Financial Performance Evaluation of Selected Small Finance Banks in India: A CAMEL Model Approach

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Abstract

It is of utmost importance to monitor the financial performance of banks to ensure that they are adhering to regulatory compliance guidelines set by the Reserve Bank of India. Small finance banks fall under the niche category of banks that are established in order to promote financial inclusion. Capital Small Finance Bank is the first bank that was licensed as an SFB in 2016. Currently, there are 11 small fi-finance banks licensed by the RBI. Recently, Fincare SFB was merged with AU SFB. This study is going to measure the financial performance of all 11 small finance banks on the basis of the CAMEL model framework, which includes the parameters of capital adequacy, asset quality, management efficiency, earnings, and liquidity. Various financial indicators have been used to comprehensively analyse all the parameters. Secondary data has been collected for the year 2024 from the RBI's database and annual reports of all the SFBs. Ranking method and ANOVA have been used for research analysis. It finds out that the overall performance of Capital SFB and ESAF SFB has been the best; however, North East SFB has to work vigorously on its Asset quality and its management efficiency.

1. Introduction

In recent years, Small Finance Banks (SFBs) have emerged as a critical segment within the Indian banking sector, specifically designed to enhance financial inclusion by offering a diverse array of banking services to the population that is underserved, including small enterprises, microenterprises, and individuals from low-income backgrounds. These banks, established according to the regulatory framework as designed by RBI, endeavor to provide financial services and foster economic development in rural and semi-urban regions. SFBs were introduced in 2015 to provide a variety of services, including loans, savings accounts, and financial literacy initiatives. Their distinctive operational model, along with their commitment to serve the financially excluded, underscores the necessity for a comprehensive evaluation of their performance.

According to the Reserve Bank of India, the goals of small finance banks are to (i) increase financial inclusion by offering savings accounts to underserved and unserved segments of the population and (ii) utilize high technology, low-cost operations to provide credit to small businesses, small and marginal farmers, micro and small industries, and other unorganized sector entities. According to the Companies Act 2013, small finance banks have a scheduled bank status and are registered as public limited companies. Small finance banks fall under the category of differentiated or niche banks as they target a certain demographic and have a defined goal. To increase the reach of banking, RBI has proposed various norms for small finance banks, such as it should open at least 25% of its branches in unbanked rural centres and 75% of its total loans have to be lent to the priority sector. The Reserve Bank of India defines eligible categories as priority sectors that include agriculture, small and medium enterprises, export credit, education, housing, social infrastructure, renewable energy, and others. Just like other scheduled commercial banks, small finance banks can also indulge in products like insurance, mutual funds, pension, and authorised dealers of foreign exchange dealers.

Products and services offered by SFBs: SFBs offer a range of products and services specifically designed to meet the needs of target customers. These include basic banking services such as savings accounts, current accounts, fixed deposits, recurring deposits, remittance services, and credit facilities. By providing these services in a customer-centric manner, SFBs enable individuals and small businesses to participate more actively in the formal financial system, build savings, access credit, and conduct financial transactions securely.

Technology adoption: SFBs leverage technology to enhance their reach and operational efficiency. They invest in digital banking platforms, mobile banking applications, and other technological solutions to provide convenient and accessible banking services to their

customers. Some of how these banks have adopted technology include online account opening, biometric authentication, micro-ATMs, data analytics, mobile banking and SMS services, UPI and mobile wallets, online loan application and disbursement, cyber security measures, and Aadhar-enabled payment systems.

It is important to measure the performance of small finance banks for several crucial reasons. Some of them include:

- To measure financial health and stability: Evaluating financial performance contributes to understanding the general stability and well-being of SFBs. It guarantees the bank's ability to endure changes in the economy and retain its solvency, which is essential for its sustainable future.
- Regulatory compliance: SFBs have to follow the rules as established by the authorities. Frequent performance evaluation helps to avoid penalties and operational risks by ensuring adherence to capital adequacy, liquidity requirements, and other regulatory standards.
- Contribution to financial inclusion: By measuring financial performance, SFBs can assess their effectiveness in promoting financial inclusion. This helps ensure they are meeting their mission of serving underserved populations and contributing to economic development.
- Sustainability and growth: Ultimately, measuring financial performance is essential for the sustainability and growth of SFBs. It ensures that they can continue to operate effectively and expand their services to meet the needs of their communities.

