



Capital Adequacy, Deposits and Spread of Small Finance Banks in India

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Abstract:

Small Finance Banks (SFBs) play a vital role in advancing financial inclusion in India, making performance assessment essential from a regulatory perspective. This study evaluates the financial performance of selected Small Finance Banks using three key indicators: capital adequacy, deposit mobilization, and interest spread. A ranking-based approach is applied, and mean scores are computed to derive overall performance rankings. The results reveal considerable variation in performance across banks, indicating uneven financial resilience within the sector. Banks exhibiting balanced performance across all indicators consistently achieved superior rankings, whereas institutions with weaknesses in multiple dimensions recorded lower positions. Ujjivan Small Finance Bank emerged as the top performer, reflecting effective capital management, stable deposit growth, and efficient spread management. In contrast, lower-ranked banks displayed structural inefficiencies that may affect long-term sustainability. The findings demonstrate that strong deposit growth alone is insufficient to ensure financial stability without adequate capital buffers and prudent spread management.

Keywords: Small Finance Banks, Financial Performance, Capital Adequacy, Deposit Mobilization, Spread

1. Introduction

Small Finance Banks (SFBs) are a specialized category of banks established by the Reserve Bank of India to advance financial inclusion by providing basic banking and credit services to underserved and unbanked segments of the population. These banks primarily focus on small farmers, micro and small enterprises, low-income households, and individuals in rural and semi-urban areas. Unlike traditional commercial banks, Small Finance Banks operate with a developmental mandate while maintaining prudential regulatory standards.

SFBs are permitted to accept deposits and extend loans, but they are required to prioritize lending to priority sectors and maintain higher proportions of assets in safe and liquid instruments. Their business model emphasizes relationship-based banking, localized operations, and technology-driven service delivery to enhance outreach and efficiency. Capital adequacy norms, exposure limits, and governance standards applicable to SFBs are closely monitored by the Reserve Bank of India to ensure financial stability. By combining financial inclusion objectives with commercial viability, Small Finance Banks play a crucial role in deepening the formal banking system and supporting inclusive economic growth in India.

Capital adequacy refers to a bank's ability to absorb financial losses and meet its obligations while continuing operations. It indicates whether a bank has sufficient capital in relation to its risk-weighted assets, ensuring protection for depositors and stability of the banking system. Higher capital adequacy reflects stronger financial soundness and resilience against credit, market, and operational risks. Deposits represent the funds mobilized by a bank from customers in the form of savings, current, fixed, and recurring deposits. They are the primary source

of funds for lending and investment activities. A strong deposit base reflects customer confidence, liquidity strength, and the bank's ability to support sustainable credit growth at lower funding costs. Spread refers to the difference between the interest earned on loans and advances and the interest paid on deposits. It measures a bank's efficiency in interest income generation and pricing strategy. A higher spread generally indicates better profitability, provided credit risk and operating costs are effectively managed.

Small Finance Banks (SFBs) were established in India with the primary objective of promoting financial inclusion while operating under a prudential regulatory framework prescribed by the Reserve Bank of India. These banks serve economically weaker sections, small businesses, and rural and semi-urban populations by providing basic deposit facilities and credit services. Given their relatively smaller scale of operations and higher exposure to credit risk, maintaining financial stability is critical for their long-term sustainability. Consequently, performance evaluation of Small Finance Banks has gained increasing importance among regulators, policymakers, and banking practitioners.

Capital adequacy, deposits, and spread constitute three fundamental indicators of a bank's financial strength and operational efficiency. Capital adequacy reflects a bank's ability to absorb losses and safeguard depositor interests, deposits indicate liquidity strength and public confidence, and spread measures efficiency in interest income generation. For Small Finance Banks, the effective management of these indicators is particularly crucial due to their dual mandate of social outreach and commercial viability. Analyzing these dimensions provides meaningful insights into the financial resilience of Small Finance Banks in India and helps assess their capacity to support inclusive growth while complying with regulatory norms.

