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A HELPING HAND

by Sumant Banerji March 4, 2017

Every Saturday morning, scores of young men-mostly graduates-through the main office of Utkarsh Micro Finance in the heart of Varanasi. Many travel from towns and villages nearly 100 kilometers away for the weekly round of direct walk-in interviews at the barely seven-year old microfinance company. The selected young men are trained to be loan evaluators - those who identify people in need of a loan and have a viable business case to repay later. Despite the low entry barrier, a fresher can earn Rs12,000 a month with incentives.

UTKARSH MICROFINANCE LTD

The microfinance company hopes to scale up and list on the bourses in another four to five years

TOTAL INCOME GROWTH

119.8%

PAT GROWTH

127.1%

NETWORTH GROWTH

87.3%

NET PROFIT MARGIN

13.2%

ROCE

12.0

An indicator of unemployment levels in Uttar Pradesh is that last year, the state government received 23 lakh applications - including 150,000 graduates, 25,000 post graduates and 250 doctorates - for 368 posts of peons in the secretariat. Utkarsh's core business is providing loans to small entrepreneurs left untouched by formal banking systems. It caters to people who have credit needs of between Rs 6,000 to Rs 3 lakh and, ironically, are deemed too big for microfinance firms or too small for a bank. Utkarsh addresses those that fall under this blind spot. With a client base of 1.2 million, 371 branches across 10 states and a loan portfolio of more than Rs 1,700 crore, it is now one of the bigger non banking financial companies in India.

Humble Origin

The genesis of the company can be traced back to its founder Govind Singh's humble origins. Singh-with stints at ICICI Bank, State Bank of India, Axis Bank and Bank Internasional of Indonesia-is from a village 40 kilometres from Corbett National Park. His long career in banking, coupled with the urge to do something of his own led to the formation of the company.

"I always wanted to do something of my own. In 1983,

12.8%

All numbers are three-year averages with 2014/15 as the latest financial year. Standalone numbers. Source: Ace Equity

when I was a first year student at Kirori Mal College in Delhi, I sold fire crackers on the footpath of Chandni Chowk for four days and earned Rs400," says Singh. "The two things that attracted me was the viability of the business and the social aspect of offering loans to those who are outside the ambit of formal banking." In the

second half of 2009, Utkarsh came into existence with four branches in Varanasi.

Soon after Utkarsh was set up, the microfinance industry faced trouble. Suddenly, it was not an exciting business, yet Utkarsh survived because it was small. "Then, our loan portfolio was close to Rs32 crore and we had 49 branches. What helped us was that we were not very big. If we had a portfolio of say Rs100 crore or more, it would have been difficult to hold on to that level and the fall in disbursements may have been demotivating," says Singh. "Also, fortunately, we had broken even in 11 months. So month-on-month we were not into losses." Utkarsh used the opportunity to review and fine tune processes. "Our process is our greatest strength. We have never cut anybody's incentive and have never pressurised employees for fresh business."

The lull did not last long. From April 2011, money began flowing into the sector and things started looking up. In June 2011, Utkarsh had an equity round and since then it has always registered a steady growth month-on-month.



Social upliftment

Phoolpatti Devi, 32, living on the outskirts of Varanasi first took a Rs10,000 loan from Utkarsh a few years back to open a ration shop and to help her husband in his fast food business. The loan, the domestic help claims, helped raise the daily income of the combined family nearly five-fold. After repaying the loan, she has taken

up another loan of Rs12,000 for further expanding her business. The most obvious sign of her growing prosperity are her kids who now attend a local convent school, instead of a government school that they used to attend three years back. "We have policy of not giving additional loans to the same person unless the previous loan is fully repaid. A large number of clients have come in for second and even third round of funding," Singh says. "We are very careful with high ticket sizes. Those are not the kind of people we want as clients. The rate of interest has also come down from 31 to 24 per cent."

Full-fledged banking beckons

On September 15, 2015, the Reserve Bank of India granted an in-principle license for small finance bank to Utkarsh Micro Finance paving the way for Singh to realise his dream of having a full-fledged bank of his own. The license would enable Utkarsh to tap into public deposit funds while giving it freedom to offer more products to customers including housing loans and insurance. "A banker's dream is to build a full fledged bank. As an MFI (micro finance institution) you can definitely do something but if you want to cater to the entire universe then you need a banking license," says Singh. "The license will ensure we will have a broad based-product, services and client base. But our geographical base will largely be the same-eastern UP and Bihar."

But with inside knowledge of the system, the enormity and complexity of the looming challenge is not lost on Singh. Opening even a small bank is hugely capital intensive. While a microfinance branch can be opened up with a capital outlay of just Rs60-65,000, a bank branch would require at least Rs30-50 lakh. Utkarsh also needed to reorganise its investors shareholding to comply with the cap of 49 per cent for foreign investors in a private sector bank. It recently raised Rs395 crore from institutional investors including HDFC Standard Life Insurance Co. Ltd, HDFC Ergo General Insurance Co. Ltd and ICICI Prudential Life Insurance Co. Ltd. Subsequently, share of its domestic investors rose to 51.5 per cent. With a corpus of around Rs650 crore, Singh says Utkarsh has enough funds.

"The requirement was to increase the number of domestic investors. So we have got the RBI approval for investment from the new investors," Singh says. "Bringing in investors has never been a problem. In fact in the past we have said no to some investors because we were not convinced that our thoughts matched on social sector lending." While the company was gearing up for its banking stint, it was not prepared for the demonetisation exercise initiated by the government on November 8. The microfinance sector operates almost entirely on cash and its clientele is typically one that is impacted most by any cash crunch. The impact on Utkarsh's core microfinance business was also severe but it did not let that impact its banking foray. The company launched its first five bank branches under the name Utkarsh Small Finance Bank in the last week of January. By April 2018, it plans to add another 134 branches and 150 ATMs. "Within the next 4-5 years, we would have scaled enough to merit an IPO," he sums up.

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