

6th July 2023

ESAF Small Finance Bank Limited
Building No.VII/83/8, ESAF Bhavan Mannuthy,
Thrissur-Palakkad National Highway
Thrissur 680651

Dear Sir,

Re.: **Proposed initial public offering of equity shares of face value of ₹ 10 (the “Equity Shares”) by ESAF Small Finance Bank Limited (the “Bank”) (the “Offer”)**

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- *CRISIL MI&A – Industry Report on Small Finance Banks, June 2023*

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We confirm that we are an independent agency and are not related to the Bank, its Promoters, Directors, Key Managerial Personnel or the Book Running Lead Managers as provided in the Annexure A.

We agree to keep strictly confidential, the non- public information relating to the Issue until such time that: (A) such disclosure by us is approved by the Bank; or (B) such disclosure is required by law or regulation; or (C) such information is already in public domain or comes into public domain through no fault of ours.

For CRISIL Limited



Suresh Krishnamurthy

Senior Director

Annexure A

Directors

1. Ravimohan Periyakavil Ramakrishnan
2. Kadambelil Paul Thomas
3. Joseph Vadakkekara Antony
4. Thomas Jacob Kalappila
5. Vinod Vijayalekshmi Vasudevan
6. Ravi Venkatraman
7. Kolasseril Chandramohanan Ranjani
8. John Samuel
9. Ajayan Mangalath Gopalakrishnan Nair

Key Managerial Personnel

1. Kadambelil Paul Thomas
2. Gireesh C.P.
3. Ranjith Raj P
4. George Kalaparambil John
5. George Thomas
6. Hari Velloor
7. Hemant Kumar Tamta
8. E.A. Jacob
9. Sudev Kumar V
10. Wilson Cyriac
11. Sivakumar P.

Promoters

1. ESAF Financial Holdings Private Limited
2. Kadambelil Paul Thomas

Book Running Lead Managers

1. ICICI Securities Limited
2. DAM Capital Advisors Limited
3. Nuvama Wealth Management Limited (formerly known as Edelweiss Securities Limited)

Legal counsels

1. Cyril Amarchand Mangaldas

2. Khaitan & Co
3. Duane Morris & Selvam LLP

Industry report on Small Finance Banks

June 2023



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Macroeconomic scenario

Global economy is witnessing tightening of monetary conditions

The global economy is witnessing tightening of monetary conditions in most regions. As per the IMF (World Economic Outlook Update – April 2023), global growth prospects are estimated to fall from 3.4% in 2022 to 2.8% in 2023 and then witness an increase in 2024 to 3.0%, the impact of which is expected to be witnessed in the Indian economy as well. Global trade is estimated to have reached a record level of approximately US\$32 trillion in 2022, but its growth had turned negative during the second half of 2022. The trade outlook for 2023 is expected to be negatively impacted because of geopolitical frictions, persisting inflation and lower global demand. Further, deceleration in domestic growth could lead to some softening in imports.

The US economy grew by an annualised 1.1% in the first quarter of 2023, slowing compared with the previous quarter (2.6%). The United Kingdom's (UK) economy grew at 0.1% quarter-on-quarter in the first quarter of 2023, but the latest data for March 2023 shows that its gross domestic product (GDP) contracted 0.3% month-on-month. At the same time, manufacturing activity in China contracted for the first time since the country reopened after ending its zero-COVID policy. Inflation hardened in the eurozone in April 2023, while it eased only marginally in the US. Inflation remains high in several key economies prompting central banks to continue with rate hikes. The US Federal Reserve (Fed), Bank of England and European Central Bank (ECB) all hiked interest rates at their May 2023 policy meetings.

However, financial conditions in India eased in April 2023 after the Reserve Bank of India (RBI) paused on rate hikes in its monetary policy, keeping the repo rates at 6.5%. While the RBI indicated its readiness to move if inflation surprised on the upside, incoming headline inflation print, based on the consumer price index (CPI), eased to 5.7% in March – below the Monetary Policy Committee's (MPC's) upper threshold of 6%. Moreover, bond yields eased significantly as investors factored in a pause in rate hikes. FPIs increased their investment in the Indian markets as global risk sentiment revived with the US banking turmoil staying largely under control. Equity markets also gained amid the pause in rate hike and rising FPI inflows.

External risks remain high because of the possible impact of elevated interest rates in advanced economies on the leveraged market segments. However, CRISIL Market Intelligence & Analytics, a division of CRISIL Limited (CRISIL MI&A), expects India's macroeconomic fundamentals to improve in Fiscal 2024, which should cushion its vulnerability to global shocks. This, coupled with a pause on rate hikes by the RBI and US Federal Reserve, should limit tightening of domestic financial conditions going ahead.

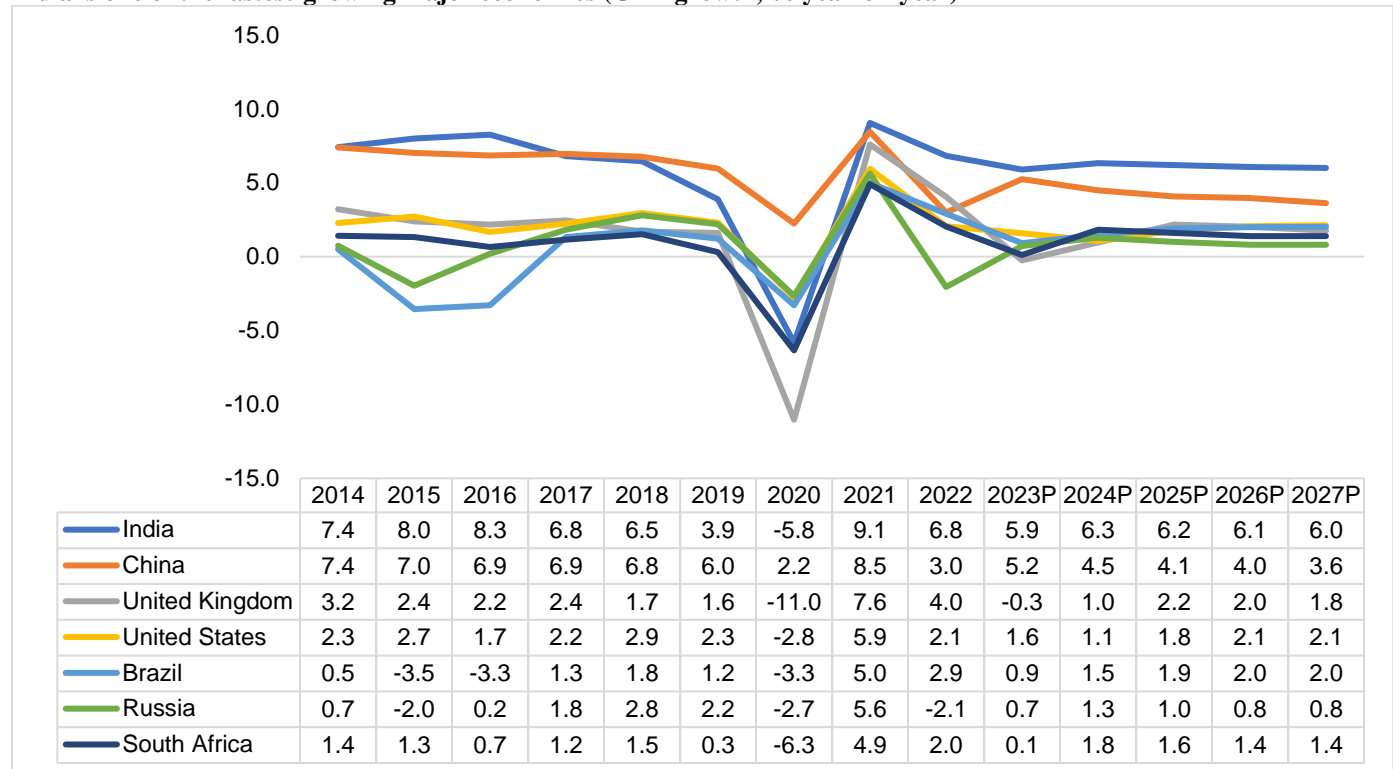
India is expected to remain one of the fastest growing economies amid global slowdowns

As the Indian economy battled the four Cs — COVID-19, conflict (geopolitical), climate change, and central bank actions — it has shown a fair degree of resilience. Despite global slowdown, tightening of monetary conditions, and high inflation, India recorded a higher economic growth rate compared with many peer economies owing to its relatively strong local consumption, lower reliance on global demand, and continued resilience to external blows.

The growth pattern, though, highlights two key features. First, the economy has recovered faster in nominal terms than in real terms (because of high inflation). Second, official data revisions released in February 2023 peg real GDP growth in Fiscal 2023 at 7.0% year-on-year, which reveals that the economy was more resilient than estimated earlier. This was largely owing to healthy domestic demand, aided by a catch-up in contact-based services, strong investment activity, government push for capital expenditure (capex), relatively accommodative financial conditions, and an overall normal monsoon for the fourth time in a row.

CRISIL MI&A expects growth outlook for Fiscal 2024 to be fettered with multiple risks including sluggish exports and lagged impact of rate hikes manifested fully into the economy. Nevertheless, India is expected to remain the fastest growing economy in the world with GDP growth of 6.0% projected in Fiscal 2024 as per CRISIL MI&A. The IMF too estimates India's GDP to have grown by 6.8% in calendar year (CY) 2022 due to its broad range of fiscal, monetary and health responses. The IMF projects the growth to slow down to 5.9% in CY 2023 before picking up to 6.3% in CY 2024.

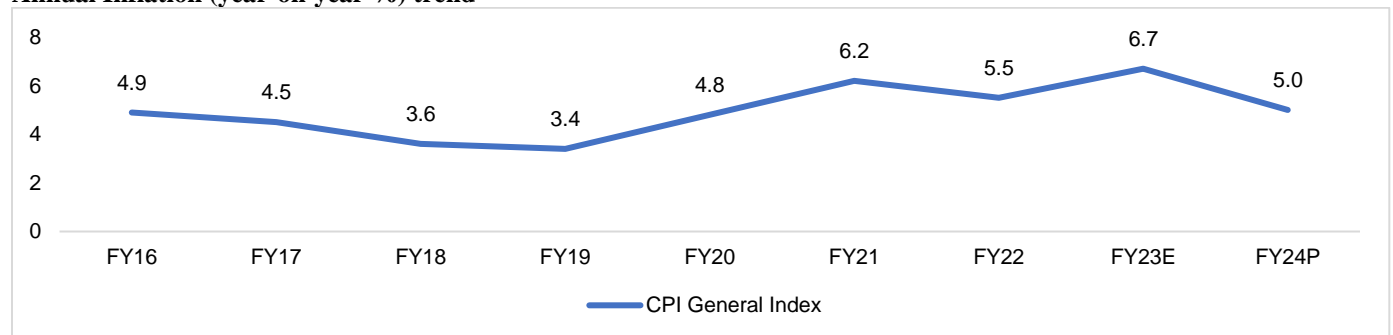
India is one of the fastest-growing major economies (GDP growth, % year-on-year)



Note: All forecasts refer to IMF forecasts. GDP growth is based on constant prices, Data represented is for calendar years, P: Projected.

Source: IMF (World Economic Outlook – April 2023 update)

Annual Inflation (year-on-year %) trend



Source: Central Statistics Office (CSO), Ministry of Industry and Commerce, CRISIL MI&A

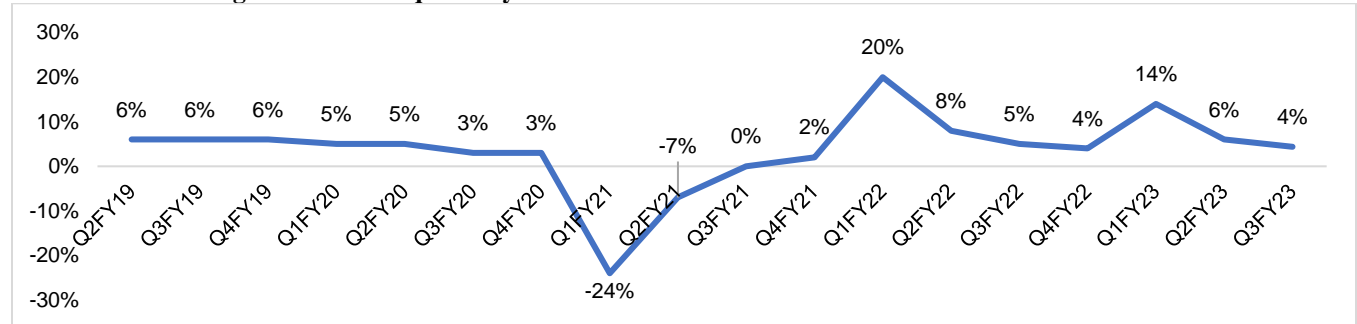
Financial conditions eased after RBI's surprise pause in April 2023

The MPC kept policy rate unchanged in April 2023, keeping the repo rate at 6.5%. This pause in rate hikes was against wide market expectations. While the RBI indicated its readiness to move if inflation surprised on the upside, incoming headline inflation print, based on the Consumer Price Index (CPI), eased to 5.7% in March 2023 – below MPC's upper threshold of 6%.

The GDP numbers showed India's growth slowing to 4.1% year-on-year in the fourth quarter of Fiscal 2022 compared to 5.4% in the previous quarter. The first quarter of Fiscal 2023 shows broadening recovery to the extent of 13.5%. However, the growth in the second quarter of Fiscal 2023 moderated to 6.3% while further coming down to 4.4% in the third quarter of Fiscal 2023. The quarterly growth trends indicate that the slowdown is intensifying and becoming more widespread in the economy. India's export and industrial growth was hit in the second quarter of Fiscal 2023 by

a global demand slowdown which has continued into the third quarter of Fiscal 2023. The GDP growth numbers of the third quarter of Fiscal 2023 also reflected waning momentum in domestic consumption with demand for goods weakening more than demand for services. As per the MPC, the real GDP growth for Fiscal 2023 is projected at 7.0% with the fourth quarter of Fiscal 2023 at 4.2%, with risks evenly balanced. Further, positive momentum in indicators such as index of industrial production (IIP) and purchasing managers' index (PMI) corroborate the pick-up in contact-based services.

Trend in real GDP growth rate on quarterly basis

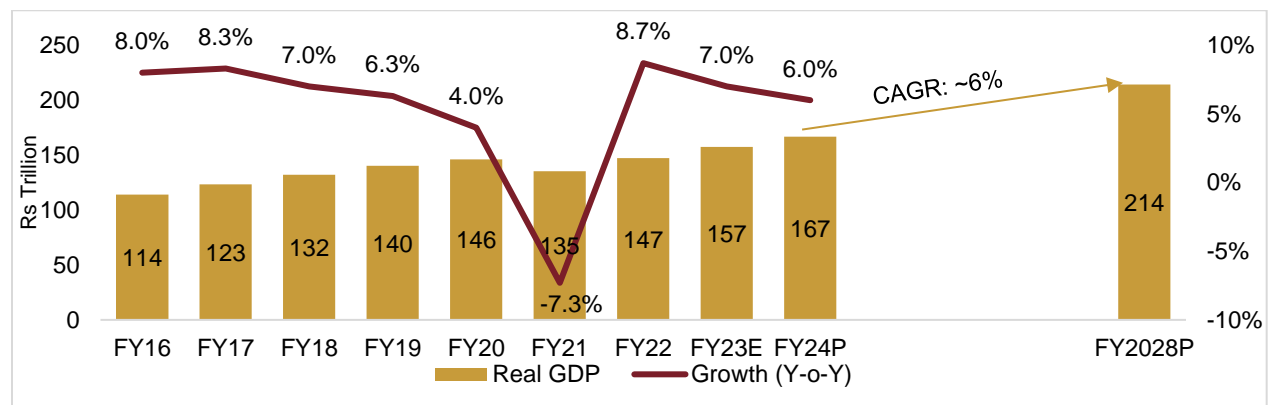


Source: CSO, RBI, CRISIL MI&A

The global slowdown is in the early stages. The United States and Europe performed reasonably well in the quarter ending in December, but it was driven by less import sensitive sectors. The slowdown in exports is also because the pattern of consumption in the West after opening has become skewed towards services, which are not import sensitive. Demand momentum is expected to slow further due to transmission of the Reserve Bank of India's rate hikes. The transmission is yet to be completed, which is likely to lead to a further rise in borrowing costs.

The advanced economies will inevitably face slower growth in CY2023 as their interest rates are already at decadal highs. They account for 45% of India's exports which will bear the brunt of weaker demand. Besides the global slowdown, the forecast of El Nino disturbing Indian monsoons is another risk which could hit rural incomes. These factors are expected to slow India's GDP growth to 6.0% in Fiscal 2024 from 7.0% in Fiscal 2023.

India's economy to grow at 6.0% in Fiscal 2024



Note: FY24 is projected based on CRISIL estimates FY25-FY28 is projected based on IMF estimates; P: Projected; E: Estimated
Source: CRISIL MI&A, IMF World Economic Outlook – April 2023

Macroeconomic outlook for Fiscal 2024

Macro variables	FY23E	FY24P	Rationale for outlook
GDP (year-on-year)	7.0^%	6.0%	Slowing global growth is likely to weaken India's export in Fiscal 2024. Domestic demand could also come under pressure as Reserve Bank of India (RBI) rate hikes are transmitted to

			consumers.
Consumer price index (CPI) inflation (year-on-year)	6.7%	5.0%	Lower commodity prices, base effect, expectation of softer food prices and cooling off domestic demand is likely to help in moderating inflation in Fiscal 2024.
10-year Government security yield (Fiscal-end)	7.4%	7.0%	A moderate increase in gross market borrowings is budgeted for Fiscal 2024. This, coupled with lower inflation and the RBI's rate cuts, is likely to moderate yields in Fiscal 2024.
CAD (Current account balance)/GDP (%)	-2.5%	-2.0%	Lower crude prices and cooling of domestic demand is expected to lead to moderation of trade deficit in Fiscal 2024
Rs/\$ (March average)	82.3	83.0	While a lower current account deficit (CAD) will support the rupee, challenging external financing conditions will continue to exert pressure in the next Fiscal.

Note: (^): NSO second advance estimates, E- Estimated, P – Projected;

Source: Reserve Bank of India (RBI), National Statistics Office (NSO), CRISIL MI&A

Positive government measures to aid economic growth

Going forward, CRISIL MI&A expects India's gross domestic product (GDP) growth to decelerate to 6.0% in Fiscal 2024 from 7.0% in Fiscal 2023 due to a global slowdown, monetary policy impact and a volatile geopolitical scenario. However, some optimism can be seen in the form of moderating consumer inflation, capital and productivity increases aided by better physical and digital infrastructure. CRISIL MI&A expects this growth to be supported by the following factors:

- Production linked incentive (PLI) scheme, which aims to incentivise local manufacturing by giving volume-linked incentives, has been launched by the government for six of the India's top 10 export verticals, which is likely to propel incremental exports. In Fiscal 2024, PLI-driven exports will be the lone growth driver for India, helping improve the overall export growth by 2-4%.
- Focus on investments rather than consumption push enhancing the productive capacity of the economy. Policy push and new age opportunities to lead capex growth in Fiscal 2024.
- Policies aimed towards greater formalisation of the economy, which are bound to lead to an acceleration in per capita income growth.

Despite the mark-down in near-term growth, CRISIL MI&A expects India to remain a growth outperformer over the medium term. Stronger domestic demand is expected to drive India's growth premium over peers in the medium term. Investment prospects are optimistic given the government's capex push, progress of Production-linked Incentive ("PLI") scheme, healthier corporate balance sheets, and a well-capitalised banking sector with low non-performing assets ("NPA"s). India is also likely to benefit from the China-plus-one policy as global supply chains get reconfigured with shifting focus from efficiency towards resilience and friend-shoring. World Economic Forum defines friend-shoring as the rerouting of supply chains to countries perceived as politically and economically safe of low-risk, to avoid disruption to the flow of business. Private consumption (which was approximately 58% of GDP as of March 31, 2023) will play a supportive role in raising GDP growth over the medium term.

Announcements of Union Budget for Fiscal 2024:

Announcement	Impact
Strong thrust towards capex seeing a 24% increase to ₹	Highest allocation seen in the infrastructure related sectors, such as roads and railways. The allocation of tax-free loans from the Government to states

18,600 billion to support growth	is also set to increase 30% to ₹ 1,300 billion, providing a further boost to the infrastructure sector.
Tax rebate for income up to ₹ 0.70 million (as per the new regime)	Provides the middle-income households mild relief by increasing their disposable income and cushion the impact of the external slowdown by improving domestic demand and consumer confidence
Simplification of the know-your-customer process through an expanded DigiLocker service and National Financial Information Registry	Support in technological advancement would promote financial inclusion, ensure better availability of customer data, enable faster and secure sharing of documents with financial institution and increase rural penetration. The previously mentioned will lead to improving efficiency in terms of operating and Credit Cost for financial institutions.
Setting up of three centres of excellence for realising the vision of 'Make AI in India and Make AI work for India'	The improvement in digital infrastructure will lead to a significant rise in the creation and consumption of digital data, and the demand for data storage and processing capabilities. This, coupled with the government's initiative of data embassies, is expected to attract private investments in the data centre ecosystem. For Fiscal 2024, data centre investments are projected to be US\$ 4.8 billion – US\$ 5.0 billion

Further, the following factors could hinder India's growth trajectory:

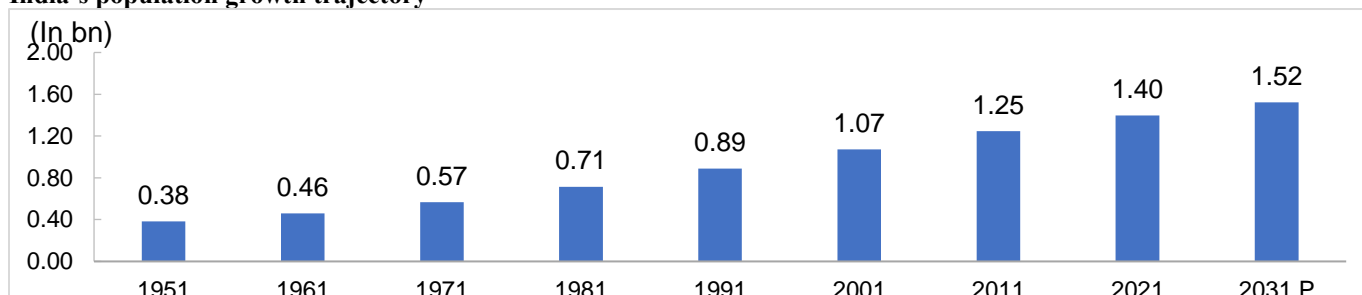
- Global slow-down to impact domestic industrial activity *via* the exports channel; and
- Tightening domestic financial conditions are expected to hurt growth in Fiscal 2024.

Key growth drivers

India has world's second largest population

As per Census 2011, India's population was ~1.25 billion, and comprised nearly 245 million households. The population, which grew at nearly 1.5% CAGR between 2001 and 2011, is expected by CRISIL MI&A to increase at 1.1% CAGR between 2011 and 2021, to 1.4 billion. The population is expected to reach 1.5 billion by 2031, and number of households are expected to reach ~376 million over the same period.

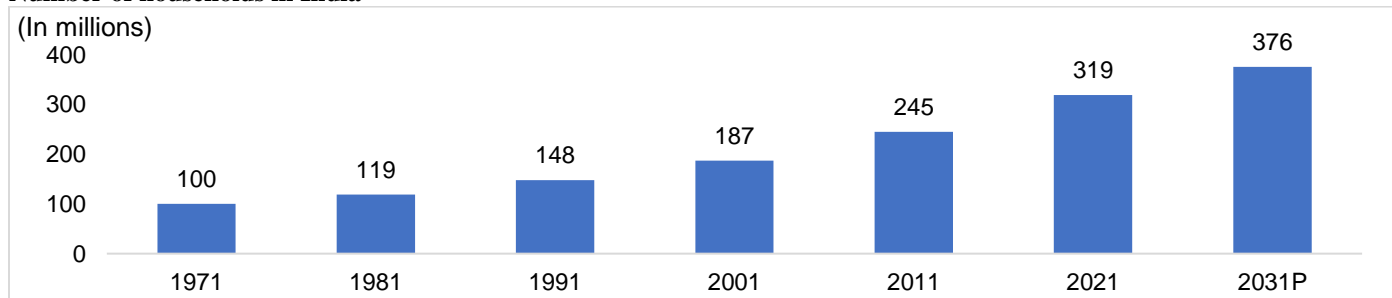
India's population growth trajectory



Note: As at the end of each Fiscal. P: Projected.

Source: United Nations Department of Economic and Social Affairs, (<https://population.un.org/wpp/>) CRISIL MI&A

Number of households in India

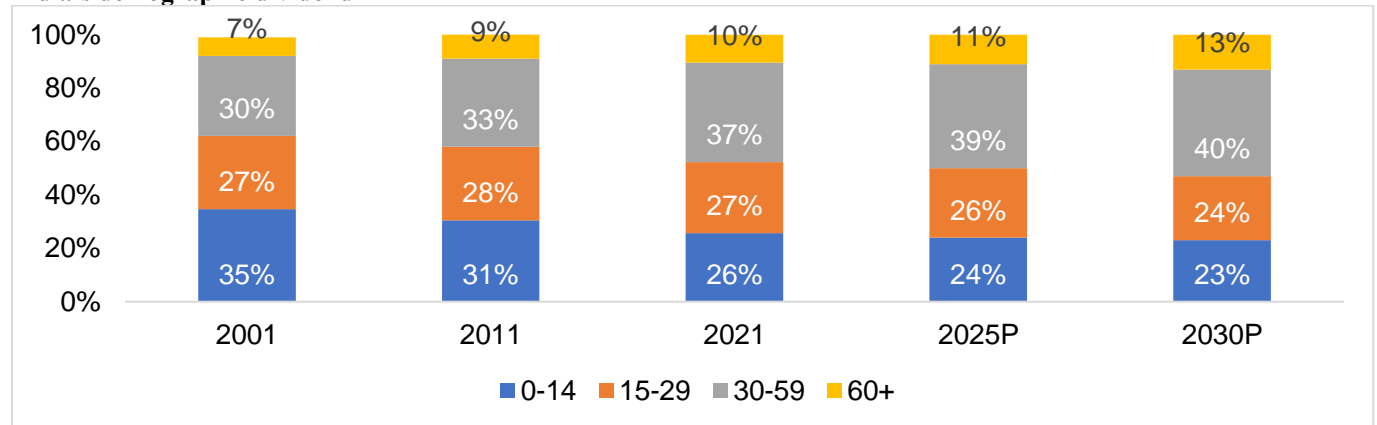


Note: As at the end of each Fiscal. P: Projected,
Source: Census India, CRISIL MI&A

Favourable demographics

As of calendar year 2021, India has one of the largest young populations in the world, with a median age of 27.6 years as compared to the world average of 30 years. (Source: United Nations Department of Economic and Social Affairs, World Urbanization Prospects: The 2018 Revision (UN) (<https://population.un.org/wup/>)). As of calendar year 2021, approximately 90% of Indians were below the age of 60 and that 64% of them are between 15 and 59 years of age. (Source: World Population Prospects 2022). In comparison, in calendar year 2021, the United States of America (US), China and Brazil had 77%, 82% and 86%, respectively, of their population below the age of 60. (Source: World Population Prospects 2022).

India's demographic dividend



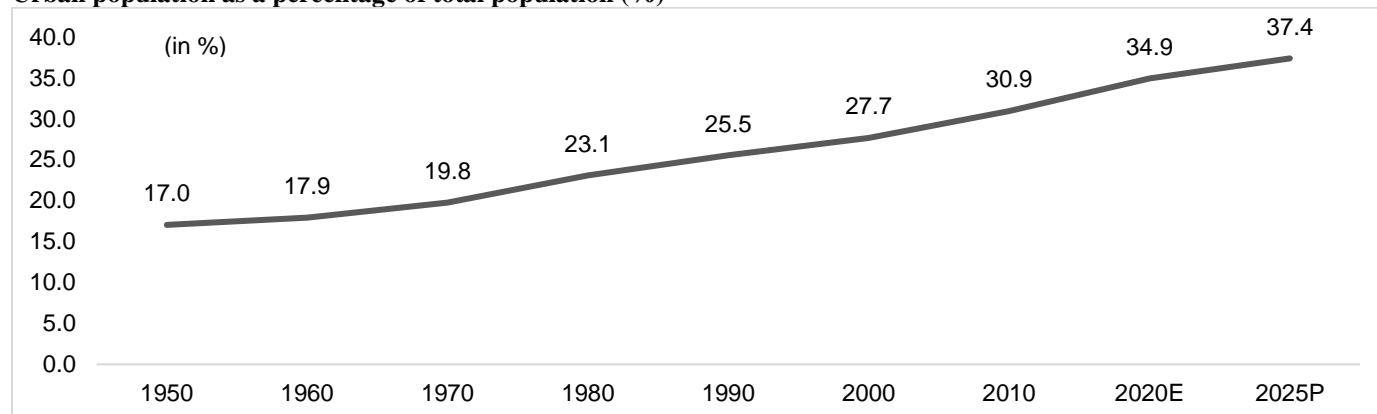
Note: P: Projected, 2001, 2011 and 2021 data from World Population Prospects (2022), 2025P and 2030P is projected by CRISIL MI&A.

Source: United Nations Department of Economic and Social Affairs: World Population Prospects (2022), World Urbanization Prospects: The 2018 Revision (UN) (<https://population.un.org/wup/>), CRISIL MI&A.

Urbanisation

Urbanisation is one of India's most important economic growth drivers. It is expected to drive substantial investments in infrastructure development, which in turn is expected to create jobs, develop modern consumer services and increase the ability to mobilise savings. India's urban population has been rising consistently over the decades. In 1950, the urban population was 17% of the total population of India. (Source: World Urbanization Prospects). As per the 2018 revision of World Urbanization Prospects, the urban population was estimated at 34.9% of India's total population. According to the World Urbanization Prospects, the percentage of the population residing in urban areas in India is expected to increase to 37.4% by 2025.

Urban population as a percentage of total population (%)



Note: E- Estimated, P – Projected

Source: Census 2011 and World Urbanization Prospects: The 2018 Revision (UN) (<https://population.un.org/wup/>)

Increasing per capita GDP

In Fiscal 2023, India's per capita income expanded by 6.0%. As per IMF estimates, India's per capita income (at constant prices) is expected to grow at 5% compound annual growth rate (CAGR) from Fiscal 2023 to Fiscal 2026.

Per capita income	Level in FY2023 [^] (₹ '000)		Growth at constant prices (%)										
	Current prices	Constant prices	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY26 P
	172	98	4.6	6.2	6.7	6.8	5.7	5.8	2.9	-7.6	7.6	6.0	5.3*

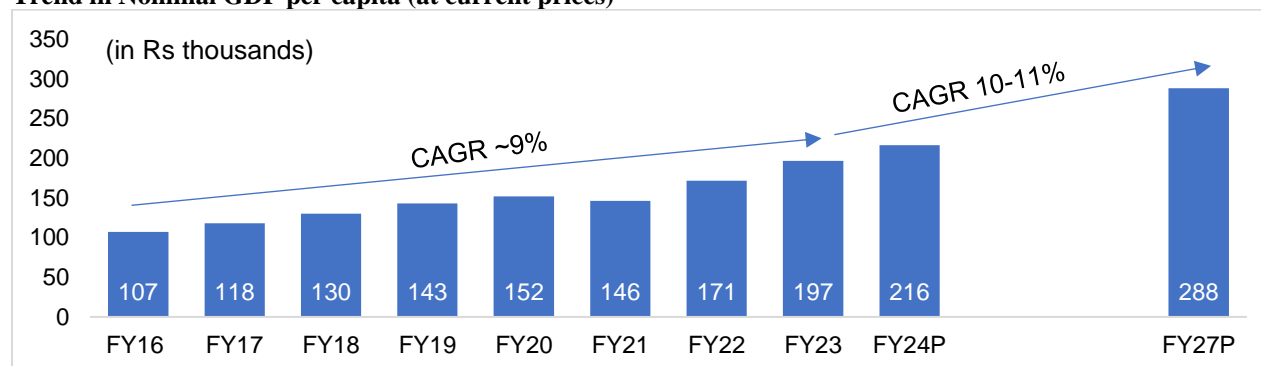
Note – P: Projected, (^) Per Capita NNI as per second advanced estimates of national income, 2022-23.

(*) – 3-year CAGR growth (FY2023-FY2026), as per IMF estimates of April 2023

Source – Ministry of Statistics and Program Implementation (MOSPI), International Monetary Fund (IMF), CRISIL MI&A

As per IMF's estimates, India's nominal GDP per capita (at current prices) is projected to increase at a CAGR of 10-11% from Fiscal 2023 to Fiscal 2027.

Trend in Nominal GDP per capita (at current prices)



Notes: P- Projected. FY23 estimates based on second advanced estimates by Ministry of Statistics and Program Implementation
FY24 – FY27 Projections based on IMF – World Economic Outlook (April 2023)

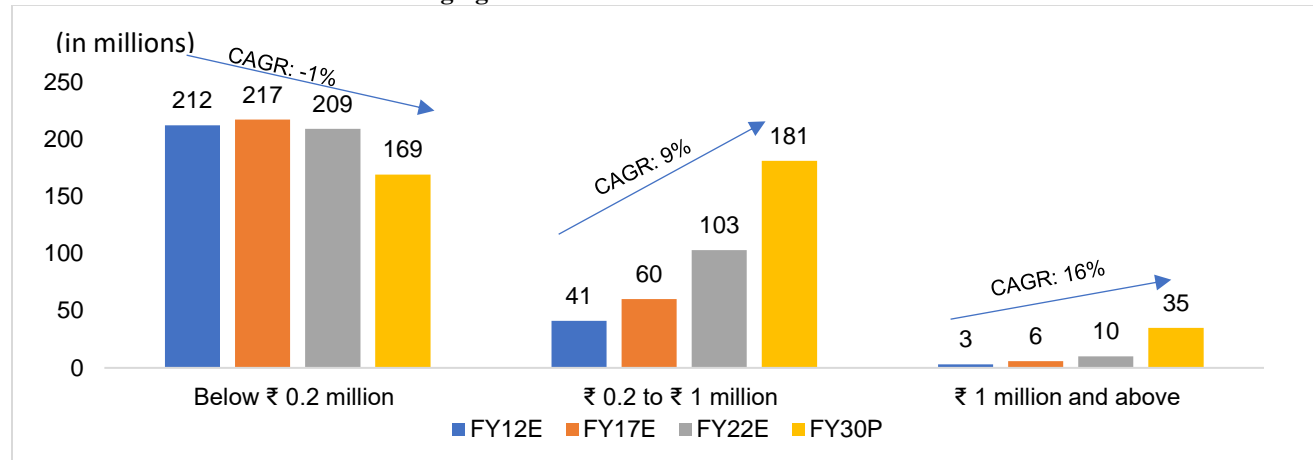
Source: MOSPI, IMF, CRISIL MI&A

Rising Middle India population to help sustain growth

Proportion of Middle India (defined as households with annual income of between ₹0.2 to ₹1 million) has been on a rise over the last decade and is expected to grow further with continuous increase in GDP and household incomes. To illustrate, CRISIL MI&A estimates that there were 41 million households in India in this category as at the end of Fiscal 2012, and by the end of Fiscal 2030, CRISIL MI&A projects this figure will increase to 181 million households translating into a CAGR of 9% over this time period. This growth in the number of middle-income households is expected to lead to enhanced opportunities for retail and MSME financiers as well as consumer goods marketers. A large number of these households, which have entered the Middle-Income bracket in the last few years, are likely to be from semi-urban and rural areas. The rise in incomes in these areas is also evident when one observes the trend in share of deposits coming into banks.

