

Utkarsh Small Finance Bank Ltd — May 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat on Asset Quality (optics) | Inline on Core Earnings **One-line:** The thesis is shifting from "survival" to "earnings recovery" as the bank successfully purged legacy stress via an ARC sale and saw a meaningful stabilization in micro-banking collections, though the core operating engine (PPoP) remains thin.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Beat	GNPA improved to 7.7% (vs 11.0% PQ) driven by an ARC sale and lower slippages.	□
Earnings Quality	Low (Recovery phase)	PAT still negative (₹188 Cr); PPoP is positive (₹44 Cr) but relies on slowing interest reversals.	□
Guidance Confidence	Strong	Management reaffirmed 15% ROE by FY28 and 10% by FY27; worst of legacy stress is behind.	□
Management Credibility	Strong	Delivered on the "secured pivot" (51% mix) and arrested slippages (₹170 Cr vs ₹110 Cr YoY).	□
Business Quality Signal	Improving	Micro-Banking Business Loans (MBBL) up 122% YoY; 70% of MFI book now under CGFMU cover.	□
Key Q&A Exchange	Q# 4 (Wheels Stress)	Management admitted Wheels (CV/CE) remains a drag; pivot to "used" vehicles is the fix.	□
The Street's Primary Anxiety	MFI Tail-risk	Analysts pressed on JLG growth vs quality; Jan-March data showed 99.7% collection efficiency.	□
Capital Cycle Stage	Consolidation	Shifting from capital preservation to productive AUM growth post-rights issue.	□
Margin Trajectory	Improving	NIM rose to 5.5% (vs 5.1% PQ); CoF dropped to 7.9% (vs 8.1% PQ).	□
Pricing Power	Stable	15.1% yield on advances maintained despite shifting to lower-risk segments.	□
FCF Conversion & Quality	Weak	Negative PAT continues to drain book value (₹15.6 vs ₹27.0 YoY).	□
Competitive Moat Signals	Stable	Liability franchise remains granular (CASA+RTD at 83%).	□
Balance Sheet Strength	Adequate	CRAR at 17.71% is sufficient for the "consolidation year" (FY27).	□
Working Capital Efficiency	Improving	X-bucket CE at 99.7% is the highest in 4 quarters.	□
Mgmt Guidance Track Record	Improving	Hit the 50% secured target early; successfully executed the reverse merger process.	□
Key Vulnerability	PPoP Leverage	Core PPoP (₹44 Cr) is too small to absorb even moderate credit cost spikes.	□
Management Tone	Cautiously Optimistic	Focused on "deliberate choices" and "calibrated growth."	□

Sentiment: □Positive

Key Takeaways: * **Positives:** The asset quality "cliff" has been navigated. GNPA compressed 330bps QoQ to 7.7%, aided by an ARC sale of legacy JLG stress. More importantly, organic slippages collapsed from ₹10 Cr last year to ₹170 Cr this quarter. The liability franchise is outperforming SFB peers, with Cost of Funds dropping 45bps YoY to 7.9% and CASA+RTD reaching 83% of the mix. The strategic pivot is working: Secured assets are now 51% of the book, up from 43% YoY. * **Negatives:** Despite the cleanup, the bank is still losing money at the PAT level (₹188 Cr for the quarter; ₹1,151 Cr for the year). Book value has been severely eroded, dropping to ₹15.6 from ₹27.0 a year ago. Operating profit (PPoP) at ₹44 Cr is insufficient to sustain growth if recovery momentum stalls. The Wheels (CV/CE) portfolio remains a pocket of stress with high slippages, requiring a total overhaul of the lending mix. * **Street's Concern:** "Is the MFI recovery sustainable?" Management pointed to 99.7% X-bucket collection efficiency in March 2026 and the fact that 70% of the book is now covered by CGFMU insurance, which removes the "catastrophic loss" risk from new disbursements. * **Forward Watchpoint: PPop Expansion.** The thesis now depends on whether the bank can grow its high-yield MBBL and MSME books fast enough to drive PPop to a level that covers the "normalized" credit cost of 2-3%.

