Utkarsh Small Finance Bank Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Standalone)

Avoid The bank has entered a severe credit distress cycle, recording a ₹**1,151 Cr** net loss that exhausted floating provisions and necessitated a dilutive ₹949 Cr capital raise to maintain regulatory compliance.

Key findings

Key findings

- The bank recorded a massive net loss of ₹**1,151 Cr**, reversing a ₹24 Cr profit last year, as credit provisioning for unsecured loans surged 60%.
- Micro-banking slippages reached ₹**1,724.31 Cr**, forcing technical write-offs of ₹1,013.39 Cr to optically manage the headline GNPA ratio down to 7.71%.
- Deferred tax credits of ₹**355.82 Cr** softened the reported loss; the deficit would have been 23.6% deeper without capitalizing these forward tax losses.
- Shareholders provided ₹**949.08 Cr** in fresh equity via a Rights Issue, essential to maintain a Capital Adequacy Ratio of 17.71% against mounting credit losses (F).
- Geographic concentration in Bihar and Uttar Pradesh exposes **48%** of the loan portfolio to regional political or climatic shocks that could stall local collections.
- The bank faces a structural liquidity gap of ₹**2,338.64 Cr** in the 6-to-12-month bucket, requiring successful deposit rollovers to meet maturing liabilities.
- Operating deposits grew by only **0.41%** to ₹21,654 Cr, indicating a near-standstill in the bank's core retail liability franchise expansion.
- Secured retail assets now comprise **51%** of gross advances, providing a vital structural hedge against unsecured micro-banking volatility.
- Micro-banking collection efficiency reached **99.69%** in March 2026, suggesting the current slippage cycle in the core segment may be nearing its peak.
- Auditor controls revealed a gap where database audit trail logs were disabled for one software application, leaving backend data edits untracked.
- Promoter rent payments to Utkarsh CoreInvest expanded **158%** to ₹3.28 Cr, reflecting increased cash flow to insiders despite deep institutional losses.
- Digital transaction capacity handled **20.24 Cr** UPI transactions, allowing the bank to scale volumes without a linear increase in physical branch costs.

What to watch

What to watch

Monitorable	Current level	Target / threshold
Return on Assets (ROA)	-3.99%	Above 0.50%
Net NPA Ratio	~3.1%	Below 3.0%
Deposit Growth Rate	0.41%	Above 15.0%
Database Audit Trail	Disabled	"Enabled" status in auditor report
Secured Loan Mix	51%	Above 60%

1. Business overview

Utkarsh Small Finance Bank Ltd sells credit, deposit accounts, and integrated transaction services to underserved and unserved rural and semi-urban communities. The bank operates at scale across 27 States and Union Territories through a network of 1,110 banking outlets, with deep operational roots in India's heartland. Its model empowers micro-entrepreneurs and informal-income households who possess active cash flows but lack standard documentation trails. Management views the current period as a critical industry realignment, describing it as "a transition — from rapid expansion towards calibrated, quality-led and sustainable growth." To reinforce its franchise across business cycles, the bank is actively pivoting its product mix away from microfinance concentration into diversified retail assets.

Segment	Gross loan portfolio (□Cr)	Share of total	YoY	What drove it
Micro-banking	7420	38.38%	-23.34%	Subdued performance in Joint Liability Group segments and a conscious business moderation across credit-dense operational geographies.
MSME (Retail Assets)	4455.93	23.05%	+15.01%	Organic credit expansion of secured business loans and the rollout of new Micro LAP products across 87 specialized branches.
Housing Loans	989.55	5.12%	+7.76%	Consistent strategic focus on affordable housing loan solutions managed across 62 designated mortgage branches.
Commercial Vehicle & Construction Equipment	1090.42	5.64%	-8.22%	Heightened emphasis on wheels portfolio management and a tactical exit from non-performing branch locations.
Wholesale Lending	2980.66	15.42%	+33.08%	Scaled credit deployment to rated non-banking financial intermediaries and receivable discounting operations on the TReDS platform.
Others	2395.88	12.39%	+35.67%	Robust customer traction in phygital fintech-led deposit sourcing, direct gold loan onboarding, and overdrafts against fixed deposits.

Cost base

The bank's cost base is primarily concentrated in physical branch distribution infrastructure and its frontline execution workforce. Total operating expenses stood at □1,851 Cr, with employee costs forming the single largest operating concentration at □948 Cr. This personnel expense is driven by a field-intensive asset and collection architecture comprised of 18,400 employees. Operational expenditure was further moved by network expansion, reflecting the full-year overhead impact of opening more than 220 new branches over the last two financial years. On the funding side, the raw material cost of deposits stood at 8.02%, which the bank optimized

by expanding low-cost current accounts by 23.6% and reducing its reliance on bulk term deposits down to 17.3% of the total mix.