CRISIL MI&A believes that the improvement in the literacy levels, increasing access to information and awareness, increases in the availability of necessities, such as electricity, cooking gas, and toilets, and the improvement in road infrastructure has led to an increase in aspirations of Middle India, which is likely to translate into increased opportunities for financial service providers. In fact, some of these trends are already visible. Smart phone ownership, internet users and the proportion of users accessing social media is increasing rapidly. Smaller cities and towns (with population less than 1 million) account for a significant portion of sales of e-retailers. (Source: CRISIL MI&A)

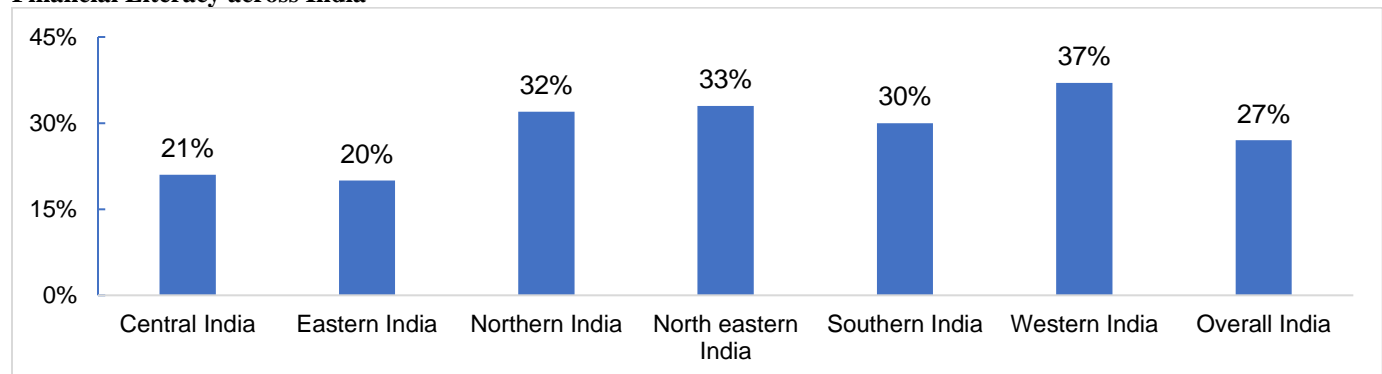
Middle India households to witness high growth from Fiscal 2012 to Fiscal 2030



Note: E: Estimated, P: Projected
Source: CRISIL MI&A

With increasing financial literacy, mobile penetration, awareness and the Prime Minister's Jan Dhan Yojana bank accounts (scheme aimed at bringing the unbanked under the formal banking system), there has been a rise in the participation of individuals from non-metro cities in banking. With more people attached to the formal banking sector, the demand for financial products in smaller cities has seen a major increase in recent years. Going forward, CRISIL MI&A expects financial penetration to increase on account of increasing financial literacy.

Financial Literacy across India

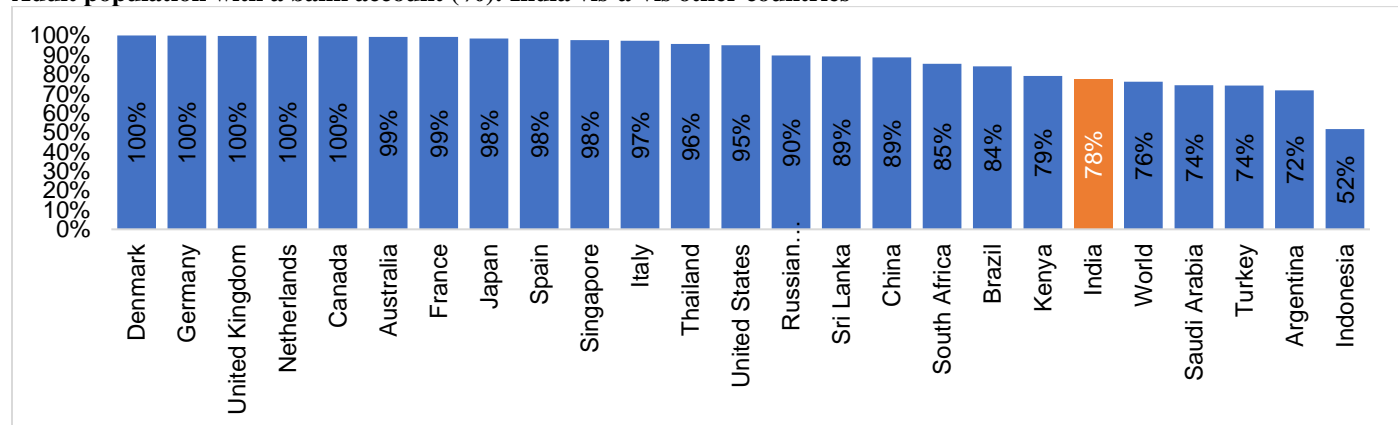


Source: National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019 Report, National Centre for Financial Education

Financial Inclusion on a fast path in India

Overall literacy in India is at 77.7% as per the results of recent NSSO survey conducted from July 2017 to June 2018, which is still below the world literacy rate of 86.5%. However, according to the National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019, only 27% of Indian population is financially literate indicating huge gap and potential for financial services industry. The survey defines financial literacy as combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. According to the World Bank's Global Findex Database 2021, the global average percentage of adult population with an account opened with a bank, financial institution or mobile money provider, was approximately 78% in calendar year 2021. India's financial inclusion has improved significantly over calendar years 2014 to 2021 as adult population with bank accounts increased from 53% to 78% (Source: Global Findex Database) due to the Indian government's efforts to promote financial inclusion and the proliferation of supporting institutions.

Adult population with a bank account (%): India vis-à-vis other countries



Notes: 1. Global Findex data for India excludes northeast states, remote islands and selected districts. 2. Account penetration is for the population within the age group of 15+, Source: World Bank – The Global Findex Database 2021, CRISIL MI&A

The two key initiatives launched by the Government to promote financial inclusion are the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY). Under the PMJDY, the Government's aim is to ensure that every household in India has a bank account which they can access from anywhere and avail of all financial services such as savings and deposit accounts, remittances, credit and insurance affordably. PMJJBY is a one-year life insurance scheme that offers a life cover of ₹ 0.2 million at a premium of ₹ 330 per annum per member, which can be renewed every year. The Government has also launched the Pradhan Mantri Suraksha Bima Yojana (PMSBY), an accident insurance policy that offers an accidental death and full disability cover of ₹ 0.2 million at a premium of ₹ 12 annually. As per the Government, more than 100 million people have registered for these two social security schemes.

PMJDY, which was launched in August 2014, is aimed at ensuring that every household in India has a bank account, which they can access from anywhere and avail of all financial services such as savings and deposit accounts, remittances, credit and insurance affordably. PMJDY focuses on household coverage compared to the earlier schemes that focused on coverage of villages. It aims to extend banking facilities to all within a reasonable distance in each sub-service area (consisting of 1,000-1,500 households) across India.

Account Aggregators framework to build a financial data ecosystem in India

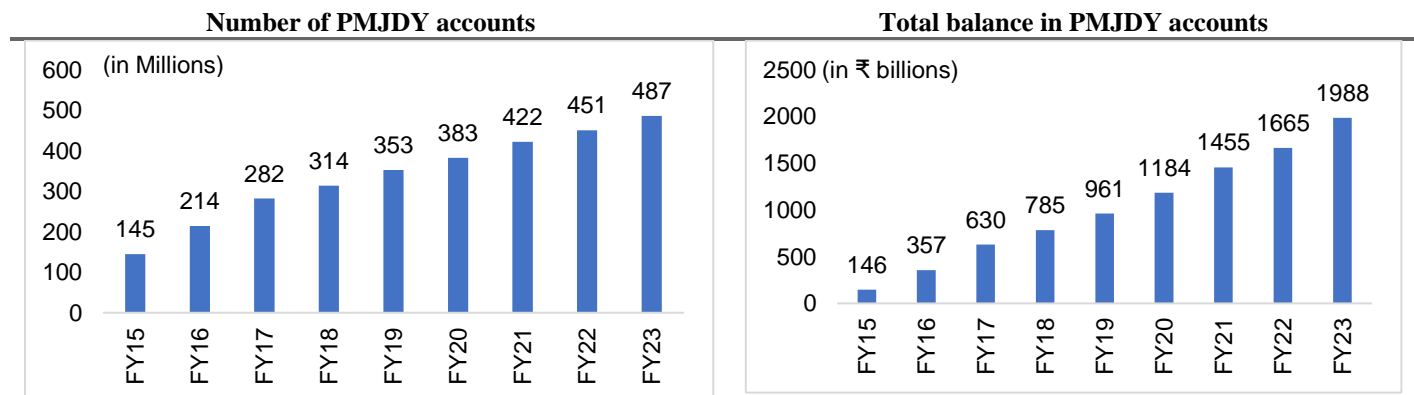
On 2nd September, the RBI launched the Account Aggregators scheme, which is a framework to allow financial data more accessible by creating intermediaries called account aggregators. These intermediaries will collect and share financial information to various entities. It is a big step towards creating a financial ecosystem where it will save transaction cost and ensure a person's credit worthiness.

Key structural reforms: Long-term positives for the Indian economy

Financial inclusion

According to the World Bank's Global Findex Database 2021, the global average of adult population with a savings or current account (with a bank, financial institution, or mobile money providers) was ~76% in 2021. India's financial inclusion has improved significantly between 2014 and 2021, with the adult population with bank accounts rising from 53% (as per Global Findex Database 2014) to 78% in 2021 with concerted efforts by the government to promote financial inclusion and the proliferation of supporting institutions. As per the Global Findex Database 2021, ~54% of the world's 740 million unbanked adults live in only seven countries (India, Bangladesh, China, Indonesia, Egypt, Nigeria and Pakistan), of which 230 million are in India.

As at March 31, 2023, 487 million PMJDY accounts had been opened, of which 67% were in rural and semi-urban areas, with total deposits of ₹1,988 billion. (Source: Pradhan Mantri Jan-Dhan Yojana: Progress Report)



Note: As at the end of each Fiscal.
Source: PMJDY; CRISIL MI&A

Note: As at the end of each Fiscal.
Source: PMJDY; CRISIL MI&A

PMJJBY is a one-year life insurance scheme that offers a life cover of ₹ 0.2 million at a premium of ₹ 330 per annum per member, which can be renewed every year. The Government has also launched the Pradhan Mantri Suraksha Bima Yojana (PMSBY), which is an accident insurance policy and offers an accidental death and full disability cover of ₹ 0.2 million at a premium of ₹ 12 annually. According to the Ministry of Finance, 162 million and 342 million cumulative enrolments have been done under PMJJBY and PMSBY, respectively, as of 26th April 2023. (Source: Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Atal Pension Yojana (APY) complete 8 years of providing social security cover)

Goods and Services Tax (GST) implementation

Introduced on July 1, 2017, the GST is an indirect tax regime that subsumed multiple cascading taxes levied by the central and state governments. Its implementation has spawned structural changes in the supply chain and logistics

network in the country. The crux of the GST mechanism is input tax credit, which ensures more players in the supply chain come under the tax ambit. As supply from only registered taxpayers will get input tax credit, businesses and stakeholders will insist on registration of their suppliers and traders, leading to an increase in the share of organised participants.

Thrust on affordable housing

The residential real estate segment saw two policy changes – Real Estate (Regulation and Development) Act (RERA) and GST – which had a direct impact on the sector's demand-supply dynamics. Consequently, new launches dropped sharply, with developers focussing on completing ongoing projects. The sector had been battling weak demand for the past couple of years, and one of the key reasons was unaffordability, as developers focussed on the middle and premium income-category projects. However, government initiatives have prompted developers to explore affordable housing as a new area. Going ahead, about half of the incremental supply being added in urban stock is expected to be via affordable housing. Additionally, the formalisation of the industry is likely to bring in more transparency, leading to an increase in consumer demand.

Credit penetration in India

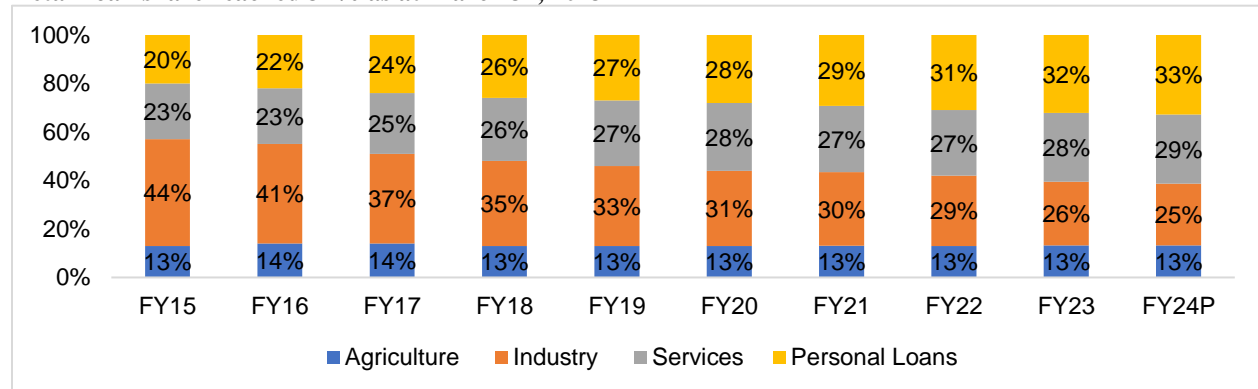
Personal Loan and Service segment to drive credit growth in Fiscal 2024

Industrial credit accounted for nearly a third of the overall banking credit mix in Fiscal 2019. The demand has been lower in the past three Fiscal years, owing to subdued capital expenditure and low commodity prices. The sector has been plagued with worsening asset quality, which has reached 17.5% in Fiscal 2019 as compared to 7.2% in Fiscal 2015. This has led to gradual reduction of share of industry credit in the overall banking sector's credit. CRISIL MI&A expects the growth to stay low towards this sector on account of cautious approach taken by lenders. In contrast, credit towards the retail and services segments has risen rapidly over the past five Fiscal years, driven by strong consumer demand, lower NPA and better margins. Because of this, their shares in the overall banking credit mix have been expanding. In Fiscal 2021, retail credit clocked slower growth as private consumption plunged on account of COVID-19 pandemic and its profound impact on economic activity. However, growth rebounded again in Fiscal 2022 with revival in economic activity and increased focus of financiers towards the retail segment.

CRISIL MI&A estimates agricultural credit to have grown in Fiscal 2023 due to higher PSL targets, expected higher food-grain production, increase in commodity prices and increase in agri credit target. Industrial credit grew in Fiscal 2023 supported by healthy growth in segments like basic metal and metal products, chemical and chem products and government's continued focus on production linked incentive scheme. Services segment grew in Fiscal 2023 on back of healthy credit demand from NBFCs. Personal Loans segment grew in Fiscal 2023 driven by demand in housing segment and pent-up demand in vehicle loans segment.

Going forward, CRISIL MI&A expects personal loans and services segment to drive credit growth in Fiscal 2024. Personal Loans segment is expected to show strong growth in Fiscal 2024 on back of credit demand from consumer durables, gold and other personal loan segment.

Retail loan share reached 32% as at March 31, 2023



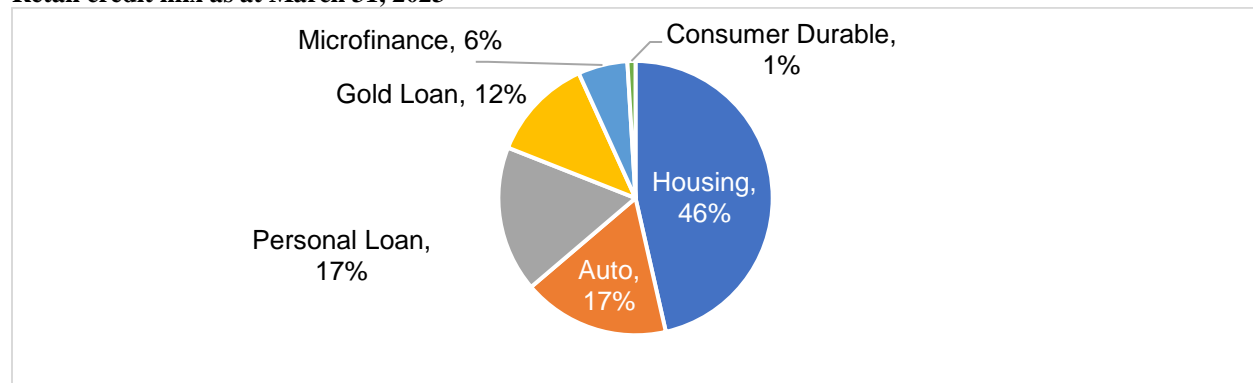
Note: As at the end of each Fiscal. P: Projected

Source: RBI; CRISIL MI&A

Home loans accounts for 46% of overall retail loans as at March 31, 2023

As at March 31, 2023, housing finance accounted for almost half of overall retail loans in the country followed by auto loans (17%), personal loans (17%) and gold loans (12%).

Retail credit mix as at March 31, 2023

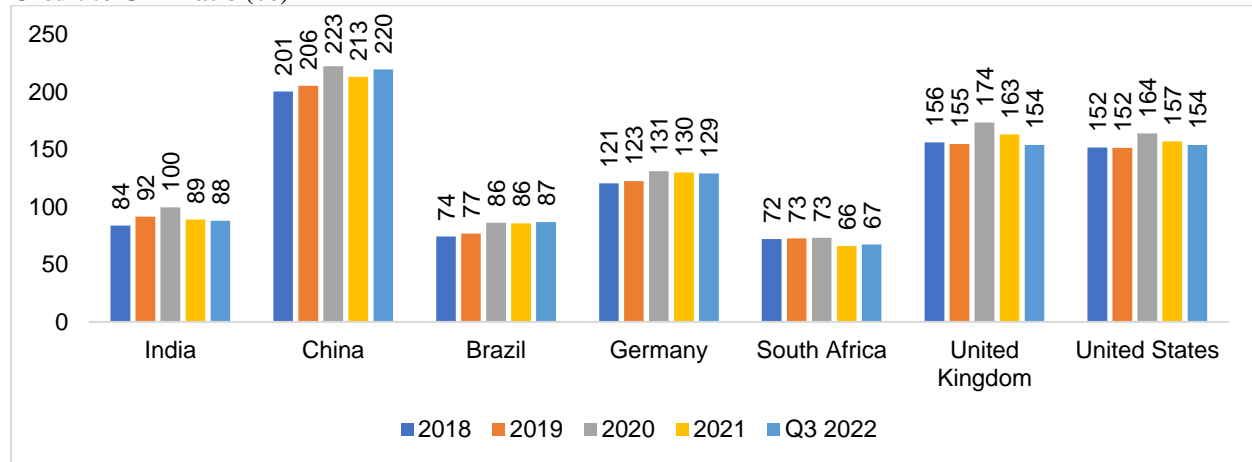


Source: CRISIL MI&A

Credit penetration is lower in India compared to other countries

In terms of the credit to GDP ratio, India has a low credit penetration compared with other developing countries, such as China, indicating the potential that can be tapped.

Credit to GDP ratio (%)



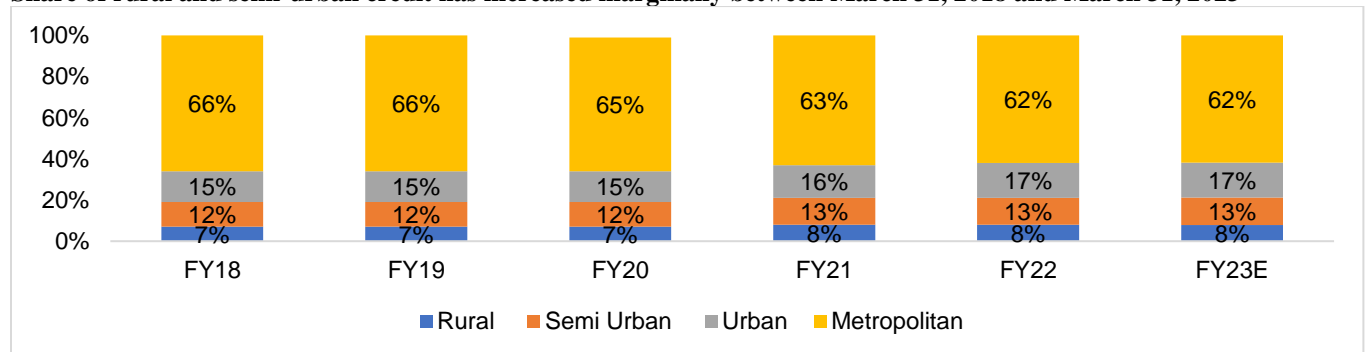
Note: Credit from all sectors to private non-financial sector;
Source: Bank of International Settlements, CRISIL MI&A

Rural India – Under penetration and untapped market presents a huge opportunity for growth

Credit to metropolitan areas has decreased over the past few years with its share decreasing from 66% as at March 31, 2018 to 62% as at March 31, 2023. Between the same period, credit share has witnessed a marginal rise in rural and urban areas. For semi-urban areas, credit share has gone up from 12% as of March 31, 2018 to 13% as of March 31, 2023.

As at March 31, 2022, rural areas, which accounted for 47% of GDP, received just 8% of the overall banking credit, which shows the vast market opportunity for banks and NBFCs to lend in these areas. With increasing focus of government towards financial inclusion, rising financial awareness, increasing smartphone and internet penetration, CRISILMI&A expects delivery of credit services in rural area to increase. Further, usage of alternative data to underwrite customers will also help the financiers to assess customers and cater to the informal sections of the society in these regions.

Share of rural and semi-urban credit has increased marginally between March 31, 2018 and March 31, 2023



Note: As at the end of each Fiscal. E – estimated.
Source: RBI, MOSPI, CRISIL MI&A

Digitisation to support economic growth and financial services

CRISIL MI&A expects technology to play a pivotal role in taking the financial sector to the next level of growth, by helping to surmount challenges stemming from India's vast geography, which makes physical footprints in smaller locations commercially unviable. Technology is conducive for India, considering its demographic structure where the median age is less than 30 years. The young population is tech savvy and at ease with using it to conduct the entire gamut of financial transactions. With increasing smartphone penetration and faster data speeds, consumers are now

encouraging digitisation as they find it more convenient. Digitisation will help improve efficiency and optimise cost. Players with better mobile and digital platforms will draw more customers and emerge as winners in the long term.

Mobile penetration: Higher mobile penetration, improved connectivity, and faster and cheaper data speed, supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one.

Increasing share of digital channels in domestic monetary transactions

The share of different channels in domestic money transfer has changed significantly over the past five years. Banks, for example, are witnessing a change in customer behaviour with fewer customers visiting bank branches for transactions. This change in behaviour was led by demonetisation when cash transactions slowed down, many new accounts were opened, and digital banking witnessed a surge in use and continued its growth trajectory. The preference has also shifted from cost factors to convenience and ease of performing transactions, which helps in saving time spent in queues, not disturbing the daily working hours and avoiding any potential monetary loss. Post COVID-19, with consumers preferring to transact digitally rather than engage in physical exchange of any paper or face-to-face contact, digital transactions have received another shot in the arm.

Indian Banking Industry

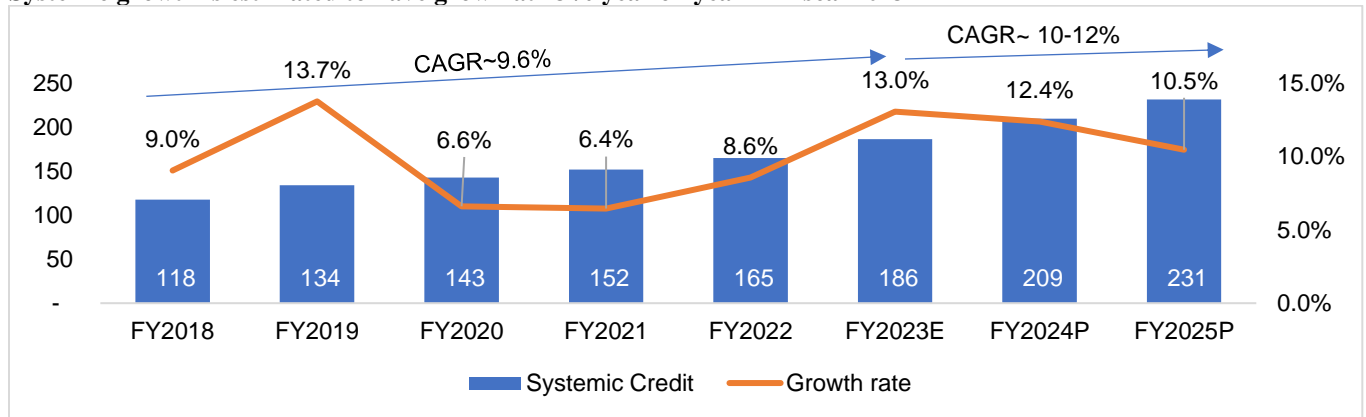
Systemic credit to grow at 10-12% between March 31, 2023 to March 31 2025

Corporate credit determines the growth in overall credit as it accounts for nearly two-third of systemic credit. Overall systemic non-retail credit grew ~9% in Fiscal 2019, mainly driven by public sector undertakings and energy sector (oil and gas and power generation and distribution). The corporate credit of banks grew just ~3% year-on-year as of March 2019, as demand dropped sharply, and alternate capital market channels opened up. The financial sector, which was already reeling under the NBFC liquidity crisis, saw financial institutions turn cautious towards corporate lending and shift their focus towards the retail segment. While this shift has caused retail credit to drive overall credit growth, it witnessed a slowdown in growth from 18.3% in Fiscal 2018 to 15.4% in Fiscal 2019 on account of a slump in consumption. The slowdown in economic activity, coupled with heightened risk aversion among lenders, further tightened the overall credit growth to ~6.6% in Fiscal 2020. Retail credit grew by 16.3% in Fiscal 2020.

Overall systemic credit growth took a hit in first half of Fiscal 2021 on account of a significant slowdown in retail credit and intensifying COVID-19 pandemic which triggered a national lockdown. The COVID-19 pandemic came as a jolt for an already slowing economy with a decadal low growth in GDP, low private consumption, cautious lending by financial institutions, poor capital expenditure (capex), and in turn, weakening credit growth. However, with a slew of government and regulatory measures announced, Indian economy started to revive in the second half of Fiscal 2021. In Fiscal 2021, credit grew by ~6.4% supported by disbursements to MSMEs under the Emergency Credit Line Guarantee Scheme (ECLGS) and an uptick in economic activity post the COVID-19 lockdown.

In Fiscal 2022, the systemic credit growth picked up steam despite the second wave of COVID-19 hurting economic growth in the first quarter of the Fiscal. The systemic credit grew at 8.6% from the previous year to reach ~₹ 165 trillion. The growth was mainly driven by the budgetary push towards investments, pick-up in private investment, and business activity also slowly humming back to pre-COVID-19 levels. In Fiscal 2023, systemic credit showed strong growth on back of pent-up retail demand from sectors like housing and auto. Credit demand also grew due to strong credit demand from NBFCs and trade segment. CRISIL MI&A projects systemic credit to grow at 10-12% CAGR between March 31, 2023 and March 31, 2025.

Systemic growth is estimated to have grown at 13% year on year in Fiscal 2023



Note: As at the end of each Fiscal. E: Estimated; P: Projected; Systemic credit includes domestic banking credit, NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by Banks and NBFC.

Source: RBI, Company Reports, CRISIL MI&A

Bank credit to move marginally faster than systemic credit

Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. However, the NBFCs suffered a blow after IL&FS defaulted in September 2018. NBFCs, not having the advantage of size, rating and/or parentage, had to grapple with a liquidity crisis and as raising funding became difficult. Initially, post the IL&FS crisis, banks were expected to fill the space left out by NBFCs. However, with slower economic growth and muted private capex, banking credit growth remained low at ~6.8% in Fiscal 2020.

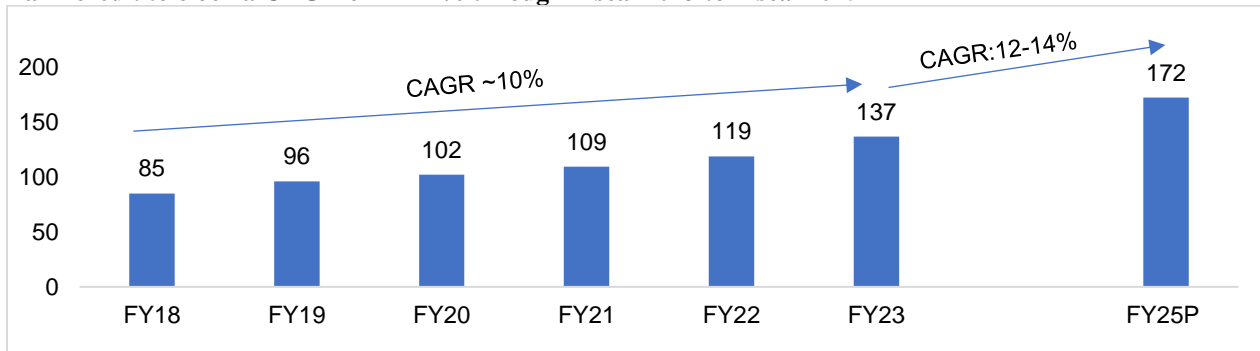
In the fourth quarter of Fiscal 2020 and the first quarter of Fiscal 2021, with the outbreak COVID-19 pandemic, challenges had intensified for both banks and NBFCs. NBFCs were hit harder in terms of demand, and they also turned cautious as they lend to borrowers with relatively weaker credit profile. In the second half of Fiscal 2021, the Indian economy showed signs of improvement, the effect of which was seen in the credit growth.

At the end of Fiscal 2021, the banking credit grew by ~5% on year while NBFCs witnessed a growth of 7.3% during the same period. In Fiscal 2022, the second wave of the COVID-19 pandemic led to weak demand for credit in the first quarter of the year. However, the pace of credit has now recovered, with overall credit growing by 8.4% and retail credit increasing by 11.6% year-on-year as of March 2022. Further, high frequency indicators point out that economic activity and consumer spending is returning to pre-COVID-19 levels. With the effect of COVID-19 waning, vaccination coverage progressively improving, the situation and growth has improved further.

Due to COVID-19 pandemic, demand for credit reduced drastically on account of economic activity coming down to standstill due to lockdown led sharp fall in disbursements. However, there has been a pickup in disbursements since the second half of Fiscal 2022, a trend that continued in Fiscal 2023. The bank credit demand was broad based in Fiscal 2023 growing at 15% year on year. There was strong retail credit demand from segments like personal loans, consumer durables, credit card, vehicle loans etc.

Going forward, credit to the overall retail segment is expected to lead the growth of the banking sector, supported by healthy growth in housing, consumer durable, gold and other personal loans segments. CRISIL MI&A expects bank credit to grow at 12-14% CAGR between Fiscal 2023 and Fiscal 2025.

Bank credit to clock a CAGR of 12-14% through Fiscal 2023 to Fiscal 2025

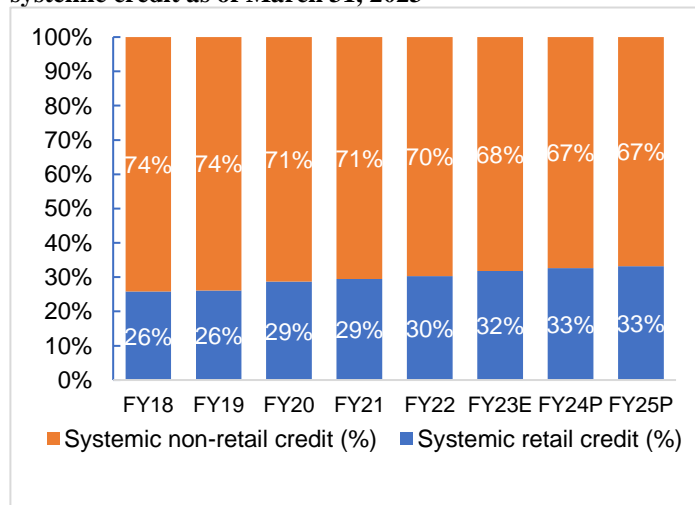


Note: P: Projected; As at the end of each Fiscal.

Source: RBI, CRISIL MI&A

While systemic credit in India grew at a tepid rate of 9.6% CAGR annually between Fiscals 2018 and 2023, systemic retail credit grew at a much faster rate of 14% CAGR during the same period. Retail credit growth in Fiscal 2020 was around ~16.3% which came down to ~9.2% in Fiscal 2021. However, post-pandemic, retail credit growth revived back to reach ~11.6% in Fiscal 2022. CRISIL MI&A estimates retail credit to have grown at ~18.9% year on year in Fiscal 2023. CRISIL MI&A thus expects retail credit growth to continue in the long term with banks and NBFCs' continued focus on the segment.

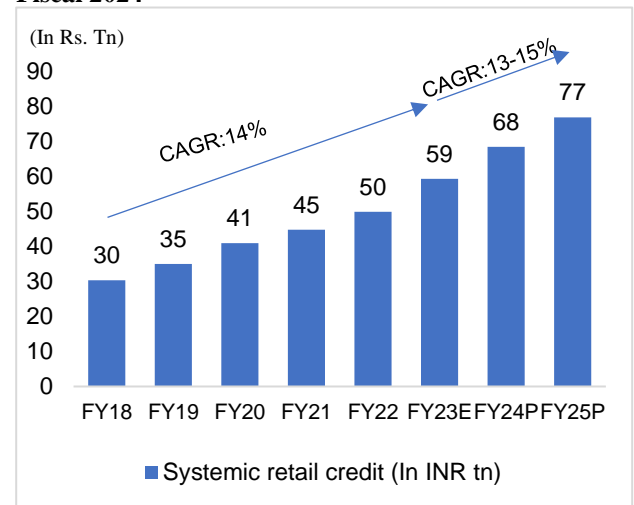
Retail segment is estimated to account for 32% of overall systemic credit as of March 31, 2023



Note: E: Estimated; P = Projected. As at the end of each Fiscal.

