Ref. No.: AUSFB/SEC/2022-23/149
Date: 30th June, 2022

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: Disclosure under Regulation 30 and 51 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Credit Rating

We wish to inform that CRISIL Ratings has upgraded rating of the long-term debt instruments of AU Small Finance Bank Limited to **CRISIL AA/Stable (Double A; Outlook: Stable)** from the earlier rating **AA-/Positive (Double A Minus; Outlook: Positive).**

The rating on fixed deposit programme has migrated and simultaneously upgraded to **CRISIL AA+/Stable (Double A PLUS; Outlook: Stable)** from '**FAA+/ Positive**' (**F Double A; Outlook: Positive**).

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

Rating Rationale of the CRISIL Ratings is enclosed herewith.

This is for your information and records.

Thanking You,

Yours faithfully,
For AU SMALL FINANCE BANK LIMITED

AU Small Finance Bank Limited JAIPUR

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

Encl: As above

Rating Rationale

June 29, 2022 | Mumbai

AU Small Finance Bank Limited

Short-term rating reaffirmed; Long-term rating upgraded to 'CRISIL AA/Stable' from 'CRISIL AA-/Positive'; Rating on fixed deposit programme migrated and simultaneously upgraded

Rating Action

Rs.1200 Crore Certificate of Deposits	**CRISIL A1+ (Reaffirmed)**
Rs.500 Crore Tier II Bond	**CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Positive')**
Rs.150 Crore Non Convertible Debentures	**CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Positive')**
Subordinated Debt Bond Aggregating Rs.35 Crore	**CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Positive')**
Rs.40000 Crore Fixed Deposits	**CRISIL AA+/Stable (Migrated from 'FAA+/Positive' and simultaneously upgraded)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its rating on the certificate of deposits programme of AU Small Finance Bank Limited (AU SFB) at 'CRISIL A1+'. CRISIL Ratings has also upgraded its rating on long-term debt instruments of AU SFB to '**CRISIL AA/Stable**' from 'CRISIL AA-/Positive'. CRISIL Ratings has further migrated its rating on the FD programme of the bank from 'FAA+/Positive' and simultaneously upgraded it to '**CRISIL AA+/Stable**'.

The upgrade is driven by the sustenance in bank's overall performance and its demonstrated ability to meet the expectations around improvement in asset quality and earnings profile despite pandemic induced challenges. The bank's improving liability profile is also reflected in the rating.

CRISIL Ratings has also withdrawn its rating on the Subordinated Debt Bond of Rs 10 crore (See Annexure 'Details of Rating Withdrawn' for details) on confirmation from the debenture trustee as it is fully redeemed. The Withdrawal is in line with CRISIL Ratings' withdrawal policy.

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 cashflows led to improved collection efficiency, AU SFB's asset quality has revived strongly. As of March 31, 2022, the bank reported an improved GNPA of 2.0% whereas NNPA stood at 0.5% which is expected to be sustained in the medium term.

Further, the bank has also maintained healthy profitability metrics, despite heightened provisioning requirement, as reflected in the return on assets (RoA) of 1.59% and 1.28%, respectively for fiscal 2020 and 2021 (adjusted for one-time sale proceeds realized from stake sale of Aavas Financiers). With operating profitability remaining stable and reduction in credit costs, the RoA for fiscal 2022 revived to 1.87% despite an increase in the bank's provision coverage ratio to ~75% from 45-50% until H1 of fiscal 2022.

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. This also factors in the gradual increase in the share of Current and Savings Accounts (CASA) as a share of total deposits and total liabilities, over the last 4 quarters. The deposit base of Rs 52,585 crore as on March 31, 2022 – marks a growth of 46% over the past fiscal and accounts for 90% of total borrowings (excluding securitisation and assignments). Commensurate to this growth, the share of retail term deposits (less than Rs 2 crore) plus CASA in total deposits increased from 45.3% as on March 31, 2020 to 58.4% as on March 31, 2022. Similarly as a proportion of total borrowings, the share increased from 32.3% to 52.4% over the same period. This share of CASA in overall deposit base is not expected to come down materially in the coming quarters and will remain a key monitorable.

