Term Project (IVth Semester)

<u>"Emergence of Small and Finance Bank: An Analysis on Indian Market context</u>"

Submitted by

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CERTIFICATE

This is to certify that the Minor Project work title" **"Emergence of Small and Finance Bank: An Analysis on India Market Context"** is a bonafide work carried out by Mr. Madhav Bagai, Roll No. 2K21/EMBA/25, a student of the Executive MBA of the Delhi School of Management, Delhi Technological University, under my guidance and direction.

Dr. Deep Shree
Assistant Professor
Delhi School of Management
Delhi Technological University

Date: April'23

Place: New Delhi

DECLARATION

I hereby declare that this project entitled "**Emergence of Small and Finance Bank: An Analysis on Indian Market Context**" has been prepared by me under the guidance of **Dr Deep Shree**, Assistant Professor, Delhi School of Management, Delhi Technological University, Bawana Road, Delhi – 110042 in fulfillment of the Term-end Minor Project. I hereby declare that this project is based on my own personal work and has not been submitted any time to any University or Institution for an award of any Degree or Diploma.

Signature :

Date: April' 23

Place: New Delhi

Student's Name: Madhav Bagai
Roll No. 2k21/EMBA/25

I will always be grateful and indebted to my project **supervisor Dr. Deep Shree**, Assistant Professor, Delhi School of Management for quick perusal and approval of the project synopsis. She also has helped me in the selection of topic and has been very generous in offering useful tips during the study. His immense guidance and unwavering support were solicited by him throughout my project work.

(Signature)
Place: New Delhi

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1. Introduction

The Government of India announced to establish the Small Finance Banks (SFBs) for the purpose to expand financial services and providing basic banking activities to the underprivileged population. Basically, Small Finance banks allows micro and small enterprises, small and marginal farmers, micro and small industries to avail lending services.

Financial inclusion helps in reducing poverty and empowers women, marginalized and secluded population to make sound financial decisions. . It also aims to strengthen the Indian economy by connecting small businesses with formal financial institutions. Small finance banks like conventional banking also involves accepting deposits and lending activities.

In recent years, the Indian banking sector has witnessed the emergence of a new categories of banks, known as Small Finance Banks(SFBs). These banks were introduced by the Reserve Bank of India(RBI) in 2015 with an objective of promoting financial inclusion and providing banking services to the underserved section of the society.

1.1 Industry Background

Background:

The concept of SFBs were introduced by the RBI in its 2014-15 monetary policy statement. The RBI invited applications from eligible entities to establish SFBs with an aim to provide financial inclusion and extending banking services to small business units, micro small and medium enterprises(MSMEs), farmers, and other underserved and unserved section of population. The RBI received 72 applications, out of which 10 entities were granted in-principal approval to set up SFBs in September 2015.

Emergence of SFBs:

SFBs are a new category of Bank in India that focus on financial inclusion and providing banking service for the underserved section of society. There is a minimum paid-up capital of Rs. 200 crore for SFBs and a mandate to lend at least 75% of their Adjusted Net Bank Credit (ANBC) to sectors of priority such as agriculture, micro and small enterprises, and other weaker sections of the society.

SFBs operate as full-fledged banks and offer various services such as deposits, loans, remittances, and payment services. They also leverage technology to offer innovative and customer-centric services. For instance, some SFBs offer doorstep banking (DBS) services, mobile banking, and online account opening facilities to their customers.

There are 12 Small Finance Banks operating in India. These are-

- Ujjivan Small Finance Bank
- Jana Small Finance Bank
- Equitas Small Finance Bank

- AU Small Finance Bank
- Capital Small Finance Bank
- Fincare Small Finance Bank
- ESAF Small Finance Bank
- North East Small Finance Bank
- Suryoday Small Finance Bank
- Utkarsh Small Finance Bank
- Shivalik Small Finance Bank
- Unity Small Finance Bank

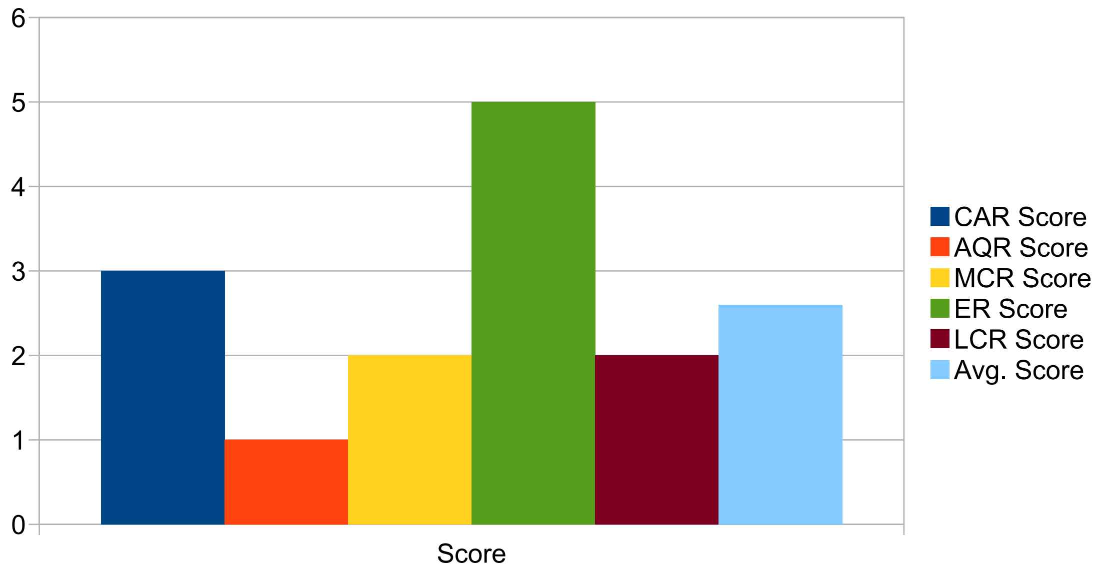
Literature Review~

CHAPTER~

Ujjivan Small Finance Bank

Ujjivan Small Finance Bank is a scheduled commercial bank in India which was incorporated in 2016. It is a subsidiary of Ujjivan Financial Services Limited, which was originally a microfinance institution.The bank is present across India with over 500 branches and more than 18,000 employees.

Ujjivan Small Finance Bank has received various awards and recognitions for its services and initiatives, including the 'Best Small Finance Bank' award by Business Today, the 'Fastest Growing Small Finance Bank' award by CNBC TV18, and the 'Most Socially Responsible Bank' award by ASSOCHAM.



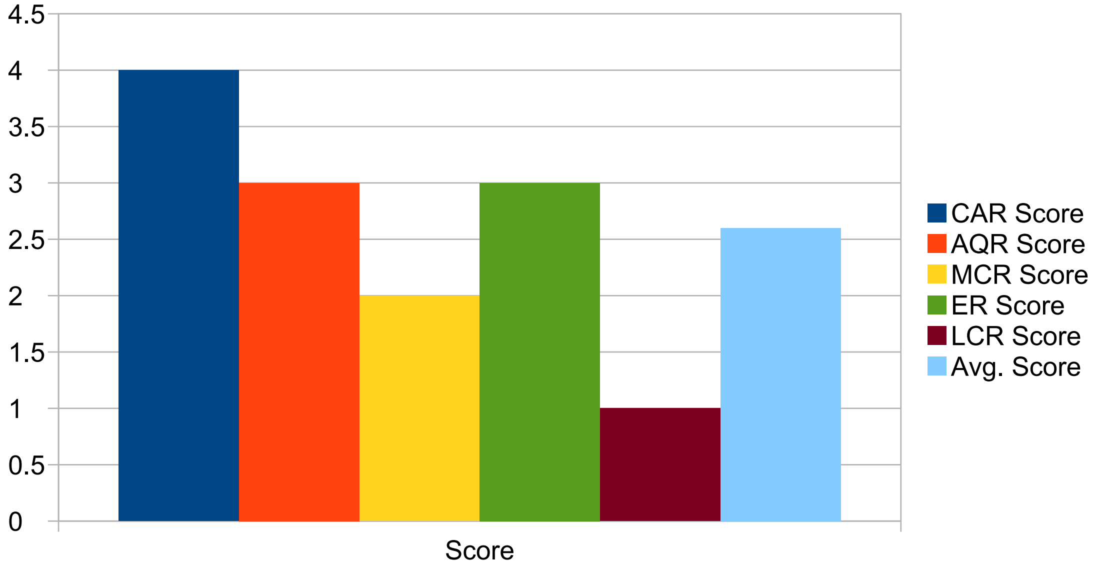
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	3	1	2	5	2	2.6

Ujjivan small finance bank has a great AQR score which means that they have low Net NPA% and the bank has given out good quality loans. They also have a decent score in MCR and LCR which means that the management is able to give out good amount of loans as compared to their deposits and the bank is maintaining a healthy amount of High-Quality Liquid Assets because of which they are unlikely to get into liquidity troubles. But Ujjivan has a score of 5 in terms of Earning which is the worst score possible. This is because for FY22 they had a net loss of Rs. 414.59 Crores. The Management of the bank needs to ensure that they are able to reduce their losses as soon as possible and become a profit making company by either increasing their earnings or reducing their expenditure. Overall the average CAMEL score of the bank is 2.6 which needs to be improved by the bank by focusing on improving the profitability of the bank.

Jana Small Finance Bank

Jana Small Finance Bank is a scheduled commercial bank in India that was incorporated in 2017. It is a subsidiary of Jana Capital, which was originally a microfinance institution The bank is present across India with over 600 branches and more than 20,000 employees.

Jana Small Finance Bank has received various awards and recognitions for its services and initiatives, including the ‘Best Small Finance Bank’ award by Business Today, the ‘Fastest Growing Small Finance Bank’ award by CNBC TV18, and the ‘Best Financial Inclusion Initiatives’ award by ASSOCHAM.



