Conversion of AU Financiers to AU Small Finance Bank: Step towards Financial Inclusion

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Received Dec. 28, 2017 Accepted Jan. 30, 2018

ABSTRACT *Financial inclusion is very important for the growth and development of an economy specialy in India, as it is on developing phase. It is the process in which it is ensured that proper financial products and services which are required by vulnerable groups especially weaker sections and low income groups at an affordable cost in a transparent and fair manner.AU financiers which recently took major step towards financial inclusion, as it is an institution which works for micro,small and medium enterprises.So this decision will impact positively in our economy.Here major objective of this study is to know the relationship between factors related to conversion and profitability of AU small finance bank.Study was undertaken by using five years data starting from 2012-13 to 2016-17.As far as research methodology is concerned here study is based descriptive research design by using comparative analysis, trend analysis and ratio analysis. Secondary data is used to perform all these analysis. Study will be implemented and helpful to investors, corporate managers, researchers and management for framing plans and policies for the company.*

***Keywords**: Financial inclusion, return on assets, profitability, return on equity, growth, micro small and medium enterprise.*

Introduction: AU Financiers begins its voyage as non banking finance company and then started business of providing commercial loans, personal vehicle loans, micro small and medium enterprise(MSME) loans and the main focus is on providing financial aid specially to low-middle class income segments. During the days when it was non-banking finance company, it is composed of union of 300 branches which expands across 10 states, these are: Rajasthan, Maharashtra, Gujarat, Madhya Pradesh, Punjab, Delhi, Haryana, Himachal Pradesh and Goa. Mr. Sanjay Agarwal started this company two decades ago. He is a Charted Accountant, a merit holder and a first generation business tycoon. His talented team always helped him to move forward and work regularly. In this manner, he started the journey of excellence and goal of becoming the fastest growing NBFC took its way.

Financial inclusion is emerging as a new paradigm of economic growth that plays major role in driving away the poverty from the country. It refers to delivery of banking services to masses including privileged and disadvantaged people at an affordable terms and conditions. Financial inclusion is important priority of the country in terms of economic growth and advanceness of society.AU Financiers has converted itself to Small Finance Bank from a Non-Banking Finance Company (NBFC) changing its name to AU Small Finance Bank. Non-banking finance company Au Financiers (India) has received final approval of the Reserve Bank to start operations as small finance bank . The company was among the 10 entities that received in-principle approval of RBI last year to set up small finance banks.

Review of Literature:

Saikat Das (2017) AU intends to expand and strengthen its business model to offer a diverse suite of banking products and services by leveraging its asset-based lending strength . Existing customer base, cost efficient and technology driven hub-and-spoke branches will be the three-pronged operating model for AU to kick-start the bank. **Pritesh Bumb R Sreesankar Vidhi Shah (2017)** Transformation to small finance bank will enable AU Small Finance Bank to meets its funding requirements through term deposits which will impart stability to the business. Besides, as small finance bank the company will be able to offer a wide bouquet of lending products thereby adding to its scalability. **Dan Goldblum, Mahima Khanna (2015)** Financial Intermediaries like AU Financiers which provide access to finance for Micro, Small and Medium Enterprises is underserved markets, are expected to have significant financial inclusion and job creation effects and positively affects financial performances of micro,small and medium enterprises. **Ajay Kumar Motwani (2011)** A vibrant and a well-developed marketwhich has been shown to facilitate consumption & investment, by providing loans to differentsegments has a lot of potential in the coming years. The lenders as well as borrowers in the countryare growing at a very fast pace. **Mandira Sarma Jesim Pais (2008)** the paper attempts to identify the factors that are significantly associated with financial inclusion. Levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Among socio-economic factors, as expected, income is positively associated with the level of financial inclusion.Going beyond income, inequality, literacy and urbanisation are other important factors.

Research Methodology: Research methodology is systematic collection and analysis of data so as to find the necessary conclusions. For this study researcher has selected AU small finance bank and used secondary data from annual reports of the company, journals and other publications. Hypothesis will be tested by performing descriptive analysis using tables, charts and diagrams. Comparative, trend and ratio analysis was used for the analysis and interpretation of results.

