**Utkarsh Small Finance Bank Ltd — FY 2025 Annual Report Analysis**

# Annual Report Analysis (Standalone)

**Stance: Avoid**

The call is decided by a severe microfinance credit collapse that wiped out operational returns and forced aggressive accounting modifications alongside provision drawdowns to mask an absolute pre-tax operational loss.

**Key findings**

## Key findings

- The bank avoided an outright pre-tax operational loss solely by altering its fee recognition policy to front-load income by □**94.57 Cr** and completely draining its □148.62 Cr floating provision buffer.
- Gross non-performing assets surged to **9.43%** of the loan book, driven by fresh slippages of □2,108.16 Cr primarily within the unsecured microfinance portfolio.
- Net profit plummeted by **95.18%** to □24 Cr, causing the return on assets to collapse to 0.09% as credit costs overrode interest income growth.
- Net advances of □**905.27 Cr** are left exposed without specific credit loss coverage because the provision coverage ratio fell sharply to 51.18%.
- Structural liquidity faces severe rollover risk in the six-to-twelve-month bucket where short-term liabilities of □**10,632.56 Cr** are matched against only □1,880.16 Cr of assets.
- Deposit mobilization remains an outstanding strength, growing **23.42%** to reach □21,566 Cr and comfortably outpacing the broader universal banking sector average.
- Capital adequacy provides a strong solvency cushion at **20.93%**, remaining well above the regulatory minimum of 15% despite asset impairments.
- Secured loan portfolios expanded their share to **43%** from 34% last year, driven by a 51.53% spike in MSME retail loans to □3,874.53 Cr.
- Unsecured joint liability group lending still represents a high concentration risk at **45%** of the gross loan portfolio, leaving □8,760.58 Cr exposed to microfinance sector disruptions.
- Infrastructure expansion added **204** new branches to reach a physical footprint of 1,092 outlets, positioning the bank for its long-term universal banking transition.
- Key management compensation remained proportional at **1.01%** of pre-provision operating profit, with the chief executive's variable bonus cut to zero to align with the profit decline.

**What to watch**

## What to watch

| Monitorable | Current level | Threshold to change view |
|---|---|---|
| Gross NPA Ratio | 9.43% | Below 4% or above 12% |
| Provision Coverage Ratio | 51.18% | Above 70% or below 45% |
| CASA Deposit Share | 21.88% | Above 25% or below 18% |
| Maturity Bucket (6-12 Months) Asset Coverage | 17.68% | Above 35% |
| Unsecured JLG Loan Share | 45% | Below 35% or above 55% |

## 1. Business overview

| Segment | Gross loan portfolio (□ Cr) | Share of total | YoY | What drove it |
|---|---|---|---|---|
| Joint Liability Group Loans (JLG) | 8760.58 | 45% | -17.62% | Stricter Microfinance Institutions Network (MFIN) lending guardrails and a conservative credit approach following sector upheaval. |
| MSME Retail Loans | 3874.53 | 20% | +51.53% | Deepening physical footprint in underserved core geographies and a strategic focus on expanding secured product lines. |
| Wholesale Lending | 2239.73 | 11% | +18.98% | Credit expansion to financial institutions and small/ medium corporates via short- and long-term overdraft facilities. |
| Others | 1765.88 | 9% | Not disclosed | Sourcing velocity across personal loans, gold collateral, and third-party business correspondent channels. |
| Commercial Vehicles & Construction Equipment (CE & CV) | 1188.13 | 6% | +25.8% | Targeting small fleet operators and logistics/ infrastructure growth in core central and eastern regions. |
| Micro Banking Business Loans (MBBL) | 918.44 | 5% | +36% | Upgrading mature, high-performing group lending clients into larger individual credit lines across recurring cycles. |
| Housing Loans | 918.29 | 5% | +35.72% | Consistent network expansion and scaled delivery of affordable housing lines to salaried and self-employed buyers. |

### Cost base

The bank's operating expenses are heavily concentrated in physical infrastructure and human capital. * **Franchise Expansion:** Operating costs are primarily driven by rapid physical footprint scaling, including the addition of 204 branches during the year to expand the total network to 1,092 banking outlets. * **Personnel Base:** The organization supports a large workforce of 19,779 employees with an average age of 28.60 years, where staff attrition reflects a volatile operational variable ranging between 14.89% to 40.51%. * **Technology Interventions:** Management is actively investing in digital integration to achieve its objective of "moderating the cost of staying in business" and lower the long-term incremental cost of customer processing. * **Process Automation:** Upfront technology expenditures focus on replacing manual tasks with automated workflows, achieving annual savings of over □1 Cr by automating 52 manual back-office functions.

### Capacity

Capacity is not a constraint for credit delivery, as the institution maintains a genuine competitive position with substantial liquidity and capital buffers to fuel asset expansion. * **Funding Franchise:** The bank's retail deposit franchise is an outstanding source of strength, growing deposits at 23.42% year-on-year to outpace the 11% average growth seen across India's universal banking sector. * **Liquidity Assets:** The bank possesses over □791.72 Cr in undrawn funding lines alongside a total deposit corpus of □21565.7 Cr, ensuring it can seamlessly meet sudden spikes in borrower credit demand. * **Capital Adequacy:** The capital-to-risk-weighted-assets ratio stands at an excellent 20.93%, significantly exceeding the regulatory requirement of 15%. * **Growth Sourcing:** This robust financial position is backed by strategic plans to raise additional Tier I capital up to □750 Cr to secure long-term loan book growth.

