



A STUDY ON SMALL FINANCE BANKS IN INDIA

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ABSTRACT

Profitability is the key parameter in banking sector which would reflect the efficient management of finance, human resource and other resources. The Small Finance Banks (SFBs) are newly introduced in order to uplift the rural and under-served sections. The small finance banks are facing more challenges such as high cost of transformation, controlling non-performing assets, prudential norms, technology changes, increase pressure on profitability, competition with other banks in the economy. Hence, the present study examines the overall profitability and performance of selected Small Finance Banks in India. This study is undertaken to examine the financial performance of small finance bank in the Indian economy and to forecast the financial trend for future period.

Keywords: *Small Finance Banks; Financial performance; Financial Trend*

I. INTRODUCTION

Small Finance Banks is a specific or niche segment of banking created by Reserve Bank of India under the guidance of Government of India. It will provide banking facilities to boost saving habits among rural people. It can offer basic banking services, accept deposits and lend to underserved sections of customers, including small business units, small and marginal farmers, micro and small industries, and entities in unorganized sector.

Niti-Ayog set up a committee under the Chairmanship of Dr. Raghuram Rajan for Financial Sector Reforms, in which committee proposed setting up of Small Finance Banks to deepen the financial services to small and marginal farmers, low-income households, small business, and other un-organized sectors. The Reserve Bank of India (RBI) released guidelines on 27th November 2014 for establishment of small finance banks. On 17th September 2015, the Reserve Bank of India had given license to ten entities who would have to convert into small finance banks within one year. Capital Small Finance Bank is the first small finance bank to begin operations, opening with 47 branches on 24th April 2016.

At present there are 12 small finance banks operating in India with a primary objective to provide financial services to micro-enterprises, unorganized entities, low-income households in rural and semi-urban areas through high technology-low-cost operations. The scope of small finance banks includes providing

banking services, microfinance, priority sector lending, technology-driven operations, mutual fund distribution, retail banking, corporate banking, promotion of self-help groups and contributing to community development.

II. LITERATURE REVIEW

Dr. Nandhini & Dr. V. Rathnamani (2021) in their study has analyzed the various parameters in the operation of small finance banks. The study was undertaken to know the importance of small finance banks by doing a comparative study of SFBs with other commercial banks. The researcher has compared Equitas SFB with a nationalised & a private sector banks in Tamil Nadu. **Kumud Khatri (2020)** in her study has analyzed the present relevance of SFBs, its importance in boosting financial inclusion. The objectives of the study is to compare the benefits of SFBs with working financial institutions and to analyze the further scope of SFBs in catering the perspective of financial inclusion and financial intermediation. **Kittu R.S Dec (2019)** in has studied the guidelines through which RBI has licensed these banks. This study was undertaken to know the impact of small finance banks on financial inclusion. The aim of this study is to examine the effect of SFB. It was found that small finance bank provides a steady supply of financial services to priority sector. It was suggested that SFBs have to follow low-cost operation system based on latest technological tools, provide adequate training to interested rural people to develop their business more effectively. The researcher concluded that SFBs have play an important role in the economy as well as the status of rural population. **P. Dhanya & Dr. P.B. Banudevi (2019)** has studied about the threats and challenges of small finance banks in the light of transforming economic landscape of the country. The objective of the study is to identify the role of SFB and to analyze the threats and challenges faced by SFB. It was found that the major important challenges faced by SFBs are high cost of transformation of resources, cost of mobilizing the deposits of SFB and controlling of NPAs. They are in stiff competition with commercial banks and NBFC'S. **T. Ravikumar (2019)** has studied about the evolution and their performance of SFBs in India. On analyzing the penetration and the performance of small finance banks it was at a satisfactory level with a minimum level of profit. Further, it was concluded that SFBs significantly promote financial inclusion in Indian by establishing almost 95% of their branches in rural & semi-urban areas and serve all kind of people. **Lakshminarayana S (2019)** in his study has studied the policies of Ujjivan small finance banks and analyzed the basic financials. It was found that Ujjivan bank has a consistent debt equity ratio which indicated a effective utilization mix of both internal and external funds. It was analyzed that the net worth needs to be maintained with a sound lending and selective lending approach as there was fluctuating trend. It was suggested that the bank should have a consistent performance with a strengthening credit history and ranking system. **Kittu R.S, Dr. Mahananda (2018)** has studied about the impact of small finance banks on financial inclusion. The main objective of the study is to know the financial performance of selected SFB. The researcher concluded the study that in order to tap the unmet demand for financial services there is a need for new types of institution for the financial inclusion. **Ms. M Ganga, Mr. P. Kalaiselvan, Ms. R. Suriya (2015)** has analyzed the overall financial performance of the company, the relationship existing between current asset & current

liability ratio and to know the financial trend. The study suggested that the SFBs should maintain an optimum level of cash & bank balance & firm should concentrate to increase its sales to earn profit.

