

September 30, 2025

Ujjivan Small Finance Bank Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Certificates of deposit	1,500.00	[ICRA]A1+; assigned
Total	1,500.00	

*Instrument details are provided in Annexure I

Rationale

The assigned rating factors in Ujjivan Small Finance Bank Limited's (Ujjivan) established track record in retail lending with a diversified presence across 26 states/Union Territories (UTs) with 752 branches and assets under management (AUM) of Rs. 33,287 crore as of June 2025 (Rs. 32,122 crore as of March 2025). Ujjivan has an established presence in the micro-banking segment (55% of the AUM as of June 2025), with a gradual expansion in other secured segments. Given the stress in the micro-banking segment, the bank's YoY AUM growth moderated to 8% in FY2025 (11% Q1 FY2026) from the compound annual growth rate (CAGR) of 21% during FY2021-FY2025. It is expected to grow at a CAGR of 25% over the medium term with the share of secured asset segments increasing to 70% by March 2030. The assigned rating also considers the comfortable capital profile with the Tier I and overall capital adequacy ratios at 21.2% and 22.8%, respectively, as of June 2025 (21.4% and 23.1%, respectively, as of March 2025).

Ujjivan's asset quality performance was impacted in the recent past by the stress seen in the microfinance segment. The bank's overall gross non-performing advances (NPAs) and net NPAs increased to 2.5% and 0.7%, respectively, as of June 2025 from 2.2% and 0.5%, respectively, as of March 2025 (2.2% and 0.3%, respectively, as of March 2024). Credit costs rose to 1.8% in Q1 FY2026 and 1.6% in FY2025 from 0.5% in FY2024. In the near term, Ujjivan's credit cost shall remain elevated due to the stress in the micro-banking segment. The net profitability (profit after tax/average total assets; PAT/ATA) also moderated to 1.6% in FY2025 (0.9% in Q1 FY2026) from 3.5% in FY2024 due to higher credit and provision costs in the micro-banking segment and lower yields in the secured asset segments. In the near term, ICRA expects the bank's net profitability to remain subdued with continued impact from the aforesaid factors.

ICRA takes note of the healthy traction in deposit mobilisation by the bank. Nevertheless, the share of current account savings account (CASA) remained moderate at 24.3% as of June 2025 (25.5% as of March 2025). Further, bulk deposits form a sizeable part of Ujjivan's overall deposit profile at 28% as of June 2025. Going forward, the bank's ability to sustainably improve the share of CASA and retail deposits in its liability mix while scaling up its operations will be important from a credit perspective.

Key rating drivers and their description

Credit strengths

Established track record and expected increase in share of secured segments – Ujjivan is the third largest small finance bank in India with a track record of more than two decades in the micro-banking sector. It has a diversified geographical presence across 26 states and UTs, with 752 branches and 613 ATMs, and an AUM of Rs. 33,287 crore as of June 2025. Some of the key states include Tamil Nadu, which accounted for 13.7% of AUM as of June 2025, Karnataka (12.8%), West Bengal (11.7%), Maharashtra (9.9%) and Gujarat (8.6%).

Ujjivan predominantly operates in the retail financing segments with the share of the secured and unsecured segments at 46% and 54%, respectively, as of June 2025. In the unsecured segment, micro-banking – consisting of group loans under the Joint Liability Group (JLG) model and individual loans to microfinance borrowers – was the main contributor to the AUM at 55% as of June 2025. Affordable housing (24% of AUM, including micro mortgages at 3%), financial institution group (FIG; 8%), micro, small and medium enterprises (MSMEs; 7%) and others (6%; including vehicle loans, gold loans, agriculture loans, personal loans and staff loans) constituted the balance. Ujjivan is expected to increase its advances steadily at a CAGR of 25% while raising the share of exposures to the secured asset segments to about 70% over the medium term.

Comfortable capital buffers for medium-term growth plans – Ujjivan’s capital-to-risk weighted assets ratio (CRAR) stood at 22.8% (Tier I: 21.2%) as of June 2025, well above the regulatory requirement of 15.0% (Tier I: 7.5%). Its net worth stood at Rs. 6,191 crore as of June 2025; the bank last raised Rs. 475 crore of equity capital in FY2023. In ICRA’s opinion, while Ujjivan’s internal capital generation would have to be further strengthened going forward, it is comfortably capitalised currently to sustain the healthy growth rate envisaged over the near-to-medium term.

