Ref. No.: AUSFB/SEC/2023-24/238
Date: November 07, 2023
To,

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

Dear Sir/Madam,

Sub: – Re-affirmation of 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 CRISIL & CARE Ratings has reaffirmed rating of **CRISIL AA/Stable (Double A; Outlook: Stable) & CARE AA/Stable (Double A; Outlook: Stable)** to the Long-Term Debt Instruments (Tier-II Bonds) of the Bank**.**

The rating on Short-term Instruments (Certificate of Deposits) of the Bank has been reaffirmed at **CRISIL A1+(A One Plus) & CARE A1+(A One Plus)**.

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	-	07-11-2023	Verified	07-11-2023
2	INE949L08426	CARE Ratings	CARE AA	Stable	Reaffirm	-	07-11-2023	Verified	07-11-2023
		CRISIL Ratings	CRISIL AA	Stable	Reaffirm		07-11-2023	Verified	07-11-2023
3	INE949L08434	CARE Ratings	CARE AA	Stable	Reaffirm	-	07-11-2023	Verified	07-11-2023
		CRISIL Ratings	CRISIL AA	Stable	Reaffirm		07-11-2023	Verified	07-11-2023
4	INE949L08442	CARE Ratings	CARE AA	Stable	Reaffirm	-	07-11-2023	Verified	07-11-2023
		CRISIL Ratings	CRISIL AA	Stable	Reaffirm		07-11-2023	Verified	07-11-2023

Rating Rationale of the CRISIL and CARE Ratings is 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: 2023.11.07 21:55:38 +05'30'

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

CRISIL Ratings

Rating Rationale

November 07, 2023 | Mumbai

AU Small Finance Bank Limited

Rated amount enhanced for Certificate of Deposits

Rating Action

Rs.125 Crore Tier II Bond	**CRISIL AA/Stable (Reaffirmed)**
Rs.525 Crore Tier II Bond	**CRISIL AA/Stable (Reaffirmed)**
Rs.500 Crore Tier II Bond	**CRISIL AA/Stable (Reaffirmed)**
Rs.40000 Crore Fixed Deposits	**CRISIL AA+/Stable (Reaffirmed)**
Rs.1100 Crore (Enhanced from Rs.600 Crore) Certificate of Deposits	**CRISIL A1+ (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+' ratings on outstanding debt instruments of AU Small Finance Bank Limited (AU SFB).

CRISIL Ratings has taken note of the announcement by AU SFB on October 29, 2023, pertaining to the amalgamation of Fincare Small Finance Bank (Fincare) with and into AU SFB through an all-stock merger.

The scheme of arrangement has been approved by the board of directors of both banks. The merger is subject to approvals from shareholders, the Reserve Bank of India and the Competition Commission of India.

According to the terms, Fincare Business Services Ltd, the promoter of Fincare SFB, shall infuse Rs 700 Cr into Fincare SFB prior to the completion of the merger. Upon obtaining the required approvals, Fincare SFB shareholders shall receive 579 shares in AU SFB for 2,000 shares of Fincare SFB. Post merger, existing shareholders of Fincare SFB shall hold ~9.9% in AU SFB.

The merger is expected to expand the geographic footprint for AU SFB given their presence in north and north west India and Fincare's strong presence in south India. With the merger, AU SFB's portfolio will get diversified to include Fincare's microfinance, mortgages, and gold loan businesses whereas Fincare SFB'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 leverage AU SFB's strong product and digital capabilities to grow its deposits and lending franchise and Fincare's distribution network in rural and semi-urban areas. The combined entity is expected to have gross advances of over Rs 80,000 crore and deposits base of over Rs 85,000 crore. The share of microfinance book in the merged entity is expected to be ~7.5%.

In terms of timeline of the amalgamation, the effective merger date is February 01, 2024 and the amalgamation is expected to be completed in 3-4 months of receipt of RBI approval.

The rating continues to reflect AU SFB's demonstrated ability to meet the expectations around improvement in asset quality and earnings profile and the sustenance in the bank's overall performance in terms of capitalization and deposit mobilization. Given the size of AU SFB as compared to Fincare 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 in the post-Covid scenario and maintain non-performing assets (NPAs) at a level which is lower than peers. Post Covid-19, the GNPAs peaked at 4.3% as of March 31, 2021 and remained at elevated levels on account of the pandemic's second wave's disruption. However, with gradual relaxation in lockdown restrictions and resumption in customer's cash-flows led to improved collection efficiency, AU SFB's asset quality has revived strongly. As of March 31, 2023, the bank reported an improved GNPA of 1.7% whereas NNPA stood at 0.4%. The GNPA remained range bound between 1.7% to 1.9% in the first half of fiscal 2024 and the same is expected to be sustained in the medium term.

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 5.6% in fiscal 2023 to 5.4% in first half of fiscal 2024 due to the rising interest rate scenario. The operating expenses and credit cost have remained range bound between 4.4% to 4.6% and 0.1% to 0.3%, respectively. The bank reported RoA of 1.7% as on September 30, 2023 and 1.8% in fiscal 2023 and fiscal 2022.The RoA is expected to inch up to 1.9% post amalgamation.

