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## Fincare enters Mumbai and partners with Oxigen

*Yadav: playing a key role*

The big Indian banks are going through some challenging times but there is one section of the domestic financial sector that is thriving, is the small finance banks (SFBS) – a recent innovation in the Indian banking structure. These banks are expected to penetrate into financial inclusion by providing basic banking and credit services with a differentiated banking model to the larger population. And, that they seem to do.

Going by numbers, they seem to be delivering. “The SFBS have reported a 17 per cent growth in 2017-18, with assets under management (AUM) of ₹51,498 crore as on March 2018 (AUM growth: 26 per cent in 2016-17). The pace of growth had slowed down in the last two years, but the primary reason for it was SFBS’ focus on the migration process – from NBFCs to SFBS,” says a report by ICRA on SFBS. “All the SFBS were operational by June 2018 and most of the players (NBFCs) have managed the transition well, with respect to the initial challenges identified

earlier, such as raising of capital, diversification of liability profile, identifying and converting branches as well as diversifying the product portfolio and recruiting staff.”

It was against this backdrop that, in July 2018, the Bengaluru-based Fincare Small Finance Bank (FSFB) celebrated its first anniversary and announced its entry into Mumbai. In the first year of existence, the bank has garnered deposits of over ₹1,000 crore and built a gross loan portfolio of over ₹2,500 crore, taking its financial inclusion agenda to over a million low income, rural and semi-urban households.

“As part of our plan to expand retail banking presence, Fincare SFB will soon be launching its operations in Mumbai,” promises Rajeev Yadav, MD & CEO, FSFB. “In the past year, the bank’s distribution network has grown to 364 banking outlets, spread across eight states and one Union Territory. In 2018-19, the bank seeks to enter and strengthen its

presence in metros such as Mumbai, Bengaluru, Hyderabad and the National Capital Region, taking our network to over 500. The bank’s first branch in Mumbai will be operational during this quarter”.

Yadav has over 24 years of diversified experience in financial services across NBFCs and housing finance companies (HFCs). Previously, as CEO of the Fincare platform that included two rural-focussed NBFC-MFIs and a bank partnership company, he was instrumental in helping scale up the platform profitably, and also in diversifying into new products and business lines. He has played a key role in devising the strategy for the SFB bank and has worked actively on its implementation across areas such as business restructuring, technology and products. His prior stints include CEO, India, GE Money; CMO & BD head, GE Capital India; and business leader, home loans & loans against property, GE Money.

Yadav has already roped in marquee investors like True North (which has five separate investment funds,

with a combined corpus of \$2 billion), TA Associates (it has invested in more than 480 companies around the world and has raised \$24 billion in capital), Tata Opportunities Fund, Leap-Frog Investments and Small Industries Development Bank of India (SIDBI) besides Kotak Mahindra Old Mutual Life Insurance, Edelweiss Tokio Life Insurance, Religare Health Insurance, among others.

### Branchless banking

As part of the anniversary celebrations, Fincare SFB has also announced its strategic partnership with Oxigen. The partnership will further augment the bank's brick'n'mortar network by setting up business correspondent (BC) outlets, as well as expand its product & service offerings. Through Oxigen, Fincare SFB offers bill pay services to its customers through internet and mobile banking, and looks to expand to other payments services such as point of sales (PoS) network, micro-ATMs, pre-paid cards, Bharat Bill Payment System (BBPS), Bharat QR and Aadhaar Enabled Payment System (AEPS). Oxigen has a retail network of 100,000 outlets, with 35,000 of them already conducting the branchless banking business.

"Oxigen has pioneered a financially viable branchless banking model with its MicroATM SuperPoS that does real time branchless banking, merchant payments and services aggregation at a BC agents' points of presence," says Sunil Kulkarni, joint MD, Oxigen Services. "We have extended the benefits of the model through this strategic partnership of becoming a National BC for Fincare Small Finance Bank. We look forward to setting up their branchless banking points as well as Mobile BC Agents for taking Fincare's banking solution to the unbanked/under banked segments".

