Utkarsh Small Finance Bank Ltd — Aug 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Strong Beat on Asset Quality & PPoP | Narrowing Loss (PAT) **One-line:** The thesis has successfully pivoted from "Asset Quality Crisis" to "Earnings Recovery," as the bank nearly halved its credit cost and grew operating profit by 70% QoQ, though it remains marginally loss-making due to legacy provisioning.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	GNPA fell to 5.9% (vs 7.7% PQ), significantly better than the consolidation-year trajectory.	□
Earnings Quality	Improving	PPoP surged to □138 Cr (vs □81 Cr PQ) driven by NIM expansion and lower interest reversals.	□
Guidance Confidence	Strong	Management reaffirmed 15% ROE by FY28; CGFMU cover reaching 80% of MFI book provides a safety floor.	□
Management Credibility	Strong	Executed headcount rationalization (1,700 staff) and met the 50%+ secured lending target.	□
Business Quality Signal	Improving	MBBL (Micro-Business) now 30% of Micro-Banking; shifting high-yield risk to a more granular, proven base.	□
Key Q&A Exchange	Q# 4 (Risk Weights)	Management clarified the capital efficiency of CGFMU (15% of book at 0% risk weight).	□
The Street's Primary Anxiety	Growth vs Quality	Fear that growth will re-trigger stress; Mgmt countered with 99.7% collection efficiency in JLG.	□
Capital Cycle Stage	Consolidation	Shifting to productivity-led growth; no new branches planned, focusing on existing network utilization.	□
Margin / Return Ratio Trajectory	Improving	NIM rose to 6.1% (vs 5.5% PQ); CoF dropped to 7.7% (vs 7.9% PQ).	□
Pricing Power	Stable	Disbursement yields in Micro LAP at 18% and JLG/MBBL at 24% remain industry-leading.	□
FCF Conversion & Quality	Weak	Negative PAT (□34 Cr) still prevents book value accretion, though closing in on breakeven.	□
Competitive Moat Signals	Stable	Liability granularity is high; CASA + Retail Term Deposits (RTD) at 83% of total mix.	□
Balance Sheet Strength	Adequate	CRAR at 17.44%; planned □500 Cr NCD raise to add ~250bps buffer for FY27 growth.	□
Working Capital Efficiency	Improving	Net slippages reduced to □125 Cr (vs □170 Cr PQ); Credit cost fell to 2.3% (vs 5.3% PQ).	□
Mgmt Guidance Track Record	Reliable	Delivered on PPoP turnaround and asset quality cleanup as promised in Q4.	□
Key Vulnerability / Red Flag	Growth Dependency	25-30% AUM target requires a massive H2 ramp-up given only 1.7% QoQ growth in Q1.	□
Management Tone	Confident	Shifted from defensive posturing to "year of rebuilding earnings strength."	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** The asset quality "recovery" is now structural, not just optical. GNPA compressed 180bps QoQ to 5.9% without massive new write-offs, while credit costs collapsed to 2.3% (aided by a □75 Cr CGFMU mitigation). The liability franchise is outperforming, with Cost of Funds dropping to 7.7% despite high market rates. Operating profit (PPoP) is now high enough (□138 Cr) to absorb normalized credit costs, signaling an imminent return to PAT profitability. * **Negatives:** Total loan growth was lethargic at 1.7% QoQ (Net Advances grew 2.2%). While this reflects a "calibrated" approach, the bank must significantly accelerate disbursements in H2 to hit its 25-30% FY27 target. The Wheels (CV/CE) and MSME segments still contribute higher-than-average slippages compared to the "healed" JLG book. * **The Street's Concern:** Analysts pressed on the sustainability of 25-30% growth without diluting credit standards. Management's response: "We are focusing on productivity of existing branches (1,100+) rather than expansion," implying that high-margin MBBL/MSME growth will come from mining the existing 5.3M customer base. * **Forward Watchpoint:** The imminent launch of the new Finacle Core Banking System. Success here is critical for the "Utkarsh 2.0" efficiency drive and the target to reach a double-digit ROE by Q4 FY27.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary column and any number absent from PPT.