Regulatory framework:

Small finance banks are registered under Section 22 of the Banking Regulation Act 1949. The small finance banks are given the scheduled bank status once they commence their operations.

- Promoters: The promoter should be a resident of India with at least 10 years of banking experience, running a business for 5 years. The promoter should hold a minimum of 40% of paid-up voting equity, which can be brought down to 30% percent after 10 years and 15% after 15 years.
- Net worth: Minimum net worth requirement for small finance banks is 200 crores. For UCBs (urban cooperative banks), the minimum net worth of small finance banks is 100 crore, which has to be increased to 200 crores within five years of commencement. Otherwise, the minimum paid-up voting equity capital of small finance banks shall be 200 crores.
- Prudential norms: Small finance banks have to follow the same prudential norms and regulations as those of other scheduled commercial banks. The maximum loan size of small finance banks is 10% of capital funds, and the investment limit is set at 15% of capital funds. The minimum capital adequacy ratio to be maintained is 15% of risk-weighted assets.

Table 1: List of Small Finance Banks Approved by RBI

S no.	Small Finance Banks	Commenced on
1	Capital Small Finance Bank	24th April 2016
2	Equitas Small Finance Bank	5th September 2016
3	Suryoday Small Finance Bank	23rd January 2017
4	Utkarsh Small Finance Bank	23rd January 2017
5	Ujjivan Small Finance Bank	1st February 2017
6	ESAF Small Finance Bank	17th March 2017
7	AU Small Finance Bank (Now merged with Fincare SFB, wef 1st April 2024)	19th April 2017
8	North East Small Finance Bank	17th October 2017
9	Jana Small Finance Bank	29th March 2018
10	Shivalik Small Finance Bank	26th April 2021
11	Unity Small Finance Bank	1st November 2021

2. Review of Literature

(Kittu R S, 2018) Discusses the significance of small finance banks in accelerating financial inclusion in India. It draws attention to the difficulties that the conventional banking industry is facing and how SFBs serve the purpose of enhancing financial inclusion as a niche sector bank, especially in unserved rural areas. SFBs intend to provide financial services to small businesses and the low-income population. In order to meet the needs of the unprivileged sector, they are expected to function with a lower cost structure with special attention to innovation and increased efficiency. The findings imply that SFBs have a great potential to address the problem of financial exclusion and offer customised financial products in rural areas.

(Kishore, 2015) discusses the establishment and significance of small finance banks in India as a new category of banks introduced by the Reserve Bank of India to serve niche markets. SFBs intend to offer specialised banking facilities concentrating more on the priority sector. Most of the organizations authorized to function as small finance banks were formerly microfinance institutions, which demonstrate the effective performance in previous capacities. However, switching to SFB comes with several challenges, such as a strong risk management system and adherence to prudential guidelines established by RBI. MFIs have different operational models from SFBs, which is a challenging transition in terms of strategies and operations. SFBs also might face competition from already existing banks that already cater to a broader spectrum of the population. SFBs will have to make sure that, along with catering to the objective of financial inclusion, they run profitable operations in order to deliver results in the long run.

(Jagwani, 2019) mentions the role of small finance banks and challenges faced by them. The study is conducted in the context of the AU SFB. It highlights the role of SFBs in stimulating financial inclusion as they are mandated to lend 75% of their loans to the priority sector. SFBs also aim to run their operations at a lower cost but with high technology, which makes their survival easy in a competitive banking industry. The study found that there was a drastic increase in the number of customers of AU SFB within two years of its operations. It has also significantly widened its branch network. There are also a few challenges faced by SFBs, such as adherence to regulatory compliance, high operational risks, competition from existing commercial banks, and training of skilled manpower.

(Pinalben G. Mistry, 2023)analyse the financial health of small finance banks via the CAMEL rating model to identify their strengths and weaknesses. It reflects the crucial role of small finance banks in advancing economic growth and financial inclusion. It also emphasizes the importance of maintaining asset quality and managerial efficiency along with other CAMEL parameters. Fincare SFB is performing most efficiently, followed by AU SFB and ESAF SFB.

(Monali Ray, 2021) Comprehensively analyse the financial performance of small finance banks with the help of the CAMEL rating framework. It uses the data of the financial year 2019-20 for the purpose of analysis of all 10 SFBs. It was found that there is a consider-

able difference in the performance of banks. Fincare SFB came out as the best-performing bank according to the CAMEL framework. Suryoday and Utkarsh SFB were also found to be performing quite well; however performance of Jana SFB needs attention as it is worst worst-performing bank in terms of its financial status. Capital SFB and North East SFB are also found to be performing unsatisfactorily. The challenges faced by small finance banks need to be addressed as a priority in order to survive and ensure the sustainability of these banks.

