

# *Structural changes in MFI/SFB space...*

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VP Goa Meet

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# Agenda

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- Overview of sector and evolution
- Key structural changes
- Asset and Liability changes on Balance sheet
- Distribution Network changes
- References

# Overview

How did the sector evolve...??



# Recent evolution of the sector...

## Pricing flexibility (2014)

- Interest rate cap on loans were made more flexible
- RBI said that MFIs can charge interest rates based the cost of funds plus margin (currently capped at 10%) or the average base rate of the five largest commercial banks by assets multiplied by 2.75, whichever is lower

## SRO status to MFIN (2014)

- To ensure effective functioning of Non-Bank Finance Company-Microfinance Institutions (NBFC-MFIs), the RBI has decided to recognise self-regulatory organisations for monitoring such institutions
- A self-regulatory organisation (SRO) is a voluntary body appointed by the industry participants to monitor the functioning of all players in the industry and bring in some degree of standardisation in industry practices
- Micro Finance Institutions Network (MFIN) was given SRO status by RBI in 2014

## SFB License (Sep-2015)

- 10 MFIs were awarded SFB (Small Finance Banks) license by RBI out of 72 applications
- The name of the applicants that have been granted the license include- Au Financiers, Capital Local Area Bank , Disha Microfin, Equitas Holdings, ESAF Microfinance and Investments, Janalakshmi Financial Services, RGVN (North East) Microfinance, Suryoday Micro Finance, Ujjivan Financial Services and Utkarsh Micro Finance

# SFBs that got license from RBI in 2015...!!



**10 Companies in India that got Small Finance Bank Licenses from RBI**

AU Finance, Ujjivan and Equitas are the listed players currently...!!

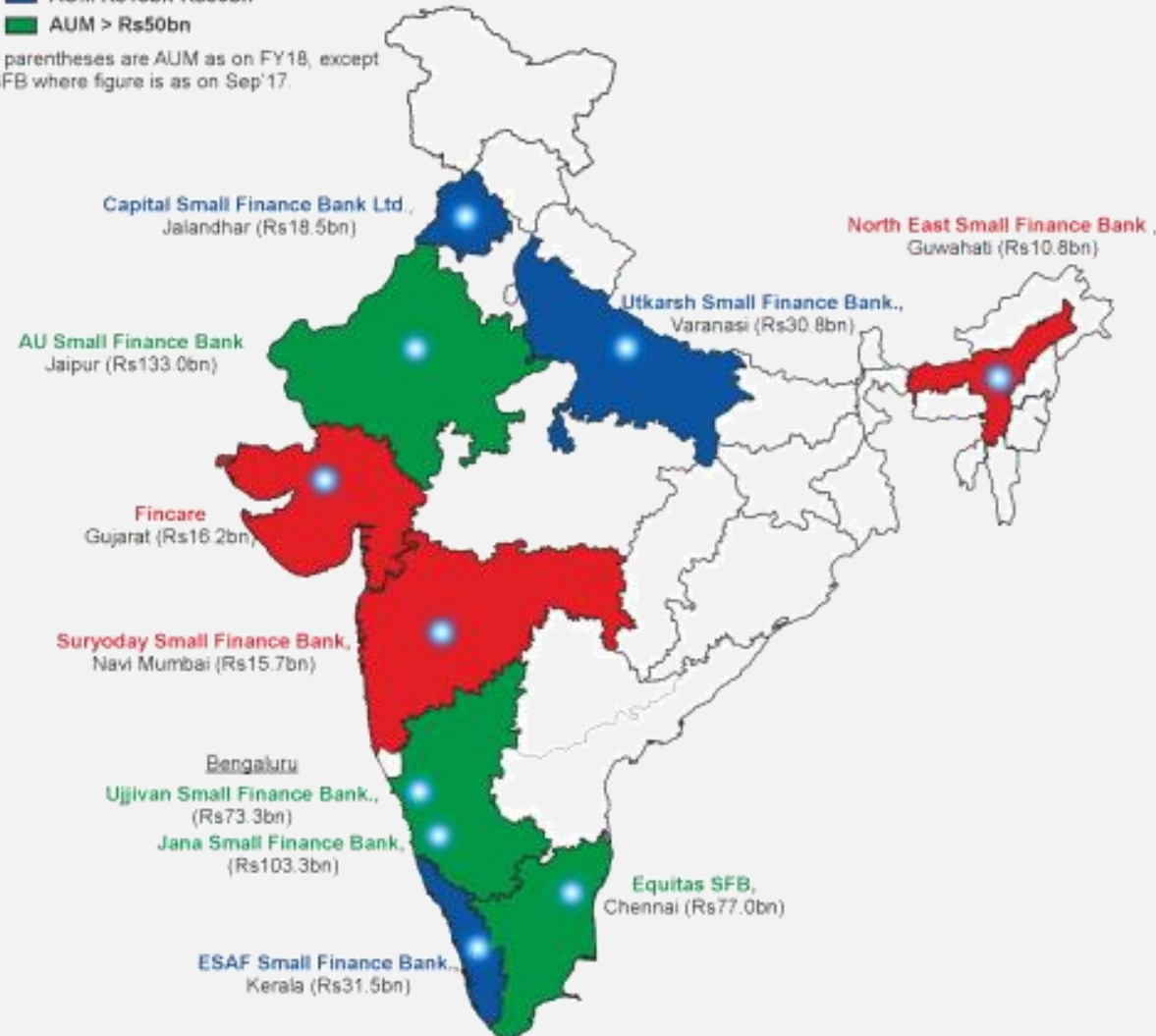
# Geographical mapping of SFBs

SMALL ■ AUM < Rs18bn

MEDIUM ■ AUM Rs18bn-Rs50bn

LARGE ■ AUM > Rs50bn

Figures in parentheses are AUM as on FY18, except for Jana SFB where figure is as on Sep'17.

