

**Capital Small Finance Bank** 

**SMC Ranking**  
 (3/5)

**Issue Highlights**

Industry	Bank
Offer for sale (Shares)	1561329
Fresh Issue (Shares)	9,615,384
<b>Net Offer to the Public</b>	<b>11,176,713</b>
Issue Size (Rs. Cr.)	497-523
Price Band (Rs.)	445-468
Offer Date	7-Feb-24
Close Date	9-Feb-24
Face Value	10
Lot Size	32

**Issue Composition**

	In shares
Total Issue for Sale	11,176,713
QIB	5,588,357
NIB	1,676,507
Retail	3,911,850

**Shareholding Pattern (%)**

Particulars	Pre-issue	Post-issue
Promoters & promoters group	23.96%	18.85%
QIB	43.10%	44.07%
NIB	32.94%	28.40%
Retail	0.00%	8.68%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

**Objects of the Issue**

The Bank proposes to utilize the Net Proceeds from the Fresh Issue towards augmenting our Bank's Tier-I capital base to meet the Bank's future capital requirements. Further, the proceeds from the Fresh Issue will also be used towards meeting the expenses in relation to the Offer. The Bank expects to receive the benefits of listing the Equity Shares on the Stock Exchanges.

**Book Running Lead Manager**

- Nuvama Wealth Management Limited
- DAM Capital Advisors Limited
- Equirus Capital Private Limited

**Name of the registrar**

- Link Intime India Private Limited

**About the company**

Capital Small Finance Bank Limited, established in 1999, is a small finance bank. In 2015, it became the first non-NBFC microfinance company to be granted the SFB license. The bank primarily serves middle-income customers in semi-urban and rural areas. As of September 30, 2023, it had 173 branches and 175 ATMs, with 76.30% of its branches located in rural and semi-urban areas. The bank aims to be the primary banker for these customers by offering a variety of products and services through physical and digital channels. The bank aims to be the primary banker for these customers through a mix of product offerings, customer service, physical branches, and digital channels. Capital Small Finance Bank is headquartered in Jalandhar, Punjab and has strategically expanded its SFB operations in northern states of India such as Punjab, Haryana, Rajasthan, Delhi, Himachal Pradesh and UT Chandigarh. The bank plans to continue to expand its business. The bank has diversified portfolio with sizeable book in multiple asset classes with proportion of secured lending of 99.85% as on September 30, 2023. As on September 30, 2023 and March 31, 2023 respectively, 99.85% and 99.82% of its loan book was secured with 84.26% and 85.16% of the loans secured by immovable properties.

**Strength**

**Retail focused liability franchise with a high share of CASA:** The bank boasts a successful retail deposit franchise, evidenced by its high CASA (Current Account Savings Account) ratio, which jumped from 40.08% in 2021 to 41.88% in 2023. This achievement is attributed to over 16 years of experience as a local bank, granting them an in-depth understanding of how to expand their deposit base. The bank believes its comprehensive suite of banking products, coupled with a deeply relationship-focused approach, extensive branch network, single-window service, customer-friendly practices, and established brand equity, have all contributed to its strong retail deposit profile. The bank recognizes the numerous advantages of retail deposits, including deposit stability, improved customer retention, increased cross-selling opportunities, and a lower cost of funds. Furthermore, its consistent 90% deposit rollover ratio for term deposits reflects both the stability of its liquidity profile and the unwavering trust of its customers.

**Secured and diversified advances portfolio:** The bank prioritizes building a secure and income-generating loan portfolio. As of March and September 2023, a staggering 99.8% of its loan book (Rs. 5,497.60 crore and Rs. 5,857.19 crore, respectively) was secured, with over 84% secured by immovable properties. This focus on security mitigates risk and ensures stability. The bank caters specifically to the middle-income group, aiming to become their primary financial partner. To achieve this, the bank offers a comprehensive suite of products and services across both asset and liability categories, addressing its diverse needs. The combination of a well-diversified loan portfolio focused on income generation, a commitment to secured lending, active customer engagement, and robust underwriting practices has driven the bank's growth and maintained superior asset quality compared to other SFBs.