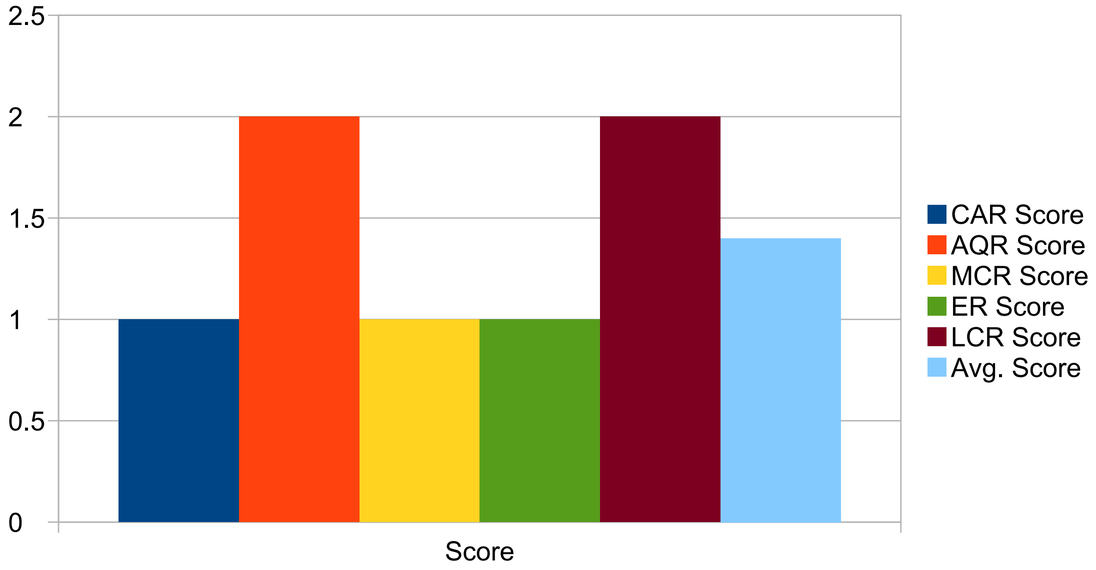
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	4	3	2	3	1	2.6

Jana Small Finance Bank has a great LCR score which signifies that the bank is maintaining a healthy amount of High-Quality Liquid Assets because of which they are unlikely to get into liquidity troubles. They also have a good MCR score which means that the management is able to give out good amount of loans as compared to their deposits. The bank has a score of 4 in CAR which is not good. It implies that bank can have problems in absorbing unexpected losses. Even though their CAR is above the government mandate 15% for small finance banks but it is lower than their peers and can lead to loosing trust of the customers in times of financial crises. Overall, the average CAMEL score of the bank is 2.6 which needs to be improved by the bank by focusing on improving the Capital Adequacy Ratio by somehow improving the capital of the bank and also looking into ways to improve their profitability.

Equitas Small Finance Bank

Equitas Small Finance Bank is a scheduled commercial bank in India that was incorporated in 2016. It is a subsidiary of Equitas Holdings Limited, which was originally a microfinance institution. The bank is present across India with over 860 branches and more than 13,000 employees.

Equitas Small Finance Bank has received various awards and recognitions for its services and initiatives, including the 'Best Small Finance Bank' award by Business Today, the 'Fastest Growing Small Finance Bank' award by CNBC TV18, and the 'Most Trusted Bank' award by the Reader's Digest Trusted Brand Survey.



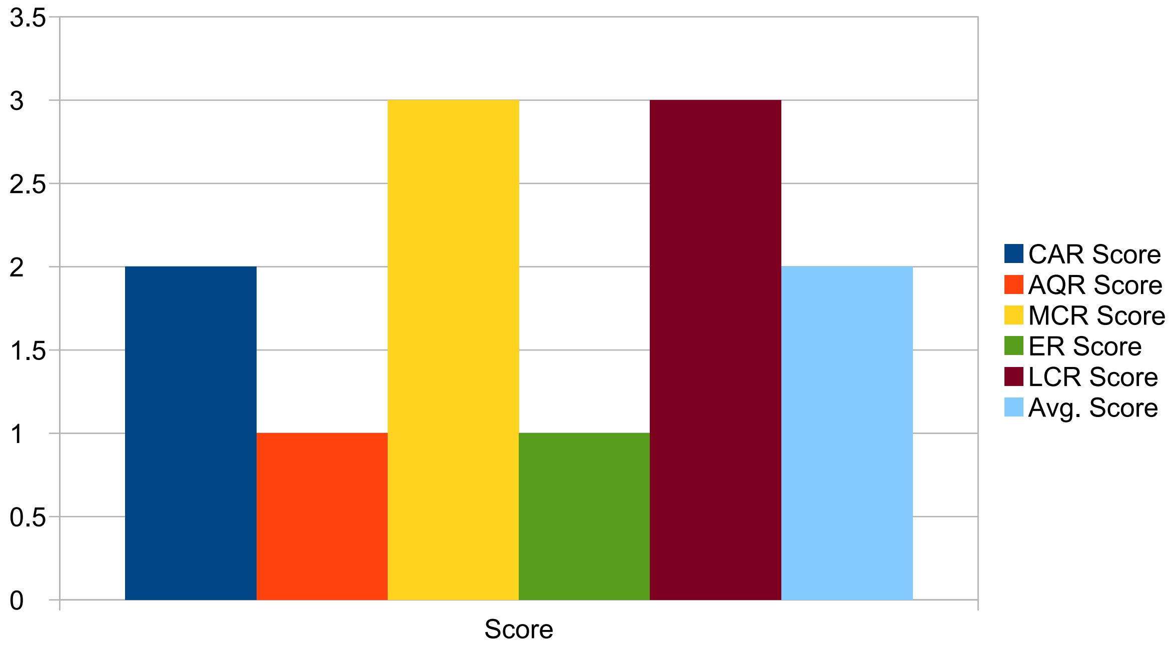
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	1	2	1	1	2	1.4

Equitas Small Finance Bank has a score of 1 in CAR, MCR and ER which is the best possible score. A good CAR score implies that the bank will not face any trouble in providing money to their customers even if they face unexpected losses. A good MCR score implies that the management can give out good amount of loans as compared to their deposits. A good ER score implies that the bank is good at generating profits from its assets. The bank also has a good LCR and AQR score. Equitas Small Finance Bank has good score in each of the categories which means that the bank is financially sound. Overall, the average CAMEL score of the bank is 1.4 which is great and the management needs to keep doing what they are doing to maintain these good financials.

AU Small Finance Bank

AU Small Finance Bank is a scheduled commercial bank in India that was incorporated in 2017. It is a subsidiary of AU Financiers(India) Limited, which was originally a non-banking financial company (NBFC). The bank is present across India with over 700 branches and more than 16,000 employees.

AU Small Finance Bank has received various awards and recognitions for its services and initiatives, including the 'Best Small Finance Bank' award by Business Today, the 'Fastest Growing Small Finance Bank' award by CNBC TV18, and the 'Most Innovative Use of Digital Channels' award by the IAMAI India Digital Awards.



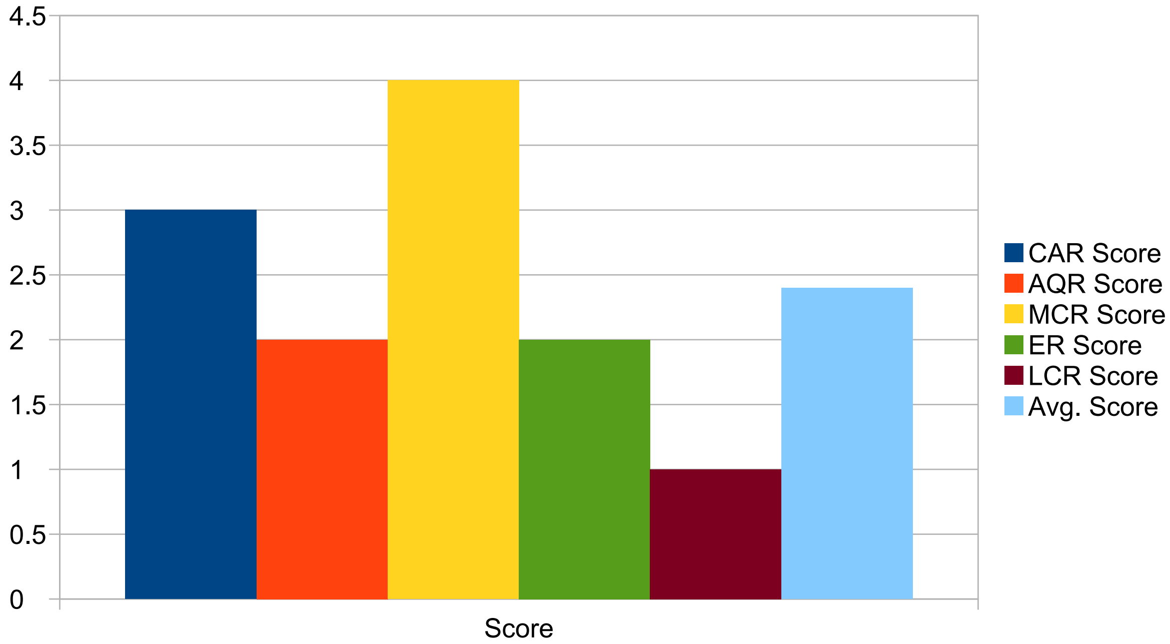
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	2	1	3	1	3	2.0

AU Small Finance bank has a score of 1 in AQR and ER which is the best possible score. A good score in AQR implies that they have low Net NPA% and the bank has given out good quality loans. A good ER score implies that the bank is good at generating profits from its assets. The bank also has good CAR score which implies that the bank will not face any trouble in providing money to their customers even if they face unexpected losses. Overall, the average CAMEL score of the bank is 2.0 which is good but the bank can improve it by focusing on MCR and LCR which can be area of concern for the bank.

