

Comparative Analysis of AU Small Finance Bank with its Competitors

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Industry Overview

As per the research done by Reserve Bank of India (RBI) the banking industry in India is well capitalised and is being regulated with utmost effectiveness. Our Country has remarkable financial and economic circumstances in comparison with the other economies. Thesis on debt market, and risk based on liquidity disclose that Indian banks are generally irrepressible and have done quite well despite the slowdown of economies globally. The intimation of cutting-edge banking procedures, such as payments and small financial institutions, has lately occurred in the Indian banking business. The RBI's new initiatives may go a long way toward aiding in the restructuring of the banking system domestically.

India's Immediate Payment Service (IMPS) is the only system in the world to have reached level five on the Faster Payments Innovation Index, With this the country has accomplished the title of the most advanced digital payment infrastructure out of a total of 25 countries (FPII). Adding up , the cooperative credit institutions, in banking system of India, involves 12 public sector banks, 22 banks of private sector, 46 foreign sector banks, 1485 urban cooperative banks, 56 regional rural banks and 96,000 rural cooperative banks.

Banking is the most important part of the modern economy. The bank is important because it helps people save money and gives loans to different parts of the economy. A bank is a financial institution with the goal of accepting deposits, lending money to people and companies, making payments, investing funds in securities for returns, and safeguarding cash. It manages savings and checking accounts, provides customers with credit in the form of credit cards and loans, and serves as a trustee for its clients.

There are different types of banks in India which are as follows:

- **“Commercial Banks”** These businesses create profits and are among the most significant types of banks. They receive public deposits and lend money to enterprises, dealers, farmers, and consumers. Commercial banks, as part of the money market, provide the WC needs of businesses and industries.
- **“Development Banks”** They are specialised financial organisations that provide large and medium-sized businesses with long-term financing. Additionally, they engage in a variety of marketing initiatives to quicken the nation's rate of capital formation. These banks support the growth of the economy and industry.
- **“Co-operative Banks”** These kind of banks aims at providing credit at lower interest rates than market to the “Primary agriculture credit societies”.
- **“Investment Banks”** An investment bank acts as a middleman when a company wishes to launch/issue new stock or debt instruments. This can occur when the company needs to raise capital. Occasionally, an equity investment is made in these companies by purchasing shares of the company's stock.
- **“Foreign Banks”** A foreign bank has a legal responsibility to obey the laws and regulations of both its home country as well as the country in which it is operating. There are now 45 international banks that have branches in India.
- **“Central Banks”** India's central governing bank is the “Reserve bank of India”. It exercises authority on India’s overall banking sector .

“Recent development in Indian Banking Sector”

The banking industry has seen tremendous transformation in recent years, and these changes are showcased in banking sector reforms as well. Telecommunications and IT are the two most core areas that have seen change in a rapid manner It has sped up the distribution of financial information, cutting the expenses of numerous financial transactions. Credit Cards, ATMs, Tele-Banking, Electronic Fund Transfer (EFT), Internet Banking, Mobile Banking, and other innovative products have been introduced by banks in recent years. These new solutions improve the efficiency of banking by cutting transaction costs.

“Market Size”

The overall assets of Banks increased across all sectors from FY18 to FY21. The summation of total assets of the banking industry (including public as well as private sector banks) increased to \$2.48 trillion in FY21.

From Financial Year 2016 to Financial Year 2021, deposits had a compound yearly growth rate (CAGR) of 12.38%, and by Financial Year 2021, they were worth US\$ 2.06 trillion. As of December 31, 2021, banks had an amount of Rs. 162.41 trillion, which is about \$2.17 trillion.



