

Capital Small Finance Bank – Gradually Diversifying Beyond Core Markets

We met with the management of Capital Small Finance Bank (CSFB) represented by MD CEO Mr. Sarvjit Singh Samra and Executive Director – Mr Munish Jain to understand the business model and outlook for the bank. CSFB commenced operations as India's 1st SFB (one of the 2 non-MFI institutions) in 2016 post-RBI's approval in Mar'16. The bank's background as a local area bank has helped CSFB to understand the needs of its target customer – middle-income group (with income ranging between Rs 5-50 Lc). CSFB's core strategy is strengthening its retail-focused banking franchise by enabling access to affordable credit in the states it operates in and amongst its well-defined niche customer segment.

Key Takeaways

- Dominant presence in Punjab, eyeing to grow contiguously:** CSFB's operating history as a local area bank restricted its geographical outreach, thereby limiting its presence in Punjab. As of Jun'24, the bank operates 177 branches, primarily in rural and semi-urban markets, with approximately 86% of these branches located in Punjab. CSFB's deposit market share in Punjab stands at ~1.15%, with incremental deposit market share ranging between 2-2.5%. Similarly, incremental credit market share in Punjab ranges between 3-4%. Going ahead, the bank will foray into the union territory of Jammu & Kashmir. The management plans to deepen its presence in Haryana (expected to be the next growth driver) and further expand its penetration in the existing states by adopting a contiguous approach. **The bank plans to expand its branch network to 200 by FY25 and continue to add 30-40 branches each year thereon, with over 50% branches outside the core state of Punjab.**
- Multi-product suite, dominated by secured lending:** CSFB focuses on the middle-income group segment and aims to be the primary banker of its customers. The bank has consciously focused on building a granular and secured portfolio over the years with an unabated focus on income generation. Currently, ~99% of the portfolio is secured, while 86% of the portfolio has been collateralised. **CSFB has registered a healthy 19% CAGR growth over FY19-24, keeping the portfolio mix largely stable.** As of Jun'24, the bank has a diversified portfolio comprising Agriculture (35% mix), MSME (21% mix), Mortgage (27% mix), Corporate (mainly to NBFCs with negligible exposure to MFI) and Consumer loans (17% mix) enabling effective risk mitigation. **The management expects to clock credit growth of 22-24% in FY25, further accelerating the pace of growth over the medium term. The maturing new branches (average break-even period of 15-18 months) would remain a key lever to enable the bank to accelerate its credit growth momentum.**
- Retail-focused liability franchise, Experience as a local area bank gives competitive edge:** CSFB's experience of operating as a local area bank gives the bank a competitive edge in understanding the strategy to build a strong retail-focused deposit franchise. As per the management, **the bank's liability customer franchise is 10x that of the loan customer franchise.** This is reflected in the healthy C-D Ratio (avg) which stands lowest amongst SFB peers at ~79.6% as of Jun'24. **Going forward, the management expects to further improve the C-D Ratio to mid-to-high 80% over the medium term.** In Q1FY25, ~94% of the deposits are retail-dominated and the bank has been able to maintain a strong CASA ratio of 39.5%, better than most SFB players. CSFB has registered a 15% CAGR deposit growth over FY19-24. CSFB has been able to consistently maintain a TD rollover ratio of over 90% despite being the lower interest rate payer. This provides stability to the bank's liquidity profile and demonstrates the continued trust of its customers. CSFB's focus remains on providing a holistic product suite to the customers in the core geographies enabling deeper penetration. Further, the bank is empanelled as a nodal banker for processing the payment of procurement proceeds of food grains to the beneficiaries by Govt of Punjab.
- Eyeing RoA of 1.4% in FY25:** CSFB has been able to maintain its margins in a narrow range of 3.5-3.7% over FY18-22. However, driven by a sharper improvement in the C-D Ratio, the bank's NIMs improved to 4.2% in FY23, before contracting to 3.9% in FY24 on the back of an increase in CoF. The management believes that the utilization of excess liquidity and a further improvement in the C-D Ratio will drive further NIM improvement. **As per the management, for every 100bps improvement in the C-D ratio, the bank's NIMs could witness a 4-5bps improvement.** Given the continuous investment in expanding the branch network, the bank will look to maintain a C-A Ratio in a tight range of 3-3.1% over the medium term. Hereon, opex ratio improvement will be driven by improving branch-level efficiency. The bank's strategy to pursue growth in secured lending, primarily for productive purposes alongside maintaining a lower LTV has contributed to lower delinquencies and lower credit costs. The bank has had negligible write-offs since its inception. Currently, CSFB's GNPA/NNPA stand at 2.7/1.3%. **The management expects credit costs to be maintained in the range of 15-25bps on a steady state basis. Given the bank's aspirations to transition into a Universal Bank, CSFB will look to trim its NNPA to <1% over the next 12-15 months.**
- Since its listing in Feb'24, the stock has corrected sharply by ~31% and currently trades at 1.1x Jun'24 BV.