Capital Small Finance Bank

Capital Small Finance Bank is a scheduled commercial bank in India that was incorporated in 2016. It is a subsidiary of Capital Local Area Bank Limited, which was originally a local area bank. The bank has a presence in select states of India including Punjab, Haryana, Rajasthan, and Delhi-NCR, with over 250 branches and more than 3,000 employees.

Capital Small Finance Bank has received various awards and recognitions for its services and initiatives, including the ‘Fastest Growing Small Finance Bank’ award by CNBC TV18, and the ‘Best Technology Bank of the Year’ award by the State Forum of Bankers’ Clubs.



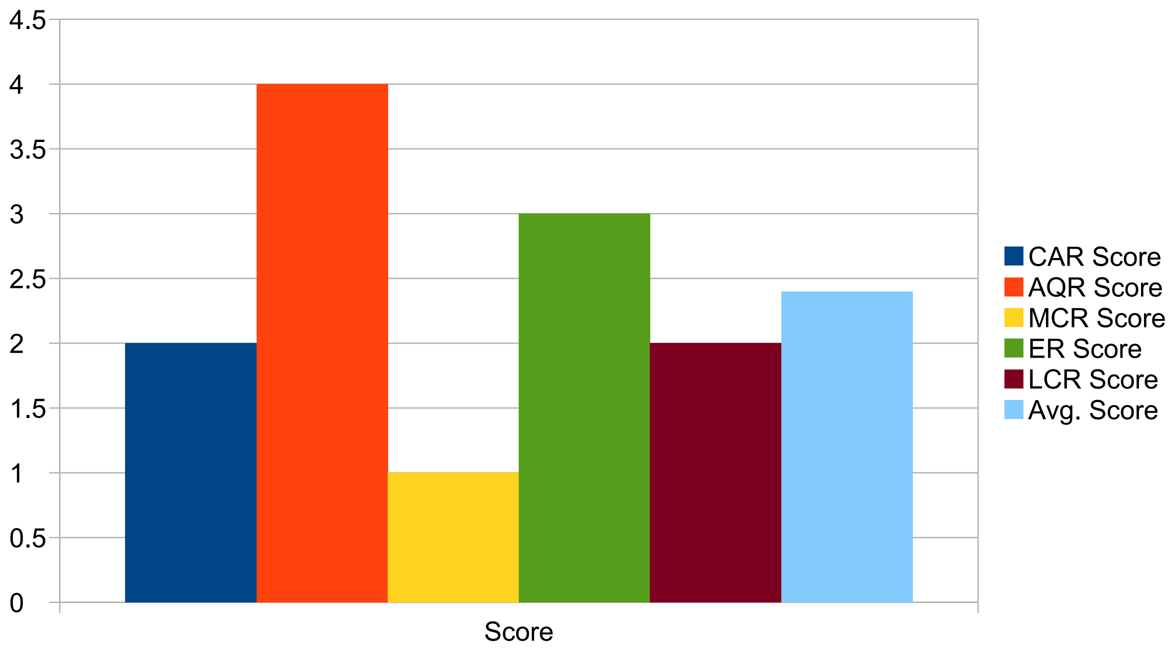
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	3	2	4	2	1	2.4

Capital Small Finance bank has a score of 1 in LCR which is the best possible score. A good LCR score implies that the bank is maintaining a healthy amount of High-Quality Liquid Assets because of which they are unlikely to get into liquidity troubles. They also have good AQR and ER score. A good score in AQR implies that they have low Net NPA% and the bank has given out good quality loans. A good ER score implies that the bank is good at generating profits from its assets. The bank has a score of 4 in MCR which is bad and implies that the bank is not efficient at giving out loans using their deposits. Overall, the average CAMEL score of the bank is 2.4 which needs to be improved by the bank by focusing on improving the MCR by trying to give out more loans.

Fincare Small Finance Bank

Fincare Small Finance Bank is a scheduled commercial bank in India that was established in 2017. It is a subsidiary of Disha Microfin Private Limited, which was originally a microfinance institution. The bank is present across India with over 750 branches and more than 10,000 employees.

Fincare Small Finance Bank has received various awards and recognitions for its services and initiatives, including the ‘Best Small Finance Bank’ award by Business Today, the ‘Fastest Growing Small Finance Bank’ award by CNBC TV18, and the ‘Most Innovative Use of Technology in Financial Services’ award by the Express IT Awards.



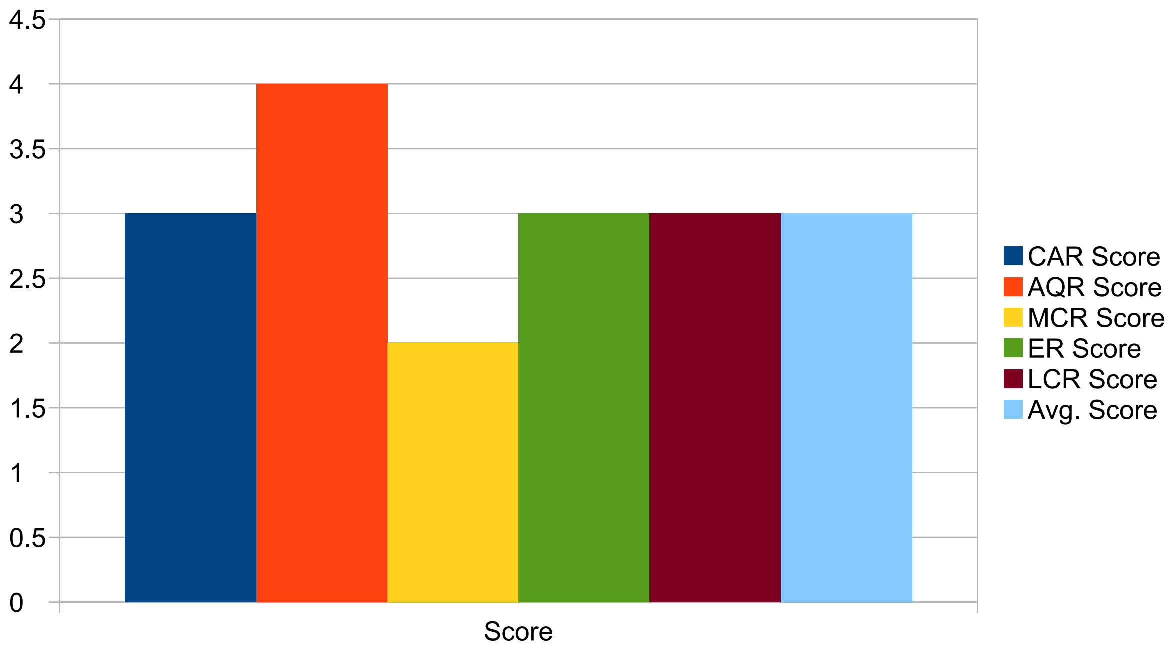
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	2	4	1	3	2	2.4

Fincare Small Finance bank has a score of 1 in MCR which is the best possible score. A good MCR score implies that the management can give out good amount of loans as compared to their deposits. The bank also has a good score in CAR and LCR. A good CAR score implies that the bank will not face any trouble in providing money to their customers even if they face unexpected losses. A good LCR score implies that the bank is maintaining a healthy amount of High-Quality Liquid Assets because of which they are unlikely to get into liquidity troubles. The bank has a score of 4 in AQR which is bad. It means that the bank has a high percentage of Net NPAs. Overall, the average CAMEL score of the bank is 2.4 which needs to be improved by the bank by trying to minimize risky loans by performing proper checks on the customers before giving out the loans.

ESAF Small Finance Bank

ESAF Small Finance Bank is a scheduled commercial bank in India that was established in 2017. It is a subsidiary of ESAF Microfinance and Investments Private Limited, which was originally a microfinance institution. The bank is present across India with over 400 branches and more than 8,000 employees.

Equitas Small Finance Bank has received various awards and recognitions for its services and initiatives, including the ‘Best Small Finance Bank’ award by Business Today, the ‘Fastest Growing Small Finance Bank’ award by CNBC TV18, and the ‘Inclusive Finance India Award’ by Access Development Services.



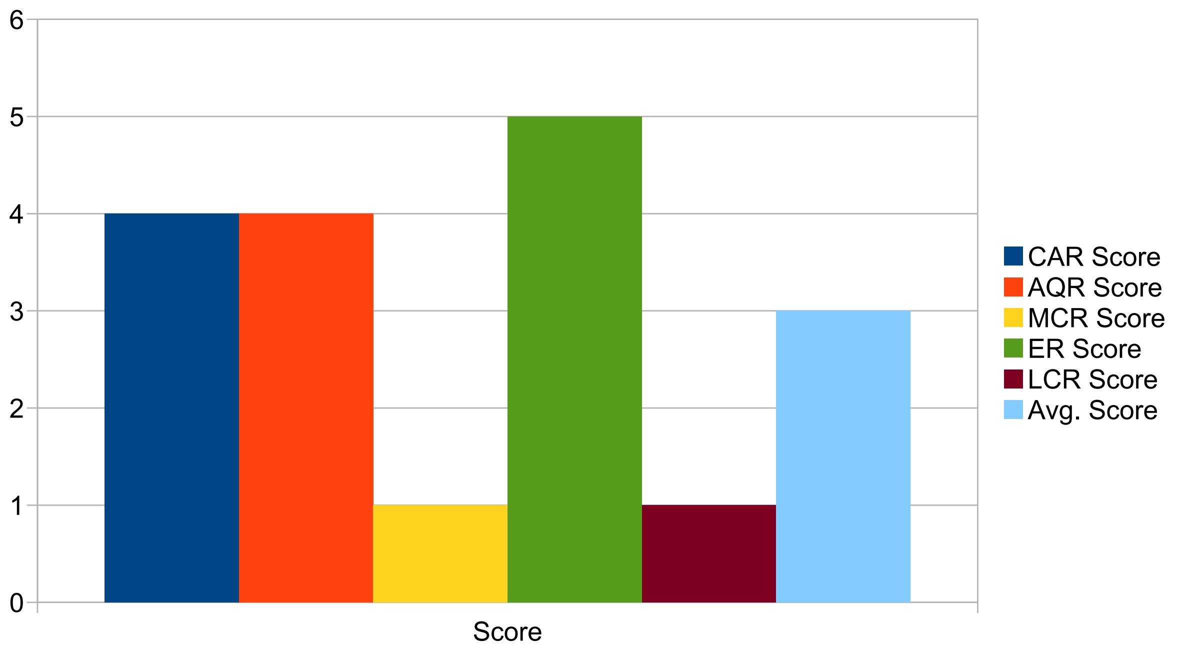
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	3	4	2	3	3	3.0

ESAF Small Finance bank has a good score in MCR which implies that the management is able to give out good amount of loans as compared to their deposits. The bank has a score of 4 in AQR which is bad. It meanse that the bank has a high percentage of Net NPAs. Overall, the average CAMEL score of the bank is 3.0 which is bad and needs to be improved. The bank needs improvement in all the areas and needs to put extra emphasis on reducing its Net NPAs by trying to minimize risky loans by performing proper checks on the customers before giving out the loans.

