Equitas Small Finance Bank Limited

September 08, 2026

Facilities/Instruments	Name of the Regulator[1]	Amount (₹ crore)	Rating[2]	Rating Action
Issuer rating	-	0.00	CARE AA-; Stable	Reaffirmed
Lower Tier II	SEBI	500.00	CARE AA-; Stable	Reaffirmed
Lower Tier II	SEBI	500.00	CARE AA-; Stable	Reaffirmed
Tier II Bonds	SEBI	500.00	CARE AA-; Stable	Assigned
Certificate Of Deposit	RBI	1,500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Issuer Ratings: There is no instrument being rated and hence, Regulator of the Instrument is not applicable. The rating scale and definitions are being followed as stipulated in SEBI Master Circular for CRAs.

Rationale and key rating drivers

The rating reaffirmation to the debt instruments of Equitas Small Finance Bank (Equitas) factors in its long track record of operations across diversified asset classes, adequate capitalisation levels, healthy growth in advances and a relatively diversified and predominantly secured loan portfolio. CARE Ratings Limited (CareEdge Ratings) notes that the bank's proportion of relatively riskier microfinance (MF) advances has reduced significantly over the years, while increasing its presence in small business loans (SBL), vehicle finance (VF), housing finance (HF), micro and small enterprise (MSE) loans and gold loans.

The rating strengths are partially offset by the high credit-to-deposit (CD) ratio, following relatively slower growth in deposits against advances, and continued geographical concentration of loan portfolio, with Tamil Nadu accounting for 44% of gross advances as on June 30, 2026. Ratings also factor in the bank's moderate-yet-improving asset quality, with elevated delinquencies in the MF and MSE segments, which dented its profitability in FY26. However, profitability improved in Q1FY27, supported by higher net interest income (NII), improvement in net interest margin (NIM) and substantially lower credit costs.

The bank's ability to sustain the improvement in asset quality and profitability, while maintaining adequate capitalisation and strengthening its deposit franchise, remains a key rating monitorable.

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 gross non-performing assets (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 return on total assets (ROTA) falling below 1% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects CareEdge Ratings' expectation that Equitas would report a steady growth in advances with comfortable capitalisation levels while improving asset quality and profitability.

[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 definitions of ratings assigned are available at www.careratings.com and in other CARE Ratings Limited's publications.

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) 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 capitalisation profile remains adequate, although it has moderated in the last two years considering healthy growth in advances and limited accretion to reserves. The bank’s CAR and Tier-1 ratio moderated to 19.44% and 16.01%, respectively, as on June 30, 2026 (20.31% and 16.68%, respectively, as on March 31, 2026) from 20.48% and 17.16%, respectively, as on June 30, 2025. However, it remains comfortably above regulatory requirements (minimum regulatory requirement of 15% and 7.5%). Capitalisation levels were supported by Tier-II bond raise of ₹500 crore on July 31, 2025. The bank’s net worth stood stable at ₹5,5582 crore as on March 31, 2026, against ₹5,593 crore as on March 31, 2025, and stood at ₹5,798 crore as on June 30, 2026., CareEdge Ratings expects CAR levels to remain adequate to meet its growth requirements over the medium term.

Diversified product profile and healthy growth in advances in FY26 and Q1FY27

The bank’s advances book remains relatively diversified across MF, SBL, VF, HF, MSE finance, corporate/NBFC and gold loans. SBL and VF continue to constitute the largest segments at 40.20% and 22.98%, respectively, as on June 30, 2026, compared to 43.13% and 24.89%, respectively, as on March 31, 2025. The bank has maintained its strategy of reducing its exposure to MF in the medium term, although its share increased marginally to 12.63% as on June 30, 2026, from 11.92% as on March 31, 2025. HF remained stable at ~12.69%, while MSE finance accounted for 4.57% of advances as on June 30, 2026. The bank has also increased its exposure to corporate/NBFC loans and gold loans, which accounted for 3.73% and 2.05%, respectively, as on June 30, 2026. The diversified product mix, and predominantly secured nature of the loan book, helps mitigate concentration risk and lowers overall riskiness of the portfolio.

The bank’s gross advances grew by 21.5% in FY26 and 26.7% YoY in Q1FY27, to ₹46,165 crore as on March 31, 2026, and ₹47,641 crore as on June 30, 2026, respectively. CareEdge Ratings expects growth in advances to remain healthy, supported by the SBL, VF and HF segments, while the bank’s ability to maintain portfolio diversification will remain a key monitorable.

