

Utkarsh Small Finance Bank Ltd — Feb 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss / Loss **One-line:** The thesis has transitioned from a high-growth diversification play to a deep-cycle restructuring story as systemic over-indebtedness in the JLG (MFI) book triggered a net loss and forced management to cannibalize its growth engine to save the balance sheet.

Dimension	This Quarter (Q3 FY25)	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Weak Miss	Net Loss of ₹168 Cr vs ₹51 Cr profit in Q2; GNPA surged from 3.88% to 6.17%.	□
Earnings Quality	Low	Negative PAT; Interest income hit by ₹100 Cr+ reversals; reliance on floating provision request to RBI.	□
Guidance Confidence	Weak	Prior guidance on credit cost (3.5-4.5%) was breached in a single quarter (8.8%); no new FY26 guidance given.	□
Management Credibility	Neutral	Management is being transparent about the "pain peak," but failed to anticipate the velocity of the JLG deterioration.	□
Business Quality Signal	Deteriorating	Core JLG segment (51% of book) is in a technical recession; secured shift is reactive rather than proactive.	□
Key Q&A Exchange	Q1 + Credit Cost	Mgmt confirmed Q3 is likely the "provisioning peak" but admitted recovery is delayed to Q1 FY26.	□
The Street's Primary Anxiety	Solvency/Recovery	Can the bank survive the JLG cycle without a capital raise? Mgmt: CRAR is healthy at 21.1%.	□
Capital Cycle Stage	Consolidation	Halting JLG growth (de-grew ₹1,200 Cr since Mar-24) to prioritize collections.	□
Margin / Return Trajectory	Deteriorating	NIM crashed to 7.5% (from 8.8% QoQ); ROA/ROE turned deeply negative.	□
Pricing Power	Stable	Secured yields (MSME/Housing) up 50-130 bps YoY; pricing power remains in non-MFI niches.	□
FCF Conversion & Quality	Distorted	Operating profit hit by NPA reversals; surplus liquidity of ₹2,500 Cr acts as a safety drag.	□
Competitive Moat	Stable	Liability franchise remains robust; deposits grew 33% YoY despite asset-side turmoil.	□
Balance Sheet Strength	Adequate	Tier-1 at 17.94% and total CRAR 21.1% provides a sufficient cushion against losses.	□
Working Capital Efficiency	Deteriorating	SMA 1 & 2 at 5.6% (up from 4.4% QoQ) implies a massive future NPA pipeline.	□
Mgmt Guidance Track Record	Unreliable	Massive volatility in credit cost expectations suggests poor visibility on borrower-level leverage.	□
Key Vulnerability	Geo-Concentration	70% of JLG portfolio in Bihar/UP is suffering from synchronized "credit supply tightening."	□
Management Tone	SOBER & Defensive	Admitted "recent pain" is "industry-level" but emphasized stabilization of the X-bucket.	□

Sentiment: ☐Negative

Key Takeaways: * **Positives:** The liability franchise is the primary anchor; Retail Term Deposits (RTD) grew 41% YoY, and the CD ratio improved to 86% (excl. refinance). The bank successfully raised secured lending to 41% of the book, with MSME growing 58% YoY and generating 13.1% yields. * **Negatives:** Asset quality has imploded. The "Guardrail 2.0" (4-lender limit) has effectively frozen credit to 13-25% of the bank's MFI borrowers, leading to a ₹650 Cr slippage in micro-banking this quarter alone. NIM compression from 9.4% to 7.5% in six months is catastrophic for a high-yield lender. * **Street's Main Concern:** Analysts are focused on the "SMA 1 & 2" bucket of 5.6% and the timeline for NPA normalization. Management's response is that "X-bucket" (current) collection efficiency has hit 99% in February, suggesting the *inflow* of new stress is stopping, even if the *stock* of NPAs remains high. * **Forward Watchpoint:** Monitor the RBI's decision on the ₹190 Cr floating provision usage; if denied, Q4 could see further capital erosion if slippages don't subside.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures are primary. Concall used for commentary and unlisted metrics.