There has also been a sustained improvement in the bank's overall liability profile marked by increasing share of deposits in the overall external liabilities and continued ramp up in retail deposit franchise. As on September 30, 2023 the overall deposits increased to Rs 75,743 crore from Rs 69,365 crore as on March 31, 2023. The depositor profile for Fixed Depsot (FDs) remains diversified with almost 60% of it being sourced from individuals, sole proprietors, partnership firms, among others. In terms of maturity profile of outstanding FDs, the share of deposits having a tenure of more than nine months increased from 76% in March 2019 to 88% as of March 2023. The bank is now attempting to increase focus on its retail deposit franchise and forgo a few wholesale accounts if need be, with the dual objective of reducing cost of funds and to attain higher granularity.

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 September 30, 2023 the bank's networth increased to Rs 11,763 crore from Rs 10,977 crore as on March 31, 2023 as against Rs 7,514 crore on March 31, 2022, driven by a capital raise of Rs 2000 crore via Qualified Institutional Placement (QIP). Additionally, Rs 500 crore raised via Tier II bonds during fiscal 2023. The bank's reported overall and tier 1 capital adequacy ratios (CAR) were comfortable at 22.4% and 21.0%, respectively as on September 30, 2023, and both these metrics have remained above the regulatory requirement of 15% historically. The bank is expected to maintain adequate capitalization, post merger with Fincare.

- **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 75,743 crore as on September 30, 2023.

  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 was 9.6%, which declined to 8.43% for fiscal 2018 and subsequently to 5.6% for fiscal 2023. However, it inched up marginally and stood at 6.4% in H1FY24 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 1.9% and 0.6% respectively on September 30, 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 MFI and gold loan portfolio on account of amalgamation with Fincare. The AUM has grown at a robust pace. As the book is of relatively longer tenure and has grown at fast pace, the asset quality behavior here would be a key monitorable. 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.

- **Adequate profitability**
  In first half of fiscal 2024, bank reported profit after tax of Rs 789 crore (RoA of 1.7%) 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 0.3% in first half 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 fast growing segments like MBL (MSME), Microfinance (MFI) and gold loans which will be acquired from Fincare 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.

<u>Liquidity: Strong</u>

The bank reported an average Liquidity Coverage Ratio (LCR) of 139% for the quarter ended June 30, 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

<u>Outlook: Stable</u>

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 Banks

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) alongside Small Business Loans to MSMEs (29%). 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 March 31, 2023, AU SFB had established operations across 1027 banking touchpoints while serving 38.6 Lakh customers in 21 States & 3 Union Territories with an employee base of around 28,320, employees.

Key Financial Indicators

For the year ending March 31,	Unit	H12024	2023	2022
Total assets	Rs Crore	95,977	90,216	69,078
Total income	Rs Crore	5,730	9,240	6,915
PAT	Rs Crore	789	1,428	1,130
Gross NPA	%	1.9	1.7	2.0
Overall capital adequacy ratio	%	22.4	23.6	21.0
Return on assets	%	1.7	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-18	10.90%	30-May-25	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-22	9.30%	23-Aug-32	50	Complex	CRISIL AA/Stable
INE949L08434	Tier II Bonds	3-Aug-22	9.30%	13-Aug-32	100	Complex	CRISIL AA/Stable
INE949L08442	Tier II Bonds	3-Aug-22	9.30%	3-Aug-32	450	Complex	CRISIL AA/Stable

^Yet to be issued

Annexure - Rating History for last 3 Years

	Current	2023 (History)	2022	2021	2020	Start of 2020

Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST	1100.0	CRISIL A1+	21-07-23	CRISIL A1+	28-07-22	CRISIL A1+	23-11-21	CRISIL A1+	03-12-20	CRISIL A1+	CRISIL A1+
			--		--	07-07-22	CRISIL A1+		--	29-06-20	CRISIL A1+	--
			--		--	29-06-22	CRISIL A1+		--		--	--
Fixed Deposits	LT	40000.0	CRISIL AA+/Stable	21-07-23	CRISIL AA+/Stable	28-07-22	CRISIL AA+/Stable	23-11-21	F AA+/Positive	03-12-20	F 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	03-12-20	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--	29-06-22	CRISIL AA/Stable		--	29-06-20	CRISIL AA-/Stable	--
Subordinated Debt Bond	LT		--		--	28-07-22	Withdrawn	23-11-21	CRISIL AA-/Positive	03-12-20	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--	07-07-22	CRISIL AA/Stable		--	29-06-20	CRISIL AA-/Stable	--
			--		--	29-06-22	CRISIL AA/Stable		--		--	--
Tier II Bond	LT	1150.0	CRISIL AA/Stable	21-07-23	CRISIL AA/Stable	28-07-22	CRISIL AA/Stable	23-11-21	CRISIL AA-/Positive	03-12-20	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--	07-07-22	CRISIL AA/Stable		--	29-06-20	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 Senior Rating Analyst **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

