Equitas Small Finance Bank Limited

July 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	CARE AA-; Stable	Reaffirmed
Lower tier II	500.00	CARE AA-; Stable	Assigned
Lower tier II	500.00	CARE AA-; Stable	Reaffirmed
Certificate of deposit	1,500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating reaffirmation to the enhanced debt instruments of Equitas Small Finance Bank (Equitas) factors in the long track record of operations with diversified asset classes, adequate capitalisation levels, and an adequate liquidity profile. Ratings take note of improvement in its deposit franchise, where credit to deposit ratio significantly improved.

However, ratings strengths are partially offset by the regionally concentrated business, and moderate asset quality due to marginal credit profiles of borrowers and deterioration in profitability considering increase in credit cost especially due to sizeable amount of write-offs predominantly in the microfinance portfolio which has been witnessing stress over the last few quarters. The bank's asset quality remains moderate impacted by higher slippages in the micro-finance segment. Gross non-performing assets (GNPA) stood at 2.89% as on March 31, 2025, against 2.52% as on March 31, 2024.

While the proportion of Equitas' microfinance advances to total advances is lower compared to peers at 12% and the bank has been undertaking steps to reduce the proportion to less than 10% advances. The bank has been making write-offs and additional provisioning to maintain GNPA ratio below 3% and net non-performing assets (NNPA) ratio below 1% to meet the criteria laid by Reserve Bank of India (RBI) for small finance banks (SFBs) to get Universal Bank license. As a result, the bank's return on total assets (ROTA) declined to 0.30% in FY25 from 2.00% in FY24. The bank's asset quality is expected to see continued stress over the next few quarters which would require the bank to make provisions/write-offs impacting the profitability.

The bank's net advances grew by 16.94% in FY25 and stood at ₹36,209 crore as on March 31, 2025, against ₹30,964 crore as on March 31, 2024. The growth in advances is well supported by the mobilisation of deposits by the bank. The deposits grew by 19.31% in FY25 and stood at ₹43,107 crore as on March 31, 2025, against ₹36,129 crore as on March 31, 2024. The bank's credit deposit ratio (net advances/deposits) significantly improved in the last year and stood at 84% as on March 31, 2025, against 85.70% as on March 31, 2024.

Rating sensitivities: Factors likely to lead to rating actions

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

- Sustained improvement in the scale of operations along with improvement in geographical diversification with sharp reduction in single state concentration while maintaining asset quality and profitability.

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

- Deterioration in the asset quality, with the GNPA increasing to more than 4% on a sustained basis.
- Deterioration in the capital adequacy parameters, with the capital adequacy ratio (CAR) falling below 18% on a sustained basis.
- Moderation in the profitability parameters, with the ROTA falling below 1% on a sustained basis.

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

Analytical approach: Standalone

Outlook: Stable
The stable outlook reflects CARE Ratings Limited (CareEdge Ratings') expectation that Equitas would report a steady growth in advances with comfortable capitalisation levels while improving profitability through a shift in its portfolio mix.

Detailed description of key rating drivers:

Key strengths
Long track record of operations in diversified asset classes
Equitas is a Chennai-headquartered SFB, which commenced its banking operations on September 05, 2016. The group has been founded by PN Vasudevan by setting up Equitas Micro Finance India Private Limited in 2007 as a non-banking financial company (NBFC) engaged in microfinance activities. The group subsequently incorporated Equitas Finance Limited (vehicle financing arm) in 2011 and Equitas Housing Finance Private Limited (housing finance arm) in 2011, and Equitas was formed through the amalgamation of these three entities. Equitas has a demonstrated track record in varied asset classes such as microfinance (MF), vehicle finance (VF), housing loans, and small business loans (SBL). PN Vasudevan, the current managing director and CEO of Equitas, has extensive experience in the financial services sector. He is supported by a senior management team with significant experience in the retail financing business. ESFB's board comprises 10 directors, of which nine are independent directors.

Adequate capitalisation levels
The bank's capital adequacy has remained comfortable over the last five years, supported by internal accruals and timely capital infusion. Owing to advance growth of 16.94% in FY25, bank's CAR and tier-1 CAR moderated to 20.60% and 17.84% as on March 31, 2025, against 21.70% and 20.71% as on March 31, 2024. However, this remains comfortably above the regulatory requirements (minimum regulatory requirement of 15% and 7.5%). The bank's net worth improved supported by internal accruals and stood at ₹6,073 crore as on March 31, 2025, against ₹5,769 crore as on March 31, 2024. CareEdge Ratings expects the CAR levels to remain adequate to meet its growth requirements over the medium term.

