

July 01, 2026

Unity Small Finance Bank Limited: Rating downgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Issuer rating	-	-	[ICRA]A- (Stable); downgraded from [ICRA]A (Stable)
Total	-	-	

*Instrument details are provided in Annexure II

Rationale

The rating action factors in the deterioration in Unity Small Finance Bank Limited's (Unity SFB) financial profile as its asset quality challenges continue to increase, resulting in weak core operating profitability and losses before extraordinary items. Asset quality challenges also led to muted business growth. In addition, Unity SFB's ability to significantly improve its operating performance and recoveries from the legacy non-performing advances (NPA) pool will be critical for profitability. This, coupled with the extent of equity capital raise, will drive Tier I capital cushions and future growth.

Unity SFB reported a decline in its net interest margins (NIMs) due to elevated slippages and consequent income reversals. This, coupled with continued investments for growth, resulted in a high operating expense ratio and weak operating profitability. The bank faced asset quality challenges in the microfinance as well as secured loan against property (LAP) portfolios, leading to higher credit costs in FY2026, which impacted its profitability. Nonetheless, continued recoveries from legacy written-off accounts and the income tax refund supported Unity SFB's profitability in FY2026.

As per the amalgamation scheme for PMC Bank and the roadmap provided to the Reserve Bank of India (RBI), the promoters are required to infuse Rs. 900 crore of capital by October 2026. However, given the expected recoveries from the legacy written-off pool of NPAs, the management expects that a lower quantum of capital will be sufficient to meet growth requirements. ICRA notes that despite profitable operations, the fair value charge on restructured liabilities of erstwhile PMC Bank resulted in capital erosion in FY2026. If Unity SFB's core profitability remains weak and is inadequate to offset these fair value charges, internal capital generation would continue to be constrained, leading to an erosion in the capital buffers.

The rating, however, continues to draw support from the established presence of the promoter group in the financial services industry. ICRA also notes that the bank has seen a gradual improvement in the granularity of its deposit base, though growth had moderated in FY2026 due to the muted rise in advances. Nonetheless, 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 grow its deposit base at competitive rates, while increasing the granularity, would be important for its scale and profitability.

The Stable outlook reflects ICRA's expectation that the bank will continue to expand its scale and improve its liability franchise. Its ability to contain further slippages, improve its core operating profitability, generate sufficient profits to prevent capital erosion and bring in the required equity in a timely manner would be critical for the planned growth.

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) 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. In March 2026, CCL divested its controlling stake in CHFL.

The balance 49% stake in the bank 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.

Credit challenges

High vulnerability in loan book due to unsecured loans – Unity SFB's net advances grew by 5% to Rs. 11,570 crore in FY2026, with microfinance loans (microfinance institution (MFI); inclusive banking) forming 30% and micro, small and medium enterprise (MSME) and supply chain finance loans (business banking) accounting for 58% and 11%, respectively. Unsecured business loans accounted for 35% of the loans in the MSME segment (15% of overall net gross book). PMC Bank's legacy loan book stood at 1% of overall advances as on March 31, 2026.

As a sizeable portion of Unity SFB's portfolio comprises unsecured loans and small-ticket loans, it remains vulnerable to asset quality shocks as seen over the last few years. The bank also witnessed increased slippages in the secured LAP portfolio in some geographies in FY2026 due to local factors. Going forward as well, this remains a key asset quality risk, given the marginal profile of the borrowers with limited ability to absorb income shocks. Considering the higher stress in the unsecured loan and small-ticket loan segments, the bank's gross slippage rate remained elevated at 8.4% of opening standard advances in FY2026 (8.8% in FY2025). Despite sizeable write-offs in FY2026, the headline asset quality numbers stayed high with gross and net NPAs at 5.82% and 2.07%, respectively, as on March 31, 2026 (5.83% and 1.54%, respectively, as on March 31, 2025). Gross NPAs, prior to write-offs (excluding PMC Bank's book), stood at 10.18% as on March 31, 2026 compared to 6.73% as on March 31, 2025.

