

Proposed small finance banks opt for holding firm structure to meet RBI norms

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As the proposed small finance banks (SFBs) inch towards the deadline for launch, a number of them are opting for a holding company structure, in which the bank would be the subsidiary of their microfinance institution (MFI) or the holding company.

The route will help them meet the Reserve Bank of India (RBI) requirement of a minimum 40 per cent promoter and 51 per cent domestic holding in the proposed bank, among other things.

According to the present RBI norms, the promoter's minimum initial contribution to the paid-up equity share capital of an SFB shall be at least 40 per cent, locked-in for a period of five years from the date of commencement. Also, since in most cases the original promoters have very little shareholding in the MFIs, it is not possible for them to raise their equity to 51 per cent without substantial investment. Hence, with the holding company as the promoter of the bank, the twin regulations are met.

Kerala-based ESAF Microfinance will have the MFI entity as its holding company or the core investment company for the bank. Thus,



According to the RBI norms, the promoter's minimum initial contribution to the paid-up equity share capital of an SFB shall be at least 40%

effectively, the microfinance entity would be the promoting company of the bank, said K Paul Thomas, chairman and managing director, ESAF Microfinance.

Another proposed SFB, Disha Microfinance, will also have Fincare Business Services as the holding company for the proposed bank. At present, Fincare Business Services is the central holding company operating a clutch of businesses including the

microfinance venture, Disha.

Ujjivan decided on an initial public offering (IPO), through a holding company, Ujjivan Financial Services. Essentially, the latter would be a listed arm, acting as holding entity for the proposed bank. Thus, the proposed bank would also be a subsidiary of Ujjivan Financial Services.

"The holding company structure will help the banks meet two RBI norms: Forty per cent promoter's shareholding and 51 per cent domestic shareholding. In case of Ujjivan, there is no dilution of shareholding in the banking entity, as it will be 100 per cent owned by the holding company, which will be a listed arm," said Rajat Singh, head of strategy and planning, Ujjivan.

Notably, RBI norms also require that an SFB be listed within three years, once it reaches a net worth of ₹500 crore. However, one issue with the SFBs which got listed recently to raise funds is that their banking arm would have to be listed separately at a later date. To avoid this, Ujjivan, which recently got listed, will explore the option of a reverse merger. Under the reverse merger proposed, Ujjivan Financial Services and its subsidiary, the proposed bank, could be merged. Samit Ghosh, founder, Ujjivan had said earlier. Thus, the bank would not be required to be listed separately at a later date.