

Utkarsh Small Finance Bank Ltd — Aug 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss / Crisis Deepening **One-line:** The thesis has shifted from a "controlled pivot" to a "distressed restructuring" as the MFI book collapse has resulted in a material net loss, significant capital depletion, and a collapse in collection efficiency that management failed to anticipate.

Dimension	This Quarter (Q1 FY26)	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Weak Miss	Management guided for recovery in Q1; instead, PAT swung to a ₹239 Cr loss and GNPA hit 11.4%.	☐
Earnings Quality	Low	P&L decimated by credit costs (8.5%); PPop fell 61% QoQ as interest income stalled while funding costs rose.	☐
Guidance Confidence	Weak	Previous "peak pain" claims were breached; current guidance for Q3 recovery lacks conviction given static July collection data.	☐
Management Credibility	Weak	Failure to predict the depth of Guardrail 2.0 impact; credibility is strained by repeated guidance walk-backs on asset quality.	☐
Business Quality Signal	Deteriorating	Core JLG book (45% of portfolio) is in a tailspin; collection efficiency (ex-prepayments) fell to 82% from 86% PQ.	☐
Key Q&A Exchange	Q1 + Projections	Mgmt admitted they underestimated the impact of 3-lender limits (Guardrail 2.0) on borrower discipline.	☐
The Street's Primary Anxiety	Solvency & Recovery	Analysts focused on the ₹750 Cr capital raise and the true timing of the MFI bottom (now pushed to Q3/Q4).	☐
Capital Cycle Stage	Consolidation	Aggressive JLG disbursement cuts (-7% book growth) to preserve capital; shift to 100% recovery mode.	☐
Margin Trajectory	Deteriorating	NIM fell to 5.9% (from 6.4% PQ) due to interest reversals and high liquidity drag.	☐
Pricing Power	Stable	Secured yields (MSME) improved 150bps YoY to 13.7%, showing value in the non-MFI franchise.	☐
FCF Conversion & Quality	Distorted	Operating cash flow is effectively negative as credit losses exceed PPop; CRAR fell 129bps in 90 days.	☐
Competitive Moat	Stable	Retail deposit franchise remains resilient; Retail Term Deposits (RTD) grew 34% YoY.	☐
Balance Sheet Strength	Stressed	CRAR at 19.64% is safe but declining fast; Tier-1 at 16.71% necessitates the planned equity raise.	☐
Working Capital Efficiency	Deteriorating	SMA 1 & 2 remained elevated at 4.1%; X-bucket collection at 98.7% is insufficient to stop NPA accretion.	☐
Mgmt Guidance Track Record	Unreliable	Asset quality metrics have significantly worsened vs. "stabilization" signals given in Q4 FY25.	☐
Key Vulnerability	Concentration	71% of JLG book remains in Bihar/UP where systemic over-leverage is peaking.	☐
Management Tone	SOBER / Defensive	Management acknowledged "industry phenomena" but appeared reactive to the 3-lender cap impact.	☐