Profitability remains contingent on recoveries, given high cost of funds and elevated operating expenses – Unity SFB's NIM (as a percentage of average total assets; ATA) reduced significantly to 6.4% in FY2026 from 7.2% in FY2025 on account of income reversal amid high slippages, policy rate cuts and increased growth in the secured segment. Though the growth in advances was muted, operating expenses continued to rise on account of higher technology expenses, branch expansion and manpower costs.

Credit costs, excluding recoveries from legacy assets (as a percentage of ATA), further increased to 2.9% in FY2026 from 2.7% in FY2025 (1.1% in FY2024) due to higher slippages in the microfinance book, unsecured loans with lower ticket sizes and secured LAP along with sizeable write-offs in FY2026. Accordingly, the core return on assets (RoA) was negative in FY2026 and is expected to remain weak in FY2027, excluding recoveries from written-off assets and other extraordinary items. The reported RoA also moderated to 0.8% in FY2026 from 2.9% in FY2025 (3.9% in FY2024).

The bank has a fair value charge (~Rs. 270 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 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 support profitability.

Delay in capital infusions to impact capital buffers and growth as core profitability remains weak – 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 RBI's scheme for the recovery/resolution of the same. ICRA notes that the

bank enjoys the relaxations provided by the RBI in terms of the inclusion of certain restructured and fair-valued liabilities in its capital adequacy ratios. As liabilities are marked up gradually to the face value over the coming years, capital accretion remains below the bank's profit for the year. Given the weak profitability, Unity SFB's Tier I declined to 13.78% as of March 2026 from 16.19% as of March 2025 (19.91% as on March 31, 2024), primarily because profits were below the fair value charge of liabilities. If the core operating profitability remains weak or recovers from the legacy written-off pool of NPAs are delayed, the same could constrain the bank's ability to maintain adequate capital buffers to support growth and absorb potential asset quality shocks.

Unity SFB has a commitment to infuse Rs. 900 crore of equity capital by October 2026. However, this has not been completed so far and the extent of capital infusion will be critical for growth and capital cushions. Further, the bank has a cumulative capital infusion commitment of Rs. 1,900 crore by October 2029. Timely equity infusion remains critical to support the envisaged growth, maintain sufficient capital buffers and absorb potential asset quality stress. Any delays in the receipt of capital could exert pressure on Unity SFB's capital adequacy and may constrain its growth trajectory.

Elevated cost of funds despite gradual increase in granularity of deposits – Unity SFB commenced operations from November 1, 2021 and had more than 291 branches as on March 31, 2026. With the expansion of branches, it witnessed healthy traction in its deposit base till FY2025. However, deposit growth slowed down in FY2026, given the muted rise in advances. Unity SFB's granular current account savings account (CASA) deposit base increased gradually to 22% as on March 31, 2026 from 15% as on March 31, 2025. Its overall cost of funds remained high at 7.83% in FY2026 (8.47% in FY2025). The bank's interest rate proposition remains attractive to improve deposit traction. Further, the peak deposit rates on the savings and term deposit accounts are higher than the banking sector averages as well as some 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 an improvement in its operating profitability.

Liquidity position: Adequate

As per the structural liquidity statement (SLS) as on March 31, 2026, the bank did not have negative cumulative mismatches in any bucket for up to one year. Its daily average liquidity coverage ratio (LCR) for Q4 FY2026 was also healthy at 187.82%. Additionally, 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 the bank is able to contain its asset quality slippages and reduce its credit costs while improving its core operating profitability. Diversifying the asset mix, while scaling up and maintaining a prudent capitalisation profile, will be a positive factor.

Negative factors – Inability to improve the profitability or delayed capital infusions, leading to the weakening of the Tier I capital cushions, would be a negative factor.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions
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. As a part of the revival/reconstruction of PMC Bank in June 2021, 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. The licence 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

Unity Small Finance Bank	FY2025	FY2026
Total operating income [^]	1,912 [#]	2,056 [#]
Profit after tax	482 [*]	159 [*]
Total assets	19,152	19,024
Return on average total assets	2.93%	0.83%
CET I	16.91%	13.78%
CRAR	28.75%	26.20%
Gross NPA	5.83%	5.82%
Net NPA	1.54%	2.07%

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 in FY2025 and Rs. 1,803 crore in FY2026, 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