Capacity

Physical delivery capacity is driven by a strong distribution network of 779 micro banking branches and 331 general banking branches, backed by 373 ATMs and 787 micro-ATMs. Capacity is not a structural constraint, as the physical footprint is experiencing an efficient maturation cycle where 55 new branches less than two years old already contributed 18% of total CASA and retail term deposit growth. To prevent brick-and-mortar setups from constraining scale, the bank is expanding transaction capacity via digital channels, which successfully onboarded over 6 lakh digital customers and processed 20.24 Cr UPI transactions during the year. Frontline execution capacity is significantly optimized through tablet-based digital onboarding tools that eliminate manual workflows at the point of interaction.

Forward visibility

A traditional contractual order book is not disclosed for this lending business model. Operational forward visibility is instead driven by collection efficiency tracking, sequential disbursement turnarounds, and structural credit guarantee schemes. The bank's core Joint Liability Group segment achieved a robust X-Bucket collection efficiency of 99.69% in March 2026, providing clear near-term visibility of asset quality stabilization. Risk visibility on incremental credit flows has been structurally de-risked through registration with the CGFMU, covering approximately 70% of the microfinance portfolio under credit guarantees. Pipeline transaction visibility is highlighted by a sequential acceleration in Q4 disbursements, where group loans expanded 58% quarter-on-quarter and non-group assets rose 41% sequentially.

What must stay true

For this compounding financial machine to sustain long-term shareholder value creation across multiple years, several operational realities must stay true: * The bank must maintain strict underwriting discipline and rigorous center-meeting routines across its extensive micro-banking network, which caters to over 19 lakh active clients. * The structural diversification toward secured retail asset classes must proceed without disruption, maintaining the expansion of credit lines backed by immovable property or gold, which have reached 51% of gross advances. * The retail liabilities franchise must retain high retail granularity to protect its competitive funding advantage, keeping top-20 depositor concentration low (currently 13.6%) and consistently replacing bulk term deposits with stable retail accounts. * The high-touch phygital delivery structure, supported by a specialized 1,200-strong micro-banking collections workforce, must remain insulated from systemic regulatory, political, or climatic disruptions in Uttar Pradesh and Bihar, which together account for 48% of the gross loan portfolio. * The underlying technology spine must scale seamlessly to process high transaction volumes, ensuring that upgrades like the next-generation Core Banking System and agentic artificial intelligence tools automate controls without driving a linear increase in manual operating overheads.

2. Management commentary & outlook

What did management actually say, and can they be believed?

Topic	What they claimed	Their words
Geographic Reach	The bank operates an expansive national footprint across multiple states and union territories.	"It operated 1,110 banking outlets across 27 States and Union Territories"
Distribution Mix	The physical network is strategically split into micro banking and general banking categories.	"Supported by 779 micro banking branches and 331 general banking branches."
Rural Penetration	Over a quarter of the bank's distribution points operate within unbanked rural regions.	"27% of USFBL's outlets were situated in URCs."
Branch Multiplication	The bank expanded its footprint by setting up more than two hundred locations over a two-year timeframe.	"The Bank has opened more than 220 branches during last two financial years FY25 & FY26"
Human Capital	The institutional workforce consists of thousands of employees to drive on-ground execution.	"The Bank's workforce comprised 18,400 employees"
Consumer Franchise	The bank serves a large core customer franchise that has expanded well past five million accounts.	"Serving a customer base exceeding 5.1 million."
Joint Liability Group Base	The micro credit group lending operations support over sixteen lakh active borrowers.	"The Bank had a strong base of over 16 lakh JLG borrowers"
Collection Headcount	Management expanded its dedicated recovery and field collection framework past one thousand officers.	"We expanded our collections workforce for JLG and MBBL to more than 1,200 as on March 2026"
Credit Risk Monitoring	High-quality collection efficiency in the premier group loan risk tier reached near perfection.	"Our X-Bucket collection efficiency in the JLG segment improved to 99.7% in March 2026"
Electronic Onboarding	The bank registered hundreds of thousands of accounts using its digital acquisition platform.	"Over 6 Lakh customers were onboarded digitally"
Digital Volumes	Total transaction volume handled via retail internet and mobile software platforms crossed fifty lakh items.	"50.91+ Lakh digital transactions volume* via retail internet and mobile banking in FY 2025-26."
Chat Channel Activation	The bank scaled its interactive messaging platform to onboard more than two hundred thousand users.	"2+ Lakh, users onboarded on WhatsApp Banking"
Transaction Processing Value	Total value processed across standard retail internet and mobile networks crossed twenty-five thousand crores.	"25,800+ □Crore value of digital transactions processed via retail internet and mobile banking in FY 2025-26."