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

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

AU Small Finance Bank Limited

November 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]
Tier-II bonds	200.00	CARE AA; Stable
Tier-II bonds	300.00	CARE AA; Stable
Tier-II bonds	150.00	CARE AA; Stable
Certificate of deposit	300.00	CARE A1+

Material event update

AU Small Finance Bank Limited (AUSFB), vide announcement to the stock exchanges on October 29, 2023, has informed that its Boards of Directors and the Board of Directors of Fincare Small Finance Bank Limited (FSFB), at their respective meetings held on October 29, 2023, have approved an all-stock scheme of amalgamation for the amalgamation of FSFB with and into AUSFB. The amalgamation is subject to the approval of shareholders of AUSFB and FSFB, respectively, and regulatory approvals including approval from Reserve Bank of India (RBI) and the Competition Commission of India (CCI). As a condition of the proposed amalgamation, the promoter of FSFB, viz., Fincare Business Services Ltd, shall infuse ₹700 crore into FSFB prior to the completion of the merger. The proposed amalgamation is expected to take place by end of FY24 subject to the requisite approvals and compliance with the conditions precedent.

The amalgamation would be through share exchange ratio of 579 equity shares of face value of ₹10 each of AUSFB, for every 2,000 equity shares of face value of ₹10 each of FSFB. Post merger, existing shareholders of FSFB shall hold around 9.9% in AUSFB.

Furthermore, all FSFB employees shall be a part of AUSFB post-merger and the Managing Director and Chief Executive Officer (MD & CEO) of FSFB would be designated as the Deputy CEO of AUSFB. The current nominee director of FSFB's board will join the AUSFB's Board as non-independent non-executive director.

The merger will increase the geographical reach of the AUSFB in south India, make the advances profile more granular and diversified due to addition of FSFB's customer base as well as introduce new product line, namely, microfinance. Although the proportion of unsecured loans would increase mainly due to addition of microfinance loan book, the overall proportion of unsecured loans to total advances is expected to remain low.

MFI and wheels are the major segments for FSFB and AUSFB, respectively, and will constitute 7.5% and 27.40% of gross advances of ₹75,570 crore of the merged company on a proforma basis as on September 30, 2023. On the liability side, the combined deposits would be around ₹85,196 crore with CASA proportion of deposits at 32.86% on a proforma basis. The proforma capital adequacy ratio (CAR) for merged entity would be comfortable at around 23.50% assuming primary capital infusion of ₹700 crore by the promoters of FSFB.

CARE Ratings Limited (CARE Ratings) has taken cognisance of the announcement and will continue to monitor the developments. However, as per CARE Ratings' assessment, this event is unlikely to have any negative impact on the credit profile of AUSFB going forward.

For the detailed press release of AUSFB, please click here.

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Banks	Private sector bank

AUSFB

AUSFB (erstwhile AU Financiers [India] Limited) was incorporated in 1996 as a non-banking finance company (NBFC) and started the commercial vehicle (CV) lending business in 2003 as a franchisee originator for HDFC Bank under 'Channel Business' and

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

later moved to lend on its own books since 2007. Over the years, the company forayed into the MSME/SME, housing loans and structured financing as well as other types of vehicle financing.
The company received the license of an Small Finance Bank (SFB) from the RBI in December 2016, commenced banking operations from April 2017, and received the status of a Scheduled Commercial Bank (SCB) in November 2017. Post becoming an SFB, it has expanded its product portfolio and geographical footprint. As on September 30, 2023, it has established operations across 1,042 banking touchpoints serving around 44.3 lakh customers across 21 states and three union territories (UTs) with an employee base of 28,523 employees.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
	12M	12M	6M
Total income	6,915	9,240	5,730
PAT	1,130	1,428	789
Total assets#	68,936	90,123	95,886
Net NPA (%)	0.50	0.42	0.60
ROTA (%)	1.88	1.80	1.70

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
Note: All analytical ratios are as 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 Small Finance Bank (SFB), which started its banking operations on July 21, 2017, post receipt of the final license from the RBI on May 12, 2017. The bank has been accorded the scheduled commercial bank status in April 2019. As on September 30, 2023, FSFB operates in 23 states/ UTs with 1,292 touchpoints. Gross advances stood at ₹10,541 crore consisting of microfinance (54%), micro business loans (MBL) (19%), home loans (14%) and gold loans (10%).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
	12M	12M	6M
Total income	1,648	1,971	1,360
PAT	9	104	219
Total assets	10,813	12,388	14,716
Net NPA (%)	3.55	1.30	0.77
ROTA (%)	0.09	0.89	3.23

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

.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Name: Sanjay Agarwal Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3500 E-mail: Sanjay.agarwal@careedge.in Name: Sudhakar P Director **CARE Ratings Limited** Phone: +91-044-28501003 E-mail: p.sudhakar@careedge.in Name: 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**