North East Small Finance Bank

Nort East Small Finance Bank is a scheduled commercial bank in India that was established in 2017. It is the first small finance bank from the North Eastern region of India. The bank has a presence in all eight states of the North East region with over 150 branches and more than 2,000 employees.

North East Small Finance Bank has received various awards and recognitions for its services and initiatives, including the ‘Best Small Finance Bank in the North Eastern Regions’ award by ASSOCHAM and the ‘Best Small Finance Bank Award for Financial Inclusion’ by the National Payment Corporation of India (NPCI)



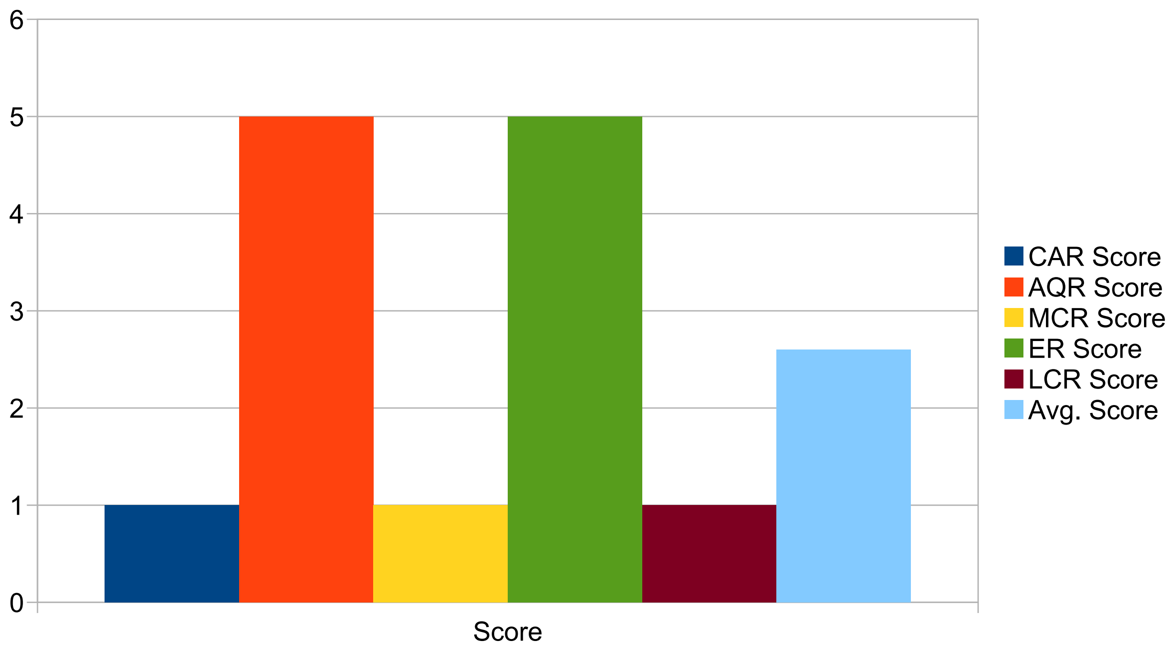
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	4	4	1	5	1	3.0

North East Small Finance bank has a score of 1 in MCR and LCR which is the best possible score. A good MCR score implies that the management can give out good amount of loans as compared to their deposits. A good LCR score implies that the bank is maintaining a healthy amount of High-Quality Liquid Assets because of which they are unlikely to get into liquidity troubles. But the bank has a score of 5 in terms of Earning which is the worst score possible. This is because for FY22 they had a net loss of Rs. 75 Crores. The Management of the bank needs to ensure that they can reduce their losses as soon as possible and become a profit-making company by either increasing their earnings or reducing their expenditure. The bank also has bad CAR and EQR. Overall, the average CAMEL score of the bank is 3.0 which needs to be improved by the bank by focusing on improving the profitability of the bank and improving CAR and EQR.

Suryoday Small Finance Bank

Suryoday Small Finance Bank is a scheduled commercial bank in India that was established in 2017. It is a subsidiary of Suryoday Microfinance Limited, which was originally a microfinance institution. The bank has a presence in select states of India including Maharashtra, Gujarat, Tamil Nadu, and Karnataka with over 500 branches and more than 4,000 employees.

Suryoday Small Finance Bank has received various awards and recognitions for its services and initiatives, including the 'Best Small Finance Bank' award by Business Today, the 'Fastest Growing Small Finance Bank' award by CNBC TV18, and the 'Inclusive Finance India Award' by Access Development Services.



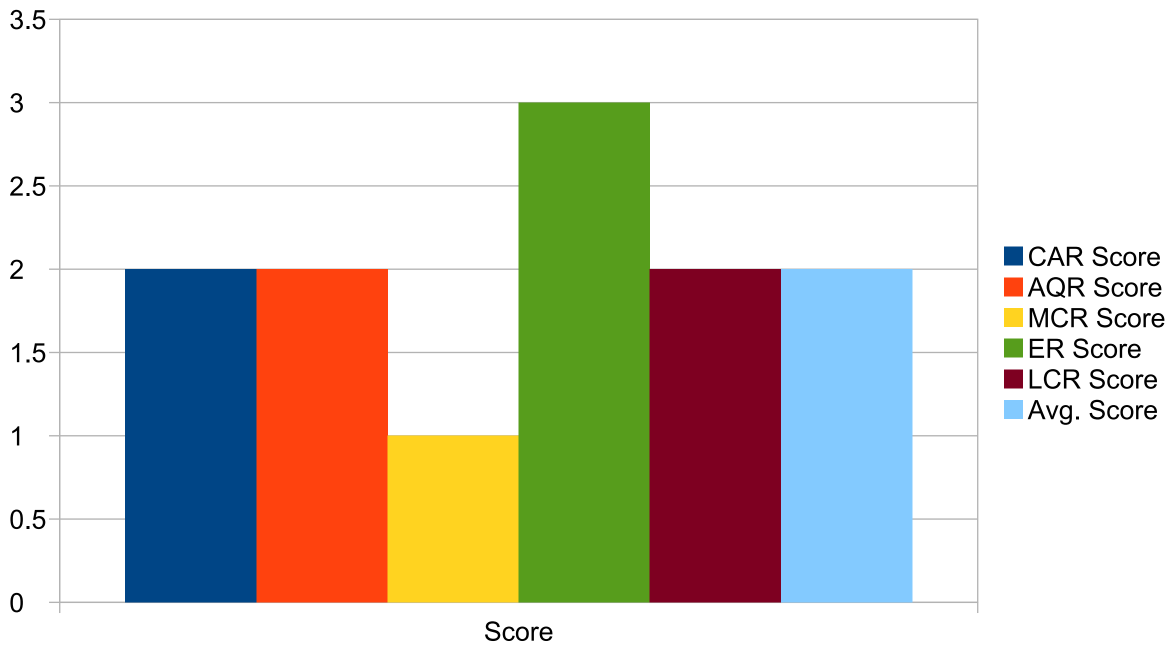
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	1	5	1	5	1	2.6

Suryoday Small Finance bank has a score of 1 in CAR, MCR and LCR which is the best possible score. A good CAR score implies that the bank will not face any trouble in providing money to their customers even if they face unexpected losses. A good MCR score implies that the management can give out good amount of loans as compared to their deposits. A good LCR score implies that the bank is maintaining a healthy amount of High-Quality Liquid Assets because of which they are unlikely to get into liquidity troubles. The Bank has a score of 5 in AQR and ER which is the worst score possible because of which the overall average CAMEL score of the bank is 2.6 which needs to be improved by focusing on improving the profitability of the bank and improving the AQR by minimize risky loans by performing proper checks on the customers before giving out the loans.

Utkarsh Small Finance Bank

Utkarsh Small Finance Bank is a scheduled commercial bank in India that was established in 2017. It is a subsidiary of Utkarsh Micro Finance Limited, which was originally a microfinance institution. The bank is present across India with over 500 branches and more than 5,000 employees.

Utkarsh Small Finance Bank has received various awards and recognitions for its services and initiatives, including the ‘Best Small Finance Bank’ award by Business Today, the ‘Fastest Growing Small Finance Bank’ award by CNBC TV18, and the ‘Inclusive Finance India Award’ by Access Development Services.