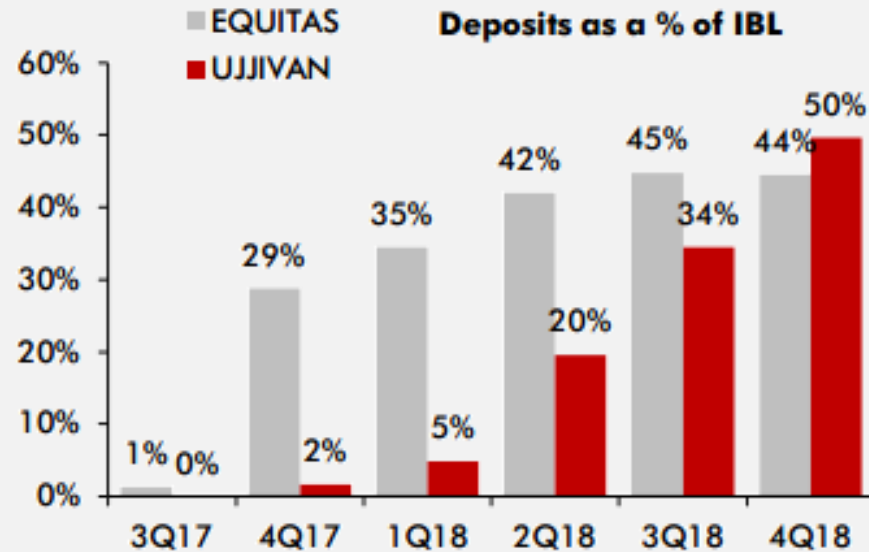


# What are structural changes after becoming SFBs..??

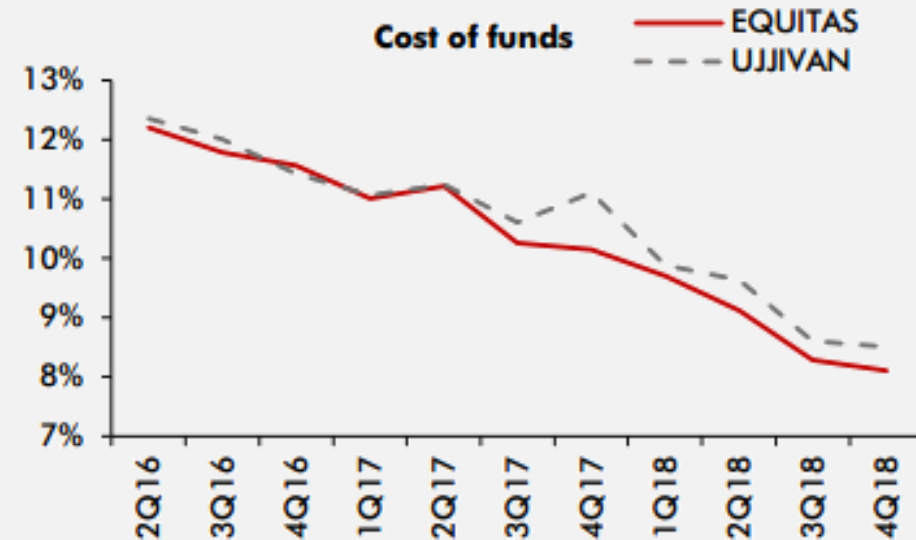
- Change in deposit mix (Liability side of the balance sheet)
- Change in lending mix (Asset side of the balance sheet)
- Ancillary product offerings
- Risk profile and credit losses
- Margin profile
- Distribution network and penetration; Technology
- Customer service and staff
- Operating cost profile
- Others



# Deposit mix – Liability side of the balance sheet..!!



Source: Company, Ambit Capital Research



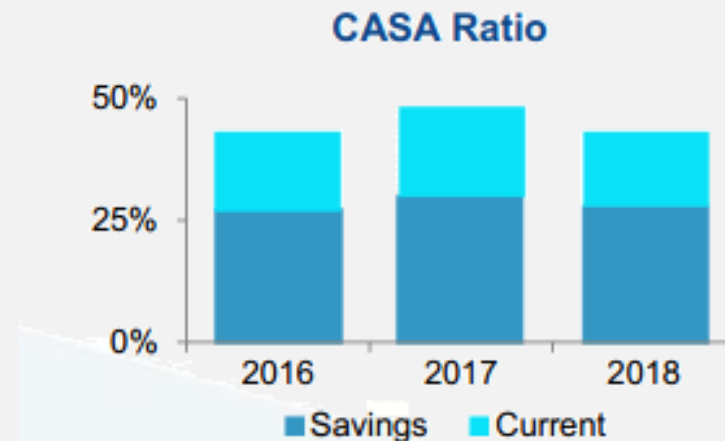
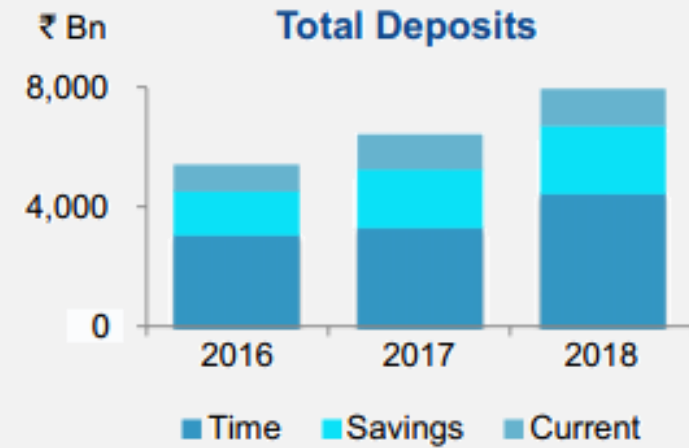
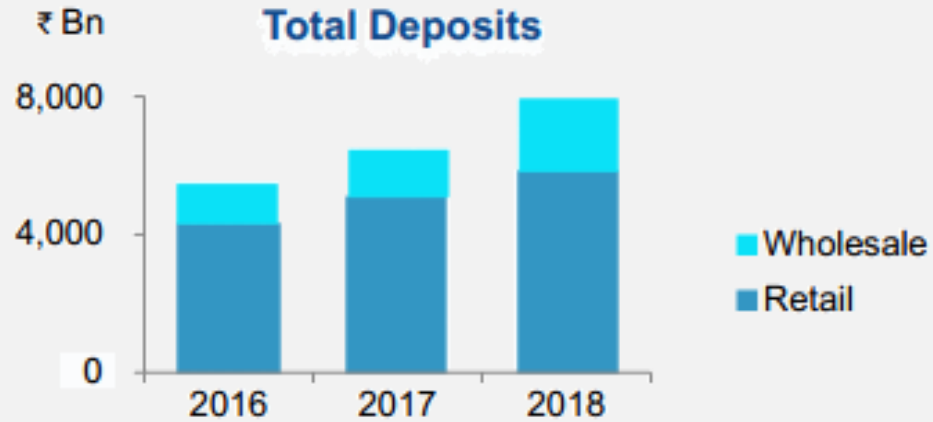
Source: Company, Ambit Capital Research

