Q2 2024

1. Branch network optimization
- **Narrative:** Management is focused on expanding the branch network as part of their operational strategy. They have been actively building their banking franchise by opening new branches and investing in infrastructure to support growth. This expansion is seen as a critical component to enhance their market presence and drive future growth.
- **Management's Guidance:**
- Management expects to open approximately 125 new branches in the next calendar year, with 12 to 15 branches planned for opening between October and March.
- **Actual Results:**
['Q1', '2025']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
['Q4', '2024']:
- Data Not Available
['Q2', '2024']:
- Alok Pathak: Now almost 250 branches are doing successfully.
- **Evaluation:**
- Insufficient Info: Data not available.

2. Retail and wholesale lending focus
- **Narrative:** Management reiterated their commitment to sustaining the growth of the loan book for the fiscal year 2024. They are focused on maintaining the current growth trajectory over the next few years, indicating a stable approach to both retail and wholesale lending strategies.
- **Management's Guidance:**
- Management provided guidance that they are maintaining their overall loan book growth for FY24. They also anticipate that the current range of growth should be sustainable over the next 2 to 3 years, with potential for a 9.2% or higher increase in Net Interest Margin (NIM).
- **Actual Results:**
['Q3', '2024']:
- Utkarsh Small Finance Bank Limited Loan portfolio at INR16,407 crores.
['Q1', '2025']:
- Loan portfolio grew 31% YoY
['Q4', '2024']:
- Govind Singh - Our loan book has grown by around 31% during FY24. Wholesale lending, which is at about 10% now.
['Q2', '2024']:
- Govind Singh: Our loan book has grown by 26% year on year and 3.5% quarter on quarter. Our retail loan book excluding OD-FD has grown by 14% quarter on quarter and 88% year on year. [Unclear][NIM range which is around 9.2 or so.]
- **Evaluation:**
- Expectations Exceeded: The actual results show that the loan portfolio grew by 31% year-over-year for FY24, which surpasses the management's guidance of sustaining the current growth trajectory and achieving a 9.2% or higher NIM. This indicates a stronger performance than initially anticipated.

3. Micro banking initiatives
- **Narrative:** Management has highlighted a positive trend in micro banking initiatives, with a marked increase in disbursement rates as observed in October 2023. This uptick is indicative of a robust growth trajectory anticipated for the latter half of FY24. The team is strategically focused on maintaining a balanced portfolio between microfinance and secured lending, ensuring sustained yield and margin improvements.
- **Management's Guidance:**
- The management is confident that the micro banking loan book growth will accelerate in the second half of FY24, supported by a 30% increase in micro banking disbursements in October 2023, compared to the monthly run rate of Q2 FY24. The management expects the ratio between microfinance and secured lending to remain stable until March 31st, which will positively impact both yield and margins. Portfolio yield in microfinance is anticipated to increase from 23% to 23.6%. Microfinance is expected to improve by at least 80 to 90 basis points from the current standing.
- **Actual Results:**
['Q1', '2025']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
['Q2', '2024']:
- Govind Singh reported that the slower overall loan book growth was primarily due to lower growth in micro banking at 2.6% quarter on quarter. Puneet Maheshwari noted that the microfinance portfolio yield was close to 23% for the quarter, and the disbursement yield was about 25%. Additionally, in October, the disbursement under micro banking was 30% higher than the previous month's average.
['Q4', '2024']:
- Govind Singh - Our micro-banking loan portfolio has grown by around 23% during FY24.
- **Evaluation:**
- Expectations Not Met: The management expected a significant acceleration in micro banking loan book growth in the second half of FY24 with improved yields. However, actual results indicated slower growth in micro banking at 2.6% quarter on quarter, and the portfolio yield did not reach the anticipated 23.6%.

4. Capital adequacy requirements
- **Narrative:** Management expressed confidence in their capital adequacy ratio, emphasizing its sufficiency to support future growth plans. The capital adequacy ratio stands at a robust 24.8% as of September 2023, which is a critical indicator for both regulators and investors.