Lupu, G. A. M. (2026)¹ evaluated the financial performance of eleven Indian small finance banks using the CAMEL framework, analysing secondary data from RBI and annual reports to assess capital adequacy, asset quality, management efficiency, earnings, and liquidity. It finds Capital SFB and ESAF SFB to be the best performers, while North East SFB requires significant improvement in asset quality and management efficiency. Dr. Ananda, D. R. (2024)² empirically examined the performance of Indian Small Finance Banks using descriptive and inferential statistics based on secondary data from RBI and financial reports, focusing on profitability, asset quality, financial inclusion, and operational efficiency. It highlights that while SFBs have made progress in financial inclusion and loan diversification, challenges persist in asset quality and profitability. Bhatia, A., & Mahendru, M. (2024)³ evaluated the financial performance of Indian Small Finance Banks using the CAMEL framework and Data Envelopment Analysis (DEA), assessing capital adequacy, asset quality, management quality, earnings quality, and liquidity. Results indicate that most SFBs demonstrate satisfactory performance, with Utkarsh SFB and Fincare SFB ranking highest and Jana SFB and ESAF SFB ranking lowest in overall efficiency.

2. Objectives of the Study

The main objectives of the study are as follows:

1. To analyse the capital adequacy, deposits and spread of small finance banks in India.
2. To analyse the overall performance based on above parameters of small finance banks in India.

3. Research Methodology

The research methodology associated with this research is as follows:

1. **Research Design:** The research is descriptive and analytical in nature.
2. **Secondary Data:** This research paper is based on secondary data and were being collected form annual reports of small finance banks, Reserve Bank of India database, Indian Banks Association (IBA) records, published articles, journals and relevant text books.
3. **Population:** The study is a population-based study. All twelve small finance banks existing on any of the three years of the study were selected for the research without considering mergers and liquidation.
4. **Period of Study:** The study covers a period of three years i.e. from financial year 2022-2023 to 2024-2025.

5. Tools of Analysis: Ratios and mean are calculated initially and ranking is done on payment bank wise. Finally overall ranking based on parameter wise is done for banks. Graphs are used to present data.

4. Results and Discussion

Following section deals with the analysis aspects.

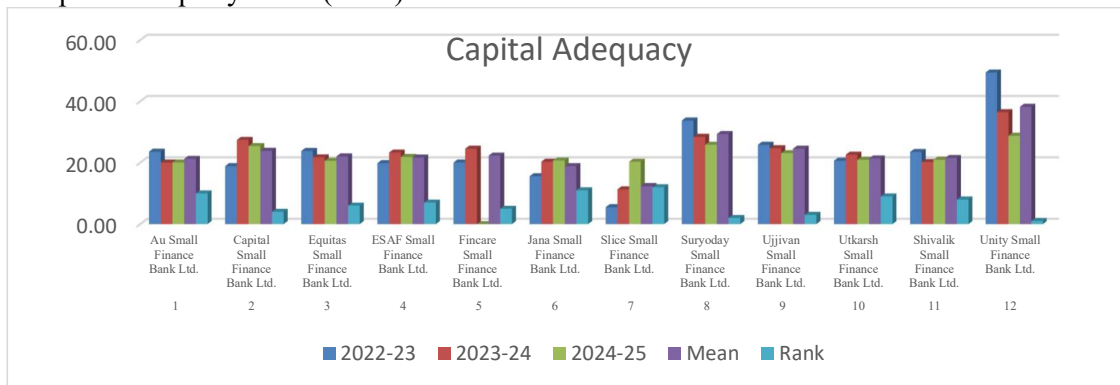
1. Capital Adequacy Ratio (CAR):