- Shift from bank loans to bulk deposits provided initial thrust of lowering cost of funds by ~200-300 bps
- Next round of focus comes from increasing CASA deposits to further lower the cost of funds; This will be helped by rapid branch network expansion

Source: Ambit research report



# Deposit and lending mix of HDFC Bank



Source: Company presentation

# Deposit mix – Liability side of the balance sheet..!!

	FY17	FY18	FY19E	FY20E	FY21E	FY22E
<b>CASA as a % of IBL</b>						
Equitas	5%	15%	18%	19%	21%	26%
Ujjivan	0%	2%	8%	10%	14%	22%
<b>Cost of funds</b>						
Equitas	11.2%	7.9%	7.1%	6.6%	6.3%	6.0%
Ujjivan	10.1%	8.6%	8.1%	7.6%	7.2%	6.8%

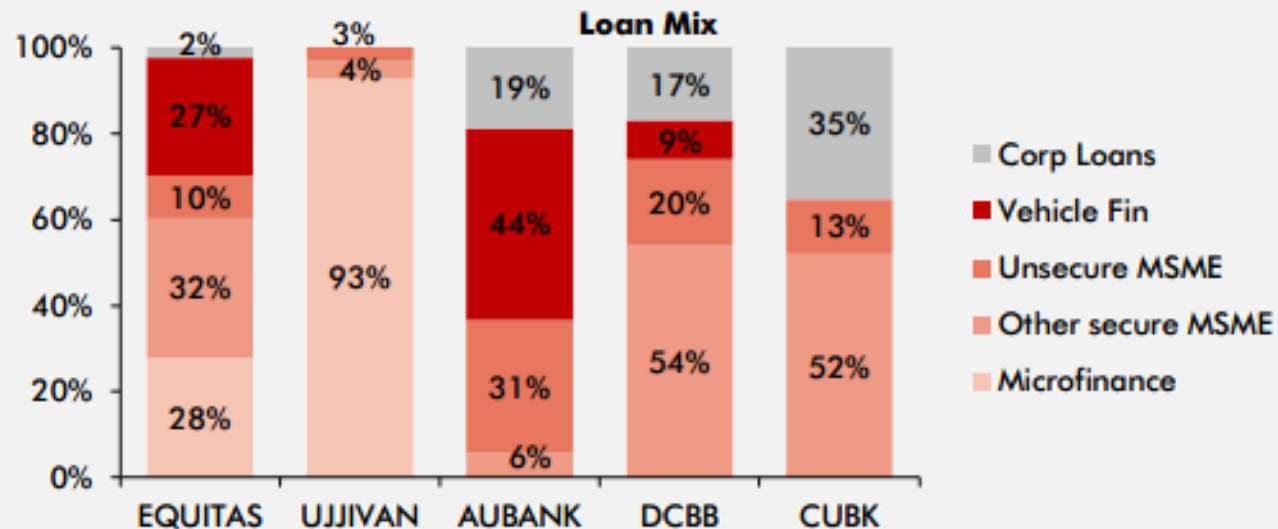
Source: Company, Ambit Capital Research

- CASA ratio can be increased rapidly given low base and commoditized nature
- Rapid branch expansion to provide further boost to CASA ratio improvement
- CASA ratio of 20-25% can lower the cost of funds to 400-500 bps from initial levels in 2016 (subject to overall interest rate cycle)
- Of course the cost of acquiring CASA deposits will be higher than other established banks since they will need to offer higher interest rates to make it attractive

Overall cost of funding to further come down in next 3-4 years before it saturates

# Lending Mix – Asset side of the balance sheet..!!

Loan/AUM mix of the SFBs (as of end-FY2018)



Source: Company, Ambit Capital Research

- Change in the portfolio of AUM from primarily MFI to other sectors like vehicle finance, SME funding, mortgage and home loan financing etc.
- Yield in these segments will be lower than microfinance however these should also lead to slightly lower credit costs and operating ratios; **Norms applicable to banks apply to SFBs and hence they are liable to maintain CRR and SLR & this could be a low yield part of portfolio**

Ujjivan has still major lending portfolio (93%) to microfinance

# Lending Mix – Asset side of the balance sheet..!!

	FY17	FY18	FY19E	FY20E	FY21E	FY22E
<b>Yield on AUM</b>						
Equitas	20.0%	18.2%	18.6%	18.1%	17.7%	17.2%
Ujjivan	20.8%	18.9%	18.5%	17.9%	17.3%	16.9%
<b>Credit cost</b>						
Equitas	1.5%	2.2%	1.4%	1.4%	1.4%	1.4%
Ujjivan	1.3%	4.5%	1.3%	1.5%	1.8%	2.0%

