At 20%, small finance banks have highest return on advances

By: PTI
January 7, 2021 9:24 PM

According to an analysis of the key financial metrics of small finance banks (SFBs) by Care Ratings in comparisons to their public, private and foreign sector peers, these newest entities on the finance street are paying as much 8.20 per cent in interest cost for deposits, which in the case public sector banks is only 4.96 per cent, at 5.26 per cent for private sector ones and at 3.65 per cent for foreign banks.

The 10 SFBs came into existence later 2016 with the objectives of providing a savings vehicle for the unserved sections as well as supplying credit to small businesses, marginal farmers.

The fledgling small finance banks are paying nearly double of that of their peers paying in cost of funds at a high of 8.66 per cent, yet maintaining the highest return on advances at close to 20 per cent and on assets and equity in high teens than their peers, says a report.

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Again SFBs are paying a high 8.66 per cent in cost of funds, as against 4.92 per cent by public sector ones, 5.41 per cent by private lenders and 3.73 per cent by foreign banks.

But when it comes to return on advances, SFBs pocket a whopping net 19.87 per cent, as against 8.16 per cent for PSBs, 10.10 per cent for private lenders and 8.45 per cent for foreign lenders. Similarly, on the return on assets, the PSBs earn a minus 0.23 per cent, private lender earn a paltry 0.51 per cent while MNC lenders earn a lower 1.55 per cent and the SFBs earn the highest at 1.70 per cent.

The SFBs have the second best numbers when it comes to return on equity earning a shiny 15 per cent, as against minus 4.16 per cent for PSBs, a low 3.30 per cent for private sector banks and when it comes to foreign banks they return

The 10 SFBs came into existence later 2016 with the objectives of providing a savings vehicle for the unserved sections as well as supplying credit to small businesses, marginal farmers.

These 10 SFBs have a total balance sheet of Rs 1.33 lakh crore as of FY20 and their share in the overall banking system was an insignificant 0.7 per cent, which was after a 58 per cent growth in FY20, while banking as a whole inched by a paltry 8.5 per cent.

These ten banks had core capital of Rs 5,151 crore, reserves of Rs 11,047 crore, and their deposits stood at RS 82,488 crore, of which term deposits were Rs 69,823 crore.

They had a cumulative investment of Rs 24,203 crore while the loan book was Rs 90,576 crore from which they collectively earned an income of Rs 19,219 crore of which interest income was Rs 16,948 crore and the rest being other income at Rs 2,271 crore. While they spent Rs 17,251 crore in operating expenses, and made a provisions of Rs 2,171 crore they earned a net income of Rs 1,968 crore, says the report.

According to the report, SFBs pay higher price for funds because around 60 per cent of their deposits are in the less than 1-year bucket and 37.5 per cent in the 1-3 years bucket. The comparable figures for PSBs are 40.4 per cent and 22.8 per cent, respectively.

On the assets side, their loans with less than 1-year maturity were 38.1 per cent of total and the 1-3 years bucket had a higher share of 42.4 per cent. These numbers were 25.2 per cent and 40.3 per cent, respectively for PSBs.

Their net interest margin at 8.34 per cent in FY20 as against 2.37 per cent for PSBs, 3.42 per cent for private banks and 3.26 per cent for foreign banks.

These banks have also done well in maintaining the prudential standards with the highest capital adequacy ratio of 20.2 and lowest NPA ratio of 1.9, according to the report.

As against this PSBs' capital adequacy ratio stood at 12.9, for private banks this was 16.5, and for foreign one it was 17.7 but for SFBs it was high 20.2.

Again their gross NPAs were a low 1.9 per cent as against 10.3 per cent for PSBs, 5.5 per cent for private lenders and 2.3 per cent for foreign banks, according to the report.