(Yudhvir Singh, 2020) measures the financial performance of the public sector banks on the basis of components such as capital adequacy, asset quality, management quality, earnings, and liquidity. The author concentrates on the impact on the financial performance of the banks after the mergers have taken place. It says that maintaining capital adequacy is significant for banks, but it does not let the banks maximise the benefit of higher interest income. An increase in inflation negatively affects the liquidity position of the banks. Higher levels of non-performing assets adversely affect the profitability of the banks.

(Shelly, 2020) examines the financial performance of PSBs on the basis of the CAMEL framework. It states that the country's financial system is largely dependent on the financial performance of PSBs, which is why it is important to keep track of their financial performance. Some of the banks have underachieved the capital adequacy ratio, while Bank of Baroda tops the list with 13.3% of CAR. It finds out that the asset quality of most of the banks has been deteriorating.

(K Suresh, 2023) Focuses on the financial performance of private sector banks and public sector banks with the help of the CAMEL framework. It is conducted to conclude the impact of COVID-19 on banks' performance and efficiency. Private sector banks are doing better in managing their non-performing assets than public sector banks, whereas the overall business volume of public sector banks is better. COVID-19 has adversely affected the performance of both public and private sector banks.

(R. Mayakkannan, 2020) evaluates the performance of public and private sector banks on the basis of the CAMEL model. It indicates that private sector banks are striving to compete against public sector banks in terms of capital adequacy, asset quality, management efficiency, earnings, and liquidity, which is a challenge for public sector banks. It also mentions that a positive perception of employees regarding their job also positively impacts their performance.

It is quite evident from the extensive review of literature that the CAMEL model provides a holistic analysis of a bank's financial performance. There is a limited study on Small Finance Banks, which makes the research gap of analyzing the financial performance of SFBs with the help of the CAMEL model quite crucial. This study will help to bridge this research gap by addressing each parameter of the CAMEL framework and conducting cross-sectional analysis among all the existing SFBs.

3. Research Methodology

The study measured the financial performance of all the currently existing eleven small finance banks in India. This study is based on the secondary data, which is collected from the annual reports of all the small finance banks. RBI's database has also been used to collect the data. Descriptive analysis has been done. The ranking method is used to compare various parameters of the CAMEL model. For inferential analysis, ANOVA has been used. Though the ranking method fulfils the purpose of comparison of banks, it is crucial to analyse whether the differences between the performance of Small Finance Banks are statistically significant or not. ANOVA helps to analyse whether differences in ratios are due to random fluctuations or operational issues. To provide statistical validation to the research analysis, the ranking method, along with one-way ANOVA, has been used.

3.1. Research objectives

- To measure the performance of all the existing SFBs according to the CAMEL model.
- To compare the performance of small finance banks.

3.2. CAMEL model

The CAMEL model is a vital framework used to assess the performance and stability of banks, playing a crucial role in the financial sector. Developed in the 1980s by regulatory authorities, this model evaluates five core components: Capital Adequacy, Asset Quality, Management Quality, Earnings, and Liquidity. Each of these elements provides essential insights into a bank's overall health and operational effectiveness. The significance of the CAMEL model lies in its comprehensive approach to evaluating banks. Capital Adequacy measures a bank's ability to absorb losses and meet regulatory requirements, ensuring financial resilience. Asset Quality focuses on the integrity of a bank's loan portfolio, highlighting potential risks associated with non-performing assets. Management Quality assesses the effectiveness of leadership in navigating challenges and implementing sound strategies. Earnings analysis is critical for understanding a bank's profitability and sustainability, while Liquidity ensures that a bank can meet its short-term obligations, maintaining trust among depositors and stakeholders. The CAMEL model is also useful while making a comparison of banks with each other, and also while making a yearly comparison of financial performance. It helps to ensure how efficient the risk management of the bank is by measuring all the possible factors.