Source: Company, Ambit Capital research

- Overall loan yields to come down by 300-400 bps from diversification of lending profile
- Also, these SFBs can witness higher competition from niche NBFCs that operate in these lending categories implying very little room of increase in yield
- Credit cost to very slightly decrease given it will take time for economies of scale and achieve higher share of higher-ticket loans
- **However, diversification of loan book will prevent them from large event risks in MFI**

Lower cost of funding will be largely offset by lower yields due to diverse lending

# Distribution network and penetration...!!

	Months since converted into bank	No of branches	Branches per month
BANDHAN	32	864	27.0
AUBANK	12	306	25.5
EQUITAS	19	392	20.6
UJJIVAN	14	121	8.6
IDFCB	40	127	3.2

Source: Company, Ambit Capital Research

- The SFBs and other new banks are expanding their branch network very rapidly
- Currently they are adding 20-25 branches per month to their network (\*Ujjivan had to slow down the roll-out plan due to difficulties around demonetization related disruption)
- Provides more touchpoints for customers and could increase the business
- Important implication here is that there will be huge investment required upfront on staff, infrastructure and processes while it will take time to scale-up retail deposits franchise and cross-sell other products; RoE to remain subdued in near term

This will build inherent operating leverage which can playout in few years

# Product offering and strategies..!!

- MF business is more of “PULL” strategy business where employees are focused on micro lending operations
- As SFBs, they will be expected to “PUSH” and cross-sell various ancillary products like deposits, mutual funds, insurance, pension, SME finance etc.
- This will require proper execution, training talent and develop robust internal processes; **If done properly, will increase customer stickiness and provide more stable business model**

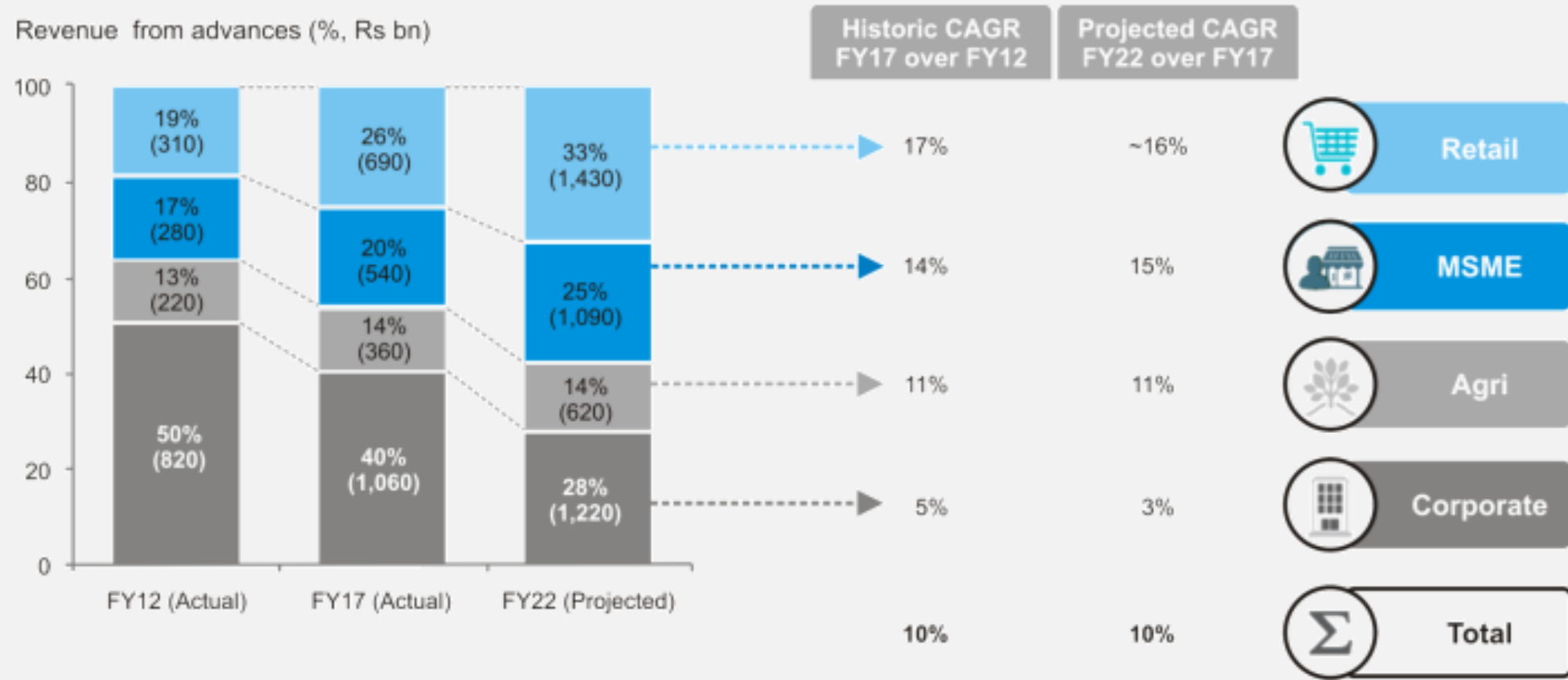


# Opportunities...!!

- The target customers for SFBs are usually the unbanked or underbanked. According to Equitas management, 90% of their customers were clients who were banking for first time. This provides a huge market opportunity for these SFB to address the bottom of the pyramid
- With PSBs reluctant to lend as they are trying to repair their balance sheets, and private banks not too keen on small ticket lending, SFBs can address a big market opportunity



# MSME lending opportunity...!!



Source: BCG, CIBIL, SSL

MSME is the new opportunity for industry with ~15% CAGR projected growth

# Role of technology..!!

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- Use of technology like Aadhar enabling and CIBIL score can improve the quality of loan book
- Faster penetration to remote customers (this could be threat from competitors also)
- Helps remove dummy borrowers from the system
- Lowers turnaround time