- **Management's Guidance:**
- Management has indicated that the current capital adequacy ratio provides sufficient headroom to pursue their planned growth strategies.
- **Actual Results:**
['Q4', '2024']:
- In Q4 FY24, the Capital Adequacy Ratio (CRAR) was reported at 22.57%, with Tier-I CRAR at 20.95% and Tier-II CRAR at 1.62%. These figures reflect a solid capital position, aligning closely with management's earlier guidance.
['Q1', '2025']:
- CRAR: Jun-24 - 23.18%, Jun-23 - 19.81%
['Q3', '2024']:
- CRAR is 23.18% as of Q3 FY'24.
['Q2', '2024']:
- We are at a really comfortable adequacy of 24.8% as of September 2023.
- **Evaluation:**
- Expectations Met: The capital adequacy ratio remained strong and aligned closely with management's guidance, maintaining a robust position over the subsequent quarters, thus supporting their growth strategies as initially indicated.

5. Credit risk assessment
- **Narrative:** Management has consistently emphasized a proactive approach towards credit risk assessment, aiming to maintain stability in credit costs while adapting to the dynamic market conditions. The strategic focus remains on maintaining a disciplined credit risk framework to ensure sustainable financial health.
- **Management's Guidance:**
- Management expects to maintain a credit cost of about 2%, including floating provisions, for the financial year 2025, underscoring their commitment to controlled risk management practices.
- **Actual Results:**
['Q3', '2024']:
- Credit cost at 2.3% for Q3, FY24, excluding floating provision created of ■14 crore
['Q1', '2025']:
- Credit cost was 2.7% including floating provision and 2.2% excluding floating provision in Q1 FY25, which slightly exceeds the management's guidance target of 2% including floating provisions.
['Q2', '2024']:
- 1.9% Credit cost for Q2, FY24
['Q4', '2024']:
- Overall credit cost declined to almost 1.7% for Q4 FY24, well within our guidance, a guided range of around 2%.
- **Evaluation:**
- Expectations Not Met: Management aimed to maintain a credit cost of about 2% including floating provisions for FY25, but actual results showed a credit cost of 2.7% in Q1 FY25, slightly exceeding the target.

6. Provision balance tracking
- **Narrative:** Management has consistently emphasized the importance of maintaining a robust provision balance to mitigate potential risks. In the recent quarter, they highlighted their strategy of making additional floating provisions, maintaining a steady approach from previous quarters.
- **Management's Guidance:**
- The company has indicated that they will continue to make additional floating provisions, with Rs. 14 crores added in the current quarter, consistent with the previous quarter, totaling Rs. 28 crores for the half-year period.
- **Actual Results:**
['Q1', '2025']:
- We created additional floating provision of INR20 crores in Q1 FY25 and our total floating provision increased from INR149 crores as on March 24 to INR169 crores as on June 24.
['Q4', '2024']:
- Govind Singh [the board has directed us or guided us to make 2% floating provisions on our JLG book]
['Q2', '2024']:
- Floating Provision Q2: We continue to follow making additional floating provision, and in this quarter, we have made Rs. 14 crores of additional floating provision which was same as in Q1.
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- Floating Provision Half Year: We are adding Rs. 28 crores of floating provision in the half year results.
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- Total Floating Provision Balance: The total floating provision balance as at the September end, balance sheet figure is about Rs. 120 crores.
['Q3', '2024']:
- In Q3 FY24, management reported that they have made an INR 14 crores floating provision in the current quarter, consistent with their strategy and guidance. The total provisions in Q3 FY24 were INR 104 crores, compared to INR 83 crores in Q2 FY24, indicating a significant increase in provisions.
- **Evaluation:**
- Expectations Exceeded: Management's guidance was to add Rs. 14 crores in floating provisions per quarter, totaling Rs. 28 crores for the half-year, but the actual results showed an addition of INR 20 crores in Q1 FY25 alone, surpassing their stated quarterly guidance.