3.2.1. Capital adequacy

Capital adequacy is the first element of the CAMEL model and perhaps the most important one, as it ensures whether the bank can bear its potential losses or not. It ensures whether the bank can face various risks such as market risks, credit risk, and operational risk. It includes both the components of capital, which are tier 1 capital and tier 2 capital. Tier one capital includes the core capital, which is equity capital and disclosed reserves where whereas tier 2 capital, also known as secondary capital or supplementary capital, includes debt, hybrid instruments, and undisclosed reserves. There is a minimum capital adequacy ratio to be maintained by all the banks according to the BASEL norms as a regulatory norm. The capital adequacy ratio ensures that the banks operate safely. Financial stability is the backbone of any bank, and the capital adequacy ratio ensures the same, which is why it is considered so crucial.

Table 2: Capital Adequacy Ratios (FY 2024)

S. No.	Bank	Capital Asset Ratio (%)	Rank	Advance asset ratio (%)	Rank	Composite	Overall rank
1	AU SFB	20.1	10	0.73	8	9	8
2	CapitalSFB	27.4	3	0.78	2	2.5	1
3	Equitas SFB	21.7	7	0.77	4	5.5	5

4	Jana SFB	20.31	8	0.77	3	5.5	5
5	Suryoday SFB	28.41	2	0.76	6	4	3
6	Ujjivan SFB	24.69	4	0.73	7	5.5	5
7	Utkarsh SFB	22.6	6	0.82	1	3.5	2
8	NortheastSFB	NA	NA	0.59	10	NA	NA
9	Shivalik SFB	20.19	9	0.73	9	9	8
10	ESAF SFB	23.3	5	0.77	5	5	4
11	Unity SFB	36.4	1	NA	NA	NA	NA

Source: Compiled from Annual reports of all SFBs.

The analysis of capital adequacy ratios shows the banks' ability to manage risks and maintain financial stability. Unity SFB leads with the highest Capital Asset Ratio (CAR) of 36.4%, reflecting strong capitalization. Capital SFB follows with a CAR of 27.4% and ranks second overall due to its balanced performance across metrics. AU SFB (20.1%) and Shivalik SFB (20.19%) have the lowest CAR values, both ranking 10th. Utkarsh SFB tops advance- to- advance-to-asset ratio with 0.82, reflecting efficient asset utilization, while Northeast SFB trails at 0.59. Talking about overall performance, Capital SFB secures the top rank due to its high CAR and solid performance in the advance-to-asset ratio. Unity SFB lacks a composite ranking due to insufficient data, but showcases exceptional capitalization.

3.2.2. Asset quality

Asset quality reflects a bank's profitability as well as financial stability. It is the second component of the CAMEL model, which critically examines the loan portfolio of the bank to know the proportion of high-performing loans and non-performing loans. A higher proportion of good-performing assets denotes better asset quality. Higher non-performing loans lead to more loss provisions, which significantly affect the profitability of the banks. Higher provisions for NPAs mean fewer resources for profits and investments. If a significant portion of a bank's assets turns out to be non-performing or high-risk, it may face serious challenges in maintaining profitability and solvency. Therefore, it is utmost important to keep the asset quality of the banks under check. It is a critical factor in determining a bank's resilience, profitability, and long-term sustainability.

Table 3: Asset Quality Ratios (FY 2024)

S. No.	Bank	GNPA %	Rank	NNPA %	Rank	Composite	Overall rank
1	AU SFB	1.67	1	0.55	4	2.5	1
2	CapitalSFB	2.76	7	1.40	9	8	9
3	Equitas SFB	2.61	6	1.17	8	7	6
4	Jana SFB	2	2	0.50	3	2.5	1
5	Suryoday SFB	2.94	8	0.86	6	7	6
6	Ujjivan SFB	2.23	3	0.28	2	2.5	1
7	Utkarsh SFB	2.51	5	0.03	1	3	4
8	North east SFB	11.89	11	8.36	11	11	11
9	Shivalik SFB	2.4	4	1.05	7	5.5	5
10	ESAF SFB	4.76	10	2.26	10	10	10
11	Unity SFB	4.4	9	0.6	5	7	6

Source: Compiled from Annual reports of all SFBs.

Asset quality analysis highlights the health of a bank's loan portfolio:
AU SFB, Jana SFB, and Ujjivan SFB stand out the most with low Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA). Jana SFB and Ujjivan SFB share the top overall rank due to robust NNPA ratios (0.50% and 0.28%, respectively). Northeast SFB has the poorest asset quality, with GNPA at 11.89% and NNPA at 8.36%, ranking last overall. ESAF SFB also struggles with high GNPA (4.76%) and NNPA (2.26%). Capital SFB, Equitas SFB, and Shivalik SFB exhibit moderate asset quality but need improvement in NNPA management.