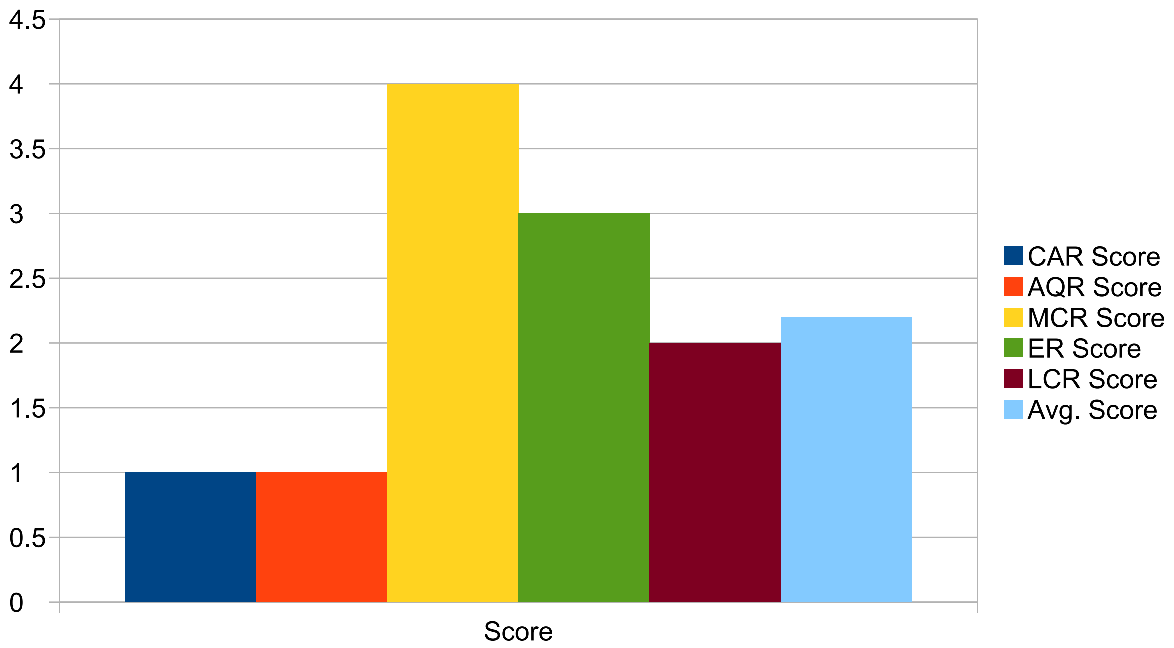
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	2	2	1	3	2	2.0

Utkarsh Small Finance bank has a score of 1 in MCR which is the best possible score. A good MCR score implies that the management is able to give out good amount of loans as compared to their deposits. The bank also has a good score in CAR, AQR and LCR. The bank has a score of 3 in ER which can be an area of improvement for the bank. Overall, the bank has an average CAMEL score of 2.0 which is good but can be improved for which the management needs to focus on improving the profitability of the bank.

Shivalik Small Finance Bank

Shivalik Small Finance Bank is a scheduled commercial bank in India that was established in 2018. It is a subsidiary of Shivalik Mercantile Co-operative Bank Limited, which was originally a co-operative bank. The bank has a presence in select states of India including Punjab, Haryana, and Rajasthan, with over 80 branches and more than 1,000 employees.

Shivalik Small Finance Bank has received various awards and recognitions for its services and initiatives, including the 'Best Small Finance Bank in North India' award by ASSOCHAM, the 'Fastest Growing Small Finance Bank' award by India Today, and the 'Best Digital Platform' award by IBS Intelligence.



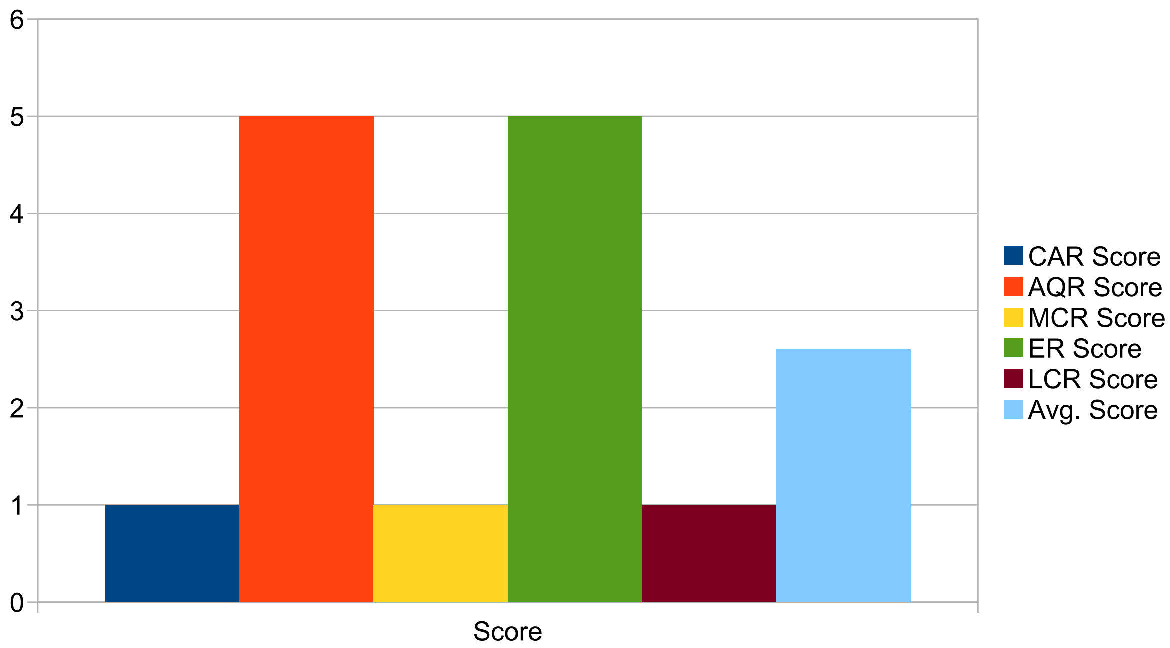
Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	1	1	4	3	2	2.2

Shivalik Small Finance bank has a score of 1 in CAR and AQR which is the best possible score. A good CAR score implies that the bank will not face any trouble in providing money to their customers even if they face unexpected losses. A good score in AQR implies that they have low Net NPA% and the bank has given out good quality loans. The bank also has good score in LCR but the bank has a score of 4 in MCR which is bad and implies that the bank is not efficient at giving out loans using their deposits. Overall the average CAMEL score of the bank is 2.2 which needs to be improved by the bank by focusing on improving the MCR by trying to give out more loans.

Unity Small Finance Bank

Unity Small Finance Bank is a scheduled commercial bank in India that was established in 2017. It is a subsidiary of Unity Financial Services Limited, which was originally a microfinance institution. The bank is present across India with over 240 branches and more than 5,000 employees.

Unity Small Finance Bank has received various awards and recognitions for its services and initiatives, including the 'Best Small Finance Bank' award by Business Today, the 'Fastest Growing Small Finance Bank' award by CNBC TV18, and the 'Digital Banking Initiative Award' byIndian Fintech Awards.



Category	CAR Score	AQR Score	MCR Score	ER Score	LCR Score	Avg. Score
Score	1	5	1	5	1	2.6

Unity Small Finance bank has a score of 1 in CAR, MCR and LCR which is the best possible score. A good CAR score implies that the bank will not face any trouble in providing money to their customers even if they face unexpected losses. A good MCR score implies that the management can give out good amount of loans as compared to their deposits. A good LCR score implies that the bank is maintaining a healthy amount of High-Quality Liquid Assets because of which they are unlikely to get into liquidity troubles. The Bank has a score of 5 in AQR and ER which is the worst score possible because of which the overall average CAMEL score of the bank is 2.6 which needs to be improved by focusing on improving the profitability of the bank and improving the AQR by minimize risky loans by performing proper checks on the customers before giving out the loans.

CHAPTER 3 Methodology ~Analysis and Discussion

Ranking the various Small Finance Banks in India using the CAMEL model

What is CAMEL model?

CAMEL model is a model which evaluates the strengths of different banks based on five factors.
These five factors are-

- Capital Adequacy
- Asset Quality
- Management capability
- Earnings Ratio
- Liquidity Coverage Ratio

Each of these categories is used to evaluate a bank's financial condition, management practices, and overall risk profile. Each of these factors are evaluated through quantitative and qualitative factors, including financial ratios, risk management policies and procedures, internal controls, and other factors. All banks are assigned a score for each of the six factors where a score of 1 is considered the best and a score of 5 is considered the worst. The CAMEL rating system provides a comprehensive framework for evaluating the overall health of financial institutions and identifying areas of potential weakness.

