Twitter Thread by Siddharth Misra



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■While we in Fintech are Hoping for Challenger/Neo Banking Licences from RBI. Let's understand more about Small Finance Bank and from their success, try to see if a balance between Profitability (for business) and Financial Inclusion (for RBI) can be made for future usecase?■

Since Independence, Financial Inclusion has been a top policy agenda for the central govt and hence for the RBI also, Post 90s, the accent was more on demand-led private initiatives through self-help groups, followed by the Grameen Bank model of microfinance in India.

Then, in 2015, the RBI granted licenses to two differentiated banks (SFB and Payments Banks) for pushing the financial inclusion. PB had been a mystery category, with no clear business model to operate. SFB was to cater to the diverse needs of the low-income group.

The two KEY expectation was:
1. Priority Sector Lending (75% of their total lending) and 2. Branches for Unbanked (SFB were required to have 25% of their branches in rural unbanked centres (population shall be less than 10,000)

Most (8/10) of the SFBs were previously microfinance institutions (MFIs) with a few notable exceptions, such as the Capital Small Finance Bank which was a local area bank. So, achieving the above TWO pointers was not a thought ask for them.

On the PSL front, they seem to be doing quite good. Primarily for Agricultural purpose and MSMEs, there is a recent surge in the share of housing loans also.

Table IV.18: Priority Sector Lending by Banks
(As on March 31, 2020)

(Amount in ₹ crore)

Item	Target/ sub-target (per cent of ANBC/ CEOBE)	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks	
		Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE
1	2	3	4	5	6	7	8	9	10
Total Priority Sector Advances	**40/75***	**23,14,242**	**41.05**	**12,72,745**	**40.32**	**1,67,095**	**40.80**	**45,566**	**88.22**
of which									
Total Agriculture	18	9,71,334	17.23	5,03,939	15.96	41,745	18.25	13,917	26.94
Small and marginal farmers	8	5,13,400	9.11	2,29,420	7.27	19,168	8.38	13,052	25.27
Non-corporate Individual Farmers#	12.11	7,11,852	12.63	3,45,305	10.94	23,382	10.22	15,138	29.31
Micro Enterprises	7.5	3,96,159	7.03	2,53,592	8.03	17,477	7.64	15,251	29.53
Weaker Sections	10	6,83,876	12.13	3,40,182	10.78	24,148	10.56	30,260	58.59

Notes: 1. Amount outstanding and achievement percentage are based on the average achievement of banks for four quarters of the financial year
2. *: Total priority sector lending target for Small Finance Banks is 75 per cent.
3. #: Target for non-corporate farmers is based on the system-wide average of the last three years' achievement. For FY 2019-20, the applicable system wide average figure is 12.11 per cent.
4. For foreign banks having less than 20 branches, only the total PSL target of 40 per cent is applicable.

Source: RBI.

Given they took some time in gaining Public Confidence in the deposits, at the start they were funded by Banks. However, in FY20 deposits contributing ~60% of liabilities, with a 48.1 Y-o-Y growth.

Table IV.36: Consolidated Balance Sheet of Small Finance Banks
(At end-March)

(Amount in ₹ crore)

Sr. No.		2019	2020	Y-o-Y growth in per cent
1	Share Capital	4,759.6	5,151.0	8.2
2	Reserves & Surplus	6,967.1	11,047.0	58.6
3	Tier II Bonds	3,831.0	3,795.0	-0.9
4	Deposits	55,686.3	82,488.0	48.1
4.1	Current Demand Deposits	2,155.0	2,381.0	10.5
4.2	Savings	7,669.1	10,284.0	34.1
4.3	Term	45,862.1	69,823.0	52.2
5	Borrowings (Including Tier II Bonds)	27,838.0	30,004.0	7.8
5.1	Bank	3,466.3	3,784.0	9.2
5.2	Others	24,372.4	25,948.0	6.5
6	Other Liabilities & provisions	3,672.5	4,078.0	11.0
Total liabilities/Assets		**98,884.0**	**1,32,689.0**	**34.2**
7	Cash in Hand	461.3	976.0	111.6
8	Balances with RBI	3,162.1	4,082.0	29.1
9	Other Bank Balances/ Balances with Financial Institutions	4,601.8	8,701.0	89.1
10	Investments	17,287.0	24,203.0	40.0
11	Loans and Advances	69,856.8	90,576.0	29.7
12	Fixed Assets	1,642.7	1,649.0	0.4
13	Other Assets	1,913.3	2,580.0	34.8

Source: Off-site returns (domestic operations), RBI.

