

August 12, 2025

Utkarsh Small Finance Bank Limited: Long-term rating downgraded to [ICRA]A (Negative); Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Subordinated debt	400.0	400.0	[ICRA]A (Negative); rating downgraded from [ICRA]A+ (Negative)
Certificates of deposit	1,000.0	1,000.0	[ICRA]A1+; reaffirmed
Total	1,400.0	1,400.0	

*Instrument details are provided in Annexure I

Rationale

The rating revision factors in the continued deterioration in Utkarsh Small Finance Bank Limited's (Utkarsh) asset quality and earnings profile. The bank continues to report high slippages, especially in its microfinance portfolio, leading to an increase in its gross non-performing assets (GNPAs) to 11.4% as on June 30, 2025 from 9.4% as on March 31, 2025 (2.5% as on March 31, 2024). Further, the special mention accounts (SMA) 1 and 2 remained sizeable at 4.1% as on June 30, 2025 vis-à-vis 4.0% as on March 31, 2025 (1.9% as on March 31, 2024). With the collection efficiency under pressure, slippages are likely to remain elevated in the near term.

Given the asset quality challenges, the earnings profile has been adversely impacted with Utkarsh reporting a net loss of Rs. 239 crore in Q1 FY2026 vis-à-vis a profit of Rs. 24 crore in FY2025. In ICRA's opinion, given the continued deterioration in the asset quality and the weak operating profit, the bank's profitability is likely to remain under pressure in FY2026, followed by some improvement in FY2027. Although ICRA takes note of the corrective measures being taken by the bank, the near-term performance shall remain monitorable considering the tightened guardrails for the microfinance sector. Further, the asset quality in Utkarsh's relatively newer product segments remains monitorable, given the sizeable scaleup in the last 2-3 years, leading to limited portfolio seasoning.

Given the worsening asset quality, the bank's solvency has further weakened with net NPAs (NNPAs)/Net worth of 32.7% as on June 30, 2025 vis-à-vis 30.4% as on March 31, 2025 (0.2% as on March 31, 2024). However, Utkarsh continues to maintain an adequate capitalisation profile with the reported capital-to-risk weighted assets ratio (CRAR) at 19.6% as of June 2025. Further, it is in the process of raising equity capital up to Rs. 750 crore in the near term, which shall help its capitalisation profile while absorbing the stress emanating from the deterioration in the asset quality.

ICRA also notes that Utkarsh's deposit franchise has a sizeable share of retail deposits {retail term deposits + current account savings account (CASA)} with the same increasing to ~74% as of June 2025 from ~71% as of March 2025. The share of CASA in total deposits declined to ~20% as on June 30, 2025 from ~22% as on March 31, 2025. ICRA takes note of the decrease in the bank's overall deposits in Q1 FY2026. Going forward, Utkarsh's ability to expand its deposit base, improve the share of relatively lower-cost CASA deposits and keep the deposit profile granular shall remain important.

Key rating drivers and their description

Credit strengths

Adequate capitalisation; capital raise planned in the near term – The bank has an adequate capitalisation profile with a capital adequacy ratio of 19.6% (Tier I of 16.7%) as on June 30, 2025 (20.9% (Tier I: 17.9%) as on March 31, 2025) vis-à-vis the regulatory requirement of 15% (Tier I: 7.5%). Its gearing (including deposits) has, however, been increasing and stood at 8.7 times as on June 30, 2025 vis-à-vis 8.0 times as on March 31, 2025 (6.5 times as of March 2024). ICRA notes that the bank is in the process of raising equity capital up to Rs. 750 crore in the near term, which shall help it maintain a prudent capitalisation profile while providing for the deterioration in the asset quality. ICRA expects Utkarsh to remain adequately capitalised while maintaining sufficient buffer over the regulatory requirements as it continues to scale up its operations.

Increasing share of non-microfinance portfolio – Over the years, Utkarsh has been scaling up its relatively newer products, such as loans to micro, small and medium enterprises (MSMEs), housing loans, construction equipment (CE) and commercial vehicles (CVs), etc. The bank reported assets under management of Rs. 19,224 crore as on June 30, 2025 (Rs. 19,666 crore as on March 31, 2025). Given the stress witnessed in the microfinance portfolio, Utkarsh has focussed on scaling up its secured loan portfolio. Consequently, the share of the non-microfinance portfolio increased to 53% of the portfolio as on June 30, 2025 (50% as on March 31, 2025; 38% as on March 31, 2024); ICRA expects the trend to continue. Nonetheless, Utkarsh's ability to maintain the asset quality in the relatively newer product segments remains monitorable.