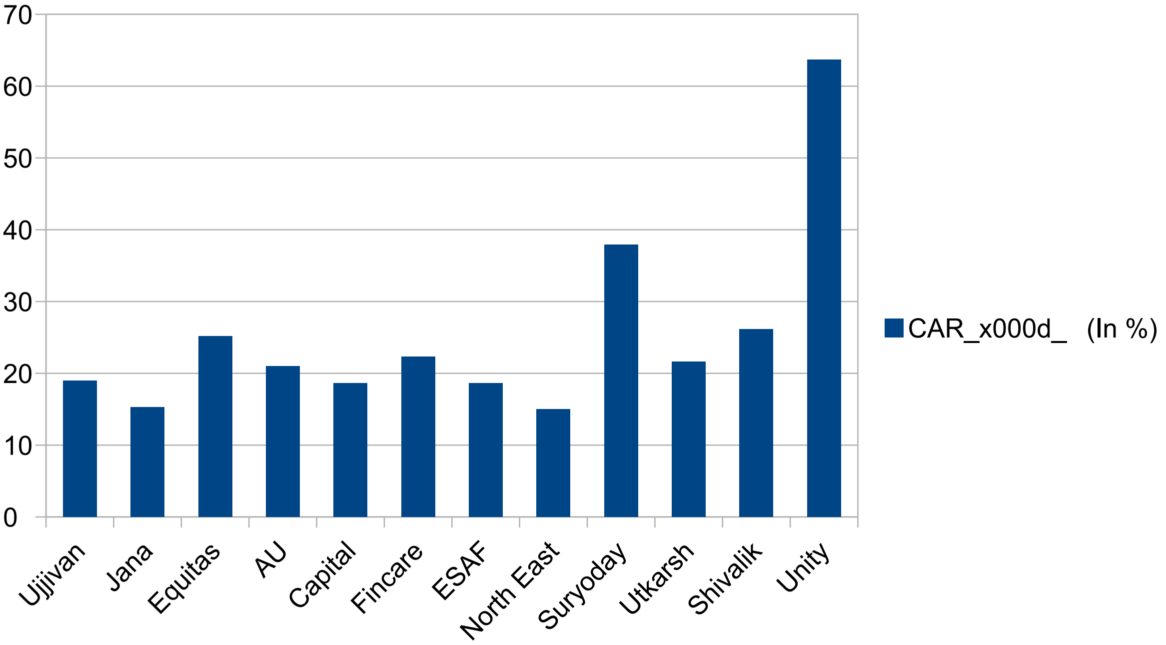
Capital Adequacy Ratio (CAR)

It gives the extent a bank's capability to deal with losses arising from its business activities. It is calculated by dividing a bank's capital by its risk-weighted assets. Capital refers to funds that a bank has raised from shareholders, retained earnings, and other sources.

The CAR is important for regulators because it helps to make sure that banks have enough capital to meet unexpected losses and uphold the confidence of their depositors. A higher CAR means that a bank maintains strong financials and is more prepared to survive adverse economic conditions.

Banks are mandated to maintain a minimum CAR, which is determined by regulatory authorities. In India the RBI mandates a CAR of 9% for scheduled commercial bank ,12% for PSBs and 15% for small finance banks. Banks that fail to maintain the minimum CAR may face regulatory penalties or restrictions on their operations.

CAR = Equity Capital / Total Assets



Score	1	2	3	4	5
Range(CAR)	24+	(21-23.99)	(18-20.99)	(15-17.99)	<15

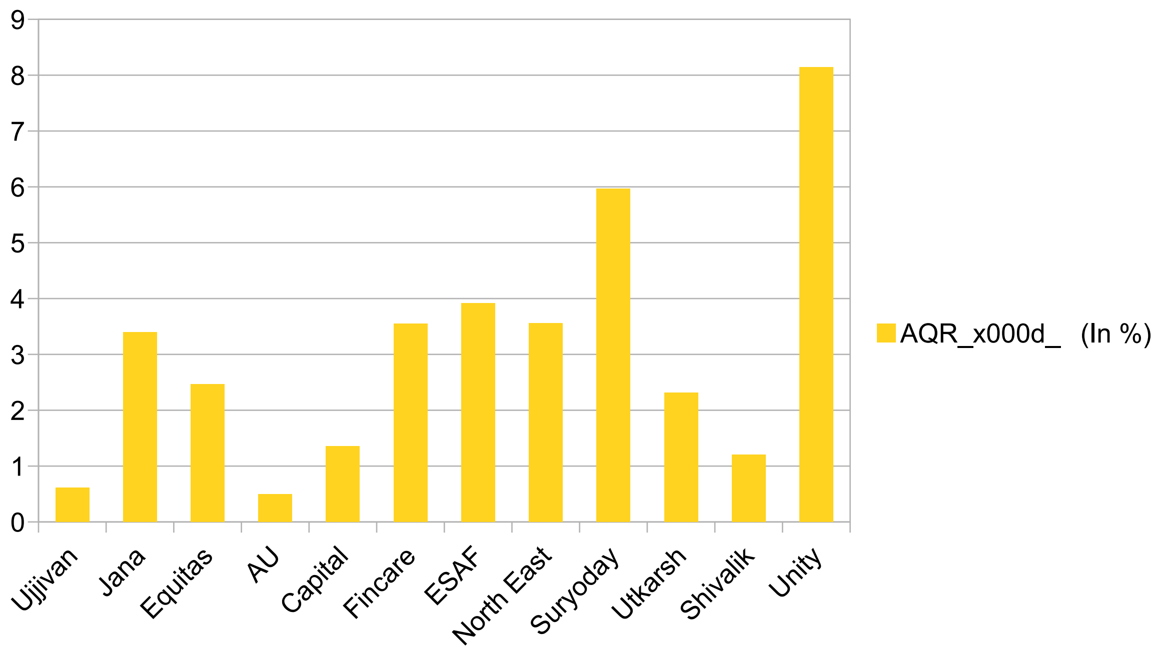
Asset Quality Ratio(AQR)

The asset quality ratio is a financial metric that measures a bank's asset quality, particularly its loans and other investments. This measure is typically used in evaluating the credit risk and a bank's financial health, as it provides insight into the likelihood of loan defaults and the overall quality of the bank's investment portfolio.

We will be using NPA ratio as a measure for asset quality ratio. The non-performing asset (NPA) ratio measures the amount of loans that are not being repaid on time, as a percentage of the total loans issued by the bank. A higher NPA ratio indicates higher credit risk level, which can make it more difficult for the bank to generate profits and maintain financial stability.

Overall, asset quality ratio can be an important tool for investors and analyst who are evaluating the financial health and performance of a bank or other financial institution.

AQR = Net NPA / Net Advances



Score	1	2	3	4	5
Range(AQR)	<1.25%	(1.25%-2.49%)	(2.5%-3.49%)	(3.5%-5.49%)	>5.5%

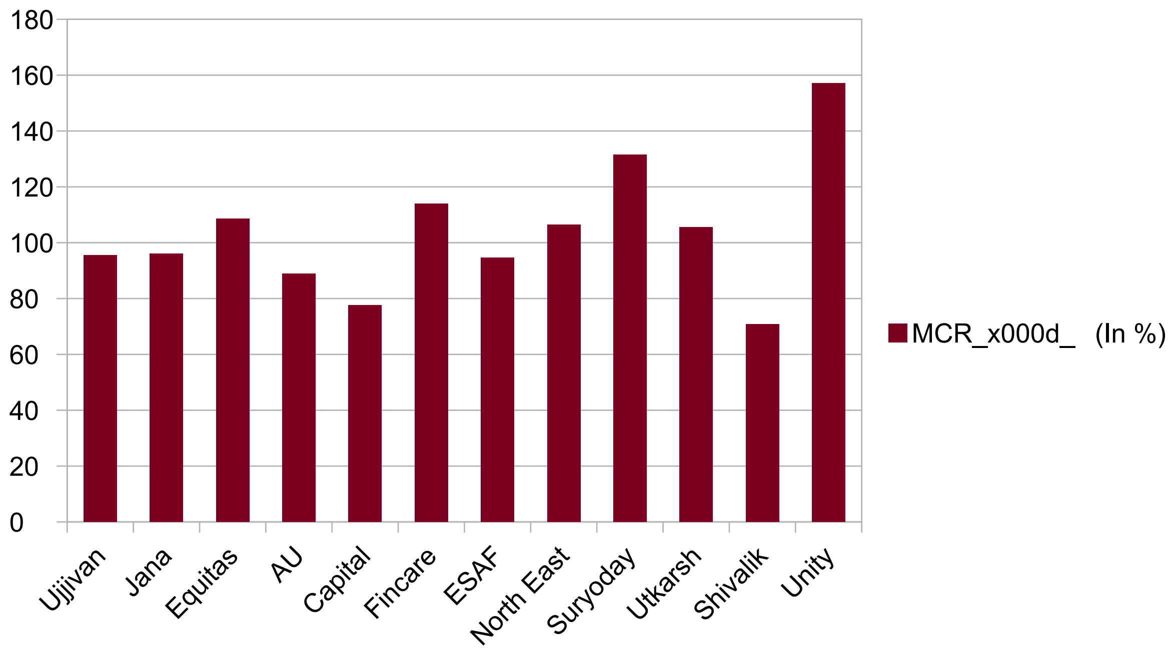
Management capability Ratio(MCR)

Management capability ratio is a measure of how effectively and efficiently the bank's management team utilizes its resources to achieve its objective. We will be using loan-to-deposit ratio of the bank to assess its management capability.

Loan to deposit ratio is a financial ratio which shows the amount of loans issued by a bank relative to the amount of deposits it has received from customers. Specifically, it calculates the percentage of a bank's deposit used to make new loans. A higher ratio can indicate better management efficiency, as the bank is efficient in utilizing its deposits to make loans and generate income.

Overall, management capability ratio is an integral aspect of a bank's performance, as it can impact the profitability, competitiveness, and long-term success of the bank.