Table IV.38: Financial Performance of Small Finance Banks
(At end-March)

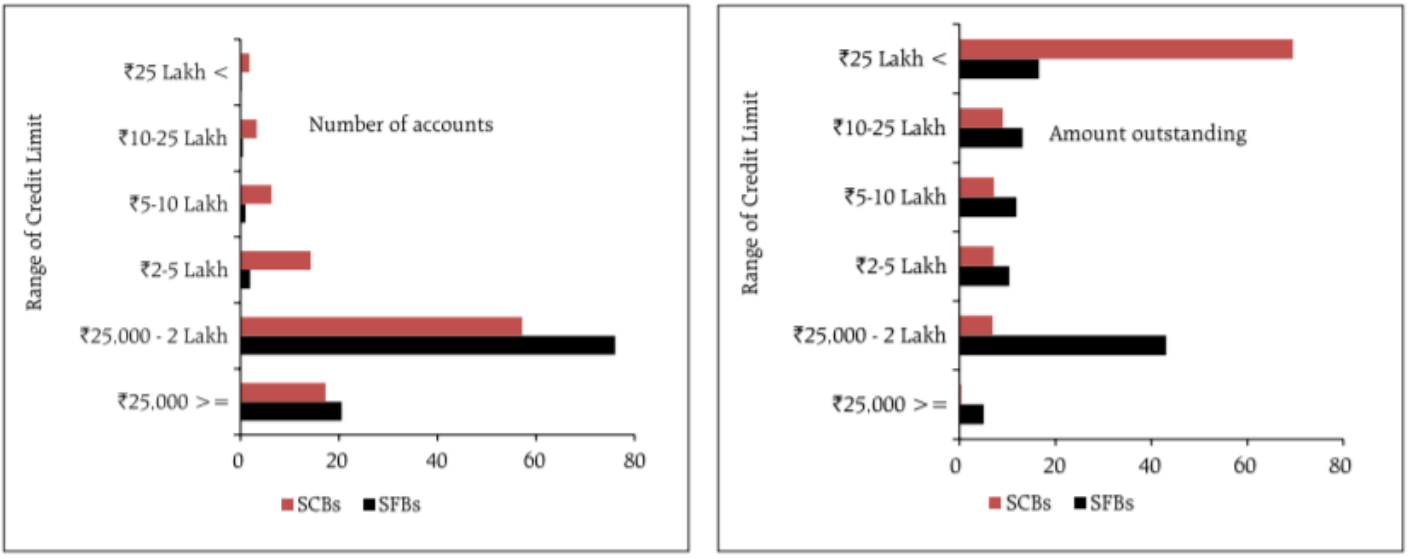
(Amount in ₹ crore)

Sr. No.	Item	2018-19	2019-20	Y-o-Y growth
1	2	3	4	5
A	**Income (i + ii)**	**13,239.0**	**19,219.0**	**45.2**
i	Interest Income	11,819.0	16,948.0	43.4
ii	Other Income	1,421.0	2,271.0	59.8
B	**Expenditure (i+ii+iii)**	**13,756.0**	**17,251.0**	**25.4**
i	Interest Expended	5,500.0	7,928.0	44.1
ii	Operating Expenses	5,728.0	7,152.0	24.9
	of which, Staff Expenses	2,962.0	3,811.0	28.7
iii	Provisions and contingencies	2,529.0	2,171.0	-14.2
C	**Profit (Before Tax)**	**-188.0**	**2,679.0**	
i	Operating Profit (EBPT)	1,802.0	4,141.0	129.8
ii	Net Profit (PAT)	-727.0	1,968.0	
D	**Total Assets**	**98,884.0**	**1,32,689.0**	**34.2**
E	**Financial Ratios #**			
i	Operating Profit	1.82	3.12	
ii	Net Profit	-0.74	1.48	
iii	Income (a + b)	13.39	14.48	
	(a) Interest Income	11.95	12.77	
	(b) Other Income	1.44	1.71	
iv	Expenditure (a+b+c)	13.91	13.00	
	(a) Interest Expended	5.56	5.97	
	(b) Operating Expenses	5.79	5.39	
	of which, Staff Expenses	3.00	2.87	
	(c) Provisions and contingencies	2.56	1.64	
F	**Analytical Ratios (%)**			
	Gross NPA Ratio	2.35	1.87	
	CRAR	16.7	20.2	
	Core CRAR	13.1	17.2	