7. Retail deposit growth
- **Narrative:** Management emphasizes a focused strategy to bolster retail deposit growth through targeted initiatives that aim to enhance customer engagement and leverage digital platforms. The discussion highlighted the importance of sustaining growth momentum in retail deposits as a key driver for the company's overall funding strategy.
- **Management's Guidance:**
- Management anticipates achieving a yield increase of 17% to 18% in the retail deposits segment, which is projected to positively impact the company's funding base in the upcoming quarters.
- **Actual Results:**

['Q4', '2024']:
- Data Not Available
['Q1', '2025']:
- Retail Term Deposits grew by 48% YoY.
['Q2', '2024']:
- Retail Term Deposits grew by 50% year on year in Q2, 2024. Additionally, the total deposits grew by 19% year on year.
['Q3', '2024']:
- Retail term deposits grew by 46% year-on-year, significantly exceeding the management's anticipated yield increase of 17% to 18% in the retail deposits segment. This growth in retail term deposits indicates a robust performance in the retail deposit growth strategy outlined by the management.
- **Evaluation:**
- Expectations Exceeded: The retail term deposits grew significantly, with year-on-year increases of 46% to 50% across subsequent quarters, surpassing the management's anticipated yield increase of 17% to 18% in the retail deposits segment.

8. CASA ratio improvement
- **Narrative:** Management has set a strategic goal to improve the ratio of Current Account Savings Account (CASA) and retail term deposits to at least 70% by the end of the fiscal year. This is part of a broader initiative to strengthen the deposit base and funding strategy of the bank.
- **Management's Guidance:**
- The management has indicated their internal targets for the CASA and retail term deposits ratio to reach a minimum of 70% by March 2024, from the current level of approximately 66%.
- **Actual Results:**
['Q3', '2024']:
- Utkarsh Small Finance Bank Limited CASA and RTD combined is at 68% against 60% in the previous year and quarter December 2022.
['Q4', '2024']:
- 66% vs. 62% Share of CASA + Employees in Gross Loan Retail Portfolio
['Q1', '2025']:
- In Q1 2025, the share of CASA and retail term deposits as on March 2024 was reported as 66%, which is below the management's target of 70%.
['Q2', '2024']:
- Govind Singh confirmed that the CASA and retail term deposits ratio is currently around 66%. Rajiv Pathak noted an increase from 62% to 66%, with specific figures for Term Deposits at 8.2% and CASA at 5.3% for Q2 FY24.
- **Evaluation:**
- Expectations Not Met: The management set a target for the CASA and retail term deposits ratio to reach at least 70% by March 2024, but the actual results reported a ratio of 66%, which is below the target.

9. Competitive funding sources
- **Narrative:** Management emphasized the importance of diversifying funding sources to remain competitive in the market. They highlighted strategic efforts to secure advantageous funding terms and enhance the company's financial flexibility.
- **Management's Guidance:**
- Management indicated plans to pursue additional competitive funding sources that are expected to enhance liquidity and reduce overall funding costs. They anticipate these efforts will provide a stronger foundation for growth in the upcoming quarters.
- **Actual Results:**
['Q4', '2024']:
- Data Not Available
['Q1', '2025']:
- Data Not Available
['Q2', '2024']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

10. Liquidity management
- **Narrative:** The management has focused on maintaining stability in their liquidity management strategy, emphasizing the importance of keeping the cost of funds stable while managing the impact of repricing fixed deposits. The overall approach indicates a cautious stance towards significant changes in interest rates in the immediate future.
- **Management's Guidance:**
- The overall cost of funds may increase by about 20 basis points over the next two quarters. On a balance sheet basis, the yield should go up by about 50 basis points from the current position. The cost of funds is expected to remain almost the same, with a repricing impact of around 20-25 basis points until March, primarily due to the repricing of fixed deposits.
- **Actual Results:**
['Q1', '2025']:
- Data Not Available
['Q2', '2024']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
['Q4', '2024']:
- Cost of Funds in Q4 FY24 was reported at 8.0%, and the COF (including IBPC) reduced by approximately 10 basis points to around 7.9%.
- **Evaluation:**
- Expectations Not Met: The management expected the cost of funds to remain stable with a slight increase of 20-25 basis points, but the actual

results show a reduction of approximately 10 basis points, indicating that the expectations regarding the cost of funds were not met.

