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A Study on Financial Performance of Small Finance Banks

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Abstract: *Small Finance Banks are a new entrant into the Indian banking system with a differentiated focus on financial inclusion. A preliminary assessment of these banks brings out a rapid growth in their branches and asset base marked by a healthy asset quality and high return on assets. These bank shave been reasonably successful in reaching out to under-served sectors. The study aims at the annual report of the 3 companies (Au small finance bank, Equities finance bank and Ujjivan small finance bank) from 2018 – 2022. The annual reports were extracted from the parent website of the companies itself, after IPO have been issued. To identify financial performance of these banks. The findings of study is good and efficient financial performance needs suggestion like A consistent high ratio is needed for the revenue and operation for getting converted to cash, The depreciation rate is to be modified to manipulate the earnings other ways volatility of the same flagg off risks, Expenses must be written off directly from the balance sheet instead of being routed through profit loss statement this helps in inflating the profit, A high yield depicts proper statement of cash and equivalents. A low ratio is needed to display sub stained capes, The cash generated by the business must be siphoned off to check whether reported earnings or revenue are believable, Faster growth in auditors remuneration with regard to companies operation must raise concerns surrounding auditor"s objectivity. all this prospects are intact and give rise to a good and efficient financial performance of these banks. Based on this study on financial performance we come to conclusion that all this banks perform financially well.*

Keywords: Financial performance of small finance bank

I. INTRODUCTION

Banks play a significant role in the economic development of our country. Thus the significance of commercial banks in the growth of economic development has been mentioned frequently by economic thinkers and policy creators of the country. Commercial banks played a vital role in the growth of Indian economy and considered as the life blood of the financial structure. Banks offer several non-retail and retail services to improve the standard of living of the people. In the past, due to lack of information andproper guidance, the general public could not gain the full benefits of financial services from the banking industries to improve their standard of living. It is now clear that the face of the Indian consumer is changing. This is reflected in the change of income patternof the urban family. The change will be the consumption patterns and thus the banking habits of Indians which will now be tilted towards financial services.

The changes after globalization and liberalization process had a profound and significant impact on the financial system, particularly on the banking sector. The fast changes had fundamentally and audibly changed the operational environment of thebanking sector and their services. “It is rightly said that change is the only constant factorin an offer to develop sound and proficient banking system in India at par with international banking standards and practices”. After significant and extended years of regulated environment, although in a slow and phased manner the challenges and pressures of the perfect environment have been deep. Public sector banks, which were measured well-built and commercial, have now started symbols of infirmities. No longer can these banks take for granted their business shares or profitability as ceteris paribus, asalso the reliability of their customer base. After liberalization the information technology revolution is completely change the banking business, and has significantly widened the range

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of products and also increased the prospect and demands of customers. Post nationalization, the focus was on social banking.

1.1 STATEMENT OF THE PROBLEM

SFBs will face stiff competition as the number and types of players in the financial services space expands. They will also have to overcome specific challenges as they transform from their current profile of MFIs to the SFBs. MFIs/NBFCs in India are based on a business model driven by credit. Some of the challenges faced by SFBs are

1. High Costs of Transformation: SFBs will have to bear the incremental cost of infrastructure, human resources and organizational transformation. Some of the areas which might entail high costs are: Upgrade of MIS and loan origination systems to a core banking solution, establishing risk management and treasury functions, developing savings products, managing the transformation from a credit only institution to a diversified financial institution, hiring new staff, training and optimum utilisation of existing staff and other infrastructure costs. This will add to the recurring and fixed costs and based on historical evidence from market sources, such wide ranging changes will have a break even period of 3-5 years.

2. Efforts and Cost of Deposit Mobilization: SFBs have no prior experience of deposits handling as majority of them were functioning as MFIs. There are two facets of the challenge posed in this domain. Firstly they will have to compete with established public sector and regional rural banks. These banks enjoy higher trust in the community, are well placed in the rural markets, and are aggressively trying to enhance their market share. Their existing infrastructure, reputation, business correspondent network, and expertise in deposit mobilization will be a threat for SFBs. Secondly, the cost of deposit mobilization will be higher for SFBs considering the rural segment they will be catering to and historically in the past, these segments have had low average deposit sizes. They will need to invest in the infrastructure that enables them to mobilize deposits through establishing a physical branch network, business correspondent network, ATM network, and strategic partnership with banks. Given the non-existent track record in mobilizing deposits, it could be difficult to inspire the trust and confidence among consumers required to attract deposits. Since their competitors are existing banks with a track record of handling customers‘ deposits, SFBs will have to creative in developing strategies in order to mobilize deposits. There should be a healthy mix of current accounts and savings accounts in any Banks portfolio, as they are low cost funds that increase the net interest margin. In case of SFBs, considering the target segment served, it is expected that majority of the deposit mobilization will be through savings accounts and term deposits. It will take at least 3-4 years before which SFB can increase deposits to a level where the cost of deposit mobilization reduces to become a low-cost, sustainable source of fund for SFBs.