The rating migration on fixed deposit programme follows the revision in the rating scale for FD programmes, which is now aligned with the Securities and Exchange Board of India (SEBI)- standardized 20-point, long-term scale. Previously, CRISIL Ratings used a 14-point scale for assigning ratings to FD programmes. This alignment is in compliance with the regulatory guidelines as per the circular issued by SEBI on July 16, 2021, and the subsequent SEBI circular dated April 1, 2022, for standardizing the rating scales used by credit rating agencies.

This migration represents only a recalibration of the rating from one scale to another and does not reflect any change in the credit risk profile of the fixed deposit programme. It is neither an upgrade nor a downgrade of the underlying credit risk profile of the FD programme. (Please refer to CRISIL Ratings' criteria for rating FD programmes for further details)..

As on March 31, 2022, the bank's fixed deposits (FDs; including compounded interest) stood at Rs 31,394 crore, registering a growth of 20.7% over the preceding 12 months. The depositor profile for FDs remains diversified with almost 57% 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 87% as of March 2022. 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.

The ratings remain driven by AU SFB's adequate capitalisation, consistent ramp-up in deposit franchise, healthy reported asset quality and adequate profitability. These strengths are partially offset by moderate, though improving, scale of operations and geographic concentration in assets.

Analytical Approach
For arriving at the ratings, CRISIL 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. On March 31, 2022, the bank's reported networth stood at Rs 7,514 crore as against Rs 6,275 crore on March 31, 2021 and Rs 4,377 crore on March 31, 2020. On March 31, 2022, the bank's reported overall and tier 1 capital adequacy ratios (CARwere comfortable at 19.7% and 21.0%, respectively and both these metrics have remained above 15% historically. Over fiscal 2020 and 2021, the bank has cumulatively realized Rs 834.8 crore as proceeds from selling its stake in Aavas Financiers Ltd (Aavas). These proceeds have bolstered the networth. After the last round of dilution in November 2020, the bank holds 0.004% stake in Aavas. Besides, the bank plans to raise capital in the current fiscal to fund future growth and is expected to maintain adequate capitalisation with CAR at over 18% on steady state basis.

*** Sustained ramp-up in deposit franchise**
The bank's deposit base has registered a steady growth rate over the last two to 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 39.4%, the bank's deposit base stood at Rs 52,585 crore as on March 31, 2022 which constitutes 89.8% of the total borrowings as compared to 83.7%, a year ago.

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 45.3% as on March 31, 2020, the proportion increased to 58.4% as of March 31, 2022.

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 6.83% for fiscal 2021, For fiscal 2022, average cost of funds further reduced to 5.9% and incremental cost of funds was 5.3%.

Over fiscal 2019 and 2020, AU SFB had offered a higher rate incentive to ramp up its retail deposit franchise after the banking sector faced volatility in the deposit base for a short period owing to market disruptions caused by some specific events at a few non-banks and banks. The second half of fiscal 2020 witnessed two major events - one in September 2019 pertaining to a co-operative bank and the other in March 2020 when moratorium was imposed on a large private bank - that had an impact of the deposits inflow for the banking sector. In the aftermath of both, the inflow of incremental deposits moderated for AU SFB for a short span; however, it corrected to its business-as-usual rate soon after.

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, even in a stress case scenario**
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%. Post the outbreak of the pandemic, the bank's collection efficiency dipped with a sizeable proportion of the book in moratorium. However, as the restrictions were uplifted in stages and economic activity resumed in a staggered manner, the bank's business also picked up, both in terms of collections and disbursements. From 54% for April 2020, collection efficiency (including over dues, excluding prepayments) improved to 96% in Q2'FY21. The collection efficiency momentum was sustained and reached 107% in Q4'FY21. Thereafter, as the second pandemic wave broke out, a temporary impact was observed over April and May 2021 though, it corrected shortly

after that. Reported GNPAs and NNPAs, after rising to 4.3% and 2.2% and 4.3% and 2.3% as on March 31 and June 30, 2021, respectively started to decline in the second half of fiscal 2022 and stood at 2.0% and 0.5% respectively on March 31, 2022.