Table 1 – Capital Adequacy Ratio (CAR) Mean and Rank

Sl. No.	Particulars	2022-23	2023-24	2024-25	Mean	Rank
1	Au Small Finance Bank Ltd.	23.59	20.06	20.06	21.24	10
2	Capital Small Finance Bank Ltd.	18.87	27.39	25.39	23.88	4
3	Equitas Small Finance Bank Ltd.	23.80	21.70	20.60	22.03	6
4	ESAF Small Finance Bank Ltd.	19.83	23.27	21.84	21.65	7
5	Fincare Small Finance Bank Ltd.	20.04	24.53	0.00	22.29	5
6	Jana Small Finance Bank Ltd.	15.57	20.31	20.68	18.85	11
7	Slice Small Finance Bank Ltd.	5.50	11.31	20.30	12.37	12
8	Suryoday Small Finance Bank Ltd.	33.72	28.41	25.83	29.32	2
9	Ujjivan Small Finance Bank Ltd.	25.81	24.69	23.10	24.53	3
10	Utkarsh Small Finance Bank Ltd.	20.64	22.57	20.93	21.38	9
11	Shivalik Small Finance Bank Ltd.	23.46	20.19	20.95	21.53	8
12	Unity Small Finance Bank Ltd.	49.40	36.46	28.75	38.20	1

Source: Computed from Secondary Data

Figure 1 – Capital Adequacy Ratio (CAR) Mean and Rank



In capital adequacy parameter, Unity Small Finance Bank Ltd. has the highest mean ratio (38.20) and the highest rank whereas Slice Small Finance Bank Ltd. has the lowest mean ratio (12.37) and the lowest rank.

2. Deposits:

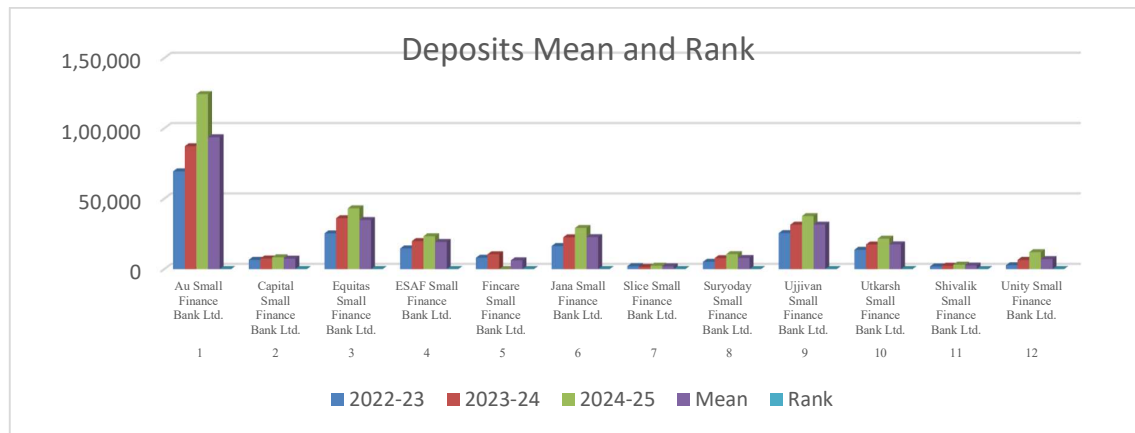
Table 2 – Deposits Mean and Rank

Sl. No.	Particulars	2022-23	2023-24	2024-25	Mean	Rank
1	Au Small Finance Bank Ltd.	69,365	87,182	1,24,269	93,605	1
2	Capital Small Finance Bank Ltd.	6,561	7,478	8,323	7,454	8
3	Equitas Small Finance Bank Ltd.	25,348	36,129	43,107	34,861	2
4	ESAF Small Finance Bank Ltd.	14,666	19,868	23,276	19,270	5

5	Fincare Small Finance Bank Ltd.	8,033	10,522	0.00	6,185	10
6	Jana Small Finance Bank Ltd.	16,334	22,571	29,120	22,675	4
7	Slice Small Finance Bank Ltd.	2,040	1,520	2,418	1,993	12
8	Suryoday Small Finance Bank Ltd.	5,167	7,777	10,580	7,841	7
9	Ujjivan Small Finance Bank Ltd.	25,538	31,462	37,630	31,544	3
10	Utkarsh Small Finance Bank Ltd.	13,710	17,473	21,566	17,583	6
11	Shivalik Small Finance Bank Ltd.	1,894	2,410	3,161	2,488	11
12	Unity Small Finance Bank Ltd.	2,685	6,505	11,952	7,047	9

Source: Computed from Secondary Data

Figure 2 – Deposits Mean and Rank



In deposits parameter, Au Small Finance Bank Ltd. has the highest mean ratio (93,605) and the highest rank whereas Slice Small Finance Bank Ltd. has the lowest mean ratio (1,993) and the lowest rank.