Company Overview

Company Name: AU Small Finance Bank

Headquarters: Jaipur, Rajasthan

Industry- Banking sector

Founder – Mr. Sanjay Agarwal

Area Served – India

Company status – Active

Number of employees – 23,486 (2021)

Website: <https://www.aubank.in/>

It was established in 1996 in Jaipur as Au Financiers. At that time, it was a NBFC (Non-Banking Financial Company), and it worked productively while promoting economic growth, particularly for the category of people who is generally not served by the normal commercial banks. In April of 2017, Au Financiers rebranded itself as AU Small Finance Bank, and in that same year, they achieved a prominent listing and won the confidence of well-known investors. Today, AU stands at a height as a Scheduled Commercial Bank along with a Fortune India 500 Company that is enabling the banking sector to be more convenient by launching a variety of

industry-first innovations. The shift of AU from a financial corporation to a bank that provides safeguarding reflects many of the values that AU stands for, including the following:

“Inclusiveness, Progress for all ,Simplicity, Action and urgency”

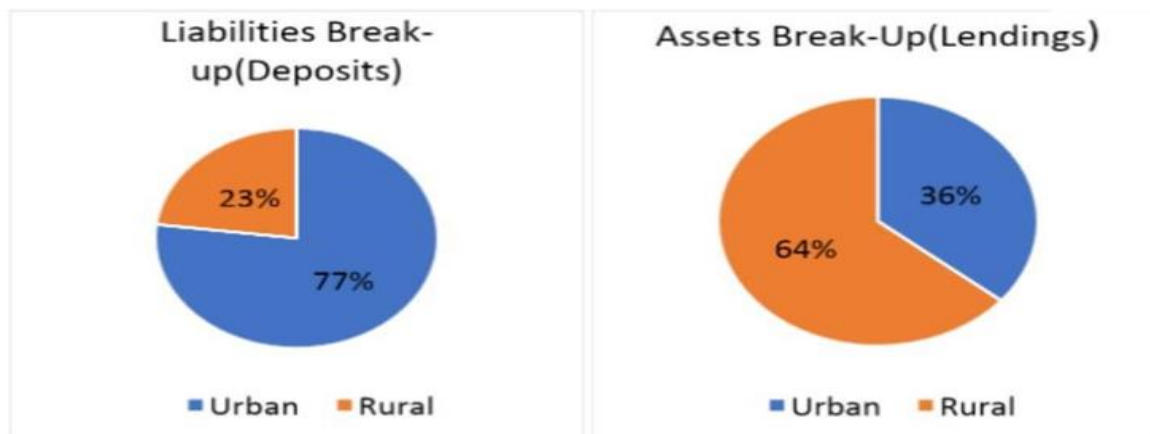
These are not simply just words. But, for a matter of fact, they constitute the exact foundation upon which this Small Finance Bank provides its services to customers, which constitute the most essential members of the AU family.

It reached the end of its five-year small finance bank tenure in April 2022. The organisation has been in existence for more than 25 years in terms of operations. AU is a bank that is focused on retail assets and liabilities and is driven by technology.

The most important thing that sets it apart from its competitors is that it has used new technology to improve its business.

AU is improving its "phygital" (physical and digital) approach to reach more people in more places. At the end of the March quarter of 2022, the organisation had 413 branches and 919 touch points all over the country.

Its business model is also unique in that it takes money from urban markets and gives it to rural markets. Seventy-seven percent of AU's deposits come from cities, while only 23 percent come from rural areas. When it comes to loans, 64 percent of the bank's deposits go to rural areas, while only 36 percent go to urban areas.



People were forced to go digital because of the pandemic. It happened when the lender needed it most. The tailwind pushed the bank ahead of its competitors by a long way.

Customers' use of digital technologies has grown by a huge amount. People are now starting to conduct transactions via digital platforms. According to the bank's investor presentation for

Q4 FY22, as of March 31 it had implanted over 4.8 lakh QR codes and issued about 1.7 lakh credit cards.