### Forward visibility

Forward visibility is highly attractive, anchored on clear regulatory milestones and a massive underpenetrated grassroots ecosystem. * **Universal Transition:** Long-term business prospects are structurally enhanced by regulatory openings, with management proactively "laying the foundation for our long-term aspiration" to transition into a Universal Bank. * **Core Geographies:** Sourcing visibility remains strong across underserved markets like Bihar, Jharkhand, and Uttar Pradesh, which currently account for 54% of the total loan book. * **Customer Cross-Selling:** The bank's extensive base of over 27 Lakh group lending clients provides an excellent built-in pipeline for graduating mature borrowers into individual business advances, where penetration is currently low at roughly 4%. * **Institutional Pipelines:** Transaction volumes and corporate accounts are secured through a new corporate current account partnership with Life Insurance Corporation of India and empanelment as a sparsh service centre for defence pensioners.

### What must stay true

For the bank's long-term business model to keep working successfully, several external parameters and execution priorities must stay true: * **Credit Discipline and Guardrails:** Borrowers must remain compliant with the Microfinance Institutions Network guidelines that enforce lending sanity by "limiting the number of lenders to four per borrower" and capping total microfinance exposure per individual at □0.02 Cr. * **Collection Efficiency:** The field operations team must maintain its rigorous centralized meeting discipline to sustain collection efficiency, which successfully reached 99.1% in the prime risk bucket during the final quarter. * **Granular Retail Sourcing:** The funding mix must continue to rely on a stable retail franchise rather than volatile wholesale lines, keeping the share of current accounts, savings accounts, and retail fixed deposits high at 71.1% of total deposits. * **Secured Portfolio Scaling:** The bank must successfully sustain its diversification into secured credit classes—such as affordable housing loans (where 61% of loans are below □0.35 Cr) and MSME portfolios—to protect the aggregate portfolio from microfinance sector disruptions. * **Digital Adoption:** Grassroots customers must continuously adopt self-service digital channels, supporting tablet-based digital onboarding, e-KYC, and automated e-signatures to preserve process efficiency.

## 2. Management commentary & outlook

Management presents the year as one of "transformation" and "resilience," characterized by a deliberate pivot toward secured lending in response to severe stress in the microfinance (MFI) sector. While the bank maintained its credit rating of [ICRA] A+ (Stable), leadership acknowledged that the "upheaval" in the MFI segment necessitated a significant increase in provisions, which fundamentally altered the year's bottom-line results. The commentary emphasizes a shift from "exponential growth" to "prudent risk management," framing the expansion into MSME, housing, and commercial vehicle loans as a strategic hedge against the volatility of the Joint Liability Group (JLG) model.

| Topic | What they claimed | Their words |
|---|---|---|
| Capital Raising | A specific plan to strengthen the capital base. | "Robust plan to raise Tier I capital up to □750 Cr" |
| Network Expansion | Reaching a significant scale in physical infrastructure. | "Achieved a milestone by surpassing 1,000 banking outlets across the network." |
| Portfolio Mix | A specific increase in the share of collateralized lending. | "Secured Loan Portfolio share increase to 43% in comparison to 34% in FY2023-24." |
| Collection Efficacy | High recovery performance in the earliest delinquency bucket. | "Collection efficiency in the X-bucket improved to 99.1% by the last quarter" |
| Strategy Horizon | The target timeline for transitioning to a universal banking license. | "Laying the foundation for our long-term aspiration" to "transition into Universal Banks" |
| Deposit Strategy | Geographic concentration for liability sourcing. | "Targeting the top 100 districts of the country in terms of overall deposits" |
| Affordable Housing | The portion of the housing book below a specific ticket size. | "Housing loans of up to □35 Lakh constituted approximately 61% of our housing loan portfolio." |
| Process Automation | The volume of manual tasks eliminated to drive efficiency. | "52 manual processes were automated" |

## Outlook:

- Demand: Management described "significant growth opportunities" in core geographies for FY 2025–26 but did not commit to a specific loan disbursement target.
- Capacity: Management committed to a geographic focus on "the top 100 districts" for its next phase of deposit mobilization.
- Costs: Management described an intent to "moderate our operating expenditure" through technology integration but provided no specific target for a cost-to-income ratio.
- Balance sheet: Management committed to a "plan to raise Tier I capital up to □750 Cr" to support future growth and navigate industry anomalies.

## Tone

The commentary is specific and falsifiable regarding network milestones and the structural shift toward secured lending, providing clear metrics for long-term tracking. However, the narrative heavily relies on macro adjectives such as "resilient" and "agile" to explain the sharp increase in non-performing assets, which complicates the assessment of whether the stress was purely external or exacerbated by internal underwriting. The management appears credible in its commitment to diversification, but the belief that the "worst had passed" for the microfinance sector remains a macro-dependent finding rather than a committed outcome.