3.2.3. Management efficiency

The ability of a bank's management team to effectively plan, control, and use the resources is referred to as management efficiency. It determines how successfully management carries out its policies, manages risks, adapts to shifting market conditions, and complies with legal obligations. Strong management can maximise performance, guarantee sustainable growth, and help a bank withstand economic downturns. It is a vital component of the CAMEL model as it directly impacts the bank's overall performance, risk profile, and long-term sustainability. Effective measures for assessing the management performance of banks and other financial institutions include metrics such as business per employee and profit per employee. These indicators aid in evaluating how well a bank's management makes use of its workforce in order to increase output, streamline processes, and generate profits. High business per employee and profit per employee ratios mean streamlined procedures and effective human resource allocation, which are often driven by strong management practices.

Table 4: Management Efficiency Ratios (FY 2024)

S. No.	Bank	Business per employee	Rank	Profit per employee	Rank	Composite	Overall rank
1	AU SFB	539.19	4	5.16	5	4.5	4
2	Capital SFB	722.41	1	5.94	3	2	1
3	Equitas SFB	281	5	3.70	6	5.5	6
4	Jana SFB	209.55	9	3.00	8	8.5	9
5	Suryoday SFB	213.1	7	2.90	9	8	8
6	Ujjivan SFB	258.55	6	5.67	4	5	5
7	Utkarsh SFB	210.41	8	3.10	7	7.5	7
8	North east SFB	113.56	10	-7.36	10	10	10

9	Shivalik SFB	597.21	3	34.00	1	2	1
10	ESAF SFB	639.53	2	7.13	2	2	1
11	Unity SFB	NA	NA	NA	NA	NA	NA

Source: Compiled from Annual reports of all SFBs.

Management efficiency reflects operational productivity and profitability. ESAF SFB leads with the highest business per employee (₹639.53) and profit per employee (₹7.13), securing the top rank. Capital SFB follows closely with ₹722.41 business per employee and ₹5.94 profit per employee. Jana SFB and Suryoday SFB rank at the bottom due to significantly lower productivity metrics, such as ₹209.55 and ₹213.1 business per employee, respectively. Unity SFB lacks sufficient data for analysis, leaving its management efficiency unassessed.

3.2.4. Earning capacity

This indicator of the CAMEL model justifies the ability of the bank to earn income and assess its profitability and earning efficiency. Along with complying with the regulatory orders of the RBI, the banks need to keep their earnings on track. It ensures the consistent profitability of banks. Better profits contribute to larger capital funds and hence ensure future growth. It is one of the important measures of a bank's performance as it ensures long-term sustainability and covers the bank against competition.

Table 5: Earning Ratios (FY 2024)

S. No.	Bank	NIM	Rank	EPS	Rank	ROA	Rank	ROE	Rank	Composite	Overall rank
1	AU SFB	5.52	9	22.98	3	1.54	9	14%	8	7.25	9
2	CapitalSFB	3.94	10	30.65	2	1.27	10	15%	6	7	8
3	Equitas SFB	8.2	6	7.12	6	1.96	6	14%	7	6.25	7
4	Jana SFB	8	7	9.85	1	2.4	3	27%	2	3.25	1
5	Suryoday SFB	9.8	3	20.34	4	1.74	7	13%	9	5.75	6
6	Ujjivan SFB	9.1	5	6.65	7	3.5	2	26%	3	4.25	3
7	Utkarsh SFB	9.44	4	4.79	8	2.08	4	20%	5	5.25	5
8	North east SFB	2.95	11	3.67	9	-6.9	11	NA	NA	10.33333	11
9	Shivalik SFB	5.95	8	0.22	11	2	5	2%	10	8.5	10
10	ESAF SFB	11.12	1	8.96	5	1.63	8	20%	4	4.5	4
11	Unity SFB	10.8	2	1.68	10	3.8	1	34%	1	3.5	2

Source: Compiled from Annual reports of all SFBs.

Earnings ratios provide insights into profitability and income generation. Banks like Jana SFB and Unity SFB demonstrate high profitability and operational efficiency, making them attractive from an earnings perspective. North East SFB and Shivalik SFB need significant improvements in asset utilization and shareholder returns to remain competitive. Mid-tier performers such as ESAF SFB and Utkarsh SFB can aim for higher shareholder returns by focusing on efficiency enhancements. AU SFB and Capital SFB should work on improving ROA and ROE while maintaining or growing their EPS and NIM.