III. RESEARCH METHODOLOGY

SCOPE OF THE STUDY

Small Finance Banks are established in India primarily to provide financial services to the unserved and underserved sections of the population, to supply credit to small and micro business and other unorganized sectors through high technology and low-cost operations. The study is undertaken to analyze the financial performance of the working of small finance banks and to anticipate the financial trend for future period.

OBJECTIVES

The main objective of the study is to compare the financial performance of Ujjivan and Equitas Small Finance Banks. Specific objectives are as follows:

1. To analyze the financial performance of Equitas & Ujjivan Small Finance Banks
2. To examine the operating efficiency of both the banks.
3. To study the growth prospect of both the banks in future and to suggest measures for development.

SOURCES OF DATA COLLECTION

The study is undertaken using secondary source of information obtained from annual report of Equitas small finance banks and Ujjivan small finance banks for the year 2020-2021. Further, information's are obtained from the official websites of the banks.

SAMPLE SIZE & PERIOD OF STUDY

Sample Size – Equitas and Ujjivan Small Finance Banks are the best and top performing among small finance banks in India. The financial performance of these two banks is analyzed and the financial trend for future period are estimated.

The period of study is undertaken for a period of one year. Financial statements of Ujjivan and Equitas Small Finance Banks are analysed for the year 2020-2021.

TOOLS FOR DATA ANALYSIS

1. Common size financial statement analysis – To compare the financial position of Equitas & Ujjivan during the year 2020-21.
2. CAMEL Model – To appraise the operating efficiency of Equitas and Ujjivan CAMEL Model ratios were constructed.
3. Trend Analysis – To evaluate and estimate the growth of both the banks in future.

LIMITATIONS OF THE STUDY

The study suffers the following limitations:

1. It is only covering two small finance banks i.e., Ujjivan & Equitas bank.
2. The study is restricted for a period of two years.
3. The present study is based on the secondary data which has its own limitations.

IV. ANALYSIS AND FINDINGS

[A] Comparative Financial Performance Analysis of Equitas and Ujjivan Small Finance Bank

Table – 1: Statement showing Comparative Income Statement of Equitas and Ujjivan Small Finance Bank

Particulars	Equitas Small Finance Bank		Ujjivan Small Finance Bank	
	Amount (Rs.)	%	Amount (Rs.)	%
Interest Earned	3,19,44,132	100.00	2,80,60,656	100.00
[-] Interest Expended	1,39,64,529	43.72	1,07,75,140	38.40
Net Income	17979603	56.28	17285516	61.60
[+] Other income	41,80,547	13.09	31,08,206	11.08
Total Net Income	22160150	69.37	20393722	72.68
[-] Operating and Financial Expenses:				
Employee Benefit Expenses	79,14,496	24.78	74,87,805	26.68
Establishment Expenses	30,48,872	9.54	22,76,712	8.11
Financial Expenses	8,04,294	2.52	-	-
Depreciation	7,64,332	2.39	7,68,006	2.74
Management Expenses	33,621	0.11	22,905	0.08
Other Expenses	7,28,671	2.28	17,45,342	6.22
Provisions & Contingencies	50,23,632	15.73	80,09,983	28.55
Total Expenses	3,22,82,447	57.34	3,10,85,893	72.38
Net Profit	38,42,232	12.03	82,969	0.30

(Source: Annual Report of Equitas and Ujjivan Small Finance Banks)

