Industry Research report on the Banking Sector in India

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1. OVERVIEW OF GLOBAL ECONOMY

The global economy is yet at a highly uncertain moment, with the cumulative effects of the past three years of adverse shocks—most notably, the COVID-19 pandemic and Russia's invasion of Ukraine—manifesting in unforeseen ways. Spurred by pent-up demand, lingering supply disruptions, and commodity price spikes, inflation reached multidecade highs last year in many economies, leading central banks to tighten interest rates aggressively to bring them back toward their targets and keep inflation expectations anchored. On the surface, the global economy appears poised for a gradual recovery from the powerful blows of the pandemic and of Russia's unprovoked war on Ukraine. China is rebounding strongly following the reopening of its economy. Supply-chain disruptions are unwinding, while the dislocations to energy and food markets caused by the war are receding. Simultaneously, the massive and synchronous tightening of monetary policy by most central banks should start to bear fruit, with inflation moving back toward its targets.

As per the International Monetary Fund's (IMF) April 2023 World Economic Outlook (WEO) update, global growth will bottom out at 2.8% in 2023 before rising modestly to 3.0% in 2024. Global inflation will decrease, although more slowly than initially anticipated, from 8.7% in 2022 to 7.0% in 2023 and 4.9% in 2024. Notably, emerging market and developing economies are already powering ahead in many cases, with growth rates (fourth quarter over fourth quarter) jumping from 2.8% in 2022 to 4.5% in 2023. The slowdown is concentrated in advanced economies, especially the euro area and the United Kingdom, where growth (also fourth quarter over fourth quarter) is expected to fall to 0.7% and –0.4%, respectively, in 2023 before rebounding to 1.8% and 2.0% in 2024.

As per IMF's WEO (April 2023), the baseline forecast, which assumes that the recent financial sector stresses are contained, is for growth to fall from 3.4% in 2022 to 2.8% in 2023, before rising slowly and settling at 3.0% five years out — the lowest medium–term forecast in decades. Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023. In a plausible alternative scenario with further financial sector stress, global growth declines to about 2.5% in 2023 — the weakest growth since the global downturn of 2001, barring the initial COVID-19 crisis in 2020 and during the global financial crisis in 2009 — with advanced economy growth falling below 1%. The anaemic outlook reflects the tight policy stances needed to bring down inflation, the fallout from the recent deterioration in financial conditions, the ongoing war in Ukraine, and growing geo-economics fragmentation.

As per IMF's WEO (April 2023), the baseline forecast is for global headline (consumer price index) inflation to decline from 8.7% in 2022 to 7.0% in 2023. This forecast is higher (by 0.4 percentage point) than that of January 2023 but nearly double the January 2022 forecast. Disinflation is expected in all major country groups, with about 76% of economies expected to experience lower headline inflation in 2023. Initial differences in the level of inflation between advanced economies and emerging market and developing economies are, however, expected to persist. The projected disinflation reflects ~~declining fuel and nonfuel commodity prices as well as the expected cooling effects of monetary~~

tightening on economic activity. At the same time, inflation excluding that for food and energy is expected to decline globally.

An overview of the IMF's World Economic Outlook GDP projections (April 2023) is given in the table below:

World Economic Outlook	(%)	Projections (%)	
Name of the Country/ Economy	2022	2023	2024
World Output	**3.4**	**2.8**	**3.0**
Advanced Economies	**2.7**	**1.3**	**1.4**
United States	2.1	1.6	1.1
Euro Area	3.5	0.8	1.4
Germany	1.8	(0.1)	1.1
France	2.6	0.7	1.3
Italy	3.7	0.7	0.8
Spain	5.5	1.5	2.0
Japan	1.1	1.3	1.0
United Kingdom	4.0	(0.3)	1.0
Canada	3.4	1.5	1.5
Other Advanced Economies(1)	2.6	1.8	2.2
Emerging Market & Developing Economies	**4.0**	**3.9**	**4.2**
Emerging and Developing Asia	**4.4**	**5.3**	**5.1**
China	3.0	5.2	4.5
India(2)	6.8	5.9	6.3
Emerging and Developing Europe	**0.8**	**1.2**	2.5
Russia	(2.1)	0.7	1.3
Latin America and the Caribbean	**4.0**	**1.6**	2.2
Brazil	2.9	0.9	1.5
Mexico	3.1	1.8	**1.6**
Middle East and Central Asia	**5.3**	**2.9**	3.5
Saudi Arabia	8.7	3.1	**3.1**
Sub-Saharan Africa	**3.9**	**3.6**	4.2
Nigeria	3.3	3.2	3.0
South Africa	2.0	0.1	1.8
Memorandum			
World Growth Based on Market Exchange Rates	**3.0**	**2.4**	**2.4**
European Union	**3.7**	**0.7**	**1.6**
ASEAN-5(3)	**5.5**	**4.5**	**4.6**
Middle East and North Africa	**5.3**	**3.1**	**3.4**
Emerging Market and Middle-Income Economies	**3.9**	**3.9**	**4.0**
Low-Income Developing Countries	**5.0**	**4.7**	**5.4**

Source: IMF's World Economic Outlook, April 2023

Notes:

(1) Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

(2) For India, data and forecasts are presented on a fiscal year basis, and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year. Quarterly data are non-seasonally adjusted and differences from the January 2023 WEO Update and October 2022 WEO are not available

(3) Includes Indonesia, Malaysia, Philippines, Singapore and Thailand

The baseline forecast is for global output growth, estimated at 3.4% in 2022, to fall to 2.8% in 2023, 0.1 percentage point lower than predicted in the January 2023 WEO Update (above table), before rising to 3.0% in 2024. This forecast for the coming years is well below what was expected before the onset of the adverse shocks since early 2022. Compared with the January 2022 WEO Update forecast, global growth in 2023 is 1.0 percentage point lower, and this growth gap is expected to close only gradually in the coming two years. The baseline prognosis is also weak by historical standards. During the two pre-pandemic decades (2000–09 and 2010–19), world growth averaged 3.9% and 3.7% a year, respectively.

IMF's projections for advanced economies

As per IMF’s WEO (April 2023), for advanced economies, growth is projected to decline by half in 2023 to 1.3%, before rising to 1.4% in 2024. Although the forecast for 2023 is modestly higher (by 0.1 percentage point) than in the January 2023 WEO Update, it is well below the 2.6% forecast of January 2022. About 90% of advanced economies are projected to see a decline in growth in 2023. With the sharp slowdown, advanced economies are expected to see higher unemployment: a rise of 0.5 percentage point on average from 2022 to 2024.

IMF's projections for emerging market and developing economies

As per IMF’s WEO (April 2023), for emerging market and developing economies, economic prospects are on average stronger than for advanced economies, but these prospects vary more widely across regions. On average, growth is expected to be 3.9% in 2023 and to rise to 4.2% in 2024. The forecast for 2023 is modestly lower (by 0.1 percentage point) than in the January 2023 WEO Update and significantly below the 4.7% forecast of January 2022. In low-income developing countries, GDP is expected to grow by 5.1%, on average, over 2023–24, but projected per capita income growth averages only 2.8% during 2023–24, below the average for middle-income economies (3.2%) and so below the path needed for standards of living to converge with those in middle-income economies.

2. Overview of Indian Economy

India surpassed the UK to become the world's fifth-largest economy last year and is now behind only the US, China, Japan and Germany. (*Source: The Hindu article named 'India overtakes U.K. to become fifth largest economy in the world' dated September 03, 2022)* India's Gross Domestic Product (GDP) reached USD 3.75 trillion in 2023 from around USD 2.0 trillion in 2014. (*Source: Business Today article named 'India's GDP is now USD3.75 trillion, says FinMin' dated June 13, 2023)* Recently, a stronger-than-expected fourth quarter lifted India's GDP growth to 7.2% in Fiscal 2023, underscoring the country's economic resilience in the face of multiple challenges. (*Source: The Economic Times article named 'India stays fastest-growing major economy as Q4 GDP numbers spring a surprise' dated June 01, 2023*)

Gross Domestic Product (GDP)

According to the Provisional Estimates (PE) of National Income for 2022-23 released by the National Statistical Office (NSO) on May 31, 2023; Real GDP or GDP at Constant (2011-12) prices in Fiscal 2023 is estimated to attain a level of Rs. 160.06 trillion, as against the First Revised Estimates of GDP for the year Fiscal 2022 of Rs. 149.26 trillion.

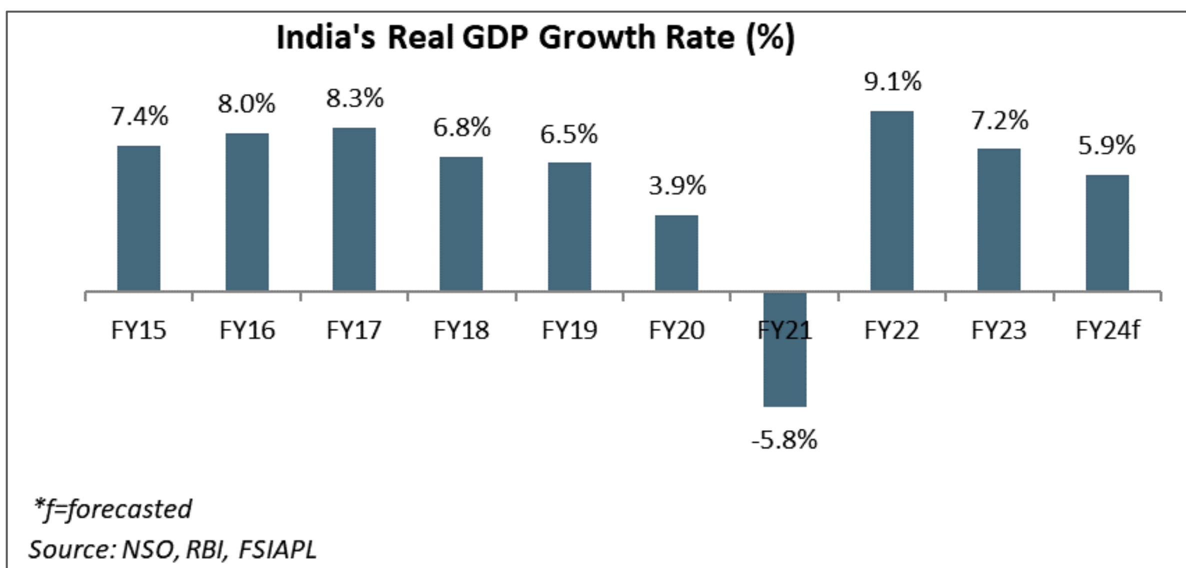
The growth in real GDP during Fiscal 2023 is estimated at 7.2% as compared to 9.1% in Fiscal 2022. For the previous three years, GDP growth numbers were revised up by 20 bps (Fiscal 2020), 80 bps (Fiscal 2021) and 40 bps (Fiscal 2022) indicating that the growth momentum was stronger than what early estimates suggested. While both consumption and investment demand gained traction, adverse external demand conditions and the resultant larger deficit in net exports dragged down growth in Fiscal 2023.

Components of GDP

Component	Growth (percent)				
	2018-19	2019-20	2020-21	2021-22	2022-23
I. Total Consumption Expenditure	**7.0**	**5.0**	**-4.6**	**10.5**	**6.4**
Private	7.1	5.2	-5.2	11.2	7.5
Government	6.7	3.9	-0.9	6.6	0.1
II. Gross Capital Formation	**6.2**	**-6**	**-11.6**	**17.9**	**9.6**
Gross Fixed Capital Formation	11.2	1.1	-7.3	14.6	11.4
Change in Stocks	27.3	-58.7	-85.5	687.8	2.7
Valuables	-9.7	-14.2	26.4	34.0	-18.9
III. Net Exports					
Exports	11.9	-3.4	-9.1	29.3	13.6
Imports	8.8	-0.8	-13.7	21.8	17.1
IV. GDP	**6.5**	**3.9**	**-5.8**	**9.1**	**7.2**

Source: NSO, RBI

Private final consumption expenditure (PFCE) registered a steady growth of 7.5%, buoyed by an uptick in the contact intensive activity including travel and tourism and an upbeat festival time demand in Fiscal 2023. Government final consumption expenditure (GFCE) growth at 0.1% remained muted as the Government of India (Government) continued on a consolidation path to restore fiscal health, while stepping up capital expenditure to support growth and investment. The improvement in the quality of expenditure bodes well for sustainability and de-risking of growth going forward. Gross fixed capital formation (GFCF) remained strong with a double-digit growth of 11.4% in Fiscal 2023, primarily aided by the government's thrust on infrastructure. As a result, the ratio of real GFCF to GDP increased to 34.0% in Fiscal 2023 from 32.7% in the preceding year. India's exports, after exhibiting remarkable recovery post-COVID with a growth of 29.3% in Fiscal 2022, tapered to 13.6% in Fiscal 2023. The growth in imports at 17.1% in Fiscal 2023 outpaced the growth in exports.

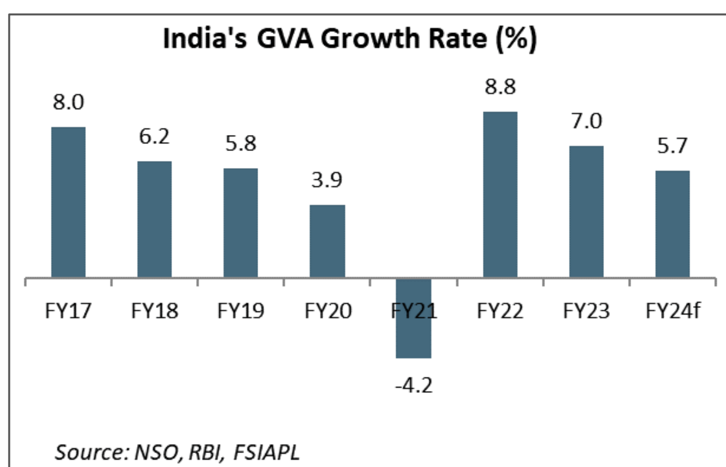


India Ratings (Ind-Ra) expects GDP to grow 5.9% y-o-y in Fiscal 2024. Exports which had been buoyant are facing headwinds from the global growth slowdown and credit growth is facing tighter financial conditions. In fact, due to the evolving geopolitical conditions and the entrenched inflation, the financial conditions are expected to remain tighter and policy rates elevated, leading to elevated borrowing costs for long. The rise in central bank rates across the globe to fight inflation and the Russia-Ukraine conflict continue to weigh on the global growth.

Gross Value Added (GVA)

According to the Provisional Estimates (PE) of National Income for 2022-23 released by the National Statistical Office (NSO) on May 31st, 2023; Aggregate supply - measured by gross value added (GVA) at basic prices - expanded by 7.0% in Fiscal 2023, as compared with a growth of 8.8% a year ago. GVA growth was driven by a resilient agriculture sector and broad-based recovery in the services sector. On the other hand, the industrial sector decelerated sharply amidst intensification of input cost pressures, supply chain disruptions and fledgling global demand conditions.

Agriculture and allied sector growth moderated marginally in Fiscal 2023, for the third consecutive year. The GVA of the sector grew by 4.0% during Fiscal 2023 on record production of food grains (including rice, wheat, maize, barley and pulses), sugarcane and rapeseed and mustard. During Fiscal 2023, the industrial sector's growth moderated amidst lingering global uncertainties.



The organised manufacturing sector which benefitted from the lower base as well as softer raw material costs during Fiscal 2022 faced the brunt of rising raw material costs in first half of Fiscal 2023 and grew only by 1.3% in Fiscal 2023. The supply chain bottlenecks following the war in Ukraine coupled with elevated raw material costs, impacted the profitability of manufacturing companies.

Components of GVA

Sector	**Growth (percent)**				
	2018-19	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Agriculture, Forestory and Fishing	**2.1**	**6.2**	**4.1**	**3.5**	**4.0**
Mining and Quarrying	-0.8	-3.0	-8.6	7.1	4.6
Manufacturing	5.4	-3.0	2.9	11.1	1.3
Electricity, Gas, Water Supply and others	7.9	2.3	-4.3	9.9	9.0
Construction	6.5	1.6	-5.7	14.8	10.0
Trade, Hotels, Transport, Communiactions	7.2	6.0	-19.7	13.8	14.00
Financial, Real Estate and Professional Services	7.0	6.8	2.1	4.7	7.1
Public Administration, Defence and Others	7.5	6.6	-7.6	9.7	7.2
IV. GVA at Basic Prices	**5.8**	**3.9**	**-4.2**	**8.8**	**7.0**

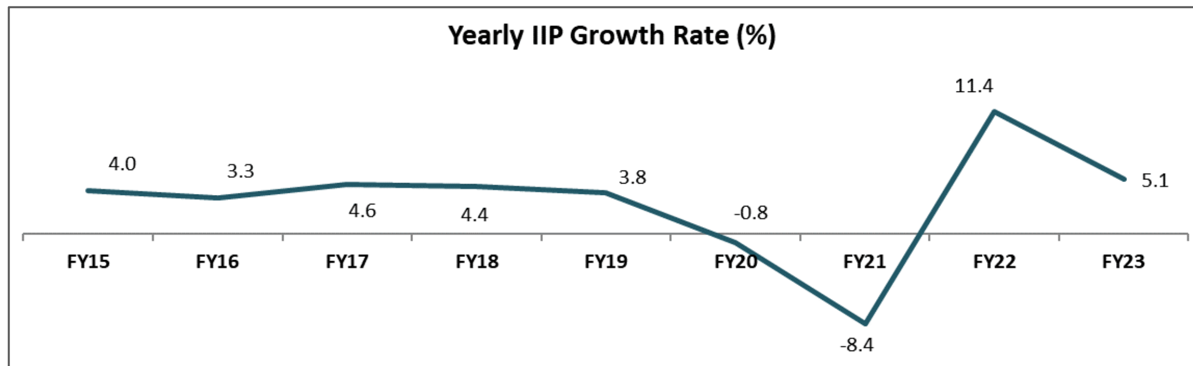
Source: NSO, RBI

Services sector, which being contact intensive faced the major brunt of COVID-19 pandemic, revived strongly in Fiscal 2023. The high frequency indicators of services sector indicated strong growth in Q1FY23 supported by low base, but the momentum moderated in Q2FY23 and Q3FY23. In Q4FY23, three-wheeler sales, air passenger traffic and GST E-way bills improved while sales of passenger vehicles and construction sector moderated. Among sectors, construction, domestic trade and transport surpassed their pre-pandemic levels, while aviation, tourism and hospitality sectors, though recovering, are yet to reach the respective pre-pandemic levels.

Industrial Growth trends

The Index of Industrial Production (IIP) is a composite indicator that measures the short-term changes in the volume of production of a basket of industrial products during a given period with respect to

that in a chosen base period. Industrial output measured by the index of industrial production (IIP) expanded by 5.1% during Fiscal 2023 as compared to 11.4% last year. Manufacturing sector, which accounts for three-fourths of the industrial sector largely shaped the industrial sector recovery.



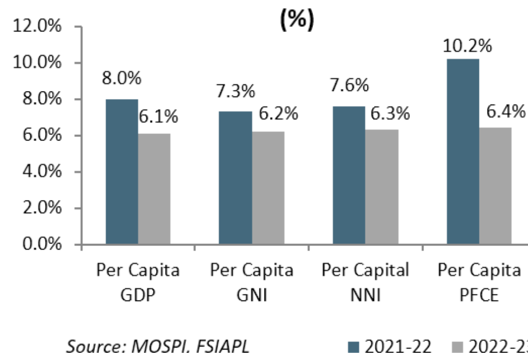
Source: MOSPI, FSIAPL

India's industrial output grew by 4.2% in April, data released by the Ministry of Statistics and Programme Implementation. At 4.2%, the latest industrial growth figure as per the Index of Industrial Production (IIP) is significantly higher than that for March, when it had come in at a five-month low of 1.1%. That number has now been revised to 1.7%. IIP growth was 6.7% in April 2022.

Output of the manufacturing sector accounts for more than three-fourth of the IIP. The third sector, electricity, saw production decline for the second straight month in April, following up March's 1.6% fall by 1.1%. However, in sequential terms, electricity generation was the only one to increase in April - by 2.3% - compared March. Mining output contracted by 20.6%, manufacturing by 6.1%, and total industrial output by 7.4% from the last month of Fiscal 2023.

Going by the use-based classification of goods, the performance was mixed, with three of the six categories posting weaker numbers in April 2023. The category which saw a huge turnaround in April was consumer non-durable goods, whose output surged by 10.7% after having contracted by 2.7% in March. Growth in production of infrastructure goods was also in double-digit territory - 12.8% as against 7% in March 2023. On the other hand, output of consumer durables contracted for the fifth month in a row, this time by 3.5%.

Per Capita GDP, Income and Final Consumption



According to the Provisional Estimates (PE) of National Income for 2022-23 released by the National Statistical Office (NSO) on May 31st, 2023; India's per capita gross domestic product (GDP) grew by 8.0% to Rs. 109,060 in Fiscal 2022, while it increased by 6.1% to Rs. 115,746 in Fiscal 2023. Per Capita Gross National Income (GNI) increased by 7.3% in Fiscal 2022; whereas it increased by 6.2% to Rs. 113,395 in Fiscal 2023. The per capita private final consumption expenditure (PFCE), that represents consumer spending, grew by 10.2% in Fiscal 2022; while it increased by 6.4% to Rs. 67,675 in Fiscal 2023.

Provisional Estimates (PE) of National Income for 2022-23

Particulars	2020-21 (2nd RE)	2021-22 (1st RE)	2022-23 (PE)	Change in 2021-22 (%)	Change in 2022-23 (%)
Per Capita GDP (Rs.)	100,981	109,060	115,746	8.0%	6.1%
Per Capita GNI (Rs.)	99,578	106,822	113,395	7.3%	6.2%
Per Capital NNI (Rs.)	86,054	92,583	98,374	7.6%	6.3%
Per Capita PFCE (Rs.)	57,728	63,595	67,675	10.2%	6.4%

Source: NSO

Indian Economic Outlook FY24

An overview of the India's Macro Economic projections is given in the table below:

India - Economic Outlook FY24 (% change)	FY18	FY19	FY20	FY21	FY22	FY23f	FY24f
Gross value added at FY12 prices	6.2	5.8	3.8	-4.8	8.1	6.7	5.7
- Agriculture	6.6	2.1	5.5	3.3	3.0	3.5	3.1
- Industry	5.9	5.3	-1.4	-3.3	10.3	4.1	3.9
- Services	6.3	7.2	6.3	-7.8	8.4	9.1	7.3
Real GDP	6.8	6.5	3.7	-6.6	8.7	7.0	5.9
- Private final consumption expenditure (PFCE)	6.2	7.1	5.2	-6.0	7.9	7.7	6.7
- Government final consumption expenditure (GFCE)	11.9	6.7	3.4	3.6	2.6	3.1	2.5
- Gross fixed capital formation (GFCF)	7.8	11.2	1.6	-10.4	15.8	11.5	9.6
Nominal GDP	11.0	10.6	6.2	-1.4	19.5	15.4	9.7
Average wholesale inflation	2.9	4.3	1.7	1.3	13	9.2	1.1
Average retail inflation	3.6	3.4	4.8	6.2	5.5	6.6	5.4
Year-end interest rate (10-yr G-sec)	7.6	7.5	6.1	6.2	6.8	7.3-7.4	7.1-7.2
Average exchange rate (INR/USD)	64.5	69.9	70.8	74.3	74.5	81.1	83.9
Fiscal deficit (central government, % of GDP)	3.5	3.4	4.6	9.3	6.7	6.4	5.9
Current account deficit (% of GDP)	1.8	2.1	0.9	-0.9	1.2	3.3	2.5

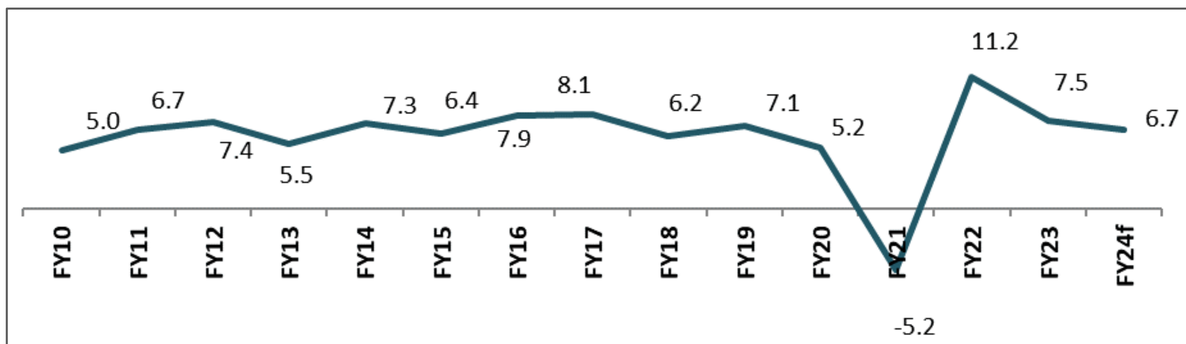
Source: Union Budget, NSO, RBI, India Ratings

Note: f - forecast, FY23 GDP and GVA numbers are as per first advance estimates of National Income 2022-23

India Ratings (Ind-Ra) expects GDP to grow 5.9% y-o-y in Fiscal 2024. Capex, deleveraged corporates, low NPA in the banking sector, Production-linked Incentive scheme and likelihood of global commodity prices remaining subdued, Ind-Ra believes they are still not sufficient to take the Fiscal 2024 GDP growth beyond 6%. The quarterly GDP trends so far have been following the ebbs and flows of the pandemic. With the COVID-19 pandemic receding, Ind-Ra believes Fiscal 2024 onwards the economic activities are likely to fully normalise lest there is no new shock. However, recovering the lost output due to COVID-19 will be a long haul. Ind-Ra's estimate shows that the expected GDP growth slowdown to 5.9% in Fiscal 2024 will translate into GDP in Fiscal 2024 being 10.9% lower than the long-term GDP trend. Even if we assume GDP would grow at 7.6% every year FY24 onwards, then also India would be able to catch up with the pre-pandemic GDP trend only by Fiscal 2037.

Consumption Demand – Yet Not Broad Based: Ind-Ra expects PFCE to grow 6.7% y-o-y in Fiscal 2024 (Fiscal 2023: 7.5%). Yet, it will be short of a broad-based consumption demand recovery because the current consumption demand is highly skewed in favour of the goods and services consumed largely by the households belonging to the upper income bracket. The goods and services of mass consumption have yet not shown a sustained pick-up. This to some extent is reflected in the way recovery in consumer durables and non-durables in terms of Index of Industrial Production has so far panned out in Fiscal 2023. While consumer durables grew 3.4% y-o-y during 9MFY23, non-durables contracted 1.2% y-o-y. The household sector, which accounts for 44%-45% of the GVA, saw their nominal wage growth decline to 5.7% during Fiscal 2017-Fiscal 2021 from 8.2% during Fiscal 2012-Fiscal 2016. In fact, the real wage growth became nearly flat or even turned negative in some months of Fiscal 2023 due to high inflation. In the interim, union/state governments through social sector spending however are providing a safety net to the most vulnerable section of population. As Ind-Ra sees a rebound in the real wage growth of the household sector as an imperative for a sustainable recovery in the consumption demand, it believes a broad-based consumption recovery is still some distance away.

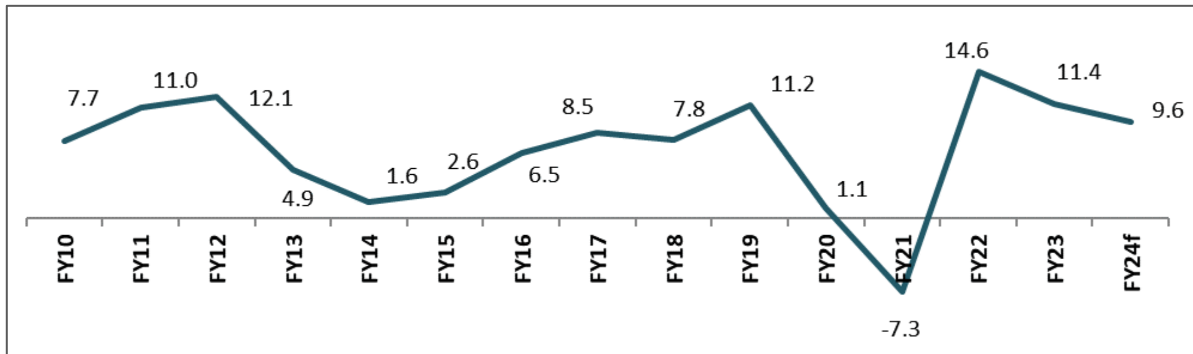
Growth in Private Consumption Demand over the years (%, y-o-y)



Source: NSO, Ind-Ra

Investment Demand – Government Doing the Heavy Lifting: After PFCE, GFCF is the second-largest component (Fiscal 2023AE: 29.4%) of GDP from the demand side. Ind-Ra expects GFCF to grow 9.6% y-o-y in Fiscal 2024 (Fiscal 2023:11.4%), due to the sustained government capex.

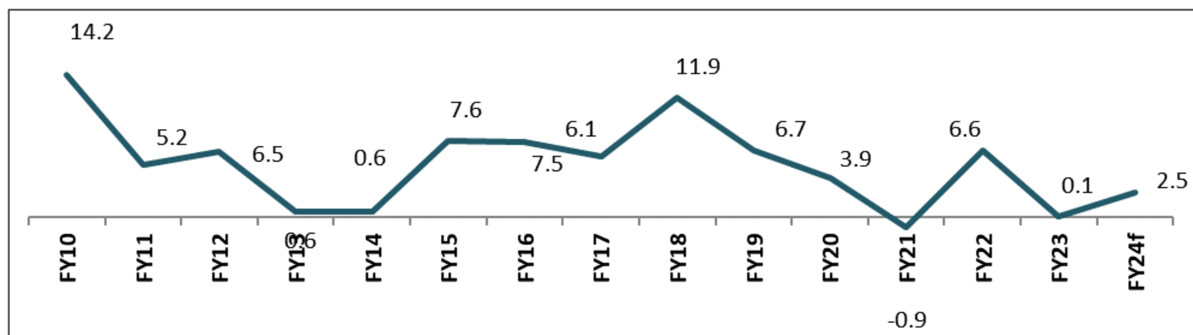
Growth in Investment Demand over the years (%, y-o-y)



Source: NSO, Ind-Ra

Limited Growth in GFCE: GFCE had been providing the much-needed support to the economy for a while, averaging 7.9% growth during Fiscal 2016-Fiscal 2020. However, due to the government's focus shifting towards capex, the size of the revenue expenditure in the union budget Fiscal 2024 has been kept at Rs. 35.02 trillion, only Rs. 0.43 trillion higher than the Fiscal 2023RE of Rs. 34.59 trillion. Ind-Ra therefore expects GFCE to grow at 2.5% y-o-y in Fiscal 2024 (Fiscal 2023: 0.1%).

Growth in Government Consumption Demand over the years (%, y-o-y)



Source: NSO, Ind-Ra

Exports Losing Steam: As India's net exports (exports minus imports) have been negative, it is not contributing positively to the aggregate demand. Thus, a reduction in the size of the negative net imports is a positive for GDP. However, with merchandise exports losing steam due to the global growth slowdown and merchandise imports not moderating proportionately, Ind-Ra expects the size of negative net exports to be 37.4% y-o-y higher in Fiscal 2024. As a result, Ind-Ra expects share of net exports to GDP to increase to negative 9.2% in Fiscal 2024 from negative 7.1% in Fiscal 2023.

Fiscal Consolidation and Push to Infrastructure: All the big themes of the Fiscal 2023 budget, namely (i) capex, (ii) support to the vulnerable section of population, (iii) agriculture, (iv) green economy, and (v) fiscal consolidation not only have found adequate mention but also are the mainstay of the Fiscal

2024 budget. Ind-Ra believes this will provide macroeconomic stability and support the ongoing economic recovery. The assumed nominal GDP growth of 10.5% in the Fiscal 2024 union budget although is a tad higher than Ind-Ra's estimate of 9.7%, the risk to government revenue is not going to be large. In case the nominal GDP grows at 10.0%, then also the gross tax collection will be lower by Rs. 150 billion only.

Ind-Ra, therefore, believes meeting the fiscal deficit target of 5.9% of GDP in Fiscal 2024 should not be difficult. As the private sector greenfield capex has yet not revived and barring few sectors, is confined to maintenance capex, the union government had no choice, but to continue to do the heavy lifting. The capex is primarily concentrated in two ministries, namely railways and road transport and highways. These two ministries account for 49.81% of the expenditure in the capital account. Grants-in-aid for the creation of capital assets and expenditure on the capital account together in Fiscal 2024 have been budgeted at Rs. 13.71 trillion, Rs. 3.17 trillion higher than Fiscal 2023RE. This is an increase of 30.1%. This will push the government capex (including grants-in-aid for creation of capital assets)/ GDP to 4.54% (Fiscal 2023RE: 3.86%).

Current Account Deficit to Narrow: Ind-Ra expects the current account deficit to narrow down to 2.5% of GDP in Fiscal 2024 (Fiscal 2023: 3.3%) in response to the evolving domestic and global demand conditions. Due to the uncertain external demand, merchandise exports are expected to grow just 0.5% y-o-y in Fiscal 2024 (Fiscal 2023: 1.8%). Also, with the GDP growth slowdown and softening of global commodity prices, imports are expected to contract by 1.7% y-o-y in Fiscal 2024 (Fiscal 2023: 17.5%). In level terms, Ind-Ra expects merchandise exports and merchandise imports in Fiscal 2024 to reach USD439 billion and USD725 billion, respectively. Trade deficit is estimated to come in at USD286 billion (7.9% of GDP), but steady remittances and software exports may provide relief by keeping the current account deficit under check in Fiscal 2024.

Flows in capital account are estimated to improve to USD93.9 billion in Fiscal 2024 from USD71.6 billion in Fiscal 2023. As a result, there would be a net addition of USD7.2 billion in the forex reserve in Fiscal 2024. The agency expects this to help Indian rupee to average 83.90/USD in Fiscal 2024 and the RBI's intervention in the forex market to keep the volatility in the Indian rupee under check.

Digitalisation and banking

The dynamic and accelerated development of the payments ecosystem in India, facilitated by increased adoption of technology and innovation, has established the country as a force to reckon with in the global payments space, in terms of not only growth in digital payments but also availability of a bouquet of safe, secure, innovative and efficient payment systems.

During last five years, various easy and convenient modes of digital payments, including Bharat Interface for Money-Unified Payments Interface (BHIM-UPI), Immediate Payment Service (IMPS), and ~~National Electronic Toll Collection (NETC) have registered substantial growth and have transformed~~

digital payment ecosystem by increasing person-to-person (P2P) as well as person-to-merchant (P2M) payments. BHIM UPI has emerged as the preferred payment mode of the citizens.

Over 360 million digital payment transactions are processed daily by the payment systems, of which the Unified Payments Interface (UPI) system itself processes 260 million transactions (around 70% of all digital payment transactions). UPI, India's flagship digital payments platform, has the bandwidth to process one billion transactions a day. The UPI has emerged as the most popular and preferred payment mode in India, pioneering Person to Person (P2P) as well as Person to Merchant (P2M) transactions in India, accounting for 75% of digital payments. The volume of UPI transactions has increased multi-fold from 4.5 million in January 2017 to 8.04 billion in January 2023. The value of UPI transactions has increased from just Rs. 17.0 billion to Rs. 12.98 trillion during the same period.

Induced by the COVID-19 pandemic, the industry and society in general have been undergoing a major behavioural transformation towards making/ accepting/ facilitating digital payments, although the goal of covering every citizen through complete migration remains far from reach. Big-Tech and FinTech companies are actively expanding their scope of business from initial onboarding of customers for facilitating payment transactions to becoming participants of payment systems and thereafter providing a host of financial services. Further, data generated across economic sectors/ regions, especially those concerning financial sector, are being largely viewed and recognised as the new business energy source and accordingly, there are regulations in place or being envisaged for data protection and privacy. It is common knowledge that India has mandated local storage of payments data and is also in the process of legislating its own data protection law.

Steps have been initiated to digitally enable all mobile phone users (both smart phone and feature phone users) as well as securing offline and online card transactions and the transactions involving standing instructions by the users; further work needs to be undertaken for their effective implementation. Efforts have also been initiated towards bringing critical payment intermediaries into the formal regulated/ supervised framework. The directions issued for Payment Aggregators (PAs) are a step in this direction. Initiatives are also on to up the payments acceptance infrastructure. *(Source: RBI)*

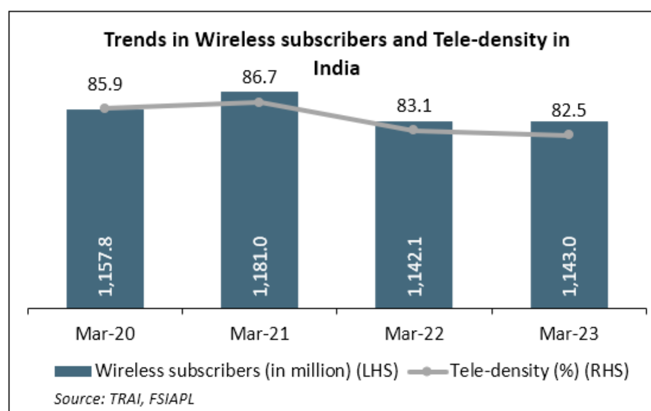
The RBI has taken steps to internationalise the UPI via cross-border linkages such as UPI-PayNow. This linkage is in addition to the QR code-based and UPI-enabled P2M payments already happening in Bhutan, Singapore, and the UAE. Recently, they have also enabled visitors from G20 countries to get on to the UPI without having a bank account in India.

Digital payment enablers

Mobile phones and internet

The increase in mobile density and mobile internet users is being leveraged by payment systems providers, both banks and non-banks, to offer the payment services using mobile as an access device as well as an access channel. Banks in particular have been offering mobile banking services through all three channels – SMS, USSD (Unstructured Supplementary Services Data) and mobile applications.

As per the Telecom Regulatory Authority of India (TRAI), the total number of telephone subscribers in India increased from 1,166.93 million as at March 31, 2022 to 1,172.34 million as at March 31, 2023, registering a growth of 0.5% over the previous year. The overall tele-density in India decreased from 85.91% as at December 31, 2021 to 84.51% as at March 31, 2023.



The total wireless subscriber base decreased from 1,157.8 million as at the end of March 31, 2020 to 1,143.0 million as at the end of March 31, 2023. Wireless tele-density decreased from 85.9% as at March 31, 2020 to 82.5% as at March 31, 2023.

The increase in smartphones has helped to accelerate the adoption of digital payments. Further, it has led to numerous innovations in payment mechanisms, such as tokenisation and scanning of QR codes, to make payments using smartphones. These have facilitated the shift from cash to non-cash payments.

India is likely to have 900 million active Internet users by 2025, up from around 759 million as of 2022. An active internet user is defined as someone who accesses the internet at least once a month, and these 759 million people represent 52% of the country's population. Out of the 759 million active users, 360 million are from urban India and 399 million are from rural India. This indicates that rural India is playing a significant role in driving the growth of internet users in the country. However, it's worth noting that internet penetration in urban India is already at 71%.

This would be a 45% increase in the next five years, according to 'The Internet in India Report 2022' report co-authored by the Internet and Mobile Association of India (IAMAI), and data analytics firm Kantar published in June 2022. As per the report, even though the internet penetration in urban areas is more than 2X that of rural areas, the internet user base in rural areas has been growing at a faster rate on a y–o–y basis.

Internet and broadband subscribers (in million)

Internet Subscribers (in million)							
	Total	Broadband	Narrowband	Rural	Urban	Wireline	Wireless
March 2020	743.2	687.4	55.8	286.0	457.2	22.4	720.8
March 2021	825.3	778.1	47.2	322.8	502.5	26.0	799.3
March 2022	824.9	788.3	36.6	331.8	493.1	797.6	27.3
March 2023	1,172.3	846.6	NA	518.6	653.7	28.4	1,143.9

Source: TRAI

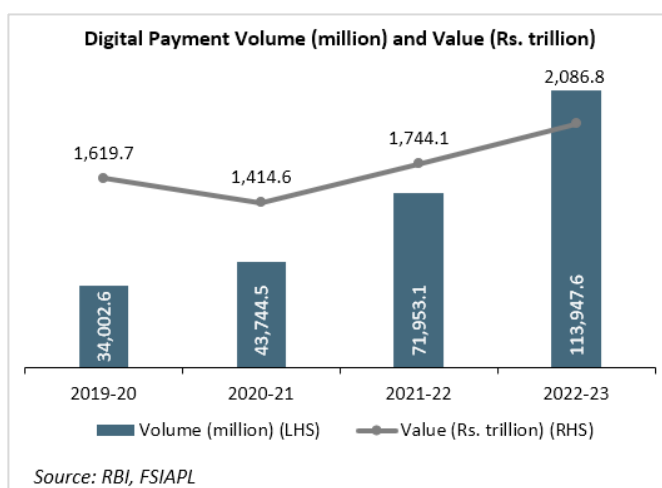
The number of Internet subscribers (both broadband and narrowband put together) which was 824.89 million at the end of March2022 increased to 1,172.34 million by the end of March 2023. The number of subscribers accessing internet via wireless phones was 1,143.93 million at the end of March 2023. The number of wired Internet subscribers was 28.42 million at the end of March 2023.

Progress in digitisation

As per the RBI Annual Report 2023, digital payments in the country have witnessed a CAGR of 49.6% and 8.8% in terms of volume and value, respectively, over Fiscals 2020 to Fiscal 2023, demonstrating a steep shift towards digital payments.

Among the digital modes of payments, the number of transactions using real-time gross settlement (RTGS) increased by 16.7% during Fiscal 2023. In terms of value, RTGS transactions registered an increase of 16.5%; transactions through the National Electronic Funds Transfer (NEFT) system also witnessed an increase of 30.8% and 17.4% in volume and value, respectively, which is reflective of the increase in large value corporate transactions, and is in line with rising economic activity. As at March 31, 2023, RTGS services were available through 1,65,390 IFSCs of 243 members, while NEFT services were available through 1,66,544 IFSCs of 230-member banks.

During Fiscal 2023, payment transactions carried out through credit cards increased by 30.1% and 47.3% in terms of volume and value, respectively. Transactions through debit cards decreased by 13.2% in terms of volume, and 1.4% in terms of value. Prepaid Payment Instruments (PPIs) recorded an increase in volume and value by 13.5% and 2.9%, respectively. The growth in digital payments can be attributed to increased availability of acceptance infrastructure, which witnessed substantial growth during the year benefitting from the Payments Infrastructure Development Fund (PIDF) scheme, operationalised in January 2021.



Source: RBI, FSIAPL

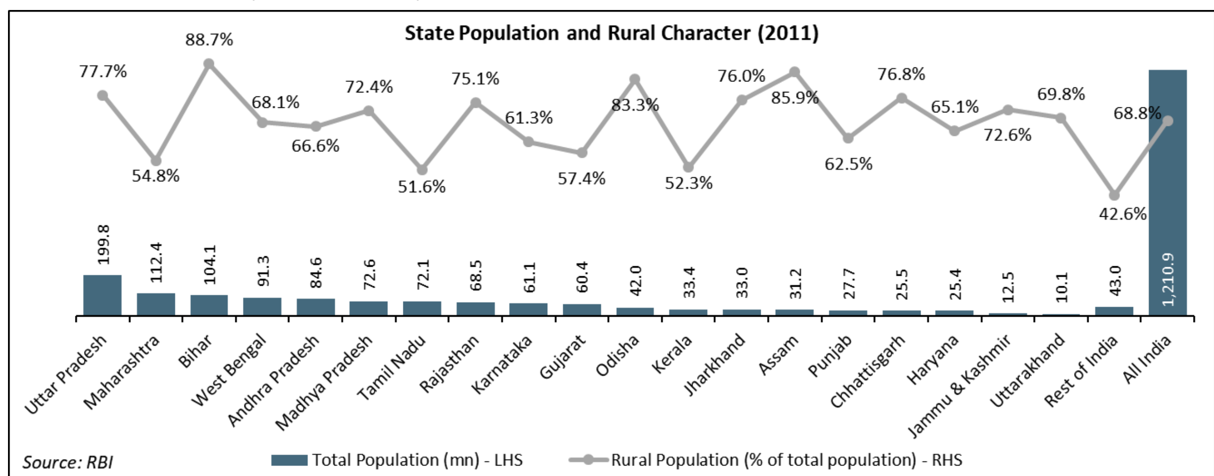
The number of Points of Sale (PoS) terminals increased by 28.3% to 77.9 lakh as at March 31, 2023, while the number of Bharat Quick Response (BQR) codes deployed increased by 6.7% to 53.8 lakh during the same period. Further, UPI QR increased by 48.4% to 25.64 crore as at March 31, 2023. The number of Automated Teller Machines (ATMs) also increased to 2.59 lakh as at March 31, 2023 from 2.52 lakh as at March 31, 2022.

3. FINANCIAL INCLUSION

Financial inclusion is defined as the process of ensuring access to financial services, and timely and adequate credit for vulnerable groups and low-income groups at an affordable cost. Financial inclusion is measured as the percentage of adults who have at least one account in their name with an institution that is regulated by the government and offers a full suite of financial services. Thus, financial inclusion is enabled through country-wide creation of full-service financial institutions. In a diverse country like India, financial inclusion is a critical part for the equitable development of the country. Thus, since independence, successive governments, institutions, and society have played a pivotal role in increasing financial inclusion in India.

The nationalization of banks in India in 1969 was the initial baby step in the process of financial inclusion through opening of branches in rural areas. The Lead Bank Scheme followed nationalization to coordinate banks and credit institutions by districts to more comprehensively ensure that rural areas had their credit needs met. In 1975, the Government of India followed this with efforts to specifically reach rural areas by establishing Regional Rural Banks (RRBs) meant to exclusively meet demand in the rural economy and the number of RRBs has significantly increased over the years. While the state of financial inclusion has improved considerably over time, there is still a long way to go and there exist many bottlenecks and challenges which need attention.

A quick glance at the demographic profile of India reveals that some of the most populated states in India still retained a predominantly rural characteristic in 2011:



Note: The 2021 Census of India has been postponed to 2024-25 due to the COVID-19 pandemic.

As seen, the rural population as a percentage of total population exceeded 70.0% in the states of Bihar, Assam, Odisha, Uttar Pradesh, Jharkhand, Rajasthan, and Madhya Pradesh during 2011 and accentuated their backward characteristics. Rural populations in the states of Gujarat, Maharashtra, Kerala, and Tamil Nadu ranged between 50.0% – 60.0% of the total population and displayed relative progress for these states. The rest of India primarily comprised rural-dominated states like the North

East and Andaman & Nicobar Islands, but the presence of urban Union Territories like New Delhi and Chandigarh – which are heavily populated – has skewed the distribution.

In August 2014, the Government announced the "Pradhan Mantri Jan-Dhan Yojana" (PMJDY) scheme to combat black money in the economy and provide 75 million unbanked Indians with zero-balance bank accounts, thereby delivering access to a full range of financial services, including pension, credit and insurance. PMJDY aimed at providing banking service points throughout rural India by mapping over 600,000 villages into 160,000 Sub Service Areas (SSAs). Each SSA typically comprises 1,000-1,500 households. Out of 160,000 SSAs, 130,000 SSAs are covered through interoperable, online BCs and the remaining 30,000 SSAs are covered through banking outlets. Business correspondents (BCs) deployed in rural areas also provide interoperable Aadhaar Enabled Payment System (AePS) banking services. Between 2014 and 2018, the proportion of the population under financial inclusion grew from 54.0% to 81.0%. Bank accounts are the main driver of financial inclusion. Four in five (79.0%) adults in India had a registered bank account in 2018.

Beneficiaries of Pradhan Mantri Jan - Dhan Yojana (PMJDY) as on 7 June 2023 (in million)

Bank Name/ Type	Number of beneficiaries at rural/ semiurban centre bank branches	Number of beneficiaries at urban metro centre bank branches	No of rural-urban female beneficiaries	Number of total beneficiaries	Deposits in accounts (in million)	Number of rupay debit cards issued to beneficiaries
Public Sector Banks	242.0	144.3	212.9	387.3	1,534,262.1	289.2
Regional Rural Banks	78.6	12.8	52.8	91.4	384,330.3	34.6
Private Sector Banks	7.1	7.0	7.5	14.1	56,936.3	11.5
Grand Total	**327.7**	**164.1**	**273.2**	**492.8**	**1,975,528.7**	**335.3**

Source: Pradhan Mantri Jan - Dhan Yojana

In addition to PMJDY, the Indian government has enacted initiatives to expand quality and delivery of digital financial services (DFS) through Aadhaar biometric identification. Aadhaar cards are being linked with mobile phones, SIM cards and financial service accounts to improve delivery of government schemes and benefits. These initiatives have helped to grow the financial inclusion market in India and encourage previously underbanked populations such as women, rural and below-poverty individuals to access formal financial institutions.

Banking penetration

The adverse impact of the COVID-19 pandemic at the regional level is reflected in the state–wise performance of banking outlets. As per the RBI, interstate inequality in banking outreach, in terms of number of credit and deposit accounts, had been narrowing down since 2005. However, credit penetration, as measured by credit to gross state domestic product (GSDP) ratio, in regions containing many hills and mountains and less industrialised and urbanised states needs to catch up to take India's financial penetration closer to that of its emerging market peers.

Credit Deposit (C-D) ratio is the ratio of how much a bank lends out of the deposits it has mobilised. It indicates how much of a bank's core funds are being used for lending. A higher ratio indicates greater reliance on deposits for lending and vice-versa. As per the RBI, regional variations in C-D ratio are difficult to interpret as credit provided from a region is often not used in the region. Yet, heterogeneity in this ratio can, to some extent, reflect activity levels, per capita incomes, level of banking

infrastructure and effectiveness of financial intermediation by the banking system. Prior to the pandemic, urbanised and industrial states like Maharashtra, Andhra Pradesh, Telangana, Tamil Nadu and Delhi, which account for higher share in credit demand, had higher C-D ratios compared to the rest of India. With COVID-19 cases being largely concentrated in the urban centres, prolonged lockdown and containment measures led to a decline of C-D ratios in urbanised states vis-à-vis the rural and hilly states, leading to an overall convergence in C-D ratio across states, albeit at a lower level than in the pre-COVID-19 period.

