Utkarsh Small Finance Bank Ltd — May 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss / Asset Quality Crisis **One-line:** The thesis has transitioned from a high-growth diversification play into a "survival and pivot" story, where the robust liability franchise is the only anchor preventing a total breakdown as the JLG (MFI) book enters a full-blown credit cycle.

Dimension	This Quarter (Q4 FY25)	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Weak Miss	GNPA surged to 9.4% (from 6.2% QoQ); PAT hit by □40 Cr interest reversals.	□
Earnings Quality	Low	PPoP helped by □95 Cr accounting change (fee income); floating provisions (□190 Cr) fully exhausted.	□
Guidance Confidence	Weak	Management refused to give FY26 guidance; prior assertions of "peak pain" in Q3 were incorrect as GNPA rose 320 bps.	□
Management Credibility	Neutral	Transparent about stress but caught off-guard by the velocity of MFI deterioration; senior management exits raise flags.	□
Business Quality Signal	Deteriorating	Core MFI book (47% of book) is in a technical recession; ROA/ROE remain depressed (0.1%/0.8%).	□
Key Q&A Exchange	Q4 + Slippages	Mgmt confirmed □770 Cr fresh slippages; □665 Cr from MFI alone.	□
The Street's Primary Anxiety	MFI Bottoming	Analysts pressed on why GNPA hit 9.4% if "X-bucket" is 99%; Mgmt cited H1 FY26 as still "under stress."	□
Capital Cycle Stage	Consolidation	Halting MFI disbursements; shifting all focus to collections and secured growth.	□
Margin / Return Trajectory	Deteriorating	NIM crashed to 6.4% (from 7.5% QoQ) due to massive interest reversals.	□
Pricing Power	Stable	Secured yields (MSME/Housing) up 80-190 bps YoY; SFB license protects deposit costs.	□
FCF Conversion & Quality	Distorted	PPoP is healthy at □1,007 Cr (FY25), but credit costs (5.2% FY25) are eating the entire bottom line.	□
Competitive Moat	Stable	Retail deposits grew 33% YoY; CASA+RTD at 71% of total funding is top-tier for SFBs.	□
Balance Sheet Strength	Adequate	CRAR at 20.9% (Tier-1: 17.9%) remains well above regulatory 15% minimum.	□
Working Capital Efficiency	Improving	SMA 1 & 2 dropped to 4.0% (from 5.6% QoQ), suggesting the pipeline of *new* NPAs is finally thinning.	□
Mgmt Guidance Track Record	Unreliable	Massive volatility in asset quality metrics vs. prior quarterly "stabilization" claims.	□
Key Vulnerability	Geo-Concentration	78% of MFI book is in Bihar/UP; state-level "guardrail" impacts are synchronized.	□
Management Tone	SOBER & Realistic	"FY26 will be a year of operational and financial optimization."	□

Sentiment: □Negative

Key Takeaways: * **Positives:** The liability side is the saving grace; Retail Term Deposits (RTD) grew 33% YoY and the CD ratio improved to 87% (78% excl. refinance), providing ample liquidity. The bank is successfully pivoting to secured assets, which now form 43% of the book (vs 34% PY), with MSME yields improving to 13.2%. * **Negatives:** Asset quality has reached critical levels with GNPA at 9.4%. The "Guardrail 2.0" (3-lender limit) has effectively paralyzed growth in the MFI segment, which de-grew 18% in FY25. NIM compression from 9.4% to 6.4% in one year is a direct consequence of massive interest reversals on NPAs. * **Street's Main Concern:** Analysts are hyper-focused on the senior management churn and the "true" bottom of the credit cycle. Management's response that "pain will persist for 2 more quarters" suggests no earnings recovery until H2 FY26. * **Forward Watchpoint:** The completion of the reverse merger (SEBI approval pending) and the stabilization of the MFI book in Q1 FY26 are the only catalysts to watch.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS (FY25 / Q4 FY25) *PPT is primary source. Concall used for commentary and unlisted metrics.*

