

Utkarsh Small Finance Bank Ltd — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss / Guidance Capitulation **One-line:** The thesis is under severe short-term stress as the "seasonal" disruptions cited in Q1 have evolved into systemic over-indebtedness, forcing management to slash growth and return guidance while bracing for peak slippages in Q3.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Weak Miss	Loan growth at 28% YoY (vs 30% guide); Credit cost at 4.3% (vs 2.0% guide).	☐
Earnings Quality	Low	PAT supported by slowing discretionary floating provision; interest reversals on NPAs hitting NIMs.	☐
Guidance Confidence	Weak	Full-year ROA slashed from >2% to ~1%; ROE from 18% to 7%; Loan growth from 30% to 18-20%.	☐
Management Credibility	Neutral	Management pivoted quickly to "reality" but the Q1 defense of "weather/elections" proved overly optimistic.	☐
Business Quality Signal	Deteriorating	Core JLG segment is in a systemic downcycle; secured mix is growing but not fast enough to offset MFI pain.	☐
Key Q&A Exchange	Q2 + Credit Cost	Mgmt admitted Oct collections are worse/flat vs Sept; improvement only expected in Q4.	☐
The Street's Primary Anxiety	Systemic Contagion	Fear that 14% of the book (4+ lenders) is inherently insolvent. Mgmt response: Guardrails will weed these out by Q4.	☐
Capital Cycle Stage	Consolidation	Shrinking JLG disbursements to preserve capital/liquidity; focusing on recovery over growth.	☐
Margin / Return Trajectory	Deteriorating	NIM fell to 8.8% (vs 9.4% QoQ); ROE collapsed to 6.6% (vs 18% in FY24).	☐
Pricing Power	Stable	Disbursement yields in MSME/Housing rising (+50-80 bps), showing pricing power in secured niches.	☐
FCF Conversion & Quality	Weak	Elevated slippages (₹356 Cr) and interest reversals are weighing on cash generation.	☐
Competitive Moat	Stable	Retail deposit franchise remains strong (+40% YoY), providing a stable liquidity buffer.	☐
Balance Sheet Strength	Adequate	CRAR at 22.43%; surplus liquidity of ₹2,800 Cr provides a safety net against bank runs.	☐
Working Capital Efficiency	Deteriorating	SMA 1 & 2 at ₹1,000 Cr+ in micro-banking signals a heavy collection pipeline for H2.	☐
Mgmt Guidance Track Record	Unreliable	Massive mid-year revision suggests a lack of visibility on borrower leverage in Q1.	☐
Key Vulnerability	Negative Carry	Excess liquidity (₹2,800 Cr) and non-performing JLG assets are creating a double-drag on NIMs.	☐
Management Tone	Cautiously Sober	Admitted the "challenging environment" and shifted focus entirely to center meeting discipline.	☐

Key Takeaways: * **Positives:** The liability side is surprisingly resilient, with deposits growing 40% YoY and Retail Term Deposits (RTD) growing 48%, showing high brand trust despite asset-side pain. The shift toward secured lending (now 38% of the book vs 34% in Mar-24) is accelerating, with non-MFI assets growing 47% YoY. * **Negatives:** Asset quality has hit a "perfect storm"—collection efficiency dropped to 92.3% as MFIN guardrails restricted "top-up" lending to 14% of the customer base (4+ lenders), leading to forced defaults. Credit costs (4.3% in Q2) are now expected to remain elevated for the rest of FY25. * **Street's Main Concern:** Analysts are terrified of the ₹1,000 Cr SMA pool in JLG and the fact that October showed no improvement. Management's response is that the guardrail is a "structural positive" that will take 2 quarters to flush out bad debt. * **Forward Watchpoint:** Monitor the RBI's decision on allowing the bank to utilize its ₹173 Cr floating provision buffer; if denied, PAT could turn negligible or negative in Q3/Q4.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures are primary. Discrepancy noted: PPT shows NIM as 8.8% for Q2, Concall commentary confirms.