# Risks and challenges...!!

- Building up a strong network of branches and maintaining and improving profitability of these branches is a tall task and needs constant efforts on part of management
- Lending to bottom of pyramid is fraught with risk as it entails higher chances of defaults
- Any massive regulatory changes can pose risk to strategy
- More licences given by RBI in near future can increase competition and lower RoE further

# Valuation snapshot

<b>FY 2018</b>	<b>AU BANK</b>	<b>EQUITAS</b>	<b>UJJIVAN</b>
AUM (Rs mn)	160,380	82,390	75,597
Pre-provisioning profit (Rs mn)	5,750	2,228	3,226
Net profit (Rs mn)	2,910	311	72
EPS (Rs)	10	1	1
BVPS (Rs)	80	67	146
RoA (%)	2.00	0.30	0.10
RoE (%)	0.13	0.01	0.00
CMP (as of 17-Jul-2018)	635	137	378
P/BV (FY18)	8.0x	2.0x	2.6x

# Financial metrics

(Rs mn)	UJJIVAN		EQUITAS		AU	
	2015	2018	2015	2018	2015	2018
AuM	32,741	75,520	40,100	82,390	55,677	160,380
CASA		1,380		16,340		21,340
Deposits		37,968		47,190		76,389
TPD	2	58		320		790
Opex	4,974	6,542	2,977	8,907	1,554	7,530
Salary	1,330	3,666		5,200	945	4,250
# Branches	423	651	505	989	231	474
# Employees	7,089	11,242	6,275	13,455	3,553	11,151
# Borrowers (mn)	2.2	3.7	2.5	-	0.2	0.4
Balance sheet size	39,763	98,138	44,648	134,947	40,475	188,320
AuM/branch	77.4	116.0	79.4	83.3	241.0	338.4
CASA/branch	-	2.1	-	16.5	-	45.0
Deposits/branch	-	58.3	-	47.7	-	161.2
TPD/branch	0.0	0.1	-	0.3	-	1.7
Opex/branch	11.8	10.0	5.9	9.0	6.7	15.9
Deposits/balance sheet (%)	-	38.7	-	35.0	-	40.6
CASA/balance sheet (%)	-	1.4	-	12.1	-	11.3
Salary/employee (in Rs '000)	187.6	326.1	-	386.5	266.0	381.1
AuM/borrower (in Rs '000)	14.9	20.4	15.9	-	294.3	454.3