Credit challenges

Continued deterioration in asset quality; geographically concentrated portfolio – Utkarsh's asset quality continues to deteriorate with the GNPA's and NNPA's increasing to 11.4% and 5.0%, respectively, as on June 30, 2025 from 9.4% and 4.8%, respectively, as on March 31, 2025 (2.5% and 0.0%, respectively, as on March 31, 2024). The solvency ratio (NNPA's/Net worth) rose to 32.7% as on June 30, 2025 from 30.4% as on March 31, 2025 (0.2% as on March 31, 2024). Further, the bank's SMA 1 and 2 remained sizeable at 4.1% as on June 30, 2025 vis-à-vis 4.0% as on March 31, 2025 (1.9% as on March 31, 2024). With the collection efficiency remaining sub-optimal, slippages are likely to stay elevated in the near term. The GNPA's in microfinance portfolio increased to 20.8% as on June 30, 2025 from 16.7% as on March 31, 2025 (2.9% as on March 31, 2024). Additionally, there has been a moderation in asset quality in the non-microfinance portfolio with the GNPA's in non-microfinance portfolio increasing to 3.1% as on June 30, 2025 from 2.5% as on March 31, 2025 (1.2% as on March 31, 2024). Also, the microfinance portfolio remains geographically concentrated with the share of Bihar and Uttar Pradesh remaining high at 45% and 28%, respectively, as on June 30, 2025. ICRA notes that Utkarsh has taken certain corrective measures, including the tightening of customer selection criteria, strengthening of the collections team, etc. Nonetheless, the near-term performance shall remain monitorable, considering the tightened guardrails for the microfinance sector.

High credit costs and subdued operating profit impacting profitability – Utkarsh reported a loss of Rs. 239 crore in Q1 FY2026 compared to a profit after tax (PAT) of Rs. 24 crore in FY2025 (PAT of Rs. 498 crore in FY2024). Credit costs (as a proportion of average managed assets; AMA) increased to 5.9% in Q1 FY2026 from 3.8% in FY2025 (1.6% in FY2024) due to the deterioration in the asset quality. Further, with the rise in the relatively lower-yielding non-microfinance portfolio, the overall yields have been declining, leading to a reduction in Utkarsh's lending spread and net interest margins (NIMs). With the compression of NIMs and elevated operating expenses, the operating profit was impacted in Q1 FY2026. As a sizeable part of the portfolio is in the overdue category, ICRA expects the bank's credit costs to remain elevated. This, along with weak operating profits, leads ICRA to expect Utkarsh's profitability to remain under pressure in FY2026, followed by some improvement in FY2027.

Ability to improve CASA share in deposits – Utkarsh has successfully built a large deposit base, constituting 91% of its total borrowings as on June 30, 2025 (90% as on June 30, 2024). The overall deposit base increased to Rs. 21,489 crore from Rs. 18,163 crore during the above-mentioned period, though it declined marginally in Q1 FY2026. The share of CASA remained low at 20% as on June 30, 2025 (22% as on March 31, 2025). ICRA takes note of the improving granularity of deposits with total CASA and retail term deposits increasing to 74% as of June 2025 from 71% as on March 31, 2025 (66% as on March 31, 2024). The share of the top 20 depositors has also been gradually declining and stood at 16% as on March 31, 2025 (18% as on March

31, 2024; 21% as on March 31, 2023). Nevertheless, improving the granularity of the deposits further while sustainably increasing the share of CASA will be important from a credit perspective.

Liquidity position: Strong

The liquidity coverage ratio was healthy at 239% for the quarter ended June 30, 2025. The net stable funding ratio (NSFR) stood at 120.8% as on March 31, 2025, remaining above the regulatory level of 100%. The bank's structural liquidity statement, as on June 30, 2025, did not show any negative cumulative mismatches for a period of up to one year. Utkarsh's liquidity profile is supported by the large portion of relatively shorter-tenor assets. It reported a credit-to-deposit (CD) ratio of 90% as on June 30, 2025 against 91% as on March 31, 2025 (94% in March 2024). The liquidity profile is also supported by the availability of funding lines from financial institutions (FIs).

Environmental and social risks

Environmental considerations – Given Utkarsh's service-oriented nature of business, its direct exposure to environmental risks as well as those stemming from regulations or policy changes is not material. While the bank is not materially exposed to physical climate risks, it indirectly encounters environmental risks through its portfolio of assets. Further, its lending typically involves short-to-medium-term durations, enabling it to adjust and incrementally invest in less environmentally vulnerable businesses.