Metric	Current Qtr (Q2FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	26.0%	↓	↓	↓	Impacted by interest reversals on fresh slippages and lower disbursements.
NIM (AUM basis %)	8.8%	↓ (9.1% PY)	↓ (9.4% PQ)	↓	Dragged by ₹2,800 Cr surplus liquidity and higher NPAs.
Cost of Funds %	8.1%	↑ (7.7% PY)	↑ (7.9% PQ)	↓	Includes IBPC; Tier-II capital raise in Q1 added marginal cost.
Cost of Deposits %	8.2%	↑	↑	↓	Focus on RTD (<₹3 Cr) which grew 48% YoY.
CASA Ratio (period end %)	19.6%	↓ (21.0% PY)	↑ (19.0% PQ)	□	Slight improvement QoQ but lower YoY due to TD preference.
Credit-Deposit Ratio %	93.0%	↓ (100% PY)	↓ (93.7% PQ)	↑	Strategic reduction to 85.7% (excl. refinance) as deposits outpace loans.
Loans Growth (% YoY)	28.0%	↓ (31% PQ)	↓ (1.6% QoQ)	↓	JLG book degrew 5.1% QoQ due to tighter credit norms.
Deposits Growth (% YoY)	40.0%	↑ (30% PQ)	↑ (7.3% QoQ)	↑	Strong retail franchise; H1 RTD growth at 48% YoY.
GNPA %	3.88%	↑ (2.81% PY)	↑ (2.78% PQ)	↓	Sharp increase driven almost entirely by the JLG segment.
NNPA %	0.89%	↑ (0.16% PY)	↑ (0.26% PQ)	↓	Reflected the inability of borrowers to clear arrears.
Slippage Ratio %	7.6%	N/A	↑	↓	Total slippages of ₹356 Cr (₹300 Cr from JLG).
Credit Cost (%)	4.3%	↑ (2.2% PY)	↑ (2.7% PQ)	↓	Guidance hiked to 3.5%-4.5% for the full year.
Collection Efficiency %	92.3%	↓ (95.9% PY)	↓ (96.2% PQ)	↓	Systemic stress in UP/Bihar and guardrail-led restricted supply.
Capital Adequacy %	22.43%	↑ (24.8% PY)	↓ (23.2% PQ)	□	Strong buffer; Tier 1 at 19.85%.
PAT (₹Cr)	51	↓ 61.6%	↓ 62.8%	□	Profitability crushed by credit costs and NIM compression.
Fee Income Growth %	-2.0%	↓	↓	↓	Impacted by lower PSLC income and slower JLG disbursements.

2B. SEGMENT BREAKDOWN

Segment	Portfolio (₹ Cr)	YoY Growth	Yield (Disb)	Trend	vs Co Avg	Key Development
JLG (Micro-banking)	10,126	13.0%	23-25%	↓	High Yield	Degrew 5.1% QoQ; Focus shifted to collections over growth.
MSME (Retail)	3,121	63.3%	12.1%	↑	Low Yield	Disbursement yields up 80 bps YoY; 95% secured.
Housing Loans	1,146	45.4%	10.7%	↑	Low Yield	Yields up 50 bps YoY; consistent healthy growth.
Wholesale Lending	1,760	4.8%	10.8%	→	Low Yield	Low-risk segment; 66% "A" category or higher.
MBBL (Micro-biz)	733	34.0%	25-26%	↑	High Yield	Individual micro-loans; maintaining better quality than JLG.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Loan Growth	18% - 20% (Slashed from 30%)	High: Needs ~6% growth in H2; likely if non-MB continues growing at 45%+.	Missed (30% Target)	Low
Guidance	Credit Cost	3.5% - 4.5% (Hiked from 2%)	Moderate: H1 is already at 3.5%. Q3 will likely see peak slippages.	Missed (2% Target)	Medium
Guidance	ROA	~1.0% (Slashed from >2%)	Moderate: Requires PAT of ~₹100 Cr in H2; depends on credit cost trajectory.	Missed (>2% Target)	High
Guidance	Secured Mix	~40% by FY25 end	High: Currently at 38%. Only 2% gap remaining; on track.	Delivered (Increasing)	Low
Strategy	JLG Normalization	Rebound in Q4 FY25	Depends entirely on collection efficiency returning to >95%.	New Target	High
Balance	CD Ratio	Continued Reduction	On track: Deposits growing 40% vs Loans 28%.	Delivered	Low
Strategy	Floating Prov.	Use ₹173 Cr buffer	Requires RBI approval. Not yet factored into guidance.	Ongoing	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	Vatsal Shah / Knightstone	Indebtedness	Financials	"What will be our 4 plus lender book?"	Management confirmed that 14% of the customer base now has 4 or more lenders as of September. Investment Implication: This 14% cohort represents a high-risk default zone as guardrails now prohibit them from receiving further credit from any formal source.	None	5.0	Specific & Quantified
2	4.5	Ashlesh Sonje / Kotak	Current Trends	Financials	"How is the current bucket collection efficiency in the month of October?"	Management admitted that October showed no improvement and was potentially slightly lower than September. Investment Implication: Q3 is likely to be the "pain peak" for asset quality, delaying any recovery thesis to Q4 at the earliest.	None	4.0	Cautiously Sober
3	4.0	Ashlesh Sonje / Kotak	Slippages	Financials	"Why are slippage numbers higher than others and what is the breakup	Total slippages were ₹356 Cr, with ₹300 Cr coming from micro-banking and	None	4.5	Precise Data