Note: # As per cent to total assets.
Source: Off-site returns (domestic operations), RBI.

While the deposit base of SFBs has been expanding, they still have a long distance to cover as compared to other SCBs in the mobilisation of CASA (current and savings accounts). This highlight the growth opportunities.

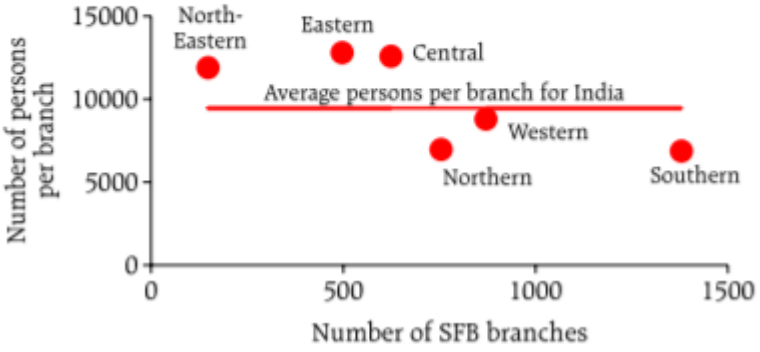
Chart 11: Distribution of Credit of SFBs and SCBs, by Credit Limit



Note: SCBs includes PSBs, PVBs and FBs only. Based on March 2020 data.
Source: BSR-1.

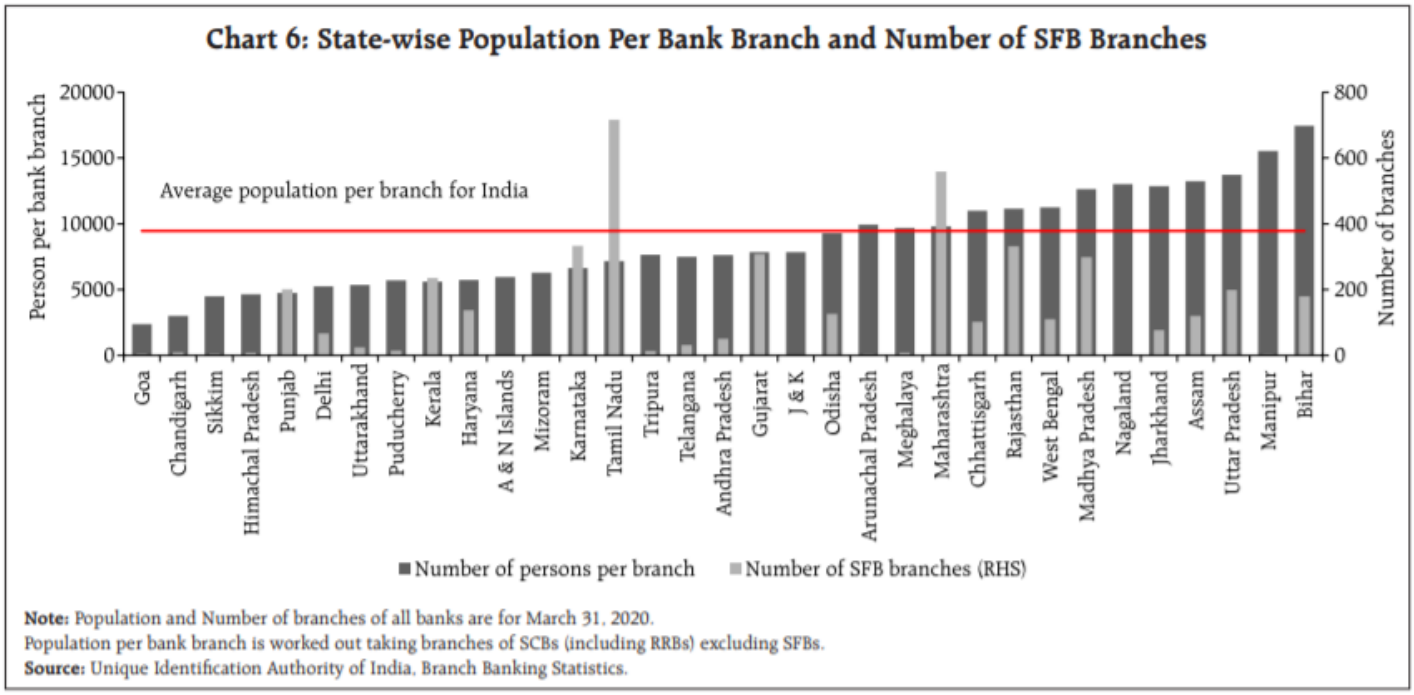
But then there is a concentration risk also. Top-two/three SFBs accounted for 46%/60% of total assets of all SFBs as of FY20. And, hence there is a Regional concentration also.

