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Managing costs and risk is the key: Ajay Kanwal, CEO, Jana Small Finance Bank

BY [JOEL REBELLO](#), ET BUREAU | OCT 10, 2018, 08.16 AM IST

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Ajay Kanwal took over as the CEO of **Jana Small Finance Bank** in August last year, less than two months after joining private equity firm **TPG** as its senior advisor. TPG is one of the 13 shareholders at the micro finance-turned-small finance bank. In an interview with ET, Kanwal talks about the bank's business model, which involved seeking fixed deposits from richer city neighbourhoods and deploying the garnered funds to less-affluent suburban customers traditionally lacking access to conventional **banking**. **Edited excerpts:**

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Demonetisation squeezed every micro finance company and small finance banks. Have you come out of it?

We had to cut costs. That is now done. We are hiring now. We have hired roughly about 2,500 people from the start of the year. Last year, we went through a tough time but that is behind us. Our gross NPAs have decreased considerably from 28% in March 2018 to 15.5% in August 2018. Our new book NPA is around 1%. We are collecting money even now post-demonetisation because customers are still catching up with payments.

If the payment habit is broken, it is tough to get it back. We invested in collections because it is more important than lending. We have to change to think like an small finance bank and there is only so much we can do in terms of costs. Our total staff strength is 5,500 now. Some of our employees have tough backgrounds and fought their way into Jana. It's a high contact business though digitised. I collect Rs 500 crore of cash every month. So there is cost of collection as well. We are working on a recovery model to cut costs by at least 200 basis points. We should expect 60% cost to income on new loans.

CASA deposits are important for any bank. How do you plan to build?

In the current account (CA) piece, we have a micro lending product. I want to bank every individual in the 2-km vicinity of my store front.

I don't have a cost challenge on minimum balance thanks to being fully digitised. If we can convert a lot of the cash economy around my branches, I can get CA. I also lend to small micro enterprises which I could not do enough as a micro finance company because of qualifying assets but we don't have to bother about that as a small finance bank. That's where my CA will come from.

I can manage their cash even if they don't borrow. Savings account (SA) piece is tougher, which is where we will go online. We will start with a bit of small business salary accounts but closer to December, the online piece will come up. I would imagine my CASA will be in 20% to 25% range in a year's time, more led by CA. We are offering 6% on SA. But our SA is still in single digits.

How has Jana Bank shaped up so far?

We are close to about Rs 1,500 crore by way of deposits after the soft launch in March. The focus now is purely fixed deposits. Roughly about 60% is retail, which is less than Rs 1 crore. Jana is present in 20 states with six branches in Mumbai, eight in Chennai and six in Bangalore. We offered 8.5% for 366-day deposits, which has helped. We have branches in affluent locations in Worli, Hiranandani and Andheri where we expect liabilities from. It's a model where rich keep deposits but the lending has to be to the bottom of the pyramid.

In Mumbai, our micro-finance branches are in Nallasopara and Kalyan, our main customer base. Nationally, we have 175 branches and we will reach 200 soon. It will be a hub and spokes model because we have to service the spokes. We first built spokes and then opened branches wherever there is a liabilities opportunity. We are big in Karnataka, Tamil Nadu, Maharashtra, UP and West Bengal. We will also convert the 400 micro-finance branches. We expect to touch 500 next year. We raised Rs 1,940 crore, of which Rs 306 crore came a few weeks ago. HarbourVest increased its stake to 9.80% from 4.80%. Ramesh Ramanathan is the promoter with more than 40% stake. TPG, Morgan Stanley PE and GIC are the other big shareholders.

How are you placed on the loan book?

Our loan book is about Rs 8,000 crore. We disburse about Rs 450 crore to Rs 500 crore on a monthly basis. Micro enterprise and small SMEs are about 25% of the disbursements, 15% is agriculture and the rest is group loans, which are women-led. About 99% of our loans is less than Rs 20 lakh, such as agriculture and livestock loans on the dairy side. We also give kirana shops loans based on their cash flows.

These customers are very entrepreneurial and I have seen amazing stories in my interaction with them: A person who started with Rs 30, now has a net worth of Rs 25 lakh. About 93% of India's employment is in our small scale sector and these people give employment to their neighbours. Borrowing from money lenders even in cities is very expensive and they don't have many places to go. So every SFB will do well as long as you can manage your risks and costs. Our margins are roughly around 9%.

What are the new areas you will foray into?

Now we have launched affordable housing. I looked at my customer base on bureaus and only 2% have home loans; so whenever they want a home loan, I want to give him. I want to do more with good customers. I don't want to go to a different base of customers to diversify my risk. It could be secured or unsecured, long or short tenure. I don't want to leave my customers. I want to do different customers in the same geography or do different business with the same customers. I don't need to leave the segment to diversify. Our customer needs will change, as he moves from unsecured to secured. We will maintain diversification and prudence on geographical and store front concentration but not move away from our customers.

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