Credit outstanding and GDP growth (Fiscal 2023)

States	Urban credit (Rs. Billion)	Rural credit (Rs. Billion)	Rural population in the state (as per 2011 Census)	Rural Share in total credit	State GDP* (Rs. billion)	State GDP CAGR Growth	State's deposit share	State's credit share	State's GDP Share	Credit Deposit ratio of SCB (Place of sanction)
Andhra Pradesh	1,742.4	851.2	66.6%	0.62%	12,017.4	11.2%	2.3%	4.2%	5.1%	138.9%
Assam	499.7	215.0	85.9%	0.16%	3,401.8	6.3%	1.1%	0.7%	1.4%	48.9%
Bihar	487.4	421.3	88.7%	0.31%	6,754.5	9.6%	2.6%	1.4%	2.9%	42.5%
Chhattisgarh	392.9	122.6	76.8%	0.09%	3,502.7	7.5%	1.2%	1.1%	1.5%	66.4%
Gujarat	1,227.7	594.9	57.4%	0.43%	16,367.8	7.2%	5.5%	5.3%	6.9%	69.9%
Haryana	2,693.3	351.8	65.1%	0.26%	8,956.7	8.8%	3.6%	2.9%	3.8%	54.9%
Jharkhand	275.6	171.2	76.0%	0.12%	3,431.8	6.2%	1.7%	0.7%	1.5%	30.9%
Karnataka	1,501.9	758.0	61.3%	0.55%	20,493.8	11.3%	8.1%	6.7%	8.7%	60.5%
Kerala	2,165.3	101.4	52.3%	0.07%	9,020.0	6.5%	3.9%	3.3%	3.8%	61.7%
Madhya Pradesh	694.4	415.8	72.4%	0.30%	11,690.0	12.6%	3.0%	2.7%	4.9%	67.5%
Maharashtra	1,623.1	697.5	54.8%	0.51%	27,116.9	4.8%	20.5%	28.1%	11.5%	91.9%
Odisha	1,114.6	365.4	83.3%	0.27%	6,420.9	9.9%	2.5%	1.4%	2.7%	40.8%
Punjab	762.8	513.7	62.5%	0.37%	5,840.4	5.5%	3.0%	2.1%	2.5%	54.2%
Rajasthan	1,123.1	605.0	75.1%	0.44%	11,961.4	9.5%	3.1%	3.3%	5.1%	79.0%
Tamil Nadu	1,778.2	1,382.1	51.6%	1.01%	20,654.4	9.0%	6.6%	9.2%	8.7%	100.9%
Telangana	598.9	452.7	61.1%	0.33%	11,481.1	11.2%	3.8%	5.0%	4.9%	96.8%
Uttar Pradesh	2,053.7	1,028.5	77.7%	0.75%	18,632.2	6.7%	8.2%	4.7%	7.9%	43.9%
Uttarakhand	406.2	145.4	69.8%	0.11%	2,538.3	3.6%	1.1%	0.5%	1.1%	35.7%
West Bengal	948.7	653.0	68.1%	0.48%	13,010.2	10.1%	5.8%	3.5%	5.5%	46.4%
All India	**23,458.4**	**10,652.3**	**68.8%**	**7.76%**	**236,646.4**	**8.5%**	**100.0%**	**100.0%**	**100.0%**	**72.1%**

Source: National Statistical Office, Ministry of Statistics and Programme Implementation, Government of India, Basic Statistical Returns of Scheduled Commercial Banks in India, RBI

Note:

1. *GDP is nominal and it is calculated on the current prices with base year 2011-12*
2. *Urban and Rural credit data is as on Fiscal 2023*

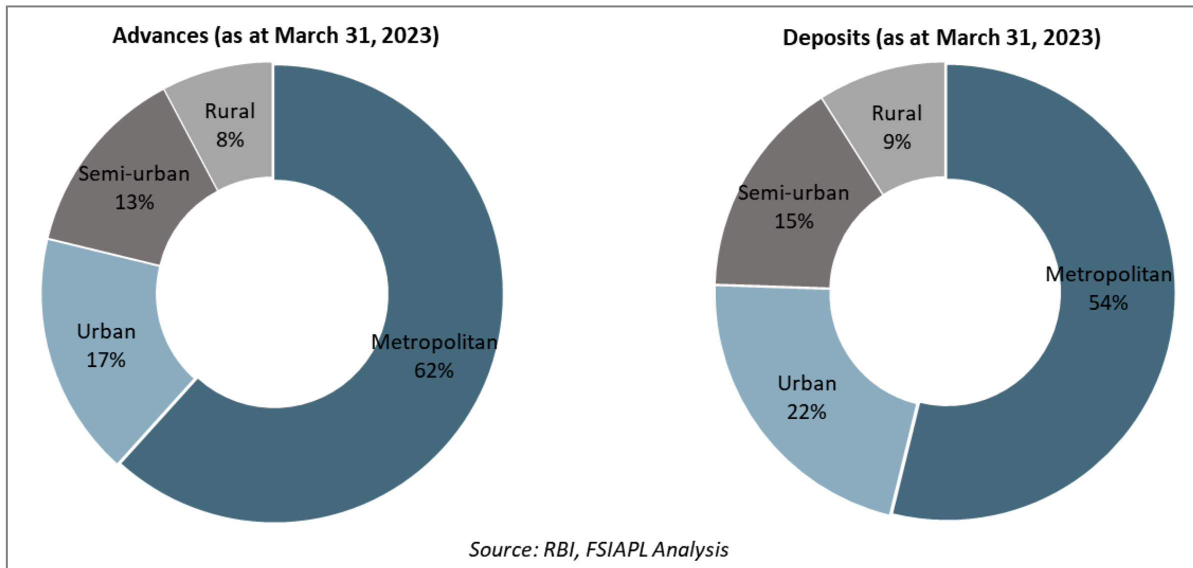
**State GDP and State GDP CAGR is based on latest data available*

The top six states of India including Maharashtra (11.5%), Tamil Nadu (8.7%), Karnataka (8.7%), Uttar Pradesh (7.9%), Gujarat (6.9%) and West Bengal (5.5%) are accounted for 49.1% of the total GDP of India for Fiscal 2022. The credit share of these top six states including Maharashtra (28.1%), Tamil Nadu (9.2%), Karnataka (6.7%), Gujarat (5.3%), Telangana (5.0%) and Uttar Pradesh (4.7%) collectively accounting for 58.9% of the total credit of India as at March 31, 2023. As per the 2011 census of India, the rural population accounted for 68.8% of the total population. The rural share in total credit was only around 7.76% as at March 31, 2023. Also, there is less competition for banking services in rural areas as compared to urban areas which opens up a huge market opportunity for SFBs to extend financial inclusion in rural areas. SFBs' chief aim is to drive last-mile banking connectivity and bring the unserved and underserved inside the umbrella of formal banking.

The credit–deposit (C–D) ratio of Andhra Pradesh (138.9%), Tamil Nadu (100.9%), Telangana (96.8%) and Maharashtra (91.9%) are high, displaying healthy credit penetration in those states, while Assam (48.9%), West Bengal (46.4%), Uttar Pradesh (43.9%), Bihar (42.5%), Odisha (40.8%), Uttarakhand

(35.7%) and Jharkhand (30.9%) have a low C–D ratio, implying increased credit disbursal opportunities for SFBs in those states.

Credits and deposits across regions at March 31, 2023



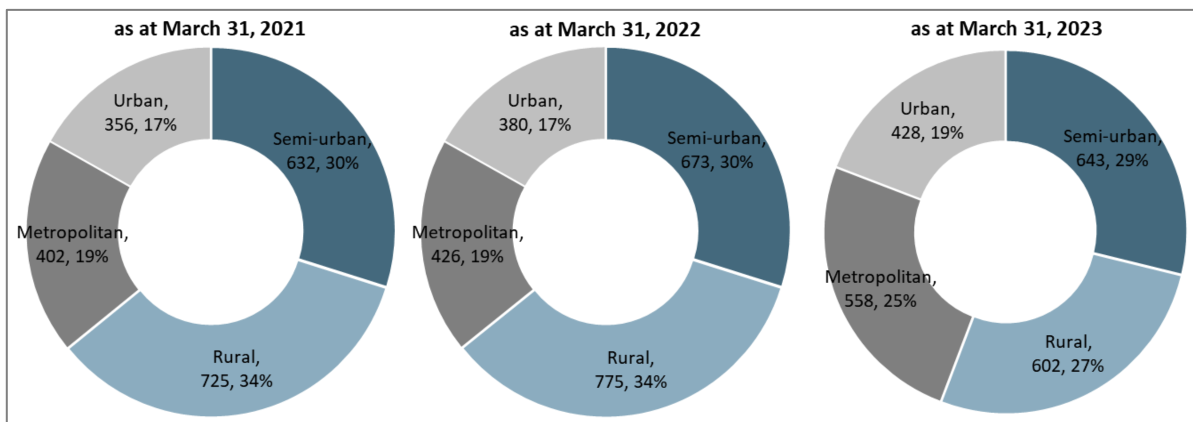
Source: RBI, FSIAPL Analysis

Note: 'Rural' group includes all centres with a population of less than 10,000, 'Semi-urban' group includes centres with a population of 10,000 and above but less than 0.1 million, 'Urban' group includes centres with a population of 0.1 million and above but less than 1 million and 'Metropolitan' group includes centres with a population of 1 million and above.

Metropolitan cities accounted for 54.0% of total deposits and 62.0% of total advances in India as at March 31, 2023. The top five states in India including Maharashtra, NCT of Delhi, Tamil Nadu, Karnataka and Gujarat have the most concentration of advances. The rest of the country accounted for 40.0% of total advances as at March 31, 2023.

Number of deposit accounts region-wise as at March 31, 2021, 2022 and 2023

Deposit accounts (in million, except percentages)

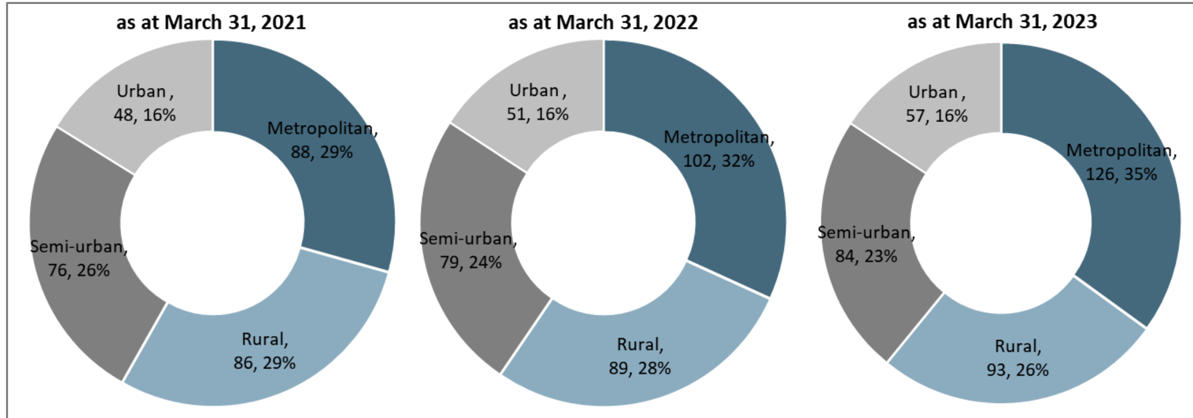


Source: RBI, FSIAPL Analysis

Note: Deposits shown under this table exclude inter-bank deposits.

Deposit accounts have increased at a CAGR of 2.7% from 2,116 million as at March 31, 2021 to 2,232 million as at March 31, 2023. The growth rate of debit accounts in semi-urban, rural, metropolitan and urban regions during the same period was 0.9%, (-8.9%), 17.8% and 9.6%, respectively.

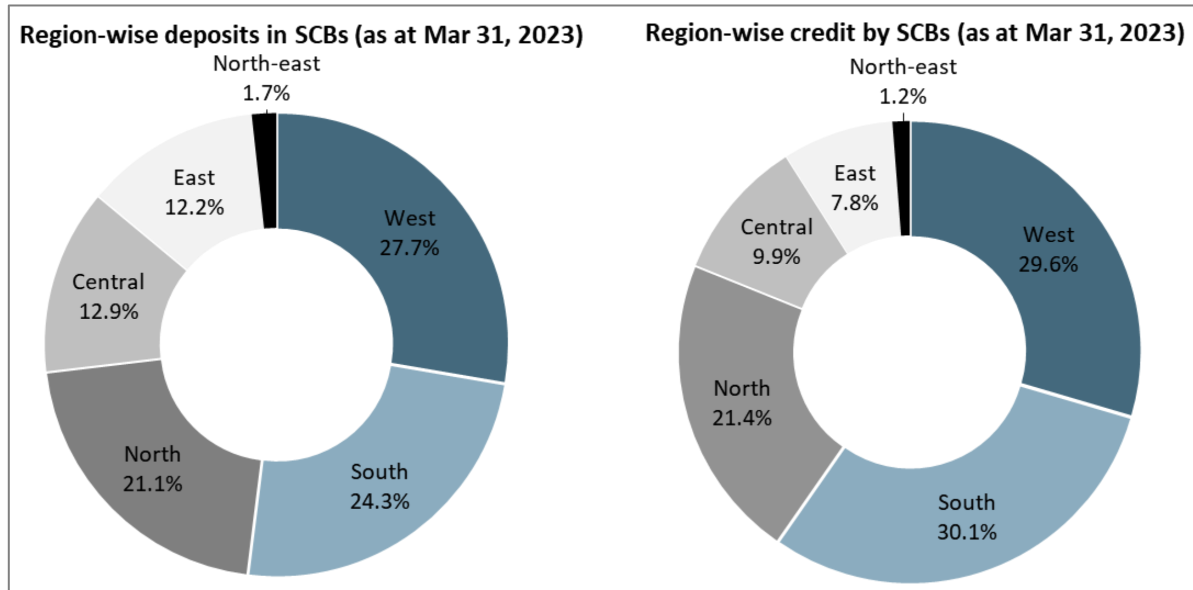
Number of credit accounts region-wise for as at March 31, 2021, 2022 and 2023



Source: RBI, FSIAPL Analysis

Credit accounts have increased at a CAGR of 9.9% from 298 million as at March 31, 2021 to 360 million as at March 31, 2023. The growth rate of credit accounts in metropolitan, rural, semi-urban and urban regions during the same period was 20.0%, 4.1%, 5.1% and 8.2%, respectively.

Region–wise share of credit & deposit penetration



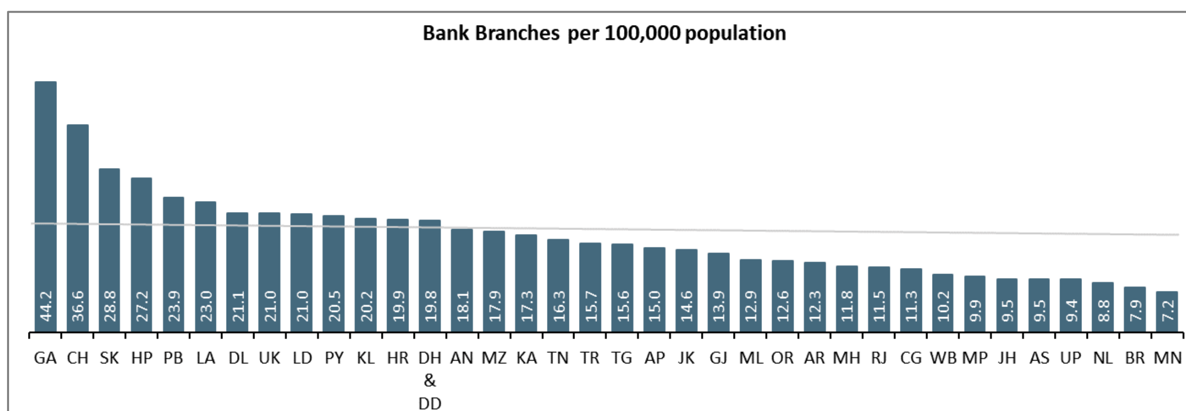
Source: RBI, FSIAPL Analysis

Note: Deposits shown under this table exclude inter-bank deposits.

West India accounts for 29.6% of total credit in India mainly because Maharashtra's share in the total credit share is 23.5%. High credit shares in NCT of Delhi, Rajasthan, Haryana and Punjab lead to North India's share being 21.4%. On the other side, Tamil Nadu, Karnataka, Telangana, Andhra Pradesh and

Kerala's banking penetration is healthy as compared to the northern and eastern regions, leading to a banking penetration of 30.1% in south India. The north-eastern and eastern regions lack credit penetration as their deposit share is 14.0% of total deposits while their credit share is only 9.0% of total credit.

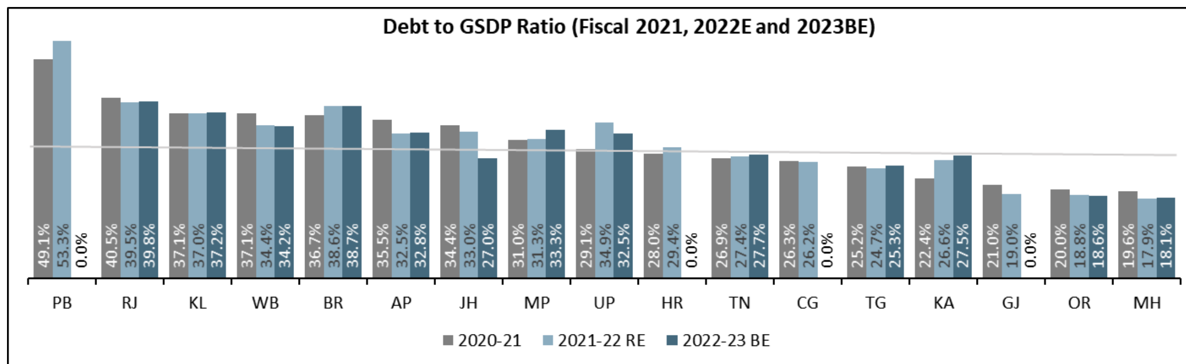
Branch network and infrastructure in regions with lower credit and deposit share (As at March 31, 2022)



Source: RBI and BIRD (Bankers Institute of Rural development), Lucknow

Note: GA: Goa, CH: Chandigarh, SK: Sikkim, HP: Himachal Pradesh, PB: Punjab, LA: Ladakh, DL: NCT of Delhi, UK:Uttarakhand, LD: Lakshadweep, PY: Puducherry, KL: Kerala, HR: Haryana, DH&DD: Dadra and Nagar Haveli and Daman and Diu, AN: Andaman & Nicobar Islands, MZ: Mizoram, KA: Karnataka, TN: Tamil Nadu, TR: Tripura, TG: Telangana, AP: Andhra Pradesh, JK: Jammu & Kashmir, GJ: Gujarat, ML: Meghalaya, OR: Odisha, AR: Arunachal Pradesh, MH: Maharashtra, RJ: Rajasthan, CG: Chhattisgarh, WB: West Bengal, MP: Madhya Pradesh, JH: Jharkhand, AS: Assam, UP: Uttar Pradesh, NL: Nagaland, BR: Bihar, MN: Manipur

In the northern region in Delhi, Himachal Pradesh, Punjab, Haryana, the branch network was above India's average of 12 bank branches per 100,000 individuals as at March 31, 2022. The northern region had a high branch network as compared to India's average. In the western region, Goa had the highest branch network with 44.2 bank branches per 100,000 individuals as at March 31, 2022. Maharashtra and Gujarat have a low branch network but the deposit and credit shares of these states are high. The number of bank branches per 100,000 individuals is low because these states are densely populated. Among the southern states, Kerala, Karnataka, Tamil Nadu, Telangana and Andhra Pradesh had the highest number of bank branches per 100,000 individuals of 20.2, 17.3, 16.3, 15.6 and 15.0, respectively, as at March 31, 2022. In the eastern region, Sikkim and Odisha had 28.8 and 12.6 bank branches per 100,000 individuals, respectively, as at March 31, 2022. Jharkhand and Bihar had 9.5 and 7.9 bank branches per 100,000 individuals, respectively, as at March 31, 2022. In the north-eastern region, Mizoram and Tripura have a high number of bank branches per 100,000 individuals, while Assam and Manipur have a low number of bank branches per 100,000 individuals. All UTs, including Chandigarh, Ladakh, NCT of Delhi, Lakshadweep, Puducherry, Dadra and Nagar Haveli and Daman and Diu, Andaman & Nicobar Islands and Jammu & Kashmir, had high penetration of bank branches per 100,000 individuals at 36.6, 23.0, 21.1, 21.0, 20.5, 19.8, 18.1 and 14.6, respectively, as at March 31, 2022.



Source: Budget documents of state governments; Reserve Bank of India; and PRS Legislative Research

Note:

1. *PB: Punjab, RJ: Rajasthan, KL: Kerala, WB: West Bengal, BR: Bihar, AP: Andhra Pradesh, JH: Jharkhand, MP: Madhya Pradesh, UP: Uttar Pradesh, HR: Haryana, TN: Tamil Nadu, CG: Chhattisgarh, TG: Telangana, KA: Karnataka, GJ: Gujarat, OR: Odisha, MH: Maharashtra*
2. *Data for Punjab is based on the Report titled 'State Finances: A Study of Budgets 2021-22' as its budget for 2022-23 has not been presented yet. Though, Odisha's budget for 2022-23 is Vote-on-Account, it has released its FRBM documents for 2022-23. As indicated by the state government, debt stock of 16.98 per cent of GSDP may increase by 3 per cent of GSDP if public account liabilities are incorporated.*
3. *For other states, data for debt, GFD, RD and PD are reported by the respective state governments in their budget documents and may not match with data to be compiled by the Reserve Bank as the methodology for compilation of these indicators differ.*

Based on the debt-GSDP ratio in 2022-23BE, Rajasthan, Bihar, Kerala, West Bengal, Madhya Pradesh, Andhra Pradesh and Uttar Pradesh were the states with the highest debt burden.

Further steps taken by Government of India to support financial inclusion

Three ambitious Jan Suraksha Schemes or Social Security Schemes pertaining to Insurance and Pension Sector were announced by the Government in the Budget for Fiscal 2016. The schemes were launched on May 9, 2015 for providing life and accident risk insurance and social security at a very affordable cost, namely Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeevan Jyoti Yojana and Atal Pension Yojana.

Pradhan Mantri Suraksha Bima Yojana (PMSBY)

PMSBY is available to people in the age group of 18 to 70 years with a bank/ post office account who give their consent to join/ enable auto-debit on or before 31st May for the coverage period of 1st June to 31st May on an annual renewal basis. The risk coverage under PMSBY is Rs. 200,000 for accidental death and full disability and Rs. 100,000 for partial disability. The premium of Rs. 12 per annum is to be deducted from the account holder's bank/ post office account through the 'auto-debit' facility in one instalment. PMSBY is being offered by public sector general insurance companies or any other general insurance company that is offering the product on similar terms with necessary approvals and tie up with banks and post offices for this purpose. As on May 31, 2023, the cumulative enrolments under the PMSBY scheme have been more than 344.1 million and the claim disbursed to 117,461 beneficiaries. *(Source: Ministry of Finance)*

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

PMJJBY is available to people in the age group of 18 to 50 years having a bank/ post office account who give their consent to join/enable auto-debit. Life cover of Rs. 200,000 is available for a one-year period stretching from 1st June to 31st May and is renewable. Risk coverage under this scheme is Rs. 200,000 in case of the death of the insured, due to any reason. The premium is Rs. 330 per annum which is to be auto-debited in one instalment from the subscriber's bank/post office account as per the option given by him/ her on or before 31st May of each annual coverage period under the scheme. PMJJBY is being offered by the Life Insurance Corporation of India and all other life insurers who are offering the product on similar terms with necessary approvals and tie up with banks and post offices for this purpose. As on May 31, 2023, the cumulative enrolments under the PMJJBY scheme have been more than 163.1 crore and the claims disbursed to 672,378 beneficiaries. *(Source: Ministry of Finance)*

Atal Pension Yojana (APY)

Atal Pension Yojana was implemented with effect from June 1, 2015. APY aims to provide monthly pensions to eligible subscribers not covered under any organized pension scheme. APY is open to all bank and post office account holders in the age group of 18 to 40 years. Under APY, any subscriber can opt for a guaranteed pension of Rs. 1,000 to Rs. 5,000 (in multiples of Rs. 1,000) receivable at the age of 60 years. As on March 11, 2023, the scheme has been implemented comprehensively across the country covering all states and Union Territories with total enrolments crossing the mark of 52.5 million. APY enrolments have continuously shown an increasing trend since its inception. In new enrolments, there has been a growth of 20% in FY 2022-23 over FY 2021-22 in comparison to a growth of 25% in FY 2021-22 over FY2020-21. As on March 11, 2023, the total assets under management (AUM) in APY is more than Rs. 284.34 billion and the scheme has generated an investment return of 8.92 % since inception of the scheme. *(Source: Ministry of Finance).*

Stand Up India Scheme

The Government of India launched the Stand-Up India Scheme on April 5, 2016. The Stand-Up India Scheme caters to promoting entrepreneurship amongst women and the scheduled castes & scheduled tribes category i.e. the section of the population facing significant hurdles due to lack of advice as well as inadequate and delayed credit. The Stand-Up India Scheme facilitates bank loans between Rs. 1.0 million and Rs. 10.0 million to at least one scheduled caste/ scheduled tribe borrower and at least one-woman borrower per bank branch of scheduled commercial banks for setting up greenfield enterprises in the trading, manufacturing and services sector. To extend collateral free coverage, the Government of India has set up the Credit Guarantee Fund for Stand-Up India (CGFSI), which is built on the concept of providing handholding support to those borrowers who might have a project in mind but lack the confidence and capability to start the project. It also provides convergence with Central/ state government schemes. The total number of entrepreneurs who benefited from the Stand-Up India Scheme as at May 29, 2023 is tabulated below:

Performance under Stand Up India Scheme (Amount Rs. in billion)

SC		ST		Women		Total	
No of Accounts	Sanctioned Amount	No of Accounts	Sanctioned Amount	No of Accounts	Sanctioned Amount	No of Accounts	Sanctioned Amount
27,735	58.1	9,341	20.1	149,412	341.4	**186,488**	**419.6**

Source: Ministry of Finance

Pradhan Mantri Mudra Yojana (PMMY)

In pursuance of the announcement in the Union Budget 2015-16, the Micro Units Development Refinance Agency (MUDRA) was set-up and the Pradhan Mantri Mudra Yojana (PMMY) was launched on April 8, 2015. To achieve sustained expansion in the flow of credit to the non-corporate small business sector, loans of up to Rs. 1.0 million without collateral are extended to borrowers under PMMY. The loans under PMMY are categorized as Shishu (up to Rs. 50,000), Kishore (Rs. 50,000 to Rs. 500,000) and Tarun (Rs. 500,000 to Rs. 1.0 million). The total number of beneficiaries under the PMMY scheme, as on May 26, 2023 is tabulated below:

Performance under Pradhan Mantri Mudra Yojana (PMMY)							
Shishu		Kishore		Tarun		Total	
No of Accounts (in million)	Amount (in Rs. billion)	No of Accounts (in million)	Amount (in Rs. billion)	No of Accounts (in million)	Amount (in Rs. billion)	No of Accounts (in million)	Amount (in Rs. billion)
346	9,480.0	62	8,740.0	8	5,640.0	**417**	**23,860.0**

Source: Ministry of Finance

The microfinance industry plays an important role in promoting financial inclusion. The microfinance industry provides credit to entrepreneurs and small businesses lacking access to banking and related services. Launched in 2015, Digital India has been regarded as a significant intervention to bring the unbanked population, who had been kept out of the mainstream economy, into the formal financial net. Various initiatives under Digital India, such as easy banking facilities for all, simplification of procedures relating to financial instruments like Permanent Account Number (PAN), unique identification process of Aadhaar, simplification of tax procedures through the goods and services tax (GST), etc., have contributed significantly to the efforts of financial inclusion in the country. While there has been an improvement in digital transactions across the country, concerns remain on last-mile connectivity of banks and other financial institutions. Issues also remain around dormant accounts, non-availability of suitable financial products, lack of skills among the stakeholders to use digital services, high operating costs and infrastructural issues.

Financial inclusion is one of the cornerstones of a developing economy and there is no doubt that India has significantly improved the financial inclusion of the marginalised sections. The efficacy of Digital India vis-à-vis financial inclusion can be measured by the growth in digital transactions and the proportion of the poor and their ability to access banking facilities. According to the World Bank's Global Financial Inclusion Database or Global Findex report (2017), 80.0% Indian adults have a bank account—27 points higher than the 53.0% estimated in the Findex 2014 round. However, there are contrasting statistics. According to the same report, about 190 million adults in India do not have a bank account, making India the world's second largest nation in terms of unbanked population after China. The combination of a huge informal sector along with a high dependence on cash mode of transaction poses an impediment to digital financial inclusion.

Payment banks

Payments Banks (PBs) were set up on the basis of the recommendations of the Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households with the objective of improving financial inclusion by harnessing technology services via mobile phones. PBs cannot undertake lending activities and their design is functionally equivalent to that of pre-paid

instrument (PPI) providers which are permitted to receive cash payments from customers, store them in a digital wallet, and allow customers to pay for goods and services from this wallet. Consequently, credit and market risks involved in PBs' activities are limited, although they are subject to operational and liquidity risks. The evolution of PBs since their inception suggests that they have yet to achieve the optimal scale to break-even or attain profitability.

Priority sector lending

Priority sector lending is an important role given by the RBI to banks for providing a specified portion of bank lending to a few specific sectors like agriculture and allied activities, micro and small enterprises, housing for poor people, education for students and other low-income groups and weaker sections. This is essentially meant to be an all-round development of the economy as opposed to focusing only on the financial sector. The RBI has mandated a priority sector lending minimum of 40.0% of advances for all banks. SFBs must extend 75.0% of Adjusted Net Bank Credit (ANBC) to priority sector lending sectors. Priority sector credit accelerated, largely driven by credit to agriculture and housing. The steadfast drive to promote affordable housing under the ambit of Pradhan Mantri Awas Yojana (PMAY), coupled with the RBI's initiative to expand the eligibility of housing loan limits for priority sector lending enabled a sharp jump in housing loan. As per the RBI, while the priority sector accounts for approximately 36.0% of total bank lending, its share in total GNPAs is 26.0%.

Achievement of Priority Sector Lending Targets

(Rs. in billion)

Finacial Year	Public Sector Banks	Private Sector Banks	Foreign Banks
2021-22	26,491.8	16,858.1	2,081.1
	(42.9)	(43.7)	(42.7)
2022-23*	28,553.6	19,933.9	2,105.8
	(44.2)	(45.6)	(42.9)

Source: Priority sector returns submitted by SCBs, RBI Annual Report 2022-23

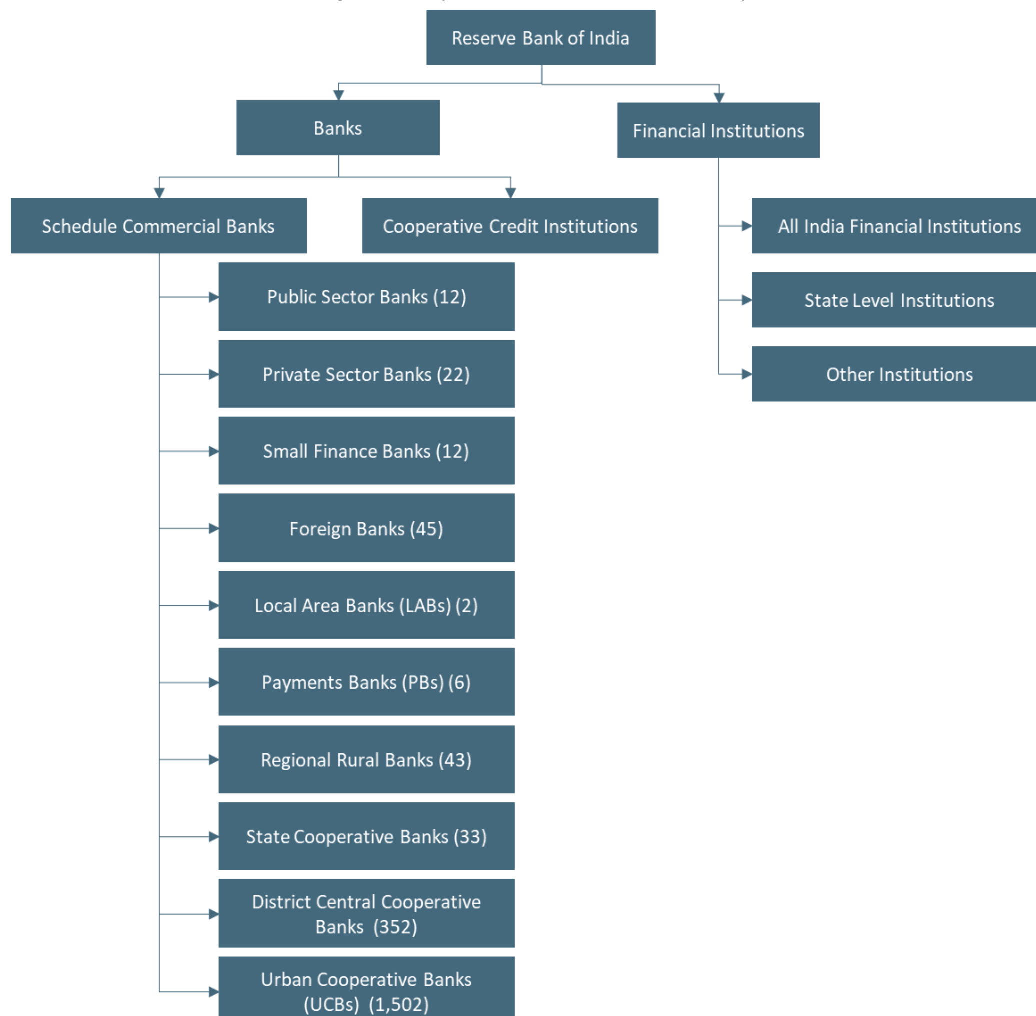
Note: Figures in parentheses are percentage to adjusted net bank credit (ANBC) or credit equivalent of off-balance sheet exposure (CEOBE), whichever is higher; (*): Data are provisional.

4. Overview of the Indian Banking Industry

The Indian banking system is a critical link between the financial and the real sectors of the Indian economy, especially since banks are the primary source of lending in India compared to the capital markets. The banking industry is regulated by the Reserve Bank of India (RBI), which is the central bank of India established on April 1, 1935 under the Reserve Bank of India Act, 1934. Scheduled Commercial Banks (SCB), cooperative credit institutions and other financial institutions come under the ambit of RBI. As at March 31, 2023, the Indian banking system consisted of 12 public sector banks, 21 private sector banks, in addition to cooperative credit institutions. The number of registered insured banks as on March 31, 2023 stood at 2,027, comprising 140 commercial banks [including 43 regional rural banks (RRBs), 2 local area banks (LABs), 6 payment banks (PBs) and 12 small finance banks (SFBs)] and 1,887 co-operative banks [33 state cooperative banks, 352 district central cooperative banks and 1,502 urban cooperative banks (UCBs)]

Structure of Indian banking industry

The structure of the Indian banking industry as at March 31, 2023 is provided below:



Source: RBI Annual Report 2022-23

Evolution of banking in India

At the time of independence, all the major banks in India were held privately. In July 1969, the Government nationalized 14 commercial banks in order to promote inclusive banking. Another six banks were nationalized in 1980.

Year	Evolution of India Banking Sector
1921	Closed Market
	State-owned Imperial Bank of India was the only bank existing
1935	RBI was established as the central bank of country
	Quasi central banking role of Imperial Bank came to an end
1936-1955	Imperial Bank expanded its network to 480 branches
	In order to increase penetration in rural areas, Imperial Bank was converted into State Bank of India
1956-2000	Nationalisation of 14 large commercial banks in 1969 & six more banks in 1980
	Entry of private players such as ICICI intensifying the competition
	Gradual technology upgradation in PSU banks
2000 onwards	In 2003, Kotak Mahindra Finance Ltd received a banking license from RBI and became the first NBFC to be converted into a bank
	In 2009, the Government removed the Banking Cash Transaction Tax which was introduced in 2005
2018 onwards	As per Union Budget 2019-20, provision coverage ratio of banks reached highest in 7 years
	According to RBI, India's foreign exchange reserve reached US$ 534.56 billion as on July 31, 2020

Source: India Brand Equity Foundation

In 1991, post liberalization of the Indian economy, there was a remarkable change in the approach of the Government with the economy opening up and foreign and private investors being encouraged to invest in India. This marked the entry of private players in the banking sector – the RBI provided banking licenses to ten private entities of which ICICI Bank, HDFC Bank, Axis Bank, IndusInd Bank, and DCB still survive. In 1998, the Narsimham Committee recommended the entry of more private players and the RBI provided banking licenses to Kotak Mahindra Bank in 2001 and to Yes Bank in 2004. In Fiscal 2014, the RBI granted banking licenses to IDFC Bank and Bandhan Bank.

In order to drive financial inclusion, the RBI introduced two new sets of players – the payments banks in 2014 and Small Finance Banks in 2014.

The key developments that have impacted the financial sector in India over the last few years include:

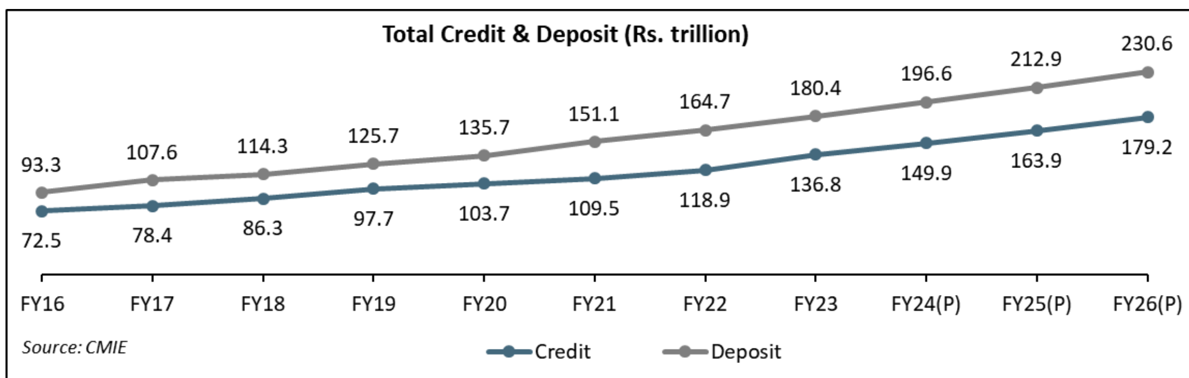
- **Impact of demonetization**: On November 8, 2016, currency notes of denominations of Rs. 1,000 and Rs. 500 (specified bank notes) valued at Rs. 15.4 trillion and constituting 86.9% of the value of total notes in circulation, were demonetised *(Source: FSIAPL)*. Demonetisation led to several changes to the financial sector, which can be summarised as a significant shift in the income elasticity of currency demand, growth in bank deposits, greater financial inclusion, detection of suspicious transactions, improved monetary transactions, an increase in mutual fund investments by households, higher collections under life insurance schemes, accelerated digitization of retail payments, and a higher rate of detection of fake currency notes.
- **Impact of GST**: The Economic Survey 2018 estimates that goods and services tax network (GSTN) implementation has increased the indirect taxpayer base by more than 50.0%, with 3.4 million businesses coming into the tax net. It appears that the number of GST registrants has risen due to a large increase in voluntary registrations. Small business-to-consumer (B2C) firms want to take part in the GSTN because they buy from large enterprises, in which about 68.0% of their purchases are from medium or large registered enterprises, giving them a powerful incentive to register, so they could secure input tax credits on these purchases. The Input Tax Credit motivation is a strong

push towards digitisation and formalisation of small businesses. Moreover, the acceptance of invoices by the buyers creates a trusted repository of invoices. FSIAPL knows that they are not just cooking their books; they have verified buyers at the other end who vouch for the invoices generated. This provides a potentially penetrative view into the otherwise invisible 10.0 million businesses that are now on GSTN, uploading roughly more than 1.0 billion invoices every month. *(Source: FSIAPL)*

- **Impact of COVID-19**: The rapid spread of COVID-19 in China dampened growth in 2022, but the recent reopening has paved the way for a faster-than-expected recovery. COVID-19 deepens China's slowdown. Economic activity in China slowed in the fourth quarter amid multiple large COVID-19 outbreaks in Beijing and other densely populated localities. Renewed lockdowns accompanied the outbreaks until the relaxation of COVID-19 restrictions in November and December, 2022 which paved the way for a full reopening. Real estate investment continued to contract, and developer restructuring is proceeding slowly, amid the lingering property market crisis. Developers have yet to deliver on a large backlog of presold housing, and downward pressure is building on house prices (so far limited by home price floors). The authorities have responded with additional monetary and fiscal policy easing, new vaccination targets for the elderly, and steps to support the completion of unfinished real estate projects. However, consumer and business sentiment remained subdued in late 2022. China's slowdown has reduced global trade growth and international commodity prices.

Systemic credit and deposit growth

Total credit of Scheduled Commercial Banks (SCBs) has grown at a CAGR of 9.5% from Rs. 72.5 trillion as at March 31, 2016 to Rs. 136.8 trillion as at March 31, 2023. As per the Centre for Monitoring Indian Economy (CMIE), total credit is expected to increase to Rs. 179.2 trillion as at March 31, 2026(P). Total deposits of SCBs have increased at a CAGR of 9.9% from Rs. 93.3 trillion as at March 31, 2016 to Rs. 180.4 trillion as at March 31, 2023. As per CMIE, total deposit is expected to increase to Rs. 230.6 trillion as at March 31, 2026(P). The growth in credit and deposit would be in line with the GDP growth of the country. Private sector banks have contributed more than public sector banks in credit growth and deposit growth in percentage terms in the last 3 fiscal years (Fiscals 2021 to 2023). Foreign banks have shown healthy growth in deposits over the last 3 fiscal years and small finance banks have shown high double-digit growth in credit and deposits due to the small base effect.



Quarterly trends in percentage change in aggregate credit and deposits of various banking groups is provided in the table below:

Bank Groups Quarterly Growth Rates of Aggregate Deposits and Bank Credits (%)																	
Particluars	**Mar-23**	**Dec-22**	**Sep-22**	**Jun-22**	**Mar-22**	**Dec-21**	**Sep-21**	**Jun-21**	**Mar-21**	**Dec-20**	**Sep-20**	**Jun-20**	**Mar-20**	**Dec-19**	**Sep-19**	**Jun-19**	**Mar-19**
Public Sector Banks																	
Aggregate Deposits	8.1	8.8	8.0	6.9	8.0	6.9	7.4	7.5	10.4	9.5	10.3	10.8	8.2	7.8	6.6	6.7	6.0
Bank Credit	14.3	15.7	15.0	11.5	7.8	4.7	3.7	3.1	3.6	6.5	5.7	5.7	4.2	3.7	5.2	8.7	9.2
Private Sector Banks																	
Aggregate Deposits	14.8	13.2	12.9	13.6	14.5	15.0	16.0	15.8	16.6	13.7	10.6	11.2	10.4	14.0	16.9	16.3	15.4
Bank Credit	18.8	19.1	20.9	18.0	15.1	13.1	10.9	10.1	9.1	6.7	6.9	7.2	9.3	13.1	14.4	17.5	20.2
Foreign Banks																	
Aggregate Deposits	2.5	8.9	10.2	13.3	9.9	10.3	10.2	7.2	10.3	15.4	21.2	17.5	17.5	10.7	11.7	19.3	19.2
Bank Credit	1.8	9.6	13.8	13.5	13.0	15.8	13.7	4.3	-3.3	-5.7	-7.1	2.9	7.2	4.4	7.7	5.4	11.1
Regional Rural Banks																	
Aggregate Deposits	-	7.2	5.6	6.0	5.7	5.3	5.1	5.6	9.3	10.0	12.1	13.8	10.4	11.8	11.0	10.6	9.4
Bank Credit	-	12.3	12.5	11.1	9.3	10.2	11.3	12.4	12.7	10.6	8.3	6.7	6.1	7.6	8.4	9.6	11.3
Small Finance Banks																	
Aggregate Deposits	33.9	35.6	45.5	39.4	37.3	37.9	26.4	40.5	40.3	33.5	41.3	59.8	66.7	96.3	131.9	104.3	124.0
Bank Credit	33.5	35.8	37.1	40.2	25.6	25.6	22.7	17.7	19.7	15.3	18.8	42.4	57.6	72.5	104.0	81.8	79.7
Payments Banks																	
Aggregate Deposits	22.2	40.4	54.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank Credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit-deposit Ratio (%)	**75.6**	**75.9**	**74.8**	**73.5**	**71.9**	**71.6**	**70.0**	**70.5**	**71.5**	**72.5**	**72.0**	**73.1**	**76.0**	**75.7**	**75.6**	**76.7**	**78.2**

Source: RBI, FSIAPL Analysis

Developments related to the licencing of universal banks in the private sector

The RBI announced guidelines for 'on tap' Licensing of Universal Banks in the Private Sector on August 1, 2016. Some of the key aspects of the guidelines include:

- Resident individuals and professionals having 10 years of experience in banking and finance at a senior level are eligible to promote universal banks.
- Large industrial houses are excluded as eligible entities but are permitted to invest in the banks up to 10.0%.
- Non-Operative Financial Holding Company (NOFHC) has been made non-mandatory in case of promoters being individuals or standalone promoting/converting entities who/ which do not have other group entities.
- Not less than 51.0% of the total paid-up equity capital of NOFHCs shall be owned by the promoter/ promoter group, instead being wholly owned by the promoter group.
- Existing specialised activities have been permitted to be continued from a separate entity proposed to be held under the NOFHC subject to prior approval from the RBI and subject to it being ensured that similar activities are not conducted through the bank as well.

The RBI issued in-principle approval to two applicants and they have since been established as banks as per their bank licences. Apart from this, no development in relation to private banks turning into a universal bank is available in the public domain.

Consolidation of public sector banks

The banking sector witnessed a major turning point in Fiscal 2020, with the Government announcement of mega merger of 10 PSBs into four PSBs. Consequently, Oriental Bank of Commerce (OBC) and United Bank of India (UBI) merged into Punjab National Bank (PNB), Syndicate Bank merged with Canara Bank, Andhra Bank and Corporation Bank merged with Union Bank of India and Allahabad Bank merged into Indian Bank. The Government expects that these banks will see significant synergy

benefits from the amalgamation in the form of better products and services, skills, policies, technology, augmented network and better capital position. Further to make public sector banks stronger and more resilient, an upfront capital infusion of Rs. 700.0 billion in PSBs was announced by the Government through recapitalisation bonds.

'On-tap small finance banks' licensing in the private sector

There are significant untapped opportunities in the informal/ semi-formal sectors, and efficiency of SFBs delivery model can be used for the underserved segment. The RBI announced 'on tap' licensing in September 2019. In December 2019, the RBI issued guidelines for on-tap licensing of SFBs to further financial inclusion and widen competition. More players will now be able to apply for an SFB license, subject to the fulfilment of regulatory conditions. Under the new on-tap licensing guidelines, the RBI doubled the minimum capital requirement to Rs. 2.0 billion from Rs. 1.0 billion earlier, with certain exceptions, such as in case of SFBs which are transited from primary (urban) co-operative banks, or converted from NBFCs/ MFIs, the requirement is separately set out. Under the earlier guidelines, shareholding by promoters in the bank had to be brought down to 40.0% within five years, subsequently to 30.0% within ten years and to 26.0% within 12 years. However, under the new guidelines, shareholding by promoters in the bank has to be brought down to 40.0% within five years, 30.0% within ten years and to 15.0% within 15 years.

Key reforms for banking in the Union Budget 2023–24

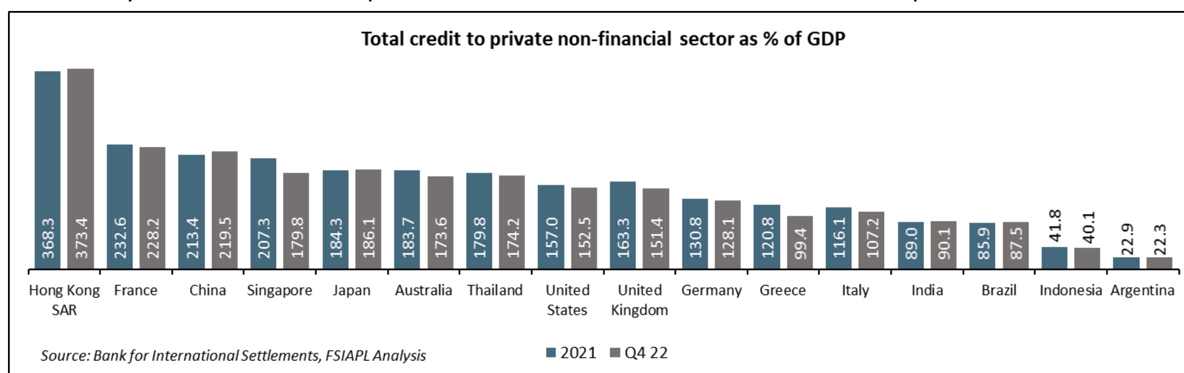
- As per the Union Budget 2023–24, the maximum deposit limit for ‘Monthly Income Account Scheme’ to be enhanced from Rs. 0.45 million to Rs. 0.9 million for single account and from Rs. 0.9 million to Rs. 1.5 million for joint account.
- Provision of a higher limit of Rs. 0.2 million per member for cash deposits to and loans in cash by Primary Agricultural Co-operative Societies (PACS) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)
- Amendments proposed to the Banking Regulation Act, the Banking Companies Act and the Reserve of India Act to improve bank governance and enhance investors’ protection
- Permitting acquisition financing by IFSC Banking Units of foreign bank
- Establishing a subsidiary of EXIM Bank for trade re-financing

Key reforms for the MSME sector in the Union Budget 2023–24

- As per the Union Budget 2023–24, entity DigiLocker to be setup for use by MSMEs, large business and charitable trusts to store and share documents online securely
- Revamped credit guarantee scheme for MSMEs to take effect from 1st April 2023 through infusion of Rs. 90 billion in the corpus. This scheme would enable additional collateral-free guaranteed credit of Rs. 2 trillion and also reduce the cost of the credit by about 1%
- 95% of the forfeited amount relating to bid or performance security, will be returned to MSME’s by government and government undertakings in cases the MSME’s failed to execute contracts during COVID period. This will provide relief to MSMEs.
- A unified Skill India Digital platform to be launched for enabling demand-based formal skilling, linking with employers including MSMEs, and facilitating access to entrepreneurship schemes

Comparison of credit to GDP in India with other developing and developed countries

The last 2 years' total credit to private non-financial sector as a % of GDP is depicted in the chart below:



India's total credit to private non-financial sector as a percentage of GDP stands in the fourth quarter of 2022 (calendar year) stands at 90.1% as compared to 89.0% in Fiscal 2021. India's credit offtake to the non-financial sector has been showing a decreasing trend over the years. China's fourth quarter of 2022 (calendar year) numbers stand at 219.5%, Brazil's stand at 87.5%, and Indonesia's stand at 40.1%. The USA's the fourth quarter of 2022 (calendar year) numbers were at 152.5%, the United Kingdom's at 151.4%, Germany's at 128.1%, France's at 228.2% and Japan's at 186.1%. As depicted in the chart above, developing countries show a lower credit to private non-financial sector as a percentage of GDP as compared to developed countries. A key reason for this could be that a large part of the economy is still informal, and due to the presence of a wider fiscal deficit and low economic growth. The earnings of some in the informal economy may be at par with their formal economy counterparts, but due to its informal nature, people and businesses in this part of the economy are rendered 'invisible' to the formal banking system. This 'invisibility' adversely affects their ability to grow current income level because of lack of access to formal credit.