Sentiment: □Negative

Key Takeaways: * **Positives:** The liability franchise remains the bank's only anchor, with Retail Term Deposits (RTD) growing 34% YoY and CASA+RTD reaching 74% of the mix. The pivot to secured assets is accelerating (now 45% of book vs 35% PY), and non-MFI segments are growing at 30%+ with improving yields. * **Negatives:** The MFI crisis is not over. GNPA spiked to 11.4% and the bank reported a significant loss of ₹239 Cr. Collection efficiency collapsed to 82%, and management's reliance on "Guardrail 2.0" as an excuse suggests they were caught off-guard by borrower behavior. * **Street's Main Concern:** The timing of the "bottom." Analysts are skeptical of the Q3 recovery guidance given that July collection data showed no improvement over June. The planned ₹750 Cr equity raise is now seen as a "repair" raise rather than a "growth" raise. * **Forward Watchpoint:** The success and pricing of the ₹750 Cr equity raise and the X-bucket collection trajectory in September. If X-bucket does not return to >99%, further capital erosion is likely.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q1 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	(30)%	↓	↓	↓	Impacted by massive interest reversals on fresh MFI slippages.
NIM (AUM basis %)	5.9%	↓ (9.4% PY)	↓ (6.4% PQ)	↓	Compression driven by NPA reversals and a 239% LCR liquidity drag.
Cost of Funds %	8.1%	↑ (8.0% PY)	↑ (PQ 8.3%*)	→	*PPT shows 8.1% vs 8.3% PQ; management cited reduction in TD/Savings rates.
Cost of Deposits %	8.7% (TD)	↑	↓	↑	Calibrated rate cuts (25bps) in savings and TD starting to reflect.
CASA Ratio (%)	20.0%	↑ (19.0% PY)	↓ (21.8% PQ)	□	YoY growth of 22% in CASA, but QoQ mix softened as RTD grew faster.
Credit-Deposit Ratio %	83.0%	↓ (93% PY)	↓ (87% PQ)	↑	Intentional calibration to align with lower disbursement run-rate.
Loans Growth (% YoY)	2.3%	↓ (31% PY)	↓ (7.5% PQ)	↓	Sharp deceleration; JLG book contracted 7% QoQ.
Deposits Growth (% YoY)	18.0%	↓ (23% PY)	↓ (23% PQ)	□	Steady retail build-up despite intentional moderation in accretion.
GNPA %	11.40%	↑ (2.81% PY)	↑ (9.43% PQ)	↓	Peaking stress in Bihar/UP JLG portfolio.
NNPA %	5.00%	↑ (0.32% PY)	↑ (4.84% PQ)	↓	Provisions increased but slippages outpaced them.
Slippage Ratio %	Not Stated	↑	↑	↓	Calculated loss of ₹239 Cr suggests slippages remain at record levels.
Credit Cost (%)	8.5%	↑ (2.7% PY)	↑ (4.7% PQ)	↓	Nearly doubled QoQ; includes significant aging provisions.
Collection Efficiency %	82.0%	↓ (96% PY)	↓ (86% PQ)	↓	MFI-specific (excl. prepayments); X-bucket at 98.7% for Q1.
Capital Adequacy %	19.64%	↓ (23.18% PY)	↓ (20.93% PQ)	↓	Tier-1 at 16.71% (down from 17.88% PQ).
PAT (₹Cr)	(239)	↓ (201 PY)	↓ (19 PQ)	↓	First major quarterly loss since SFB conversion.
Fee Income Growth %	32% (YoY)	↑	↓ (52% QoQ)	□	Normalizing after accounting change in prior quarter.

2B. SEGMENT BREAKDOWN

Segment	Portfolio (Cr)	YoY Growth	Yield (Disb)	Trend	vs Co Avg	Key Development
JLG (Micro-banking)	8,163	(19.4)%	24.0%	↓	High Yield	Portfolio shrunk ₹598 Cr QoQ; disbursements slowed by management.
MSME (Retail)	4,001	46.0%	13.7%	↑	Low Yield	Yields improved 150bps YoY; 95% secured book.
Housing Loans	929*	30.0%	11.1%	↑	Low Yield	*PPT discrepancy: Chart shows 1,179 but text says 929.
CE & CV Loans	1,179	17.0%	12.8%	↑	Low Yield	Used vehicle share hit 30% of disbursements (vs 5% PY).
Wholesale Lending	2,188	17.0%	10.9%	→	Low Yield	100% secured; focusing on 'A' rated corporate FI lending.
MBBL (Micro-Biz)	909	29.0%	24.0%	↑	High Yield	Performing better than JLG; penetration only 4% of JLG base.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Credit Cost	Q2 to remain similar; Q3 onwards reduction.	Requires CE to jump from 82% to >95% in 60 days.	Missed (Q4 guidance of "peak pain" was wrong)	High
Guidance	JLG Growth	Disbursements to improve in "next few months."	High risk; requires capital raise to maintain CRAR.	Missed (De-growth of 7% QoQ)	High
Strategy	Secured Mix	Target 50/50 mix in medium term.	Currently 45%; mathematically likely as JLG book shrinks.	Delivered	Low
Strategy	Capital Raise	Raising ₹750 Cr in next few months.	Market receptivity to a "repair" raise is key.	In Progress	Medium
Strategy	CGFMU	Incremental disbursements covered from Jan-25.	Covers ~95% of new JLG/MBBL portfolio.	Delivered	Low
Macro	Industry	Guardrail 2.0 impact now fully absorbed.	Assumes no further regulatory changes.	New Claim	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Jai Chauhan	MFI Stress	Management Commentary	"What went wrong with projections and how reliable are current timelines?"	Management stated that the 3-lender cap (Guardrail 2.0) had a higher-than-anticipated impact on borrower discipline in first 3 months. Investment Implication: Future guidance is likely conservative or unreliable given the bank's inability to model regulatory behavioral changes.	None	2.5	Defensive
2	4.5	Jai Chauhan	Collections	Financials	"Collection efficiency collapsed to 82%. What operational changes are being made?"	Management has intensified efforts via a 800+ member collection team and specialized call centers for overdue accounts. Investment Implication: Opex will remain high as the bank pays for "back-to-basics" training and field supervision.	None	3.5	SOBER
3	4.5	Deepak Poddar	Credit Cost	Financials	"How should one look at	Management expects Q2 to be similar to	None	3.0	SOBER Guidance

