

## SMALL FINANCE BANKS

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**Competitive pricing to remain  
key for building SFB deposit  
franchise**

**MARCH 2023**



# List of abbreviations

|             |                                   |
|-------------|-----------------------------------|
| <b>SFB</b>  | Small finance bank                |
| <b>CASA</b> | Current account – Savings account |
| <b>PVBs</b> | Private sector universal banks    |
| <b>PSBs</b> | Public sector universal banks     |
| <b>FIs</b>  | Financial institutions            |
| <b>RoA</b>  | Return on assets                  |

## List of small finance banks used for aggregation in this note

| S. No. | Names of Small Finance Bank           | Legend Used |
|--------|---------------------------------------|-------------|
| 1      | AU Small Finance Bank Limited         | AU          |
| 2      | Capital Small Finance Bank Limited    | Capital     |
| 3      | Equitas Small Finance Bank Limited    | Equitas     |
| 4      | ESAF Small Finance Bank Limited       | ESAF        |
| 5      | Fincare Small Finance Bank Limited    | Fincare     |
| 6      | Jana Small Finance Bank Limited       | Jana        |
| 7      | North East Small Finance Bank Limited | NESFB       |
| 8      | Suryoday Small Finance Bank Limited   | Suryoday    |
| 9      | Ujjivan Small Finance Bank Limited    | Ujjivan     |
| 10     | Utkarsh Small Finance Bank Limited    | Utkarsh     |

*The latest small finance bank (SFB) licensees, namely Shivalik SFB and Unity SFB, have not been included in the consolidation at present*



## Executive summary

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*Cost of funds for SFBs exceeds universal banks as SFBs offer higher rates on term deposits and have a lower, albeit rising, CASA base.*

*SFBs to continue offering higher rates of interest on deposits to support growth in near-to-medium term.*

*Nevertheless, ICRA expects gap between cost of funds of SFBs and universal banks to reduce in the long term.*



- SFBs, which started operations from FY2017, have come a long way and have built a strong deposit franchise. The share of deposits in the overall funding mix of SFBs increased to 83% as of September 2022 from 12% as of March 2017. Refinance from FIs supported the interim funding requirement as SFBs strengthened their deposit franchise.



- SFBs have been able to garner sizeable deposits over the past five years and their total deposits were estimated at Rs. 1.6 lakh crore as of September 2022. Share of CASA deposits has been increasing and stood at 34% as of March 2022 compared to 23% as of March 2018.



- SFBs have been focusing on improving the granularity of their deposit base as evidenced by increasing share of CASA and declining share of top 20 depositors. Nevertheless, there remains significant scope of improvement given their position compared to universal banks.



- While SFBs have been able to garner sizeable deposits, the residual maturity of deposits with SFBs remain lower compared to universal banks.



- Cost of funds for SFBs remains higher than universal banks as SFBs have been offering higher rates on term deposits and have a lower (albeit improving) CASA deposit base.



- SFBs are expected to continue offering higher rates of interest on deposits to support the envisaged growth in the near-to-medium term. Nevertheless, ICRA expects the gap between the cost of funds of SFBs and universal banks to reduce in the long term.



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# Analytical Contact Details



**Karthik Srinivasan**

**Sachin Sachdeva**

**Prateek Mittal**

**Arpit Agarwal**

*Senior Vice-President*

*Vice-President*

*Senior Analyst*

*Analyst*



karthiks@icraindia.com

sachin.sachdeva@icraindia.com

prateek.mittal@icraindia.com

arpit.agarwal@icraindia.com



022-6114-3444

0124 – 4545 300

033-7150-1132

0124 – 4545 873





ICRA

## Business Development/Media Contact Details



**L. Shivakumar**

*Executive Vice-President*

**Jayanta Chatterjee**

*Executive Vice-President*

**Naznin Prodhani**

*Head Media & Communications*



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





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