(CMP as of 11 September, 2024)

CMP (Rs)	298
High/Low (Rs)	469/290
Market cap (Cr)	1,342
Avg. daily vol. (6m) Shrs.	1,01,271
No. of shares (Cr)	4.5

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	N.A	18.9	18.9
FII's	N.A	1.4	1.3
MFs / UTI	N.A	6.2	5.9
Others	N.A	73.5	73.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY22	FY23	FY24
NII	255	322	345
PPOP	113	149	155
Net Profit	63	94	112
EPS (Rs)	18.4	27.3	24.8
ABV (Rs)	132.8	156.6	247.0
P/ABV (x)	2.2	1.9	1.2
RoA (%)	0.9	1.2	1.3
NNPA (%)	1.4	1.4	1.4s

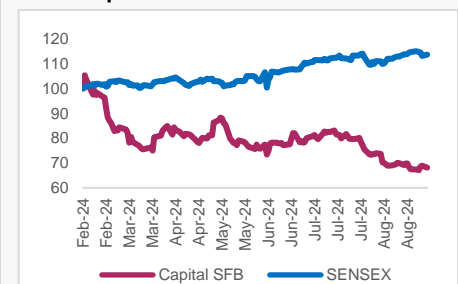
ESG disclosure Score**

Environmental Disclosure	N.A
Social Disclosure Score	N.A
Governance Disclosure Score	N.A
Total ESG Disclosure Score	N.A
Sector Average	38.8

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities Research

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Story in Charts

Exhibit 1: Peer Comparison – Operational Metrics (Q1FY25 figures)

Operational Metrics	Disbursements (Rs Cr)	3-Yr CAGR (FY21-24)	Loan Book (Rs Cr)	3-Yr CAGR (FY21-24)	Deposits (Rs Cr)	3-Yr CAGR (FY21-24)	C-D Ratio (%)	CASA Ratio (%)
AU SFB	-	-	90,702	25.2%	97,290	34.3%	92.1%	32.9%
Equitas SFB	4,028	37.9%	34,871	23.8%	37,524	30.3%	85.1%	31.2%
Ujjivan SFB	5,286	40.7%	30,069	25.3%	32,514	33.8%	83.4%	25.6%
Jana SFB	4,159	32.2%	25,759	24.7%	23,710	22.4%	109.9%	20.4%
Utkarsh SFB	-	-	18,798	16.8%	18,163	18.4%	92.7%	19.0%
Suryoday SFB	1,740	27.2%	9,037	27.2%	8,137	33.7%	101.8%	17.7%
Average	3,803	34.5%	34,873	23.8%	36,223	28.8%	94.2%	24.5%
Capital SFB	754	15.4%	6,391	17.9%	7,778	12.7%	82.2%	39.5%

