Dated: 20th Oct 2025

AU Small Finance Bank (AUBANK) - SELL

Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs.792	**Rs.750**

Rationale:

- AUBANK reported flat earnings yoy, as 7% Pre-provisioning operating profit (PPOP) growth was offset by ~30% increase in provisions.
- Return on Assets (RoA) was 1.4%; Return on Equity (RoE) was 13%.
- Slippage ratio was down 50 bps; credit cost was down 25 bps.
- With signs of asset quality improvement in retail assets and favorable rate cycle tailwinds, the bank seems positioned well to deliver healthy RoE and growth over the medium term.
- However, expensive valuations drive SELL rating, with an FV of Rs750 (Rs700 earlier).

Q2FY26 Earnings Update:

Positives:

- AUM growth at 17% yoy, led by 22% yoy growth in secured assets & Deposits grew ~20% yoy.
- GNPL and NNPL ratios were flat qoq. Slippages declined 50 bps qoq to 3.3%.
- Net interest margin (reported) for the bank improved by 5 bps qoq to 5.5%.
- Management indicated that it expects NIM to improve further hereon.

Negatives:

- Bank’s stock price has rallied sharply over the past few months.
- Expensive valuations drive SELL rating.

Holding Period: 12 months

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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