Instrument	Type	Current (FY2027)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Jul-01-2026	FY2026		FY2025		FY2024	
				Date	Rating	Date	Rating	Date	Rating
Issuer rating	Long term	-	[ICRA]A-(Stable)	Jun 20, 2025	[ICRA]A (Stable)	Jun 21, 2024	[ICRA]A (Stable)	Aug 02, 2023	[ICRA]A-(Stable)
Bank facilities (LT – Fund based)	Long term	-	-	Jun 20, 2025	[ICRA]A (Stable); withdrawn	Jun 21, 2024	[ICRA]A (Stable)	-	-
Non-convertible debenture	Long term	-	-	-	-	-	-	Aug 02, 2023	[ICRA]A-(Stable); withdrawn
Bank facilities (LT/ST – Fund based)	Long term/ Short term	-	-	-	-	-	-	Aug 02, 2023	[ICRA]A-(Stable)/ [ICRA]A1; withdrawn
Certificates of deposit	Short term	-	-	-	-	-	-	Aug 02, 2023	[ICRA]A1; withdrawn

LT – Long term; ST – Short term

Annexure I: Disclosure pursuant to the SEBI Circular SEBI/HO/DDHS/DDHS-PoD-2/I/4685/2026 dated February 10, 2026

ICRA rated Instruments fall under regulatory purview of various Financial Sector Regulators (FSR) as under:

Sr. no.	Instrument	FSR
1	Listed/Proposed to be listed Bonds/Debentures/Preference Shares (all securities)	SEBI
2	Unlisted/Proposed to be unlisted Bonds/Debentures/ Preference share (all securities)	MCA
3	Listed PTCs / Securitisation Notes (originated by entities regulated by RBI) (*)	SEBI
4	Listed PTCs / Securitisation Notes (originated by entities not regulated by RBI) (*)	SEBI
5	Unlisted PTCs / Securitisation Notes (originated by entities regulated by RBI) (*)	RBI
6	Listed Commercial Paper and NCDs with original maturity less than 1 year	RBI
7	Unlisted Commercial Paper and NCDs with original maturity less than 1 year	RBI
8	Loan Facilities (Fund/Non-Fund Based) from Bank / NBFCs/ NHB/ FIs (\$)	RBI
9	External Commercial Borrowings/Loans from overseas branches of Indian Banks/other similar borrowings	RBI
10	Certificates of Deposit	RBI
11	Fixed Deposits raised by NBFCs, Banks, HFCs, Fis	RBI
12	Fixed Deposits raised by corporates other than NBFCs, Banks, HFCs, Fis	MCA
13	Inter Corporate Deposits/Loans extended by Corporates	MCA
14	Listed Security Receipts	SEBI
15	Unlisted Security Receipts	RBI
16	Unlisted PTCs / Securitisation Notes (originated by entities not regulated by RBI) (*)	Investor-side Regulator such as IRDAI, PFRDA (%)

(*) Includes securitisation transactions involving assignee payout, acquirer's payout.

(\$) Includes bank facilities such as liquidity facility, second loss facility that are part of securitisation transactions.

(%) These ratings were assigned prior to the introduction of SEBI CRA Circular dated Feb 10, 2026 and accordingly, investor side FSRs have been mentioned.

Other Activities offered by ICRA fall under regulatory purview of various Financial Sector Regulators (FSR) as under:

Sr. no.	Activity name	FSR
1	Credit Ratings for Capital Protection Oriented Schemes (by Mutual Funds and AIFs)	SEBI
2	Credit quality ratings (CQRs) for Mutual Fund Schemes and Schemes of AIFs	SEBI
3	Independent Credit Evaluation (ICE)	RBI
4	Expected Loss Ratings (For Loan Facilities [Fund/Non-Fund based] from Banks/NBFCs/NHB/FIs)	RBI
5	Expected Loss Ratings (Listed / Proposed to be listed Bonds / Debentures / Preference Shares (all securities))	SEBI
6	Expected Loss Ratings (Unlisted / Proposed to be unlisted Bonds/ Debentures / Preference Shares (all securities))	MCA
7	Credit Rating of Borrowing programme	(@)
8	Issuer Ratings	(#)
9	Monitoring Agency	SEBI
10	Research activities, incidental to rating such as research for Economy & Industries (permitted by SEBI vide SEBI Master Circular for CRAs)	NA

(@) The rated instrument may involve issuance of different instruments such as debt securities (listed or otherwise), bank loans, commercial paper (listed or otherwise), etc. The regulator of the instrument can only be determined upon issuance. Accordingly, ICRA shall capture the rated quantum details along with names of respective FSR in the press release(s) after the issuance(s) of the instruments.