Source: Companies, SSL

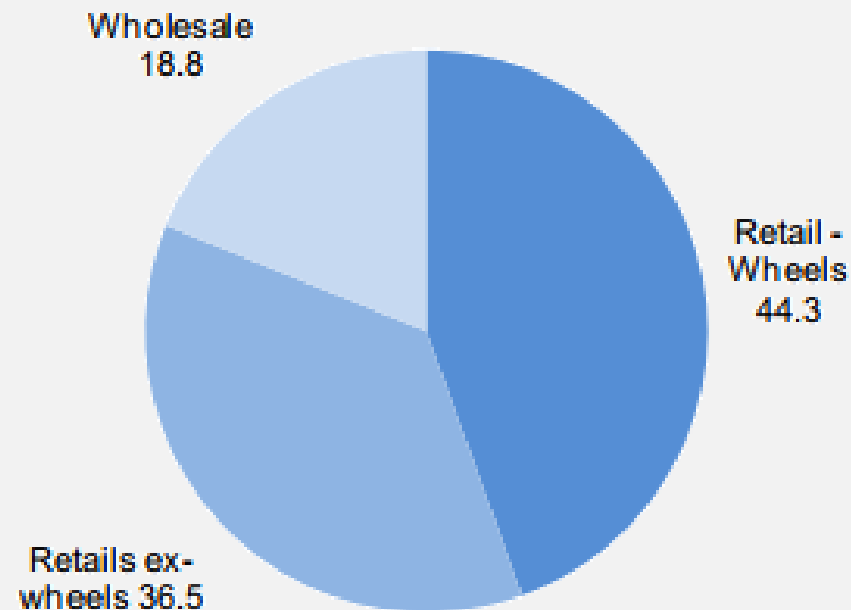
# Appendix

Details of all SFBs



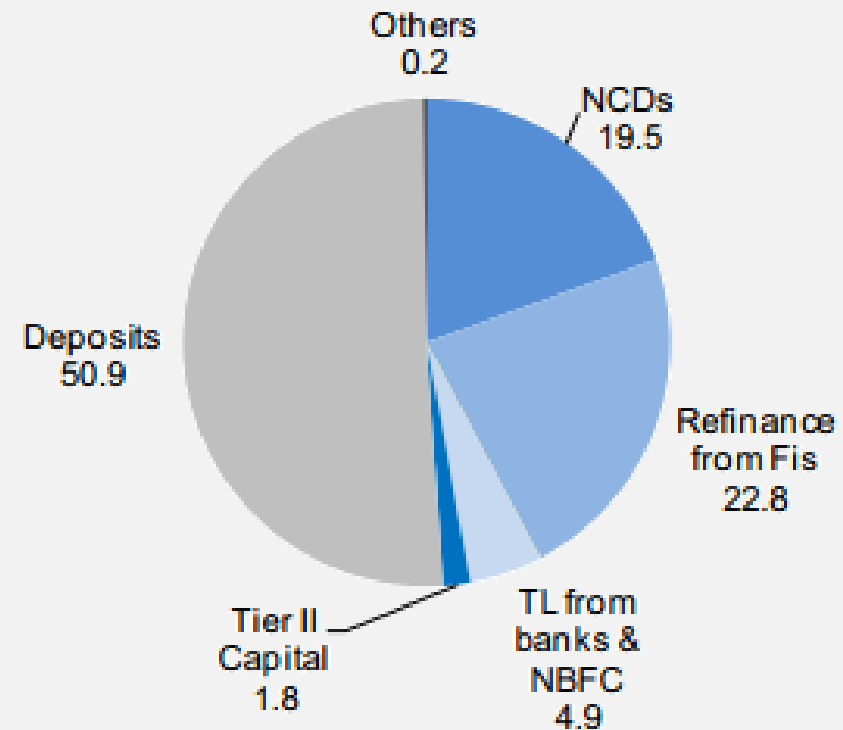
# Borrowing-Lending mix of Au SFB

**Exhibit 5: Loan Book Mix (%) - FY18**



Source: Company, SSL

**Exhibit 6: Borrowing Mix (%) - FY18**

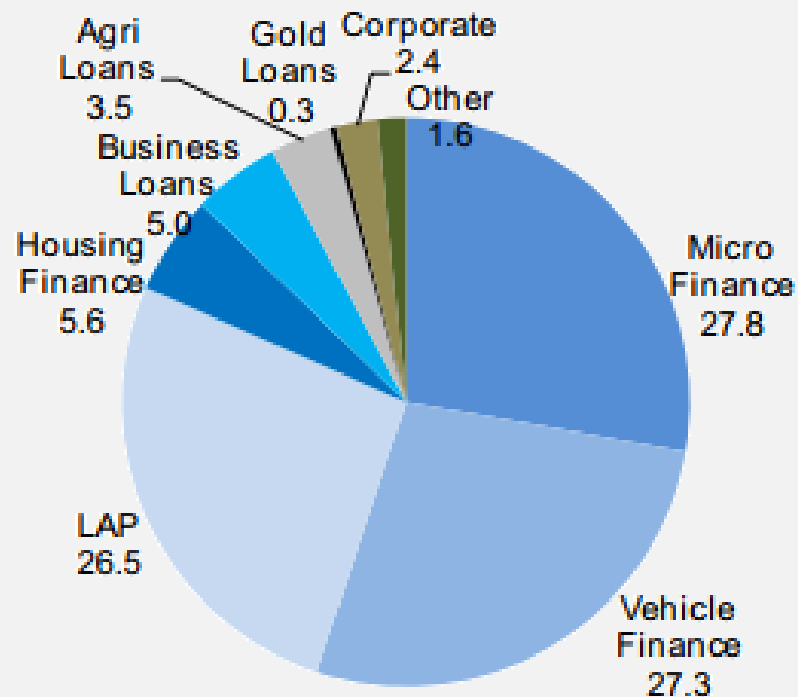


Source: Company, SSL



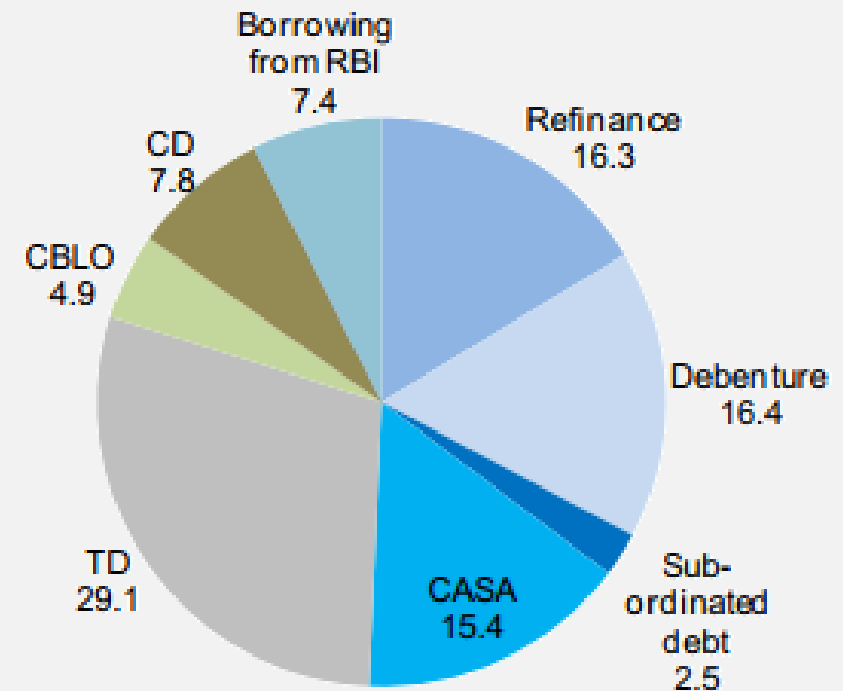
# Borrowing-Lending mix of Equitas

**Exhibit 5: Loan Book Mix (%) - FY18**



Source: Company, SSL

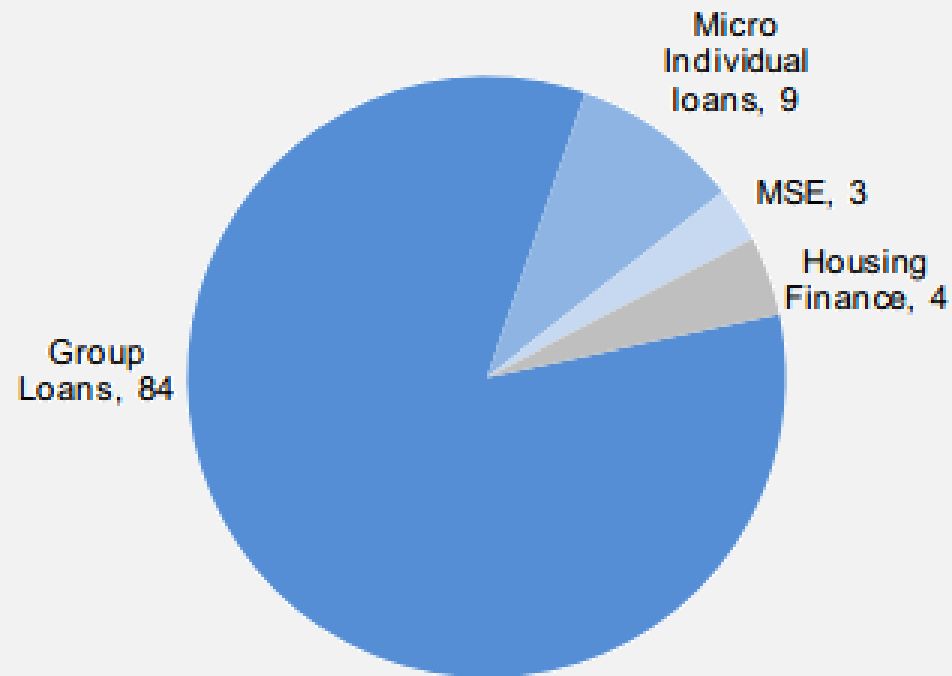
**Exhibit 6: Borrowing Mix (%) - FY18**



Source: Company, SSL

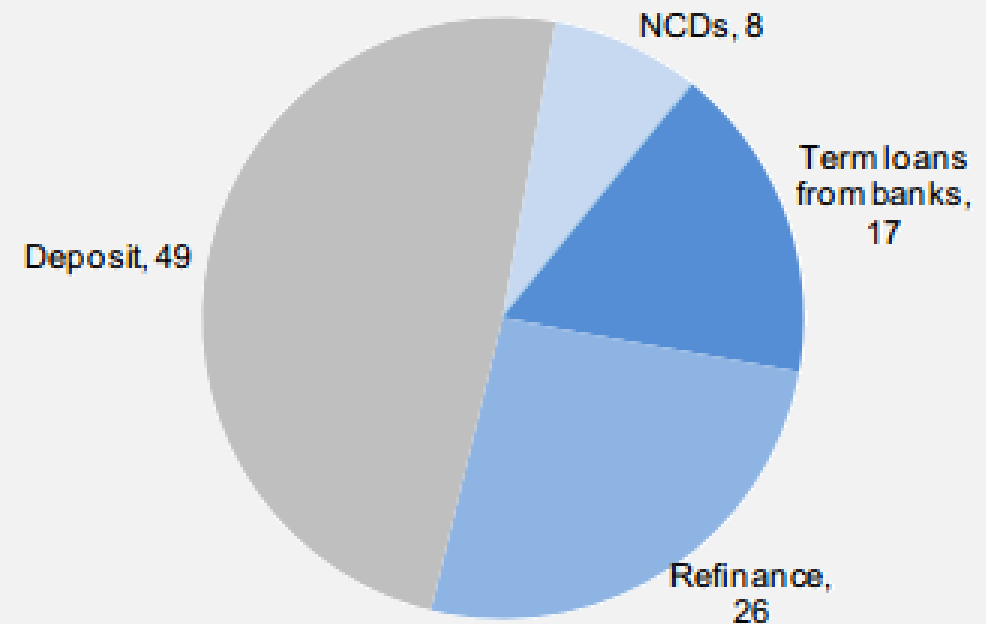
# Borrowing-Lending mix of Ujjivan

**Exhibit 5: Loan book mix (%) - FY18**



Source: Company, SSL

**Exhibit 6: Borrowing mix (%) - FY18**



Source: Company, SSL

# Capital SFB, Jalandhar

## Capital Small Finance Bank, Jalandhar

### Exhibit 18: Key Details

Incorporated (Year)	2002
SFB conversion (Month / Year)	April, 2016
Key management officials	Mr. Sarvjit Singh Sharma
AUM (Rs bn)	18.52
Size (by net worth or AUM)	Medium
Key focus areas	Kisan credit card, MSME, LAP
Organisation structure	Standalone
Key areas of operation	Punjab, Delhi
No. of branches (#)	101

Source: Company, SSL

(Rs mn)	FY15	FY16	FY17	FY18
Deposits	15,067.8	18,141.3	23,782.1	28,505.2
Advances	9,293.0	11,494.0	13,696.0	18,529.8
Net Worth	895.1	1,148.4	1,902.2	2,327.2
NII	546.2	626.8	740.3	740.2
