India Ratings Assigns Shivalik Small Finance Bank’s NCDs ‘IND A-’/Stable; CDs ‘IND A1’

Sep 11, 2026 | Shivalik Small Finance Bank Limited | Others

India Ratings and Research (Ind-Ra) has rated Shivalik Small Finance Bank Limited’s (SSFB) non-convertible debentures (NCDs) and certificate of deposits (CDs) as follows:

Details of Instruments

Instrument Type	Regulator of Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (INR million)	Rating Assigned with Outlook/Watch	Rating Action
Non-convertible debentures*	SEBI	-	-	-	1,500	IND A-/Stable	Assigned
Certificate of deposit*	RBI	-	-	Up to 365 days	500	IND A1	Assigned

*Unutilised

Analytical Approach

Ind-Ra has taken a standalone view of SSFB to assign the ratings.

Detailed Rationale of the Rating Action

The ratings reflect SSFB’s granular and predominantly secured loan portfolio, stable asset quality, healthy liability franchise and comfortable capitalisation levels. However, the ratings are constrained by the bank’s modest scale of operations, compared with its peers and high geographic concentration, with Uttar Pradesh and Madhya Pradesh accounting for approximately 45% of the advances and 61% of the deposits as of FY26. While the bank is actively pursuing geographic diversification and deepening its presence within the existing territories, its ability to scale-up operations while maintaining asset quality will remain a key monitorable.

List of Key Rating Drivers

Strengths

- Granular and well-diversified secured loan portfolio, with growth momentum likely to continue
- Improving traction in deposits and competitive cost of funds
- Stable asset quality; unsecured largely CGFMU covered
- Adequate capitalisation; dependence on capital infusion to remain until internal accruals strengthen

Weaknesses

- Profitability constrained by higher opex
- Geographic concentration in portfolio
- Modest scale of operations compared to peers

Detailed Description of Key Rating Drivers

Granular and Well-diversified Secured Loan Portfolio, with Growth Momentum Likely to Continue: The bank's gross advances stood at INR40.3 billion as of FY26, reflecting a 38% CAGR since its transition to a small finance bank (SFB) in FY22. The management is targeting approximately 40% loan book CAGR through FY28, supported by its network expansion to 298 touchpoints (including 143 branches and 155 banking correspondent (BC) outlets) and expects advances to reach INR59.8 billion in FY27 (up 48.4% yoy). SSFB's loan portfolio remains diversified across loans against property (LAP) (32.7%), vehicle finance (18.6%), gold loans (15.3%), housing (10.7%), agriculture (5.9%), microfinance (8.8%), non-banking financial company (NBFC) lending (4.4%), and others (3.6%). Its portfolio is predominantly secured at 90%, while unsecured microfinance exposure remains limited at 8.8%, with nearly 86% covered under the CGFMU guarantee scheme and is likely to be fully covered by FY27. Furthermore, loans below INR2.5 million accounted for 56.7% of the advances in FY26, comfortably meeting the Reserve Bank of India's small finance bank requirement of at least 50%.

The bank is progressively shifting towards an in-house sourcing-led model, with BC-originated AUM declining to 38% in July 2026 from the peak of 56% in FY24. While BC partnerships, largely focused on shorter-tenure segments, continue to provide origination reach across microfinance, gold, vehicle, and warehouse lending, the bank retains underwriting and collateral control. While in larger-tenure products such as LAP, housing and affordable housing loans, are largely sourced through its own distribution network. The bank's growth strategy is centered on increasing the share of secured, priority sector lending (PSL)-oriented annuity products and raising in-house sourcing to 65% of AUM in FY27. This is likely to support sustainable growth, improve asset quality and boost profitability in the medium term.

Improving Traction in Deposits and Competitive Cost of Funds: SSFB has leveraged its legacy co-operative bank franchise and strong presence in Uttar Pradesh to build a stable and granular liability profile. Deposits have grown at a healthy 26% CAGR since the SFB transition in FY22 and accounted for 70.5% of the liabilities in FY26. Retail and granular deposits contributed 60.6% to the total deposits, while the remaining 40.4% was generated through bulk deposits (greater than INR30 million), sourced from co-operative banks, mid-corporates and strategic partners, which are stable in nature.

Although the current account savings account (CASA) ratio stood at 20.2%, appearing lower than some peers, the cost of CASA has been a core strategic focus area for the bank. The cost of CASA remained at 3% in FY26, better than peers, and has continued to remain in the range of 2.9%-3.2% since FY22. During FY25-FY26, savings share has normalised across banks, with households shifting to higher-yielding term deposits. However, current account balances increased nearly 56% yoy in FY26, largely driven by connected banking, escrow solutions and institutional relationships, which carry zero interest cost and directly reduce the cost of funds. The bank's overall cost of deposits was 7.1% in FY26 (FY25: 6.9%, FY24: 6.2%) and remained better than its peers. Furthermore, deposit repricing through FY27 is likely to keep the cost of funds (COF) competitive than peers.