Particulars	March 31, 2017	March 31, 2022	Growth (CAGR%)
Branches	301	919	32%
Employees	8,515	27,817	34%
Unique customers	2,66,220	26,14,537	77%
Total Assets (Rs crore)	9781	69078	63%
Loan (AUM)	10,734	47,831	45%
Net worth (Rs crore)	1,988	7,514	39%

Comparative Analysis of AU SFB with HDFC, SBI and Ujjivan Small Finance Bank

•HDFC: Both in terms of market capitalization and assets, HDFC Bank is the most important financial institution in India. The bank has an almost perfect track record of providing PAT growth of more than 20 percent over the course of the previous 20 years. The bank is the industry leader in personal loans, credit cards, and auto loans, making it a crucial indicator of India's growing consumerism. HDFC bank has the widest distribution, the most diverse portfolio, and the strongest working capital loan proposal, allowing it to switch between retail and wholesale loans based on market conditions.

The bank has improved its digital capabilities by a) tripling the amount of transactions that can be processed through UPI; b) doubling the amount of transactions that can be processed through mobile and internet banking. The bank has maintained the best asset quality over asset quality cycles in the Indian banking sector, despite having the biggest share of unsecured personal loans. This has been made possible by sound risk management procedures, rigorous monitoring, and careful customer selection.

•SBI: The State Bank of India is India's most prominent financial institution, holding approximately 25 percent of the market share in both loans and deposits. The bank has over 440 million customers that it serves through its broad network of more than 22,000 locations. In addition to this, it serves as the holding company for SBI credit cards, life and general

insurance, mutual funds, and capital market intermediaries. In contrast to other PSU banks, which have continually given up market share, this bank has grown. When enormous m/s are considered, it is conceivable that overall growth will resemble systemic growth. The bank is being careful with its lending to businesses, but it is experiencing robust growth in the retail sector, led by unsecured personal loans. The bank has built the largest Unsecured Personal Loans book with the best NPAs in the business in just three to four years. The bank's liability business is strong because of its brand, trust, and outreach. The bank has about 25% of the market share in systemic deposits and sets the prices for the industry as a whole.

•Ujjivan Small Finance Bank: This Small Finance Bank (USFB) Limited is widely regarded as one of the most successful small finance banks in the nation. As a mass market bank, it is still committed to serving the unserved and under-served segments through financial and digital inclusion. Ujjivan Small Finance Bank is continuously broadening its market presence and improving the quality of the services it provides its clients by leveraging technology as a primary enabler. The improved digital interfaces across regions and languages have made it possible for their customers to get finance quickly and easily at any time. This has helped the Bank get closer to its customers in many different places. As of the 30th of September, 2021, the bank has a presence all across India, serving more than 59.7 lakh customers and providing more than 575 banking touchpoints in 248 districts, 24 states, and 24 Union Territories.

Trend Analysis:

The performance of AU SFB is contrasted to those of its key competitors, HDFC, SBI, and Ujjivan Small Finance Bank, in Trend Analysis. Trend Analysis is a tool that provides users with data on the % change in the specified data over time. Net profit has always been the most popular measure of gauging success. Deposits along with advances are components of a bank's statement of financial position that accounts for the majority of its external as well as internal liabilities and assets respectively. So, these are the three primary components utilised to compare the performance of the four banks.

i. Trend Analysis of Profit After Tax (PAT)

Profit After Tax: The term "Profit After Tax" refers to the sum of money that is left over after a business has deducted all of its operating and non-operating expenses, as well as any other