# 3. Financial analysis

## 3.1 Financial statements

### P&L statement — lender basis (□Cr)

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Interest earned | 3,765 | 3,178 |
| Interest expended | 1,742 | 1,293 |
| Net interest income (NII) | 2,023 | 1,885 |
| Non-interest income | 600 | 400 |
| Total income (NII + non-interest) | 2,623 | 2,285 |
| Operating expenses and provisions (combined) | 2,518 | 1,561 |
| Depreciation | 77 | 65 |
| Profit before tax | 28 | 659 |
| Net profit | 24 | 498 |
| Non-interest income as % of total income | 22.87% | 17.51% |
| NII as % of interest earned | 53.73% | 59.31% |

### Balance sheet (□Cr)

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Equity Capital | 1,102 | 1,099 |
| Reserves | 1,873 | 1,874 |
| Deposits | 21,566 | 17,473 |
| Borrowing | 2,355 | 1,995 |
| Other Liabilities | 1,232 | 1,462 |
| Other liability items | 1,103 | 1,278 |
| Total Liabilities | 28,127 | 23,903 |
| Fixed Assets | 324 | 301 |
| Investments | 4,958 | 3,679 |
| Other Assets | 22,783 | 19,912 |
| Cash Equivalents | 2,638 | 1,247 |
| Other asset items | 20,085 | 18,656 |
| Total Assets | 28,127 | 23,903 |

**Cash flow statement (□Cr)**

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Cash from Operating Activity | 876 | 991 |
| Profit from operations | 870 | 1,086 |
| Loans Advances | -3,282 | -3,586 |
| Operating investments | -713 | -297 |
| Operating Deposits | 4,093 | 3,762 |
| Other WC items | -203 | 89 |
| Working capital changes | -105 | -31 |
| Direct taxes | 111 | -64 |
| Cash from Investing Activity | -777 | -620 |
| Fixed assets purchased | -159 | -70 |
| Fixed assets sold | 1 | 0 |
| Investments purchased | -1,108 | -550 |
| Investments sold | 489 | 0 |
| Cash from Financing Activity | 310 | 140 |
| Proceeds from shares | 6 | 514 |
| Proceeds from borrowings | 1,461 | 546 |
| Repayment of borrowings | -1,101 | -900 |
| Dividends paid | -55 | 0 |
| Other financing items | 0 | -20 |
| Net Cash Flow | 409 | 511 |

## 3.2 Financial analysis summary

**Is this business actually making money? Verdict:** Yes, the bank is technically profitable, but its operational earnings have been decimated by a severe credit cycle, leaving reported profits heavily reliant on accounting adjustments. * **Earnings Collapse:** Net profit plummeted by 95.18% to □24 Cr in FY25, down from □498 Cr in FY24, despite an 18.47% increase in total interest income to □3,765 Cr. This caused the profit after tax (PAT) margin to contract from 15.67% to 0.64%, while the return on assets (ROA) collapsed to a nominal 0.09%. * **Microfinance Portfolio Distress:** Profitability was severely hit by a massive surge in bad loans within the unsecured microfinance book. Fresh slippages exploded to □2,108.16 Cr (roughly 10.7% of total advances), driving the closing Gross Non-Performing Asset (GNPA) ratio to 9.43% (□1,854.38 Cr) from 2.51% in the prior year. This distress forced a conservative contraction in Joint Liability Group loans, which fell 17.62% to □8,760.58 Cr. * **Accounting Buffers Utilized:** The bank avoided an outright net loss through defensive accounting choices. It changed its revenue recognition methodology to front-load loan processing fees upfront, propping up pre-tax earnings by □94.57 Cr. It also entirely wiped out its floating provision buffer of □148.62 Cr to smooth credit losses. * **Weakened Protection:** Because provisioning did not keep pace with the influx of bad loans, the Provision Coverage Ratio (PCR) dropped steeply from 98.92% to 51.18%, even though total provisions made during the year rose to □949.11 Cr.

**Is that money arriving as cash? Verdict:** Yes, the bank generated positive operating cash flow of □876 Cr, but this is a reflection of deposit-gathering strength outlasting credit disbursements rather than structural profit

conversion. * **Funding and Loan Growth:** For a lender, cash inflows are dominated by deposits and outflows by loan expansion. The bank captured ₹4,093 Cr in operating deposits during the year, which comfortably covered the ₹3,282 Cr deployed into new loan advances. Total outstanding deposits reached ₹21,566 Cr, marking a growth of 23.42%. * **Accrual Risks vs High Funding Costs:** Cash velocity faces friction from uncollected revenue, with interest accrued on assets climbing to ₹198.90 Cr, which carries elevated recovery risk given the 9.43% gross NPA environment. On the liability side, interest accrued rose to ₹736.20 Cr, reflecting the bank's dependence on term deposits (₹16,866.54 Cr) that carry an elevated deposit cost of 8.16%. * **Tax Cash Matching:** Over the observed 5-year window, tax charged in the P&L stood at ₹360 Cr against cash tax paid of ₹396 Cr, verifying a reliable 1.1x alignment between accounting tax entries and actual cash outflows.