Source: RBI, CRISIL MI&A

Retail credit growth to continue a strong footing in Fiscal 2024



Bank deposits to grow 11-12% in Fiscal 2024

In Fiscal 2018, deposit growth rate fell to its lowest in over 55 years to ~7%, as the effect of demonetisation subsided, and households moved their savings from deposits to other lucrative instruments such as shares and debentures. However, in Fiscal 2019, deposit growth picked up and clocked 11%, in the wake of capital market volatility and higher deposit rates offered by the banks. In addition, inclusion of more people under the formal financial services channel improved deposit mobilisation as players continued to expand in the underbanked areas. Banking deposit growth was higher in semi-urban areas as compared to urban and rural areas, which witnessed similar growth.

In Fiscal 2020, with slowdown in the economy, deposits grew at a moderate ~9%. The banking sector witnessed movement of deposits from private sector banks to public sector banks as one of the private sector banks gross NPAs spiralled. Towards the end of Fiscal 2020, Yes Bank was put under moratorium for 30 days, wherein withdrawal of

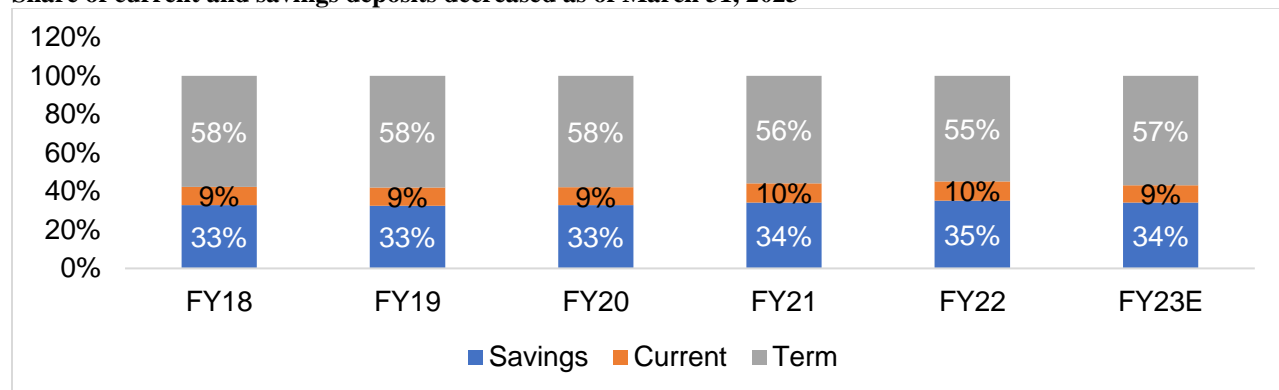
deposits was restricted before a management change was effected by the regulator and the central Government. Earlier, in 2019, the RBI had imposed operational restrictions and restrictions on withdrawals from Punjab and Maharashtra Co-operative Bank Limited after finding financial irregularities. Fiscal 2020 also saw deposit rates coming down with lending linked to an external benchmark and interest rate cycle on a downward scenario, resulting in banks reducing deposit rates to preserve their spread.

With the outbreak of COVID-19 in the last quarter of Fiscal 2021, conserving money became a priority and households reduced their private consumption, leading to a 11% deposit growth in Fiscal 2021.

The weighted average domestic term deposit rate declined 80 bps from 6.07% as of April 30, 2020 to 5.28% as of March 31, 2021. (Source: CRISIL MI&A). With the RBI maintaining its accommodative stance with policy rates unchanged for the entire Fiscal 2022, the weighted average term deposit rate declined a further 25 bps to 5.03% as of March 31, 2022. RBI hiked the policy rates by 40 bps in May 2022, 50 bps in each of June 2022, August 2022 and September 2022, 35 bps in December 2022 and 25 bps in February 2023 taking the repo rate to 6.50% as of February 2023. With this, the weighted average term deposit rate moved upwards to 5.90% as of January 31, 2023. Further, the incremental credit to deposit ratio rose to more than 100% during the second quarter of Fiscal 2023 and deposit growth continued to lag credit growth.

CRISIL MI&A expects deposits rate to inch up with increase in competition and to support the credit growth. However, the increase in Fiscal 2024 might be at a slower pace on account of new taxation rule that will come into effect from April 1, 2023, which will take away tax advantage from most debt mutual funds and will give edge to bank fixed deposits. Hence, the deposits are expected to grow by 11-12% in Fiscal 2024.

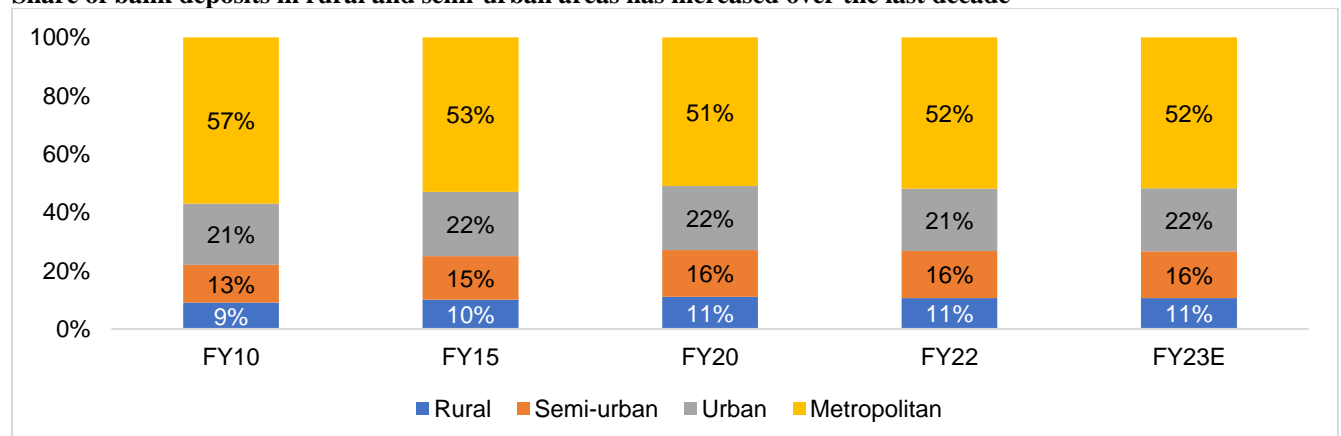
Share of current and savings deposits decreased as of March 31, 2023



Note: As at the end of each Fiscal. Data includes data for banking deposits of public sector banks, private sector banks, regional rural banks, foreign banks and small finance banks. Fiscal 2023 estimates based on December 2022 numbers.

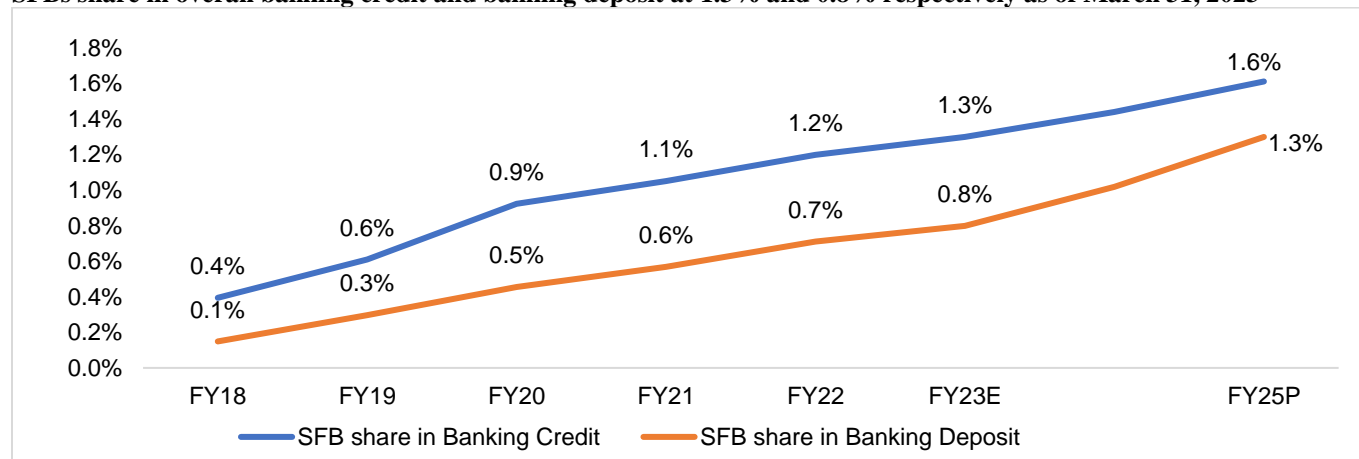
Source: RBI, CRISIL MI&A

Share of bank deposits in rural and semi-urban areas has increased over the last decade



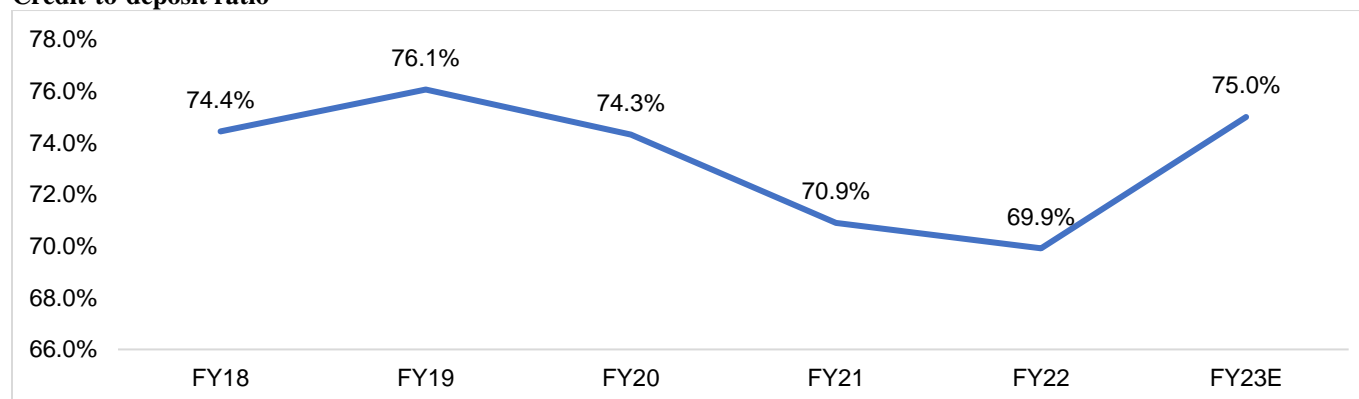
Note: As at the end of each Fiscal, Fiscal 2023 estimates based on December 2022 numbers .
Source: RBI, CRISIL MI&A

SFBs share in overall banking credit and banking deposit at 1.3% and 0.8% respectively as of March 31, 2023



Note: As at the end of each Fiscal. P: Projected
Source: RBI, CRISIL MI&A

Credit-to-deposit ratio



Note: As at the end of each Fiscal; Source: RBI, CRISIL MI&A

GNPA of banks is expected to improve further to 3.8-4.0% in Fiscal 2024

The pandemic resulted in one of the worst economic declines in decades. Airlines, hospitality, travel, gems and jewelry, auto dealers, and real estate were hit the hardest, given the discretionary nature of these sectors. Both collections and disbursements were impacted significantly in the first half of Fiscal 2021. However, with measures taken by the government and the RBI assisting in containing the deterioration in asset quality, overall GNPA ended Fiscal 2021 at 7.4%.

About 0.9% of the total credit outstanding was restructured by the RBI as of March 2021 under the one-time restructuring framework 1.0, which was significantly lower than earlier estimates. In the case of public banks, the majority of the restructurings come from the corporate sector. In the case of large and mid-size private sector banks, the proportion of retail assets in total restructuring (invoked + implemented) was relatively high.

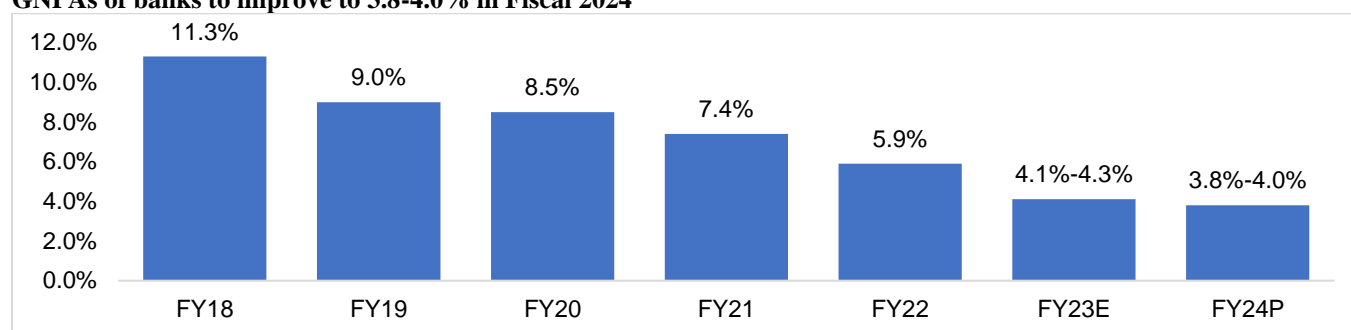
On May 5, 2021, the RBI announced the restructuring framework 2.0 to protect individuals and MSMEs from the adverse impact of the second wave. The resolution facility was applicable for accounts classified as 'Standard' as at March 31, 2021, wherein individuals and MSMEs having an aggregate loan exposure of up to ₹250 million who have not availed restructuring under any of the earlier restructuring frameworks and who were classified as 'Standard' as

on March 31, 2021 were allowed to restructure their loans. Restructuring under the proposed framework was able to be invoked up to September 30, 2021 and had to be finalised and implemented within 90 days after invocation of the resolution process (with the last date to implement the restructuring for banks being December 31, 2021). This framework saw better response from corporate borrowers. CRISIL MI&A estimates the overall restructuring (1.0 and 2.0) at ~1.4% of the loans outstanding as of March 2023. However, the stress on account of slippages from this portfolio remains to be monitored.

GNPA of both private and public banks improved in Fiscal 2022 on account of reduction in fresh slippages and improvement in upgrades and recoveries. GNPA of scheduled commercial banks stood at a six-year low of ~5.9% as of March 2022. CRISIL MI&A estimates the GNPA of scheduled commercial banks to have declined further in Fiscal 2023 on account of lower slippages, higher recoveries and expectation of recoveries via the NCLT and National Asset Reconstruction Company Ltd (NARCL) route.

Going forward, CRISIL MI&A expects GNPA of banks to improve to 3.8%-4.0% in Fiscal 2024 due to robust collections, upgrades for large corporate accounts and lower slippages.

GNPAs of banks to improve to 3.8-4.0% in Fiscal 2024



Note: As at the end of each Fiscal. E: Estimated, P – Projected
Source: RBI, Company Reports, CRISIL MI&A

Profitability to improve in Fiscal 2024

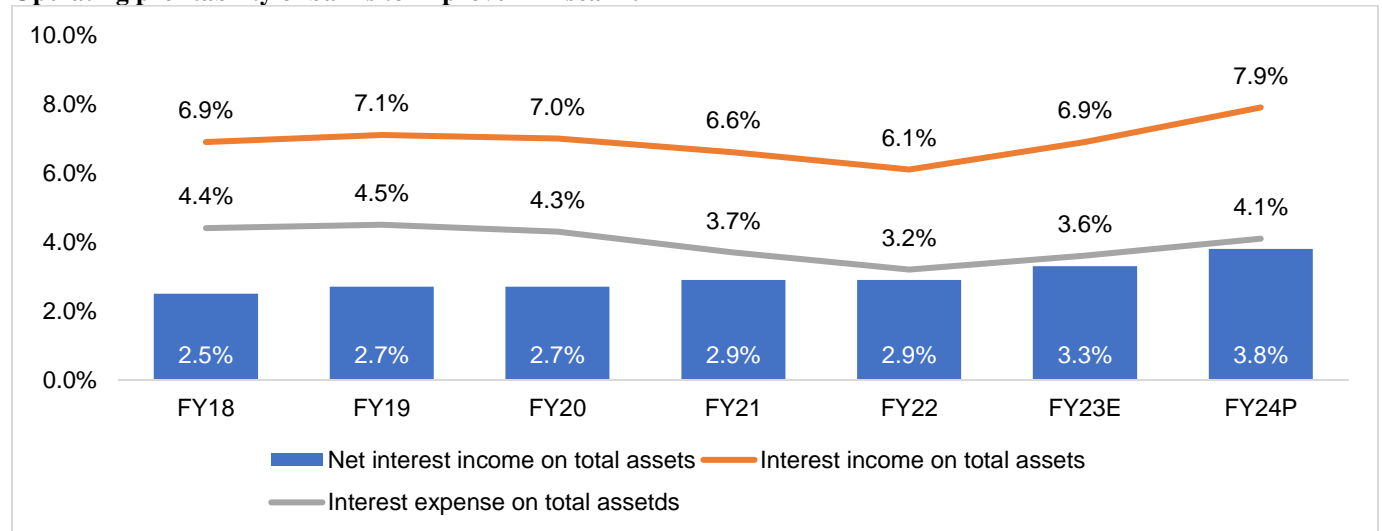
The Reserve Bank of India cut the repo rate by ~225 bps (including 40 bps cut in Fiscal 2021) since March 2019. Since the RBI perceived that banks tend to transmit interest rates more rapidly in a rising rate scenario than in reducing interest rate regime, the RBI introduced new guidelines on external benchmark linking rates (EBLR; linked to repo rate), mandating banks to link all new personal or retail floating rate loans, and micro, small and medium enterprises floating rate loans to the external benchmark effective October 1, 2019.

As a result, interest earned as a percentage of total assets declined ~40 basis points (bps) to 6.6% in Fiscal 2021 with lowering of the repo rate. However, with interest expended as a % of total assets reducing ~60 bps, Net Interest Income rose ~20 bps. The apex bank-maintained status quo on the repo rate at 4% in Fiscal 2022 and, hence, interest expended as a percentage of total assets declined further to 3.2%.

In Fiscal 2023, to tackle inflation RBI started increasing policy repo rate rating by 40 bps in May 2022 and 50 bps in June, August and September 2022, 35 bps in December 2022 and 25 bps in February 2023, taking policy repo rate to 6.50%. With faster increase in repo rates the yield on loans are expected rise quicker as compared to historical trend due to implementation of new guidelines on EBLR linking of loans and cost of deposits to rise at a slower pace since banks will be benefitted by lower cost of funds during Fiscals 2023 and 2022.

During Fiscal 2023, CRISIL MI&A estimates interest earned as a percentage of total assets to have risen by ~80 bps and interest expended as a percentage of total assets to have risen by ~40%, resulting in an improvement in Net Interest Income to total assets at 3.3%.

Operating profitability of banks to improve in Fiscal 2024



Note: E – Estimated, P – Projected, Ratios are on total average assets, Source: Company reports, CRISIL MI&A

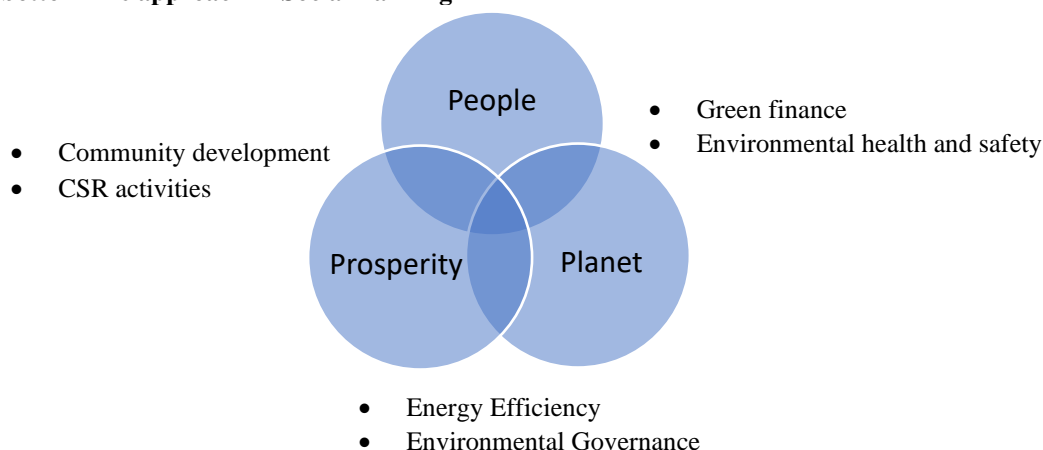
India retains top position in remittances with US\$ 100 billion in CY 2022

In CY 2022, India received US\$ 100 billion in remittances, which was the highest amount of remittances out of any country followed by Mexico (US\$ 60 billion). The top five remittance recipients were India, Mexico, China, Philippines, and Egypt in terms of absolute amount. The share of the top five countries was 45% in remittance flows to developing countries.

Social Banking

The Institute of Social Banking defines Social Banking as banking and financial services whose main objective is to contribute to the development and prospering of people and planet, today and in the future. According to the Global Alliance for Banking on Values (GABV), social banking follows a triple bottom line approach - focusing simultaneously on people, planet and prosperity - at the core of the business model and is grounded in communities, serving the real economy and enabling new business models.

Triple bottom line approach in Social Banking



Source: CRISIL MI&A

The critical difference that sets social banking apart from conventional commercial banking is that though earning profit is one of the objectives of social banking, it would not be their *raison d'être*. Social banking is to be also

concerned about the community, about contributing to the wellbeing of the masses and ensuring that their activities are carried out in a manner that is in congruence with the broader goals of the society. They do not encourage businesses that harm the ecosystem and support sustainable environmental practices through their lending policies. Social banking would seek to closely understand the requirements of customers and develop products that are best suited to their needs. They work towards developing technology leveraged models that bring down the costs of providing services and make banking affordable to the masses. By extending the reach and penetration of banks, social banking tries to make banking services available to the marginalized segments of the society.

In India, though social banking initiatives were introduced long back through measures such as the cooperative banking movement, nationalization of banks, creation of Regional Rural Banks, etc, and their success was largely constrained by the size and population of the country and non-availability of banking services. However, in the last decade, with the developments in technology, financial inclusion has received a big boost in India and greater efforts have been laid on inclusive banking.

Key Financial Inclusion Initiatives in India

Business Correspondents

- In one of its foremost measures, the RBI introduced the BC model of banking outreach in January 2006, aimed at leveraging information and communication technology to widen access to the banking system.
- BCs are retail agents engaged by banks to offer banking services at locations other than a bank branch/ATM.
- The number of BC reached 1.1 million in 2020 facilitating Rs. 9.4 trillion of transaction value.

Financial Inclusion Plans I, II and III

- Phase 1 (2010-2013): Aimed towards coverage of unbanked villages with population of more than 2000 through branches, BCs or other modes
- Phase 2 (2013-2016): Aimed towards providing banking services in 490,298 unbanked villages with population less than 2000; 92% of the target was achieved
- Phase 3 (2016-2019): All domestic SCBs were advised to set new board approved FIP targets; Granular monitoring at district level to assess the progress of financial inclusion

Pradhan Mantri Jan Dhan Yojana

- The Government initiated the National Mission for Financial Inclusion (NMFI), namely, Pradhan Mantri Jan Dhan Yojana (PMJDY) in August, 2014 to provide universal banking services for every unbanked household, based on the guiding principles of banking the unbanked, securing the unsecured, funding the unfunded and serving unserved and underserved areas.
- A digital pipeline has been laid for the implementation of PMJDY through linking of Jan-Dhan account with mobile and Aadhaar Jan Dhan-Aadhaar-Mobile (JAM).
- As of March 31 2023, 487 million PMJDY accounts had been opened, of which, 67% were in rural and semi-urban areas, with total deposits of Rs. 1,988 billion.

Small Finance Banks

- In 2015, the RBI granted small finance bank licenses to 10 institutions, which aim to service the underserved through savings instruments, and supplying credit to small business units, small and marginal farmers, micro and small industries, and other unorganised sector/lending through informal channels.

CSR Initiatives by few Small Finance Banks

Currently, only a few players are involved in following social banking principles as the core principles for business, but the trend has begun with some banks focused on such business models. However, many banks are incorporating these principles in their business models partially through CSR activities or lending practices. Going forward, with the rising importance of financial inclusion and environmentally sustainable businesses, CRISIL MI&A expects more banks in the industry to incorporate these principles wholly in their business models.

Small finance banking industry

In order to promote financial inclusion, the Indian banking industry has seen several changes in recent years. NBFCs, such as Bandhan and IDFC, received permission to set up universal banks. Also, a few microfinance companies, a

local area banks and an NBFC as well as one urban co-operating bank have received permission to set up small finance banks (SFBs). The RBI awarded SFB licences to 12 players keeping in with the government's focus on financial inclusion and inclusive banking.

Growth drivers for small finance banks

Customized products aided by technology and information availability

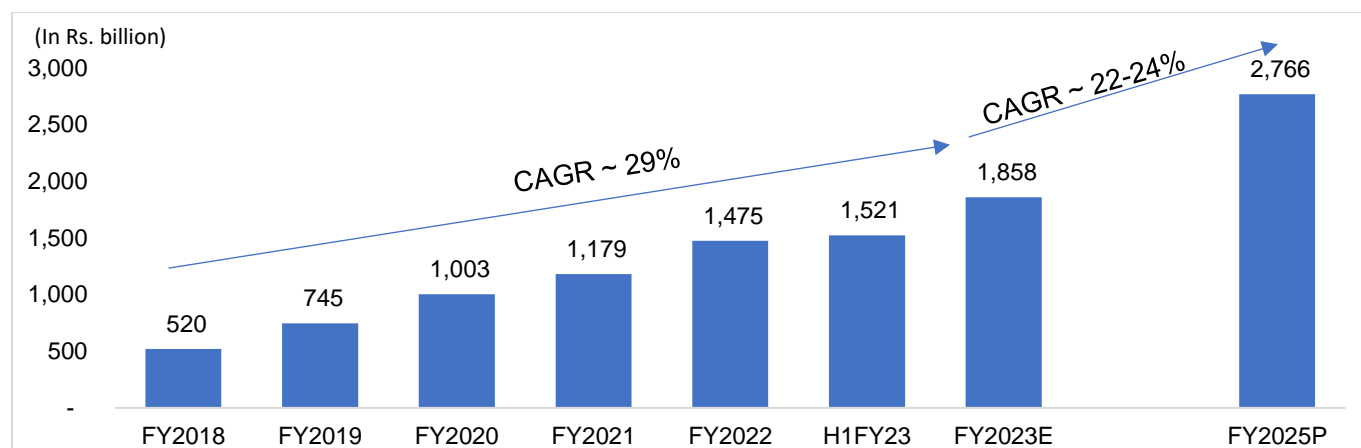
Greater use of technology is enabling lenders to provide customised products, that too at much lower turnaround time. Multiple data points are available for lenders that is facilitating quick decision making. In fact, they can take lending decisions within minutes using data-driven automated models. These models would help in supply of credit to small business units and the unorganised sector at low cost. Technology also helps these players expand their reach to under penetrated population in remote areas at a lower operating cost.

Availability of funds at cheaper rates

CASA and other retail deposits are a cheap source of funds for SFBs, which help them expand their product portfolio. They can provide lower rates in the market to compete with NBFCs. With SFBs expanding in the underserved regions further, their deposit base is expected to further widen. The CASA deposits for SFBs is estimated to have grown at 66% CAGR from Fiscal 2018 to Fiscal 2023. This will give them an advantage over NBFCs and help expand their asset book.

Industry growth and outlook

Huge opportunity to support growth over next three years (AUM)



The small finance banks' advances under management (which is gross advances plus off-balance sheet advances ("AUM")) is estimated to have clocked 29% CAGR from March 31, 2018 to March 31, 2023. CRISIL MI&A estimates that the top three SFBs accounted for ~62% of the aggregate AUM as of March 31, 2023, up from 55% as of March 31, 2017 indicating the rising concentration and expansion of players within the SFBs. CRISIL MI&A also estimates that the top six players accounted for ~89% of the market share as of March 31, 2023. In Fiscals 2021 and 2022, new loan origination remained low as SFBs turned cautious and selective in disbursements due to the pandemic. However, as economy revived and business operations normalised, SFBs' AUM witnessed strong growth post pandemic. As of March 31, 2023, SFB AUM is estimated to have crossed ₹1,800 billion, growing at 26%-27% year on year. CRISIL MI&A expects SFB's AUM to be ~22-24% CAGR between March 31, 2023 and March 31, 2025, as most of the SFBs have completed the transition phase and are likely to benefit from their operating leverage.

Growth in SFB AUM will be driven by following factors:

Huge market opportunity in the rural segment – Despite its larger contribution to GDP of 47%, the rural segment's share in credit remains fairly low at ~9-10% of the overall credit outstanding as of March 31, 2022. This provides a huge market opportunity for SFBs and other players present in the segment

Presence of informal credit channels – In remote areas, informal credit channels have a major presence. In other words, there is a huge section of unbanked population. SFBs have an opportunity to tap this market

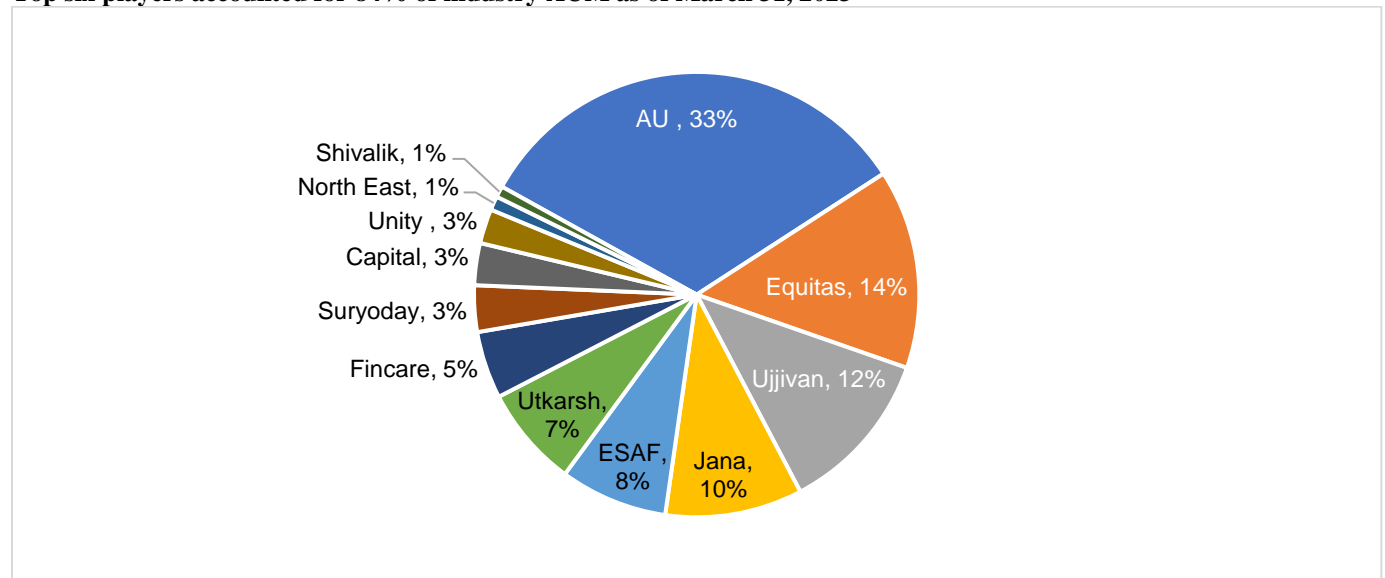
Geographic diversification – With increased focus on diversifying their portfolio and expanding their reach, SFBs are expected to log higher growth as they tap newer geographies

Loan recovery and control on aging NPAs – SFBs are experienced in collection and monitoring of default risk. This will help them keep asset quality under check

Ability to manage local stakeholders – With their microfinance experience, SFBs have the ability to manage local stakeholders and maintain operational efficiency

Access to low-cost funds & huge cross sell opportunity– SFBs' cost of funds is low substantially as they are allowed to raise CASA deposits. This will also help them lend at more reasonable rates to its customers, hence enhancing their cross-sell opportunity in terms of asset products, insurance etc.

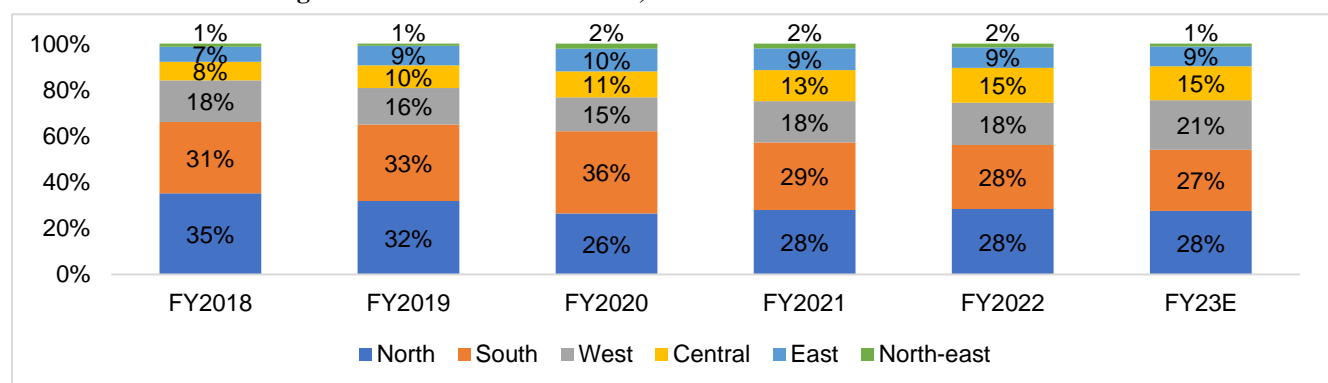
Top six players accounted for 84% of industry AUM as of March 31, 2023



Note: The market share is estimated as of March 31, 2023.

Source: Company reports; CRISIL MI&A

Gross advances across regions for SFBs as of March 31, 2023



Note: The percentages are as of the end of the Fiscal indicated.

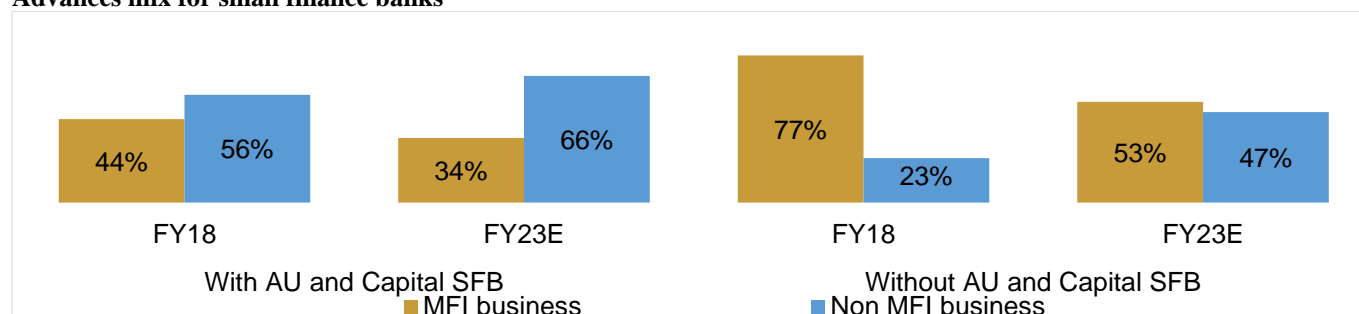
Source: RBI, CRISIL MI&A

SFBs continue to diversify their portfolio beyond microfinance business

Eight of the 10 firms that got SFB licences in the initial phase were MFIs and for most of them, microfinance is the central product. The microfinance segment is estimated to account for 34% (including Capital and AU SFB) of the overall business of SFBs as of March 31, 2023.

