

Improved Equity Buffers and Adequate Profitability: During FY23, AU SFB raised INR20 billion of equity capital through the qualified institutional placement route. This, coupled with internal accruals, led to an improvement in its net worth to INR121.7 billion at 9MFYE24 (FYE23: INR109.8 billion; FYE22: INR75.1 billion). While merged financials of the combined entity will be available from 1QFY25, on a proforma basis at end-December 2023, the net worth would further improve to INR145 billion (including INR7 billion equity infusion in Fincare). The tier-I capital stood at 19.6% in 9MFY24 (FY23: 21.8%; FY22: 19.7%; FY21: 21.5%). AU SFB had a high pre-provision operating profit (PPOP) buffer (PPOP/provision cost) of 6.0x in 9MFY24 (FY23: 13.0x; FY22: 5.0x; FY21: 3.2x; FY20:4.2x). Its return on asset of 1.6% in 9MFY24 on an annualised basis (FY23: 1.8%; FY22: 1.9%; FY21:2.5%, FY20:1.8%) is reasonably healthy. AU SFB has adequate PPOP and capital adequacy buffers to absorb incremental asset quality pressures in a stress case scenario.

The bank's average cost of funds increased 45bp YTD to 6.74% in 9MFY24 (4QFY23: 6.29%) on the back of the increase in deposit rates across competition. AUSFB largely operates in the secured retail space and competes mostly with non-banking financial companies, offering adequate pricing power. However, given the higher proportion of fixed-rate loans on the asset side compared to liability, with the remaining being floating in nature, can impact AU SFB's net interest margins in the near term with an expectation of interest rates remaining at current levels in FY24 and some part of FY25.

Stable Asset Quality: AU SFB lends to self-employed individuals who run small businesses, which are largely earn-and-pay in nature. Hence, the cash flows of such borrowers remain vulnerable to external economic shocks. While the reported gross non-performing asset (GNPA) ratio is almost stable (9MFY24: 2.0%; FY23: 1.7%; FY22: 2.0%; FY21: 4.3%), the bank has faced asset quality pressure in credit cards as the book witnessed seasoning. The medium-term trend in credit card asset quality would remain monitorable. Moreover, with the merger of Fincare Small Finance Bank (predominantly microfinance institutions book, about 8% combined loan book post-merger), asset quality would be key monitorable. In 9MFY24, the bank's provision coverage ratio stood healthy at 72% on GNPAs (FY23: 78%; FY22: 77%; FY21: 50%). The restructured loans to total advances declined to 0.7% in 9MFY24 (FY23: 1.2%; FY22: 2.5%; FY21: 1.8%).

Moreover, the bank carried covid contingency and standard restructuring provisions of INR0.8 billion (0.12% of the gross advances) in 9MFY24. Notably, AU SFB has also created a floating provision of INR410 million from FY22 to further strengthen the balance sheet, acting as a counter cyclical buffer, to be utilised with the prior approval of the Reserve Bank of India.

High Operating Cost Structure: AU SFB focuses on granular retail asset loans which require high on-field effort and high costs of customer acquisition. On liability side, to build and sustain the liability franchise, the bank needs to spend upfront on operating investments through new initiatives including credit cards, QR code, video banking and other digital initiatives to continue to create brand awareness. Consequently, the cost to income ratio of the bank has been on increasing trend during FY21-9MFY24 (9MFY24: 63%; FY23: 63%; FY22: 57%; FY21: 43%). Going forward, with incremental integration related cost of Fincare, which is likely to take nine-to-12 months, Ind-Ra expects the cost-to-income ratio to remain elevated in the near to medium term. That being said, FY25 onwards, the bank can reap benefits of the additional presence of Fincare by leveraging the same to gain market share in profitable assets and build on the liability franchise.

Moderate CASA Ratio: AU SFB's CASA ratio declined to 33% in 9MFY24 (FY23: 38.4%; FY22: 37.3%), driven by industry trend of CASA shift to term deposits due to attractiveness of high-term deposits offered. Retail term deposits expanded at a 39% CAGR over FY20-FY23 (albeit on a small base), contributing 30% to the total deposits in FY23 (FY22: 30%; FY21: 33%; FY20: 30%). The bank also continued to have a high proportion of deposits (FY23: 52%; FY22: 53%; FY21: 55%) with ticket size above INR20 million. The share of the top 20 term depositors in the total customer deposits declined to 9.4% in FY23 (FY22:11.9%; FY21: 15.4%; FY20: 17.8%).

During FY23, there was a system-wide increase in deposit rates, with significant competition for deposits. AU SFB focused on preserving its CASA deposits amid the shift from savings to term deposits. The average cost of funds increased to 6.3% in 4QFY23 (4QFY22: 5.7%). The bank has undertaken a number of strategic initiatives during the past three years to improve its customer engagement. Consequently, about 71% of the current account customers and 57% of the savings account customers used two or more products of the bank at FYE23. Its product per customer ratio stood at 1.61 for savings account and 2.0 for current account customers in FY23. As AU SFB becomes larger and expands its balance sheet, its ability to competitively build stickiness in the granular deposit profile will continue to be a key monitorable.

Ind-Ra expects the banks' cost of funds to increase in FY24, led by the system-wide rise in interest rates and its incremental funding. The bank's larger presence in the unorganised granular retail segment provides the ability to pass on the increase in the cost of funds to its customers.

Liquidity

Adequate: AU SFB operated with a positive gap up to six-month tenor and a moderate gap of 12% in asset-liability tenors in the less-than-one-year bucket as of December 2023. The bank largely covers the gap with rollover of deposits and refinancing lines. It maintains adequate refinance funding lines from refinancing institutions at any given point in time. During 3QFY24, the bank had a quarterly average liquidity coverage ratio of 123%, which is above the regulatory requirement (100% for small finance banks).