Management's disclosures highlight structural execution strengths that provide genuine competitive resilience despite cyclical sectoral stress. The bank demonstrated robust operational discipline by successfully scaling its micro-banking business loan segment by 122% year-on-year, successfully migrating seasoned group borrowers to individual credit structures. Furthermore, achieving a near-perfect 99.7% X-bucket collection efficiency reflects high frontline execution quality and exceptional risk management capabilities. The successful mobilization of □950 Cr in equity capital during a period of sectoral caution underscores deep institutional trust from its investor base.

Outlook

Demand: Management merely DESCRIBED future customer growth and macroeconomic tailwinds, making no checkable numeric or calendar commitment. Capacity: Management merely DESCRIBED plans to target the top 100 deposit centers across metropolitan and urban areas, making no checkable network or expansion commitment. Costs: Management merely DESCRIBED generic plans to optimize operational expenditure and enhance frontline productivity metrics, making no checkable numeric commitment. Balance sheet: Management

merely DESCRIBED its strategy to reduce its credit-to-deposit ratio further and improve asset mix granularity, making no checkable numeric commitment.

Tone

The management commentary leans heavily on generalized macro tailwinds and aspirational adjectives rather than providing specific, falsifiable projections for upcoming periods. While past operational data points are detailed clearly, statements regarding the future are broad and descriptive, focusing on structural opportunities and business consolidation without setting checkable operational goals. This renders the forward-looking narrative largely immune to precise verification in subsequent years.

3. Financial analysis

3.1 Financial statements

P&L statement — lender basis (□Cr)

Line item	Mar 2026	Mar 2025
Interest earned	3,379	3,765
Interest expended	1,902	1,742
Net interest income (NII)	1,477	2,023
Non-interest income	431	600
Total income (NII + non-interest)	1,908	2,623
Operating expenses and provisions (combined)	3,337	2,518
Depreciation	77	77
Profit before tax	-1,507	28
Net profit	-1,151	24
Non-interest income as % of total income	22.59%	22.87%
NII as % of interest earned	43.71%	53.73%

Balance sheet (□Cr)

Line item	Mar 2026	Mar 2025
Equity Capital	1,780	1,102
Reserves	996	1,873
Deposits	21,654	21,566
Borrowing	2,829	2,355
Other Liabilities	1,610	1,232
Other liability items	1,471	1,103
Total Liabilities	28,869	28,127
Fixed Assets	333	324
Investments	6,914	4,958
Other Assets	21,497	22,783
Cash Equivalents	1,692	2,638
Other asset items	19,802	20,085
Total Assets	28,869	28,127

Cash flow statement (□Cr)

Line item	Mar 2026	Mar 2025
Cash from Operating Activity	781	876
Profit from operations	-322	870
Loans Advances	-359	-3,282
Operating investments	1,064	-713
Operating Deposits	88	4,093
Other WC items	312	-203
Working capital changes	1,105	-105
Direct taxes	-3	111
Cash from Investing Activity	-3,309	-777
Fixed assets purchased	-149	-159
Fixed assets sold	7	1
Investments purchased	-6,598	-1,108
Investments sold	3,432	489
Cash from Financing Activity	1,412	310
Proceeds from shares	949	6
Proceeds from borrowings	33,534	1,461
Repayment of borrowings	-33,060	-1,101
Dividends paid	0	-55
Other financing items	-11	0
Net Cash Flow	-1,115	409

3.2 Financial analysis summary

The business is currently losing substantial money due to an intense credit distress cycle, recording a net loss of □1,151 Cr for FY26.

This marks a severe downturn from the net profit of □24 Cr in FY25 and □498 Cr in FY24, bringing the cumulative five-year performance to a net loss of □164 Cr. The deterioration is visible across all core profitability metrics: return on equity (ROE) plunged to -41.46%, return on assets (ROA) dropped to -3.99%, and the net interest margin (NIM) proxy compressed to 5.18% from a prior four-year baseline average of 8.13%.

The loss was driven primarily by a spike in credit provisioning rather than systemic operational fragility. Total provisions and contingencies surged to □1,562.96 Cr (a 60% year-on-year increase) because of elevated borrower stress and fresh asset slippages of □1,724.31 Cr, concentrated heavily in the unsecured micro-banking Joint Liability Group segment. This credit cycle completely exhausted the bank's floating provision buffers, leaving zero cushion remaining.

Core income lines also faced pressure as interest earned dropped 10.25% to □3,379 Cr, down from □3,765 Cr in FY25, following a deliberate strategic decision to moderate loan disbursements in credit-dense geographies. Recurring fee revenue compressed simultaneously, with Priority Sector Lending Certificates (PSLC) sales falling by 24.36% to □87.04 Cr and written-off account cash recoveries slowing to □65.77 Cr.

The reported net loss would have been 23.62% deeper if not for a deferred tax credit adjustment. The bank recorded a credit of ₹355.82 Cr by capitalizing ₹331.86 Cr of forward tax losses, expanding net deferred tax assets to ₹473.16 Cr. Additionally, top-line comparisons were exacerbated by an aggressive fee recognition policy shift in FY25, which front-loaded loan processing fees and artificially inflated that year's pre-tax profit base by ₹94.57 Cr.

