November 03, 2026

Suryoday Small Finance Bank Limited: [ICRA]A (Stable) assigned to subordinated bonds/debt; ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action	Financial sector regulator#
Subordinated bonds/ Debt	300.00	300.00	[ICRA]A (Stable); reaffirmed	SEBI
Subordinated bonds/ Debt	0.00	200.00	[ICRA]A (Stable); assigned	SEBI
Subordinated debt programme	100.00	100.00	[ICRA]A (Stable); reaffirmed	SEBI
Certificates of deposit programme	130.00	130.00	[ICRA]A1+; reaffirmed	RBI
Total	**530.00**	**730.00**		

**Instrument details are provided in Annexure I*

 # 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

Rationale

The ratings factor in Suryoday Small Finance Bank Limited's (Suryoday) adequate capitalisation profile along with the gradual diversification of its portfolio. As on June 30, 2026, the bank's reported capital adequacy ratio (CAR) of 20.0% (Tier I: 19.4%) was well above the regulatory requirement of 15.0% (Tier I: 7.5%). Given the inherent risks associated with the microfinance sector and the stress witnessed in the recent past, the bank has focussed on scaling up the non-microfinance portfolio (such as commercial vehicles, loans to micro, small and medium enterprise (MSMEs), housing loans, loans against property (LAP), financial intermediary groups and others). Consequently, the share of the microfinance segment has gradually declined and stood at 44% of the portfolio as on June 30, 2026 (45% as on March 31, 2026 and 50% on March 31, 2025). Nonetheless, ICRA notes that the bank has taken coverage under Credit Guarantee Fund for Micro Units (CGFMU) covering around 98% of the microfinance portfolio as of June 2026, partially mitigating the credit risk associated with segment. ICRA expects that the share of microfinance and non-microfinance loans will remain equal over the medium term as Suryoday continues scaling up its portfolio.

The ratings also consider the bank's moderate asset quality and earnings. Suryoday's gross non-performing assets (GNPAs) rose during FY2025-FY2026 and stood at 6.5% as on March 31, 2026 (6.5% as on June 30, 2026; 2.9% as of September 30, 2026) vis-à-vis 2.9% as on March 31, 2024. This was due to elevated slippages in the microfinance portfolio amid industry-wide stress. While the bank's collection performance has improved and the CGFMU cover on the microfinance portfolio provides loss protection to an extent, its ability to arrest fresh slippages and increase recoveries remains a key monitorable.

Despite the pressure on the asset quality, credit costs remained under control, supported by the guarantee cover. However, Suryoday's profitability remains moderate, characterised by lower net interest margins (NIMs) and a high operating cost structure. Nevertheless, ICRA takes note of the improvement in earnings in Q1 FY2027 with the annualised return on average total assets and the return on average net worth increasing to 1.5% and 14.2%, respectively (0.9% and 7.6%, respectively, in FY2026), partly aided by relatively higher non-interest income including income from the sale of priority sector lending certificates. ICRA expects a gradual improvement in the bank's earnings profile, supported by enhanced operating efficiency and lower credit costs.

ICRA takes note of the healthy traction in deposit mobilisation by the bank. However, the share of current account savings account (CASA) deposits remained relatively low at 21% as on June 30, 2026 (19% as on September 30, 2026; 23% as on March 31, 2026; 21% as on March 31, 2025). ICRA takes note of the improving granularity of deposits with total CASA and retail term deposits increasing to 87% as of June 2026 from 82% as of June 2025 (86% as on March 31, 2026; 81% as on March 31, 2025). Going forward, Suryoday's ability to sustainably increase the share of CASA in the deposit profile while scaling up its deposit base and operations will be important from a credit perspective.

The Stable outlook reflects ICRA's expectation that the bank's credit profile would remain steady as it gradually scales up its operations and maintains its capitalisation profile.