Social considerations – Data security and customer privacy are among the key sources of vulnerability for banks, including Utkarsh, as any material lapse could be detrimental to its reputation and could invite regulatory censure. Customer preference is increasingly shifting towards digital banking, which provides an opportunity to banks to reduce their operating costs. However, subpar execution of information technology strategies and the inability to meet customer requirements adequately may result in more costs than benefits. On the positive side, Utkarsh contributes towards enhancing financial inclusion by providing several products and services that are specifically targeted towards the marginalised sections of society and attempts to address and cater to social concerns. Prudent lending to such underserved segments could create growth opportunities. However, these opportunities must be seen in conjuncture with asset quality risks that could impact the bank's credit quality.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Stable if the bank demonstrates a sustained improvement in its asset quality and profitability indicators while maintaining a prudent capitalisation profile.

Negative factors – Further deterioration in the asset quality or sustained weakening in the profitability could negatively impact the ratings. Delay in raising capital or inability of the bank to maintain adequate capital buffers could also exert pressure on the ratings.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA's credit rating methodology for banks and financial institutions
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2009, Utkarsh Micro Finance Limited received a small finance bank (SFB) licence from the Reserve Bank of India (RBI) in November 2016 and completed the conversion to an SFB in January 2017. The bank is headed by Mr. Govind Singh, who was earlier the business head of micro-banking at ICICI Bank Limited. Operating in 27 states/Union Territories (UTs), as on June 30, 2025, Utkarsh offers deposits, micro-banking loans, micro, small and medium enterprise (MSME) loans,

affordable housing loans and corporate loans, among other products. It had a portfolio of Rs. 19,224 crore as on June 30, 2025, with micro-banking loans (including micro-banking loans sourced by business correspondents) comprising 47% (50% as on March 31, 2025) of the same. As for liabilities, the bank had a deposit base of Rs. 21,489 crore as on June 30, 2025 (Rs. 21,566 crore as on March 31, 2025, with term deposits accounting for 80% (78% as on March 31, 2025).

Key financial indicators (audited)

Utkarsh Small Finance Bank Limited	FY2024	FY2025	Q1 FY2026
Total income	3,579	4,365	1,019
PAT	498	24	-239
Total assets	23,903	28,127	27,794
CET I	21.0%	17.9%	16.7%
CRAR	22.6%	20.9%	19.6%
PAT/ATA	2.3%	0.1%	-3.4%
Gross NPAs	2.5%	9.4%	11.4%
Net NPAs	0.03%	4.8%	5.0%

Source: Utkarsh, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Note: Total assets excludes revaluation reserves

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2026)			Chronology of rating history for the past 3 years			
				Date & rating in FY2026			Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023
				Aug 12, 2025	May 22, 2025	Apr 2, 2025	Jun 6, 2024	Apr 1, 2024	Apr 13, 2023	Jun 28, 2022
1	Subordinated debt programme	Long term	400.00	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)
2	Certificates of deposit programme	Short term	1,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
Subordinated debt programme	Simple
Certificates of deposit programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click here](#)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
INE735W08038	Subordinated debt	Jun-26-2020	12.50%	Jun-26-2027	195.00	[ICRA]A (Negative)
Yet to be issued	Subordinated debt	NA	NA	NA	5.00	[ICRA]A (Negative)
INE735W08053	Subordinated debt	Jun-28-2024	11.00%	Jun-28-2031	200.00	[ICRA]A (Negative)
INE735W16635	Certificates of deposit	Oct-29-2024	8.50%	Oct-29-2025	50.00	[ICRA]A1+
INE735W16635	Certificates of deposit	Nov-05-2024	8.50%	Oct-29-2025	25.00	[ICRA]A1+
INE735W16635	Certificates of deposit	Nov-06-2024	8.50%	Oct-29-2025	25.00	[ICRA]A1+
INE735W16643	Certificates of deposit	Nov-11-2024	8.50%	Nov-11-2025	50.00	[ICRA]A1+
INE735W16650	Certificates of deposit	Dec-30-2024	8.00%	Sep-18-2025	30.00	[ICRA]A1+
INE735W16643	Certificates of deposit	Mar-05-2025	8.15%	Nov-11-2025	35.00	[ICRA]A1+
INE735W16668	Certificates of deposit	Mar-21-2025	8.05%	Jun-20-2025	50.00	[ICRA]A1+
INE735W16676	Certificates of deposit	Mar-26-2025	8.32%	Dec-08-2025	35.00	[ICRA]A1+
Yet to be issued	Certificates of deposit	NA	NA	7-365 days	700.00	[ICRA]A1+

Source: Utkarsh

Annexure II: List of entities considered for consolidated analysis

Not applicable

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