Credit challenges

Moderation in earnings and asset quality performance, especially in micro-banking segment – Ujjivan’s asset quality performance has moderated over the past few quarters on account of the stress seen in the micro-banking segment. The microfinance industry was impacted over the last two years by multiple factors including over-indebtedness of borrowers, socio-political disruptions, etc. Consequently, the segmental gross NPAs rose to 3.3% as of June 2025 from 2.3% as of June 2024. Further, the bank recognised technical write-offs of Rs. 779 crore (3.7% of the opening loan book as of March 2024) and Rs. 146 crore in this segment in FY2025 and Q1 FY2026, respectively. ICRA notes that Ujjivan had a relatively lower share (15.7% as of June 2024) in its micro-banking portfolio, where the borrowers had three or more other overlapping lenders, vis-à-vis the industry at the start of the current microfinance crisis. This has been one of the factors supporting it in maintaining a relatively better asset quality performance vis-à-vis peers.

The bank’s overall gross and net NPAs were 2.5% and 0.7%, respectively, as of June 2025 (2.2% and 0.5%, respectively, as of March 2025) vis-à-vis 2.2% and 0.3%, respectively, as of March 2024, post write-offs, which were largely in the micro-banking segment (94% of the total write-offs in FY2025). Ujjivan maintained a provision coverage ratio (PCR) of 73% as of June 2025, including a floating provision of Rs. 130 crore (78% as of March 2025), vis-à-vis 87% as of March 2024. The reduction in the PCR was largely on account of a shift in the bank’s portfolio mix towards the secured assets.

Given the weakened asset quality performance, the bank’s credit and provision costs increased to 1.6% in FY2025 (1.8% in Q1 FY2026) from 0.5% in FY2024. Further, with the share of lower-yielding secured assets on an increasing trend, coupled with some interest reversals on account of the stress in the micro-banking segment, the interest margin declined to 8.3% in FY2025 (7.1% in Q1 FY2026) from 9.2% in FY2024. In addition, Ujjivan’s operating expenses remained elevated at 6.3% in FY2025 (6.2% in Q1 FY2026) and 6.2% in FY2024 due to expansion in the branches along with the product suite and other franchise building activities along with investments in information technology, etc. Consequently, the net profitability (PAT/ATA) moderated to 1.6% in FY2025 (0.9% in Q1 FY2026) from 3.5% in FY2024. Over the medium term, continued tightening of margins and elevated operating costs, as Ujjivan envisions sizeable branch additions, would be the key challenges, necessitating adequate control on credit costs in order to shore up the profitability to adequate levels.

Moderate CASA and retail deposits – Ujjivan’s share of CASA was relatively moderate at 25.5% as of March 2025 (24.3% as of June 2025). Also, the share of bulk deposits¹ stood at 29% as of March 2025 (28% as of June 2025). Further, a predominant portion of the deposits had relatively short tenors {30% (excluding CASA) had a tenor of less than one year}. ICRA takes comfort from the healthy renewal rates of 60-65% witnessed on outstanding deposits. Ujjivan has steadily enhanced its deposit franchise over the years, constituting 93.0% of the borrowings as of June 2025. Deposits grew by 20% year-on-year (YoY) in FY2025 and 19% in Q1 FY2026 to Rs. 38,619 crore as of June 2025. Going forward, the bank is expected to remain focused on

¹ Including certificates of deposit

enhancing its CASA and retail deposits, which would provide a stable depositor base and reduce the cost of funding in the medium term.

Environmental and social risks

Environmental considerations: Given the service-oriented business of Ujjivan, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. While the bank does not face material physical climate risks, it is exposed to environmental risks indirectly through its portfolio of assets. However, this is minimised to a certain extent, given the large customer base to which it caters.

Social considerations:

Ujjivan contributes towards enhancing financial inclusion by providing several products and services that are specifically targeted towards the marginalised sections of society and attempts to address and cater to social concerns. Prudent lending to such underserved segments could create growth opportunities. However, such growth opportunities must be seen in conjuncture with the asset quality risks that could impact the bank’s credit quality. Data security and customer privacy are among the key factors under social considerations. Customer preference is increasingly shifting towards digital banking. While this provides an opportunity to reduce operating costs, it requires regular investment and augmentation.