Metric	Current Qtr (Q1FY27)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	□443 Cr	5%	4.7%	□	Growth driven by NIM expansion and reduced interest reversals.
NIM (AUM basis %)	6.1%	↑ (5.9% PY)	↑ (5.5% PQ)	↑	Benefit of declining Cost of Funds and higher-yielding MBBL mix.
Cost of Funds %	7.7%	↓ (8.1% PY)	↓ (7.9% PQ)	↑	Phased reductions in savings/TD rates; full impact of repricing ongoing.
Cost of Deposits %	8.6% (TD)	Not in doc	↓ (8.9% PQ)	↑	Retail term deposits (RTD) growing; senior citizen rates cut from 9.1% to 8.25%.
CASA Ratio (%)	22%	↑ (20% PY)	↓ (24% PQ)	□	Period-end dip but CASA + RTD remains very strong at 83% of mix.
Credit-Deposit Ratio %	83.8%	↑ (83.0% PY)	↑ (83.0% PQ)	□	CD ratio remains stable; surplus liquidity of □3,200 Cr maintained.
Loans Growth (% YoY)	□19,666 Cr	1.7%	1.7%	□	Gross Loan Portfolio; YoY growth masked by prior year write-offs.
Deposits Growth (% YoY)	□22,054 Cr	3.0%	1.8%	□	Intentional calibration to align with loan growth and reduce excess liquidity.
GNPA %	5.9%	↓ (11.4% PY)	↓ (7.7% PQ)	↑	**Significant Turnaround:** organic improvement and better collection execution.
NNPA %	Not in doc	Not in doc	↓ (3.3% PQ)	↑	Implied reduction based on Net Advances/ Gross Portfolio gap narrowing.
Slippage Ratio %	□125 Cr (Net)	↓ (□400 Cr PY)	↓ (□170 Cr PQ)	↑	Net slippages (fresh minus recovery/upgrades) improved materially.
Credit Cost (%)	2.3%	↓ (8.5% PY)	↓ (5.3% PQ)	↑	CGFMU scheme provided □75 Cr mitigation in P&L this quarter.
Collection Efficiency %	99.7%	↑ (98.6% PY)	↑ (99.7% PQ)	→	X-bucket JLG efficiency maintained at record levels for two quarters.
Capital Adequacy (%)	17.44%	↓ (19.64% PY)	↓ (17.71% PQ)	↓	Tier-1 at 15.13%. CRAR remains above regulatory threshold.
PAT (□Cr)	(□34 Cr)	↑ (□-239 Cr PY)	↑ (□-188 Cr PQ)	□	Loss narrowed by 82% QoQ; clear path to breakeven in Q2.
Fee Income Growth %	(14)%	↓	↑ (12% PQ)	□	QoQ recovery driven by higher disbursement volumes (up 49% YoY).

2B. SEGMENT BREAKDOWN

Segment	Portfolio (₹ Cr)	YoY Growth	Yield (Disb)	Trend	vs Co Avg	Key Development
JLG (Micro-Banking)	5,063	(38)%	24%	↓	High Yield	Share of book dropped to 26% (vs 90% in 2020); now stabilized.
MSME (Retail Assets)	4,482	12%	12.8%	↑	Low Yield	95% secured; Micro LAP segment yielding ~18%.
MBBL (Micro-Biz)	2,246	147%	24%	↑	High Yield	Now 31% of Micro-Banking book; 0.3% NPA on post-Apr '25 book.
Wholesale Lending	2,921	34%	10.4%	↑	Low Yield	100% secured against property; >75% rated "A" or higher.
Housing Loans	1,005	8%	10.8%	↑	Low Yield	Average ticket size ₹20-25 Lakh; conservative affordable focus.
CV & CE	1,090 (Mar'26)	(8)%	12.2%	↓	Low Yield	Strategic pivot: Used vehicles = 30% of disbursements.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Loan Growth	25% to 30% YoY.	Needs ~₹4,600 Cr growth in next 9 months; Q1 only added ₹334 Cr. High hurdle for H2.	**Missed** (Current 1.7% QoQ)	High
Guidance	ROE	15% by FY28; 2-digit by exit of FY27.	Implies PAT of ₹70-80 Cr/qtr by Q4FY27. Feasible if credit costs stay <2.5%.	**Improving** (Loss narrowing)	Medium
Guidance	Credit Cost	3.0% to 3.5% for FY27.	Current Q1 is at 2.3%; well within target range.	**Beat**	Low
Guidance	NIM	~8% (Steady State).	Current 6.1% is rising; needs interest reversals to stop and yields to hold.	**Improving**	Low
Strategy	Secured Mix	~55% Secured Lending.	Currently at 51%; on track to hit by FY27 end.	**On Track**	Low
Strategy	Branch Strategy	No expansion; focus on productivity.	Headcount rationalized by 1,700; Opex/ Total Assets stable at 6.7%.	**Delivered**	Low
Strategy	Technology	Launch new Core Banking (Finacle).	"In progress" per PPT; critical for digital scalability and risk monitoring.	**On Track**	Medium
Balance	Capital Raise	₹500 Cr Tier-2 NCD.	To be raised in FY27; will boost CRAR by ~250bps.	**New Plan**	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Shreya / Ageless Capital	MFI Rundown	Business Overview	"What would be the portfolio rundown of your JLG portfolio like going ahead in the year... how much do you plan to run down the book?"	Management clarified they do not intend to run down JLG; rather, they aim to stabilize it at ~25% of the total book while growing it by 15-20%. Investment Implication: Confirms JLG remains a core, though non-dominant, pillar of the high-yield strategy rather than a legacy segment being exited.	None	5.0	Specific
2	3.5	Shreya / Ageless Capital	Capital Raise	Financials	"Any additional fundraises that are planned in the medium term?"	Management highlighted the □500 Cr NCD raise and the premature repayment of a □195 Cr (12.5% coupon) tranche to save □20 Cr in interest. Investment Implication: Efficient capital management; shifting from high-cost debt to Tier-2 NCDs improves NIM and CRAR simultaneously.	None	5.0	Quantified
3	5.0	Sagar / Spark PWM	MBBL Sourcing	Business Overview	"Is this [MBBL] portfolio completely to the existing customers... or are we sourcing some new	Management stated that 99.9% of MBBL growth comes from existing customers with 2-3 cycles of proven behavior. Investment	None	5.0	Specific