**Where is the cash going, and who is getting it? Verdict:** Cash is primarily directed toward expanding the loan book and purchasing liquid securities, followed by significant investments in physical network expansion, operating costs for a large workforce, and promoter payouts. * **Lending and Securities Allocations:** Net credit originations consumed the largest portion of capital, with ₹3,282 Cr deployed into advances. Liquid asset allocations absorbed additional capital, as operating investments took ₹713 Cr, while net long-term investment activity under investing cash flows used ₹619 Cr (via ₹1,108 Cr in purchases offset by ₹489 Cr in sales). * **Branch Infrastructure Growth:** Capital expenditure on fixed assets rose to ₹159 Cr from ₹70 Cr in FY24, funding the addition of 204 branches to bring the total physical footprint to 1,092 banking outlets. * **Personnel and Operating Overhead:** The bank supports a large workforce of 19,779 employees, with personnel costs accounting for 23% of total income. Additional cash was absorbed by expanding acquisition channels, including Business Correspondent commissions which more than doubled to ₹114.21 Cr, core banking software charges of ₹94.99 Cr, rent and lighting of ₹82.10 Cr, and new DSA payouts of ₹57.72 Cr. * **Promoter and Insider Payments:** Total dividend payments consumed ₹55 Cr, of which ₹38.02 Cr was paid to related parties, including the promoter holding company, Utkarsh CoreInvest Ltd. The promoter group holds an outstanding deposit balance of ₹52.81 Cr with the bank. Payouts also included ₹8.50 Cr in Corporate Social Responsibility (CSR) contributions routed through the related Utkarsh Welfare Foundation and ₹3.02 Cr in paid remuneration to the MD & CEO.

## 3.3 Contingent liabilities & commitments

## 3.9 Earnings quality & forensic checks

**Is the income real?**

Insufficient · 1 of 4 signals flagged · confidence medium · 4/4 checked

| Signal | FY24 | FY25 | Status | What it means |
|---|---|---|---|---|
| Fee and other income quality | ₹400.34 Cr | ₹599.83 Cr | Watch · high impact | Adds ₹164.66 Cr of non-cash fee income to total income (4.37% of total income) via an aggressive accounting shift to upfront fee recognition |
| Interest on income-recognition-suspended accounts | — | Not disclosed | Unresolved | — |
| Yield on advances vs cost of funds | 7.72% cost of deposits | 8.16% cost of deposits | Unresolved | Drives interest expended up by +34.77% to ₹1,742.06 Cr |
| Net interest income vs treasury/trading gains | ₹ | — | — | — |

**Is the book honestly provisioned?**

Flag · 3 of 6 signals flagged · confidence high · 6/6 checked

| Signal | FY24 | FY25 | Status | What it means |
|---|---|---|---|---|
| GNPA / NNPA movement and recognition | □417.58 Cr | □1,854.38 Cr | Flag · high impact | Gross non-performing assets exploded to 9.43% of the total loan book, driven by □2,108.16 Cr of fresh slippages |
| Provision coverage ratio | 98.92% | 51.18% | Flag · high impact | Reduces the protection buffer, leaving □905.27 Cr of net advances exposed without specific credit loss coverage |
| Write-offs vs recoveries | □304.93 Cr write-offs | □237.69 Cr write-offs | Watch · medium impact | Removes □237.69 Cr of bad loans from the gross pool via technical write-offs, while total cash recoveries stood at □106.41 Cr |
| Restructured / SMA book | □0.05 Cr | □3.58 Cr | Unresolved | — |
| 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 | — |
| Divergence reported by the regulator | — | Not disclosed | Clean | — |

**Is the P&L being manufactured?**

Flag · 4 of 4 signals flagged · confidence high · 4/4 checked

| Signal | FY24 | FY25 | Status | What it means |
|---|---|---|---|---|
| Floating / counter-cyclical provision usage | □148.62 Cr | □0 Cr | Flag · high impact | Fully draws down and deletes the entire □148.62 Cr floating provision buffer to offset credit cost charges, preventing a net loss |
| Accounting-policy or estimate change | □0 Cr | □94.57 Cr PBT impact | Flag · high impact | Props up earnings by □94.57 Cr through changing fee recognition methods from deferred amortization to upfront recognition |
| Deferred tax asset recognition | □105.10 Cr | □117.34 Cr | Watch · low impact | Adds a non-cash tax credit of □12.24 Cr to the bottom-line performance matrix |
| Exceptional items | □0 Cr | □1.24 Cr | Watch · low impact | Reduces net PBT by □1.24 Cr due to a regulatory compliance settlement with SEBI |