MCR = Total Advances / Total Deposits



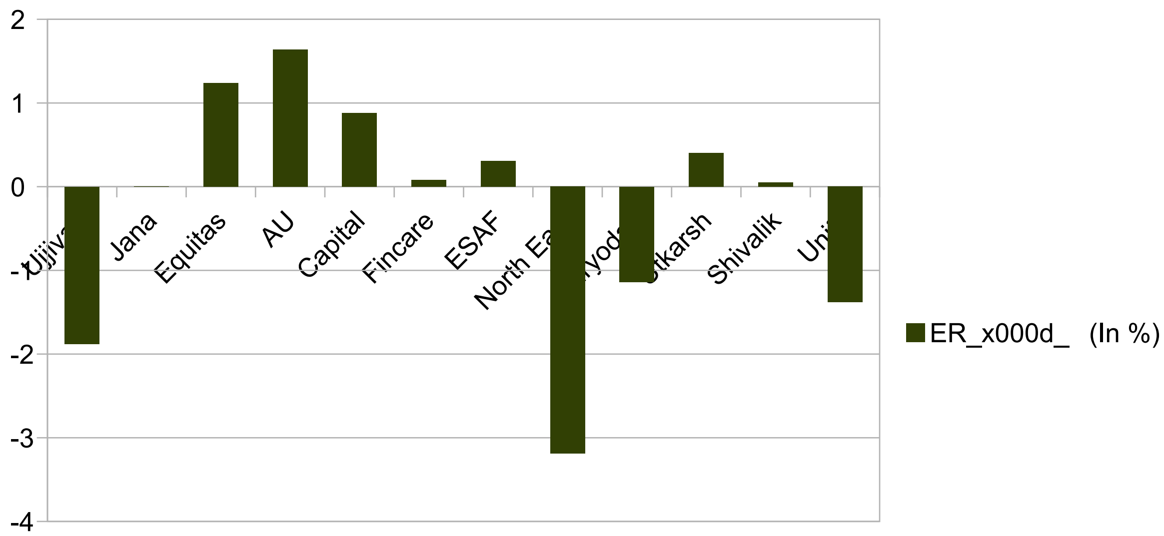
Score	1	2	3	4	5
Range(MCR)	100%+	(90%-99.99%)	(80%-89.99%)	(70%-79.99%)	<70%

Earnings Ratio(ER)

Earning Ratio typically refers to financial ratios that assess the bank's profitability and earning capacity. Earning ratios are important as they provide insights into the bank's ability to generate earnings from its core business activities. These ratios are closely monitored by investors, regulators, and other parties to assess the financial health and performance of the bank. We will be using return on assets ratio as our earnings ratio.

Return on assets (ROA) tells us about a bank's profitability (Net Income) relative to its total assets. Specifically, it shows how much profit a bank is generating for each dollar (or rupee) of assets it holds. Net income is a bank's total revenue minus all its expense. Total assets include all the bank's holdings, such as loans, investments, and cash. A higher ROA indicates better profitability and financial performance, while a lower ROA suggests that the bank may be facing challenges in generating profits from its assets.

ER = Net Profit / Total Assets



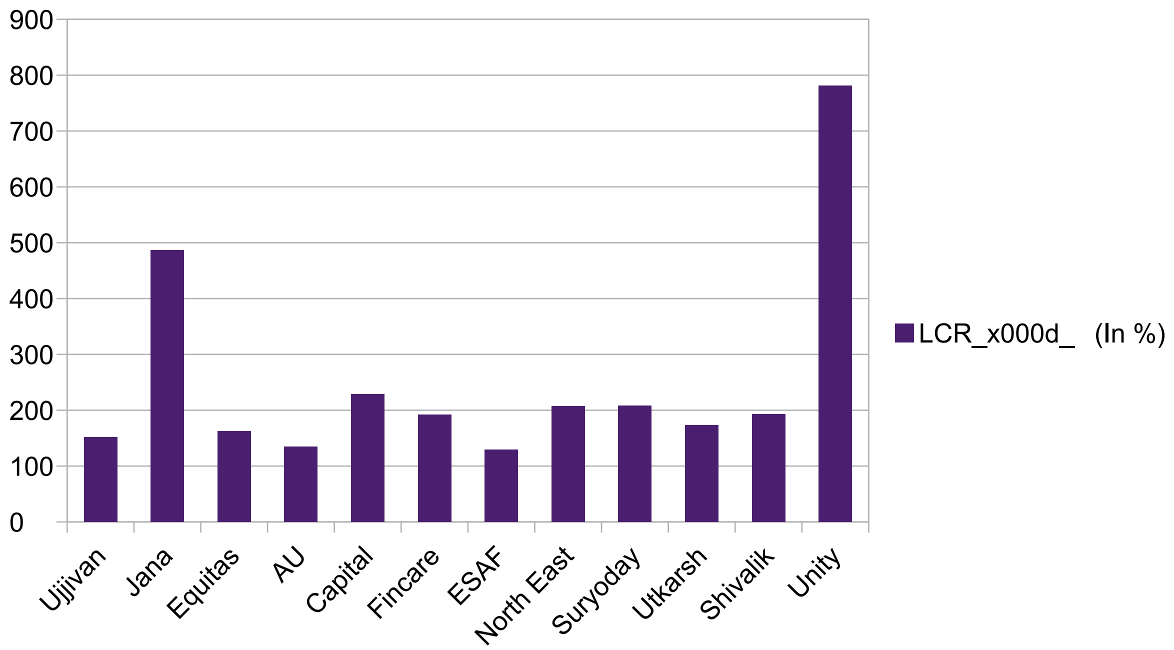
Score	1	2	3	4	5
Range(ER)	>1%	(0.5%-0.99%)	(0%-0.49%)	((-1)%-0%)	<(-1)%

Liquidity Coverage Ratio(LCR)

The liquidity coverage ratio (LCR) is a requirement given by regulators which was introduced by the Basel 3 framework for banks to ensure they have adequate amount of high-quality liquid assets(HQLA) to cover their short term liquid needs. Banks need to ensure adequate HQLA to cover their expected cash outflows over a 30-day stress scenario, which would typically include deposit withdrawals, collateral calls, and other liquidity demands.

The ratio is expressed as a percentage, and banks are required to maintain an LCR of at least 100%, meaning they must hold enough high quality liquid assets to cover all of the expected cash outflows during the 30-day stress scenario. A higher LCR indicates that a bank is more resilient to short-term market stresses and is better able to meet its financial obligations.

LCR = High Quality Liquid Asset (HQLA) / Total Net Cash Flow Amount



Score	1	2	3	4	5
Range(LCR)	200%+	(150%-199%)	(124%-150%)	(100%-124%)	<100%

Collecting data regarding CAR, Net NPA toNet Advances, Total Advances, Total deposits, Net Profit, Total Assets & LCR for all the Small Finance Bank using their annual report.

All data for FY21-22

	CAR	Net NPAs	Net NPA to Net Advances	Total Advances (₹ in Cr)	Total Deposits (₹ in Cr)	Net Profit (₹ in Cr)	Total Assets (₹ in Cr)	LCR
Ujjivan	18.99%	O.61%	0.61%	17,487	18,292	-414.59	21,992	152%
Jana	15.3%	3.4%	3.4%	13,007	13,540	1	20,188	487%
Equitas	25.16%	2.37%	2.47%	20,597	18,951	281	22,680	162.75%
AU	21.0%	0.50%	0.50%	46,788	52,584	1,130	69,078	135%
Capital	18.63%	1.36%	1.36%	4,688	6,046	63	7,154	229%
Fincare	22.3%	3.6%	3.55%	7,359	6,456	9	10,905	191.7%

ESAF	18.64%	3.92%	3.92%	12,131	12,816	55	17,707	129.65%
North East	15%	3.56%	3.56%	1,627	1,529	-75	2,351	207.29%
Suryoday	37.9%	6.0%	5.97%	5,063	3,850	-93	8,181	208.19%
Utkarsh	21.59%	2.31%	2.31%	10,630	10,074	61	15,064	173.38%
Shivalik	26.12%	1.2%	1.2%	1,127	1,593	1	2,702	192.77%
Unity	63.71%	8.14%	8.14%	5,996	3817	-149	10,810	781.01%

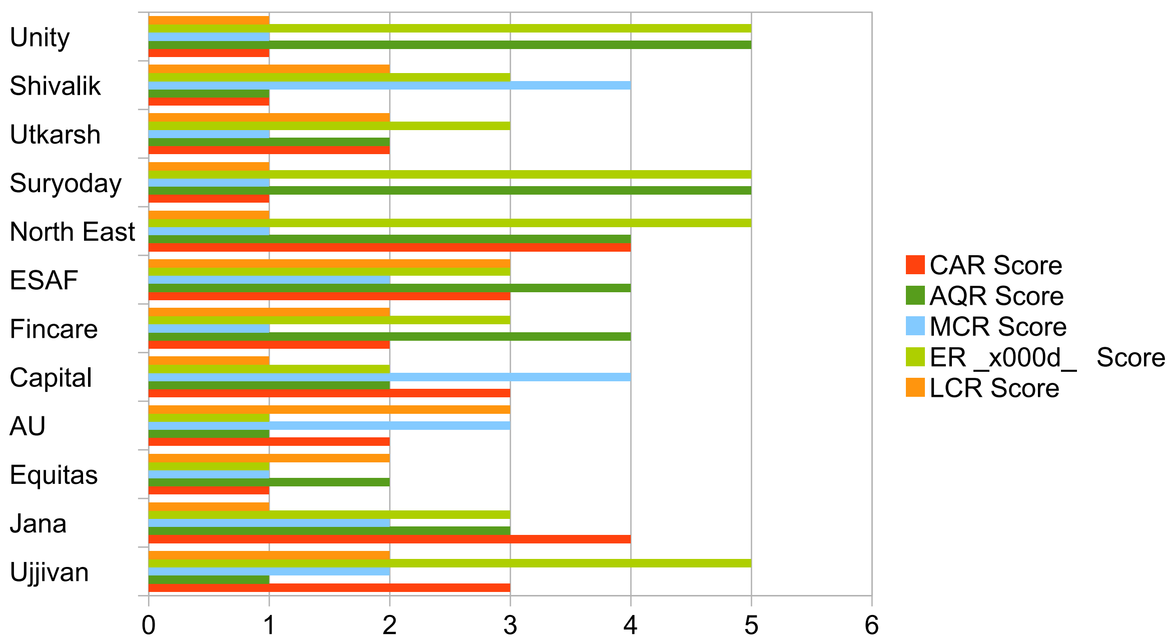
Using the data collected to calculate all the ratios and assigning a score accordingly.

