

SMALL FINANCE BANKS

Uptick in delinquencies to dampen growth and profitability in near term

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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 GNPA 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



- SFBs continued with the strong growth momentum in FY2024 and reported a portfolio growth of 24%, in line with ICRA's estimates. The growth was driven by buoyant credit demand and improved product offerings by SFBs. However, given the industry-wide headwinds, ICRA expects the growth to moderate to 18-20% in FY2025 and subsequently pick up in FY2026 onwards.
- 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.



ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice President	karthiks@icraindia.com	+91-22-61143444
A M Karthik	Senior Vice President	a.karthik@icraindia.com	+91-44-45964308
Manushree Saggar	Senior Vice President	manushrees@icraindia.com	+91-124-4545316
Sandeep Sharma	Assistant Vice President	sandeep.sharma@icraindia.com	+91-22-61143419





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860





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