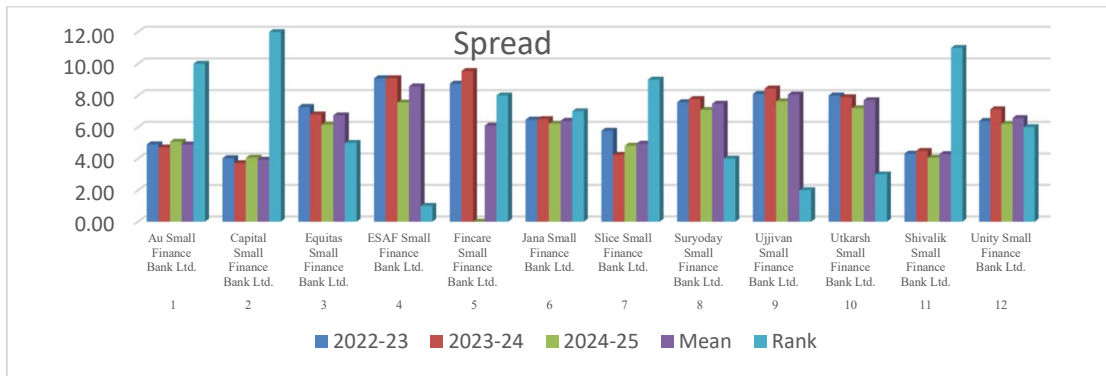
3. Spread:

Table 3 – Spread Mean and Rank

Sl. No.	Particulars	2022-23	2023-24	2024-25	Mean	Rank
1	Au Small Finance Bank Ltd.	4.91	4.71	5.08	4.90	10
2	Capital Small Finance Bank Ltd.	4.03	3.71	4.06	3.93	12
3	Equitas Small Finance Bank Ltd.	7.28	6.80	6.15	6.74	5
4	ESAF Small Finance Bank Ltd.	9.08	9.08	7.55	8.57	1
5	Fincare Small Finance Bank Ltd.	8.75	9.54	0.00	6.10	8
6	Jana Small Finance Bank Ltd.	6.47	6.51	6.22	6.40	7
7	Slice Small Finance Bank Ltd.	5.77	4.24	4.82	4.94	9
8	Suryoday Small Finance Bank Ltd.	7.57	7.77	7.08	7.48	4
9	Ujjivan Small Finance Bank Ltd.	8.10	8.43	7.62	8.05	2
10	Utkarsh Small Finance Bank Ltd.	8.00	7.89	7.19	7.69	3
11	Shivalik Small Finance Bank Ltd.	4.32	4.49	4.06	4.29	11
12	Unity Small Finance Bank Ltd.	6.39	7.12	6.20	6.57	6

Source: Computed from Secondary Data

Figure 3 – Spread Mean and Rank



In spread parameter, ESAF Small Finance Bank Ltd. has the highest mean ratio (8.57) and the highest rank whereas Capital Small Finance Bank Ltd. has the lowest mean ratio (3.93) and the lowest rank.

