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A STUDY ON FINANCIAL PERFORMANCE OF VARIOUS 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 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.

The study aims at the annual report of the 3 companies (Au small finance bank, Equities finance bank and Ujjivan small finance bank) from 2017 – 2021. 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 capex, 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.

Key words:

Financial performance analysis consisting revenues, Profit, Operational efficiency, Capital efficiency and solvency and liquidity.

1.1Introduction

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 banks have been reasonably successful in reaching out to under-served sectors, such as MSMEs, and have an impressive coverage of borrowers with small credit needs. However, considering the focus on financial inclusion, certain aspects about their operations may need attention. Firstly, SFB branches are concentrated in already well-banked States, and at urban/semi-urban centers. Secondly, the average spread of SFBs are significantly higher than other scheduled commercial banks. Small and Medium Enterprises (MSMEs) which are the most economic activities carried out by Indonesian society. Accounting activities can also be referred to as accounting cycles which must be structured. Accounting contains a conceptual framework, methods, standards, procedures and techniques in reporting a financial condition commonly referred to as a Financial Report.

The introduction of Board-approved financial inclusion plans in 2010 has given a definite direction and structure to the efforts for financial inclusion. The alignment of the financial inclusion plan objectives with those laid out as part of the Pradhan Mantri Jan-Dhan Yojana in 2014 has imparted a mission mode to these efforts. Alongside the efforts to introduce new products and platforms, the Reserve Bank has introduced newer institutional variants for promoting financial inclusion. One such institution has been the Small Finance Banks (SFBs). The specific mandate assigned to SFBs is to further the cause of financial inclusion by

(i) providing savings vehicles,

(ii) supplying credit to small business units, including small and marginal farmers, micro and small industries; and other unorganized sector entities, and various low income groups and the migrant work force through high technology-low cost operations.

These can be defined as differentiated financial institutions, considering their focus on serving the population with small finance needs. They have been set up in the private sector, and thus, differ from Regional Rural Banks (RRBs) - banking institutions created with the objective of including the under-served sections with predominant government shareholding. Following the issuance of the licensing guidelines in 2014, 10 SFBs have commenced operations so far. The first two, Capital Small Finance Bank and Equitas Small Finance Bank, started operations in 2016 followed by seven more in 2017, and one more in 2018. Most of the SFBs were previously microfinance institutions (MFIs) with a few notable exceptions, such as the Capital Small Finance Bank which was a local area bank. As MFIs, most of these institutions already had a well-developed network of customers, belonging mostly to the middle and low-income groups. These MFIs chose to convert into SFBs, in a bid, among others, to expand their reach further, while benefitting from lower cost of funds following the access to deposits that they could enjoy as SFBs.

Small Finance Banks branches also display concentration in the urban and semi-urban Centre’s or more specifically Tier 1 to Tier 3 Centre’s having population of 20,000 persons and above. Tier 5-6 (rural) centre’s with population of less than 10,000 persons accounted for only about 18 per cent of the SFB branches in March 2020. These banks are catering to the economic sectors that are relatively under-served by other SCBs. The sectors include agriculture, (small scale) trade and professional services. Moreover, even within the industrial and services sector credit, these banks have succeeded reasonably in reaching out to MSMEs. Apart from serving the under-served sectors, the loan portfolio of SFBs is also geared towards small-sized borrowers. At the aggregate level, about 83 per cent of their loan portfolio had a credit limit of up to `25 lakh in March 2020

There is huge population of 363.00 million people are in below poverty Small Finance Banks are advanced structure to uplift the under privileged poor population, facilitating further inclusion by way of extending banking facilities, deposits, savings, credit, mutual funds, micro insurance, transfers. SFB is a newly introduced special vehicle, and nascent stage. Having understood within the limited period itself their performance is commendably high and their market share in micro finance is around 17% (Microfinance Pulse Report Oct 21). It is noted that, the Licensing policy of Reserve Bank of India, to SFBs is stringent and watertight, may be, because of the earlier failures from Local Area Banks, Regional Rural Banks in achieving the mission of financial inclusion. SFBs are directly placed in, with a watertight regulatory compliance norm the open market where already Commercial Banks are under stringent competition.

Indian Accounting Standard is the Accounting standard taken on by organizations in India and given under the oversight of the Accounting Standards Board which was composed as a body in the year 1977.

The concocting of these strategies permits different organizations to adjust their accounting standards to repair for their own benefit. Standards are acquainted with quenching all disarrays, and these should have been set by the perceived accounting bodies. This idea repaired the way for the development of Accounting Standards. The Accounting Standards in India are given by the Institute of Chartered Accountants of India (ICAI).

1.2 Statement of the Problem

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, ratings agency ICRA said.

