

Utkarsh Small Finance Bank Ltd — Feb 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss on Earnings | Strong Beat on Leading Indicators **One-line:** The "solvency crisis" has officially ended with the ₹950 Cr rights issue, and the "asset quality crisis" has likely peaked as GNPA compressed for the first time in a year (11.0% vs 12.4% PQ), shifting the thesis from survival to reconstruction.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	PAT loss widened to ₹375 Cr; PPoP fell to -₹44 Cr due to NII compression.	□
Earnings Quality	Low (Distressed)	Losses driven by high credit costs (9.6%) and interest reversals.	□
Guidance Confidence	Improving	Management provided a clear roadmap for FY27 (10% ROE) and FY28 (15% ROE).	□
Management Credibility	Improving	Successfully executed the rights issue; transparently shared JLG 1-90 pool data.	□
Business Quality Signal	Improving (Structural Pivot)	Secured lending hit 50% target; MBBL now 19% of micro-banking book.	□
Key Q&A Exchange	Q# 3 (Slippage pool)	JLG 1-90 pool dropped from ₹378 Cr (Oct) to ₹163 Cr (Jan).	□
The Street's Primary Anxiety	Continued MFI Bleeding	Analysts focused on slippage run-rates; Jan-26 data suggests a sharp recovery.	□
Capital Cycle Stage	Repair / Reconstruction	Shift from capital burn/preservation to consolidation and productivity.	□
Margin / Return Ratio Trajectory	Bottoming Out	NIM held at 5.1% (reversal-impacted); CoF improved to 8.1%.	□
Pricing Power	Stable (Asset-specific)	MSME/Housing yields optimized; CV used-vehicle mix increasing.	□
FCF Conversion & Quality	Distorted	Operating loss persists; however, liquidity is at a surplus (₹4,700 Cr).	□
Competitive Moat Signals	Improving (Liability)	Retail Term Deposits (RTD) grew 24% YoY; CASA+RTD at 82%.	□
Balance Sheet Strength	Strong (Post-Rights)	CRAR at 20.11% provides a 24-month runway for growth.	□
Working Capital Efficiency	Improving	X-bucket collection efficiency reached 99.5% in Dec-25.	□
Mgmt Guidance Track Record	Mixed	Correct on secured pivot; past calls on MFI bottom were premature.	□
Key Vulnerability / Red Flag	Geography & PPoP	75% JLG exposure in Bihar/UP; Bank is still losing money at an operating level.	□
Management Tone	Cautiously Optimistic	Shifted from defensive to forward-looking growth targets.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The primary overhang—solvency—is resolved via the ₹950 Cr rights issue. Asset quality has finally hit a turning point: GNPA dropped 140bps QoQ to 11.0%, and the critical JLG 1-90 DPD pool has collapsed from ₹378 Cr in October to ₹163 Cr in January. The strategic pivot is ahead of schedule, with secured assets hitting the 50% mix target. The liability franchise remains the bank's "crown jewel," with Retail Term Deposits growing 24% YoY and a cost of funds (CoF) reduction of 20bps. * **Negatives:** The bank is still operating in the red; PPOP is negative (₹44 Cr), meaning the core engine isn't yet covering operating expenses. Legacy MFI stress in Bihar/UP remains high (NPA at 20.5% in MB), and the JLG book continues to shrink (-16% QoQ), which will weigh on NII growth until the new secured book gains enough mass to compensate. * **Street's Main Concern:** "When will the bleeding stop?" Management responded with specific Jan-26 data showing 99.5%+ collection efficiency and the first month of JLG book growth in over a year. * **Forward Watchpoint:** NII trajectory in Q4. As interest reversals from fresh slippages decrease, the "true" NIM should re-emerge above 7-8%.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q3 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	(32)%	↓	↓	↓	Impacted by interest reversals and a shrinking JLG portfolio.
NIM (AUM basis %)	5.1%	↓ (7.5% PY)	→ (5.1% PQ)	□	Reversal-heavy; guidance is for ~8.5% NIM by FY28 as reversals subside.
Cost of Funds %	8.1%	↓ (8.3% PY)	↓ (8.3% PQ)	↑	Calibrated rate cuts in savings/TDs; CoF down 20bps QoQ.
Cost of Deposits %	8.9% (TD only)	↑	→	→	Focus on Retail TDs (24% growth) vs. Institutional TDs (repaid ₹2,000 Cr+).
CASA Ratio (period end %)	22.0%	↑ (20% PY)	↓ (21% PQ)	□	CASA + RTD ratio improved to 82% (vs 70% YoY).
Credit-Deposit Ratio %	79.0%	↓ (92% PY)	→ (79% PQ)	→	Intentional surplus liquidity (₹4,700 Cr) maintained post-rights issue.
Loans Growth (% YoY)	(10)% (Net Adv)	↓	↓	↓	JLG book contracted 16% QoQ; overall Gross Loan Book down 3.9% YoY.
Deposits Growth (% YoY)	5.0%	↓	↓	↓	Tepid total growth as bank repaid high-cost institutional deposits.
GNPA %	11.00%	↑ (6.2% PY)	↑ (12.4% PQ)	↑	First QoQ improvement ; Management signals stress has peaked.
NNPA %	4.50%	↑ (2.5% PY)	↑ (5.0% PQ)	↑	Net NPAs improved 50bps QoQ; PCR at 59.2%.
Slippage Ratio %	~2.3% (est)	↑	↓	↑	Fresh slippages in MB JLG reduced from ₹378 Cr (Oct) to ₹163 Cr (Jan).
Credit Cost (% funded assets)	9.6%	↑ (8.8% PY)	↓ (9.7% PQ)	↑	Includes aging provisions; FY27 guidance set at 3.0%-3.5%.
Collection Efficiency %	82.0%	↓ (88% PY)	↑ (80% PQ)	↑	MB Only; X-bucket CE at 99.5% in Dec-25 and Jan-26.
Capital Adequacy / CET1 %	20.11%	↑ (17.2% PY)	↑ (17.2% PQ)	↑	Boosted by ₹950 Cr rights issue ; Tier-1 at 17.10%.
PAT (₹Cr)	(375)	↓	↓	↓	Loss widened due to negative PPop and continued high provisions.
Fee Income Growth %	(24)%	↓	↓	↓	Lower MFI disbursements impacted processing fee income.