Rating Sensitivities

Positive: A strong growth in the franchise in line with higher rated peers, along with a sustained market share gains in both asset and liabilities, product leadership coupled with diversification and ramping-up of the granular retail liabilities above 75% of the total external liabilities could be positive for the ratings.

Negative: An absence of a sustained improvement in the liability profile or a material decline in the CASA deposits proportion or retail deposits would be negative for the ratings. Also, a significant drop in the capital buffers or GNPAs as a percentage of the gross advances exceeding 5% on a sustained basis, thereby impacting the profitability and capital buffers, could be negative for the ratings.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on AU SFB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

AU SFB is a scheduled commercial bank that commenced its operations as an SFB on 19 April 2017. As on 31 December 2023, the bank was the largest SFB in terms of gross advances. The bank has established operations across 1,049 banking touchpoints (mainly in rural and semi-urban markets) and has a customer base of 4.68 million in 21 states and three union territories with an employee base of 28,904. The bank has a net worth of INR121.7 billion, deposit base of INR801.2 billion and net advances of INR667.4 billion. AU SFB is listed on the National Stock Exchange of India Limited and BSE Ltd. The Reserve Bank of India has also granted a licence to AU SFB to act as authorised dealer category-I under section 10 of the Foreign Exchange Management Act, 1999 to deal in foreign exchange.

As on 30 September 2023, Fincare operated in 19 states and three union territories, with 1,292 branches covering over 5,400,000 customers. Fincare had a net worth of INR15,389.7million and total asset of INR147,776 million as of September 2023.

KEY FINANCIAL INDICATORS

Particulars	9MFY24	FY23	FY22
Total assets (INR million)	1,011,757	902,161	690,778
Total equity (INR million)	121,673	109,773	75,140

Net profit (INR million)	11,640	14,279	11,298
Return on average assets (%)	1.6^	1.8	1.9
Equity/assets (%)	12.0	12.2	10.9
Tier 1 capital (%)	19.6	21.8	19.7
Source: AU SFB, Ind-Ra, ^ Annualised			

COMBINED FINANCIALS (Provisional)

Particulars	FY24
Total gross loan portfolio (INR million)	964,900
Total deposits (INR million)	977,040
CASA ratio (%)	32
Source: AU SFB including Fincare, Ind-Ra	

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (billion)	Rating	19 March 2024	5 March 2024	20 July 2023	22 July 2022	19 August 2021
Tier II bonds	Long-term	INR5.75	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA-/Stable
Certificate of deposits	Short-term	INR10.0	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Tier II bonds	Medium*
Certificate of deposits	Low

*Lower ranked instrument with partial built in loss absorbing features
For details on the complexity level of the instruments, please visit www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

Contact

Primary Analyst
Amit Rane
Senior Analyst
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001700
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Jinay Gala
Associate Director
+91 22 40356138

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

AU Small Finance Bank Limited

April 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Lower Tier-II Bonds*	75.00	CARE AA; Stable	Assigned
Tier-II Bonds*	250.00	CARE AA; Stable	Assigned
Tier-II Bonds	650.00	CARE AA; Stable	Reaffirmed
Certificate of deposit	1,400.00	CARE A1+	Reaffirmed

Details of instruments in Annexure-1.
*Transferred from erstwhile Fincare Small Finance Bank on account of amalgamation.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has assigned ratings to debt instruments transferred from Fincare Small Finance Bank (FSFB) to AU Small Finance Bank Limited (AUSFB) pursuant to the merger effective April 01, 2024, and reaffirmed ratings of debt instruments of AUSFB.
Ratings continue to factor in continuous growth momentum in business and asset size over last seven years post-conversion into small finance bank (SFB) in April 2017, making it the largest SFB in India. Ratings consider establishing a growing deposit franchise and a moderately diversified advances portfolio with a largely secured lending portfolio. Ratings also take into cognisance the management team's experience, comfortable capitalisation levels supported with periodic equity capital raise, stable asset quality parameters post COVID-19-related stress although slightly increased in 9MFY24, and healthy profitability.

However, ratings are constrained by moderate seasoning in AUSFB's new product segments, including business banking loans, home loans, and two-wheeler financing. Regional concentration of advances and deposits, comparatively lower current account-saving account (CASA) proportion, and relatively moderate size as compared to mid-sized private sector banks further offset ratings.

AUSFB's Board of Directors and the Board of Directors of FSFB, at their respective meetings held on October 29, 2023, had approved an all-stock scheme for amalgamating FSFB with and into AUSFB. The approved share swap ratio was 579 shares of AUSFB for 2,000 shares of FSFB. The scheme has been approved by shareholders of FSFB and AUSFB on November 24, 2023, and November 27, 2023, respectively, at their extraordinary general meeting (EGM). The scheme received approval by the Competition Commission of India (CCI) on January 23, 2024, and from the Reserve Bank of India (RBI) on March 04, 2024. The effective date of amalgamation was April 01, 2024, as approved by the RBI and all branches of FSFB will function as branches of AUSFB from the said date.

AUSFB appointed the erstwhile nominee director of FSFB's board on the Board of AUSFB for three years and appointed of Rajeev Yadav, the erstwhile Managing Director and Chief Executive Officer (MD & CEO) of FSFB as Deputy CEO. AUSFB designated its existing Whole Time Director as Whole Time Director and Deputy CEO.

Post share exchange, FSFB's existing shareholders will hold about 9.9% in AUSFB. All FSFB's employees will become part of AUSFB. The integration process is expected to be completed by March 2025. FSFB's business will continue to operate under AUSFB as a separate unit headed by Rajeev Yadav.

The merger will increase AUSFB's geographical reach in south India. It will also make the advances profile more granular and diversified due to addition of FSFB's customer base and product lines such as microfinance, including joint liability group (JLG) business, gold loans, micro business loans, and home loans. Although the proportion of unsecured loans will increase mainly due to addition of microfinance loan book, overall proportion of unsecured loans to total advances is expected to be low. AUSFB's and FSB's combined branch strength stood at 2,352 as on December 31, 2023.