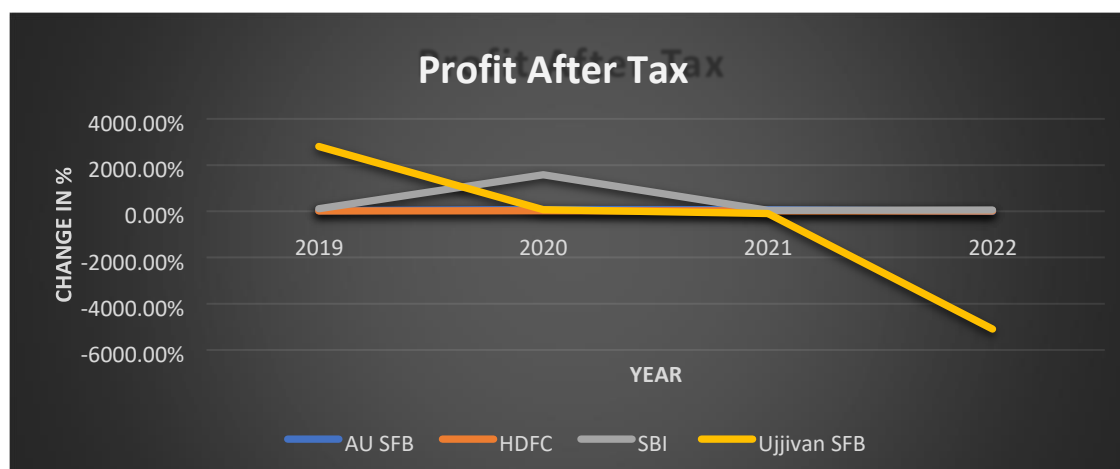
liabilities and paid all of its taxes. This profit is what the company keeps as retained earnings in reserves or distributes to its shareholders as dividends.

Since it displays the actual amount of money an organisation made within a particular fiscal year, profit after-tax is a crucial metric for assessing a corporation. It exposes the company's expenses as well as its cash earnings, both of which are used to assess the effectiveness and performance of its operations.

So, here the data and

Year	AU SFB	HDFC	SBI	Ujjivan SFB
2019	30.82%	20.54%	113.17%	2804.08%
2020	76.70%	24.57%	1580.31%	75.65%
2021	73.48%	18.51%	40.88%	-97.63%
2022	-3.50%	18.78%	55.19%	-5094.94%

graph show the Trend analysis of PAT that all the four banks follow from 2017-18 to 2021-2022.



Interpretation: -

- The graph clearly depicts that from Year 2018 to 2022 AU SFB has improved its performance. It's Profit After tax in the year 2018 was only Rs.292.04 crore which now in 2022 has increased to 1,129.83 crores. The reason for growth in profit is due to higher interest income. As profits in 2022 has declined from 2021 which is due to the second wave of pandemic as it slowed down the economic growth.

- The growth in HDFC can be seen with the constant rate. Reason that could be driven for its growth are growth in advances with a constant rate which ultimately increased interest income.

- In year 2018 SBI had made of loss Rs.6547.45 crores due to the reason that interest expenditure in that year is higher than its interest income received from advances, bills as well as its provision towards deferred tax is also negative. But after this SBI has started making profits in which I have analyzed it had made a jump from Rs.862.23 crores in 2019 to Rs.14,488.11 crores in 2020. After 2020, its profit has increased with the constant rate.

- Ujjivan SFB has seen a growth in its PAT in the year 2019 as net profit increased from Rs.6.89 crores to Rs.204.39 crores due to the reason interest income increased with the higher rate than interest expenses. But in the year 2022 its PAT declined and the bank made a loss of Rs. 414.58 crores as pandemic had put stress on the bank's growth . The bank has seen a sharp rise in its NPA and its provisions for tax and risk has reached negative.

ii. Trend Analysis of Deposits

Deposits: "Bank deposits" are the funds that clients entrust to banking institutions to be held securely. The account holder shall have the right to withdraw any cash put in the account in accordance with the terms and circumstances governing the account agreement. In terms of the deposit itself, the bank is legally obligated to the depositor.

Different people have different purposes for making deposits in the bank. Some people find it difficult to consistently save money. They only deposit money into the bank when all of their bills have been paid. The goal of depositing money is to preserve it for upcoming needs. Some people may want to keep their money in the bank as long as possible so they can earn interest or save up enough money with interest to buy a house, pay for medical bills in old age, etc. Some people, mostly businessmen, put all of their sales money into a bank account and use that money to pay for all of their business costs. On the basis of different purpose that bank serves, deposits has been classified into different categories which are as follows:

- Savings Account: Savings Account can be opened with a minimum initial deposit that differs from bank to bank. Banks allow interest on this type of accounts. Generally, salaried person and labour class opens this type of account. Withdrawals can be made at any time but banks put on the number of withdrawals from this account.

