Ujjivan Small Finance Bank Limited

March 26, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	500.00	CARE AA-; Stable	Reaffirmed
Non-convertible debentures	500.00	CARE AA-; Stable	Reaffirmed
Fixed Deposit	10,000.00	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to instruments, bank facilities and fixed deposit of Ujjivan Small Finance Bank Limited (USFB) continues to derive strength from the established track record in the lending business, where the bank is actively diversifying its microfinance dominated product portfolio (61% share) by increasing the share of secured loans in its advances book, which stood at 39% as on December 31, 2024 (March 31, 2024: 30%). Ratings further factor in comfortable capitalisation levels supported by regular capital infusions (latest being qualified institutional placements [QIP] of ₹475 crore in FY23) and consistent internal accruals post COVID.

Ongoing stress in the microfinance sector in the current fiscal has impacted USFB's asset quality, with slippage increasing in 9MFY25 to 3.6% from 2.3% in FY24, which translated to an increase in gross non-performing assets (GNPA) from 2.23% in March 2024 to 2.68% in December 2024, accompanied by significant write-offs and sale of NPAs to asset reconstruction entities.

Advances growth moderated in 9MFY25, primarily as the bank is calibrating its microfinance disbursements following stricter regulatory guardrails and existing stress in the sector, while continuing strong growth in non-microfinance segments and improving the advances mix. Profitability too deteriorated in 9MFY25 due to elevated credit costs and interest reversals linked to asset quality pressures in the microfinance segment. Going forward, margins are expected to remain under pressure due to continued stress in the microfinance sector and change in product mix in favour of lower-margin secured loans.

Ratings also remain constrained by USFB's moderate-but-improving resource profile with relatively low current account-saving account (CASA) ratio.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade

- Significant scale up of the business and diversification into a secured asset class comprising 50% of portfolio.
- Continuous improvement in the CASA proportion on a sustained basis.

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade

- Significant deterioration in profitability with return on total assets (ROTA) remaining below 1% on a sustained basis.
- Material deterioration in the asset quality.
- Decline in the total capital adequacy requirements (CAR) below 18%.

Analytical approach:

Standalone

Outlook: Stable

The stable outlook reflects the likely continuation of comfortable capitalisation despite near-term pressures on profitability and asset quality.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:

Key strengths

Established track record in the lending business

Ujjivan Small Finance Bank (USFB) has strong presence in the microfinance sector since 2005 (through its erstwhile parent Ujjivan Financial Services Limited). While microfinance loans dominated the loan book with 61% share as on December 31, 2024 (March 31, 2024: 70%), the bank is actively diversifying its product portfolio by increasing the share of secured loans in its advances book, from 30% as on March 31, 2024, to 39% as on December 31, 2024. This trend is expected to persist going forward with secured loans growing relatively faster. The non-micro-banking portfolio mainly comprises the housing loan segment (21% of the total loan portfolio), loans to the MSE segment (6% of the total loan portfolio), loans to the financial institution group (FIG) segments (7%) and others (including vehicle loan, gold loan, personal loan, and staff loan) comprising 5% of total loan portfolio.

The bank's gross loan portfolio stood at ₹30,466 crore, spanning across 26 states and union territories, with an active customer base of 50 lakh. The loan portfolio is well-diversified, with no single state accounting for over 15% of the total, Tamil Nadu being the highest at 14% as of December 31, 2024. Post reporting strong advances growth of 24% in FY24, growth moderated in 9MFY25 at 3% (annualised) primarily due to bank calibrating its microfinance disbursements following stricter regulatory guardrails and existing stress in the sector.

Comfortable capitalisation levels

The bank’s capital adequacy ratio (CAR) remained comfortable, with the overall CAR at 23.90% and the Tier-I CAR at 22.10% as of December 31, 2024. This strong capitalisation is primarily supported by internal accruals and periodic equity infusions - including ₹475 crore raised in FY23 to support the envisaged growth.

CARE Ratings Limited (CARE Ratings) anticipates that the bank’s CAR will continue to remain at healthy levels, providing a strong capital buffer to absorb potential credit risks and sustain business expansion.