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					across segments?"	₹5 Cr from non-MB segments. Investment Implication: The stress is highly concentrated in JLG, suggesting the bank's diversification into MSME/ Housing is providing a critical quality buffer.			
4	4.5	Pritesh Bamb	Provisioning	Financials	"Will the 3.5-4.5% credit cost be breached given write-offs occur at 210 DPD?"	Management noted they are deploying "hard collection" teams and hope that guardrails will stabilize the system by Q4. Investment Implication: There is a high risk of hitting the upper end of the 4.5% credit cost guide if the ₹1,000 Cr SMA pool continues to deteriorate.	None	3.0	Aspirational
5	4.0	Rajiv Mehta / YES Sec	PCR	Financials	"Till what level of PCR decline are we comfortable with?"	Management intends to maintain PCR (excluding floating provisions) at 65% or higher. Investment Implication:	None	4.0	Directional

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						Aggressive provisioning will continue to weigh on earnings to protect the balance sheet against the current JLG cycle.			
6	3.5	Sonal Minhas	Vintage	Business Overview	"What is the vintage of your JLG customers?"	About 26% of customers are in their first loan cycle, with the remainder spread across 2nd, 3rd, and 4+ cycles. Investment Implication: A high proportion of "seasoned" customers (74%) usually implies better loyalty, but current systemic stress is overriding historical payment behavior.	None	4.0	Granular Detail
7	3.0	Vinay Nadkarni	Tenures	Business Overview	"What is the tenure of these micro loans?"	Loans range from 14 to 24 months with a blended average of 17 months. Investment Implication: The relatively short duration allows the book to churn quickly, but the "bubble"	None	5.0	Factual

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						of bad debt from the 24-month pool will take another year to fully flush.			
8	4.5	Rajiv Mehta / YES Sec	Yield Review	Financials	"Do we plan to do anything regarding review of JLG interest rates?"	Management confirmed they are currently evaluating a review of interest rates in the JLG segment. Investment Implication: A rate hike in JLG could protect margins but might further stress the debt-servicing capacity of an already over-leveraged borrower base.	None	3.5	Policy Shift

PATTERN FLAGS & SENTIMENT

The "Guardrail Flush": Analysts focused intensely on the MFIN guardrail advisory (implemented Aug 1st). The primary anxiety is that by cutting off the "top-up" credit that many MFI borrowers used to service old debt, a massive default wave has been triggered. Management is framing this as a necessary structural cleansing, essentially "taking the medicine" now to have a healthier book by FY26.

October Stagnation: The fact that October collections did not rebound from the September lows was a significant negative signal during the call. Management's tone was notably less optimistic than in Q1, moving from "seasonal hiccups" to "structural discipline issues." This suggests the recovery is at least 3-6 months away.

Analyst Sentiment Verdict: Skeptical and concerned. While analysts praised the strong liability growth and the pivot to secured loans, they were unconvinced that the credit cost would be contained within the revised 4.5% cap. The friction centered on the adequacy of provisions for the ₹1,000 Cr SMA book. Credibility has taken a hit because the "weather/election" narrative from the prior quarter was proven insufficient to explain the current magnitude of stress.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Credit Cost	2.0% for FY25	Expected 3.5% - 4.5%	125% increase in guided credit cost.	High: Erases ~50% of expected FY25 PAT.
Loan Growth	~30% for FY25	18% - 20% for FY25	33% reduction in growth target.	Medium: Slower compounding of AUM.
Asset Quality	Reversal starting July	October collections "flat/lower"	Recovery delayed by 2 quarters.	High: Peak pain yet to be booked.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY25)	This Quarter (Q2FY25)	Direction
Credit Cost Guide	2.0%	3.5% - 4.5%	↓ (Aggravated)
Loan Growth Guide	30.0%	18% - 20%	↓ (Slashed)
ROA Guide	>2.0%	~1.0%	↓ (Halved)
ROE Guide	~18.0%	~7.0%	↓ (Slashed)
JLG Growth	Positive momentum	-5.1% QoQ (De-growth)	↓ (Deteriorating)
Secured Loan Mix	35%	38%	↑ (Improving)
SMA 1 & 2	2.6%	4.4%	↓ (Deteriorating)
Management Posture	Cautiously Optimistic	Cautiously Sober/Realistic	↓ (Defensive)
Floating Provision	Actively Building	Seeking to Utilize / Stop Building	□(Survival Mode)

STOP HERE.