Objectives of the study:

- To find out the relationship between Return on Assets, return on equity and net profit with reference to financial inclusion.
- To find out factors related to the conversion of AU small finance bank
- To explore the strategies of AU towards financial inclusion

Hypothesis:

H_0 :. There is no significant relationship between return on assets, return on equity and net profit growth

H_1 : There is significant relationship between return on assets, return on equity and net profit growth.

Data Analysis and Interpretation: Collection of data is most important part of this step but after collecting data it is very necessary to analyze and interpret it properly for final results and findings. Here researcher has used operational and financial ratios (earning per share, net asset value per shares), performance ratios (return on assets, return on equity and return on capital employed) and growth ratios (core operating income growth, operating profit growth, net profit growth, book value per share growth, earning per share growth).All the calculations was carried out by using Microsoft Excel- 2007.

Comparative Analysis : Table 1

Comparative Balance Sheet of last two years (2016-2017)				
Parameters	**March'16 (₹ Cr.)**	**March'17 (₹ Cr.)**	**Increase/Decrease in Absoute Data (₹ Cr.)**	**Increase/ Decrease in %age**
EQUITY AND LIABILITIES				
Share Capital	44.08	284.25	240.17	544.85
Share Warrants & Outstandings				
Total Reserves	963.28	1,697.19	733.91	76.19
Shareholder's Funds	1,009.44	1,987.59	978.15	96.90
Long-Term Borrowings				
Secured Loans	2,370.85	3,861.74	1490.89	62.88
Unsecured Loans	440.00	1,075.00	635	144.32
Deferred Tax Assets / Liabilities	-18.36	-11.94	6.42	-34.97
Other Long Term Liabilities	56.73	59.14	2.41	4.25
Long Term Trade Payables	0.00	0.00	0	0.00
Long Term Provisions	44.44	68.57	24.13	54.30
Total Non-Current Liabilities	**2,893.67**	**5,052.51**	2158.84	74.61
Current Liabilities				
Trade Payables	0.00	0.00	0	0.00
Other Current Liabilities	1,344.48	1,757.96	413.48	30.75
Short Term Borrowings	1,006.58	994.05	-12.53	-1.24
Short Term Provisions	21.70	7.65	-14.05	-64.75
Total Current Liabilities	**2,372.76**	**2,759.66**	386.9	16.31
Total Liabilities	**6,275.86**	**9,799.76**	**3,523.90**	**56.15**

ASSETS				
Non-Current Assets	0.00	0.00	0	0.00
LOANS	0.00	0.00	0	0.00
Gross Block	48.74	65.83	17.09	35.06
Less: Accumulated Depreciation	24.53	29.85	5.32	21.69
Less: Impairment of Assets	0.00	0.00	0	0.00
Net Block	24.21	35.98	11.77	48.62
Lease Adjustment A/c	0.00	0.00	0	0.00
Capital Work in Progress	0.39	159.83	159.44	40882.05
Intangible assets under development	0.00	80.04	80.04	0.00
Pre-operative Expenses pending	0.00	0.00	0	0.00
Assets in transit	0.00	0.00	0	0.00
Non Current Investments	59.34	615.22	555.88	936.77
Long Term Loans & Advances	3,786.09	4,537.24	751.15	19.84
Other Non Current Assets	9.66	18.28	8.62	89.23
Total Non-Current Assets	**3,879.69**	**5,446.58**	1566.89	40.39
Current Assets Loans & Advances				
Currents Investments	172.23	1,535.10	1362.87	791.31
Inventories	0.00	0.00	0	0
Cash and Bank	123.43	624.50	501.07	405.95
Other Current Assets	49.51	69.80	20.29	40.98
Short Term Loans and Advances	18.89	46.58	27.69	146.59
Total Current Assets	**2,396.16**	**4,353.18**	1957.02	81.67
Net Current Assets (Including Current Investments)	23.41	1,593.52	1570.11	6707.01
Total Current Assets Excluding Current Investments	2,223.94	2,818.09	594.15	26.72
Miscellaneous Expenses not written off	0.00	0.00	0	0.00
Total Assets	**6,275.86**	**9,799.76**	**3,523.90**	**56.15**

Discussion: The comparative analysis of the balance sheet shows that there is gradual increase in Share capital by 240.17 crores.There is increase in overall current and non current liabilities.The analysis shows that total liabilities have increased by 56.15%.As on asset side, total non cussrent assets increased by 40.39% and total current assets increased by 81.67%.Overall total assts of 2017 increased by 56.15%.