**Streamlined credit assessment processes and risk management practices:** The bank's credit assessment processes and risk management practices enable it to maintain good asset quality and low delinquencies. Its strategy of secured lending, primarily for productive purposes and conservative loan to value ratio contributes towards lower delinquencies and credit losses. Its positioning as the primary banker to most of its customers enables it to have a comprehensive view of and control over their cash flows contributing towards effective credit assessment. Its credit assessment involves multiple levels of independent review of information. It follows the principal of four eyes which involves a multi-level review of the credit exposures along with a well-defined matrix for

credit assessment which is dependent on the risk profile of the borrower, including the mandatory checks of credit bureau verification, review of defaulters list and check on frauds. Further, it has a credit sanctioning committee which oversees the exposures of an amount involving Rs. 1.25 crore or above and a dedicated team to monitor the exposures granted by it. The bank follows a principle of secured lending which has resulted in maintaining high asset quality. Its advances stood at Rs. 5507.30 crore, and Rs. 5865.94 crore with 99.82% and 99.85% of it being secured loans as of March 31, 2023 and as of September 30, 2023 with an average ticket size of Rs. 0.13 crore and Rs. 0.14 crore respectively.

**Customer centric approach and understanding of target customers:** Deep customer understanding fuels the bank's success in meeting its financial needs. Recognizing the preference for one-stop banking solutions, the bank offers a broad spectrum of credit and non-credit products through its extensive branch network. This strategy has helped it achieve its goal of becoming the primary bank for many customers. Focusing on the middle-income segment, particularly in rural and semi-urban areas, the bank acts as a comprehensive financial hub. As of September 30, 2023, the bank boast 725,037 customers (both credit and deposit) served by 175 branches and 173 ATMs, with 76.30% located in rural and semi-urban areas. Understanding its primary customer base, the bank designs user-friendly products tailored to the middle-income segment, contributing to their popularity amongst customers.

**Consistent track record of growth with constantly improving operational and profitability metrics:** Starting as a local area bank in 2016, the bank leveraged its deep customer understanding to build a strong foundation. However, geographical limitations hindered further growth. Transforming into a small finance bank (SFB) in 2016 unlocked expansion opportunities, enabling them to reach new customer segments and significantly improve key metrics.

Since becoming an SFB, the bank has witnessed impressive growth:

- **Total advances and deposits:** Consistent increase, with CASA deposits growing from Rs. 2,092.63 crore in 2021 to Rs. 2,747.90 crore in 2023 (Fiscal year ending March 31st). And as of the six months ended September 30, 2023, CASA deposits stood at Rs. 2643.36 crore.
- **Credit-to-deposit ratio:** Improved from 67.51% in 2021 to 79.61% in September 2023.
- **Operational efficiency:** Cost-to-income ratio declined from 2.93% in 2021 to 2.90% in 2023.
- **Profitability:** Return on Average Advances and Return on Equity stood at 1.89% and 16.62% in 2023, respectively. Operating profit grew at a CAGR of 44.23% from 2021 to 2023. Profit before tax and profit after tax also saw significant increases.

This remarkable growth highlights the success of the bank's expansion strategy and its focus on improving operational efficiency and profitability.