- ❖ From the above income statement of Equitas & Ujjivan SFBs it is found that the total net income of Equitas and Ujjivan bank is 63.37% and 72.68% during the year 2020-21. This exhibits that Ujjivan bank is performing better in generating interest income and manages interest payment well when compared to Equitas bank.
- ❖ On analyzing the operating and financial expenses, it is found that Equitas bank (57.34%) manages its expenses well when compared to Ujjivan bank (72.38%). It is suggested that Ujjivan bank should take effective measures to curtail its expenditure with respect to employee benefit expenses, other expenses, provisions and contingencies.
- ❖ The level of profit of Ujjivan bank (0.30%) is comparatively very less to Equitas bank (12.03%) in spite of increased net total income, it is due to increase in operating expenses.
- ❖ Thus, it is suggested that Ujjivan bank should take effective measures to reduce its operating expenses in order to earn more profit in the future. Equitas bank should undertake initiatives to reduce its interest payments.

Table – 2: Statement showing Comparative Balance Sheet of Equitas and Ujjivan Small Finance Bank

Particulars	Equitas Small Finance Bank		Ujjivan Small Finance Bank	
	Amount (Rs.)	%	Amount (Rs.)	%
ASSETS				
[A] Current Assets				
Cash	51,48,080	2.08	1,71,15,317	8.40
Bank Balance	2,86,39,044	11.59	86,59,657	4.25
Advances	16,84,79,467	68.17	14,49,39,518	71.12
Total current Assets	20,22,66,591	81.84	17,07,14,492	84
[B] Non-Current Assets				
Investments	3,70,51,661	14.99	2,51,64,501	12.35
Fixed Asset	18,50,500	0.75	28,07,289	1.38
Other asset	59,83,494	2.42	51,18,258	2.51
Total Non-Current	4,48,85,655	18.16	3,30,90,048	16.24
TOTAL ASSET	24,71,52,246	100	20,38,04,540	100
LIABILITIES				
[A] Current Liabilities				
Bills Payables	13,10,777	0.53	□ 19,64,421	0.96%
Borrowings	4,16,53,200	16.85	3,24,73,167	15.93
Deposits	16,39,19,717	66.32	13,13,57,673	64.45
Total Current Liabilities	20,68,83,694	83.71	16,57,95,261	81.35
[B] Non-Current Liabilities				
Other Liabilities	63,05,141	2.55	58,21,759	2.86
Total Non-Current	63,05,141	2.55	58,21,759	2.86
[C] Shareholder's funds				
Shareholder's funds	2,25,70,628	9.13	1,24,67,143	6.12
Equity share Capital	1,13,92,783	4.61	1,92,83,142	9.46
Other Equity			4,37,235	0.21
Total shareholder's fund	3,39,63,411	13.74	3,21,87,520	15.79
TOTAL LIABILITIES	24,71,52,246	100	20,38,04,540	100

(Source: Annual Report of Equitas and Ujjivan Small Finance Banks)

- ❖ On analyzing the common size balance sheet statement of Equitas and Ujjivan it was found the current assets of Equitas amounted to 81.84% and for Ujjivan it was 84%. Thus, both the banks have good liquidity position during theyear 2020-21.

- ❖ The non-current assets of Equitas were 18.16 % whereas it was 16.24% for Ujjivan. Thus, Equitas bank has a good non-current asset position.
- ❖ On analyzing the liabilities, it was found that Equitas bank has increased in its current liability of 83.71% when compared to Ujjivan bank of 81.35%. Thus, Equitas bank should reduce its borrowings and Ujjivan has to increase its deposits. Therefore, Ujjivan has good liability position during the year 2020-21.
- ❖ Overall, it shows that Equitas bank possesses a good assets position and Ujjivan bank has a better liabilities position. Therefore, Both the banks must improve its assets and liabilities positions respectively.

[B] Analysis of Financial and Operating Performance Of Equitas and Ujjivan Small Finance Banks Using CAMEL Model

It is a model used for measuring the financial performance of banks. It is basically a ratio- based model to evaluate the performance bank under various parameters. The CAMEL Rating System is considered as an internationally recognized rating system developed in United States. The authority uses CAMEL rating system to measure a bank's level of risk with the help of financial statements. This model is designed in such a way that it refers to as follows:

C – Capital Adequacy A – Asset Quality M – Management Capability
E – Earnings L – Liquidity