The bank had a standard restructured portfolio of Rs 1,180 crore as at the end of March 2022 which accounted for 2.5% of the gross advances as on that date. 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 570 crore in fiscal 2021 and Rs 500 crore fiscal 2022. For some proportion of the portfolio against which ECLGS loans were disbursed, restructuring was also extended. . Over the medium to long run, the pace at which the bank reinstates repayment discipline among its borrowers and maintains its resolution rate will remain a key monitorable.

As on March 31, 2022, the bank was carrying Rs 1,182 crore as provisions which forms 2.5% of its gross advances as on that date.

Over the past two fiscals, the bank has diversified its product suite and the SBL (loans to micro small and medium enterprises, MSME) book, in particular, has grown at a robust pace and now forms 35% of the total loan book. 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 overall assets under management (AUM) until a few quarters ago, currently forms 36% of the AUM.

*** Adequate profitability despite costs linked to SFB transition and heightened provisioning requirement post Covid-19**

AU SFB's profitability has remained adequate over the last 3-4 years. As anticipated earlier, after commencement of banking operations, return on average assets (RoA) declined from 2.7% (adjusted for exceptional income) in fiscal 2017 to 1.5-2.0% for the succeeding fiscals on account of shrinkage in net interest income (NII), investments in lower-yielding securities in compliance with statutory liquidity ratio (SLR) requirement and other technology and head office costs. As the bank has been able to replace legacy institutional borrowing by low-cost deposits, leading to decline in overall cost of funds, benefits were passed on to the customers as well by the mode of reduction in yield. As a bank, it has more avenues to increase other income on account of aspects like increased customer and distribution network, increase in income from priority sector lending certificates (PSLCs) and cross-sell of products to customers.

The Bank’s yields declined in fiscal 2021 due to its cautious lending approach given the uncertainty around the pandemic. This resulted in a decline of 10 bps in net interest margins for fiscal 2021. Other income, excluding one-time gain from the sale of stake in Aavas Financiers Ltd, also remained flat over the year. Additional provisioning requirement post Covid-19 losses led to a credit cost of 1.3% for fiscal 2021 as compared to sub 0.6% credit costs for previous years. Resultantly, RoA (return on assets, adjusted for one-time gain and tax benefit on it) for fiscal 2021 was 1.28% as against 1.59 for the previous fiscal.

However, for fiscal 2022, the NII had increased on account of reduced cost of incremental funding while yields remained high. Recoveries from write offs, classified under other income, had also increased during the period. After an incremental provisioning of Rs 361 crore in fiscal 2022, RoA for the year stood at 1.87%,

In the medium term to long term, AU SFB is expected to sustain 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 regular branch expansion. The ability of the bank to sustain its overall profitability, while scaling business across fast growing segments like SBL (MSME), and housing will remain critical.

Weakness:

*** Moderate, though improving, scale of operations and geographic concentration in business**

Scale of operations, though improving, remains moderate in relation to private banking peers despite higher-than-industry-average growth. AUM was at Rs 47,831 crore as on March 31, 2022, marking a growth of 27% on year. The first quarter of fiscal 2022 witnessed a decline in AUM due to muted demand, cautious disbursement strategy and lockdown restrictions amidst second wave of Covid-19. However, subsequent revival in the second quarter resulted in healthy pick up in AUM over the subsequent quarters, leading to a pick up in growth in AUM. The bank leverages on its strong presence in the retail asset segment with a diversified product profile. After converting into a bank, AU SFB has diversified into asset segments such as home loans, agricultural-SME loans, gold loans, personal loans and credit cards, business banking, working capital, and overdraft facilities in addition to its businesses of Wheels and SBL. As a strategic call, the bank has curtailed its exposure to corporate segments like lending to non-banking financial companies (NBFCs), builder loans against property (LAP), etc over the last few quarters.

In terms of AUM mix, over 78% of the book is deployed in retail loans with Wheels forming the largest portion at 36% followed by SBL, which accounted for 35% of the book.

