

## Equitas Small Finance Bank Limited

August 20, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Issuer rating	0.00	CARE AA-; Stable	Reaffirmed
Lower tier II	500.00	CARE AA-; Stable	Reaffirmed
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 debt instruments of Equitas Small Finance Bank (Equitas) factors in long track record of operations with diversified asset classes, comfortable capitalisation levels, and an adequate liquidity profile. Ratings take note of improvement in its deposit franchise, where credit to deposit ratio significantly improved to 78.28% as on June 30, 2025, from 85.08% as on June 30, 2024.

However, ratings strengths are partially offset by regionally concentrated business, and moderate asset quality due to marginal credit profiles of borrowers. Ratings also consider deterioration in profitability due to increased credit costs as the bank made higher-than-required provisioning on its portfolio in microfinance and small business loans portfolio, which has been witnessing stress in Q4FY25 and Q1FY26. While the bank expects improvement in business performance in H2FY26, its ability to improve its collections, maintain asset quality and improve profitability remains a key monitorable.

The bank has been reducing the proportion of its microfinance advances to total advances which reduced to ~9% as on June 30, 2025, compared to ~12% as on March 31, 2025. The bank has been making write-offs and additional provisioning to maintain gross non-performing assets (GNPA) ratio below 3% and net NPA (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. In Q1FY26, the bank reported losses following change in bank's provisioning policy resulting in higher provisioning and one-time management overlay provision on the microfinance portfolio.

### 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 scale of operations and geographical diversification with sharp reduction in single state concentration, while maintaining comfortable asset quality and profitability.

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

- Deterioration in the asset quality, with GNPA increasing to over 4% on a sustained basis.
- Weakening capital adequacy parameters, with 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.

### 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 was 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)

<sup>1</sup>Complete definition of ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE Ratings Limited's publications.

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 11 directors, of which nine are independent directors.

### **Adequate capitalisation levels**

The bank's capital adequacy has remained comfortable in the last five years, supported by internal accruals and timely capital infusion. Owing to net advance growth of 16.94% in FY25, the 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, it remains comfortably above 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 ₹5,969 crore as on March 31, 2024.

The bank's CAR and Tier-1 CAR moderated to 20.48% and 17.16% as on June 30, 2025, against 20.60% and 17.84% as on March 31, 2025. However, this remains comfortably above regulatory requirements (minimum regulatory requirement of 15% and 7.5%). The bank has raised ₹500 crore on July 31, 2025 via Tier-II bonds, which is likely to increase the CAR by 170 bps, taking overall CAR to ~22%. The bank's net worth decreased to ₹5,849 crore as on June 30, 2025, against ₹6,008 crore as on June 30, 2024, due to loss reported by the bank. CareEdge Ratings expects CAR levels to remain adequate to meet its growth requirements in the medium term.

### **Improving deposit franchise; improvement seen in Credit to Deposit ratio in Q1FY26**

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% of 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 grew by 7.43%, and term deposits grew by 24.90% in FY25. The bank's Credit to Deposit (CD; net advances/deposits) ratio improved to 84% as on March 31, 2025, against 85.70% as on March 31, 2024.

Total deposits grew by 18.27% in Q1FY26 and stood at ₹44,379 crore as on June 30, 2025, against ₹37,524 crore as on June 30, 2025. The bank's CASA (as a percentage of the total deposits) stood at 29.41% as on June 30, 2025, against 31.24% as on June 30, 2024. The bank's CD (net advances/deposits) ratio improved to 78.28% as on June 30, 2025, against 85.08% as on June 30, 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 major proportions at ~43% and 25% as on March 31, 2025, against 38% and 24%, respectively, as on March 31, 2024. In 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 concentration risk pertaining to high exposure to a single product. Equitas' loan book is also skewed towards secured lending, lowering riskiness of the exposure. The bank's net 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.

As on Q1FY26, SBL and VF continue to comprise the major proportion of ~45% and 25%, against 39% and 24%, respectively, as on June 30, 2024. The MFI proportion further reduced to ~9% as on June 30, 2025. The bank's advances grew by 8.82% (y-o-y) in Q1FY26 (against 16.94% in FY25). Gross advances stood at ₹37,610 crore as on June 30, 2025, against ₹34,871 crore as on June 30, 2024. 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 June 30, 2025 (46% as on March 31, 2025), followed by Maharashtra and Karnataka at 15% and 13%, respectively, as on June 30, 2025 (PY: 15% and 13%, respectively). Top three states and top five states contributed 74% and 84% gross advances as on June 30, 2025, against 74% and 83%, respectively, as on March 31, 2025. The bank has its presence in 18 states across 1,035 banking outlets and 376 ATMs as on June 30, 2025. CareEdge Ratings expects advances to remain concentrated in the medium term.

