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A Study on Review of Sustainability of Small Finance Banks in India

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ABSTRACT

India has experimented lot of initiatives, to include the excluded segment in to the main stream of economy so as enhance their standard of living, such initiatives resulted in many innovations. But some inadequacies prevail in those innovations, to call them a complete solution to the excluded segment. Hence, It is felt by the Government, by way of Niti Ayog (Erstwhile Planning Commission) has set up a committee on Financial Sector Reforms, headed by Dr. Raghuram Rajan, which has suggested opening up Small Finance Banks to the achievement of further financial inclusion. This study discusses about the sustainability of Small Finance Banks to draw out pragmatic solutions.

Keywords: Below Poverty Line; Low Income Group; Small Finance Banks, Reserve Bank of India; Financial Inclusion; Cooperative Movement; Regional Rural Banks; Local Area Banks

INTRODUCTION

'Poverty' is so far read as non accessibility to finance to the excluded segment, but the latest reading of poverty is Multi-dimensional and is understood from the perspective of 'experience of poverty'. Multi-dimensional Poverty goes a step further than simply focusing on a lack of finances. It encompasses other factors such as poor health or malnutrition, lack of clean water or electricity, poor quality of work and limited education access in order to provide a broader picture of poverty's true reality (Niall McCarthy, Forbes 2007). United Nations Development Programme's Press Release has documented, that 271 million people in India moved out of multidimensional poverty in the period of 2006 to 2016 (UNDP, 2019). This feat may not be possible without country's multifarious attempts; right from independence and the latest are Small finance Banks, which are introduced in the poverty alleviation arsenal, after a long study.

Evolution of Financial Institutions

The earlier initiatives through banking are Priority sector lending, through which the prioritised sections of the society are funded through various funding schemes floated by the Government, approaches introduced, via banking channel, But, Commercial Banks have developed apprehensions over the service to the micro segment, because of the high transactional costs, default risk arisen out of Moral Hazard, financial illiteracy prevail in low income group.

Cooperative Banks: Cooperative movement in India was much encouraged by Government and seen as a assuring model of poverty alleviation, since its constitution is by its members only, and those members are low income earning poor, and its democratic set up, training to all the stake holders on cooperative, nature of mutual help and self-reliance. But it also gone failed, because of affluent and politicians have seized the powers and authority through the election, political parties got interested, government also did not see the cooperatives as an independent movement to be owned by the members, instead Government viewed cooperative as their administration department. Also, Primary Cooperatives suffer because of their single purpose, and limited members.

Regional Rural Banks now Grameena Bank: RBI, under this scenario, when Scheduled Commercial Banks and Cooperatives to fail to address the issues of poor and vulnerable group. This non-achievement resulted in to the formation of Regional Rural Banks as per the Narasimham Committee (1975), with an objective to serve the unbanked and weaker sections of the society, with the capital structure of Central Government, State Government, Sponsor Bank in a proportion of 50:15:35, thus RRBs came in to existence in 1976. They are successful in penetration and serving to unbanked, but because of the ownership, the accountability grossly missed, as an institution RRB, failed to make profit, and thus grown unviable structure. Hence, many committees by RBI have studied possible liquidation and restructure, and thus decided to merger and amalgamation of loss making RRBs (Sardesai Committee, 2005). Some of the RRBs eroded their net worth, and deposits even, such RRBs are recapitalised (Biswa Swaroop Mishra, 2006). Thus, 196 RRBs resulted after merger and amalgamation in to sponsor banks, only now 56 RRBs are operational (Sulagna Das 2014). On the same period of RRBs are recapitalised into Grameena banks.

