Utkarsh Small Finance Bank Limited

September 04, 2026

Facilities/Instruments@	Name of the Regulator[1]	Amount (₹ crore)	Rating[2]	Rating Action
Lower Tier-II	SEBI	500.00	CARE A-; Stable	Assigned
Lower Tier-II	SEBI	200.00	CARE A-; Stable	Reaffirmed

@Details of instruments in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CareEdge Ratings) has assigned a rating of "CARE A-; Stable" to proposed Tier II Bonds amounting to ₹500 crore, while reaffirming the existing rating of Tier II bonds amounting to ₹200 crore of Utkarsh Small Finance Bank Limited (USFBL or the Bank).

Ratings factor in adequate capitalisation profile of USFBL with the capital adequacy ratio (CAR) and Tier-I CAR at 17.44% and 15.13%, respectively, as on June 30, 2026, against 17.71% and 14.98%, respectively, as on March 31, 2026. The rating favourably factors in planned capital raise of Tier-II capital to the extent of ₹500 crore in FY27, which is expected to provide further cushion in capitalisation. The rating factors in quarter-on-quarter improvement in the bank's operating profitability and gradual improvement in headline asset quality metrics. USFBL reported a net loss of ₹34 crore in Q1FY27 and total income of ₹1,002 crore against a net loss of ₹188 crore and total income of ₹952 crore in Q4FY26. Despite contraction in losses in Q1FY27, the overall profitability remains weak and turn around to profit in forthcoming quarters shall continue to be a key monitorable. Despite quarter-on-quarter improvement in Q1FY27, the asset quality indicators remain weak, with gross non-performing assets (GNPA) and net NPA (NNPA) standing at 5.93% and 2.79% as on June 30, 2026, respectively, against 7.55% and 3.22%, respectively, as on March 31, 2026. The current account savings account (CASA) ratio remained modest at 22.07% as on June 30, 2026, while the loan portfolio continued to exhibit geographic concentration, particularly in Bihar and Uttar Pradesh through micro-banking segment.

Ratings continue to factor in expectation of subdued profitability in the near term due to elevated credit costs and the transition towards a lower-yield secured lending portfolio, however the bank's financial profile is likely to stabilise in the medium term, supported by a gradual recovery in earnings and continued improvement in risk metrics.

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% on a sustained basis.
- Sustained deterioration in asset quality, profitability, and liquidity.

Analytical approach: Standalone

Outlook: Stable

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

[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

Continued diversification of loan book

USFBL has been systematically recalibrating its loan portfolio towards secured lending and non-microbanking product segments to reduce the concentration risk, arising from stressed micro-banking portfolio. Gross loan portfolio (assets under management [AUM]) stood at ₹19,610 crore as on June 30, 2026, against ₹19,332 crore as on March 31, 2026, and ₹19,666 crore as on March 31, 2025. Share of the non- microbanking portfolio increased to 62.7% and 61.6% of the loan portfolio as on June 30, 2026, and March 31, 2026, respectively, 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. Micro-banking segment's share in the overall loan book correspondingly declined to 37.3% and 38.4% as on June 30,2026 and March 31, 2026 respectively, from 49.2% as on March 31, 2025.

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

Adequate capitalisation levels and expected Tier II capital issuance in near term

USFBL's capitalisation profile remained adequate despite the losses incurred in FY26, with a Capital Adequacy Ratio (CAR) and Tier-I CAR of 17.71% and 14.98%, respectively, as on March 31, 2026. The impact of the losses was largely mitigated by the successful rights issue of ~₹950 crore completed in Q3FY26. The bank reported CAR and Tier-I CAR of 17.44% and 15.13%, respectively, as on June 30, 2026, reflecting a stable capital position and adequate cushion above the minimum regulatory requirements.

To further strengthen its capital base, the bank plans to raise ₹500 crore through Tier-II bonds in the near term. USFBL prepaid its high-cost debt amounting to ₹195 crore of Tier-II bonds in August 2026 as part of its capital management strategy. Considering the planned Tier-II capital raise and the expected turnaround in profitability, the bank's capitalisation profile is expected to remain adequate in the near term. However, timely execution of the planned Tier-II issuance, and a sustained turnaround in operations and continued profitability, will remain key monitorable.

CareEdge Ratings expects the bank to maintain sufficient capital buffers above regulatory thresholds, supported by the proposed capital raise and expected improvement in earnings.

Key weaknesses

Weak profitability profile, despite signs of operational stabilisation

USFBL reported a net loss of ₹1,151 crore in FY26 against a profit of ₹24 crore in FY25, primarily due to a sharp decline in net income margins (NIMs) to 5.18% from 7.81%, driven by interest reversals on fresh NPAs, and an increasing share of lower-yielding secured assets. Operating expenses remained elevated, resulting in a sharp increase in the cost-to-income ratio to 97.05% from 61.61% and a decline in PPOP to ₹56 crore from ₹1,007 crore in FY25. Profitability was further impacted by high credit costs of 5.50% of average total assets (FY25: 3.78%) amid continued stress in the micro-banking portfolio, leading to a significant loss in the year.