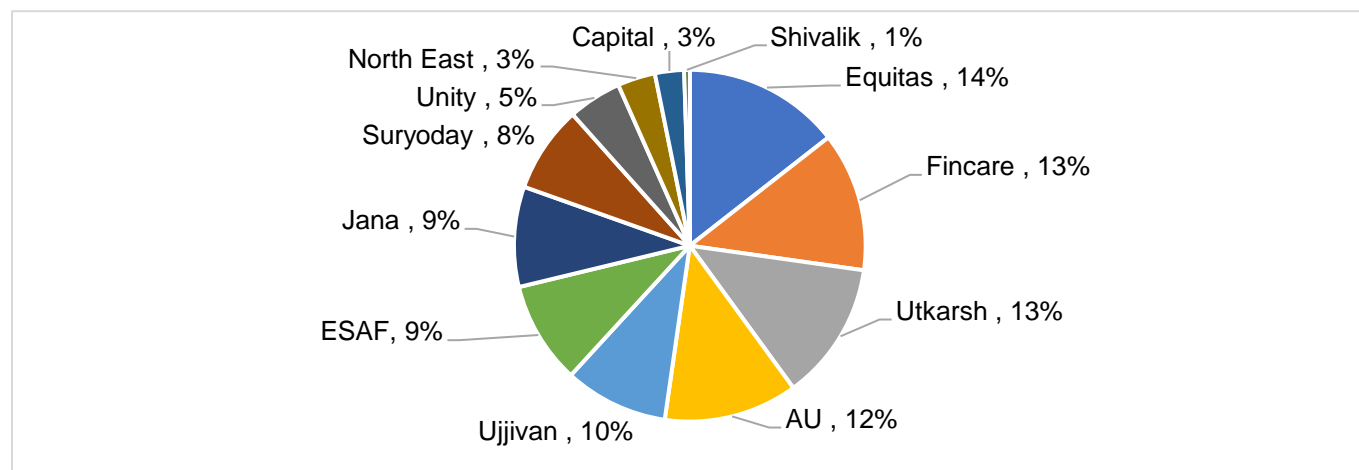
In fact, SFBs have shifted their focus from microfinance to other products. But their core customer base is unlikely to have changed much because of the regulatory norms. After the conversion of NBFC-MFIs to SFBs, the focus is now on diversifying the product portfolio. As a result, the share of their MFI portfolio in total advances reduced to 34% as of March 31, 2023 from 90-95% as of March 31, 2016. Going forward, SFBs will have to focus on small-ticket size lending to financially under-served and un-served segments (loans below ₹2.5 million will have to form at least 50% of their loan portfolio (gross advances). CRISIL MI&A expects MFIs that converted to SFBs to further diversify and focus on allied segment loans, such as MSME loans, affordable housing finance, gold loans, CV/non-CV loans and two-wheeler loans, which will reduce the dominance of microfinance in their overall loan portfolio.

Advances mix for small finance banks



Notes: E: Estimated, 1) Capital and AU SFB are excluded as they mostly deal with non-MFI business, 2) Portfolio mix calculated on best available information 3) Data includes data for 12 SFBs. The percentages are as of the end of the Fiscal indicated.
Source: Company reports, CRISIL MI&A

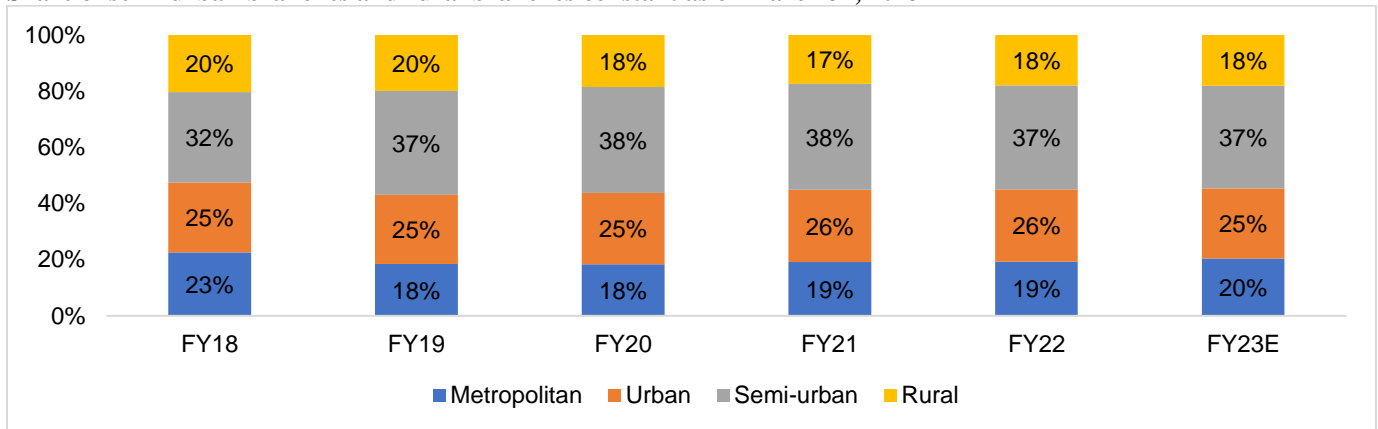
Top three players estimated to account for 40% of the total functioning offices as of March 31, 2023



Note: Fiscal 2023 estimates based on December 2022 numbers
Source: RBI; CRISIL MI&A

CRISIL MI&A estimates that the top three players accounted for 40% of the total number of functioning offices as of March 2023. Expansion of functioning offices has also helped diversification of loan portfolios and overcome geographic concentration.

Share of semi-urban branches and rural branches constant as of March 31, 2023



Note: Rural: Population less than 10,000, Semi urban: 10,000 <=Population <0.1 million, Urban: 0.1 million <=Population <1 million, Metropolitan: Population 1 million and above. The percentages are as of the end of the Fiscal indicated.

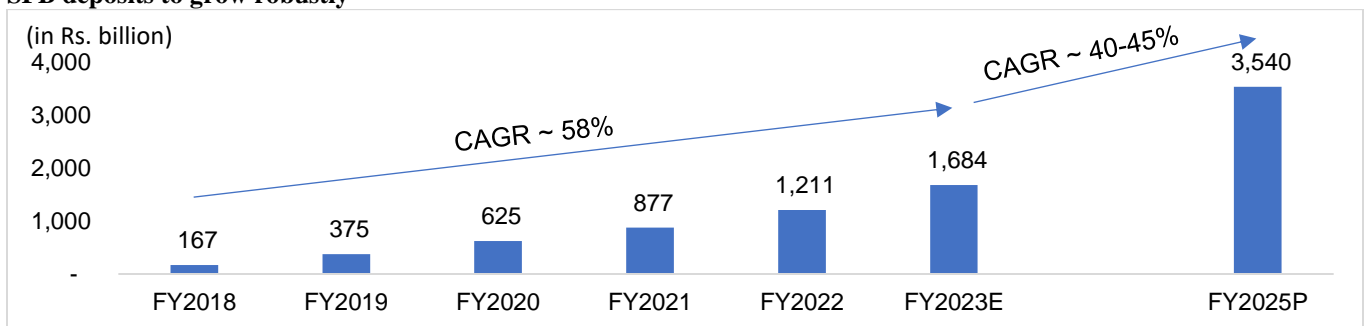
Source: RBI, CRISIL MI&A

SFB deposits to grow faster than private and public-sector banks

SFBs have a significant growth potential as most of them were functioning as NBFCs/MFIs previously. Immediately after commencement of their operation, all SFBs focused on increasing their deposit base. Their overall deposit base doubled to around ₹375 billion as of March 31, 2019. Further, the proportion of CASA deposits is estimated to have shot up from nearly ~20% as of March 31, 2020 to ~36% as of March 31, 2023. The increase could be attributed to the higher interest rates they offer and the increase in their branch network.

Deposit growth for SFBs is estimated to have grown at a strong pace of 39% year-on-year as of March 31, 2023 and is estimated to have reached ₹1,684 billion at the end of FY 2023. Going forward, CRISIL MI&A expects SFBs' deposit to grow at 40-45% CAGR over Fiscals 2023-2025 as players focus on popularizing convenient banking habits to cover the last mile and widen financial inclusion by deepening their penetration in untapped geographies.

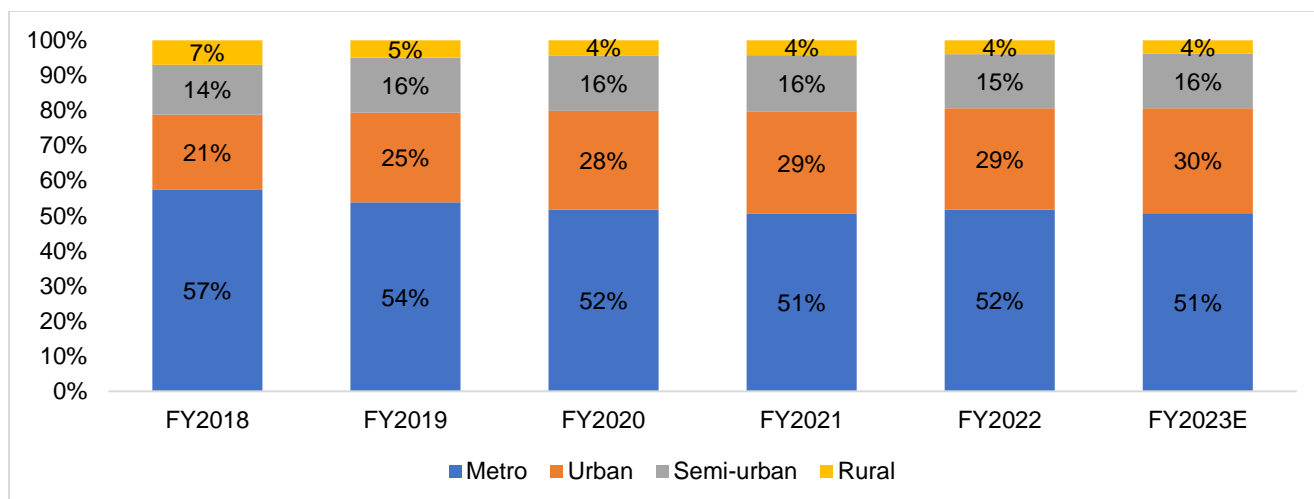
SFB deposits to grow robustly



Note: Amounts are as at the end of the Fiscal indicated; P: Projected.

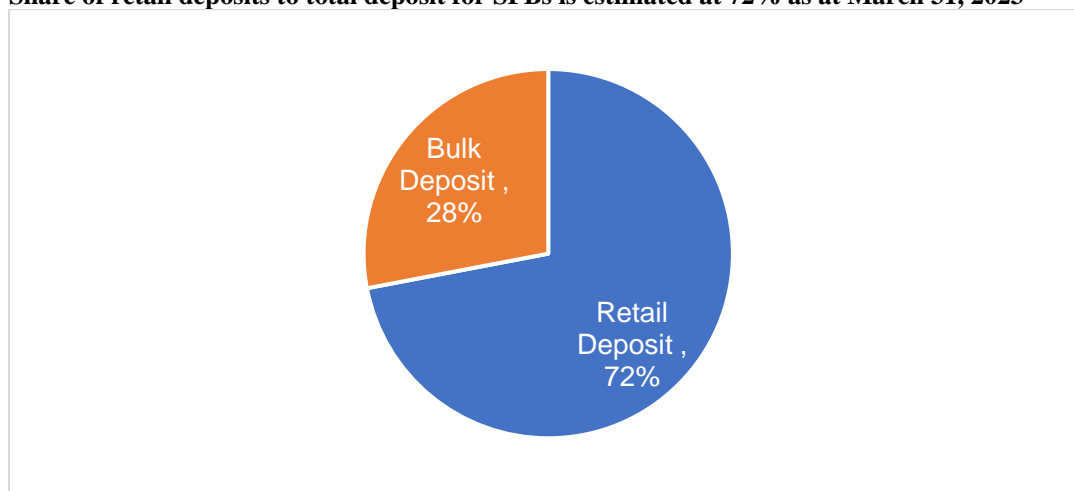
Source: Company reports, CRISIL MI&A.

Around 80% deposits is from metropolitan and urban regions for SFBs



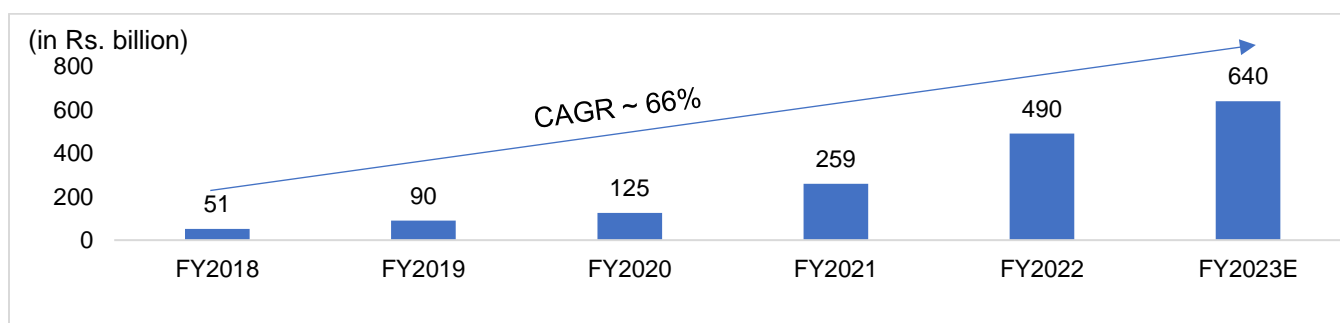
Note: As at the end of each Fiscal. Rural: Population less than 10,000, Semi urban: 10,000 <=Population <0.1 million, Urban: 0.1 million <=Population <1 million, Metropolitan: Population 1 million and above
Source: RBI, CRISIL MI&A

Share of retail deposits to total deposit for SFBs is estimated at 72% as at March 31, 2023



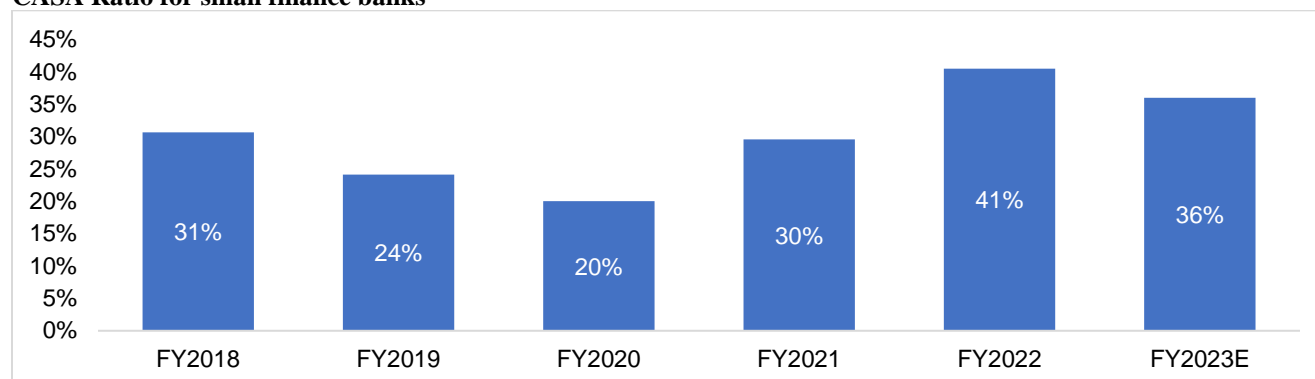
Note: Retail deposit include CASA and Retail term deposits; Data excludes data for Jana and North East SFB;
Source: Company reports, CRISIL MI&A

CASA Deposits for SFBs is estimated to have reached ₹ 640 billion as at March 31, 2023



Note: E- Estimated. The amounts are as of the end of the Fiscal indicated
Source: RBI, CRISIL MI&A

CASA Ratio for small finance banks



Note: As at the end of each Fiscal.

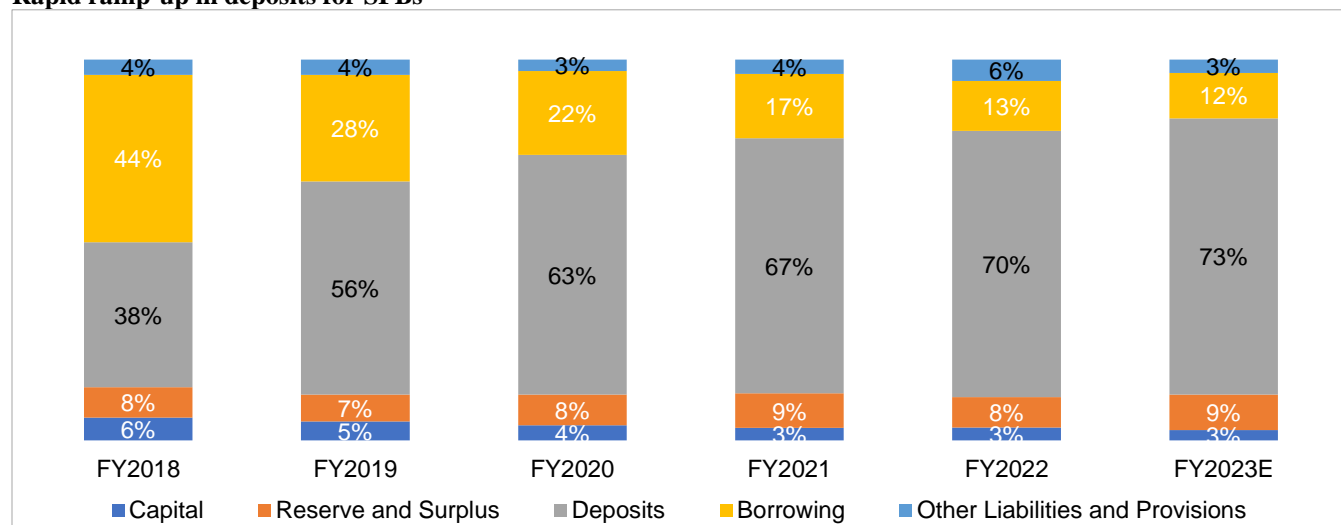
Source: RBI, Company Reports, CRISIL MI&A

Over the next couple of years, CRISIL MI&A expects SFBs to focus on gradually building their banking business and complying with tougher regulatory norms. In addition, transformation into SFBs will provide access to stable and granular public deposits over the long run, which will bring down their cost of funds.

Transformation in Resource profile of SFBs

The resource profile of SFBs has completely transformed in the last two to three years owing to a decrease in share of borrowings from 44% as of March 31, 2018 to 12% as of March 31, 2023 and a rise share of deposits from 38% to 73% during the same period. In Fiscal 2023, the deposit rate lagged the credit growth rate. Further, CRISIL MI&A expects the deposits rate to inch up with increase in competition and to support the credit growth. Their asset-liability management (ALM) profile remains comfortable owing to conservative liquidity policy, mobilisation of deposits and shorter tenure loans. Their liquidity profile is also supported by regulatory requirements such as higher requirement of minimum net owned funds ensuring capital adequacy and mandatory maintenance of CRR/SLR ratio, which provides access to call money market and provide better cushion than other NBFCs.

Rapid ramp-up in deposits for SFBs



Note: E = Estimated; the percentages are as at the end of the Fiscal indicated.

Source: Company reports, CRISIL MI&A

Profitability for SFBs bounced back in Fiscal 2023

In Fiscal 2020, the return on assets (RoA) of SFBs increased by 20-30 bps. However, outbreak of COVID-19 followed by the nationwide lockdown in the month of March 2020, caused a rise in Credit Costs for SFBs who made special COVID-19 provisioning, in addition to standard provisioning as of March 31, 2020. In Fiscal 2022, the industry RoA declined sharply to 0.7% from 1.5% in Fiscal 2021 and 1.9% in Fiscal 2020 largely due to increased provisioning made by many players in the industry, considering the likely impact of COVID-19 on asset quality. Players who had adequate capital went for front loading of Credit Costs in Fiscal 2021 itself, while players who had lower margins and higher operating costs spread out the increased provisioning over the course of Fiscal 2021 and Fiscal 2022.

In Fiscal 2023, to tackle inflation, RBI started increasing policy repo rate by 40 bps in May 2022, 50 bps in June, August and September 2022, and an additional 25 bps increase in February 2023. With faster increase in repo rates, yields on loans rose quickly. Moreover, interest earned for SFBs increased at a faster pace than interest expended, which resulted in an improvement in Net Interest Margins (NIM). As at March 31, 2023, the Net Interest Income ratio is estimated to reach 7.6% from 6.8% in Fiscal 2022. Improvement in profitability is estimated to increase return on assets (RoA) of SFBs to 1.8% in Fiscal 2023 from 0.7% in Fiscal 2022.

Going forward, increasing interest earned coupled with a reduction in Opex Ratio and Credit Cost because of improved collection efficiency is expected to augment profitability for small finance banks.

Increasing Credit Cost amid COVID-19 pandemic weighed on profitability of SFBs

RoA tree (SFB)	FY19	FY20	FY21	FY22	FY23E
Interest earned	14.1%	14.5%	12.9%	11.8%	12.7%
Interest expended	6.6%	6.7%	6.0%	5.0%	5.1%
Net Interest Income	7.5%	7.8%	6.9%	6.8%	7.6%
Opex ratio	6.1%	5.8%	4.9%	5.3%	5.5%
Other income	2.0%	1.7%	2.1%	1.6%	1.5%
Credit Cost	0.9%	1.3%	2.2%	2.3%	1.2%
RoA	1.6%	1.9%	1.5%	0.7%	1.8%

Note: E: Estimated. Data excludes Jana, Northeast SFB and Shivalik SFB

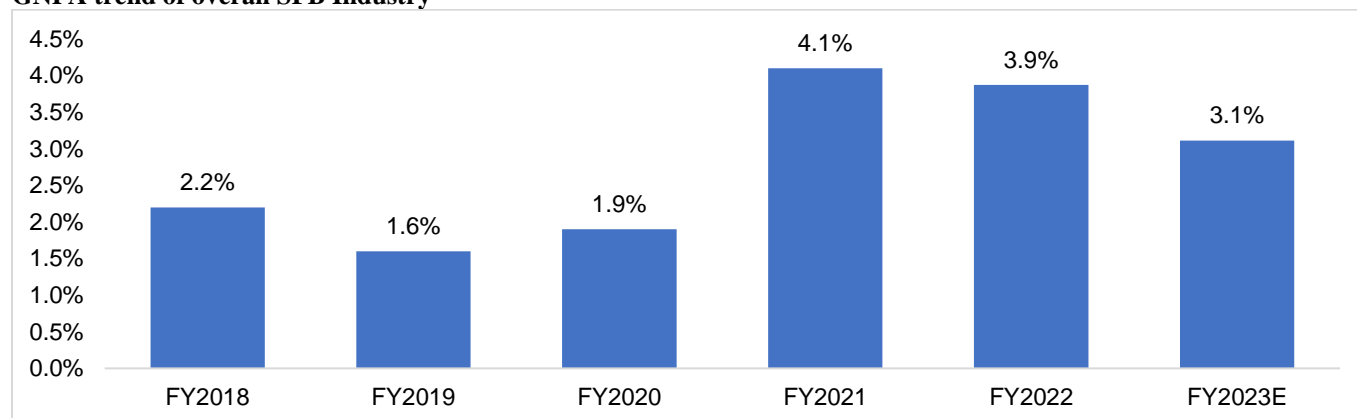
Source: Company reports, CRISIL MI&

Asset quality for SFBs to marginally improve after pandemic related stress

GNPA of SFBs improved to 1.6% as of March 31, 2019 from 2.2% as of March 31, 2018 which was majorly impacted by demonetization and residual asset quality issues. This could be attributed to diversification of product mix into relatively less risky assets, write-off of legacy loans and reduction in microfinance loans due to better collection mechanism and deep understanding of their local geographies and customers. In Fiscal 2021, SFBs faced severe asset quality issues, as near-term collections saw disruptions on account of COVID-19. However, RBI in March 2020 announced the moratorium on term loans/ working capital for instalments falling due between March 1, 2020 and May 31, 2020. This was subsequently extended in May 2020 by another three months to August 31, 2020. A stand-still in asset classification for accounts availing the moratorium was provided from March 1, 2020 to August 31, 2020. For all accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted, was to be excluded by the lending institutions from the number of days past-due for the purpose of asset classification. Despite government measures, the lockdown impacted the low- and middle-income segments the most. They also happened to be the target audience of SFBs. While banks offered moratorium period to borrowers, SFBs' asset quality deteriorated due to difficulties faced by their borrowers. As of March 31, 2022, the GNPA improved marginally to 3.9%. In Fiscal 2023, the asset quality of SFBs improved on account of lower slippages, writing offs and improved collection efficiencies. GNPA for SFBs is estimated at 3.1% at March 31, 2023.

Going forward, the asset quality of SFBs is expected to improve further, however, it will vary depending on efficiency in credit underwriting, monitoring and collection over the long term.

GNPA trend of overall SFB Industry



Note: E= Estimated; Data excludes data for Jana SFB and North-east SFB. Percentages are as of the end of the Fiscal.

Source: Company reports, CRISIL MI&A

Peer Comparison

In this section, CRISIL MI&A compared ESAF SFB with all its peers in India based on the latest available data for Fiscals 2021, 2022 and 2023. Capital SFB, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as these banks are comparatively smaller in terms of scale. CRISIL MI&A also looked at large listed NBFC-MFI players like Credit Access Grameen, Fusion Microfinance and Spandana Sphoorty since many SFBs were present in this space before switching to SFB. CRISIL MI&A has also analysed the performance of Bandhan Bank which was a former MFI before obtaining a banking license.

ESAF SFB reported the highest AUM growth over Fiscals 2021 to 2023 among the compared SFBs

ESAF SFB was the fifth largest SFB in India in terms of AUM as on March 31, 2023. Among the compared SFBs, ESAF posted the fastest AUM CAGR of 39% over Fiscals 2021 to 2023. Among all the compared peers, Equitas SFB, ESAF SFB, Ujjivan SFB and Fincare SFB reported the fastest year-on-year AUM growth of 35.2%, 34.6%, 32.3% and 32.1% respectively as of March 31, 2023.

(Rs. Billion)	AUM (FY2021)	AUM (FY2022)	AUM (FY2023)	AUM year-on- year growth (FY2022)	AUM year- on-year growth (FY2023)	AUM CAGR (FY21-23)
SFBs						
AU SFB	377	478	592	27%	24%	25%
Equitas SFB	179	206	279	15%	35%	25%
Ujjivan SFB	151	182	241	20%	32%	26%
Jana SFB	132	148	178\$	12%	20%	18%
ESAF SFB	84	121	163	44%	35%	39%
Utkarsh SFB	84	106	140	26%	32%	29%
Fincare SFB	61	75	99	24%	32%	27%
Suryoday SFB	42	51	61	20%	20%	21%
NBFC-MFIs						
CreditAccess Grameen Ltd.	113	137	176	21%	28%	25%
Fusion Microfinance Pvt. Ltd.	46	68	93	46%	37%	42%
Spandana Sphoorty Financial Ltd.	82	66	85	-19%	29%	2%
Banks-MFI						
Bandhan Bank	870	993	1091	14%	10%	12%

Note: 1) Players are arranged in descending order of AUM as of March 31, 2023. 2) (\$) Net advances. Net advances are gross advances less provisions for NPAs and are the advances shown on a balance sheet. Net advances are also referred to as the loan book. Amounts/percentages are as of the end of the Fiscal.

Source: Company reports, CRISIL MI&A

ESAF SFB posted the fourth highest deposit growth over Fiscals 2021 to 2023 amongst the compared peers

ESAF SFB reported fourth highest deposit growth of 28% over Fiscals 2021 to 2023 among the compared peers including banks-MFI, with Ujjivan SFB reporting the highest deposit growth of 40% over Fiscal 2021-23. This is followed by AU SFB, which reported 39% deposit growth over the same period. Ujjivan SFB reported the fastest deposit growth year-on-year of 40% in Fiscal 2023.

Comparison of deposit growth

(Rs. Billion)	Deposits (FY2021)	Deposits (FY2022)	Deposits (FY2023)	Deposits year-on-year growth (FY2022)	Deposits year-on-year growth (FY2023)	Deposits CAGR (FY21-23)
SFBs						
AU SFB	360	526	694	46%	32%	39%
Equitas SFB	164	190	254	16%	34%	24%
Ujjivan SFB	131	183	255	39%	40%	40%
Jana SFB	124	135	163	9%	21%	15%
ESAF SFB	90	128	147	42%	15%	28%
Utkarsh SFB	75	101	137	34%	36%	35%
Fincare SFB	53	65	80	21%	24%	23%
Suryoday SFB	33	39	52	18%	34%	25%
Banks – MFI						
Bandhan Bank	780	963	1081	24%	12%	18%

Note: Amounts/percentages are as of the end of the Fiscal.

Source: Company reports, CRISIL MI&A

ESAF SFB has the highest proportion of retail deposits in total deposits as of March 31, 2023

ESAF SFB had the highest retail deposits as a percentage of total deposits at 90.8% as of March 31, 2023. Also, ESAF SFB was third in deposits to net advances (loan book) at 105.3% and fifth in deposits to overall borrowings at 81.4% among the compared SFBs as of March 31, 2023. This reflects greater granularity in ESAF SFB's deposits base.

As of March 31, 2023	Deposits to net advances (loan book) (%)	Deposits to total borrowings (%)	Retail Deposits to total deposits (%)	CASA to total deposits (%)	Retail Term Deposits to total deposits (%)	Bulk Deposits to total deposits (%)
SFBs						
AU SFB	118.7%	91.7%	68.8%	38.4%	30.3%	30.3%
Equitas SFB	98.4%	89.5%	77.5%	42.3%	35.2%	22.5%
Ujjivan SFB	120.0%	90.6%	66.0%	26.4%	39.6%	33.1%
Jana SFB	92.0%	72.2%	NA	20.9%	NA	NA
ESAF SFB	105.3%	81.4%	90.8%	21.4%	69.5%	9.2%
Utkarsh SFB	104.9%	85.4%	61.6%	20.9%	40.7%	35.9%
Fincare SFB	99.5%	74.3%	79.8%	33.1%	46.7%	20.2%
Suryoday SFB	85.9%	65.1%	73.1%	17.1%	56.0%	26.9%
Banks-MFI						
Bandhan Bank	103.2%	81.4%	71.2%	39.3%	31.9%	28.8%

Notes: 1) Retail Deposits comprises CASA and Retail Term Deposits, which are term deposits of less than Rs. 20 million. 2) CASA to total deposits (CASA ratio) is calculated based on total deposits excluding certificates of deposits (CoD) 3) Bulk Deposits are term deposits of Rs. 20 million or more. .

Source: Company reports, CRISIL MI&A

ESAF SFB has the second highest growth rate of banking outlets year on year as of March 31, 2023

As of March 31, 2023, ESAF SFB has the second highest growth rate of banking outlets among its peers growing by 21.7% year on year. Fincare SFB has the highest growth rate among compared peers at 33.9% as of March 31, 2023.

	No. of banking outlets			Banking outlets year-on-year growth	
	FY2021	FY2022	FY2023	FY2022	FY2023
SFBs					
AU SFB	744	919	1,027	23.5%	11.8%
Equitas SFB	861	869	922	0.9%	6.1%
Ujjivan SFB	575	575	629	0.0%	9.4%
Jana SFB	585	NA	NA	NA	NA
ESAF SFB	553	575	700	39.8%	21.7%
Utkarsh SFB	558	686	830	22.9%	21.0%
Fincare SFB	806	919	1,231	NA	33.9%
Suryoday SFB	556	565	577	1.6%	2.1%
NBFC-MFIs					
CreditAccess Grameen Ltd.	964	1,164	1,786#	20.7%	53.4%
Fusion Microfinance Pvt. Ltd.	725	934	1,086	28.8%	16.3%
Spandana Sphoorty Financial Ltd.	1,062	1,120	1,227	6.5%	9.6%
Banks-MFI					
Bandhan Bank	5,310	5,639	5,723	6.2%	1.5%

Note: 1) Banking Outlets includes physical outlets of the respective bank as well as its business correspondents where services of acceptance of deposits, encashment of cheques/cash withdrawal or lending of money are provided, 2) NA – Not available, 3) (#) On a consolidated basis. 4) (^) As of September 2022. Except as noted, amounts/percentages are as of the end of the Fiscal.

Source: MFIN, Company reports, CRISIL MI&A

ESAF SFB is highly concentrated in rural and semi-urban region

ESAF SFB's portfolio is largely concentrated in rural and semi-urban region as compared to other SFBs. Its portfolio share of 63% from rural and semi-urban is the second highest among the compared SFBs as on March 31, 2023. ESAF SFB has 72% branches present in rural and semi-urban region as on March 31, 2023.

As of March 31, 2023	No. of states and UTs	Share of rural + semi-urban branches	Share of rural + semi-urban portfolio	Portfolio Concentration of states	
				Top state	Top 3 states
SFBs					
AU SFB	24	75% ^	64% ^	35%	54%
Equitas SFB	18	NA	NA	25% ^^	51% ^^.
Ujjivan SFB	25	NA	34%	16%	41%
Jana SFB	NA	NA	NA	15% **	39% **
ESAF SFB	23	72%	63%	43%	73%
Utkarsh SFB	22	63%	NA	31%	69%
Fincare SFB	19	80%	58%	18%	50%
Suryoday SFB	15	NA	NA	40%	68%
NBFC-MFIs					
CreditAccess Grameen Ltd.	15	NA	NA	33%	74%
Fusion Microfinance Pvt. Ltd	20	93%	NA	NA	NA
Spandana Sphoorty Financial Ltd.	18^	NA	82% ^	NA	42% \$
Banks-MFI					
Bandhan Bank	34	72%	NA	NA	61% ^

Note: 1) NA – Not available, 2) NM – Not meaningful, 3) (**) Data as of September 2020 4) (^) Data as of March 2022 5) (^^) Data as of March 2021, 6) (\$) Data as of June 2022.

Source: MFIN, Company reports, CRISIL MI&A

ESAF SFB had the highest AUM per employee and highest business per employee among SFBs as of March 31, 2023

ESAF SFB had the highest AUM per employee as of March 31, 2023 and the highest business per employee among the compared SFBs as of March 31, 2023. ESAF SFB's retail deposit per employee is also the second best among the compared SFBs as of March 31 2023.