Table – 3: Statement Showing Financial Performance Analysis using CAMEL Model

S.No.	Parameters	Ratio	Equitas	Ujjivain
1.	Capital Adequacy	Debt to Equity	6.28	5.41
2.	Asset Quality	Advance to Total Asset	0.68	0.71
3.	Management Capability	Return on Asset	1.55	0.04
4.	Earnings	Net Income to Total Income	49.77	55.46
5.	Liquidity	Current Ratio	0.98	1.03

- ❖ **Capital Adequacy** is the most commonly used indicator of a bank's soundness. It represents the bank's ability to absorb disruptions in the moment of negative events. The concept of "capital adequacy" refers to the ability of the bank to sustain potential losses. In this research study, Debt Equity ratio is used to measure the adequacy of capital. The ratio is used to measure the company's financial leverage. It indicates how much debt the company is using to finance its assets. The ratio represents the degree of leverage of a bank and indicates the relative proportion of shareholders equity and the external equity. It was found that Equitas bank is using maximum debt of 6.28% whereas Ujjivan Bank is using a minimum debt of 5.41% during the year 2020-21. Debt equity position of Ujjivan bank is good when compared to Equitas bank. Thus, Equitas should try to reduce its debts.
- ❖ **Asset Quality** covers an institutional loan's quality, which reflects the earnings of the institution. Assessing asset quality involves rating investment risk factors the bank may face and balance those factors against the bank's capital earnings. The ratio of Advances to Total Assets is measured to estimate the lending position of the banks. It

was found that Ujjivan bank has a moderately higher ratio of 0.71% when compared to Equitas which has 0.68%. Thus, both the banks have a good lending position. Both banks can take measures to increase its lending activities.

- ❖ **Management capability** is qualitative and is a subjective assessment of management processes, organisational culture, and control systems of banks. The ratio of Return on Assets is used to estimate the management capability of the bank. It is found that Equitas bank has a good return on assets to the extent of 1.55% when compared to Ujjivan Small Finance bank of 0.04%. Therefore, it was found that Equitas bank maintains and manage their assets in the best way.
- ❖ **Earnings** of a bank represent the financial position, development, liquidity, and profitability capacity of a bank. The ratio of Net Income to Total Income is estimated to analyse the earning capacity of the banks. It was found that the earning capacity of Ujjivan bank is better with a highest ratio of 55.46% when compared to Equitas bank with an earning capacity of only 49.77%. The reason for decrease in earning capacity of Equitas bank is due to high level of interest expended when compared to interest earned. Therefore, Equitas bank should take efforts to increase its net income to total income.
- ❖ **Liquidity** refers to the ability of the bank to meet their short-term obligations. An adequate liquidity position means a situation when bank can obtain sufficient funds by converting its current assets quickly into cash. The above table indicates that the current ratio of Ujjivan bank is 1.03% and 0.98% for Equitas bank. Ujjivan bank has a merely increased current ratio when compared with Equitas. This ratio should vary from 1-2. Thus, indicates that both the banks maintain a good current ratio. Therefore, Ujjivan bank has good current ratio.
- ❖ Finally, it is concluded that Ujjivan Small Finance bank is performing well with respect to maintaining capital adequacy, asset quality, earnings level and liquidity position inspite of narrow business operation when compared to Equitas Small Finance bank.

[C] Analysis of Financial Trend of Equitas and Ujjivan Smal Finance Banks

Table - 4: Statement Showing Financial Trend of Equitas Small Finance Bank

	Year	Interest Earned		Interest Expended		Net Profit	
		Amount	% of Growth	Amount	% of Growth	Amount	% of Growth
Actual	2020	2,64,54,439	-	1,15,01,381	-	24,36,354	-
	2021	3,19,44,132	20.75	1,39,64,529	21.42	38,42,232	57.70
Estimated	2022	3,74,33,825	17.18	1,64,27,677	17.64	52,48,110	36.60
	2023	4,29,23,518	14.66	1,88,90,825	15.00	66,53,988	26.79
	2024	4,84,13,211	12.78	2,13,53,973	11.53	80,59,866	21.13
	2025	5,39,02,904	11.33	2,38,17,121	10.34	94,65,744	17.44

(Source: Annual Report of Equitas Small Finance Banks)