Key weaknesses

Exposure to inherent socio-economic and geo-political risks of the microfinance sector

The share of microfinance loans continues to form a large share of the loan book at 61% as on December 31, 2024, which exposes the bank to inherent risks associated with the industry such as socio-political intervention, regulatory uncertainties and challenges of unsecured lending. Marginal borrower profile remains vulnerable to economic downturns, while cash-based transactions introduce operational risks. While the bank has been growing its non-microfinance portfolio, majority non-microfinance retail segment consists of economically weaker section and low-income group, which remains vulnerable.

The company's asset quality was affected in 9MFY25 as its GNPA increased to 2.68% as on December 31, 2024, from 2.23% on March 31, 2024 and were accompanied by significant write-offs and sale of NPA to asset reconstruction companies (ARC; ₹448 crore in 9MFY25 against ₹274 crore for FY24) with slippages increasing in 9MFY25 at 3.6% (majority were due to microfinance). The bank in December 2024 and March 2025 quarters concluded sale of its microfinance NPA of ₹270 crore and ₹365 crore respectively, in a bid to clean up its books. Gross stressed assets (as a percentage of advances) and Net stressed assets to net worth increased to 2.84% and 4.07% as on December 31, 2024, from 2.15% and 1.87% as on March 31, 2024.

Given the ongoing stress in the microfinance segment, slippages are expected to remain elevated in the near term, posing continued pressure on the bank’s asset quality and profitability and bank’s ability to manage the slippages remain critical.

Muted profitability in 9MFY25 post healthy FY24 results

The bank's profitability, impacted by COVID-19-related slippages in FY21 and FY22, improved in FY23 and FY24 due to better collections, reduced slippages, and improved recoveries. However, for 9MFY25 the bank reported a 32% drop in net profit to ₹643 crore from ₹952 crore reported in 9MFY24 (FY24: 1,281 crore). This was due to significant increase in credit cost and interest reversals resulting from the ongoing stress in microfinance segment. As a result, ROTA slipped from 3.48% in FY24 to 2.00% in 9MFY25.

CARE Ratings expects profitability to remain muted in the near term until normalisation of the microfinance segment. With the bank’s focus on increasing its secured loan book, overall yields are expected to fall, which will also translate into moderation in margins in the medium term.

Relatively lower CASA proportion

The bank's liability mix has undergone substantial change post becoming a small finance bank. Deposit franchise has consistently strengthened, with deposits accounting for 87.93% of the total outside liabilities (TOL) as on December 31, 2024. Deposits grew by 16% year on year to ₹34,494 crore with CASA proportion remaining relatively low at 25.11% as on December 31, 2024.

The bank has been focusing on building its granular retail deposits book and its CASA plus retail term deposits (up to ₹3 crore) constituted 73% as on December 31, 2024, while its dependence on wholesale term deposits has been reducing in the last few years. CARE Ratings expects the bank to focus on raising CASA deposits, which would provide a stable depositor base and reduce cost of funding in the medium term.

Liquidity: Adequate

The bank's liquidity profile stood comfortable with no negative cumulative mismatches in time bucket up to one year per Structural Liquidity statement as on December 31, 2024. USFB's liquidity coverage ratio (LCR) remained comfortable at 132% as on December 31, 2024, against minimum regulatory requirement of 100%. USFB had excess statutory liquidity ratio (SLR)investments of ₹1,639 crore as on December 31, 2024 (23.01% of NDTL requirement against minimum of 18%). The bank also has access to borrowing from RBI's liquidity adjustment facility (LAF) and marginal standing facility (MSF) and option to refinance from SIDBI, NHB, and NABARD among others, and access to call money markets.