3. Competition: Competition will be fierce as SFBs will be facing competition from existing banks and non-bank financial companies (NBFCs) who may be looking to extend their reach to serve the unbanked and under banked, especially in semi-urban and rural areas. Some existing banks are relying on their brand along with technology to enter into semi-urban and rural areas to fill the gap. SFBs will have to rise to the challenge of differentiating themselves from the other players in this changing landscape.

They will also be competing with the MUDRA, a government initiative launched in September, 2015 that targets the loan segment for up to Rs 10 lakhs. While SFBs are permitted to disburse loans up to Rs 25 lakhs, they may not start out by disbursing loans of this size.

4. Controlling NPAs: The challenge for SFBs would be to control NPAs as an unfavourable monsoon would have an adverse impact on farm loans. Similarly, any slowdown in the industrial sector will impact the small and medium-sized enterprises (SMEs), which will face liquidity crunch. Therefore, on both these counts, they would be at a disadvantage compared to the commercial banking system. Banks are able to diversify their portfolio by lending to all sectors which includes retail, services and manufacturing, while these banks would be left with dealing with the smaller ones only.

5. Adoption of Technology: Use of technology can substantially cut down the operational costs for SFBs, however these banks do not have the required capital to invest in technology. The lack of capital often results in the use of low-cost and locally developed solutions which do not conform to the industry best practices. This results in greater operational challenges, impacts adoption, and leads to an increase in manual intervention in processes, thus impacting both efficiency and cost. Further, since SFBs are concentrated in rural and semirural areas, technology adoption remains a challenge due to infrastructural issues like lack of electricity and broadband connectivity. The commercial banks target higher use of internet and phone banking by their clients to reduce the costs of branch-based services. In case of SFBs, their target clientele does not yet have the awareness and infrastructure to use such channels. Thus, SFBs will have to rely more on traditional branches to service their customers while also focusing on innovative channels such as mobile money and point-of sales devices.

1.2 OBJECTIVES OF STUDY

1. To identify the financial services offered by Small Finance Banks in India.
2. To study the impact of capital structure on the financial performance of Small Finance Banks.
3. To analyze the customer's perspective towards Small Finance Banks.
4. To evaluate the satisfaction of customers on Small Finance Banks in India.

1.3 RESEARCH METHODOLOGY

The research which methodology involves a systematic and structured approach to collect , analyse and interpret data for the purpose of answering research questions or testing hypotheses.

DATA SOURCES

The validity of research depends on the systematic method of collecting data and analyzing the same in a sequential order. Both secondary data collected for this study. The first Phase of the study is to analyse the impact of capital Structure on the Financial Performance of Small Finance Banks in India. Methodology had been adopted to induce the objectives, which mainly analyse the level of the performance of the banks.

The second Phase of the study is to analyse the Customer's perspective and level of satisfaction towards Small Finance Banks in India. In order to fulfil the objectives, a sample study was undertaken by using a well framed Questionnaire. Besides, discussion has been made with the officials of the banks to collect data. Primary data has been collected from respondents having their accounts in different Small Finance Banks in India by filling up well-structured questionnaire through personal meeting with respondents. To measure the financial performance the data collected from the audited financial reports.

SAMPLING DISTRIBUTION

S. No.	Name of Small Finance Bank	Number of Branches in India
1	ESAF Small Finance Bank	644
2	Equitas Small Finance Bank	860
3	Ujjivan Small Finance Bank	575
4	Jana Small Finance Bank	607
5	Fincare Small Finance Bank	919
6	Suryoday Small Finance Bank	31
Total		**3636**

1.4 SCOPE OF THE STUDY

There are a lot of changes happening in all the sectors of our economy, especially financial sector. Recently Central Government and RBI have sanctioned opening up of new forms of financial institutions such as Payment Banks and Small Finance Banks.The main aim of served by these banks are towards small and marginal farmers, micro and small business units, and unorganized sector firms. Small Finance Banks are the one of the new initiative by the RBI in order to provide the financial assistance to the underserved people of the community. This will leads to the financial inclusion which ultimately directs to the economical development of the country. The Indian economy has grown manifold in the last few decades and there has been progressive liberalization and globalization of the economy.

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But there is still a huge chunk of population that remains unbanked or informally banked. An inclusive development and growth of the economy requires the extension of financial services to all sections of the society.

1.5 NEED FOR THE STUDY

Banks play a vital role in the economic progress of a country. In this modern scenario, banking sector plays a vital role among the various services sectors. Their ability make a positive contribution in igniting a process of growth depends largely on the way the banking policies are pursued and the banking structure is resolved. Especially, in India, after the globalization era, a excess of banks entered the Indian markets. Though the hands of private banking sectors are dominated by providing competitive services, the role of public sector banks are inevitable in India. Customer satisfaction is the core of banking sectors. In today's world where innovative financial services are being offered, the roles of Small Finance Banks are highly essential for the potential growth.

