

July 02, 2026

Utkarsh Small Finance Bank Limited: Long-term rating downgraded to [ICRA]A-(Stable); short-term rating downgraded to [ICRA]A1

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Subordinated debt	400.0	400.0	[ICRA]A- (Stable); downgraded from [ICRA]A (Negative) and outlook revised to Stable from Negative
Certificates of deposit	1,000.0	1,000.0	[ICRA]A1; downgraded from [ICRA]A1+
Total	1,400.0	1,400.0	

*Instrument details are provided in Annexure II

Rationale

The ratings revision factors in Utkarsh Small Finance Bank Limited's (Utkarsh) weak asset quality and earnings profile. The bank's asset quality deteriorated significantly in FY2026, with gross non-performing assets (GNPAs) remaining elevated at 7.7% as on March 31, 2026 (9.4% as on March 31, 2025) despite sizeable write-offs and sale of stressed assets (Rs. 1,737 crore; 9.0% of portfolio as of March 2026). The deterioration was markedly visible in the microfinance segment (GNPAs of 13.3% as on March 31, 2026; 16.4% as on March 31, 2025), though delinquencies have increased in other product segments as well (GNPAs of 3.9% as on March 31, 2026; 2.5% as on March 31, 2025). ICRA notes that the collection efficiency is gradually improving, but slippages remained high.

Consequent to the asset quality stress, the bank's earnings profile has weakened amid elevated credit costs and subdued operating efficiency. Muted growth in the portfolio, interest reversal on NPAs and the shift in the portfolio mix towards relatively lower-yielding asset classes have adversely impacted Utkarsh's operating profitability. The bank reported a net loss of Rs. 1,151 crore in FY2026 vis-à-vis a profit of Rs. 24 crore in FY2025. ICRA expects the earnings profile to remain subdued in the near term due to the elevated cost structure in relation to the scale and lingering asset quality challenges, with a gradual improvement expected over the medium term.

Given the losses and its weak asset quality, Utkarsh's capital buffers have deteriorated despite the ~Rs. 950 crore of equity capital raised in November 2025 through a rights issue. Its capital adequacy ratio declined to 17.7% (Tier I of 15.0%) as on March 31, 2026 from 20.9% (Tier I: 17.9%) as on March 31, 2025. Nonetheless, the bank remains adequately capitalised in relation to regulatory requirements (CRAR of 15%; Tier I: 7.5%). ICRA notes that Utkarsh is in the process of implementing a few initiatives to improve its capital adequacy, including the raising of Tier II capital in the near term. This shall help it maintain adequate buffers over the regulatory requirements as it plans to scale up its operations. However, the timely execution of this capital raise is critical from a rating perspective.

ICRA also notes that Utkarsh's deposit franchise has a sizeable share of retail deposits {retail term deposits + current account savings account (CASA)} with the same increasing to ~83% as of March 2026 from ~71% as of March 2025. While the share of CASA deposits improved, it remained low at 24% as on March 31, 2026 (22% as on March 31, 2025). Going forward, Utkarsh's ability to expand its deposit base, increase the share of relatively lower-cost CASA deposits and keep the deposit profile granular shall remain important.

The Stable outlook on the long-term rating reflects ICRA's expectation that Utkarsh would maintain an adequate capitalisation profile while gradually improving its earnings profile as it scales up its operations.

Key rating drivers and their description

Credit strengths

Adequate capitalisation; Tier II capital raise planned in the near term – The bank has an adequate capitalisation profile with a capital adequacy ratio of 17.7% (Tier I of 15.0%) as on March 31, 2026 vis-à-vis the regulatory requirement of 15% (Tier I: 7.5%), though it declined from 20.9% (Tier I: 17.9%) as on March 31, 2025. This was on account of the significant loss of Rs. 1,151 crore incurred in FY2026 despite the primary capital raise of Rs. 950 crore (via a rights issue) during the fiscal. Utkarsh's gearing (including deposits) has also increased and stood at 8.8 times as on March 31, 2026 vis-à-vis 8.0 times as on March 31, 2025 (6.5 times as of March 2024). ICRA notes that the bank is in the process of implementing a few initiatives to improve its capital adequacy, including the raising of Tier II capital in the near term. This shall help it maintain adequate buffers over the regulatory requirements as it plans to scale up its operations. However, the timely execution of this capital raise remains a key monitorable.