2B. SEGMENT BREAKDOWN

Segment	Portfolio (₹ Cr)	YoY Growth	Yield (Disb)	Trend	vs Co Avg	Key Development
JLG (Micro-Banking)	6,046	(31)%	24.0%	↓	High Yield	16% QoQ contraction; 20.5% segment GNPA, but Jan-26 book turned positive.
MSME (Retail)	4,275	24%	13.1%	↑	Low Yield	Secured LAP focus; yields slightly down QoQ but up YoY.
MBBL (Micro-Biz)	1,444	80%	24.0%	↑	High Yield	Now 19% of MB book; higher resilience than JLG due to better underwriting.
Housing Loans	1,134	13%	11.1%	↑	Low Yield	Avg ticket ₹20-25 lakh; 30% of portfolio is affordable housing (<₹30 lakh).
CE & CV	1,102	(3)%	12.8%	↓	Low Yield	High GNPA (12.2%); pivot to used-vehicles (35% of disb) to boost yields.
Wholesale Lending	2,416	13%	10.6%	↑	Low Yield	100% secured; 74% credit rated "A" or higher.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	ROE	15% by FY28; 10% by FY27.	Needs PAT of ~₹450 Cr in FY28; implies credit costs must fall to <2%.	Missed (Current: -56%)	High
Guidance	NIM	~8.5% by FY28.	Plausible as reversals cease and CoF drops; current "clean" NIM is ~8%+.	On Track (Adjusted)	Low
Guidance	Credit Cost	3%-3.5% (FY27); <2.5% (FY28).	Requires fresh slippages to stay below ₹150 Cr/month.	Missed (Q3: 9.6%)	Medium
Strategy	Secured Mix	>50% Secured Assets.	Achieved 50% in Dec-25; goal reached 1 year early.	Delivered	Low
Strategy	Branches	No new branch expansion.	Focus on productivity of 30% <3-year-old branches.	New Strategy	Low
Strategy	Amalgamation	Reverse merger with NCLT.	First hearing Jan-15; order awaited.	On Track	Low
Capital	Runway	No capital raise for 12m.	CRAR 20.1% is sufficient for 25% AUM growth.	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	Credit Cost	Financials	"What is the steady-state credit cost trajectory for FY27 and FY28?"	Management guided for 3-3.5% credit cost in FY27 and <2.5% in FY28 to reach 15% ROE. Investment Implication: The path to profitability is back-ended to FY28; FY27 will be a year of 10% ROE recovery.	None	4.0	Clear Guidance
2	4.0	Avnish Tiwari / Vaikarya	Capital	Financials	"What level of CET1/Tier-1 is comfortable before the next raise?"	Management expects current capital (Tier-1: 17.1%) to last at least 12 months, supported by Q1 FY27 return to profitability. Investment Implication: Dilution risk is removed for the medium term.	None	4.0	Specific
3	5.0	Avnish Tiwari / Vaikarya	Asset Quality	Financials	"What is the monthly slippage run rate in the JLG book?"	Management revealed JLG 1-90 pool dropped from ₹378 Cr in October to ₹163 Cr in January, with X-bucket CE at 99.5%+. Investment Implication: This is the strongest signal yet that the	None	5.0	High Signal