## Strategy

**Continue to grow loan book organically with focus on secured lending:** The bank plans to expand its reach by opening new branches in its existing markets and entering new territories. It will leverage its brand presence in Punjab to expand into adjacent states. The bank's strategy is to develop a deeply entrenched geographical presence that will allow it to service a larger market for credit and grow its advances. The bank has been able to successfully grow its loan book over the years, and it intends to continue to grow its portfolio with a focus on secured lending. Its advances as of September 30, 2023 and September 30, 2022 for agriculture, MSME and trading and mortgages segments were Rs. 2266.93 crore, Rs. 1153.36 crore and Rs. 1528.81 crore, and Rs. 1991.68 crore, Rs. 1129.55 crore and Rs. 1316.66 crore, and as of March 31, 2023 were Rs. 2137.45 crore, Rs. 1120.46 crore and Rs. 1434.48 crore, respectively, with an average ticket size of Rs. 0.12 crore, Rs. 0.18 crore and Rs. 0.12 crore as on March 31, 2023 and Rs. 0.12 crore, Rs. 0.18 crore and Rs. 0.12 crore as on September 30, 2023. The bank strives to maintain the growth momentum in its loan book with continued focus on these segments. The bank believes it is well positioned to take advantage of the tailwinds and intend to continue to grow its portfolio with focus on secured lending which it believes will provide it a competitive edge over its competitors.

**Strengthen liability franchise:** The bank, leveraging its strong brand, has rapidly grown its deposit portfolio since its inception as a small finance bank. Since 2016, it has strategically focused on building its retail deposits. These deposits are cheaper than wholesale options and exhibit greater stickiness, meaning they remain with the bank longer. This retail focus translates to a high CASA ratio compared to competitors. To maintain this advantage, the bank actively deepens existing customer relationships. CASA deposits as on March 31, 2023, March 31, 2022, March 31, 2021 and September 30, 2023, were Rs. 2747.90 crore, Rs. 2549.40 crore, Rs. 2092.63 crore and Rs. 2643.36 crore, representing a CASA ratio of 41.88%, 42.16%, 40.08%, and 37.76%, respectively during these periods. As on March 31, 2023 and September 30, 2023 it had CASA ratio of 41.88% and 37.76% respectively resulting in low cost of funds of 5.11% and 5.68% respectively. Its cost of funds stood at 5.68% and 5.11% for the six months ended September 30, 2023 and Fiscal ended March 31, 2023. Further, its CASA deposits per branch stood at Rs. 16.16 crore and retail deposits per branch stood at Rs. 37.78 crore as of Fiscal 2023. The bank believes that CASA and retail deposits are cheap source of funds for its which will enable it to expand its product portfolio and achieve economies of scale as it continues to grow and scale up its operations.

**Leverage technology and data analytics for scalability and profitable growth:** The bank utilizes technology to streamline customer onboarding and data management, driving business generation. Its seamless "omni-channel" approach integrates banking across websites, internet banking, and mobile apps, ensuring a smooth experience for customers. Mobile-first solutions make acquiring and onboarding new customers easier than ever. Furthermore, the bank's IT systems leverage economies of scale for enhanced productivity, faster turnaround times, and reduced transaction costs. Operationally, digitization brings multiple benefits: improved processes, increased productivity, cost reduction, data-driven collections with early warning systems, and better cross-selling opportunities.

**Customer Centric Initiatives:** The bank is embracing digital onboarding to attract new customers, especially millennials who prefer online convenience. Beyond that, they're exploring innovative delivery channels like self-service kiosks and tax payments through APIs. The goal is to make banking accessible and convenient for everyone. Strengthening existing alternate channels is also a priority. The bank is encouraging more customers to use ATMs, internet banking, and their dedicated mobile app. This app allows users to do everything digitally, from applying for IPOs to paying bills.

**Initiatives Driving Operational Efficiencies:** The bank is committed to modernizing its technology infrastructure to streamline operations, improve efficiency, and serve customers cost-effectively. Building a robust data lake through powerful analytics will enable them to create personalized products and solutions meeting diverse customer needs and solidifying their position as their "go-to" bank. Deepening automation is key, with integrations planned across technology service providers for both loan origination and credit assessment. These solutions will seamlessly connect with the core banking system, creating a unified and efficient banking experience. The bank further plans to leverage AI and machine learning across various operations, including credit monitoring, assessment, origination, and product cross-selling.

