Utkarsh Small Finance Bank Ltd — Rating update 4 Sep Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	**CARE A-
Outlook (Current vs Previous)	**Stable** vs **Negative** (Recent history shows a shift from Negative to Stable as losses narrowed in Q1FY27).
Key Drivers of Change	1. **Capital Infusion:** ₹950 Cr rights issue (Q3FY26) and proposed ₹500 Cr Tier-II provide a necessary cushion against FY26 losses. 2. **Portfolio Pivot:** Micro-banking share dropped to 37.3% (June-26) from 49.2% (FY25), shifting toward lower-yield secured assets. 3. **Asset Quality Normalization:** GNPA improved to 5.93% (June-26) from 7.55% (Mar-26), though largely via ₹1,737 Cr write-offs/sales in FY26. 4. **Earnings Recovery:** Net loss narrowed to ₹34 Cr (Q1FY27) from ₹188 Cr (Q4FY26).
Rated Instruments	1. **Proposed Tier-II Bonds:** ₹500 Cr
Key Observations	• **Strengths:** Adequate CAR (17.44%); Strong Liquidity (LCR 216%); Increasing granularity in deposits (Retail + CASA = 82.8%). • **Concerns:** Weak NIMs (5.18% in FY26 vs 7.81% in FY25); High legacy Micro-banking GNPA (10.08%); Geographic concentration (74% of MFI book in UP & Bihar); Low CASA (22.07%) vs SFB peers.
Investor Impact	**Growth:** Slowing AUM (₹19,610 Cr) as bank prioritizes quality over scale. **Margins:** Compressed due to interest reversals and shift to secured lending. **Dilution:** High; recent ₹950 Cr rights issue protects solvency but dilutes EPS.
Agency / Cross Analysis	**Same Agency:** CARE has moved the rating from **A+ (Stable)** in 2024 to **A- (Stable)** in 2026. **Drivers:** The downgrade reflects the massive FY26 loss (₹1,151 Cr) and asset quality shock, while the "Stable" outlook at the lower notch acknowledges the capital reset and narrowing losses. **Conclusion:** Significant **Deterioration** in credit profile compared to two years ago, now entering a stabilization phase.
Final Inference	**Repair & Rebuild:** The rating signifies a bank emerging from a crisis. While insolvency risk is mitigated by fresh capital, the equity story is hampered by structural margin compression (yield shift) and legacy credit costs. Real improvement depends on Q2-Q3FY27 turning PAT positive.