SCB's retail credit growth (Rs. billion)

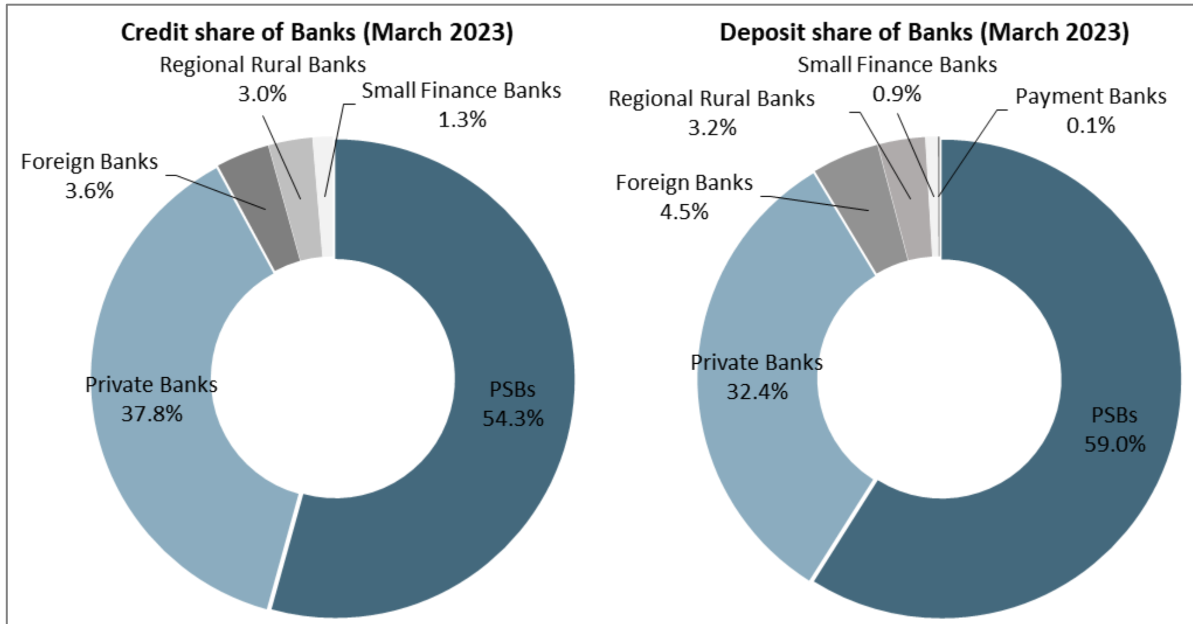
Retail Loans	Fiscal			% CAGR growth
	2021	2022	2023	Fiscal 2021 - Fiscal 2023
Consumer durables	11.8	103.6	97.0	186.9%
Housing (including priority sector housing)	1,294.7	1,921.2	2,520.0	39.5%
Advances against fixed deposits	56.5	54.5	385.2	161.1%
Advances to individuals against share, bonds	(6.3)	8.6	5.2	-
Credit card outstanding	117.9	167.1	458.7	97.2%
Education	126.3	45.9	141.2	5.8%
Vehicle loans	885.5	342.8	1,000.9	6.3%
Loans against gold jewellery	412.5	(10.9)	144.7	-40.8%
Other personal loans	64.4	1,146.8	2,229.0	488.5%
Total	**2,963.2**	**3,779.7**	**6,981.9**	**53.5%**

Source: CMIE

The SCB's retail housing has grown at a CAGR of 53.5% from Rs. 2,963.2 billion in Fiscal 2021 to Rs. 6,981.9 billion in Fiscal 2023. The vehicle loan segment has grown at a CAGR of 6.3% from Rs. 885.5 billion in Fiscal 2021 to Rs. 1,000.9 billion in Fiscal 2023. Credit card outstanding segment grew at a CAGR of 97.2% from Rs. 117.9 billion in Fiscal 2021 to Rs. 458.7 in Fiscal 2023. Advances against fixed deposits grew at a CAGR of 161.1% from Rs. 56.5 billion in Fiscal 2021 to Rs. 385.2 in Fiscal 2023.

Consumer durables grew drastically at a CAGR of 186.9% from Rs. 11.8 billion to Rs. 97.0 billion, and education grew at a CAGR of 5.8% from Rs. 126.3 billion to Rs. 141.2 billion. All other segments including advances against share and bonds and loans against gold jewellery have shown degrowth during the period. Housing comprised approximately 36.1% of the total retail advances while vehicle loans accounted for around 14.3% of the total retail advances as at March 31, 2023.

Share of various bank groups in credit disbursement



Source: RBI, FSIAPL Analysis

Note: Deposits shown under this table exclude inter-bank deposits.

Public sector banks (PSBs) have the highest share in outstanding credit and stands at 54.3% as of March 2023 while private sector banks stand at 37.8%, foreign banks at 3.6%, regional rural banks at 3.0% and small finance banks at 1.3%. The share of public sector banks in outstanding credit has reduced from 66.67% in June 2017 and the share of private sector banks in outstanding credit has increased from 28.69%, indicating preference of borrowers towards private sector banks due to better quality of services in terms of banking technology, customer service and product suite. PSBs have the highest share in deposits and stand at 59.0% as of March 2023.

Bank-wise deposit (as at March 31, 2023)

Rank	Bank	Amount (Rs. billion)	Share in total Deposit
1	State Bank of India	44,237.8	24.4%
2	HDFC Bank Ltd.	18,833.9	10.4%
3	Punjab National Bank (Amalgamated)	12,903.5	7.1%
4	Bank of Baroda	12,346.8	6.8%
5	ICICI Bank Ltd.	11,808.4	6.5%
6	Canara Bank	11,792.2	6.5%
7	Union Bank of India	11,203.2	6.2%
8	Axis Bank Ltd.	9,469.5	5.2%
9	Bank of India	6,695.9	3.7%
10	Indian Bank	6,211.2	3.4%
11	Kotak Mahindra Bank Ltd.	3,612.7	2.0%
12	Central Bank of India	3,593.0	2.0%
13	Indusind Bank Ltd.	3,361.2	1.9%
14	Others	25,383.1	14.0%
	Total	**181,452.4**	**100.0%**

Source: Company's Annual Report, RBI

Capital adequacy by type of lenders

The capital-to-risk weighted assets ratio (CRAR) of private sector banks is healthier than that of public sector banks. The CRAR of private sector banks, public sector banks and foreign banks has improved from as at March 31, 2020 to as at March 31, 2022. Details of the capital adequacy ratio of various banking groups are provided below:

Component-wise Capital Adequacy of SCBs (At end-March)

(Amount in Rs. bn)

	Public Sector Banks			Private Banks			Foreign Banks			SCBs		
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
1. Capital Funds	**6,999**	**7,940**	**8,939**	**6,548**	**7,724**	**8,807**	**1,887**	**2,044**	**2,198**	**15,567**	**17,903**	**20,154**
i) Tier I Capital	5,658	6,491	7,358	5,807	7,016	8,065	1,729	1,864	2,012	13,308	15,548	17,626
ii) Tier II Capital	1,340	1,449	1,581	741	708	742	158	181	186	2,259	2,355	2,528
2. Risk Weighted Assets	**54,463**	**56,561**	**60,849**	**39,570**	**41,923**	**46,922**	**10,659**	**10,499**	**11,096**	**105,353**	**108,982**	**118,867**
3. CRAR (1 as % of 2)	**12.9**	**14.0**	**14.7**	**16.5**	**18.4**	**18.8**	**17.7**	**19.5**	**19.8**	**14.8**	**16.3**	**16.8**
Of which: Tier I	10.4	11.7	12.7	14.7	16.9	17.1	16.2	17.7	18.2	12.6	14.1	15.7
Tier II	2.5	2.5	2.7	1.9	1.7	1.3	1.5	1.6	1.6	2.1	2.2	1.8

Source: Off-site returns, RBI

Performance of lending book based on Gross NPA (GNPA) and Net NPA (NNPA) data

As at Dec 31, 2023, public sector banks had the highest non-performing assets as compared to their peers at 5.8% GNPA and 1.7% NNPA and Private banks had the lowest non-performing assets amongst their peers at 2.7% for GNPA and 0.7% for NNPA. Latest data for foreign banks and small finance banks are not available.

Bank Group	Fiscal 2021		Fiscal 2022		Dec-22	
	GNPA (%)	NNPA (%)	GNPA (%)	NNPA (%)	GNPA (%)	NNPA (%)
Scheduled Commercial Banks	7.3	2.4	5.8	1.7	4.5	1.2
Public Sector Banks	9.1	3.1	7.3	2.2	5.8	1.7
Private Sector Banks	4.8	1.4	3.8	1.0	2.7	0.7
Foreign Banks	3.6	0.8	2.9	0.6	-	-
Small Finance Banks	5.4	2.7	4.9	2.0	-	-

Source: Annual accounts of respective banks and Off-site returns (Global Operations), RBI Annual Report

Impact of COVID-19 on deposit growth and the slippage in NPAs and the resulting lower recovery in Fiscal 2021

Various lockdowns imposed due to COVID-19 have shown an impact on deposit growth, indicating ~~that consumers are uncertain about spending and instead are saving more in bank deposits. Deposits~~

(savings, current and term) increased significantly during lockdown 1, which lasted from March 25, 2020 to April 14, 2020, as people were apprehensive in the beginning about spending and became frugal. During lockdown 2, which lasted between April 15, 2020 and May 3, 2020, there was a 25.0% decline in such bank deposits, but term deposit accrual was healthy. The increase in deposits is also attributable to government spending picking up pace with the hike in ways and means advances (WMA) limits. The situation became critical during lockdown 3, which lasted between May 4, 2020 and May 17, 2020, when such deposit growth turned significantly negative, indicating people may have used the initial build up to start spending as they realized that the lockdown could be a recurring phenomenon. However, the depletion was only by 12.0% of the deposit build up in lockdown 1 and lockdown 2, indicating significant risk aversion in consumer spending. In lockdown 4, which lasted between May 18, 2020 and May 31, 2020, there was another increase in deposits, indicating consumers are uncertain about spending and instead are saving much more in bank deposits. It is also possible that many households may have a marginal propensity to consumption closer to zero because many types of spending are less available due to social distancing. Details of changes in bank deposits during various lockdown phases are listed below:

Bank deposits during lockdown (variations in Rs. billion)							
Products	25th March - 14th April	15th April - 3rd May	4th May - 17th May	18th May - 31st May	Fiscal 2021	Fiscal 2022	Fiscal 2023
	Lockdown 1	Lockdown 2	Lockdown 3	Lockdown 4			
Saving Deposits	4,996	2,447	-897	1,378	52,688	59,786	59,709
Current Deposits	-628	246	-530	657	15,352	17,015	18,557
Term Deposits	1,758	1,466	228	591	86,360	93,359	103,186

Source: Industry sources, RBI, FSIAPL Analysis

As per the RBI annual report 2022–23, the deposit growth has generally been more stable than credit growth in the recent past. Further, the momentum in scheduled commercial banks' (SCBs') credit offtake has been mostly positive since end-August 2021 with the gradual withdrawal of lockdowns/ restrictions imposed to contain the spread of COVID-19 infections. As on March 24, 2023, SCBs' credit-deposit ratio stood at 75.8% (72.4% as at end-March 2022).

Profitability of banks

The overall banking sector for FY24, as the banking system's health continues to be at its best in decades. The key financial metrics are likely to continue to improve in FY24, backed by strengthened balance sheets, encouraging credit demand and flattening expectations of market interest rates leading to, among other things, normalisation of profitability from treasury operations. Credit demand growth of 13.5% y–o–y for FY24 is expected to come in from retail, services segment, infrastructure and government/ public sector units' capex.

The banking system's net interest margins (NIMs) may see a modest decline in FY24 from the current levels, given the expected increase in deposit rates (prospective as well as full impact of rate increases in the past 10 months); a part of this may be offset by normal treasury operations as the yield curve flattens. As per Ind-Ra's expectation, operating costs to sustain and credit costs to remain in the 1-1.5% range. Overall, the return on assets (RoAs) could be maintained at the current levels for the system as well as PSBs and Pvt Banks. *(Source: FY24 Outlook: Banks, published by India Ratings and Research (Ind–Ra))*

5. SMALL FINANCE BANK

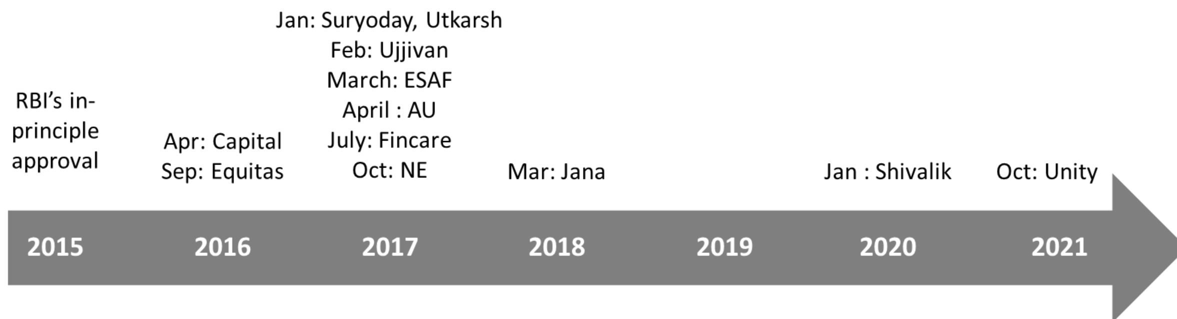
The Indian banking system has earlier not been able to serve the unbanked population as it does not fit the traditional business model of commercial banks. As per FSIAPL, this was due to several reasons, including lack of access to customers in far-flung places, low scale of operations, high transaction costs, and few customer walk-ins during banking hours. Banks have also raised issues in the know-your-customer process, as typical KYC documents were often not available to rural people. RBI therefore approved the setting up of Small Finance Banks (SFBs) in 2015 so as to offer basic banking services such as accepting deposits and lending to the unserved and the under-served sections, including small businesses, marginal farmers, micro and small industries, and the unorganised sector.

SFBs are authorised to perform all the banking functions – payments, accepting deposits and lending. This makes them functionally identical to scheduled commercial banks. However, given the SFBs' financial inclusion focus, SFBs have higher minimum targets for priority sector lending – at 75.0% of its Adjusted Net Bank Credit compared to the 40.0% for the scheduled commercial banks. Further, at least 25.0% of new banking branches need to be opened in unbanked rural centres. Also, to benefit small borrowers, SFBs have a restriction on their loan portfolio that requires 50.0% of the portfolio to be comprised of loans and advances of up to Rs. 2.5 million. Additionally, there are some differences in prudential requirements as well for SFBs. The minimum paid-up equity capital for SFBs is Rs. 1.0 billion, one-fifth of the requirement for scheduled commercial banks. The minimum capital adequacy ratio for SFBs is set at 15.0%, higher than the 9.0% required for scheduled commercial banks. When the RBI came out with its eligibility criteria for SFBs, there were 10 applicants who had received the in-principle approval and all of them have converted to SFBs and are operational. The 10 SFBs include AU Small Finance Bank (AU SFB), Capital Small Finance Bank (Capital SFB), Equitas Small Finance Bank (Equitas SFB), ESAF Small Finance Bank (ESAF SFB), Fincare Small Finance Bank (Fincare SFB), Jana Small Finance Bank (Jana SFB), North East Small Finance Bank (NESFB), Suryoday Small Finance Bank (Suryoday SFB), Ujjivan Small Finance Bank (Ujjivan SFB) and Utkarsh Small Finance Bank (Utkarsh SFB). Out of the 10 SFBs, there are eight former microfinance players (including NBFC-MFIs), one former local area bank and one former NBFC. As at March 31, 2023, 12 SFBs were operational in India.

All SFBs, like commercial banks, deal with basic lending and deposit activities like loans and deposits. However, what makes these products stand out is that SFBs are required to focus their products more towards the priority sector, which includes facilitating funds to poor people for housing, lending for agriculture and allied activities, funding to micro and small industries, and weaker sections of the society. These directives are regulated by the RBI. Further, SFBs can deal in other fee-based products like distribution of mutual funds, pension products, insurance products, foreign exchange, and debit cards. SFBs have been successful in developing effective strategies to leverage their regional strength and reach out to select low-income client base. However, while SFBs can provide better last-mile connectivity to their customers vis-à-vis banks, the SFBs do face competition from NBFCs. NBFCs further do not have to maintain CRR and do not have priority sector lending targets. However, unlike

NBFCs who are only able to provide only niche products, SFBs can provide the entire gamut of banking products and can therefore target a better share of the customer's wallet.

The timelines of the operational inception of the various SFBs are shown below:



Key advantages & challenges for a NBFC upon conversion to SFB

Advantages

- SFBs target the low-income segment and offer them differentiated products. Unlike the NBFCs which expand horizontally with a special focus product, SFBs expand vertically and horizontally which enables them to have a good mix of medium and low value customers. Also, with major focus on rural and microfinance borrowers, which have a low credit penetration and less migration from one player to another, small finance banks can build loyal customer relationships. Along with this, there is less competition for banking services in rural as compared to urban areas, this presents SFBs with significant growth opportunities in rural areas
- Akin to commercial banks, SFBs can undertake all banking activities, including lending and taking deposits. Access to deposits, resulting in lower cost of fund allows small finance banks to compete with other players in the underpenetrated regions
- Low cost of client acquisition over the long term due to wider reach, customer-centric approach and technology usage

Disadvantages

- The COVID-19 crisis has reiterated the underlying risks of the business models of most SFBs –'high touch' operations, personalised doorstep services, including centre meetings (i.e., where collection officers meet as a doorstep banking facility and do cash collections and provide way forwards), driven predominantly by cash collection processes for the microfinance segment of customers.
- Extending 75.0% of Adjusted Net Bank Credit (ANBC) to sectors eligible for classification as priority sector lending (PSL). NBFCs do not have any such targets.
- Maintaining at least 25.0% of their banking outlets in unbanked rural areas. SFBs, in view of the regulatory requirements of branch opening, further poses operational challenges.
- At least 50.0% of loan portfolio must comprise loans and advances of up to Rs. 2.5 million while no such regulation is imposed on NBFCs.
- Maintain minimum Capital Adequacy Ratio (CAR) of 15.0% of its risk-weighted assets (RWA).

- While SFBs have to maintain minimum 3.5% of CRR and 18% of SLR, NBFCs do not have to maintain any CRR and SLR.
- Building a liability profile and venturing into new products will be a challenge.

Growth drivers for SFBs

- **Availability of sizeable market opportunity and credit at affordable rates**
  Given the sheer size of India's population and considering the large section of it that still lacks access to formal banking services, financial inclusion has been a key priority for the government. The banking system and priority sector lending have been the most explored channels to bring this majority under the ambit of formal credit institutions.
  Financial inclusion is a comprehensive exercise that constitutes several products and services, such as bank accounts, insurance facilities, payment and remittance mechanisms, financial counselling, and, most crucially, affordable credit.

- **Customized products aided by technology and information availability**
  Greater use of technology is enabling lenders to provide customised products with a quicker turnaround time. Multiple data points are available for lenders that facilitate quick decision making. In fact, lenders can now make lending decisions within minutes using data-driven automated models. These models would help supply credit to small business units and the unorganised sector at a low cost. Technology also helps these players expand their reach to the under penetrated population in remote areas at a lower operating cost.

- **Availability of funds at cheaper rates**
  CASA and other retail deposits are a cheap source of funds for SFBs, which help them expand their product portfolio. They can provide lower rates in the market to compete with NBFCs. With SFBs expanding in the underserved regions further, their deposit base is expected to further widen. This will give them an advantage over NBFCs and help expand their asset book.

- **Large target audience**
  SFBs' target audience is the low-income segment, who can be wooed with a sachet level product suite. Unlike NBFCs, which expand horizontally with a special focus product, SFBs have a chance to expand vertically and horizontally. This will enable them to have a good mix of medium and low-value customers. Also, rural and microfinance borrowers have low credit penetration and migrate less from one player to another. This will enable SFBs to build longer customer relationships and build a loyal customer base.

Digital initiatives by SFBs

The nation-wide lockdown in the wake of the COVID-19 situation has triggered an increased propensity to use digital products like Digital Loan Repayments, UPI QR code transactions and a number of mobile banking and UPI registrations among SFBs customers. As per FSIAPL, SFBs view this as a good time to expand digital initiatives and increase adoption of the digital channels. They are making continued efforts on contactless and digital banking services. Their key digital offerings include

instant savings accounts, vehicle loans and consumer finance loans. Paperless digital consumer finance loans are processed digitally either by sales personnel at the point of sale through tab-based applications or by customers themselves, thereby reducing operational processes and costs increasing the operational efficiency of SFBs. Instant saving accounts can be opened by just downloading the mobile app and registering with the Aadhaar number, PAN and other minimal details. New customers can open savings accounts and current accounts using tablets that offer Aadhar validation through biometric identification. It enables SFBs to open accounts without any forms, documents or photographs. In Fiscal 2020, as per the annual report of one of the leading SFBs, it opened approximately 93.0% of total savings accounts through tablet banking or “tab” banking. Cashless disbursements have also increased in the industry. Leading SFBs are offering consumer durable loans in partnership with leading digital platforms, which offer cashless equal monthly instalment (EMI) options to customers.

SFBs’ initial experiment with digital pre-approved loans has been encouraging and they are further simplifying the process. They have developed digital payments system for the customers through UPI QR codes, enabling small shopkeepers to accept cashless payments from their customers through the QR Codes. Voice, video and vernacular based, easily navigable mobile banking apps for microfinance customers are launched to drive digital usage. SFBs want to elevate the customer experience with digitally enabled customer life cycle management featuring video-enabled KYC fulfilment and virtual relationship manager interactions.

In the current scenario, optimal use of advanced, cost-effective technology has significantly driven SFBs’ operations and they have been strategically investing in technology to offer their customers a convenient and secured banking experience, while reducing operating costs and increasing efficiencies. SFBs are trying to automate operational processes for better efficiencies by adopting robotic processes. They are planning to leverage data analytics for customer segmentation and targeted offerings tailored to customer needs, targeted marketing, faster and better credit decisions and pro-active risk management. They are moving from person-to-person services, to providing technology assisted services using handheld devices and phone banking services, to an exclusive self-service model through the use of internet and mobile banking.

Distribution outlets for SFBs

SFBs are expanding distribution and opening new banking outlets to widen geographic footprint in newer regions. Wide network of banking outlets including outlets in unbanked rural centres (URC) where these SFBs are the sole provider of banking services, offer a significant opportunity to expand their customer outreach and deepen their penetration in existing geographies.

The 2014 guidelines on the annual branch expansion plans of SFBs required prior approval of the RBI for the initial five years. On March 28, 2020 the requirement to obtain the prior approval of the RBI was done away with. Now, the SFBs set up under 2014 guidelines also have general permission to open banking outlets, subject to the condition that at least 25.0% of their banking outlets are in unbanked rural centres.

SFBs are converting their MFI branches to banking outlets. Leading SFBs are very selectively opening additional banking outlets and are leveraging the existing infrastructure to deepen their penetration. To promote non-branch delivery channels and encourage cashless transactions and adoption of digital platforms in a big way among customers, networks of e-kiosks are set-up to provide round the clock access to customers in their neighbourhoods. SFBs are getting into strategic partnerships with Fintech companies to increase customer acquisition, reduce processing and on-boarding costs. SFBs use the right combination of physical and digital channels and partnerships to expand their business.

SFBs aim at increasing penetration in Tier I and Tier II markets where branches are already present. Region specific product offerings for the impact of COVID-19 are being designed to rapidly penetrate into these markets. SFBs are initiating deposit and withdrawal facilities in the centre meetings, which were earlier largely used for repayment collections. As per the annual report of one of the leading SFBs, they are piloting e-kiosks, offering banking services from neighbourhood shops to present customers with a convenient alternative to branches in addition to digital platforms for their transaction needs.

SFBs have employed business correspondents to collect repayments. Along with repayments, through regular meetings with microfinance customers, the business correspondents are able to understand them better. The business correspondents' constant engagement with microfinance customers leads to a lower risk of delinquencies. SFBs are also increasing their distribution within the existing region and expanding to new states by selectively opening additional branches, ATMs, and entering into relationships with new business correspondent entities. In order to expand their outreach to MSME borrowers, SFBs are strengthening their direct sales agent (DSA) network. The DSA network will enable the MSME vertical to reach out to the places and to the new set of borrowers without adding much to the fixed cost.

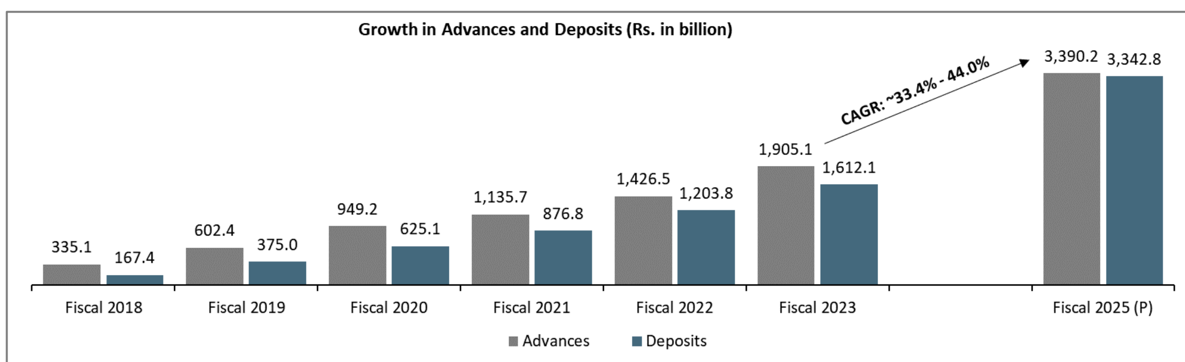
Comparison of different business models including MFI, SFB and commercial bank

The business model of most SFBs is highly dependent on high touch operations, personalised doorstep services, including centre meetings, driven predominantly by cash collection processes from the customers. SFBs primarily focus on the micro and small enterprises that belong to the underbanked and unbanked segment of the society. Similarly, MFIs also cater to low and middle-income individuals, daily wage earners and self-employed individuals engaged in small and medium enterprises with high touch operations, business correspondents and centre meetings. Unlike SFBs, MFIs cannot accept deposits which increases the cost of funds for the institutions. Additionally, SFBs offer a full bouquet of financial products and services due to resources consisting majorly of deposits at low cost. On the other hand, the majority of MFIs are over-dependent on a mono-product strategy.

Commercial banks' primary focus areas are upper, middle and high classes. Over time, the lower, middle and the upper middle classes have also become the most significant portions of the commercial banks' target market. Public sector banks and private sector banks are capital intensive businesses with more capital expenditure, employee cost which does not make them viable to reach every nook and corner of the country. Traditionally, they relied on physical branches which is changing with

digitalisation but of India's population still lacks the awareness and expertise to operate net banking leading to more dependence on physical branches. SCBs have better brand recognition, greater business experience, more diversified operations, and greater customer and depositor base, besides having better access to lower costs of funding and consequently lower lending rates. With growing digitalisation, the pace of opening new branches by scheduled commercial banks in rural regions has slowed down.

SFB growth and the outlook



Source: RBI, FSIAPL Analysis
Note:
1. *'P' means projected.*
2. *Numbers are as at March 31, 2018, 2019, 2020, 2021, 2022 and 2023*
3. *Deposits shown under this table exclude inter-bank deposits.*

The exponential growth in the SFB industry is illustrated by the growth in both loans and deposits. As per FSIAPL's analysis, the advances and deposits in the SFB industry are projected to increase at a CAGR of 33.4% to 44.0% from Fiscal 2023 to Fiscal 2025.

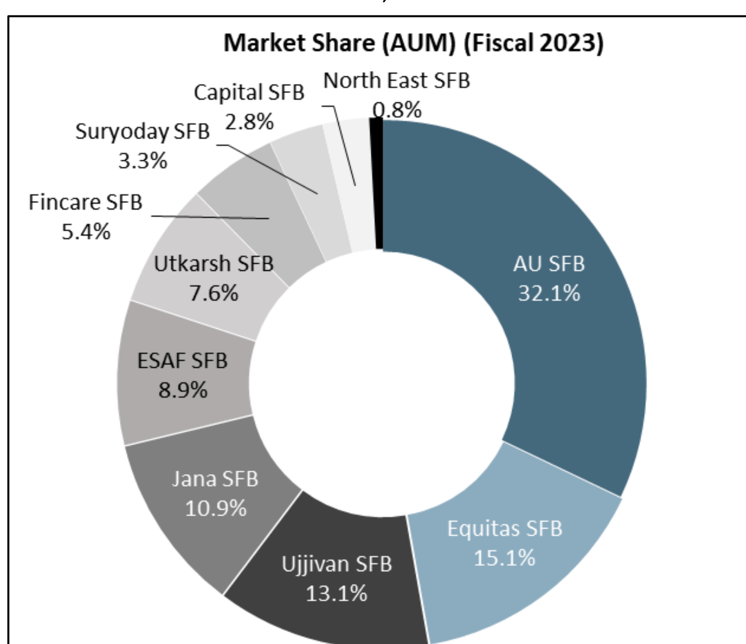
Being a new segment in the banking sector, the SFBs have been making strong inroads into the credit market and enabling financial inclusiveness across the country. SFBs currently hold a minor market share of 1.34% in advances and 0.86% in deposits of the entire banking sector as on March 31, 2023. However, these banks have a good deposit mobilisation and outreach among the under-banked masses, which would drive their market share multi folds in the foreseeable future. The total deposits of SFBs in 2022-23 stood at Rs. 1,612.1 billion compared to Rs. 1,203.8 billion in 2021-22, clocking a y-o-y growth of 33.9%.

Factors that will support the growth of the SFBs include robust rural growth, new product offerings and associated cross-selling opportunities in both liability and asset side, geographical diversification and opening of new branches, knowledge of local stakeholders, access to low-cost funds, improved risk management systems and expansion of organized credit channels.

Share of key players in SFB

One thing to note is that the business strategies of different SFBs vary. Thus, AU Small Finance Bank, which has the largest AUM of Rs. 591.6 billion as at March 31, 2023, primarily operates in Rajasthan (38.8%), Gujarat (14.1%) and Madhya Pradesh (13.1%). Over 63.5% of their loan book is concentrated

in retail assets comprising vehicle loans and MSME loans. Equitas SFB, the second largest player in terms of AUM, has presence in product segments such as securities-based lending (SBL) (36%), vehicle loans (25%), and microfinance loans (19%). Other segments like Housing Finance, MSE Finance and loans to NBFCs (corporate loans) have grown in the last few quarters and accounted for 10%, 4% and 4% of AUM as on March 31, 2023, respectively. Ujjivan SFB, which is currently the third largest player in terms of AUM, is more geographically spread, though West Bengal (13.4%), Karnataka (13.2%), Tamil Nadu (12.6%) and Gujarat (7.6%) are their leading markets. As on March 31, 2023, aside from 63.9% of micro banking portfolio, 11.5% of the Ujjivan SFB's AUM comprised affordable housing loans followed by MSME loans accounting for 24.2%. Jana SFB, the fourth largest player in terms of AUM, has an AUM of Rs. 201.0 billion as March 31, 2023. As at March 31, 2023, Jana SFB had 754 branches across 22 states and 2 union territories in India. The bank has served over 12.00 million customers since 2008, including approximately 4.57 million active customers. These four players account for almost 70.8% of the total SFB AUM as at March 31, 2023.



Source: Company's annual report, FSIAPL Analysis
Note: AUM for North East SFB is as on June 30, 2022 and AUM for Capital SFB is as on September 30, 2022. AUM is as on March 31, 2023 for all other players

AUM represents Advances Under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

The RBI Regulatory Framework for Microfinance Loans (MFI) Direction, 2022, defines Microfinance as follows: (i) A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to Rs. 3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children, (ii) All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to Rs. 3,00,000, shall be considered as microfinance loans, (iii) To ensure collateral-free nature of the microfinance loan,

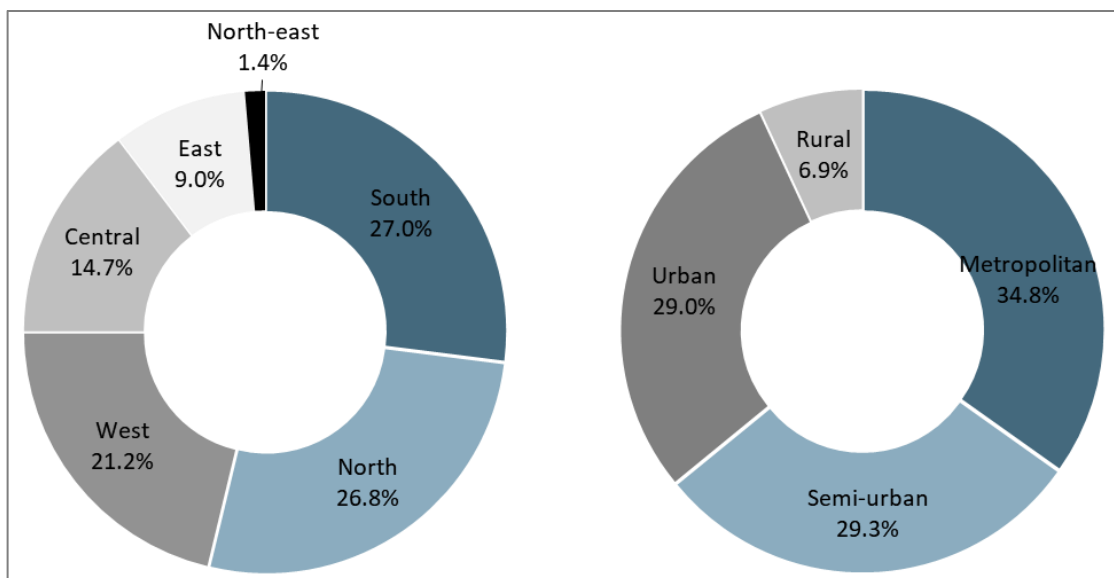
the loan shall not be linked with a lien on the deposit account of the borrower, (iv) Bank shall have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per borrowers' requirement.

Advance split across regions for SFBs

South India accounts for 27.0% of the total advances of SFBs due to the major presence of players such as Ujjivan SFB, Equitas SFB, Jana SFB and ESAF SFB in the region. The north region accounts for 26.8% of the total advances of SFBs due to the presence of AU SFB which is the market leader in the SFB segment. AU SFB has disbursed more than 50.0% of their total loan portfolio in the northern region. The north-eastern region accounts for 1.4% of the total advances of SFBs. The majority of financial institutions believe that the eastern and north-eastern regions offer the maximum potential for growth in the future due to relative saturation in the southern markets. Utkarsh SFB has a very strong presence in eastern India (Eastern UP, Bihar and Jharkhand) and it presents a significant strategic advantage as competition is low because major players are in southern or northern region.

Although the majority of Indian households are located in rural areas, the banking infrastructure investment in these regions is relatively low and thus there is a gap in the demand and supply of financial services in the backward regions of the country. As per FSIAPL, despite a significant contribution of nearly 47.0% to India's GDP, rural areas have only 9.3% share of total credit outstanding as at March 31, 2023. The loans share of SFBs in rural region is lower at 6.9% share of total credit outstanding as at March 31, 2023. Further, rural areas in India have lower financial inclusion compared to urban areas. This presents small finance banks significant growth opportunities in rural and unserved areas. Particularly, bank credit and deposit penetration are low in the northern and eastern zones of India. In addition, the pace of opening new branches by scheduled commercial banks in these regions has slowed down in recent times. Majorly, banks focus on reducing the costs associated with physical branches and avoid opening branches in the rural areas. This provides ample headroom for SFBs to take the banking services to the remotest locations of the country.

Advance split of SFBs across regions (Fiscal 2023)

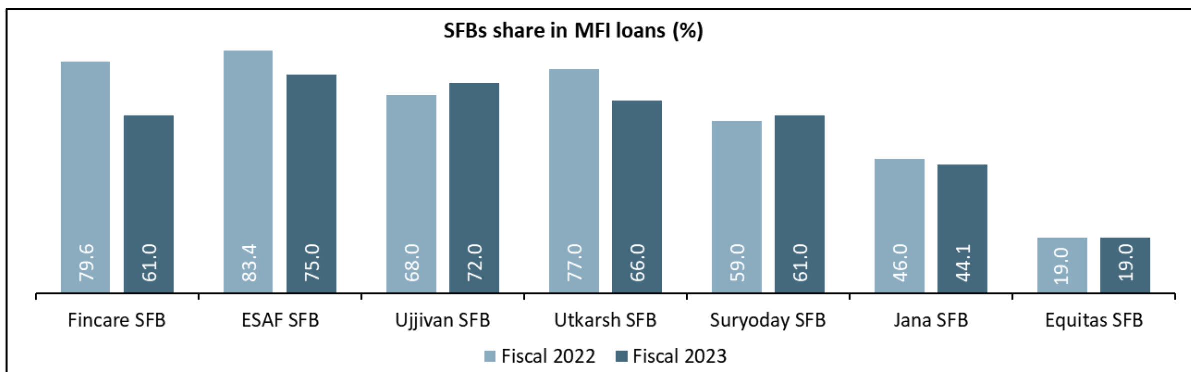


Source: RBI, FSIAPL Analysis

Note: 'Rural' group includes all centres with population of less than 10,000, 'Semi-urban' group includes centres with population of 10,000 and above but less than 0.1 million, 'Urban' group includes centres with population of 0.1 million and above but less than 1 million 'Metropolitan' group includes centres with population of 1 million and more.

Though SFBs have 55.4% of banking outlets in rural and semi-urban and unbanked areas of the country, advances comprise only 36.2% of the total loan disbursed in this region as at March 31, 2023. The rural and semi-urban centres face relatively lower competition and help bring a large number of customers under the umbrella of services. One of the major reasons for low advances of specifically SFBs to the rural region is because SFBs are in the nascent stage of their operations. The majority of SFBs have been in MFI operations since inception and have 18.0% of total banking outlets (including branches) in rural areas. Public sector and private sector banks have a better brand recognition and greater business experience. Rural people lack brand awareness about SFBs which is changing currently. Leading SFBs are partnering organisations to sensitise customers towards financial discipline, educate them about the importance of savings, banking behaviour and responsible borrowing practices and are successful in attracting more rural customers.

SFBs share in MFI and Non-MFI going forward – Plans to diversify



Source: Company's Annual Reports

Note: Percentages are as at March 31, 2022 and 2023

As per the Microfinance Institutions Network's (MFIN) estimates, microfinance currently reaches less than 20.0% of potential households. However, there is still a large gap to be met in terms of the reach of microfinance. The microfinance industry is prone to socio-political and operational risks, which negatively impact the operations and financial position of SFBs. SFBs have a high share of microfinance in their portfolio as eight out of 10 SFBs were MFIs initially, although they are now diversifying into other segments such as MSME financing, vehicle loans, affordable housing, to drive expansion of customer base and focus on higher ticket size loans. SFBs are lowering their exposure to the microfinance segment in order to limit the volatility in asset quality. Post demonetization, the quality of the bank's microfinance portfolio witnessed high deterioration.

As per the graph given above, the share of MFI in total lending portfolio of the SFBs has decreased for all the players except Suryoday SFB. An important strategic focus for SFB is to diversify their fee and non-fund-based revenues. SFBs are leveraging their banking outlet network, digital channels and

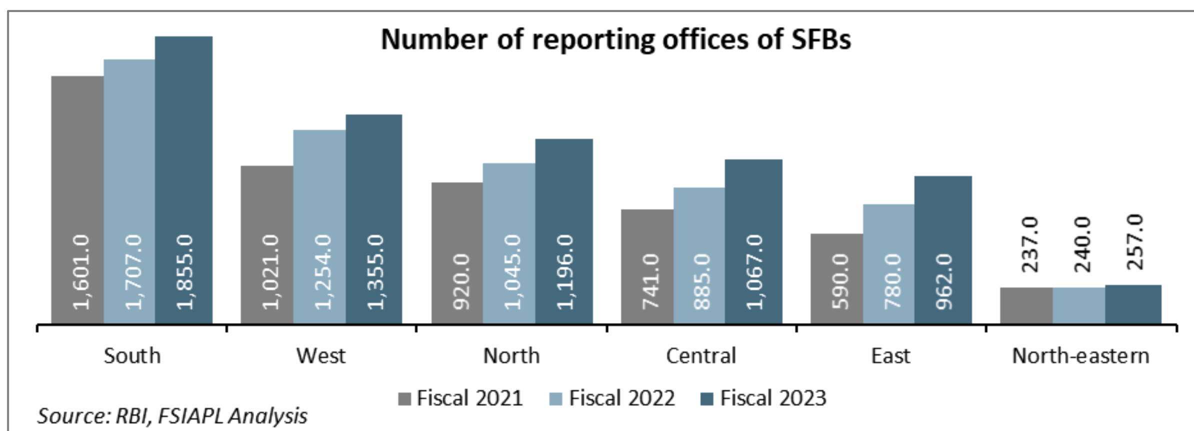
various diversified product and service portfolio to develop fee and commission-based business. SFBs are pursuing strategic relationships with corporate entities, the Government and the state governments, to expand outreach. Leading SFBs are planning to augment fee-based income, by introducing new products and services, and cross-selling offerings to existing customers. SFBs are planning to completely digitise their loan offerings and expanding their outreach to a larger base of salaried customers, by partnering with digital aggregators and offering app-based lending with quick turnaround time.

Network expansion and portfolio geographic diversification

Network expansion and geographic diversification is crucial because the leading SFBs' business growth had moderated in the third and the fourth quarters of Fiscal 2020. As per the annual report of one of the leading SFBs, they had taken a cautious approach towards MFI lending in select pockets including Assam and parts of North East, West Bengal, Odisha, Tamil Nadu and Maharashtra, where delinquencies were higher due to natural calamities and other external factors.

SFBs are expanding distribution and opening new banking outlets to widen geographic footprint in existing regions where they already have business operations as well as venturing into new states. Along with this, SFBs are launching new products to gain traction as the banks expanded their distribution reach.

Growth in network base of SFBs to curb geographic concentration of loan portfolio



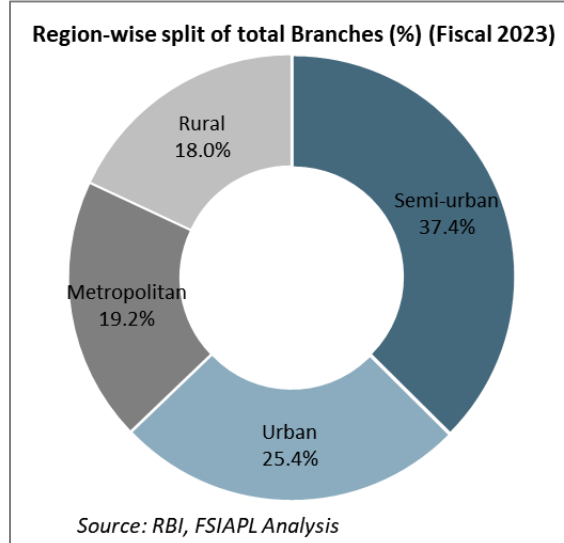
Source: RBI, FSIAPL Analysis

SFBs' wide network of banking outlets including outlets in Unbanked Rural Centres (URC) where these SFBs are the sole provider of banking services, offers a significant opportunity to expand their customer outreach and deepen their penetration in existing geographies. SFBs are converting their MFI branches to banking outlets. Leading SFBs are very selectively opening additional banking outlets and are leveraging the existing infrastructure to deepen their penetration. To promote non-branch delivery channels and encourage cashless transactions and adoption of digital platforms in a big way among their customers, SFBs are planning to set up a network of e-kiosks to provide round the clock access to customers in their neighbourhoods. SFBs intend to explore strategic partnerships with Fintech companies to increase customer acquisition, reduce processing and on-boarding costs, reduce turnaround time and improve overall customer experience. SFBs are coming up with business centric

solutions such as initiating deposit and withdrawal facilities in the centre meetings, which were earlier largely used for repayment collections. SFBs are using the right combination of physical and digital channels and partnerships to expand their reach and deliver value to customers.

Region wise split of SFBs total banking outlets across metropolitan, urban, rural and semi urban regions

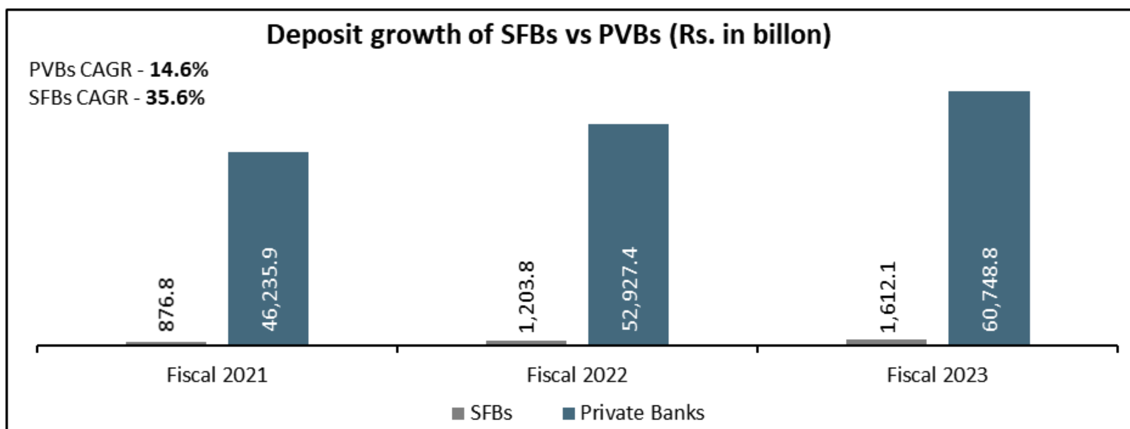
With the majority of their banking outlets in rural and semi-urban areas, SFBs are focused on the unbanked and underbanked customers at the bottom of the pyramid to drive financial inclusion. From the pie-chart, it can be seen that branch penetration in rural areas is far better at 18.0% as compared to advances share of just 9.6% in total credit SFB credit as at March 31, 2023. Better engagement with rural people, providing need-based products, better brand building and customer awareness will help increase the credit share substantially in the future.



Source: RBI, FSIAPL Analysis

Deposit trends in the SFB industry

Over Fiscals 2021 to 2023 since the majority of SFBs have commenced operations, SFBs have made their presence felt with growing market share in both loans and deposits. SFBs' deposits have grown at a CAGR of 35.6% in the period from Fiscals 2021 to 2023. They have expanded their customer base, driven by large scale new customer acquisitions across assets and deposit products. Aggregate deposits and advances of SFBs increased by 8.1% and 7.1%, respectively, during the four quarters of Fiscal 2023 (quarterly average y-o-y growth). SFBs have been aggressively increasing their CASA deposits, with their share in total deposits increasing from 30.4% as at March 31, 2018 to 38.3% as at March 31, 2023 and even the CASA deposits for SFBs is estimated to have grown at 64.1% CAGR from Fiscal 2018 to Fiscal 2023.



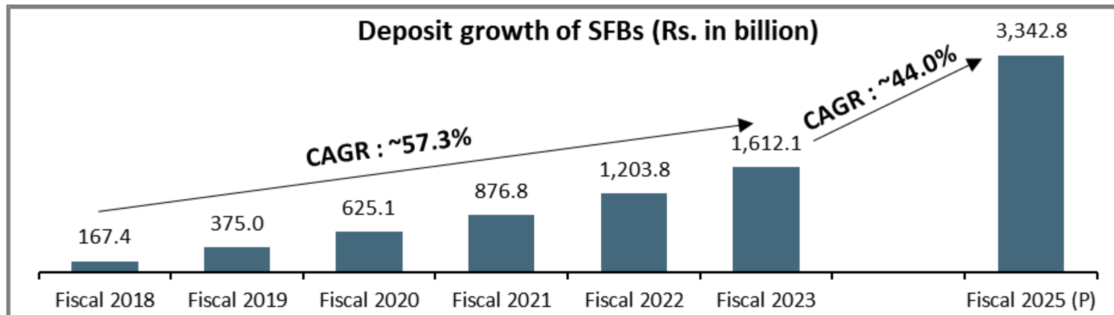
Source: RBI, FSIAPL Analysis

Note:

1. *Deposits shown in this chart exclude inter-bank deposits.*

2. *Numbers are as at March 31, 2021, 2022 and 2023*

SFBs' deposits have increased at the annual rate of 33.9% in Fiscal 2023 as compared to the previous year. Low cost of client acquisition over the long term due to wider reach, customer-centric approach and technology usage and high interest rates as compared to traditional banks are the major reason for the deposit growth.



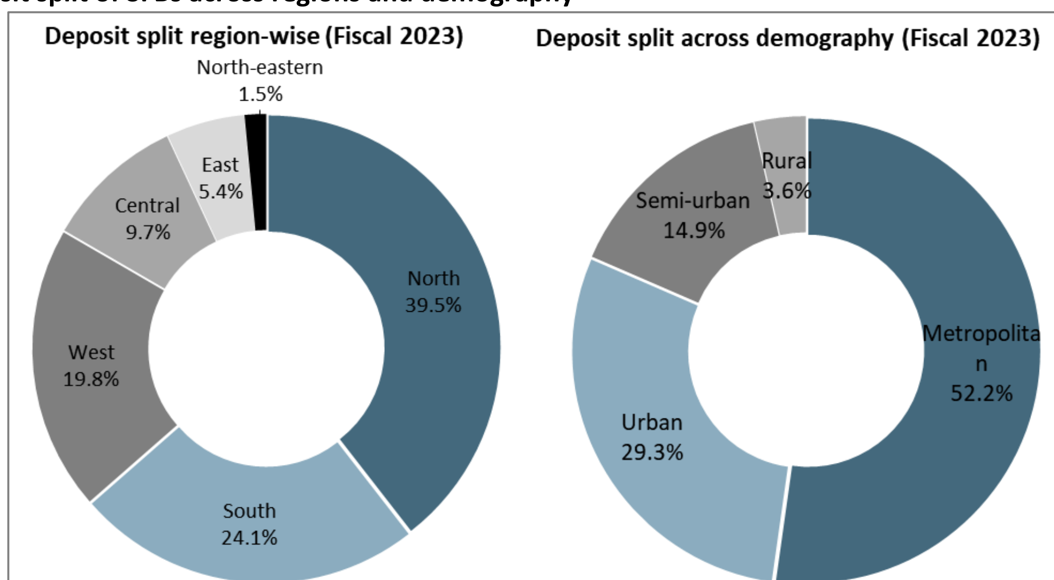
Source: RBI, FSIAPL Analysis

Note:

1. *Amounts are as at the end of the Fiscal indicated;*
2. *P: Projected;*
3. *Numbers are as at March 31, 2018, 2019, 2020, 2021, 2022 and 2023*
4. *Deposits shown under this table exclude inter-bank deposits.*

SFBs are using business correspondents as the primary channel for sourcing deposits from customers. In addition, SFBs have relocated many of their former Ultra-Small Branches over time to more suitable locations for deposit taking business. SFBs are coming up with business centric solutions like initiating deposit and withdrawal facilities in the centre meetings, which were earlier largely used for repayment collections. SFBs intend to develop products and services designed for rural and urban mass retail customers, specifically digital savings products for younger customers, who have entered or are entering into banking channels. SFBs are focusing on mass acquisition of deposit customers through programmes such as corporate salary accounts, in order to grow customer base.

Deposit split of SFBs across regions and demography



Source: RBI, FSIAPL Analysis

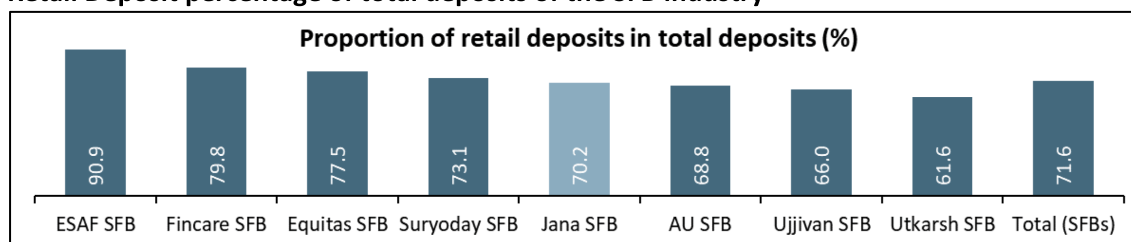
Note:

1. *Deposits shown in the charts exclude inter-bank deposits*
2. *'Rural' group includes all centres with population of less than 10,000, 'Semi-urban' group includes centres with population of 10,000 and above but less than 0.1 million, 'Urban' group includes centres with population of 0.1 million and above but less than 1 million 'Metropolitan' group includes centres with population of 1 million and more.*

North India accounted for 39.5% of the total deposit but advances in the region were low at 26.8% while the south comprised 24.1% of the deposits while advances in the south were 27.0% as at March 31, 2023. Similarly, central region also accounted for only 9.7% of the deposits while advances in the region were 14.7% as at March 31, 2023. SFBs are mobilising their funds from one region and lending to other where demand is more. East India accounted for 5.4% of deposits while advances in the region accounted for 9.0% of advances as at March 31, 2023. SFB penetration in the eastern region is relatively low as compared to other regions, and wherever they are present catering to low- and middle-income group result in lower ticker size of deposits. Over the period, with growing outreach, brand awareness, better service and government support, trust will start building and deposits ratio in proportion to credit will increase in the eastern region as well.

