Note ban woes drag on for small finance banks

NAMRATA ACHARYA
Kolkata, 29 May

Created with a vision of deepening financial inclusion, most small finance banks (SFBs) closed last financial year with a loss or marginal profit due to high provisions on account of non-performing assets (NPAs). This was due to the effects of demonetisation and loan waivers.

For a major part of the last financial year, the microfinance industry saw its NPAs increase to more than 5-6 per cent, against about one per cent prior to demonetisation. Almost all SFBs, baring, AU and Capital Small Finance Bank, which are urban-focused banks, have more than 80 per cent of their loan portfolio concentrated in the microfinance sector.

As a result, much of the finances of about eight SFBs went for provisioning against non-performing assets (NPAs), rather than expanding loan book. Microfinance portfolio of SFBs saw a muted growth of about 3 per cent last year.

Ujjivan, one of the listed SFBs, reported a net profit of about ₹73 million for FY18, while provisions was around ₹3 billion. Another listed SFB, Equitas, reported a net profit of about ₹313 million last financial year, while the provisioning stood at ₹1.7 billion.

"We had to incur a loss last year as we provided for all our NPAs. Next year, our clear focus will be on increasing products in the retail side, focusing on digital strategy, doorstep banking, and garnering deposits through differential deposit rates," said Rajeev Yadav, CEO, Fincare.

Varanasi-based Utkarsh Small Finance Bank posted a net loss of about ₹630 million last year, and had to write off loans worth about ₹1.43 billion. Currently, close to 88 per cent of the bank's book is focused in the microfinance sector. Next year, the bank's focus will be on introducing new products in the retail space and will offer higher ticket size loan, while staying focus on microloans, said a spokesperson of Utkarsh.

However, at the end of the financial year, the bank could tame its gross NPA to 1.85 per cent, and net NPA of 1.09 per cent, with whole year's operating profit at ₹756 million, said Ashwani Kumar, deputy CFO and corporate communication, Utkarsh. As on March 31, 2018, 10 SFBs had a microloan portfolio (loan outstanding) of about ₹300 billion, which is about 22 per cent of the entire microfinance portfolio in the country.

"For the SFBs, the previous fiscal was essentially a period of transition. The three key challenges were moving into the operating format of a bank, including getting all regulatory approvals; building teams, systems, processes and products; and, managing the adverse impact of demonetisation. Overall, the transitions have been well managed and practically all SFBs are showing profits or minimal losses. From the broader policy perspective of providing access to finance to the unserved and undeserved segments, the steps SFBs now take will be critical. The need is for creating breakthrough business models," said Alok Prasad, ex CEO of MFIN and banking sector expert.

STATE OF PLAY

- More than 80% of SFBs' portfolio still in microfinance
- SFBs account for close to 22% of total microlending universe
- For FY19, SFBs are looking to expand retail offering but microloans likely to remain mainstay
- At present there are 10 SFBs operating
- Ujjivan, AU and Equitas are the three listed SFBs