Ref. No.: AUSFB/SEC/2018-19/406
Date: 3rd October 2018

To,

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

NSE Symbol: AUBANK

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

BSE SCRIPT CODE: 540611

Dear Sir(s),

Sub: Upgradation in ratings by CRISIL

Pursuant to the regulation 30 & 51 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 please be informed that, CRISIL has upgraded rating of AU SMALL FINANCE BANK LIMITED to **'CRISIL AA-/Stable'** from **'CRISIL A+/Positive')** earlier.

The rating upgrade announcement as issued by Rating Agency CRISIL 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 Parnami
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**

Ratings

CRISIL
An S&P Global Company

Rating Rationale

October 03, 2018 | Mumbai

AU Small Finance Bank Limited

Long-term rating upgraded to 'CRISIL AA-/Stable' ; short-term rating reaffirmed

Rating Action

Non Convertible Debentures Aggregating Rs.215 Crore	**CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')**
Subordinated Debt Bonds Aggregating Rs.125 Crore	**CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')**
Rs.1000 Crore Certificate of Deposits	**CRISIL A1+ (Reaffirmed)**

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

Detailed Rationale
CRISIL has upgraded its rating on the long-term debt instruments of AU Small Finance Bank Limited (AU SFB) to **'CRISIL AA-/Stable'** from 'CRISIL A+/Positive' while reaffirming the short-term rating of 'CRISIL A1+' on the certificate of deposit programme.

The rating upgrade is driven by the bank's demonstrated ability to build-up a significant deposit franchise within one and half year of commencing banking operations and further strengthening of its capital position.

AU SFB has ramped-up its deposit franchise at a rapid pace and has raised around Rs 9,999 crore of deposits (including certificate of deposits) till June 30, 2018 which constituted 59.3% of the total external liabilities on the same date. Of these, 22.3% of deposits are low-cost current account and savings account (CASA) deposits and 32% of the total deposit base is retail in nature. Given the small vintage of SFBs, their reliance on bulk deposits is relatively high compared to old and matured Universal banks, however AU SFB's deposit growth has been more granular and diversified and their pace of deposit growth has been higher than other SFB. Additionally, around 48% of bulk term deposits are non-callable; of these 68% have a tenure of more than one year. The average cost of funds has declined over the last one year to 7.9% while incremental deposits were raised at 6.94% during June 2018 quarter. CRISIL believes AU SFB will maintain its growth momentum over the medium term alongside improving the composition of its liability profile by increasing the share of CASA and retail deposits.

AU SFB has also strengthened its capital position with an immediate infusion through equity and convertible warrants of Rs 475 crore by Temasek Holdings Pvt Ltd (Temasek). The networth of the bank increased to Rs 2,843 crore on June 30, 2018 from Rs 2,281 crore on March 31, 2018 and overall capital adequacy to 20.7% - almost entirely comprising of tier 1 capital. As part of the transaction terms with Temasek, additional Rs 525 crore is scheduled to be infused post conversion of share warrants by December 2019.

The ratings continue to factor in AU SFB's above-average asset quality. These strengths are offset by moderate, though improving, scale of operations as a bank with geographical concentration in revenue, significant share of bulk deposits in deposit profile and moderate earnings profile.

AU SFB will benefit from the advantages that accrue to it on account of transition to a bank from a non-banking financial company (NBFC) - in terms of improved market perception, systemic liquidity support, and relatively lower cost of funds. More so, its diversified product profile and strong presence in the relatively high-yielding retail asset segments provided opportunity for cross selling and increased market visibility which benefits its competitive position. It had 395 branches including 89 business correspondents and 96 asset centres across 11 states and 1 Union Territory as on June 30, 2018.

Analytical Approach
CRISIL has assessed the stand-alone credit profile of AU SFB for arriving at the ratings.