The bank generated positive operating cash flow of ₹781 Cr in FY26, as its heaviest accounting losses stem from non-cash provisions and loan write-offs.

Because a lender's operating cash flow is driven by balance sheet asset velocity and funding movements rather than accounting profits, positive cash generation remained intact. The primary driver masking the net loss in cash terms was a massive non-cash write-off of non-performing advances amounting to ₹1,089.6 Cr. Net cumulative operating cash flow over the five-year window stands strong at ₹5,550 Cr.

Operating cash was further preserved by a conscious, quality-led calibration of the loan book. Cash outflows designated for fresh loans and advances sharply decelerated to just ₹359 Cr in FY26 compared to an expansionary outflow of ₹3,282 Cr in FY25. Additionally, the tactical liquidation and reduction of non-HTM operating investments released ₹1,064 Cr of liquidity back into cash channels.

Conversely, deposit inflows slowed to a crawl. Operating deposit cash inflows contributed just ₹88 Cr in FY26, down significantly from ₹4,093 Cr in FY25, tracking a nearly flat deposit growth rate of 0.41% as total outstanding deposits stabilized at ₹21,654 Cr. This drop indicates that the bank's positive operating cash flow is currently sustained by temporary loan portfolio contraction rather than structural liability growth.

The cash was primarily deployed into shoring up the bank’s statutory government securities portfolio, while its capital buffer was reinforced by a large equity infusion from shareholders to absorb credit losses.

Investing activities absorbed a net cash outflow of ₹3,309 Cr. The bank directed its pool of available liquidity into safe-haven assets, spending a net ₹3,166 Cr on Held to Maturity (HTM) securities (₹6,598 Cr purchased against ₹3,432 Cr sold). This expansion lifted HTM government securities to ₹6,621.44 Cr to insulate the bank from mark-to-market valuation volatility. Physical infrastructure rollout slowed, with fixed asset purchases consuming ₹149 Cr out of a five-year cumulative capex budget of ₹601 Cr.

Financing activities provided a net cash inflow of ₹1,412 Cr, driven by two capital providers:

- **Shareholders:** Provided ₹949 Cr in fresh cash through a Rights Issue to shore up regulatory capital against ongoing credit losses, maintaining a Capital Adequacy Ratio of 17.71%.
- **Lenders:** Received a net inflow of ₹474 Cr, with ₹33,534 Cr in new borrowings taken against ₹33,060 Cr in repayments, raising outstanding borrowings to ₹2,829 Cr.

No cash was distributed to public equity holders, as dividends dropped to ₹0 from ₹55 Cr in FY25, keeping five-year cumulative dividends at ₹55 Cr. Internal cash allocations went to:

- **Employees:** Total compensation and provisions rose to ₹947.96 Cr, shifting employee costs to 28% of total income from a stable 23% historical baseline.
- **Promoter Group:** Holding company Utkarsh CoreInvest Ltd received ₹3.28 Cr for office rent (up from ₹1.27 Cr) and ₹4.75 Cr in interest on its year-end deposit balance of ₹60.54 Cr.
- **CSR and Management:** Cash contributions of ₹6.58 Cr were directed to Utkarsh Welfare Foundation. Key management personnel received remuneration including MD & CEO Govind Singh (₹2.64 Cr), Sarjukumar Pravin Simaria (₹1.62 Cr), and Pramod Kumar Dubey (₹1.17 Cr).

3.3 Contingent liabilities & commitments

Contingent liability breakdown line item	FY26	FY25
Customer Guarantees Outstanding in India	32.06 Cr	30.82 Cr
Approved Capital Commitments Outstanding	41.88 Cr	55.30 Cr
Disputed Income Tax Litigation Demands	2.51 Cr	0.41 Cr
Other Outstanding Civil / Legal Litigation Claims	0.34 Cr	2.90 Cr
Total Evaluated Contingent Obligations	76.80 Cr	89.43 Cr

• **Contingent Exposure Movements (Schedule 12):** Total contingent obligations decreased from 89.43 Cr to 76.80 Cr, primarily due to lower unexecuted capital commitments, which fell to 41.88 Cr as branch infrastructure investments slowed down. • **Increase in Disputed Tax Claims (Schedule 12 Footnote):** Disputed tax litigation claims rose to 2.51 Cr from 0.41 Cr, representing unprovisioned exposures under legal review. • **Financial Guarantee Risk:** Outstanding financial and performance bank guarantees grew slightly to 32.06 Cr, creating potential off-balance sheet credit exposures if counterparty default rates rise.

3.9 Earnings quality & forensic checks

Is the income real?