In FY27, the bank plans to strengthen its deposit franchise by introducing new products, such as RERA accounts, micro-recurring deposits, credit card-backed fixed deposits and MIBOR-linked savings accounts. Moreover, nearly 16% of the deposits, INR6.4 billion in FY26, are being digitally sourced across diverse channels, including digital fixed deposit active AUM of INR3.6 billion (through both partners and in-house), connected banking, loan against bank deposits and non-resident external (NRE)/ non-resident ordinary (NRO) accounts. Additionally, SSFB's increased focus on priority-sector lending provides access to government-backed refinance facilities, which accounted for about 18% of the liabilities in FY26 and offers a cost-effective, long-tenor funding source. Supported by improving deposit granularity, growing digital sourcing and a stable refinance base, Ind-Ra expects SSFB to improve retail origination and maintain a competitive cost of funds over the medium term.

Stable Asset Quality; Unsecured Largely CGFMU Covered: FY25-FY26 was a challenging period for the microfinance sector, characterised by elevated borrower leverage and rising delinquencies. However, the impact on SSFB remained contained, as microfinance accounted for only 8.8% of the loan book, while nearly 90% of the overall loan portfolio was secured under credit guarantee fund for micro units (CGFMU). Gross non-performing assets (GNPA) increased modestly to 2.9% in FY26 (FY25: 2.7%) and was around 1.8% excluding microfinance stress. The headline GNPA of INR1.18 billion in FY26 was largely concentrated in microfinance (INR450 million), vehicle loans (INR410 million) and agriculture loan (INR130 million). Moreover, the bank has not undertaken any asset reconstruction company (ARC) sales and has no security receipt exposure, while 86.3% of GNPAs remained in the sub-standard category, indicating manageable asset quality stress.

Although the provision coverage ratio (excluding technical write offs) declined to 30.5% in FY26 (FY25: 44.8%, FY24: 41.3%), resulting in net non-performing assets (NNPA) rising to 2.05% (1.51%; 0.84%), the risk is partly mitigated by CGFMU coverage of about 86% on the microfinance portfolio, which is likely to increase to 100% by FY27. Furthermore, the bank's NNPA-to-networth ratio stood at 16.7%, compared favourably with larger peers. Also, at the peak of the microfinance cycle, credit costs did not exceed 1.1% of average advances in FY26 (FY25: 0.79%, FY24: 0.88%), which is a direct consequence of maintaining a 90% secured book. The bank's predominantly secured-lending model continues to provide resilience. Although sustained improvement in asset quality, provisioning coverage and credit costs will remain key monitorables in medium term.

Adequate Capitalisation, Dependence on Capital Infusion to Remain Until Internal Accruals Strengthen: SSFB remains well capitalised, with a total CAR of 20% in FY26 (FY25: 21.2%, FY24: 20.2%) and a Tier-I CAR of 17.9% as of FY26 (FY25: 18.4%, FY24: 16.8%), providing a comfortable buffer over regulatory requirements. The bank has strengthened its capital base through successive equity raises, including a promoter and founding shareholder infusion of INR1.0 billion before FY21, and an additional INR3.5 billion was raised following its conversion into an SFB in FY22. This capital support has enabled the bank to sustain strong balance sheet growth while maintaining adequate capital levels.

For FY27, SSFB plans to further strengthen its capital position through a proposed INR3.0 billion capital raise, supported by new investors and pro-rata participation from existing shareholders, along with merger-related net worth accretion of INR850 million from ManiBhavnam Home Finance India Pvt. Ltd., and estimated FY27 profits of nearly INR300 million. Ind-Ra estimates that these initiatives are likely to increase the bank's net worth to approximately INR9.3 billion and improve Tier-I capital to around 24.3% in FY27, providing sufficient headroom to support growth over the next two years, ahead of a potential initial public offering (IPO) in FY29-30. Consequently, Ind-Ra expects the bank to maintain adequate capitalisation, with Tier-I remaining above 15% over the medium term.

Profitability Constrained by Higher Opex: SSFB's profitability reflects its conservative lending strategy, with a largely secured portfolio resulting in lower loan yields of around 13%, compared to 16%-17% for larger SFB peers. Consequently, net interest margins have remained at around 5% through FY24-FY26, below peer levels, despite competitive cost of funds of 7.1% in FY26 (FY25: 7.1%; FY24: 6.40%). Nevertheless, operating performance has strengthened meaningfully, with pre-provision operating profit (PPOP) increasing to INR427 million in FY26 from INR47 million in FY22, supported by steady balance-sheet growth and controlled credit costs.

