Utkarsh Small Finance Bank Limited

July 14, 2026

Facilities/Instruments@	Name of the Regulator[1]	Amount (₹ crore)	Rating[2]	Rating Action
Lower Tier-II	SEBI	200.00	CARE A-; Stable	Downgraded from CARE A; Negative

@Details of instruments in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CareEdge Ratings) has downgraded the rating assigned to the Tier-II bonds of Utkarsh Small Finance Bank Limited (USFBL or the Bank) from CARE A; Negative to CARE A-; Stable, and revised the outlook from Negative to Stable. The rating downgrade factors in the weakening of the bank's profitability profile and asset quality stress. USFBL reported a net loss of ₹1,151 crore in FY26 compared to a profit after tax (PAT) of ₹24 crore in FY25, owing to high credit costs (5.50% of average total assets), a sharp decline in net interest margins (NIMs) (5.19% in FY26 against 7.81% in FY25), and a relatively high operational-cost base (6.51% of average total assets against 6.24% in FY25). As a result, operating profit level (pre provisioning operating profit [PPOP]) declined to ₹56 crore in FY26 from ₹1,007 crore in FY25. The bank's capitalisation metrics also moderated, with the capital adequacy ratio (CAR) and Tier-I CAR declining to 17.71% and 14.98%, respectively, as on March 31, 2026, from 20.93% and 17.88% as on March 31, 2025. Despite quarter-on-quarter in Q4FY26 improvement, asset quality indicators remain weak, with gross non-performing assets (GNPA) and net NPA (NNPA) standing at 7.71% and 3.29%, respectively, as on March 31, 2026. The current account saving account (CASA) ratio, although improving, remained modest at 24.0%, while the loan portfolio continued to exhibit geographic concentration, particularly in Bihar and Uttar Pradesh through the micro-banking segment.

The Stable outlook reflects CareEdge Ratings' expectation that the bank's credit profile will remain supported by its adequate capital position, which was supported by ₹950 crore equity infusion through a rights issue in November 2025, quarter-on-quarter improving asset quality trend, and ongoing portfolio diversification. While profitability is expected to remain subdued in the near term due to elevated credit costs and the transition towards a lower-yield secured lending portfolio, the outlook indicates that the bank's financial profile is likely to stabilise over the medium term, supported by a gradual recovery in earnings and continued improvement in risk metrics. Liquidity remained strong, with an average liquidity coverage ratio (LCR) of 175% as on March 31, 2026, and a net stable funding ratio (NSFR) of 117.5% as on March 31, 2026. The bank also continued to strengthen its deposit franchise, with CASA and retail term deposits accounting for 83% of total deposits as on March 31, 2026.

Rating sensitivities: Factors likely to lead to rating actions

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

- Sustained improvement in asset quality and profitability while maintaining comfortable capitalisation levels.
- Diversification in resource profile with continuous improvement in CASA proportion on a sustained basis.

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

- Deteriorating capitalisation with overall CAR going below 18%.
- Sustained deterioration in asset quality, profitability, and liquidity.

Analytical approach: Standalone

Outlook: Stable

Revision in the outlook reflects the bank's adequate capitalisation level, strong liquidity, improvement in asset quality with respect to microfinance segment and gradual recovery in earnings profile from Q3FY26 to Q4FY26.

[1]SEBI: Securities and Exchange Board of India; RBI: Reserve Bank of India; MCA: Ministry of Corporate Affairs; IRDAI: Insurance Regulatory and Development Authority of India; PFRDA: Pension Fund Regulatory and Development Authority

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

Detailed description of key rating drivers:

Key strengths

Adequate capitalisation levels supported by ₹950 crore equity raise

USFBL's CAR moderated to 17.71% and Tier-1 CAR to 14.98% as on March 31, 2026, compared to 20.93% and 17.88%, respectively, as on March 31, 2025, primarily due to the net loss of ₹1,151 crore incurred in FY26. Notwithstanding the moderation, the bank continued to maintain adequate capitalisation, with sufficient cushion above the minimum regulatory requirement of 15% (Tier-I: 7.5%). The bank's capital position was supported by the completion of an equity raise of ₹950 crore through a rights issue in November 2025, which partly mitigated the erosion of capital buffers considering operating losses. The bank is also in the process of raising Tier-II capital amounting to ₹500 crore in the near term, which is expected to provide additional headroom to the CAR.

CareEdge Ratings expects the bank to maintain adequate capital buffers over regulatory thresholds in the near term; however, the timely execution of the planned Tier-II capital raise remains a key monitorable.