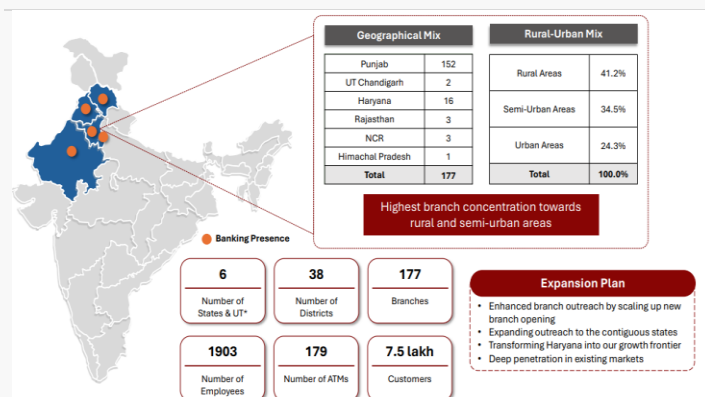
Source: Company, Axis Securities Research

Exhibit 2: Peer Comparison – Operational and Valuation Metrics (Q1FY25 figures)

Operational Metrics	NIM (%)	C-I Ratio (%)	GNPA (%)	NNPA (%)	RoA (%)	RoE (%)	P/BV (x)
AU SFB	6.0%	59.9%	1.8%	0.6%	1.6%	13.2%	3.5
Equitas SFB	8.0%	66.3%	2.7%	0.8%	0.2%	1.7%	1.7
Ujjivan SFB	9.3%	55.2%	2.5%	0.4%	2.9%	20.9%	1.4
Jana SFB	8.0%	55.5%	2.5%	1.0%	2.1%	18.8%	1.6
Utkarsh SFB	9.4%	54.1%	2.8%	0.3%	2.3%	18.1%	1.7
Suryoday SFB	10.0%	60.3%	2.7%	0.4%	2.3%	15.2%	1.0
Average	8.4%	58.6%	2.5%	0.6%	1.9%	14.7%	1.8
Capital SFB	4.2%	63.2%	2.7%	1.4%	1.3%	9.9%	1.1

Source: Company P, Axis Securities Research

Exhibit 3: CSFB is predominant present in Punjab, diversification efforts underway



Source: Company, Axis Securities Research

Exhibit 4: CSFB's diversified portfolio with negligible exposure to MFI; largely unchanged portfolio mix

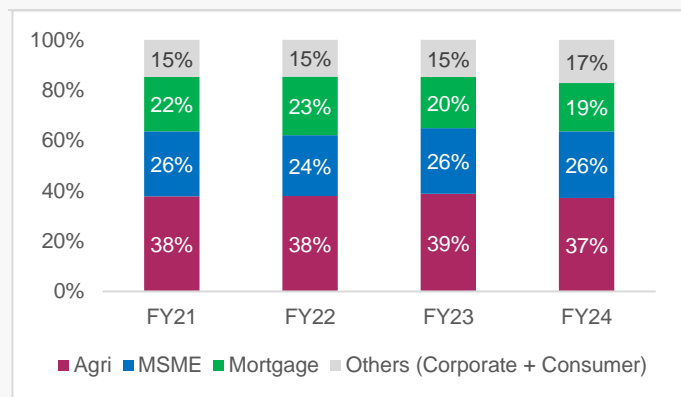
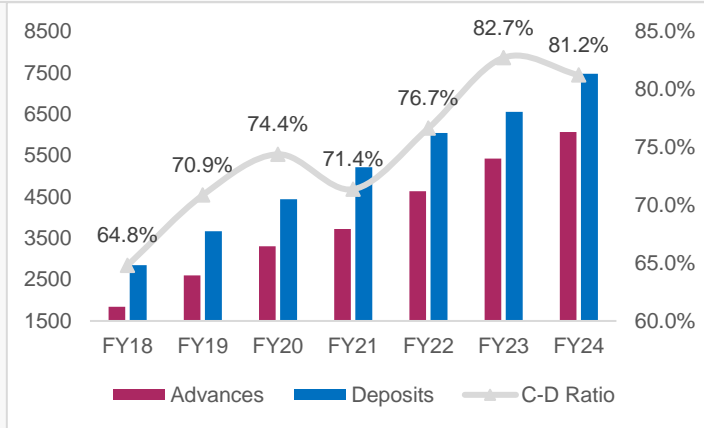