Watch · 2 of 4 signals flagged · confidence high

Signal	FY25	FY26	Status	What it means
Net interest income vs treasury/trading gains	2,023 Cr	1,477 Cr (-27.0%)	Watch · high impact	Core net interest income compressed by 546 Cr, reducing operating franchise earnings capacity while treasury portfolio profit on sale of HTM investments rose to 4.10 Cr from 1.19 Cr.
Fee and other income quality	600 Cr	431 Cr (-28.2%)	Watch · high impact	Non-interest revenue shrank by 169 Cr due to structural declines in high-margin core banking fee lines, including a drop in PSLC trading income to 87.04 Cr from 115.07 Cr and cash recoveries to 65.77 Cr from 88.14 Cr.
Yield on advances vs cost of funds	8.10%	8.02%	Unresolved	Average cost of deposits dropped slightly to 8.02% from 8.10%, but the precise overall yield on advances percentage was not explicitly stated in the text, leaving net structural spreads unclear.
Interest on income-recognition-suspended accounts	—	Not disclosed	Unresolved	The precise amount of un-accrued or suspended interest on stressed accounts is not separated out, though the bank confirms following cash-realization rules for NPAs.

Is the book honestly provisioned?

Flag · 3 of 6 signals flagged · confidence high

Signal	FY25	FY26	Status	What it means
Write-offs vs recoveries	237.69 Cr	1,013.39 Cr (+326.3%)	Flag · high impact	The improvement in headline GNPA was entirely manufactured by cleansing 1,013.39 Cr through technical/prudential write-offs and offloading 653.70 Cr of gross portfolio balances to ARCs, far outstripping actual organic recoveries of 123.16 Cr.
GNPA / NNPA movement and recognition	1,854.38 Cr	1,459.90 Cr (-21.3%)	Watch · high impact	Reported Gross NPA balances decreased by 394.48 Cr, moving the GNPA ratio to 7.71% from 9.43%, but fresh asset slippages remained highly elevated at 1,724.31 Cr.
Restructured / SMA book	3.57 Cr	3.41 Cr (-4.5%)	Watch · low impact	Standard COVID-19 restructured loans remained tiny at 3.41 Cr, but the standard Special Mention Account (SMA) bucket volumes were not disclosed anywhere in the financial statement notes.
Fresh lending to a borrower group whose earlier exposure was already stressed -- the evergreening question: did new credit go out so that old interest could come back?	—	Not disclosed	Unresolved	Disclosures state that no transactions were performed outside normal banking rules, but explicit tracking data for new credit extensions to previously stressed entities is not provided.
Provision coverage ratio	51.18%	59.31%	Clean	Specific provision coverage ratio was increased to 59.31% from 51.18%, adding essential ledger protection to the remaining non-performing balance sheet exposure.
Divergence reported by the regulator	—	Not disclosed	Clean	The bank confirms that no reportable asset classification or specific provisioning divergences occurred under RBI supervisory risk assessments.

Is the P&L being manufactured?

Flag · 2 of 4 signals flagged · confidence high

Signal	FY25	FY26	Status	What it means
Deferred tax asset recognition	12.24 Cr	355.82 Cr (+2807.0%)	Flag · high impact	The bank recorded a massive 355.82 Cr deferred tax accounting credit by capitalizing 331.86 Cr of current-year operating tax losses, directly softening the headline net performance loss.
Accounting-policy or estimate change	94.57 Cr	—	Watch · medium impact	No fresh revisions were declared this year, but the aggressive upfront processing fee recognition rules implemented in FY25 (which inflated FY25 profits by 94.57 Cr) created a distorted comparative base.
Floating / counter-cyclical provision usage	189.97 Cr	—	Clean	No floating provision buffer was drawn down to offset credit costs this year, because the remaining 148.62 Cr of floating reserves was completely exhausted during FY25 modifications.
Exceptional items	—	Not disclosed	Clean	No separate exceptional or extraordinary non-operating line items were flagged on the face of the earnings statement.

Is value leaving to insiders?

Watch · 2 of 3 signals flagged · confidence high

Signal	FY25	FY26	Status	What it means
Related-party and group exposures	1.27 Cr	3.28 Cr (+158.3%)	Watch · medium impact	Office premises rental costs paid to the promoter holding company (Utkarsh CoreInvest Ltd) expanded sharply to 3.28 Cr from 1.27 Cr, increasing the cash flow routed back to group shareholders.
KMP / director remuneration vs pre-provision operating profit	6.29 Cr	5.99 Cr (-4.8%)	Watch · medium impact	Total KMP remuneration remained robust at 5.99 Cr (including 2.64 Cr for the MD & CEO) despite the bank generating a severe pre-tax loss of 1,506.62 Cr, showing insider rewards are insulated from operational results.
Loans to directors / related entities	—	Not disclosed	Unresolved	The related-party transaction summaries carry deposit balances, rent, and management salaries, but do not isolate or state active outstanding loan lines to directors or their relatives.

Can the capital and funding base take a hit?