Local Area Banks:-In the same year of recapitalising, 1996, RRBs, the Local Area Banks (LABs) have been introduced. Finance Minister in his budget speech in 22nd July 1996 said that, "it has been agreed by RBI, to the setting up of new private local area banks with jurisdiction over two or three contiguous districts. This would enable the mobilization of rural savings by local institutions and at the same time make them available for investments in the local areas". Following the announcement of Finance Minister, RBI released a set of guidelines for setting up Local Area Banks in private sector in August 1996. The objective of opening up of Local Area Banks was. “With a view to providing institutional mechanisms for promoting rural savings as well as for the provision of credit for viable economic activities in local areas” and it was “expected to bridge the gaps in credit availability and enhance the institutional credit frame work, in rural and semi-urban areas”. The minimum capital required by LABs were 5 core, and promoter contribution is 40% and gradually the promoter’s concentration has to be reduced. The RBI used other ‘fit-and-proper’ criteria for the members on board and mandated that promoter companies stringently maintain an arm’s length in transacting with LABs. Licensing of LABs have come with stringent conditions and treated at par with scheduled commercial banks in terms of capital adequacy and prudential norms. They are permitted to operate in 3 contiguous districts. At the same time of Scheduled Commercial Banks have been issued a mandate at least 25 % of branches shall be opened in Tier V, Tier VI locations, and they are not required to seek permission to open in these locations, But LABs are not mandated for this. Having received around 227 applications to set up LABs, RBI has approved only 10, among which 4 had been withdrawn, remaining 6 one got closed for the irregularities, other one was merged with Bank of Baroda. (Sriram, 2014). The performing LAB, called Capital Local Area Bank, was permitted to apply Small Finance Bank, and approved for conversion. Thus only 3 local area banks prevail.

Micro Finance Institutions: The contemporary microfinance movement has spread in India, citing the marvel it has done in Bangaladesh where it has originated. The Non Government Organisations, who vary by their constitutions and motives viz., for-profit, non profit, adopted this movement and introduced to India, contributed very well. Seeing the stream of Micro Finance, and cropping problems like, over funding, coercive recovery procedure, and embargo by some of the states like Andra Pradesh, and parallel, reading the success in the perspective of recipients of benefit, the low income group, under the instructions of RBI, SIDBI has designed a model called SHG-Bank Linkage model, which is still a grand success. Other hand, Micro Finance Institutions have grown at a faster pace, and they largely adapted Joint Liability Group Model and deeply rooted in urban and rural poor segments, they have gone like acid dilutes a solid substance. Unlike RRBs the MFIs could achieve profitability and stride remarkably well. But there is a lacuna with them that they could do only micro credit. Micro finance is concept the bunch of financial services like banking, insurance, micro credit by and large.

Small Finance Banks

To achieve the objective, of facilitating all the banking services like, savings, micro credit, insurance, Pension, mutual fund, transfers, etc., the need raised in the Nation. Niti Ayog (erstwhile Planning Commission) has set up a committee under the Chairmanship of Dr. Raghuram Rajan for Financial Sector Reforms, Committee in its Report popularly known as ‘A Hundred Small Steps’ (2009), in which committee proposed setting up of Small Finance Banks to ‘further inclusion’, by means of deepening the financial services to small and marginal farmers, low income households, migrant labourers, small business, and other un-organised entities. SIDBI has submitted Draft Recommendations on licensing Small Finance Banks on 14th August 2014(www.sidbi.in). RBI has come out with guidelines to issue license to Small Finance Banks in Private Sector (RBI Press Release, 2014). Accordingly, 10 Small Finance Banks have been granted in-principle license by RBI. (RBI Press Release, 2015) among those ten, eight are Micro Finance Institutions who have had good track record.

Table 1. Legal Frame work-A comparison

	Urban Cooperative Banks	Regional Rural Banks	Local Area Banks	NBFC-Micro Finance Institutions	Small Finance Banks
Commencement	Started in 1889	Started in 1976 following Recommendations of Narasimhan Committee	Started in 1996	Since 2011	Since 2016
Objective	Cooperative Movement, Mutual Help	1.Bridging the credit gaps in rural area 2. To develop such measures which could restrict the outflow of rural deposits to urban areas 3.To reduce regional imbalances and increase rural employment generation activities	Bridge the gaps in credit availability and enhance the institutional credit frame-work in rural and semi-urban areas and provide efficient and competitive financial intermediation services in their area of operations	Financial Inclusion-Social and Financial Objectives of Poverty Reduction through Mutual help among the group members	Furthering Financial Inclusion by (i) Provision of Savings Vehicle to unserved/underserved population (ii) Supply of credit to small business units, small and marginal farmers, micro and small industries, and unorganised sector entities through high technology-low cost operations
Ownership	Category	Public Sector Banks, Respective State Governments, Central Government	Promoter 40% NRI 40% with lock in period of 2/3 years	Individuals	Individuals/Professionals experienced 10 years in banking or finance, existing NBFCs, LABs, Micro Finance Institutions
Capital	Category – A,B,C,D-lakhs of Rs.400,200,100,25	5.00 crore rupees	5 crore	Net Owned Funds of 5 crore	100 crore. Promoter’s capital shall be 40% over a span of 12 years, shall be brought down to

