

SMALL FINANCE BANKS

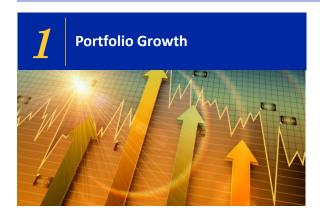
Uptick in delinquencies to dampen growth and profitability in near term

DECEMBER 2024



Contents















Highlights





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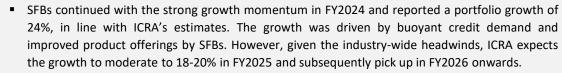
Growth to taper; ICRA estimates growth to moderate to 18-20% in FY2025

Uptick in delinquencies in unsecured segment and expected spillover to other asset classes would keep asset quality volatile; ICRA expects GNPAs to be 2.6-2.8% by end of March 2025

Adequate capital and liquidity support growth plans

RoA projected to decline to 1.4-1.6% in FY2025 and marginally improve to 1.6-1.8% in FY2026 from 2.1% in FY2024







• After registering an improvement in the asset quality indicators in FY2024, the trend reversed in H1FY2025 with SFBs reporting a 50-bps increase in GNPA% to 2.8% as of September 2024, driven by slippages in the unsecured books.



■ The overall capital position remains adequate with the net worth, in relation to SFBs' AUM, at around 17% as of end of September 2024.ICRA expects the deposits to grow by 20-22% during FY2025-FY2026, marginally lower than the AUM growth expectations.



• While the share of CASA deposits for SFBs has been increasing over the years, it remains significantly lower than universal banks. In line with the trend seen in universal banks, depositors have moved towards term deposits, leading to a drop in the share of CASA deposits across most SFBs in H1 FY2025.



ICRA expects profitability to remain under pressure in H2FY2025 as SFBs would need to provide/write off delinquent loans to keep the reported GNPA/NNPA under the threshold levels required for universal bank license application. Accordingly, ICRA estimates the RoA of the industry to decline to 1.4-1.6% in FY2025 and improve marginally in FY2026, supported by higher operating efficiency.



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