11. Long-term growth trajectory

- **Narrative:** The management of Utkarsh has outlined a robust growth strategy, emphasizing a sustained increase in their loan book and deposit growth, aiming to exceed the previous year's growth figures. The company is diversifying its asset mix by expanding into non-microfinance sectors and securing more stable financial instruments. This is part of their broader strategy to enhance profitability and ensure a consistent growth trajectory over the next few years.
- **Management's Guidance:**
- 1. The company expects the loan book growth to remain at or above 31% for the year, with a similar trend expected in deposit growth, signifying strong market traction beyond microfinance.
- 2. Microfinance disbursements in October have increased by 30% from the previous quarter's monthly average, supporting a projected annual growth of around 20% in this segment, with an overall Asset Under Management (AUM) growth of at least 31%.
- 3. The company aims to maintain an 18% to 20% growth trajectory over the next 3 to 4 years, focusing on a more secure and diversified asset portfolio.
- 4. Investments in MSME, Home Loans, Wheels, and Liability segments are expected to yield productivity improvements in the next 1 to 2 years.
- **Actual Results:**

['Q3', '2024']:
- Data Not Available

['Q4', '2024']:
- Data Not Available

['Q1', '2025']:
- Govind Singh: Our gross loan book has grown by 31% Y-o-Y.

['Q2', '2024']:
- Data Not Available
- **Evaluation:**

- Expectations Met: The management's guidance expected a loan book growth of at least 31% for the year, and the actual results showed a 31% year-over-year growth in the loan book by Q1 2025, aligning with their stated goals.

12. Process optimization efforts

- **Narrative:** Management has communicated their focus on enhancing operational efficiency through process optimization. They have emphasized continuous improvement initiatives aimed at refining existing processes to achieve better outcomes.
- **Management's Guidance:**
- Management anticipates an improvement in operational metrics, projecting efficiencies to result in performance levels reaching 98.5% by the end of the financial year. Additionally, they expect an increase in yield on specific portfolios by 20-25 basis points over the next six months.
- **Actual Results:**

['Q3', '2024']:
- We have been successful to inch up yields by 15 to 20 basis points over last quarter.

['Q4', '2024']:
- Data Not Available

['Q1', '2025']:
- Data Not Available

['Q2', '2024']:
- Data Not Available
- **Evaluation:**

- Expectations Not Met: Management projected operational performance improvements to reach 98.5% and a yield increase of 20-25 basis points. However, actual results showed only a 15-20 basis point yield increase, falling short of the anticipated targets.

13. Cost-to-income ratio improvements

- **Narrative:** Management has articulated a focus on enhancing operational efficiency through targeted cost management strategies. They have projected a steady improvement in the cost-to-income ratio, reflecting their commitment to sustainable financial performance.
- **Management's Guidance:**
- Management anticipates a 10 to 20 basis points improvement in the cost ratio over the next two quarters.
- **Actual Results:**

['Q4', '2024']:
- We ended Q4 with our cost to income ratio at 57% and for the full year our cost to income ratio was 56.38%.

['Q1', '2025']:
- Our cost to income ratio in Q1 FY '25 was at 54%, much lower due to efficiencies against 57% in Q1 FY '24.

['Q2', '2024']:
- Cost to Income Ratio: Our cost to income ratio was at 56.5% for the quarter Q2 FY24.

['Q3', '2024']:
- Our cost to income ratio has improved to 54.7% in Q3 FY24 versus 56.5% in Q2 FY24.
- **Evaluation:**

- Expectations Exceeded: The management anticipated a 10 to 20 basis points improvement, and the cost-to-income ratio improved significantly from 57% in Q4 FY24 to 54% in Q1 FY25, surpassing the expected improvement range.