					26%, Foreign Direct Investment can hold upto 74%, but over a period reduce to 49%
Population	A>10 lakhs, B≥5 lakhs, C≥ 1 lakh and below 5 lakhs, D<1 lakh	Up to 10000- Rural, 10000 to 100000- Semi Urban, 100000 to 1000000 – Urban Above 1000000 – Metro Politan	--	No restriction	No restriction
Membership	A-3000,B-2000,C-1500,D-500	Not applicable	Not Applicable	Not Applicable	Not Applicable
Number of Banks/Institution	1487-Non Scheduled UCBs, 54-Scheduled UCBs	56	3	97	10
Geographical Area of Operations	High Concentration in few districts	Restricted to Few Districts of the State	Restricted to 3 districts only	No Restriction	No Restriction
Regulatory Reserve Ratios	Applicable	Applicable	Applicable	Applicable	Applicable
Prudential Norms of Capital Adequacy	Applicable	Applicable	15% Capital Adequacy Ratio	15% Capital Adequacy Ratio	15% of Capital Adequacy Ratio
Services Offered	All the Basic Banking Services	All the Basic Banking Services	All the Basic Banking Services	Micro Credit	All the basic banking services including micro credit
Advances to Priority sector stipulated by regulator		40% of Net Bank Credit(out of which 25% or 10% of Net Bank Credit to Weaker Sections)	40% of Net Bank Credit(out of which 25% or 10% of Net Bank Credit to Weaker Sections)	Small Loans, 50% income generation activities. 85% should be 'qualifying assets'*.	Small Loans, 50% of advances shall be less than and upto 25 lakhs. 75% of Adjusted Net Bank Credit can be classified as Priority Sector Lending.
Target Segment	Targeting Specific Communities, mostly in Urban and Semi Urban Areas	Rural customers, Targeting middle and low income group	Local customers predominantly in Rural and Semi-Urban Areas	Low Income Group, Urban Poor, Rural Poor	Low Income Group, Urban and Rural Poor, Unbanked and Un served/Underserved segment
Supervision	RBI and the State Government	National Bank for Agriculture and Rural Development (NABARD)	RBI	RBI	RBI

Note: Compiled from various circulars/notifications from RBI, relevant books and periodicals.

*Qualifying Asset Means, lending to poor who qualify the following, a) Rural house hold annual income100000 rupees, Urban house hold annual income 160000 rupees, b) First Cycle loan for rural ≤ 60000, urban≤ 100000 c) total indebtedness ≤ 100000 d) Tenure not less than 24 months in excess of loan amount Rs.30000/- e) loan to be extended without collateral f) 50% of total loan amount shall be extended to income generation activities g) loan is repayable weekly/fortnightly/monthly repayment at the choice of the borrower

Source:**1.**https://www.rbi.org.in/commonman/English/Scripts/BanksInIndia.aspx.

2.https://www.businessmanagementideas.com/banking/types-of-banks/regional-rural-banks-rrbs-history-objectives-and- functions/5356, **3.**https://rbidocs.rbi.org.in/rdocs/notification/PDFs/84BCC020712.pdf

REVIEW OF LITERATURE

There are reasonable number of researches have been done exclusively for the Small Finance Banks performance are given, **Biswa Swarup Misra (2007).**"The Performance of Regional Rural Banks(RRBs) in India: Has Past Anything to Suggest Future?"- The study conducted a deductive approach using empirical analysis to verify the Profitability of Regional Rural Banks, enquires the factors influence their performance, concluded that loss making RRBs neither confined to specific states nor to their sponsor banks.

M.S.Sriram (2014), Local Area Banks in India-A Review, this study reviews the landscape of financial inclusion and trusts Local Area Banks are the solution for financial inclusion. The paper suggests the local area banks should be limited in area of operations, size. It puts forth the idea of miniature of main stream banks.