Continued diversification of loan book

USFBL has been systematically recalibrating its loan portfolio towards secured lending and non-microfinance product segments to reduce the concentration risk arising from the stressed micro-banking portfolio. The gross loan portfolio (assets under management [AUM]) stood at ₹19,332 crore as on March 31, 2026, compared to ₹19,666 crore as on March 31, 2025. The share of the non-microfinance portfolio increased to ~61.6% of the loan portfolio as on March 31, 2026, from 51% as on March 31, 2025, and 38% as on March 31, 2024, driven by growth in Micro, Small, and Medium Enterprises (MSME), housing, commercial vehicle/construction equipment (CV/CE), and other retail segments. The micro-banking segment's share in the overall loan book correspondingly declined to 38.4% as on March 31, 2026, from 49.2% as on March 31, 2025.

Going forward, CareEdge Ratings expects the non-microfinance portfolio to continue growing at a faster pace, further reducing dependence on the micro-banking segment over the medium term. CareEdge Ratings will continue to monitor the bank's ability to maintain asset quality in the relatively new asset classes.

Key weaknesses

Significant deterioration in profitability, asset quality remains elevated

USFBL's profitability deteriorated significantly in FY26, with the bank reporting a net loss of ₹1,151 crore, compared to a marginal profit of ₹24 crore in FY25 and ₹498 crore in FY24. The sharp decline in earnings was primarily driven by a substantial compression in NIMs, which fell to 5.19% in FY26 from 7.81% in FY25. The pressure on margins stemmed from muted portfolio growth, interest income reversals arising from fresh NPA slippages, and a gradual shift in the loan portfolio towards relatively lower-yielding secured asset classes.

At the same time, operating expenses remained elevated at ₹1,851 crore in FY26, up from ₹1,616 crore in FY25. With revenue generation weakening, the bank's cost-to-income ratio increased sharply to 97.01% from 61.61% in the previous year, highlighting the impact of a high fixed-cost structure on a subdued operating income base. Consequently, PPOP declined steeply to ₹56 crore in FY26 from ₹1,007 crore in FY25.

Weighing on profitability, credit costs remained elevated at 5.50% of average total assets in FY26, compared to 3.78% in FY25, largely reflecting the continued asset quality stress in the micro-banking portfolio. The combination of lower margins, weak operating profitability, and high credit costs resulted in the bank reporting a significant net loss during the year.

On the asset quality front, the GNPA ratio improved to 7.71% as on March 31, 2026, from 12.42% as on September 30, 2025, though the improvement was partly supported by significant write-offs and sale of stressed assets aggregating ₹1,737 crore in FY26. Compared with March 31, 2025 (GNPA of 9.43%), the GNPA as on March 31, 2026, reflects continued stress, particularly in the micro-banking segment where GNPAs stood at 13.3% as on March 31, 2026. The NNPA ratio stood at 3.29% as on March 31, 2026 (March 31, 2025: 4.84%), with the NNPA to net worth ratio at 21.40% (March 31, 2025: 31.68%). The provision coverage ratio on GNPAs stood at 57.14% as on March 31, 2026 (March 31, 2025: 51.18%). Asset quality stress was also observed in the non-microfinance segments, with GNPAs in these segments increasing to 3.9% as on March 31, 2026 from 2.5% as on March 31, 2025.

CareEdge Ratings expects the bank's earnings profile to remain muted in the near term, given the elevated credit cost and continued asset quality challenges. The bank's ability to further control slippages, improve collection efficiency, and restore earnings momentum remains a key rating monitorable.

Geographical concentration of loan portfolio

The bank operates across 27 states and union territories. The micro-banking loan portfolio remains geographically concentrated, with Bihar and Uttar Pradesh constituting a dominant share of the micro-banking advances — ~46% and 28%, respectively, as on March 31, 2026. This concentration exposes the bank to state-specific risks such as adverse weather conditions, socio-political events, and localised credit stress. While the bank has been expanding its branch network and growing its non-microfinance business across a wider geography, with the majority non-microfinance portfolio now sourced from outside these two states, the pace of geographical diversification within the micro-banking segment remains a key monitorable. The significant share of the micro-banking loan book — even as it declines — also exposes the bank to inherent risks associated with the segment, including socio-political intervention, regulatory uncertainties, and challenges inherent to unsecured lending.

Relatively low CASA ratio

USFBL's deposit base remained broadly stable at ₹21,654 crore as on March 31, 2026, compared to ₹21,566 crore as on March 31, 2025. The credit-to-deposit (CD) ratio improved to 83% as on March 31, 2026, from 87% as on March 31, 2025. The bank's deposit profile has become more granular, with CASA and retail term deposits (up to ₹3 crore) constituting 83% of total deposits as on March 31, 2026, compared to 71% as on March 31, 2025, and the share of the top 20 depositors declining to 14% from 16%. While the CASA ratio improved to 24.00% as on March 31, 2026, from 21.79% as on March 31, 2025, it remains relatively low compared to peers in the small finance banking sector.

CareEdge Ratings expects the bank to continue focusing on building its CASA proportion, which would provide a more stable depositor base and contribute to reduction in the cost of funds over the medium term and shall remain a key monitorable.