However, this growth rate will still be lower than the compound annual growth rate (CAGR) of around 30 per cent during FY16-FY20. "ICRA maintains its cautious stance as the recent surge in Covid-19 infections could play a spoilsport and impact the recovery in growth. The challenge posed by the second wave of the Covid-19 pandemic led to a deterioration in the asset quality metrics in H1 FY2022; nevertheless, some recovery is expected by the end of FY2022," the ratings agency said in a release.

Amid the second wave of the pandemic, SFBs had witnessed a decline in collections which resulted in them reporting gross non-performing assets (GNPAs) of 6.4 per cent as on September 30, 2021 as against 5 per cent as on March 31, 2021. The gradual ramp-up in the collection efficiency of SFBs provides comfort, however, performance of the restructured portfolio remains monitorable, ICRA said.

"With the second wave of the pandemic impacting disbursements in Q1 FY2022, the AUM growth rate declined in H1 FY2022. The industry is estimated to have reported an annualised growth rate of 7-8 per cent in H1 FY2022. Nevertheless, since disbursements have started picking up, we expect the pace of growth to improve in H2 FY2022, pushing the full-year AUM growth to around 20 per cent, though the same would be subject to no major impact from the recent rise in Covid-19 infections," ICRA Vice President and Sector Head, Financial Sector Ratings Sachin Sachdeva said.

The ratings agency expects some reduction in GNPAs of SFBs in the second half of FY22, however, the reported GNPA as percentage of total loans as on March 31, 2022 is expected to be higher by 70-80 basis points as compared to the level as on March 31, 2021, it said.

Hence in this project we have to know about the deviation of Accounting ratios and Advanced Accounting checks of small finance banks through this we can understand what kind of changes are there.

1.3 Objectives of the Study:

- ✓ To critically study and understand the financial performance of the Small finance Banks using of accounting ratios.
- ✓ To study about the financial performance of the Small finance Banks using of advanced accounting checks

1.4 Research Methodology

The present study is based on exploratory research, using mixed approaches of both quantitative and qualitative. This study primarily based upon secondary data, Data have been extracted from the various sources, viz., Annual Reports of Au small finance bank, Equities finance bank and Ujjivan small finance bank..

1.4.1 Research Design

The descriptive research method is used for this study, because in this type of research of design that aims to obtain information to systematically describe a situation and phenomenal changes or a deviation in a frequency.

1.4.2 Size Of Sample

The sample size of the study aims up on annual report of the 3 companies (Au small finance bank, Equities finance bank and Ujjivan small finance bank) from 2017 – 2021. The annual reports were extracted from the parent website of the companies itself, after coming to IPO issuing.

1.4.3 Source of data collection

The secondary data will be collected with the help of annual reports of the listed companies

(Au small finance bank, Equities finance bank and Ujjivan small finance bank)Methods of Data: **-**

1.5 Scope ofthe Study

The present study is confined to the role of Small Finance Banks in achieving Financial Inclusion in India. The study covers important Financial performance of SFBs

- ✓ To know the financial aspect of a corporate
- ✓ To know its interpretation
- ✓ It helps to detect any major changes in accounting aspects of the company

1.6 ReviewofLiterature

Rao (1993) discussed in his research about 'Financial appraisal of Indian Automotive Tyre Industry'. Main objective of study was intended to probe into the financial condition-financial strength and weakness-of the Indian tyre industry. He has been measured and evaluates the financial performance through inter-company and inter-sector analysis for the period of 1981-1988. He has found that the fixed assets utilization in many of the tyre undertakings was not as productive as expected and inventory was managed fairly well. He has considered that the tyre industry's overall profit performance was subjected to inconsistency and ineffective. He has suggested some recommendations to improve financial performance.

Pai, Vadivel and Kamala (1995) Studied the diversified companies and financial performance: A study. An effort was made to study the relationship between diversified firms and their financial performance. Seven large firms having different products-both related and otherwise-in their portfolio and operating in diverse industries were analyzed. A set of 32 performance measures / ratios was employed to determine the level of financial performance. The results reveal that the diversified firms studied have been healthy financial performance. However, variation in performance from one firm to another has been observed and statistically established.

Vijayakumar A. (1996) has studied about 'Assessment of Corporate Liquidity - a discriminate analysis approach' in this research he has revealed that the growth rate of sales, leverage, current ratio, operating expenses to sales and vertical integration was the important variables which determine the profitability of companies in the sugar industry. Also he has studied the shortterm liquidity position in twenty-eight selected sugar factories in co-operative and private sectors. In research a discriminate analysis has been used by the researcher, to undertaken to distinguish the good risk companies from poor risk companies based on current and liquidity ratios. In this study discriminating 'Z' scores have been calculated with the help of discriminate function and according to the 'Z' scores the companies are ranked in the order of liquidity.

