

MSMEs, affordable housing will be our focus areas: ESAF Microfin CMD

V Sajeev Kumar

'We would like to be known as a new generation bank that caters to the needs of the poor'



With the final approval coming through from the RBI for small finance bank, Thrissur-based ESAF Microfinance is all set to start banking operations by the first quarter of 2017. The bank will target the MSME and affordable housing sectors. In an interview, K Paul Thomas, Chairman and Managing Director, said he is confident of expanding deeper and wider to serve the bottom of the pyramid on the strengths of outstanding service and technology. Hoping to improve operational efficiency and risk management through technological initiatives, he said, the bank has engaged FIS Global as its system integrator to offer multiple channels to clients to access accounts, including digital, apart from services through branches. He anticipates an increase in expenditure due to infrastructure development and HR requirements. However, the cost of funds, in course of time, will come down and the benefits can be passed on to the end-customers, he added. Excerpts:

Which are your focus areas and have you identified any specific sectors?

We already have a presence in 11 regions across South, Central and East. On day one, we will start operations in Kerala and Tamil Nadu and gradually in other existing areas, besides the North-East where banking has not yet been functional in full scale.

Our primary target sector for assets is micro-finance customers. Most of them have graduated to the next level, where they need big-ticket loans and have surplus funds for deposits. We are hopeful of mobilising savings and term deposits from them. We also have plans to enter the affordable housing sector in partnership with government schemes.

MSME is another target area as almost 80 per cent of jobs are generated in this sector. To serve this sector, we are collaborating with Mudra Bank. I am confident that serving them will do a world of good in strengthening the roots of the economy.

How many branches are you planning in the first phase and the number of possible new jobs?

In the first phase, we plan to launch 85 branches across Kerala and Tamil Nadu. So far, we have recruited 200-plus employees from different sectors for banking operations, and by March the total number of recruitments may go up to 3,500.

Over the next five years, there will be 5,000 jobs across different cadres. We have also hand-picked several employees from micro-finance to SFB on merit. By 2020, we have plans to launch 700 branches with three million customers covering 15 States.

Tell us of the importance of the micro-finance sector in India and its growth potential?

The financial inclusion agenda of the present and former governments has played a key role in the growth of the micro-finance sector. Despite several headwinds, the sector has emerged unscathed because of its potential. As of March 31, micro-finance institutions have provided micro-credit to 3.25 crore clients, an increase of 44 per cent over FY15. The aggregate loan portfolio of MFIs stood at ₹ 53,233 crore.

This represents a year-on-year (y-o-y) growth of 84 per cent over FY15.

As of March 31, MFIs had a branch network of almost 9,700 and an employee base of almost 85,900.

Hence, the potential is clearly visible to all.

I wish all MFIs adopt social return on investment as one parameter to gauge their growth, apart from financial returns.

In 2013, ESAF had released a 'Social Return on Investment' report with the support of Opportunity International Australia. The report revealed that for the equivalent of every ₹ 1 invested in ESAF Microfinance, ₹ 3.19 is returned in social value.

As the market penetration is low, the growth potential of micro-finance is huge.

In addition, the NPAs in the MFI sector are very low, which shows that micro-finance customers are equally trustworthy as normal banking customers.

Will penetration of banks affect the prospects of MFIs in the country?

The ultimate victory will be for the end-customers. It is good that banks are showing positive signs of expanding into rural areas. It will be a win-win situation for all.

Taking a cue from MFIs, several banks have already adopted door-to-door banking in rural areas. Banks are also trying to partner with MFIs to bridge the gap in last-mile connectivity. MFIs will also benefit from competition as it will force them to further improve services and focus more on innovation.

ESAF started as an NGO. Tell us about the transformation from NGO to micro-finance?

ESAF was started as an NGO in 1992 in Mannuthy in Thrissur. In 1995, we started the Micro Enterprises Development Programme, after realising that financial support was inevitable for the holistic development of the poor.

In 1998, we further expanded our operations and received the first funding from Grameen Bank, Bangladesh, headed by the Nobel laureate Muhammad Yunus.

Gradually, both public sector and private banks started supporting us. Towards moving to a more regulated space, we launched ESAF Microfinance and Investments (P) Ltd as an NBFC in 2008.

Will there be a shift from micro-finance once you start banking operations?

We would like to be known as a new generation bank that caters to the needs of the poor. Micro-banking is a key business vertical for us, which will provide multiple products and services to the target segment. It doesn't mean that we are alien to the other sectors in the economy. We will function as a bank for all in one way or the other.

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