Like most other SFBs, even Fincare SFB originated from an NBFC, having been formed by the conversion of an NBFC-MFI, Disha Microfin. It was one among the 10 recipients of the 'in-principle' approval from the RBI in September 2015 – an approval granted to select NBFCs and microfinance institutions to set up SFBs with the objective of furthering financial inclusion. After having executed the SFB transformation

journey, Disha Microfin received the final licence from the RBI in May 2017 and commenced banking operations in July 2017 (see box).

"We aim to transform banking by making products simple, processes automated and convenient, and decisions and transactions instantaneous for all our customers," says Keyur Doshi, CFO, FSFB. "Powered by technology, Fincare SFB has set a vision to be the first of its kind 'Rurban' Bank which, on the one hand, is catering to the needs of the base of pyramid, mass retail and micro & small enterprise

segments and enabling their financial inclusion; while, on the other hand, providing modern, innovative and digital banking solutions to the digitally-savvy, metro and urban consumers". Doshi, with 22 years of experience in financial services, is one of the promoter-founders of Disha Microfin.

"In 2018-19, the bank is targeting a loan book of ₹4,000 crore," adds Yadav, commenting on the road-map for FSFB. "The launch of affordable housing finance and two-wheeler loans will strengthen our loan offering to our customers. We have opened savings accounts for over 100,000 micro loans customers and are in the process of expanding this to our million plus customers during this year, bringing them into the formal banking system".

"Apart from the migration process, SFBs' growth was also affected by the demonetisation related impact on the microfinance sector," explains Supreeta Nijjar, vice-president, ICRA Ratings, commenting on the health of SFBs in general. "While microfinance dominates the asset mix of SFBs, focus on product diversification has led to a reduction in the share of microfinance to 51 per cent as on 3 March 2018, from 61 per cent as on 31 March 2017, with the SFBs establishing their presence in retail asset classes such as vehicle loans, loans against property (LAP) and housing finance. However, the share of microfinance for the erstwhile NNBFC-MFIs, which were converted to SFBs, stood higher at 79 per cent as on 31 March 2018 (84 per cent as on 31 March 2017)."

Going forward, ICRA expects SFBs to report a return on equity (RoE) of 8-12 per cent till 2019-20, supported by some reduction in the cost of funds as well as the operating expense ratios. "Focus on product diversification would enable the SFBs to deepen their relationship with existing customers and manage concentration risk better. Over the medium term, we expect the SFBs' loan portfolio to grow at 25-30 per cent, with the share of microfinance to decline to about 40 per cent by March 2020," concludes the ICRA report.

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## A Transformation Journey

**2007:** Future Financial Services launches as an NBFC-MFI offering microloans to women in AP

**2009:** DishaMicrofin, an NBFC-MFI, starts offering microloans to women in Gujarat

**2010:** True North (previously India Value Fund Advisors) invests in both the NBFC-MFIs. India Finserve Advisors Private Limited, a central management consultancy company, is set up to oversee the management and operations of the two entities

**2011:** Corporate debt restructuring (CDR) of FFSL takes place, owing to a micro-finance crisis in AP. Operational integration of DishaMicrofin and FFSL is initiated.

**2012:** Operational integration of DishaMicrofin and FFSL is completed

**2013:** Legal integration of DishaMicrofin and FFSL is initiated, to get all shareholders on the combined platform

**2014:** Fincare Business Services Limited (FBSL), the promoter company, is incorporated in which the shareholding of individual shareholders of DishaMicrofin and FFSL is consolidated under the Fincare brand

**2015:** An in-principle approval from RBI to convert to SFB is granted to DishaMicrofin

**2016:** The business of FFSL is transferred to DishaMicrofin, as part of regulatory restructuring

**2017:** Fincare Small Finance Bank launched operations after receiving final licence from the RBI