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					credit cost going forward?"	Q1, with a drop starting from Q3 onwards. Investment Implication: FY26 is likely to be a zero-profit or loss-making year; no earnings recovery until H2.			
4	4.0	Deepak Poddar	Growth	Management Commentary	"What is the growth guidance for this year?"	Management guided for 30%+ growth in non-JLG book but refused to give a specific JLG growth target. Investment Implication: Total AUM growth will be muted (single-digit) as MFI de-growth offsets secured gains.	JLG specific target	2.0	Hedged
5	5.0	Harsh	Fundraise	Capex and Allocation	"What is the update on the fundraise process and timeline?"	Management is intensifying engagement for a ₹750 Cr raise, targeting the end of Q2 or early Q3. Investment Implication: Capital is now a binding constraint; successful raise is the only catalyst for a stock floor.	None	4.0	Specific Timeline
6	4.0	Sagar	Provisioning	Financials			None	3.5	Realistic

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						Management confirmed 62% PCR in MFI but noted that aging of NPAs will require incremental provisioning. Investment Implication: Credit costs will not fall as fast as slippages because of mandatory aging-related hits.			
7	4.0	Anand Dama	CE Pockets	Business Overview	"What is the PCR in MFI and will further provisioning be required?"	Management cited no specific state but highlighted "pockets" like Bhagalpur (Bihar) and Gorakhpur (UP) due to staff and local issues. Investment Implication: Risk is localized but recurring in the Bihar/UP core, suggesting geo-concentration remains the primary threat.	Specific state-wise %	2.5	Vague
8	4.0	Anant Mundra	MSME Stress	Financials	"Is there stress in the MSME segment as seen with other lenders?"	Management stated MSME is 95% secured and has seen no significant uptick in delinquencies	None	4.0	Specific

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						compared to MFI/Wheels. Investment Implication: The secured pivot is fundamentally sound and remains the long-term thesis anchor.			
9	4.0	Henil Shah	ROE Target	Management Commentary	"How do we see FY27 and medium-term ROE?"	Management targets 15% ROE and 25-30% growth on a 3-year horizon, assuming MFI normalization. Investment Implication: Management is asking investors to look past a "lost" FY26; valuation now depends on trust in the 3-year plan.	FY26 bridge	2.5	Optimistic
10	4.5	Harsh Satya	Margins	Financials	"What is the realistic margin number at a normalized level?"	Management expects NIMs to stabilize at 8.5%+ in the medium term as cost of funds drops and mix shifts. Investment Implication: Current 5.9% NIM is a cyclical trough; upside depends on successful MFI recovery	None	3.0	Directional

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						and CD ratio optimization.			

PATTERN FLAGS & SENTIMENT

- **The "Guardrail" Scapegoat:** Management repeatedly attributed the Q1 deterioration to the MFIN 3-lender cap. While this is an industry-wide issue, Utkarsh's 82% collection efficiency is significantly lower than some peers, suggesting underlying portfolio weakness in Bihar/UP was exacerbated by the rule. This concern was not fully resolved as July data remains flat.
- **The "H2 Recovery" Narrative:** For the second quarter in a row, management pushed the recovery timeline forward. This has created a "credibility gap" where analysts are no longer pricing in a recovery until they see the SMA 1 & 2 numbers actually trend down (currently static at 4.1%).
- **Analyst Sentiment Verdict: Hostile and Skeptical.** The tone of the call was one of frustration, particularly regarding the failed guidance from Q4. Management's refusal to give a total AUM growth target was seen as a lack of visibility. The core risk is that the capital raise might be dilutive if the market prices it as a "distress" event.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4 FY25)	This Quarter (Q1 FY26)	Direction
Bottom Line	₹19 Cr PAT (FY25 Total ₹24 Cr)	₹239 Cr Net Loss	↓ (Severe)
Asset Quality	9.4% GNPA	11.4% GNPA	↓ (Deteriorating)
Collection Efficiency	86% (MFI)	82% (MFI)	↓ (Deteriorating)
Capital Adequacy	20.9% CRAR	19.6% CRAR	↓ (Depleting)
NIMs	6.4%	5.9%	↓ (Compressed)
JLG Portfolio	-18% YoY	-7% QoQ (-19.4% YoY)	↓ (Accelerated contraction)
Credit Cost	4.7%	8.5%	↓ (Aggravated)
PCR	59.2%	77.7%	↑ (Aggressive catch-up)
Governance	Management Stability	Independent Director Exit noted	↓ (Risk increase)
Strategic Focus	Pivot to Secured	Survival & Capital Raise	↓ (Crisis footing)

STOP HERE.