Looking into the demographics, the metropolitan population comprises 52.2% of the total deposits and 34.8% of the total advances as at March 31, 2023. As SFBs are operating with the objective of serving the under-served, semi-urban and rural areas account for 18.5% of the total deposits while the advances of these segments account for 36.2% of the total advances March 31, 2023, which implies that more disbursements of loans are happening in the segment as compared to deposits collected.

Retail Deposit percentage of total deposits of the SFB industry



Note:

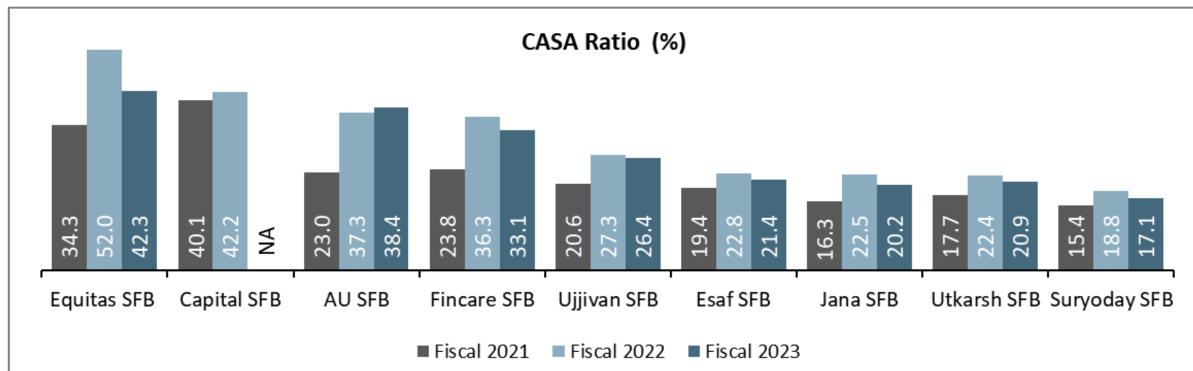
1. *Retail deposit includes CASA and retail term deposit*
2. *Percentages are as at March 31, 2023*

Jana SFB stood at fifth in terms of share of retail deposits to total deposits (70.22%) amongst the top five SFBs as at March 31, 2023. FSIAPL defines retail deposit as any deposit made by an individual into the bank which is less than Rs. 20.0 million. Single Rupee deposits of Rs. 20.0 million and above for SCBs (excluding regional rural banks) are defined as bulk deposit. Term deposit means an interest-bearing deposit received by the bank for a fixed period and shall also include deposits such as recurring/ cumulative/ annuity/ reinvestment deposits and cash certificates. Deposits in current and savings accounts is referred as CASA.

SFBs intend to strengthen their liability franchise with a focus on growing deposit base to attain stable, low-cost source of funding. In the deposit segment itself, SFBs have placed a strong emphasis on increasing its retail deposits, as they have lower rates of interest compared to wholesale deposits. SFBs plan to meet a majority of their funding requirements through CASA deposits as well as recurring and fixed deposits, by building a sticky deposit base and attracting new customers from the unorganised sector. The growth of granular retail deposits and a comfortable ALM position help to maintain sufficient liquidity. Along with this, lower cost of fund allows SFBs to compete with NBFCs on pricing in the underpenetrated regions.

ESAF SFB has the highest share of the retail deposit base of 90.9% while others are having lower retail deposits and higher share in bulk/ wholesale deposits which increases cost for the banks. Also, SFBs with high bulk deposits face liquidity challenges and risk increases with business uncertainties. As per the annual reports of SFBs, the concentration of deposit base with top 20 clients increases in case of high bulk deposit which is high for Fincare SFB, Equitas SFB, Suryoday SFB, and Jana SFB.

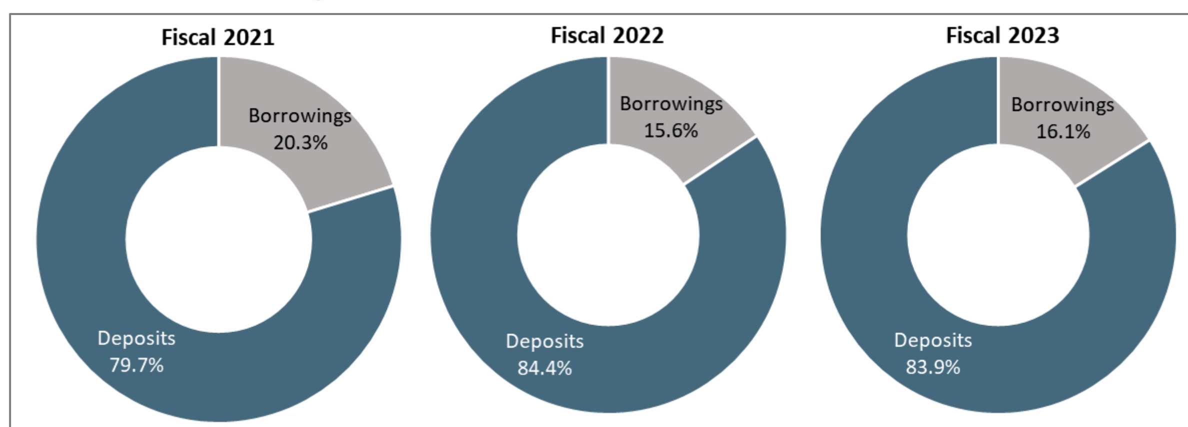
Movement of CASA ratio (Fiscals 2021 – 2023)



Source: Company's website and annual report, CMIE, RBI, FSIAPL Analysis
Note:
1. *CASA ratio for Capital SFB is not available. CASA ratio is the ratio of CASA to total deposit.*
2. *Percentages are as at March 31, 2021, 2022 and 2023*

ASA tends to provide a stable and low-cost source of deposits compared to wholesale deposits. SFBs are trying to strengthen and diversify their liquidity profile in view of additional regulatory requirements through a mix of deposit mobilisation (CASA, Retail Term Deposit and Bulk Deposit). Though the results attained have been mixed with some witnessing an increase in CASA while others are seeing decreases in the share. The average CASA ratio for the overall industry increased from 23.4% in Fiscal 2021 to 27.5% in Fiscal 2023. Equitas SFB had the highest CASA ratio of 42.3% in Fiscal 2023 because it benefits from being an earlier local area bank. All the SFBs in the industry saw an increase in CASA to total deposits ratio over Fiscals 2021 to 2023. The CASA ratio of Jana SFB stood at 20.2% as at March 31, 2023, which has increased from 16.3% as at March 31, 2021.

Resource profile of SFBs – Mix of deposits and other liabilities as at March 31, 2021, 2022 and 2023 for the Industry



Source: Company's Annual Report, RBI, FSIAPL Analysis

Note:

1. *Deposits shown in the charts exclude inter-bank deposits.*
2. *Total borrowings for North East SFB are considered as at September 30, 2022 and for Capital SFB is considered as at March 31, 2022*

SFBs are substituting high-cost borrowing in the form of term loans and non-convertible debentures (NCDs) with low-cost deposits and market borrowings. They are optimising cost of funds by allowing banking outlets to mobilise deposits by offering competitive rates of interest. Along with this, they are exploring securitisation and inter-bank participation certificates (IBPC) transactions in addition to term loan facilities from banks and available lines of refinance from other financial institutions and medium-term line of credit from development finance institutions (DFIs).

SFBs are maintaining sufficient liquidity and contingency buffer in the wake of volatile markets. SFBs intend to strengthen and diversify their liquidity profile with more dependence on deposits. The deposits share of SFBs has increased from 79.7% as at March 31, 2021 to 83.9% of total funding as at March 31, 2023. For borrowings, the share of SFBs has decreased from 20.3% as at March 31, 2021 to 16.1% as at March 31, 2023.

Asset quality for the SFB industry: GNPA trend and Credit Cost (as at March 31, 2021 – 2023)

SFBs	As at March 31, 2021		As at March 31, 2022		As at March 31, 2023	
	GNPA Amount (Rs. in Million)	GNPA (%)	GNPA Amount (Rs. in Million)	GNPA (%)	GNPA Amount (Rs. in Million)	GNPA (%)
AU SFB	15,030.0	4.3	9,240.0	2.0	9,813.1	1.7
Equitas SFB	6,427.8	3.7	8,371.8	4.2	7,239.6	2.8
Ujjivan SFB	10,706.0	7.1	12,840.8	7.3	6,306.1	2.9
Jana SFB	**8,579.9**	**6.7**	**7,569.0**	**5.7**	**7,091.9**	**3.9**
ESAF SFB	5,640.0	6.7	9,495.9	7.8	3,516.9	2.5
Fincare SFB	3,535.9	6.4	5,732.3	7.8	2,884.7	3.3
Utkarsh SFB	3,152.9	3.8	6,481.6	6.1	4,315.0	3.2
Suryoday SFB	3,936.8	9.4	5,974.2	11.8	1,914.0	3.1
Capital SFB	782.4	2.1	1,171.3	2.5	1,526.2	2.8

Source: Company's website and annual report, FSIAPL Analysis

GNPA value has reduced by for multiple players as at March 31, 2022 as compared to as at March 31, 2021. Due to a challenging environment and the change in NPA reporting to daily basis, the GNPA/ NNPA ratios of SFBs have deteriorated.

Credit Cost (%)

SFBs	Fiscal 2021	Fiscal 2022	Fiscal 2023
AU SFB	1.3%	0.9%	0.3%
Equitas SFB	2.5%	2.7%	1.8%
Ujjivan SFB	5.6%	7.4%	0.1%
Jana SFB	**3.4%**	**4.6%**	**4.8%**
ESAF SFB	3.8%	4.2%	3.8%
Fincare SFB	5.0%	6.8%	4.1%
Utkarsh SFB	4.0%	5.0%	2.6%
Suryoday SFB	4.5%	9.0%	4.4%
Capital SFB	2.1%	2.5%	2.8%
Total industry	**32.0%**	**43.2%**	**24.8%**

Source: Company's website and annual report, FSIAPL Analysis

Note: Credit Cost is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.

In the wake of the COVID-19 pandemic and the ensuing nationwide lockdown between the last week of March 2020 and May 31, 2020, SFBs expected the shutdown to adversely impact the portfolio quality, and therefore made a prudential provision leading to increase in provisions for some of the SFBs. The benefit of RBI dispensation on NPA recognition norms were applied on the moratorium portfolio, which prevented a spike in Credit Cost to some extent.

The small finance banking sector has grown rapidly over the past few years. It has facilitated financial Inclusion of the largely unbanked masses of the country. Because of the predominantly unsecured nature of the advances to the weaker sections of the society, the impact of COVID-19 on SFBs was severe. However, the sector has managed to successfully navigate the challenges by making judicious use of the regulatory dispensations and is now poised to grow strongly in the coming years. No new licences for setting up SFBs were given during the year, though a number of applications have been received by RBI.

An increase in deposits as a percentage of liabilities, a more diversified portfolio, increased secured advances, and high operational efficiency of SFBs in Fiscal 2023 as compared to Fiscal 2021 would help them to tackle current challenges in a better way. However, credit cost of SFBs in Fiscal 2023 are higher as compared to Fiscal 2021.

Profitability of SFB industry (Fiscals 2021, 2022 and 2023) and outlook going forward

Return on Equity (%)			
SFBs	Fiscal 2021	Fiscal 2022	Fiscal 2023
AU SFB	23.4	16.4	15.5
Ujjivan SFB	0.3	13.8	31.8
Equitas SFB	12.7	7.8	12.6
Jana SFB	**7.5**	**1.5**	**16.8**
Esaf SFB	8.7	4.1	19.4
Utkarsh SFB	10.0	4.1	22.8
Fincare SFB	11.8	0.8	8.3
Suryoday SFB	1.0	5.9	15.0
Capital SFB	9.5	13.0	24.0

Return on Assets (%)			
SFBs	Fiscal 2021	Fiscal 2022	Fiscal 2023
AU SFB	2.5	1.9	1.8
Ujjivan SFB	0.0	(2.0)	3.9
Equitas SFB	1.7	1.1	1.9
Jana SFB	**0.5**	**0.1**	**1.1**
Esaf SFB	1.0	0.4	1.6
Utkarsh SFB	1.0	0.5	2.4
Fincare SFB	1.5	0.1	0.9
Suryoday SFB	0.2	(1.3)	2.2
Capital SFB	0.7	0.9	1.2

Source: Company's website and annual report , CMIE, Indian Banks Association (IBA), FSIAPL Analysis

Note: Percentages are as at March 31, 2021, 2022 and 2023

1. *Return on Equity (also called Return on Average Equity) is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.*
2. *Return on Assets (also called Return on Average Assets) is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.*

In Fiscal 2023, Ujjivan SFB has the highest RoA and RoE in the industry with 3.9% and 31.8% respectively which were increased from 0.04% and 0.3% respectively in Fiscal 2021 due to elevated credit costs. For Jana SFB RoA and RoE improved to 1.13% and 16.78% respectively as at March 31, 2023 from 0.09% and 1.53%, respectively as at March 31, 2022.

The target market of the SFBs, which comprises low and middle-income individuals, daily wage earners and self-employed individuals engaged in small and medium enterprises are the most vulnerable to economic shocks such as the COVID-19 crisis and demonetisation in 2016. The nationwide lockdown and social distancing imposed by the government to contain the spread of the virus caused prolonged absences of employees from work, triggering income losses for the customer pool, predominantly comprising daily wagers, informal sector workers, self-employed individuals and traders. Erosion of savings and deposits is imminent with declining household income levels, as are higher delinquencies and deteriorating credit worthiness of borrowers, impacting the volume of the eligible market segment and the retail deposit book.

Although the COVID-19 situation had minimal impact on SFBs' books for Fiscal 2020 as the nation-wide lockdown was imposed in the last few days of March, by which time most scheduled collections had already come in. But it severely impacted SFBs' profitability in Fiscal 2021. While the RBI has granted temporary relief to borrowers in the form of a six-month term loan moratorium, SFBs are likely to witness the difficulties faced by their borrowers by way of increasing defaults and consequently increased credit costs on account of probable roll forward of the current overdue accounts and the inability of the collection teams to meet customers due to the social distancing measures imposed by the lockdown. The lockdown and the moratorium affected the normal business momentum and collection rhythm and affected the usual cash flows of SFBs for the first half of the Fiscal 2021, resulting in muted business growth and reduced bottom lines.

As per the industry resources, growth in AUM of Indian small finance banks showed improvement in Fiscal 2022 although elevated credit costs ate into profitability in Fiscal 2022. In an endeavour to uplift India's banking ecosystem, SFBs are offering services such as opening accounts, online payments, money transfers and also providing services like microloans. In doing so, SFBs are making a huge contribution in growing India's digital literacy quotient. Through their services, a new generation of people will be financially educated and they will all have the opportunity to play an important role in India's financial and digital ecosystem.

SFBs might see some reductions in operating expenditure with strict control on costs, while cutting down and deferring all non-priority expenditure and investments.

Competition

The banking and financing sector in India is highly competitive and SFBs face significant organised competition from other SFBs, NBFCs, microfinance institutions, cooperative banks, which have a sizeable presence in rural areas, and housing finance companies. SFBs also face competition from public sector banks, private sector banks, other financial services companies and payment banks in India. In the organised sector, their competitors have a better brand recognition, greater business experience, more diversified operations, greater customer and depositor base, besides having better access to lower costs of funding and consequently lower lending rates. The advent of specialised FinTech companies has also amplified the competition with their disruptive and efficient origination, sales and distribution process, competitively priced offerings and much faster turnaround time as compared to that offered by traditional banking players.

Peer benchmarking among SFBs (Fiscal 2023)

Players	AUM Fiscal 2023 (Rs. in billion)	AUM y-o-y growth (Fiscal 2023)	Disbursements (Fiscal 2023) (Rs. in billion)	Disbursements y-o-y growth (Fiscal 2023)	Deposit (Fiscal 2023) (Rs. in billion)	Deposit y-o-y growth (Fiscal 2023)	Credit to deposit ratio (Fiscal 2023)	Banking outlets (Fiscal 2023)	Number of employees (Fiscal 2023)	Capital Adequacy Ratio (CRAR) (Fiscal 2023)	Capital Adequacy Ratio – Tier 1 (Fiscal 2023)	Presence in states/ UTs (Fiscal 2023)
SFBs												
AU SFB	591.6	24.0%	320.1	26.0%	693.6	31.9%	85.3%	1,027	28,320	23.6%	21.8%	24
Equitas SFB	278.6	35.0%	200.4	80.0%	253.8	33.9%	109.8%	922	20,563	23.8%	23.1%	18
Ujjivan SFB	240.9	32.0%	200.4	42.0%	255.4	39.6%	94.3%	629	17,870	25.8%	22.7%	25
Jana SFB	**201.0**	**31.0%**	**148.1**	**27.8%**	**163.3**	**20.6%**	**123.1%**	**754**	**18,184**	**15.6%**	**13.0%**	**24**
ESAF SFB	163.3	35.0%	146.9	23.0%	146.7	14.4%	111.4%	700	5,034	19.8%	18.1%	23
Utkarsh SFB	139.6	32.0%	124.4	37.6%	137.1	36.1%	101.8%	830	15,424	20.6%	18.3%	22
Fincare SFB	99.1	32.0%	88.2	28.6%	80.3	24.4%	123.4%	1,231	14,804	20.0%	18.6%	19
Suryoday SFB	61.1	20.0%	50.8	44.1%	51.7	34.1%	118.3%	577	6,025	33.7%	30.8%	15
Microfinance												
Credit Access Grameen	176.0	28.0%	71.7	23.8%	NA	NA	NA	1,786#	16,759	23.6%	22.7%	15
Spandana Sphoorty	85.1	29.0%	30.5	120.0%	NA	NA	NA	1,227	10,016	36.9%	NA	18^
Fusion Micro Finance	929.6	37.0%	86.0	39.1%	NA	NA	NA	1,086	9,456^^	27.9%	NA	20
Universal banks												
Bandhan Bank	1091.0	10.0%	NA	NA	1,080.7	12.2%	101.0%	5,723	69,702	19.8%	18.7%	34

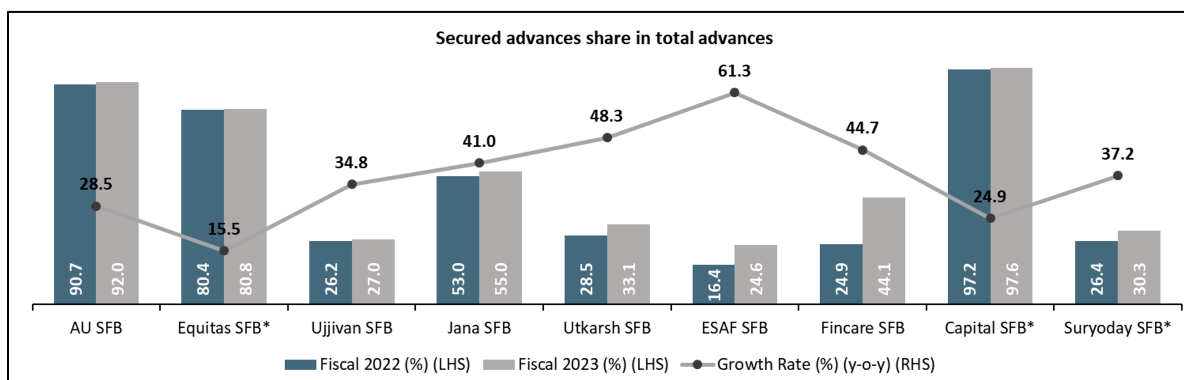
Source: Company's Annual Reports and Presentations, CMIE, FSIAPL Analysis

Note:

1. *Banking outlets include bank branches, ultra-small branches and asset centres as reported by the players;*
2. *(^) No. of presence as at March 31, 2022;*
3. *(^^) No. of employees as at December 31, 2022;*
4. *(#) on a consolidated basis*
5. *Credit deposit ratio is net advances as %age to deposits (to be modified as per the metric used),*

AU SFB's deposits grew at an annual growth rate of 31.9% and stood at Rs. 693.6 billion as at March 31, 2023 as compared to Rs. 525.8 billion as at March 31, 2022, which was the fastest among all the SFBs. Equitas SFB witnessed the highest disbursement growth rate at 80.0% among SFBs. Jana SFB's total capital adequacy ratio stood at 15.57% (Tier-I at 13.02%) as at March 31, 2023.

Jana SFB is the fourth fastest growing secured advances franchise among SFBs (from March 31, 2022 to March 31, 2023)



Source: Company Annual Reports, FSIAPL Analysis

Note:

1. *(*) data as at March 31, 2022;*
2. *Percentages are as at March 31, 2022 and 2023*

Jana SFBs secured gross advances of Jana SFB have increased from Rs. 50.76 billion as at March 31, 2022 to Rs. 99.05 billion as at March 31, 2023, an increase of 41.0%, which is just below the growth rate of ESAF SFB, Utkarsh SFB, and Fincare SFB. Jana SFB's secured gross advances as a percentage of total gross advances has increased from 42.87% as at March 31, 2021, to 55.02% as at March 31, 2023.

Gross advance percentage share of SFBs in top three states (as at March 31, 2023)

Bank Name	States	Gross Advances Share	Top 3 states % share
AU SFB	Rajasthan	35.0%	66.0%
	Madhya Pradesh	17.0%	
	Maharashtra	14.0%	
	Others	34.0%	
Jana SFB	Tamil Nadu	13.7%	38.8%
	Maharashtra	13.5%	
	Karnataka	11.6%	
	Others	61.2%	
Ujjivan SFB	Tamil Nadu	15.5%	41.1%
	Karnataka	13.4%	
	West Bengal	12.2%	
	Others	58.9%	
Equitas SFB (^)	Tamil Nadu	54.0%	54.0%
	Others	46.0%	
ESAF SFB (*)	Kerala	42.8%	65.0%
	Tamil Nadu	22.3%	
	Others	35.0%	
Utkarsh SFB	Bihar	30.9%	69.1%
	Uttar Pradesh	26.0%	
	Maharashtra	12.2%	
	Others	30.9%	

Source: Company's Annual Report

Note:

1. *(^) Data for Equitas SFB is available for Tamil Nadu only;*
2. *(*) Data for ESAF SFB is available for Kerala and Tamil Nadu only*

Jana SFB has a major presence in Tamil Nadu (13.7% of its total gross advances as at March 31, 2023) while its top three states in terms of gross advances accounted for 37.8% of its total Gross Advances as at March 31, 2023.

The state mix of deposits as at March 31, 2023 is given below (%):

SFBs (%)	Bihar	Gujarat	Uttar Pradesh	Delhi NCR	Chhattisgarh	Madhya Pradesh	Maharashtra	Karnataka	Rajasthan	Tamil Nadu	West Bengal	Odisha	Punjab	Haryana	Himachal Pradesh	Others
AU SFB	-	7.0	2.0	12.0	1.0	4.0	19.0	2.0	31.0	-	-	-	9.0	7.0	2.0	3.0
Jana SFB	**2.1**	**3.8**	**7.0**	**7.6**	**2.3**	**2.9**	**10.4**	**11.8**	**3.1**	**10.0**	**10.0**	**4.8**	**7.5**	**3.7**	**-**	**13.0**
Suryoday SFB	-	5.5	-	-	-	1.2	39.6	6.8	-	21.8^	-	5.1	-	-	-	20.0

Source: Company's Annual Report

Note: (^) Puducherry is included in Tamil Nadu

Jana SFB is the fourth SFBs in India in terms of deposit size

Jana SFB is the fourth largest SFB in terms of deposit size as at March 31, 2023, with deposits of Rs 163.3 billion and its market share of deposits in the SFB segment as at March 31, 2023 was 8.5%. Jana SFB is the fourth largest SFB in terms of AUM as at March 31, 2023, with AUM of Rs. 201.02 and its market share of AUM in the SFB segment as at March 31, 2023 was 10.9%. As at March 31, 2023, Jana SFB had 754 banking outlets across 22 states and 2 union territories in India. As Jana SFB expands its liability-accepting banking outlet footprint, FSIAPL expects Jana SFB's deposits to increase.

Jana SFB's ratio of current account and savings account (CASA) deposits to total deposits was 20.2%, 22.5% and 16.3% as on March 31, 2023, March 31, 2022 and March 31, 2021, respectively.

In terms of operational characteristics, SFBs are yet to generate their brand presence like commercial banks and hence lag behind in CASA – with the exception of Capital SFB. Capital SFB benefits from previously being a local area bank.

Operational efficiency of SFBs as at March 31, 2023

SFBs	Gross advances per employee (Rs. in million)	Deposits per employee (Rs. in million)
AU Small	206.3	244.9
Equitas SFB	125.5	123.4
Ujjivan SFB	119.1	142.9
ESAF SFB	276.6	291.3
Jana SFB	**99.0**	**89.8**
Utkarsh SFB	84.7	88.9
Fincare SFB	58.8	54.3
Suryoday SFB	99.8	85.8
Capital SFB	305.3	407.5
Bandhan Bank	142.5	138.2

Source: Company's Annual Report

As some SFBs use business correspondents and other third parties to help operate their businesses, advances per employee and deposits per employee may not be indicative of how efficient an SFB is.

Product mix based on gross advances of all SFBs and banks as at March 31, 2023 (%)

SFBs	MFI	Vehicle loans	Housing Finance	MSME	Large and mid-corporate loans	Gold loans	Personal Loans	Others
AU SFB	-	32.2%	7.2%	31.8%	21.6%	3.7%	1.1%	2.5%
Equitas SFB	19.0%	25.0%	10.0%	40.0%	-	-	-	6.0%
Ujjivan SFB	59.0%	-	14.0%	7.0%	5.0%	-	13.0%	2.0%
ESAF SFB	75.0%	-	-	1.0%	-	-	-	24.0%
Jana SFB	**44.6%**	**1.3%**	**13.2%**	**14.5%**	**7.8%**	**1.2%**	**-**	**17.4%**
Utkarsh SFB	66.0%	4.0%	3.0%	11.0%	11.0%	-	-	5.0%
Fincare SFB	61.0%	-	28.0%	-	-	9.0%		2.0%
Suryoday SFB	61.1%	6.2%	10.9%	17.0%	-	-		4.8%
Capital SFB*	-	-	24.0%	23.3%				52.7%
Bandhan Bank	34.9%	-	24.3%	17.2%	18.5%	-	5.1%	0.0%

Source: Company's Annual Reports and Presentations

Note:

1. *(*) Data is as of March 31, 2022*
2. *Percentages are as at March 31, 2023*

Most of the SFBs were originally involved in the microfinance business, except Capital SFB (local area bank) and AU SFB (retail focussed NBFC). However, all the SFBs quickly scaled up their activities and built up large customer bases. Jana SFB commenced operations as a small finance bank from March 28, 2018. While Jana's main focus once becoming an SFB was on microfinance loans, , its more recent focus has been on expanding its secured loan book, in particular for the non-microfinance loans, including affordable housing loans, secured business loan, gold loans, MSME loans, and two-wheeler loans. As a result, the proportion of Jana SBF's gross secured advances has increased from 42.87% as at March 31, 2021 to 55.02% as at March 31, 2023. Microfinance loans, continue to remain the mainstay of Jana SFB, accounting for around 44.6% of its portfolio as March 31, 2023 with the balance being constituted by secured advances such as MSME loans (14.5%), loan to NBFCs (7.8%), gold loans (1.2%) and others (17.4%).

Profitability of players (Fiscal 2023)

Players	Yield on advances (%)	NIMs (%)	Cost of borrowing (%)	Opex (%)	Cost to income (%)	Credit cost (%)	RoE (%)	Post tax-RoA (%)
AU SFB	13.1%	5.6%	5.6%	4.3%	63.0%	0.2%	15.5%	1.8%
Equitas SFB	16.7%	8.2%	6.5%	6.6%	63.4%	1.8%	12.6%	1.9%
Ujjivan SFB	19.7%	9.5%	6.1%	6.3%	54.8%	0.1%	31.8%	3.9%
ESAF SFB	19.8%	9.7%	6.0%	6.5%	57.9%	3.8%	19.4%	1.6%
Jana SFB	**20.0%**	**7.2%**	**7.0%**	**5.6%**	**56.2%**	**4.8%**	**16.8%**	**1.1%**
Utkarsh SFB	19.6%	9.6%	6.8%	5.8%	54.2%	3.2%	22.8%	2.4%
Fincare SFB	21.0%	9.3%	6.5%	7.5%	66.4%	4.1%	8.3%	0.9%
Suryoday SFB	19.0%	8.3%	6.1%	5.6%	60.0%	4.4%	15.0%	2.2%

Source: Company's Annual Reports and Presentations, FSIAPL Analysis

Note:

(1) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(2) *NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.*
(3) *Cost of borrowing represents the ratio of interest expended on borrowings to average borrowings*
(4) *Opex stands for Operating Expenses to Average Total Assets, which represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.*
(5) *Cost to Income represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.*
(6) *Credit Cost is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.*
(7) *RoE stands for Return on Average Equity and is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.*
(8) *Post tax ROA stands for Return on Average Assets and is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.*

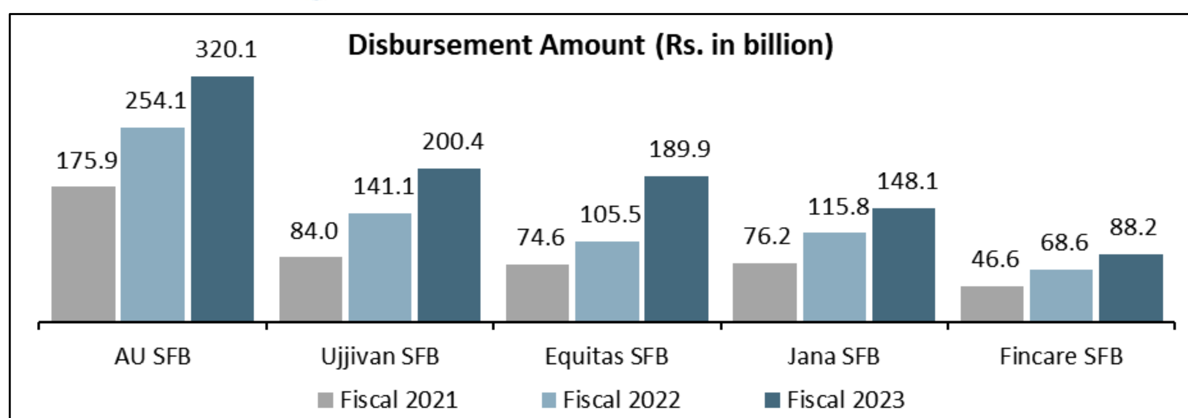
For Fiscal 2023, among the compared SFBs, Jana SFB ranked second highest in yield on advances at 20.0%, second lowest in Opex ratio at 5.6%, third lowest in Cost to Income ratio at 56.2% and fourth highest in Return on Equity (RoE) at 16.8%, with Fincare SFB having the highest yield on advances at 21.0%, AU SFB having the lowest Opex ratio at 4.3%, Utkarsh SFB having the lowest Cost to Income ratio at 54.2% and Ujjivan SFB having the highest RoE at 31.8%.

Asset quality and liquidity ratios (as at March 31, 2023)

Players	Provision Coverage Ratio	Liquidity Coverage Ratio	GNPA	NNPA
AU SFB	75.0%	128.0%	1.66%	0.42%
Equitas SFB	56.9%	181.0%	2.76%	1.14%
Ujjivan SFB	98.0%	180.0%	2.88%	0.04%
Jana SFB	**34.0%**	**510.5%**	**3.94%**	**2.64%**
Utkarsh SFB	88.3%	186.4%	3.23%	0.39%
ESAF SFB	57.0%	133.0%	2.49%	1.13%
Fincare SFB	91.5%	187.0%	3.25%	1.30%
Suryoday SFB	51.5%	130.0%	3.13%	1.50%

Source: Company's Annual Reports
Note: Percentages are as at March 31, 2023

Disbursements of leading SFBs (Fiscals 2021 – 2023)



Source: Company's Investor Presentation
Note: Numbers are as at March 31, 2021, 2022 and 2023

Disbursement has picked up as economic activity is improving in India. SFBs are continuing disbursements mostly in the form of repeat loans and following robust lending policies. As per the graph above, disbursement has picked up and increased substantially in Fiscal 2023 as compared to Fiscal 2022.

Key GAAP measures and Key Performance Indicators (KPIs)

The table below sets forth the details of Jana SFB's key GAAP measures and KPIs:

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[(1)]	619	715	754
Gross AUM (in INR million)[(2)]	127,705	153,473	201,018
Gross AUM Growth (%)[(3)]	NA	20.18%	30.98%
Gross Advances (in INR million)[(4)]	118,391	132,503	180,007
Gross Advances Growth (%)[(5)]	NA	11.92%	35.85%
Gross Secured Advances (in INR million)	50,760	70,271	99,048
Gross Secured Advances (% to Gross Advances)	42.87%	53.03%	55.02%
Total Deposits (in INR million)	123,163	135,365	163,340
Deposits Growth (%)[(6)]	NA	9.91%	20.67%
CASA Ratio (%)[(7)]	16.29%	22.52%	20.21%
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[(8)]	73.18%	75.86%	70.22%
Capital			
Net worth (in INR million)[(9)]	11,007.66	11,845.58	17,771
Total Capital Ratio (CRAR) (%)[(10)]	15.51%	15.26%	15.57%
Tier 1 Capital Ratio (%)[(11)]	11.75%	11.83%	13.02%
Cost of Deposits (%)[(12)]	8.89%	8.12%	7.22%
Cost of Funds (%)[(13)]	8.61%	7.37%	7.02%
Asset Quality			
Gross NPA (%)[(14)]	7.25%	5.71%	3.94%
Provision Coverage Ratio (%)[(15)]	27.89%	32.19%	34.01%
Restructured Book as % of Gross Advances (%)[(16)]	8.40%	4.61%	1.04%
Net NPA (%)[(17)]	5.33%	3.95%	2.64%
Profitability			
Pre-Provision Operating Profit (PPOP)[(18)]	4,389	5,868	10,004
Net Profit (in INR million)	723	175	2,560
Yield on Advances (%)[(19)]	21.81%	19.94%	18.09%

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Net Interest Margin (%)[20]	8.36%	7.32%	7.73%
Credit Cost Ratio (%)[21]	3.51%	4.70%	4.95%
Operating Expenses to Average Total Assets (%)[22]	6.52%	5.68%	5.66%
Cost to Income Ratio (%)[23]	70.47%	66.00%	56.22%
Return on Average Assets (%)[24]	0.45%	0.09%	1.13%
Return on Average Equity (%)[25]	6.51%	1.53%	16.78%
Basic EPS (in INR)[26]	8.62	0.68	45.58

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off

(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.

(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

Comparison of KPIs with Listed Peers:

1. AU Small Finance Bank Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[(1)]	744	919	1,027
Gross AUM (in INR million)[(2)]	353,560	467,890	591,580
Gross AUM Growth (%)[(3)]	NA	32.34%	26.44%
Total Deposits (in INR million)	359,793	525,846	693,650
Deposits Growth (%)[(6)]	NA	46.15%	31.91%
CASA Ratio (%)[(7)]	23.00%	37.29%	38.43%
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[(8)]	54.87%	66.61%	68.76%
Capital			
Net worth (in INR million)[(9)]	61,721	74,727	109,333
Total Capital Ratio (CRAR) (%)[(10)]	23.37%	21.00%	23.59%
Tier 1 Capital Ratio (%)[(11)]	21.53%	19.69%	21.80%
Cost of Deposits (%)[(12)]	5.98%	5.11%	5.93%
Cost of Funds (%)[(13)]	6.50%	5.29%	5.63%
Asset Quality			
Gross NPA (%)[(14)]	4.25%	1.98%	1.66%
Provision Coverage Ratio (%)[(15)]	50.00%	75.00%	75.00%
Restructured Book as % of Gross Advances (%)[(16)]	1.80%	2.50%	1.20%
Net NPA (%)[(17)]	2.18%	0.50%	0.42%
Profitability			
Pre-Provision Operating Profit (PPOP)[(18)]	2,158	1,815	2,019
Net Profit (in INR million)	11,707	11,300	14,279
Yield on Advances (%)[(19)]	12.82%	12.10%	13.10%
Net Interest Margin (%)[(20)]	5.05%	5.36%	5.56%
Credit Cost Ratio (%)[(21)]	1.27%	0.89%	0.30%
Operating Expenses to Average Total Assets (%)[(22)]	3.54%	4.00%	4.32%
Cost to Income Ratio (%)[(23)]	43.46%	57.07%	63.01%
Return on Average Assets (%)[(24)]	2.50%	1.87%	1.79%

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Return on Average Equity (%)[(25)]	22.31%	16.56%	15.52%
Basic EPS (in INR)[(26)]	38.19	18.03	21.86

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances.

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off

(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.

(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

2. Equitas Small Finance Bank Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[1]	861	869	922
Gross AUM (in INR million)[2]	179,250	205,970	278,610
Gross AUM Growth (%)[3]	NA	14.91%	35.27%
Total Deposits (in INR million)	163,920	189,508	253,806
Deposits Growth (%)[6]	NA	15.61%	33.93%
CASA Ratio (%)[7]	34.25%	52.00%	42.28%
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[8]	70.05%	89.44%	77.49%
Capital			
Net worth (in INR million)[9]	33,963	42,460	51,579
Total Capital Ratio (CRAR) (%)[10]	24.18%	25.16%	23.80%
Tier 1 Capital Ratio (%)[11]	23.23%	24.53%	23.08%
Cost of Deposits (%)[12]	7.14%	6.42%	6.13%
Cost of Funds (%)[13]	7.66%	6.75%	6.48%
Asset Quality			
Gross NPA (%)[14]	3.73%	4.24%	2.76%
Provision Coverage Ratio (%)[15]	58.59%	42.73%	56.90%
Restructured Book as % of Gross Advances (%)[16]	NA	3.12%	1.00%
Net NPA (%)[17]	1.58%	2.47%	1.21%
Profitability			
Pre-Provision Operating Profit (PPOP)[18]	887	873	1,176
Net Profit (in INR million)	3,842	2,807	5,736
Yield on Advances (%)[19]	18.97%	17.33%	16.67%
Net Interest Margin (%)[20]	8.17%	7.89%	8.22%
Credit Cost Ratio (%)[21]	2.45%	2.73%	1.80%
Operating Expenses to Average Total Assets (%)[22]	6.04%	6.60%	6.58%
Cost to Income Ratio (%)[23]	59.99%	66.12%	63.41%
Return on Average Assets (%)[24]	1.75%	1.09%	1.85%
Return on Average Equity (%)[25]	12.52%	7.35%	12.20%
Basic EPS (in INR)[26]	3.53	2.43	4.71

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances.

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off

(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.

(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

3. Ujjivan Small Finance Bank Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[1]	575	575	629
Gross AUM (in INR million)[2]	151,400	174,877	240,850
Gross AUM Growth (%)[3]	NA	15.51%	37.73%
Total Deposits (in INR million)	131,358	182,922	255,380
Deposits Growth (%)[6]	NA	39.26%	39.61%
CASA Ratio (%)[7]	20.55%	27.30%	26.41%
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[8]	47.52%	54.24%	66.03%
Capital			
Net worth (in INR million)[9]	31,750	27,604	41,580
Total Capital Ratio (CRAR) (%)[10]	26.44%	18.99%	25.81%
Tier 1 Capital Ratio (%)[11]	25.06%	17.70%	22.69%
Cost of Deposits (%)[12]	6.53%	5.69%	-
Cost of Funds (%)[13]	6.93%	5.70%	6.08%
Asset Quality			
Gross NPA (%)[14]	7.07%	7.34%	2.88%
Provision Coverage Ratio (%)[15]	60.34%	92.20%	98.00%
Restructured Book as % of Gross Advances (%)[16]	NA	NA	NA
Net NPA (%)[17]	2.93%	0.61%	0.04%
Profitability			
Pre-Provision Operating Profit (PPOP)[18]	808	591	1,485
Net Profit (in INR million)	83	(4,146)	10,999
Yield on Advances (%)[19]	18.22%	16.73%	19.73%
Net Interest Margin (%)[20]	8.91%	8.07%	9.48%
Credit Cost Ratio (%)[21]	5.60%	7.41%	0.09%
Operating Expenses to Average Total Assets (%)[22]	6.34%	6.80%	6.33%
Cost to Income Ratio (%)[23]	60.34%	71.68%	54.82%
Return on Average Assets (%)[24]	0.04%	-1.89%	3.86%
Return on Average Equity (%)[25]	0.26%	-13.97%	31.80%
Basic EPS (in INR)[26]	0.05	(2.40)	5.88

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances.

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off

(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.

(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

4. ESAF Small Finance Bank Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[1]	550	575	700
Gross AUM (in INR million)[2]	84,259	123,407	163,313
Gross AUM Growth (%)[3]	NA	46.46%	32.34%
Total Deposits (in INR million)	89,994	128,151	146,656
Deposits Growth (%)[6]	NA	42.40%	14.44%
CASA Ratio (%)[7]	19.42%	22.84%	21.39%
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[8]	97.74%	93.71%	90.85%
Capital			
Net worth (in INR million)[9]	13,521	14,068	17,091
Total Capital Ratio (CRAR) (%)[10]	24.23%	18.64%	19.83%
Tier 1 Capital Ratio (%)[11]	21.54%	16.16%	18.12%
Cost of Deposits (%)[12]	7.54%	6.22%	6.10%
Cost of Funds (%)[13]	7.60%	5.99%	6.02%
Asset Quality			
Gross NPA (%)[14]	6.70%	7.83%	2.49%
Provision Coverage Ratio (%)[15]	52.77%	59.38%	56.67%
Restructured Book as % of Gross Advances (%)[16]	NA	4.84%	0.69%
Net NPA (%)[17]	3.88%	3.92%	1.13%
Profitability			
Pre-Provision Operating Profit (PPOP)[18]	4,170	4,919	8,937
Net Profit (in INR million)	1,054	547	3,023
Yield on Advances (%)[19]	20.03%	17.44%	19.81%
Net Interest Margin (%)[20]	8.45%	7.64%	9.68%
Credit Cost Ratio (%)[21]	3.75%	4.22%	3.82%
Operating Expenses to Average Total Assets (%)[22]	5.79%	5.74%	6.49%
Cost to Income Ratio (%)[23]	60.31%	63.69%	57.93%
Return on Average Assets (%)[24]	0.97%	0.36%	1.59%
Return on Average Equity (%)[25]	8.65%	3.97%	19.41%
Basic EPS (in INR)[26]	2.46	1.22	6.73

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances.

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.
(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.
(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.
(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage
(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage
(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.
(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off
(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage
(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.
(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period
(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.
(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.
(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.
(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.
(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.
(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.
(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.
(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

5. Utkarsh Small Finance Bank Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[(1)]	558	686	830

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Gross AUM (in INR million)[(2)]	84,157	106,307	139,571
Gross AUM Growth (%)[(3)]	NA	26.32%	31.29%
Total Deposits (in INR million)	75,076	100,742	137,101
Deposits Growth (%)[(6)]	NA	34.19%	36.09%
CASA Ratio (%)[(7)]	17.68%	22.37%	20.89%
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[(8)]	57.51%	59.64%	61.55%
Capital			
Net worth (in INR million)[(9)]	13,684	15,723	20,003
Total Capital Ratio (CRAR) (%)[(10)]	21.88%	21.59%	20.64%
Tier 1 Capital Ratio (%)[(11)]	19.98%	18.08%	18.25%
Cost of Deposits (%)[(12)]	7.89%	6.92%	6.71%
Cost of Funds (%)[(13)]	8.27%	7.47%	6.96%
Asset Quality			
Gross NPA (%)[(14)]	3.75%	6.10%	3.23%
Provision Coverage Ratio (%)[(15)]	65.49%	63.62%	88.29%
Restructured Book as % of Gross Advances (%)[(16)]	3.13%	1.26%	0.22%
Net NPA (%)[(17)]	1.33%	2.31%	0.39%
Profitability			
Pre-Provision Operating Profit (PPOP)[(18)]	NA	NA	NA
Net Profit (in INR million)	1,118	615	4,045
Yield on Advances (%)[(19)]	20.64%	19.57%	19.88%
Net Interest Margin (%)[(20)]	8.20%	8.75%	9.57%
Credit Cost Ratio (%)[(21)]	3.97%	5.03%	2.61%
Operating Expenses to Average Total Assets (%)[(22)]	5.10%	5.78%	5.92%
Cost to Income Ratio (%)[(23)]	56.54%	58.90%	54.15%
Return on Average Assets (%)[(24)]	1.05%	0.48%	2.42%
Return on Average Equity (%)[(25)]	9.99%	4.14%	22.84%
Basic EPS (in INR)[(26)]	1.46	0.70	4.52

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances.

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) *Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.*
(10) *CRAR (%) as of the last day of the relevant fiscal year as reported by the company.*
(11) *Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.*
(12) *Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage*
(13) *Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage*
(14) *Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.*
(15) *Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off*
(16) *Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage*
(17) *Net NPA disclosed by the company as of the last day of the relevant fiscal year.*
(18) *Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period*
(19) *Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.*
(20) *NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.*
(21) *Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.*
(22) *Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.*
(23) *Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.*
(24) *Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.*
(25) *Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.*
(26) *Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).*

6. Fincare Small Finance Bank Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[(1)]	806	919	1,231
Gross AUM (in INR million)[(2)]	60,722	76,002	99,111
Gross AUM Growth (%)[(3)]	NA	25.16%	30.41%
Total Deposits (in INR million)	53,185	64,562	80,332
Deposits Growth (%)[(6)]	NA	21.39%	24.43%
CASA Ratio (%)[(7)]	23.76%	36.30%	33.06%
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[(8)]	91.70%	86.40%	79.79%

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Capital			
Net worth (in INR million)[(9)]	10,169	11,955	12,991
Total Capital Ratio (CRAR) (%)[(10)]	29.60%	22.30%	20.04%
Tier 1 Capital Ratio (%)[(11)]	24.91%	19.48%	18.64%
Cost of Deposits (%)[(12)]	8.34%	7.15%	6.48%
Cost of Funds (%)[(13)]	8.63%	7.07%	6.47%
Asset Quality			
Gross NPA (%)[(14)]	6.42%	7.79%	3.25%
Provision Coverage Ratio (%)[(15)]	73.68%	78.16%	60.82%
Restructured Book as % of Gross Advances (%)[(16)]	1.05%	5.26%	0.94%
Net NPA (%)[(17)]	2.80%	3.55%	1.30%
Profitability			
Pre-Provision Operating Profit (PPOP)[(18)]	365	431	443
Net Profit (in INR million)	1,131	89	1,036
Yield on Advances (%)[(19)]	24.73%	21.45%	21.03%
Net Interest Margin (%)[(20)]	9.29%	9.28%	9.33%
Credit Cost Ratio (%)[(21)]	4.98%	6.84%	4.14%
Operating Expenses to Average Total Assets (%)[(22)]	6.14%	6.85%	7.48%
Cost to Income Ratio (%)[(23)]	55.93%	60.01%	66.36%
Return on Average Assets (%)[(24)]	1.50%	0.09%	0.89%
Return on Average Equity (%)[(25)]	11.78%	0.80%	8.31%
Basic EPS (in INR)[(26)]	5.55	0.38	4.69

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances .

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off

(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.

(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

7. Suryoday Small Finance Bank Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[1]	556	565	577
Gross AUM (in INR million)[2]	42,060	50,640	61,140
Gross AUM Growth (%)[3]	NA	20.40%	20.73%
Total Deposits (in INR million)	32,557	38,498	51,667
Deposits Growth (%)[6]	NA	18.25%	34.21%
CASA Ratio (%)[7]	15.45%	18.81%	17.11%
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[8]	80.00%	78.14%	73.10%
Capital			
Net worth (in INR million)[9]	15,969	15,051	15,847
Total Capital Ratio (CRAR) (%)[10]	51.47%	37.86%	33.72%
Tier 1 Capital Ratio (%)[11]	47.23%	34.44%	30.80%
Cost of Deposits (%)[12]	7.81%	6.43%	NA
Cost of Funds (%)[13]	8.09%	6.31%	6.10%
KPIs	**As at and for the year ended**		
	Fiscal 2021	**Fiscal 2022**	**Fiscal 2023**
Asset Quality			
Gross NPA (%)[14]	9.41%	11.80%	3.13%
Provision Coverage Ratio (%)[15]	63.73%	69.83%	51.43%
Restructured Book as % of Gross Advances (%)[16]	2.70%	10.40%	NA
Net NPA (%)[17]	4.73%	5.97%	1.55%
Profitability			
Pre-Provision Operating Profit (PPOP)[18]	181	265	337
Net Profit (in INR million)	119	(930)	777
Yield on Advances (%)[19]	17.73%	18.72%	19.04%
Net Interest Margin (%)[20]	6.80%	7.85%	8.28%
Credit Cost Ratio (%)[21]	4.50%	8.98%	4.40%
Operating Expenses to Average Total Assets (%)[22]	5.44%	5.55%	5.62%
Cost to Income Ratio (%)[23]	64.44%	60.93%	60.02%
Return on Average Assets (%)[24]	0.20%	-1.25%	0.86%
Return on Average Equity (%)[25]	0.89%	-6.00%	5.03%
Basic EPS (in INR)[26]	1.32	(8.76)	7.32

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances.

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage
(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.
(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.
(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.
(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage
(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage
(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.
(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off
(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage
(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.
(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period
(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.
(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.
(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.
(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.
(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.
(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.
(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.
(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

8. Credit Access Grameen Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[(1)]	964	1,164	1,786
Gross AUM (in INR million)[(2)]	113,410	137,320	175,610
Gross AUM Growth (%)[(3)]	NA	21.08%	27.88%
Total Deposits (in INR million)	NM	NM	NM
Deposits Growth (%)[(6)]	NM	NM	NM
CASA Ratio (%)[(7)]	NM	NM	NM
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[(8)]	NM	NM	NM
Capital			
Net worth (in INR million)[(9)]	36,340	39,398	51,069
Total Capital Ratio (CRAR) (%)[(10)]	31.75%	26.54%	23.58%
Tier 1 Capital Ratio (%)[(11)]	30.50%	25.87%	NA
Cost of Deposits (%)[(12)]	NM	NM	NM
Cost of Funds (%)[(13)]	8.82%	8.18%	8.30%
Asset Quality			
Gross NPA (%)[(14)]	4.38%	3.12%	1.21%
Provision Coverage Ratio (%)[(15)]	NA	70.55%	71.58%
Restructured Book as % of Gross Advances (%)[(16)]	NA	NA	NA

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Net NPA (%)[(17)]	1.37%	0.94%	0.35%
Profitability			
Pre-Provision Operating Profit (PPOP)[(18)]	850	1,087	1,506
Net Profit (in INR million)	1,424	3,821	8,260
Yield on Advances (%)[(19)]	19.67%	19.16%	19.39%
Net Interest Margin (%)[(20)]	9.80%	9.72%	10.75%
Credit Cost Ratio (%)[(21)]	6.85%	4.87%	2.37%
Operating Expenses to Average Total Assets (%)[(22)]	3.84%	3.93%	4.23%
Cost to Income Ratio (%)[(23)]	34.57%	35.38%	37.48%
Return on Average Assets (%)[(24)]	1.22%	2.78%	4.20%
Return on Average Equity (%)[(25)]	4.52%	9.05%	17.81%
Basic EPS (in INR)[(26)]	9.52	24.54	52.04

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances.