#### **Asset quality moderation considering higher delinquencies in MF and MSE segments**

The bank primarily lends to self-employed segment of borrowers, who are vulnerable to income shocks and economic downturns. GNPA ratio 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%). The bank made additional provisions aggregating ₹275 crore in FY25 and an one-time additional stress sector provisioning of ~₹100 crore proactively on standard assets and 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 increasing provision coverage ratio (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.

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. 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.

The bank's GNPA ratio and NNPA ratio stood at 2.82% and 0.95% as on June 30, 2025. In Q1FY26, the bank witnessed further increase in its credit costs as the bank changed its provisioning policy resulting in the bank making additional provisioning on NPAs to the tune of ₹145 crore. The bank also made one-time management overlay provision of ₹185 crore on the microfinance portfolio, resulting in reporting a net loss of ₹224 crore for the quarter. The bank has seen an increase in 1-90 DPD in MFI loans and non-MFI loans to 8.05% and 9.63% respectively in Q1FY26 against 7.82% and 7.94% respectively in Q4FY25. Slippages also increased from 5.62% in FY25 to 7.33% (annualised) in Q1FY26 with a higher increase in slippages from SBL segment. The bank has been taking steps to reduce its slippages and expects to improve the collection efficiency in the next two quarters and the bank's ability to improve its asset quality, reducing credit costs will remain a key monitorable.

### **Deterioration in profitability in Q1FY26 due to higher credit costs**

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 7.69% 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.

In Q1FY26, the bank's NIM moderated to 6.26% (annualised) in Q1FY26 from 6.64% in FY25 and 7.69% in FY24, due to an higher increase in the cost of funds and lower growth in advances as the bank went slow in disbursements being cautious of asset quality. With higher provisioning resulting in an increase in credit cost to 4.88% of total assets in Q1FY26 from 2.32% in FY25 and 0.78% in FY24, the bank reported a loss of ₹224 crore in Q1FY26 against a PAT of ₹26 crore in Q1FY25.

CareEdge Ratings expects 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 in the near-term remains critical.

### **Liquidity: Adequate**

Per the bank's structural liquidity statement as on June 30, 2025, the bank had no negative cumulative mismatches up to three months bucket. Equitas' reported liquidity coverage ratio (LCR) of 209.50% as on June 30, 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 through 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 economically weaker sections of society with poor linkages to 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 June 30, 2025, the bank had a network of 1,035 banking outlets, with deposits of ₹44,379 crore and gross advances of ₹37,610 crore.

### Standalone Financials

Brief Financials (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)	June 30, 2025 (UA)
Total operating income	6,285	7,223	1,941
PAT	799	147	-224
Total Assets	45,304	52,836	53,934
Net NPA (%)	1.12	0.98	0.95
ROTA (%)	2.00	0.30	-1.78

A: Audited UA: Unaudited; Note: these are latest available financial results. All financial calculations are basis CARE Methodology.

**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	INE063P08120	31-07-2025	9.60%	31-07-2030	500.00	CARE AA-; Stable
Certificate Of Deposit	INE063P16AS8	27-Jan-2025	8.55%	27-Jan-2026	300.00	CARE A1+
Certificate Of Deposit	INE063P16AY6	27-Mar-2025	8.10%	26-Mar-2026	25.00	CARE A1+
Certificate Of Deposit	INE063P16AY6	28-Mar-2025	8.10%	26-Mar-2026	25.00	CARE A1+
Certificate Of Deposit	INE063P16AZ3	13-Jun-2025	6.33%	11-Sep-2025	300.00	CARE A1+
Certificate Of Deposit	INE063P16AL3	13-Jun-2025	6.33%	12-Sep-2025	300.00	CARE A1+
Certificate Of Deposit (Proposed)	Proposed	-	-	-	550.00	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	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 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+ (10-Jul-25)	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 (10-Jul-25)	1)CARE AA-; Stable (30-Jan-25)	1)CARE AA-; Stable (17-Jan-24)	-

						2)CARE AA-; Stable (26-Sep-24)		
3	Bonds-Lower Tier II	LT	500.00	CARE AA-; Stable	1)CARE AA-; Stable (10-Jul-25)	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	1)CARE AA-; Stable (10-Jul-25)	-	-	-

LT: Long term; ST: 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](mailto:care@careedge.in) for clarifications.



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