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A Comparative Study of Financial Performance of AU Small Finance Bank and Equitas Small Finance Bank

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***Abstract*—This study compares the financial performance of AU Small Finance Bank and Equitas Small Finance Bank, two leading Small Finance Banks in India, over five financial years (FY 2020-21 to FY 2024-25). Using secondary data from annual reports, investor presentations, and sources like Moneycontrol and BSE filings, the analysis focuses on key areas: profitability (Net Interest Margin, Return on Assets, Return on Equity), liquidity (Credit-Deposit Ratio, CASA Ratio), solvency (Capital Adequacy Ratio), efficiency (Cost to Income Ratio), and asset quality (Gross and Net NPA Ratios).**

Findings show that AU Small Finance Bank delivered more consistent and stable performance, with steady profitability, improving operational efficiency, better liquidity, and stronger asset quality control. In contrast, Equitas Small Finance Bank started with higher margins but faced greater volatility, especially in FY 2024-25, including sharp drops in profitability and rising costs, likely due to challenges in expansion and provisions. Both banks maintained solid capital buffers and contributed to financial inclusion, but AU demonstrated a more conservative and sustainable approach, while Equitas pursued aggressive growth. The study provides insights for investors, policymakers, and stakeholders on balancing profitability with the social goals of Small Finance Banks.

***Index Terms*—Small Finance Banks, AU Small Finance Bank, Equitas Small Finance Bank, Financial Performance Comparison, Profitability Ratios, Asset Quality, Cost to Income Ratio, Financial Inclusion, India Banking Sector**

I. INTRODUCTION

Small Finance Banks (SFBs) play a key role in India's banking system by focusing on financial inclusion. They provide banking services to underserved groups, such as low-income households, small businesses, micro enterprises, and people in rural or semi-urban areas. Introduced by the Reserve Bank of India (RBI) in 2016, SFBs help extend credit and deposits to those often ignored by larger banks, supporting economic growth and reducing inequality.

This study compares the financial performance of two leading SFBs: AU Small Finance Bank and Equitas Small Finance Bank. AU Small Finance Bank, based in Jaipur, started as a finance company focused on vehicle loans and has grown into a strong retail bank with a wide range of products. Equitas Small Finance Bank, headquartered in Chennai, began with microfinance roots and serves similar underserved segments through loans for small businesses, housing, and vehicles.

The comparison covers five financial years, from FY 2020-21 to FY 2024-25, using secondary data from annual reports, investor presentations, and reliable sources like Moneycontrol and BSE filings. Key areas examined include: Profitability, Liquidity, Solvency, Efficiency, and Asset quality.

The objective is to identify trends, strengths, and differences in how each bank manages operations and growth. This analysis offers insights for investors, policymakers, and stakeholders interested in the SFB sector's contribution to India's financial landscape. By highlighting consistent performance and areas for improvement, the study shows how these banks balance profitability with their social mission of inclusion.

II. LITERATURE REVIEW

- Yamijala and Kothapalli (2024) compare the two banks by analyzing their stock return series and volatility patterns using models like GARCH. It highlights differences in risk-return dynamics, with Equitas showing higher volatility but also a stronger positive risk-return correlation. The study uses data up to 2023 and notes both banks'

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roles in financial inclusion, making it useful for understanding performance stability.

- Dvara (2024) compares multiple small finance banks, including AU and Equitas, on deposits, CASA ratios, and advances. It finds that AU, Equitas, and others have higher deposit bases but varying CASA efficiency, with implications for overall financial performance and inclusion goals.

- Gobbilla and Mithra (2025) comparing AU with Ujjivan, this recent paper analyzes post-pandemic profitability ratios like ROA, ROE, and net interest margins. It highlights AU's strengths in leverage and asset diversification, with insights that can extend to comparisons with Equitas (as both are in the same peer group), emphasizing resilience and efficiency in small finance banks.

- Prasanth and Mohanprasanna (2023) examine annual reports (2018–2022) of three banks: AU, Equitas, and Ujjivan. It assesses overall financial health through key indicators like asset growth and returns. All three banks show strong performance, with rapid branch expansion and high ROA, but AU and Equitas stand out for healthy asset quality in the small finance sector.

- Dalvadi et al. (2023) applies the CAMEL framework (Capital adequacy, Asset quality, Management, Earnings, Liquidity) to several small finance banks, including AU and Equitas. AU ranks highly in assets-to-advances ratios, indicating strong lending efficiency, while the overall analysis shows varying strengths in capital adequacy and stability across the group.

RESEARCH METHODOLOGY

This study uses secondary data to compare the financial performance of AU Small Finance Bank and Equitas Small Finance Bank over five years, from FY 2020-21 to FY 2024-25. The data comes from the banks' official annual reports, investor presentations, and reliable financial websites such as Moneycontrol, BSE India filings, and Equitymaster. Key ratios were taken directly from these sources or calculated where needed.

The main areas examined include profitability (measured by Net Interest Margin, Return on Assets, and Return on Equity), liquidity (Credit-Deposit Ratio and CASA Ratio, where data was available), solvency (Capital Adequacy Ratio), efficiency (Cost to Income Ratio), and asset quality (Gross and Net Non-Performing Assets Ratios). Trend analysis helped track changes over time, while direct comparisons showed the differences between the two banks.

Data for FY 2024-25 is based on the latest annual reports and results available as of early 2026. Some ratios, like CASA and Credit-Deposit, had limited information for earlier years, so the focus remained on clear trends from the available figures. This approach provides a fair and balanced view of how both banks performed and managed their operations.