**Is value leaving to insiders?**

Watch · 2 of 3 signals flagged · confidence high · 3/3 checked

| Signal | FY24 | FY25 | Status | What it means |
|---|---|---|---|---|
| Related-party and group exposures | ₹48.05 Cr deposits | ₹52.81 Cr deposits | Watch · medium impact | Authorized a dividend payout of ₹37.96 Cr directly to the promoter holding entity during an operational earnings collapse |
| KMP / director remuneration vs pre-provision operating profit | ₹4.87 Cr | ₹6.29 Cr | Watch · medium impact | KMP cash remuneration expanded by ₹1.42 Cr while bank pre-provision operating profit contracted by -19.94% to ₹86.97 Cr |
| Loans to directors / related entities | ₹0 Cr | ₹0 Cr | Clean | — |

**Can the capital and funding base take a hit?**

Insufficient · all 6 signals clean · confidence high · 6/6 checked

| Signal | FY24 | FY25 | Status | What it means |
|---|---|---|---|---|
| Fixed versus floating split on BOTH sides -- loans given and funds raised -- and the repricing buckets | — | Not disclosed | Unresolved | — |
| CAR / CET1 headroom | 22.57% CRAR | 20.93% CRAR | Clean | Retains adequate solvency cushion despite continuous capital erosion from provisioning needs |
| AT1 and Tier-2 instruments, write-down history | ₹210.25 Cr | ₹473.53 Cr | Clean | Bolstered total capital buffers by executing ₹305 Cr of fresh Tier-2 NCD issuances during the fiscal period |
| Credit-deposit ratio | 93.66% | 86.79% | Clean | Lowers immediate asset-side funding dependency by utilizing faster deposit collection growth relative to loans |
| Wholesale funding concentration / CASA mix | 20.50% CASA | 21.88% CASA | Clean | Improves low-cost retail liability anchoring; the top 20 depositors account for 15.55% of the total base |
| Contingent liabilities vs net worth | ₹76.67 Cr vs ₹2,973 Cr | ₹89.42 Cr vs ₹2,975 Cr | Clean | Contingent off-balance sheet exposures remain limited relative to standard net worth reserves |

## 4. Management & governance

### Governance check matrix

| Check | Status | Detail |
|---|---|---|
| Audit opinion (type) | Clean | Unmodified (True and fair view) |
| Fraud reported by the auditor | Clean | No material instances reported under Section 143 |
| Audit trail (edit log) in the accounting software | Clean | Enabled and operated throughout the year with no tampering |
| Statutory dues unpaid | Not disclosed | Not in the supplied text |
| Promoter pledge (% of promoter holding) | Not disclosed | Not in the supplied text |
| Independent directors (% of board) | Clean | 57.14% of the board (4 out of 7 directors) |
| Woman director | Clean | Ms. Kalpana Prakash Pandey present |
| KMP pay against the statutory ceiling | Clean | Section 197 is inapplicable; governed under Section 35B of BR Act |
| Related-party transactions (% of revenue) | Clean | ~2.53% of total income (primarily holding company dividend) |

### A. Auditor report & key audit matters

The joint statutory auditors (Deloitte Haskins & Sells and Kirtane & Pandit LLP) delivered a clean opinion on both the financial statements and the internal financial controls framework. They highlighted two Key Audit Matters:

- **Identification of and Provisioning against Non-Performing Assets (NPAs):** With gross advances at □19,665.59 Cr and credit provisions under severe strain, the auditor focused on management's subjective judgment regarding early stress tagging, automated asset classification migration, and the timing of NPA classification. The audit response involved test-checking standard-to-NPA migration logic, verifying adherence to the Reserve Bank of India (RBI) Income Recognition and Asset Classification (IRAC) guidelines, and assessing the utilization of Board-approved floating asset provisions.
- **IT Systems and Controls Impacting Financial Reporting:** Given the high transaction volumes automated across the Core Banking Solution (CBS), the auditor tested General IT Controls (GITCs). Risk areas included user access management, segregation of duties, and data transfer integrity across peripheral lending systems. Technology specialists were deployed to validate automated interest reversal scripts and access-revocation logs.

**Regulatory Penalties and Settlements:** The bank paid a substantial settlement of □1.24 Cr to SEBI to resolve historical compliance violations related to debt listing and disclosure regulations from 2008 and 2022. It also recorded minor historical fines of □0.01 Cr for late filing under listing rules.

**Regulated Lender Disclosures:** * *Divergence in Asset Classification and Provisioning:* Disclosures detailing any formal RBI risk assessment divergence for asset classification or credit provisioning are not in the supplied text. * *Frauds Reported to the Regulator:* The bank maintains a Special Committee for Monitoring and Follow-up of cases of Frauds (SCBMF). While the text describes its governance protocols and investigative processes, the precise aggregate count and financial volume of current-year frauds reported directly to the regulator are not in the supplied text.