Metric	Current Qtr (Q3FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	0.0%	↓ (20% PY)	↓ (14% PQ)	↓	Growth flat YoY as interest reversals on NPAs negated portfolio yields.
NIM (AUM basis %)	7.5%	↓ (9.7% PY)	↓ (8.8% PQ)	↓	Dragged by ₹100 Cr+ interest reversal and ₹2,500 Cr surplus liquidity.
Cost of Funds %	8.3%	↑ (7.9% PY)	↑ (8.2% PQ)	↓	Rising due to high-cost retail term deposit mobilization.
Cost of Deposits %	8.9% (TD)	↑	↑	↓	Blended CASA + TD cost rising; RTD is the growth driver.
CASA Ratio (period end %)	19.7%	↓ (21.0% PY)	→ (19.6% PQ)	→	Stabilized QoQ but remains below historical 20%+ levels.
Credit-Deposit Ratio %	92.0%	↓ (99.0% PY)	↓ (93.0% PQ)	↑	Strategic reduction to 86% (excl. refinance) to bolster liquidity.
Loans Growth (% YoY)	16.2%	↓ (31% PY)	↓ (28% PQ)	↓	Deliberate slowdown; JLG book de-grew ₹1,200 Cr since Mar-24.
Deposits Growth (% YoY)	33.0%	↓ (40% PY)	↓ (40% PQ)	↓	Still healthy but moderated from previous hyper-growth.
GNPA %	6.17%	↑ (3.04% PY)	↑ (3.88% PQ)	↓	Sharp surge driven by Bihar/UP microfinance stress.
NNPA %	2.50%	↑ (0.19% PY)	↑ (0.89% PQ)	↓	Reflects heavy slippages outpacing provisioning capacity.
Slippage Ratio %	15.6% (est)	↑	↑	↓	₹738 Cr fresh slippages; ₹650 Cr from micro-banking.
Credit Cost (%)	8.8%	↑ (2.7% PY)	↑ (4.3% PQ)	↓	Provisioning peak hit in Q3 to clean the book.
Collection Efficiency %	88.0%	↓ (96.0% PY)	↓ (92.0% PQ)	↓	Overall CE hit by over-leverage; X-bucket is higher at 99% in Feb.
Capital Adequacy %	21.10%	↓ (23.18% PY)	↓ (22.43% PQ)	□	Healthy but declining due to quarterly loss.
PAT (₹Cr)	(168)	↓ (L-vs-P)	↓ (L-vs-P)	□	First loss since listing; driven by credit costs and NII hit.
Fee Income Growth %	28.0%	↑	↑	□	Strong recovery from write-off collections and PSLC.

2B. SEGMENT BREAKDOWN

Segment	Portfolio (₹ Cr)	YoY Growth	Yield (Disb)	Trend	vs Co Avg	Key Development
JLG (Micro-banking)	9,255	1.4%	24.0%	↓	High Yield	De-growth of ₹870 Cr QoQ; focus 100% on recovery.
MSME (Retail)	3,453	58.0%	13.1%	↑	Low Yield	Disbursement yields improved 130 bps YoY; 95% secured.
Housing Loans	855	36.0%	11.2%	↑	Low Yield	Yields improved 50 bps YoY; focus on ₹20-25L tickets.
Wholesale Lending	2,142	21.7%	11.0%	→	Low Yield	Stable corporate SME segment; 100% secured by property.
MBBL (Micro-biz)	801	45.0%	24.0%	↑	High Yield	"Graduating" JLG customers; better asset quality than JLG.
CE & CV Loans	1,134	35.0%	12.5%	↑	Low Yield	Shifting mix to Used Vehicles (20% of disb) for higher yields.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Credit Cost	Provisioning has "peaked" in Q3 FY25.	Requires slippages to drop <₹400 Cr in Q4; current run-rate is ₹738 Cr.	Missed (prior 4.5% guide)	High
Guidance	Loan Growth	JLG disbursements to normalize by Q2 FY26.	Needs CE to stay >99%; currently in "freeze" mode.	Missed (prior 30% guide)	Medium
Strategy	Secured Mix	Continuing to increase share of secured loans.	On track: Now 41% (vs 34% in Mar-24). Target is >50%.	Delivered	Low
Strategy	Reverse Merger	Complete by early Q3 FY26.	Regulatory NOCs received; petition filing imminent.	On Track	Low
Strategy	Collection	99% X-bucket CE by Q4 FY25.	Currently at 98.5-99% in Feb-25.	Improving	Medium
Balance	CD Ratio	Consistent decline in CD ratio.	Achieved: 92% (86% net of refinance).	Delivered	Low