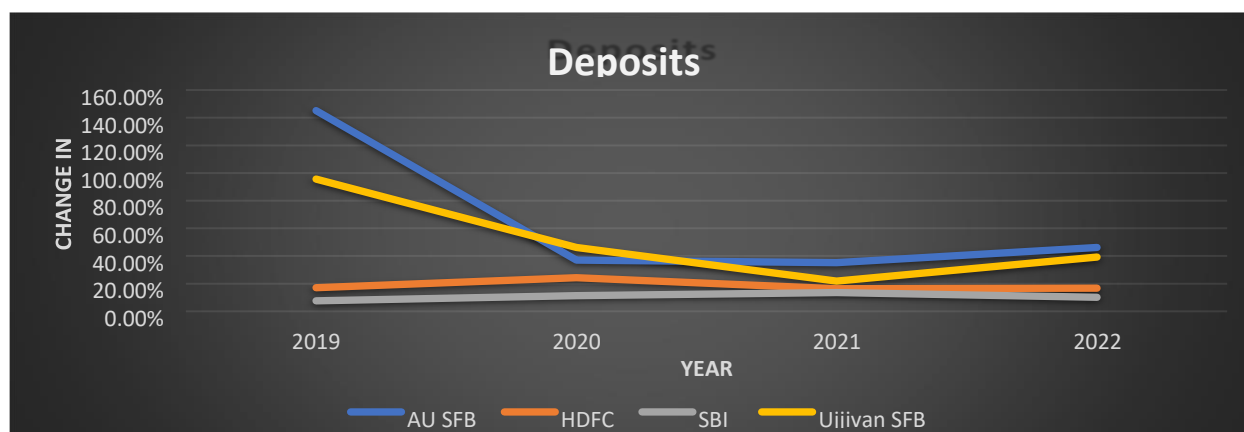
•Current Account: Generally, this type of account is opened by businessmen as there are no restrictions on the number of withdrawals. It is also opened by depositing minimum amount and bank does not pay any interest to current account holders. But this account gives the facility to its holder to withdraw the amount in excess of deposit balance. This facility is known as Overdraft Facility. It can be done for certain consumers up to a specific limit and under specific conditions after coming to an arrangement with the relevant bank beforehand.

•Fixed Deposit Account: Customers deposits money in fixed account in order to earn higher rate of interest. This type of deposits allows the customer to deposit specific amount from a period ranging from 7 days to 3 years or more with no withdrawals allowed. If customer encash the sum before maturity then banks pay lower interest than what was agreed upon. Interest earned on a fixed deposit account can be taken out at certain times.

•Recurring Deposit Account: When starting the account, the customer must agree to make a set deposit once every month for a predetermined amount of time. The customer gets the total amount with interest at the time of maturity.

So, here the data and graph show the Trend analysis of Deposits that all the four banks follow from 2017-18 to 2021-2022.

Year	AU SFB	HDFC	SBI	Ujjivan SFB
2019	145.13%	17.04%	7.58%	95.61%
2020	37.03%	24.30%	11.34%	46.09%
2021	35.19%	16.34%	13.56%	21.85%
2022	46.15%	16.79%	10.06%	39.26%



Interpretation:

- Deposits in AU SFB has increased with the higher rate in 2019. After 2019 it increased with the constant rate .As in 2018 it was only Rs.7923 crores which now in 2022 has increased to Rs.52,584 crores. The reason for increase in 2022 with such higher rate could be increase in interest rates on deposits by AU SFB. Also, it is the bank that has developed several years ago, so it is adding new customers . That's we can see such higher change in deposits as compared to 2018.

- As we know that HDFC and SBI is the largest private and public sector banks respectively, therefore, their deposits has increased but the increment rate is not much high, due to the reason as they are the oldest banks so they already have their old and loyal customers. Thus, we can say that the rate at which new customers has been added is low.