Loundes (1998) studied on his research paper regarding "performance of Australian Government Trading Enterprises: An overview". He has provided 31 an overview of GTE performance over the 5 years to 1996 using the IBIS Enterprise Database, following the method of analyzing firm performance as outlined by the steering committee (1998). He has made comparative analysis and its results indicate that there are large differences in performance across firms, and more particularly, across the industries. Assessing the performance of Government Trading Enterprises (GTEs) has become increasingly important in the context of the push towards privatisation.

(D'Souza&Megginson,1999) Havestudied concerning the financial and operating performance of privatized firms during the 1990s. They made comparison about the pre and post privatization financial and operating performance of 85 companies from 28 industrialized countries that were 32 privatized through public share offerings for the period from 1990 to 1996. They have noticed that the significant increases in profitability, output, operating efficiency, dividend payments and significant decreases in leverage ratios for the full sample of firms after privatization. They have also concluded that the capital expenditures increase significantly in absolute terms, but not relative to sales and Employment declines, but insignificantly. As per findings, they strongly recommended that privatization yields significant performance improvements.

(RBI.Bulletin, 2005) Finance of Foreign Direct Investment companies, 2002-03. An attempt has been made to assesses financial performance of 490 selected non-Government non-financial foreign direct investment (FDI) companies for the period 2001 based on their audited annual accounts. The financial results of the selected company should improved performance in terms of higher growth in sales, value of production, manufacturing expenses and gross profit during 2002-03 compared with the respective growth rates in the previous year. The profitability ratios like profit margin, return on network increased during the year under review company having major portion of FDF from UK, USA, Switzerland and Mouritius registered net flow of foreign companies in all the three years.

(Wulanditya, 2011) With all the facilities available today, entrepreneurs are expected MSMEs can at least foster awareness of the need for accounting. If you look at the negative aspects of making books or financial statements, there will be no end. MSMEs can see the positive aspects they will get, that by having financial reports they can assess and evaluate their performance, facilitate the acquisition of financial assistance from banks or other credit institutions, and avoid sanctions for non-compliance with tax rules. With adequate accounting, MSME entrepreneurs can fulfill the requirements in applying for credit, such as making financial reports.

(Smith&Ashburn, 2017) The end product of financial accounting is a set of financial statements prepared by the accountant of a business enterprise that purport to reveal the financial position of the enterprise the result of its recent activities, and an analysis of what has been done with earnings'.

1.7 FINDINGS OF THE STUDY

- ✓ Cash flow from operation/EBITDA - Comparing all three selected banks Ujjiva small finance bank comfortably placed with in increasing cash flow operation,
- ✓ Volatility in depreciation rate - Comparing all three selected banks ujjivan small finance bank rated to be stable.
- ✓ Change in reserves and surplus explained by the profit/loss for the year and dividends - Inflating the profit here there is significant volume of inflation for Au small finance bank followed by Equitas small finance bank, Ujjivan small finance bank out of which Ujjivan small finance bank is consecution of profit which reasonable.
- ✓ Yield on cash and cash equivalents - Au small finance bank has result in during 2018-19 decrease -1% . there is suspicion of initiate of cash equivalents
- ✓ Contingent liability when compare to net worth it is ranging from 2.3 to 0.1 which is average nominal percentage. so there for there is no indication of off balance sheet risks
- ✓ CWIP to gross block - Au small finance bank in 2017-18 and Ujjivan small finance bank in 2019-20 is showing high ratio which is indication of unsustainable capex for the year percentage. there for this is indication related to sustainability of capex and its management.
- ✓ Free cash flow to median revenues - Free cash flow generated by business is siphoned off where revenue/earning are believable the cash flow generated. Equitas small finance bank in 2020-21 is 444% it is high difference, like that Ujjivan small finance bank in 2020-21 is 751% it is high difference.
- ✓ Growth in auditors remuneration to growth in revenue - Auditor remuneration of Au small finance bank in 2020-21 is -18% and Equitas small finance bank in 2020-21 is -25%. There for those banks auditor remuneration difference of percentage is decrease. Auditor remuneration of Ujjivan small finance bank going to increase year by year.

1.8Suggestions

Based on the analysis and interpretation of the data the following recommendations have been made regarding the good financial performance of small finance banks

- ✓ 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.
- ✓ Faster growth in auditors remuneration with regard to companies operation must raise concerns surrounding auditor's objectivity.

1.9 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, 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 objectivity. If all this prospects are intact give rise to a good and efficient financial performance.

Based on this study on financial performance we come to conclusion that all this banks perform financially well

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