## B. Related party transactions

Value leakage is primarily channeled through the holding company via dividend distributions and operational service agreements. The bank holds deposits from related trusts and key management personnel under routine commercial terms.

| Counterparty | Relationship | Nature | (□Cr) | (□Cr) | Assessment |
|---|---|---|---|---|---|
| Utkarsh CoreInvest Ltd | Holding Company | Dividend Paid | 37.96 | Not disclosed | Routine |
| Utkarsh CoreInvest Ltd | Holding Company | Deposits Outstanding | 52.81 | Not disclosed | Routine |
| Utkarsh CoreInvest Ltd | Holding Company | Interest Paid on Deposits | 4.06 | Not disclosed | Routine |
| Utkarsh Welfare Foundation | Significant KMP Influence | CSR & CER Contribution | 8.50 | Not disclosed | Routine |
| Govind Singh | MD & CEO | Remuneration Paid | 3.02 | Not disclosed | Approved by RBI |
| Govind Singh | MD & CEO | Deferred ESOP Grant Value | 1.06 | Not disclosed | Routine |
| Pramod Kumar Dubey | Whole-Time Director | Joining Bonus (ESOP) | 1.93 | Not disclosed | Approved by RBI |
| RAAG Family Private Trust | Significant KMP Influence | Deposits Outstanding | 4.80 | Not disclosed | Routine |
| Total | — | — | **114.14** | **Not disclosed** | — |

The provided disclosures do not present comparative figures for the previous financial year within the related-party summary note. This data gap limits a trailing year-on-year volume assessment, nor can the table reveal unbooked or oral funding arrangements. No credit write-offs, specific provisions, or asset impairments were recognized against the promoter or associated group entities during the period.

**Lender Exposure Controls:** * *Loans and Advances to Directors:* Transactions involving loans or credit lines extended directly to directors or their affiliated businesses are not in the supplied text. * *Exposure Limit Breaches:* The bank reported zero regulatory breaches of its single-borrower or group-borrower credit exposure limits during the year. Total exposure to the NBFC sector is restricted via internal policy caps to 10% of total credit assets.

## C. Shareholding

The structural shareholding pattern details and corresponding movement metrics across categories (promoter, institutional, public) are not in the supplied text. The bank completed its initial public offering (IPO) in July 2023, shifting from a wholly owned structure under the promoter entity, Utkarsh CoreInvest Ltd. No promoter equity pledge or share-encumbrance structure is mentioned anywhere in the report.

## D. Board composition

The board comprises seven members with separate leadership roles: Mr. Parveen Kumar Gupta serves as the Part-Time Non-Executive Chairman (Independent), and Mr. Govind Singh operates as the MD & CEO.

**Resignations and Appointive Transitions:** * Mr. Chandra Shekhar Thanvi ceased to be a director on September 20, 2024, following his superannuation from SIDBI. * Mr. Kajal Ghose exited his seat as Independent Director on January 16, 2025, upon completing his maximum statutory second consecutive term. * Mr. Pramod Kumar Dubey was appointed as an Executive Whole-Time Director for a three-year tenure starting September

20, 2024. * Senior executive turnover: Mr. Alok Pathak was shifted from Chief Risk Officer to Head of Assets on August 14, 2024, and subsequently resigned from the organization entirely on June 4, 2025. Mr. Amit Acharya stepped up to fill the Chief Risk Officer vacancy. No family appointments were recorded for executive seats.

**Lender Governance Disclosures:** * *Fit-and-Proper Status:* Retiring director Mr. Muralidharan Rajamani was formally vetted and confirmed to meet the statutory "fit and proper" criteria defined under RBI directions. The board maintains specialized domain expertise across banking, audit, enterprise risk, and digital systems. * *Committee Meetings:* No statutory committee failed to convene the required number of times. The Special Committee to Monitor Large Value Frauds met twice prior to its formal dissolution on September 20, 2024, where its role was assumed by the newly mandated Special Committee of the Board for Monitoring and Follow-up of cases of Frauds (SCBMF), which met twice thereafter. The Audit Committee met nine times and the Risk Management Committee met five times.

## E. KMP compensation

Managerial pay is measured directly against Pre-Provision Operating Profit (PPOP), which stands at □1,007 Cr (calculated as Net Interest Income of □2,023 Cr plus Other Income of □600 Cr, less Operating Expenses of □1,616 Cr).

| Name | Role | (□Cr) | (□Cr) | Change |
|---|---|---|---|---|
| Govind Singh | MD & CEO | 4.33 | Not disclosed | — |
| Pramod Kumar Dubey | Whole-Time Director | 3.56 | Not disclosed | — |
| Sarjukumar Pravin Simaria | Chief Financial Officer | 1.73 | Not disclosed | — |
| Muthiah Ganapathy | Company Secretary | 0.59 | Not disclosed | — |
| Total KMP Remuneration | — | **10.21** | **Not disclosed** | — |
| As % of Pre-Provision Profit | — | **1.01%** | — | — |

KMP compensation totals □10.21 Cr, which consumes 1.01% of the bank's pre-provision operating earnings, indicating a proportionate pay structure well within sustainable thresholds. Total core cash pay remained stable; however, total fixed executive costs expanded following the introduction of a new Whole-Time Director position carrying an upfront ESOP joining bonus valued at □1.93 Cr. Crucially, the MD & CEO's variable performance bonus for the current financial year was held at zero, reflecting alignment with the severe collapse in corporate net profits.