- Ujjivan SFB is also the newly established bank and its deposits has also seen a good change as compared to 2018. As it was Rs.3772.52 crores in 2018 and Rs. 18,292.22 in 2022. Therefore, it is also adding the new customers which has increased its deposits with such higher rate .

iii. Trend Analysis of Advances:

Advances: The term "advance" refers to the credit facility that the banks gives to individuals or businesses, so that they can meet their financial/operational needs. Advances like these should be paid back in a limited amount of time, like a year. Depending upon the agreement/contract amongst the 2 parties i.e. The lender and the borrower, the payback term may change. The terms, conditions, and rules of any advances given by financial institutions

in India must be governed and approved by the Reserve Bank of India and the plans of the specific bank. Because advances are made available to individuals or businesses in order to satisfy their day-to-day demands or requirements, the interest rates that banks and other financial institutions charge are typically rather low. This enables the transaction to be both easy and cost-effective.

Banks grant advances against various securities which are as follows:

- Primary Securities: Hypothecation of debtors, Promissory notes etc.
- Collateral Securities: Mortgage of property and other fixed assets like machines etc.
- Guarantees: Given by partners, directors or promoters etc.

Different forms of banker's advances –

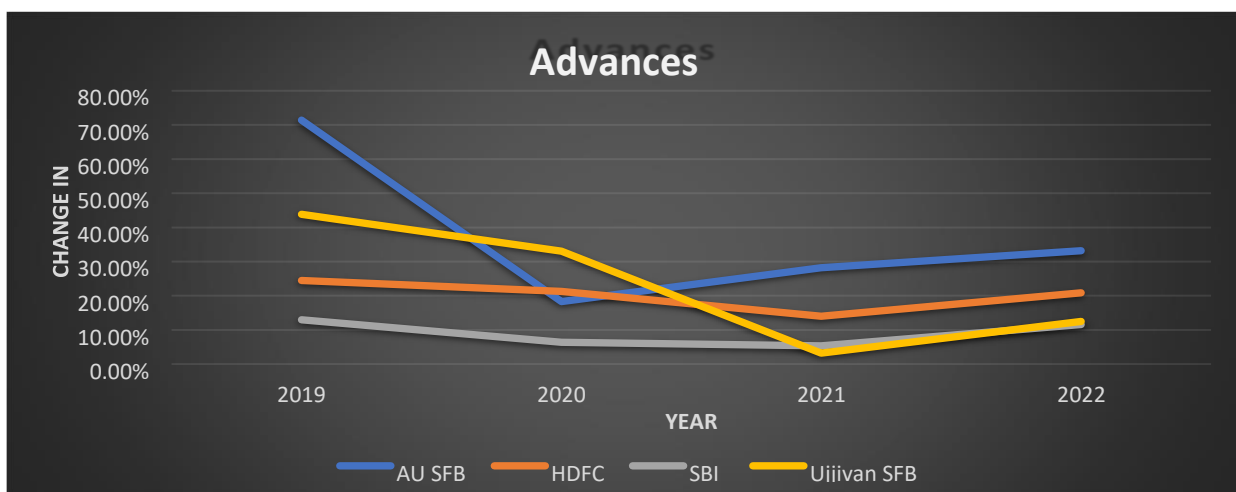
•Cash credit: Cash credit is a method of lending money by banks to their customers in which the customers are allowed to borrow money against the security of tangible assets and guarantees up to a certain limit that is specified by the banker and is known as the "cash credit limit." The customer only pays interest on the amount he actually uses, not the whole amount. If the customer does not use the cash limit to the full extent, the bank has the right to levy a commitment charge on the customer. This penalty is calculated based solely on the amount of the cash credit that was not used.

•Overdraft: An overdraft is a service that a bank offers to a current account holder that enables withdrawals above the account's credit amount. This service is available for a shorter amount of time. With the overdraft facility, a customer is permitted to withdraw funds as needed, as long as the total amount withdrawn does not exceed the set limit. The customer is only charged interest on the exact amount that was taken out of his account by the customer, and only for the length of time that the money was really used.