Comparative Analysis: Table 2

Comparative Profit and Loss of last two years (2016-2017)				
Parameters	**March'16 (₹ Cr.)**	**March'17 (₹ Cr.)**	**Increase/Decrease in Absolute data (₹ Cr.)**	**Increase/Decrease in %age**
Operating Income	1,010.46	1,373.91	363.45	35.97
Net Sales	1,010.46	1,373.91	363.45	35.97
EXPENDITURE:				
Increase/Decrease in Stock	0.00	0.00	0.00	0.00
Purchase of Shares / Units	0.00	0.00	0.00	0.00
Employee Cost	152.80	177.03	24.23	15.86
Operating & Establishment Expenses	43.72	86.81	43.09	98.56

Administrations & Other Expenses	39.64	60.57	20.93	52.80
Provisions and Contigencies	108.63	156.48	47.85	44.05
Expenses Capitalised	0.00	0.00	0.00	0.00
Total Expenditure	344.79	480.89	136.10	39.47
PBIDT (Excl OI)	665.67	893.02	227.35	34.15
Other Income	60.75	86.09	25.34	41.71
Operating Profit	726.42	979.11	252.69	34.79
Interest	395.25	500.33	105.08	26.59
Depreciation	8.52	5.78	-2.74	-32.16
Profit Before Taxation & Exceptional Items	**322.65**	**472.99**	150.34	46.60
Exceptional Income / Expenses	**0.00**	**670.35**	670.35	0.00
Profit Before Tax	**322.65**	**1,143.34**	820.69	254.36
Provision for Tax	111.03	321.37	210.34	189.44
PAT	211.62	821.98	610.36	288.42
Extraordinary Items	0.00	0.00	0.00	0.00
Adj to Profit After Tax	0.00	0.00	0.00	0.00
Profit Balance B/F	340.43	509.73	169.30	49.73

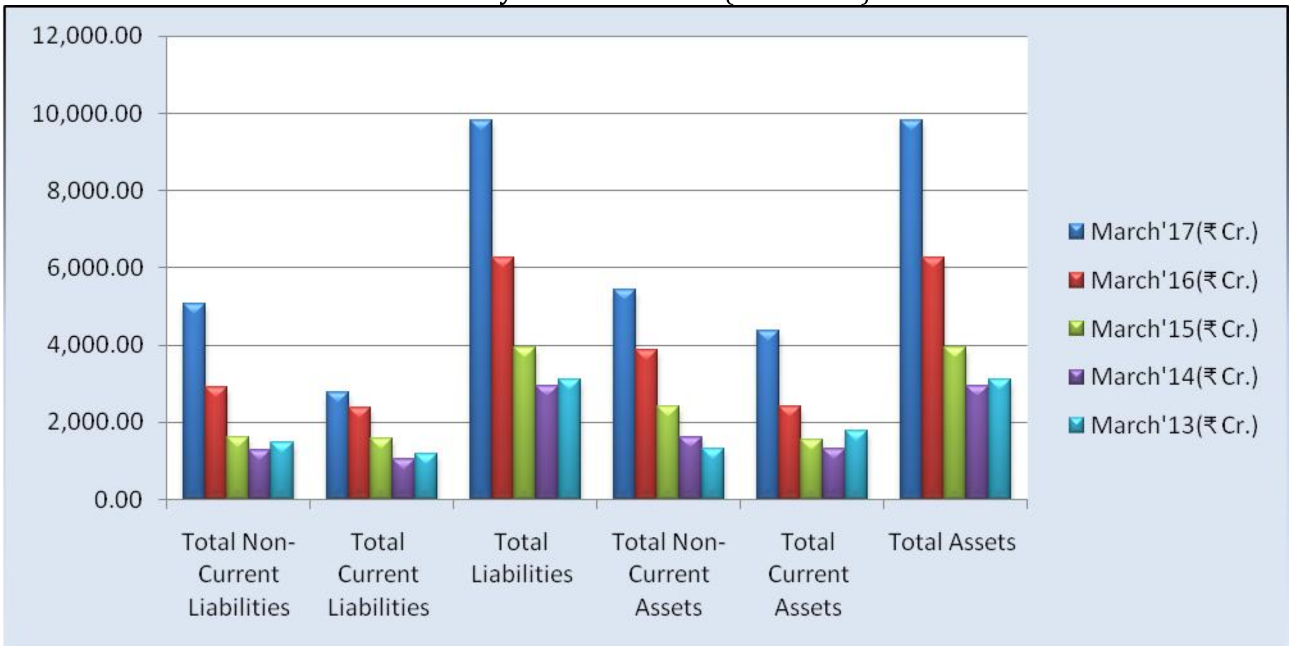
Discussion: The comparative analysis of profit and loss account shows that operating income increases by 40% by operating expenses increases by 99%, which results in decrease in growth of operating profit. But due to increase in indirect sources of income as compared to indirect expenses, net profit of the company increased 3 times than the profit of last year.

