

Small finance banks may grow 30%: Icra

Mumbai: Small finance banks (SFBS) are likely to grow at 25-30% over the medium-term and if they can arrange additional external capital of Rs 4,000-6,000 crore till FY23, says a report.

These banks have witnessed growth in assets under management, deposits, and better return on their equities, besides mitigating business risks through diversification.

In the nine-months to December 2018, these banks have reported an annualised growth of 33% in the assets under management to Rs 64,325 crore.

“We expect small finance banks’ loan portfolio to grow at 25-30% over the medium-term, with the share of microfinance declining to around 40% by March 2020,” Icra said in a note.

These banks would require external capital of Rs 4,000-6,000 crore (40-60% of their present networth) till FY23 for meeting the projected growth rate, while growing at an annualised rate of 25-30%, the report said.

Part of this funding can also be met through initial public offerings in line with regulatory requirements, the agency said.

It said these banks have also been able to diversify their product mix, which has led to a decline in the share of microfinance as an asset class to 44% as of December 2018 from 60% as of March 2017.

These banks have made good progress with deposits, accounting for more than half of their total borrowings as of December 2018.



ON STRONG FOOTING

- These banks have reported a growth of 33% in 9 months to December
- These banks would require external capital of Rs 4,000-6,000 crore

These banks’ asset quality indicators have improved with gross NPAs declining to 5.8% as of December 2018 from 9% in March 2018.

While on a consolidated basis, their asset quality is likely to be supported by diversification into relatively lower risk products and providing for/writing-off legacy NPAs.

“Asset quality in the newer segments is yet to be tested and performance of individual banks can vary depending on the robustness of their credit underwriting norms, monitoring and collection frameworks,” it said.

The report said setting up and upgrade of existing branches, systems upgrade, and the hiring of manpower have kept the operating expense ratios high for these banks. But during the April-December 2018, some signs of moderation were visible. — PTI