As at March 31, 2023	Number of employees	AUM per employee (in Rs. Mn)	Business^^ per employee (in Rs. Mn)	Retail Deposits per employee (in Rs. Mn)
SFBs				
AU SFB	28,320	20.9	45.1	16.8
Equitas SFB	20,563	13.5	24.9	9.6
Ujjivan SFB	17,870	13.5	26.2	9.4
Jana SFB**	16,212	11.0	21.0	3.2
ESAF SFB	5,034	32.4	56.8	26.5
Utkarsh SFB	15,424	9.0	17.4	5.5
Fincare SFB	14,804	6.7	10.9	43.3
Suryoday SFB	6,025	10.1	18.6	6.3
NBFC-MFIs				
CreditAccess Grameen Ltd.	16,759	10.5	11.4	NM
Fusion Microfinance Pvt. Ltd	9,456^	9.8	8.5	NM
Spandana Sphoorty Financial Ltd.	10,016	8.5	7.7	NM
Banks-MFI				
Bandhan Bank	69,702	15.7	30.5	11.0

Note: 1)^^Business comprises net advances and deposits. 2) (**) For Jana SFB, number of employees and Retail Deposits data is as of March 31, 2020, advances and business data are as of March 31, 2023, net advances as at March 31, 2023 used as AUM. 3) (^) Number of employees data as of December 2022.

Source: MFIN, Company reports, CRISIL MI&A.

ESAF SFB has the third highest yield on advances among compared SFBs for Fiscal 2023

For Fiscal 2023, ESAF SFB ranked third highest in yield on advances among the compared SFBs, with Fincare SFB having the highest yield on advances at 21.0% followed by Jana SFB at 20.0%.

FY2023	Yields on advances	Cost of borrowing	NIM	Opex ratio	Cost to income ratio	Credit Cost Ratio	RoE	RoA
SFBs								
AU SFB	13.1%	5.6%	5.6%	4.3%	63.0%	0.3%	15.5%	1.8%
Equitas SFB	16.7%	6.5%	8.2%	6.6%	63.4%	1.8%	12.2%	1.9%
Ujjivan SFB	19.7%	6.1%	9.5%	6.3%	54.8%	0.1%	31.8%	3.9%
Jana SFB	20.0%\$	7.0%	7.2%	5.6%	56.2%	4.8%	17.1%	1.1%
ESAF SFB	19.8%	6.0%	9.7%	6.5%	57.9%	3.8%	19.4%	1.6%
Utkarsh SFB	19.6%	6.8%	8.9%	5.8%	54.1%	2.6%	22.6%	2.4%
Fincare SFB	21.0%	6.5%	9.3%	7.5%	66.4%	4.1%	8.3%	0.9%
Suryoday SFB	19.0%	6.1%	8.3%	5.6%	60.0%	4.4%	5.0%	0.9%
NBFC-MFIs								
CreditAccess Grameen Ltd.	19.4%	8.3%	10.8%	4.2%	37.5%	2.4%	17.8%	4.2%
Fusion Microfinance Pvt. Ltd	22.9%	10.2%	11.5%	5.3%	38.4%	2.9%	21.2%	4.6%
Spandana Sphoorty Financial Ltd.	19.2%	12.9%	10.0%	5.6%	44.8%	8.2%	0.4%	0.2%
Banks-MFIs								
Bandhan Bank	13.9%	5.3%	6.3%	3.1%	39.5%	4.2%	11.9%	1.5%

Note: 1) (\$) Yield on advances calculated as total interest earned to average interest-earning assets.

Source: Company reports, CRISIL MI&A

Product mix of all SFBs (as of March 31, 2023)

Except for AU SFB all of the compared SFBs were pure MFI turned SFB, resulting in a huge concentration in MFI products. Equitas' relatively lower concentration in MFI products is due to its diversification into other businesses. With SFBs' focus on portfolio diversification, CRISIL MI&A expects the product mix across SFBs to be distributed into multiple asset classes in the coming years.

Product mix	MFI	Vehicle loans	Mortgage loans	MSME	Large and mid-corporate loans	Gold loans	Agriculture	Others
SFBs								

AU SFB	-	32%	7%	31%	22%	-	-	8%
Equitas SFB	19%	25%	-	51%	4%	-	-	1%
Ujjivan SFB	72%	-	14%	7%	-	-	-	7%
ESAF SFB	75%	-	-	1%	-	-	4%	20%
Utkarsh SFB	66%	4%	4%	11%	11%	-	-	4%
Fincare SFB	61%	0%	12%	16%	2%	9%	-	1%
Suryoday SFB	61%	6%	11%	6%	-	-	-	16%

Source: Company reports, CRISIL MI&A

ESAF SFB had the second best asset quality as of March 31, 2023

ESAF SFB had the second best asset quality among compared peers as of March 31, 2023. AU SFB had the best asset quality among compared SFBs as of March 31, 2023. ESAF SFB's capital adequacy ratio, which is the ratio of capital to risk weighted assets and current liabilities, as at March 31, 2023 was 19.8%.

	Provision Coverage Ratio	GNPA (%)	NNPA (%)	Restructured Book %	CRAR	Tier 1 Ratio
SFBs						
AU SFB	75%	1.66%	0.42%	1.2%	23.6%	21.8%
Equitas SFB	57%	2.76%	1.21%	1.0%	23.8%	23.1%
Ujjivan SFB	98%	2.88%	0.04%	0.9%	25.8%	22.7%
Jana SFB	NA	5.72% ^	3.22% ^	NA	15.8% ^	13.8% ^
ESAF SFB	57%	2.49%	1.13%	0.9%	19.8%	18.1%
Utkarsh SFB	88%	3.23%	0.39%	0.2%	20.6%	18.3%
Fincare SFB	92%	3.25%	1.30%	0.9%	20.0%	18.6%
Suryoday SFB	52%	3.13%	1.55%	NA	33.7%	30.8%
NBFC-MFIs						
CreditAccess Grameen Ltd.	NA	1.21%	0.35%	NA	23.6%	22.7%
Fusion Microfinance Pvt. Ltd	76%	3.46%	0.87%	0.2%	27.9%	NA
Spandana Sphoorty Financial Ltd.	70%	1.95%	0.58%	NA	36.9%	NA
Banks-MFIs						
Bandhan Bank	NA	4.87%	1.17%	NA	19.8%	18.7%

Note: 1) NA – Not available 2) (^) As of December 2022

Source: Company reports, CRISIL MI&A

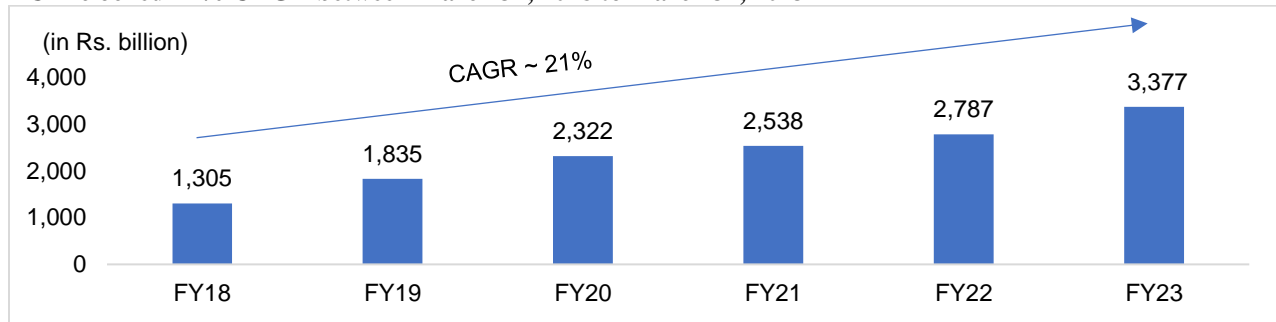
Microfinance

Industry AUM surged at 21% CAGR from March 31 2018 to March 31, 2023

The microfinance industry (JLG portfolio) has recorded healthy growth in the past few years. The industry's AUM increased at a CAGR of 21% since March 31, 2018 to reach ~₹3.38 trillion as of March 31, 2023.

In Fiscal 2021, the industry had been adversely impacted due to the onset of the COVID-19 pandemic. While disbursements came to a standstill in the first quarter of the year, they picked up subsequently. Disbursements reached to the pre-COVID levels for NBFC-MFI in the third and fourth quarter of Fiscal 2021. The second wave of COVID-19 led to a slow start in Fiscal 2022, however, the situation improved from the second half, as number of cases declined, and collections started improving. The revised regulation by the RBI, applicable from October 1 of 2022 (post revision), would give more flexibility to NBFC-MFIs and is expected to gain share from banks. The overall microfinance industry grew by 21% year on year in Fiscal 2023 on account of improved collection efficiency, steady demand and lower GNPA levels. Going forward, the overall microfinance industry will continue to see strong growth on back of government's continued focus on strengthening the rural financial ecosystem, strong credit demand, and higher ticket sized loans disbursed by microfinance lenders.

AUM clocked 21% CAGR between March 31, 2018 to March 31, 2023



Note: Data includes data for banks lending through joint liability group ("JLG"), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for banks lending through the Self Help Group model ("SHG"). Self Help Groups are informal and unregistered groups engaged in promoting saving habits among their members. The amounts are as at the end of the Fiscal.

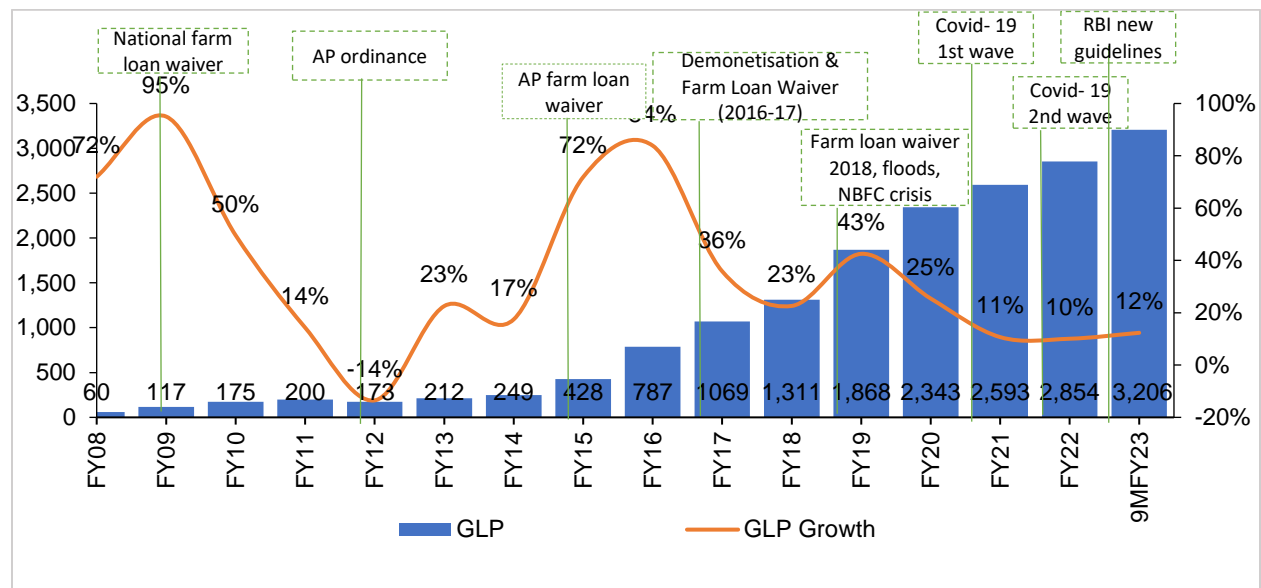
Source: CRIF Highmark, CRISIL MI&A

Industry resilient despite major setbacks and changing landscape

The industry's growth has been regardless facing various headwinds in the past decade – national farm loan waivers (2008), the Andhra Pradesh crisis (2010), Andhra Pradesh farm loan waiver (2014), demonetisation (2016), and farm loan waiver across some more states (2017 and 2018). Of these events, the Andhra Pradesh crisis of 2010 had a lasting impact on the industry. Some players had to undertake corporate debt restructuring and found it difficult to sustain business. Since then, however, no other event has affected a complete state to such a degree. While demonetisation of ₹500 and ₹1,000 denomination banknotes in November 2016 hurt the industry, the impact was not as serious as the Andhra Pradesh crisis and limited to certain districts. Portfolio at risk (PAR) data as of September 2018 indicates that the industry has recovered fairly strongly from the aftermath of demonetisation. Furthermore, collections of loan disbursements since September 2017 have been healthy. The liquidity crisis in 2018, however, has had a ripple effect on microfinance lending as smaller NBFC-MFIs with capital constraints and lenders relying on NBFCs for funding slowed down disbursements.

NBFC- MFIs faced initial hiccups at the start of Fiscal 2021 due to the COVID-19 pandemic on account of uncertainty over collections and aversion by lenders to extend further funding to them; however, the situation improved gradually and most NBFC-MFIs, with the exception of a few, were able to improve the liquidity buffers during the course of the year by raising funds and support from various government schemes. While the resurgence of COVID-19 again led to a fresh bout of uncertainty in respect of collections in first quarter of Fiscal 2022, the impact was not as pronounced as in the early part of the previous Fiscal. The industry gradually rebounded in Fiscal 2022 on account of increased disbursements. The industry grew in Fiscal 2023 on account of change in RBI guidelines, higher consumption demand and lower slippages.

MFI industry has shown resilience over the past decade



Note: Data includes data for Banks lending through joint liability group (JLG), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for Banks lending through SHG. The amounts are as at the end of fiscal year and as the end of quarter for the third quarter of Fiscal 2023.

Source: MFIN, CRISIL MI&A

SFB licence for eight MFIs (2015) and increasing licenses to more entities

The RBI has awarded SFB licences to 12 applicants as of March 31, 2023, of which eight were MFIs. All the MFI applicants received final approval from the RBI to start operations. These SFBs, including ESAF SFB, cumulatively accounted for ~13% of the total AUM of the industry as of March 31, 2023.

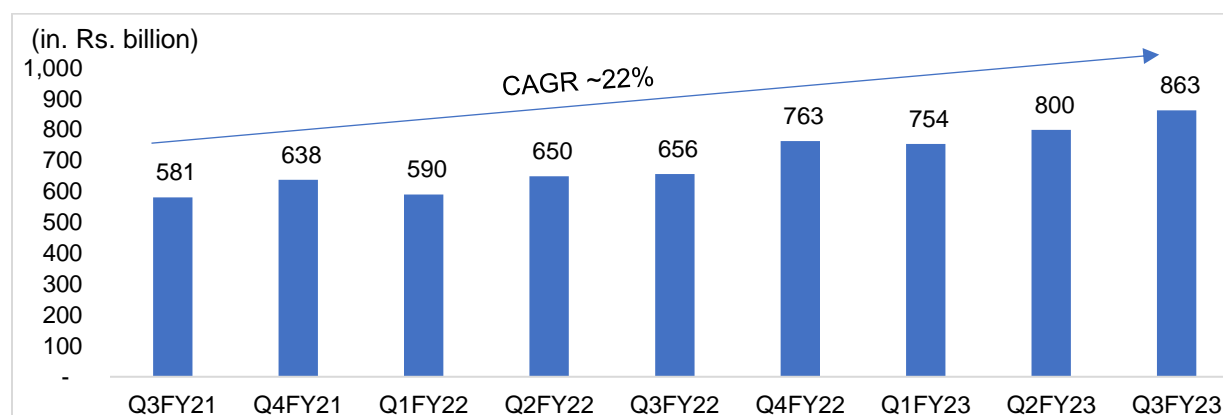
Impact of floods in Kerala and Odisha (2018-20)

In 2018, southern India suffered severe floods. Kerala was one of the most affected; its microfinance industry was adversely impacted, and credit quality of most borrowers deteriorated due to loss of income-generating businesses. In May 2019 and May 2020, Odisha witnessed the worst cyclones, Cyclone Fani and Cyclone Amphan, in 20 years. These cyclones impacted the states of West Bengal and Odisha severely and resulted in a near-term spike in NBFC-MFIs and SFBs' PAR portfolio.

NBFC liquidity crisis

The liquidity crisis plaguing NBFCs in India had a minor ripple effect on micro-lenders. The lenders who relied on NBFCs for funding slowed down disbursement and started looking at different avenues to raise money. However, the impact of the crisis was not that profound as large NBFC-MFIs had a diversified funding mix and were able to leverage this to their advantage as industry witnessed NBFC-MFIs' outstanding borrowings to grow at ~22% CAGR from the third quarter of Fiscal 2021 to the third quarter of Fiscal 2023.

Funding trend of NBFC-MFIs (outstanding borrowing as at end of December 2022)



Note: As at quarter end. Data includes only NBFC-MFIs, Source: MFIN, CRISIL MI&A

Impact of COVID-19 pandemic

The extended nationwide lockdown to contain the spread of COVID-19 affected the income-generation ability and the savings of borrowers accessing MFIs, who typically have weaker credit profiles compared with other borrowers. About 50-60% of the Micro Loans were under moratorium as of August 2020. Also, because of the nationwide lockdown, and several state-imposed lockdowns thereafter, normal operations of MFIs – loan origination and collections – were a challenge, especially during the first few months post-COVID-19. This had an adverse impact on MFIs as their operations are field-intensive, involving high personal interactions, such as home visits and physical collection of cash.

Prior to the lockdown, many MFIs had managed to shore up their liquidity by March-end in Fiscal 2020, by which the majority of the collection had already happened before the lockdown was announced. In fact, collection efficiency was largely intact at 98-99%. The MFIs also drew down bank loans for the purpose of on-lending in the last week of March, which is typically a period marked by high business activity. However, planned disbursements did not happen on account of the lockdown. Disbursements reached to the pre-COVID-19 level in the third and fourth quarters of Fiscal 2021 led by rural and semi-urban regions as the COVID-19 impact was relatively lower.

The growth of microfinance industry was again impacted at the beginning of Fiscal 2022 due to the onset of second wave of COVID-19 pandemic. But the industry recovered faster as there was no stringent complete national lock down as was done during the first wave and commercial operations related to essential services were allowed to be operational. The RBI also allowed MFIs branches to operate. Moreover, based on their experience from the first wave of COVID-19, lenders were better prepared to handle the second wave by making extensive use of technology and third-party tie-ups to facilitate disbursements and collections.

Key reforms proposed by the government for microfinance to counter COVID-19 crisis

Reducing debt servicing burden through moratorium period: The RBI initially permitted lending institutions to allow a moratorium of three months on repayment of instalments for term loans outstanding as on March 1, 2020 and defer interest payments due on working capital facilities outstanding. The moratorium was further extended by another three months till August 31, 2020. However, the banks were instructed to provide 10% additional provisioning for availing of this benefit which could be later adjusted against the provisioning requirements for actual slippages. These measures are intended to boost confidence in the economy and provide relief to the borrowers.

Refinance support from RBI: In April 2020, the RBI announced refinancing support of ₹250 billion to NABARD, which provides support to NBFC-MFIs, RRBs and co-operative banks.

Loan interest subvention scheme: Under this scheme, the government has provided 2% interest subvention to loans given under the Mudra-Shishu scheme. These loans are up to a ticket size of ₹50,000 and are primarily given by NBFC-MFIs catering to low-income groups.

On May 5, 2021, the RBI announced that fresh lending by Small Finance Banks to NBFC – MFIs with asset size less than ₹ 500 Crore for on-lending to individual borrowers will be classified under Priority Sector Lending. Extending the priority-sector lending eligibility to NBFC – MFIs with asset size up to ₹ 500 crores will encourage flow of credit to smaller MFIs, which have been facing relatively bigger funding-access challenges. The facility to SFBs will be available up to March 31, 2022.

The RBI had announced special long term repo operation (SLTRO) programme for SFB amounting to ₹ 100 billion to soften the impact of the second pandemic wave. The first auction will take place on May 17, 2021, and on subsequent month till the amount is fully utilised. The amount borrowed from this scheme should be utilised to lend to small business units and other unorganised sectors.

On June 28, 2021, the finance minister announced the Credit Guarantee scheme through micro finance institutions (MFIs) for the first 2.5 million customers for a maximum tenure of 3 years. The 75% of guarantee will be provided to scheduled commercial banks for ticket size up to ₹ 1.25 lakh to new or existing NBFC-MFIs. This is likely to address the severe cash flow distress caused by the 2nd wave of the pandemic to the individuals and small businesses.

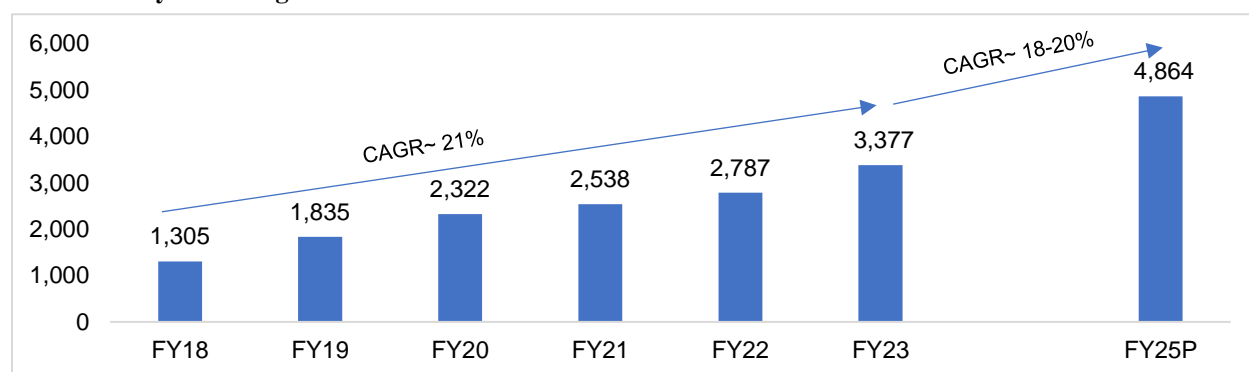
Rising penetration to support continued growth of the industry

Although India's household credit penetration on MFI loan has increased, the penetration is still on the lower side which suggests that there is huge untapped market available for MFI players. The domestic microfinance industry has shown resilience towards external shocks in the past and is expected to gain momentum in the next two Fiscals with pickup in economic growth and improved capital availability for players who are able to wade through the challenges created by COVID-19.

Between Fiscals 2023 and 2025, CRISIL MI&A expects the MFI loan portfolio to clock 18-20% CAGR. Growth would be driven by continuous expansion in the client base of MFIs and increased penetration in rural areas. SFBs witnessed a double-digit growth of 13% over Fiscal 2018-23 as they continue to diversify their portfolio to other asset classes including mortgage loan, MSME and vehicle loan.

There has seen a significant jump in the number of MFIs operating in Assam, Bihar, Odisha, and West Bengal. The total number of branches in these states have more than doubled since Fiscal 2017, leading to a similar jump in AUM for these states. The availability of borrower credit related data from credit information companies ensures that MFIs have access to more data on borrowers, helping them make informed lending decisions.

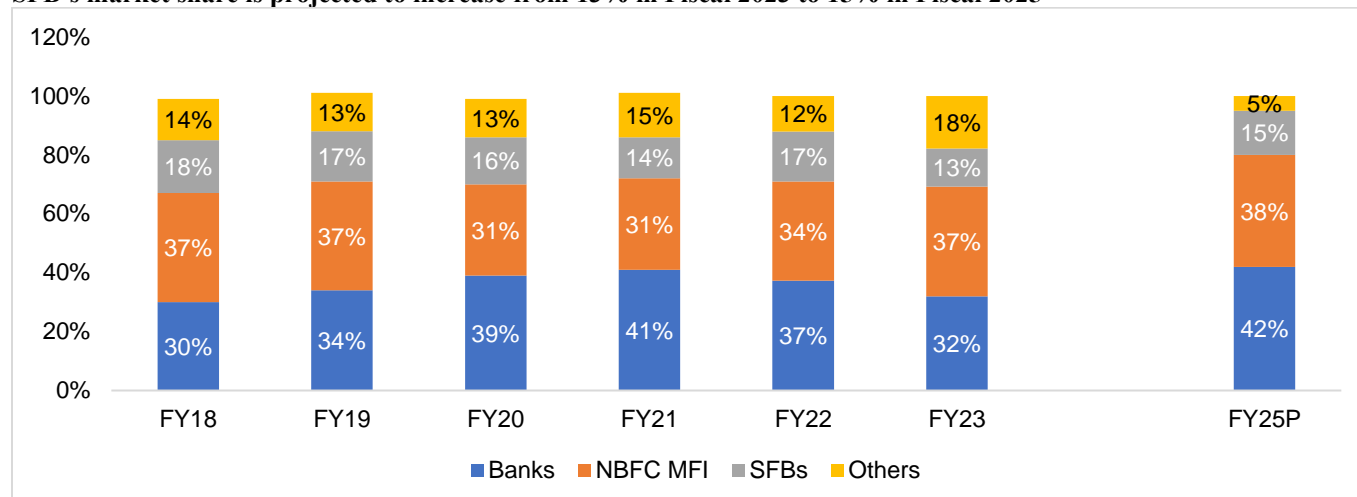
MFI Industry AUM to grow at 18-20% CAGR over Fiscals 2023-25



Note: Data includes data for Banks lending through joint liability group (JLG), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for Banks lending through SHG. The amounts are as at the end of the fiscal.

Source: CRIF Highmark, CRISIL MI&A

SFB's market share is projected to increase from 13% in Fiscal 2023 to 15% in Fiscal 2025



Note: P: Projected, Data includes data for Banks lending through joint liability group (JLG), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for Banks lending through SHG. The amounts are as at the end of the Fiscal,

Source: CRIF Highmark, CRISIL MI&A

Competitive dynamics

Loans in the microfinance sector are provided by banks, SFBs, NBFC-MFIs, other NBFCs, and non-profit organisations. Banks provide loans under the (SHG) model. However, they also disburse microfinance loans directly or through BCs to meet their priority-sector lending targets.

Key participants in the MFI lending business are:

Banks-SHGs, which refers to banks who provide microcredit under the SHG programme

Banks (direct and indirect through BCs) includes portfolios for direct and indirect lending (through BCs) by banks; private banks are key constituents

NBFC-MFIs includes MFIs exclusively focused on the microfinance business, and accordingly registered as NBFC-MFIs with the RBI. Major players in this category include Satin Creditcare Network Ltd., CreditAccess Grameen Ltd (formerly Grameen Koota Financial Services Ltd) and Fusion Micro Finance Ltd.

SFBs: This category includes 12 players (AU, Capital, ESAF, Equitas, Fincare, Jana, North East, Suryoday, Ujjivan, Shivalik, Unity and Utkarsh), which were formerly NBFC-MFIs/NBFCs, but have now converted into SFBs

NBFCs include ASA, Fullerton, L&T Finance, and Reliance Commercial Finance Ltd, each of which has a microcredit lending business, in addition to other lending businesses

Non-profit MFIs refers to MFIs registered as not-for-profit organisation, such as Cashpor

NBFC-MFIs and non-profit MFIs are the only two player groups with loan portfolios exclusively focused towards microcredit. Some of the well-established MFIs have converted to SFBs or have been acquired by banking institutions, which has led to a change in the landscape. However, after commencement of operations, SFBs with microfinance business started looking at other asset classes, such as affordable housing, SMEs, and vehicle finance, to provide buoyance to the loan book.

Comparison of different participants in microfinance lending business

	Scheduled Commercial Banks	Small Finance Bank	MFI
Priority sector lending			

	Scheduled Commercial Banks	Small Finance Bank	MFI
Targeted lending to sectors	<ul style="list-style-type: none"> 40% for priority sector lending of their Adjusted Net Bank Credit (ANBC) or equivalent off-balance sheet exposure (whichever is higher) <ul style="list-style-type: none"> 18% of ANBC to Agriculture 7.5% of ANBC to micro-enterprises 10% of ANBC to weaker sections 	<ul style="list-style-type: none"> 75% for priority sector lending of their Adjusted Net Bank Credit (ANBC) <ul style="list-style-type: none"> 18% of ANBC to Agriculture 7.5% of ANBC to micro-enterprises 10% of ANBC to weaker sections At least 50 per cent of loan portfolio should constitute loans and advances of up to ₹ 2.5 million 	<ul style="list-style-type: none"> 75% of loans should be qualifying micro-finance assets <ul style="list-style-type: none"> Income generation loans > 50% of total loans
Prudential norms			
Capital adequacy framework	<ul style="list-style-type: none"> Minimum Tier 1 capital: 7% Minimum capital adequacy ratio: 9% 	<ul style="list-style-type: none"> Minimum Tier 1 capital: 7.5% Minimum capital adequacy ratio: 15% 	<ul style="list-style-type: none"> Tier 1 capital > Tier 2 capital Minimum capital adequacy ratio: 15%
Margin cap	<ul style="list-style-type: none"> No Margin Cap 	<ul style="list-style-type: none"> No Margin Cap 	<ul style="list-style-type: none"> No Margin Cap
CRR / SLR	<ul style="list-style-type: none"> Maintenance of CRR/SLR ratio mandatory 	<ul style="list-style-type: none"> Maintenance of CRR/SLR ratio mandatory 	<ul style="list-style-type: none"> No such requirement
Leverage ratio	<ul style="list-style-type: none"> Minimum leverage ratio of 4% 	<ul style="list-style-type: none"> Minimum leverage ratio of 4% 	<ul style="list-style-type: none"> No such requirement
LCR (liquidity coverage ratio)/ NSFR (net stable funding ratio)	<ul style="list-style-type: none"> Mandatory requirement to maintain liquidity coverage ratio 	<ul style="list-style-type: none"> Minimum liquidity coverage ratio of 100% by Jan 1, 2021 NSFR will be applicable to SFBs on par with scheduled commercial banks as and when finalized 	<ul style="list-style-type: none"> No such requirement
Funding			
Deposits	<ul style="list-style-type: none"> Primarily rely on deposits for funding requirements 	<ul style="list-style-type: none"> Primarily rely on deposits for funding requirements Deposit ramp-up will take time 	<ul style="list-style-type: none"> Cannot accept deposits
Bank loans / market funding	<ul style="list-style-type: none"> Access to broader array of market borrowings 	<ul style="list-style-type: none"> Access to broader array of market borrowings No access to bank loans 	<ul style="list-style-type: none"> Diversified funding sources including bank loans, short term and long term market borrowings. Funding from NABARD, MUDRA loans etc.
Products			
Products offered	<ul style="list-style-type: none"> Full spectrum of banking, savings, investment and insurance products 	<ul style="list-style-type: none"> Can offer savings and investment products apart from credit products / loans Can act as Corporate Agent to offer insurance products Cannot act as Business Correspondent to other banks 	<ul style="list-style-type: none"> Can act as Business Correspondent to another bank and offer savings, deposits, credit and investment products Can act as Corporate Agent to offer insurance products

Source: RBI, CRISIL MI&A

Even though the above regulations related to MFIs seem to be less relaxed compared to others, they provide an opportunity to MFIs to have a singular focus on the customers they cater to and the products that they offer. The whole processes and systems can be built more efficiently, be more customised to the requirements of the customers, and deeper local understanding can be developed to handle nuances of different geographical areas. The other major advantage of that is the institution can be more nimble and react and adjust to various events faster. Also, being under the purview of the RBI provides separate identity to the institutions and policy measures related to this segment get due focus.

Regulatory distinction between NBFCs, Banks and SFBs

	NBFC-- ND -- SI	NBFC - D	Banks^ (Basel-- III)	SFBs
Minimum net-owned funds	₹20 million	₹20 million	N. A	₹2,000 million
Capital adequacy	15.0%	15.0%	9.0%	15.0%
Tier - I Capital #	10.0%	10.0%	7.0%	7.50%
Cash Reserve Ratio (CRR)	N. A	N. A	3.0%, 3.5% begin. March 27, 2021, 4% beginning May 22, 2021	3.0%, 3.5% begin. March 27, 2021, 4% beginning May 22, 2021
Statutory liquidity ratio (SLR)	N. A	15.0%	18.0%, can be diluted up to 3% for liquidity (2% earlier), up to March 31, 2021	18.0%, can be diluted up to 3% for liquidity (2% earlier), up to March 31, 2021

Notes: # Currently 10% for infrastructure finance companies and proposed to be increased to 10% for all NBFCs except gold loan NBFCs which will have to maintain 12%; ^Under phase-wise implementation of Basel-III by March 2019; numbers exclude capital conservation buffer of 2.5%

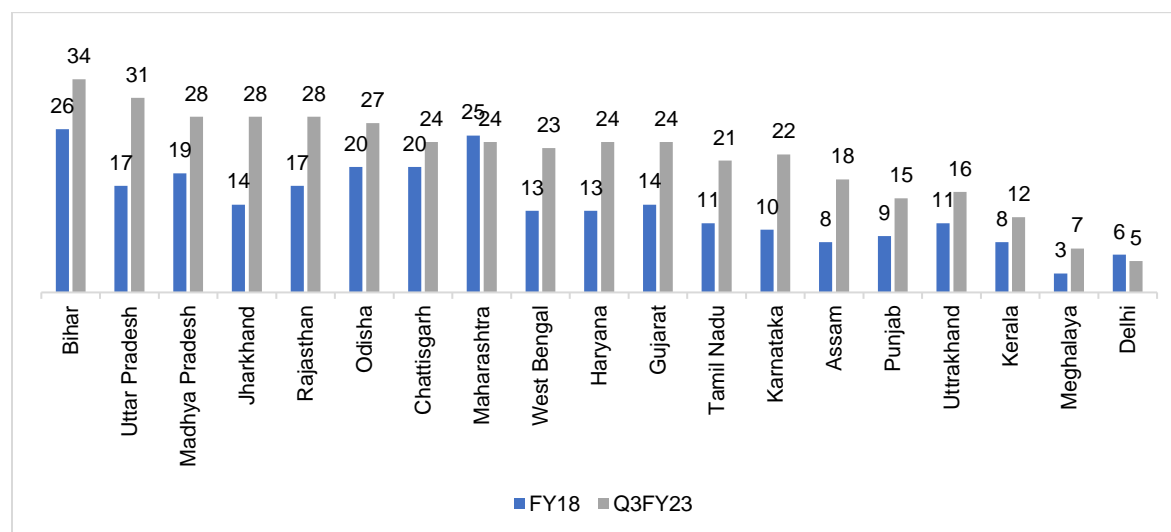
Source: RBI, CRISIL MI&A

Players tapping newer states and districts to widen client base

In the last few years, many MFIs have opened branches in untapped districts, thus increasing their penetration in geographies with underserved population. States including Himachal Pradesh, Uttar Pradesh, Gujarat, Maharashtra, Kerala, Punjab and West Bengal have highly penetrated as these states have at least one branch for 90,000 people. In states where the presence of MFIs and banks is strong, CRISIL MI&A has witnessed an increase in ticket size as well. Going forward, CRISIL MI&A expects penetration to deepen, which will further drive growth.

Uttar Pradesh, Gujarat, and Himachal Pradesh are the few states with the large number of population unserved and, hence, provides an opportunity for existing players to improve their penetration and market share.