Watch · 3 of 6 signals flagged · confidence high

Signal	FY25	FY26	Status	What it means
CAR / CET1 headroom	20.93%	17.71%	Watch · high impact	The bank's overall Capital Adequacy Ratio (CRAR) dropped sharply to 17.71% from 20.93%, while the core CET1 ratio fell to 14.98% from 17.88%, driven by reserve erosion from net operational losses.
Credit-deposit ratio	86.79%	83.45%	Watch · high impact	Total net advances dropped to 18,069.59 Cr from 18,716.48 Cr, pushing the credit-to-deposit deployment ratio down to 83.45% from 86.79%, indicating loan asset shrinkage.
Fixed versus floating split on BOTH sides -- loans given and funds raised -- and the repricing buckets	Present	Maturity mismatch of 2,338.64 Cr in mid-term bucket	Watch · medium impact	The bank faces structured asset-liability maturity gaps in the 6 months to 1 year window, holding liabilities of 5,509.24 Cr against liquidating loan assets of only 3,170.60 Cr.
AT1 and Tier-2 instruments, write-down history	473.53 Cr	409.69 Cr (-13.5%)	Clean	Tier 2 capital dropped to 409.69 Cr from 473.53 Cr, with outstanding subordinated debt instruments matching 50 Cr. No active write-downs or defaults were recorded on senior debt layers.
Wholesale funding concentration / CASA mix	21.79%	24%	Clean	The bank improved its retail deposit stickiness, expanding the CASA profile mix to 24% of total deposits, which helped lower the average deposit cost slightly to 8.02% from 8.10%.
Contingent liabilities vs net worth	89.43 Cr	76.80 Cr (-14.1%)	Clean	Total contingent obligations dropped to 76.80 Cr (representing only 2.77% of calculated 2,776 Cr net worth), indicating limited pressure from off-balance sheet exposures.

4. Management & governance

Governance check matrix

Check	Status	Detail
Audit opinion (type)	Clean	Unmodified
Fraud reported by the auditor	Clean	None reported
Audit trail (edit log) in the accounting software	Watch	Database log disabled for one software
Statutory dues unpaid	Clean	None reported
Promoter pledge (% of promoter holding)	Clean	0%
Independent directors (% of board)	Clean	57.14%
Woman director	Clean	2 Present
KMP pay against the statutory ceiling	Clean	Not applicable
Related-party transactions (% of revenue)	Clean	0.56%

A. Auditor report & key audit matters

Beyond the matrix, the statutory auditors issued an unmodified opinion on the financial statements, while drawing attention to the net operational loss recorded for the period. The predecessor auditors had expressed an unmodified opinion on the previous year's financials. Two Key Audit Matters were identified: 1. **Information Technology (IT) Systems and Controls over Financial Reporting:** Given the high transaction volumes across decentralized branches, the auditors deployed technology specialists to test the design and operational effectiveness of general IT controls and system-generated logics. Management maintained adequate controls overall, but a control gap was noted where the audit trail feature was disabled at the database layer for one accounting software application, leaving backend data edits untracked. 2. **Income Recognition, Asset Classification and Provisioning on Advances (IRAC):** Verifying net advances of ₹18,069.59 Cr and provisioning metrics of ₹865.85 Cr requires intense compliance checks under RBI Master Directions. The auditors sample-checked classifications and validated system delinquency calculations.

No reportable asset classification or provisioning divergences were noted relative to the RBI's supervisory risk assessments. No penalties were imposed by SEBI or any other capital market regulators during the year. The RBI levied a minor administrative penalty of ₹10,000 for cash-out non-compliance across the bank's automated teller network. Frauds reported to the regulator were handled via the independent Fraud Risk Management unit and monitored by a specialized board committee; credit cost management was handled via ₹1,013.39 Cr in technical write-offs and ₹653.70 Cr in bad loan offloading to Asset Reconstruction Companies. Total payments to statutory auditors for audit fees, certification, and other services were ₹1.36 Cr, with an additional ₹0.23 Cr paid for expense reimbursements.

B. Related party transactions

Statutory restrictions prevent the bank from giving loans or advances to directors or their connected firms, and the balance remained Nil throughout the year. No breaches of single-borrower or group-borrower exposure limits occurred.

Counterparty	Relationship	Nature	FY26 (□ Cr)	FY25 (□ Cr)	Assessment
Utkarsh CoreInvest Ltd	Holding Company	Interest paid on deposits	4.75	4.06	Arm's length
Utkarsh CoreInvest Ltd	Holding Company	Rent for office space	3.28	1.27	Rent inflation
Utkarsh CoreInvest Ltd	Holding Company	Collection service charges	0.59	0.58	Arm's length
Utkarsh Welfare Foundation	KMP-influenced Entity	CSR & CER Contributions	6.58	8.50	Routine
Govind Singh	MD & CEO	Remuneration & Bonus	2.64	3.02	Routine
Sarjukumar Pravin Simaria	Chief Financial Officer	Remuneration & Bonus	1.62	1.73	Routine
Pramod Kumar Dubey	Whole Time Director	Remuneration & Bonus	1.17	0.95	Routine
Other Related Parties	Relatives, Trusts & CS	Interest & Remuneration	0.62	1.59	Routine
Total	—	—	**21.25**	**21.70**	—

The table cannot capture the year-end related-party deposit balances, which included □60.54 Cr for Utkarsh CoreInvest Ltd and □0.37 Cr for RAAG Family Private Trust. It also does not reflect the structural configurations of the proposed corporate amalgamation scheme designed to reverse-merge the promoter entity into the bank. No write-offs, provisions, or impairments were registered against promoter entities during the period.

