

Ref. No.: AUSFB/SEC/2017-18/565

Date: 20th March 2018

To,

Listing Department
National Stock Exchange of India Limited,
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai 400051,
Maharashtra.

Department of Corporate Services,
The Bombay Stock Exchange Limited,
Phiroz Jeejeebhoy Towers,
Dalal Street, Mumbai 400001,
Maharashtra.

NSE Symbol: AUBANK

BSE SCRIP CODE: 540611

Dear Sir(s),

Sub: Upgradation in ratings by CARE Ratings

Pursuant to the regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 please be informed that, CARE Ratings has upgraded rating of **AU SMALL FINANCE BANK LIMITED** from A+/Stable to AA-/Stable.

The rating upgrade announcement as issued by Rating Agency CARE Ratings is attached as annexure.

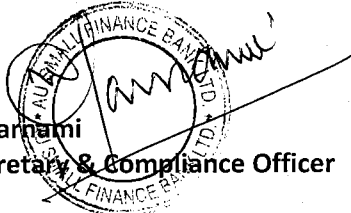
We request you to take the same on record.

This is for your information and appropriate dissemination.

Thanking You,

FOR AU SMALL FINANCE BANK LIMITED

Manmohan Parhami
Company Secretary & Compliance Officer



Registered Office

AU SMALL FINANCE BANK LIMITED

19-A Dhuleshwar Garden, Ajmer Road,
Jaipur - 302001, Rajasthan, India

Phone: +91 141 4110060/61, Fax: +91 141 4110090

CIN: L36911RJ1996PLC011381

Formerly known as Au Financiers (India) Limited

AU Small Finance Bank (formerly known as AU Financiers (India) Ltd)

March 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities- Term Loan	491.59 (reduced from Rs.542.18 crore)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Long term Bank Facilities- Cash Credit	-	-	Withdrawn
Total	491.59 (Rs. Four Hundred Ninety One crore and Fifty Nine lakh only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The revision in ratings factors in AU Small Finance Bank's (AUSFB) continued growth momentum post conversion into Small Finance Bank in April, 2017 and ability to mobilise considerable amount of deposits in a short span of time. The rating also takes into account the improvement in financial flexibility of the company post its listing of its equity shares on stock exchanges in July, 2017 and grant of schedule commercial bank status in November, 2017. The rating continues to factor in experienced management team, comfortable capitalization levels, comfortable liquidity profile, good resource profile and moderate asset quality.

The ratings are constrained by AUSFB's low seasoning of the non vehicle finance portfolio and regional concentration. Growing scale of operations while maintaining asset quality & profitability and diversification of the liability profile are key rating sensitivities.

CARE has withdrawn the rating assigned to the Long term Bank Facilities- Cash Credit of Rs. 557.82 crore of AUSFB with immediate effect, as the bank has fully repaid the amounts under the said issue and there is no amount outstanding under the issue as on date.

Detailed description of the key rating drivers**Key Rating Strengths**

Transition to small finance bank (SFB): The company commenced operations as SFB from April 2017. During this period of operations, the company has been able to ramp up its operations to 306 branches, 105 Asset centers, 23 Offices and 291 ATMs. It has also been able to mobilize deposits to the extent of Rs.3,716 crore forming 34% of its total borrowings as on December 31, 2017. The total asset size (net of intangibles and deferred tax assets) increased from Rs. 9,706 crore as on March 31, 2017 to Rs. 14,039 crore as on December 31, 2017. AUSFB's equity shares got listed on stock exchanges in July, 2017 and the bank also got the status of

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

a scheduled commercial bank from RBI on November 1, 2017 which has improved the financial flexibility of the company.

Experienced management: AU SFB is professionally managed under the overall guidance of the bank's Board of Directors (BoD) which includes individuals with wide experience in the financial services. The bank is led Mr. Sanjay Agarwal, promoter, a Chartered Accountant by qualification with over 2 decades of experience in the fields of finance and credit. He is assisted by senior management team members who are experienced in their respective fields.

Comfortable capitalization: As on December 31, 2017, the company's Tier I CAR and overall CAR Ratio were 20.0% and 21.0% respectively (21.5% and 23.0% respectively as on March 31, 2017). Capital adequacy improved in FY17 due to stake sale in subsidiaries / associates. AUSFB's management intends to maintain gearing levels at around 7 times in the medium term.

Good resource profile: Post conversion into SFB, AUSFB has been able to raise low cost deposits as compared to earlier reliance on only borrowings by way of bank facilities and market borrowings. This will reduce its cost of borrowing and further diversify its resource profile. The borrowing profile as on December 31, 2017 was NCD and deposits – 34% each, Refinance from FIs – 23%, Bank borrowings - 5%, Subordinated Debt – 3%, CBLO & Others -1%. The bank's Current Accounts Savings Account (CASA) deposits as proportion of total deposits was 37% as on December 31, 2017 (September 30, 2017: 33%).

