

Small finance banks may get breather from RBI on listing

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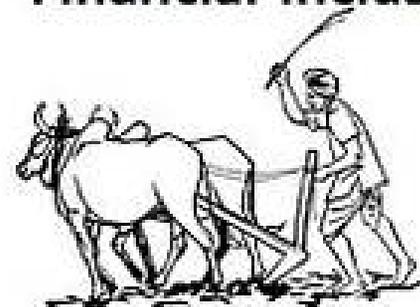
Small Finance Banks



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K Ram Kumar

With the economy and financial markets thrown into turmoil due to Covid-19 outbreak, the Reserve Bank of India (RBI) may allow small finance banks (SFBs) a breather from one of the licensing conditions that requires them to get listed within three years of their net worth reaching ₹500 crore.

Six SFBs – Equitas (commenced operations in September 2016), ESAF (March 2017), Fincare (July 2017), Suryoday (January 2017), Utkarsh (January 2017) and Jana (March 2018) – had been working towards getting listed in the next six to nine months.

The pandemic may now throw a spanner in SFBs' works as collections and new business origination have almost come to a halt due to the nationwide lockdown. This could cast a shadow over their valuations.

Considering the special situation that the economy and financial markets are right now in and the possibility that its ripple effect could be felt for a few months, the banking regulator may consider extending the deadline for listing by these niche banks by a couple of quarters, according to industry experts.

They emphasised that SFBs should go in for listing only after their operations recover from the Covid-19 shock and financial market conditions turn favourable.

IPO plans

As per the original plan, the six SFBs are expected to tap the capital market with IPO (initial public offer) aggregating up to ₹6,000 crore.

On an average, the IPO size of these SFBs is expected to be up to ₹1,000 crore each, including an offer for sale (OFS) by existing promoters in some cases.

India Ratings (Ind-Ra), in a report, said SFBs will face severe asset quality issues in the short term, as near-term collections will see unprecedented disruptions on account of the Covid-19-linked nationwide lockdown.

According to Jindal Haria, Director, Ind-Ra: “Managing deposits base may also become challenging.

However, they would be better placed on the liability side by virtue of them being banks where the Reserve Bank of India is the lender of the last resort.”

The credit rating agency is expecting SFBs' exposure to MFIs (microfinance institutions) to have an overhang on deposit accrual and deposit rollover / renewal. "Overall, the SFBs have provided a two-month moratorium period to most of their individual / MSME (micro, small and medium enterprise) borrowers. They do have access to refinance institutions and as banks to the additional tools to raise non-deposit liabilities to manage their asset-liability management," said Haria.

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