Number of MFIs in each state as of March 31, 2018 and December 31, 2022



Source: MFIN, CRISIL MI&A. The amounts are as at the end of the Fiscal/period,

Rural segment to drive NBFC-MFI business

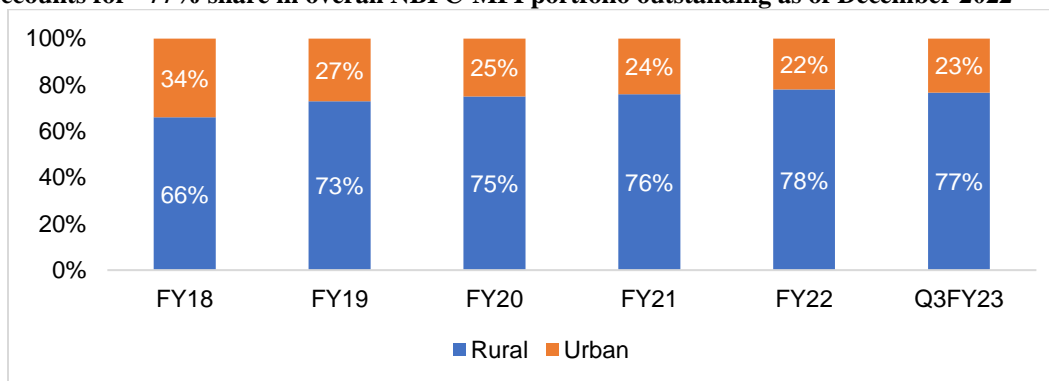
CRISIL MI&A expects the share of rural segment in MFIs' business to remain higher, with burgeoning demand expected from this segment. Despite 2/3rd of population, 47% of GDP contribution and 2/3rd of two-wheeler demand; the rural segment's share in credit remains fairly low at 10% of the overall credit outstanding, thereby opening up a huge opportunity for savings and loan products.

Under the Digital India program, the government also proposed to provide free-high speed Wi-Fi in 2,500 cities and towns, at an estimated investment of ₹ 70 billion. Under the plan, the government aims to set up 50,000-60,000 Wi-Fi hotspots across the country. CRISIL MI&A expects on completion these projects will help catalyse the growth of digital services to the rural masses, and especially to the lower category of the population.

Compared to banks, MFIs have higher focus on rural areas. Going forward as well, for MFIs, rural clientele is expected to remain high in the range of 55-60% compared to urban clientele. CRISIL MI&A believes that establishing a good relationship with rural customers and engaging with them regularly leads to longer and more loyal customer relationship, which can be further leveraged to cross-sell other products.

With the government's focus on financial inclusion and financial institutions opening up branches in the unbanked areas, CRISIL MI&A has seen that demand for loan is higher in rural areas. As of December 31, 2022, the rural share has increased to 77% of the NBFC-MFI portfolio from 66% in Fiscal 2018 due to less competition, lower credit penetration and less migration in rural areas. It also benefitted from overall better credit behaviours and, in turn, lower delinquency rates. The significant under-penetration of credit in rural areas offers strong potential for improvement and that given the relatively deeper reach, existing client relationships and employee base, microfinance institutions are well placed to address this demand which is currently being met by informal sources such as local money lenders.

Rural accounts for ~77% share in overall NBFC-MFI portfolio outstanding as of December 2022



Note: The percentage are as at the end of the Fiscal/period,

Source: MFIN, CRISIL MI&A

Advantages in rural focused business

Huge market opportunity in the rural segment – Despite its larger contribution to GDP of 47%, the rural segment's share in credit remains fairly low at 10% of the overall credit outstanding. This provides a huge market opportunity for MFI players present in the segment

Less competition – In remote areas, informal credit channels have a major presence. In other words, there is a huge section of unbanked population with low competition. MFI players are better placed to tap this market

Geographic diversification – With increased focus on diversifying their portfolio and expanding their reach, MFI players are expected to log higher growth as they tap newer geographies

Ability to manage local stakeholders – With their microfinance experience, have the ability to manage local stakeholders and maintain operational efficiency

Lower delinquency rates: Asset quality of rural region is better than urban and semi urban region since Fiscal 2017 due to better risk profile of customer and better credit discipline than the urban and semi-urban region.

Loan recovery and control on aging NPAs – MFI players are experienced in collection and monitoring of default risk. This will help them keep asset quality under check

Challenges in rural-focused business

The microfinance industry mainly caters to the poorer section of society, because of which there are some inherent challenges faced by the institutions, especially in rural areas:

High cost of reaching customer: Providing microfinance loans in rural India requires reaching people in remote and sparsely populated regions, where deploying manpower and requisite infrastructure for disbursing loans and for recovery can often be expensive. The high cost of reaching out, and the small volume and ticket size of transactions elongates the breakeven period. Therefore, players need to focus on optimising costs and delivery model, especially in the initial stages of operations

Lack of financial awareness: Lack of financial and product awareness is a major challenge for institutions in rural areas. They are faced with the task of educating people about the benefits of financial inclusion, about the product and services offered by them, and establish trust before selling the product

Vulnerability of household's income to local developments: Uncertainty and unpredictability faced by low-income households, and vulnerability of their incomes to local developments can make it difficult for the borrowers to make repayments on time

High proportion of cash collections: Despite having a large proportion of loans disbursed through the cashless mode, the collection process in unbanked and rural areas is still done through cash. This leads to increased time spent on reconciliation, risk involved in handling cash, and higher TAT from the financier's perspective

However, the rural economy has been resilient in the last year, amidst the COVID-19 pandemic. India has witnessed above normal, timely and largely well distributed monsoon, benefitting the agriculture industry and rural India. Further, increase in the agriculture credit target and allocation of infrastructure fund for development of Agriculture Produce and Livestock Market Committee (APMC) reiterates government's commitment to provide a thrust to rural India.

Growth drivers

Population outside formal banking channels provides huge potential for growth for MFIs

It is estimated that approximately 190 million adults do not have a bank account as per the World Bank report 2018. The rural segment's share in credit remains low at 10% of the overall credit outstanding. Given the sheer size of India's population and considering that a large section still lacks access to formal banking services, driving financial inclusion has always been a priority for the government. The banking system and priority sector lending have been the most explored channels to bring majority of the population under the ambit of formal credit institutions. India is on the threshold of a high-growth trajectory; hence, financial inclusion is imperative for sustaining equitable growth. In fact, there is nothing unique about the phenomenon— financial access strongly underpins economic opportunity. In India, the major reasons for financial exclusion are poverty and low income, financial illiteracy, high transaction cost, and lack of infrastructure, primarily IT infrastructure. Consequently, a significant proportion of the population still does not have access to formal banking facilities.

Financial inclusion is a comprehensive exercise that constitutes several products and services, such as provision of bank accounts, insurance facilities, payment and remittance mechanisms, financial counselling, and, most crucially, affordable credit. The government undertook several initiatives, which were orchestrated by NABARD and executed through entities, such as regional rural banks, cooperatives, and commercial banks. During the late 1970s, these lending institutions achieved significant reach, and increasing number of individuals did avail of credit facilities. However, major delinquencies in repayment severely impaired the financial health of the entities. Furthermore, despite the rapid expansion in the scale of the institutions, several households continued to face difficulties in accessing credit facilities.

Within the large suite of products and services under financial inclusion, MFIs have a major role to play in the provision of credit. The sheer size of the market (in terms of financially excluded households), a business model that offers sustainable credit to the poor at affordable rates, and a repayment cycle spread over a longer duration, have been key growth drivers for MFIs operating in India.

Key success factors

Ability to attract funds/raise capital and maintain healthy capital position

The microfinance industry has seen rapid growth over the past few years owing to the small ticket size and doorstep disbursement. Despite the rapid growth, a large portion of the market remains underpenetrated, making it necessary for MFIs to raise funds at regular intervals to sustain growth. This remains a challenge for several MFIs owing to perceived risk of the borrower segment, their susceptibility to socio-political issues, and volatility in asset quality. Also, so far, most MFIs are dependent on banks for their funding. The banks generally lend to these MFIs to meet their priority sector loan targets. The larger ones, especially those with strong parentage, depend on capital infusion from their promoters/parent companies and/or raise capital from external investors, such as private equity firms. The ability of MFIs to raise funding from diverse sources and maintain a capital position much higher than the prescribed regulatory minimum is vital for long-term sustainability.

Geographically diversified portfolio helps MFIs mitigate risks

Given that fixed operating costs are relatively high, considering the value of the loan amount, the scale of operations is a crucial factor for MFIs. A large, well-diversified portfolio in different geographies enables players to mitigate risks associated with a concentrated portfolio. Apart from this, a wider scale of operation helps them cut down on operating expenses as a percentage of outstanding loans. Expansion by MFIs in less-penetrated areas will support their growth trajectory. Rural areas are still under-penetrated in India; hence, players operating in and focused on rural areas would see faster growth in their portfolios.

Ability to control asset quality and ageing of NPAs

The vulnerability of MFIs' portfolios to local issues and events that impact the repayment ability of borrower households make it critical for them to have a strong hold on asset quality and regularly engage with borrowers to control ageing of NPAs. Further, the operational and fraud risk for the MFI industry is high owing to the cash-intensive nature of the business during collections. MFIs, thus, need to put in place methods and use analytics to understand and predict the quality of the portfolio, and minimise the frequency and size of asset quality-related risks. This is a key factor for driving profitability for the micro lenders.

Digitalisation to bring down costs, improve collection efficiency and profitability for MFIs

Digitalisation has impacted almost all aspects of the financial services industry. However, it is far more critical to the MFI industry as lower operating cost can result in higher financial inclusion and increased benefits for customers. The use of technology has helped MFIs grow at a fast pace, improve efficiency, lower cash usage and turnaround times, develop new products, provide better services to customers, and use analytics for portfolio monitoring and credit appraisal. As of December 2022, 43 NBFC-MFIs achieved 100% of their disbursement through cashless mode.

A strong backend technology platform helps companies to scale up faster as the same processes can be easily replicated across geographies. To improve efficiency, many MFIs have provided tablets/mobile apps to their loan officers for digital on-boarding and customer management. This has made it easier for loan officers, who were earlier required to visit branches in the morning to get the demand and disbursement sheet printed, and again in the evening to update the data. Digitalisation is also helping MFIs in monitoring the already disbursed loans, as the data on each borrower is available in digital form and can be accessed easily. Paperwork has reduced with the use of tablets; entries are made in real time, i.e., when the disbursement happens, or repayment is made. Also, data entry errors have been reduced to a large extent. This has helped in a better understanding of the business, reduce costs, and improve productivity.

Direct updation of information on the core platform also helps in better servicing of customers over their credit lifecycle. It also helps in targeted marketing, cross-selling of products, and product customisation. With numerous banking accounts opened through the Jan-Dhan Yojana and launch of mobile wallets for transfer of funds, MFIs have started disbursing loans directly into the accounts of customers, and are also accepting repayments through electronic means, reducing cash requirement, thereby resulting in cost savings.

CRISIL MI&A expects that the lower cost of servicing customers, better productivity and lower C redit Costs through the use of technology will help MFIs improve their profitability. However, not all MFIs will be able to adopt technology; as only those that have a sizable business will be able to invest in technology and reap the full benefits.

The RBI formed MFIN, Sa-Dhan, MUDRA and NABARD to facilitate financial inclusion

MFIN

MFIN was recognised as a self-regulatory organisation (SRO) for NBFC-MFIs in India in June 2014. As an SRO, MFIN has been authorised by the RBI to exercise control and regulation on its behalf, to ensure compliance with regulatory instructions and industry code of conduct. With this, MFIN became the first network to attain such recognition not only in India, but also in Asia, and perhaps the world. In September 2017, MFIN released its mutually agreed code of conduct (MACC). As part of this code, an institution will not lend to a borrower who has already availed of loans from two microcredit lenders. While existing RBI regulations were only applicable to NBFC-MFIs, MACC will bring other entities within the regulations. This does not include SHGs, though. MFIN's role as an SRO also includes research and training responsibilities, and submission of MFI financials to the RBI. MFIN's current membership consists of over 55 NBFC-MFIs in the country.

Sa-Dhan

Sa-Dhan is the second association in the business of microfinance to be given SRO status by the central bank. It has the mandate to engage with policymakers and regulators to provide a favourable policy environment for the promotion and growth of microfinance and financial inclusion in India. Its responsibility includes surveillance of the microfinance sector and submission of its annual report to the RBI. It is also entrusted with having a grievance and dispute redressal mechanism for clients of NBFC-MFIs, ensuring borrower protection and monitoring compliance of NBFC-MFIs with the regulatory framework put in place by the RBI.

MUDRA

In Union Budget 2015-16, the government proposed the formation of a Micro Units Development & Refinance Agency Ltd (MUDRA) to facilitate financial inclusion of non-corporate small business sector through refinance and development support. A majority of this sector does not have access to formal sources of finance. MUDRA will be responsible for refinancing and developing the micro-enterprises sector, by providing support to financial institutions that lend to small and micro business entities. It will also help reduce interest rates of the aggregate funds given to MFIs. In Fiscal 2020, ₹3,161 billion was disbursed under the Pradhan Mantri Mudra Yojana (PMMY) scheme to 58.4 million accounts. Loan disbursal has been on the rise over the past few years, but the pace of growth has slowed down, reflecting caution among lenders.

NABARD

NABARD is the main facilitator of microfinance initiatives in the country, with a focus on rural areas. It assists eligible NBFC-MFIs and SFBs by providing them with long-term refinance support. NBFC-MFIs having continuous profit during the last three years, and rating grade up to mfr2 (mfr3 in north eastern states and hilly areas) by CRISIL or equivalent, are eligible for refinance, subject to the fulfilling of other conditions. In April 2020, the RBI allocated ₹250 billion to NABARD for refinancing to cooperative banks, RRBs and MFIs to support financial institutions in the current challenging situation because of the pandemic.

Role of these entities

MFIN and Sa-Dhan have been actively involved in the development of the industry and educating the customers. During specific events, the entities have increased communication with borrowers to help them interpret and understand the various steps taken regulators or the government and how it would benefit the customers. These entities have made representations to the government of India and the RBI on steps which could help the micro financiers tide through crisis or help in overall development of the industry. Further, they have been on the forefront in disseminating information related to the performance of the industry which has helped increase the transparency and benefitted investors and lenders take informed decisions.

NABARD provides up to 90-95% refinance support to financial institution who give Micro Loans. Financial institution includes SCARDBs, StCBs, DCCBs, CBs, SFBs, RRBs, ADFCs, PUCBs, NBFCs and NBFC-MFIs. The refinance not just helps tide over liquidity, but many times is provided at a lower rate of finance than market borrowings. Thus, it helps lower the cost of funds for players, is one more avenue to raise funds and diversify the resource profile, and it also reaches smaller MFIs who find it difficult to raise funds in trying times.

Assam's recent bill on micro finance and its impact

Asset quality of the Assam region has been deteriorating since the third quarter of Fiscal 2020 owing to the political intervention which affected collection efficiency and recoveries, PAR 90+ had increased to 6% in Fiscal 2020 from 1% in Fiscal 2019. In Fiscal 2021 events including the COVID-19 pandemic, and subsequent disruption to services and employment owing to the nationwide lockdown and loan waiver promise in the state election have led to the further deterioration in the asset quality (PAR 90+ increased to 27% in March 2021 from 6% in March 2020). Similarly, West Bengal asset quality has worsened to 14% in March 2021 from 2% in March 2020 due expected loan waiver promise in the state election.

Subsequently, the Assam government, on December 30, 2020 unanimously passed The Assam Micro Finance Institutions (Regulation of Money Lending) Act, 2020 to protect borrower interest from micro finance institutions and money lenders. In particular, the Act seeks to guard against over leveraging of borrowers and aggressive loan recovery practices. The bill will turn into a law once the Governor signs it. The passage of this Act is expected to put a spanner on the growth of MFIs in the state in the near-term. Players will have to recalibrate their strategies and are likely to exercise more caution in incremental lending.

Assam microfinance relief package is a positive from asset quality standpoint

Assam serves over 2.6 million low-income women clients with a loan outstanding of ₹125 billion from RBI-regulated entities including Universal Banks, SFBs, NBFC-MFIs & NBFC's. Traditionally, Assam has been one of the best states on portfolio quality and was the 3rd best state as of September 2019. Since October 2019, local reaction to multiple lending & non-payment, followed by the COVID-19 lockdown, moratorium led to uncertainty in the State over expectations on loan waivers. In June 2021, Assam Government and Cabinet approved a special one-time relief to a maximum outlay of ₹8,250 crores for Microfinance customers. The broad contours of the proposed special one-time relief are as follows. This relief measures are expected to be a positive development from an asset quality perspective and may reduce near-term loan losses for lenders affected by COVID-19 pandemic. These measures are expected to revive normalcy in collection efficiency as well.

Telangana High Court order on MFI regulation to help the Microfinance sector

Telangana High Court on 14th February 2023 ruled that states cannot control microfinance institutions registered with the Reserve bank of India. This was in accordance with the acts introduced in various states regarding functioning of microfinance institutions. The ruling has provided clarity that the regulations pertaining to the microfinance sector would come under the jurisdiction of the Reserve Bank of India and not state government. With this clarity provided, MFIs would be allowed to operate in a more liberal manner.

Regulations

Microfinance sector in India governed by RBI guidelines

MFIs were operating largely unregulated till 2010, when the Andhra Pradesh (AP) Ordinance came into effect. This ordinance addressed issues such as alleged coercive recovery practices and absence of a social objective among MFIs to help the poor. Post the ordinance, AP saw a sharp decline in MFI activity. In 2011, the RBI released guidelines that defined NBFC-MFIs, and provided an operating and regulatory framework for MFIs in India. Going forward, the draft bill on microfinance is likely to provide clarity on certain regulatory aspects.

Regulatory clarity by the RBI rekindles investor interest

Guidelines issued by the RBI following the AP ordinance led to an improvement in MFI operations. A new category of NBFCs, i.e., NBFC-MFIs, was created along with a clear framework, in terms of target borrower group, lending norms, collection procedures, and amount of capital to be maintained by these players, to carry out operations in the country. Involvement of credit bureaus has also helped improve asset quality in the sector. Consequently, the microfinance industry in India has gained a lot of investor attention over the past half-decade with top players posting high returns and sustainable growth numbers. Resultantly, many NBFCs have been launched in the space with support from private equity players, venture capitalists as well as banks themselves.

Potential harmonisation of regulations for MFI lending

The RBI, in February 2021, outlined that there is a need to harmonise regulations governing the MFI lending industry and therefore, it is relooking at the current regulatory framework. In recent years, as several large players converted into SFBs, the current regulations are applicable to only NBFC-MFIs who contribute to 31% of total microfinance lending. A potential harmonisation of regulations for MFI lending can have a positive impact on NBFC-MFIs as banks and SFBs will also be governed by same regulations hence eliminating the competitive edge they have currently. The proposals likely to have a level playing field with same set of rules for all player categories including banks and SFBs. The borrowers to get protected from over-indebtedness with limit for maximum permissible level of indebtedness. It also offers greater flexibility in pricing to small MFIs who is currently facing pressure on profitability.

New regulatory regime for MFI loans levels the playing field and benefits NBFC-MFIs

The RBI, in its master directions on microfinance loans, released in March 2022, has done away with the interest rate cap applicable on loans given by NBFC-MFIs. Entities providing microfinance loans will have to put in place a Board approved policy for the pricing of loans. The policy should include the interest rate model, range of spread of each component for categories of borrowers, and ceiling on interest rate and all other charges on MFI loans.

The RBI's move levels the playing field, with both NBFC-MFIs and banks/SFBs providing microfinance loans now being subject to the same rules, which was not the case in the earlier regime. This move is expected to positively impact NBFC-MFIs. The increase in the annual household income cap for micro finance borrowers (to ₹300,000 in both urban and rural areas), removal of the two-lender norm for lending by NBFC-MFIs and allowing NBFC-MFIs greater flexibility to offer non-MFI loans (MFI loans required to account for 75% of total assets for NBFC-MFIs, as per then new regulations) would increase the market opportunity available to MFIs and enable them to create a more balanced portfolio.

On the flip side, the increase in annual household income threshold could increase the maximum permissible indebtedness limit of borrowers from the old level of ₹125,000. While the limit on the loan repayment obligation would act as a safeguard against excessive leveraging, the increased permissible debt limit and possibility of divergences in household income assessment criteria across lenders still pose risks. Proper data infrastructure would be required to analyse and estimate household incomes, especially in rural areas.

Subsequent to the RBI's revised regulations for MFI loans, effective October 1, 2022, some MFIs have increased interest rates for borrowers, especially those who are credit untested. CRISIL MI&A expects the rates to slowly settle down as MFIs begin to adapt to the new regime and put in place processes for household income, leverage and risk capture, given the new guidelines. Competitive forces would prevent a substantial spurt in rates for MFI customers, especially those with a good repayment track record and credit behaviour.

Area of regulation	Existing regulations		Revised regulations (effective from April 01, 2022)
	For NBFC-MFIs	For Banks and SFBs	For all Regulated Entities*
Loan pricing	Margin cap at 10% for large MFIs (loan portfolios > ₹1 billion); 12% for small MFIs (loan portfolios <Rs. 1 billion)	No restrictions for Banks and SFBs	No pricing cap; underwriting of loans will be done on a risk-based analysis, and a risk premium will be charged based on the borrower. Board approved policy for pricing of loans to be put in place. The policy should include the interest rate model, range of spread of each component for categories of borrowers, and ceiling on interest rate and all other charges on MFI loans.
Processing fees	Not more than 1% of gross loan amount		
Qualifying criteria	85% loans unsecured	Have to meet the target set for priority sector loans (PSL)	The minimum requirement of microfinance loans for NBFC-MFIs revised to 75% of the total assets. The maximum limit on microfinance loans for NBFCs other than NBFC-MFIs revised to 25% of the total assets from 10% earlier
Household income	Rural areas: ₹125,000 per annum Urban areas: ₹200,000 per annum		
Ticket size of loans	₹75,000 in the first cycle and ₹125,000 in the subsequent cycles	No restrictions for Banks and SFBs	<u>Annual household income:</u> Up to ₹300,000 in urban as well as rural areas (This amount is higher than what was stated in the consultation paper issued in June 2021 – up to ₹125,000 for rural areas and ₹200,000 for urban and semi-urban areas)
Tenure of loans	Not to be less than 24 months for loan amount in excess of ₹30,000		Board-approved policy for assessment of household income
Lending to	Not more than 2 lenders allowed per	More than 2 banks can	<u>Limit on Maximum Loan Repayment Obligation of a household</u>

Area of regulation	Existing regulations		Revised regulations (effective from April 01, 2022)
	For NBFC-MFIs	For Banks and SFBs	For all Regulated Entities*
the same borrower	borrower	lend to same borrower	towards all loans: 50% of monthly household income
Overall borrower indebtedness	Should not exceed ₹125,000	No restrictions for Banks and SFBs	

Note: Regulated entities: All Commercial Banks (including Small Finance Banks, Local Area Banks, and Regional Rural Banks) excluding Payments Banks, All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks, All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies)*

Source: RBI, CRISIL MI&A

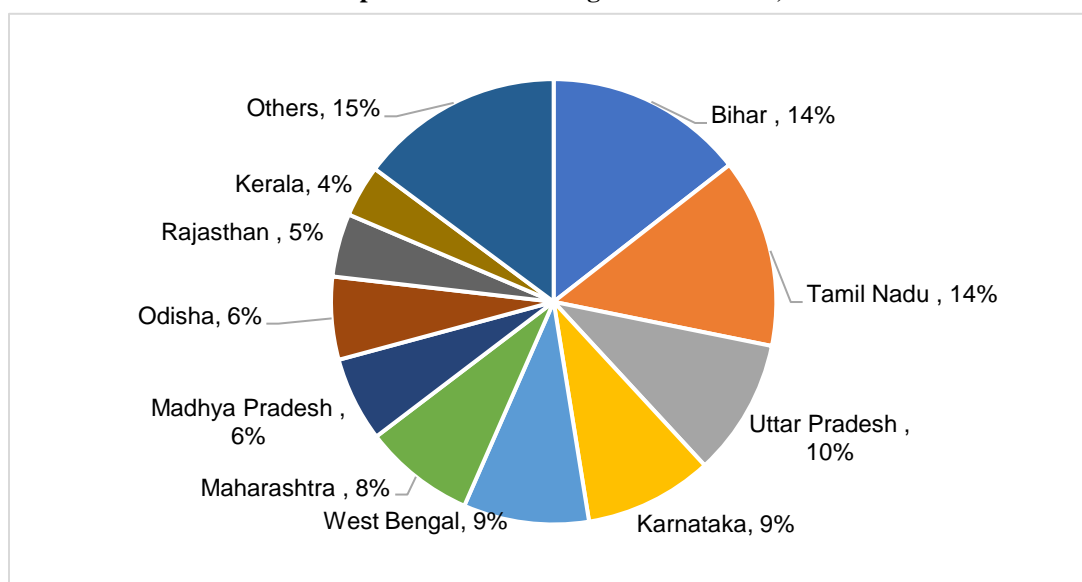
The revised regulation likely to have a level playing field with same set of rules for all player categories including banks and SFBs.

State wise analysis

Top 10 states contribute over 85% of MFI loans as of March 2023

Over 85% of the AUM is concentrated in the top 10 states with Bihar (14%), Tamil Nadu (14%) and Uttar Pradesh (10%), recording the highest shares as of March 31, 2023. Assam asset quality is the weakest at 45.0%, it is followed by Maharashtra (17.1%) and West Bengal (16.2%) as of March 31, 2023.

State-wise distribution of MFI portfolio outstanding as of March 31, 2023

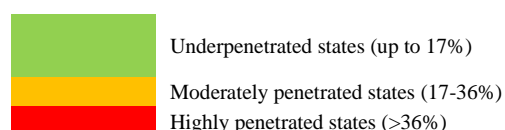
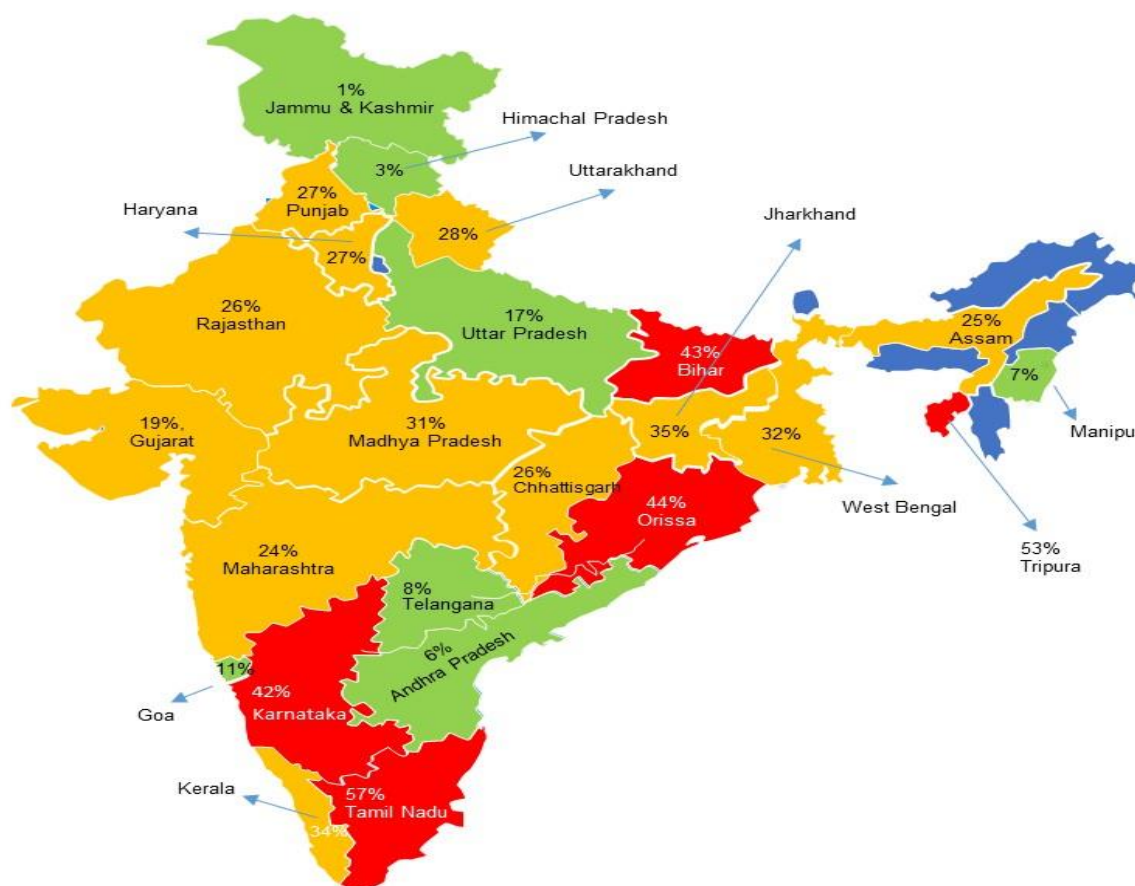


Note: Data includes data for Banks lending through joint liability group (JLG), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for Banks lending through SHG.

Source: CRIF High Mark, CRISIL MI&A

Underpenetrated states to drive growth for MFI in the coming years

CRISIL MI&A expects growth in the MFI portfolio to come from states that have a relatively lower penetration. Thus, CRISIL MI&A expects underpenetrated states like Uttar Pradesh, Andhra Pradesh and Manipur to drive future growth along with some of the moderately penetrated states, such as Rajasthan, Gujarat, Maharashtra and Madhya Pradesh.



Source: MFIN, CRISIL MI&A

- Notes:
- 1) Penetration has been computed by dividing number of unique MFI borrowers by estimated number of households in December 2022.
 - 2) Pan-India penetration has been determined based on the analysis of 24 states.
 - 3) Data includes data for Banks lending through joint liability group (JLG), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for Banks lending through SHG. The amounts are as at the end of December 31, 2022.

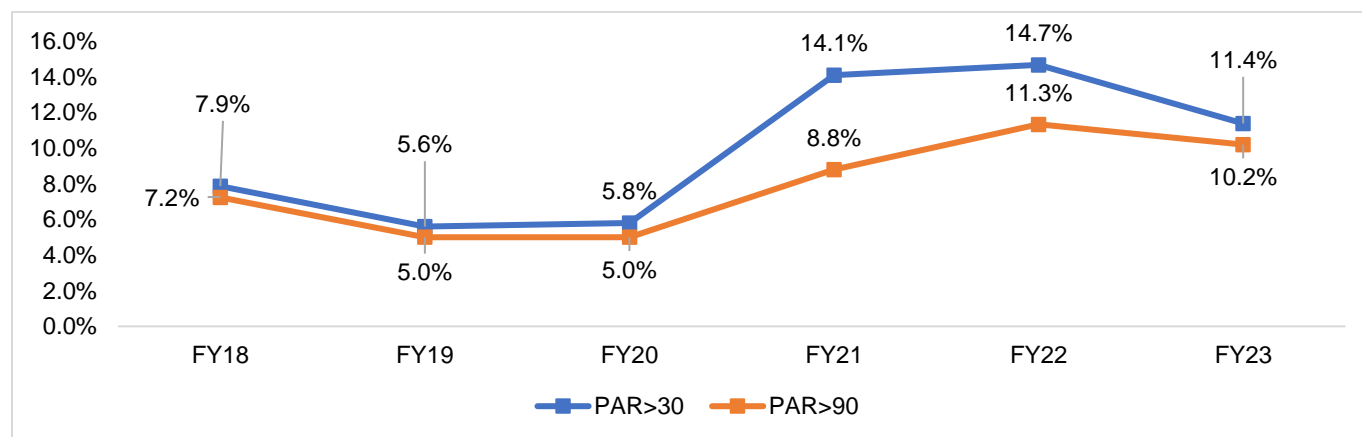
Asset quality

Portfolio at risk (PAR), the primary indicator of risk for the sector, equals the percentage of loans overdue. Asset quality deteriorated drastically post demonetisation, especially for MFIs. PAR>30 and PAR>90 for MFIs jumped post demonetisation. However, banks and MFIs invested significantly in educating borrowers, which gradually improved collection efficiency and reduced their overall PAR. Furthermore, since Fiscal 2018, collection efficiency of fresh loans disbursed has been strong. Therefore, the PAR for MFIs as well as the industry had been trending downward till Fiscal 2020.

The nationwide lockdown imposed in March 2020 to control the spread of COVID-19 and the subsequent moratorium granted by the RBI adversely impacted collections and repayments from MFI borrowers leading to a sharp rise in NPAs in Fiscal 2021.

The PAR>30 and PAR>90 for the industry shot up to 14.1% and 8.8% respectively as of March 2021. In the first quarter of Fiscal 2022, PAR>30 for the industry further deteriorated mainly due to fall in collection efficiencies experienced in months of May and June 2021 in the aftermath of the second COVID-19 wave. Pressure on asset quality was higher as a result of the second wave as compared to the first wave, as borrowers do not have a blanket moratorium this time while their cash flows have been impacted by the second wave. The collections started to improve from July 2021 onwards owing to relaxations in COVID-19 restrictions across the country and economic activity picking pace. Nevertheless, in Fiscal 2022, asset quality remained under some pressure, on account of strain on MFI borrowers' earning capabilities. By the end of Fiscal 2023, PAR>90 and PAR>30 reached 10.2% and 11.4% respectively on account of lower stress. CRISIL believes that going forward, timely recoveries and controlling incremental slippages would be critical for the MFIs to keep their asset quality under check.

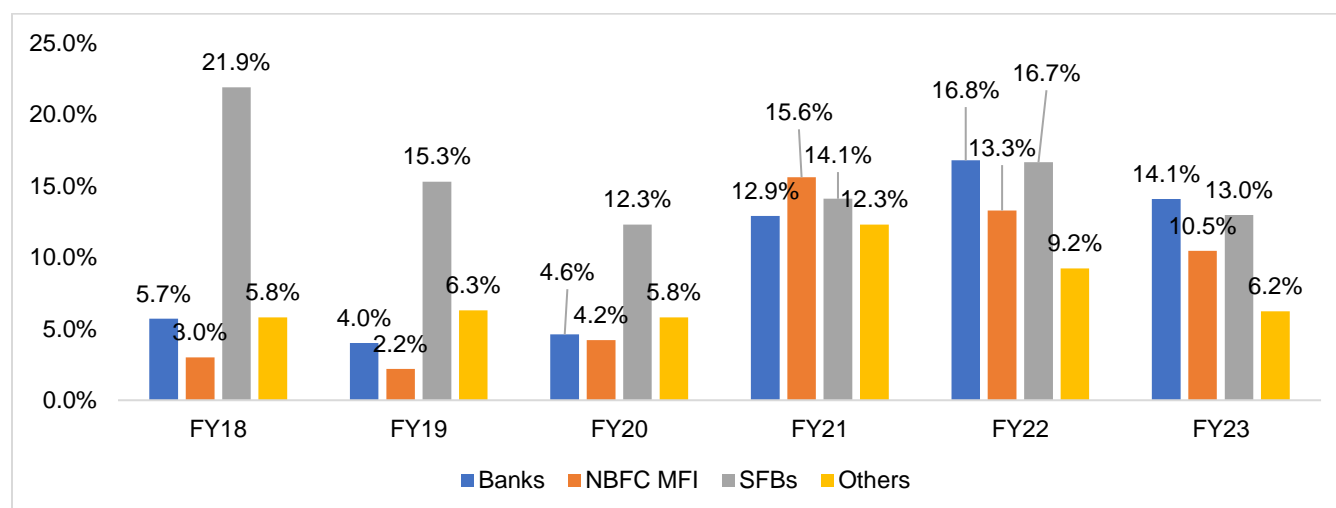
Asset quality trend over the years



Note: PAR>30 and PAR>90 include delinquency beyond 180 days of microfinance industry. Percentages are as of the end of the Fiscal.

