

A Study on Financial Analysis of Small Finance Banks with Special Reference to AU Small Finance Bank and Ujjivan Small Finance Bank

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ABSTRACT

Small Finance Banks (SFBs) were introduced in India with the objective of promoting financial inclusion by providing basic banking services to unserved and underserved sections of society. These banks focus primarily on small businesses, marginal farmers, micro-enterprises, and low-income households. The present study aims to analyse and compare the financial performance of AU Small Finance Bank and Ujjivan Small Finance Bank using ratio analysis. The study is based on secondary data collected from annual reports for four financial years from 2016–17 to 2019–20. Liquidity, profitability, leverage, and market value ratios have been applied to assess financial efficiency. The findings indicate that AU Small Finance Bank demonstrates stronger profitability and solvency, whereas Ujjivan Small Finance Bank performs better in managing non-performing assets. The study concludes with suitable suggestions to improve financial sustainability.

Keywords: Small Finance Banks, Financial Analysis, Ratio Analysis, AU Bank, Ujjivan Bank

1. INTRODUCTION

Financial analysis is a systematic process of evaluating financial statements to understand the profitability, liquidity, solvency, and efficiency of an organisation. In the banking sector, financial analysis is especially important because banks deal with public funds and operate in a highly regulated environment. Sound financial performance ensures stability, growth, and trust among stakeholders.

Small Finance Banks were established by the Reserve Bank of India (RBI) in 2015 to further the goal of financial inclusion. These banks aim to provide credit and deposit facilities to those who do not have access to formal banking services. By focusing on priority sector lending and rural outreach, SFBs play a vital role in India's economic development.

This study analyses the financial performance of two leading Small Finance Banks in India, namely AU Small Finance Bank and Ujjivan Small Finance Bank, to understand their operational efficiency and financial strength.

2. OVERVIEW OF SMALL FINANCE BANKS

Small Finance Banks are governed by the Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934. They are required to maintain statutory liquidity ratio (SLR) and cash reserve ratio (CRR) similar to scheduled commercial banks.

Key characteristics of Small Finance Banks include:

- Minimum paid-up capital of ₹200 crore
- At least 75% of lending to priority sectors
- At least 50% of loan portfolio consisting of loans up to ₹25 lakh
- Focus on financial inclusion and rural banking

SFBs are permitted to accept deposits and provide loans while operating with relatively lower operational costs. Their expansion into rural and semi-urban areas has significantly contributed to economic inclusion and poverty reduction.

3. PROFILE OF SELECTED BANKS

3.1 AU Small Finance Bank

AU Small Finance Bank was founded by Mr. Sanjay Agarwal and commenced operations as a Small Finance Bank in April 2017. Initially operating as a non-banking financial company, AU transitioned into a Small Finance Bank after receiving approval from RBI. The bank focuses on retail banking, MSME financing, digital banking, and secured lending.

AU Bank has demonstrated consistent growth in deposits, customer base, and profitability. Its emphasis on technology adoption and cost efficiency has strengthened its competitive position in the banking sector.

3.2 Ujjivan Small Finance Bank

Ujjivan Small Finance Bank originated from Ujjivan Financial Services Limited, a microfinance institution established in 2005. The bank began its operations in February 2017. Ujjivan primarily caters to economically weaker sections by offering micro-loans and inclusive financial products.

The bank has a pan-India presence and focuses on improving asset quality and customer outreach through technology-driven solutions.

4. REVIEW OF LITERATURE

Previous studies highlight the importance of financial analysis in evaluating bank performance. Alamry (2020) emphasized ratio analysis as an effective tool to assess financial stability. McLeay (2011) highlighted the influence of regulatory frameworks on financial reporting in banks.

National studies by Pahwa (2018) and Jagwani (2019) emphasized the role of Small Finance Banks in promoting financial inclusion. However, comparative studies focusing on the financial performance of SFBs remain limited, which justifies the need for the present research.

5. RESEARCH METHODOLOGY

5.1 Objectives of the Study

- To analyse the financial performance of AU Small Finance Bank and Ujjivan Small Finance Bank
- To compare liquidity, profitability, leverage, and asset quality of the selected banks

5.2 Hypothesis

H₀: There is no significant difference between the financial performance of AU Small Finance Bank and Ujjivan Small Finance Bank.

5.3 Data Collection

The study is based on secondary data collected from annual reports, financial statements, journals, and official websites.

5.4 Tools Used

Ratio analysis has been used to analyse financial performance. The ratios include:

- Current Ratio
- Debt-Equity Ratio
- Net Profit Margin
- Operating Profit Margin
- Return on Assets
- Return on Equity

- Net Interest Margin
- Earnings Per Share
- Non-Performing Assets Ratio
- Proprietor's Ratio

6. DATA ANALYSIS AND INTERPRETATION

The liquidity analysis shows that both banks maintained an average current ratio, indicating moderate short-term solvency. AU Bank relied less on external liabilities, reflecting a stronger capital structure.

Profitability analysis reveals that AU Small Finance Bank recorded higher net profit margin and return on equity, indicating effective cost management. Ujjivan Bank showed improvement in later years, particularly in net interest margin.

Asset quality analysis indicates that Ujjivan Bank maintained a lower non-performing assets ratio, reflecting better credit risk management. Earnings per share were consistently higher for AU Bank, indicating better shareholder returns.

Overall, AU Bank exhibited stronger profitability, while Ujjivan Bank performed better in asset quality management.

7. HYPOTHESIS TESTING

The t-test results show significant differences between the two banks in terms of current ratio, debt-equity ratio, and non-performing assets ratio. However, no significant difference was observed in profitability ratios such as net profit margin, return on assets, and earnings per share.

Thus, the null hypothesis is partially rejected.

8. FINDINGS

- AU Small Finance Bank demonstrated stronger profitability and solvency
- Ujjivan Small Finance Bank showed better control over non-performing assets
- Both banks maintained stable long-term solvency
- Earnings per share were higher for AU Bank
- Both banks contributed significantly to financial inclusion

9. SUGGESTIONS

- Banks should improve short-term liquidity management
- Strengthening credit appraisal systems can further reduce NPAs
- Cost optimisation strategies should be adopted to improve margins
- Investors should analyse financial ratios before investing

10. CONCLUSION

Small Finance Banks play a crucial role in India's financial inclusion framework. The study analysed the financial performance of AU Small Finance Bank and Ujjivan Small Finance Bank using ratio analysis. The results indicate that AU Bank exhibits stronger profitability and solvency, whereas Ujjivan Bank performs better in managing asset quality. Continuous improvement in operational efficiency and risk management will enhance the long-term sustainability of Small Finance Banks in India.