June 20, 2025

Unity Small Finance Bank Limited: Ratings withdrawn for Bank Facility and Reaffirmed for Issuer Rating

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Issuer rating	-	-	[ICRA]A (Stable); reaffirmed
Bank facilities (LT – Fund based)	37.09	-	[ICRA]A (Stable); reaffirmed and withdrawn
Total	**37.09**	-	

**Instrument details are provided in Annexure I; LT – Long term*

Rationale

The rating reaffirmation factors in the established presence of Unity Small Finance Bank Limited's (Unity SFB) promoter group in the financial services industry, its healthy capitalisation indicators, and its plan to raise capital in the near term. The rating also considers the strong growth in advances along with the improvement in the deposit base. ICRA expects the bank to continue witnessing a healthy pace of expansion (though lower than the high growth rates seen in the past two years), which would depend on its ability to garner deposits. Unity SFB's profitability continues to be driven by recoveries from legacy written-off accounts as the core operating profitability remains weak. Pressure on the core profitability is likely to persist, especially given the asset quality issues in the unsecured loan segments, the expected compression in the net interest margin (NIM) and the elevated operating expenditure. Hence, recoveries from legacy assets would be the mainstay of the bank's overall profitability in the near term.

While the capital indicators remain healthy for the current scale, Unity SFB would need a fresh capital infusion in the medium term, given its expansion plans and the weak core profitability. This would be in line with the capital infusion commitment given to the regulator under the amalgamation scheme for PMC Bank. Further, the fair valuation of the liabilities of PMC Bank would continue to weigh on capital build-up in the near to medium term. Thus, the promoters' ability to fund the required equity infusion or bring new investors on board would be critical for the planned growth.

ICRA also notes that the growth in advances has been retail focused, though this is offset by the risks associated with the unsecured nature of microfinance loans and the high-yield unsecured business loans in the micro, small and medium enterprise (MSME) segment. Unity SFB's fresh non-performing advances (NPA) generation rate increased in FY2025 due to higher slippages in the microfinance book and unsecured loans of lower ticket sizes, which led to a rise in the gross NPAs in FY2025. On the deposit front, the bank has witnessed healthy growth, though higher deposit rates continue to be the key proposition to attract customers with the trend expected to continue in the near term. Unity SFB's ability to keep building its deposit base at competitive rates, while increasing the granularity, would be important for its scale and profitability. Its ability to scale up its operations while maintaining healthy asset quality would remain important for improving its operating leverage and earnings profile.

The Stable outlook on the long-term rating reflects ICRA's expectation that the bank will be able to maintain a steady credit profile while expanding its scale and improving its liability franchise. The outlook also factors in Unity SFB's requisite capital-raising plans to offset the impact of the fair valuation of PMC Bank's liabilities on the capital and to fund growth.

ICRA has withdrawn the ratings assigned to the Rs. 37.09 crore of bank facilities as the facilities have been fully repaid and no amount is outstanding against the same. The ratings were withdrawn in accordance with ICRA's policy on withdrawal (click here for the policy).

Key rating drivers and their description

Credit strengths

Established presence of promoters in financial services industry – The Centrum Group, comprising Centrum Capital Limited (CCL; the holding company of the Group) and its subsidiaries, is a diversified financial services provider with a presence in fee-based businesses such as investment banking, broking, wealth management, insurance broking and asset management. The Group has an established position in debt capital markets with a clientele across public sector units, banks, state-level undertakings, private corporates and various provident funds. It ventured into the distribution of insurance products and the asset management business in FY2018. It also has a small equity broking operation under Centrum Broking Limited. In FY2019, the Group shifted its focus to its fund-based businesses and set up a non-banking financial company {NBFC; Centrum Financial Services Limited (CFSL)}, a housing finance company (Centrum Housing Finance Limited; CHFL)[1] and a microfinance institution (Centrum Microcredit Limited; CML). The lending portfolios of CFSL and CML were subsequently transferred to Unity SFB through a slump sale by the Centrum Group and CFSL became the promoter of Unity SFB with a 51% stake.

The balance is held by Resilient Innovations Private Limited (RIPL)/BharatPe, a fintech company that provides services like payment and financing solutions to small merchants and kirana store owners.

Comfortable capital position, though fresh infusion required to meet targeted growth – Unity SFB commenced active operations from November 1, 2021, with an upfront equity base of Rs. 1,105.1 crore. Thereafter, PMC Bank was amalgamated with Unity SFB in accordance with the Reserve Bank of India's (RBI) scheme for the recovery/resolution of the same. ICRA notes that the fair valuation of the liabilities has been accretive from a capital adequacy perspective. As on March 31, 2025, Unity SFB had a comfortable capitalisation profile with a Tier I ratio of 16.9% (19.9% as on March 31, 2024), comfortably above the regulatory requirement. The overall capital adequacy, with a capital-to-risk weighted assets ratio (CRAR) of 28.8%, as on March 31, 2025, is supported by the relaxations provided by the RBI in terms of the inclusion of certain restructured and fair-valued liabilities in the total CRAR. The liabilities will be marked up gradually to the face value over the coming years; consequently, capital accretion will be lower than the bank's profit for the year.