Table - 5: Statement Showing Financial Trend of Ujjivan Small Finance Bank

	Year	Interest Earned		Interest Expended		Net Profit	
		Amount	% of Growth	Amount	% of Growth	Amount	% of Growth
Actual	2020	2,70,35,987	-	1,07,00,068	-	34,99,186	-
	2021	2,80,60,656	3.79	1,07,75,140	0.70	82,969	-97.63
Estimated	2022	2,90,85,325	3.65	1,08,50,212	0.70	-33,33,248	-3917.46
	2023	3,01,09,994	3.52	1,09,25,284	0.69	-67,49,465	-102.49
	2024	3,11,34,663	3.40	1,10,00,356	0.69	-1,01,65,682	-50.61
	2025	3,21,59,332	3.29	1,10,75,428	0.69	-1,35,81,899	-33.61

(Source: Annual Report of Ujjivan Small Finance Banks)

- ❖ The above table shows the trend analysis Interest Earned, Expended and Net Profit for the period from 2022-2025. It was found that both the banks have a positive growth of interest earned. The interest income of Equitas bank is growing at a faster rate whereas Ujjivan banks interest rate is increasing at a lower rate. The interest income of Equitas is expected to be Rs.53902904 in the year 2025. Thus, it was forecasted that Equitas bank has a faster growth in interest income.
- ❖ From the above table, it was forecasted that Interest expended of Equitas bank is higher when compared to Ujjivan bank. Both the banks have a positive growth performance; however, it is found that Equitas has performed better in mobilizing the funds.
- ❖ The above table indicates the trend of net profit of Ujjivan and Equitas bank. It is observed that Ujjivan bank has a negative growth performance from year 2022-25 whereas Equitas bank has a positive growth performance. Ujjivan bank should take effective measure to curtail its operating expenses to have a positive growth in future. Thus, it was forecasted that Equitas bank will perform better when compared with Ujjivan.

[D] Suggestions

Suggestion for Equitas Small Finance Bank

- **Increase Customer Base:** On analyzing the Equitas bank it was suggested that the bank should increase its networking across various states and union territories of India. The bank should expand banking areas in rural areas. It should strategize on increasing its customer base and target all income group of people and women entrepreneurs. It should also concentrate on providing loans to farmers.
- **Increase Earning Capacity:** On analyzing the financial position of Equitas bank it is suggested that it should increase its interest income which is very important for a bank. Further, the bank should plan to increase its net income to total income and also increase the earning capacity of the bank. Thus, Equitas bank have a good financial position.

- **Reduce Debts and Borrowings:** It should frame and implement policies to reduce its debts and borrowings in the upcoming years.

Suggestions for Ujjivan Small Finance Banks

- **Expansion of Operations:** It is suggested that Ujjivan bank has to expand its areas of operations and increase its banking operations. The bank has established its branches only across 24 states in India, it is suggested that it should increase its branches across various regions such as north, east, south, west. It should target more customers and implement better managerial practices in order to satisfy more customers.
- **Reduce Operating Expenses:** The bank should plan to implement effective information technology in banking practices to curtail its operating expenses and to increase its net profit in the upcoming years.
- **Increase Deposits and Mobilise Funds:** Bank should initiate steps to attract level of people and should strategize on mobilizing more funds by increasing the deposits and lending activities.
- **Reduce Liquidity:** The bank can merely reduce its liquidity position in order to maintain assets. It is highly suggested to reduce its other liabilities and provisions.
- **Strategize on Increasing Profit:** It is suggested that Ujjivan bank can implement better management practices in order to maintain a good return on assets. Net profit is the key of banking sector. Therefore, Ujjivan bank must undertake suitable measures to increase its net profit in order to have a good financial position in the future.

V. CONCLUSION

The financial Performance of Equitas and Ujjivan Small Finance bank is analyzed using various research techniques. Financial analysis is very important to plan and control the financial resources of the bank. From the above results it is found that Equitas bank has performed well in all aspects when compared to Ujjivan during the year 2020 and 2021. Ujjivan bank has also performed better in areas of management capability and earnings capacity. Ujjivan Bank should pay attention to management capability and earning parameters to improve their profitability.

In a nutshell, it is identified that Equitas bank has performed efficiently by implementing better managerial practices and decision- making process when compared to Ujjivan Small Finance bank. The future trend of Ujjivan and Equitas bank was analyzed using trend analysis. It is expected that both the banks will perform efficiently in future by diversifying its banking operations, adopting latest technology and with low cost of operation.

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