Exhibit 5: CSFB's remains lowest amongst SFB peers, with scope to further improve it



Source: Company, Axis Securities Research

Exhibit 6: CSFB remains better placed in terms on C-D Ratio vs peers (as on Q1FY25)

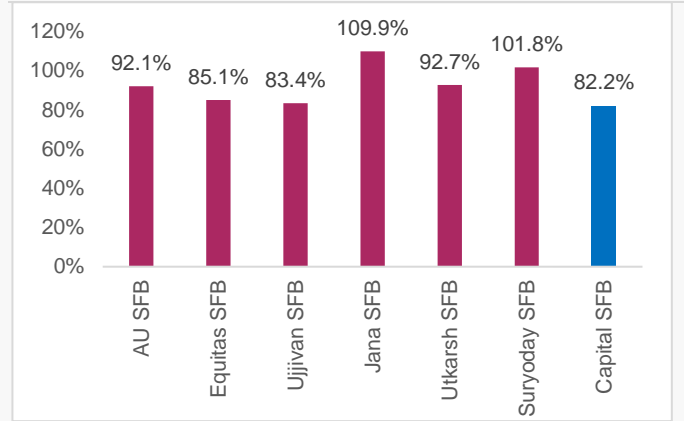
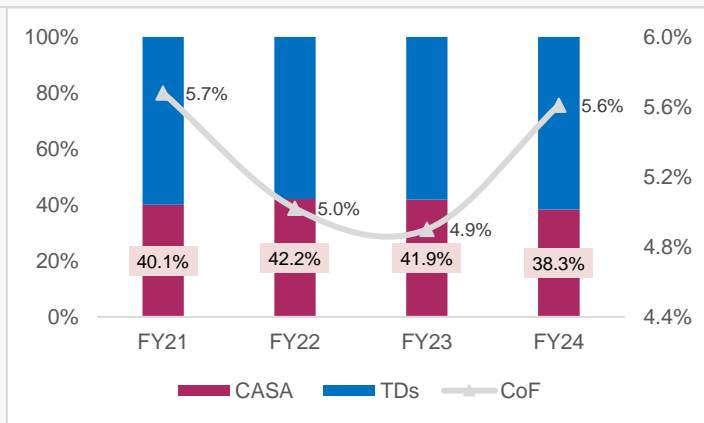
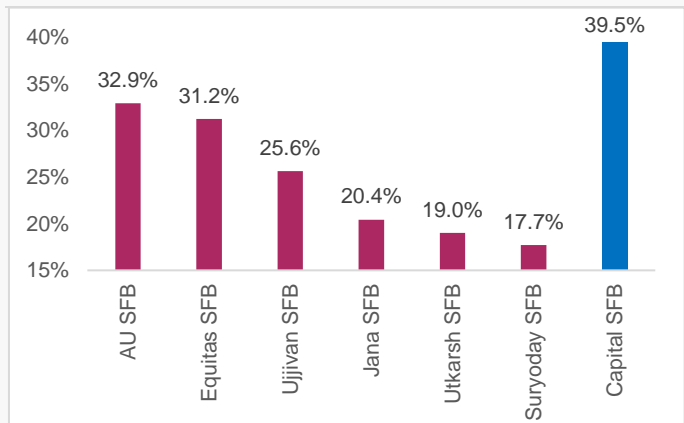