Key Rating Drivers & Detailed Description
Strengths
* **Demonstrated ability to ramp-up deposit franchise in short span and replace legacy borrowings**
Within a year and a half of its banking operations, the bank has garnered deposits of Rs 9999 crore registering a q-o-q growth of 26%; this constituted 59.3% of the total external liabilities on the same date. Further, since the commencement of its banking operations, average cost of funds has declined with incremental funds being in the form of deposits and refinance from financial institutions. For fiscal 2018, cost of funds was about 8.5% which further declined to 7.9% in the quarter ended June, 2018. Incremental deposits were raised at 6.94% during June 2018 quarter. The bank is focused on creating a granular retail deposit base as a result of which, the retail deposits formed 32% of the total deposit base as on Jun 30, 2018. The Bank is expected to focus on increasing the share of CASA and retail deposits over the medium term.

* **Adequate capitalisation, further strengthened by recent capital infusion by Temasek**
Capitalisation, adequate in relation to the bank's scale of operations, has been further strengthened by recent round of capital infusion by Temasek. The Singapore based global investment company, as part of its Rs 1000 crore capital infusion plan, has invested Rs 475 crore in AU SFB via its indirect, wholly owned subsidiary Camas Investments Pte. Ltd. Post this infusion, the networth of bank has increased to Rs 2,843 crore on June 30, 2018 from Rs 2,281 crore, quarter ago. The balance Rs 525 crore of capital from Temasek is expected to come in by December, 2019 after conversion of share warrants. As of June, 2018, the overall capital adequacy ratio also remained comfortable at 20.7% - almost entirely comprising of tier 1 capital.

***Above-average asset quality**
AU SFB has sustained above-average asset quality over the past few years supported by change in business segment, refurbished underwriting practices, proactive risk management systems and processes, and strong focus on portfolio monitoring and collection practices. This is in addition to the existing sound understanding of the operating geography and borrower profile. The overall 90+ dpd (lagged by 1 year) remained relatively low at 2.8% as on June 30, 2018. Overall disbursements have grown at a rapid pace of 93.7% y-o-y, in Q1 fiscal 2019 with most of the growth coming from the retail segment which grew at 89.6% y-o-y during the quarter. While disbursements in the small and mid-corporate segment have also grown at 94.8%, in absolute terms it remains small. Attributed to this rapid growth in the last few months, majority of the portfolio remains relatively unseasoned (especially SME segment). The asset quality behaviour, especially for small and mid-corporate segments would be a key monitorable.

Weakness
*** Moderate, though improving scale of operations and geographical concentration in revenue profile**
Scale of operations, though improving, remains moderate in relation to banking peers, despite growing at above-industry-average rates. Assets under management (AUM) were Rs 17,322 crore as on June 30, 2018, against Rs 10,759 crore a year ago. The bank has grown at a y-o-y rate of 61% alongside maintaining its strong presence in the retail asset segment with a diversified product profile. As a bank, AU SFB has been diversifying in other asset segments such home loan, agricultural-SME loans, gold loan, consumer durable loan, business banking, working capital, and overdraft facilities, however, these businesses remain relatively unseasoned. Similarly, though it has a strong track record of operations in Rajasthan, Maharashtra, Madhya Pradesh and Gujarat, its portfolio has remained concentrated in Rajasthan to the extent of 52% of the overall AUM and is expected to reduce gradually only with diversification in other states.

Over the medium term, the asset mix is expected to remain broadly similar with retail assets constituting up to 80% of the total AUM.

* **High bulk deposits and relatively low share of CASA / retail deposits in overall liability profile in comparison to peers**
While AU SFB has demonstrated its ability to ramp-up its deposit base in initial phase, it will now have to focus on improving the granularity of deposit base. About 49% of its deposits are bulk deposits (ticket size of Rs.1 crore and above). Bulk deposits, as opposed to retail deposits, are inherently rate sensitive and not sticky. However, CRISIL notes that about 48% of AU SFB's bulk term deposits are non-callable in nature with 68% of such deposits having a tenure of more than a year. Nevertheless, they pose inherent challenges in managing asset liability mismatches, particularly when liquidity is tight. Consequently, building of a granular deposit profile with a reasonable share of CASA is critical. The share of CASA is lower than banking peers at just 13% of total liabilities (deposits + borrowings) and 22% of total deposit base (including certificate of deposits) as on June 30, 2018. In fact, CASA ratio as on June 30, 2018 declined from 27% as on March 31, 2018. While it has just been one and half years since they commenced banking operations, CRISIL believes that improving the composition of deposit profile will be a key monitorable for AU SFB over the medium term.