C. Shareholding

Category	Mar 2026 (%)	Mar 2025 (%)	Change (pp)
Promoter & Promoter Group	42.67	68.92	-26.25
Foreign Portfolio Investors	11.49	0.99	+10.50
Insurance Companies	6.72	1.36	+5.36
Mutual Funds	0.18	4.72	-4.54
Alternate Investment Funds	2.66	0.96	+1.70
Foreign Companies	2.99	4.69	-1.70
Body Corporate & QIBs	4.76	1.85	+2.91
Directors & Relatives	0.06	0.05	+0.01
Sovereign Wealth Funds	0.02	0	+0.02
Others (Retail/Public)	28.46	16.47	+11.99

There are no promoter pledges outstanding on the book; the entire promoter block is clean of encumbrances and secures no corporate or personal borrowings. The contraction of the promoter shareholding by 26.25 pp represents proportional dilution driven by the expansion of capital from public blocks during the fiscal period.

D. Board composition

No inter-se family relationships exist among the directors sitting on the board. Near the year-end, the board saw structural adjustments: Mr. Pramod Kumar Dubey ceased to be a Whole-Time Director on December 31, 2025, while Mr. Nagesh Dinkar Pinge and Mr. Muralidharan Rajamani both stepped down upon completing their respective first terms. Concurrently, Dr. Kshatrapati Shivaji was appointed as Part-Time Chairman, Ms. Gauri Rushabh Shah joined as an Independent Director, and Dr. Ram Jass Yadav was inducted into a Non-Executive

seat. The board confirms that all independent members fulfill the fit-and-proper regulatory status criteria and possess specific expertise across wholesale banking, finance, risk management, and digital infrastructure. A clean separation of functions is maintained between the Part-Time Chairman and the Managing Director, and no statutory committee failed to meet the required number of times.

E. KMP compensation

Name	Role	FY26 (□Cr)	FY25 (□Cr)	Change
Govind Singh	MD & CEO	2.64	3.02	-0.38 Cr
Sarjukumar Pravin Simaria	Chief Financial Officer	1.62	1.73	-0.11 Cr
Pramod Kumar Dubey	Whole Time Director	1.17	0.95	+0.22 Cr
Muthiah Ganapathy	Company Secretary	0.19	0.59	-0.40 Cr
Total	—	**5.62**	**6.29**	**-0.67 Cr**

Key management personnel compensation is measured against the bank's Net Total Income of □1,908 Cr, as pre-provision operating profit is not distinctly segregated from provisions in the summary financials. Total KMP compensation of □5.62 Cr represents 0.29% of Net Total Income, which falls well within proportionate levels. Directionally, total KMP remuneration fell by 10.65% year-on-year, aligning management compensation with the bank's operational loss for the period. Executive remuneration was backed by necessary regulatory approvals from the RBI, with variable structures containing proper deferral mechanisms, and no clawback choices were actively invoked.

F. Capital allocation & capex

Loan book expansion and operations were primarily funded through a large fresh equity injection rather than internally generated cash flows or retail deposit additions. The bank executed a Rights Issue that raised □949.08 Cr by pricing fresh allocations at □14 per share, slightly below the year-end book value of □15.60 per share, causing a mild dilution to non-participating lines. Retail deposits remained nearly stagnant, growing by just □88 Cr to □21,654 Cr, forcing the bank to step up borrowings by □474 Cr to □2,829 Cr to bridge its funding requirements. No dividends were declared or distributed, preventing capital leakage, but a deep operational net loss of □1,151 Cr directly impacted reserves and brought the Capital Adequacy Ratio (CRAR) down from 20.93% to 17.71%. Technology and premises capex stood at □149 Cr, representing 9.4% of estimated operating expenses of □1,585.41 Cr, driven by critical payment switch modernizations and new data centre implementation.

Credit concentration data shows that Priority Sector Agriculture and Allied activities represents the largest sectoral credit line at □4,847.08 Cr (25.60% of gross exposure), while the unsecured share of the loan book was aggressively cut from 54.95% to 32.53% to control fresh delinquency slippages; exposure figures for the top-20 borrowers were not disclosed in the text. Funding concentration parameters reflect structural stability with institutional bulk lines at 17% and a 24% CASA mix buffer, but the bank's ALM profile highlights a maturity gap in the mid-term buckets, specifically within the 6 months to 1 year time horizon, where □5,509.24 Cr in liabilities mature against only □3,170.60 Cr in cash-generating loan assets, requiring persistent deposit roll-overs.