**Regulatory Approvals and Adjustments:** * The RBI formally authorized the WTD's salary framework via a letter dated September 19, 2024, and permitted the cash payout of 50% of the MD & CEO's historical performance bonus for the prior year via a letter dated September 16, 2024. * Variable pay deferrals are strictly maintained for all Material Risk Takers (MRTs), with the MD & CEO's prior-period performance bonus split into a □1.06 Cr non-cash deferred ESOP allotment. * No corporate malus or compensation clawback adjustments were actually invoked or applied against any executive during the year. * The statutory comparator ratio discloses that the MD & CEO's annualized remuneration sits at exactly 60 times the median employee pay of the bank, where the standard mean employee pay across the workforce is tracking at □0.04 Cr.

## F. Capital allocation & capex

**Asset Expansion and Funding Sourcing:** The bank expanded its earning asset base through organic execution. Net Advances expanded by 14.37%, climbing from □16,365 Cr to □18,716 Cr (representing a net absolute expansion of □2,351 Cr). This credit growth was funded entirely by customer deposits, which grew by 23.42% from □17,473 Cr to □21,566 Cr (an absolute deposit inflow of □4,093 Cr). Total balance sheet borrowings rose by □360 Cr to settle at □2,354.77 Cr. This included a targeted capital raise of □305 Cr via Basel II-compliant

Tier II non-convertible debentures issued across two distinct tranches to insulate regulatory capital ratios against asset impairments. The outstanding equity share capital base moved marginally from ₹1,099 Cr to ₹1,102 Cr solely due to the conversion of 21.52 lakh shares under employee ESOP exercises, preventing secondary market equity dilution.

**Dividend Distributions and Capital Cushioning:** The bank deployed ₹55.02 Cr in cash to settle the final dividend declared for the previous fiscal period. However, given the current period's credit shocks—where net profits crashed 95% from ₹498 Cr to ₹24 Cr—the Board omitted recommending any dividend for the current year. This profit retention protected capital adequacy, leaving the Capital to Risk-Weighted Assets Ratio (CRAR) at 20.93% (Common Equity Tier I at 17.88% and Tier II at 3.05%), which sits comfortably above the regulatory 15% floor.

**Capex Commitments:** Infrastructure capex on physical premises and technology systems grew sharply from ₹70 Cr to ₹159 Cr. This capital spend was driven by the rollout of 204 new branches and a multi-year core banking replacement project transitioning the infrastructure to the Infosys Finacle platform. This technology infrastructure capex represents 9.84% of the bank's total operating expenses (₹1,616 Cr).

**Portfolio and Funding Concentration Risks:** * *Credit Book Vulnerability:* Unsecured lending represents a high share of the book, with ₹10,285.52 Cr—representing 54.9% of net advances—held entirely without collateral, predominantly concentrated in microfinance Joint Liability Group (JLG) loans. This specific unsecured segment drove the severe asset quality deterioration witnessed during the year, where fresh credit slippages spiked to ₹2,108.16 Cr (approximately 10.7% of gross advances), forcing the Provision Coverage Ratio (PCR) down from 98.92% to 51.18%. The single largest sectoral exposure is Agriculture and Allied Activities at ₹6,299.29 Cr. * *Funding and Asset-Liability Mismatch:* The bank suffers from weak deposit granularity, with a low CASA mix of 21.88% (₹4,699 Cr), relying heavily on term deposits (₹16,866.54 Cr) and wholesale bulk deposits (₹6,232 Cr). The statutory ALM disclosure exposes a structural maturity mismatch: within the "6 months to 1 year" duration bucket, the bank carries short-term liabilities of ₹10,632.56 Cr against matching maturity assets of only ₹1,880.16 Cr, highlighting a severe structural reliance on deposit rollovers and refinancing pipelines.

## G. Revenue recognition policy

Interest income on performing loans is recognized on a standard accrual basis. In contrast, interest on Non-Performing Assets (NPAs) is strictly recognized only upon actual cash realization. Loan processing fees, documentation charges, and fee income generated from selling Priority Sector Lending Certificates (PSLC)—which contributed ₹115.07 Cr—are recognized upfront into earnings the moment they become legally due.

**Earnings Smoothing and Management Judgment:** Management implemented high accounting changes that significantly propped up reported earnings during a period of intense credit underwriting stress: * *Upfronting Fee Income:* The bank changed its accounting policy to recognize loan processing fees upfront instead of amortizing them over the economic life of the underlying loan book. This shift artificially added ₹94.57 Cr to current pre-tax profits. Given that reported Profit Before Tax (PBT) was a meager ₹28 Cr, this aggressive accounting policy change is the sole reason the bank avoided recording an absolute operational pre-tax loss. * *Provision Smoothing:* The bank utilized and entirely depleted its built-up floating provision of ₹148.62 Cr to offset standard NPA credit provisions, directly insulating the P&L from recording a net loss. * *Investment Revaluation:* The bank adopted the new RBI master directions for investment classification, recording a one-time fair-value step-up of ₹1.32 Cr directly into Net Worth. Furthermore, the recognition of Deferred Tax Assets (DTA) was expanded to ₹117.34 Cr (comprising 4.1% of net worth), based on management's assessment of "virtual certainty" regarding future taxable earnings pipelines.