Hence, it generates interest for bankers and curiosity for researchers. The new concept of bank marketing assigned due weight age to customer's satisfaction. In a proper sense, the feature of changed concept aimed at having a full view of customer's needs, fulfilling the identified needs in the best possible manner by necessary services, discovery of potential customers and conducting the activities at the branches on the basis of market segmentation.

II. REVIEW OF THE LITERATURE

(JASIR, 2022) The study on A Study on financial analysis of small Finance Banks, small finance are a new entrant into the Indian banking system with a differentiated focus on financial inclusion. A preliminary assessment of these banks brings out a rapid growth in their branches and asset base marked by a healthy asset quality and high return on assets. These banks have been reasonably successful in reaching out to under-served sectors. The small finance banks (SFBs) are likely to register a marginal improvement in the growth rate of their assets under management (AUM) in financial year 2021-22(FY22) to 20 per cent from 18 per cent growth witnessed in FY21, this growth rate will still be lower than the compound annual growth rate (CAGR) of around 30 per cent during FY16-FY20.

(Ray, 2021) The study on Financial analysis of small finance banks in India through CAMEL rating Banking performance is assessed by implementing a regulatory banking supervision framework. CAMEL rating system is used to evaluate the overall performance of the banks and to determine their strengths and weaknesses. Small finance banks are a result of RBI's efforts to promote niche banking. These are the financial institutions which provide basic banking service of acceptance of deposits and lending. The aim behind these to provide financial inclusion to sections of the economy such as small business units, small and marginal farmers, micro and small industries and unorganised sector entities which are not being served by other banks in unbanked and under-banked regions.

(Paramasivan, 2021) The study Impact of Capital structure on financial performance ,The purpose of this research is to look into the effect of financial leverage on the financial performance of small Indian banks. Return on assets and return on equity are the dependent variables in this research. The independent variables in this study are debt ratio, debt to equity ratio, interest coverage ratio, and cash coverage ratio. From 2017 through 2021, a sample of six small financial banks was used. Secondary data is the type of information that is utilised.

(Sharma, 2021) Study on Small Finance Banks in Order to Attain Financial Inclusion in India, In India there are several private and public sector banks at providing their innovative financial services to their customers. In spite of that there are so many people are excluded from the financial inclusion especially rural people, labours and other financially weaker section of the society.

III. FINDINGS OF STUDY

The trend purchases from 2018-2021.In the Equitas shows that list of trends 156 in the year 2022, followed by Ujjivan shows that list of trends 337 in the year 2022, Suryody shows that list of trends 661 in the year 2022 and AU small finance shows that list of trends 502 in the year 2022.

The trend reserve & surplus from 2018-2021.In the Equitas shows that list of trends 124 in the year 2022, followed by Ujjivan shows that list of trends 362 in the year 2022, Suryody shows that list of trends 297 in the year 2022 and AU small finance shows that list of trends 232 in the year 2022.

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The trend loans & advance from 2018-2021.In the Equitas shows that list of trends 312 in the year 2022, followed by Ujjivan shows that list of trends 346 in the year 2022, Suryody shows that list of trends 175 in the year 2022 and AU small finance shows that list of trends 349in the year 2022.

IV. SUGGETIONS

- A consistent high ratio is needed for the revenue and operation for gettingconverted to cash.
- The depreciation rate is to be modified to manipulate the earnings other ways volatility of the same flagg off risks.
- Expenses must be written off directly from the balance sheet instead of being routed through profit loss statementthis helps in inflating the profit.
- A high yield depicts proper statement of cash and equivalents.
- A low ratio is needed to display sub stained capex.

V. CONCLUSION

Small Finance Banks are a new entrant into the Indian banking system with a differentiated focus on financial inclusion.This study on the financial performance of financial institution named Au small finance bank,Suryoday Small Finance Bank, Equities finance bank and Ujjivan small finance bank. The secondary data will be collected with the help of annual reports of the listed companies after IPO issuing.

In this study, A good and efficient financial performance needs suggestion like A consistent high ratio is needed for the revenue and operation for getting converted to cash, The depreciation rate is to be modified to manipulate the earnings other ways volatility of the same flagg off risks, Expenses must be written off directly from the balance sheet instead of being routed through profit loss statement this helps in inflating the profit, A high yield depicts proper statement of cash and equivalents. A low ratio is needed to display sub stained capex, The cash generated by the business must be siphoned off to check whether reported earnings or revenue are believable and Faster growth in auditors remuneration with regard to companies operation must raise concerns surrounding auditor"s objectiv it.

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