Comfortable liquidity profile: As on December 31, 2017, the liquidity profile of the company was comfortable with positive cumulative mismatches upto 1 year time buckets. As on December 31, 2017 the company had committed bank lines of credit of Rs.240 crore to bridge any liquidity gaps. AUSFB had a liquidity coverage ratio of 118% as on December 31, 2017. Further, grant of schedule commercial bank status provides AUSFB an option to raise short term funds from RBI via the liquidity adjustment facility.

Moderate asset quality: As on March 31, 2017, Gross NPA ratio and Net NPA ratio stood at 1.89% [1.28% as on March 31, 2016] and 1.23% [0.81% as on March 31, 2016] respectively. Net NPA/ Tangible Net Worth was 4.28% as on March 31, 2017 [4.75% as on March 31, 2016].

As on December 31, 2017, Gross NPA ratio and Net NPA was 2.80% and 1.90% respectively while Net NPA/ Tangible Net Worth stood at 9.07%. The asset quality ratios have seen a moderation in 9MFY18 (refers to period April 1- December 31) on account of transition from 120+days past due (DPD) to 90+DPD from Q1FY18 onwards. However, the 90+DPD ratios of its vehicle portfolio remain relatively better than of its peers.

Key Rating Weakness

Regional concentration: As on March 31, 2017, for the retail assets (i.e. Vehicle loan, Secured Business Loan, Secured Business Loan-High Value Ticket, Gold loan, Agri loan, Consumer Durable loan), top three states of Rajasthan, Gujarat and Maharashtra collectively constituted 76% of AUM. (FY16-80%). Top 3 states accounted for 74% of the AUM as on December 31, 2017

Lower seasoning portfolio: Post conversion of SFB, while the bank has started new products like Business Banking, Gold Loan, Agri Loan and Consumer durables, The performance of its recently originated portfolio needs to be seen.

Industry Prospects

The banking sector is reeling under asset quality pressure thereby impacting profitability. The asset quality review conducted by RBI led to build up of non-performing assets. Credit growth has been subdued due to slowdown in the economy and capital constraints especially in the case of PSU banks. Going forward, asset quality stress is expected to continue and profitability will be subdued. Only with the turnaround in the economy and resolution of NPAs, the banking sector would embark on a growth trajectory. Though GOI has announced the plan for recapitalization of public sector banks which is a positive for the industry, the implementation of the same is yet to be seen.

Analytical approach: Standalone**Applicable Criteria**

Criteria on assigning outlook to Credit Ratings

CARE's policy on default recognition

Financial Ratios-Financial Sector

CARE's Criteria for NBFC

CARE's Rating Methodology for Banks

About AU Small Finance Bank

AU Small Finance Bank (erstwhile AU Financiers (India) Ltd) (AUSFB) was incorporated in 1996 as an NBFC, by Mr. Sanjay Agarwal. The company received license of SFB from Reserve Bank of India on December 20, 2016 and commenced the banking operation from April 19, 2017. The company got listed on BSE and NSE on July 10, 2017. The company also received Schedule Commercial bank status in November 2017. The company started CV lending business in 1996 and later became franchisee originator for HDFC Bank under 'Channel Business' in 2003 where the risk was being fully borne by the company. The Company moved to lending on its own books since 2007. Over the years, the company has also forayed into MSME / SME, Housing, NBFC financing & Construction financing to small builders and other types of vehicle financing. As part of the transition process to SFB, the company sold 90.10 % stake in AU Housing Finance (renamed as Avas Financiers

Ltd). Post becoming SFB it has expanded its portfolio to Gold loans, Agri Loan and Consumer Durables. As on December 31, 2017, AUSFB an AUM of Rs.13,415 crore.

Brief Financials (Rs. Crore)	FY16 (A)	FY17 (A)
Total Income	1,105	1,387
PAT	212	822*
Total Assets [^]	6,270	9,706
Gross NPA (%)	1.28	1.89
ROTA (%)	2.86	7.27*

A-Audited; *including profit on sale of investment in subsidiaries/ associates; ^ net of intangibles and deferred tax assets

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Mr. Abhishek Gupta

Tel: 022 67543558

Email: abhishek.gupta@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long term Bank Facilities- Term loan	-	-	10-Feb-2022	491.59	CARE AA-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	-	-	1)CARE A+; Stable (03-Apr-17)	-	1)CARE A+ (20-Jan-16)	1)CARE A+ (17-Dec-14)
2.	Debt-Subordinate Debt	LT	-	-	1)Withdrawn (03-Apr-17)	-	1)CARE A+ (20-Jan-16)	1)CARE A (17-Dec-14)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (20-Jan-16)	1)CARE A+ (17-Dec-14)
4.	Fund-based - LT-Term Loan	LT	491.59	CARE AA-; Stable	1)CARE A+; Stable (03-Apr-17)	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 - 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - 167190MH1993PLC071691