Geographically, though it has a strong track record of operations in Rajasthan, Maharashtra, Madhya Pradesh and Gujarat, AU SFB’s portfolio is concentrated across the four states to the extent of 81%, with Rajasthan alone accounting for 41% of the overall AUM.

Over the medium term, diversity across product suite and geographical base is not expected to change materially as the bank continues to focus on increasing its penetration in these states and product segments, and does not have plans to grow aggressively in newer domains.

*** 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 retail deposits as of March 31, 2022 rose to 58.% as on March 31, 2022 from 45.3% 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, 68% 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 33.5% of total borrowings (deposits plus other borrowings) and 37.3% of the total deposit base (including certificate of deposits) as on March 31, 2022. 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.

Liquidity: Strong
The bank reported an average Liquidity Coverage Ratio (LCR) of 125% for the quarter ended March 31, 2022, 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 in in the last fiscal.

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 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 Company
AU SFB (formerly Au Financiers (India) Ltd) was incorporated in 1996 as an NBFC, promoted by Mr. Sanjay Agarwal, with 25+ 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 36% of AUM) alongside Small Business Loans to MSMEs (35%). 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, 2022, AU SFB had established operations across 919 banking touchpoints while serving 27.5 Lakh customers in 18 States & 2 Union Territories with an employee base of 27,817 employees.

Key Financial Indicators

Particulars as on/for fiscal	Unit	2022	2021	2020	2019
Total assets#	Rs Cr	70,814	54,694	46,044	34,050
Total income@	Rs Cr	6915	5720	4890	3386
PAT@	Rs Cr	1130	600	596	382
Gross NPA	%	2.0	4.3	1.7	2.0
Overall capital adequacy ratio	%	21.0	23.4	22.0	19.3
Tier I capital adequacy ratio	%	19.7	21.5	18.4	16.0
Return on assets@	%	1.9	1.3	1.6	1.5

#includes securitised and off balance sheet assets
@net of exceptional income adjusted for taxes for fiscal 2021 and 2020

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. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Nature of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Amount (Rs.In Cr)	Complexity Level	Rating Assigned with Outlook
INE949L08418	Tier II Bonds	30-Nov-18	10.90%	30-May-25	500	Complex	CRISIL AA/Stable
INE949L08095	Subordinated Debt Bond	05-Jun-13	13.00%	05-Mar-19	10	Complex	CRISIL AA/Stable
NA	Certificate of Deposits	NA	NA	7-365 days	1200	Simple	CRISIL A1+
NA	Fixed Deposits	NA	NA	NA	40000	Simple	CRISIL AA+/Stable

Annexure - Details of Rating Withdrawn

ISIN	Nature of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Amount (Rs. In Cr)	Complexity Level
INE949L08129	Subordinated Debt Bond	30-Sep-13	12.41%	30-Sep-20	10	Complex

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Certificate of Deposits	ST	1200.0	CRISIL A1+		--	23-11-21	CRISIL A1+	03-12-20	CRISIL A1+	17-06-19	CRISIL A1+	CRISIL A1+
			--		--		--	29-06-20	CRISIL A1+		--	--
Fixed Deposits	LT	40000.0	CRISIL AA+/Stable		--	23-11-21	F AA+/Positive	03-12-20	F AA+/Stable		--	--
Non Convertible Debentures	LT	150.0	CRISIL AA/Stable		--	23-11-21	CRISIL AA-/Positive	03-12-20	CRISIL AA-/Stable	17-06-19	CRISIL AA-/Stable	Withdrawn
			--		--		--	29-06-20	CRISIL AA-/Stable		--	--
Subordinated Debt Bond	LT	35.0	CRISIL AA/Stable		--	23-11-21	CRISIL AA-/Positive	03-12-20	CRISIL AA-/Stable	17-06-19	CRISIL AA-/Stable	Withdrawn
			--		--		--	29-06-20	CRISIL AA-/Stable		--	--
Tier II Bond	LT	500.0	CRISIL AA/Stable		--	23-11-21	CRISIL AA-/Positive	03-12-20	CRISIL AA-/Stable	17-06-19	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--		--	29-06-20	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]()

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