Exhibit 7: CSFB's deposit mix dominated by retail deposits and healthy CASA Ratio



Source: Company, Axis Securities Research

Exhibit 8: CSFB remains better placed in terms of CASA Ratio vs peers (as on Q1FY25)



Financials (Standalone)

Profit & Loss					(Rs Cr)
Y/E March	FY21	FY22	FY23	FY24	
Net Interest Income	199	255	322	345	
Non-Interest Income	46	54	49	68	
Total Income	244	309	371	413	
Operating Expenses	173	196	223	258	
Pre-Provision Profits	71	113	149	155	
Provisions	18	29	25	7	
PBT	54	84	124	148	
Tax	13	22	31	37	
Profit After Tax	41	63	94	112	

Source: Company, Axis Securities Research

Balance Sheet					(Rs Cr)
Y/E March	FY21	FY22	FY23	FY24	
Equity Share Capital	34	34	34	45	
Reserves & Surplus	417	481	576	1,152	
Net Worth	451	515	611	1,197	
Deposits	5,221	6,046	6,561	7,478	
Borrowings	617	498	721	472	
Other Liabilities	83	93	98	148	
Total Liabilities	6,371	7,154	7,991	9,295	
Cash & Bank balances	1,290	1,019	881	1,321	
Investments	1,212	1,357	1,489	1,706	
Loans	3,727	4,635	5,429	6,075	
Fixed Assets & Others	142	143	193	194	
Total Assets	6,371	7,154	7,991	9,295	

Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY21	FY22	FY23	FY24
VALUATION RATIOS				
EPS	12.0	18.4	27.3	24.8
Earnings Growth (%)	60.2	52.8	48.7	-9.4
BVPS	132.9	151.4	178.3	265.8
Adj. BVPS	120.5	132.8	156.6	247.0
RoA (%)	0.7	0.9	1.2	1.3
ROAE (%)	9.5	12.9	16.6	12.3
P/E (x)	24.8	16.2	10.9	12.1
P/BV (x)	2.2	2.0	1.7	1.1
P/ABV (x)	2.5	2.2	1.9	1.2
PROFITABILITY & OPERATING EFFICIENCY				
Yield on Advances (%)	11.3	10.9	10.8	11.1
Cost of Deposits (%)	5.7	5.0	4.9	5.6
Cost of Funds (%)	5.8	5.2	5.1	5.8
NIM (%)	3.4	3.7	4.2	3.9
Cost/Avg. Asset Ratio (%)	3.0	2.9	2.9	3.0
Cost-Income Ratio (%)	70.8	63.4	60.0	62.5
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	12.7	24.4	17.1	11.9
Deposits Growth (%)	17.4	15.8	8.5	14.0
C-D Ratio (%)	71.4	76.7	82.7	81.2
Equity/Assets (%)	7.1	7.2	7.6	12.9
Equity/Loans (%)	12.1	11.1	11.2	19.7
Capital Adequacy Ratio (%)	19.7	18.7	18.9	27.4
Tier I Capital (%)	14.3	13.2	13.7	22.8
ASSET QUALITY				
Gross NPLs (%)	2.1	2.5	2.8	2.8
Net NPLs (%)	1.1	1.4	1.4	1.4
Coverage Ratio (%)	46.1	46.0	51.5	50.0
Provision/Avg. AUM (%)	0.5	0.7	0.5	0.1
ROAA TREE (on Total Assets)				
Net Interest Income	3.4	3.8	4.3	4.0
Non-Interest Income	0.8	0.8	0.7	0.8
Operating Cost	3.0	2.9	2.9	3.0
Provisions	0.3	0.4	0.3	0.1
Tax	0.2	0.3	0.4	0.4
ROAA	0.7	0.9	1.2	1.3
Leverage (x)	13.6	14.0	13.4	9.6
ROAE	9.5	12.9	16.6	12.3

Source: Company, Axis Securities Research

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