

Utkarsh Small Finance Bank Ltd — 12 Jun 2025 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	Reaffirmed at CARE A+ (No notch change, but significant Outlook downgrade)
Outlook (Current vs Prev)	Negative vs Stable
Key Drivers of Change	<ol style="list-style-type: none"> Asset Quality Collapse: GNPA surged to 9.43% in FY25 (vs 2.51% FY24) due to systemic microfinance (MFI) stress. Profitability Erosion: PAT plummeted to ₹24 Cr (vs ₹498 Cr FY24); ROTA crashed to 0.09% from 2.32%. Solvency Risk: Net NPA to Net Worth ratio spiked to 30.98% (vs 0.16% FY24), indicating severe capital vulnerability. Yield Pressure: Transitioning to a secured loan mix (now 43% of book) is reducing overall portfolio yields.
Rated Instruments	<ol style="list-style-type: none"> Tier-II Bonds: ₹15 Cr (CARE A+; Negative) Tier-II Bonds: ₹200 Cr (CARE A+; Negative)
Key Observations	<ul style="list-style-type: none"> MFI Concentration: Despite de-growth, MFI still forms 50% of the book and 70% of loans in UP/Bihar (high risk). Weak PCR: Provision Coverage Ratio at 51% is lower than SFB peers, suggesting potential for more under-provisioning. Diversification: Positive shift as secured book grew 36% YoY, reducing MFI reliance from 62% to 50%. Funding Profile: CASA at 21.8% remains modest and below peer average; wholesale deposit reliance is high at 29%. Liquidity: Strong buffer with ₹3,800 Cr surplus and LCR at 189%. Capitalization: Tier-I moderated to 17.88%; currently inadequate to absorb high-stress scenarios without fresh capital.
Investor Impact	<ul style="list-style-type: none"> Dilution Risk: High; Bank must raise ₹750 Cr equity by H1FY26 to offset asset quality stress. Margins: Significant compression expected due to interest reversals and shift to lower-yielding secured loans. Growth: Moderate (8% in FY25) as management prioritizes collections and capital over expansion.
Agency / Cross Analysis	<p>Same Agency (CARE): Major shift in stance. Previous review (Sept 2024) was 'Stable' based on diversification; current review is 'Negative' as credit costs wiped out almost all earnings. Financials show a complete decoupling of growth from asset quality.</p> <ul style="list-style-type: none"> Conclusion: Significant Deterioration.
Final Inference	<p>Severe Risk Signal. The bank is facing a solvency test as NNPA consumes ~31% of Net Worth. While the shift to secured lending is the right long-term move, the near-term pain from MFI slippages and impending equity dilution makes the stock vulnerable.</p>