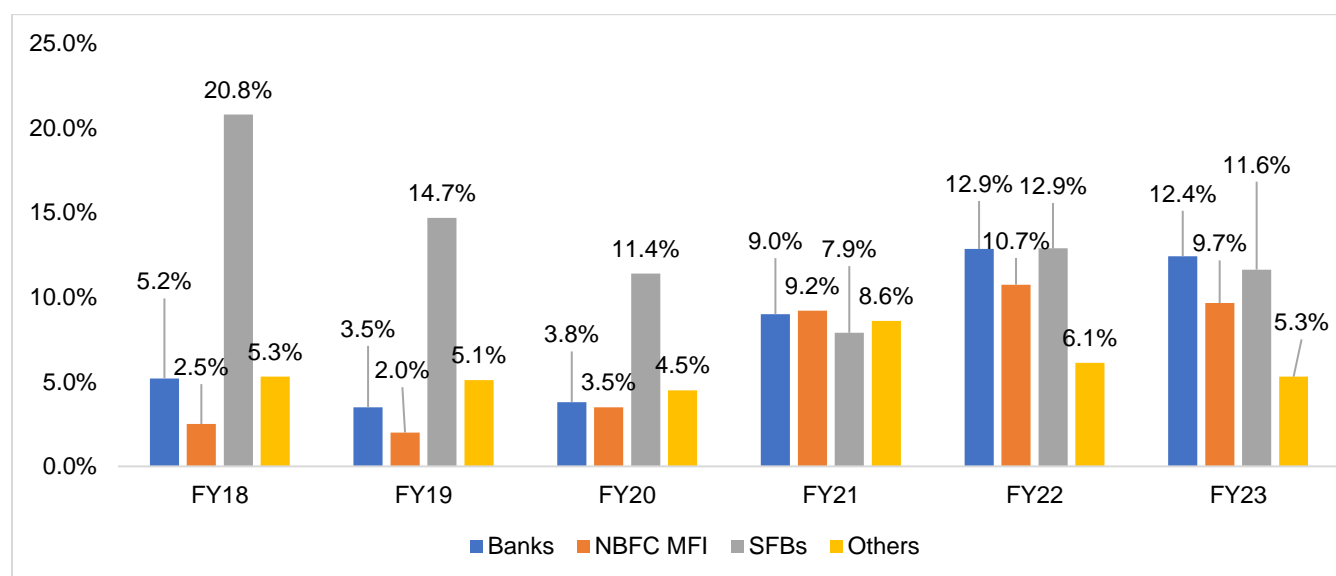
Source: CRIF High Mark, CRISIL MI&A

Portfolio at risk for player groups in microfinance industry (PAR>30 days)



Note: PAR>30 includes delinquency beyond 180 days of MFI industry, Percentages are as of the end of the Fiscal.
Source: CRIF Highmark, CRISIL MI&A

Asset quality of player groups in microfinance industry (PAR>90 days)



Note: PAR>90 includes delinquency beyond 180 days of MFI industry. Percentages are as of the end of the Fiscal.
Source: CRIF Highmark, CRISIL MI&A

The nationwide lockdown imposed in March 2020 to control the spread of COVID-19 and the subsequent moratorium granted by the RBI adversely impacted collections and repayments from MFI borrowers leading to a sharp rise in NPAs in Fiscal 2021. However, with phase-wise unlock of the nation, the collection efficiency has improved to 90-93% in December 2020. Many of the lenders have provided enhanced flexibility in the form of increased tenure and have informed the borrowers the impact of moratorium on interest outgo. The lenders have also started disbursing to existing customers. Also, out of the existing customers, lenders are disbursing to those customers who are making on-time payments. Since microfinance borrowers highly depend on the source of credit for their daily livelihood, they have started making payment thus increasing the overall collection efficiency, which we further expect to improve.

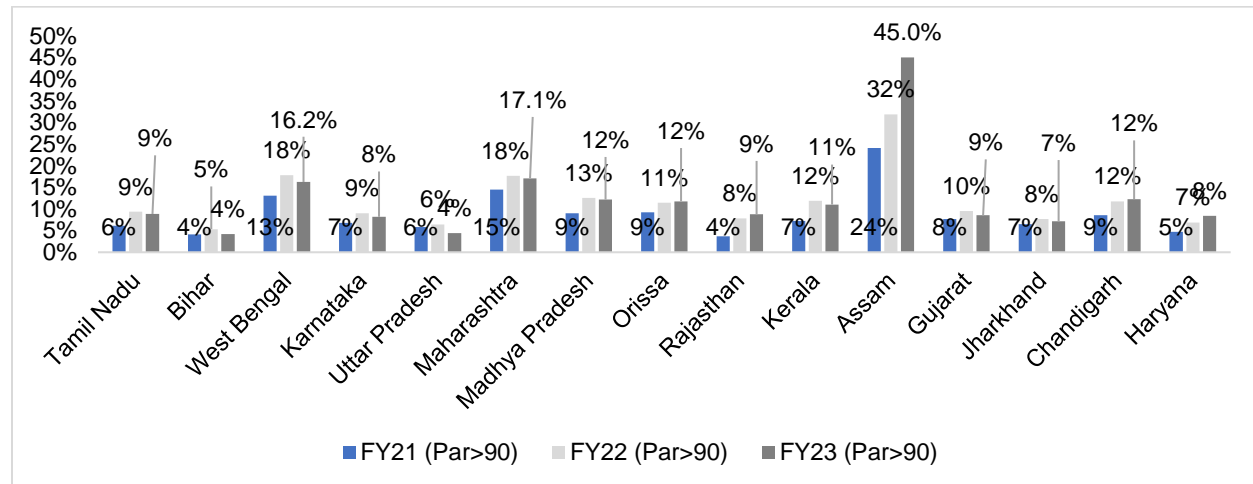
GNPAs for NBFC MFI in Fiscal 2022 rose, due to the fall in collection efficiency in May and June, owing to outbreak of second wave of COVID-19. However, restrictions began to ease in second half of 2022 causing the asset quality to

improve substantially in Fiscal 2023. In Fiscal 2024, CRISIL expects GNPA's to moderate, as economic activity picks up and industry bounces back to normal collections and disbursements.

Asset quality improved across states in Fiscal 2023

Asset quality had worsened across states due to the COVID-19 pandemic. Assam had seen a sharp deterioration in asset quality, the PAR 90+ increased by 13% to 45% by Fiscal 2023 as compared to Fiscal 2022. Chandigarh and Haryana witnessed increase in PAR 90+ by 1 and 2 percentage points respectively by Fiscal 2023 as compared to Fiscal 2022.

Asset quality of top 15 states



Note: 1) Data includes data for Banks lending through joint liability group (JLG), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for Banks lending through SHG. 2) The amounts are as at the end of Fiscal year. 3) PAR>90 includes delinquency beyond 180 days. 4) Top 15 states as per MFI loans portfolio as on Fiscal 2022 have been considered. Percentages are as of the end of the Fiscal.

Source: CRIF Highmark, CRISIL MI&A

Gold loans

Overview of gold loan market in India

Gold loans are typically small ticket, short duration, convenient and instant credit. While the industry has been around for several decades with local financiers and moneylenders extending finance against gold, especially in semi-urban and rural areas, the industry has witnessed a spurt in organized financiers offering gold loans since 2008 with the specialized gold loan NBFCs expanding their branch network and making available loans in a very easy and consumer friendly manner by putting in place strong systems and processes. Though moneylenders and pawn brokers understand the psyche of local borrowers and offer immediate liquidity without any documentation formalities, customers are left vulnerable to exploitation, due to the absence of regulatory oversight. Such players also give lower loan-to-value ratio compared with organized ones while charging exorbitant interest.

As banks and NBFCs aggressively moved in to seize this vast untapped market, they cornered a significant market share from unorganized lenders, growing at a compounded annual growth rate (CAGR) of 76% between Fiscals 2009 and 2012. Sustained increase in gold price till 2012 also supported the gold loan business boom in India. In such a scenario, customers would be offered higher and higher loan amounts on their gold, while lenders would benefit by price increases acting as a natural hedge, in the event of default. Gold prices in India, rose at a rapid rate until 2013 following which it decreased in line with global prices. Gold prices declined in India until 2015-2016 following which the gold prices have seen a continuous uptrend resulting in the overall gold loan market growing at a CAGR of 8% between Fiscal 2015 and Fiscal 2020.

The high growth in the NBFCs' gold loan offtake because of high LTVs, the speed at which the NBFCs opened branches, the decline in the capital adequacy ratios of NBFCs offering gold loans and increase in gold prices alarmed the Reserve Bank of India (RBI), leading to a slew of regulatory steps being taken. The measures initiated included capping the loan-to-value of gold loans at 60% (which was subsequently increased to 75% in January 2014), prohibiting grant of loans against bullion and gold coins, standardization of the value of gold while calculating the loan to value ratio and streamlining the process for auctioning gold. Furthermore, NBFCs were directed to disburse gold loans of greater than ₹100,000 ticket size through cheques only. The RBI also directed that if the loans extended by a NBFC comprise 50% or more of its financial assets, it shall maintain a minimum Tier-I capital of 12% by April 01, 2014. These measures derailed the growth of NBFCs gold loan offtake for a brief period of time and they lost considerable ground to banks.

The industry has however bounced back subsequently. With regulations in respect of key aspects such as loan to value for NBFCs now being on par with banks, players compete on parameters such as interest rates, customer service, turnaround time, convenience, and trust developed.

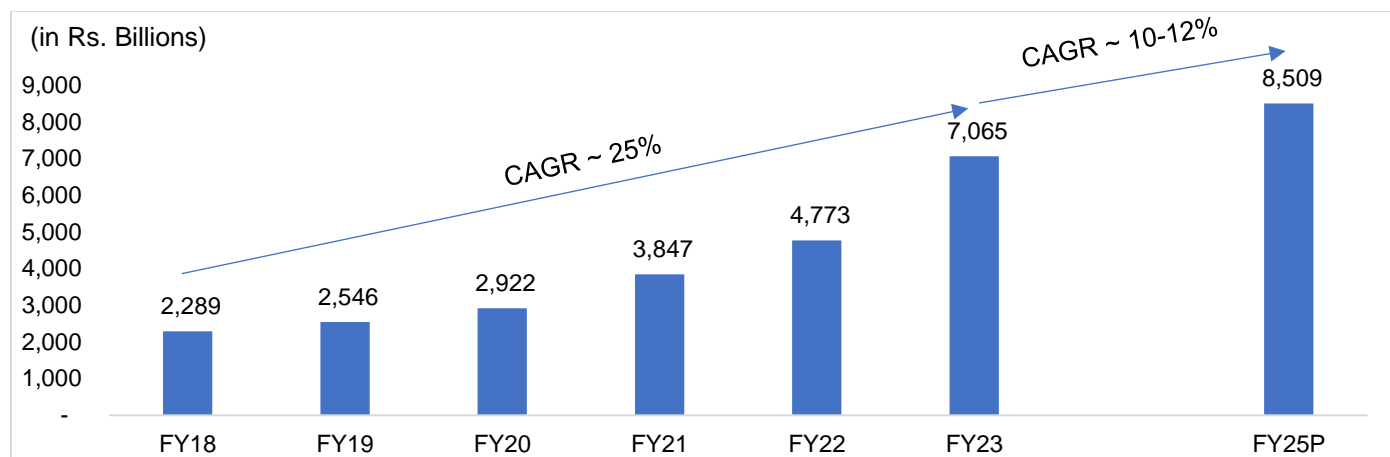
Gold loans AUM is expected to grow at 10-12% CAGR between Fiscal 2023 and 2025

In Fiscal 2020, gold loan industry (including Banks and NBFCs) AUM grew ~15% YoY to reach ₹2.9 trillion on account of increased focus of players on diversifying their regional presence, strong growth in non-southern regions and rise in gold prices by ~19% in Fiscal 2020.

In Fiscal 2021, the demand for gold loan finance witnessed a massive surge with AUM shooting up from ₹2.9 trillion as at March 31, 2020 to ₹3.8 trillion as at March 31, 2021, as India's economy coped with the devastating effect of the global pandemic and consumers availed of gold loans to meet their consumption and emergency funding needs. Many consumers, who had gold stock and ornaments lying with them, considered gold loans as an option to meet their credit requirements during this period. The demand for gold loans was also supported by a consistent surge in gold price, liquidity crunch in the immediate aftermath of the pandemic and lenders' hesitancy to give unsecured loans due to risk aversion. The RBI also revisited its guidelines for banks' lending gold loans by increasing the maximum LTV allowed to 90% from existing 75% for non-agricultural gold loans extended during August 2020 to March 2021 to help stressed borrowers to unlock more value. The growth was also supported by players continued focus to wean away consumers from the unorganised gold loan market by means of awareness and diversifying their regional presence with the help of branch as well as digital channels.

In Fiscal 2022 as well, the gold loan market continued to witness strong growth, with industry AUM increasing by 24% year-on-year to reach ₹4.7 trillion as of March 2022. By the end of March 2023, gold loans market crossed ₹7 trillion mark. Increase in AUM can be attributed to factors such as high gold prices, strong demand and increased promotion by financiers to acquire unorganised gold loan market by means of awareness and diversifying their regional presence with the help of branch as well as digital channels. Financiers also were very aggressive in tapping new customers during the year with some of them running campaigns offering gold loans at a lower interest rate for short tenures. For instance, Manappuram Finance introduced low interest rate, for retail customers with a tenure of 3 months.

Going forward, CRISIL MI&A expects gold loans to grow at CAGR of 10-12% between March 31, 2023 and March 31, 2025 as demand for gold is likely to remain buoyant for it is considered as a secured asset. The transformation in the gold loan sector continues – shift from unorganised to organised and further from organised to digital and online means. Increasing focus on online gold loans in the current scenario is expected to support overall growth in the coming years.



Note: Amount as at the end of the Fiscal indicated; P – Projected

Source: CRIF Highmark, CRISIL MI&A

Growth Drivers

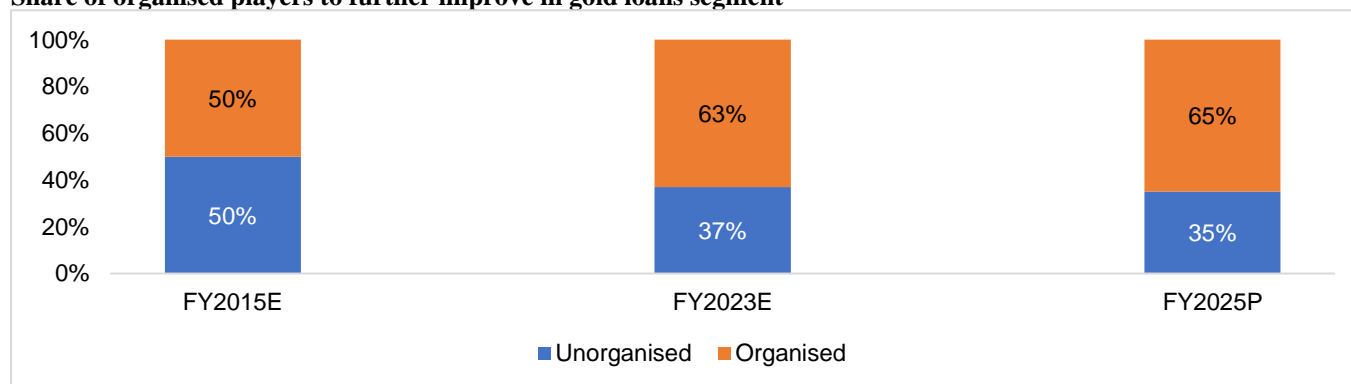
Due to the inherent benefits of gold loans and prevailing economic scenario, the sector is witnessing strong demand and disbursal growth. Small businesses and individuals facing cash flow problems are leveraging gold to meet their liquidity demands. Going forward, CRISIL MI&A believes that the organized gold loan market will be driven by increasing gold loan penetration, rising share of organized financiers and market expansion through geographical diversification.

Rising share of organised financier in gold loans

Organised gold loan penetration in the country is estimated to be ~7% as of March 2023, which indicates that organised gold loan market has significant headroom for growth. Going forward, gold loan penetration is expected to increase further on geographical diversification, rising branch network, and households increasingly looking to monetise their gold holdings for personal and business needs. Further, increase in gold prices and expectations of micro-enterprises using gold loans to fund working capital requirements will also aid growth of gold financing.

Due to increasing awareness about benefits of availing gold loans from organised segment, the share of unorganised gold loan financiers has decreased from 50% in Fiscal 2015 to ~37% in Fiscal 2023. Going forward, CRISIL MI&A expects the trend to continue, and the share of organised loan market is expected to further improve from ~63% in Fiscal 2023 to ~65% in Fiscal 2025.

Share of organised players to further improve in gold loans segment



Note: As at Fiscal end. E: Estimated, P: Projected

Source: CRISIL MI&A

India has largest private gold holdings in the world

India has world's largest private gold holdings which is estimated to almost 3 times US official gold reserves and around twice the total gold held in China. According to World Gold Council Report (A Central Banker's Guide to Gold as a Reserve Asset), gold reserves with Indian households account for ~75% of the total gold reserves of 35,568 tonnes held by Central Banks across the world as of March 2022. The massive gold reserve can be potentially unlocked by the owners to avail funds at a short notice at the time of need.

Gold has been known to act as a hedge against inflation and is also attractive for financiers

Over the years, gold prices have shown a consistent increase, and have, in most part, increased at a pace higher than the annual rate of inflation. For instance, during Fiscal 2011 to Fiscal 2016, gold prices increased at a CAGR of ~7%, as against an ~8% inflation observed in this period. During the subsequent six-year period between Fiscal 2016 and 2022, the gold price and inflation increased at a CAGR of ~12% and 5%, respectively.

The hedge against inflation provided by gold has attracted consumers to gold over the years. From a financier perspective, the yield on gold loans and minimal risk of credit losses due to security provided in the form of the gold being pledged and the additional cushion due to the loan-to-value (average of 65% for NBFCs) makes gold loans a profitable product.

Greater accessibility and growing customer base to boost growth for SFBs and NBFCs

SFBs to witness strong growth due to following reasons:

- **Large customer base:** With experience in the microfinance sector over the years, SFBs have access to a large customer segment, both agriculture and non-agriculture. Large set of such loans would classify under PSL and customers would get subsidies. This would help SFBs cater to customers by providing gold loans at competitive interest rates as compared to gold loans by NBFCs.
- **Greater accessibility:** SFBs will be able to better penetrate in the gold loan segment due to their ability or past experience to serve non-bankable and underbanked customers in tier III and tier IV cities. This would not only help SFBs to capture share in organised market but will also increase the share of organised financiers in the industry by catering untapped customers in remote regions.

Over the past decade, specialized gold loan NBFCs have witnessed exceptional growth amongst organized players. This growth is driven by aggressive expansion of branches, heavy expenditures on marketing and rapid acquisition of customers. NBFCs and banks approach the gold loan market differently, which is reflected in their interest rates, ticket sizes and loan tenures. NBFCs focus more single-mindedly on the gold loans business and have, accordingly, built their service offerings by investing significantly in manpower, systems, processes and branch expansion. This has helped them attract and serve more customers.

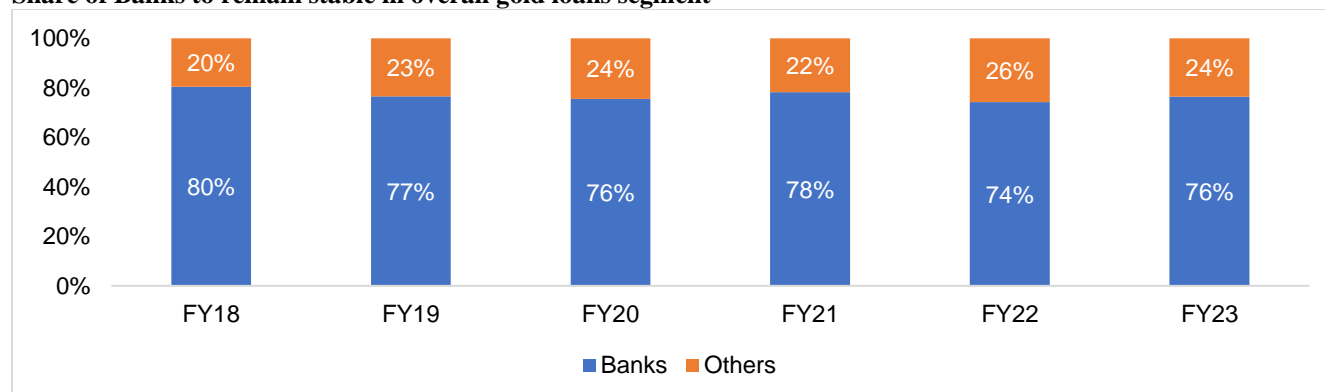
Competitive landscape

In Fiscal 2021, banks have witnessed a faster growth in gold loans as compared to NBFCs on account of increasing LTV offered by banks (till March 2021), rising gold prices, demand from small businesses for cash and increasing focus of banks towards this asset class. However, it must be noted that banks' mix of gold loans is higher owing to agriculture gold loans, where gold loans are granted to farmers for purpose of crop production.

Banks have always held the majority share in the overall gold loan portfolio. Significant increase in market share for banks have followed major disruptions in financial markets in the past like impact of global financial crisis in Fiscal 2009, effects of taper tantrum in Fiscal 2014 and pandemic in Fiscal 2022. This impact was due to banks focussing on gold segment as a product which has relatively better asset quality on back of liquid collateral like gold and higher ROI. For example, in Fiscal 2021, due to the pandemic, increasing the regulatory cap on LTV to 90% for a year provided further impetus to the banks to focus on safer segment of gold loans. After Fiscal 2021, with regulatory cap on LTV pushed down to 75%, the growth momentum in banks continued due to effect of the pandemic and lockdowns. These factors have led to a sustained reduction in the market share of NBFCs. CRISIL MI&A estimates the reducing market share of NBFCs in gold loans to continue till Fiscal 2024. The growth in the segment will be continued to be led by banks with healthier balance sheets compared to past, zero risk weights and relatively attractive ROI compared

to other segments.

Share of Banks to remain stable in overall gold loans segment



Note: Amount as at the end of Fiscal year indicated

Source: CRIF Highmark, CRISIL MI&A

Comparison of Gold loan institutions on select business parameters

	Banks	Gold loan NBFCs	Unorganised moneylenders
Interest rate	9-18%	21-26%	25-45%
LTV	Up to 75%	Up to 75%	More than 75%
Tenure	8-12 months	2-12 months	6-12 months
Processing fee	Higher than NBFCs	No/minimal processing fees	None
Regulator	RBI	RBI	None
Documentation required	KYC Compliance	Minimal	Minimal
Product focus and customer service	Non-core product	Gold loan is core focus, excellent customer service	Gold loan is core focus
Mode of disbursements	Mainly cheque and direct transfer to account	Cash/ cheque and direct transfer to account	Mostly cash
Turnaround time	30 min – 2 hours	10 – 20 mins	10 – 20 mins
Opening hours	Banking hours	Beyond banking hours	More flexible than banks in terms of working hours

Source: CRISIL MI&A

Clearly banks offer the lowest interest rate, but gold loans being one of the numerous products that they offer, the focus on this product is not as sharp as that of NBFCs. NBFCs on the other hand, especially the gold focused NBFCs, offer far greater customized products and services and are nimble in the operations.

MSME loans

Brief overview of MSMEs in India

MSMEs complement large corporates as suppliers or directly cater to end users. The MSME sector contributes to the country's socio-economic development by providing huge employment opportunities in rural and backward areas, reducing regional imbalances, and assuring equitable distribution of national wealth and income. The segment currently contributes to 28% of the GDP, over 40% of exports and creates employment for about 110 million people in the country, thus supporting economic development and growth.

The RBI has adopted the definition of MSMEs in line with the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. This definition is based on investments in plant and machinery in the manufacturing and services sectors. Low threshold in the old definition created a fear among MSMEs of graduating out of benefits and, hence, killing their urge to grow. To bring in more enterprises under the ambit of MSMEs, in June 2020, the Government revised the MSME investment limit across each category and introduced an alternate and additional criterion of turnover buckets to the definition. It further helped remove the difference between the definition of manufacturing based and services based MSMEs.

MSME loans witnessed a reasonable growth in the past

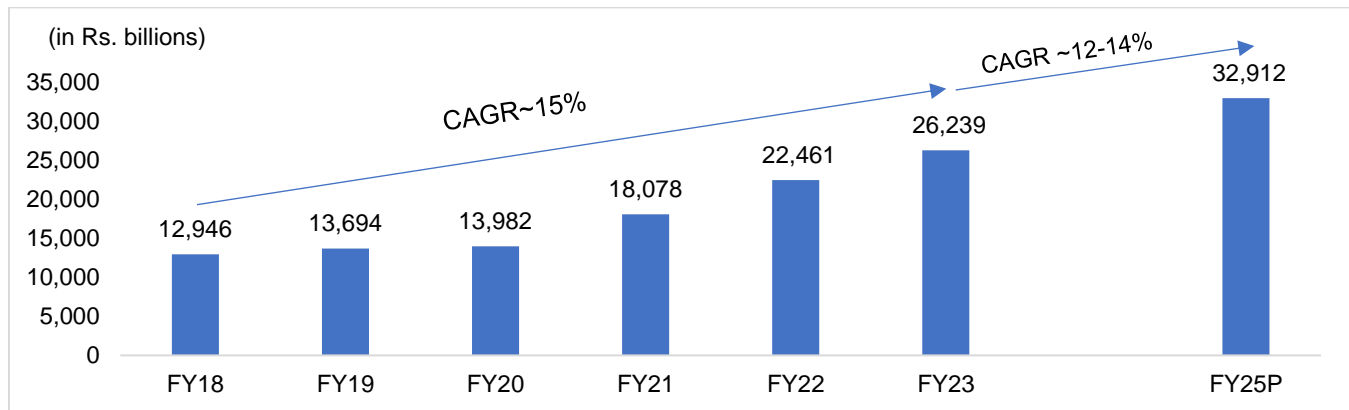
MSME loans grew at a fast pace, registering a CAGR of 15% over Fiscal 2018 and 2023. Over the years, more data availability and government initiatives like GST has led to increasing focus of lenders on the underserved segment of MSME customers as lending to this segment has become easier compared to the past. In Fiscals 2019 and 2020, however, the growth was relatively muted due to the NBFC liquidity crisis as well as cautious stance being taken while lending to MSMEs due to slower economic growth. Due to liquidity constraints for NBFCs, the growth slowed in Fiscal 2019.

In Fiscal 2021, the nationwide lockdown to contain the spread of the pandemic disrupted economic activity, hit production facilities, impacted working capital needs and supply chains along with future investments and expansions. Domestic supplies and supplies from imports also suffered, affecting both, their availability and cost. Contractual and wage labour was also hit due to more layoffs. MSMEs in the sectors such as hotels, tourism, logistics, construction, textiles and gems and jewellery suffered the most during the first half of the Fiscal year. In the second half of the Fiscal year, MSMEs started recovering with economic activity. However, in the first quarter of Fiscal 2022, owing to the second wave of pandemic, MSMEs suffered due to local lockdowns as economic activity also declined.

The first half of Fiscal 2022 was also impacted by the second wave leading to lower disbursements to these MSMEs. This led to extension of the ECLGS scheme which cushioned the impact of pandemic. As of March 2022, loans sanctioned under the scheme crossed ₹3.19 trillion (of ₹5 trillion), with about 64% of the guarantees issued for loans sanctioned to MSMEs, and the disbursement aggregated ₹2.59 trillion. In Union budget 2022-23, the allocation under ECLGS was increased from ₹4.5 trillion to ₹5.0 trillion, and the timeline for sanctions has been extended till March 2023. The enhancement of ₹500 million is earmarked exclusively for hospitality and related enterprises. Revival of economic activity, strong export and domestic support, coupled with a mild third wave, helped the segment to remain stable in Fiscal 2022, as a result of which, MSME loans grew by 24% year-on-year in Fiscal 2022.

The overall MSME loan outstanding stood at ₹26.2 trillion growing at 17% year on year in Fiscal 2023. The overall MSME loan outstanding market grew in Fiscal 2023 due to normalization of economic activities and increased revenue growth for SMEs. Going forward, CRISIL MI&A expects the MSME portfolio to grow at 12-14% CAGR over Fiscals 2023 and 2025, aided by increasing penetration of such loans, enhanced availability of data making it easier to underwrite such loans, enhanced use of technology, newer players entering the segment and continued government support.

MSME Loans to grow at 12-14% CAGR from March 31, 2023 to March 31, 2025



Note: As at Fiscal end. P-Projected.

Source: CRIF Highmark, CRISIL MI&A

Growth drivers

High credit gap in the MSME segment

Less than 15% of approximately 70 million MSMEs have access to formal credit in any manner as of March 2022. High risk perception and the prohibitive cost of delivering services physically have constrained traditional institutions' ability to provide credit to underserved or unserved MSMEs and self-employed individuals historically. As a result, they resort to credit from informal sources. This untapped market offers huge growth potential for financial institutions. As stated earlier, the credit gap was estimated at around 58.4 trillion as of 2017 (*Source: IFC report named Financing India's MSMEs released in November 2018*) and is estimated to have widened further to around ₹92.3 trillion as of March 31, 2023.

Government initiatives

GST to boost demand for MSME loans

CRISIL MI&A expects transparency in MSME operations to improve as GST compliance will compel them to record their transactions. This will improve the quality of their books of accounts, thus boosting their creditworthiness. For financial institutions, this will ease the credit appraisal process and lower credit risk. Due to improvement in the quality of books of accounts, financial institutions will be able to lend to MSMEs in the unorganised sector that were previously unable to get credit due to their books of accounts not being maintained properly or not maintained at all. This will open up previously untapped credit demand for financial institutions, leading to a robust expansion of the MSME loans credit market.

Credit Guarantee Fund Scheme extended to cover NBFCs

One of the major reasons why MSMEs are credit-starved is the insistence by banks or financial institutions for the provision of collateral against loans. Collaterals are not easily available with such enterprises, leading to a high risk perception and higher interest rates for these MSMEs. In order to address this issue, the Government launched the Credit Guarantee Fund Scheme under the aegis of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in order to make collateral-free credit available to micro and small enterprises. In January 2017, the scheme was extended to cover systemically important NBFCs as well. Key eligibility criteria for this scheme are: 1) the NBFC should have made a profit for the three preceding Fiscals at the time of enrolment; and 2) it should have long-term credit rating of at least BBB. There are a few other performance-related parameters too related to asset quality. The overall limit under the scheme has also been enhanced to ₹ 20 million. Over Fiscals 2019 and 2020, more than 450,000 guarantees worth ₹233 billion were approved to NBFCs.

Government initiatives addressing structural issues in the MSME market

The Government has unveiled a number of initiatives aimed at addressing some of the structural issues plaguing MSME lending segment. These include the Pradhan Mantri Mudra Yojana (PMMY), licenses for trade receivables platforms called Trades Receivables Discounting System (TReDS) and GST. The RBI has also proposed to introduce NBFC-account aggregators, which have the potential to transform the MSME finance space. These account aggregators would provide granular insights to lenders into customers' financial assets and their borrowing history based on customer consent.

Affordable housing loans (ticket size <₹ 2.5 million)

Affordable housing loans segment to log 11-12% CAGR between March 31, 2023 to March 31, 2025

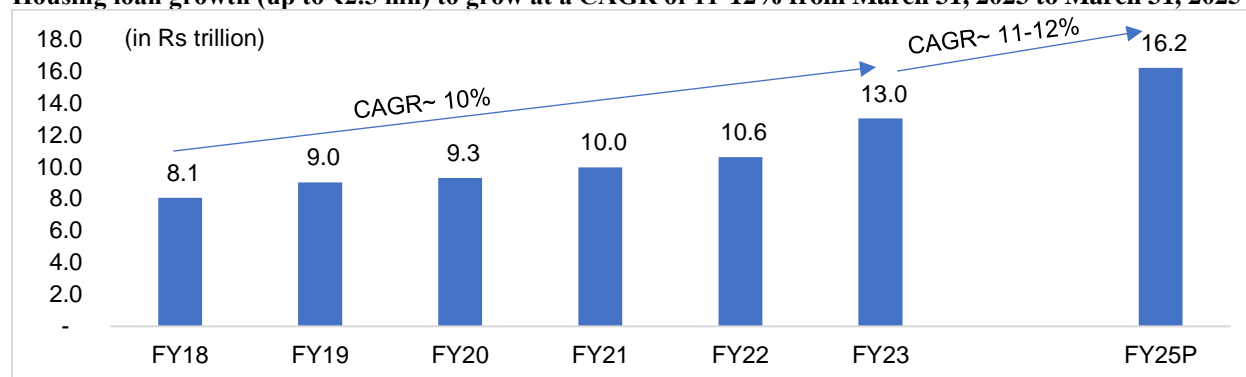
Despite the enormous unmet demand in the affordable housing finance market, the segment clocked 10% CAGR from the end of Fiscal 2018 to the end of Fiscal 2023. As at end of Fiscal 2023, outstanding loans stood at ~Rs. 13.0 trillion growing from ~Rs. 9.3 trillion from the end of Fiscal 2020.

In Fiscal 2023, affordable housing market witnessed strong growth due to increased loan disbursements. Going forward, increased disbursements supported by improvement in the economic activities for the economic weaker section and low-income group segments will aid the growth of affordable housing market. CRISIL MI&A expects the affordable housing market to grow 10-12% year on year in Fiscal 2024.