Ratio Analysis: Table 3

Parameters	March'17 (₹ Cr.)	March'16 (₹ Cr.)	March'15 (₹ Cr.)	March'14 (₹ Cr.)	March'13 (₹ Cr.)
Operational & Financial Ratios:					
Earnings Per Share (Rs)	28.92	48.01	31.63	16.88	17.14
Book NAV/Share(Rs)	69.71	228.53	173.87	139.13	109.18
Performance Ratios:					
ROA(%)	10.23	4.14	4.06	2.41	2.24
ROE(%)	55.00	23.86	20.44	13.96	15.70
ROCE(%)	22.14	15.21	15.36	14.06	10.26
Growth Ratio:					
Core Operating Income Growth	26.59	40.17	-1.94	45.83	0.00
Operating Profit Growth	34.79	46.52	23.79	32.28	0.00
Net Profit Growth	288.42	51.75	92.24	4.59	0.00
BVPS Growth	-69.50	-86.86	24.97	27.43	0.00
EPS Growth(%)	-39.76	51.75	87.37	-1.48	0.00

Discussion: The ratio analysis is done by taking operational & financial ratios, performance ratios and growth ratios. We found that there is fall in financial and operating ratios but there is increase in performance and growth ratios. Which implies that performance and growth ratios are interrelated.

Trend Analysis: Balance Sheet (2013-2017)



Discussion: Trend analysis is done to check whether there is increasing, decreasing or fluctuating trend in last 5 year data. Researcher found that there is increasing trend in all the factors which proves that AU financiers is growing company.

Findings: In this study three types is analysis is done. From the comparative analysis researcher found that there is huge increase in Share capital in 2017 as compared to 2016. Liabilities get reduced due to which there is increase in long term provisions. On the asset side there is sudden increase in Capital work in progress. The comparative statement of profit and loss account shows that the profit before tax of 2017 has increased more than 3 times of profit before tax of 2016. By trend analysis researcher found that there is fluctuating and increasing trend from last five i.e. 2012-13 to 2016-2017. Which proves that there is no loss in AU Financiers from last five years, the company is very well growing and this is reason it got selected for financial inclusion. And by ratio analysis researcher found that there is fall in operational and financial ratios while there is increase in performance and growth ratios which further concluded that company is in developing phase.

Suggestions: It is suggested to maintain proper return on assets and return on equity ratios which helps to maintain Net Profit Growth. AU Financiers should reduces its operating expenses also, which increases its Operating Profit Growth too.There is increase in number of shares but EPS is low as compared to 2016. So company should reframe its dividend policy to achieve adequate EPS ratio.

Conclusion: After analysing all the charts, tables and graphs it would be concluded that there would be significant relation between capital structure on growth and performance ratios (Net profit ratio, return on assets and return on equity ratio).

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