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					to banking customers?"	Implication: Low-risk growth strategy; the bank is mining its own "gold standard" MFI customers to grow the individual business loan book.			
4	4.5	Sagar / Spark PWM	Recovery Rates	Financials	"Why is the recovery being so slow... out of the INR69 crores that you reported in this quarter, how much was it on the the unsecured MFI book?"	Recovery in MFI was □28 Cr; secured recovery (MSME/ Housing) takes longer due to the 6-7 month SARFAESI process. Investment Implication: MFI recoveries are organic and steady; secured recoveries are back-ended due to legal timelines but have high collateral support.	None	4.0	Directional
5	4.5	Saurabh / SSJ Finance	Growth vs Risk	Management Commentary	"What gives you this confidence that you can grow the book by 25% to 30% each year... looking at the history of the industry?"	Management emphasized that they are at <20% penetration of their existing 5.3M base and have 1,100+ branches with significant spare capacity. Investment Implication: The growth thesis is built on productivity (sweating assets) rather than aggressive	None	4.0	Strategic

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						geographic expansion into unknown territories.			
6	5.0	Ashlesh / Kotak	CGFMU Details	Financials	"What proportion of these MFI NPAs are now covered under the CGFMU scheme?"	□170 Cr of Gross NPA is covered; only □17 Cr of incremental provisioning is needed for this bucket. Investment Implication: The CGFMU "shield" is working; it has significantly lowered the P&L impact of new-generation MFI slippages.	None	5.0	Forensic
7	4.0	Ashlesh / Kotak	Risk Weights	Financials	"Does the CGFMU scheme allow you to apply a lower risk weight to the covered set of loans?"	Management confirmed a 0% risk weight applies to 15% of the total disbursement pool (the crystallized portfolio cap). Investment Implication: Provides a significant boost to CRAR as the book grows, reducing the need for frequent equity dilution.	None	5.0	Technical
8	3.5	Henil Shah	PPoP Growth	Financials	"Our operating profit is not rising. The growth in operating profit is very slow."	Management countered that PPoP grew fivefold from Q4 (if looking at December lows) and is benefiting from the 40bps reduction in	None	4.0	Reassuring

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						cost of funds. Investment Implication: Operating leverage is starting to kick in; flat costs against rising AUM should drive disproportionate PPoP growth in H2.			

PATTERN FLAGS & SENTIMENT * **The "CGFMU Safety Net":** A significant portion of the call was dedicated to understanding the credit guarantee scheme. Analysts were pleasantly surprised by the 80% coverage and the 0% risk-weight benefit. This concern about "catastrophic MFI cycles" appears partially resolved, as the bank has essentially insured its downside. * **The "Asset Pivot" Validation:** Analysts questioned the jump in MBBL. Management’s defense—that these are "cycle 3+" JLG customers graduating to individual loans—satisfied the room. The anxiety regarding "new-to-bank" MFI risk was quelled by the 99.9% internal-sourcing figure. * **Capital & Efficiency:** The proactive repayment of high-cost debt (12.5% coupon) and headcount rationalization showed a management team focused on the "middle of the P&L." This boosted credibility regarding the 15% ROE target.

Analyst Sentiment Verdict: Analysts were **constructive and focused on execution**. The hostility seen in prior quarters regarding MFI stress has vanished, replaced by forensic questioning on capital efficiency and segment-level NPAs. Management's credibility has **improved** significantly due to the GNPA beat and the specific, quantified nature of their recovery plan. The primary unresolved issue is the **H2 growth hurdle**; analysts will be watching if the 30% target leads to a compromise in the currently stellar 99.7% collection efficiency.

GUIDANCE GAPS REVEALED IN Q&A * **AUM Growth Path:** Management claimed a 25-30% FY27 growth target, but Q1 only delivered 1.7% QoQ. The Q&A revealed that H1 is intentionally "consolidation focused," shifting a massive execution burden to H2. Risk to thesis: Medium (Execution risk).

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4FY26)	This Quarter (Q1FY27)	Direction
PAT Performance	₹-188 Cr Loss	**₹-34 Cr Loss**	↑
Operating Profit (PPoP)	₹81 Cr	**₹138 Cr**	↑
Asset Quality (GNPA)	7.7%	**5.9%**	↑
Net Slippages	₹170 Cr	**₹125 Cr**	↑
Credit Cost	5.3%	**2.3%**	↑
Net Interest Margin	5.5%	**6.1%**	↑
Cost of Funds	7.9%	**7.7%**	↑
CGFMU Coverage	70% of MFI book	**80% of MFI book**	↑
MBBL Growth	₹2,034 Cr (122% YoY)	**₹2,246 Cr (147% YoY)**	↑
Headcount	Not stated as trend	**1,700 staff rationalized**	↑
Capital Plan	None specific	**₹500 Cr NCD + 12.5% Debt Repayment**	↑

STOP HERE.