Chart 5: Region-wise Population Per Branch and Number of SFB Branches



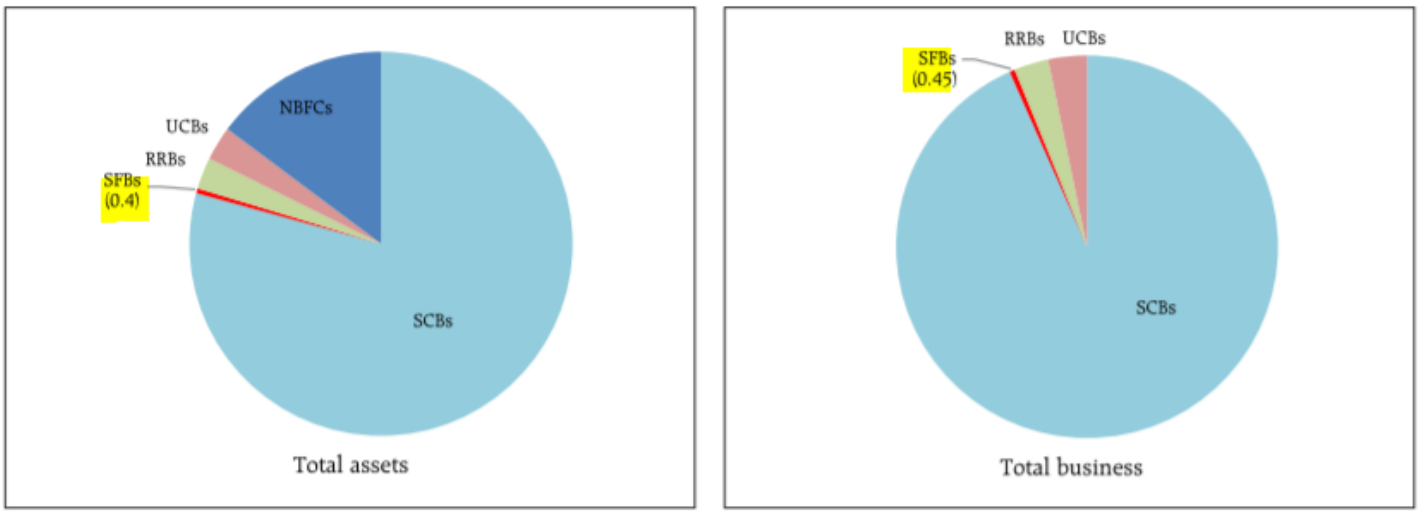
Note: Population per bank branch is worked out taking branches of SCBs (including RRBs) excluding SFBs.
Based on March 2020 data.
Central region-Chhattisgarh, Madhya Pradesh, Uttar Pradesh, Uttarakhand; Eastern region- A and N Islands, Bihar, Jharkhand, Odisha, Sikkim, West Bengal; North-eastern region- Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura; Northern region- Chandigarh, Haryana, Himachal Pradesh, Jammu and Kashmir, Ladakh, NCT of Delhi, Punjab, Rajasthan; Southern region- Andhra Pradesh, Karnataka, Kerala, Lakshadweep, Puducherry, Tamil Nadu, Telangana; Western region- Dadra and Nagar Haveli and Daman and Diu, Goa, Gujarat and Maharashtra.
Source: Unique Identification Authority of India, Branch Banking Statistics.

