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Equitas Small Finance Bank to prepay Rs 3,000 crore debt to reduce fund cost

By [Atmadip Ray](#), ET Bureau | Updated: Sep 13, 2016, 06.02 PM IST

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KOLKATA: [Equitas](#) is beginning to feel the benefit of becoming a bank, though it is classified as a small [finance](#) bank.

It has raised Rs 4,000 crore by selling commercial papers and [bonds](#) over the last few weeks in the run up to becoming a bank. It raised loans from cooperative banks as well.

The funds were raised at a much lower 9.5% average cost, which was about 200 basis points lower than its earlier borrowing cost of 11.5-12%.

The new bank is now planning to prepay Rs 3,000 crore of its existing loans to reduce cost of funds. These loans were taken before [Equitas](#) converted into a bank. Earlier, [Equitas Micro Finance](#), [Equitas Housing Finance](#) and [Equitas Finance](#) were merged to create [Equitas Small Finance Bank](#), which started journey on September 5.

"This is the first phase of our strategy... to replace high cost bank loans by funds raised at lower cost," [Equitas Small Finance Bank](#) Managing Director PN [Vasudevan](#) told ET.

"We look to raise funds continuously via certificate of deposits, bulk deposits and inter-bank participation certificates (IBPC) for funding loan growth," he said.

Given the fact that most of its Rs 6,500 crore loan is in the form of short-term micro loans to tiny businessmen and loans to small enterprises, classified as priority sector, [Equitas](#) could raise a few thousand crore more by selling those loans to banks using IBPC to unlock capital, boost growth and improve profitability.

As a small finance bank, it plans to launch a few loan products - agri loans and old loans - by March 2017, to boost its array of loan products. At present, about 50% of its existing loan [portfolio](#) is micro loans while 25% is used commercial vehicle loans, 20% is micro and small entrepreneur loans and the balance 5% loans are towards the [affordable housing](#) segment.

"As a non-banking finance company, we had the structure to offer [retail](#) loans. So, rolling out new products will not be difficult for us," [Vasudevan](#) said.

[Equitas Small Finance Bank](#) started in a humble way with just about three branches in [Chennai](#). It plans to [open](#) another 409 branches in the next six to eight months while 170 of the existing offices will continue as lending outlets.

The company is one of the 10 financial services entities to get a small bank finance license from the [Reserve Bank of India](#) last year.

It looks to hire 3,000 [people](#) to add to its current manpower strength of 9,000 for branch banking and to [market](#) liability products over the next few months.

[Equitas](#) raised Rs 2,170 crore in initial public offering in April, which helped it reduce foreign shareholding to 35% from 92.6%, below the stipulated 49%, as per regulatory requirement.

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