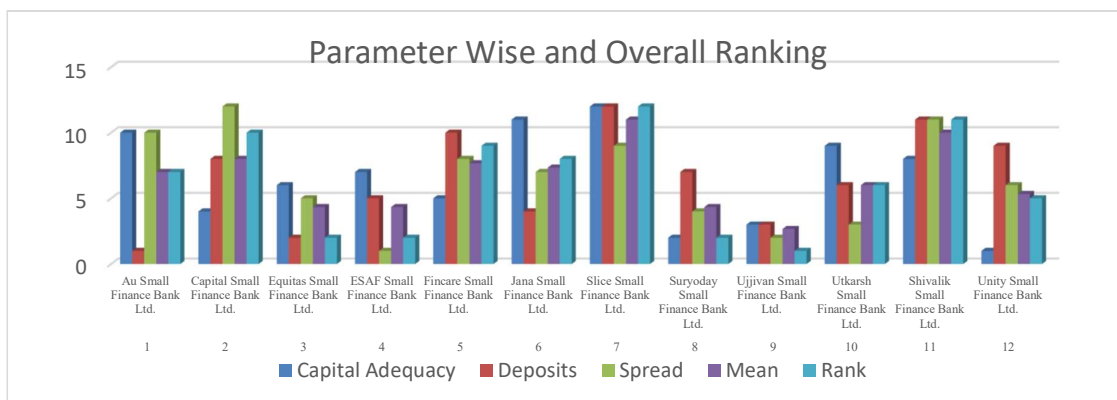
4. Final Parameter Wise and Overall Ranking

Table No. 4 –Parameter Wise and Overall Ranking

Sl. No.	Particulars	Capital Adequacy	Deposits	Spread	Mean	Rank
1	Au Small Finance Bank Ltd.	10	1	10	7.00	7
2	Capital Small Finance Bank Ltd.	4	8	12	8.00	10
3	Equitas Small Finance Bank Ltd.	6	2	5	4.33	2
4	ESAF Small Finance Bank Ltd.	7	5	1	4.33	2
5	Fincare Small Finance Bank Ltd.	5	10	8	7.67	9
6	Jana Small Finance Bank Ltd.	11	4	7	7.33	8
7	Slice Small Finance Bank Ltd.	12	12	9	11.00	12
8	Suryoday Small Finance Bank Ltd.	2	7	4	4.33	2
9	Ujjivan Small Finance Bank Ltd.	3	3	2	2.67	1
10	Utkarsh Small Finance Bank Ltd.	9	6	3	6.00	6
11	Shivalik Small Finance Bank Ltd.	8	11	11	10.00	11
12	Unity Small Finance Bank Ltd.	1	9	6	5.33	5

Source: Computed from Secondary Data

Figure No. 4 – Parameter Wise and Overall Ranking



In overall ranking, Ujjivan Small Finance Bank Ltd. has the lowest mean of ranks of all sub parameters together (2.67) and the highest rank whereas Jana Small Finance Bank Ltd. has the highest mean (11.00) and the lowest rank.

The results reveal considerable variation in the financial performance of Small Finance Banks. Ujjivan Small Finance Bank Ltd. emerged as the best-performing institution, securing the first rank with the lowest mean score of 2.67. The bank demonstrated consistent performance across all three indicators, reflecting effective capital management, strong deposit mobilization, and efficient interest spread. This balanced performance indicates sound financial strategy and operational stability. Equitas Small Finance Bank Ltd., ESAF Small Finance Bank Ltd., and Suryoday Small Finance Bank Ltd. jointly secured the second rank, each recording a mean score of 4.33. Although their individual parameter rankings varied, the identical mean values suggest comparable overall financial strength. ESAF exhibited superior performance in spread, while Equitas and Suryoday showed relative strength in deposits and capital adequacy, respectively. These results indicate that diversified strengths across parameters can still lead to competitive overall performance.

Unity Small Finance Bank Ltd. ranked fifth with a mean score of 5.33, followed by Utkarsh Small Finance Bank Ltd. in the sixth position with a mean score of 6.00. These banks demonstrated moderate financial performance, indicating acceptable levels of capital adequacy and deposit growth but relatively weaker results in at least one dimension. Their performance suggests operational stability, though without strong dominance across all parameters.