While some of the under-served states like MP and Rajasthan are served well. Still, SFB continues to be concentrated in Tamil Nadu, Maharashtra and Karnataka.



Note: Population and Number of branches of all banks are for March 31, 2020.
Population per bank branch is worked out taking branches of SCBs (including RRBs) excluding SFBs.
Source: Unique Identification Authority of India, Branch Banking Statistics.

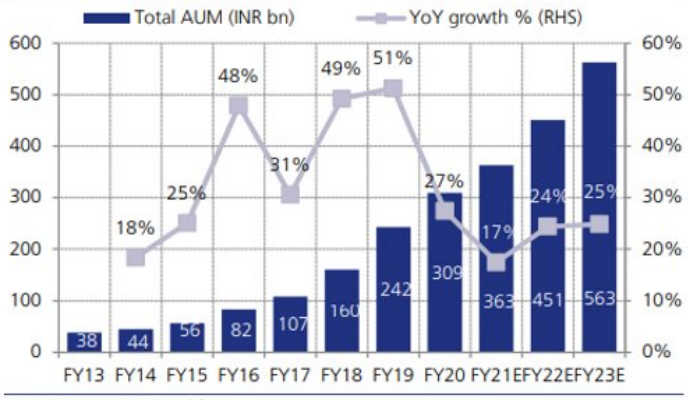
Share of SFBs in Total Assets and Banking Business are still too small. Liabilities ramp-up is quite good and their collections ability is quite good, given most of them were MFIs.



Notes: 1) Total Business = Total Deposits + Total Credit.
2) SCBs include Public Sector Banks (PSBs), Private Sector Banks (PVBs) and Foreign Banks (FBs).
3) Based on March 2019 data.
Source: Supervisory returns.

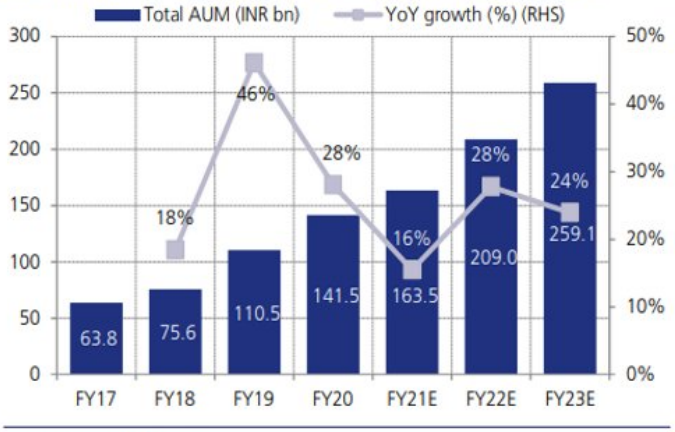
The growth of some of these SFB is quite good (esp the 3 listed players). Now, this could work as a template for Future Banking Licences in India. SFB will play the most important role in the RBI's action plan of “providing banking access to every village within a 5 KM radius"

Exhibit 1. AU: AUM growth to pick up from FY22E after slower growth in FY21E due to Covid



Source: Company, JM Financial

Exhibit 7. Ujjivan: AUM growth to pick-up from FY22E onwards



Source: Company, JM Financial