Metric	Current Qtr (Q4 FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	(24)%	↓ (18% FY)	↓ (14% PQ)	↓	Hit by □40 Cr interest reversal on fresh slippages.
NIM (AUM basis %)	6.4%	↓ (9.9% PY)	↓ (7.5% PQ)	↓	Massive compression due to NPA reversals and high liquidity.
Cost of Funds %	8.3%	↑ (8.0% PY)	→ (8.3% PQ)	→	Stabilized but high due to RTD focus; rates cut by 25bps in April.
Cost of Deposits %	8.9% (TD)	↑	↑	↓	Blended cost of CASA is 5.4%; Term Deposits at 8.9%.
CASA Ratio (%)	21.8%	↑ (21% PY)	↑ (19.7% PQ)	↑	Strong growth in CASA (31% YoY) improved the mix.
Credit-Deposit Ratio %	87.0%	↓ (94% PY)	↓ (92% PQ)	↑	Net of refinance, CD ratio is a healthy 78%.
Loans Growth (% YoY)	7.5%	↓ (31% PY)	↓ (16% PQ)	↓	Drastic slowdown as JLG book de-grew 18% YoY.
Deposits Growth (% YoY)	23.0%	↓ (33% PY)	↓ (33% PQ)	↓	Moderating growth but still healthy retail traction.
GNPA %	9.43%	↑ (2.51% PY)	↑ (6.17% PQ)	↓	Sharp surge; Bihar/UP stress peaking.
NNPA %	4.84%	↑ (0.03% PY)	↑ (2.50% PQ)	↓	Net NPA now a material threat to net worth.
Slippage Ratio %	16.5% (est)	↑	↑	↓	□770 Cr fresh slippages in Q4 alone.
Credit Cost (%)	4.7%	↑ (1.7% PY)	↓ (8.8% PQ)	↑	Lower than Q3 (which had bulk cleaning) but historically high.
Collection Efficiency %	86.0% (MFI)	↓ (98% PY)	↓ (88% PQ)	↓	X-bucket CE improved to 99.1% in Q4 (Feb data).
Capital Adequacy %	20.93%	↓ (22.57% PY)	↓ (21.10% PQ)	□	Healthy; Tier-1 at 17.88%.
PAT (□Cr)	19 (est)	↓ (160 PY)	↑ (168 Loss)	□	Quarterly loss avoided but FY25 PAT fell 95% to □24 Cr.
Fee Income Growth %	138%	↑	↑	□	Driven by □95 Cr accounting change and PSLC income.

2B. SEGMENT BREAKDOWN

Segment	Portfolio (₹ Cr)	YoY Growth	Yield (Disb)	Trend	vs Co Avg	Key Development
JLG (Micro-banking)	8,761	(18.0)%	24.0%	↓	High Yield	De-growth of ₹500 Cr QoQ; 100% recovery focus.
MSME (Retail)	3,875	52.0%	13.2%	↑	Low Yield	95% secured; average ticket size ₹25-35 Lakh.
Housing Loans	1,188	36.0%	11.3%	↑	Low Yield	Yields up 80 bps YoY; ticket size ₹20-25 Lakh.
CE & CV Loans	1,249	26.0%	12.4%	↑	Low Yield	Used vehicle share increasing to boost yields.
Wholesale Lending	2,240	19.0%	10.7%	→	Low Yield	100% secured; 70% rated 'A' or higher.
MBBL (Micro-Biz)	910	36.0%	24.0%	↑	High Yield	Individual loans to "graduated" JLG clients; better quality.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Credit Cost	H1 FY26 will remain under stress.	Implies credit costs >3% for next 6 months.	**Missed** (Q3 was not the peak)	High
Guidance	JLG Growth	Normalize disbursements by Q2 FY26.	Requires X-bucket CE to remain >99% for 3 months.	**Missed** (Prior 20% + targets)	Medium
Strategy	Secured Mix	Continuing to increase secured share.	On track: 43% now vs 34% PY. Likely to hit 50% in FY26.	**Delivered**	Low
Strategy	Reverse Merger	Pending SEBI approval.	Expected within 7-9 months of NCLT filing.	**On Track**	Low
Strategy	Collection	SMA book to normalize by Q1 FY26.	Achieved: SMA 1&2 down from 5.6% to 4.0%.	**Improving**	Low
Balance	Capital Raise	Raising ₹750 Cr Tier-1.	Depends on market receptivity; not in immediate hurry (21% CRAR).	**In Progress**	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	Mohan Raj	Industry Risk	Strategy	"Will Karnataka/ Tamil Nadu ordinances impact repayment behavior?"	Mgmt clarified they have no presence in Tamil Nadu and negligible exposure in Karnataka via BCs, and RBI-regulated entities are excluded. Investment Implication: Direct legislative risk is low, but contagion in borrower discipline across states remains an overhang.	None	4.0	Specific & Clear
2	4.5	Deepak Poddar	Recovery	Financials	"How much time until MFI segment returns to normalcy?"	Mgmt indicated pain will persist for another two quarters (H1 FY26) before a recovery trend is visible. Investment Implication: Earnings will remain suppressed through Sept-2025; no quick V-shaped recovery in sight.	None	3.0	SOBER Guidance
3	4.0	Vinay Nadkarni	Opex	Financials	"Operating costs are higher than NII. What is the run-rate?"	Mgmt explained that income reversals (□40 Cr) and the upfront booking of costs (accounting change)	None	4.0	Explains Distortion