Liquidity position: Strong

The liquidity coverage ratio (LCR) was healthy at 150% and the net stable funding ratio (NSFR) stood at 140% as on June 30, 2025, remaining above the regulatory level of 100%. The bank’s structural liquidity statement, as on June 30, 2025, did not show any negative cumulative mismatches for a period of up to one year. Ujjivan’s liquidity profile is supported by a large portion of relatively shorter-tenor assets, along with its inherent borrowing ability on account of its ‘scheduled’ status and healthy deposit renewal rate (averaging 60-65%) and availability of funding lines from financial institutions.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Deterioration in the asset quality or profitability (return on assets (RoA) below 1.0%) on a sustained basis could negatively impact the rating. A decline in the capital cushion to less than 3%, in relation to the Tier I regulatory level, on a sustained basis could also negatively impact the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Banks and Financial Institutions
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of Ujjivan

About the company

Ujjivan Small Finance Bank Limited is the third largest small finance bank in India with operations in 26 states and Union Territories, with 752 branches and 613 ATMs as of June 2025. It received a licence from the Reserve Bank of India (RBI) to set up a small finance bank in November 2016 and commenced banking operations in February 2017 by the transfer of the assets and liabilities of Ujjivan Financial Services Limited (UFSL). UFSL, set up in 2005, operated as a non-banking financial company-

microfinance institution (NBFC-MFI), focussing on group loans under the JLG model, especially in metros, urban and semi-urban locations.

Ujjivan offers deposits, micro-banking loans, affordable housing, micro, small and medium enterprise (MSME) loans, vehicle loans, gold loans and personal loans, among others. It had an AUM of Rs. 33,287 crore and a deposit base of Rs. 38,619 crore as of June 2025. The bank completed its reverse merger with UFSL in May 2024 by allotting its equity shares to the equity shareholders of UFSL (exchange ratio of 116 equity shares of Ujjivan for every 10 equity shares of UFSL). Ujjivan applied for a universal banking licence in February 2025.

Key financial indicators (audited)

Ujjivan Small Finance Bank	FY2024	FY2025	Q1 FY2026
Total income	6,464	7,201	1,868
Profit after tax	1,281	726	103
Total assets	40,422	47,689	49,111
CET I	5,155	5,610	5,654
CRAR	24.7%	23.1%	22.8%
PAT/ATA	3.5%	1.6%	0.9%
Gross NPAs	2.2%	2.2%	2.5%
Net NPAs	0.3%	0.5%	0.7%

Source: Bank, ICRA Research; Amount in Rs. crore: All calculations are as per ICRA Research

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					
Instrument	Type	Amount rated (Rs. crore)	Sep 30, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Certificate of deposit	Short term	1,500	[ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Certificates of deposit	Very simple

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	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
INE551W16BZ1	Certificate of deposit	11-04-2025	7.95%	10-04-2026	25.00	[ICRA]A1+
INE551W16BU2	Certificate of deposit	03-04-2025	8.25%	25-02-2026	50.00	[ICRA]A1+
INE551W16BU2	Certificate of deposit	03-04-2025	8.25%	25-02-2026	25.00	[ICRA]A1+
INE551W16BY4	Certificate of deposit	02-04-2025	8.35%	25-03-2026	50.00	[ICRA]A1+
INE551W16BY4	Certificate of deposit	28-03-2025	8.45%	25-03-2026	25.00	[ICRA]A1+
INE551W16BW8	Certificate of deposit	19-03-2025	8.5%	19-03-2026	25.00	[ICRA]A1+
INE551W16BV0	Certificate of deposit	07-03-2025	8.25%	05-12-2025	25.00	[ICRA]A1+
INE551W16BU2	Certificate of deposit	25-02-2025	8.35%	25-02-2026	50.00	[ICRA]A1+
INE551W16BQ0	Certificate of deposit	10-10-2024	8.1%	10-10-2025	25.00	[ICRA]A1+
INE551W16CB0	Certificate of deposit	30-09-2025	6.90%	29-06-2026	25.00	[ICRA]A1+
INE551W16CA2	Certificate of deposit	16-05-2025	7.5%	15-05-2026	100.00	[ICRA]A1+
NA	Certificate of deposit	NA	NA	-	1,075.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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