

Utkarsh Small Finance Bank Ltd — Nov 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss **One-line:** The thesis is undergoing a "baptism by fire" as the MFI book collapse deepened this quarter with a ₹348 Cr loss, but the successful ₹950 Cr capital raise and accelerating pivot to secured assets (47% mix) provide a survival floor.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	PAT loss widened to ₹348 Cr (vs ₹239 Cr loss PQ) as credit costs hit 9.7%.	□
Earnings Quality	Low (Distressed)	Loss driven by ₹464 Cr slippages; PPoP nearly zero (₹3 Cr).	□
Guidance Confidence	Weak	Management pushed the "meaningful recovery" timeline from Q2 to Q3/Q4.	□
Management Credibility	Neutral	Transparent about stress depths but has repeatedly been wrong on timing the "peak."	□
Business Quality Signal	Deteriorating (Core) / Improving (Pivot)	JLG book contracted 11% QoQ; MSME yields improved 100bps YoY.	□
Key Q&A Exchange	Q# 8 & 12 (MFI guardrails)	Mgmt admitted 61% of borrowers with 5+ lenders are in NPA.	□
The Street's Primary Anxiety	Bihar/UP Stress & Capital Burn	Analysts pressed on slippage run-rates; mgmt pointed to the ₹950 Cr rights issue.	□
Capital Cycle Stage	Consolidation / Repair	Halted branch expansion; 100% focus on collections and rights issue.	□
Margin / Return Ratio Trajectory	Stable NIM / Negative ROE	NIM held at 8.3% (up from 8.1% PQ) despite reversals; ROA at -5.0%.	□
Pricing Power	Improving (Secured)	MSME disbursement yields rose to 13.4% (up 100bps YoY).	□
FCF Conversion & Quality	Distorted	Operating loss; CRAR fell to 17.2% pre-rights issue.	□
Competitive Moat Signals	Stable (Liability)	Retail Term Deposits grew 29% YoY; CASA+RTD ratio hit 78%.	□
Balance Sheet Strength	Adequate (Post-Rights)	Rights issue (₹950 Cr) covers capital needs for 24 months.	□
Working Capital Efficiency	Deteriorating	Total MFI Collection Efficiency fell to 80% from 82% PQ.	□
Mgmt Guidance Track Record	Mixed	Correct on secured growth but failed to call the MFI bottom in Q1.	□
Key Vulnerability / Red Flag	Concentration	76% of JLG portfolio remains in Bihar/UP.	□
Management Tone	Defensive but Realistic	Admitted FY26 is a "difficult year" of "strategic recalibration."	□

Sentiment: □Negative

Key Takeaways (Positives & Negatives): * **Negatives:** The MFI crisis has not yet stabilized; total collection efficiency fell to 80%, and GNPA reached a staggering 12.4% (1240 bps). Bihar and UP continue to show extreme over-leverage symptoms, with 16.3% of the JLG portfolio having 4+ lenders. The bank is currently burning capital at a rate that would be terminal without the recent ₹950 Cr equity infusion. * **Positives:** The "Bank" inside the SFB is surviving. The liability franchise is excellent—Retail Term Deposits grew 29% YoY and CASA+RTD now funds 78% of the book. The pivot to secured assets is ahead of schedule, with secured loans now 47% of the book (target >50%). Importantly, MSME and Housing yields are rising (up 40-100bps), showing the bank can price for risk in non-MFI segments. * **Street's Main Concern:** Analysts are hyper-focused on whether the MFI book will require a "kitchen sinking" exercise (Accelerated PCR). Management resisted this, sticking to their 40% initial provision policy, which suggests credit costs will stay elevated for at least two more quarters as provisions "catch up" to the 12.4% GNPA. * **Forward Watchpoint:** X-bucket collection in November/December. Management claims it has returned to >99%, but the market will only believe this when the SMA-1 & 2 pool (currently 4.4%) shows a sharp contraction in Q3 results.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q2 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	(37)%	↓	↓	↓	Impacted by ₹27 Cr interest reversal on fresh slippages.
NIM (AUM basis %)	8.3%	↑ (8.2% PY)	↑ (8.1% PQ)	↑	Expansion driven by yield optimization in MSME/Housing and flat CoF.
Cost of Funds %	8.2%	↑ (8.1% PY)	↓ (8.3% PQ)	→	Trimmed savings and TD rates in line with repo expectations.
Cost of Deposits %	8.8% (TD only)	↑	→	→	PPT shows Term Deposit cost at 8.8%; CASA cost at 5.0%.
CASA Ratio (period end %)	22.0%	↑ (20% PY)	↓ (26% PQ)	□	CASA grew 17% YoY but retail term deposits grew faster (29%).
Credit-Deposit Ratio %	79.0%	↓ (93% PY)	↓ (83% PQ)	↓	Intentional moderation to align with lower disbursement pace.
Loans Growth (% YoY)	(2.3)%	↓	↓	↓	JLG book contracted 11% QoQ as focus shifted to collections.
Deposits Growth (% YoY)	10.0%	↓	→	□	Strong Retail Term Deposit (RTD) growth of 29% YoY.
GNPA %	12.40%	↑ (3.9% PY)	↑ (11.4% PQ)	↓	Peaking stress in MFI; slippages of ₹464 Cr in Q2.
NNPA %	5.00%	↑ (0.9% PY)	→ (5.0% PQ)	→	PCR at 61.1% (NPA specific provision).
Slippage Ratio %	2.5% (est.)	↑	↑	↓	Total additions of ₹464 Cr on a ₹18,299 Cr gross book.
Credit Cost (% funded assets)	9.7%	↑ (4.3% PY)	↑ (8.5% PQ)	↓	Includes aging provisions; expected to normalize only from Q4.
Collection Efficiency %	80.0%	↓ (92% PY)	↓ (82% PQ)	↓	Micro-banking only; X-bucket is >99% in Nov-25 (Mgmt claim).
Capital Adequacy / CET1 %	17.21%	↓ (22.4% PY)	↓ (19.6% PQ)	↓	Pre-rights issue; Tier-1 at 14.16%.
PAT (₹Cr)	(348)	↓	↓	↓	Loss widened due to credit costs; H1 loss at ₹588 Cr.
Fee Income Growth %	(5)%	↓	↓ (29% PQ)	↓	Lower disbursements in JLG reduced processing fee income.

