

Utkarsh Small Finance Bank Ltd — 05 Jan 2026 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd. (CareEdge)
Rating Change	CARE A (Reaffirmed); Outlook revised from Stable → Negative
Outlook (Current vs Previous)	Negative (Current) vs Stable (Previous)
Key Drivers of Change	<ol style="list-style-type: none"> Asset Quality Collapse: GNPA surged to 12.42% (Sept '25) from 2.51% (Mar '24) due to MFIN 2.0 guardrails and micro-banking stress. Severe Profitability Stress: Reported a Net Loss of ₹588 Cr in H1FY26 (vs ₹498 Cr profit in FY24) due to interest reversals and high credit costs. Solvency Risk: Net NPA to Net Worth ratio worsened to 41.10% (Sept '25), indicating high capital erosion risk from the stressed micro-portfolio. Margin Compression: Strategic pivot to secured loans (increased to 47% of book) is reducing overall yields and NIM (5.44% in H1FY26 vs 8.81% in FY24).
Rated Instruments	Tier-II Bonds: ₹200.00 Cr
Key Observations	<p>Strengths:</p> <ul style="list-style-type: none"> Fresh Capital: ₹950 Cr raised via Rights Issue (Nov '25) to buffer losses. De-risking: Micro-banking concentration reduced to 44% (Sept '25) from 62% (Mar '24). Liquidity: Strong LCR of 241% and surplus liquidity of ~₹4,400 Cr. <p>Risks:</p> <ul style="list-style-type: none"> Concentration: Bihar and UP still account for 47% of the gross loan portfolio. Weak Liabilities: CASA remains low at 20.90%, lagging SFB peers. Asset Contraction: Gross loan portfolio saw 2.3% y-o-y degrowth as bank calibrates lending.
Investor Impact	<ul style="list-style-type: none"> Margins: Negative; NIMs will remain suppressed due to the shift from high-yield MFI to lower-yield secured loans. Dilution: High; Recent ₹950 Cr rights issue was necessary to stay above regulatory CAR minimums. Growth: Stagnant; Bank is in "recalibration mode," prioritizing collection over loan growth. Leverage: CAR is volatile; fell to 17.21% (Sept '25) before the Nov '25 infusion.
Agency / Cross Analysis	<p>Same Agency: CARE has been volatile—downgraded from A+ to A in mid-2025, stabilized it in Aug '25, and has now moved to Negative in Jan '26. This reflects a "catch-up" to the rapid deterioration in H1FY26 financials.</p> <p>Financial Alignment: The rating "A" is supported primarily by the parentage and the timely ₹950 Cr equity infusion; without this capital, a multi-notch downgrade would be likely given the 12% GNPA.</p> <p>Conclusion: Deterioration. The bank is in a transition phase, trading high-growth MFI returns for secured stability.</p>
Final Inference	Turnaround or Trap: The negative outlook signals a high risk of a rating downgrade if Q4FY26 does not show recovery. For equity investors, the ₹950 Cr infusion prevents insolvency but significantly dilutes ROE expectations until credit costs stabilize below 2%.