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile – The bank's CAR of 20.0% (Tier I: 19.4%), as on June 30, 2026, was well above the regulatory requirement of 15.0% (Tier I: 7.5%). Its last equity capital raise was in FY2021 (~Rs. 522 crore of equity capital through an initial public offering and private placement), which helped it maintain a comfortable capitalisation profile while scaling up its portfolio. In ICRA's opinion, while Suryoday's internal capital generation would have to be strengthened, it is adequately capitalised at present to sustain the healthy growth rate envisaged for the near-to-medium term.

Improving portfolio diversity – The bank's assets under management grew by 33% year-on-year (YoY) to Rs. 14,376 crore as on June 30, 2026 (Rs. 14,972 crore as on September 30, 2026; Rs. 13,261 crore as on March 31, 2026) from Rs. 10,846 crore as on June 30, 2025 (Rs. 11,124 crore as on September 30, 2025; Rs. 10,251 crore as on March 31, 2025). Given the stress in the microfinance space, it has focussed on scaling up the non-microfinance portfolio (such as commercial vehicles, loans to MSMEs, housing loans, financial intermediary groups and others). As a result, the share of the microfinance segment has gradually declined and stood at 44% of the portfolio as on June 30, 2026 (45% as on March 31, 2026) compared to 48% as on June 30, 2025 (50% as on March 31, 2025; 59% as on March 31, 2024). Nevertheless, ICRA expects Suryoday to maintain an equal share of microfinance and non-microfinance loans as it continues scaling up its portfolio by 25-30% per annum over the near-to-medium term.

Credit challenges

Moderate asset quality and earnings profile; coverage under guarantee scheme partially mitigates risk – Suryoday's asset quality deteriorated during FY2025-FY2026 with the GNPAs increasing to 6.5% as on March 31, 2026 (6.5% as on June 30, 2026; 2.9% as on September 30, 2026) from 2.9% as on March 31, 2024 on account of higher slippages in the microfinance portfolio amid industry-wide asset quality challenges. Nonetheless, ICRA notes that the NPA levels have come down to current levels from 7.2% as on March 31, 2025 attributed to improving collection efficiency in this segment. Further, around 98% of the microfinance portfolio as of June 2026 is covered under CGFMU, partially mitigating the credit risk and controlling the bank's credit costs. Nevertheless, its ability to arrest further slippages and achieve recoveries from delinquent customers remains important.

Despite the deterioration in its asset quality, Suryoday's credit costs remain under control and have been gradually reducing (0.7% in Q1 FY2027; 1.0% in FY2026 and 1.8% in FY2025), supported by the guarantee cover under CGFMU. Nonetheless, NIMs moderated due to elevated GNPAs and the decline in the share of the relatively higher-yielding microfinance portfolio. The return on average total assets and the return on average net worth remained moderate at 0.9% and 7.6%, respectively, in FY2026 vis-à-vis 0.8% and 8.2%, respectively, in FY2025. ICRA takes note of the improvement in earnings in Q1 FY2027 with the annualised return on average total assets and the return on average net worth increasing to 1.5% and 14.2%, respectively. This was partly aided by relatively higher non-interest income, including income from the sale of priority sector lending certificates. ICRA expects a gradual improvement in the bank's earnings profile, supported by enhanced operating efficiency.

Relatively lower share of CASA in deposits – Suryoday has successfully built a large deposit base, constituting 85% of its total borrowings as on June 30, 2026, up from 82% as on March 31, 2026 (80% as on March 31, 2025). The bank continues to scale

up its deposit franchise and reported a healthy YoY growth of 29% in deposits in Q1 FY2027, increasing the overall deposit base to Rs. 14,634 crore as on June 30, 2026 (Rs. 16,184 crore as on September 30, 2206) from Rs. 13,994 crore as on March 31, 2026. However, the share of CASA remains relatively low compared to peers at 21% as on June 30, 2026 (19% as on September 30, 2026; 23% as on March 31, 2026; 21% as on March 31, 2025). ICRA takes note of the improving granularity of deposits with total CASA and retail term deposits increasing to 87% as of June 2026 from 82% as of June 2025 (86% as on March 31, 2026; 81% as on March 31, 2025). Going forward, Suryoday's ability to sustainably improve the share of CASA in the deposit profile while scaling up its deposit base and operations will be important from a credit perspective.