•Loan: The loan refers to the sum of money that is borrowed from the financial institution under the terms that it must be repaid either in instalments or all at once (in a lump sum), on the dates and at the interest rate that have been agreed upon. Regardless of whether or not the borrower actually takes the money out of his account, the bank will continue to charge interest on the entire amount. The customer can take the loan with or without security.

So, here the data and graph show the Trend analysis of Advances that all the four banks follow from 2017-18 to 2021-2022 .

Year	AU SFB	HDFC	SBI	Ujjivan SFB
2019	71.41%	24.47%	12.97%	43.84%
2020	18.29%	21.27%	6.38%	33.08%
2021	28.22%	14.00%	5.34%	3.21%
2022	33.19%	20.83%	11.61%	12.48%



Interpretation:

- As AU is a small finance bank, its main focus is to provide loans and advances to small scale industries, agricultural workers, MSMEs who all worked at a lower level. This is one of the reasons why AU SFB advances has increased with such a higher rate. As it was only Rs.13,313 crores in 2018 which now has increased to Rs.46059 crores in 2022.

- As we know that HDFC and SBI is the largest private and public sector banks respectively, therefore, their advances has increased but the increment rate is not much high, due to the reason as they are the oldest banks so they already have their old and loyal customers. Thus, we can say that the rate at which new customers has been added is low. Also, the increment rate of advances provided by HDFC banks is higher than SBI , as the HDFC are better and quick service providers than SBI bank.

•As Ujjivan SFB is a small finance bank, its main focus is to provide loans and advances to small scale industries, agricultural workers, MSMEs who all worked at a lower level This is one of the reasons why Ujjivan SFB advances has increased with such a higher rate. As it was only Rs.7336.21 crores in 2018 which now has increased to Rs.16,303.17 crores in 2022.

Conclusion and Recommendations

Components / Banks	AU SFB	Ujjivan SFB
Deposits	X	✓
Advances	✓	✓
Return on Capital Employed	✓	✓
Net interest margin	✓	✓
Capital Adequacy Ratio	✓	✓
Net NPA	✓	X
Profit After Tax	✓	X

- ✓ For conclusion AU Small Finance Bank and Ujjivan Bank have been taken, so in terms of Deposits both the banks were performing better but increase rate at Ujjivan Bank is higher than AU SFB
- ✓ In terms of Advances, ROCE ratio , Net interest margin and CAR both the banks were performing as per the expectations
- ✓ In terms of NPA, Ujjivan Bank after Covid was higher than AU SFB which means Ujjivan banks has higher number of bad loans
- ✓ Ujjivan Bank's has made a loss of Rs. 404 crore during the year 2022 and AU SFB made a profit of Rs. 1129 crores
- ✓ So ideally if one wants to invest, then AU SFB bank is better option as it gives dividend of around 0.78% .

Recommendations: -

- As Banks CAR ratio decreases from 2021 to 2022. At the same time it's key performance in Tier2 cities also decreases, So Bank should invest more capital in Tier 2 cities to increase it's CAR and performance.
- Bank should try to finance more and more projects. As bank collaborated with M FINE company which is an application to that helps in tracking the health of bank's employees, provides medical insurance and support to employees and their families. Through this app, bank spend Rs. 1lakh on each of it's employee which provides benefit to the bank as well as its employees. Therefore, bank should try to finance and collaborate with more projects like these for the benefit of the company
- Bank can also think about improvinit's day-to-dayy service to its clients. Such assistance can be improved by providing prompt service and showing an attitude of co-operation to its clients. It will help to give a kind of confidence to the public and build a better public image.
- To fulfil the goal of rural development, it should establish more and more branches in various rural regions of the nation. It will make it easier to assist impoverished rural farmers and those living in poverty. The bank may hire commission agents for various locations to encourage the general public to participate in the bank's capital and make additional deposits in AU Bank.
- The bank should simplify the procedure of advances for quick disbursement. So, more and more people would apply for loans , which would increase interest income for the bank

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