Operating Profit	192.6	212.6	232.2	326.9
Net Profit	142.2	137.4	150.4	190.2
CASA %	35.72	35.16	39.54	-
NIM %	3.53	3.37	3.08	-
EPS (Rs)	7.2	6.7	6.5	6.8
BVPS (Rs)	51.8	49.9	70.5	83.2
CAR	15.2	17.2	22.9	19.6
GNPA %	0.39	0.73	1.02	1.14
NNPA %	0.13	0.45	0.72	0.84
ROA	0.92	0.74	0.63	0.64
ROAE %	16.8	13.4	12.5	9.0
Branches			73	101

Source: Company, SSL

# ESAF SFB, Chennai

## ESAF Small Finance Bank Limited, Chennai

### Key Details

Incorporated (Year)	1995
SFB conversion (Month / Year)	March, 2017
Key management officials	Mr. K Paul Thomas
AUM (Rs bn)	31.55
Size (by net worth or AUM)	Medium
Key focus areas	Micro finance/Vehicle finance/M-LAP
Organisation structure	Holding
Key areas of operation	Kerala, TN
No. of branches (#)	400

Source: Company, SSL

(Rs mn)	FY17	FY18
Networth	3,057.6	3,433.5
Deposits	4,093.4	25,230.9
Advances	14,817.3	31,550.9
NII	132.82	2,820.19
PAT	7.6	269.9
CAR %	16.27	16.92
EPS (Rs)	0.07	0.89
GNPA %	0.53	3.79
NNPA %	0.24	2.69
PCR %	54.7	29.0
ROA %	0.30	0.72

Source: Company, SSL

# Fincare SFB, Ahmedabad

## Fincare Small Finance Bank Limited, Ahmedabad

### Exhibit 25: Key Details

Incorporated (Year)	1996
SFB conversion (Month / Year)	July, 2017
Key management officials	Mr. Rajeev Yadav
AUM (Rs bn)	18.8
Size (by net worth or AUM)	Small
Key focus areas	Micro loans/LAP/Gold Loan
Organisation structure	Standalone
Key areas of operation	Gujarat, MP, Rajasthan
No. of branches (#)	478