Steady portfolio diversification expected over the medium term – Over the years, Utkarsh has been scaling up its relatively newer products, such as loans to micro, small and medium enterprises (MSMEs), housing loans, construction equipment (CE) and commercial vehicles (CVs), etc. The bank reported assets under management (AUM) of Rs. 19,332 crore as on March 31, 2026 (Rs. 19,666 crore as on March 31, 2025). Given the stress witnessed in the microfinance portfolio, Utkarsh has focussed on scaling up its secured loan portfolio. Consequently, the share of the non-microfinance portfolio increased to 61% of the portfolio as on March 31, 2026 (50% as on March 31, 2025; 38% as on March 31, 2024). ICRA expects the non-microfinance portfolio to constitute more than 50% of the overall AUM in the medium term. Nonetheless, Utkarsh's ability to maintain the asset quality in the relatively newer product segments remains monitorable.

Credit challenges

Weak asset quality; geographically concentrated portfolio – Utkarsh's asset quality deteriorated with GNPA's and net NPA's (NNPA's) remaining elevated at 7.7% and 3.3%, respectively, as on March 31, 2026 (9.4% and 4.8%, respectively, as on March 31, 2025). This was despite the sizeable write-offs and sale of stressed portfolio to asset reconstruction companies (ARCs). The deterioration was primarily due to the stress witnessed in the microfinance portfolio, with GNPA's remaining high at 13.3% as on March 31, 2026 (16.4% as on March 31, 2025). The asset quality in the non-microfinance portfolio also moderated with the GNPA's increasing to 3.9% as on March 31, 2026 from 2.5% as on March 31, 2025. Moreover, the microfinance portfolio remains geographically concentrated with the share of Bihar and Uttar Pradesh remaining high at 46% and 28%, respectively, as on March 31, 2026. The solvency ratio (NNPA's/Net worth) stood at 21.4% as on March 31, 2026 (30.4% as on March 31, 2025).

ICRA notes that Utkarsh has taken certain corrective measures, including the tightening of customer selection criteria, strengthening of the collections team, etc. ICRA also notes that the collection efficiency is gradually improving, though slippages remain high. In this regard, the bank's ability to control slippages and achieve recoveries from delinquent accounts shall remain monitorable.

Deterioration in earnings profile – With the rise in the relatively lower-yielding non-microfinance portfolio, muted portfolio growth and interest reversals on NPA slippages, the overall yields have been declining, leading to a reduction in Utkarsh's lending spread and net interest margins (NIMs). The operating efficiency also declined with operational expenses (as a proportion of average managed assets; AMA) increasing to 6.5% in FY2026 from 6.2% in FY2025 (6.0% in FY2024). Compressed NIMs and elevated operating expenses affected the operating profit with the bank reporting operating-level losses in Q2 and Q3 FY2026 and a subdued operating profit of Rs. 12 crore in Q4 FY2026 (FY2026 operating profit: Rs. 56 crore). Credit costs (as a proportion of AMA) rose to 5.5% in FY2026 from 3.8% in FY2025 (1.6% in FY2024) due to the deterioration in the asset quality. Utkarsh reported a loss of Rs. 1,151 crore in FY2026 compared to a profit after tax (PAT) of Rs. 24 crore in FY2025 (PAT of Rs. 498 crore in FY2024). ICRA expects the bank's earnings profile to remain subdued in the near term, given the elevated cost structure in relation to the scale and lingering asset quality challenges, with a gradual improvement expected over the medium term.

Ability to improve CASA share in deposits – Utkarsh has successfully built a large deposit base, constituting 88% of its total borrowings as on March 31, 2026 (90% as on March 31, 2025). The deposit base remained largely stable at Rs. 21,654 crore as on March 31, 2026 (Rs. 21,566 crore as on March 31, 2025). Despite improving, the share of CASA continued to be low at 24% as on March 31, 2026 (22% as on March 31, 2025). ICRA takes note of the improving granularity of deposits with total CASA and retail term deposits increasing to 83% as of March 2026 from 71% as of March 2025 (66% as on March 31, 2024). The share of the top 20 depositors has also been gradually declining and stood at 14% as on March 31, 2026 (16% as on March 31, 2025). Going forward, Utkarsh’s ability to expand its deposit base, improve the share of relatively lower-cost CASA deposits and keep the deposit profile granular shall remain important from a credit perspective.