## 5. Scorecard

| Dimension | Rating | Vs last year | What decided it |
|---|---|---|---|
| Business quality | 2 | Down | The five-year average return on equity is 12.25% and return on assets is 1.38%, but current-year return on assets collapsed to 0.09% due to microfinance defaults. |
| Financial health | 2 | Down | Gross non-performing assets climbed to 9.43% and the provision coverage ratio dropped to 51.18%, leaving net unprovisioned advances above 3% of the total loan book. |
| Earnings quality | 1 | Down | Reported pre-tax profit of □28 Cr was entirely driven by a □94.57 Cr upfronting of fee income and a □148.62 Cr complete drawdown of the floating provision buffer. |
| Management & governance | 3 | Same | Joint statutory auditors issued a clean opinion and KMP remuneration was low at 1.01% of operating profit, though high executive turnover and a □1.24 Cr SEBI settlement occurred. |
| Capital allocation | 2 | — | The bank raised □305 Cr of Tier-2 non-convertible debentures to shore up its regulatory capital base against credit losses while return on equity plummeted to 0.81%. |

## 6. How it has been doing

### 6.1 The multi-year picture

| Metric | 5-yr mean | FY24 | FY25 | Low ‹ band › high | Vs trend | Why it moved | Durable? |
|---|---|---|---|---|---|---|---|
| Total income growth % | 26.43 | 26.87 | 18.47 | 16.95 `[#----o-----]` 35.48 | **Worse than trend** | Microfinance sector stress led to a deliberate contraction in Joint Liability Group loans, which fell 17.62% (by □1,874.53 Cr to □8,760.58 Cr) | — |
| PAT margin % | 10.54 | 15.67 | 0.64 | 3.3 `#[-----o---]` 16.13 | **Worse than trend** (worst in window) | Severe credit cycle in unsecured microfinance book triggered a massive surge in provisions to □949.11 Cr, contracting the margin to 0.64% (Net Profit of □24 Cr) | Too early |
| ROA % | 1.38 | 2.08 | 0.09 | 0.4 `#[-----o---]` 2.11 | **Worse than trend** (worst in window) | Sharp collapse in net profits to □24 Cr due to microfinance asset defaults and elevated credit costs | Too early |
| ROE % | 12.25 | 16.75 | 0.81 | 3.88 `#[----o----]` 20.2 | **Worse than trend** (worst in window) | Unsecured lending impairments decimated operating returns, reducing returns to 0.81% on a net profit of □24 Cr | Too early |
| NIM proxy % | 8.11 | 8.76 | 7.78 | 6.91 `[----#-o----]` 8.95 | **In line with trend** | — | — |
| Equity / assets % | 11.15 | 12.44 | 10.58 | 10.44 `[#--o-------]` 12.44 | **In line with trend** | — | — |
| Deposit growth % | 32.57 | 27.45 | 23.42 | 27.45 `#[----o--]` 36.09 | **Worse than trend** (worst in window) | Not explained | Too early |

## 6.2 Management: said versus delivered

| What they said last year | What actually happened | Verdict |
|---|---|---|
| Aggressive loan book expansion | Net advances expanded by 14.37% (an absolute growth of □2,351 Cr to □18,716 Cr), driven by secured lines like MSME retail which grew 51.53% (by □1,316.53 Cr to □3,874.53 Cr) while unsecured JLG loans contracted by 17.62% (by □1,874.53 Cr to □8,760.58 Cr). | TOO vague to check |
| Capital fortification via initial public offering proceeds | Capital adequacy remained comfortable with a CRAR of 20.93% (above the 15% regulatory floor), further supported by raising □305 Cr through Tier-2 non-convertible debentures. | TOO vague to check |
| Manage liquidity maturity mismatch where 34.6% of deposits mature within one year | The bank continues to face a major structural maturity mismatch, carrying short-term liabilities of □10,632.56 Cr in the 6-12 month bucket against matching maturity assets of only □1,880.16 Cr. | TOO vague to check |
| Maintain pristine asset quality optics via heavy discretionary provisioning and technical write-offs | Asset quality deteriorated severely as fresh slippages of □2,108.16 Cr drove the gross non-performing asset ratio to 9.43% (□1,854.38 Cr), forcing the bank to entirely deplete its □148.62 Cr floating provision buffer and lower its provision coverage ratio to 51.18% (leaving □905.27 Cr in net advances exposed without specific credit loss coverage). | TOO vague to check |

### What has not changed

- Employee costs as a percentage of total income have shown absolute multi-year lock-in, remaining completely fixed at exactly 23.0% (representing □865.95 Cr out of □3,765 Cr total income) for the fourth consecutive year.
- The bank has sustained its practice of routing corporate social responsibility obligations through the insider-linked Utkarsh Welfare Foundation across the entire five-year window, with expenditures expanding to □8.50 Cr in the current year from □4.10 Cr in FY2021.
- Physical network and infrastructure asset expansion has persisted as a structural strategy across the five-year window, with the gross block expanding every single year to reach □639 Cr in the current year from a baseline of □214 Cr in FY2021.