Jayadev, Himanshu Singh and Pawan Kumar (2017), in his study "Round Table-Small Finance Banks: Challenges-analysed the genesis, and various forms of special vehicles of financial inclusion, comparative study of regulatory compliances of Small Finance Banks with other forms of financial inclusion. Conducted interview with senior executives of Small Finance Banks to elicit their mind views, concludes that Small Finance Banks are adapt suitable Business Model. **Alok Misra and Ajay Tanka (2018),** Inclusive Finance India Report- Chapter7-"Small Finance Banks and Payments Banks: Struggle for Differentiation and Business Model continues"- study analyses comparatively, the Small Finance banks and Payment Banks and studies the genesis challenges in future, by studying the individual business profiles of the SFBs, splashes out what challenges industry would face.

Jeeban Jyoti Mohanty (2018), "Leveraging Small Financial Bank(SFB) in achieving Financial Inclusion in India"- conducted the mixed study, pulled out secondary data from various sources like microsave, Consultative Group to Assist Poor of World Bank, etc., Study concludes, with a caution that earlier cooperative, local area banks failure to achieve the mission, and suggest the SFBs to suitable products, credible strategy, and strong distribution channel.

Bhaskar Arora, Saurab Sharma, Manvinder Singh Pahwa and Shailesh Yadav (2018), they conducted a Study on Role of Small Finance Banks for Achieving Financial Inclusion in India, and found that the current requirement of Indian economy is 4A's (awareness, affordable, accessible and accountable) financial services and Small banks can assist to build a sturdy and financially inclusive economy in India. There is a positive correlation between financial inclusion and economic growth.

Indira R and Paramasivaiah (2019), they conducted a study on the problems and prospects of Indian cooperative sector banks and its relevance for Indian economy. Found that though cooperative banks have evolved as significant contributor to rural and urban economy and achieved voluminous growth, it exposes weakness also. The study traces the path of cooperative movement has shifted to a department or wing of Government and fall prey to the political will.

P Dhanya and P B Bhanudevi (2019), An Empirical Study on the Threats and Challenges to Small Finance Banks with Special Reference to Coimbatore City- conducted the study through SWOT analysis to observe the evolution, and progressiveness, but failed to include the relevance to Coimbatore City, also not thrown any finding on financial progress of Small Finance Banks so as to suggest the solution to more robust.

Khan Firdaus Massarat Rashid(2019), Banking for the Poor: A GLM Study on Small Finance Banks In India" Author conducted Generalized Linear Model a repeated regression on the Deposit and Credit progress of Small Finance Banks in India, so as to verify if there is significant difference between deposit and credit activity and difference in time periods. The GLM study reveals and concludes that there is significant difference between deposit and credit activity and difference in time periods.

Amulya Neelam (2019), Tracking Performance of Small Finance Banks against Financial Inclusion Goals"-Study deeply analyses the product portfolio, and examines whether they achieved the mission of further financial inclusion, their cost of funds is double comparing the scheduled commercial banks, low in sourcing deposits. It further questions that, how well the business model level regulatory guidelines will help in financial inclusion.

STATEMENT OF THE PROBLEM

There is huge population of 363.00 million people are in below poverty line as per (Rangarajan Committee Report in 2014) As per MoSPI, Centre for Statistics Report, 2018, Country's BPL is 21.90% (Rural 25.7%, Urban 13.7%) of population. SFBs 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'19)*. It is noted that, the Licensing policy of RBI, to SFBs is stringent and watertight, may be, because of the earlier failures from LABs, RRBs in achieving the mission of financial inclusion. SFBs are directly placed in, with a watertight regulatory compliance norms the open market where already Commercial Banks are under stringent competition. Thus we felt Sustainability of SFBs is a subject to study.

Many literature, have come up highlighting the Cost of Funds of SFBs are too high and affecting the bottom line, and adversely affecting the scalability. But none verified the statement rationally. Hence, it is imperative to verify this gap, whether cost of funds of Small finance Banks have affects their Net Interest Margin, and the scalability is hampered. Without verifying the same, the objective of Small Finance Banks, ie., further inclusion would be a dream.

