

Business Standard

SFBs look to grab bulk deposits pie; offer higher interest rates at 8-8.5%

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While public sector banks (PSBs) are planning to shed bulk deposits, small finance banks (SFBs) are looking to grab a share of corporate deposits.

For almost all SFBs, bulk deposits comprise 70-90 per cent of their deposit base.

Most SFBs have been offering competitive rates for term deposits in retail but the response has been tepid.

With PSBs slashing bulk deposit rates, several institutions are now opting for deposits in SFBs that are offering 1-1.5 per cent higher rates in high-ticket deposits. For example, State Bank of India is offering the highest bulk deposit rate of 7 per cent for one to two years' maturity. In contrast, most SFBs are offering rates between 8 and 8.5 per cent.

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For Ujjivan Small Finance Bank, of the nearly Rs 38 billion deposits (as of March 31, 2018), about 90 per cent of the deposits is from institutions.

"In the first few years of our operation, our thrust is on building a deposit base. Our target customers are large corporate houses, trusts and associations," said Deepak Khetan, chief financial officer at Ujjivan. The SFB is offering around 8 per cent interest rate for bulk deposit in the one to two years' bracket.

Utkarsh Small Finance Bank also has nearly 80 per cent of the deposits as bulk deposits, with maximum rate of interest at around 8 per cent. The bank's deposit base is around Rs 23 billion, of which about Rs 18 billion are bulk deposits.

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Typically, clients of SFBs are cooperatives, trusts, institutions such as schools and colleges, and mid- and small-sized corporates that earlier parked money in banks.

For Fincare Small Finance Bank, too, nearly 70 per cent of the deposits are from institutions.

"In the initial years, to fund growth, bulk deposit is a key source of fund for small finance banks. However, the larger strategy is to diversify into retail deposits," said Rajeev Yadav, managing director and chief executive officer at Fincare Small Finance Bank.

Suryoday Small Finance Bank also has nearly 90 per cent of deposits as bulk deposits. The bank is offering a high rate of 8-8.5 per cent and has built a deposit base of around Rs 8.5 billion.

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For retail deposits, most of the SFBs are dependent on their existing microfinance customers, where the ticket size is small. Most SFBs are offering 1.5-2 per cent higher rates on retail deposits.

Even after offering higher interest rates than the market, the cost of funds for SFBs has come down. As microfinance institutions, most of them were receiving refinance from banks at 11-14 per cent, depending on their credit ratings. This was costlier by 4-6 per cent, compared to their current cost of deposits.

"Building retail deposit base takes time, as it involves inculcating trust. Retail customers prefer parking money in PSBs, even though the interest rates are lower. Hence, SFBs have been unable to corner the retail deposit share of PSBs, even though they have been offering higher interest rates. However, many institutions are shifting from PSBs to small finance banks as the rates are lucrative," said a banker at a public sector bank.

With most PSBs under prompt corrective action, shedding of bulk deposits has been the top agenda in the turnaround plan.

Taking Stock

- Small finance banks are offering higher interest rates at 8-8.5 per cent
- 70-80 per cent of deposits for SFBs are from institutions

- Cost of funds has come down by 4-6 per cent for SFBs
- Usually, customers at SFBs are trusts, cooperative and small institutions