Rating sensitivities: Factors likely to lead to rating actions

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

- Sustainably improving scale of operations with improving product and geographical diversification.
- Scaling up deposits with increasing CASA and retail deposits base, becoming more comparable to mid-sized private sector banking peers.

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

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

- Deteriorating asset quality, with gross non-performing assets (GNPA) increasing to more than 4% on a sustained basis.
- Deteriorating capital adequacy parameters, with capital adequacy ratio (CAR) falling below 17% on a sustained basis.
- Moderating profitability parameters, with return on total assets (ROTA) falling below 1% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that AUSFB will continue maintaining its steady growth in advances, deposits, and healthy profitability profile 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 an SFB from April 2017 and got the status of a scheduled commercial bank (SCB) in November 2017. In over six years of operations as an SFB, the bank has been able to ramp up operations from 474 touchpoints as on March 31, 2018, to 1,049 touchpoints (new and converted) across 21 states and three Union Territories, with more than 28,900 employees on roll as on December 31, 2023. AUSFB, the largest SFB in India in terms of asset size, has seen steady growth in total assets increasing from ₹18,819 crore as on March 31, 2018, to ₹90,123 crore as on March 31, 2023 (December 31, 2023: ₹1,01,035 crore) at a compounded annual growth rate (CAGR) of 37%. Post the merger, the bank's asset base would be over ₹1,15,000 crore based on combined December 31, 2023, financials. The bank expects its advances and deposits to grow at 23-25% CAGR by FY27.

Comfortable capitalisation

Despite the loan book significantly growing, AUSFB continues to be sufficiently capitalised, helped by regular capital infusions by way of qualified institutional placement (QIP), the latest being ₹2,000 crore in August 2022, and steady healthy internal accruals. The bank also raised Tier-II capital of ₹500 crore in FY23. It reported a capital adequacy ratio (CAR) of 20.82% (March 31, 2023: 23.59%, March 31, 2022: 20.99%) and Tier-I CAR of 19.56% (March 31, 2023: 21.78% and March 31, 2022: 19.69%) as on December 31, 2023, well above the minimum regulatory requirement of 15% and 7.5%, respectively. The merger is expected to boost AUSFB's net worth and capitalisation levels post share swap, as promoters of FSFB infused ₹700 crore before merger. Going forward, CARE Ratings expects AUSFB to maintain sufficient cushion over minimum regulatory requirements.

Diversified resource profile with strong growth in deposit base

AUSFB has transformed its liabilities profile by developing its deposit base since becoming a bank in FY18. The deposit franchise has consistently increased, with deposits increasing from ₹7,923 crore as on March 31, 2018, to ₹80,120 crore as on December 31, 2023. Initially, CASA deposits growth was slow as compared to total deposit growth, resulting in the CASA ratio falling from 26.9% as on March 31, 2018, to 14.5% as on March 31, 2020. With a focus on increasing CASA deposits, AUSFB continues to offer higher interest rates on saving accounts as compared to mainstream banks and undertaking extensive marketing exercises. The bank has a strategy of generating deposits from urban markets and lending in rural markets. AUSFB is increasing its touchpoints in urban areas to garner more retail deposits.

The bank's CASA stood at 33.01% December 31, 2023 (March 31, 2023: 38.43%). It continues to granularise its deposit book with a focus on increasing retail deposits. The share of retail term deposits-to-total term deposits (excluding CD) increased from 30% as on March 31, 2019, to 48% as on December 31, 2023, increasing stability in the liability profile. AUSFB has resorted to securitisation on a strategic tool for diversifying its sources of funds and using capital efficiently.

CARE Ratings observes that while the bank has been increasing its depositor base and proportion of CASA in the recent years of operating as a SFB, it is relatively lower compared to a few mid-sized private sector banks, and the scaling-up of CASA over next few years will be a key rating sensitivity.

Consistent track record of healthy earnings performance

Post-conversion to an SFB and access to deposits, cost of funds declined between FY20 and FY22, as it increased proportion of CASA and retail term deposits, further helped by lowering of systemic interest rates. However, cost of funds stayed constant in FY23 as against FY22, even when there was an increase in systemic interest rates due to rate hikes by the RBI. As majority advances comprise small business customers from Tier-II and Tier-III cities that have lower banking penetration, AUSFB is able to enjoy relatively higher yields. Hence, the net interest margin (NIM) is higher than universal banks, ranging between 5% and 5.5%.

The net interest income (NII) is growing consistently, in trend with growing advances and deposits. For the year-ended March 31, 2023, AUSFB continued to grow in NII, with interest income growing at 37% y-o-y, following advances growing at 27% y-o-y. However, non-interest income was impacted by mark-to-market loss on investments due an increasing interest rate scenario, while fee-based income continued to increase, resulting in non-interest income marginally growing by 4% y-o-y for FY23. The bank's operating cost grew by 43% as it is actively spending on business expansion, capacity building and investments in digital initiatives, which resulted in the pre-provision operating profit (PPOP) moderately growing by 11% for FY23 as compared to FY22. Credit costs were lower by 57% y-o-y for FY23, supported by notably improving asset quality, which helped the bank grow its profit-after-tax (PAT) by 26% for FY23. AUSFB reported ROTA of 1.80% for FY23 (FY22: 1.88%).

AUSFB reported a net profit of ₹1,164 crore for 9MFY24 on a total income of ₹8,915 crore as against a net profit of ₹1,003 crore on a total income of ₹6,632 crore for the corresponding period in the previous year. It reported a ROTA of 1.62% (annualised) for 9MFY24 as compared to 1.79% for 9MFY23, due to declining NIM and higher credit cost, especially due to delinquencies in the credit card segment.

FSFB reported a net profit of ₹308 crore for 9MFY24 on a total income of ₹2,161 crore as against a net profit of ₹12 crore on a total income of ₹1,404 crore for the corresponding period in the previous year. It reported a ROTA of 2.94% (annualised) for 9MFY24.