Environmental and social risks

Environmental considerations – Given Suryoday's service-oriented 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 potentially among the key sources of vulnerability for Suryoday, 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 for the bank to reduce its operating costs. However, any lag in the execution of information technology strategies and the inability to meet customer requirements adequately may result in more costs than benefits. On the positive side, Suryoday 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 opportunities must be seen in conjuncture with asset quality risks that could impact the bank's credit quality.

Liquidity position: Strong

The liquidity coverage ratio was healthy at 137% for the quarter ended June 30, 2026 (130% for the quarter ended March 31, 2026) on a daily average basis for the respective quarter. The net stable funding ratio (NSFR) stood at 161% as on June 30, 2026, remaining above the regulatory level of 100%. The bank's asset-liability management statement, as on June 30, 2026, did not show any cumulative mismatches for a period of at least one year. Its liquidity profile is supported by its strong borrowing ability on account of its 'scheduled' status and the large portion of relatively shorter-tenor assets. The liquidity profile is also boosted by the availability of funding lines from financial institutions (FIs).

Rating sensitivities

Positive factors – A sustained improvement in the scale and deposit profile, while maintaining prudent capitalisation and healthy earnings, could positively impact the long-term rating.

Negative factors – Pressure on the bank's ratings could arise if the return on assets remains below 1% on a prolonged basis. Sustained deterioration in the capitalisation profile or weakening of the liquidity profile could also exert pressure on the ratings.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Banks and Financial Institutions
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Suryoday was initially incorporated in October 2008 as Suryoday Micro Finance Limited, a non-banking financial company providing loans to women in urban and semi-urban areas using the joint liability group (JLG) lending model. It received a licence from the Reserve Bank of India (RBI) in FY2016 to operate as a small finance bank (SFB) and commenced operations as an SFB on January 23, 2017.

As on June 30, 2026, the bank was operating in 17 states and Union Territories (UTs) across India through 718 branches, with a strong presence in Maharashtra, Tamil Nadu and Odisha. It had around 62 lakh clients and a portfolio of Rs. 14,376 crore as on June 30, 2026.

Key financial indicators (audited)

Suryoday Small Finance Bank Limited	FY2025	FY2026	Q1 FY2027*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	2,171	2,520	770
Profit after tax	115	152	75
Total assets	15,614	19,884	20,204
CET I	24.5%	19.6%	19.4%
CRAR	25.8%	20.5%	20.0%
PAT/ATA	0.8%	0.9%	1.5%
Gross NPAs	7.2%	6.5%	6.5%
Net NPAs	4.6%	4.2%	1.2%

*Source: Bank, ICRA Research; All ratios as per ICRA's calculations; *Limited review; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2027)					Chronology of rating history for the past 3 years					
	FY2027					FY2026		FY2025		FY2024	
Instrument	Type	Amount rated (Rs. crore)	Nov 03, 2026	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Certificates of deposit programme	Short term	130.00	[ICRA]A1+	Sep 23, 2026	[ICRA]A1+	Mar 17, 2026	[ICRA]A1+	Mar 18, 2025	[ICRA]A1+	Mar 19, 2024	[ICRA]A1+
Subordinated debt programme	Long term	100.00	[ICRA]A (Stable)	Sep 23, 2026	[ICRA]A (Stable)	Mar 17, 2026	[ICRA]A (Stable)	Mar 18, 2025	[ICRA]A (Stable)	Mar 19, 2024	[ICRA]A (Stable)
Subordinated bonds/Debt	Long term	300.00	[ICRA]A (Stable)	Sep 23, 2026	[ICRA]A (Stable)	-	-	-	-	-	-
Subordinated bonds/Debt	Long term	200.00	[ICRA]A (Stable)	-	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Subordinated debt programme	Simple
Certificates of deposit programme	Simple
Subordinated bonds/Debt	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	Financial sector regulator#
INE428Q08073	**Subordinated debt programme**	Sep 08, 2020	12.50% p.a.	Apr 07, 2027	100.00	[ICRA]A (Stable)	SEBI
INE428Q08081	**Subordinated bonds/Debt**	Oct 09, 2026	10.05% p.a.	Oct 09, 2036	200.00	[ICRA]A (Stable)	SEBI
Yet to be issued	**Certificates of deposit programme**	NA	NA	7-365 days	130.00	[ICRA]A1+	RBI
Yet to be issued	**Subordinated bonds/Debt**	NA	NA	NA	300.00	[ICRA]A (Stable)	SEBI