IV. DATA ANALYSIS AND INTERPRETATION

The analysis is divided into key performance categories, with tables showing data for both banks across the five years. Interpretations follow each table, discussing trends and comparisons.

- Profitability measures how effectively the banks generate earnings from their operations.

Year	AU SFB NIM (%)	AU SFB ROA (%)	AU SFB ROE (%)	Equitas SFB NIM (%)	Equitas SFB ROA (%)	Equitas SFB ROE (%)
2021	5.2	N/A	N/A	7.0	1.6	11.3
2022	5.3	N/A	N/A	8.6	1.0	6.6
2023	5.6	1.9	15.0	7.8	1.6	11.1
2024	5.1	1.7	13.0	7.7	1.8	13.4
2025	5.5	1.5	13.1	7.1	0.3	2.4

AU SFB’s NIM showed moderate growth, peaking at 5.6% in 2023 before stabilizing around 5.5% in 2025, indicating consistent interest income management. Equitas SFB had higher NIM overall, starting at 7.0%

but declining to 7.1% by 2025, possibly due to rising funding costs.

ROA and ROE for Equitas fluctuated, with a sharp drop in 2025, suggesting profitability challenges, perhaps from higher provisions. AU SFB maintained stable ROA and ROE around 1.5–1.9% and 13–15%, reflecting better resilience. Overall, Equitas showed higher initial profitability but greater volatility, while AU demonstrated steady performance.

Liquidity assesses the banks' ability to meet short-term obligations and manage the deposit–lending balance.

Year	AU SFB CD Ratio (%)	AU SFB CASA Ratio (%)	Equitas SFB CD Ratio (%)	Equitas SFB CASA Ratio (%)
2021	N/A	N/A	N/A	N/A
2022	N/A	N/A	N/A	N/A
2023	N/A	N/A	N/A	N/A
2024	86	N/A	90	25
2025	81	28	92	20

Data on liquidity ratios was limited, but available figures show AU SFB's CD ratio declining from 86% in 2024 to 81% in 2025, indicating conservative lending and better liquidity management. Equitas SFB's higher CD ratio (90–92%) suggests aggressive lending, which could pose liquidity risks if deposit growth slows.

CASA ratios for both banks are moderate, with AU at 28% and Equitas at 20% in 2025, implying reliance on term deposits, which could increase costs. AU appears more liquid, while Equitas prioritizes growth through higher lending.

Solvency evaluates the banks' capital strength to absorb losses.

Year	AU SFB CAR (%)	Equitas SFB CAR (%)
2021	N/A	24.2
2022	N/A	25.2
2023	N/A	23.8
2024	N/A	21.7
2025	20.0	20.6

CAR data was more available for Equitas, showing a gradual decline from 25.2% in 2022 to 20.6% in 2025, still well above RBI's 15% requirement, indicating strong solvency but potential capital dilution due to growth. For AU, CAR is estimated at 20% in 2025 based on quarterly data, suggesting similar stability. Both banks maintain adequate capital, with Equitas historically slightly higher, reflecting robust risk management.

Efficiency examines operational cost control relative to income.

Year	AU SFB Cost to Income (%)	Equitas SFB Cost to Income (%)
2021	N/A	73
2022	N/A	82
2023	60	73
2024	57	69
2025	54	92

AU SFB's cost to income ratio improved to 54% in 2025, showing efficient cost management and scaling benefits. Equitas SFB's ratio worsened sharply to 92% in 2025 from 69% in 2024, indicating operating expenses growing faster than income, possibly due to expansion or higher provisions. AU demonstrates superior efficiency, contributing to stable profitability, while Equitas needs to focus on cost optimization.

Asset quality reflects the health of loan portfolios.

2021	4.3	N/A	3.6	N/A
2022	2.0	0.5	4.1	2.4
2023	1.7	0.4	2.8	1.2
2024	1.7	0.6	2.6	1.2
2025	2.3	0.7	2.9	1.0

AU SFB's asset quality improved significantly from 4.3% Gross NPA in 2021 to 1.7% in 2023–2024, before rising slightly to 2.3% in 2025, possibly due to economic pressures. Net NPA remained low at 0.7%.

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Equitas SFB showed volatility, peaking at 4.1% in 2022 before declining to 2.6% in 2024, then rising to 2.9% in 2025. Net NPA improved to 1.0%. Both banks managed NPAs well post-COVID, but AU maintained lower levels overall, indicating stronger credit risk controls.

V. FINDINGS

The comparative analysis reveals that AU SFB exhibits more consistent performance across metrics, with stable profitability, improving efficiency, and better asset quality. Its NIM and ROE trends suggest effective interest management and shareholder value creation. Equitas SFB shows higher NIM historically but faces challenges in 2025, with declining ROA/ROE and rising costs, possibly from aggressive expansion.

Similarities include strong solvency and controlled NPAs, but differences highlight AU's conservative approach versus Equitas' growth-oriented strategy. Strengths for AU include efficiency and liquidity; for Equitas, high initial margins. Weaknesses include Equitas' cost spikes and AU's moderate NIM. Growth patterns show both expanding, but AU with greater sustainability.

VI. CONCLUSION

This study underscores the vital role of SFBs in India's financial landscape. AU SFB and Equitas SFB have demonstrated resilience, but AU appears better positioned for stable growth. Investors may prefer AU for consistency, while policymakers can draw lessons on balancing growth and risk. Future research could include primary data or post-merger impacts (if applicable). Overall, both banks contribute to financial inclusion, with opportunities for enhanced efficiency.

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