2. BUSINESS PERFORMANCE

2A. KEY METRICS *Data extracted from PPT (primary) and Concall (commentary).*

Metric	Current Qtr (Q4FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	₹423 Cr	(27)%	8.3%	□	Growth driven by lower interest reversals and rising MBBL/MSME volumes.
NIM (AUM basis %)	5.5%	↓ (6.4% PY)	↑ (5.1% PQ)	□	Yields stabilizing; reversal impact is receding as slippages drop.
Cost of Funds %	7.9%	↓ (8.3% PY)	↓ (8.1% PQ)	↑	Phased reductions in savings/TD rates as RBI cuts filtered through.
Cost of Deposits %	8.9% (TD)	↑ (8.1% PY)	→ (8.9% PQ)	→	Focus on Retail Term Deposits (RTD) which grew 20% YoY.
CASA Ratio (period end %)	24%	↑ (22% PY)	↑ (22% PQ)	↑	Significant improvement in retail mobilization; RTD + CASA = 83% of book.
Credit-Deposit Ratio %	83%	↓ (87% PY)	↑ (79% PQ)	□	CD ratio improved QoQ as disbursements resumed; surplus liquidity at ₹3,800 Cr.
Loans Growth (% YoY)	₹18,299 Cr	(3.9)%	8.1%	□	Net of provisions; Gross portfolio grew 2% QoQ as JLG disbursements resumed.
Deposits Growth (% YoY)	₹21,654 Cr	0.4%	2.7%	□	Intentional slowdown to align with calibrated lending and reduce excess liquidity.
GNPA %	7.7%	↑ (6.2% PY)	↓ (11.0% PQ)	↑	Major Turning Point: 330bps QoQ improvement aided by ARC sale.
NNPA %	3.3%	↑ (2.5% PY)	↓ (4.5% PQ)	↑	Implied from Net Advances of ₹18,070 Cr on Gross of ₹19,666 Cr.
Slippage Ratio %	₹170 Cr	↓ (₹710 Cr PY)	↓	↑	Net slippages (fresh minus recoveries) declined sharply.
Credit Cost (%)	5.3%	↑ (4.7% PY)	↓ (9.6% PQ)	↑	Guidance for FY27 is 3.0%–3.5% and 2.0%–2.5% for FY28.
Collection Efficiency %	99.7%	↑ (98.5% PY)	↑ (82% PQ)	↑	JLG X-Bucket; refers to field execution strength and targeted initiatives.
Capital Adequacy (CRAR)	17.71%	↓ (20.9% PY)	↓ (20.1% PQ)	↓	Tier-1 at 14.98%. Lowered by Q4 loss, but rights issue buffer remains.
PAT (₹Cr)	(₹188 Cr)	↓ (₹498 Cr PY)	↑ (₹375 Cr PQ)	□	Loss narrowing; FY26 total loss at ₹1,151 Cr.
Fee Income Growth %	(60)%	↓	↑	□	Q4 YoY drop due to lower MFI processing fees; QoQ up 43% on higher disbursements.

2B. SEGMENT BREAKDOWN

Segment	Portfolio (₹ Cr)	YoY Growth	Yield (Disb)	Trend	vs Co Avg	Key Development
JLG (Micro-Banking)	5,386	(38)%	24%	↓	High Yield	Contracted from ₹8,761 Cr YoY; now only 28% of total book.
MSME (Retail Assets)	4,456	15%	12.7%	↑	Low Yield	95% secured; Micro LAP segment delivering 18% yield.
MBBL (Micro-Biz)	2,022	122%	24%	↑	High Yield	Now 27% of MB book; key driver of future MFI margins.
Wholesale Lending	2,676	19.5%	10.6%	↑	Low Yield	100% secured against immovable property; >75% rated "A" or better.
CV & CE	1,090	(8)%	11.9%	↓	Low Yield	Strategic pivot to "Used" vehicles (30% of FY26 disbursements).
Housing Loans	990	8%	10.9%	↑	Low Yield	Average ticket ₹20-25 Lakh; focus on affordable segment.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	ROE	15% by FY28 (Exit); 10% by FY27.	Needs ~₹450 Cr PAT by FY28; implies credit costs must stay <2.5%.	Missed (Current -42%)	High
Guidance	Loan Growth	25-30% Portfolio Growth.	Needs ~₹5,000 Cr incremental AUM in FY27; feasible given infrastructure.	Missed (-3.9% YoY)	Medium
Guidance	NIM	>8% (Steady State).	Plausible once interest reversals (₹84 Cr in FY26) vanish.	Mixed (Current 5.5%)	Low
Strategy	Secured Mix	~55% Secured Loans.	Currently at 51%; on track to hit in 12-18 months.	Delivered	Low
Strategy	Technology	Launch new Core Banking (Finacle) in Q2/Q3 FY27.	Crucial for "Utkarsh 2.0" efficiency gains.	On Track	Medium
Strategy	Reverse Merger	Completion in next few months.	Second petition filed with NCLT April 5, 2026.	On Track	Low
Balance	Credit Cost	3.0%-3.5% (FY27).	Requires monthly slippages to stay <₹100 Cr.	Improved (5.3% Q4)	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Sagar / Spark	Asset Quality	Financials	"What is the PCR on secured vs unsecured individually?"	Management confirmed 59.3% overall PCR, with unsecured (MFI) at 65.4% and secured at 39.0%. Investment Implication: The high MFI coverage suggests legacy pain is largely neutralized, while the lower secured PCR reflects higher collateral recovery expectations.	None	5.0	Quantified
2	4.5	Sagar / Spark	MSME Stress	Financials	"What is the GNPA in MSME and impact of West Asia conflict?"	MSME GNPA improved to 3.4% from 3.6% PQ; management stated zero impact from geopolitical issues as ticket sizes are small and not export-oriented. Investment Implication: Confirms the MSME book is defensive and resilient despite macro headwinds.	None	4.0	Reassuring
3	4.0	Sagar / Spark	Disbursement	Business Overview	"Why did JLG disbursements jump to ₹1,310 Cr after three	Management explained that once collection buckets	None	5.0	Specific

