Utkarsh Small Finance Bank Ltd — Nov 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat on Operating Performance | Miss on Reported PAT (due to one-off base effects) **One-line:** The thesis remains intact as a "Recovery Play" shifting into "Growth Mode," with core operating profit (PPoP) surging 34% QoQ and underlying asset quality stabilizing, though a massive H2 disbursement ramp-up is required to hit FY27 targets.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Beat (Operating)	PPoP at □85 Cr vs □68 Cr PQ; NIM expanded to 6.3%.	□
Earnings Quality	High (Core)	Improvement driven by NII growth and cost control, stripping out PQ one-offs.	□
Guidance Confidence	Neutral	Reaffirmed 25-30% growth and 15% ROE (FY28), but H1 growth is only 7.5% YoY.	□
Management Credibility	Strong	Successfully executed tech migration (Finacle) and headcount rationalization.	□
Business Quality Signal	Improving	Secured lending now 52% of book; MBBL growing 146% YoY.	□
Key Q&A Exchange	Q# 1, 8 (Provisions)	Mgmt explained the "optical" spike in provisions was due to lack of PQ one-offs.	□
The Street's Primary Anxiety	H2 Growth Hurdle	How to hit 25%+ growth from a 7.5% H1 base; Mgmt cites branch productivity.	□
Capital Cycle Stage	Consolidation	Shifting from branch expansion to sweating existing infrastructure (1,100+ branches).	□
Margin / Return Ratio Trajectory	Improving	NIM at 6.3% (vs 6.1% PQ); CoF dropped to 7.5% (vs 7.7% PQ).	□
Pricing Power	Stable	High-yield MBBL (24%) and Micro-LAP (18%) segments growing rapidly.	□
FCF Conversion & Quality	Improving	Operating profit now consistently positive; loss narrowing on an adjusted basis.	□
Competitive Moat Signals	Stable	88% of Micro-banking branches are Rural/Semi-Urban; high switching costs.	□
Balance Sheet Strength	Adequate	CRAR at 17.05%; liquidity at □2,540 Cr; Tier-2 NCD raise ongoing.	□
Working Capital Efficiency	Improving	Collection efficiency in JLG X-bucket at 99.6%; SMA pool contracting.	□
Mgmt Guidance Track Record	Reliable	Delivered on PPoP turnaround and asset quality cleanup as promised.	□
Key Vulnerability / Red Flag	Growth Dependency	25-30% AUM target requires a ~□4,000 Cr+ expansion in H2 alone.	□
Management Tone	Confident	Shifted from defensive "cleanup" to offensive "revival" and "sustainable growth."	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** The fundamental "clean-up" of the JLG portfolio is largely complete, evidenced by GNPA holding steady at 5.9% (vs 12.2% PY) and X-bucket collection efficiency at 99.6%. The bank is exhibiting strong operating leverage; while headcount was rationalized by ~1,100 YoY, PPoP grew 34% QoQ. NIMs are expanding (6.3%) as the cost of funds declines (7.5%) due to a higher retail deposit mix (82% CASA + RTD). The CGFMU "safety net" is now operational, with □80 Cr+ in claims already submitted. * **Negatives:** The headline loss of □70 Cr appears worse than Q1 (□34 Cr), though this is purely optical due to the absence of □140 Cr in one-off credits (ARC/CGFMU) present in the prior quarter. The biggest risk is the back-ended growth guidance; hitting the 25-30% AUM growth target requires a Herculean H2, given H1 AUM grew only 7.5% YoY. * **The Street's Concern:** Analysts are skeptical of the "bumper H2" growth target.

Management's response: The existing branch network is now mature (no new branches in 18 months) and the tech stack (Finacle) is live, allowing for high-velocity disbursements through MBBL and Secured Retail without further Opex. * **Forward Watchpoint:** The outcome of the NCLT hearing on November 19, 2026, regarding the reverse merger with the holding company, which will simplify the corporate structure.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures are primary. Concall used for Mgmt Commentary.