 # 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

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Ashish Modani
+91 22 6169 3300
ashish.modani@icraindia.com

Deep Inder Singh
+91 124 4545 830
deep.singh@icraindia.com

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

Chandni
+91 124 4545 300
chandni@icraindia.com

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

RELATIONSHIP CONTACT

L Shivakumar
+91 22 2433 1084
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

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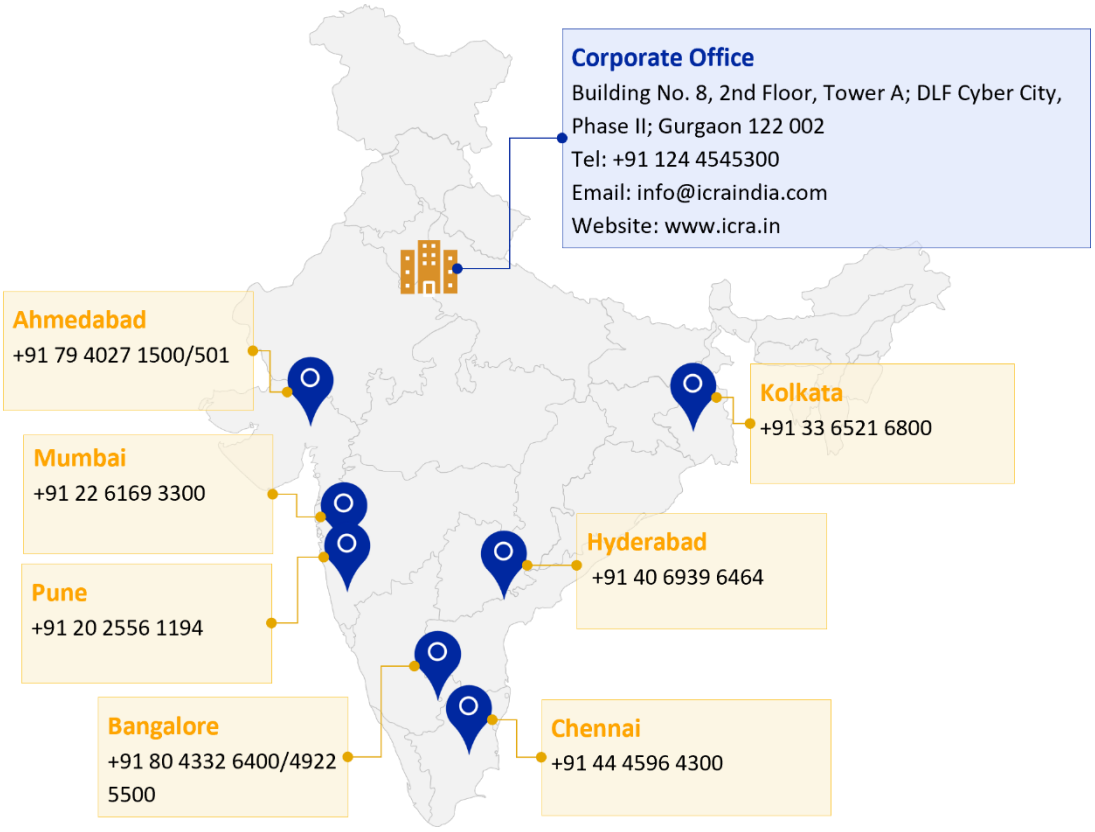
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-50

Branches



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