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off

(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.

(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

9. Spandana Sphoorty Financial Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[1]	1,052	1,120	1,227
Gross AUM (in INR million)[2]	73,285	65,810	85,110
Gross AUM Growth (%)[3]	NA	-10.20%	29.33%
Total Deposits (in INR million)	NM	NM	NM
Deposits Growth (%)[6]	NM	NM	NM
CASA Ratio (%)[7]	NM	NM	NM
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[8]	NM	NM	NM
Capital			
Net worth (in INR million)[9]	27,511	30,899	30,992
Total Capital Ratio (CRAR) (%)[10]	39.20%	50.74%	36.87%
Tier 1 Capital Ratio (%)[11]	39.74%	50.55%	NA
Cost of Deposits (%)[12]	NM	NM	NM
Cost of Funds (%)[13]	10.10%	11.86%	12.86%
Asset Quality			
Gross NPA (%)[14]	5.60%	15.00%	1.95%
Provision Coverage Ratio (%)[15]	NA	NA	70.00%
Restructured Book as % of Gross Advances (%)[16]	NA	NA	NA
Net NPA (%)[17]	3.10%	6.20%	0.58%
Profitability			
Pre-Provision Operating Profit (PPOP)[18]	848	451	562
Net Profit (in INR million)	1,455	698	124
Yield on Advances (%)[19]	22.88%	21.47%	19.24%

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Net Interest Margin (%)[20]	14.73%	12.12%	9.96%
Credit Cost Ratio (%)[21]	10.83%	7.72%	8.20%
Operating Expenses to Average Total Assets (%)[22]	3.26%	4.76%	5.55%
Cost to Income Ratio (%)[23]	21.63%	38.56%	44.84%
Return on Average Assets (%)[24]	2.02%	0.91%	0.15%
Return on Average Equity (%)[25]	5.41%	2.38%	0.40%
Basic EPS (in INR)[26]	22.55	10.75	1.74

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off

(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.

(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

10. Fusion Micro Finance Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[(1)]	725	934	1,086
Gross AUM (in INR million)[(2)]	46,378	67,860	92,960
Gross AUM Growth (%)[(3)]	NA	46.32%	36.99%
Total Deposits (in INR million)	NM	NM	NM
Deposits Growth (%)[(6)]	NM	NM	NM
CASA Ratio (%)[(7)]	NM	NM	NM
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[(8)]	NM	NM	NM
Capital			
Net worth (in INR million)[(9)]	12,464	13,380	23,219
Total Capital Ratio (CRAR) (%)[(10)]	27.26%	21.94%	27.94%
Tier 1 Capital Ratio (%)[(11)]	25.52%	19.93%	NA
Cost of Deposits (%)[(12)]	NM	NM	NM
Cost of Funds (%)[(13)]	10.29%	9.83%	10.24%
Asset Quality			
Gross NPA (%)[(14)]	5.50%	5.71%	3.46%
Provision Coverage Ratio (%)[(15)]	NA	71.26%	75.50%
Restructured Book as % of Gross Advances (%)[(16)]	NA	NA	0.20%
Net NPA (%)[(17)]	2.20%	1.71%	0.87%
Profitability			
Pre-Provision Operating Profit (PPOP)[(18)]	278	393	712
Net Profit (in INR million)	439	218	3,871
Yield on Advances (%)[(19)]	21.48%	20.56%	22.92%
Net Interest Margin (%)[(20)]	9.54%	8.66%	11.50%
Credit Cost Ratio (%)[(21)]	5.73%	7.17%	2.87%
Operating Expenses to Average Total Assets (%)[(22)]	4.37%	4.75%	5.34%
Cost to Income Ratio (%)[(23)]	44.26%	44.26%	38.44%
Return on Average Assets (%)[(24)]	0.87%	0.33%	4.65%
KPIs	**As at and for the year ended**		
	Fiscal 2021	**Fiscal 2022**	**Fiscal 2023**
Return on Average Equity (%)[(25)]	3.60%	1.68%	21.16%
Basic EPS (in INR)[(26)]	5.56	2.67	43.29

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off

(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.

(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

11. Bandhan Bank Limited

KPIs	As at and for the year ended		
	Fiscal 2021	Fiscal 2022	Fiscal 2023
Operations			
Banking Outlets[(1)]	5,310	5,639	5,723
Gross AUM (in INR million)[(2)]	870,430	993,380	1,091,200
Gross AUM Growth (%)[(3)]	NA	14.13%	9.85%
Total Deposits (in INR million)	779,722	963,306	1,080,693
Deposits Growth (%)[(6)]	NA	23.54%	12.19%
CASA Ratio (%)[(7)]	43.38%	41.61%	39.29%
CASA + Retail Term Deposits Ratio (as percentage of total deposits) (%)[(8)]	78.79%	77.28%	71.20%
Capital			
Net worth (in INR million)[(9)]	174,082	173,811	195,842
Total Capital Ratio (CRAR) (%)[(10)]	23.47%	20.10%	19.76%
Tier 1 Capital Ratio (%)[(11)]	22.48%	18.89%	18.70%
Cost of Deposits (%)[(12)]	5.87%	4.95%	NA
Cost of Funds (%)[(13)]	5.89%	4.88%	5.34%
Asset Quality			
Gross NPA (%)[(14)]	6.81%	6.46%	4.87%
Provision Coverage Ratio (%)[(15)]	67.38%	87.23%	76.82%
Restructured Book as % of Gross Advances (%)[(16)]	NA	NA	NA
Net NPA (%)[(17)]	3.51%	1.66%	1.17%
Profitability			
Pre-Provision Operating Profit (PPOP)[(18)]	6,855	8,013	7,091
Net Profit (in INR million)	22,055	1,258	21,946
Yield on Advances (%)[(19)]	14.69%	13.88%	13.86%
Net Interest Margin (%)[(20)]	7.32%	6.87%	6.29%
Credit Cost Ratio (%)[(21)]	6.67%	8.98%	4.23%
Operating Expenses to Average Total Assets (%)[(22)]	2.73%	2.78%	3.15%
Cost to Income Ratio (%)[(23)]	29.13%	30.54%	39.54%
Return on Average Assets (%)[(24)]	2.13%	0.10%	1.49%
Return on Average Equity (%)[(25)]	13.53%	0.72%	11.87%
Basic EPS (in INR)[(26)]	13.70	0.78	13.62

Source: Company's website and annual report, FSIAPL Analysis

Notes:

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment, and inter-bank participation certificates and sale to ARCs for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Gross Advances is calculated by adding provisions for NPAs to Net Advances

(5) Gross Advances growth represents growth in Gross Advances as of the last day of the relevant fiscal year over Gross Advances as of the last day of the previous fiscal year.

(6) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(7) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(8) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(9) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.
(10) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.
(11) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.
(12) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage
(13) Cost of Funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage
(14) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.
(15) Provision Coverage Ratio (%) – Provision Coverage Ratio represents the ratio of NPA provision including technical write off and Gross NPA, including technical write-off
(16) Restructured book as % of advances represent standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage
(17) Net NPA disclosed by the company as of the last day of the relevant fiscal year.
(18) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period
(19) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.
(20) NIMs stands for Net Interest Margin and represents Net Interest Income (interest earned minus interest expended) for the relevant fiscal year to the Average Total Assets (calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year) for the relevant fiscal year, represented as a percentage.
(21) Credit Cost Ratio is calculated as the ratio of total provisions towards NPAs and write-offs and provision towards standard assets to the company's average net advances for the relevant fiscal year, expressed as a percentage.
(22) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.
(23) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.
(24) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.
(25) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.
(26) Basic EPS: EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).

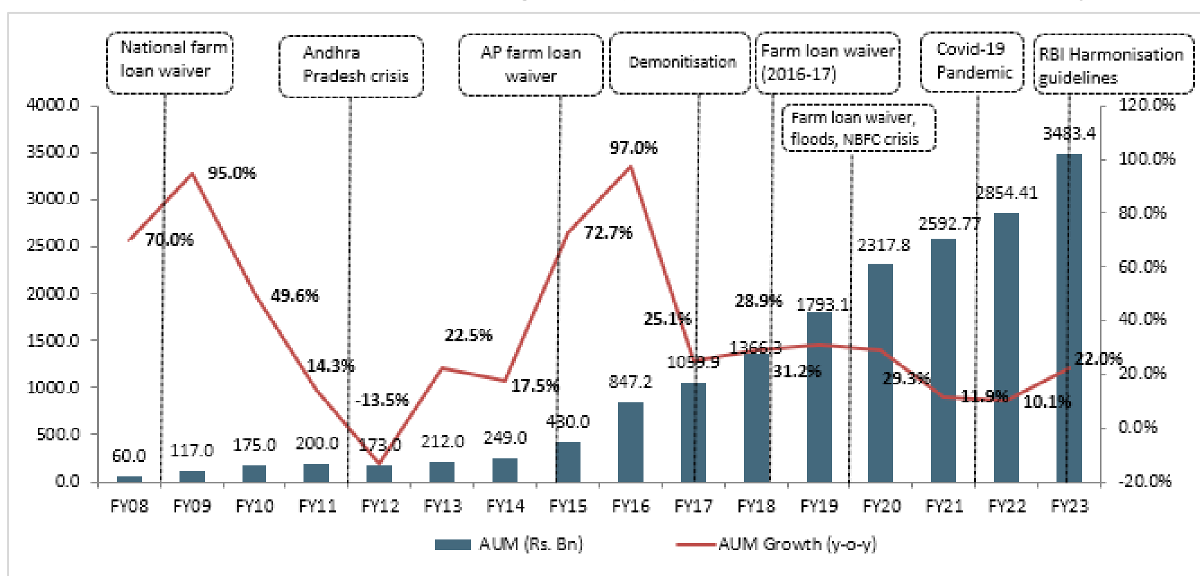
6. MICROFINANCE INDUSTRY

Introduction

Microfinance, which involves providing small loans in the financially excluded rural market, is an important financial product to enhance the availability of credit to the underserved lower income groups in India. The journey of financial inclusion in the past two decades has been one of intensive efforts and incremental experimentation. However, the quantum jump came when Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched in 2014, which helped achieve the objective of providing bank accounts to the adult population in almost every household in India. The reach of mobile phones and e-KYC has ensured that these accounts are accessible to those who have been included in financial services.

The number of negative events in the past has influenced the growth and asset quality of the microfinance sector, including the national farm loan waiver, the Andhra Pradesh crisis, farm loan waivers by several states, demonetisation in November 2016, floods in some states, economic slowdown and the COVID-19 outbreak. Despite these setbacks, the industry has evolved over the cycles and demonstrated resilience by adapting to changing dynamics.

Trends in Advances Under Management (AUM) of Indian Microfinance Industry



Source: Microfinance Institutions Network (MFIN), FSIAPL

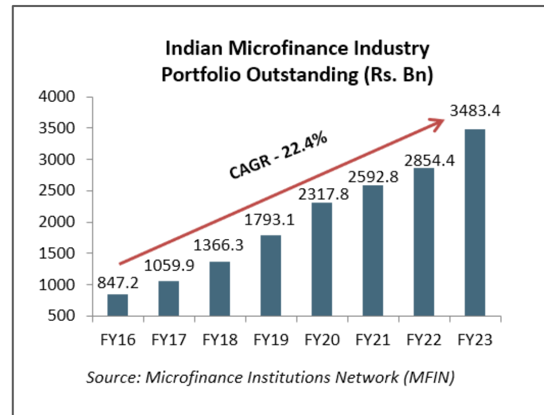
Note: Data includes values of banks, NBFCs, NBFC-MFIs, non-profit MFIs and SFBs

It is significant to note that the number of institutions providing microfinance and the amount of credit made available to financially excluded clients have increased significantly during the last decade. The RBI has been making sustained efforts to increase the penetration of formal financial services in unbanked areas, while continuing with its policy of ensuring adequate flow of credit to productive

sectors of the economy and also ensuring the availability of banking services to all sections of people in India.

Market size of the Indian microfinance industry

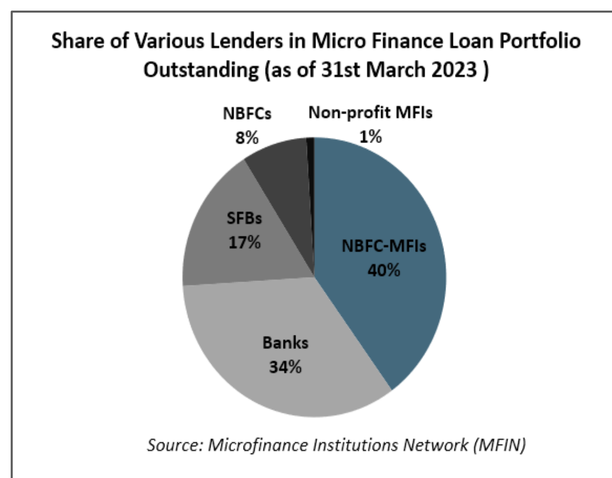
The microfinance industry in India consists of multiple players with diverse organizational structures. Loans in this sector are provided by Banks, Small finance banks (SFBs), Non-banking financial company-microfinance institutions (NBFC-MFIs), other NBFCs and Non-profit organizations. According to the Microfinance Institution Network (MFIN), MFIs operated in 27 states and 5 Union Territories of India as at March 31, 2023. The sector served 66 million unique borrowers through 130 million loan accounts. The industry Advances Under Management, (AUM) which is gross advances plus off-balance sheet advances, has grown at a CAGR of 22.4% from Rs. 847.2 billion in Fiscal 2016 to reach Rs. 3,483.4 billion in Fiscal 2023.



Source: Microfinance Institutions Network (MFIN)

The MFI sector brought many more into the folds of financial inclusion. As the beneficiaries were primarily women, it helped India become more gender inclusive, and spurred women's empowerment and entrepreneurship. The microfinance industry has come out successfully from the lull it had faced on account of the pandemic in the previous two years. The major development in MFIs' operation during Fiscal 2022 was the focus on digitization. The pandemic resulted in MFIs looking at digital collection methodologies using a variety of technologies and tying up with payment banks, payment wallets and other payment technologies. Data reveal a steady increase in volumes under digital collections. Technology usage has accelerated even for customer acquisition, loan processing and monitoring as well as the organization and management of groups.

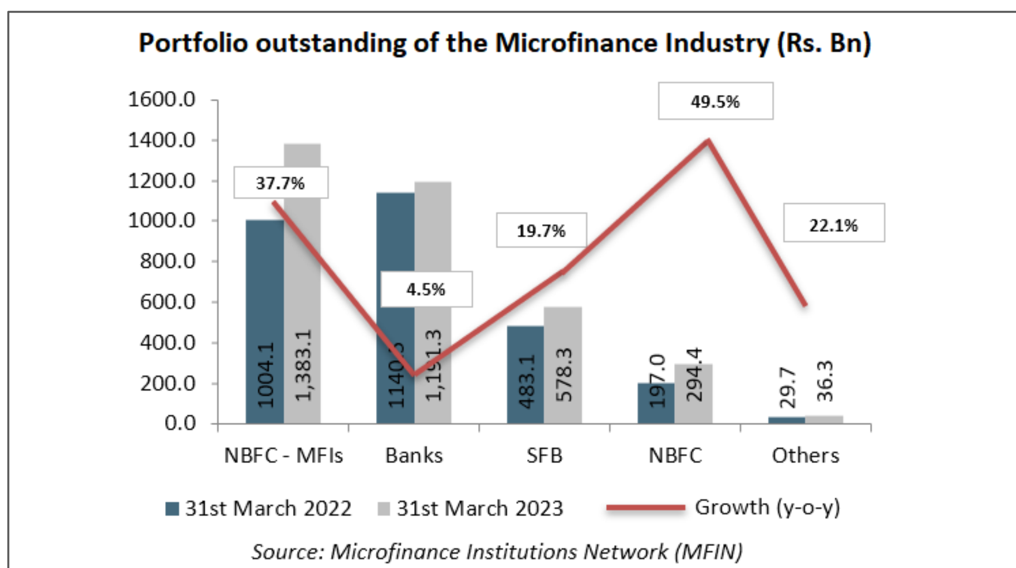
The issuance of the new Regulatory Framework for microfinance loans by the RBI will continue the growth trajectory of MFIs in the coming years. Currently, MFIs are gearing up to implement new regulations in the field by finalizing the required policies on interest rate, training on accurate income assessment of household, etc. Self-regulatory organizations (SROs) now have a greater role to ensure client protection and responsible lending as the RBI has given liberty to MFIs to fix the pricing of loans and make other changes. The pie charts provide the percentage share of each player in the microfinance loan portfolio outstanding as of March 31, 2023. NBFC-MFIs held the largest share of the micro-credit portfolio with a total loan outstanding of Rs. 1,393.4 billion as at March 31, 2023, which was 40% of the total micro-credit universe as at that date. Banks were the second-largest provider of micro-credit with a loan amount



Source: Microfinance Institutions Network (MFIN)

outstanding of Rs. 1,184.4 billion as at March 31, 2023, accounting for 34% of the total sector portfolio as at that date. The data for banks includes both SHG and JLG product numbers. SFBs had a total loan amount outstanding of Rs. 592.2 billion as at March 31, 2023 with total share of 17.0% as at that date. NBFCs accounted for another 8.0% and other MFIs accounted for 1.0% of the total sector portfolio as at March 31, 2023.

The graph below depicts the portfolio's growth (y-o-y) of different microfinance lenders as at March 31, 2022 and March 31, 2023.



Impact of various events on the Indian microfinance industry

The microfinance sector faced a downturn in the second half of Fiscal 2011 owing to reported malpractices by some Microfinance Institutions (MFIs) in Andhra Pradesh and the consequent legislative response by the state government. On the back of these developments, the sector had to deal with rising delinquency ratios and downgrades by rating agencies. Recovery rates of 99% reportedly fell to a meagre 10%, leading to huge NPAs, which caused significant stress on the functioning of MFIs. Again in 2016, cash-intensive MFIs experienced a rise in credit delinquencies, followed by localised disruptions on account of state elections and announcements of farm loan waivers in 2017.

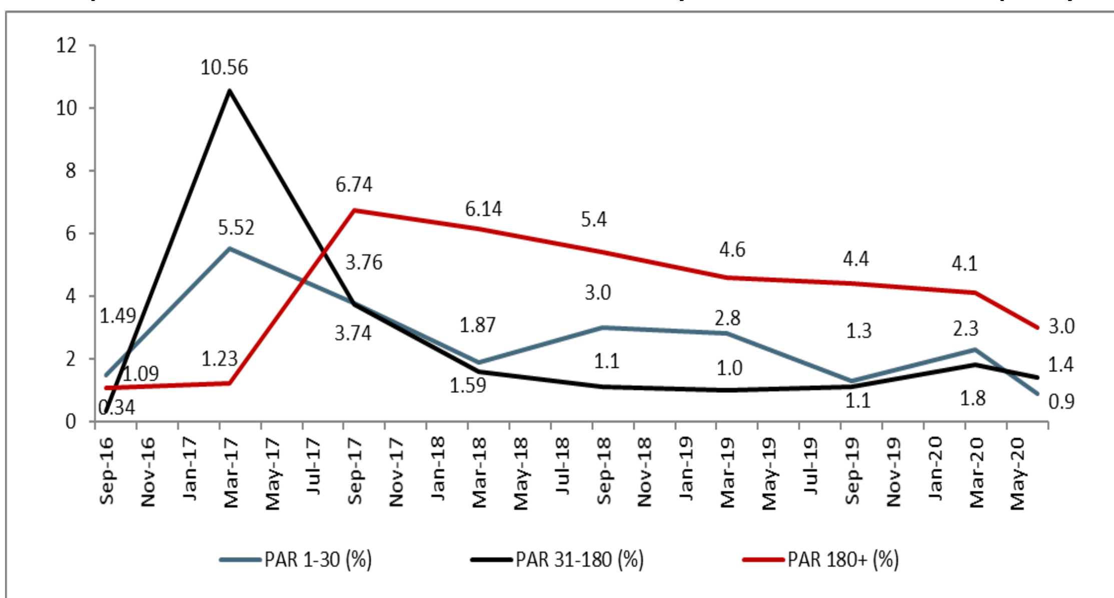
Impact due to Demonetization

MFIs largely serve in rural and semi-urban areas. The penetration of digital infrastructure in such areas is low and internet connectivity is poor. This lack of access is accentuated by low literacy levels among microfinance borrowers, who are generally daily wage earners and tend to transact in cash. Therefore, MFI operations have traditionally been cash intensive. Consequently, demonetisation in November 2016 imposed a cash crunch on the MFI sector.

MFIs registered a decline in the number of clients, total loans disbursed, and average loans disbursed per account in the post-demonetisation period compared to the three quarters prior to the pre-demonetisation period. The year-on-year growth in number of clients reached out to registered a

decrease of 2% in the third quarter of Fiscal 2017 over the last quarter prior to demonetization in the second quarter of Fiscal 2017. The loan amount disbursed during the three months ended December 31, 2016 decreased by 16% y-o-y. The total number of loans disbursed fell by 26% during the quarter ended December 31, 2016 from the preceding three months. The average loan amount disbursed per account during the quarter stood at Rs. 20,981, lower than that in the preceding quarter (Rs. 21,469). In Fiscal 2017, the average loan amount disbursed per account also reduced to Rs. 17,779 from Rs. 17,812 in the previous year as per MFIN.

Impact of Demonetisation on Microfinance Industry – Overall Portfolio Delinquency



Source: RBI, CRIF High Mark Credit Information Service

The RBI analysed the situation of demonetization on MFIs as shown in the graph above. Portfolio at risk (PAR) has been used by the RBI to measure credit delinquencies with three separate buckets, i.e., PAR 1-30 (1-30 days overdue), PAR 31-180 (31-180 days overdue) and PAR180+ (more than 180 days overdue). Point-in-time values of PAR buckets are depicted at quarterly rests, starting from September 30, 2016 to May 31, 2020 as depicted in the chart above. Demonetisation produced a sudden spike in PAR 31-180 levels, which rose to around 10% as at March 31, 2017, almost 10 times the corresponding value as at September 30, 2016 quarter, on account of the impact on loan collections.

As the cash situation eased and collections improved during subsequent months, there was a sharp recovery in PAR 31-180 values, which settled at 3.74% as at September 30, 2017 and 1.59% as at March 31, 2018. The early delinquencies observed in the PAR 1-30 bucket as at December 31, 2016 migrated to PAR 31-180 and PAR180+

PAR trends - Indian Microfinance Industry

Period	PAR 1-30 (%)	PAR 31-180 (%)	PAR 180+ (%)
Sep-16	1.49	0.34	1.09
Mar-17	5.52	10.56	1.23
Sep-17	3.76	3.74	6.74
Mar-18	1.87	1.59	6.14
Sep-18	3.0	1.1	5.4
Mar-19	2.8	1.0	4.6
Sep-19	1.3	1.1	4.4
Mar-20	2.3	1.8	4.1
Jun-20	0.9	1.4	3.0

Source: RBI, *CRIF High Mark Credit Information Service*

buckets with 1 period and 3 period lags, respectively. Accordingly, PAR 31-180 and PAR180+ values peaked at March 31, 2017 and September 30, 2017, respectively.

However, there was a marked variation in the behaviour of early delinquency buckets of PAR 1-30 and PAR 31-180 when compared with the PAR180+ bucket. While early delinquencies were buoyant and recovered sharply, touching pre-demonetisation levels, the PAR180+ bucket remained relatively sticky. After peaking at a level of 6.74% as at September 30, 2017, PAR180+ dropped gradually. However, it remained elevated in relation to pre-demonetisation levels. The PAR 180+ value of 4.4% as at September 30, 2019 was mainly due to loans disbursed prior to demonetisation. Comparatively, PAR 180+ for post-demonetisation event disbursements stood at 1.4% as at June 30, 2019.

Subsequently, 50 million new Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts were opened by October 2017 and digitisation of retail payments accelerated. In the fourth quarter of Fiscal 2017, 39% of total disbursements by NBFC-MFIs were through cashless mode, which improved to 92% during the fourth quarter of Fiscal 2020, signalling greater adoption of digital means of payment by MFIs. More recently, MFIs have adopted technological innovations like digital on-boarding of clients and app-based credit bureau checks, loan sanctions and appraisals. On the other hand, cashless repayments have still not picked up and constitute only about a third of total loan collections.

Farm loan waivers in 2017 and 2018

The farm loan waiver in 2017 and 2018 in some states like Tamil Nadu, Haryana, Punjab, Uttar Pradesh, Maharashtra, Madhya Pradesh, Gujarat and Karnataka had an impact on the asset quality of MFIs and NBFCs with rural exposure. The impact was greater for banks with large unsecured farm loans and less for secured loans or joint liability group (JLG) lending. It impacted loan repayments, disbursals, collection efficiency or bad asset levels of rural credit focused microfinance lenders. However, FSIAPL believes that the impact was less than that of demonetisation or any natural calamity situation.

Socio-political events in Uttar Pradesh and Maharashtra

The impact of socio-political events in Uttar Pradesh and Maharashtra were visible in the behaviour of the PAR180+ bucket. While PAR180+ delinquency in the overall MFI portfolio (pan-India) peaked at 6.7% as at September 30, 2017, the corresponding values of PAR180+ for Uttar Pradesh and Maharashtra stood at much elevated levels of 11.5% and 19.1%, respectively. Over the subsequent quarters, the delinquency levels in these states decreased but remained elevated in comparison with overall MFI delinquency levels. The overall MFI portfolio write-offs rose consistently over succeeding quarters.

Flood in Kerala and Cyclone in Orissa

In 2018, natural calamities occurred in different parts of India. In August 2018, there was widespread flooding in Kerala. This was followed by Cyclone Titli and Cyclone Fani in Orissa and Cyclone Gaja in Tamil Nadu. PAR 1-30 for the MFI portfolio in Kerala rose sharply to 44% as at September 30, 2018. The corresponding value of PAR 1-30 for the overall MFI (pan-India) portfolio was 3% as at that date.

This steep rise in early credit delinquencies in the Kerala MFI portfolio was due to flooding, which disrupted MFI operations in several parts of the state. However, the impact on early credit delinquencies was transient and PAR 1-30 of the MFIs' Kerala portfolio recovered sharply and dropped to 2.2% as at June 30, 2019 due to improved collections. There was a lagged spill over of early delinquencies to PAR180+, which increased from 1% as at December 31, 2018 to 2.3% as at December 31, 2019.

Portfolio Delinquency in Assam

More recently, credit delinquencies have risen in the MFIs' portfolio in Assam. The rise in PAR1-30 was first observed as at September 30, 2019 when it rose to 2.3%. The rise in delinquencies in Assam was initially attributed to the economic slowdown in tea plantation districts and the corresponding impact on the repayment capacity of microfinance borrowers. Thereafter, anti-CAA (Citizenship Amendment Act) disruptions at the end of the year led to a spike in delinquencies. Accordingly, as at December 31, 2019, the credit stress intensified in Assam and PAR1-30 of the Assam portfolio rose sharply to around 16%. In comparison, the corresponding value of PAR1-30 for overall MFI portfolio (pan-India) was 1.9% as at that date.

NBFC liquidity Issue

NBFC-MFIs constitute a major share of the overall microfinance portfolio with their Advances Under Management (AUM) constituting 40% of the overall microfinance portfolio as at March 31, 2023. The failure of a leading NBFC in 2018 and successive developments led to worsening risk perception and accentuated liquidity stress in the sector. Better performing companies continued to raise funds while those with asset–liability mismatch (ALM) and/or asset quality concerns were subjected to higher borrowing costs.

Traditionally, the asset base of NBFC-MFIs consists of small ticket loans with a short tenure and high repayment frequency while the liability side comprises mostly long-term borrowings. Therefore, NBFC-MFIs were better placed than other NBFCs having ALM concerns. Further, bank credit to NBFC-MFIs extended for on-lending to specified sectors is eligible for categorisation as priority sector lending. Hence, banks are generally incentivised to lend to NBFC-MFIs. Nonetheless, the funding profile of NBFC-MFIs underwent gradual change in the three financial years starting from Fiscal 2018. It was observed that the liquidity crunch disproportionately affected small and medium sized NBFC-MFIs as opposed to large NBFC-MFIs.

As at March 31, 2023, the outstanding borrowings of NBFC-MFI was Rs. 974.2 billion. Banks contributed 60.3% of outstanding borrowings, followed by 22.2% from non-banking entities, 9.3% from All-India Financial Institutions (AIFIs), 4.1% from other sources and 4.1% from external commercial borrowings as at March 31, 2023. Thus, the breakup of sources of term loans for different groups of NBFC-MFIs reveals that for large NBFC-MFIs, banks are the dominant source for long term loans while small and medium NBFC-MFIs source the bulk of term loans from other NBFCs. The funding patterns of NBFC-MFI groups reveal that most of the incremental debt funding was garnered by large NBFC-MFIs while small and medium NBFC-MFIs struggled to get funds. This was largely attributed to

the higher dependence of small and medium NBFC-MFIs on other NBFCs for their funding requirements.

Another interesting development in the funding pattern of NBFC-MFIs was the increased reliance on securitisation as a tool for raising funds which, in turn, also helped in freeing up capital and sustaining high levels of portfolio growth. Microloan securitisation was the worst hit due to the COVID-19 pandemic, with a steep drop in volumes to Rs.71.0 billion in Fiscal 2021. However, the microloan securitisation volumes more than doubled to Rs.260.0 billion in Fiscal 2023.

Challenges faced by MFIs and SFBs due to COVID-19

In 2020, lockdowns in India necessitated by the spread of COVID-19 brought almost every business to a halt, except essential services. The worst affected were enterprises with little or no reserves and high liquidity turnover operations, which was the case for typical micro and small businesses. This in turn adversely impacted their lenders: Prior to the lockdowns, many MFIs still depended on physical interactions with customers, and door-step collections and disbursements. Their liquidity framework also depended heavily on steady cashflows i.e., a stream of loan repayments from customers for upstream payments to banks and financial institutions from whom they had borrowed. When these MFIs faced a shutdown in collections and disbursements due to restrictions on mobility in the early months of the pandemic, the effect was devastating. By May 2020, nearly 98% of their accounts were under moratorium, confirming that the inflow of funds from these borrowers would not be forthcoming for the next three months. As they were already under pressure from their financiers to meet their obligations, these MFIs were crushed under liquidity issues.

Large MFIs with strong, stable financial backups, in the form of lines of credit or capital commitments from financial institutions or private equity investors, were much less impacted by the pandemic than small and mid-sized MFIs, which struggled to access debt in a risk-averse market. The latter were squashed between their own commitments to their creditors and the lack of forthcoming collections on their loans to customers, until repayments started to trickle in after the lockdown was lifted in May 2020.

Digital disbursements and collections enabled many MFIs to continue to interact with their clients on an as-needed basis, even during the lockdown. Across the sector, MFIs' ability to adopt a phygital (physical + digital) approach at a low-cost relative to their global peers has been key to their resilience. Driven by fintech, Indian MFIs are leveraging advances in technology to ensure transparency, data security, and privacy and affordability for their customers.

Yet, as 2020 progressed, the sector proved its resilience. By early 2021, despite the ongoing crisis, Indian microfinance providers were meeting the financial needs of 60.0 million unique customers, spread across 620 districts in 28 states and 8 UTs. As a whole, the industry had a portfolio size of Rs. 2,854.4 billion as at March 31, 2022, and despite the pandemic, some agile MFIs have reported 90%+ collection efficiency, while others have posted a sterling growth in customer acquisition. The microfinance loan portfolio stood at over Rs. 3,483.4 billion as at March 31, 2023, serving 66 million

unique borrowers with 130 million loan accounts. Overall, collection efficiency has improved from 85-88% in December 2021 to 95-99% in March 2023.

The Assam Microfinance Institutions (Regulation of Moneylending) Bill, 2020 and its impacts

The Assam state government promulgated a law called the Assam Microfinance Institutions (Regulation of Moneylending) Bill, 2020 following a series of reports of coercive lending. The key points covered in the regulations were:

- The loan outstanding amount per borrower is limited to Rs. 1.25 lacs (Rs. 0.125 million). However, for casual/permanent tea plantation workers, the total borrower leverage is capped at between Rs. 30,000 - 50,000 depending on other sources of income of the borrower.
- Not more than two lenders were allowed per borrower.
- Representatives of financial institutions and collection agents are not allowed to visit borrowers' home for collections; however, they are allowed to visit offices and public places.
- Moratorium on interest payment may be extended for a minimum of three months during floods/ natural calamities.

The Assam Microfinance Institutions (Regulation of Moneylending) Bill, 2020 aims to contain overleveraging of MFI borrowers and coercive collection practices by lenders, which has been causing frequent protests. Although the law is primarily targeting MFIs, it will have impact both on banks and MFIs on account of the deterioration in credit culture on the grounds.

RBI's Harmonised Regulatory Framework

The RBI released revised guidelines for the MFI segment applicable from April 1, 2022. Key features are:

- Harmonization of guidelines across regulated entities
- Risk-based pricing now and no spread cap from the RBI
- Qualifying assets criteria revised to instalment-to-income and household income
- More flexibility to NBFCs/MFIs, with higher share of MFI/Non-MFI lending permitted

Revision to qualifying assets criteria

Qualifying assets have been increased to Rs. 300,000/- household income from Rs. 125,000/200,000 in rural and semi-urban/urban locations from April 1, 2022. This will expand market size, especially for rural and semi-urban catering NBFC-MFIs. The RBI has also clearly defined 'household' as husband, wife and unmarried children. Further, it has capped instalment-to-income ratio at 50%. Lenders will need to ensure that all outstanding loans (MFI or otherwise) are included in calculating 'Instalment'; Instalment includes principal and interest amount.

Risk-based pricing to be followed:

RBI gave flexibility to regulated entities to decide on the pricing of MFI loans in contrast to the earlier system of spread cap-based pricing for NBFC-MFIs. This is positive in the near-to-medium term for NBFC-MFIs (SFBs/banks are not covered under the pricing cap), considering the pricing power financiers enjoy in this segment. However, over a longer period, increased competition may take the

pricing lower. Further, the RBI clearly stated: "Interest rates and other charges/fees on microfinance loans should not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank".

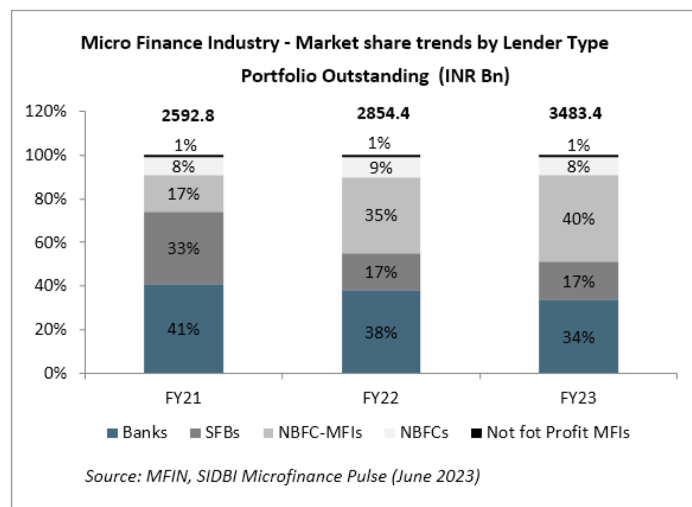
Other important changes:

- Qualifying assets to be classified as NBFC-MFIs relaxed to 75% from 85%.
- NBFCs can lend 25% of the total assets to MFI versus 10% earlier.
- No lien on deposits allowed anymore.
- Entities should have board-approved policies to provide flexibility to the borrower for repayments.
- There shall be no pre-payment penalty on microfinance loans.
- Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.
- Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospective.
- Recovery shall be made at a designated/central designated place decided mutually by the borrower and the regulated entity. However, field staff shall be allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated/central designated place on two or more successive occasions.

Overall, FSIAPL views these guidelines as positive for NBFC-MFIs. There would not be much change for banks/SFBs as pricing cap, qualifying assets criteria were not applicable for them. Assessing household income and all the loans outstanding for customers to calculate the instalment amount is likely to be a challenge and the industry will have to go through a learning curve.

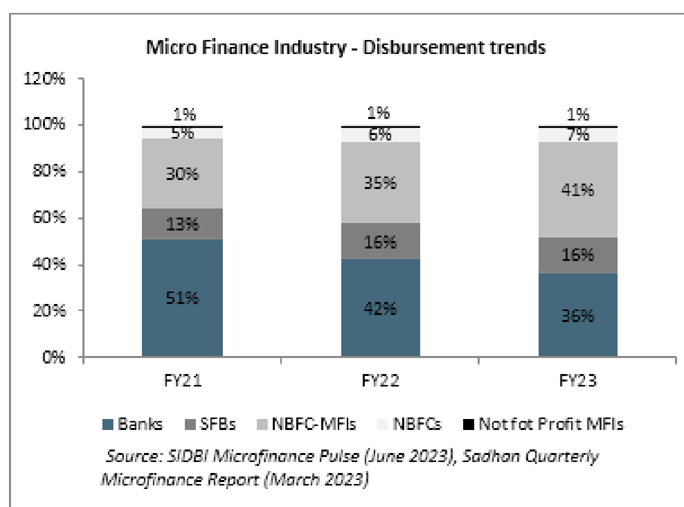
Trends in the Indian Microfinance Industry

Microfinance in India plays an important role in delivering credit to people at the bottom of the economic pyramid. Owing to its grass-roots level connects, microfinance is able to support income generating activities and impact livelihoods in both rural and urban geographies. The graph below depicts the lending behaviour by various institutions in the micro credit universe.



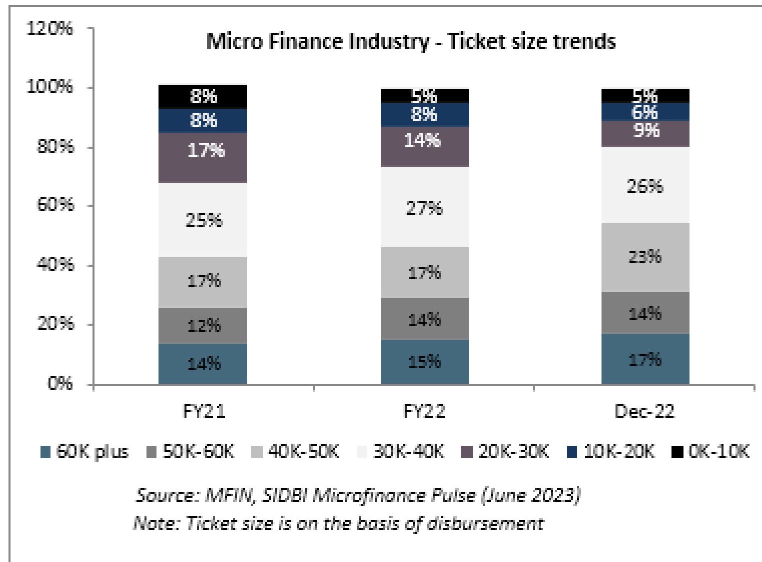
Source: MFIN, SIDBI Microfinance Pulse (June 2023)

The outstanding amount of loans extended to microfinance borrowers increased from Rs. 2,592.8 billion as at March 31, 2021 to reach Rs. 3,483.4 billion as at March 31, 2023. Banks and NBFC-MFIs hold a major chunk of the microfinance portfolio, with a combined share of 74% as at March 31, 2023. The share of banks, which was a dominant player, has decreased from 41% of the total loan portfolio as at March 31, 2021 to reach 34% as at March 31, 2023. The share of NBFC-MFIs has substantially increased from 17% of the total loan portfolio as at March 31, 2021 to reach 40% as at March 31, 2023. Microfinance disbursement trends depicted in the graph below show that banks have lost their share since FY22 and reached at 36% as at March 31, 2023. While NBFC-MFIs with 41% share held the pole position as at March 31, 2023.



Source: SIDBI Microfinance Pulse (June 2023), Sadhan Quarterly Microfinance Report (March 2023)

While analysing the overall microfinance ticket size trends, FSIAPL noticed that there is a gradual shift from demand of Rs. 20,000- Rs. 30,000 ticket size loans to higher ticket size loans by customers. As at December 31, 2022, around 26% of loans were in the Rs. 30,000- Rs. 40,000 ticket size brackets. Second highest lending was witnessed in the Rs.40,000- Rs. 50,000 ticket size brackets, having a share of 23% of the total lending as at December 31, 2022. The national average ticket size of microfinance loans has been steadily increasing. It is currently at Rs. 41,095 as at December 31, 2022. Microlenders are focusing more on growing their loan book size by offering a higher quantum of loans to the same borrowers. The ticket size increased in the highly penetrated states. In the coming years, MFI players can tap the under penetrated states offering lower ticket size loans. The Rs. 30,000- Rs. 40,000 ticket size bracket and Rs. 40,000- Rs. 50,000 ticket size brackets are expected to be the major contributors to the overall microfinance portfolio in the coming years.

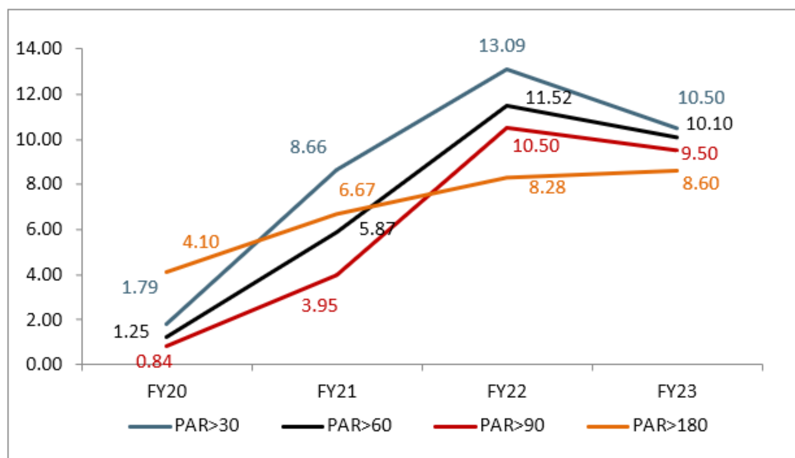


Asset quality of the Microfinance Industry

Portfolio at risk (PAR), the primary indicator of risk for the sector, represents the portion of loans overdue. PAR for over 30 days means interest on those loans are not repaid even after 30 days from the due date. The asset quality of the industry deteriorated quite sharply in 2021, reflecting the adverse impact of COVID-19 on the industry.

The graph below shows that PAR>30 had increased from 1.79% as at March 31, 2020 to reach 13.09% as at March 31, 2022. Overall PAR>30 of the Microfinance Industry decreased from 13.09% as at March 31, 2022 to 10.50% as at March 31, 2023. As at March 31, 2023, PAR>30 ratio was highest for Banks at 14.5% while it was 11.7% for small finance banks and 8.3% for NBFC-MFIs. The ratio was 3.0% for other non-bank lenders and 6.6% for not-for-profit lenders.

Yearly PAR trends of Microfinance Industry (%)



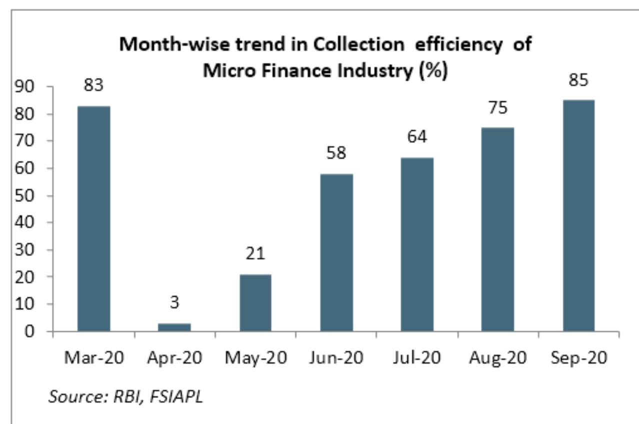
Source: Microfinance Institutions Network (MFIN)

PAR>60 has decreased from 11.52% as at March 31, 2022 to 10.10% as at March 31, 2023; PAR>90 has decreased from 10.50% as at March 31, 2022 to 9.50% as at March 31, 2023. Meanwhile PAR>180 increased from 8.28% as at March 31, 2022 to 8.60% as at March 31, 2023.

Limited slippages are expected for the fiscal year 2024 as majority of the covid-related stressed book (including restructured) has already slipped by first half of fiscal year 2023 and bulk of the portfolio now constitutes post covid-19 disbursements. Normalised delinquencies (overdue portfolio) is expected to be in the range of 2%-4% with a median of around 3% for fiscal year 2024 in the absence of any negative event playing out; this is broadly in line with pre-covid levels as minimal slippages are expected from the balance restructured pool. However, this is higher than that observed in the past as the borrower discipline that has been lower in the past three years on account of covid may not fully recover.

Trend in collection efficiency of the MFI sector

The inherent specialised nature of NBFC-MFIs' loan portfolio, which is largely unsecured, makes them particularly vulnerable to systemic risks. Credit discipline was impacted by disruption to MFI operations in April 2020 because of the nationwide lockdown due to COVID-19. Although MFIs have moved towards cashless disbursements over the years, loan collections are still cash intensive and are, therefore, prone to disruptions in collection infrastructure. Also, in view of difficulty in making loan repayments, a significant proportion of microfinance borrowers had availed the loan moratorium. Against this backdrop, recent evidence points to a precipitous fall in collection efficiency of microfinance securitisation pools.



Source: RBI, FSIAPL

The collection efficiency for the microfinance industry first fell to 83% in March 2020 and then moved sharply to a low of 3% in April 2020 before recovering to 21% in May 2020 and 58% in June 2020. The sector has shown signs of recovery from June 2020. The overall collection efficiency in the microfinance sector had improved to around 85% in September 2020, up from around 75% in August 2020. States such as Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Gujarat, Rajasthan and Tamil Nadu behaved quite well in terms of collection efficiency, with some states, such as Punjab, Haryana, Rajasthan and Gujarat inching closer towards 90% in terms of collections. The eastern and north-eastern regions have been affected by floods and manpower reverse migration, which has impacted the income levels.

Collection efficiency of Micro Finance Industry	
Dec-20	90-93%
Mar-21	87-90%
Apr-21	85-88%
May-21	70-80%
Dec-21	85-88%
Mar-22	95-98%
Dec-22	96-99%
Mar-23	97-99%

Source: MFIN, FSIAPL

Later, the average collection efficiency of microfinance loans was around 90-93% during Dec 2020. The second wave of the COVID-19 pandemic negatively impacted the disbursements and collection efficiency of microfinance institutions during March - June 2021. The collection efficiency fell to 70-80% during that period. With the gradual opening of the economy, microfinance activities resumed in July-September 2021 and collections also bounced back to 85-88% in December 2021. Third wave of COVID-19 had hit India from January 2022 and lasted till March 2022. However, the economic impact of the third wave was not as severe as the second wave. Hence, it did not have much impact on the collection efficiency. Collection efficiency had improved to 95-99% in March 2022 but the recovery was not uniform across the states/UTs. Collection efficiency in Assam was lowest at 60-65%. Currently, collection efficiency of the sector is in the range of 97-99% as at March 31, 2023.

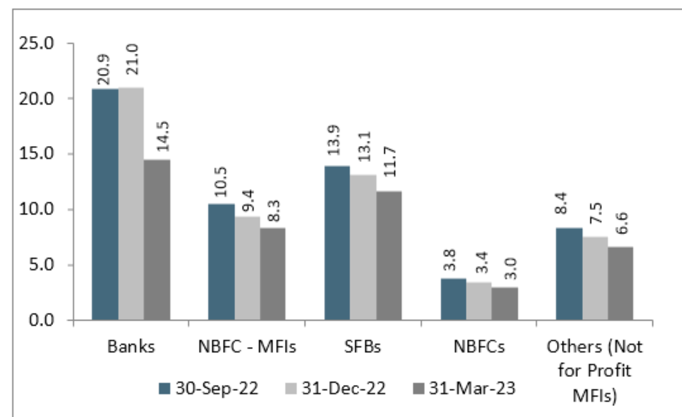
Credit Cost of the MFI sector

After incurring credit costs of around 4.0-4.5% amid high delinquencies in the microfinance segment over fiscal 2021 and fiscal 2022 period, credit costs are expected to normalise in fiscal 2024 at 1%-3% from the post-covid book, although 50-75bp higher than pre-covid levels. Bulk of the portfolio now is based on post-covid disbursements; and collection efficiencies at consolidated levels for the MFI sector steadily improved to 96.9% in September 2022 from 78% in June 2021. Small MFIs which have lower provision coverage in the range of 50%-60% would need to improve their provisions over the medium term and hence they could have higher credit costs in second half of fiscal 2023 and may see further spill over in fiscal 2024. Also, with three major states including Madhya Pradesh, Rajasthan and Chhattisgarh heading for elections in 2024, the resultant political risks could be key monitorable for players with high state concentration. Overall, credit costs for fiscal 2024 will remain in the range of 1%-3% with the expectations of improved operating buffers resulting in higher profitability.

Asset quality of microfinance players

PAR>30 days: PAR>30 days for all the microfinance players as per MFIN is depicted in the graph below. PAR>30 for all players decreased as at March 31,2023 as compared to the last 2 quarters. As at March 31, 2023, PAR>30 ratio was highest for banks at 14.5% while it was at 11.7% for small finance banks, 8.3% for NBFC-MFIs, 3.0% for other non-bank lenders and 6.6% for not-for-profit lenders.

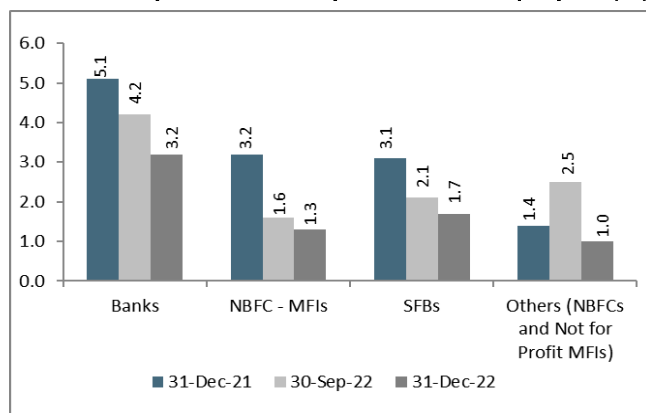
PAR>30 days trends of key microfinance players (%)



Source: MFIN Micrometer – March 2023, FSIAPL

PAR>90 days: PAR>90 days for the microfinance players is not shared in the MFIN Micrometer of March 2023. Hence, the data is sourced from the CRIF Highmark. The latest data in CRIF Highmark is available as of December 31, 2022. PAR>90 in December 2022 of all the microfinance players decreased from December 2021 levels. PAR>90 of Banks was highest at 5.1% as at December 31, 2021, which further decreased to 3.2% as at December 31, 2022 signifying recovery of portfolio health. PAR>90 of NBFC-MFIs decreased from 3.2% as at December 31, 2021 to 1.3% as at December 31, 2022.