Source: Company, SSL

(Rs mn)	FY15	FY16	FY17
Net Worth	409.6	439.8	4,351.0
AUM	2,610.9	3,943.0	17,359.8
Profit After Tax (PAT)	69.1	30.2	86.8
Yield on Average Earning Assets (%)	25.7%	19.3%	21.1%
Cost of average interest bearing funds (%)	17.4%	11.8%	16.5%
Net Interest Margin (%)	12.4%	9.4%	10.5%
Operating Expenses /Average Managed Assets	7.7%	7.8%	11.3%
Cost to Income Ratio (%)	62.0%	81.3%	82.3%
PAT / Average Total Assets (%)	3.7%	1.2%	1.2%
Gearing - Managed	4.9	7.4	1.4
Tier I Capital	25.8%	17.6%	48.4%
Tier II Capital	-2.6%	-0.1%	0.0%
CRAR	23.2%	17.5%	48.4%

Source: Company, SSL

# Jana SFB, Bengaluru

## Jana Small Finance Bank, Bengaluru

### Exhibit 29: Key Details

Incorporated (Year)	2008
SFB conversion (Month / Year)	April, 2018
Key management officials	Mr. Ramesh Ramanathan, Mr. Ajay Kanwal
AUM (Rs bn)	60.28
Size (by net worth or AUM)	Large / Medium / Small
Key focus areas	Micro finance, Agri loan, Business loan
Organisation structure	Standalone
Key areas of operation	Karnataka, TN, Maharashtra
No. of branches (#)	450

Source: Company, SSL

(Rs mn)	FY16	FY17
Total Income	17,850.0	29,780.0
PAT	1,600.0	1,700.0
Net worth	12,280.0	23,970.0
AUM	110,070.0	125,510.0
Total Managed Assets	133,450.0	157,300.0
Return on Managed Assets	1.70%	1.20%
ROE	13.90%	9.40%
Gearing	7.95	4.97
Gross NPA %	0.20%	0.70%
Net NPA %	0.10%	0.50%
CAR %	17.40%	23.90%

Source: Company, SSL

# NE SFB, Guwahati

## North East Small Finance Bank, Guwahati

### Exhibit 33: Key Details

Incorporated (Year)	2016
SFB conversion (Month / Year)	October, 2017
Key management officials	Ms. Rupali Kalita, Mr. Mukesh Singh Verma
AUM (Rs bn)	10.82
Size (by net worth or AUM)	Small
Key focus areas	Micro finance
Organisation structure	Holding
Key areas of operation	Assam, Meghalaya
No. of branches (#)	150

Source: Company, SSL

(Rs mn)	FY15	FY16	FY17
Networth		1,001.8	2,250.5
AUM	2,290.0	4,880.0	6,880.0
Total Income		807.6	1,441.5
PAT	73.6	135.3	275.3
# borrowers (mn)	0.22	0.29	0.4
# Branches	116	131	139
ROE	8.5	13.5	21.2
ROA	2.7	3.1	3.2
NIM	9.5	9.2	10.3

Source: Company, SSL



# Suryoday SFB, Mumbai

## Suryoday Small Finance Bank, Mumbai

### Exhibit 37: Key Details

Incorporated (Year)	2008
SFB conversion (Month / Year)	January, 2017
Key management officials	Mr R Bhaskar Babu
AUM (Rs bn)	15.75
Size (by net worth or AUM)	Small
Key focus areas	Micro finance, Shopkeeper loans, MSME, LAP
Organisation structure	Standalone
Key areas of operation	Maharashtra, AP, Orrisa
No. of branches (#)	250

Source: Company, SSL

(Rs mn)	FY16	FY17
Total Income	1,952.6	2,547.9
Operating Profit	415.8	371.0
PAT (reported)	274.4	151.0
Yield on Average Loans	23.84%	25.80%
Cost of Average Interest-Bearing Funds	12.23%	11.52%
Net Interest Margin (adj. for BO costs) / AMA	9.53%	8.70%
Operating Profit / AMA	4.06%	2.49%
PAT / AMA	2.68%	1.01%
PAT / Average Net worth	16.66%	4.33%
Net worth	1,975.4	5,005.7
Gearing	4.84	2.08
CRAR	22.43%	53.62%
Gross NPA	0.16%	6.15%
Net NPA	0.04%	3.80%
ROA	2.8	1.2
ROE	16.7	4.3
Advances	9,830.0	8,340.0

Source: Company, SSL

# Utkarsh SFB, Varanasi

## Utkarsh Small Finance Bank (USFB), Varanasi

Exhibit 41: Key Details	
Incorporated (Year)	2005
SFB conversion (Month / Year)	January, 2017
Key management officials	Mr. Govind Singh
AUM (Rs bn)	30.82
Size (by net worth or AUM)	Medium
Key focus areas	Micro finance, Micro enterprise loan
Organisation structure	Holding
Key areas of operation	UP, Bihar
No. of branches (#)	400

Source: Company, SSL

(Rs mn)	FY16	FY17
Net Interest Income	1,233.5	2,142.3
Profit before Tax	611.1	529.0
Profit after Tax	368.1	343.6
Net Advances	11,854.5	15,899.1
Total Assets	15,387.9	26,511.9
% Tier 1	14.40%	17.15%
% CRAR	20.70%	25.87%
Gearing	4.88	2.86
% Net Profit / Average Managed Assets	2.60%	1.50%
% Return on Net Worth	15.80%	7.40%
% Gross NPA	0.17%	0.00%
% Net NPA	0.05%	0.00%
Net NPA / Net Worth	0.23%	0.00%

Source: Company, SSL

# Few more references...

- BSE and NSE websites
- Company websites
- Economic Times website
- Business Standard
- Financial Express
- Broker Research reports
- Annual reports

Gratitude.....

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THANK YOU.....!!