Improving deposit franchise; improvement seen in CD ratio in FY25
The bank's resource profile is dominated by deposits comprising ~92.18% total liabilities as on March 31, 2025, against 92% total liabilities as on March 31, 2024, followed by borrowings in the form of refinance from financial institutions (FIs) and inter-bank participation certification (IBPC). Total deposits grew by 19.31% in FY25 and stood at ₹43,107 crore as on March 31, 2025, against ₹36,129 crore as on March 31, 2024. In terms of granularity of deposits, 63.31% total deposits remained below the ticket size of ₹2.0 crore as on March 31, 2025. The bank's current account savings account (CASA; as a percentage of the total deposits) stood at 28.79% as on March 31, 2025, against 31.98% as on March 31, 2024. However, CareEdge Ratings notes CASA in absolute terms has grown by 7.43%, and term deposits grew 24.90% in FY25. The bank's CD (net advances/deposits) ratio improved to 84% as on March 31, 2025, against 85.70% as on March 31, 2024. CareEdge Ratings expects the bank to maintain the CD ratio at current levels in the near term.

Diversified product profile
The bank's advances book is relatively diversified with its presence across MF, SBL, VF, housing finance (HF), and micro and small enterprise (MSE) finance. SBL and VF continue to comprise the major proportion of ~43% and 25% as on March 31, 2025, against 38% and 24%, respectively, as on March 31, 2024. Over the last five years, the bank has been able to reduce the proportion of MF from 26% as on March 31, 2019, to 12% as on March 31, 2025. The bank reported an increase in HF, which comprised ~13% advances as on March 31, 2025 (PY: 12% as on March 31, 2024). Equitas also lends to the MSE and NBFC segments, which comprised ~4% and 1% advances, respectively, as on March 31, 2025 (3% and 2%, respectively, as on March 31, 2024). The portfolio diversification helped the bank in reducing the concentration risk pertaining to high exposure to a single product. Equitas' loan book is also skewed towards secured lending, thus lowering the riskiness of the exposure. The bank's advances grew by 17% in FY25 (against 23% in FY24). Gross advances stood at ₹37,986 crore as on March 31, 2025, against ₹34,337 crore as on March 31, 2025. CareEdge Ratings expects the growth in advances to be mainly driven by the SBL and HF segments in the near-to-medium term.

Key weaknesses
Regional concentration of loan portfolio
Equitas SFB's advances are geographically concentrated, with Tamil Nadu contributing 46% gross advances as on March 31, 2024 (49% as on March 31, 2024), followed by Maharashtra and Karnataka at 15% and 13%, respectively, as on March 31, 2025 (PY: 14% and 12%, respectively). The top three states and top five states contributed 74% and 83% gross advances as on March 31, 2025, against 76% and 84%, respectively, as on March 31, 2024. The bank has its presence in 18 states across 994 banking outlets and 375 ATMs as on March 31, 2025. CareEdge Ratings expects the advances to remain concentrated in the medium term.

Asset quality moderation considering higher delinquencies in MF and MSE segments
The bank primarily lends to the self-employed segment of borrowers, who are vulnerable to income shocks and economic downturns. GNPA and NNPA stood at 2.89% and 0.98% as on March 31, 2025, against 2.52% and 1.12% as on March 31, 2024.

Gross slippage ratio increased to 5.94% in FY25 (PY: 4.34%). Bank has made additional provisions aggregating ₹275 crore in FY25 and an one-time additional stress sector provisioning of ~₹100 crore proactively on standard assets and with objective to reduce NNPA below 1% to meet the criteria laid by RBI for SFBs to get Universal Bank license to maintain GNPA and NNPA of less than 3% and 1%, respectively, in the last two years. This also resulted in increaseing PCR to 67% as on March 31, 2025, from levels of 56% as on March 31, 2024. CareEdge Ratings notes the NPAs are elevated in the MFI segment and MSE segment. GNPA in MFI segment and MSE segment stood at 5.24% and 7.01%, respectively, as on March 31, 2025, against 4.02% and 7.10%, respectively, as on March 31, 2024.

The net book value of the security receipts (SR) stood at ₹2.87 crore as on March 31, 2025. The gross stressed assets (GNPA + standard restructured advances + SR) increased and stood at 3.01% as on March 31, 2025, against 2.87% as on March 31, 2024. The net stressed assets/net worth stood at 6.01% as on March 31, 2025, against 6.65% as on March 31, 2024. CareEdge Ratings expects the credit costs to remain elevated owing to the write-offs and provisions. Considering the increase in slippages in Q1FY26 owing to weak asset quality trends in Karnataka, and the recent notification of the Tamil Nadu Money Lending Entities (Prevention of Coercive Actions) Act, 2025, the bank's ability to control slippages going forward, remains a key rating monitorable.