Further, considering the envisaged portfolio growth, weak core profitability and the impact of the fair valuation of liabilities, Unity SFB will need growth capital. In this regard, the shareholders have committed to infuse Rs. 1,900 crore by the end of eight years from the start of Unity SFB, i.e. by October 2029, of which Rs. 900 crore has to be infused by October 2026.

Credit challenges

High vulnerability in loan book due to unsecured loans – As on March 31, 2025, Unity SFB's net loan book rose by 38% to Rs. 10,985 crore, with microfinance loans (microfinance institution (MFI); inclusive banking) forming 30% and MSME and supply chain finance loans (business banking) accounting for 56% and 13%, respectively. Unsecured business loans accounted for 50% of the loans in the MSME segment (34% of overall net loan book). PMC Bank's legacy loan book stood at 1% of overall advances as on March 31, 2025.

As a sizeable portion of Unity SFB's portfolio comprises unsecured loans, the portfolio remains vulnerable to asset quality shocks. This could negatively impact its operations and financial position, given the marginal profile of the borrowers with limited ability to absorb income shocks. Given the higher stress in unsecured loan segments, the bank reported an increase in its gross slippage rate to 8.8% of opening standard advances in FY2025 from 3.7% in FY2024. The headline asset quality numbers also weakened with the gross and net NPAs rising to 5.83% and 1.54%, respectively, as on March 31, 2025 from 4.36% and 0.63%, respectively, as on March 31, 2024.

Profitability remains contingent on recoveries, given high cost of funds and elevated operating expenses – Unity SFB's NIM reduced significantly to 7.2% in FY2025 from 8.7% in FY2024 on account of the increase in the cost of funds and income reversals due to asset quality pressure. Operating expenses increased on account of higher technology expenses. While the

[1] *Currently, the Group is in the process of selling CHFL*

core operating profitability remains weak, the reported operating profitability increased to 4.2% of average total assets (ATA) in FY2025 from 3.7% in FY2024 as recoveries from written-off accounts amounted to Rs. 403 crore. Excluding recoveries from written-off accounts and other extraordinary items, the core operating profitability (before credit provisions) declined to 1.8% of ATA in FY2025 from 3.2% in FY2024.

Credit costs, excluding recoveries from legacy assets (as a percentage of ATA), increased to 2.7% in FY2025 from 1.1% in FY2024 due to higher slippages in the microfinance book and unsecured loans of lower ticket sizes. Accordingly, the core return on assets (RoA) is negative for FY2025 and estimated to remain negative in FY2026, excluding recoveries from written-off assets and other extraordinary items. The reported RoA also moderated to 2.9% in FY2025 from 3.9% in FY2024 because of elevated credit costs (excluding recoveries from legacy assets).

The bank has a fair value charge (~Rs. 260 crore per annum) on restructured liabilities, which is charged directly to the reserves, limiting capital accretion in relation to the reported profit. Its ability to generate sufficient profitability through core operations will be key for offsetting the adverse impact of these charges on the net worth and to support future growth. This would depend on the scale-up of the loan book and the ability to raise deposits at competitive rates, thereby improving the operating profitability while keeping slippages and credit costs at lower levels. Additionally, recoveries from legacy stressed assets would be monitored and would be a positive for the profitability.

Ability to ramp up deposit base while maintaining granularity and reducing costs – Unity SFB commenced operations from November 1, 2021 and had more than 200 branches and 206 offices as on March 31, 2024. It witnessed meaningful traction in its deposits in FY2025, with the same growing to Rs. 11,952 crore as on March 31, 2025 from Rs. 6,505 crore as on March 31, 2024. To improve deposit traction, its interest rate proposition remains attractive for depositors. While this has helped build traction in the deposit base, the same mainly comprises fixed deposits. The growth in current account savings account (CASA) deposits remains low. The share of CASA stood low at 15% of total deposits as on March 31, 2025. Further, the peak deposit rates on the savings and term deposit accounts are higher than the banking sector averages as well as other peer small finance banks (SFBs), leading to a higher cost of funds. Unity SFB's ability to gradually improve the competitiveness of its funding and increase the share of CASA deposits would be critical for a sustained rise in its operating profitability.