AU Small Finance Bank Ltd., despite securing the top rank in deposits, achieved only the seventh rank overall with a mean score of 7.00. This outcome highlights that strong deposit mobilization alone does not guarantee superior performance unless supported by adequate capital strength and efficient spread management. Similarly, Jana Small Finance Bank Ltd., ranked eighth with a mean score of 7.33, exhibited average performance across all indicators, reflecting limited competitive advantage.

At the lower end of the ranking, Fincare Small Finance Bank Ltd. and Capital Small Finance Bank Ltd. secured the ninth and tenth ranks, with mean scores of 7.67 and 8.00, respectively. Their relatively weak performance can be attributed to inconsistent rankings across capital adequacy and deposits, indicating structural inefficiencies in financial planning and resource utilization. Shivalik Small Finance Bank Ltd. ranked eleventh with a mean score of 10.00, while Slice Small Finance Bank Ltd. occupied the last position with the highest mean score of 11.00. Slice SFB consistently ranked low across all three parameters, reflecting poor capital strength, weak deposit base, and inefficient spread management. Such performance raises concerns about financial sustainability and resilience in a competitive banking environment.

The analysis clearly indicates that balanced performance across capital adequacy, deposits, and spread is critical for achieving higher overall rankings among Small Finance Banks. Banks excelling in only one parameter but underperforming in others tend to record weaker overall performance. The top-ranked banks demonstrated integrated financial management, enabling them to maintain stability and competitiveness. The findings also suggest that deposit growth, while important, must be supported by strong capital adequacy and efficient spread management to enhance profitability and sustainability. Lower-ranked banks need to focus on strengthening capital buffers, improving asset-liability management, and adopting effective interest pricing strategies.

Overall, the results highlight significant inter-bank disparities among Small Finance Banks in India and emphasize the need for comprehensive financial strategies rather than isolated performance improvements. These insights are valuable for policymakers, regulators, and bank management in strengthening the performance and long-term viability of the Small Finance Banking sector.

Based on the findings, Small Finance Banks should adopt a more integrated financial management approach to enhance overall performance and stability. Priority should be given to strengthening capital adequacy through prudent capital planning and retention of earnings to absorb potential shocks. Banks with weaker deposit bases

need to focus on sustainable deposit mobilization by improving customer trust, expanding digital outreach, and offering competitive yet stable deposit products. Efficient spread management should be emphasized through improved asset–liability management, rational pricing of loans and deposits, and tighter control over operating costs. From a regulatory perspective, supervisory frameworks may benefit from greater emphasis on composite performance indicators rather than isolated metrics, enabling early identification of structural weaknesses. Periodic stress testing, enhanced disclosure standards, and targeted capacity-building initiatives for weaker banks can further support sectoral resilience. Collectively, these measures can strengthen the financial soundness of Small Finance Banks and enable them to fulfil their dual mandate of financial inclusion and sustainable profitability.

5. Conclusion

This study assessed the financial performance of selected Small Finance Banks (SFBs) in India using key indicators of capital adequacy, deposit mobilization, and interest spread. The findings reveal significant inter-bank variation, indicating uneven financial resilience within the SFB sector. Banks demonstrating balanced performance across all indicators achieved superior overall rankings, underscoring the importance of integrated financial management. Ujjivan Small Finance Bank emerged as the strongest performer, reflecting effective capital planning, stable deposit growth, and efficient spread management. Conversely, lower-ranked banks exhibited persistent weaknesses across multiple parameters, raising concerns regarding their long-term sustainability. From a regulatory perspective, the results highlight that deposit growth alone is insufficient to ensure financial stability unless supported by adequate capital buffers and prudent interest margin management. The study reinforces the need for continuous supervisory oversight focused on holistic financial health rather than isolated performance metrics. Strengthening capital adequacy norms, improving asset–liability management, and enhancing pricing efficiency can contribute to greater stability within the sector. Overall, the study provides empirical evidence relevant to regulators and policymakers by identifying performance disparities among SFBs and emphasizing the role of balanced financial strategies in supporting their developmental and financial inclusion objectives. Future research may incorporate additional regulatory indicators and longitudinal analysis to deepen understanding of performance dynamics.

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