Post-merger, CARE Ratings expects NIM to increase due to integration of high yielding microfinance business, however, it will also impact credit cost going forward. CARE Ratings expects AUSFB to continue maintaining healthy profitability over the medium term, while growing the business segments acquired from FSFB.

Stable asset quality post COVID-19-induced stress

Historically, AUSFB has been able to manage its asset quality to comfortable levels, despite having significant exposure to segments that are more vulnerable to economic downturns. About 88% loans are retail, providing granularity, and 91% advances of AUSFB are secured as on September 30, 2023, providing comfort in terms of eventual loss on the portfolio. The bank's GNPA levels hovered about 1.7-2.1% between FY18 and FY20, rising to peak levels of 4.3% as on March 31, 2021, due to COVID-19 impact on borrowers.

Wheels and micro business loans (MBL; earlier known as secured business loans) – two biggest segments for AUSFB – saw higher slippages in the COVID-19 period of FY21 and FY22. Asset quality has since been improving quarter-on-quarter, improved from the peak of June 2021, with the GNPA ratio at 1.66% as on March 31, 2023, considering improving environment post-COVID increasingly supporting borrowers' cashflows and repayment behaviour. This aided recoveries and resolutions of stressed cases significantly, resulting in improved collection efficiency in FY23. However, delinquencies increased in 9MFY24, mainly due to seasoning of its increasing credit card portfolio impacting credit cost and resulting in a GNPA ratio of 1.98% as on December 31, 2023, which stood in the pre-COVID range. The credit card book stood at ₹2,740 crore, contributing about 4% of gross advances as on December 31, 2023. Net stressed assets (net stressed assets = net non-performing assets [NNPA] + standard restructured + security receipts outstanding)-to-net worth ratio improved from 23% as on March 31, 2021, to 8% as on December 31, 2023. As on December 31, 2023, COVID-19 restructured constituted 0.7% of gross advances, with the provision cover at 1.75% of gross advances, providing cushion against asset quality shocks.
FSFB reported GNPA and NNPA ratio of 1.87% and 0.77% as on December 31, 2023. On a combined basis, the GNPA and NNPA ratio stood at 1.97% and 0.70% respectively as on the same date.
CARE Ratings expects the merger to add to the relatively risker portfolio of microfinance, which may increase credit cost and asset quality going forward. However, the proportion of unsecured book will be limited to 15-20% with microfinance book capped at 10% of loan portfolio (including securitisation), limiting the impact on asset quality.

Key weaknesses

Limited product diversification and lower seasoning of non-vehicle/non-MBL portfolio

AUSFB's portfolio grew significantly in the micro, small, and medium enterprise (MSME) segments in the last few years. Post-conversion to an SFB, it started new products such as business banking, gold loan, agri loan, and home loan, among others. As on December 31, 2023, the wheels segment comprised 30% of gross advances, MBL was 28%, and other products including home loan, business banking, agri, small and medium enterprise (SME), non-banking financial company (NBFC), and builder loans comprised the balance 42% of the Gross Advances, reflecting concentration in wheels and MSME segments.

However, the bank has scaled up its efforts for diversifying into products such as business banking, agri, MSME, personal loan, home loan, and credit card, among others. The portfolio built-up seasoning in these products is still low, with their performance over cycles yet to be tested. CARE Ratings expects the merger with FSFB to boost existing products such as home loan, gold loan, and MBL, further diversifying with the addition of microfinance although this would be restricted to 10% of Gross Advances up to FY27.

Regional concentration and relatively moderate size

As on December 31, 2023, AUSFB's distribution network is spread around 21 States and three Union Territories having 1,049 touchpoints, of which 402 touchpoints (38%) are in Rajasthan, followed by Gujarat having 154 touchpoints (15%), and Madhya Pradesh having 142 touchpoints (14%), accounting for 67% of the total branch distribution. Top three states constituted 63% of advances and 58% of deposits as on December 31, 2023. The company intends to leverage its branch network to drive greater and deeper penetration in the Western and Northern states of India in which it operates, focusing on low and middle-income individuals and businesses that have limited or no access to formal banking and finance channels, spanning rural, semi-urban, and urban markets. The merger is expected to add approximately 1,300 touchpoints and help AUSFB diversify geographically with access to newer geographies in the southern states of India, going forward.

Although AUSFB has seen strong growth in past few years, its merged asset size continues to be relatively smaller as compared with private sector universal banks in India.

Liquidity: Adequate

AUSFB's asset liabilities maturity (ALM) profile as on December 31, 2023, had no negative cumulative mismatches per the Structural Liquidity Statement in time buckets up to six months. To manage gaps in an optimum manner, the bank has been focusing on increasing granular deposit, where retail term deposits and CASA contributed 64% of total deposits. AUSFB's average liquidity coverage ratio (LCR) stood at 123% for the quarter-ended December 31, 2023, as against the regulatory requirement of 100%. The bank has maintained sufficient excess statutory liquidity ratio (SLR) and high-quality non-SLR instruments, which can be readily used for repo or liquidated in the secondary market. It can also resort to Rupee borrowing as corporate deposits (CDs), term money, portfolio securitisation, and re-finance from domestic financial institutions such as NABARD, SIDBI, MUDRA, NHB, and others, in case of liquidity need. The bank 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

- Opened more than 6,000 green fixed deposit accounts and raised more than ₹150 crore.
- More than ₹45 crore deployed in green asset lending.
- Solar projects and electric vehicles getting funded with greater traction in retail segment.

Social

- Skill development is the flagship project of the bank. Up to Q3FY24, 17,900 youth were trained and 14,020 linked to employment across 16 centres and 78% successfully linked to employment.
- Rural Sports Initiative Project, aimed at holistic development of rural children, is live across 64 locations with more than 8,100 children in the age group of 8-16 years getting trained by certified coaches.
- The bank supports women entrepreneurs for livelihood generation and capacity building by providing support and access. To date, more than 2,300 women are engaged and 724 are nurtured.

