Ref. No.: AUSFB/SEC/2025-26/302
Date: November 21, 2025

To,

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

Dear Sir/Madam,

Sub: Credit Rating

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

We wish to inform that India Ratings and Research Private Limited has reaffirmed rating of IND A1+ (A One Plus) to the Short-term Instruments (Certificate of Deposits) and the rating of Long-term Debt Instrument (Tier II Bond) of the Bank has been withdrawn as the rated instrument (ISIN: INE949L08418) has been paid in full.

Rating Rationale of the India Ratings and Research Private Limited is enclosed herewith.

This is for your information and records.

Yours faithfully,

For AU SMALL FINANCE BANK LIMITED

MANMOHAN PARNAMI
Digitally signed by MANMOHAN PARNAMI
Date: 2025.11.21 18:31:54 +05'30'

Manmohan Parnami
Company Secretary and Compliance Officer
Membership No.: F9999
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India Ratings Affirms AU Small Finance Bank's Certificate of Deposits 'IND A1+'; Withdraws Tier II bonds' rating

Nov 21, 2025 | 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
Certificate of deposit	-	-	-	INR30	IND A1+	Affirmed
Tier II Bond#	-	-	-	INR5	WD	Withdrawn

#Ind-Ra has withdrawn the rating as the rated instrument has been paid in full. This is consistent with Ind-Ra's Policy on Withdrawal of Rating.
WD - Rating Withdrawn

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 affirmation reflects the bank's small but fast-growing franchise, with above-average profitability metrics and adequate capital buffers, moderate liability franchise with progressing granularity, and increasing diversification in assets and liabilities from its home state (Rajasthan).

Furthermore, the rating factors in AU SFB's granular retail assets franchise, which has been generating higher yields compared to 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, and it has been expanding its base in newer products. The asset quality performance of unsecured products on a sustained basis with seasoning remains a rating monitorable, given the higher risk profile of this segment and its potential impact on the overall asset quality. Additionally, the bank's transition to a Universal Bank model and its ability to contain operating expenses while achieving liability-side benefits would be a rating monitorable.

Over the long term, AU SFB would benefit from its transition to a Universal Bank in terms of improved brand recognition among depositors, which can help in further diversifying retail liabilities with pricing benefit, reduction in mandatory capital adequacy and reduced priority sector lending requirement, which could aid growth. Progress on this front remains a rating monitorable.

List of Key Rating Drivers

Strengths

- Well-positioned retail asset franchise
- Scaling secured products for market leadership

- Healthy capital base with earnings resilience

Weaknesses

- Asset quality under pressure
- Moderate granular retail liabilities

Detailed Description of Key Rating Drivers

Well-Positioned Retail Asset Franchise: AU SFB is the largest SFB in India in terms of total assets. The bank had a total asset base of INR1,655.4 billion at end-September 2025, with 2,626 touchpoints across 21 states and four union territories, supported by a workforce of 57,786. The bank has a demonstrated track record of three decades of catering to the unorganised customer segment, which has enabled it to maintain a balance between profitability and asset quality across economic cycles. AU SFB 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.

In addition to expanding its presence within its home state, AU SFB has been increasing its operations in other states. The share of its home state's gross loan portfolio has moderated over the past few years and stood at 26% in 2QFY26 (FY18: 54%). Furthermore, the bank has expanded its product lines while maintaining its growth trajectory in its core verticals of wheels and small business loans.

Scaling Secured Products for Market Leadership: At end-2QFY26, the bank's gross loan portfolio stood at INR1,228.8 billion (2QFY25: INR1,050.3 billion), comprising a retail secured portfolio (67.3%), commercial banking (20.7%), unsecured (7.6%), and others (4.3%). AU SFB had been operating in the retail secured segments and commercial segment even before turning into a bank. Ind-Ra expects the bank to continue to grow its loan book at above-industry rates due to its smaller scale, and also, it is in better position to grow compared to 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 55% of the loan portfolio in 2QFY26 (2QFY25: 54%; FY24: 62%). While this creates geographical concentration risk, the contribution of the south region stood 10% at end-2QFY26; moreover, 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 its product offerings.

Healthy Capital Base with Earnings Resilience: AU SFB has a demonstrated track record of equity capital raising. During FY23, AU SFB raised INR20 billion of equity capital through the qualified institutional placement route and INR7.7 billion through Tier-II bonds. At end-2QFY26, the bank's capital buffers remained adequate, with shareholder funds of INR183.2 billion and capital adequacy ratio of 18.8% (Tier-I: 16.9%) (FY25: 20.1%; FY24: 20.1%).

AU SFB primarily focuses on the retail segment, which carries higher yields. The bank's average cost of funds decreased to 6.96% in 1HFY26 (1HFY25: 7.04%) on the back of the cut in deposit rates across the sector. The bank was able to maintain a healthy net interest margin of 5.4% in 1HFY26 (1HFY25: 6.1%).

AU SFB focuses on granular retail asset loans, which require high on-field effort and operating costs. On the liability side, to build and sustain the liability franchise, the bank needs to spend upfront on operating investments to create brand awareness. Consequently, the cost-to-income ratio of the bank remained elevated at 57.7% in 2QFY26 (FY25: 56.5%; FY24: 65.1%). AU SFB had a healthy pre-provision operating profit (PPOP) buffer (PPOP/provision cost) of 2.5x in 2QFY26 (FY25: 2.6x; FY24: 6.1x). Its return on asset was reasonably healthy at 1.5% in 2QFY26 (annualised) (FY25: 1.6%; FY24: 1.5%). AU SFB has adequate PPOP and capital adequacy buffers to absorb incremental asset quality pressures in a stress case scenario.