OBJECTIVES OF THE STUDY

1. To study the evolution and licensing guidelines of Small finance Banks in India
2. To understand the progressiveness Small Finance Banks in India
3. To Examine the cost of funds have any relevance to their Net Interest Margin

HYPOTHESIS

H0: Costs of Funds of SFBs is adversely affecting their Net interest Margin

H1: Costs of Funds of SFB is not affecting their Net Interest Margin

SCOPE OF THE STUDY: The study is limited to select Small Finance Banks, and their Annual Reports. This study scopes the objective, from the Fiscal year 2017-2019 through these indicators and the data.

RESEARCH METHODOLOGY AND SAMPLING

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 pulled out from various sources, viz., Annual Reports of the select SFBs, RBI Data (Pulse Report published by SIDBI various years from 2017).*

Sample Design: Purposive sampling method has been adopted for the present study, since only 10 Small finance banks are functioning in the country, and all are at nascent stage, data being a challenge. The researcher has chosen only six SFB, based on, the required data who have published in their Annual Reports.

Tools for analysis: The following statistical tools have been used for analyzing the data: Analysis of Variance- Correlation analysis, financial ratios has been used.

LIMITATIONS OF STUDY

The study is not far from limitations. The limitations inherent in statistical tools apply to this study also. Small finance banks do not follow a uniform format of Annual Information Report, and RBI Data also, do not have an exclusive data base for SFBs, and hence the data available is from Basic Statistical Return, hence, the treatment of published data also at par/along with schedule commercial banks data which is also a limitation for data sourcing. Since SFBs are special purpose financial vehicle, our reading of SFBs cannot be as we need to with Scheduled Commercial Banks, this is also a limitation.

ANALYSIS AND DISCUSSION

The study is considering the quantitative and qualitative analysis since the Small Finance Banks are anew to India, and special purpose vehicle. To understand their progress, traction of their genesis, consistency in their financial performances is required to be verified and to be tested for correlating the financial data inter alia across and within themselves.

Sustainability of Small Finance Banks

Business Growth: The consolidated growth of small finance banks in India, during the period from 2018 to 2019. Over all, the Small Finance Banks have grown in deposits, which replaces the bank borrowing, and the same is witnessed in the Table 1, that a negative growth in bank borrowing. There is a nominal increase in capital due to the regulation on capital to be raised to 500 crore in 5 years. The SFB, predominantly MFI earlier, have had a largest dependency over the borrowed capital, at the major banks and financial institutions. Hence, their borrowing are highly priced, which eat away their profitability. After becoming bank, as per the guidelines, the small finance banks have to close down the bank borrowings mandatorily. On the other hand, by becoming a bank, they enjoy parallel treatment with Scheduled Commercial Banks and thus, they can source, all the deposit accounts, sell third party products like mutual funds, insurance, pension etc. Now after becoming SFB, they can accept deposits from general public at par with Scheduled Commercial Banks, which is replacing the high and costly borrowing earlier, they have borrowed before becoming Small Finance Banks. Also, since, guideline stipulated, to reduce the promoter stake to 40% on becoming SFB, and over a period 26%. Foreign holding also to be over a period reduced to 49%. The guidelines also stipulate to go listing over a period, so as to raise the capital to Rs.100 core, and in 5 years Rs.500 core. Table 2 shows the altered progress of SFB in this line of thought. Thus we found that the SFBs are travelling in the right way. Gross NPA itself is 2.

Table 2 Consolidated Balance Sheet of Small Finance Banks

(Amount in Core)

Item	2018	2019	Y-o-Y growth in per cent
Share Capital	4,178.80	4,759.60	13.9
Reserves & Surplus	5,502.60	6,967.10	26.6
Tier II Bonds Tier II Debt	1,604.00	2,109.00	31.5
Deposits	26,470.70	55,686.30	110.4
Current Demand Deposits	1,014.30	2,155.00	112.5
Savings	4,528.70	7,669.10	69.3
Term	20,927.60	45,862.10	119.1
Borrowings (Including Tier II Bonds)	30,884.60	27,838.90	-9.9
Bank	7,723.30	3,466.30	-55.1
Others	23,161.20	24,372.40	5.2
Other Liabilities & Provisions	2,914.90	3,672.50	26
Total Liabilities/Assets	69,952.50	98,924.00	41.4
Cash in Hand	320.4	461.3	44
Balances with RBI	1,859.20	3,162.10	70.1
Other Bank Balances/ Balances with Financial Institutions	4,917.40	4,601.80	-6.4
Investments	13,154.10	17,287.00	31.4
Loans and Advances	46,754.70	69,856.80	49.4
Fixed Assets	1,523.70	1,642.70	7.8
Other Assets	1,427.10	1,913.30	34.1