Key weaknesses

Slowing deposit mobilisation, resulting in high CD ratio

The bank’s funding profile remains primarily deposit-driven comprising 85.40% total liabilities as on March 31, 2026 (March 31, 2025: 92.18%). In FY26, total deposits increased by 8.0% YoY to ₹46,533 crore as on March 31, 2026, compared to 18.1% growth in advances in FY26. The current account saving account (CASA; as a percentage of the total deposits) ratio moderated to 26.21% as on March 31, 2026, from 28.78% as on March 31, 2025, indicating some moderation in the share of low-cost deposits. To support strong growth in advances, the liability profile has seen increase in borrowings in the form of refinance from financial institutions (FIs) and inter-bank participation certification (IBPC). Borrowings increased to ₹5,773 crore as on March 31, 2026, from ₹2,137 crore as on March 31, 2025.

In Q1FY27, total deposits grew by 10.4% YoY to ₹48,976 crore, while the CASA ratio further moderated to 25.13%. The deposit franchise remains reasonably granular, with retail deposits, comprising CASA and retail term deposits, accounting for ~66% of total deposits. However, faster growth in advances resulted in the bank’s Credit to Deposit ratio (CD ratio; net advances/deposits) increasing to 91.34% as on June 30, 2026, from 84.00% as on March 31, 2025. Going forward, the bank’s ability to accelerate deposit mobilisation, strengthen its CASA franchise and maintain a granular retail deposit base, while supporting growth in advances without significant reliance on relatively costlier borrowings, will remain a key monitorable. CareEdge Ratings note that the bank has raised over USD 100 million through the special foreign currency non-resident bank deposit [FCNR(B)] scheme closed on August 30, 2026, with an interest rate in the range of 7–8% and a tenure of 3–5 years.

Regional concentration of loan portfolio
Equitas' advances remain geographically concentrated, with Tamil Nadu contributing 44% of gross advances as on June 30, 2026, followed by Maharashtra and Karnataka at 15% and 12%, respectively. Top three and top five states contributed 72% and 81%, respectively, of gross advances as on June 30, 2026. Around 33% of the bank's branches are in Tamil Nadu. While the bank has presence across 18 states through 1,063 banking outlets and 396 ATMs, CareEdge Ratings expects geographical concentration in the advances portfolio to remain elevated over the medium term.

Weak profitability in FY26, although profitability has improved consistently in the last four quarters
The bank's profitability remained subdued in FY26, with profit after taxation (PAT) declining to ₹103 crore from ₹147 crore in FY25, while ROTA moderated to 0.18% from 0.30%, primarily due to elevated credit costs. However, the earnings profile demonstrated a clear sequential recovery since Q2FY26, with the bank returning to profitability after the loss in Q1FY26 and reporting progressively higher PAT through Q4FY26, followed by healthy profitability in Q1FY27. Pre-provision operating profit (PPOP) also recovered in this period, indicating an improvement in underlying operating earnings.

Improvement in profitability was also driven by a significant moderation in credit costs. The bank's asset quality has shown a sustained improvement, with GNPA and net NPA (NNPA) declining to 2.61% and 0.72%, respectively, as on March 31, 2026, from 2.91% and 0.98%, respectively, as on March 31, 2025. Improvement continued in Q1FY27, with GNPA and NNPA further moderating to 2.42% and 0.71%, respectively, as on June 30, 2026. The provision coverage ratio remained healthy at ~71%, while the net NPA to net worth improved to 5.26% as on March 31, 2026, from 6.07% a year earlier.

Improvement in asset quality is supported by lower fresh slippages. Annualised net slippage ratio moderated to 1.43% in Q1FY27, compared to 4.77% in Q1FY26, with net slippages in the MFI book declining to 2.76% from 20.29% in Q1FY26 and those in the non-microfinance institution (MFI) book remaining relatively contained at 1.24%. The MFI portfolio's 1–90 days past due (DPD) declined to 1.10% in Q1FY27 from 1.34% in Q4FY26, indicating improvement in early-stage delinquencies. The bank's collection efficiency in the microfinance portfolio remained strong at 99.7%. CareEdge Ratings expects the bank to sustain improvement in asset quality and contain fresh slippages, particularly as it continues to scale its non-MFI portfolio and maintain a diversified advances mix.

