

Utkarsh Small Finance Bank Ltd — 13 Aug 2025 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd. (CareEdge)
Rating Change	CARE A+ → CARE A (1 notch downgrade)
Outlook (Current vs Previous)	Stable (Current) vs Negative (Previous)
Key Drivers of Change	<ol style="list-style-type: none"> Asset Quality Collapse: GNPA surged to 11.42% (June '25) from 2.78% (June '24) due to MFI sector stress and MFIN 2.0 guardrails. Severe Profitability Hit: Reported a net loss of ₹239 Cr in Q1FY26 (vs ₹498 Cr PAT in FY24) due to massive credit costs and interest reversals. Capital Erosion: NNPA to Net Worth ratio deteriorated to 35.21% (from 1.42% YoY), indicating significant risk to the bank's own funds. Yield Compression: Shift to secured lending (up to 45% of book) reduces risk but lowers overall yields and margins.
Rated Instruments	<ul style="list-style-type: none"> Tier-II Bonds: ₹15 Cr (CARE A; Stable) Tier-II Bonds: ₹200 Cr (CARE A; Stable)
Key Observations	<p>Positives:</p> <ul style="list-style-type: none"> Strong Liquidity: LCR at 239% with ~₹3,900 Cr surplus cash. De-risking: Micro-banking share fell to 47% (from 62% in Mar '24). Deposit Growth: Total deposits grew 18% YoY to ₹21,489 Cr. <p>Risks:</p> <ul style="list-style-type: none"> Geographic Concentration: 48% of loans concentrated in Bihar and UP. Low CASA: Remains modest at 19.64%, lagging SFB peers. Weak Coverage: PCR at 59% is lower than many industry competitors.
Investor Impact	<ul style="list-style-type: none"> Dilution Risk: Necessary ₹750 Cr equity raise by Sept '25 is a "must-do" to absorb losses, leading to near-term equity dilution. Margin Compression: Transition from MFI (high yield) to secured loans (lower yield) structurally lowers RoA targets (Q1FY26 RoA: -3.44%). Growth Stall: Micro-banking de-grew 20%; growth is now pivot-dependent.
Agency / Cross Analysis	<p>Same Agency: CARE moved from a "Negative" outlook in June 2025 to a "Downgrade + Stable" in August 2025. This indicates the anticipated stress has materialized, but the rating is now floored by the expected ₹750 Cr capital infusion.</p> <p>Conclusion: Significant Deterioration in fundamental credit strength, partially mitigated by proactive capital raising plans.</p>
Final Inference	<p>The downgrade signals a "perfect storm" of MFI stress and regulatory tightening hitting the P&L. For equity investors, the focus shifts from growth to survival and stabilization; the stock will likely remain suppressed until the ₹750 Cr capital raise is closed and GNPA peaks.</p>