The bank’s financial performance had marginal recovery in Q1FY27 compared to Q4FY26, supported by stable net interest income, reduction in credit costs, and stabilisation in operating expenses. While the bank continued to incur losses, the net loss narrowed significantly to ₹34 crore in Q1FY27 from ₹188 crore in Q4FY26, reflecting gradual normalisation of the microfinance portfolio and improvement in underlying operating profitability. USFBLs earnings profile is expected to remain subdued in near term, till the time meaningful scale while also sustaining adequate margins is achieved.

Asset quality pressures remain elevated despite recent improvement

USFBL's headline asset quality metrics improved, with the GNPA ratio declining to 7.55% as on March 31, 2026, and further to 5.93% as on June 30, 2026, from 12.20% as on September 30, 2025. Improvement was driven by lower slippages, better collection efficiencies, and recoveries, though it was also supported by significant write-offs and sale of stressed assets aggregating ₹1,737 crore in FY26 and ₹422 crore in Q1FY27. Despite the improvement, asset quality remained weak, reflecting stress in the legacy micro-banking portfolio, where GNPA stood at 13.49% as on March 31, 2026, and 10.08% as on June 30, 2026.

The NNPA ratio improved to 3.22% as on March 31, 2026, and 2.79% as on June 30, 2026, supported by adequate provisioning, with the provision coverage ratio (PCR) standing at 59.31% and 54.55%, respectively. Net stressed assets to net-worth ratio improved to 24.59% as on June 30, 2026, from 27.92% as on March 31, 2026 (35.33% as on June 30, 2025). Asset quality pressures were also visible in the non-microbanking portfolio, where GNPA increased to 3.85% as on March 31, 2026, and 3.46% as on June 30, 2026, from 2.42% as on March 31, 2025.

CareEdge Ratings expects asset quality to gradually improve, supported by better collection efficiencies and lower slippages. However, the bank's ability to sustain this improvement, particularly in the micro-banking segment, while restoring profitability, will remain 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, and June 30, 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 had expanded its branch network in FY24 and FY25 and has grown its non-microfinance business across a wider geography, with 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. 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, increasing marginally to ₹22,054 crore as on June 30, 2026, from ₹21,654 crore as on March 31, 2026, and ₹21,566 crore as on March 31, 2025. The credit-to-deposit (CD) ratio stood at 83.79% as on June 30, 2026, compared to 83.41% as on June 30, 2025. The bank's deposit profile has become more granular, with CASA and retail term deposits (up to ₹3 crore) constituting 82.80% of total deposits as on June 30, 2026, compared to 74.01% as on June 30, 2025, and share of top 20 depositors declining to ~14% as on March 31, 2026, from ~16% as on March 31, 2025. However, despite improvement from 21.79% as on March 31, 2025, the CASA ratio remained relatively modest at 24.0% as on March 31, 2026, and 22.07% as on June 30, 2026, 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 in the medium term and shall remain a key monitorable.

Liquidity: Strong

Per the structural liquidity statement as on June 30, 2026, there were no negative cumulative mismatches for time buckets up to one year. The bank's average liquidity coverage ratio (LCR) remained comfortable at 216% as on June 30, 2026, well above the regulatory minimum requirement, while the net stable funding ratio (NSFR) stood at 117.5% as on March 31, 2026, against regulatory requirement of 100%. The bank maintained excess statutory liquidity ratio (SLR) of 13% as on June 30, 2026. The bank also 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.

Assumptions/Covenants: Not applicable

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](#)

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 RBI 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 June 30, 2026, the bank operated through 1,110 banking outlets, 373 ATMs and 789 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, Bombay Stock Exchange (BSE), and Nationsl Stock Exchange (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 was further scheduled for hearing before the Allahabad Bench on 23 July 2026. At its hearing, the NCLT took note of responses received from relevant authorities and fixed the matter for next hearing on September 17, 2026. The reverse merger is expected to complete in the next few months, subject to NCLT proceedings.

USFBL Financials

Brief Financials (₹ crore)	March 31, 2025 (A)	March 31, 2026 (A)	Q1FY27 (UA)
Total income	4,365	3,810	1,002
Profit after tax (PAT)	24	-1,151	-34
Total Assets	28,127	28,869	28,418
Net Interest Margin (%)	7.81%	5.18%	5.89%
Gross non-performing assets (NPA) (%)	9.43%	7.55%	5.93%
Net NPA (%)	4.84%	3.22%	2.79%
Capital adequacy ratio (CAR) (%)	20.93%	17.71%	17.44%

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 regulators:
A list of facilities / instruments falling under the purview of 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	-	-	-	500.00	CARE A-; Stable
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-; Stable (14-Jul-26)	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)	-
3	Bonds-Lower Tier II	LT	500.00	CARE A-; Stable				

LT: Long term

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

Annexure-4: 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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