Liquidity position: Strong

The liquidity coverage ratio was healthy at 163% for the quarter ended March 31, 2026. The net stable funding ratio (NSFR) stood at 117.5% as on March 31, 2026, remaining above the regulatory level of 100%. The bank’s structural liquidity statement, as on March 31, 2026, did not show any negative cumulative mismatches for a period of up to one year. Utkarsh’s liquidity profile is supported by the large portion of relatively shorter-tenor assets. It reported a credit-to-deposit (CD) ratio of 83% as on March 31, 2026 against 87% as on March 31, 2025 (94% in March 2024).

Environmental and social risks

Environmental considerations – Given Utkarsh’s service-oriented nature of business, its direct exposure to environmental risks as well as those stemming from regulations or policy changes is not material. While the bank is not materially exposed to physical climate risks, it indirectly encounters environmental risks through its portfolio of assets. Further, its lending typically involves short-to-medium-term durations, enabling it to adjust and incrementally invest in less environmentally vulnerable businesses.

Social considerations – Data security and customer privacy are among the key sources of vulnerability for banks, including Utkarsh, as any material lapse could be detrimental to its reputation and could invite regulatory censure. Customer preference is increasingly shifting towards digital banking, which provides an opportunity to banks to reduce their operating costs. However, subpar execution of information technology strategies and the inability to meet customer requirements adequately may result in more costs than benefits. On the positive side, Utkarsh 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, these opportunities must be seen in conjunction with the asset quality risks that could impact the bank’s credit quality.

Rating sensitivities

Positive factors – Sustained improvement in the asset quality and profitability indicators while maintaining a prudent capitalisation profile could positively impact the ratings.

Negative factors – Utkarsh’s inability to improve its profitability or maintain adequate capital buffers will exert pressure on the ratings.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA’s credit rating methodology for banks and financial institutions
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2009, Utkarsh Micro Finance Limited received a small finance bank (SFB) licence from the Reserve Bank of India (RBI) in November 2016 and completed the conversion to an SFB in January 2017. The bank is headed by Mr. Govind Singh, who was earlier the business head of micro-banking at ICICI Bank Limited.

Operating in 27 states/Union Territories (UTs), as on March 31, 2026, Utkarsh offers deposits, micro-banking loans, micro, small and medium enterprise (MSME) loans, affordable housing loans and corporate loans, among other products. It had a portfolio of Rs. 19,332 crore as on March 31, 2026, with micro-banking loans (including micro-banking loans sourced by business correspondents) comprising 39% (50% as on March 31, 2025). As for liabilities, the bank had a deposit base of Rs. 21,654 crore as on March 31, 2026 (Rs. 21,566 crore as on March 31, 2025), with term deposits accounting for 76% (78% as on March 31, 2025).

Key financial indicators (audited)

Utkarsh Small Finance Bank Limited	FY2024	FY2025	FY2026
Total income	3,579	4,365	3,810
PAT	498	24	-1,151
Total assets	23,903	28,127	28,869
CET I	21.0%	17.9%	15.0%
CRAR	22.6%	20.9%	17.7%
PAT/ATA	2.3%	0.1%	-4.0%
Gross NPAs	2.5%	9.4%	7.7%
Net NPAs	0.03%	4.8%	3.3%

Source: Utkarsh, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Note: Total assets excludes revaluation reserves

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2027)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	July 02, 2026	FY2026		FY2025		FY2024	
				Date	Rating	Date	Rating	Date	Rating
Subordinated debt programme	Long term	400.00	[ICRA]A- (Stable)	Apr 2, 2025	[ICRA]A+ (Stable)	Apr 1, 2024	[ICRA]A+ (Stable)	Apr 13, 2023	[ICRA]A+ (Stable)
				May 22, 2025	[ICRA]A+ (Negative)	Jun 6, 2024	[ICRA]A+ (Stable)		
				Aug 12, 2025	[ICRA]A (Negative)				
Certificates of deposit programme	Short term	1,000.00	[ICRA]A1	Apr 2, 2025	[ICRA]A1+	Apr 1, 2024	[ICRA]A1+	Apr 13, 2023	[ICRA]A1+
				May 22, 2025	[ICRA]A1+	Jun 6, 2024	[ICRA]A1+		
				Aug 12, 2025	[ICRA]A1+				