Metric	Current Qtr (Q2FY27)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	₹526 Cr (H1)	14% (H1)	N/A	□	Driven by NIM expansion and reduced interest reversals.
NIM (AUM basis %)	6.3%	↑ (5.1% PY)	↑ (6.1% PQ)	↑	Benefit of declining CoF and high-yielding MBBL growth.
Cost of Funds %	7.5%	↓ (8.0% PY)	↓ (7.7% PQ)	↑	Impact of deposit repricing and improved retail mix.
Cost of Deposits %	8.1%	↓ (8.6% PQ)	↓ (7.4% PQ)	↑	Strategic reduction in Savings and Term Deposit rates.
CASA Ratio (avg %)	21.4%	↑ (20.0% PY)	↓ (22.0% PQ)	□	Core retail franchise remains strong despite QoQ fluctuation.
Credit-Deposit Ratio %	81%	↓ (82% PY)	↓ (83.8% PQ)	□	Excess liquidity of ₹2,540 Cr; LCR comfortable at 177%.
Loans Growth (% YoY)	₹20,062 Cr	7.5%	2.0%	□	Calibration in Q2 due to CBS migration; H2 expected to accelerate.
Deposits Growth (% YoY)	₹23,869 Cr	7.0%	3.3%	□	Retail Term Deposits grew 12% YoY; CASA + RTD is 82% of mix.
GNPA %	5.9%	↓ (12.2% PY)	→ (5.9% PQ)	□	Massive recovery from legacy stress; fresh slippages moderating.
NNPA %	2.7%	↓ (4.9% PY)	↓ (2.8% PQ)	↑	PCR at 55.5%; JLG-specific PCR higher at 67.7%.
Slippage Ratio %	₹239 Cr	Not in doc	↑ (₹125 Cr PQ)	□	Includes ₹33 Cr WSL outlier; MFI slippages only ₹66 Cr.
Credit Cost (%)	3.3%	↓ (9.7% PY)	↑ (2.3% PQ)	□	PQ (2.3%) was aided by one-offs; 3.3% is the "true" stabilized rate.
Collection Efficiency %	99.6%	↑ (98.6% PY)	→ (99.7% PQ)	→	X-bucket efficiency held steady for 6+ months.
Capital Adequacy (%)	17.05%	↓ (17.21% PY)	↓ (17.44% PQ)	□	Tier-1 at 12.78%; ₹200 Cr Tier-2 raise planned in H2.
PAT (₹Cr)	(₹70 Cr)	↑ (₹348 Cr PY)	↓ (₹34 Cr PQ)	□	Underlying loss narrowing when stripping out PQ one-offs.
Fee Income Growth %	10.2% (of NII)	↓ (11.6% PY)	↓ (13.4% PQ)	□	Impacted by lower JLG disbursements; MBBL fees to compensate.

2B. SEGMENT BREAKDOWN

Segment	Portfolio (□ Cr)	YoY Growth	Yield (Disb)	Trend	vs Co Avg	Key Development
JLG (Micro-Banking)	4,747	(34)%	~24%	↓	High	Intentional slowdown to check overleveraging; collection focus.
MBBL (Micro-Biz)	2,574	146%	~24%	↑	High	Graduating legacy JLG customers; now 35% of MB portfolio.
MSME (Retail Assets)	4,489	8%	12.7%	↑	Low	95% secured; Micro-LAP yields ~18% at disbursement.
Wholesale Lending	3,085	41%	10.9%	↑	Low	100% secured; outlier slippage of □33 Cr this quarter.
Housing Loans	984	4%	11.0%	→	Low	Targeted at affordable segment; avg ticket size □20-25 lakh.
CV & CE	~1,100	Not in doc	12.1%	□	Low	Calibrated approach; used vehicles now 30% of disbursements.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Loan Growth	25% to 30% for FY27.	Needs ~□4,000 Cr growth in H2; H1 only added ~□700 Cr. Extremely high hurdle.	**Missed** (H1)	□
Guidance	ROE	15% for FY28.	Requires quarterly PAT of ~□90-100 Cr by mid-FY28.	**Improving**	□
Guidance	NIM	~8% (Medium term).	Currently 6.3%; needs CoF to stay flat and high-yield MBBL to dominate mix.	**On Track**	□
Guidance	Credit Cost	Declining trajectory in H2.	Needs to drop below 2.5% to hit FY28 ROE targets.	**Delivered**	□
Strategy	Secured Mix	55% Secured Lending.	Currently 52%; feasible by end of FY27 given retail asset focus.	**On Track**	□
Strategy	Branch Strategy	No new branches; productivity focus.	No new branches in 18 months; staff rationalized by 1,100.	**Delivered**	□
Strategy	CGFMU	~80% coverage of MFI book.	Currently □6,500 Cr covered; claims of □80 Cr submitted.	**Delivered**	□

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Raj / Individual	Provisions	Financials	"The provision part increased in the current quarter... which directly reflecting on the final loss of around INR70 crores."	Management clarified that Q1 had ₹140 Cr of one-off credits (CGFMU/ ARC) making Q2 provisions (₹166 Cr) look higher than Q1 (₹109 Cr) optically. Investment Implication: The underlying credit cost is actually improving (down to 3.3% from 5.1% adjusted); PAT breakeven is closer than it appears.	None	5.0	Clear and quantified
2	4.0	Sagar / Spark	Slippages	Financials	"In this quarter, we did see slippages actually inching up to INR239 crores. So can you highlight which segment is facing stress?"	Management noted MFI slippages were low (₹66 Cr), but Wholesale (₹83 Cr) and MSME (₹64 Cr) saw matured legacy book delinquencies. Investment Implication: The stress is shifting from the risky MFI book to secured books where recovery via SARFAESI is slower but loss-given-default is lower.	None	4.0	Specific segment split
3	4.5	Sagar / Spark	Secured Growth	Business Overview	"Why is our disbursement or even our	Management attributed slow Q2 growth to	None	4.0	Operations focused