Governance

- The bank has 80% independent directors, 20% women directors.
- Board committee on sustainability driving the sustainability agenda.

Applicable criteria

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

About the company and industry

Industry classification

Macro-economic 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 CV 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 into MSME and SME, housing loans, and structured financing and other types of vehicle financing.

The company received the license of an SFB from the RBI in December 2016 and commenced banking operations from April 2017; it received the status of an SCB in November 2017. Post becoming an SFB, it expanded its product portfolio and geographical footprint.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
	12M	12M	9M
Total income	6,915	9,240	8,915
PAT	1,130	1,428	1,164
Total assets#	68,936	90,123	1,01,035
Net NPA (%)	0.50	0.42	0.68
ROTA (%)	1.88	1.80	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.

FSFB

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

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
	12M	12M	9M
Total income	1,648	1,971	2,161
PAT	9	104	308
Total assets#	10,813	12,388	15,519
Net NPA (%)	3.55	1.30	0.77
ROTA (%)	0.09	0.89	2.94

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 except for 9MFY24.

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

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
Lower Tier-II bonds	INE519Q08137	22-03-2018	11.30%	22-06-2024	38.00	CARE AA; Stable
Lower Tier-II bonds	INE519Q08145	20-03-2018	11.30%	20-06-2024	37.00	CARE AA; Stable
Bonds- Tier-II bonds	INE519Q08152	30-09-2019	12.87%	30-09-2025	100.00	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	Proposed	-	-	-	175.00	CARE AA; Stable
Certificate of deposit	INE949L16CF0	06-Mar-24	8.17%	27-03-2024	100.00	CARE A1+
Certificate of deposit	INE949L16CG8	07-Mar-24	8.17%	05-Mar-25	100.00	CARE A1+
Certificate of deposit	INE949L16CH6	11-Mar-24	8.15%	06-Mar-25	200.00	CARE A1+
Certificate of deposit	INE949L16CH6	11-Mar-24	8.15%	10-Mar-25	50.00	CARE A1+
Certificate of deposit	INE949L16CK0	14-Mar-24	7.95%	10-Mar-25	100.00	CARE A1+
Certificate of deposit	INE949L16CK0	14-Mar-24	7.95%	13-Jun-24	100.00	CARE A1+
Certificate of deposit	INE949L16CL8	20-Mar-24	7.95%	13-Jun-24	100.00	CARE A1+
Certificate of deposit	INE949L16CI4	13-Mar-24	8.15%	19-Jun-24	50.00	CARE A1+
Certificate of deposit	INE949L16CI4	13-Mar-24	8.15%	20-Feb-25	200.00	CARE A1+
Certificate of deposit	Proposed	-	-	Upto 364 days	400.00	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 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	1400.00	CARE A1+	-	1)CARE A1+ (15-Mar-24) 2)CARE A1+ (11-Mar-24) 3)CARE A1+	1)CARE A1+ (27-Jul-22)	1)CARE A1+ (23-Mar-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
						(03-Oct-23) 4)CARE A1+ (04-Apr-23)		
3	Bonds-Tier II Bonds	LT	200.00	CARE AA; Stable	-	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 (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-Tier II Bonds	LT	150.00	CARE AA; Stable	-	1)CARE AA; Stable	1)CARE AA; Stable	-

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
						(15-Mar-24) 2)CARE AA; Stable (11-Mar-24) 3)CARE AA; Stable (03-Oct-23) 4)CARE AA; Stable (04-Apr-23)	(27-Jul-22)	
6	Bonds-Lower Tier II	LT	75.00	CARE AA; Stable				
7	Bonds-Tier II Bonds	LT	150.00	CARE AA; Stable				
8	Bonds-Tier II Bonds	LT	100.00	CARE AA; Stable				

LT-long term; ST-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
3	Bonds- Lower Tier II bonds	Complex

Annexure-5: Lender details

Not applicable

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sanjay Agarwal Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3500 E-mail: Sanjay.agarwal@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: +91-44-2850 1001 E-mail: pradeep.kumar@careedge.in	Sudhakar P Director **CARE Ratings Limited** Phone: +91-044-28501003 E-mail: p.sudhakar@careedge.in Aditya R Acharekar Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3528 E-mail: aditya.acharekar@careedge.in

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.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in

CRISIL
Ratings

Rating Rationale

April 10, 2024 | Mumbai

AU Small Finance Bank Limited

Ratings reaffirmed at 'CRISIL AA+/CRISIL AA/Stable/CRISIL A1+'

Rating Action

Rs.40000 Crore Fixed Deposits	**CRISIL AA+/Stable (Reaffirmed)**
Rs.1100 Crore Certificate of Deposits	**CRISIL A1+ (Reaffirmed)**
Tier II Bond Aggregating Rs.1150 Crore	**CRISIL AA/Stable (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA/CRISIL AA+/Stable/CRISIL A1+' rating on outstanding debt instruments of AU Small Finance Bank Limited (AU SFB).

On April 1, 2024, the bank announced completion of its scheme of arrangement with Fincare Small Finance Bank (Fincare SFB) whereby the latter has merged into AU SFB through an all-stock merger. The scheme of arrangement was approved by the board of directors and shareholders of both the banks and has also received approvals from the Competition Commission of India and the Reserve Bank of India.

According to the terms of this scheme, which was initially announced on October 29, 2023**,** Fincare Business Services Ltd, the promoter of Fincare SFB, has infused Rs 700 crore into it in March 2024. As part of the scheme, shareholders of Fincare SFB received 579 shares of AU SFB in exchange for 2000 shares of Fincare SFB. In the merged entity, erstwhile shareholders of Fincare SFB (pre-merger) hold ~9.9% stake in AU SFB.

The merger is expected to expand the geographic footprint for AU SFB given their presence in north and northwest India and Fincare SFB strong presence in south India. With the merger, AU SFB's portfolio will get diversified to include Fincare SFB's microfinance, mortgages, and gold loan businesses whereas the latter's customers will get access to a wider range of products. Apart from this, there will be technological, revenue and cost synergies to both the banks.