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						stress has peaked and is now receding.			
4	4.0	Avnish Tiwari / Vaikarya	NBFC Book	Financials	"Are there any downgrades or stress in the NBFC/ Wholesale portfolio?"	Entire NBFC book is on 0 PAR (no slippages), though one exposure (TruCap) was downgraded to BB. Investment Implication: Non-MFI wholesale stress is negligible, protecting the secured portion of the book.	None	4.0	Verifiable
5	3.5	Sagar / Spark	Deposits	Financials	"Why did deposit growth decline sequentially?"	Management intentionally repaid ₹2,000 Cr+ of institutional deposits to reduce CoF given surplus liquidity post-rights. Investment Implication: Margin-accretive strategy; reflects confidence in liquidity position.	None	4.0	Logical
6	4.0	Sagar / Spark	PCR	Financials	"What is the PCR on JLG and CV portfolios?"	PCR stands at 68.5% for JLG and 34% for CV; bank follows 365-day write-off policy. Investment Implication:	None	4.0	Verifiable

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						High provision coverage in MFI suggests most pain is already recognized.			
7	4.5	Sagar / Spark	Multi-lending	Business Overview	"What is the exposure of Utkarsh plus 3 lenders?"	Exposure has dropped to 8% of the portfolio from 25% a year ago. Investment Implication: Major toxic risk from over-leverage has been largely purged from the active book.	None	4.5	Specific
8	3.5	Sagar / Spark	Growth	Business Overview	"Why are other retail lending segments (CE/CV/ Housing) not growing YoY?"	Management focused on collections and pivoting CV to used vehicles (35% mix) to improve yields. Investment Implication: Quality over quantity; bank is prioritising yield optimization over raw AUM growth.	None	3.5	Directional
9	4.0	Sagar / Spark	CV Asset Quality	Financials	"What is the GNPA of the CV/Wheels loan book?"	Segment GNPA is 12.2%; management claims new portfolio created in last 15 months is	None	4.0	Verifiable

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						performing well. Investment Implication: The CV book remains a drag on asset quality, requiring a longer workout than MFI.			
10	3.0	Shreya Chatterjee	Opex	Financials	"Where do you see the cost-to-income ratio going in FY27/28?"	Targeted 57% by FY28 (currently 110%) via productivity gains and no new branch additions. Investment Implication: Operating leverage is the key to FY28 ROE; implies a massive ₹700 Cr+ PPOP swing.	None	3.0	Ambitious
11	3.5	Bhumin Shah / Equirus	PPoP	Financials	"Will Q4 be green on a PBT basis?"	Management declined to give a specific Q4 PAT target but expects "meaningful improvement" in all ratios. Investment Implication: Q4 likely near breakeven; real profitability begins in Q1 FY27.	Q4 PAT target	2.0	Hedged
12	4.0	Ashlesh Sonje / Kotak	Collection	Financials	"Do you expect any disruption in the 99.6%	Management is confident of stability given JFMs	None	4.0	Confident

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					collection efficiency in Q4?"	are seasonally better and field teams are fully staffed. Investment Implication: High conviction in the JLG recovery trajectory.			
13	3.5	Ashlesh Sonje / Kotak	Staff Cost	Financials	"Will staff costs decline now that stress is receding?"	No, staff will be repurposed from collection to revenue/NPA recovery to maximize P&L gains. Investment Implication: Opex will remain sticky; growth must outpace costs.	None	3.0	Logical

PATTERN FLAGS & SENTIMENT * **The "Turning Point" Narrative:** Management was remarkably specific with January 2026 data. By sharing that the JLG 1-90 pool collapsed by ~57% in three months, they addressed the skepticism regarding their "peak stress" claim. The anxiety over MFI over-leverage is being resolved by the data showing the 4+ lender pool has shrunk from 25% to 8%. * **Solvency vs. Profitability:** The conversation shifted from "will the bank survive" (resolved by capital) to "how soon will it earn." Management's 15% ROE guidance for FY28 is ambitious but anchored in a clear strategy of zero-capex (no branches) and high-yield secured growth. * **Analyst Sentiment Verdict: Skeptical but Turning Constructive.** Analysts were forensic in their questioning of CV stress and MFI slippages, but the tone was noticeably less hostile than the prior quarter. The ₹50 Cr capital buffer has removed the "tail risk," allowing analysts to focus on the speed of the ROE recovery. The unresolved issue remains the negative PPop; until the bank shows it can generate operating profits, the recovery remains "propped up" by the rights issue capital.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY26)	This Quarter (Q3 FY26)	Direction
Solvency Risk	High (CRAR 17.2%)	Negligible (CRAR 20.1%)	↑
Asset Quality Trend	Deteriorating (GNPA 12.4%)	Improving (GNPA 11.0%)	↑
JLG 1-90 Pool	₹378 Cr (Oct)	₹163 Cr (Jan)	↑
PPoP	₹-3 Cr	₹-44 Cr	↓
Secured Mix	47%	50% (Target met)	↑
Branch Strategy	Expanding	Halted (Consolidation)	↑
ROE Guidance	Long-term 15%	Quantified FY27 (10%)	↑
Liquidity	Adequate	High Surplus (₹4,700 Cr)	↑

STOP HERE.