Liquidity position: Strong

As per the structural liquidity statement (SLS) as on March 31, 2025, the bank did not have negative cumulative mismatches in any bucket for up to one year and the daily average liquidity coverage ratio for Q4 FY2025 was high at 292.38%. Its ability to maintain high granularity and renewal rates for deposits will be the driver of its liquidity profile. Unity SFB's liability profile is partly supported by the staggered repayment of the liabilities of PMC Bank.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if Unity SFB is able to sustain the build-up of the granular liability franchise while improving its funding cost and profitability. Diversifying the asset mix, while scaling up and maintaining the asset quality, and maintaining a prudent capitalisation profile will be positive factors.

Negative factors – The rating could be downgraded on a material weakening in the bank's capital and/or liquidity profile. The decline in profitability, with RoA of less than 1% on a sustained basis, would also be a negative factor.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions ICRA's Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Unity SFB is the 12th small finance bank (SFB) in India, promoted by the consortium of the Centrum Group and Resilient Innovations Private Limited. The RBI granted in-principle approval to CFSL, to set up an SFB under the general guidelines for the on-tap licensing of SFBs in the private sector, as a part of the revival/reconstruction of PMC Bank in June 2021. The licence to set up the SFB was issued in October 2021.

BharatPe acquired a 49% stake in Unity SFB while CFSL holds 51%. Further, as a part of this transaction, the entire business (assets and liabilities) of CFSL and CML was transferred to Unity SFB via a slump sale. CFSL serves as the holding company of Unity SFB with no other operations. Currently, Unity SFB primarily has the existing small and medium enterprise (SME)/MSME/supply chain/microfinance asset base of CFSL and CML and receives digital platform and technology support from BharatPe. Unity SFB commenced active operations from November 1, 2021 with an upfront equity base of Rs. 1,105 crore. As the second leg of this transaction, PMC Bank was amalgamated with Unity SFB in accordance with the RBI's scheme for the recovery/resolution of the same. This was completed on January 24, 2022.

Key financial indicators (standalone)

Unity Small Finance Bank	FY2024	FY2025
Total operating income^	1,225	1,920#
Profit after tax	439*	482*
Total assets	13,774	19,152
Return on average total assets	3.90%	2.90%
CET I	19.92%	16.91%
CRAR	36.46%	28.75%
Gross NPA	4.36%	5.83%
Net NPA	0.63%	1.54%

*Source: Unity SFB, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * Before fair value charges*

^ Includes net interest income and non-interest income excluding trading gains; # Amounts to Rs. 1,517 crore, excluding recoveries from written-off accounts

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	Jun 20, 2025	Date	Rating	Date	Rating	Date	Rating
Issuer rating	Long term	-	[ICRA]A (Stable)	Jun 21, 2024	[ICRA]A (Stable)	Aug 02, 2023	[ICRA]A- (Stable)	Dec 08, 2022	[ICRA]A- (Stable)
				-	-	-	-	Sep 09, 2022	[ICRA]A- (Stable)
				-	-	-	-	Aug 05, 2022	[ICRA]A- (Stable)
Bank facilities (LT – Fund based) ^	Long term	37.09	[ICRA]A (Stable); withdrawn	Jun 21, 2024	[ICRA]A (Stable)	-	-	-	-
Non-convertible debenture	Long term	-	-	-	-	Aug 02, 2023	[ICRA]A- (Stable); withdrawn	Dec 08, 2022	[ICRA]A- (Stable)
		-	-	-	-	-	-	Sep 09, 2022	[ICRA]A- (Stable)
		-	-	-	-	-	-	Aug 05, 2022	[ICRA]A- (Stable)
Bank facilities (LT/ST – Fund based)	Long term/ Short term	-	-	-	-	Aug 02, 2023	[ICRA]A- (Stable)/ [ICRA]A1; withdrawn	Dec 08, 2022	[ICRA]A- (Stable)/ [ICRA]A1
		-	-	-	-	-	-	Sep 09, 2022	[ICRA]A- (Stable)/ [ICRA]A1
		-	-	-	-	-	-	Aug 05, 2022	[ICRA]A- (Stable)/ [ICRA]A1
Certificates of deposit	Short term	-	-	-	-	Aug 02, 2023	[ICRA]A1; withdrawn	Dec 08, 2022	[ICRA]A1
		-	-	-	-	-	-	Sep 09, 2022	[ICRA]A1
		-	-	-	-	-	-	Aug 05, 2022	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity indicator
Bank facilities (LT – Fund based)	Simple
Issuer rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance/ Sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
-	**Bank facilities (LT – Fund based)**	-	-	-	37.09	[ICRA]A (Stable); reaffirmed and withdrawn
-	**Issuer rating**	-	-	-	-	[ICRA]A (Stable)

Source: Unity SFB

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis

Not applicable

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