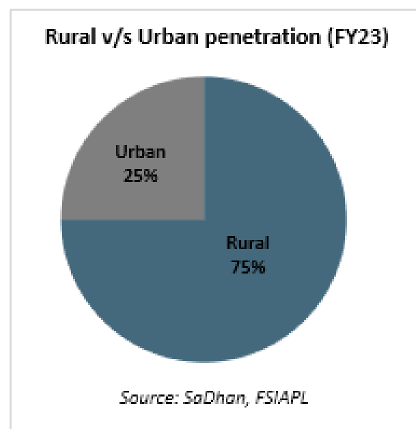
PAR>90 days trends of key microfinance players (%)



Source: CRIF Highmark, FSIAPL

Rural versus urban penetration

As per Q4FY23 Quarterly MF Report released by Sa-Dhan (Self-Regulatory Organization (SRO) for Microfinance Institutions), rural region constitutes 75% whereas the share of urban areas is 25%. Rural areas benefitted from overall better credit behaviors and, in turn, lower delinquency rates. The significant under-penetration of credit in rural areas offers strong potential for improvement and given the relatively deeper reach, existing client relationships and employee base, microfinance institutions are well placed to address this demand which is currently being met by informal sources such as local money lenders. As at March 31, 2023, rural accounts for approximately 75% market share in microfinance lending and urban accounts for 25% of the microfinance lending. 'Rural' group includes all centres with a population of less than 10,000; 'urban' group includes centres with a population of 0.1 million and above but less than 1 million.



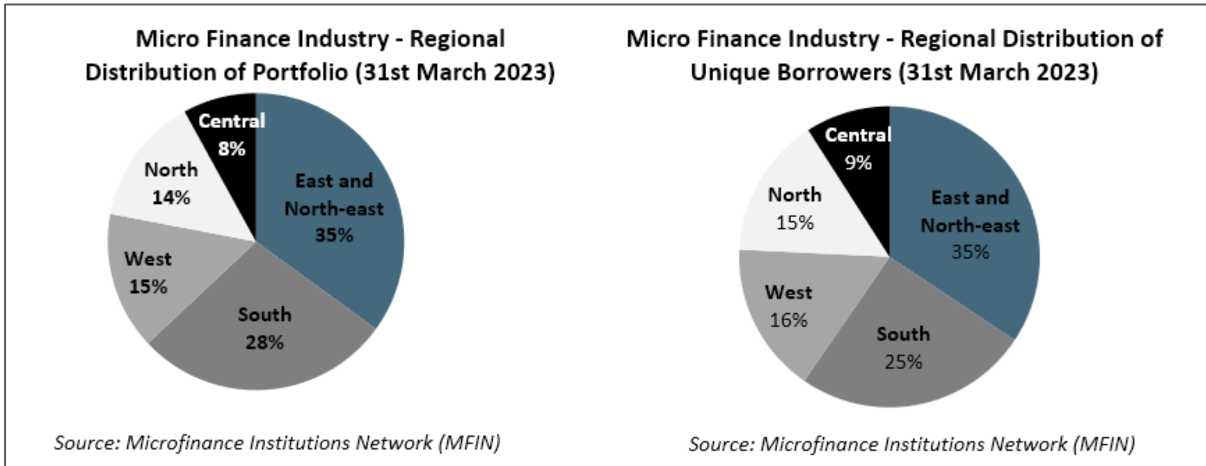
Source: SaDhan, FSIAPL

Penetration of Microfinance in India

According to MFIN, MFIs operate in 27 states and 5 UTs of India as at March 31, 2023. The sector served 66 million unique borrowers through 130 million loan accounts. The industry AUM has grown at a CAGR of 22.4% from Rs. 847.2 billion in Fiscal 2016 to reach Rs. 3,483.4 billion in Fiscal 2023.

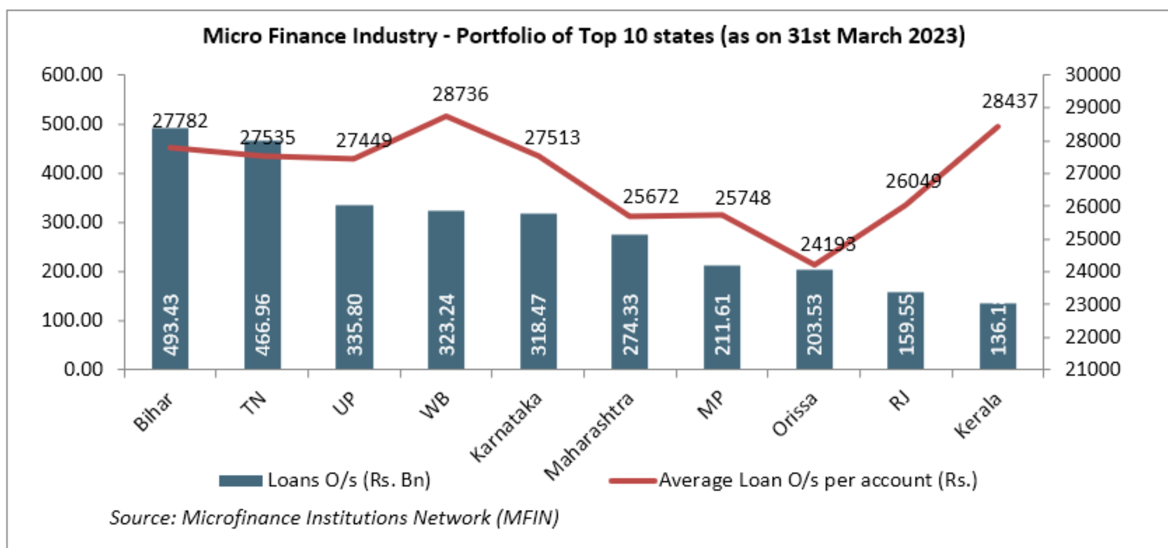
Although government schemes and established financial institutions have enhanced access to microcredit for nearly 73% of the Indian population living in rural areas; the significant geographic

concentration of MFIs within a few districts of the country indicates the potential for achieving higher microfinance penetration. In terms of geographical spread, as at March 31, 2023; East, North-East and South India collectively account for 63% of MFI's loan portfolio while the remaining 37% is spread across West, North and Central India as shown in the pie diagrams below.



Top 10 states in terms of Loan Portfolio Outstanding (as at March 31, 2023)

Among different states, Bihar holds the largest share of the microfinance loan portfolio followed by Tamil Nadu and Uttar Pradesh. The top 10 states in terms of loan amount outstanding are highlighted in the graph below. The top 10 states accounted for 83.9% of the total loan amount outstanding as at March 31, 2023. West Bengal has the highest average loan outstanding per unique borrower of Rs. 28,736 followed by Kerala at Rs. 28,437 as at March 31, 2023.



Comparison of Major states v/s Pan India (as at March 31, 2023)

State	Loan O/s (Rs. Bn)	30+ DPD	90+ DPD	180+ DPD
Bihar	493.43	1.2%	0.6%	3.6%
Tamil Nadu	466.96	2.1%	0.9%	7.9%
Uttar Pradesh	335.80	1.6%	0.6%	3.8%
West Bengal	323.24	4.1%	1.9%	14.3%
Karnataka	318.47	1.0%	0.6%	7.6%
Maharashtra	274.33	2.2%	1.1%	16.0%
Madhya Pradesh	211.61	2.8%	1.4%	10.7%
Orissa	203.53	2.6%	1.3%	10.4%
Rajasthan	159.55	2.9%	1.4%	7.4%
Kerala	136.18	2.4%	1.0%	10.1%
Pan India	**3,483.4**	**10.5%**	**9.5%**	**8.6%**

Source: CRIF Highmark, MFIN

Delinquency Trends of Top 10 States (as at March 31, 2023)

Delinquency trends of the top 10 states as at March 31, 2023 as per CRIF Highmark are highlighted in the chart below. PAR>30 DPD as at March 31, 2023 reduced quarter-on-quarter and year-on-year for all top 10 states. PAR>90 DPD and PAR>180 DPD as at March 31, 2023 improved quarter-on-quarter across all top 10 states. PAR>180 DPD as at March 31, 2023 increased year-on-year across all top 10 states except Bihar and Uttar Pradesh.

PAR Trends of Top 10 States (as at March 31, 2023)

Source: CRIF Highmark, FSIAPL

Top 10 districts in terms of Portfolio Outstanding (as at March 31, 2023)

Samastipur, a district in Bihar, is the top district in terms of portfolio outstanding at Rs. 33.2 billion as at March 31, 2023. Bihar has three districts, namely, Samastipur, Darbhanga and Sitamarhi (portfolio totaling Rs. 77.7 billion as at March 31, 2023) that are among the top 10 districts in terms of portfolio outstanding in India. The growth in Bihar is driven in part from new customer additions and in part from higher ticket sizes.

In terms of portfolio risk profile as per CRIF Highmark data of March 31,2023, Samastipur district in Bihar is the best performing district with 30+ DPD at 0.9%, 90+ DPD at 0.4% and 180+ DPD at 2.4%. North 24 Parganas district in West Bengal is the worst performing district with 30+ DPD at 4.2%, 90+ DPD at 2.0% and 180+ DPD at 24.8% as at March 31, 2023.

Microfinance Industry - Top 10 Districts (Data as of 31st March 2023)					
District	**State**	**Loan O/s (Rs. bn)**	**30+ DPD**	**90+ DPD**	**180+ DPD**
Samastipur	Bihar	33.2	0.9%	0.4%	2.4%
Darbhanga	Bihar	24.7	0.8%	0.3%	1.5%
Belgaum	Karnataka	22.1	0.7%	0.4%	6.8%
Sitamarhi	Bihar	19.9	0.7%	0.3%	1.6%
Tumkur	Karnataka	19.8	0.8%	0.5%	6.5%
Nanded	Maharashtra	17.2	0.5%	0.3%	5.7%
Mahrajganj	Uttar Pradesh	10.7	0.7%	0.3%	1.7%
Haveri	Karnataka	10.2	0.7%	0.3%	5.2%
Palamu	Jharkhand	10.2	0.6%	0.2%	0.9%
Muzzaffarnagar	UttarPradesh	9.4	0.7%	0.2%	1.2%

Source: CRIF Highmark

Scenario of Joint Liability Group (JLG) and non-JLG products in India

The majority of the microfinance players in the Indian market disburse loans either through the Joint Liability Group (JLG) or Self-help Group (SHG) models. JLG is a lending model that enables a group of individuals (usually five) to take loans for income generating activity by forming a group, wherein group members guarantee each other's loans. The SHGs are formed and supported usually by NGOs, Government agencies and sometimes directly by banks. SHGs are linked to banks first with a group deposit account, then for credit, which is disbursed to the group and in turn distributed to the members. The Self-Help Group Bank Linkage programme (SHG-BLP) is a landmark model initiated by the National Bank for Agriculture and Rural Development (NABARD) in 1992 to deliver affordable door-step banking services and has largely achieved the stated goals of financial inclusion.

Key Statistics on Self Help Groups (SHGs) in India (as on FY22)

Sr. No	Particulars	Total	
		No. in Mn	Amount (INR Bn)
1	**Total number of SHGs saving linked with banks as on FY22**	**11.9**	**472.4**
(i)	Out of total SHGs - exclusive Women SHGs	10.4	421.0
(ii)	Out of total SHGs - under NRLM/SGSY	7.2	275.8
(iii)	Out of total SHGs - under NULM/SJSRY	0.6	26.0
2	**Total number of SHGs credit linked during FY21-22**	**3.4**	**997.3**
(i)	Out of total SHGs - exclusive Women SHGs	3.2	938.2
(ii)	Out of total SHGs - under NRLM/SGSY	2.3	631.0
(iii)	Out of total SHGs - under NULM/SJSRY	0.2	58.2
3	**Total number of SHGs having loans outstanding as on FY22**	**6.7**	**1,510.5**
(i)	Out of total SHGs - exclusive Women SHGs	6.3	1,422.9
(ii)	Out of total SHGs - under NRLM/SGSY	4.5	942.3
(iii)	Out of total SHGs - under NULM/SJSRY	0.3	76.1
4	**Average loan amount outstanding/SHG as on FY22 (INR)**		**2.2**
5	**Average loan amount disbursed/SHG during FY22 (INR)**		**2.9**
6	**Estimated number of families covered uto FY22**	**141.90**	

Source: NABARD

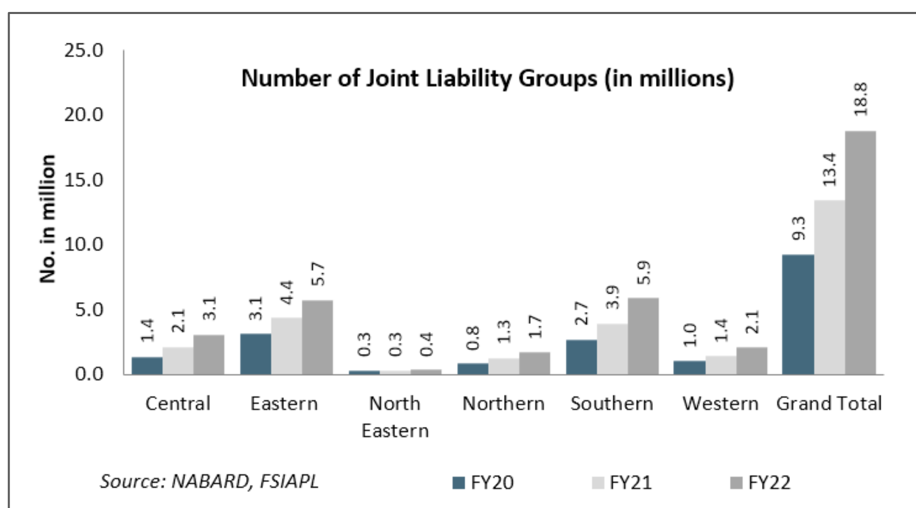
As per NABARD, there were 11.9 million SHGs in India covering 141.9 million families with deposits of Rs. 472.4 billion as at March 31, 2022.

Key Statistics on Joint Liability Group (JLGs) in India (as on FY22)

Sr. No	Particulars	Total	
		No. in Mn	Amount (INR Cr)
1	Joint Liability Group promoted till FY21	13.4	2131.6
2	Joint Liability Group promoted during FY22	5.4	1127.7
3	**Total number of JLGs in India as of FY22**	18.8	3259.4

Source: NABARD

Meanwhile as per NABARD, there were 18.8 billion JLGs with deposits of Rs. 3,259.4bn as at March 31, 2022. Overall, there has been a steep increase in the number of JLGs during Fiscals 2020 to 2022 with SFBs and commercial banks promoting JLGs through memoranda of understanding (MoUs) with NABARD. With limited funding access, NBFC-MFIs prefer the JLG model which is more scalable due to faster turnaround and lower NPAs. The growth of JLGs in different regions in India is depicted in the graph below.



As against 4.2 million JLGs promoted during Fiscal 2020, JLGs promoted during Fiscal 2022 totalled 5.4 million taking the cumulative number of JLGs promoted and financed by banks to 18.8 million as at March 31, 2022. The southern states of India top the list with over 5.9 million JLGs organized cumulatively as at March 31, 2022, and the eastern region follows closely with 5.7 million JLGs organized as at that date. FSIAPL expects SHG share to decline compared to that of JLGs as NBFC-MFIs transition to adopt the JLG model as per NABARD. This is evident from the historical trend of SHGs' contribution to the total MFI portfolio in select states.

Microfinance Industry - Peer Benchmarking as at March 31, 2023:

FSIAPL has undertaken peer benchmarking of Microfinance players on the basis of fiscal 2023 financial numbers. FY23 financial data of Asirvad Microfinance Ltd. and Muthoot Microfin Ltd. was not available in public domain; hence FY22 data is considered below.

Name of the Microfinance player	Presence in no. of States & UTs (FY23)	Presence in no. of districts (FY23)	Employee strength (FY23)	GLP per employee (FY23 - Rs. Mn)
CreditAccess Grameen Ltd.	15	352	16,759	12.5
Satin Creditcare Network Ltd.	24	405	11,131	7.1
Asirvad Microfinance Ltd.*	13	361	12,581	5.6
Spandana Sphoorty Financial Ltd.	18	316	10,016	8.5
Muthoot Microfin Ltd.*	16	282	8,000	7.8

Source: Company Investor Presentation (FY23), FSIAPL

*Note: *Data as of FY22*

Credit Access Grameen Ltd. has evolved as one of the largest microfinance institutions (NBFC – MFI) in the country over its operational history of over two decades. Built on the Grameen Model of microfinance, the company has a predominantly rural presence. Further, its predominantly weekly/bi-weekly collection model enables closer engagement levels with its borrower base. Its Advances Under Management has increased y-o-y by 26.7% to reach Rs. 210.3 billion as at March 31, 2023. Spandana Sphoorty Financial Ltd. is the second largest microfinance NBFC with an Advances Under Management of Rs. 85.1 billion as at March 31, 2023. Satin Credit Network Ltd. is the third largest microfinance NBFC with an Advances Under Management of Rs. 79.3 billion as at March 31, 2023. Asirvad Microfinance Ltd. Crossed an Advances Under Management of Rs. 70.0 billion as at March 31, 2022 and Muthoot Microfin Ltd. had Advances Under Management above Rs. 60.0 billion as at March 31, 2022. (FY23 financial data of Asirvad Microfinance Ltd. and Muthoot Microfin Ltd. was not available in public domain)

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Source: Company Investor Presentation (FY23), FSIAPL

*Note: *Data as of FY22*

Credit Access Grameen Ltd. has a large distribution network of 1,786 banking outlets with presence in 15 states and UTs as at March 31, 2023. Satin Credit Network Ltd. has reach in 24 states and UTs with presence in 405 districts as at March 31, 2023. Spandana Sphoorty Financial Ltd. has a distribution network of 1,227 banking outlets with presence in 18 states and UTs as at March 31, 2023. Asirvad Microfinance Ltd. has a presence in 13 states as at March 31, 2022 while Muthoot Microfin Ltd. has a presence in 16 states as at March 31, 2022.

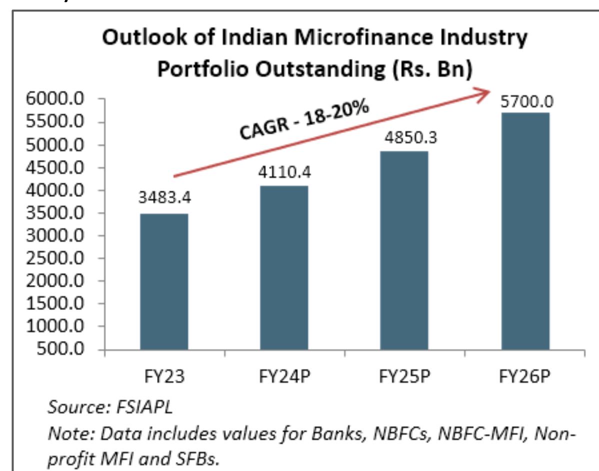
Profitability of Microfinance player	NIMs	GNPA	ROE	ROA
	FY23	FY23	FY23	FY23
CreditAccess Grameen Ltd.	11.6%	1.5%	18.0%	4.2%
Satin Creditcare Network Ltd.	16.5%	3.3%	15.0%	3.5%
Asirvad Microfinance Ltd.*	10.0%	3.4%	1.3%	0.2%
Spandana Sphoorty Financial Ltd.	13.9%	2.1%	14.1%	5.9%
Muthoot Microfin Ltd.*	11.5%	6.8%	14.1%	0.7%

Source: Company Investor Presentation (FY23), FSIAPL
*Note: *Data as of FY22*

The Net Interest Margin (NIM) of Satin Creditcare Network Limited has been the best among the peers at 16.5% for Fiscal 2023. Asset quality of Credit Access Grameen Ltd. has been best among the peers with GNPA of 1.5% as at March 31, 2023. The ROE of Credit Access Grameen Ltd. is highest among its peers at 18.0% as at March 31, 2023; while Satin Credit Network Ltd. has second highest ROE at 15.0% as at March 31, 2023. ROA of Spandana Sphoorty Financial Ltd. has been highest at 5.9% as at March 31, 2023, followed by Credit Access Grameen Ltd. with ROA of 4.2% as at March 31, 2023.

Five-year growth outlook of the Indian Microfinance Industry

The microfinance sector is undergoing a multitude of changes amidst growing competition, rising expectations of masses, technological advancements and an evolving regulatory landscape. As per FSIAPL, the sector is expected to widen the horizon beyond micro credit to transform the livelihoods of the unbanked regions. FSIAPL expects the Indian microfinance industry to grow at a CAGR of 18-20% from Rs. 3,483.4 billion as at March 31, 2023 to reach Rs. 5,700.0 billion as at March 31, 2026 (projected). The players in the microfinance universe would have to compete with each other by introducing customer centric approach and embracing digital innovation. The Microfinance institutions must broaden their client outreach to reduce concentration risk and to serve a wider client base. From a financial inclusion perspective, they should also critically review their operations to ensure that some of the regions do not remain underserved. While the growth of the microfinance sector in the past few years has been quite healthy, one must be cognizant of the vulnerability of the sector to factors such as external developments, technological changes, event risks and income inconsistencies of the borrowers. The growing use of technology gives rise to operational risks and there are concerns related to client data protection which needs to be addressed. As the microfinance industry tackles the current set of challenges, it is imperative for the industry to establish strong governance and regulatory practices.



Source: FSIAPL
Note: Data includes values for Banks, NBFCs, NBFC-MFI, Non-profit MFI and SFBs.

Key trends fostering growth of MFI sector

Players tapping newer states and districts to widen client base: A regional analysis of microfinance spread across the country has revealed a higher concentration in the southern states past few years. Most of the microfinance players are now reluctant to have portfolios concentrated in particular

geographical regions post the Andhra Pradesh microfinance crisis, thus adopting multi-state operation model. Many MFIs have opened banking outlets in untapped districts to increase their penetration. This has led to a rise in customer base and number of active loan accounts. Players are shifting focus from highly penetrated states like Andhra Pradesh, West Bengal and Tamil Nadu, and exploring few regions in Northern and Central India.

Increase in Average Ticket Size: The average ticket size of MFIs increased to Rs. 43,607 as at March 31, 2023 from Rs. 35,474 as at March 31, 2020. The ticket size increased in highly penetrated states where MFIs have been present for a long period and creditworthiness of the client base is relatively well-established. Also, there is a gradual shift from demand of Rs. 20,000 - Rs. 30,000 ticket size loans to Rs. 30,000 - 40,000 ticket size loans by customers. As at September 30, 2022, 29% of lending was in the Rs. 30,000 - 40,000 ticket size bracket.

In the coming years, while states like Tamil Nadu, Karnataka and Odisha are likely to see high penetration levels of more than 70%, a majority of states in India, including key states in the northern and central regions such as Gujarat, Maharashtra, Rajasthan, Uttar Pradesh, etc. which possess a significant potential for MFI growth are expected to remain underpenetrated, which gives significant headroom and opportunity for MFIs to grow. Growth is expected to be faster in rural areas, where ticket sizes are relatively low and the region is still underpenetrated. SFBs should aim to increase penetration of point-of-sale terminals in smaller but cash-intensive towns and villages, aligning with the needs of the government's digital economy goals.

Outlook on profitability of the microfinance sector in the medium term

The outlook on the microfinance sector for fiscal 2024 is improving. The COVID-19 and restructured book impact on credit costs has been largely absorbed till first half of fiscal 2023. The growth momentum will continue in fiscal 2024, as disbursements pick up in aftermath of COVID-19 and due to the removal of prescriptive cap on lending rates in March 2022. The new regulations are positive for the sector and provide all microfinance practitioners with the ability to price in risks while providing a level playing field for non-bank financial companies (NBFC)-microfinance institutions (MFIs) in terms of applicable regulations. However, the impact of elections in key states in fiscal 2024 on the sector would be a key monitorable.

Players with stronger operating and capital buffers, operational abilities for faster decision making, proactiveness in scouting for right customers, better services and quality technology platform/user interface would gain the market share. FSIAPL maintains that credit costs for Fiscal 2024 will remain in the range of 1%-3% with the expectations of improved operating buffers resulting in higher profitability. There is increasing exposure per borrower in an inflationary environment with a possibly non-commensurate increase in income levels and this aspect would also be a key monitorable. SFBs with their access to lower cost of borrowing and regulated environment would be in a better position to withstand the pressures as compared to the NBFC-MFIs.

Growth Drivers of the Microfinance Industry

- **Government support:** The journey of financial inclusion in the past two decades has been one of intensive efforts and incremental experimentation. However, the quantum jump came when Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched in 2014, which enabled achievement of the objective of providing bank accounts to adult population in almost every household. The reach of mobile phones and e-KYC (know your customer) has ensured these accounts are accessible to those who have been included in the financial services spectrum.
- **RBI efforts:** Until two decades ago, on the supply side, the absence of technology and infrastructure was a major impediment as it restricted expansion of banking services to far-flung areas of the country comprising over 600 thousand villages. The institutionalisation of the framework of Business Correspondents (BCs) has been a major step towards enhancing access to banking services. RBI advocated a combination of a 'Brick and Mortar' structure with technology for extending financial inclusion in the geographically dispersed areas. With all these measures, the number of banking outlets in villages has gone up significantly.
- **Financial Inclusion Plan:** Financial inclusion has become a focus area for banks, NBFCs, financial technology (Fintechs) and other financial entities. Small Finance Banks have also been set up to further financial inclusion with a client base comprising mainly of migrant labour workforce, low-income households, small businesses and other unorganised sector entities. The RBI has also taken several steps including encouraging use of mobile banking, pre-paid instruments such as digital and mobile wallets, etc. For more than a decade now, banks have worked hard to sustain the momentum to achieve the objective of financial inclusion.
- **Easy availability of credit:** Availability of credit is the key growth driver for the microfinance industry. To encourage more borrowing among customers and stimulate the slowing Indian economy, the RBI has increased eligible income limit from the current level of Rs. 0.1 million per annum for rural areas to Rs. 0.3 million per annum. This increase in lending limits, supported by new investment channels and changing business models have supported the growth of this industry.
- **Increasing boost to women entrepreneurship:** Around 90% of the microfinance borrowers are women entrepreneurs and women centric SHGs. Success of microlenders have largely been on financially supporting women entrepreneurs who are major contributors to the sectoral and overall economic growth. Government and private micro lending institutions have organised educational sessions on enterprise, personal finance and business management to help women in effectively using credit.

Government Initiatives and Regulations in the Microfinance Industry

Over the past years, the Government and the RBI have recognized the role played by MFIs in furthering the government's financial inclusion agenda. As a part of strengthening the MFI industry, the RBI appointed the industry body, the Microfinance Institutions Network (MFIN) as well as Sa-Dhan (an association of MFIN) as self-regulatory organizations (SROs) and brought Credit Bureau to the tiny loan segments. There has been a tremendous improvement in the risk management practices of MFIs which is evident by the fact that the sector was able to tide over the effects of demonetization despite MFIs' transactions with customers mainly being in cash as they cater to low income households with the majority being located in rural areas. NBFC-MFIs are increasingly adopting digital transactions and

expecting disbursements and repayment to be cashless. However, their customers are illiterate and the adoption is low by customers.

The NBFC-MFIs adhere to RBI guidelines to fix interest rates. As NBFC-MFIs are non-deposit taking entities, they borrow funds from external sources to cater to the micro-credit requirements of their clients. The interest rates of NBFC-MFIs are heavily dependent on the cost of funds that it borrows and RBI stipulations. Over the years, the average cost of funds for MFI has come down and many of the MFIs have started passing on the benefits of the reduction in the cost of funds to their clients by charging lower interest rates to their clients.

Some of the key Government initiatives in the microfinance landscape as per NABARD are as follows:

- **Evolution of Self-Help Group Movement:** The Self-Help Group Bank Linkage programme (SHG-BLP) is a landmark model initiated by the NABARD in 1992 to deliver affordable door-step banking services and has largely achieved the stated goals of financial inclusion. SHG-BLP transcended itself into a holistic programme for building financial, social, economic, and of late, technological capital in rural India. The SHG BLP spearheaded by NABARD had a modest beginning with 225 credit linked groups and a loan amount of Rs 2.9 million in 1992. As at March 31, 2022, there were almost 11.9 million SHGs in India with deposits of Rs. 472.4 billion.
- **Swarna-Jayanti Gram Swarojgar Yojna (SGSY):** The SGSY of Government was implemented through group-mode financing to cover all BPL families. SGSY was restructured in 2011 to form the National Rural Livelihood Mission (NRLM) to be implemented in mission mode across the country. NRLM is an entirely group centric, group driven poverty alleviation programme. It has enhanced the livelihoods of many families over the decade.
- **Digitization of SHGs through E-Shakti:** NABARD, in tune with the Hon'ble Prime Minister's dream of a Digital India and its own line of thinking on digitization, launched a pilot project for digitization of SHGs titled 'E-Shakti' in March 2015 in two districts, namely, Ramgarh (in Jharkhand) and Dhule (in Maharashtra). Encouraged by the positive response and interest generated amongst the stakeholders in Phase I, the pilot project was expanded to 281 more districts under various phases.
- **Introducing Joint Liability Groups for mid-segment clients:** NABARD piloted and developed an effective credit product for mid-segment clients – JLGs. This product facilitates hassle free credit which has a longer term, thus fulfilling the seasonal needs of credit larger in quantum. There are 18.8 million JLGs with deposits of Rs. 3,259.4 billion as at March 31, 2022. Overall, there has been a steep increase in the number of JLGs from Fiscals 2016 to 2022 with SFBs and commercial banks promoting JLGs through MoUs with NABARD. Under the business model of JLG promotion and financing, NABARD has so far entered into 53 MoUs in 22 states; comprising 38 MoUs with regional rural banks (RRBs), 10 MoUs with State Bank of India (SBI) in 8 states, one MoU each with Syndicate Bank, Allahabad Bank and Union Bank and two MoUs with state cooperative banks in Jharkhand and Odisha. Under this scheme, NABARD provides grant assistance to banks for using corporate BC/ NGO as JLGPIs and for capacity building to create a pool of trainers out of bank staff for formation, nurturing and financing of new JLGs.
- **SIDBI Foundation for Micro Credit (SFMC):** SIDBI supported the growth story of MFIs through its SIDBI Foundation for Micro Credit (SFMC) in 1999. The India Microfinance Equity Fund (IMEF) later

supported MFIs, especially the medium and smaller ones with equity and quasi-equity. The SFMC plays an increasingly important role in providing 'user-friendly' formal financial services to the poor due to the failure of the main poverty alleviation programme - the Integrated Rural Development Programme (IRDP).

- **Micro Units Development & Refinance Agency Ltd (MUDRA):** The MUDRA NBFC was set up by the Government of India (Government) in 2015 for providing loans of up to Rs. 1 million to the non-corporate, non-farm small and micro enterprises with its total focus to hand-hold and facilitate the development process of smaller MFIs and not-for profit MFIs as they are the ones who operate in remote locations and with the more underserved populations. It has been initially formed as a wholly owned subsidiary of SIDBI as a refinance company with an authorised capital of Rs. 10 billion and a paid-up capital of Rs. 7.5 billion. The ambit of MUDRA is wide with the prime responsibility to develop and refinance micro enterprises engaged in eligible defined activities and support the financial institutions which are in the business of extending the MUDRA loan scheme.
- **Establishment of Small Finance Banks (SFBs):** The RBI has taken steps to expand the banking space to ensure greater financial inclusion, and in November 2014 issued guidelines for the setting up of Small Finance Banks and Payments Banks. On September 16, 2015, the RBI granted in principle approval to ten entities to start Small Finance Banks (SFBs) which would essentially undertake basic banking activities that include accepting deposits, savings, credit, insurance, remittances etc. and lending to under-served sections.
- **Setting up of Payment Banks:** The setting up of Payment Banks has also given a further fillip to the microfinance sector. Partnerships between MFIs and Payment Banks can ensure that MFIs' clients can avail of financial products other than credit from the latter. Additionally, the cash and remittance management services of MFIs can be taken care of by the Payments Banks.
- **Microfinance Institutions Network (MFIN):** MFIN was created to promote the key objectives of microfinance, which is to help economically underserved communities achieve greater financial independence and build sustainable livelihoods. MFIN's primary objective is to work towards the robust development of the microfinance sector, by promoting responsible lending, client protection, good governance and a supportive regulatory environment. MFIN was established in October 2009 as a society under the Andhra Pradesh Societies Registration Act 2001. As per MFIN bye-Laws, all NBFCs registered with the RBI as NBFC-MFIs are eligible for membership of the society. The RBI, vide its letter dated June 16, 2014, accorded recognition to MFIN as a self-regulatory organisation (SRO) of NBFC-MFIs. MFIN works closely with regulators and other key stakeholders and plays an active part in the larger financial inclusions dialogue through the medium of microfinance.
- **Sa-Dhan:** Sa-Dhan is the Association of Indian Community Development Finance Institutions. Sa-Dhan's mission is to build the field of community development finance in India to help its member and associate institutions to better serve low-income households, particularly women, in both rural and urban India, in their quest for establishing stable livelihoods and improving their quality of life. It was recognised as an SRO for NBFC-MFIs by the Reserve Bank of India in March 2015. Amongst some of the key tasks before the SRO, Sa-Dhan will have to conduct investigations into areas of concern as pointed out by the RBI, including keeping the Central Bank informed of violations by any of its members.

7. MICRO SMALL AND MEDIUM ENTERPRISE

Introduction

After agriculture, the Micro Small and Medium Enterprises (MSME) sector is the most important sector to the Indian economy. As at March 31, 2023, it accounted for 30% of India's Gross Domestic Product (GDP) and 40% of exports. It also contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities to more than 110.0 million individuals at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly to the inclusive industrial development of the country. MSMEs are intertwined with the rural economy, as more than half of the MSMEs operate in rural India.

Overview of MSMEs in India

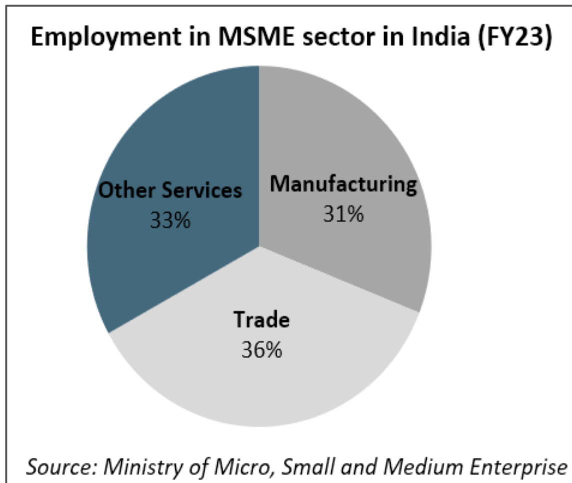
The MSMEs are widening their domain across sectors of the economy, producing a diverse range of products and services to meet the demands of domestic as well as global markets. As per the National Sample Survey (NSS) 73rd round, conducted by the National Sample Survey Office (NSO), Ministry of Statistics & Programme Implementation, as at March 31, 2016, there were 63.4 million unincorporated non-agricultural MSMEs in the country engaged in different economic activities (19.7 million in manufacturing, 0.003 million in non-captive electricity generation and transmission, 23.0 million in trade and 20.7million in other services).

Number of MSMEs in India (Activity Wise) as on FY16

Activity Category	Estimated Number of Enterprises (in mn)			Share (%)
	Rural	Urban	Total	
Manufacturing	11.4	8.3	19.7	31%
Electricity (Non-captive electricity generation and transmission)	0.003	0.001	0.003	-
Trade	10.9	12.2	23.0	36%
Other Services	10.2	10.5	20.7	33%
All	**32.5**	**30.9**	**63.4**	**100%**

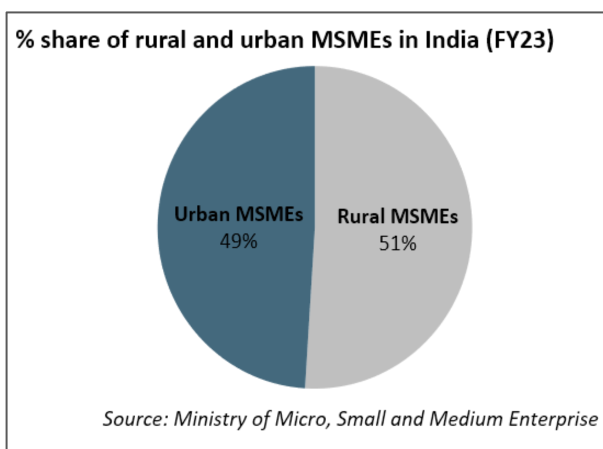
Source: Ministry of Micro, Small and Medium Enterprise

The number of MSMEs in India grew to over ~100.0 million as at March 31, 2023. The MSME sector has been creating 110.0 million jobs (36.04 million in manufacturing, 0.007 million in non-captive electricity generation and transmission, 38.7 million in trade and 36.2 million in other services) in the rural and the urban areas across the country as at March 31, 2023. Out of 63.4 million MSMEs, 60.8 million (95.98%) MSMEs were proprietary concerns as at March 31, 2023. There was a dominance of male ownership of proprietary MSMEs. Thus, for proprietary MSMEs as a whole, males owned 79.63% of enterprises as compared to 20.37% owned by females as at March 31, 2023. There was no significant deviation in this pattern in urban and rural areas, although the dominance of male-owned enterprises was slightly more pronounced in urban areas compared to rural areas (81.58% as compared to 77.76%, respectively, as at March 31, 2023).



Source: Ministry of Micro, Small and Medium Enterprise

As at March 31, 2023, out of an estimated 100.0 million MSMEs, 51.0 million MSMEs (51%) were in rural areas and 49.0 million MSMEs (49%) were in urban areas. The socially backward groups owned almost 66.27% of MSMEs as at March 31, 2023. The bulk of that was owned by OBCs (49.72%) as at March 31, 2023. The representation of scheduled caste (SC) and scheduled tribe (ST) owners in the MSME sector was low at 12.45% and 4.10%, respectively as at March 31, 2023. In rural areas, almost 73.67% of MSMEs were owned by socially backward groups as at March 31, 2023, of which 51.59% belonged to the other backward classes (OBCs) as at that date. In urban areas, almost 58.68% belonged to the socially backward groups as at March 31, 2023, of which 47.80% belonged to the OBCs as at that date.



Source: Ministry of Micro, Small and Medium Enterprise

State-wise distribution of MSMEs

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office (NSO), Ministry of Statistics & Programme Implementation, during Fiscal 2016, Uttar Pradesh had the largest number of estimated MSMEs with 9.0 million enterprises, constituting 14.2% of MSMEs in India as at June 2016. This is followed by West Bengal (14%), Tamil Nadu (7.8%), Maharashtra (7.5%), Karnataka (6%) and Bihar (5.4%). The top 10 states accounted for 74% of the total estimated number of MSMEs in India as at June 2016. The remaining 26% of MSMEs are operating in other states in the country as at that date. The table given below gives a brief of the distribution of MSMEs in various states in India as at June 2016.

State-wise distribution of MSMEs in India

Sr. No.	State/ Union Territiry	Number (in mn)	% share
1	Uttar Pradesh	9.0	14.2%
2	West Bengal	8.9	14.0%
3	Tamil Nadu	4.9	7.8%
4	Maharashtra	4.8	7.5%
5	Karnataka	3.8	6.0%
6	Bihar	3.4	5.4%
7	Andhra Pradesh	3.4	5.3%
8	Gujarat	3.3	5.2%
9	Rajasthan	2.7	4.2%
10	Madhya Pradesh	2.7	4.2%
11	Total of above 10 states	46.9	74.0%
12	Other States/ UT	16.5	26.0%
	Overall Total	**63.4**	**100%**

Source: Ministry of Micro, Small and Medium Enterprise

New MSME Definition

The Government of India has modified the definition of MSMEs under the Atmanirbhar Package announced in July 2020 to increase the number of enterprises eligible for being classified as micro, small and medium enterprises. For this purpose, the threshold limits of investment and turnovers of MSMEs have been raised higher and have been extended to both goods-based and service-based businesses. The table below gives the comparison of new MSME definition versus the old definition:

Old MSME Definition			
Investment in Plant and Machinery or equipment			
Type	**Micro**	**Small**	**Medium**
Manufacturing enterprise	Investments < Rs.2.5mn	Investments < Rs.50mn	Investments < Rs. 100mn
Services enterprises	Investments <Rs. 1.0mn	Investments < Rs.20mn	Investments < Rs.50mn
New MSME Definition			
Investment and Annual Turnover			
Type	**Micro**	**Small**	**Medium**
Manufacturing and Services enterprises	Investments < Rs.10.0 mn and Turnover < Rs.50.0mn	Investments < Rs.100.0 mn and Turnover < Rs.500.0mn	Investments < Rs.500.0 mn and Turnover < Rs.2.5bn

Source: Ministry of Micro, Small and Medium Enterprise

MSME Udyam Registration

This Ministry, vide notification no. S.O.2119 (E) dated 26.06.2020, has notified a composite criterion of classification of MSMEs based on investment in plant and machinery/equipment and turnover of MSMEs. Based on composite criteria of classification of MSMEs, this Ministry has replaced the erstwhile process of filing of Udyog Aadhaar Memorandum, by 'Udyam' registration on a portal

developed by this Ministry. Now the existing and prospective entrepreneurs may file their 'Udyam' Registration online on portal: https://udyamregistration.gov.in. Udyam offers free, paperless online and instant registration through a web portal. Small businesses are not required to upload any documents or proof except the Aadhaar number for registration. Earlier GST registration was mandatory for UDYAM registration but from March 2021 onwards, it is exempted for those units who are not eligible for GST registration.

As per the MSME Udyam registration website, the number of Udyam-registered MSMEs in India as at June 21, 2023 has grown to over 16.9 million. Segment-wise micro-enterprises have been registered the most. The micro sector with 16.28 million estimated enterprises accounted for more than 96.45% of total estimated number of MSMEs as at June 21, 2023. Small sector with 0.55 million and medium sector with 0.05 million estimated MSMEs accounted for 3.26% and 0.30% of total estimated MSMEs, respectively, as at June 21, 2023.

As of December 31, 2022, under the top five state-wise Udyam registrations, Maharashtra recorded maximum number of registrations with 1.6 million units, followed by Tamil Nadu (0.9 million units), Gujarat (0.6 million units), Uttar Pradesh (0.6 million units) and Rajasthan (0.6 million units). The following tables shows the number of MSME registration and share of overall MSME registration for the top 10 states as at December 31, 2022.

Top 10 states in registration of MSMEs

Name of the state	Cumulative MSME registration (in mn units)	Share in overall MSME registration (%)
Maharashtra	1.6	20%
Tamil Nadu	0.9	11%
Gujarat	0.6	8%
Uttar Pradesh	0.6	8%
Rajasthan	0.6	8%
Karnataka	0.5	6%
Madhya Pradesh	0.4	4%
Bihar	0.3	4%
Punjab	0.3	4%
Haryana	0.3	4%

Source: MSME Udyam Registration website

Government e-Marketplace Portal

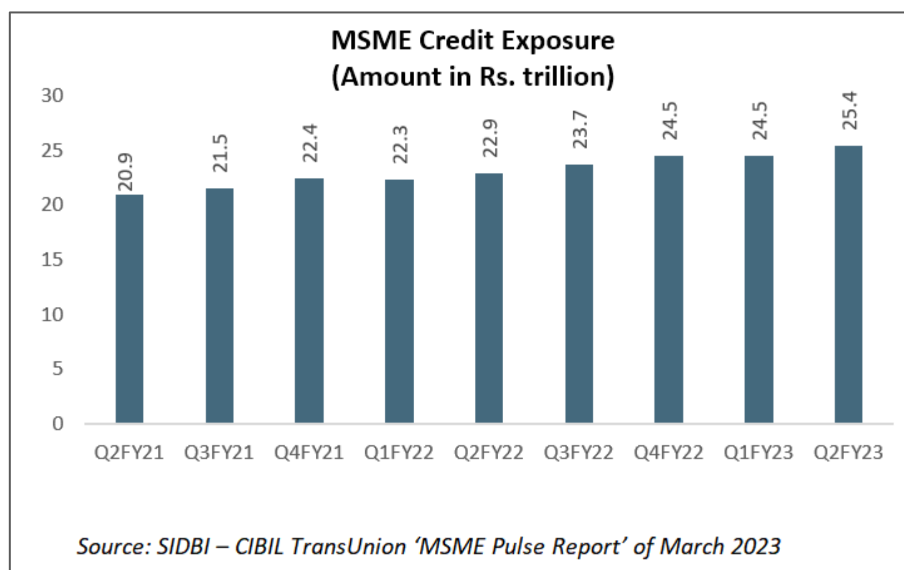
MSMEs are being encouraged to market their products on the e-commerce site, especially through Government e-Marketplace (GeM), owned and run by the government, wherefrom Ministries and PSUs (public sector undertakings) source their procurement. The Udyam portal is integrated with the Government e-Marketplace (GeM) and the Trade Receivables and Discounting System (TReDS) so that enterprises can participate in government procurement and have a mechanism for discounting their

bills. After the GeM portal was launched in 2017, business worth about Rs. 400 crores were done, and in the second year i.e. fiscal 2018, GeM did business of about Rs. 5,800 crores. The business through GeM has grown from around Rs. 35,000 crores in fiscal 2020 and tripled in fiscal 2022 to Rs, 1.6 trillion. In the fiscal year 2023, procurement of goods and services from government portal GeM has crossed the Rs 2.0 trillion.

Market size of Indian MSME credit

Demand for MSME loans (measured by number of commercial credit enquiries) has picked up in the last two years and has grown to 1.7 times the pre-pandemic level. This can be attributed to improvement in broader economic activity after the second wave of pandemic. Further, extension of the ECLGS scheme, availability of enriched credit data and higher adoption towards digital lending has enabled more MSMEs to access credit. MSME credit disbursements have doubled compared to pre-pandemic across segments, indicating that lenders are in a position to support the increasing credit demand.

As per latest SIDBI – CIBIL TransUnion 'MSME Pulse Report' of March 2023, Total MSME credit exposure of formal players (banks, NBFCs and other formal lenders) is at Rs. 25.4 trillion as at September 30, 2022 reflecting a y-o-y growth rate of 10.9%. A portion of this book (~10%) is from legacy accounts with DPD beyond 720 days or reported as loss/doubtful. Thus, the book that will be considered going forward for MSME Pulse stands at Rs. 22.9 trillion as of September 30, 2022. The book of Rs. 22.9 trillion is made of Rs. 7.9 trillion from Public sector banks, Rs. 10.1 trillion from Private sector banks and Rs.3.1 trillion from NBFCs, remaining fall under others. The small segment has the highest proportion in the MSME book at Rs. 9.5 trillion, and micro and medium at Rs. 5.8 trillion and Rs. 7.6 trillion respectively.



Source: SIDBI – CIBIL TransUnion 'MSME Pulse Report' of March 2023

This credit growth is observed across all sub-segments of MSME lending. Balances for micro grew at 13% y-o-y, whereas the small and medium segment books grew at 10% and 8%, respectively.

Outstanding balances increased by 6%, 18% and 3% y-o-y for Public sector banks, Private banks and NBFCs, respectively.

Share of NBFCs v/s Banks in MSME credit

Increasing credit flow to MSMEs has been a policy priority for the RBI and the government. The table given below shows that on a year-on-year basis, the outstanding credit to MSMEs by Scheduled Commercial Banks increased by 14.2% as at December 31, 2022 (11.7% as at December 31, 2021) to reach Rs. 21.5 trillion as at December 31, 2022. This indicates that Scheduled Commercial Banks hold 84.6% of the total MSME credit exposure of formal players as at December 31, 2022. NBFCs hold the balance 15.4% of the total MSME credit exposure of formal players as at December 31, 2022.

Bank Credit to MSMEs (Amount in Rs. trillion, No. in mn)

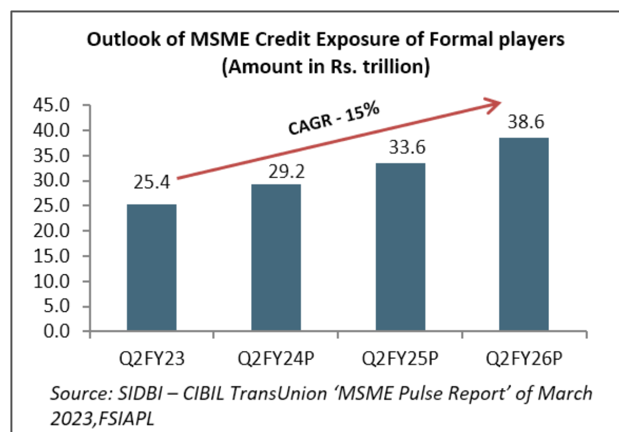
Year	Micro Enterprises		Small Enterprises		Medium Enterprises		MSMEs	
	No. of accounts	Amount o/s	No. of accounts	Amount o/s	No. of accounts	Amount o/s	No. of accounts	Amount o/s
FY19	25.6	6.6	2.3	6.4	0.3	2.0	32.1	15.1
FY20	35.3	7.2	2.3	6.3	0.4	2.0	38.0	15.5
FY21	38.8	8.2	2.8	6.6	0.4	3.0	42.0	17.8
FY22	24.0	8.9	2.2	7.3	0.3	4.1	26.5	20.2
As on Dec 31, 2021	22.1	8.2	2.3	6.9	0.3	3.7	24.7	18.8
As on Dec 31, 2022*	19.4	9.8	1.7	7.3	0.3	4.4	21.4	21.5

Source: RBI's FY23 Annual Report (Priority Sector returns submitted by SCBs)

*Note: *Data are provisional*

Industry growth and outlook of the MSME credit growth in India

Credit infusion to MSMEs declined sharply post-lockdowns due to the COVID-19 pandemic. The Emergency Credit Line Guarantee Scheme (ECLGS) scheme implementation brought a much-needed boost and significantly helped to revive credit infusion to MSMEs post its announcement in May 2020. Given that MSMEs' role in Atmanirbhar Bharat initiative and the flow-through impact of schemes such as the Productivity Linked Incentive (PLI) scheme should sustain credit demand, FSIAPL estimates the total MSME credit exposure of formal players (banks, NBFCs, Small finance banks, and other formal lenders) to increase at a CAGR of 15% from Rs. 25.4 trillion as at September 30, 2022 to reach Rs. 38.6 trillion as at September 30, 2026.



Source: SIDBI – CIBIL TransUnion 'MSME Pulse Report' of March 2023,FSIAPL

Growth Drivers of the Indian MSME Market

Make in India initiative is a boost to MSME sector: The key objective of the Make in India initiative is to reduce imports and make India self-reliant. This is a huge growth potential for the MSME segment. The MSME sector in India boasts diversity in terms of its size, level of technology employed, range of products and services provided and target markets. The Government is already eyeing the defence sector to promote more Make in India activities. With its vast resource pool of engineering talent and high skill labour at competitive costs, India has the potential to become a significant player in the

global auto industry, especially in engineering and component manufacturing. Many more lucrative opportunities can be tapped by Indian MSMEs in the foundry industry, electronics industry, chemicals, leather, textiles, agro and food processing, pharmaceuticals, transport and tourism industries, etc.

Digitisation to foster growth: MSMEs confront problems related to access to affordable, skilled manpower to build, manage the digital infrastructure. Small businesses that are still using the brick-and-mortar models need experts and digital tools to help them transition their basic processes, including supply chain, analytics, marketing, accounting, amongst others. Digitisation will support the MSME segment tremendously. Digitisation has already created an excess of data points for lenders that would help improve the efficacy of credit assessment and gradually enable provision of credit to previously underserved customer segments.

Great export potential of MSME segment: Exports from the small-scale sector over a period of time have acquired great significance in India's foreign trade. Export promotion from the small-scale sector has been accorded a high priority in the India's export promotion strategy. The small industries due to their inherent strengths of low capital investment, high employment generation, maximum utilisation of capacity, flexibility in operation, etc. are highly conducive for rapid industrialization and generation of export surpluses. India can seize the opportunities provided by the dynamics of globalisation which has resulted in a dramatic shift of manufacturing to developing countries over the last decade.