*** Moderate earnings profile due to costs linked to SFB transition**
As anticipated, after commencement of banking operations, RoMA has declined from 2.7% (adjusted for exceptional income) in fiscal 2017 to 1.7% for fiscal 2018, on account of increase in operating cost ' from 3.2% in the first quarter of fiscal 2017 to 4.5% presently ' and investments in lower-yielding securities to comply with statutory liquidity ratio (SLR) requirements. For quarter ended June, 2018, the bank reported RoMA of 1.4% as compared to 1.7% for the corresponding quarter of the preceding fiscal. More so, intense competition has led to gradual decline in yields. This moderation is partially offset by a commensurate decline in cost of funds as the bank continues to replace legacy borrowings with low cost deposits. It also has more avenues to increase other income on account of increased distribution network, increase in income from PSLC and cross sale of banking products to existing customers. However, the SFB's ability to garner the low-cost retail deposits, while limiting the operating cost and credit cost is critical for profitability.

Outlook: Stable
CRISIL believes that AU SFB will continue to ramp up its liability franchise at the current pace with the objective to garner higher deposits over the medium term. The bank is also expected to maintain above-average asset quality and profitability, and adequate capitalisation.

Upside Scenario
* Scale-up of operations while maintaining asset quality and profitability
* Increase share of CASA and overall deposits to total borrowings in line with other mid-size private sector banks

Downside Scenario
* Deterioration in asset quality and weakening of earnings profile or capitalization.

About the Bank
AU SFB (formerly Au Financiers (India) Ltd) was incorporated in 1996 as and NBFC, promoted by Mr Sanjay Agarwal. It commenced SFB operations on April 19, 2017. The SFB listed its shares on Bombay Stock Exchange and National Stock Exchange during July 2017. It also received scheduled bank status as on November 01, 2017. It operates in the retail asset-financing segment, primarily in the vehicle financing segment (around 45% of AUM). Over the past few years, it has diversified into MSME and SME (37%) construction finance (4%), and loans to NBFCs (10%).AU SFB's liability product offerings include the entire gamut including of Current Account, Saving Account, Recurring & Term Deposits, Transaction Banking, bouquet of third party mutual funds and insurance covers.

It has an established market position in Rajasthan, and has expanded operations to Maharashtra, Gujarat, and other states over the years. As on June 30, 2018, it had opened 395 branches and 96 asset centres across 11 states and 1 Union Territory. Over 80% of its branches are in four states Rajasthan, Gujarat, Maharashtra and Madhya Pradesh.

Key Financial Indicators

Particulars as on March 2018	Unit	2018	2017
Total assets#	Rs. Cr.	21,559	13,655

Total income@	**Rs. Cr.**	**2,155**	**1,387**
PAT@	**Rs. Cr**	**292**	**305**
Gross NPA	**%**	**2.0**	**1.9**
Overall capital adequacy ratio	**%**	**19.3**	**23.0**
Tier I Capital	**%**	**18.4**	**21.5**
Return on assets@	**%**	**1.7**	**2.7**

#Includes securitised and off balance sheet assets
@Figure for 2017 are net of exceptional income

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL 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	Rated Instrument Amount (Rs.In Cr)	Rating Assigned with Outlook
INE949L07204	Non-Convertible Debentures*	6-Mar-13	12.20%	6-Mar-18	10	CRISIL AA-/Stable
INE949L08327	Non-Convertible Debentures	8-Aug-14	11.30%	8-Aug-19	150	CRISIL AA-/Stable
INE949L08012	Subordinated Debt Bond*	21-Mar-11	15.00%	25-Mar-18	20	CRISIL AA-/Stable
INE949L08038	Subordinated Debt Bond*	18-Jul-12	12.50%	20-Feb-18	25	CRISIL AA-/Stable
INE949L08046	Subordinated Debt Bond*	26-Jul-12	13.50%	27-Jun-18	25	CRISIL AA-/Stable
INE949L08061	Subordinated Debt Bond*	24-Jan-13	12.75%	30-Jul-18	10	CRISIL AA-/Stable
INE949L08079	Subordinated Debt Bond*	9-Mar-13	12.75%	18-Sep-18	10	CRISIL AA-/Stable
INE949L08087	Non-Convertible Debentures*	25-Mar-13	12.35%	25-Mar-18	55	CRISIL AA-/Stable
INE949L08095	Subordinated Debt Bond	5-June-13	13.00%	5-Mar-19	10	CRISIL AA-/Stable
INE949L08111	Subordinated Debt Bond	4-Sep-13	12.50%	3-Jul-19	5	CRISIL AA-/Stable
INE949L08129	Subordinated Debt Bond*	30-Sep-13	12.41%	30-Sep-20	10	CRISIL AA-/Stable
INE949L08137	Subordinated Debt Bond	19-Nov-13	13.00%	19-Sep-19	5	CRISIL AA-/Stable
INE949L08137	Subordinated Debt Bond	8-Nov-13	13.00%	19-Sep-19	5	CRISIL AA-/Stable
NA	Certificate of Deposits	NA	NA	7-365 days	1000	CRISIL A1+