The merged entity will also be able to leverage AU SFB's strong product and digital capabilities to grow its deposits and lending franchise and Fincare SFB's distribution network in rural and semi-urban areas. The combined entity is estimated to have gross loan portfolio of over Rs 96,000 crore and deposit base of over Rs 97,000 crore as on March 31, 2024. Based on September 2023 proforma numbers, the share of microfinance book in the merged entity was estimated to be ~7.5%.

The overall ratings continue to reflect AU SFB's demonstrated ability to meet the expectations around improvement in asset quality and earnings profile and sustenance in the bank's overall capitalisation and deposit mobilization. Given the size of AU SFB as compared to Fincare SFB, the existing performance of AU SFB is expected to sustain and improve from hereon**.** However, these strengths are partially offset by lower share of current and savings account deposits as compared to peers.

The bank has demonstrated its ability to manage its asset quality through business cycles. From peak GNPA levels of 4.3% as on March 31, 2021 witnessed during the pandemic era, the asset quality has stabilised and stood at 1.7% on March 31, 2023 and 2.0% on December 31, 2023.

Further, the bank has also maintained healthy profitability metrics, with stable return on assets (RoA) in last 2 fiscals. The NIM has declined slightly from 5.4% in fiscal 2023 to 5.0% in first nine months of fiscal 2024 due to the rising interest rate scenario. The operating expenses and credit cost have remained range bound between 4.2%-4.4% and 0.2%-0.4%, respectively. The bank reported an RoA of 1.6% for nine months ended December 31, 2023 as against 1.8% in full fiscal 2023. For the merged entity, RoA is expected to range around 1.7%.

In terms of overall business, the bank had advances of Rs 82,175 crore on March 31, 2024, marking a yearly growth of ~28%. On the liability side, the traction in deposit franchise continues - reflected in a deposit base of Rs 87,182 crore on

March 31, 2024. The share of retail deposits and CASA (current account and savings account) in the total deposits, was 64% and 33% respectively, as on December 31, 2023.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has taken a standalone view on the credit risk profile of AU SFB.

Key Rating Drivers & Detailed Description

Strengths:

- **Adequate capitalisation**
  Capitalisation, adequate in relation to the bank's scale of operations, is supported by steady internal accruals apart from the bank's track record to raise need-based capital. As on December 31, 2023 the bank's networth increased to Rs 12,167 crore from Rs 10,977 crore as on March 31, 2023 as against Rs 7,514 crore on March 31, 2022. AU SFB had raised Rs 2000 crore via Qualified Institutional Placement (QIP) in fiscal 2023 and Rs 500 crore raised via Tier II bonds during the same year. The bank's reported overall and tier 1 capital adequacy ratios (CAR) were comfortable at 19.6% and 20.8%, respectively as on December 31, 2023, and both these metrics have remained above the regulatory requirement of 15% historically. The bank is expected to maintain adequate capitalization, on a merged basis.

- **Sustained ramp-up in deposit franchise**
  The bank's deposit base has registered a steady growth rate over the three fiscals alongside an increasing share of retail deposits (retail term deposits and CASA) as a proportion of total deposits and, of overall external liabilities as well. Registering a 3 year CAGR of 38.4%, the bank's deposit base stood at Rs 69,365 crore as on March 31, 2023 which constitutes 92% of the total borrowings as compared to 84%, two years ago. The deposits further grew Rs 87,182 crore as on March 31, 2024.

  The deposit mix has been evolving, with higher focus on retail deposits. The aggregate share of CASA and retail term deposits (TD, of less than Rs 2 crore) in the total deposit base (including Certificates of Deposit) has been increasing consistently. As compared to 44% as on March 31, 2020, the proportion increased to 69% as of March 31, 2023.

  Alongside growth in deposit base, the average cost of funds declined as incremental funds are being sourced in the form of low cost deposits and refinance from financial institutions. For fiscal 2017, cost of funds[1] was 9.6%, which declined to 8.43% for fiscal 2018 and subsequently to 5.6% for fiscal 2023. It further increased marginally and stood at 6.2% in 9MFY24 due to the macro economic scenario.

  Over the near to medium term, the bank's ability to sustain improvement in its retail deposit franchise reflected by consistent increase in the share of retail deposits (retail TDs and CASA) in the total deposit and overall liabilities base, while maintaining competitive cost of funds, will serve as a key rating sensitivity factor.

- **Demonstrated track record of maintaining better than average asset quality metrics**
  AU SFB has sustained its asset quality over the past few years supported by strong focus on portfolio monitoring and collection practices. This is in addition to the sound understanding of the operating geography and borrower profile. Up until March 2020, the bank's reported GNPA had remained below 3%. Reported GNPAs and NNPAs, after rising to 4.3% and 2.3% as on June 30, 2021, respectively due to the pandemic started to decline on sequential basis and stood at 2.0% and 0.7% respectively on December 31, 2023.

  The bank had a standard restructured portfolio of around 1.2% of gross advances as on March 31, 2023, down from 2.1% of gross advances as at the end of June 2022. Majority of these loans were restructured in Q4'FY21 and Q1'FY22. It was also noted that the bank extended loans under Emergency Credit Line Guarantee Scheme (ECLGS) to the tune of Rs 569 crore in fiscal 2021 and Rs 500 crore fiscal 2022. Over the medium to long term, the pace at which the bank reinstates repayment discipline among its borrowers and maintains its resolution rate will remain a key monitorable.

  Over the past two fiscals, the bank has diversified its product suite and the MBL (Micro Business Loans/loans to micro small and medium enterprises, MSME) book and it will further diversify its product suit by addition of microfinance and gold loan portfolio on account of amalgamation with Fincare SFB. The loan portfolio has grown at a robust pace. Wheels (vehicle loans), which was the largest asset class with over 40% share in the gross advances until a few quarters ago, currently forms 32% of the gross advances. As the book is of relatively longer tenure and has grown at fast pace, the asset quality behavior here would be a key monitorable.