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
Subordinated debt programme	Simple
Certificates of deposit programme	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 II: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
INE735W08038	Subordinated debt	Jun-26-2020	12.50%	Jun-26-2027	195.00	[ICRA]A- (Stable)
INE735W08053	Subordinated debt	Jun-28-2024	11.00%	Jun-28-2031	200.00	[ICRA]A- (Stable)
Yet to be issued	Subordinated debt	NA	NA	NA	5.00	[ICRA]A- (Stable)
INE735W16700	Certificates of deposit	Feb-24-26	7.90%	Feb-23-27	50.00	[ICRA]A1
INE735W16700	Certificates of deposit	Feb-24-26	7.90%	Feb-23-27	100.00	[ICRA]A1
INE735W16692	Certificates of deposit	Feb-24-26	7.50%	Aug-25-26	30.00	[ICRA]A1
INE735W16718	Certificates of deposit	Mar-23-26	7.65%	Sep-21-26	35.00	[ICRA]A1
INE735W16742	Certificates of deposit	Apr-30-26	7.25%	Aug-03-26	75.00	[ICRA]A1
INE735W16742	Certificates of deposit	Apr-30-26	7.25%	Aug-03-26	35.00	[ICRA]A1
INE735W16726	Certificates of deposit	May-07-26	7.40%	Nov-03-26	40.00	[ICRA]A1
Yet to be issued	Certificates of deposit	NA	NA	7-365 days	635.00	[ICRA]A1

Source: Utkarsh

Annexure III: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Prateek Mittal
+91 33 6521 6812
prateek.mittal@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com

Chandni
+91 124 4545 844
chandni@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



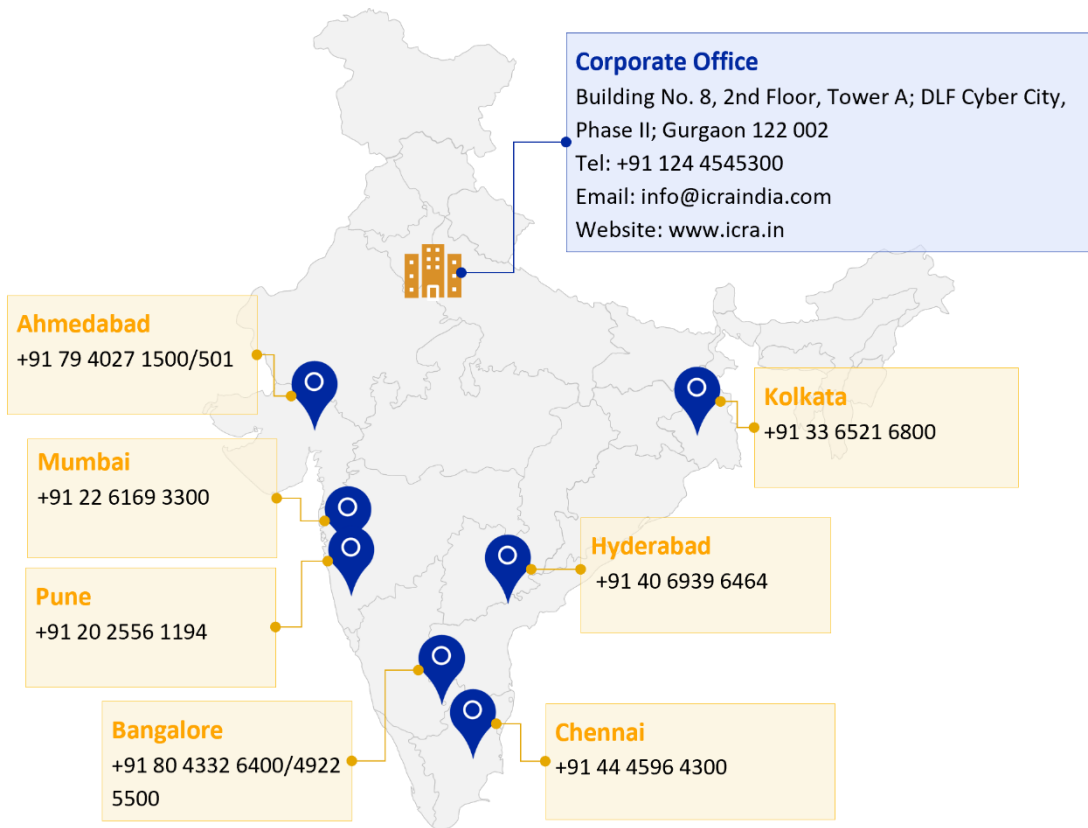
Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2026 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.