3.2.5. Liquidity position

Liquidity is the last but another important component of the CAMEL framework, as it ensures the smooth functioning of a bank regarding its short-term obligations. These short-term obligations include settling the customer withdrawals, settling interbank transactions, coping with a sudden revision in interest rates, or dealing with an unforeseen regulatory penalty. There are a few regulatory requirements set by RBI to ensure a safe liquidity position of the banks, such as the liquidity coverage ratio and net stable funding ratio. It is important for banks to keep a check on their liquidity position in order to retain their customers' and investors' confidence in the bank.

Table 6: Liquidity Ratios (FY 2024)

S. No.	Bank	Liquidity Coverage Ratio	Rank	CD Ratio	Rank	Composite	Overall rank
1	AU SFB	117%	11	84%	4	7.5	9
2	CapitalSFB	248.50%	3	79%	2	2.5	2
3	Equitas SFB	152.76%	7	86.98%	6	6.5	4
4	Jana SFB	391.53%	2	102.40%	10	6	3
5	Suryoday SFB	154.93%	6	103.90%	11	8.5	10
6	Ujjivan SFB	136.75%	9	86.80%	5	7	8
7	Utkarsh SFB	159.50%	5	94%	8	6.5	4
8	North east SFB	164%	4	95%	9	6.5	4
9	Shivalik SFB	131.08%	10	80%	3	6.5	4
10	ESAF SFB	139.12%	8	92.10%	7	7.5	9
11	Unity SFB	517%	1	19.90%	1	1	1

Source: Compiled from Annual reports of all SFBs.

Banks like Capital SFB and Unity SFB demonstrate the ability to maintain a strong liquidity reserve while efficiently utilizing deposits. Banks with CD ratios exceeding 100% (e.g., Suryoday SFB and Jana SFB) need to focus on reducing loan exposure or enhancing deposit mobilization to mitigate potential liquidity risks. Banks like AU SFB, Shivalik SFB, and Ujjivan SFB must enhance their LCR to strengthen their short-term liquidity buffers.

3.2.6. Overall observations

ESAF SFB demonstrates consistent strength in management efficiency and earning ratios, securing top ranks in both. Capital SFB also excels in multiple dimensions, including capitalization and management efficiency. Northeast SFB ranks the lowest in asset quality and struggles with incomplete data in other categories. Jana SFB, while performing well in the earnings ratio, shows weaknesses in manage-

ment efficiency. Incomplete information for some banks, like Unity, Shivalik, and Northeast SFB, limits their evaluation and suggests the need for better transparency.

3.2. Research analysis

Table 7: ANOVA Results for Capital Adequacy Ratios

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	38.86441	8	4.858051	0.018968	0.999996	3.229582613
Within Groups	2305.084	9	256.1204			
Total	2343.948	17				

ANOVA Results for Capital Adequacy Ratios:
- F-value: 0.018968.
- P-value: 0.999996 (greater than 0.05).
- F crit: 3.229583.

ANOVA findings for Capital Adequacy Ratios:
It was observed that the P-value is much greater than 0.05; therefore, we accept the null hypothesis. There is no significant difference in capital adequacy ratios among the groups. It is inferred that the regulatory framework of RBI for capital adequacy has been effective in ensuring adequate CAR of SFBs. This suggests that due to regulatory norms, the Capital adequacy parameter cannot be used individually to compare the financial performance of SFBs.

Table 8: ANOVA Results for Asset Quality Ratios

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	134.2061	9	14.91179	7.060456	0.002613	3.020383
Within Groups	21.12015	10	2.112015			
Total	155.3263	19				

ANOVA Results for Asset Quality Ratios:
- F-value: 7.060456.
- P-value: 0.002613 (less than 0.05).
- F crit: 3.020383.

ANOVA Findings for Asset Quality Ratios:
From the ANOVA test, it was observed that the P-value is less than 0.05; we reject the null hypothesis. There is a significant difference in asset quality ratios among the groups. It is inferred that there is a difference in asset quality among all the SFBs. While some banks reflect efficient asset quality management, others lag in maintaining the asset quality, which calls for supervisory attention to lower the non-performing assets of the bank.