Note: comprises all Small Finance Banks Data

Source: Off-site returns (domestic operations), RBI (https://m.rbi.org.in/PublicationsView)

Financial Performance

Before going in to the details of Table 3, the items listed in, are to be explained, the Income- Small Finance Banks income comprises the following 1.Interest on Loans- meaning interest on their lending portfolio comprising lending small and medium enterprises, small and marginal farmers, low income group, 2. Interest on Investments- means the investments small finance banks have made on government rated securities, bonds, other rate securities 3.Fee Income- SFB's bank charges on the services rendered viz., safe custody, accepting bills of exchange etc., 4. Forex Operations, - Banks exchange commission for the foreign exchange trading 5.Commission or Third Party – Commission earned on the other corporate products sold through Small Finance Banks like Insurance, Mutual Fund, Credit Card etc.,

Expenditure- The items of expenditure for Small Finance Banks are 1. Interest expended- means the interest they paid on deposits, borrowings (grand-fathered)**, borrowed capital like debentures, commercial paper certificate of deposit etc., 2.Operating Expenses – means the expenses on establishment and overheads like, salary, staff expenditure, rent, etc., 3.Provisions and Contingencies- means the regulatory provisions like Non Performing Assets Provisions.

Profit- means the surplus of total income earned over the total expenditure, Total Assets comprise, the lending portfolio, fixed assets like furniture and fittings, building, current assets like investments, advances.

** Grand-Fathered Loans means, the earlier loans of Small Finance Banks, before they become Small Finance Banks. The Microfinance Institutions then become SFB; have earlier borrowed from Banks and financial institutions, which are barred once they become small finance banks. Such borrowings run over period, even after they become SFB, and hence classified Grand Fathered loans by RBI. However the SFBs are not able to raise bank borrowing any further.

Table 3 Financial Performance of Small Finance Banks (Amount in crore)

S. No.	Item	2017-18	2018-19	Y-o-Y growth
1	**2**	**3**	**4**	**5**
A	Income (i + ii)	9450.4	13239	40.1
	i. Interest Income	8415.6	11818.8	40.4
	ii. Other Income	1034.8	1420.2	37.2
B	Expenditure (i+ii+iii)	11566.2	13630.6	17.8
	i. Interest Expended	4308	5710.3	32.5
	ii. Operating Expenses	4712	5728.4	21.6
	of which staff expenses	2409.2	2961.1	22.9
	iii. Provisions and Contingencies	2546.1	2191.9	-13.9
C	Profit	-2021.2	-391.6	

	i. Operating Profit (EBPT)	393.8	1800.3	357.2
	ii. Net Profit (PAT)	-2250.3	-932.3	
D	Total Assets	69952.5	98923.7	41.4
E	Financial Ratios #			
	i. Operating Profit	0.6	1.8	
	ii. Net Profit	-3.2	-0.9	
	iii. Income (a + b)	13.5	13.4	
	(a) Interest Income	12	12	
	(b) Other Income	1.5	1.4	
	iv. Expenditure (a+b+c)	16.5	13.8	
	(a) Interest Expended	6.2	5.8	
	(b) Operating Expenses	6.7	5.8	
	of which staff expenses	3.4	3	
	(c) Provisions and Contingencies	3.6	2.2	
F	Analytical Ratios (%)			
	Gross NPA Ratio	8.7	2.4	
	CRAR	22.9	21.5	
	Core CRAR	19.5	18.5	

Notes: # As per cent to total assets.
Source: Off-site returns (domestic operations), RBI (https://m.rbi.org.in/PublicationsView)

It is inferred from table 3 that the sample banks income is increasing year on year, on the other hand, the loss mounted here is owing to the mandatory provisions after becoming bank, however notable here is the accumulated loss is reducing comparing the previous year. Prudential Norms and Provisions are new to these organisations, so far were in liberal eco system, now turned into a highly regulated. Although it may be viewed this as price of becoming a bank, but a complete freedom to source deposits, and other financial services is added in their armour. Gross NPA itself is 2.40%, and capital adequacy stands at 18.50% as at FY2019, It is found, that SFBs are progressive and scalable.