2B. SEGMENT BREAKDOWN

Segment	Portfolio (₹ Cr)	YoY Growth	Yield (Disb)	Trend	vs Co Avg	Key Development
JLG (Micro-banking)	7,218	(28.7)%	24.0%	↓	High Yield	Contraction of ₹1,000 Cr+ in one quarter; 23% segment GNPA.
MSME (Retail)	4,164	33.0%	13.4%	↑	Low Yield	Yield improved 100bps YoY; Micro LAP yielding 18%.
MBBL (Micro-Biz)	1,046	39.0%	24.0%	↑	High Yield	Graduation product showing better resilience than JLG.
Housing Loans	947	21.0%	11.3%	↑	Low Yield	Yield improved 40bps YoY; average ticket size ₹20-25 lakh.
CE & CV	1,144	6.0%	13.0%	↑	Low Yield	Pivot to used vehicles (40% of disb) to improve yields/resilience.
Wholesale Lending	2,190	7.0%	10.9%	→	Low Yield	100% secured; 70% of book 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.	Requires PAT of ~₹450 Cr+ by FY28; needs credit costs <2%.	Missed (Current: -43.5%)	High
Guidance	NIM	~8.5% in 2-3 years.	Plausible if secured yields keep rising and CoF drops.	In Line (8.3% current)	Low
Guidance	Credit Cost	Normalization from Q4 FY26.	Needs slippages to drop >50% from Q2 levels.	Missed (Q2 hit 9.7%)	High
Strategy	Secured Mix	>50% Secured Loans.	Currently 47%; will hit 50% by Q4 at current JLG run-off.	Delivered (Up from 38% PY)	Low
Strategy	Rights Issue	Raise ₹950 Cr for 24-month runway.	Successfully raised in Nov-25; Tier-1 will jump ~4-5%.	Delivered	Low
Macro	Industry	Stress to subside in next 2-3 months.	Contingent on "Guardrail 2.0" stabilizing borrower behavior.	New Claim	Medium
Strategy	Branching	Consolidation / No new branches.	Focus on productivity of 37% "immature" branches.	New Strategy	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Mayank (Individual)	Bihar Relief	Macro	"How does the Bihar govt's ₹10,000 woman grant affect the bank?"	Management viewed the grant as neutral to slightly positive for borrower livelihood but not a driver of operational efficiency. Investment Implication: Political doles in core markets are buffer-providing but not a structural recovery catalyst.	None	4.0	Realistic
2	3.5	Mayank (Individual)	Dilution	Financials	"Are more equity dilutions planned after the rights issue?"	Management stated the ₹950 Cr raise provides enough capital until September 2027, with no market visits planned for 2 years. Investment Implication: Equity overhang is removed for the medium term; focus shifts to book value preservation.	None	4.0	Specific
3	4.5	Vinit Agarwal (ABM)	Productivity	Business Overview	"Will branch expansion continue at 15% despite having 1,100+ branches?"	Management is pivoting to consolidation, halting new openings to focus on the 37% of branches that are <3 years old. Investment Implication: Opex leverage	None	4.0	Specific