Table 9: ANOVA Results for Management Efficiency Ratios

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	161994.6	7	23142.09	0.252038	0.957136	3.500464
Within Groups	734557.5	8	91819.69			
Total	896552.1	15				

ANOVA Results for Management Efficiency Ratios:
- F-value: 0.252038.
- P-value: 0.957136 (greater than 0.05).
- F crit: 3.500464.

ANOVA Findings for Management Efficiency Ratios:
It was observed that the P-value is much greater than 0.05; therefore, we accept the null hypothesis. There is no significant difference in management efficiency ratios among the groups. The results indicate that the metrics of business per employee and profit per employee are not statistically significant enough to make a performance comparison among SFBs.

Table 10: ANOVA Results for Earning Ratios

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	2745.609	7	392.2299	0.781826	0.620754	3.500464
Within Groups	4013.473	8	501.6842			
Total	6759.082	15				

ANOVA Results for Earning Ratios:
- F-value: 0.781826.
- P-value: 0.620754 (greater than 0.05).
- F crit: 3.500464.

ANOVA Findings for Earning Ratios:
Since the P-value is greater than 0.05, we accept the null hypothesis. There is no significant difference in earnings ratios among the groups. The SFBs are bound by the same regulatory requirements, such as priority sector lending and capital adequacy norms. They are also competing in the same external environment, which exposes SFBs to similar external risks. This limits significant variations in their earning capacities, explaining the reason for the above-mentioned ANOVA result.

Table 11: ANOVA Results for Liquidity Ratios

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	3.969672	1	3.969672	11.51493	0.003239	4.413873
Within Groups	6.205344	18	0.344741			
Total	10.17502	19				

ANOVA Results for Liquidity Ratios:
- F-value: 11.51493.
- P-value: 0.003239 (less than 0.05).
- F crit: 4.413873.

ANOVA Findings for Liquidity Ratios:

The P-value is less than 0.05, so we reject the null hypothesis. There is a significant difference in liquidity ratios among the groups. The low P value indicates significant variation in the liquidity ratios of the SFBs. It is inferred that banks have distinct liquidity management strategies. While some banks follow a conservative approach of maintaining high liquidity, others follow an aggressive approach, which might expose them to short-term funding risks.

4. Limitations of The Study

The study is completely based on secondary data, which is sourced from the RBI database as well as annual reports of the SFBs. For North East SFB and Unity SFB, data for certain metrics could not be obtained, which hampered the analysis of the true position of their financial performance. There is a scope of future research that includes complete data for all the metrics. There is also a scope for time series comparison of the financial performance of SFBs along with cross-sectional analysis.

5. Conclusion

This paper highlights the financial performance of the small finance banks with the help of the CAMEL framework and finds that Capital SFB is well equipped in terms of capitalisation; however, AU SFB and Shivalik SFB had the lowest CAR of around 20% although it is more than the basic capital adequacy requirement as declared by the Reserve Bank of India. Therefore, all the small finance banks have been performing efficiently with regard to their capital adequacy ratio. Jana SFB and Ujjivan SFB have the lowest non-performing assets, and North East SFB bank has the highest NPAs, indicating its poor asset quality and urgent need to take appropriate action. ESAF SFB and Capital SFB were the best performers for the parameters of business per employee and profit per employee. Jana SFB and Suryoday SFB need to keep their employee performance in check in order to improve their management efficiency. Jana SFB has been the best performer with regard to its earning capacity, according to the financial ratios such as return on assets, return on equity, Net interest margin, and earnings per share. Overall liquidity position of capital SFB and Unity SFB was considered the best. Keeping in mind all the parameters, ESAF SFB and Capital SFB seem to be financially performing the best amongst all the small finance banks.

6. Suggestions

A small finance bank is a newer category of niche sector banks. There is a long way to go for these banks to increase financial inclusion. Their long-term sustainability is only possible if they keep their financial soundness in check. It is suggested that the banks strictly adhere to the regulatory compliance as stated by the Reserve Bank of India. Small finance banks should invest in hiring a specialized workforce and also train their employees for better management efficiency. Credit channelisation should be done mindfully to reduce the risk of non-performing assets. Prompt recovery of loans should be followed to avoid NPAs. An efficient use of AI and data analytics tools can be made to analyse the credit scores for the sound distribution of loans. An important element of the definition of small finance banks includes their focus on low-cost operations. SFBs should work on high-technology, low-cost operations to increase cost efficiency and thus enhance their profitability. Small finance banks should increase their reach even further and introduce low-cost digital branches in order to have more business.

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