Asset Quality under pressure: 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. That being said, at end-September 2025, 92% of the assets were secured in nature, based on the products. However, AU SFB's gross NPA ratio increased to 2.41% in 2QF26 (FY25: 2.28%; FY24: 1.67%) on account of asset quality weakness in unsecured segments, such as credit cards, personal loans and microfinance, with provision coverage ratio (excluding technical write-off) at 64.2%. The net NPA ratio stood at 0.88% in 2QFY26 (FY25: 0.74%; FY24: 0.55%). Consequent to increased asset quality pressure, the credit cost (on gross advances) increased to 1.9% in FY25 from 0.7% in FY24. Ind-Ra expects the credit cost trajectory to be downwards in MFI loans, with the SMA book declining to 2.9% in 2QFY26 (from 4.3% in 1QFY26) and 69% of the MFI portfolio being covered under the Credit Guarantee Fund for Micro Units program at end-September 2025. The credit cost in credit cards loans has started to decline from 2QFY26. Ind-Ra will monitor steady-state asset quality trends with adequate vintage in the unsecured segment.

The bank's standard restructured portfolio accounted for 0.2% of the gross advances at end-September 2025. Also, AU SFB has been carrying 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 (RBI).

Moderate Granular Retail Liabilities: AUSFB's deposit base grew at a CAGR of 29.6% during FY23-1HFY26 to reach INR1,325.1 billion. However, the current account savings account (CASA) ratio remained at a moderate level of 29.4% in 1HFY26 (FY25: 29.2%; FY24: 33.4%; FY23: 38.4%), driven by the overall industry trend of a shift in CASA towards term deposits due to the attractiveness of high rates offered to the depositors. The share of retail term deposits in the total deposits continued to be healthy at 31.9% in 1HFY26 (FY25: 32.5%; FY24: 30%; FY23: 30%; FY22: 30%). The granular retail liabilities (CASA+ retail term deposit) to total deposit ratio remained largely stable at 61.3% in 1HFY26 (FY25: 61.6%; FY24: 63.6%). The bank witnessed an increase in the contribution of bulk deposits to 34.7% in 1HFY26 from 33.5% in FY24. The share of the 20 largest depositors to the total deposits of the bank stood at 11.8% in FY25 (FY24: 10.8%; FY23: 14.5%). Over the long term, AU SFB would benefit from its transition to a Universal Bank in terms of improved brand recognition among depositors, which can help in further diversifying retail liabilities with pricing benefit, reduction in mandatory capital adequacy and reduced priority sector lending requirement, which could aid growth. Progress on this front remains a rating monitorable.

Liquidity

Adequate: AU SFB operated with gap of 13.8% (of total inflows) in asset-liability tenors in the up-to-one-year bucket as of September 2025. 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. The bank also benefits from access to liquidity support mechanisms such as the liquidity adjustment facility, marginal standing facility, and the call money market, enabling it to efficiently manage short-term liquidity requirements. During 2QFY26, the bank had a quarterly average liquidity coverage ratio of 119%, which is above the regulatory requirement (100% for small finance banks).

Rating Sensitivities

Positive: Not Applicable.

Negative: Events that could, individually or collectively, lead to a negative rating action are:

- a material decline in liquidity coverage ratio
- an absence of a sustained improvement in the liability profile or a material decline in the CASA deposits proportion or retail deposits.
- a significant drop in the capital buffers
- GNPAs as a percentage of the gross advances exceeding 5% on a sustained basis, thereby impacting the profitability

Any Other Information

Not applicable

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 30 September 2025, the bank was the largest SFB in terms of gross advances and deposits. The bank has established operations across 2,626 banking touchpoints (mainly in rural and semi-urban markets) and has a customer base of 12.1 million in 21 states and four union territories with an employee base of 57,786. The bank has shareholder funds of INR183.2 billion, deposit base of INR1,325.1 billion and gross advances of INR1,175.2 billion. AU SFB is listed on the National Stock Exchange of India Limited and BSE Ltd. The bank has received in-principle approval from the RBI for transitioning to Universal Bank.

Key Financial Indicators

Particulars	2QFY26	FY25	FY24
Total assets (INR million)	1,655,419	1,578,457	1,094,257
Total equity (INR million)	183,162	171,663	125,595
Net profit (INR million)	5,609	21,059	15,347
Return on average assets (%, annualised)	1.5	1.6*	1.5
Equity/assets (%)	11.1	10.9	11.5
Tier 1 capital (%)	16.9	18.1	18.8
Source: AU SFB, Ind-Ra; * Return on average assets calculated on a merged basis			

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	29 November 2024	9 September 2024	10 April 2024	19 March 2024	5 March 2024	20 July 2023	22 July 2022
Tier II bonds	Long-term	INR 5.0	WD	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Certificate of deposits	Short-term	INR30.0	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
Bank facilities	Long-term	INR0.13	-	-	-	-	-	-	-	WD
Non-convertible debentures	Long-term	INR3.35	-	-	-	-	-	-	-	WD

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Certificate of Deposit	Low
Tier II Bond	Moderate*

* Lower ranked instrument with partial built in loss absorbing features

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Rated Amount (billion)	Rating/Rating Watch
Tier II bonds^	INE949L08418	30 November 2018	10.90	30 May 2025	INR5.0	WD/
				Total	**INR5.0**	

Source: AU SFB

^ Paid in full

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About India Ratings

India Ratings and Research (Ind-Ra) is India's SEBI registered credit rating agency 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 companies, urban local bodies, and structured finance and project finance companies.

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

Ind-Ra is a 100% owned subsidiary of the Fitch Group.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by 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.

APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Financial Institutions Rating Criteria

Rating Bank Subordinated and Hybrid Securities

The Rating Process