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					portfolio not growing [in secured]... we have seen hardly any growth."	the launch of the new CBS (Finacle) in August, which temporarily slowed disbursement velocity. Investment Implication: Growth stagnation is operational/ temporary, not a lack of demand or credit appetite; H2 will prove this.			
4	3.5	Kunal / PhillipCap	Capital	Financials	"Equity raise plans and... provision coverage under Stage 1 and Stage 2?"	Management stated no equity plans for FY27, focusing on Tier-2 NCDs (□200 Cr left) and passing on costs to floating-rate customers. Investment Implication: Current CRAR (17.05%) is sufficient for the H2 ramp-up, avoiding immediate dilution for existing shareholders.	None	4.0	Strategic clarity
5	5.0	Vinay / Hathway	Productivity	Business Overview	"Why is the throughput from the bank so low branches? What exactly is stopping you from growing faster?"	Management explained the focus has been on "Collection First" due to legacy MFI stress, but branches are now mature and ready for	None	4.0	Reassuring

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						H2 acceleration. Investment Implication: Operating leverage is the key thesis trigger; AUM-per-branch must rise 20%+ in H2 to validate the cost-rationalization.			
6	4.0	Ashlesh / Kotak	MFI State Stress	Management Commentary	"Any color on the state-wise collection trends... quantification of Maharashtra numbers?"	Maharashtra (5% of book) saw a slight dip in collection efficiency to 98.8% (vs 99.5% avg), while Bihar recovered after floods. Investment Implication: Geographically diversified MFI stress is manageable; no systemic contagion observed in core geographies.	None	5.0	Quantified state data
7	4.5	Vinay / Hathway	Write-offs	Financials	"What is the total write-off book and recovery target... your recovery so far has not been substantial."	Total write-offs stand at □855 Cr; management has deployed a 1,400-person collection force to target settlements in H2. Investment Implication: Write-off recoveries are pure P&L	None	4.0	Directional target

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						additions (other income); a ₹50-100 Cr recovery in H2 could swing the bank to PAT positive.			
8	4.0	Debobroto / Aavishkaar	Q2 Provisions	Financials	"Why the provisioning expense has gone up quarter-on-quarter?"	Management reiterated that stripping out PQ one-offs, the credit cost improved from 5.1% to 3.3%. Investment Implication: Confirms the credit cycle has peaked and is now on a definitive downward trajectory.	None	5.0	Clear and quantified
9	5.0	Sagar / Spark	CGFMU Claim	Financials	"What is the book covered under CGFMU... and have we claimed that amount?"	₹6,500 Cr of the book is covered; ₹80 Cr in claims have been submitted and are under process. Investment Implication: Verifies the CGFMU scheme is not just a provision-saving tool but a source of actual cash recovery for the bank.	None	5.0	Quantified & Verifiable

PATTERN FLAGS & SENTIMENT * **The "Optical Provision" Narrative:** Analysts were initially concerned by the spike in provisions (₹109 Cr to ₹166 Cr). Management was highly effective in explaining that the Q1 base was artificially low due to one-offs. This restored confidence in the credit cost trajectory. * **The "H2 Growth Hurdle":** Multiple analysts pressed on how the bank will pivot from 7% growth to 25%+. Management's confidence relies on the new tech stack (Finacle) and the maturity of existing branches. There is high friction here; the market remains skeptical until H2 numbers print. * **Secured Asset Shift:** The conversation moved from

"surviving MFI" to "growing secured." Management's detail on MBBL (graduating known customers) and Micro-LAP yields (18%) successfully framed the bank as a high-yield secured lender rather than a traditional MFI.

Analyst Sentiment Verdict: Analysts are **cautiously optimistic**. The hostility regarding asset quality has faded, replaced by skepticism regarding growth execution. Management's credibility is high regarding "clean-up" but is now being tested on "build-up."

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (PQ) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | AUM Growth | 25-30% for FY27 | H1 growth only 7.5% | Massive H2 dependency | High Execution Risk | | Provisions | Declining trend | Optical spike in Q2 | None (PQ was low due to one-offs) | Low |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY27)	This Quarter (Q2FY27)	Direction
PPoP (Operating Profit)	₹68 Cr (Adj for one-offs)	**₹85 Cr**	↑ Improving
Credit Cost (Adjusted)	5.1%	**3.3%**	↑ Improving
NIM	6.1%	**6.3%**	↑ Improving
Cost of Funds	7.7%	**7.5%**	↑ Improving
MBBL Mix	31% of Micro-banking	**35% of Micro-banking**	↑ Improving
Secured Lending Mix	51%	**52%**	↑ Improving
Technology	Finacle "In Progress"	**Finacle Live / Launched**	↑ Delivered
CGFMU Status	Coverage buildup	**Claims Submitted (₹80 Cr+)**	↑ Milestone Met
Reported PAT	(₹34 Cr)	**(₹70 Cr)**	↓ Optical Decline
Headcount	19,300+	**18,299 (Rationalization)**	↑ Efficiency

STOP HERE.