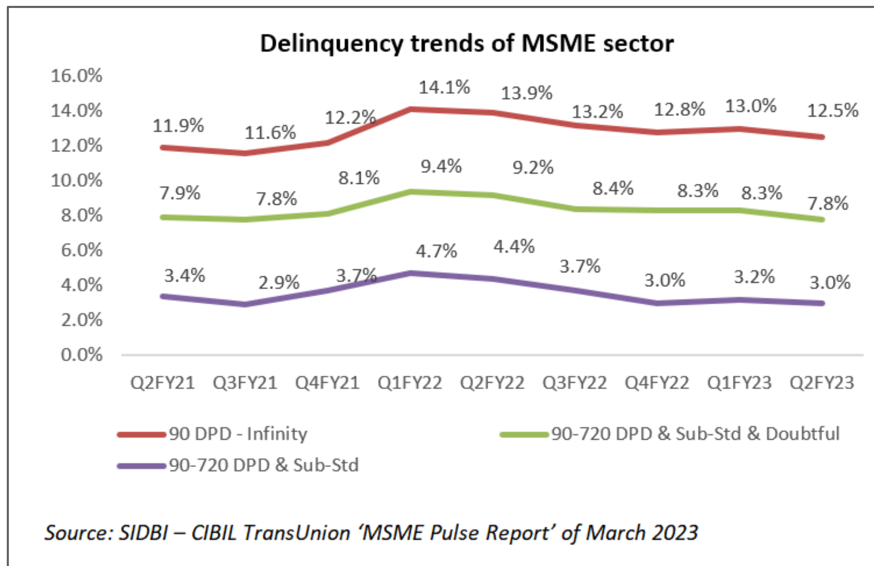
E-Commerce is a key enabler for MSME products: The share of e-commerce in total retail has been growing consistently across the world. Growth in adoption of e-commerce is particularly pronounced in the United States, and countries in the Asia-Pacific region, including China. India is no stranger to fast-growing e-commerce. E-commerce could provide Indian MSMEs an opportunity to attract consumers and organizations from India and across the globe. It enables an understanding of specific consumer needs and aids the delivery of customized solutions, thereby increasing their importance in global value chains. E-commerce could also become a tool for Indian MSMEs to lower operational costs, increase revenue, acquire more customers and benefit from customer advocacy. The online medium could help them access a seamless global supply chain at a fraction of the proportional cost of market access and delivery, freeing up cash for growth.

Government support: Government of India announced the ‘Atmanirbhar’ stimulus package in 2020 to reboot India’s micro, small and medium enterprises (MSMEs) sector, which was recently reclassified on the basis of turnover and investment. It is being hailed as major fiscal policy and relief measure package to assuage India’s economic predicament amidst the pandemic with specific emphasis on MSME revival.

MSME Segment asset quality

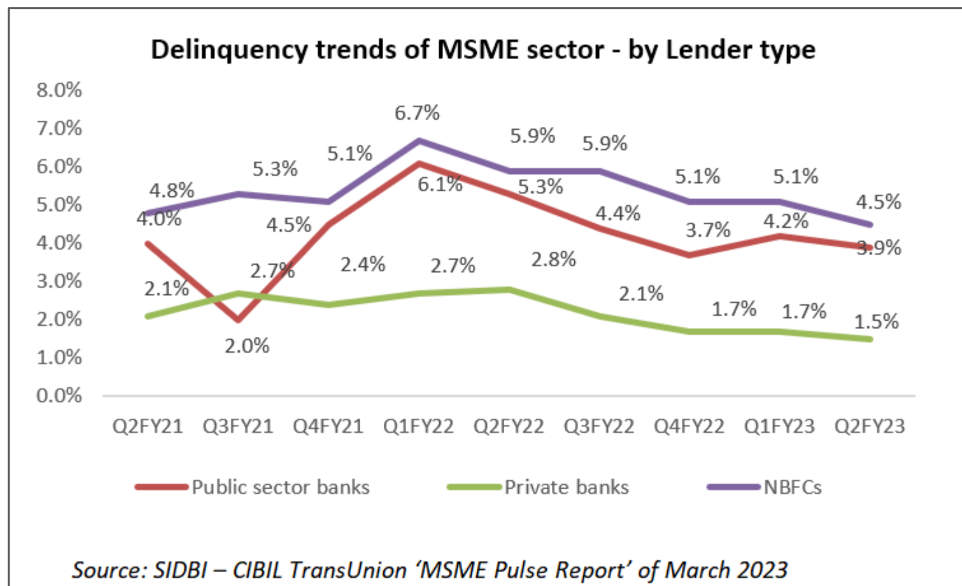
As per latest SIDBI – CIBIL TransUnion ‘MSME Pulse Report’ of March 2023, historically, we have seen NPA rates (90+DPD) of 12.5%, which is very high given the legacy DPD (Days past due) accounts that continue to show MSME as a high-risk business. Considering the book, as per new definition (i.e., excluding Doubtful, Loss and 720+ DPD accounts), the delinquency rates of MSME sector are as low

as 3.0% for Q2FY23 i.e. September 30,2022. The delinquency rates were 4.4% same time last year, showing a constant decline thereon.



Source: SIDBI – CIBIL TransUnion 'MSME Pulse Report' of March 2023

The graph below depicts that delinquency rates dropped across all the three lender categories, with the maximum drop in Private bank segment from 2.8% in September 30, 2021 to 1.5% in September 30, 2022.



Source: SIDBI – CIBIL TransUnion 'MSME Pulse Report' of March 2023

Regulatory and policy-level factors that are spurring the market

Credit to MSME sector has always been the priority area for the policy makers in the country, which is evident from the announcements in the recent Union budgets, monetary and credit policies, stimulus package during global economic slowdown and COVID-19 relief measures. The Government of India has shown strong commitment to double the credit flow to this sector in the next five years. Empowering MSMEs was one of the key focus areas in the Union Budget 2023-24 to accelerate growth by making structural changes. Incentives for MSMEs in the 2023-24 Budget consist of the following:

- The government has announced an extra corpus of Rs 90,000 million in the revamped credit guarantee scheme for MSMEs from 1st April 2023, which will enable them to avail additional collateral-free credit of Rs 2 trillion. It will also reduce the cost of credit by 1%.
- Also, MSMEs now stand to get 95% of forfeited amount from the government and other undertakings for contract failure during Covid-19.
- Entity Digi Locker to be setup for use by MSMEs, large business and charitable trusts to store and share documents online securely.
- A unified Skill India Digital platform to be launched for enabling demand-based formal skilling, linking with employers including MSMEs, and facilitating access to entrepreneurship schemes.

Policy initiatives for the MSME sector are as follows:

- **MyMSME**: To facilitate the enterprises to take benefits of various schemes, the Office of Development Commissioner (MSME) has launched a web-based application module, namely, MyMSME. This can also access through a mobile app. Entrepreneurs can make their applications and track it as well on their mobile itself.
- **Udyog Aadhaar Memorandum (UAM):** Udyog Aadhaar Memorandum (UAM) is a one-page online registration system for MSMEs based on self-certification. The information sought is on a self-certification basis and no supporting documents are required at the time of online filing of UAM. As per the Udyam Aadhar Registration portal of Ministry of MSME, India had ~16.9 million Udyog Aadhar registered MSMEs as at June 21, 2023.
- **MSME Data Bank:** MSME Data Bank enables the Ministry of MSME to streamline and monitor the schemes and pass on the benefits directly to MSMEs. It is helpful for MSME units that can update their enterprise information as and when required without visiting any government office and updating information about their products/services. Until May 2023, more than 8.5 lakh (0.85 million) MSMEs registered in the databank.
- **Digital Payments:** To facilitate the enterprises to take benefits of various schemes, the Office of Development Commissioner (MSME) has launched a web-based application module, namely, MyMSME. This can also access through a mobile app. Entrepreneurs can make their applications and track it as well on their mobile itself. Ministry of MSME has taken numerous initiatives to digitally enable the entire MSME ecosystem. In line with the recommendations of Committee of Secretaries (CoS) and the guidelines of MeitY, a committee on Digital Payments has been constituted in the Ministry under the Chairmanship of Secretary (MSME) for making the Ministry and its attached offices achieve the successful implementation of 'Digidhan Mission'. For the Ministry and its attached offices (KVIC, Coir Board, NSIC, MGIRI, NIMSME and DC (MSME)) Digital transactions are 97.67% in terms of value and 88.64% in number during the fiscal year 2023 (up to December 2022).
- **Grievance Monitoring:** The Ministry attends to all the grievances on Centralized Public Grievance Redress and Monitoring System (CPGRAMS) and the number of the pending grievance on CPGRAMS as on December 31, 2022 was 60. The Ministry has started an MSME internet grievance monitoring system (eSAMADHAN) to track and monitor other grievances and suggestions received in the Ministry.

- **Technology Centre Systems Programme (TCSP): In** March 2021, the Ministry of MSME, through the Development Commissioner (DC-MSME), implemented the Technology Centre Systems Programme (TCSP) to establish 15 new technology centres (TC). The TCs aid the industry, predominantly MSMEs in the general engineering, automotive, fragrance & flavour and electronics system design and manufacturing (ESDM) sectors. MSME Champions scheme has been formulated through Standing Finance Committee (SFC) by merging all 6 components of erstwhile Technology Upgradation Scheme (TUS) for a period of 5 years i.e. 2021-22 to 2025-26. It is a Holistic Approach to unify, synergize and converge various schemes and Interventions with a single purpose. The end objective is to pick up clusters and enterprises and modernize their processes, reduce wastages, sharpen business competitiveness and facilitate their National and Global reach and excellence.
- **Raising and Accelerating MSME Performance (RAMP):** RAMP, launched in June 2022, is a World Bank supported Central Sector Scheme aimed at improving access of MSMEs to market, finance and technology upgradation by enhancing the outreach of existing MSME schemes. The program also aims at strengthening institutions at the Central and State level, and enhancing Centre-State collaboration. The total project cost of RAMP, for the five years FY 2022-23 to 2026-27 is Rs.60.6 billion, of which, World Bank support is Rs.37.50 billion (USD 500 million). RAMP scheme envisages to benefit more than 5.5 lakh MSMEs during the program period. The program implementation will be through the State agencies.
- **Emergency Credit Line Guarantee Scheme (ECLGS):** In the Union Budget of 2023-24, the Government announced extension of the emergency credit line guarantee scheme till 31st March 2023 and a Raising and Accelerating MSME performance (RAMP) program with an outlay of Rs. 60,000 million. In November 2021, the Indian government launched the Special Credit Linked Capital Subsidy Scheme (SCLCSS) for the services sector. This scheme will help enterprises in the services sector meet various technology requirements. As reported by National Credit Guarantee Trust Company (NCGTC), during the fiscal year 2023 (till 31.12.2022) total guarantees amounting to Rs. 145.8 billion have been issued to 78,924 accounts of MSMEs. Since inception in 2020 under ECLGS, total guarantees amounting to Rs. 3.60 trillion have been issued to 1.19 crore accounts, which includes MSMEs & other businesses.
- **Pradhan Mantri MUDRA Yojana (PMMY):** It is a scheme launched by the Hon'ble Prime Minister on April 8, 2015 for providing loans up to Rs.1.0 million to the non-corporate, non-farm small/micro enterprises. These loans are classified as MUDRA loans under PMMY. The Ministry of Finance stated that the PMMY) has sanctioned 41 crore loans amounting to Rs. 23.2 trillion in the past eight years. The scheme has shown significant success in promoting entrepreneurship, with 68% of accounts under the scheme belonging to women entrepreneurs and 51% belonging to entrepreneurs from SC/ST and OBC categories.
- **SAMBHAV:** In November 2021, the Ministry of Micro, Small and Medium Enterprises launched SAMBHAV, a national-level awareness programme to push economic growth by promoting entrepreneurship and domestic manufacturing.
- **Prime Minister Employment Generation Programme (PMEGP):** PMEGP is a bank appraised and financed, 'credit linked subsidy programme' for generation of employment opportunities through establishment of non-farm based micro enterprises for self-employment in rural as well as urban

areas of the country. This MSME scheme is being managed by Khadi and Village Industries Commission (KVIC) at the national level and being implemented by State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs) and banks at the state and districts level. Since inception in 2008-09 and up to December 31,2022; a total of about 8.37 lakh micro enterprises have been assisted with a margin money subsidy of Rs. 207.7 billion and provided employment to about 68.05 lakh persons. During the fiscal year 2023, a target has been fixed for setting up of 1,01,006 PMEGP units, by disbursing Rs. 29.5 billion as margin money subsidy, and generating estimated employment opportunities for 8.08 lakh persons.

- **Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE):** Ministry of MSME and SIDBI has jointly established the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Scheme for MSMEs. The corpus of CGTMSE is contributed by the Government and SIDBI. Guarantees are provided for extending collateral free lending to Micro and Small Enterprises through banks and financial institutions (including NBFCs). The Scheme covers collateral free credit facility (term loan and/ or working capital) extended by eligible lending institutions to new and existing micro and small enterprises up to Rs. 200 lakh per borrowing unit. The guarantee cover provided under this scheme varies from 75 % to 85% depending upon the quantum of loan and type of beneficiary. A nominal amount towards an Annual Guarantee Fee for the credit facility sanctioned is charged on the outstanding loan amount. This scheme has covered more than 67 lakh beneficiaries in the last 22 years. As on March 31, 2023, cumulatively 1.04 trillion proposals have been approved.
- **Interest Subsidy Eligibility Certificate (ISEC):** Government of India had launched the 'Interest Subsidy Eligibility Certificate' (ISEC) Scheme in May, 1977 for Khadi Institutions to mobilize additional requirements of fund from the Financial Institutions/Banks. The ISEC Scheme is the major source of funding for the Khadi Programme and also to a limited extent for the Village Industries Programme. The ISEC for Village Industries has discontinued from 2012-13. During fiscal year 2023 (up to December 31, 2023), the anticipated disbursement under ISEC to Khadi and Polyvastra is expected to be Rs. 35.0 crore to 1500 Khadi Institutions.
- **Market Promotion & Development Scheme (MPDA):** This MSME scheme is an amalgamation of different MSME schemes implemented by the Khadi sector including publicity, marketing, market promotion and marketing development assistance.
- **Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI):** With a view to make the traditional industries more productive and competitive and facilitating their sustainable development, the Govt. of India announced a Central Sector Scheme titled the 'Scheme of Fund for Regeneration of Traditional Industries (SFURTI)'. Coir Board is one of the Nodal Agencies under the Ministry of MSME for implementation of this scheme. So far, 40 coir clusters were sanctioned with a total project cost of Rs.141.14 Crores, out of which Government of India grant is Rs. 117.04 Crores.
- **A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE):** This MSME scheme aims to create new jobs and reduce unemployment, promote entrepreneurship culture in India, boost economic development, facilitate innovative business solution for un-met social needs, and promote innovation to further strengthen the competitiveness of the MSME sector. ASPIRE scheme was approved for continuation from 2021-22 to 2025-26 with a budget outlay of

Rs.1.9 billion. As of December 31,2022 around 102 Livelihood Business Incubators (LBIs) and 22 Technology Business Incubators (TBIs) have been approved, of which 63 LBIs and 14 TBIs have already become functional.

- **Procurement and Marketing Support Scheme (P&MS):** This MSME scheme aims to encourage MSEs to develop domestic markets and promotion of new market access initiatives, to facilitate market linkages for effective implementation of Public Procurement Policy for MSEs and educate MSMEs on various facets of business development.
- **Entrepreneurship Skill Development Programme (ESDP):** This aims to organise entrepreneurship development programmes on a regular basis to nurture the talent of youth by building their capacity on various aspects of industrial activity required for setting up MSEs. The ESDP scheme had fund allocation of Rs. 40 crores in the fiscal year 2023. Around 1,105 programmes benefitting 66,502 beneficiaries have been completed under the ESDP plan.
- **Assistance to Training Institutions (ATI):** This MSME scheme aims to provide capital grant to the training institutions at country level which are operating under the Ministry of MSME for the purpose of creation and strengthening of infrastructure and support for entrepreneurship and skill development training/ capacity building programmes.
- **Micro & Small Enterprises Cluster Development (MSE-CDP):** This MSME scheme provides financial assistance for establishment of Common Facility Centres (CFCs) for testing, training centres and other R&D and to create/ upgrade infrastructural facilities (IDs) in the new/ existing industrial areas/ clusters of MSE’s.

Ministry of Micro, Small & Medium Enterprises (M/o MSME) envisions a progressive MSME sector by promoting growth and development of the Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises, adopting cutting edge technologies and encouraging creation of new enterprises. Apart from this, the government is also working with other organisations to help the MSMEs under the zero defect zero effect (ZED) certification scheme (providing technology upgradation and quality certification), ASPIRE scheme to promote quality and innovation, Design Clinic, etc. The government has also launched the Champion portal which will provide all solutions at one place, and we will further promote the portal to make MSMEs more competitive. The government is also working with the state governments to formulate a coordinated response to the issues faced by the MSMEs, under the 'Raising and Accelerating MSME Performance' (RAMP) scheme.

8. AFFORDABLE HOUSING FINANCE

Introduction

The housing market in India is one of the rising sectors owing to the increasing population, income along with rising demand for affordable houses over the last few years. The market is characterised by excess demand for affordable dwellings, a small rental market and an oversupply of high-end housing, especially in urban areas. The housing shortage among low-income groups is large, despite increases in the stock of quality housing in recent years, as house prices are high relative to incomes. Ongoing urbanisation, particularly rural-urban migration will intensify demand for affordable housing in the coming years, especially at the low end of the market.

Rapid Urbanisation in India

In India out of the total population of 1,210.2 million as at March 1, 2011, about 377.1 million (31.7%) are in urban areas as at that date. The net addition of population in urban areas over the last decade is 91 million. The percentage of urban population to the total population of the country stands at 31.7% as at March 1, 2011. There has been an increase of 3.35% in the proportion of urban population in the country during 2001-2011. The provisional results of Census 2011 reveal that there is an increase of 2,774 towns comprising 242 Statutory and 2532 Census towns over the decade. Further, the number of cities/urban agglomeration (UA) with a population over one million has increased from 35 in Census 2001 to 53 in Census 2011. The 2021 Census was postponed to 2023 due to COVID-19.

No. of persons (in mn)			Decadal growth in population (%)	
Particulars	2001	2011	1991-2001	2001-2011
Rural	743	833	18.1	12.2
Urban	286 (27.8%)	377 (31.7%)	31.5	31.8 (+0.3%)
Total	**1029**	**1210**	**21.5**	**17.6**

Source: Population Census 2001 and 2011

As per the Ministry of Housing and Urban Affairs, among all the states and Union territories, the National Capital Territory of Delhi and the UT of Chandigarh are the most urbanized with 97.5% and 97.25% being part of the urban population, respectively, followed by Daman and Diu (75.2%) and Puducherry (68.3%) as at March 1, 2011 in Census 2011. In terms of absolute number of persons living in urban areas, Maharashtra continues to lead with 50.8 million people which comprise 13.5% of the total urban population of India as at March 1, 2011. Uttar Pradesh accounts for about 44.4 million, followed by Tamil Nadu at 34.9 million as at March 1, 2011.

Among all the states, Goa is now the most urbanised state with 62.2% urban population as at March 1, 2011, a significant increase since 2001 when the urban population of Goa was 49.8%. Another significant instance of rapid urbanisation is that of Kerala, its urban population was 47.7% as at March 1, 2011, while it was just 25.9% in 2001. Among the North-Eastern States, Mizoram is the most urbanised with 51.5% urban population as at March 1, 2011, though in terms of absolute contribution

to total urban population in the country, Mizoram's contribution is just 0.1% as at March 1, 2011. Similarly, Sikkim, which was just 11% urbanised in 2001 became almost 25% urbanised in 2011. Among major states, Tamil Nadu continues to be the most urbanized state with 48.4% of the population living in urban areas followed by Kerala (47.7%) upstaging Maharashtra (45.2%) as at March 1, 2011. The proportion of the urban population continues to be the lowest in Himachal Pradesh with 10% followed by Bihar with 11.3%, Assam (14.1%) and Orissa (16.7%) as at March 1, 2011.

Significant Housing Shortage in India

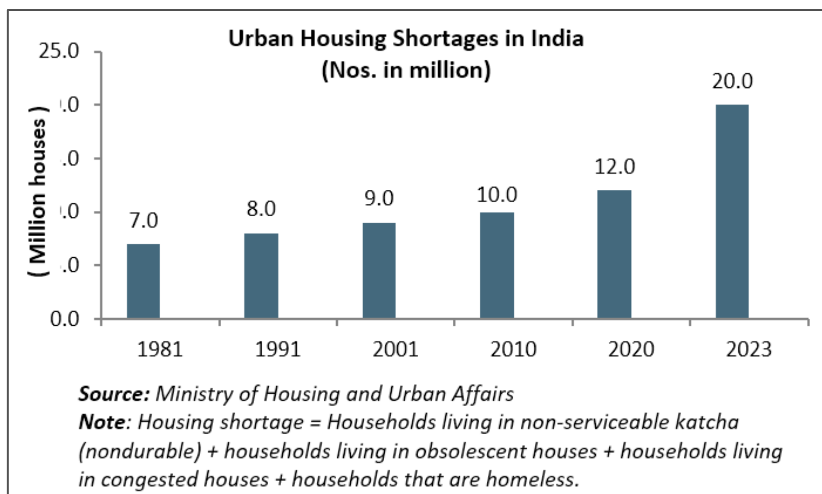
The Indian housing market has experienced a skewed demand–supply management. International comparisons show that the share of people living in poor quality housing in India is high compared to other Emerging Market Economies (EMEs). The latest data of rural housing shortage as of 2023 is not available. In 2011, the Planning Commission constituted a Working Group on Rural Housing for the Twelfth Five-Year Plan to provide a perspective and approach on rural housing. The Working Group on Rural Housing estimated that the shortage of housing in rural India was about 43.7 million housing units in 2012. Households living in temporary houses and in congested conditions were found to be mainly responsible for the rural housing shortage.

Rural Housing Shortage in India (in Millions)

Category	FY12 data	Share (%)
Below Poverty Line (BPL)	39.3	90
Above Poverty Line (APL)	4.37	10
Total	**43.67**	**100**

Source: Planning Commission of India - Working Group on Rural Housing for the Twelfth Five Year Plan, MRD (2011)

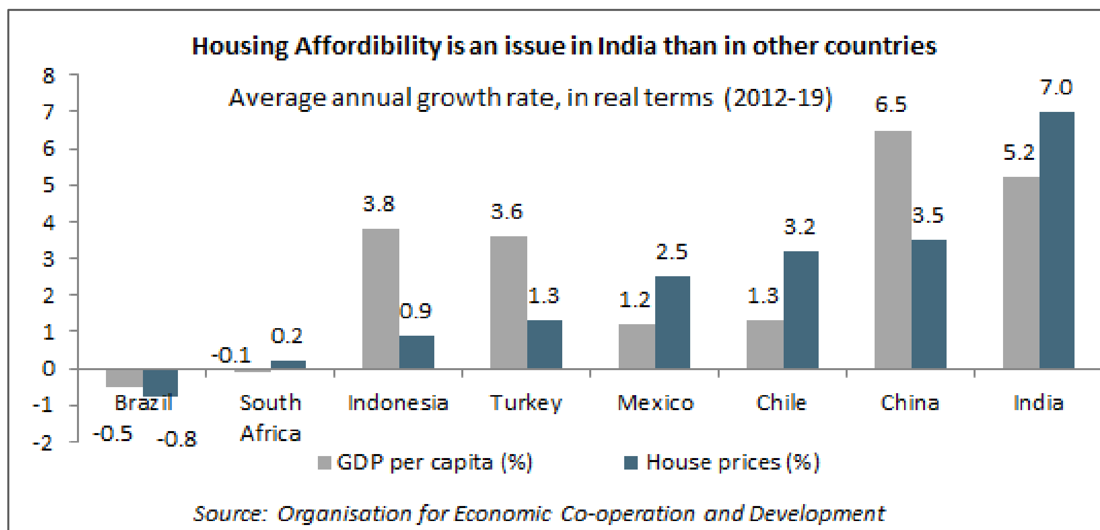
Urban housing shortage exists due to a big gap between demand and availability of housing in the cities, both in terms of number and quality. The urban shortage has increased quickly in recent times and continues to worsen as migration and natural population growth have intensified. The graph below depicts that there were shortages of 7.0 million houses in urban areas in 1981. As per the technical study conducted by the Ministry of Housing and Urban Poverty Alleviation, the urban housing shortage in India is currently estimated at ~20.0 million. FSIAPL expects this gap to further widen to an estimated 38.0 million homes by 2030 largely due to the rising population and increased urbanization.



There are large regional differences in the housing shortage, particularly in Uttar Pradesh, Andhra Pradesh and Maharashtra. In urban areas, the housing shortage is mainly due to congestion, i.e. too many people per dwelling, whereas in rural areas it is related to the quality of housing. Housing shortage will be addressed with the completion of the 'Housing for All' programme and other social programmes. Despite rising urbanisation and housing shortages, the share of population living in slums has decreased in the last two decades. However, around 25% of the total urban population still live in slums, similar to other large EMEs. The disparity across states is large, ranging from 6% of the urban population living in slums in Kerala to more than 30-35% in Andhra Pradesh, Maharashtra, Chhattisgarh and Haryana.

Housing affordability has remained a key challenge

Average real housing prices have increased much more than GDP per capita over the period between 2012-2019, undermining housing affordability in particular for low-income households. The graph given below clearly illustrates that housing affordability has been a challenge in India as compared to other emerging markets.

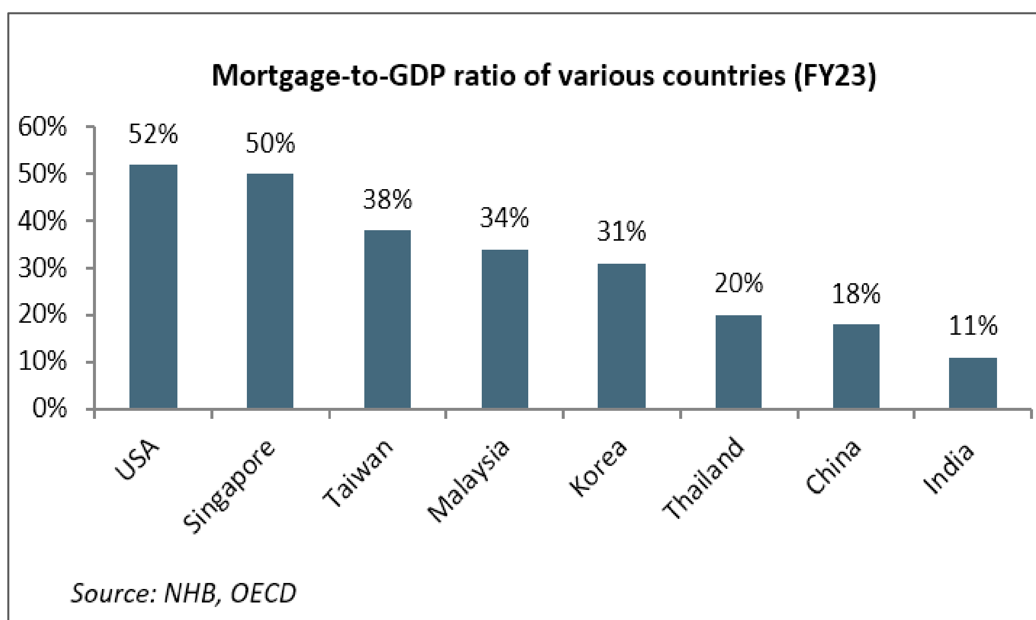


The various regulations and costly land in urban areas have pushed up the ratio of house prices to annual income, reducing affordability, especially for low-income households. Improving the

functioning of the housing market and addressing affordability are key challenges. Access to affordable housing is crucial for achieving a number of other policy objectives, including poverty reduction, equality of opportunity and more inclusive and sustainable growth.

Mortgage-to-GDP ratio is low in India compared with other countries

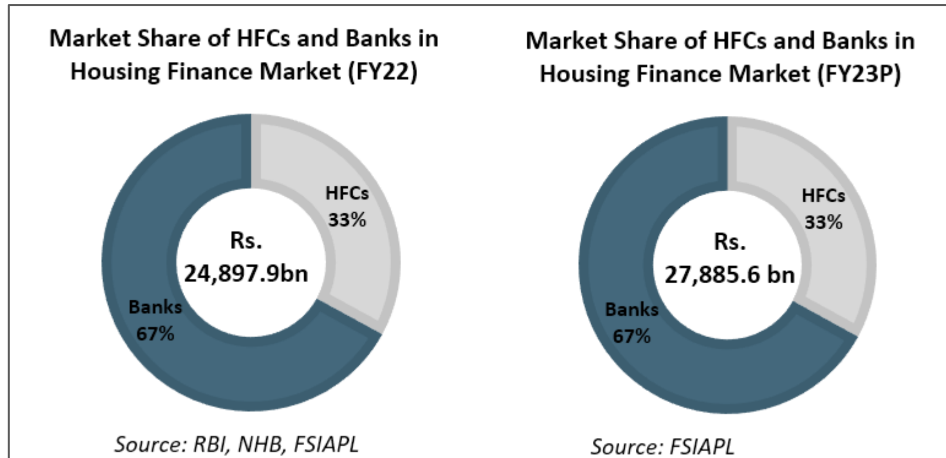
India has a low mortgage-to-GDP ratio, compared even to peer developing countries. India's mortgage-to-GDP ratio is at 11% as at March 31, 2023, compared to 18% in China, 20% in Thailand, 31% in Korea, 34% in Malaysia, 38% in Taiwan, 50% in Singapore and 52% in USA as at that date. It is the lowest among peers and this is expected to improve to 12-14% by Fiscal 2025 as per the Organisation for Economic Co-operation and Development (OECD). This reflects the low penetration of housing finance in India compared to other emerging markets and a very large opportunity for growth in India.



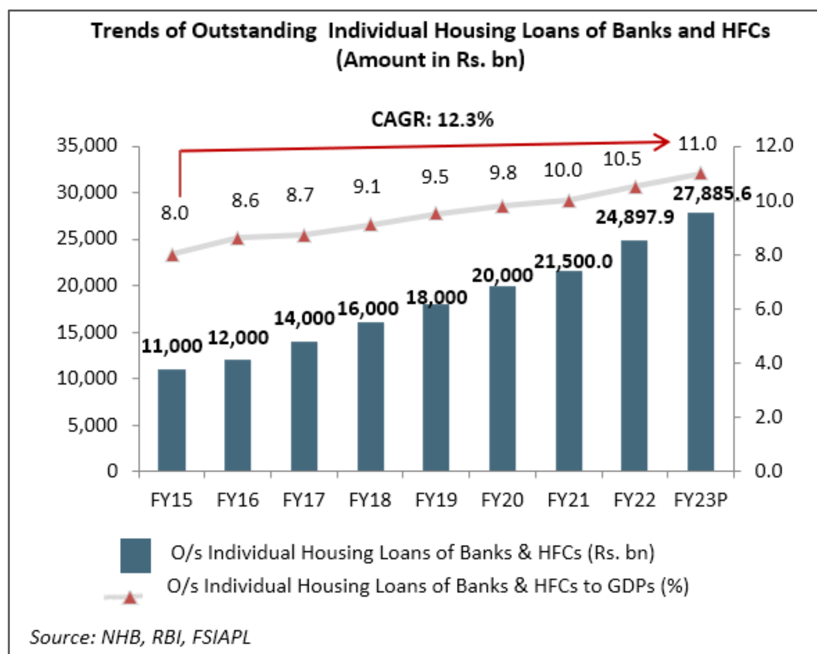
Market Size of Housing Finance in India

National Housing Bank (NHB), the apex regulatory body for overall regulation and licensing of housing finance companies in India, in its fiscal 2022 annual report stated that the overall share of individual housing loans of HFCs and banks combined to GDP (at market price) stood at 10.5% as at March 31, 2022, with an outstanding of around Rs. 24,897.9 billion. FSIAPL estimates the outstanding of individual housing loans of banks and HFCs to grow at 12% to reach Rs. 27,885.6 billion as at March 31, 2023.

Within the housing finance market in India, the Housing Finance Companies (HFCs) and banks collectively constitute the majority share. The share of HFCs in the individual housing loans market decreased from 38% as at March 31, 2018 to 33% as at March 31, 2023, while that of scheduled commercial banks increased from 62% as at March 31, 2018 to 67% as at March 31, 2023.



The pace of recovery in the housing loan segment from the first wave of the pandemic was witnessed between September 2020 to March 2021. However, the second wave dented the growth, resulting in a decline in growth rate from 4.35% as at March 31, 2021 to 0.30% as at June 30, 2021. Third wave of COVID-19 had hit India from January 2022 and lasted till March 2022. However, the economic impact of the third wave was not as severe as the second wave. Hence, it did not have much impact on the housing finance market. The growth in housing finance gathered momentum and the total outstanding loan portfolio of primary lending institutions stood at Rs. 24,897.9 billion as at March 31, 2022 with a quarter-on-quarter and y-o-y growth of 8.46% and 14%, respectively. FSIAPL estimates the outstanding of individual housing loans of banks and HFCs to grow at 12% y-o-y to reach Rs. 27,885.6 billion as at March 31,2023.



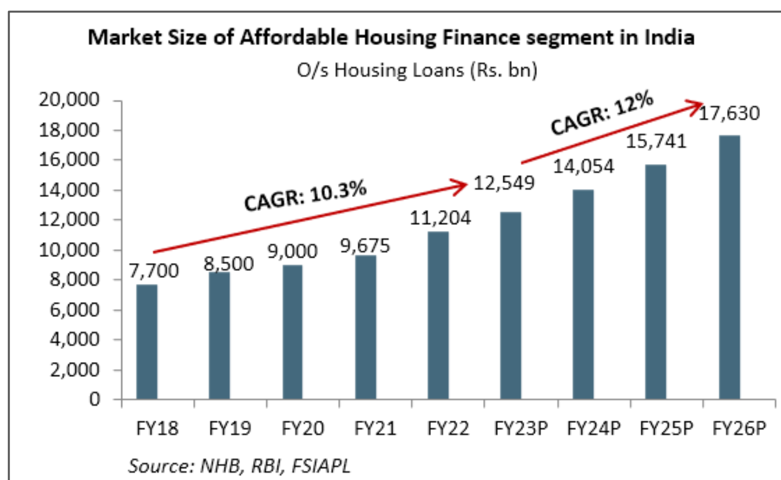
Fiscals 2020 to 2022 were challenging for the HFCs on account of the serious liquidity issue faced by HFCs post default at few HFCs/NBFCs, followed by the unprecedented impact of COVID-19 on the sector. The interest subvention under PMAY-CLSS, low interest rate, streamlined policies to increase the credit flow has helped in creation of consumer-friendly ecosystem for housing finance in 2022.

The outlook for housing finance segment is neutral for FY24 in view of a rise in the headwinds stemming from a moderation in overall affordability due to rising interest rates and property prices, and inflation impacting borrowers' cashflows. However, the demand seen during the pandemic on account of increased urge for home ownership and continuation of upscaling of houses would continue in the medium-term driving growth for lenders in FY24.

Market size of Affordable Housing Finance in India

Affordable housing refers to housing units that are affordable for those with income below the average household income. In India, affordable housing is provided for low-income people, middle income people and economically weaker sections who have considerably low levels of income (urban areas). As per the RBI incentive measures, the cost of affordable residential property should be less than Rs. 6.5 million in metro cities and Rs. 5.0 million in non-metros. Responding to policy efforts, affordable housing is currently driving home loan growth in India.

FSIAPL estimates the affordable housing finance segment to be at Rs. 12,549.0 billion (45% of the total outstanding individual housing loans as at March 31, 2023).



The Finance Minister has presented a growth-oriented budget with focus on infrastructure. The Government has reiterated its commitment towards 'Housing for All' by allocating Rs.480.0 billion towards PM Awas Yojana, which is around 75% higher than that spent last year under this scheme. The supportive policy framework for affordable housing coupled with the government's vision of 'Housing for All' provides a growth outlook for the sector. FSIAPL estimates the affordable housing segment to grow at a CAGR between 12% from Rs. 12,549.0 billion as at March 31, 2023 to reach Rs. 17,630.0 billion as at March 31, 2026.

Factors contributing to high competitiveness of SFBs in affordable housing finance

Availability of funds at cheaper rates

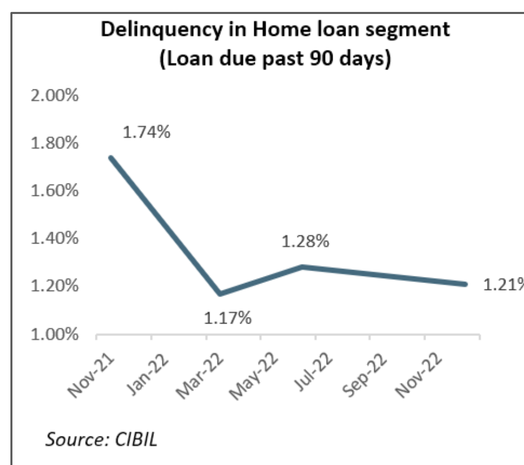
The ability to accept deposits through Current account savings accounts (CASA) and other retail deposits would provide SFBs a cheap source of funding which would help them compete with HFCs. Further, with the low cost of funds, SFBs would aim to expand their product portfolio and provide competitive rates in the market. In addition, with further expansion of SFBs in the underserved

regions, the deposit base is expected to further increase and will help in expanding their asset side portfolio as per HDFC Securities. Accordingly, SFBs will hold an advantage over HFCs.

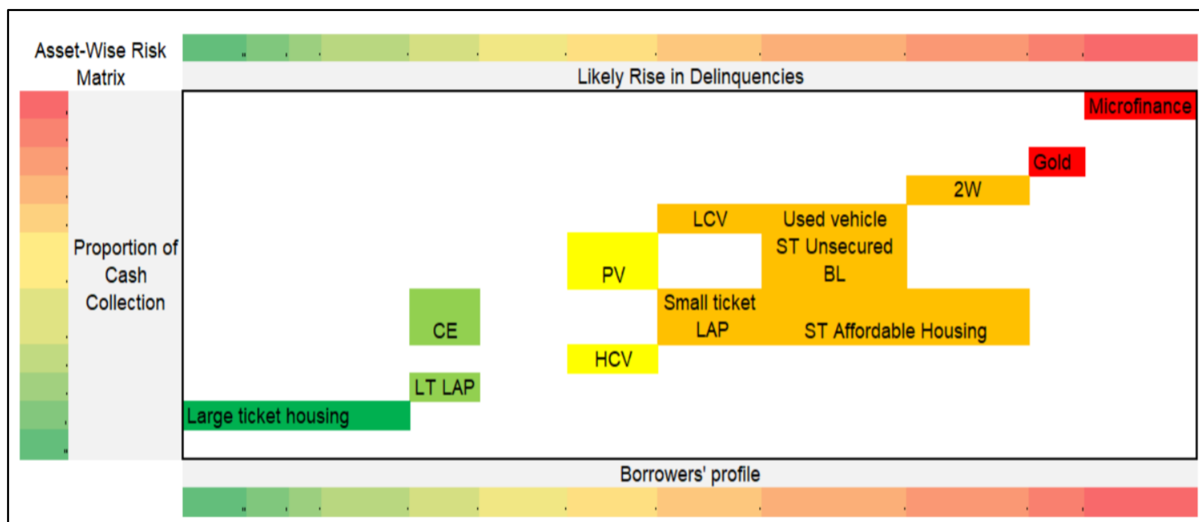
Target audience
SFB's aim to cater to the low-income segment and have an opportunity to offer them with various products and services. Further, deeper penetration of SFBs into semi-urban and rural areas will help them to cater unserved and underserved rural population, and with competitive advantage in relation to cost of funds in comparison with the local NBFCs, SFBs will be considered as the most suitable choice among mass population having requirements of lower ticket size loans. In addition, the knowledge of local areas enables SFBs to understand the needs of the customers better.

Technology aid and better availability of information
Increase in the use of technology has enabled lenders to provide customized product offerings to their target customer segments at much lower turnaround times. Further, availability of multiple data points facilitates lending decisions by firms within a few minutes by using data driven automated lending models. These models help in the supply of credit to small business units and the unorganized sector at low cost.
Collection efficiency: SFBs have a strong focus on collections and monitoring risk of default at the customer level. This will help them keep asset quality under check. New players are setting up integration to payment gateways which has enabled the digital collections process from the borrowers to become more efficient.

Asset Quality of Housing Finance in India
Home loans have among the lowest NPA levels of all classes of loans. While gross NPAs of banks were below 5% in Fiscals 2018 to 2023, HFCs reported gross NPAs between 1.0-4.0% during these years. Balance-level 90+ DPD of Home Loan segment as per the CIBIL Credit Market Indicator, April 2023 report are shown in the graph alongside. Balance-level 90+ DPD of Home Loan segment have decreased from 1.74% in November 2021 to 1.21% in December 2022. The average credit costs of HFCs were around 0.5%-0.7% in Fiscal 2023.



The asset-wise risk matrix shown in the table below indicates that large ticket housing loans have less likely rise in delinquency due to the COVID-19 pandemic impacting the economic cycle of the borrower, while affordable housing segment can witness moderate delinquencies in the debt payment scenario.



Source: FSIAPL

Regulatory and policy-level factors fostering the growth of housing finance

Housing and real estate are amongst the fastest moving sectors in the country and has received continued thrust through demand side and supply side interventions from the Government of India, RBI and NHB.

Measures taken by Government of India

The Government of India, in the past, has announced various policy initiatives to support housing such as Real Estate (Regulation and Development) Act, 2016, PMAY(U), PMAY(G), Smart Cities Mission, introduction of Real Estate Investment Trusts (REITs) etc. Some of the recent measures taken by the Government for the sector are summarised as under:

- **Pradhan Mantri Awas Yojana – Urban (PMAY-U):** It is a flagship mission of the Government of India being implemented by Ministry of Housing and Urban Affairs (MoHUA), and was launched on June 25, 2015. The Mission addresses urban housing shortage among the EWS/LIG and MIG categories including the slum dwellers by ensuring a pucca house to all eligible urban households by the year 2022. As per latest data available in the PMAY records of June 21, 2023, 11.9 million houses were sanctioned under the scheme, out of which 7.5 million houses were completed with total investment of Rs. 8,190.0 billion. During the Union Budget 2023-24, a Rs. 790.0 billion budget was allocated for the Pradhan Mantri Away Yojana (PMAY) for Fiscal 2024, which is 68% higher than Fiscal 2023. The budgetary allocation for the PMAY-U for providing housing for the urban was Rs. 251.05 billion in the Union Budget 2023-24.

- **Under the Pradhan Mantri Awaas Yojana – Gramin (PMAY-G) –** Under this programme, approximately 21.2 million houses have been constructed so far. The Government has set up a construction target of 8.3 million houses up to Fiscal 2024 under Phase II. Further, the scheme relies heavily on extra budgetary resources raised through the NABARD bonds. The scheme is to be continued until 2024, which will ensure that the remaining families are provided financial assistance for construction of Pucca Houses. The budgetary allocation for the PMAY-G for providing housing for the rural poor has been increased by 12% to Rs. 544.8 billion in the Union Budget 2023-24.

- **Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH)** – CRGFTLIH was set up by the Ministry of Housing and Urban Affairs (MoHUA), Government on May 1, 2012 to ensure the flow of institutional credit for housing in urban areas towards the targeted segments (EWS/LIG borrowers). CRGFTLIH is managed by NHB. As at June 30, 2022, 68 lending institutions had signed MoUs with CRGFTLIH under the Scheme, and CRGFTLIH has issued guarantee cover in respect of 1,990 loan accounts of 13-member lending institutions (MLIs) involving a total loan amount of Rs. 567.1 million. These MLIs include 9 SCBs, 2 HFCs, 1 RRB and 1 SFB. CRGFTLIH is formulating a new scheme to provide partial credit guarantee to the housing loan borrowers from the economically weaker section from the member lending institutions.
- **Progress of implementation of Real Estate (Regulation and Development) Act 2016 (RERA) -**The RERA is one of the significant reforms implemented in the real estate sector. The core objective of this transformative legislation is to ensure regulation and promote real estate sector in an efficient and transparent manner and to protect the interest of home buyers. RERA has now been notified in most States and Union Territories. The Act has ensured greater transparency and efficiency in residential markets. Thirty States/UTs have notified the Real Estate (Regulation and Development) Rules in their respective States/UTs. Four North-Eastern States have initiated the process of notifying the rules under RERA. As on January, 2023, 95,250 real estate projects and 71,512 real estate agents have registered under RERA across the country. Over 1,06,428 complaints have been disposed-off by the real estate regulatory authorities across India as of January 2023.

Regulatory Benefits to Housing Finance Sector

- **Regulatory Authority on HFCs shifted from NHB to the RBI** - Regulatory power on housing finance companies was shifted from National Housing Bank to the Reserve Bank of India in August 2019. This will result in more streamlined regulations and implementation as well as better risk management framework for HFCs. The RBI Act will be amended to give the central bank powers to regulate HFCs. This move is expected to ensure there is greater parity in regulations for NBFCs and HFCs.
- **Refinance Support by National Housing Bank -** National Housing Bank stepped up its support to the HFCs to obviate the liquidity issues faced, by launching the Liquidity Infusion Facility Scheme (LIFt). The Bank disbursed a total of Rs. 1,100.0 billion (Rs. 938.2 billion to HFCs) from September 1, 2018 until June 2022. Out of these, around Rs. 823.9 billion (Rs. 701.7 billion to HFCs) were disbursed from March 2020, i.e. from the onset of COVID-19, until June 30, 2022. This support to the HFCs and banks was under LIFt, Affordable Housing Fund (AHF), Special Refinance Facility 2020, Additional Special Refinance Facility, and Special Refinance Facility 2021. The last three schemes were under the ambit of Atmanirbhar Bharat Package announced by Government of India. The total support under the Liquidity Infusion Facility (LIFt) scheme was Rs. 92.4 billion to 36 HFCs. The total disbursement under Special Refinance Facility (SRF/ASRF) was Rs. 139.2 billion, another Rs. 81.1 billion SRF 2021 to alleviate Covid-induced stress of the sector. The measures taken by the bank has helped HFCs in a quick revival post-pandemic with better performance in terms of home loan disbursements.

- **Lower risk weights -** The RBI vide its circular dated October 12, 2020 had rationalised the risk weights for individual housing loans by linking them only with loan to value (LTV) ratios for all new housing loans sanctioned up to March 31, 2022. The risk weights as prescribed in the circular ibid shall continue for all new housing loans sanctioned up to March 31, 2023. The continuation of the rationalization of risk weight assets for all new housing loans sanctioned up to March 2023, will facilitate the flow of credit to the housing sector, which in turn has a strong multiplier effect on the economy.
- **Increase in Public sector lending eligibility** – The RBI has increased eligibility for public sector lending in housing loans with a view to converge PSL guidelines with PMAY. The eligibility has been increased from Rs. 2.8 million to Rs. 3.5 million for metropolitan centres and from Rs. 2 million to Rs. 2.5 million for other centres. The cost of dwelling unit has been capped at Rs. 4.5 million in metropolitan centres and at Rs. 3 million in other centres.
- **Permitting Rural Co-operative Banks (RCBs) to Lend to Commercial Real Estate - Residential Housing (CRERH) Sector -** State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) can extend finance to Commercial Real Estate – Residential Housing (CRE-RH) within the existing aggregate housing finance limit of 5% of their total assets. This move has been announced considering the growing need for affordable housing in India and it will enable these banks to realise their potential in providing credit facilities to housing sector.
- **Access to SARFAESI law to recover dues** - The Finance Ministry in June 2021 allowed all housing finance companies with asset size of over Rs. 1.0 billion to use SARFAESI law to recover dues. This move is expected to be a shot in the arm for thousands of small HFCs, as it will facilitate quick recovery of dues and encourage these companies to lend more. SARFAESI law, enacted in 2002, empowers lenders to attach the pledged assets of the borrowers in the event of non-payment of dues.

Measures taken by the Reserve Bank of India (RBI)

- To enable NBFCs and HFCs develop alternative funding channels, the RBI in November 2018 allowed banks to provide partial credit enhancement (PCE) to bonds issued by the systemically important non-deposit taking non-banking financial companies (NBFC-NDSIs) registered with the Reserve Bank of India and Housing Finance Companies (HFCs) registered with the National Housing Bank, subject to certain prudential conditions. The move was aimed at enhancing the credit rating of the bonds issued by NBFCs/HFCs and enabling them to access funds from the bond market on better terms.
- The RBI has decided to rationalize the risk weights and link them to LTV ratios only for all new housing loans sanctioned up to March 31, 2022, as against the existing regulation where the differential risk weights are applied to individual home loans, based on the size of the loan as well as the loan-to-value ratio. As per a notification issued by the RBI, new housing loans will attract a risk weight of 35% where LTV is less than 80% and a risk weight of 50% where LTV is more than 80% but less than 90%. With the revision in the risk weightage, the requirement of capital provision for banks will come down. This will encourage banks to push housing loan products with attractive features.

Measures taken by the National Housing Bank (NHB)

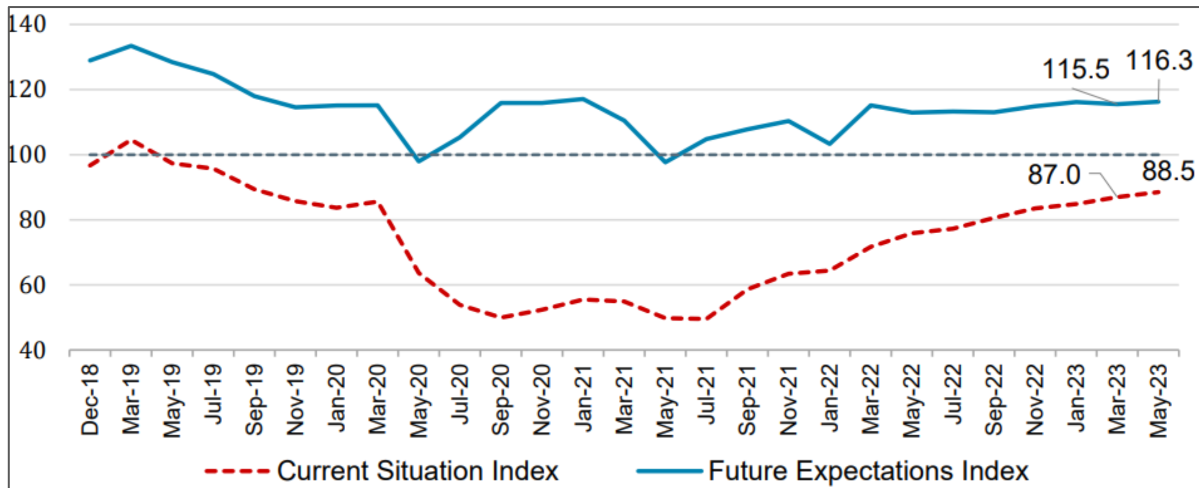
The National Housing Bank (NHB) is a development financial institution, established in 1988, under the National Housing Bank Act, 1987. Its functions include regulation & supervision of housing finance companies, financing, and promotion &development of housing finance in India. The NHB aims to promote a sound, healthy, viable and cost-effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system. Some of the recent measures of NHB include:

- Total refinance disbursements of Rs. 342.3 billion in June 2021 as compared to Rs. 312.5 billion during previous year, an increase of about 9.51%.
- Affordable Housing Fund disbursements increased from Rs. 48.8 billion to Rs.96.3 billion from June 2020 to June 2021.
- Disbursement of Rs.4.5 billion under the Special Refinance Facility (SRF) scheme.
- Out of total Rs.50.0 billion allocated by RBI under Additional Special Liquidity Facility (ASLF), disbursement of Rs.39.3 billion made under NHB's Additional Special Refinance Facility (ASRF) scheme until June 2021.
- Out of total Rs. 100.0 billion allocated by RBI under Special Liquidity Facility-2 (SLF-2), disbursement of Rs. 76.6 billion made under NHB's Special Refinance Facility 2021 (SRF-2021) Scheme until June 30, 2021.
- Embarked on an ambitious project "Automated Data Flow System (ADF)", to receive granular data from HFC systems to NHB systems in a seamless, automated manner without manual intervention based on set frequencies.
- A subsidy of Rs. 83.2 billion benefitting 3.61 (0.36 million) lakh households was disbursed during 2020-21 under PMAY-CLSS with a cumulative disbursement of Rs. 299.6 billion benefitting 13.16 lakh (1.32 million) households until June 30, 2021.
- To track the movement in prices of residential properties in 50 select cities, NHB published NHB RESIDEX, on a quarterly basis until March 2021. NHB RESIDEX captures two housing price indices i.e. HPI @ Assessment Prices and HPI @ Market Prices for Under Construction Properties for 50 cities. Assessment price includes prices of under construction, resale and fully constructed flats/apartments which are sold and bought using individual home loan facility of HFCs and Banks. Market prices uses market prices quoted for unsold (under construction and ready to move) flats/ apartments.