- **Adequate profitability**
  In the first nine months of fiscal 2024, bank reported profit after tax of Rs 1164 crore (RoA of 1.6%) and Rs 1428 crore in fiscal 2023 (RoA of 1.8%) as against Rs 1130 crore (RoA of 1.9%) in the previous fiscal. Net interest income has increased from fiscal 2023 onwards on account of growth in business volumes, partly impacted by increased cost of funds. Recoveries from write offs, classified under other income, had also increased during the period. Credit cost declined to 0.4% in nine months of fiscal 2024 and to 0.2% in fiscal 2023 as against 0.6% in previous fiscal. Operating costs inched up to 4.3% in fiscal 2023 from 4% in previous fiscal, primarily due to continued investment in credit card business and digital initiatives like QR and video banking. AU SFB will be acquiring the high yielding micro finance segment on account of the amalgamation which will push up the NIM's and profitability of AU SFB.

In the medium term to long term, AU SFB is expected to enhance its net interest margin driven by strong market position in core territories and product segments, which allow it to price in the risks suitably. Operating expense ratios should remain at current levels given there are no major expansion plans in the medium term apart from the branch expansion on account of amalgamation with Fincare. The ability of the bank to sustain its overall profitability, while scaling business across segments like MBL (MSME), Microfinance (MF) which will be acquired from Fincare SFB will remain critical.

Weakness:

- **CASA, though improving, remains low as a proportion of overall liabilities in comparison with larger private banks**

  While AU SFB has demonstrated its ability to ramp-up deposit base in the initial phase of its banking journey and continues to do so gradually, its CASA – though improved over the last fiscal – remains lower than that of other larger private banks.

  While the share of CASA plus retail deposits rose to 69% as on March 31, 2023 from 44% as on March 31, 2020, share of bulk deposits still remains higher than a number of other private banks. Bulk deposits, as opposed to retail deposits, are inherently rate-sensitive and not sticky. However, 56% of AU SFB's bulk term deposits are reported to be non-callable. Nevertheless, they pose inherent challenges in managing asset liability maturity mismatches, particularly when the liquidity environment is tight. Consequently, building a granular deposit profile with a solid share of CASA is critical.

  The share of CASA, though improved, was lower than that for larger private banks at 35.2% of total borrowings (deposits plus other borrowings) and 38.4% of the total deposit base (including certificate of deposits) as on March 31, 2023. Fiscal 2020 witnessed disruptive events at two banks - one in September 2019 and the other in March 2020 that had an impact on deposit inflow for a number of private banks. In the aftermath of both, the inflow of incremental deposits moderated for AU SFB for a short span before correcting to business-as-usual rates soon after.

  In the medium to long term, AU SFB’s ability to sustain this improvement in CASA such that its share in the total deposits and overall borrowings of the bank increases and demonstrates sustainability, will be a key rating sensitivity factor.

---

[1] *As per CRISIL ratings’ methodology*

<u>Liquidity: Strong</u>

The bank reported an average Liquidity Coverage Ratio (LCR) of 123% for the quarter ended December 31, 2023, against regulatory requirement of 100%. Moreover, the bank had an adequate balance of excess SLR and other avenues of liquidity. It has also mobilized funds as refinance from NABARD and SIDBI.

<u>ESG Profile</u>

CRISIL Ratings believes that AU SFB’s Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile.

The ESG profile of financial institutions typically factors in governance as a key differentiator between them. The sector has reasonable social impact because of its substantial employee and customer base, and it can play a key role in promoting financial inclusion. While the sector does not have a direct adverse environmental impact, the lending decisions may have a bearing on environment and other sustainability related factors.

AU SFB has demonstrated an ongoing focus on strengthening various aspects of its ESG profile.

AU SFB’s key ESG highlights:

- As part of its ESG strategy, the bank has identified certain environmental challenges and has been taking actions to make meaningful contribution. With that as the target, the bank has been promoting digital-first approach. By introducing digital visiting cards and digitalized operations through paperless onboarding and video banking platform, the bank has contributed towards reducing carbon footprint which in turn helped the bank save approximately 30,00,000 papers in fiscal 2022.
- The bank encourages the use of renewable energy. As on March 31, 2022, 9% of bank’s Wheels book is covered under green portfolio.
- To contribute towards building a responsible banking industry by serving customers across the socio-economic spectrum, the bank is furthering the cause of financial inclusion by making financial services accessible to the under-served. Last fiscal, over 1,93,000 customers were provided financial services under Jan Dhan Yojana.
- The bank has been using energy-efficient systems and sustainable infrastructure for its operations and follow the circular economy model for waste management. In fiscal 2022, the bank installed a 1.25 MW solar plant in Jaipur.
- With an intent to make meaningful contributions to the communities through its AU Foundation, last fiscal the bank contributed towards Covid-19 relief activities, focusing majorly on addressing the oxygen shortage during second wave, strengthening delivery system, providing safety equipment’s and trainings, community vaccinations etc.
- About 5-6% of the bank’s workforce comprised females and ratio of permanent employees to contract employees was 30.2 times for fiscal 2021. Number of women as part of the workforce were lower than peers, at 5-6% for fiscal 2021

and are estimated to have remained at similar level in fiscal 2022 as well.

- The strength of governance is reflected in the extensive experience of the board and management, over 80% of the board comprised independent directors. More so, there is a distinction between the Chairman and any executive role at the bank.
- In the past, there have been certain exits in key management positions (chief internal auditor and chief risk officer) in a short time window due to personal reasons/ internal movements. In the long run, stability in the senior management will remain a monitorable.