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						should kick in by H2 FY27 as older branches mature and new capex stops.			
4	3.5	Vinit Agarwal (ABM)	Attrition	Management Commentary	"What is the employee attrition scenario after the high rates last year?"	Management acknowledged the industry-wide entry-level attrition but expects stabilization in Q3/Q4. Investment Implication: High training costs and field-level disruption remain a monitoring point for collection efficiency.	Exact attrition %	3.0	Directional
5	4.0	Vinit Agarwal (ABM)	Yields	Financials	"What was the impact of interest reversals on yields?"	Interest reversals impacted Q2 by ₹27 Cr. Investment Implication: This is a ~60bps drag on NIM; as slippages slow, NIM has significant "natural" upside.	None	5.0	Quantified
6	4.5	Sagar (Spark)	Provisioning	Financials	"Why is PCR only 68% in JLG when RBI norms/peers are at 80%?"	Management clarified they follow a rule-based policy (40% at 91 days, then 15% quarterly) and are above IRAC norms. Investment Implication: Credit costs will remain high	Accelerated PCR timeline	3.0	Rule-based

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						even after slippages peak because of this quarterly provision "catch-up."			
7	4.0	Sagar (Spark)	MFI Outlook	Business Overview	"When will MFI disbursements return to normal?"	Management expects normal disbursement run-rates to resume in 2-3 months as the "Guardrail 2.0" transition ends. Investment Implication: The JLG book will stop shrinking by Q4, stabilizing NII.	None	3.5	Vague
8	5.0	Amit Acharya (CRO)	Slippages	Financials	"What was the gross slippage amount in Q2?"	Additions were ₹464 Cr (₹324 Cr MB, ₹139 Cr non-MB) vs ₹48 Cr recoveries. Investment Implication: Net slippage remains extremely high; non-MFI stress (Wheels) is an emerging secondary concern.	None	5.0	Specific
9	4.0	Rahul Kumar (Vaikarya)	Collection Efficiency	Financials	"Why hasn't collection efficiency improved like peers?"	Management cited system limitations and heavy presence in Bihar/UP "pockets" that lagged, though Nov-25 claims to be >99%. Investment Implication: Utkarsh is the "last in, last out" of this MFI	None	3.5	Defensive

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						cycle due to its geographical concentration.			
10	4.0	Franklin (Reliance GI)	ARC Sales	Financials	"Did you do any ARC sales this quarter?"	The bank sold one NBFC account (AVIOM) for ₹24 Cr (fully provided) to an ARC. Investment Implication: Management is cleaning up the wholesale book; no large-scale JLG ARC sale yet.	None	5.0	Quantified
11	4.5	Chintan Shah (ICICI Sec)	CGFMU	Financials	"How does the CGFMU insurance math work?"	Scheme covers ~95% of new loans; bank bears first 3% loss, then 25% of the remainder (reimbursement ~72%). Investment Implication: The "new" JLG book has a credit cost cap of ~5-6%, significantly de-risking the post-2025 portfolio.	None	5.0	Quantified
12	5.0	Sagar (Spark)	Multi-Lending	Management Commentary	"What is the status of the 5+ lender portfolio?"	Management revealed that for the 6% of the portfolio with 4+ lenders, the GNPA is a massive 61%. Investment Implication: This "toxic" segment is being purged; once this 6%	None	4.5	High Signal

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						book runs off, total GNPA will drop drastically.			

PATTERN FLAGS & SENTIMENT * **The "Bihar/UP" Trap:** Analysts repeatedly questioned the concentration risk. Management's response—that X-bucket is now 99%—was met with skepticism given that total CE (including arrears) fell to 80%. The trend of "system limitations" (mentioned by Virender Sharma) as a reason for lagging peers was a red flag for some. * **The Insurance Safety Net:** A significant portion of the call focused on CGFMU. Management used this to defend their FY28 ROE target, implying that future credit cycles won't be as painful because 72% of losses will be reimbursed. * **Analyst Sentiment Verdict: Skeptical but Relieved on Capital.** The tone was one of forensic inquiry into the MFI book's "tail." Analysts were relieved by the ₹950 Cr rights issue (solvency risk removed) but remain unconvinced on the "peak stress" claim until the 5% SMA pool shrinks. Management's credibility has transitioned from "unreliable" to "realistic," as they finally quantified the multi-lender toxicity (the 61% GNPA in the 4+ lender bucket).

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY26)	This Quarter (Q2 FY26)	Direction
Net Loss	₹239 Cr	₹348 Cr	↓ (Widened)
GNPA	11.4%	12.4%	↓ (Deteriorating)
Credit Cost	8.5%	9.7%	↓ (Worsened)
Collection Efficiency	82% (Total)	80% (Total)	↓ (Deteriorating)
Capital Status	Raise planned (₹750 Cr)	Raised (₹950 Cr)	↑ (Stronger)
Secured Loan Mix	45%	47%	↑ (Pivot accelerating)
MSME Yields	13.7%	13.4% (Disb)	□(PPT shows H1 yield improvement)
JLG Book Size	₹8,163 Cr	₹7,218 Cr	↓ (Run-off)
Branch Strategy	Expanding	Consolidation / No new	□(Prudent)
X-Bucket CE	98.6% (June)	98.7% (Sept)	→ (Flat)

STOP HERE.