Improvement in operating profitability (PPOP) and moderation in credit cost has resulted in ROTA improving from negative levels in Q1FY26 to 1.46% in Q4FY26 and remaining healthy at 1.18% in Q1FY27. While the sequential improvement in profitability in the last four quarters is a positive, the bank's profitability remained subdued on a full-year basis, with ROTA at 0.18% in FY26 and credit cost at 2.01% of average assets. The bank's ability to sustain the improvement in profitability through control over credit costs and maintenance of healthy margins remains critical from credit perspective.

Liquidity: Adequate
Per the bank's structural liquidity statement as on June 30, 2026, the bank had no negative cumulative mismatches up to three months bucket. Equitas' reported liquidity coverage ratio (LCR) of 178.46% as on June 30, 2026, against the minimum regulatory requirement of 100%. In addition, the bank maintained excess statutory liquidity ratio (SLR) investments of ₹5,910 crore as on June 30, 2026, which provides a cushion to the bank's liquidity profile. The bank also has access to systemic liquidity through RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) schemes.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks
Although Equitas' 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 Equitas' regulatory compliance and reputation and hence remain a key monitorable. Equitas 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 11 directors, of which nine are independent directors, including a woman director.

Applicable criteria

[Definition of Default](#)
Rating Outlook and Rating Watch
Banks
Financial Ratios - Financial Sector
Short Term Instruments
Issuer Ratings
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

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, 2026, the bank had a network of 1,063 banking outlets, with deposits of ₹48,976 crore and gross advances of ₹47,641 crore.

Brief Financials (₹ crore)	March 31, 2025 (A)	March 31, 2026 (A)	Q1FY27 (UA)
Total income	7,223	7,868	2,215
Profit after tax (PAT)	147	103	184
Total assets	52,602	60,309	64,283
Net interest margin (NIM) (%)	6.66	6.01	6.61
Gross non-performing assets (NPA) (%)	2.89	2.60	2.42
Net NPA (%)	0.98	0.72	0.71
Capital adequacy ratio (CAR) (%)	20.60	20.31	19.44

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

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/facilities

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	SEBI	Complex	INE063P08112	05-Dec-2024	9.60	05-Dec-2030	500.00	CARE AA-; Stable
Bonds-Lower Tier II	SEBI	Complex	INE063P08120	31-Jul-2025	9.60	31-Jul-2030	500.00	CARE AA-; Stable
Bonds-Tier II Bonds	SEBI	Simple	Proposed	-	-	-	500.00	CARE AA-; Stable
Certificate Of Deposit	RBI	Simple	INE063P16BF3	28-Nov-25	7.37	27-Nov-26	50.00	CARE A1+
Certificate Of Deposit	RBI	Simple	INE063P16BJ5	12-Feb-26	7.90	12-Feb-27	150.00	CARE A1+
Certificate Of Deposit	RBI	Simple	INE063P16BK3	26-Feb-26	7.85	26-Feb-27	600.00	CARE A1+
Certificate Of Deposit	RBI	Simple	INE063P16BE6	27-Nov-25	7.37	26-Nov-26	100.00	CARE A1+
Certificate Of Deposit	RBI	Simple	INE063P16BG1	03-Dec-25	7.37	01-Dec-26	75.00	CARE A1+
Certificate Of Deposit	RBI	Simple	INE063P16BJ5	12-Feb-26	7.90	12-Feb-27	150.00	CARE A1+
Certificate Of Deposit	RBI	Simple	Proposed	-	-	-	375.00	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 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	Certificate Of Deposit	ST	1500.00	CARE A1+	-	1)CARE A1+ (06-Oct-25) 2)CARE A1+ (20-Aug-25) 3)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 (06-Oct-25) 2)CARE AA-; Stable (20-Aug-25) 3)CARE AA-; Stable (10-Jul-25)	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 (06-Oct-25) 2)CARE AA-; Stable (20-Aug-25) 3)CARE AA-; Stable	1)CARE AA-; Stable (30-Jan-25) 2)CARE AA-; Stable (26-Sep-24)	-

						(10-Jul-25)		
4	Bonds-Lower Tier II	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Oct-25) 2)CARE AA-; Stable (20-Aug-25) 3)CARE AA-; Stable (10-Jul-25)	-	-
5	Bonds-Tier II Bonds	LT	500.00	CARE AA-; Stable				

LT: Long term; ST: Short 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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