There is growing importance of ESG among investors and lenders. AU SFB's commitment to ESG will play a key role in enhancing stakeholder confidence, given high share of foreign investors as well as access to both domestic and foreign capital markets

Outlook: Stable

CRISIL Ratings believes AU SFB will sustain its asset quality metrics and profitability at above average levels while scaling up the loan portfolio. The build-up of the bank's liability franchise driven by an increasing share of CASA and retail term deposits – in total deposits and overall borrowings - is also expected to continue.

Rating Sensitivity factors

Upward factors

- Continued increase in share of CASA and overall deposits as a proportion of total borrowings in line with other mid-size private sector banks
- Scale-up of operations while maintaining asset quality with GNPA below 3% and, profitability at above RoA level of 2.5% on a steady state basis.

Downward factors

- Deterioration in asset quality reflected in rise in GNPA to over 4% and weakening of earnings profile evidenced by RoMA remaining below 1.5% for a prolonged period, resulting in moderation of capitalization
- Inability to sustain and improve the momentum of traction is overall deposits and CASA declining to and remaining below 30% of total deposits.

About the Bank

AU SFB (formerly Au Financiers (India) Ltd) was incorporated in 1996 as an NBFC, promoted by Mr. Sanjay Agarwal, with 28+ years legacy of being a retail focused institution. AU SFB started its banking operations in April 2017 and listed its shares on Bombay Stock Exchange and National Stock Exchange in July 2017. AU SFB has an established market position in Rajasthan, and has expanded operations to Maharashtra, Gujarat, and other states over the years. AU SFB's main focus is retail asset-financing segment, primarily in the vehicle financing segment (around 32% of gross advances as on March 31, 2023) alongside Micro Business Loans (31% of gross advances as on March 31, 2023). Other segments include housing, gold loans, personal loans, overdraft, and commercial banking products.

AU SFB's liability product offerings include the entire gamut of current account, savings account, recurring and term deposits, transaction banking, bouquet of third-party mutual funds and insurance covers.

As on December 31, 2023, AU SFB had established operations across 1049 banking touchpoints while serving ~46.8 Lakh customers in 21 States & 3 Union Territories with an employee base of around 28,904, employees.

Key Financial Indicators : AU Small Finance Bank

As on/for the period ended	Unit	9M 2024	2023	2022
Total assets	Rs crore	1,01,176	90,216	69,078
Total income	Rs crore	8,915	9,240	6,915
Profit after tax	Rs crore	1,164	1,428	1,130
Gross NPA	%	2.0	1.7	2.0
Capital adequacy ratio	%	20.8	23.6	21.0
Return on assets	%	1.6	1.8	1.9

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
INE949L08418	Tier II Bonds	30-Nov-2018	10.90%	30-May-2025	500	Complex	CRISIL AA/Stable
NA	Tier II Bonds^	NA	NA	NA	50	Complex	CRISIL AA/Stable
NA	Certificate of Deposits	NA	NA	7-365 days	1100	Simple	CRISIL A1+
NA	Fixed Deposits	NA	NA	NA	40000	Simple	CRISIL AA+/Stable
INE949L08426	Tier II Bonds	3-Aug-2022	9.30%	23-Aug-2032	50	Complex	CRISIL AA/Stable
INE949L08434	Tier II Bonds	3-Aug-2022	9.30%	13-Aug-2032	100	Complex	CRISIL AA/Stable
INE949L08442	Tier II Bonds	3-Aug-2022	9.30%	3-Aug-2032	450	Complex	CRISIL AA/Stable

^Yet to be issued

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Certificate of Deposits	ST	1100.0	CRISIL A1+		--	07-11-23	CRISIL A1+	28-07-22	CRISIL A1+	23-11-21	CRISIL A1+	CRISIL A1+
			--		--	21-07-23	CRISIL A1+	07-07-22	CRISIL A1+		--	--
			--		--		--	29-06-22	CRISIL A1+		--	--
Fixed Deposits	LT	40000.0	CRISIL AA+/Stable		--	07-11-23	CRISIL AA+/Stable	28-07-22	CRISIL AA+/Stable	23-11-21	F AA+/Positive	F AA+/Stable
			--		--	21-07-23	CRISIL AA+/Stable	07-07-22	CRISIL AA+/Stable		--	--
			--		--		--	29-06-22	CRISIL AA+/Stable		--	--
Non Convertible Debentures	LT		--		--		--	07-07-22	Withdrawn	23-11-21	CRISIL AA-/Positive	CRISIL AA-/Stable
			--		--		--	29-06-22	CRISIL AA/Stable		--	--
Subordinated Debt Bond	LT		--		--		--	28-07-22	Withdrawn	23-11-21	CRISIL AA-/Positive	CRISIL AA-/Stable
			--		--		--	07-07-22	CRISIL AA/Stable		--	--
			--		--		--	29-06-22	CRISIL AA/Stable		--	--
Tier II Bond	LT	1150.0	CRISIL AA/Stable		--	07-11-23	CRISIL AA/Stable	28-07-22	CRISIL AA/Stable	23-11-21	CRISIL AA-/Positive	CRISIL AA-/Stable
			--		--	21-07-23	CRISIL AA/Stable	07-07-22	CRISIL AA/Stable		--	--
			--		--		--	29-06-22	CRISIL AA/Stable		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Banks and Financial Institutions

CRISILs criteria for rating fixed deposit programmes
CRISILs Criteria for rating short term debt

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Ajit Velonie Senior Director **CRISIL Ratings Limited** B:+91 22 3342 3000 ajit.velonie@crisil.com Subha Sri Narayanan Director **CRISIL Ratings Limited** B:+91 22 3342 3000 subhasri.narayanan@crisil.com AANCHAL VIJAY BIYANI Manager **CRISIL Ratings Limited** B:+91 22 3342 3000 AANCHAL.BIYANI@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

Note for Media:
This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: TWITTER | LINKEDIN | YOUTUBE | FACEBOOK

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, www.crisilratings.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee - more details about ratings by CRISIL Ratings are available here: www.crisilratings.com.

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, www.crisilratings.com. For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html