Environment, social, and governance (ESG) risks

Given USFB's service-oriented nature of business, its direct exposure to environmental risks remains low. However, it faces implicit environmental risks through its portfolio of assets. The bank has targeted 5% reduction in energy consumption from the previous year and follows e-waste disposal through authorised recyclers. Customer data privacy and security remain the key social risk related vulnerabilities for USFB as breaches could attract regulatory attention and damage the bank's reputation. While digital banking offers many benefits to the bank, poor execution of IT strategies and failure to adequately meet customer needs could lead high costs. On a positive note, USFB is enhancing financial inclusion by offering products and services aimed at marginalised sections of society, addressing social concerns. Prudent lending to these underserved segments could create growth opportunities, which must be weighed in the context of asset quality risks, including borrower creditworthiness, economic vulnerabilities, and regulatory uncertainties.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Bank
Financial Ratios - Financial Sector
Rating Basel III - Hybrid Capital Instruments issued by Banks

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Other bank

USFB is the third largest small finance bank in India, incorporated on July 04, 2016, and was a subsidiary of Ujjivan Financial Services Limited (UFSL). UFSL was a Bengaluru-based microfinance company registered as NBFC-MFI with RBI. It has been in microfinance lending since 2005 and has operated through joint liability group (JLG) model in urban and semi urban areas and target customers who are salaried and self-employed women. UFSL was one of the 10 entities to be granted "in-principle" approval by Reserve Bank of India (RBI) on September 16, 2015 to set up a bank under the "Guidelines for Licensing of Small Finance Banks in the private sector" (Guidelines) issued by the RBI on November 27, 2014. Subsequently, on November 11, 2016, RBI granted the license to USFB to carry out the banking business in India. Accordingly, USFB formally commenced its operations on February 01, 2017, where in line with the terms with Business Transfer Agreement (BTA) effective from February 01, 2017, entered between UFSL and USFB, entire assets/liabilities of UFSL had been transferred to USFB. Per the listing norms requirement of RBI for SFBs, Bank concluded its IPO process and got listed on NSE and BSE on December 12, 2019. Post IPO, UFSL's shareholding stood at 83.32% in USFB.

The bank completed its reverse merger with USFL in May 2024 by allotting equity shares per the share exchange ratio based on the share exchange ratio specified in the scheme - 116 equity shares each of USFB for every 10 equity shares of UFSL. RBI has approved appointment of Sanjeev Nautiyal as MD and CEO for a three-year term, effective July 01, 2024. He succeeded Ittira Davis.

On February 04, 2025, USFB submitted a formal application to the Reserve Bank of India ("RBI") for Universal Banking License per RBI Guidelines for 'on tap' Licensing of Universal Banks in the Private Sector.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total income	4,754	6,464	5,358
PAT	1,100	1,281	643
Total Assets	33,317	40,422	45,226
Net NPA (%)	0.04	0.28	0.56
ROTA (%)	3.86	3.48	2.00

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debentures-Non Convertible Debentures	INE551W08013	26-08-2022	11.95%	26-04-2028	300.00	CARE AA-; Stable
Debentures-Non Convertible Debentures	Proposed	-	-	-	200.00	CARE AA-; Stable
Fixed Deposit	-	-	-	-	10,000.00	CARE AA-; Stable
Fund-based-Long Term	-	-	-	-	500.00	CARE AA-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-Long Term	LT	500.00	CARE AA-; Stable	1)CARE AA-; Stable (23-May-24)	1)CARE AA-; Stable (03-Jan-24) 2)CARE A+; Positive (03-Aug-23)	1)CARE A+; Stable (05-Jan-23) 2)CARE A+; Stable (05-Jul-22) 3)CARE A+; Stable (01-Apr-22)	1)CARE A+; Stable (05-Aug-21)
2	Debentures-Non Convertible Debentures	LT	500.00	CARE AA-; Stable	1)CARE AA-; Stable (23-May-24)	1)CARE AA-; Stable (03-Jan-24) 2)CARE A+; Positive (03-Aug-23)	1)CARE A+; Stable (05-Jan-23) 2)CARE A+; Stable (05-Jul-22)	-
3	Fixed Deposit	LT	10000.00	CARE AA-; Stable	1)CARE AA-; Stable (23-May-24)	-	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Fixed Deposit	Simple
3	Fund-based-Long Term	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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