Profitability remains constrained by a high reported cost-to-income ratio of 85.7% in FY26 (FY25: 90.3%, FY24: 88.7%), primarily due to BC-related sourcing expenses. Excluding BC acquisition costs, the adjusted cost-to-income ratio stood at 42.3% in FY26 (FY25: 36.9%; FY24: 29.9%). The management is targeting return on assets of more than 1% during FY27-FY29, driven by a greater share of business sourced through in-house and digital channels. With the BC share of AUM declining to 38% in July 2026, from 56% in FY24, and a likely further reduction to 32% in FY27, Ind-Ra expects the bank's operating leverage and profitability to improve steadily.

Geographic Concentration in Portfolio: As of FY26, SSFB operated through 214 touchpoints across 11 states and 104 districts; however, its franchise remains concentrated in Uttar Pradesh and Madhya Pradesh, which accounted for 45% of the advances and 61% of the deposits. Specifically, the region around Saharanpur in Uttar Pradesh manages INR10 billion of AUM, including INR8 billion in home loan /loan against property. While this concentration reflects the bank's strong regional franchise and customer relationships, the management is progressively diversifying its footprints by expanding into new states, strengthening management in branch banking and other key verticals, and boosting branches outside its core markets. Simultaneously, the bank is deepening its penetration within existing territories to strengthen franchise value and reduce geographic concentration over the medium term.

Modest Scale of Operations Compared to Peers: The bank had net advances of INR40 billion and total assets of INR57 billion as of FY26, making it smaller in scale compared to its SFB peers. Advances registered a healthy y-o-y growth of 36.1% yoy in FY26. Going forward, the bank aims to accelerate growth, targeting a doubling of its advances book by FY28, supported by adequate capital buffers. Its ability to scale operations through geographic expansion, while preserving asset quality will remain a key monitorable.

Liquidity

Adequate: As per the bank's asset-liability statement, there was a cumulative one-year funding gap of 13.4% at the end of FY26. However, Ind-Ra believes that the liquidity profile is likely to be adequate, supported by the excess statutory liquidity qualifying securities of 10% in FY26 (FY25: 8.0%; FY24: 7.1%), bank's liquidity coverage ratio (LCR) ratio of 139.6% (192.8%; 131.1%) and its access to refinancing of INR10 billion from policy institutions. Around 14.3% of the advances at the end of FY26 comprised of gold loans, which have an average shorter tenor of 6-12 months and are conducive to having a funding surplus. Most private sector banks consistently maintain a modest surplus in this regard.

Rating Sensitivities

Positive:

• Significant growth in the scale of operations, with geographical diversification, adequate capitalisation and a demonstrated ability to manage its asset quality,

• Significant capital infusion driving franchise growth and providing cushion until profitability buffers improve,

• Return on assets exceeding 1% on a sustained basis

Negative

· Inability to raise INR3 billion by 4QFY27,

· Inability to manage asset quality, leading to a sharp rise in credit costs,

· A material decline in granularisation of deposits in its funding mix,

· Tier-I ratio falling below 15.% or a sustained deterioration in the liquidity buffers

Disclosures for CE Rating

Not applicable

Disclosures for Provisional Rating

Not applicable

Any Other Information

Not applicable

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on SSFB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

SSFB commenced operations as a small finance bank in April 2021 and has an established network of 214 touchpoints across 11 states and 104 districts, comprising 79 branches and 135 BC outlets. The promoters hold 37.32% ownership in the bank, led by Mr. Dinesh Kumar Mittal, who owns a 20.58% stake, and is a non-executive, non-independent director. He is also a former Indian Administrative Service (IAS) officer of 1977 batch (UP cadre) and has served the Government of India in various capacities.

Key Financial Indicators

Particulars (INR million)	FY26	FY25
Total assets	56,950	41,200

Particulars (INR million)	FY26	FY25
Total equity	4,910	3,510
Net income	41.0	9.4
Return on average assets (%)	0.08	0.03
Return on average equity (%)	0.98	0.32
Source: SSFB, Ind-Ra Ratios are as per Ind-Ra's calculations		

Status of Non-Cooperation with Previous Rating Agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	
Certificate of deposits	Short-term	500	IND A1	
Non-convertible debentures	Long-term	1,500	IND A-/Stable	

Disclosure on instruments / activities and names of regulators:

A list of products/activities or ratings of instruments falling under the purview of various financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by Ind-Ra on its website. A link to the same has been provided below for ready reference:

Rating Activities

Note: Kindly note that for activities or instruments falling under the purview of FSRs other than SEBI, the grievance/dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Certificate of deposit	Low
Non-convertible debentures	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Financial Institutions Rating Criteria
The Rating Process
Evaluating Corporate Governance

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