In the longer term, CRISIL MI&A expects the segment to bounce back sharply and grow at ~11-12% CAGR over Fiscals 2023-2025 on account of the following:

- Favourable government and regulatory support to promote housing loans (up to ₹2.5mn) industry
- Recovery in economic activity over the medium term
- Increased supply of affordable homes
- Rising demand for affordable homes as consumers increasingly work out of Tier 2/3/4 cities in a post-COVID-19 world
- Work from home scenario pushing purchase decision for houses
- Ease of access to finance and rise in finance penetration

Housing loan growth (up to ₹2.5 mn) to grow at a CAGR of 11-12% from March 31, 2023 to March 31, 2025



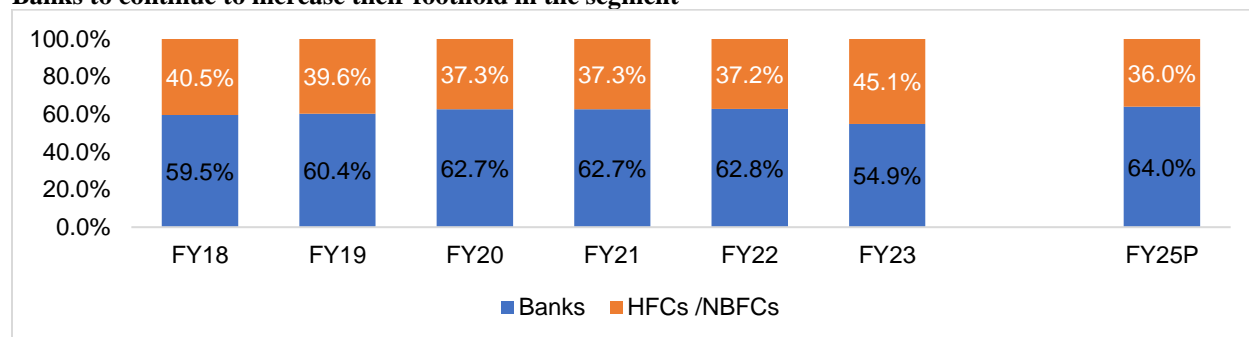
Note: As at Fiscal end. P - Projected

Source: CRIF High Mark, CRISIL MI&A

Banks to gain market share in low-ticket housing finance

CRISIL MI&A expect banks to grow at a faster pace vis-à-vis HFCs in housing loans (up to ₹2.5 mn), given their advantage in terms of cost of funds and base of deposit accounts. Despite HFCs focus on housing loans (up to ₹2.5mn), as they attempt to ward off competition from banks and protect profitability, the liquidity crisis coupled with sluggish economic activity post COVID-19 has plagued their share. CRISIL MI&A expects that SFBs will grow at a faster pace as compared to other banks and HFCs over the next two to three years, owing to its increased focus on portfolio diversification and relatively secure nature of housing loans as compared to other asset classes.

Banks to continue to increase their foothold in the segment



Note: As at Fiscal end. P - Projected
Source: CRIF High Mark, CRISIL MI&A

Key factors contributing to high competitiveness of SFBs in Low-Cost Housing will be:

- **Clear understanding of target market:** Given the target borrower's profile, players need to have a clear and deeper understanding of micro markets and develop a strong local network. The strong network helps players to source business from niche customer category by having references from their existing customers. It is observed that successful players in the segment generally focus on a few geographies where they have a good understanding and scale up gradually to manage costs and asset quality better.
- **Access to public deposits** for the SFBs gives it a pricing advantage due to lower cost of funds as compared to HFCs
- **Collection Efficiency:** Given that players in the segment typically cater to the lower income customer segment, many of whom may not be financially literate, a strong focus and understanding of SFBs on collections and monitoring risk of default at customer level will help them to keep asset quality under check.

List of formulae

S no	Parameters	Formula
1	RoA (return on assets)	Net profit / average of total assets on book
2	RoE (return on equity)	Net profit / average net worth
3	NIM (net interest margin)	(Interest earned – interest expended) / average of total assets on book
4	Yield on advances	Interest earned on loans and advances / average of advances on book
5	Cost to income ratio	Operating expenses / (Net Interest Income + other income)
6	Cost of borrowing ratio	Interest expended / (average of deposits and borrowings)
7	Non-interest income ratio	(Total income – interest earned) / average of total assets on book
8	Opex Ratio	Operating expenses (employee benefit expenses+ depreciation + other expenses) / average total assets on book
9	Credit Cost	Provisions / average net advances (loan book)
10	Credit loss ratio	Write-offs during the year / average net advances (loan book)
11	AUM	Advances Under Management (gross advances plus off-balance sheet advances) disclosed by the company as of the last day of the relevant period
12	GNPA	Gross NPAs disclosed by the company as of the last day of the relevant

		period
13	NNPA	Net NPAs (Gross NPAs less provision for NPAs) disclosed by the company as of the last day of the relevant period
14	Provision Coverage Ratio	Provision Coverage Ratio as reported by the company represents ECL provision on stage 3 assets as of the last day of the relevant period
15	Restructured Book %	Restructured book as % of advances represents standard restructured book to net advances for the period expressed as percentage - disclosed by the company as of the last day of the relevant period

Note:

Average balances are calculated as the average of the opening balance at the start of the relevant Fiscal and the closing balance as at the end of the relevant Fiscal.

Certain Key GAAP Measures and Key Performance Indicators (KPIs)

The following line items in the tables below are GAAP measures: deposits; deposit growth; Total Capital Ratio; Tier 1 Capital Ratio; gross NPAs; Net NPAs; net profit; and Basic EPS. The rest of the line items in the tables below are non-GAAP measures (key performance indicators). Certain of the non-GAAP measures set forth in the tables below may not be the same as those made publicly available by the companies referred to below due to differences in how they were calculated. [For example, some banks have publicly disclosed certain non-GAAP measures that have been calculated using averages based on the average of monthly end balances or quarterly end balances, whereas, unless noted otherwise, averages used by CRISIL MI&A for a particular fiscal year have been calculated as the average of the opening balance at the start of the relevant fiscal year and the closing balance in the relevant fiscal year.

AU Small Finance Bank

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	744	919	1027
	AUM (in INR million) ⁽²⁾	353,560.00	467,890.00	591,580.00
	AUM Growth (%) ⁽³⁾	N.A.	32.34%	26.44%
	Deposits (in INR million)	359,793.14	525,846.21	693,649.86
	Deposits Growth (%) ⁽⁴⁾	N.A.	46.15%	31.91%
	CASA Ratio (%) ⁽⁵⁾	23.00%	37.29%	38.43%
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	54.87%	66.61%	68.76%
Capital	Net worth (in INR million) ⁽⁷⁾	61,720.99	74,726.82	109,333.19
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	23.37%	21.00%	23.59%
	Tier 1 Capital Ratio (%) ⁽⁹⁾	21.53%	19.69%	21.80%
	Cost of Deposits (%) ⁽¹⁰⁾	5.98%	5.11%	NA
	Cost of Funds (%) ⁽¹¹⁾	6.50%	5.29%	5.63%
Asset Quality	Gross NPA (%) ⁽¹²⁾	4.25%	1.98%	1.66%
	Provision Coverage Ratio (%) ⁽¹³⁾	50.00%	75.00%	75.00%
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	1.80%	2.50%	1.20%
	Net NPA (%) ⁽¹⁵⁾	2.18%	0.50%	0.42%
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	2,157.98	1,815.00	2,019.48
	Net Profit (in INR million)	11,706.80	11,300.00	14,279.25
	Yield on Advances (%) ⁽¹⁷⁾	12.82%	12.10%	13.10%
	Net Interest Margin (%) ⁽¹⁸⁾	5.05%	5.36%	5.56%
	Credit Cost Ratio (%) ⁽¹⁹⁾	2.27%	0.89%	0.30%
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	3.54%	4.00%	4.32%
	Cost to Income Ratio (%) ⁽²¹⁾	43.46%	57.07%	63.01%
	Return on Average Assets (%) ⁽²²⁾	2.50%	1.87%	1.79%
	Return on Average Equity (%) ⁽²³⁾	22.31%	16.56%	15.52%
	Basic EPS (in INR) ⁽²⁴⁾	38.19	18.03	21.86

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment and inter-bank participation certificates for which the company continues to hold

collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(5) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(6) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(7) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(8) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(9) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(10) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(11) Cost of funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(12) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(13) Provision Coverage Ratio (%) - Provision Coverage Ratio represents the ratio of NPA provision including Technical Write off and Gross NPA, including Technical write off.

(14) Restructured book as % of advances represents standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(15) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(16) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(17) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(18) Net Interest Margin represents net interest income for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, represented as a percentage.

(19) Credit Cost Ratio is calculated as the ratio of total provisions and contingencies (excluding provision for tax) to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(20) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(21) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(22) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard 20.

Equitas Small Finance Bank

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	861	869	922
	AUM (in INR million) ⁽²⁾	179,250.00	205,970.00	278,610.00
	AUM Growth (%) ⁽³⁾	N.A.	14.91%	35.27%
	Deposits (in INR million)	163,919.72	189,507.97	253,805.56
	Deposits Growth (%) ⁽⁴⁾	N.A.	15.61%	33.93%
	CASA Ratio (%) ⁽⁵⁾	34.25%	52.00%	42.28%
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	70.05%	89.44%	77.49%
Capital	Net worth (in INR million) ⁽⁷⁾	33,963.41	42,460.00	51,579.48
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	24.18%	25.16%	23.80%
	Tier 1 Capital Ratio (%) ⁽⁹⁾	23.23%	24.53%	23.08%
	Cost of Deposits (%) ⁽¹⁰⁾	7.14%	6.42%	6.13%
	Cost of Funds (%) ⁽¹¹⁾	7.66%	6.75%	6.48%

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Asset Quality	Gross NPA (%) ⁽¹²⁾	3.73%	4.24%	2.76%
	Provision Coverage Ratio (%) ⁽¹³⁾	58.59%	42.73%	56.90%
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	NA	3.12%	1.00%
	Net NPA (%) ⁽¹⁵⁾	1.58%	2.47%	1.21%
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	886.60	873.00	1,176.01
	Net Profit (in INR million)	3,842.23	2,807.32	5,735.91
	Yield on Advances (%) ⁽¹⁷⁾	18.97%	17.33%	16.67%
	Net Interest Margin (%) ⁽¹⁸⁾	8.17%	7.89%	8.22%
	Credit Cost Ratio (%) ⁽¹⁹⁾	2.45%	2.73%	1.80%
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	6.04%	6.60%	6.58%
	Cost to Income Ratio (%) ⁽²¹⁾	59.99%	66.12%	63.41%
	Return on Average Assets (%) ⁽²²⁾	1.75%	1.09%	1.85%
	Return on Average Equity (%) ⁽²³⁾	12.52%	7.35%	12.20%
	Basic EPS (in INR) ⁽²⁴⁾	3.53	2.43	4.71

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment and inter-bank participation certificates for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(5) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(6) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(7) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(8) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(9) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(10) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(11) Cost of funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(12) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(13) Provision Coverage Ratio (%) - Provision Coverage Ratio represents the ratio of NPA provision including Technical Write off and Gross NPA, including Technical write off.

(14) Restructured book as % of advances represents standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(15) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(16) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(17) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(18) Net Interest Margin represents net interest income for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, represented as a percentage.

(19) Credit Cost Ratio is calculated as the ratio of total provisions and contingencies (excluding provision for tax) to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(20) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(21) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest

earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(22) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard 20.

Ujjivan Small Finance Bank

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	575	575	629
	AUM (in INR million) ⁽²⁾	151,399.60	174,876.50	240,850.00
	AUM Growth (%) ⁽³⁾	N.A.	15.51%	32.61%
	Deposits (in INR million)	131,357.70	182,922.20	255,380.00
	Deposits Growth (%) ⁽⁴⁾	N.A.	39.26%	39.61%
	CASA Ratio (%) ⁽⁵⁾	20.55%	27.30%	26.41%
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	47.52%	54.24%	66.03%
Capital	Net worth (in INR million) ⁽⁷⁾	31,750.20	27,604.30	41,580.00
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	26.44%	18.99%	25.81%
	Tier 1 Capital Ratio (%) ⁽⁹⁾	25.06%	17.70%	22.69%
	Cost of Deposits (%) ⁽¹⁰⁾	6.53%	5.69%	-
	Cost of Funds (%) ⁽¹¹⁾	6.93%	5.70%	6.08%
Asset Quality	Gross NPA (%) ⁽¹²⁾	7.07%	7.34%	2.88%
	Provision Coverage Ratio (%) ⁽¹³⁾	60.34%	92.20%	98.00%
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	NA	NA	NA
	Net NPA (%) ⁽¹⁵⁾	2.93%	0.61%	0.04%
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	808.41	591.00	1,484.91
	Net Profit (in INR million)	82.97	(4,145.90)	10,999.20
	Yield on Advances (%) ⁽¹⁷⁾	18.22%	16.73%	19.73%
	Net Interest Margin (%) ⁽¹⁸⁾	8.91%	8.07%	9.48%
	Credit Cost Ratio (%) ⁽¹⁹⁾	5.60%	7.41%	0.09%
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	6.34%	6.80%	6.33%
	Cost to Income Ratio (%) ⁽²¹⁾	60.34%	71.68%	54.82%
	Return on Average Assets (%) ⁽²²⁾	0.04%	-1.89%	3.86%
	Return on Average Equity (%) ⁽²³⁾	0.26%	-13.97%	31.80%
	Basic EPS (in INR) ⁽²⁴⁾	0.05	-2.40	5.88

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

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(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(5) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(6) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(7) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(8) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(9) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(10) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(11) Cost of funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(12) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(13) Provision Coverage Ratio (%) - Provision Coverage Ratio represents the ratio of NPA provision including Technical Write off and Gross NPA, including Technical write off.

(14) Restructured book as % of advances represents standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

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(19) Credit Cost Ratio is calculated as the ratio of total provisions and contingencies (excluding provision for tax) to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(20) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(21) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(22) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard 20.

Fincare Small Finance Bank

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	806	919	1231
	AUM (in INR million) ⁽²⁾	60,722.11	76,001.65	99,111.44
	AUM Growth (%) ⁽³⁾	N.A.	25.16%	30.41%
	Deposits (in INR million)	53,184.98	64,561.65	80,331.94
	Deposits Growth (%) ⁽⁴⁾	N.A.	21.39%	24.43%
	CASA Ratio (%) ⁽⁵⁾	23.76%	36.30%	33.06%
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	91.70%	86.40%	79.79%
Capital	Net worth (in INR million) ⁽⁷⁾	10,169.10	11,954.80	12,991.30
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	29.60%	22.30%	20.04%
	Tier 1 Capital Ratio (%) ⁽⁹⁾	24.91%	19.48%	18.64%
	Cost of Deposits (%) ⁽¹⁰⁾	8.34%	7.15%	6.48%
	Cost of Funds (%) ⁽¹¹⁾	8.63%	7.07%	6.47%
Asset Quality	Gross NPA (%) ⁽¹²⁾	6.42%	7.79%	3.25%
	Provision Coverage Ratio (%) ⁽¹³⁾	73.68%	78.16%	60.82%
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	1.05%	5.26%	0.94%

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
	Net NPA (%) ⁽¹⁵⁾	2.80%	3.55%	1.30%
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	365.08	431.07	443.07
	Net Profit (in INR million)	1,131.40	88.70	1,036.40
	Yield on Advances (%) ⁽¹⁷⁾	24.73%	21.45%	21.03%
	Net Interest Margin (%) ⁽¹⁸⁾	9.29%	9.28%	9.33%
	Credit Cost Ratio (%) ⁽¹⁹⁾	4.98%	6.84%	4.14%
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	6.14%	6.85%	7.48%
	Cost to Income Ratio (%) ⁽²¹⁾	55.93%	60.01%	66.36%
	Return on Average Assets (%) ⁽²²⁾	1.50%	0.09%	0.89%
	Return on Average Equity (%) ⁽²³⁾	11.78%	0.80%	8.31%
	Basic EPS (in INR) ⁽²⁴⁾	5.55	0.38	4.69

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

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(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(5) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(6) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(7) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(8) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(9) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(10) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(11) Cost of funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(12) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(13) Provision Coverage Ratio (%) - Provision Coverage Ratio represents the ratio of NPA provision including Technical Write off and Gross NPA, including Technical write off.

(14) Restructured book as % of advances represents standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(15) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(16) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(17) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

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(21) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(22) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard

20.

Suryoday Small Finance Bank

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	556	565	577
	AUM (in INR million) ⁽²⁾	42,060.00	50,640.00	61,140.00
	AUM Growth (%) ⁽³⁾	N.A.	20.40%	20.75%
	Deposits (in INR million)	32,556.76	38,498.02	51,667.20
	Deposits Growth (%) ⁽⁴⁾	N.A.	18.25%	34.21%
	CASA Ratio (%) ⁽⁵⁾	15.45%	18.81%	17.11%
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	80.00%	78.14%	73.10%
Capital	Net worth (in INR million) ⁽⁷⁾	15,969.00	15,051.20	15,847.30
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	51.47%	37.86%	33.72%
	Tier 1 Capital Ratio (%) ⁽⁹⁾	47.23%	34.44%	30.80%
	Cost of Deposits (%) ⁽¹⁰⁾	7.81%	6.43%	NA
	Cost of Funds (%) ⁽¹¹⁾	8.09%	6.31%	6.10%
Asset Quality	Gross NPA (%) ⁽¹²⁾	9.41%	11.80%	3.13%
	Provision Coverage Ratio (%) ⁽¹³⁾	63.73%	69.83%	51.43%
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	2.70%	10.40%	NA
	Net NPA (%) ⁽¹⁵⁾	4.73%	5.97%	1.55%
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	181.34	264.91	337.40
	Net Profit (in INR million)	118.55	(930.32)	777.00
	Yield on Advances (%) ⁽¹⁷⁾	17.73%	18.72%	19.04%
	Net Interest Margin (%) ⁽¹⁸⁾	6.80%	7.85%	8.28%
	Credit Cost Ratio (%) ⁽¹⁹⁾	4.50%	8.98%	4.40%
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	5.44%	5.55%	5.62%
	Cost to Income Ratio (%) ⁽²¹⁾	64.44%	60.93%	60.02%
	Return on Average Assets (%) ⁽²²⁾	0.20%	-1.25%	0.86%
	Return on Average Equity (%) ⁽²³⁾	0.89%	-6.00%	5.03%
	Basic EPS (in INR) ⁽²⁴⁾	1.32	-8.76	7.32

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment and inter-bank participation certificates for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(5) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(6) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(7) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(8) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(9) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(10) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(11) Cost of funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(12) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(13) Provision Coverage Ratio (%) - Provision Coverage Ratio represents the ratio of NPA provision including Technical Write off and Gross NPA, including Technical write off.

(14) Restructured book as % of advances represents standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(15) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

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(18) Net Interest Margin represents net interest income for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, represented as a percentage.

(19) Credit Cost Ratio is calculated as the ratio of total provisions and contingencies (excluding provision for tax) to the company's average net advances for the relevant fiscal year, expressed as a percentage.

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(22) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard 20.

Jana Small Finance Bank

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	585	700	NA
	AUM (in INR million) ⁽²⁾	116,119.20	130,066.79	177,595.55
	AUM Growth (%) ⁽³⁾	N.A.	12.01%	36.54%
	Deposits (in INR million)	123,859.30	135,402.02	163,340.16
	Deposits Growth (%) ⁽⁴⁾	N.A.	9.32%	20.63%
	CASA Ratio (%) ⁽⁵⁾	16.76%	22.55%	NA
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	NA	NA	NA
Capital	Net worth (in INR million) ⁽⁷⁾	11,268.60	12,006.99	17,972.55
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	15.51%	15.26%	NA
	Tier 1 Capital Ratio (%) ⁽⁹⁾	11.75%	11.83%	13.80%
	Cost of Deposits (%) ⁽¹⁰⁾	7.90%	7.18%	NA
	Cost of Funds (%) ⁽¹¹⁾	8.30%	7.58%	6.96%
Asset Quality	Gross NPA (%) ⁽¹²⁾	7.20%	4.98%	NA
	Provision Coverage Ratio (%) ⁽¹³⁾	27.89%	32.19%	NA
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	NA	2.70%	NA
	Net NPA (%) ⁽¹⁵⁾	5.30%	3.43%	NA
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	450.90	574.73	1,000.37

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
	Net Profit (in INR million)	(843.09)	(54.06)	2,559.71
	Yield on Advances (%) ⁽¹⁷⁾	21.34%	22.15%	19.99%
	Net Interest Margin (%) ⁽¹⁸⁾	7.60%	7.08%	7.24%
	Credit Cost Ratio (%) ⁽¹⁹⁾	3.40%	4.63%	4.84%
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	6.30%	5.80%	5.61%
	Cost to Income Ratio (%) ⁽²¹⁾	69.90%	66.46%	56.22%
	Return on Average Assets (%) ⁽²²⁾	0.51%	0.03%	1.12%
	Return on Average Equity (%) ⁽²³⁾	7.77%	0.46%	17.08%
	Basic EPS (in INR) ⁽²⁴⁾	16.62	1.06	47.47

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

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(7) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

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(22) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard 20.

ESAF Small Finance Bank

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	550	575	700
	AUM (in INR million) ⁽²⁾	84,259.30	123,406.91	163,312.65
	AUM Growth (%) ⁽³⁾	N.A.	46.46%	32.34%
	Deposits (in INR million)	89,994.26	128,150.72	146,656.25
	Deposits Growth (%) ⁽⁴⁾	N.A.	42.40%	14.44%
	CASA Ratio (%) ⁽⁵⁾	19.42%	22.84%	21.39%
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	97.74%	93.71%	90.85%
Capital	Net worth (in INR million) ⁽⁷⁾	13,520.64	14,067.96	17,091.29
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	24.23%	18.64%	19.83%
	Tier 1 Capital Ratio (%) ⁽⁹⁾	21.54%	16.16%	18.12%
	Cost of Deposits (%) ⁽¹⁰⁾	7.54%	6.22%	6.10%
	Cost of Funds (%) ⁽¹¹⁾	7.60%	5.99%	6.02%
Asset Quality	Gross NPA (%) ⁽¹²⁾	6.70%	7.83%	2.49%
	Provision Coverage Ratio (%) ⁽¹³⁾	52.77%	59.38%	56.67%
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	NA	4.84%	0.69%
	Net NPA (%) ⁽¹⁵⁾	3.88%	3.92%	1.13%
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	4,169.84	4918.51	8,937.12
	Net Profit (in INR million)	1,053.96	547.32	3,023.33
	Yield on Advances (%) ⁽¹⁷⁾	20.03%	17.44%	19.81%
	Net Interest Margin (%) ⁽¹⁸⁾	8.45%	7.64%	9.68%
	Credit Cost Ratio (%) ⁽¹⁹⁾	3.75%	4.22%	3.82%
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	5.79%	5.74%	6.49%
	Cost to Income Ratio (%) ⁽²¹⁾	60.31%	63.69%	57.93%
	Return on Average Assets (%) ⁽²²⁾	0.97%	0.36%	1.59%
	Return on Average Equity (%) ⁽²³⁾	8.65%	3.97%	19.41%
	Basic EPS (in INR) ⁽²⁴⁾	2.46	1.22	6.73

(1) Number of banking outlets represents aggregate number of banking outlets (including Business Correspondent run outlets) as of the last day of the relevant year

(2) AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment and inter-bank participation certificates for which the company continues to hold collection responsibilities.

(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(5) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(6) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(7) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(8) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(9) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(10) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(11) Cost of funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(12) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(13) Provision Coverage Ratio (%) - Provision Coverage Ratio represents the ratio of NPA provision including Technical Write off and Gross NPA, including Technical write off.

(14) Restructured book as % of advances represents standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(15) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(16) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(17) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(18) Net Interest Margin represents net interest income for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, represented as a percentage.

(19) Credit Cost Ratio is calculated as the ratio of total provisions and contingencies (excluding provision for tax) to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(20) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(21) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(22) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard 20.

Bandhan Bank

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	5,310	5,639	5,723
	AUM (in INR million) ⁽²⁾	870,430.00	993,380.00	1,091,200.00
	AUM Growth (%) ⁽³⁾	N.A.	14.13%	9.85%
	Deposits (in INR million)	779,722.25	963,306.13	1,080,693.13
	Deposits Growth (%) ⁽⁴⁾	N.A.	23.54%	12.19%
	CASA Ratio (%) ⁽⁵⁾	43.38%	41.61%	39.29%
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	78.79%	77.28%	71.20%
Capital	Net worth (in INR million) ⁽⁷⁾	174,081.84	173,811.45	195,841.53
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	23.47%	20.10%	19.76%
	Tier 1 Capital Ratio (%) ⁽⁹⁾	22.48%	18.89%	18.70%
	Cost of Deposits (%) ⁽¹⁰⁾	5.87%	4.95%	NA
	Cost of Funds (%) ⁽¹¹⁾	5.89%	4.88%	5.34%
Asset Quality	Gross NPA (%) ⁽¹²⁾	6.81%	6.46%	4.87%
	Provision Coverage Ratio (%) ⁽¹³⁾	67.38%	87.23%	76.82%
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	NA	NA	NA
	Net NPA (%) ⁽¹⁵⁾	3.51%	1.66%	1.17%
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	6,855.26	8,013.40	7,091.35
	Net Profit (in INR million)	22,054.57	1,257.94	21,946.38
	Yield on Advances (%) ⁽¹⁷⁾	14.69%	13.88%	13.86%
	Net Interest Margin (%) ⁽¹⁸⁾	7.32%	6.87%	6.29%

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
	Credit Cost Ratio (%) ⁽¹⁹⁾	6.67%	8.98%	4.23%
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	2.73%	2.78%	3.15%
	Cost to Income Ratio (%) ⁽²¹⁾	29.13%	30.54%	39.54%
	Return on Average Assets (%) ⁽²²⁾	2.13%	0.10%	1.49%
	Return on Average Equity (%) ⁽²³⁾	13.53%	0.72%	11.87%
	Basic EPS (in INR) ⁽²⁴⁾	13.70	0.78	13.62

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(6) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(7) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(8) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(9) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

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(11) Cost of funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(12) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(13) Provision Coverage Ratio (%) - Provision Coverage Ratio represents the ratio of NPA provision including Technical Write off and Gross NPA, including Technical write off.

(14) Restructured book as % of advances represents standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

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(16) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

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(22) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard 20.

Credit Access Grameen

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	964	1,164	1,786
	AUM (in INR million) ⁽²⁾	113,410.00	137,320.00	175,610.00
	AUM Growth (%) ⁽³⁾	N.A.	21.08%	27.88%
	Deposits (in INR million)	NM	NM	NM
	Deposits Growth (%) ⁽⁴⁾	NM	NM	NM
	CASA Ratio (%) ⁽⁵⁾	NM	NM	NM
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	NM	NM	NM
Capital	Net worth (in INR million) ⁽⁷⁾	36,340.00	39,398.00	51,069.40
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	31.75%	26.54%	23.58%
	Tier 1 Capital Ratio (%) ⁽⁹⁾	30.50%	25.87%	NA
	Cost of Deposits (%) ⁽¹⁰⁾	NM	NM	NM
	Cost of Funds (%) ⁽¹¹⁾	8.82%	8.18%	8.30%
Asset Quality	Gross NPA (%) ⁽¹²⁾	4.38%	3.12%	1.21%
	Provision Coverage Ratio (%) ⁽¹³⁾	NA	70.55%	71.58%
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	NA	NA	NA
	Net NPA (%) ⁽¹⁵⁾	1.37%	0.94%	0.35%
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	850.00	1,087.40	1,506.41
	Net Profit (in INR million)	1,423.90	3,821.40	8,260.30
	Yield on Advances (%) ⁽¹⁷⁾	19.67%	19.16%	19.39%
	Net Interest Margin (%) ⁽¹⁸⁾	9.80%	9.72%	10.75%
	Credit Cost Ratio (%) ⁽¹⁹⁾	6.85%	4.87%	2.37%
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	3.84%	3.93%	4.23%
	Cost to Income Ratio (%) ⁽²¹⁾	34.57%	35.38%	37.48%
	Return on Average Assets (%) ⁽²²⁾	1.22%	2.78%	4.20%
	Return on Average Equity (%) ⁽²³⁾	4.52%	9.05%	17.81%
	Basic EPS (in INR) ⁽²⁴⁾	9.52	24.54	52.04

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(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

(4) Deposits growth represents the percentage increase in deposits as of the last day of the relevant fiscal year over deposits as of the last day of the previous fiscal year.

(5) CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year, expressed as a percentage

(6) CASA + Retail Term Deposits Ratio represents CASA and retail term deposits (term deposits of less than Rs. 20 million) to total deposits as of the last day of the relevant fiscal year, expressed for the period as a percentage

(7) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(8) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(9) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

(10) Cost of Deposits represents interest expense on deposits for the relevant fiscal year to the average deposits as of the last day of the relevant fiscal year, expressed as a percentage

(11) Cost of funds represents total interest expense for the relevant fiscal year to the average of sum of deposits and borrowings as of the last day of the relevant fiscal year, expressed as a percentage

(12) Gross NPA (%) as reported by the company represents Gross NPAs to gross advances as of the last day of the relevant fiscal year.

(13) Provision Coverage Ratio (%) - Provision Coverage Ratio represents the ratio of NPA provision including Technical Write off and Gross NPA, including Technical write off.

(14) Restructured book as % of advances represents standard restructured book to net advances as of the last day of the relevant fiscal year, expressed as percentage

(15) Net NPA disclosed by the company as of the last day of the relevant fiscal year.

(16) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(17) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

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(22) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard 20.

Spandana Spahoorty

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	1,052	1,120	1,227
	AUM (in INR million) ⁽²⁾	73,284.82	65,810.00	85,110.00
	AUM Growth (%) ⁽³⁾	N.A.	-10.20%	29.33%
	Deposits (in INR million)	NM	NM	NM
	Deposits Growth (%) ⁽⁴⁾	NM	NM	NM
	CASA Ratio (%) ⁽⁵⁾	NM	NM	NM
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	NM	NM	NM
Capital	Net worth (in INR million) ⁽⁷⁾	27,510.97	30,899.45	30,992.48
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	39.20%	50.74%	36.87%
	Tier 1 Capital Ratio (%) ⁽⁹⁾	39.74%	50.55%	NA
	Cost of Deposits (%) ⁽¹⁰⁾	NM	NM	NM
	Cost of Funds (%) ⁽¹¹⁾	10.10%	11.86%	12.86%
Asset Quality	Gross NPA (%) ⁽¹²⁾	5.60%	15.00%	1.95%
	Provision Coverage Ratio (%) ⁽¹³⁾	NA	NA	70.00%
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	NA	NA	NA
	Net NPA (%) ⁽¹⁵⁾	3.10%	6.20%	0.58%
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	848.33	451.24	562.13
	Net Profit (in INR million)	1,454.60	698.27	123.94
	Yield on Advances (%) ⁽¹⁷⁾	22.88%	21.47%	19.24%
	Net Interest Margin (%) ⁽¹⁸⁾	14.73%	12.12%	9.96%
	Credit Cost Ratio (%) ⁽¹⁹⁾	10.83%	7.72%	8.20%

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	3.26%	4.76%	5.55%
	Cost to Income Ratio (%) ⁽²¹⁾	21.63%	38.56%	44.84%
	Return on Average Assets (%) ⁽²²⁾	2.02%	0.91%	0.15%
	Return on Average Equity (%) ⁽²³⁾	5.41%	2.38%	0.40%
	Basic EPS (in INR) ⁽²⁴⁾	22.55	10.75	1.74

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(3) AUM growth represents growth in AUM as of the last day of the relevant fiscal year over AUM as of the last day of the previous fiscal year.

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(7) Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year.

(8) CRAR (%) as of the last day of the relevant fiscal year as reported by the company.

(9) Tier 1 Capital Ratio (%) of the last day as of the last day of the relevant fiscal year as reported by the company.

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(13) Provision Coverage Ratio (%) - Provision Coverage Ratio represents the ratio of NPA provision including Technical Write off and Gross NPA, including Technical write off.

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(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard 20.

Fusion Micro Finance Limited

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
Operations	Banking Outlets ⁽¹⁾	725	934	1,086

Certain Key GAAP Measures and Key Performance Indicators (KPIs)		FY21	FY22	FY23
	AUM (in INR million) ⁽²⁾	46,378.40	67,859.70	92,960.00
	AUM Growth (%) ⁽³⁾	N.A.	46.32%	36.99%
	Deposits (in INR million)	NM	NM	NM
	Deposits Growth (%) ⁽⁴⁾	NM	NM	NM
	CASA Ratio (%) ⁽⁵⁾	NM	NM	NM
	CASA + Retail Term Deposits Ratio (as percentage of total deposits) ⁽⁶⁾	NM	NM	NM
Capital	Net worth (in INR million) ⁽⁷⁾	12,463.55	13,379.51	23,219.19
	Total Capital Ratio (CRAR) (%) ⁽⁸⁾	27.26%	21.94%	27.94%
	Tier 1 Capital Ratio (%) ⁽⁹⁾	25.52%	19.93%	NA
	Cost of Deposits (%) ⁽¹⁰⁾	NM	NM	NM
	Cost of Funds (%) ⁽¹¹⁾	10.29%	9.83%	10.24%
Asset Quality	Gross NPA (%) ⁽¹²⁾	5.50%	5.71%	3.46%
	Provision Coverage Ratio (%) ⁽¹³⁾	NA	71.26%	75.50%
	Restructured Book as % of Advances (%) ⁽¹⁴⁾	NA	NA	0.20%
	Net NPA (%) ⁽¹⁵⁾	2.20%	1.71%	0.87%
Profitability	Pre-Provision Operating Profit (PPOP) ⁽¹⁶⁾	277.57	393.25	712.35
	Net Profit (in INR million)	439.44	217.55	3,871.45
	Yield on Advances (%) ⁽¹⁷⁾	21.48%	20.56%	22.92%
	Net Interest Margin (%) ⁽¹⁸⁾	9.54%	8.66%	11.50%
	Credit Cost Ratio (%) ⁽¹⁹⁾	5.73%	7.17%	2.87%
	Operating Expenses to Average Total Assets (%) ⁽²⁰⁾	4.37%	4.75%	5.34%
	Cost to Income Ratio (%) ⁽²¹⁾	44.26%	44.26%	38.44%
	Return on Average Assets (%) ⁽²²⁾	0.87%	0.33%	4.65%
	Return on Average Equity (%) ⁽²³⁾	3.60%	1.68%	21.16%
	Basic EPS (in INR) ⁽²⁴⁾	5.56	2.67	43.29

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(16) Pre-Provision Operating Profit represents difference of total income and expenses including interest expense and operating expenses for the period

(17) Yield on Advances represents the ratio of interest income on loan assets for the relevant fiscal year to the average net advances as of the last day of the relevant fiscal year, expressed as a percentage.

(18) Net Interest Margin represents net interest income for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, represented as a percentage.

(19) Credit Cost Ratio is calculated as the ratio of total provisions and contingencies (excluding provision for tax) to the company's average net advances for the relevant fiscal year, expressed as a percentage.

(20) Operating Expenses to Average Total Assets represents operating expenses for the relevant fiscal year to the Average Total Assets for the relevant fiscal year, expressed as a percentage.

(21) Cost to Income Ratio represents operating expenses for the relevant fiscal year to the sum of Net Interest Income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage.

(22) Return on Average Assets is calculated as the net profit for the relevant fiscal year to Average Total Assets for the relevant fiscal year, expressed as a percentage.

(23) Return on Average Equity is calculated as the net profit for the relevant fiscal year to Average Net Worth for the relevant fiscal year, expressed as a percentage.

(24) Basic EPS: Basic EPS as reported by the company represents EPS as computed in accordance with Indian Accounting Standard 20.

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