G. Revenue recognition policy

Interest income on standard performing advances is recognized continuously on an accrual basis, whereas interest from non-performing assets is strictly recognized only upon actual cash realization, leaving management no room for subjective estimation on non-earning portfolios. However, significant management judgment is introduced through loan processing fees, which are recognized upfront as core income when they become due.

An accounting policy shift introduced in FY25 to recognize these fees immediately upon distribution rather than amortizing them over the loan tenure inflated past non-interest income by ₹164.66 Cr and pre-tax profit by ₹94.57 Cr, establishing an aggressive base that restricts absolute period-to-period top-line comparability. Penal charges and overdue principal components are accounted for on a cash collection basis, except for Relationship Management products where accrual logic is applied.

5. Scorecard

Dimension	Rating	Vs last year	What decided it
Business quality	1	Down	A net loss of ₹**1,151 Cr** was recorded this year and ROA was below 0.5% in three of the last five years.
Financial health	2	Same	Net NPA is estimated above **3%** following elevated slippages, though capital adequacy remains above the regulatory minimum.
Earnings quality	1	Same	The reported loss was only contained by a one-off deferred tax credit of ₹**355.82 Cr** and aggressive upfront fee recognition.
Management & governance	3	Same	The audit was clean, but a database audit trail gap was flagged and promoter rent increased significantly during a loss year.
Capital allocation	2	Same	The bank was forced to raise ₹**949.08 Cr** in equity to repair reserves eroded by operational losses rather than to fund growth.

6. How it has been doing

6.1 The multi-year picture

Metric	5-yr mean	FY25	FY26	Low ‹ band › high	Vs trend	Why it moved	Durable?
Total income growth %	26.94	18.47	-10.25	18.47 `# [-o-]` 35.48	**Worse than trend** (worst in window)	Interest earned dropped by □386 Cr due to calibrated loan disbursements in credit-dense microfinance regions.	Too early
PAT margin %	8.94	0.64	-34.06	0.64 `# [-o-]` 16.13	**Worse than trend** (worst in window)	Credit provisions and contingencies surged to □1,562.96 Cr from severe micro-banking impairments, driving a net loss of □1,151 Cr.	Too early
ROA %	1.17	0.09	-3.99	0.09 `# [-o-]` 2.11	**Worse than trend** (worst in window)	Asset utilization was severely impacted by a net loss of □1,151 Cr stemming from unsecured portfolio stress.	Too early
ROE %	10.41	0.81	-41.46	0.81 `# [-o-]` 20.2	**Worse than trend** (worst in window)	A steep net loss of □1,151 Cr completely decimated operating returns on the equity capital base.	Too early
NIM proxy %	8.13	7.78	5.18	7.04 `# [--o--]` 8.95	**Worse than trend** (worst in window)	Interest income fell by □386 Cr while core interest expenses expanded by □160 Cr to □1,902 Cr.	Too early
Equity / assets %	10.98	10.58	9.62	`10.44 # [--o-----] 12.44`	**Worse than trend** (worst in window)	Deep net operational losses eroded capital reserves, which was partially shored up by a fresh Rights Issue of □949.08 Cr.	Too early
Deposit growth %	28.99	23.42	0.41	23.42 `# [-o-]` 36.09	**Worse than trend** (worst in window)	Customer liability onboarding slowed to a crawl, with outstanding deposits expanding by an absolute value of only □88 Cr.	Too early

6.2 Management: said versus delivered

What they said last year	What actually happened	Verdict
Raise □750 Cr through Tier I Capital Raising.	The bank successfully executed a Rights Issue that shored up regulatory capital by mobilizing □949.08 Cr in fresh equity cash.	Delivered
Focus deposit mobilization geographically on the top 100 districts.	The current annual report does not disclose granular geographic metrics or execution progress for the top 100 districts.	Not addressed
Moderate operating expenditure through technology integration.	Total operating expenses rose to □1,851 Cr and personnel costs increased to □948 Cr, despite deploying □149 Cr for technology systems infrastructure.	TOO vague to check

What has not changed

- The bank has sustained its multi-year pattern of routing corporate social responsibility obligations through the insider-linked Utkarsh Welfare Foundation, directing □6.58 Cr to the entity in the current financial year.
- The gross block of physical infrastructure assets has expanded sequentially in every single year of the observed five-year window, rising to □712 Cr this year from a baseline of □413 Cr in FY2022.

- The promoter holding company, Utkarsh CoreInvest Ltd, has consistently received continuous cash flows from the bank via office space rent and interest payments on deposits throughout the five-year observed history.