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						distorted the ratio; opex should stabilize as disbursements return. Investment Implication: Real P&L efficiency is currently obscured by NPA reversals; monitoring "normalized" opex is critical for FY26.			
4	4.5	Anant Mundra	Provisioning	Financials	"GNPA spiked but SMA reduced. Is there a big onetime hit coming?"	Mgmt stated they expect SMA to bottom out in H1 FY26 and they are already providing higher than RBI-prescribed rates. Investment Implication: The shift from SMA to NPA is largely complete; further "shocks" should be smaller than Q3/Q4 hits.	None	3.5	Directional
5	4.0	Rajiv Mehta	Profitability	Strategy	"What is the profitability of secured products like MSME/ Housing?"	Mgmt stated secured products are on track to deliver "satisfactory" ROAs this year as opex-to-AUM falls with scale. Investment Implication:	Specific ROA numbers	2.5	Vague on ROA

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						The bank's future valuation depends on these segments offsetting the structural yield decline in MFI.			
6	4.5	Ashlesh Sonje	Asset Quality	Financials	"What has happened to delinquent borrowers? Are they missing?"	Mgmt cited contactability issues during the disruption and over-leveraging as the core issue, not a permanent loss of livelihood. Investment Implication: Recovery is possible but will be slow and labor-intensive, requiring the current 800-person collection team.	None	4.0	Granular Detail
7	4.0	Gaurav Phulwani	Reverse Merger	Strategy	"What is the status of the reverse merger?"	NOCs received from RBI/ Exchanges; SEBI approval is the final pending step before NCLT filing. Investment Implication: Merger remains a positive governance catalyst for late FY26.	None	5.0	Specific Status
8	5.0	Gaurav Phulwani	Churn	Governance	"Why are senior management	Mgmt attributed it to	None	2.5	Defensive

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					personnel leaving frequently?"	personal choices and pointed to a "strong second line" and the ED joining 9 months ago. Investment Implication: High attrition during a credit crisis is a red flag; management stability is now a key monitoring point.			
9	4.0	Shrikant	New Biz	Strategy	"Any plans for gold loans or fintech collaborations?"	Mgmt has started gold loans in select branches and is exploring small-scale fintech BC partnerships with FLDG covers. Investment Implication: Small diversifications won't move the needle in FY26 but help build the "Universal Bank" profile.	None	4.0	Directional

PATTERN FLAGS & SENTIMENT

- **The "Accounting Noise" Defense:** Multiple analysts questioned the quality of PPoP given the change in accounting for loan processing fees (upfront vs. amortized). This added □95 Cr to FY25 PPoP. When combined with the exhaustion of floating provisions, the "true" operating strength of the bank is currently under question. Management's posture was defensive, emphasizing "alignment with industry practice."
- **The Bihar-UP Over-leverage:** The central anxiety remains the bank's 78% concentration in two states. Analysts are skeptical that the "X-bucket improvement" will lead to a clean book given the high GNPA (9.43%). Management's move to set up a 650-800 member dedicated collection team is a significant opex commitment to salvage the book.

- **Analyst Sentiment Verdict: Skeptical and Wary.** While mgmt avoided a net loss in Q4 through accounting and provision levers, the core asset quality metrics are alarming. The senior management exits during this period have further soured sentiment. Analysts are treating FY26 as a "lost year" for growth, focusing entirely on capital preservation.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY25)	This Quarter (Q4 FY25)	Direction
GNPA Ratio	6.17%	9.43%	↓ (Aggravated)
NNPA Ratio	2.50%	4.84%	↓ (Aggravated)
SMA 1 & 2	5.6%	4.0%	↑ (Improving)
MFI Growth	-8.6% QoQ	-18.0% YoY (Annualized)	↓ (Shrinking)
NIM	7.5%	6.4%	↓ (Compressed)
Accounting Policy	Amortized Fee Income	Upfront Fee Income	↓ (Lower Quality PPoP)
Floating Provision	□190 Cr available	□0 (Fully utilized)	↓ (Buffer exhausted)
Secured Mix	41%	43%	↑ (Pivot continues)
Management	Stable	Senior exits reported	↓ (Governance Risk)

STOP HERE.