Profitability witnessed moderation in FY25

In FY25, the bank's total income grew by 14.93% to ₹7,223 crore (FY24: ₹6,285 crore), aided by a healthy increase in the interest income by 15.05% and non-interest income by 14.13%. The bank's net interest margin (NIM) moderated to 6.64% in FY25 from 7.71% in FY24, due to an increase in the cost of funds and decrease in interest earning assets. Its operational expenses/average total assets ratio continued to remain high at 5.78% in FY25 against 6.26% in FY24. The bank's pre-provisioning operating profit (PPOP) moderated by 3.10% to ₹1,334 crore in FY25 from ₹1,377 crore in FY24. With an increase in credit cost to 2.32% in FY25 from 0.79% in FY24, the bank reported a decline in profitability with a profit after tax (PAT) of ₹147 crore in FY25 against a PAT of ₹799 crore in FY24. Thus, the ROTA reduced to 0.30% in FY25 from 2.00% in FY24. CareEdge Ratings expects the profitability to be under pressure in H1FY26 as credit costs are expected to be elevated but this is likely to improve in H2FY26 with the bank's gradual portfolio shift to segments with better asset quality. The bank's ability to control credit costs and improve profitability level remains critical.

Liquidity: Adequate

Per the bank's structural liquidity statement as on March 31, 2025, the bank had no negative cumulative mismatches up to six months bucket. Equitas' reported liquidity coverage ratio (LCR) of 200.96% as on March 31, 2025, against the minimum regulatory requirement of 100%. In addition, the bank maintained excess statutory liquidity ratio (SLR) investments of ₹1,995 crore as on March 31, 2025, which provides a cushion to the bank's liquidity profile. The bank also has access to systemic liquidity by way of RBI's LAF and MSF schemes.

Assumptions/Covenants – Not applicable

Environment, social, and governance (ESG) risks

Although ESFB's service-oriented business model limits its direct exposure to environmental risks, credit risk may arise if operations of asset class of the portfolio are adversely impacted by environmental factors. The bank also strives to reduce the environmental impact by reducing paper usage through digitalisation, tech-led innovations, recycling and reusing electronic equipment and using recycled paper, eco-friendly pads and pencils, among others.

Social risks in the form of cybersecurity threat or customer data breach or mis-selling practices can affect ESFB's regulatory compliance and reputation and hence remain a key monitorable. ESFB remains focused on serving the vast underbanked and unbanked population of the country, where it deals with borrowers who are mostly from the economically weaker sections of society with poor linkages to the mainstream financial markets.

On the governance front, the bank's board comprises 10 directors, of which nine are independent directors, including a woman director.

Applicable criteria

Definition of Default
Issuer Rating
Rating Outlook and Rating Watch
Bank
Financial Ratios – Financial Sector
Rating Basel III – Hybrid Capital Instruments issued by Banks
Short Term Instruments

About the company and industry

Industry classification

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

ESFB is a Chennai-headquartered SFB, which commenced its banking operations on September 05, 2016. Post its initial public offering (IPO) in October 2020, the bank was listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

ESFB is currently focussed on the retail banking business with focus on MF, VF, HF, business loans, loan-against-property (LAP), and providing financing solutions for individuals and MSEs that are underserved by formal financing channels while providing a comprehensive banking and digital platform for all. As on March 31, 2025, the bank had a network of 994 banking outlets, with deposits of ₹43,107 crore and gross advances of ₹37,986 crore.

Brief Financials (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)
Total operating income	6,285	7,223
PAT	799	147
Total Assets	45,304	52,836
Net NPA (%)	1.12	0.98
ROTA (%)	2.00	0.30

A: Audited; 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
Bonds-Lower Tier II	INE063P08112	05-12-2024	9.60%	05-12-2030	500.00	CARE AA-; Stable
Bonds-Lower Tier II (Proposed)	Proposed	-	-	-	500.00	CARE AA-; Stable
Certificate Of Deposit	-	-	-	-	1500.00	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AA-; Stable

CareEdge RATINGS

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 2025-2026	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
1	Certificate Of Deposit	ST	1500.00	CARE A1+	-	1)CARE A1+ (30-Jan-25) 2)CARE A1+ (26-Sep-24)	1)CARE A1+ (17-Jan-24) 2)CARE A1+ (18-Jul-23)	-
2	Issuer Rating-Issuer Ratings	LT	0.00	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Jan-25) 2)CARE AA-; Stable (26-Sep-24)	1)CARE AA-; Stable (17-Jan-24)	-
3	Bonds-Lower Tier II	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Jan-25) 2)CARE AA-; Stable (26-Sep-24)	-	-
4	Bonds-Lower Tier II	LT	500.00	CARE AA-; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short 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	Bonds-Lower Tier II	Simple
2	Certificate Of Deposit	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CareEdge 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, CareEdge 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 Reserve Bank of India. With an equitable position in the Indian capital market, CareEdge 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, CareEdge 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. CareEdge Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit. For more information: www.careratings.com

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