**CRISIL is awaiting independent confirmation of redemption before withdrawing ratings on these instruments*

Annexure - Rating History for last 3 Years

	Current			2018 (History)		2017		2016		2015		Start of 2015
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Certificate of Deposits	ST	1000.00	CRISIL A1+	06-06-18	CRISIL A1+	06-12-17	CRISIL A1+		--		--	--
						13-11-17	CRISIL A1+					
Commercial Paper	ST		--		--	13-11-17	Withdrawn	20-12-16	CRISIL A1+	20-10-15	CRISIL A1+	CRISIL A1
								15-04-16	CRISIL A1+	01-06-15	CRISIL A1+	
										10-04-15	CRISIL A1+	
Non Convertible Debentures	LT	150.00 03-10-18	CRISIL AA-/Stable	06-06-18	CRISIL A+/Positive	06-12-17	CRISIL A+/Positive	20-12-16	CRISIL A+/Stable	20-10-15	CRISIL A/Positive	CRISIL A/Stable
						13-11-17	CRISIL A+/Positive	15-04-16	CRISIL A/Watch Positive	01-06-15	CRISIL A/Positive	
										10-04-15	CRISIL A/Positive	
Subordinated Debt	LT									10-04-15	CRISIL A/Positive	CRISIL A/Stable

Subordinated Debt Bond	LT	80.00 03-10-18	CRISIL AA-/Stable	06-06-18	CRISIL A+/Positive	06-12-17	CRISIL A+/Positive	20-12-16	CRISIL A+/Stable	20-10-15	CRISIL A/Positive	CRISIL A/Stable
						13-11-17	CRISIL A+/Positive	15-04-16	CRISIL A/Watch Positive	01-06-15	CRISIL A/Positive	
										10-04-15	CRISIL A/Positive	
Fund-based Bank Facilities	LT/ST		--		--	13-11-17	Withdrawn	20-12-16	CRISIL A+/Stable	20-10-15	CRISIL A/Positive	CRISIL A/Stable
								15-04-16	CRISIL A/Watch Positive	01-06-15	CRISIL A/Positive	
										10-04-15	CRISIL A/Positive	
Non Fund-based Bank Facilities	LT/ST		--		--	13-11-17	Withdrawn	20-12-16	CRISIL A+/Stable	20-10-15	CRISIL A/Positive	CRISIL A/Stable
								15-04-16	CRISIL A/Watch Positive	01-06-15	CRISIL A/Positive	
										10-04-15	CRISIL A/Positive	

All amounts are in Rs.Cr.

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Banks and Financial Institutions
CRISILs Criteria for rating short term debt

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com	**Krishnan Sitaraman** Senior Director - CRISIL Ratings **CRISIL Limited** D:+91 22 3342 8070 krishnan.sitaraman@crisil.com **Ajit Velonie** Director - CRISIL Ratings **CRISIL Limited** D:+91 22 4097 8209 ajit.velonie@crisil.com **Vani Ojasvi** Rating Analyst - CRISIL Ratings **CRISIL Limited** D:+91 22 3342 3560 Vani.Ojasvi@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

Note for Media:
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About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are 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

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About CRISIL Ratings
CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets 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 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

AU SMALL FINANCE BANK

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