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	Deepak Poddar / Sapphire	Provisioning	Financials	"Is the ₹420 Cr provision the peak and will it reduce from Q4?"	Management confirmed Q3 is the expected peak and credit costs will begin a downward trend in Q4, with significant reduction by Q1 FY26. Investment Implication: Q4 earnings may remain suppressed but shouldn't show a loss if slippages moderate as claimed.	None	4.0	Directional
2	4.5	Ashlesh Sonje / Kotak	Indebtedness	Financials	"What % of MFI borrowers have >4 lenders?"	Management stated 13% have 4+ lenders and 12% have 3+ lenders (excluding Utkarsh). Investment Implication: Roughly 25% of the book is at high risk of being frozen out of the formal credit system due to guardrails.	None	5.0	Specific & Quantified
3	4.5	Ashlesh Sonje / Kotak	Collection	Financials	"What is the trend of X-bucket collection efficiency?"	Management reported CE improved from 96-97% in Q2 to 98% in Dec, 98.5% in Jan, and ~99% in Feb (thru 15th). Investment Implication: If X-bucket CE	None	4.5	Precise Data

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						holds at 99%, the "fresh" stress is ending, allowing the bank to work through the existing NPA pool.			
4	4.0	Mohanraj	Policy	Strategy	"Will Karnataka ordinance or CGFMU impact the portfolio?"	Management clarified they have no presence in Karnataka and that the majority of the unsecured JLG book will be covered under the CGFMU scheme. Investment Implication: CGFMU registration provides a long-term hedge against systemic MFI failure, though it won't help Q4 FY25.	None	4.0	Clear Policy
5	4.0	Shailesh / Centrum	Merger	Strategy	"What is the timeline for the reverse merger and valuation?"	Management confirmed the 6.99x swap ratio and expects consummation by early Q3 FY26. Investment Implication: The merger remains a positive liquidity and governance catalyst for FY26.	None	5.0	Specific Timeline
6	3.5		Geography				None	4.0	

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
		Vinay N / Hathway		Business Overview	"Why were Bihar and UP hit so hard?"	Management attributed it to 7-stage elections, heatwaves, floods, and the Aug 1st credit guardrails hitting specific pockets like Gorakhpur and Bhagalpur. Investment Implication: High geographic concentration (70%) in volatile regions remains the primary operational risk.			Granular Detail
7	3.0	Purshottam	IPO/ Credibility	Governance	"Was this NPA pain hidden during the IPO?"	Management vehemently denied hiding stress, stating that MFI loans are 14-24 months in tenure and this stress was triggered solely by Aug-24 guardrails. Investment Implication: Credibility hinge is now on Q1 FY26 delivery; any further "hidden" stress would be terminal for mgmt trust.	None	3.0	Defensive
8	4.0		KYC	Governance	"What is the impact	Management noted a 6-8%	None	4.5	Quantified Impact

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
		Ashlesh Sonje / Kotak			of mandatory Voter ID validation since Jan?"	incremental dropout rate in disbursements due to stringent Voter ID backend validation. Investment Implication: Slower growth is the price of better asset quality; growth will remain muted through H1 FY26.			

PATTERN FLAGS & SENTIMENT The "X-Bucket Recovery" Narrative: Management's defense rests entirely on the improvement of the X-bucket (current) collection efficiency to 99% in February. The argument is that while the NPA *stock* is high (6.17%), the *flow* of new delinquencies has stopped. Analysts remained skeptical, questioning why SMA 1 & 2 (5.6%) are still rising if the regular bucket is performing so well.

Structural Yield Shift: Management is signaling a permanent shift in business mix. By pushing into Used Vehicles, Gold Loans, and Micro LAP (18%+ yields), they hope to offset the margin compression from shrinking the JLG book. However, the operational pivot from "group lending" to "individual collateralized lending" is a high-execution risk transition.

Analyst Sentiment Verdict: Skeptical and Sober. The mood was one of damage assessment. While management provided granular data on collections, the massive breach of prior credit cost guidance has created a trust deficit. The "IPO hiding" question from an individual investor reflected a broader retail frustration with the stock's 50% decline. Credibility now depends on Q1 FY26 showing a meaningful decline in GNPA.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY25)	This Quarter (Q3 FY25)	Direction
Credit Cost	4.3%	8.8%	↓ (Aggravated)
Profitability	₹51 Cr (Profit)	(₹168 Cr) (Loss)	↓ (Deteriorated)
NIM	8.8%	7.5%	↓ (Compressed)
GNPA	3.88%	6.17%	↓ (Deteriorated)
JLG Growth	-5.1% QoQ	-8.6% QoQ	↓ (Contracting)
Secured Mix	38%	41%	↑ (Improving)
X-Bucket CE	96-97.5%	98-99% (Feb-25)	↑ (Improving)
CD Ratio	93%	92%	↑ (Bolstering)
Slippages	₹356 Cr	₹738 Cr	↓ (Deteriorated)
SMA 1 & 2	4.4%	5.6%	↓ (Deteriorated)
Voter ID Policy	Optional/OVD	Mandatory & Validated	↑ (Tightening)

STOP HERE.