

A safe option for higher returns

Small finance banks offer far more attractive rates than traditional banks

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Deposit rates have been moving up over the past year. But rates offered by most traditional banks are still not as attractive as those offered by NBFCs (non-bank financial companies) or by select non-convertible debentures (NCDs).

But these options carry a higher risk than good old bank deposits.

The ongoing turmoil owing to the IL&FS crisis and the recent concerns over Dewan Housing Finance (DHFL) have only left investors in the fixed-income category more anxious.

Small finance banks (SFBs) that offer far more attractive rates than traditional banks, offer just the solution. Deposits in these new-format banks are also as safe as those in the other banks.

Aside from deposits in all public sector, private, local area and regional rural banks, SFBs and payments banks, too, are now

covered by the Deposit Insurance and Credit Guarantee Corporation of India (DICGC). Each depositor is insured up to ₹1 lakh for both principal and interest.

Suryoday Small Finance Bank, which offers 9 per cent on deposits with a special tenure of 950 days and 8.75 per cent on two to three-year deposits, is a good option for investors.

Attractive option

The RBI in its recent policy, cut its key policy rate in a surprise move. While this may not immediately trigger across-the-board cuts in deposit rates, it has opened up the possibility of deposit rates moderating in the coming months.

For investors, thus, locking into a two to three-year deposit makes sense as it mitigates the uncertainty over reinvestment risk in the near term; yet the tenure is short enough to cash in on any rate hikes two years or so hence.

The best rates offered by most



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traditional banks in the two to three-year tenure hover in the 7.5-7.75 per cent range (8-8.05 per cent by a handful). As against this, SFBs offer far higher rates as raking in deposits is imperative for them to grow and improve profitability. In the two to three-year bucket, many SFBs offer 8.5-9 per cent, nearly one percentage point more than most conventional banks.

Suryoday Small Finance Bank offers an attractive 9 per cent for a 950-day deposit. If you are will-

ing to park away some money, locking into a specific tenure deposit can work well. If you need more flexibility, even the bank's two to three-year deposit that offers 8.75 per cent is a good deal.

The minimum amount for an FD in the bank is ₹1,000. If regular payout is not your priority, opt for the cumulative option to make the most of compounding.

On premature withdrawal, the rate will be 1 per cent less than the one normally applicable.

However, there could be some

operational hitches, given the limited network of SFBs. Suryoday has bank branches in five States — Maharashtra, Gujarat, Madhya Pradesh, Tamil Nadu and Odisha — and Puducherry. In these States and Union Territory (In most of the cities) customers can call for door-delivery services, where a person comes and collects required documents to help open an FD.

About the company

Commencing banking operations in January 2017, Suryoday Small Finance Bank faced a rise in delinquencies post-demonetisation in FY17 and FY18.

This impacted the bank's profitability in the two fiscals. However, the delinquencies for loans disbursed from January 2017 has fallen substantially. After peaking at 6 per cent in FY17, GNPA's have come down to 3 per cent levels as of September 2018.

Loan growth, too, has shown a strong comeback at 83 per cent in FY18. As of FY18, the bank has garnered over ₹800 crore of deposits, of which current and savings account deposits constitute 11 per cent.



Features

- 9% on 950-day deposit
- 8.75% on two to three-year deposit
- Minimum investment of ₹1,000

Where it stands

As of FY18, Suryoday Small Finance Bank has garnered over ₹800 crore of deposits, of which current and savings account deposits constitute 11%