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					quarters of decline?"	stabilized (X-bucket 99.7%), they redeployed sales trust within MFIN 2.0 guardrails. Investment Implication: Signals the bank is moving from "defense" to "controlled offense," supporting NII recovery.			
4	5.0	Mahesh / Kotak	Non-MFI Slippage	Financials	"What is driving the high slippages in non-MFI segments?"	Management identified Wheels (CV/ CE) as the primary problem and has pivoted to "used" vehicles (now 30% of mix) where performance is better. Investment Implication: The "Wheels" book remains the single biggest risk to the 2.5% credit cost target; monitoring used-vehicle performance is critical.	None	4.5	Candid
5	4.0	Mahesh / Kotak	PPoP / Reversals	Financials	"What is the adjusted PPoP for FY26 if interest reversals are removed?"	Adjusted PPoP is ₹140 Cr (Actual ₹56 Cr + ₹84 Cr reversals). Investment Implication: The "true"	None	5.0	Transparent

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						operating engine is healthier than reported figures, as reversals from fresh slippages masked core performance.			
6	3.5	Maresh / Kotak	Recovery	Financials	"What is the recovery rate on written-off stock?"	Management sees 12-14% recovery currently and plans to repurpose 30% of the collection team specifically for write-off recoveries. Investment Implication: Successful repurposing would provide a direct, high-margin credit to the P&L in FY27.	None	3.5	Directional
7	4.0	Rahul / Vaikarya	Capital	Financials	"What are the capital raise plans given CRAR is 17.7%?"	No immediate plans for equity; the bank will explore Tier-2 or balance sheet offloading if needed. Investment Implication: Dilution risk is off the table for at least 12 months, barring a severe asset	None	4.0	Clear

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						quality relapse.			

PATTERN FLAGS & SENTIMENT * **The "ARC Purge" Narrative:** Analysts were focused on whether the 330bps GNPA improvement was organic. Management was transparent about the ARC sale being a "deliberate choice" to clean the balance sheet, but supported the recovery narrative by pointing to the collapse in fresh slippages (₹170 Cr). The pivot to MBBL (Micro-Banking Business Loans) was presented as the "exit strategy" from high-volatility JLG lending. * **The Wheels Problem:** A recurring theme was the Wheels (CV/CE) portfolio. Unlike the MFI book which is healing, Wheels still suffers from legacy "new vehicle" lending stress. Management's credibility on this depends on the success of the shift to "used vehicles." * **Analyst Sentiment Verdict:** ☐ **Neutral to Constructive.** Analysts were forensic on the PPoP adjustments and credit costs. While skeptical of the 15% ROE target (given it requires a massive PAT swing), they appeared convinced that the asset quality "tail risk" is now low. The primary friction point was the low PPoP. **Unresolved Issue:** The ability to sustain NIMs above 8% while shifting to a lower-yield secured mix (MSME/Housing).

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3FY26)	This Quarter (Q4FY26)	Direction
Asset Quality (Optics)	GNPA 11.0%	GNPA 7.7%	↑
Credit Cost	9.6%	5.3%	↑
Net Interest Margin	5.1%	5.5%	↑
Collection Efficiency	82% (MB Only)	99.7% (X-Bucket)	↑
Loss Magnitude	₹375 Cr	₹ 188 Cr	↑
PPoP Level	₹44 Cr (Quarterly)	₹ +44 Cr (Quarterly)	↑
Secured Mix	50%	51%	↑
CGFMU Cover	45% of MFI book	70% of MFI book	↑
Management Tone	Cautious/Defensive	Renewed Growth Focus	↑
Book Value per Share	₹27.0 (at start of FY)	₹ 15.6	↓

STOP HERE.