All data for FY21-22

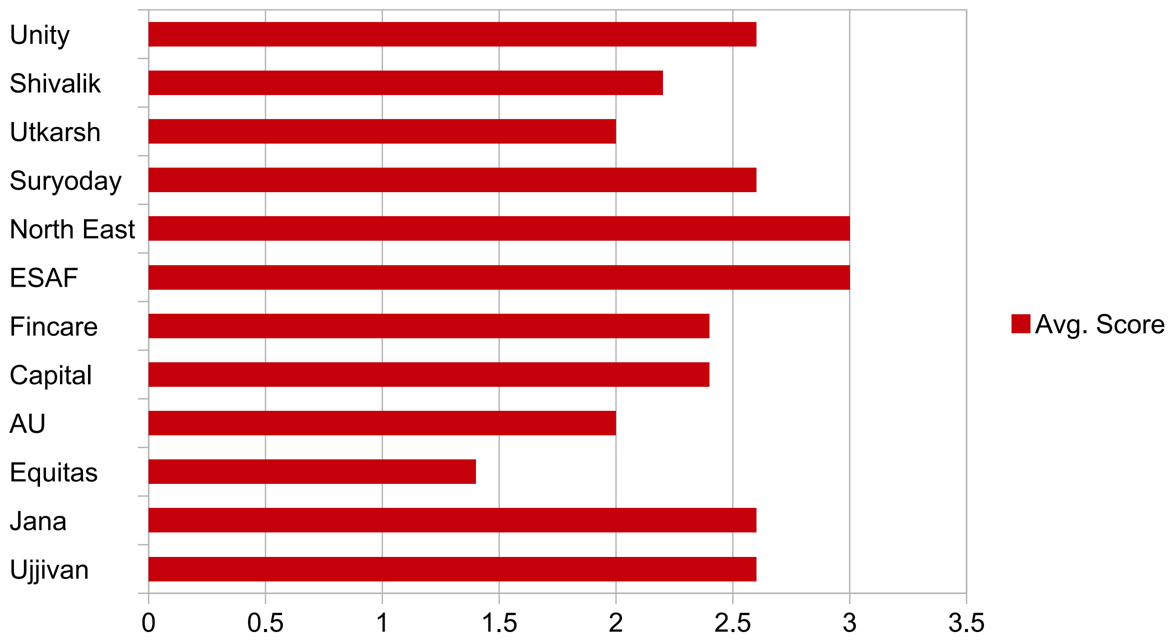
	CAR (In %)	**CAR Score**	**AQR** (In %)	**AQR Score**	**MCR** (In %)	**MCR Score**	**ER** (In %)	**ER Score**	**LCR** (In %)	**LCR Score**	**Avg. Score**
Ujjivan	19.0	3	0.61	1	95.60	2	-1.88	5	152	2	2.6
Jana	15.3	4	3.4	3	96.06	2	0.005	3	487	1	2.6
Equitas	25.16	1	2.47	2	108.68	1	1.24	1	162.75	2	1.4
AU	21.0	2	0.50	1	88.97	3	1.64	1	135	3	2.0
Capital	18.63	3	1.36	2	77.54	4	0.88	2	229	1	2.4
Fincare	22.3	2	3.55	4	113.98	1	0.08	3	191.7	2	2.4
ESAF	18.64	3	3.92	4	94.65	2	0.31	3	129.65	3	3.0
North East	15	4	3.56	4	106.41	1	-3.19	5	207.29	1	3.0
Suryoday	37.9	1	5.97	5	131.50	1	-1.14	5	208.19	1	2.6

Utkarsh	21.59	2	2.31	2	105.52	1	0.40	3	173.38	2	2.0
Shivalik	26.12	1	1.2	1	70.75	4	0.05	3	192.77	2	2.2
Unity	63.71	1	8.14	5	157.09	1	-1.38	5	781.01	1	2.6

Bar Graph showing scores of all the small finance bank for the CAMEL parameters



Bar Graph showing average scores of the CAMEL parameters for all the small finance bank


Unity
Shivalik
Utkarsh
Suryoday
North East
ESAF
Fincare
Capital
AU
Equitas
Jana
Ujjivan
0
0.5
1
1.5
2
2.5
3
3.5
Avg. Score

Small Finance Banks (SFBs): SWOT Analysis~

SFB as a model in banking needs to be reviewed for their viability and sustainability.

Strengths:

1) India's 70 % population lives in rural areas. Both public and private sector banks have mainly been serving in urban areas. As a result, the rural population can become a significant market for SFBs.
2) The government may quickly accelerate the momentum of financial inclusion by establishing these SFBs that currently interact with rural consumers.

Weaknesses:

1) The lower income category is unable to meet even their basic demands, and they should be brought under the banking umbrella. Despite all the efforts, a large percentage of Jan Dhan Yojana accounts are dormant, with no transactions made within 45 days after account opening.
2) SFBs may lack the use of technology which is needed in modern banking.

Opportunities:

1) Unemployed population can be used to promote financial inclusion into the process.
The delivery mechanism in the form of Business Correspondents (BCs) and Business Facilitators
(BFs), should be used to spread financial literacy and bring about financial inclusion.
2) Existing institutions, like the Grameen banks, should be utilized for increase poor people's access to banking services.

Threats:

Threats to Private Sector and PSU wallet share.

What makes Small Finance Banks (SFBs) different from traditional banks

Small Finance Banks (SFBs) aren specialised banks that cater to the banking needs of underserved and unserved sections of society, including MSMEs, farmers, low-income households, and unorganised sector entities. Here are some ways in which SFBs are different from traditional banks:

- **Focus on financial inclusion:** SFBs are designed to propagate financial inclusion and give banking services that cater to unique needs of these customers.
- **Localized Operations:** SFBs typically operate in specific regions or areas and have a deep understanding of the local market and customer needs. This enables them to offer

personalized services and build long-term relationships with their customers.

- **Smaller and agile:** SFBs are smaller in size compared to traditional banks, which allows them to be more nimble and agile in responding to changing market dynamics and customer needs. This also enables them to provide faster and more efficient service to their customers.
- **Higher interest rates:** SFBs typically provide a higher interest rate on deposits. This makes them lucrative option for customers who are seeking a higher return on their deposits.
- **Digital-first approach:** SFBs are leveraging technology and innovation to offer a seamless banking experience to their customers. They are also using digital channels to reach out to new customers and expand their business.

Overall, SFBs are better suited to fulfil the banking needs of underserved and unserved sections of society. They offer customized products and services, have a deep understanding of the local market, and are more nimble and agile in responding to changing market and customer need

Future Prospects of Small Finance Banks in India

Small Finance Banks (SFBs) in India have a bright future with a lot of growth potential. Here are some reasons why the future prospects of Small Finance Banks in India look promising:

- **High Demand for financial services:** There is a huge demand for banking and financial services in India, especially in villages. SFBs are well-positioned to cater to this demand by offering customizable services to meet the specific needs of these people.
- **Growing economy:** India is one of the fastest-growing economies of the world, and this will most likely continue in the coming years. This growth is likely to result in increased demand for financial services, creating a favourable environment for SFBs to expand their customer base.
- **Government support:** The Indian government has been taking various initiatives to promote financial inclusion and support the growth of SFBs. For instance, the Reserved Bank of India has relaxed various regulatory norms for SFBs, making it easier for them to operate and expand their business.
- **Innovation and technology:** SFBs are leveraging technologies and innovation to offer a seamless banking experience to their customers. They are also using digital channels to reach out to new customers and expand their business.

Overall, the prospects of small finance banks in India look promising, and they are likely to play an important role in propagating financial inclusivity and driving economic growth in the country.

Impact of SFBs:

The impact that emergence of SFBs has had on the Indian Banking sector is significant. Firstly, SFBs have contributed to financial inclusion by providing banking services to the underserved and unserved sections of India. This has helped in bringing them into the formal banking system and promoting financial literacy.

Secondly, SFBs have increased competition in the banking sector, thereby improving efficiency and customer service. The entry of SFBs has forced traditional banks to improve their service offerings and adopt new technologies to remain competitive.

Thirdly, SFBs have played a crucial role in extending credit to small businesses, micro and small enterprises, and other priority sectors. This has helped in promoting entrepreneurship and other priority sectors. This has helped in promoting entrepreneurship and job creations, thereby contributing to economic growth.

There has to be a structured and multidimensional approach through small finance banks, regional rural banks, NBFCs, digital platforms, infrastructure, and technological innovations to achieve the goal of Financial Inclusion. The role of small financial banks have been instrumental in bringing the underprivileged and unorganised sectors into the mainstream of formal banking activities. By establishing almost all branches in rural and semi-urban areas of the country to serve the lowest-earning strata the society will amplify the pace of financial inclusion and increase economic benefits to unserved areas.

Conclusions:

The emergence of SFBs in the Indian context is an important progression in the banking sector. These banks have been playing a crucial role in promoting financial inclusivity, increasing competition, and extending credit to priority sectors. Going forward, SFBs are likely to be even more important in the Indian economy by leveraging technology and innovation to offer customer-centric services and contribution to economic growth.

Limitations~

1.SFBs cannot offer loans to any segment like commercial banks. They have to offer 75% of their loans to organised sectors to unorganized sectors. Small finance banks cannot give credit cards.

2. Balancing Regulatory Compliance

3. Technology Management: Technology is dynamic and cost involved is high.

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Executive Summary~

Introduction Banking sector shapes the economy for development and growth. In India, there is a long track record of banks starting with the RBI, presidency banks, network of commercial banks, development of co-operating banks, and establishment of private banks. In spite of this, the need for reaching the under-banked areas and lower section of the population is still felt. To fulfill this need, a new era of small finance banks has emerged in last two decades.

The research is an overview about the beginning and development of small finance banks, Small banks are physical banks with a limited region of operation with the goal of providing basic banking products such as pigmy deposits and small loans. Small banks are supposed to use high-tech, low-cost operations to address the loan and remittance needs of small enterprises, farmers, micro and small industries, the unorganized sector, low-income households, and migratory workers. Small Finance Banks (SFBs) are a new form of bank that was launched into the Indian banking system in 2015 to cater to the specialized needs of niche consumers.

These banks are working to expand basic banking services and increase financial inclusion in the country.