Liquidity: Strong

Per the structural liquidity statement as on March 31, 2026, there were no negative cumulative mismatches for time buckets up to one year. The bank's average LCR remained comfortable at 175% as on March 31, 2026, well above the regulatory minimum requirement, while the NSFR stood at 117.5% as on March 31, 2026, against the regulatory requirement of 100%. In addition, the bank has access to borrowings from the Reserve Bank of India's (RBI's) liquidity adjustment facility (LAF) and marginal standing facility (MSF), and the option to refinance from Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB), and National Bank for Agriculture and Rural Development (NABARD), among others, and access to call money markets.

Environment, social, and governance (ESG) risks

Given USFBL'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 reduction in energy consumption, preservation of water quality and availability, and tree plantation. Customer data privacy and security remain the key social risk-related vulnerabilities for USFBL, as breaches could attract regulatory attention and damage the bank's reputation. While digital banking offers many benefits, poor execution of IT strategies and failure to adequately meet customer needs could lead to high costs. On a positive note, USFBL 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. USFBL's Board comprises nine Directors, of which four are Independent Directors, including two female Directors.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Banks
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

USFBL was incorporated on April 30, 2016, and commenced banking operations on January 23, 2017, pursuant to a small finance bank licence granted by the Reserve Bank of India on November 25, 2016. The bank provides banking and financial services with a focus on microfinance, with lending activities largely concentrated in rural and semi-urban areas, while deposit and other banking services are offered across the country.

USFBL extends microfinance loans under the joint liability group (JLG) model and micro-banking business loans (MBBL), and MSME loans, housing loans, personal loans, CV/CE loans, and wholesale lending. Headquartered in Varanasi, Uttar Pradesh, USFBL is a subsidiary of Utkarsh CoreInvest Limited (UCL), an RBI-registered NBFC-NDSI-CIC with 42.67% stake (post right issue) and 68.92% stake (pre right issue).

As on March 31, 2026, the bank operated through 1,110 banking outlets, 373 ATMs and 778 micro-ATMs, and is led by Govind Singh, MD and CEO, whose reappointment was approved by the RBI on September 21, 2024.

The Boards of USFBL and its holding company, UCL, approved a scheme of amalgamation of UCL with USFBL on September 20, 2024, with a share exchange ratio of 699 USFBL shares for every 100 UCL shares and an appointed date of April 01, 2025, subject to approvals. The bank has received no-objection certificates (NOCs) from the RBI, BSE, and NSE, and filed a joint application with the National Company Law Tribunal (NCLT), Allahabad Bench on December 26, 2025, to convene stakeholder meetings and unsecured creditor meetings on March 28, 2026. The matter is further scheduled for hearing before the Allahabad Bench on 23 July 2026, post which the NCLT may issue its final order by mid-August or September end. The bank is on track to submit NOCs from authorities such as BSE, NSE, SEBI, Income Tax Department, ROC and Official Liquidator among others, before the Hon'ble Court prior to the hearing date.

USFBL Financials

Brief Financials (₹ crore)	March 31, 2025 (A)	March 31, 2026 (A)
Total income	4,365	3,810
Profit after tax (PAT)	24	-1,151
Total Assets	28,010	28,869
Net Interest Margin (%)	5.19%	7.81%
Gross non-performing assets (NPA) (%)	9.43%	7.71%
Net NPA (%)	4.84%	3.29%
Capital adequacy ratio (CAR) (%)	20.93%	17.71%

A: Audited; UA: Unaudited; Note: these are latest available financial results
All calculations per CareEdge Ratings

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

For complexity level of instruments rated refer to Annexure-1

Lender details: Annexure-4

Disclosure on facilities/instruments and name of the regulators:

A list of facilities / instruments falling under the purview of various financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by CareEdge Ratings on its website. A link to the same has been provided below for ready reference:

https://www.careratings.com/activities_and_regulators

Note: For facilities or instruments falling under the purview of FSRs other than Securities and Exchange Board of India (SEBI), the grievance / dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Annexure-1: Details of instruments

Name of the Instrument	Name of the Regulator	Complexity Level	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 - Proposed	SEBI	Complex	NA	-	-	-	95.00	CARE A-; Stable
Bonds-Lower Tier II	SEBI	Complex	INE735W08061	27-Nov-2024	10.90	27-Nov-2031	105.00	CARE A-; 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 2026-2027	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
1	Bonds	LT	-	-	-	1)Withdrawn (05-Jan-26) 2)CARE A; Stable (13-Aug-25) 3)CARE A+; Negative (12-Jun-25)	1)CARE A+; Stable (31-Oct-24) 2)CARE A+; Stable (24-Sep-24)	1)CARE A+; Stable (26-Sep-23)
2	Bonds-Lower Tier II	LT	200.00	CARE A-; Stable	-	1)CARE A; Negative (05-Jan-26) 2)CARE A; Stable (13-Aug-25) 3)CARE A+; Negative (12-Jun-25)	1)CARE A+; Stable (31-Oct-24)	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Lender details: Not applicable

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.

Contact us

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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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