Outlook for Housing and Housing Finance in India

As per the Consumer Confidence Survey released by RBI, Consumer confidence for the current period has continued on its recovery path after the second wave of the COVID-19 pandemic, though it remained in the pessimistic zone, the current situation index (CSI) improved further on account of better perceptions on general economic situation, employment and household income. The outlook on discretionary spending moved to positive terrain since the onset of the pandemic.

Consumer Confidence Index



Source: RBI

The strong tailwinds seen by the housing finance segment during the COVID-19 pandemic i.e. lower interest rates, stagnant property prices, increased sense of home ownership and continued higher-than-inflation wage growth are moderating. However, the demand could sustain due to the continued drive for home ownership along with upscaling existing property. There have been headwinds building for the sector in terms of rising interest rates and inflationary pressures impacting both property prices along with borrower's savings, thereby reducing the overall affordability. This could have some rub off effect on incremental loan growth in fiscal 2024.

However, the need for a bigger housing space during the pandemic bodes well for financers to drive the overall AUM growth higher, despite high competition from banks. Affordable housing financers would witness continuing strong loan growth, largely due to increasing geographic penetration, an increase in ticket size (value) along with additions in customer base due to the increasing sense of home ownership.

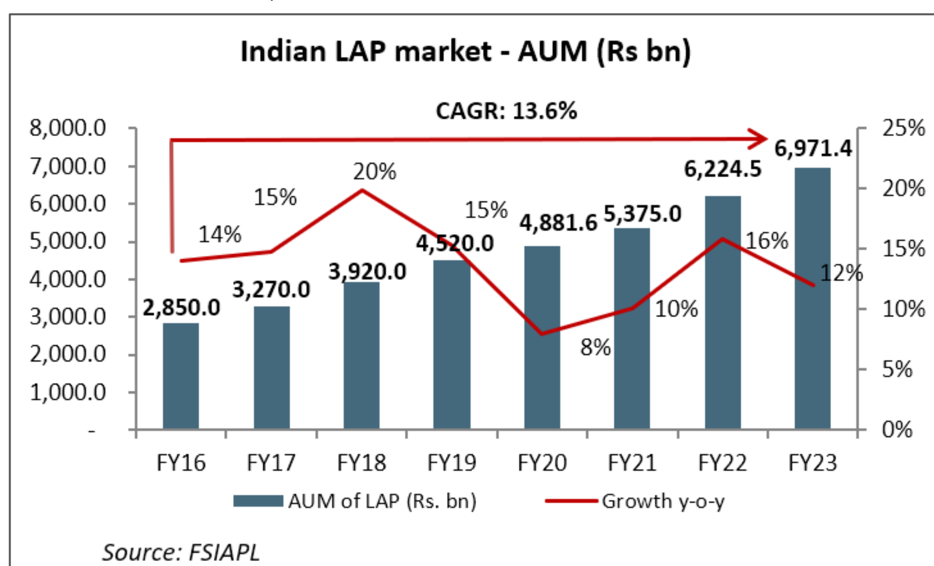
9. LOAN AGAINST PROPERTY

A Loan against property (LAP) is a secured loan that is sanctioned keeping an asset as mortgage with the lender. This asset can either be an owned land, a house, or any other commercial premises. The asset remains as collateral with the lender until the entire loan against property amount is repaid. This type of secured loan can be an alternative for unsecured personal loans as it also has no end-use restriction. However, the loan amount can be much higher and the tenure is also longer in this case. LAP interest rates are considerably lower as compared to any unsecured loan.

Loan Against Property (LAP) – Market Size in India

India LAP market is segmented based on property type, type of loan, interest rate, source, tenure, region and company. Based on sources of funds provided by the player, the market is further bifurcated into banks and housing finance companies (HFCs). LAP growth between Fiscals 2016 to 2019 was driven by rising penetration of formal channels and higher comfort for lenders to lend. However, the liquidity crunch in non-banking financial companies (NBFCs), coupled with poor sentiment in the property market have weakened the LAP market in Fiscals 2019 and 2020. Lending against LAP saw moderation during the pandemic, as property prices where stagnating along with a moderation in the availability of additional collateral to offer lenders. However, post pandemic, there has been a rise in property prices, which revived the market with additional top-up loan being offered to existing borrowers, supporting their working capital borrowing needs with an expansion in economic activity.

FSIAPL estimates the Indian LAP market to be a one-fourth of the housing finance market in 2023. Indian LAP market grew at a CAGR of ~13.6% from Rs. 2,850.0 billion as at March 31, 2016 to reach Rs. 6,971.4 billion as at March 31, 2023.



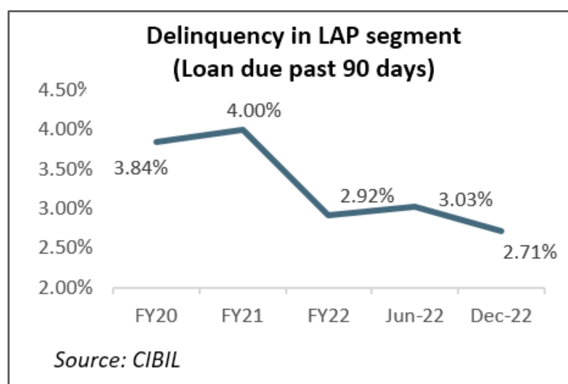
Source: FSIAPL

Competitive Scenario: Banks v/s NBFCs in LAP industry

Banks dominated the LAP market in the last two years and the trend is likely to continue until Fiscal 2025 as they provide lower interest rates along with benefitting the customers with lucrative loan schemes. In the past few years, the NBFCs have lost their share in LAP owing to efforts to contain asset quality deterioration and yield pressure. On the basis of type of loans, LAP market is fragmented into personal loan, business loan, building & construction loan and others. Amongst these, business loan is expected to dominate the market during the forecast period closely followed by building & construction loan as most of the small and medium sized enterprises demand funds for business and capital purposes as per FSIAPL estimates.

Asset Quality Trends in LAP industry

Credit monitoring agency TransUnion Cibil stated that loans due past 90 days of the LAP industry had a decreasing trend in Fiscal 2023. The industry had highest delinquency of 4.00% as at March 31, 2021 as job losses due to Covid-19 had crimped incomes. The delinquency in the sector declined to 2.92% as at March 31, 2022 as the economy picked up after the second wave and the credit grew in rural and semi-urban areas. Third wave of COVID-19 had hit India from January 2022 and lasted till March 2022. However, the economic impact of the third wave was not as severe as the second wave. The CIBIL 'Credit Market Indicator of April 2023' states that the delinquency in LAP segment slightly increased to 3.03% as at June 30, 2022 and later decreased to 2.71% as at December 31, 2022.

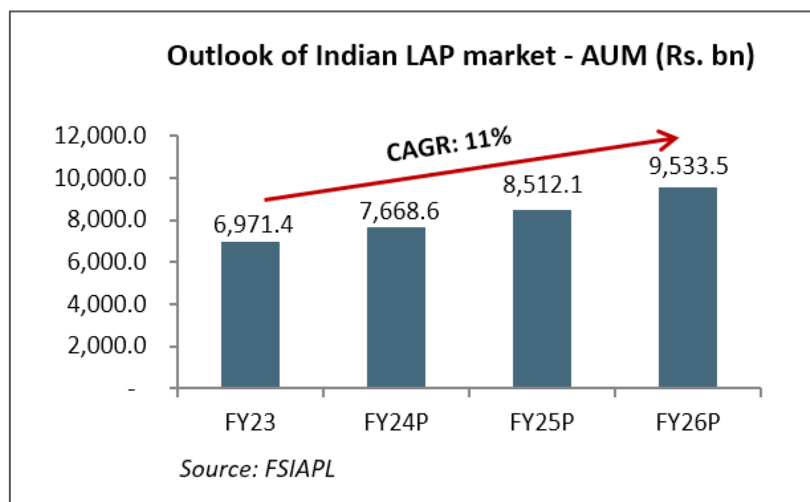


Source: CIBIL

Outlook of the LAP market in India

LAP remains a key form of availing credit by micro and small enterprises, where the behaviour for large ticket lending and lower ticket lending varies drastically. Historically, lending to services and retail sectors has performed better compared to that to the manufacturing and trading segments. Also, lower ticket segments (average ticket size < Rs. 5 million) have performed better compared to those with an average ticket size of above Rs. 10 million. The pricing in this market remains quite competitive due to banks remaining active in the high-ticket segment; also, lenders face a higher risk of balance transfers, thereby impacting customer retention. The risk-adjusted margin available in the LAP segment has expanded post the rise in interest rates across banks, thereby providing space to NBFCs to refocus on the segment. With rising inflation and rising interest rates, the business margins could be under pressure in the certain sectors impacting serviceability for existing borrowers. Also, there could be incremental demand due to a build-up in receivables and inventory, with inflation impacting end demand for economic goods, thereby increasing the demand for additional loan to manage cashflow mismatches. Therefore, FSIAPL expects the LAP market to grow at 11% from Rs. 6,971.4 billion as at March 31, 2023 to Rs. 9,533.5 billion as at March 31, 2026.

Delinquencies in the LAP segment is highly dependent on the cash flow challenges in the SME segment. The government's efforts in promoting businesses are expected to provide aid to the growth of the India loan against property market. Government's initiative to promote and boost the MSME's sector as well as the cheaper interest rates offered by banks will be a major factor in the demand for loan against property.



Financial Institutions with strong credit appraisal processes and practice to assess borrowers' cash flow, prudent LTV ratios both for stock and flow portfolios, geographically diversified portfolio, standardised valuation practices and largely residential mortgage loans would fare well on asset quality metrics. The companies with strong market knowledge and with established infrastructure are likely to price in the risk.

Key risk factors of Indian LAP market

- **Delinquency of LAP segment is highest among other products:** As compared to other personal loan segment like auto loan, two-wheeler (2W) loan, and consumer durable loan, the delinquency of LAP segment was highest at 4.0% as at March 31, 2021 due to job losses as Covid-19 had crimped incomes of many customers. The delinquency in the sector declined to 2.71% as at Dec 31, 2022.
- **Increasing acceptance of non-residential properties as collateral may impact liquidation recovery:** Non-residential properties (including industrial, commercial, freehold land, unoccupied residential property, among others) are increasingly being accepted as collaterals by financial institutions. This proportion could go as high as 30-40% of the portfolio for some players. While LTVs are lower for non-residential properties, realisation on liquidation is also lower for these properties.
- **Valuation practices are non-standardised:** In a majority of cases, property valuation is outsourced to third-party valuation companies. The methodologies followed are not standardised yet. Also, the real estate market has limited depth and secondary sales, and hence involves a lot of subjectivity. In addition, history suggests the value of property values can fluctuate substantially and corrections may happen abruptly. This is in the light of the manifold increase in property prices in India in the last one and half decade. The illiquid nature of the real estate market also makes

monitoring the prices of collaterals, on an on-going basis, a challenging and costly affair and price movement data can come with a significant lag.

- **Stagnating collateral values creating refinancing pressure:** Industry research suggests that over the last few years, portfolio churn among NBFCs has been the significant driver of incremental loan growth, with balance transfer driving the higher amount of borrowings. Higher loan amounts were supposedly supported by an increase in property prices, though the ability of a borrower (in terms of income) to repay a higher amount of loan instalment may not necessarily has kept pace. Thereby, the balance transfer masks the true stress. Also, recycling the collateral is becoming challenging as the incremental rise in property prices has subdued.

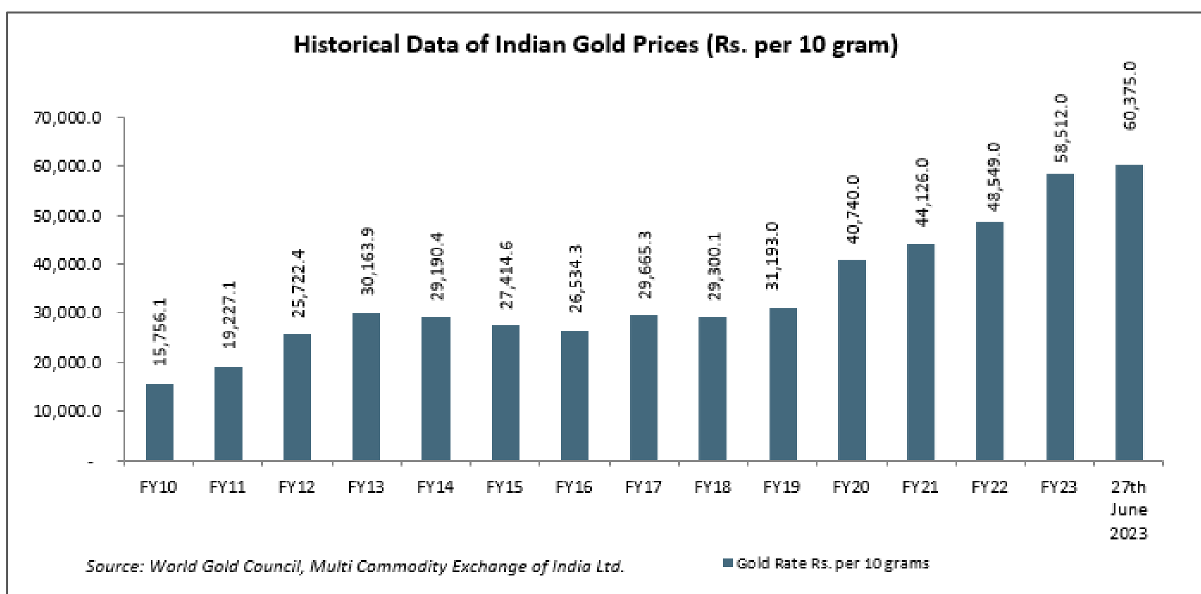
10. GOLD LOANS

Introduction

Gold has long been a valued commodity, historically regarded as among the most liquid assets and accepted universally as a currency since time immemorial. In India, gold has traditionally been consumed by individuals in the form of jewellery. It is considered auspicious to buy gold jewellery during festive seasons - and handed down generations as family wealth. Gold is considered to be a safe haven in times of economic uncertainty, a fact exemplified by 450 times rise in gold prices over the past five decades.

Gold Price Movement in India

Gold prices in India have been showing an overall upward trend since the last 3 decades. There was a steady increase in the prices of gold from Fiscal 2010 to Fiscal 2013. From Fiscal 2014 to Fiscal 2016; there was a decline in gold prices owing to geopolitical stability, low oil prices, low inflation and strong growing equity market. During this period, gold lost its attractiveness to investors either from a capital appreciation perspective as a hedge against inflation or as a safe haven; causing a significantly reduced demand.

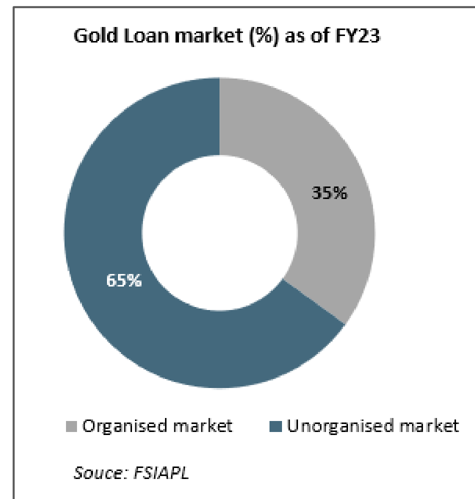


Source: World Gold Council, Multi Commodity Exchange of India Ltd.

However, from Fiscal 2017 to Fiscal 2019, gold prices started to surge to the pre-fiscal 2013 levels, further increasing to Rs. 40,740 per 10gram in Fiscal 2020 and Rs. 44,126 per 10gram in Fiscal 2021. Gold prices crossed Rs. 61,000 per 10gram in April 2023. It is currently at Rs. 60,375 per 10 grams as of 27th June 2023. Gold's rally has been spurred by one global event after another. First, the rise in inflation triggering central banks to raise interest rates, the geopolitical tensions between Russia-Ukraine invoking fears of a full-blown global war, uncertainty across stock markets worldwide and most recently the collapse of the Silicon Valley Bank followed by the stressed sale of Credit Suisse to its rival UBS.

Gold Loan – Market Size in India

Gold enjoys a unique connection with Indians in terms of social status, financial security and rich cultural legacy. Along with the country's growing population and ever-increasing disposable income, India's inclination and liking for gold has also increased. Due to the emotional value associated with household jewellery, people are hesitant to sell their gold to meet their immediate financial needs, and as an alternative, people pledge their gold ornaments as collateral and secure a short-term loan. The pledging of gold ornaments and other gold assets to local pawnbrokers and money lenders to avail loans has been prevalent in Indian society over ages. The increased holding of gold as an asset among large section of people, and the practices related to borrowing against gold in the informal sector, have encouraged some loan companies to provide loans against the collateral of used household gold jewelleries. Over a period of time, many companies have emerged as specialised gold loan companies. Most of the gold in India is held by people in rural market. Rural residents and low-income groups are the major customers of gold loans, as gold is usually the only asset they possess, in some quantity. They also typically lack access to banking facilities. Thus, gold loans have emerged as one of the most reliable credit sources for these categories of customers. At a broader level, there are mainly two categories of gold loan providers:

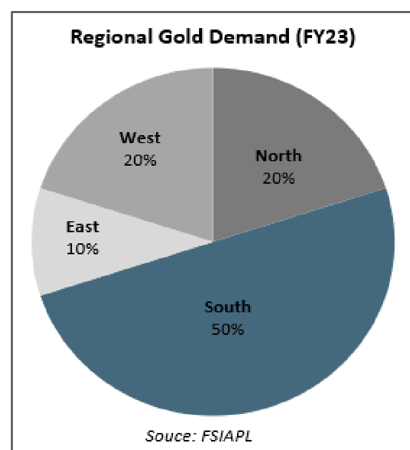


i. Formal sector (banks, NBFCs and cooperatives); and
ii. Informal sector (local moneylenders).

Until the last century, most of the lending was in the unorganized sector through pawnbrokers and money lenders. However, this scenario has changed over the last two decades post India's economic liberalization and financial sector reforms, and the organised sector has become more dominant. Buoyed by the spurt in gold prices during the last decade, organised lenders grew during the period between Fiscals 2009 to 2012. However, correction in gold prices in Fiscal 2013, an adverse regulatory scenario, restrictions on offering high LTV products, and an increase in competition intensity have caused the gold loan industry's AUM to stagnate. This is also reflected in the stagnating portfolio of gold loan NBFCs.

The total gold loan industry AUM stood at approximately Rs. 17,285.0 billion as at March 31, 2023, out of which approximately 35% was accounted for by the organised market. FSIAPL estimates India's unorganised gold loan market to be around 65% of the total gold loan market as at March 31, 2023. There are no official estimates available on the size of the unorganized gold loan market, which is characterised by the presence of numerous pawnbrokers, moneylenders and landlords operating at a local level. However, the unorganized gold loan market is believed to be almost double the size of the organised gold loans market as per FSIAPL estimates.

The demand for gold has a regional bias with southern Indian states accounting for approximately around 50.0% of the annual demand. There is potential to expand gold loans market to the northern and western regions of India, provided that the branch network is expanded and the loans are readily available with flexible options. The high levels of rural indebtedness, easy availability of gold loans on extremely flexible terms, relative scarcity of personal and retail loans from the banks, and changing attitude of customers to gold loans will contribute to the growth in gold loan AUM to newer regions.



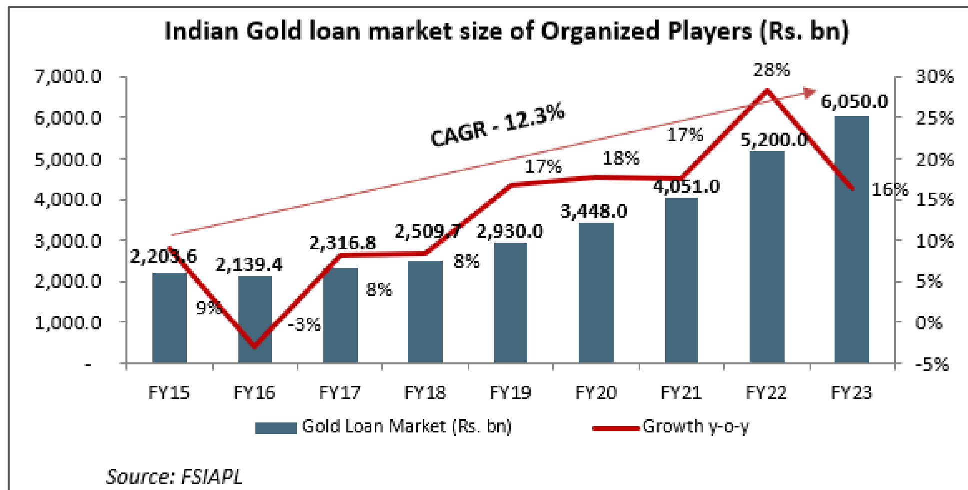
An overview of some operational parameters of organized players is provided below:

Parameters	Gold Loan NBFCs	Banks	Money Lenders
Loan to Value	Upto 75%	75%-90% (depending on the RBI regulations)	Higher than 75%
Penetration	Highly peneterated	Not highly peneterated. Selective branches	Highly peneterated
Interest Charges	Around 18-24% p.a	Around 7-15% p.a	Usually in the range of 35-60% p.a.
Regulatory Body	RBI	RBI	Not regulated
Processing Fees	No/Minimal processing fees	Higher than NBFCs	Nil
Documentaion	Minimal, Govt. ID proof	Complete KYC compliance	Nil or minimal
Customer Service	High-Gold Loan is core focus	Non- core focus	Core focus
Repayment Structure / Flexibility	Flexible. No pre-payment charges	EMI based. Pre-payment penalty is charged.	One time
Model of Disbursal	Cash, Cheque/Electronic Transfer (Cash upto INR20,000/-)	Cheque, Electronic Transfer	Cash
Working Hours	Open beyond bankng hours	Typical Banking Hours	Open beyond banking hours
Fixed Office Space	Branch with dedicated staff for gold loans	Bank branches	No fixed place
Turn Around Time	Around 10 minutes	1-2 hours	More than 10 minutes

Source: FSIAPL

Growth in Gold Loans Market of Organized Players

As per the World Gold Council (WGC), the organized gold loan industry was around 35.0% and the unorganized industry was around 65.0% of the total market as at March 31, 2023. The total gold loan industry AUM of organized players grew at a CAGR of 12.3% from Rs. 2,203.6 billion as at March 31, 2015 to Rs. 6,050.0 billion as at March 31, 2023.



The gold loan industry AUM of organised players grew to reach Rs. 4,051.0 billion as at March 31, 2021 from Rs. 3,448.0 billion as at March 31, 2020 due to increasing financial emergencies arising out of COVID-19. Consumers resorted to gold loans as a quick means to meet their financial and medical expenses. The RBI also revisited its guidelines for banks' lending gold loans by increasing the maximum LTV allowed to 90% from the existing 75% for non-agricultural gold loans extended during August 2020 to March 2021 to help stressed borrowers unlock more value. The gold loan industry continued the momentum and AUM crossed the Rs. 5,000.0 billion mark in Fiscal 2022 and reached Rs. 6,050 billion in Fiscal 2023. The growth is mainly due to factors such as high gold prices, strong demand and increased promotion by financiers to acquire unorganised gold loan market share by means of awareness and diversifying their regional presence with the help of banking outlets and digital channels.

Key Growth Drivers for Gold Loans in India

- **Lack of Reach of Banking to Rural and Lower-Income Groups:** In India, the reach of NBFCs in rural areas is comparatively higher than that of banks, due to which NBFCs have an advantage in terms of business revenue and larger base of customer over banks. The traditional banking products are not accessible to rural and lower-income groups as those products are to relatively higher-income groups. The relative ease in obtaining a loan approval has boosted the popularity of gold loans.
- **Expected Revival in Rural Consumption:** WGC estimates that about 65% of the Indian household gold belongs to rural communities, who are the biggest borrowers of gold loans. Unpredictability of the rain and harvest season means farmers become cash-strapped frequently. For them, unlocking value of their household gold is the easiest way to meet their financial obligations. Consumption growth in rural India had outpaced urban spending by the widest margin in last decade, encouraged by relatively good rainfall and an increase in government spending on infrastructure.
- **Changing Attitudes Towards Gold Loan:** A few decades back, gold loans were a high-cost affair, where interest charged was around 35-50% (via local moneylenders), but now, organized players in the market (banks and NBFCS) offer gold loans at 12-20% per annum. In recent times, whether in Tier 1, Tier 2 or Tier 3 cities, people are turning more towards depositing gold with banks and

NBFCs because it is one of the easiest ways to avail money. As per the Reserve Bank of India, Tier 1 city means a city with a population of 100,000 and more; Tier 2 city means a city having a population between 50,000 and 99,999; and Tier 3 city means a city having a population between 20,000 and 49,999. The overall process to avail gold loans has become more formal and transparent with the entry of organized financial players. Further, gold is a secured asset and there is no requirement for any additional collateral. However, to avail home loans and personal loans, one needs to show income certificates, bank statements & income tax returns. One good thing about gold loans is that it can be used for any purpose so more and more people are migrating towards this loan.

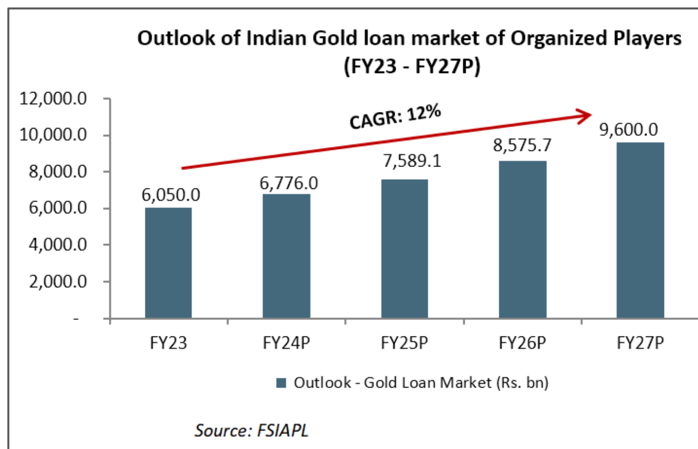
- **Ease of Availability of Gold Loan:** Financial Institutions offer very competitive gold loan schemes with a wide range of tenures, interest slabs and repayment options, making it very attractive for the customer. Unlike the rigid products offered by traditional banks, gold loan products are designed in a way that specifically meets the situation of the target customer segments. Disbursements are made within a quick time period after loan approval with a turnaround time (TAT) of around 10 minutes. A good number of loans do not have fixed Equated Monthly Instalment (EMI) facilities. The interest just needs to be paid on a monthly basis while the principle should be paid at the end of the tenure. The ability to choose product features (repayment scheme, tenure) has facilitated increased gold loan penetration.
- **Development of online gold loan market:** Many new age FinTech companies and traditional players have started to offer innovative products such as online gold loans catering to the young and urban population. Primary beneficiaries of online gold loan facilities are digitally and financially literate customers who belong to the age group of 25 to 40 years. Gold loan companies have come up with various operating models like visiting the customer's residence, allowing customers to place their gold within the NBFC's vault after which customers have the option to pledge this gold via online channels and receive funds directly to their bank accounts.

Outlook of the Gold Loan Market of Organized Players in India

India is one of the largest markets for gold and in Indian culture, gold is considered as auspicious, particularly in Hindu and Jain cultures and gold is worn for important ceremonies and occasions. Gifting gold is a deeply ingrained part of marriage rituals in Indian society where weddings generate approximately about 50% of annual gold demand. Rural residents and low-income groups are the major borrowers of gold loans, as gold is usually the only asset they possess. Gold loans have emerged as one of the most reliable credit sources for these categories of customers. Further, the gold loan market is still underpenetrated, considering the abundant availability of gold as collateral with Indian private households. This could play a vital role in the expansion of the gold loan market. FSIAPL has estimated that the gold loan market size of organized players will grow to Rs. 9,600.0 billion by Fiscal 2027.

As per FSIAPL estimates, credit demand is expected to rise, and the gold loan industry is expected to grow over the next few years at a CAGR of 12% from Rs. 6,050.0 billion in Fiscal 2023 to Rs. 9,600.0 billion in Fiscal 2027, which would be driven by gold prices, gold loan NBFCs moving into non-southern Indian territories, improving penetration, improving product awareness and building brand identity.

Diversification into other regional geographies and untapped markets would be the key for the gold loan industry's AUM to grow. Gold loan industry AUM (asset under management) projection from Fiscal 2023 to Fiscal 2027 is provided below:



Since the COVID-19 outbreak of the pandemic, gold loans have become an easy way of accessing capital and both banks and NBFCs have reported higher disbursements and increasing revenue numbers from their gold loans portfolio. Industry reports suggest that small- and medium-sized companies are turning to gold to raise funds, rebuild their business and manage working capital requirements. Gold loan processing is perceived to be faster and more convenient, compared to personal loans. Organized players are adopting marketing initiatives to raise awareness against heavy interest rates charged by the unorganized players (which are in the range of 25-50%) especially in rural parts. Also, a player's ability to leverage technology and improve their online gold disbursements could turn out to be a game changer. Along with these drivers, a favorable economic scenario will further drive up the funding needs of small businesses, and hence, improve demand for gold loans. Various factors affect gold demand in India. The relationship between these factors is provided below:

Long Term Factors		Short Term Factors	
Rising Income	**Gold Price Movement**	**Inflation**	**Excess Rainfall**
It is anticipated that for a 1% increase in income, the demand for gold will rise by 1%	For a 1% increase in gold price, demand will decrease by 0.5%	For a 1% increase in inflation, demand rises by 2.6%	For a 1% increase in monsoon rainfall, gold demand rises by 0.5%

Source: World Gold Council

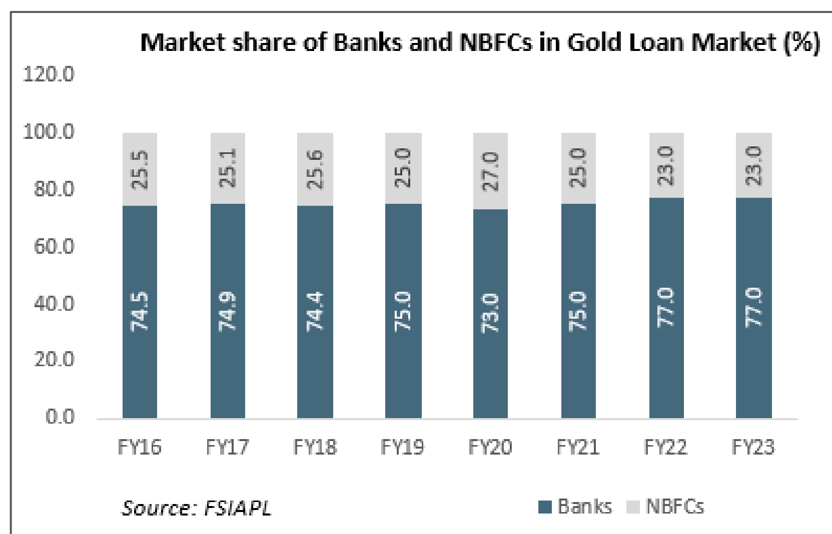
The arrival of new online gold loan products and digital models by various NBFCs and fintech players is expected to tap the gold loan market as per FSIAPL. These products offer gold loans at the client's doorstep and complete the process without much hassle. More and more tech-driven consumers are opting for these loans as these products have lower interest rates vis-à-vis competing brick and mortar NBFCs.

Competitive Scenario: Banks v/s NBFCs in Gold Loan Industry

Banks (private, public, small finance and co-operative) extended gold loans as part of the agricultural and priority sector loans until recently. In order to restrict the flow of funds from banks to NBFCs

actively engaged in the gold loan business, it was decided that gold loan portfolio buyouts and lending to gold loan NBFCs by banks will no longer be eligible to be counted as priority sector lending. Banks did not go out of the way to promote this segment of the business like the way the NBFCs are pursuing. The major reason for this is that the security of maintaining the gold ornaments, ensuring the good quality of ornaments by appointing assayers/ valuers at all branches is difficult. But the bankers candidly submitted that there is great scope for financial inclusion in extending gold loans and admitted that they lost a significant business opportunity to the NBFCs until Fiscal 2020. However, recently, in Fiscals 2021 and 2022, the gold loan segment has increasingly become a lucrative segment for banks as cost of funds is around 7% and returns are higher. According to Reserve Bank of India data, loans against gold jewellery disbursed by banks rose from Rs. 467.9 billion as at September 30, 2020 to Rs. 721.1 billion by September 30, 2021 and Rs. 806.1 billion by September 30, 2022. However, it must be noted that banks' mix of gold loans is higher owing to agriculture gold loans, where gold loans are granted to farmers for crop production.

NBFCs and banks approach the gold loan market differently, which is reflected in their interest rates, ticket sizes and loan tenures. NBFCs focus more single-mindedly on the gold loans business and have accordingly built their service offerings by investing significantly in manpower, systems, processes and branch expansion. This has helped them attract and serve more customers. NBFCs accounted for 23% of the industry and continue to expand at 1.5 times the market average in Fiscal 2023. Specialized gold loan NBFCs have implemented effective competitive strategies. Despite the higher interest rates that NBFCs demand on their products, customers have continued to patronise specialized gold loan NBFCs due to their competitive strategies like faster turnaround time, convenience, better geographical reach, and use of technology.



The graph given above depicts that from Fiscal 2021, the share of banks in the overall gold loan market increased as they preferred to lend secured product like gold loan over other products due to the risk of default. This led to a reduction in the share of NBFCs which continued in Fiscal 2022. Going forward in the coming years, NBFCs are expected to maintain market share of 23-27% as banks widen their focus on their core portfolios once economic stability is restored.

Customer profile of gold loan market

According to the 2011 Census of Government of India, there are [248.8 million] households in India. About 171 million households (68.8%) live in rural areas while 77.8 million households (31.3%) live in urban areas. The classification of credit consumption by different category of customers is highlighted in the table below:

Credit Consumption pattern of Indian Households

Category of Customers	Number of households (Mn)	% share of total household	Income Range	Credit Consumption	Providers of Credit
High Income Group	7.46	3%	>USD40,000 (>Rs. 32.8 lakh)	Housing loan, Auto loan, Educational loan, Personal loan	Banks, NBFCs
Upper Middle Class	52.25	21%	USD8500-USD40,000 (Rs. 6.9lakh - Rs. 32.8lakh)	Housing loan, Auto loan, Educational loan, Personal loan, Gold loan	Banks, NBFCs
Lower Middle Class	82.10	33%	USD4000-USD8500 (Rs. 3.3lakh - Rs. 6.9lakh)	Housing loan, Auto loan, Educational loan, Personal loan, Gold loan	Co-operative Banks, NBFCs, Gold finance Companies
Lower Income Group	106.98	43%	<USD4000 (<Rs. 3.3 lakh)	MFI loans, Gold loans, unsecured loans	Co-operative Banks, MFIs, Gold finance Companies
Total Households as per 2011 census	**248.80**	**100%**			

Source: Census of India, GoI

As seen above, gold loan companies mainly target the lower middle class and lower income group segment of the household, compromising 180 million households (72.5% of total households). Gold as an asset class gains value during a crisis and makes borrowing against it easier for people from lower income group who lack knowledge of the structured banking and financial institutions. However, with more financial institutions increasing their geographic scope and market penetration, a large portion of the under banked population, who historically relied on lenders within the unorganised sector to fund their needs, is crossing over to the organised gold loan companies.

Key risk factors of Indian Gold Loan Industry

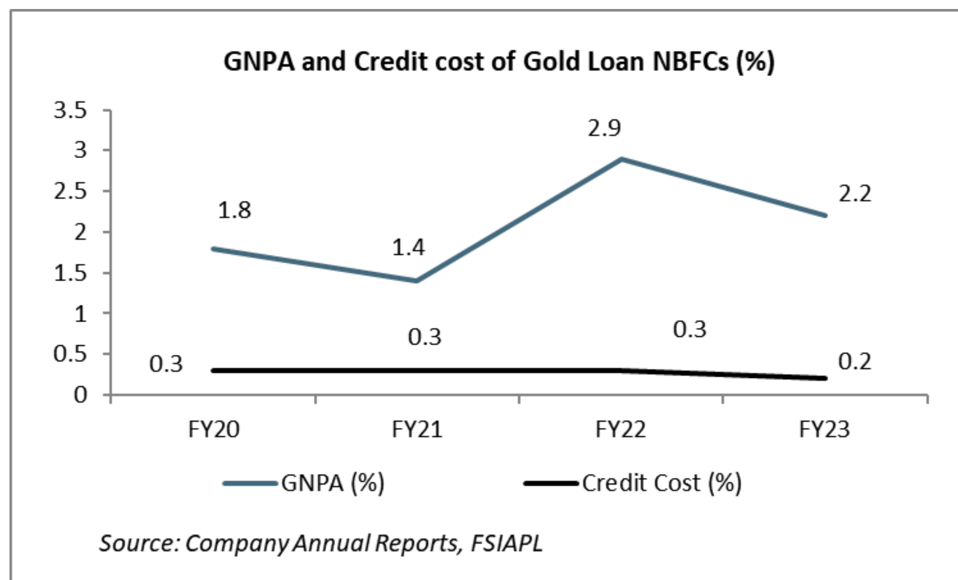
- **Volatility in Gold prices:** Volatility in gold prices has an impact on the performance of the gold loan market. The average gold price in India increased by approximately 37% from Rs. 44,126/10 grams as of 1st April 2021 to Rs. 60,375/10 grams as of 27th June 2023 amid a volatile equity market and dwindling economic growth. The sharp jump makes gold more vulnerable to price fluctuations in the near term. With an increase in LTV, the asset portfolio of gold finance companies becomes more vulnerable if gold prices crash suddenly. This is because the safety margin reduces with higher LTV. Banks would be exposed to greater risk due to higher LTV.
- **Regulatory pressure:** The RBI temporarily increased the maximum limit for gold loans LTV for scheduled commercial banks from 75.0% to 90.0% between Aug 2020 and March 31, 2021, post which it was decreased back to 75.0%. Due to this, NBFCs lost market share to banks in the gold loan segment. The objective behind increasing the LTV was to provide some lending room for the lenders. The higher LTV ratio suggests more credit risk for the lenders as the collateral available in the form of gold ornaments or jewellery may not be sufficient to fully cover both principal and

interest components on these loans. Higher LTV could adversely impact the recoverability and asset quality of lenders in the case of a weakening in the borrower's credit risk profile and/or a sharp decline in gold prices.

- **Security Threats and Risks of Theft:** One of the principal risks in the operations of gold loans is robbery and employee theft or fraud. To safeguard against theft or loss of collateralized gold, banks install safe vaults, in-house or outsourced storage model, electronic surveillance, internal and external audits and insurance.
- **Lack of financial literacy among rural customers:** The customer segment living in remote areas tends be financially illiterate and, to-date, many of them are under the impression that they are not eligible for any loans from the organized (banks, NBFCs, financial institutions) sector, so they approach local moneylenders. This financial illiteracy among rural people is a factor that hampers the growth of the organized gold loan market to a great extent.
- **Young Indians' attraction to alternative jewelry:** India is one of the largest consumers of gold in the world (*Source: World Gold Council).* For the last few years the young population of India is more inclined towards high-end designer and gem-set jewellery, with a preference to platinum and diamonds (*Source: Times of India article named 'Changing trends in gems and jewellery among luxury consumers in India' dated November 22, 2022).* This indicates buying patterns are shifting and the demand for plain gold jewellery is declining especially in the urban areas. As per industry reports, India is the world's fourth largest platinum market and customers have the assurance of buy-back similar to gold ornaments. Further, the Indian Commodity Exchange is offering a Systematic Investment Plan to acquire precious stones for retail buyers (*Source: Times of India article named 'Diamond SIPs to add sparkle to your assets' dated August 10, 2017)* . All these are indicators of slightly diminishing popularity of gold amongst the urban youth in urban markets.
- **Change in Savings Pattern:** The youth are turning towards alternative options such as equity markets/mutual funds for wealth creation as against traditional method of buying gold. Also, the percentage of discretionary spending is also rising day by day. These alternate investment options are gaining more traction.
- **Data Security:** Protection of data is the most importance given the rise of cyber-attacks through malware and phishing targeted at confidential client information. In order to prevent such attacks, financial institutions need to make sure that sufficient attention is given to such challenges and that they have a strong network and data infrastructure in place.

Asset Quality of Indian Gold Loan players

As shown in the chart below loss given default on gold loans is generally small, as the loan is fully secured, and the collateral is highly liquid. In case of default, the gold is auctioned, and the lender recovers its dues and returns the balance amount to the borrower. Maintaining LTV at reasonable levels provides a further cushion to financiers. Thus, lower asset-side risk (security of gold, which is liquid and is in the lender's possession) helps in controlling credit costs in the gold finance business.



Note: As of the end of the fiscal years.

As depicted in the graph above, credit cost for gold loan NBFCs remained stable at around 0.2% in Fiscal 2023. Although Gross Non-Performing Asset (GNPA) increased as at March 31, 2022 due to COVID-19-induced economic slowdown, Credit Cost was under control as at March 31, 2021 and 2022 with aggressive recovery (auction) steps taken by some of the large gold loan NBFCs. Asset quality of gold loan NBFCs had an uptick in GNPA levels as at March 31, 2022 (2.9%) compared to Fiscal 2021 (1.4%) on account of delay in the auction process by NBFCs as a customer retention strategy. GNPA of gold loan NBFCs moderated to around 2.2% in Fiscal 2023.

Over the past few years, gold loan players have been conducting timely auctions linked to LTV and gold price movement to manage delinquencies. Gold loan players who maintain their LTV discipline would fare better from an asset-quality perspective in the medium term. Asset quality within the gold loan business would remain stable in the medium term supported by increased frequency of interest collections and the highly liquid nature of the underlying security (gold) which should keep credit losses very low.

11. ABBREVIATIONS

Abbreviations

ADF: Automated Data Flow System
AePS: Aadhaar Enabled Payment System
AHF: Affordable Housing Fund
ALM: Asset Liability Mismatch
ANBC: Adjusted Net Bank Credit
APY: Atal Pension Yojana
ASEAN: Association of Southeast Asian Nations
ASLF: Additional Special Liquidity Facility
ASPIRE: A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship
ASRF: Additional Special Refinance Facility
ATI: Assistance to Training Institutions
ATS: Average Ticket Size
AU: AU Small Finance Bank
AUM: Asset Under Management
B2B: Business-to-Business
B2C: Business-to-Consumer
BCs: Business Correspondents
BFIL: Bharat Financial Inclusion Ltd.
CAA: Citizenship Amendment Act
CAD: Current Account Deficit
CAGR: Compound Annual Growth Rate
Capital: Capital Small Finance Bank
CAR: Capital Adequacy Ratio
CASA: Current Account Saving Account
CBDC: Central Bank Digital Currency
CFCs: Common Facility Centres
CGFSI: Credit Guarantee Fund for Stand Up India
CGTMSE: Credit Guarantee Trust Fund for Micro & Small Enterprises
CMIE: Centre for Monitoring Indian Economy
COVID-19: Coronavirus Disease of 2019
CPI: Consumer Price Index
CRAR: Capital-to-Risk weighted Assets Ratio
CRERH: Commercial Real Estate - Residential Housing
CRGFTLIH: Credit Risk Guarantee Fund Trust for Low Income Housing
CRR: Cash Reserve Ratio
CSI: Consumer Sentiment Index
DBUs: Digital Banking Units
DCB: Development Credit Bank
DCCBs: District Central Co-operative Banks
DCCO: Date for Commencement of Commercial Operations
DFS: Digital Financial Services
DICs: District Industries Centres
DPD: Day past due
ECBs: External Commercial Borrowings
ECLGS: Emergency Credit Line Guarantee Scheme
EMEs: Emerging Market Economies
EMI: Equated Monthly Instalment
Equitas: Equitas Small Finance Bank
ESAF: ESAF Small Finance Bank
ESDP: Entrepreneurship Skill Development Programme
EWS: Economically Weaker Section
FAE: First Advance Estimates
FEI: future expectations index
FII: foreign institutional investment
Fincare: Fincare Small Finance Bank
FinTechs: Financial Technology
G2C: Government to Citizen
GDP: Gross Domestic Product
GeM: Government e-Marketplace
GFCE: Government Final Consumption Expenditure
GFCF: Gross Fixed Capital Formation
GLP: Gross Loan Portfolio
GNPA: Gross Non Performing Assets
GoI: Government of India
GSDP: Debt-to-GDP
GST: Goods and Services Tax
GSTN: Goods and Services Tax Number
GVA - Gross Value Added
HDFC: Housing Development Finance Corporation Limited
HFCs: Housing Finance Companies
HL: Housing Loan
Housing Finance Companies
ICICI: Industrial Credit and Investment Corporation of India
IDs: infrastructural facilities
IFSC: International Financial Services Centre
IMEF: India Microfinance Equity Fund
IMF: International Monetary Fund
IRDP: Integrated Rural Development Programme
ISEC: Interest Subsidy Eligibility Certificate
ITC: input tax credit
Jana: Jana Small Finance Bank
JLG: Joint Liability Group
KVIBs: Khadi and Village Industries Boards
KVIC: Khadi and Village Industries Commission
KYC: Know Your Customer
LAF: Liquidity Adjustment Facility
LAP: Loan against property
LDSP: Land Development and Shelter Projects
LGD: loss given default
LIFt: Liquidity Infusion Facility
LIG: Lower Income Group
LOLR: lender of last resort
LTV: Loan to value
MFI: Microfinance Institutions
MFIN: Microfinance Institution Network
MLIs: Member Lending Institutions
MoHUA: Ministry of Housing and Urban Affairs
MoUs: Memorandum of Undertaking
MPDA: Market Promotion & Development Scheme
MSE-CDP: Micro & Small Enterprises Cluster Development
MSME: Micro Small and Medium Enterprises
MSP: Minimum Support Price
MUDRA: Micro Units Development & Refinance Agency Ltd
NABARD: National Bank for Agriculture and Rural Development
NBFC-MFIs: Non-banking financial company-microfinance institutions
NBFC-NDSIs: Systemically important non-deposit taking non-banking financial companies
NBFCs: Non-banking financial companies
NCD: Non-Convertible Debentures
NCS: National Career Service
NDF: Non-Deliverable Forward
NDTL: Net Demand and Time Liabilities
NEFT: National Electronic Funds Transfer
NESFB: North East Small Finance Bank
NHB: National Housing Bank
NIM: Net Interest Margin
NNPA: Net Non Performing Assets
NOFHC: Non-Operative Financial Holding Company
NPA: Non Performing Assets
NRLM: National Rural Livelihood Mission
NSIC: National Small Industries Corporation

NSO: National Sample Survey Office
NSS: National Sample Survey
NULM: National Urban Livelihoods Mission
OBC: Oriental Bank of Commerce
OECD: Organisation for Economic Co-operation and Development
P&MS: Procurement and Marketing Support Scheme
PAN: Permanent Account Number
PAR: Portfolio at Risk
PAS: Payment Aggregators
PAT: Profit After Tax
PBs: Payments Banks
PCE: Partial credit enhancement
PFCE: Private Final Consumption Expenditure
PLI: Productivity Linked Incentive
PMAY-G: Pradhan Mantri Awaas Yojana – Gramin
PMAY-U: Pradhan Mantri Awaas Yojana – Urban
PMEGP: Prime Minister Employment Generation Programme
PMGKY: PM Gareeb Kalyan Yojana
PMIs: Purchasing Managers Indices
PMJDY: Pradhan Mantri Jan Dhan Yojana
PMJJBY: Pradhan Mantri Jeevan Jyoti Bima Yojana
PMMY: Pradhan Mantri MUDRA Yojana
PMSBY: Pradhan Mantri Suraksha Bima Yojana
PNB: Punjab National Bank
POS: Portfolio Outstanding
PPI: Pre-Paid Instrument
PPP: Purchasing Power Parity
PSBs: Public Sector Banks
PSL: Priority Sector Lending
PSUs: Public Sector Undertakings
PVBs: Private Banks
RAMP: Raising and Accelerating MSME Performance
RBI: Reserve Bank of India
RCB: Rural Co-operative Banks
REITs: Real Estate Investment Trusts
RERA: Real Estate (Regulation and Development) Act
RoA: Return on Assets
RoE: Return on Equity
RRBs: Regional Rural Banks
RTGS: Real-Time Gross Settlement
RWA: Risk-Weighted Assets
SAS: Situation Assessment Survey
SBI: State Bank of India
SCBs: Scheduled Commercial Banks
SCLCSS: Special Credit Linked Capital Subsidy Scheme
SFBs: Small Finance Banks
SFCs: State Financial Corporations
SFMC: SIDBI Foundation for Micro Credit
SFURTI: Scheme of Fund for Regeneration of Traditional Industries
SGSY: Swarna-Jayanti Gram Swarojgar Yojna
SHG: Self-Help Group
SHG-BLP: Self Help Group Bank Linkage programme
SJSRY: Swarna Jayanti Shahari Rozgar Yojana
SLF-2: Special Liquidity Facility-2
SLR: Statutory Liquidity Ratio
SRF: Special Refinance Facility
SRF-2021: Special Refinance Facility 2021
SROs: Self-Regulatory organizations
SSAs: Sub Service Areas
StCBs: State Co-operative Banks
Suryoday: Suryoday Small Finance Bank
TAT: Turnaround time
TC: Technology centres
TCSP: Technology Centre Systems Programme
TLTRO: Targeted Long-Term Repo Operation
TRAI: Telecom Regulatory Authority of India
TReDS: Trade Receivables and Discounting System
UA: Urban agglomeration
UAM: Udyog Aadhaar Memorandum
UBI: United Bank of India
UCBs: Urban Co-operative Banks
Ujjivan: Ujjivan Small Finance Bank
UP: Uttar Pradesh
UPI: Unified Payments Interface
URC: Unbanked Rural Centres
URN: Udyam Registration Number
USSD: Unstructured Supplementary Services Data
Utkarsh: Utkarsh Small Finance Bank
UTs: Union Territories
WEO: World Economic Outlook
WFH: Work from Home
WMA: Ways and Means Advances

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