(#) Since no instrument is being rated, FSR is not applicable. The rating scale and definitions stipulated in SEBI Master Circular for CRAs are being followed.

Disclosure: SEBI's grievance redressal/dispute resolution and SEBI investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments which fall under the regulatory purview of Financial Sector Regulators other than SEBI.

Complexity level of the rated instruments

Instrument	Complexity indicator
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 II: Instrument details

ISIN	Instrument name	Date of issuance/ Sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
-	Issuer rating	-	-	-	-	[ICRA]A- (Stable)

Source: Unity SFB

Annexure III: List of entities considered for consolidated analysis

Not applicable

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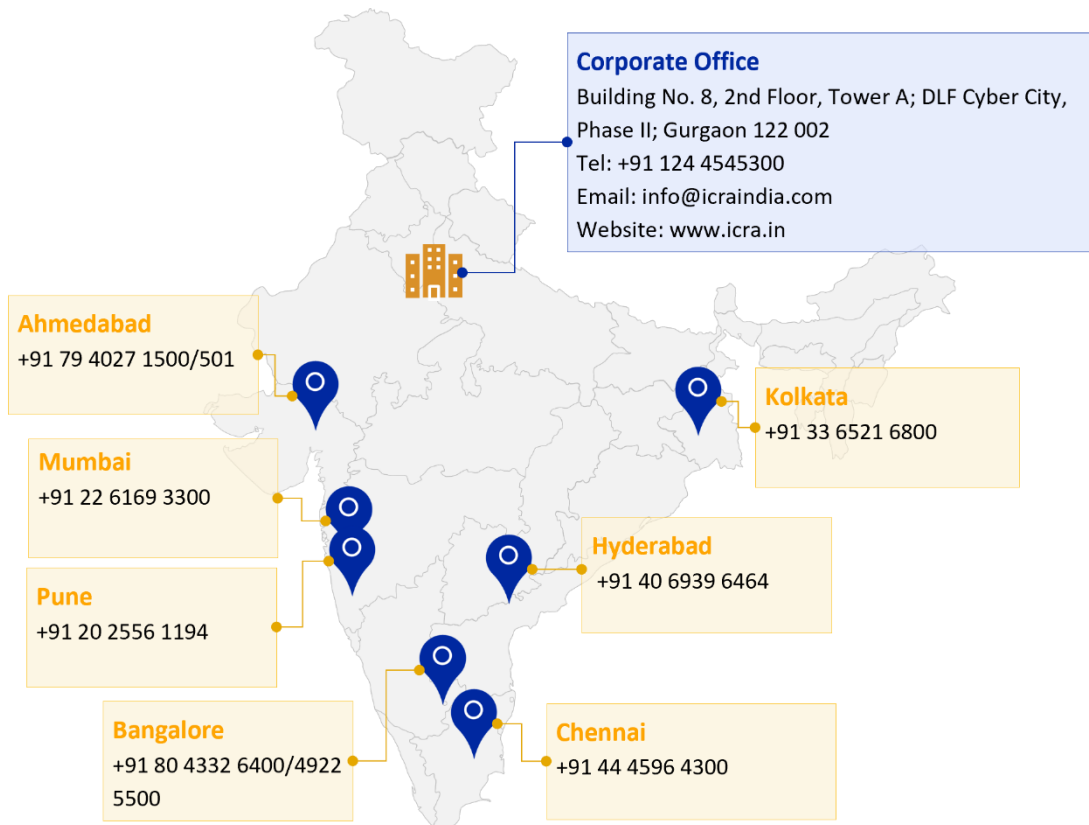
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