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Analysts are not optimistic about SFB operations helping the firm mobilise low-cost deposits in a big way

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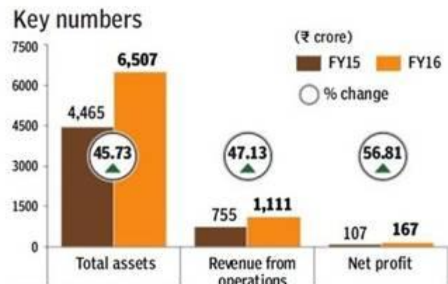

Source: Company Annual Report

Mumbai, Sept 6: Equitas Holdings on Tuesday started operating as a small finance bank (SFB) with three branches in Chennai. Equitas was granted an in-principle approval by the Reserve Bank of India (RBI) in September 2015 to start operations as an SFB.

Equitas Small Finance Bank (ESFB) is the second SFB in the country after Capital Small Finance Bank, which started operations in April 2016.

Starting of banking operations by Equitas Holdings follows an approval by the Madras High Court to merge three of its subsidiaries – Equitas Micro Finance (EMFL), Equitas Housing Finance (EHFL) and Equitas Finance (EFL).

Equitas Small Finance Bank's MD & CEO PN Vasudevan said, "It is our endeavour to bring a wave of freshness into banking through our focus on making normal banking transaction 'fun' for the customers and through spreading fun and joy, we hope to impact about 5% of Indian households by 2025."

As of June 2016, at a consolidated level, Equitas had Rs 6,559 crore assets under management (AUM), roughly 52.5% of which was accounted for its microfinance arm EMFL. This made EMFL, on a standalone basis, the fourth-largest microfinance company in the country, following Janalakshmi Financial Services, Bharat Financial Inclusion (formerly SKS) and Ujjivan Financial Services.

However, Equitas has been trying to diversify its loan book, with the share of micro and small enterprise finance rising from almost nothing three years back to close to 19% at the end of Q1FY17. With 71.4% of its borrowings sourced from banks, Equitas, at a consolidated level, had a net interest margin of 12% in the first quarter of the current financial year, while its net profit rose 63.6% (Y-o-Y) during the quarter to Rs 61.2 crore.

Analysts though are not too optimistic about SFB operations helping Equitas mobilise low-cost deposits in a significant way in the short run. Analysts at Motilal Oswal expect Equitas to have a current account and savings account (CASA) ratio of 12% only in FY21.

To put this in perspective, top private sector banks such as HDFC Bank and ICICI Bank have the CASA ratios of more than 40%.

Analysts, however, noted that conversion into an SFB will lead to stability and granularity in Equitas' liability profile, thereby reducing risk during times of liquidity shocks. They also expect its loan book to grow at a compounded annual growth rate of 40% over the next five years.

In September 2015, the RBI, as part of its objective to further financial inclusion, had granted in-principle approvals to 10 entities (from among 72 applicants) for setting up SFBs.

While the central bank hasn't put any restriction on the area of their operation, it has mandated that at least 50% of an SFB's portfolio should constitute loans and advances up to Rs 25 lakh and that at least 75% of their exposure should be to the priority sector.

Similarly, the central bank has set a deadline of April, 2017, for SFB licencees to start operations.

Earlier this April, Equitas Holdings also became the first SFB licencee to sell its shares via an initial public offer, which brought down foreign shareholders' holding in the company to the mandated 49% or lower from well over 90%.