Relevance of Cost of Funds to Net Interest Margin:

It has been pointed out in many review of literature that the SFB's cost of funds is high and thus their profitability would be reduced, and need to hit it for improvement, so as to gain the investors attraction. Many are of the view, that, to reduce the cost of funds, SFBs can go for high cost deposits, market debts etc. Hence, we attempted to verify the empirical view on it, through correlation analysis between 'Costs of Funds' of select SFBs, with their 'Net Interest Margin'

Table 4. Correlation Analysis

Name of SFBs	X	Y	Zx	Zy	ZxZy
AU SFBank	8.63	8.7	0.25	-0.04	0.01
UJJIVAN	9.17	11.43	0.4	0.25	0.1
SURYODAY	10.26	-0.41	0.69	0.22	0.15
ESAF	6.2	6.44	-0.41	-0.29	0.12
NORTHEAST	6.7	1.21	-0.27	-0.85	0.23
EQUITAS	5.28	15.64	-0.66	0.71	-0.43
		AVERAGE			0.02
		R^2	0.004		
Source: Compiled from Annual Reports and Computed X= Average Cost of Funds, Y= Average Net Interest Income Zx, Zy are standardized variables, ZxZy is the Z-squared value R-correlation coefficient, Rsquared is the squared correlation coefficient measured proportion of variation of Y with respect to X					

Source: computed

The Null hypothesis was formulated to study the inverse relationship between the Costs of Funds and Net Interest Income or Net interest Margin. We have taken the sample size 6 SFBs out of 10, collected on Purposive Sampling, and we attempt to study the type of relationship between 'costs of funds' with 'Net Interest Margin' of SFBs. It was found that through linear Correlation R is 0.02, R squared is 0.004 which is close to Zero. Hence the Null Hypothesis is 'rejected' and the alternate Hypothesis H1 accepted. It is inferred that there is no association between Small Finance Banks 'Costs of Funds' to their 'Net Interest Income' or 'Net interest Margin'. Therefore it is understood that the Costs of funds is not actually hampering the profitability

SUGGESTIONS

1. Small Finance Banks have to focus the inclusive segment more vibrantly for their dependence on deposits, along with High Networth Individual segment, since Scheduled commercial banks only focus on the middle and high income group, but SFB have all the three layers of pyramid, consisting of low, middle, higher income group. Their authority is in low income group, and that there is a degree of freedom for them.
2. Digitalising and financial literacy, educating the low income group to use digitalised portals to conduct transactions, is the way forward to reduce the cost of transaction. The internet subscribers from the low income group is 79 million which well above the middle income group 73 million out of the total subscribers of 560 million as of 2018 (www. mckinsey.com), Thus digitalised transaction is possible in low income group, if considerable education and

training to use the portals. Other alternate delivery channels also to be used effectively to curtail transaction cost.

3. Small Finance Banks have to infuse capital and clock at 500 cr as per the guidelines. Suggesting the small finance banks to go listing as earlier as possible, then only it can gain attraction of investors.
4. Reserve Bank of India has to allow further more applicants to open up Small Finance Banks to infuse competition. It may put a constraint in licensing stipulating minimal number of branches opening in low income States and North eastern income, so as to ensure sustainable growth.

CONCLUSION

Small Finance Banks are much refined form, comparing earlier special purpose financial vehicles like RRBs, LABs Cooperative movement. Study reveals to us they have the competency and potential. At par treatment with Scheduled Commercial Banks in respect of regulatory compliances makes the Small Finance Banks a durable and sustainable vehicle to service the excluded segment. Overall, the Small Finance Banks are units of delivery with sustenance, to Country's approach toward Financial Inclusion and poverty alleviation.

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