**Focus on strengthening operational and profitability metrics :** Since becoming an SFB, the bank's strategic investment in expanding its branch network has directly fueled loan book growth. With 126 new branches added, their total now stands at 173, reaching more customers and driving loan opportunities.

**Improve credit to deposit ratio :** Previously limited by its local reach, the bank's transformation into an SFB opened doors to strategic geographic expansion. Focusing on neighboring states like Punjab, Haryana, Delhi, Rajasthan, and Himachal Pradesh, it aims to tap into a wider customer base. This expansion plan will not only broaden its reach but also improve its credit-to-deposit ratio by targeting loan products as an entry strategy in new locations.

**Focus on optimising costs :** The bank aims to further improve its operating efficiency to reduce cost to income ratio while improving its existing return metrics. Post conversion from a local area bank, its branch network has increased more than three times from 47 to 173 as on September 30, 2023. Its branches typically take 15-21 months to break even and since majority of branches have reached the break-even; its proportion of matured branches to total branches will be incrementally higher going forward. It also targets to increase revenue from its existing businesses, optimise business mix to improve risk-adjusted returns.

**Focus on improving share of fee income and leverage cross-selling opportunities:** The bank is prioritizing growing its fee and non-fund based income. It plans to do this by:

- **Boosting cross-selling of existing fee products:** This includes things like distributing insurance through their channels.
- **Introducing new products and services:** The bank will expand its offerings to capture more customer needs.
- **Leveraging its local reach:** As the primary banker for local communities, the bank has deep insights into customer cash flow, which the bank can use to identify cross-selling opportunities.

This strategy aims to capitalize on its existing customer base and expand its revenue streams beyond traditional interest-based income.

### Risk factor

- The bank must adhere to various regulatory requirements. This is crucial for any financial institution, as failing to comply can lead to significant penalties and reputational damage.
- A large portion of the bank's contingent liabilities stem from guarantees given to customers in India. This means that the bank could be on the hook for a substantial amount of money if these customers default on their obligations.
- The bank relies heavily on its lending business for revenue.

### Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
AU Small Finance	11523.40	1588.61	23.75	26.24	3.56	175.12	10	623.10	41671.34
Equitas Sma. Fin	5994.39	781.38	6.90	15.11	2.15	48.48	10	104.25	11804.05
Suryoday Small	1516.93	154.86	14.59	11.21	1.03	158.63	10	163.55	1736.30
IDFC First Bank	34216.57	3026.57	4.28	19.45	1.91	43.47	10	83.24	58834.77
Ujjivan Small	6063.16	1261.37	6.45	8.86	2.48	23.08	10	57.15	11181.64
ESAF Small Fin	3664.07	408.87	7.94	8.75	1.51	46.06	10	69.46	3575.66
Capital Small Finance Bank Limited	797.89	106.90	30.17	19.72	1.81	257.92	10	468.00	2107.99

\*Peer companies financials are TTM based

\*\* Capital Small Finance Bank is based on TTM

### Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.468 the stock is priced at pre issue P/E of 15.51x on TTM EPS of Rs.30.17. Post issue, the stock is priced at a P/E of 19.72x on its EPS of Rs.23.73. Looking at the P/B ratio at Rs.468, pre issue, book value of Rs. 200.91 of P/Bvx 2.33x. Post issue, book value of Rs. 257.92 of P/Bvx 1.81x.

Considering the P/E valuation, on the lower end of the price band of Rs.445, the stock is priced at pre issue P/E of 14.75x on TTM EPS of Rs.30.17. Post issue, the stock is priced at a P/E of 18.75x on its EPS of Rs.23.73. Looking at the P/B ratio at Rs.445, pre issue, book value of Rs. 200.91 of P/Bvx 2.21x. Post issue, book value of Rs. 257.92 of P/Bvx 1.73x.

### Industry Outlook

Small finance banks boost financial inclusion in India. In 2014, the RBI created small finance banks (SFBs) to serve low-income groups. By 2015, 10 SFBs received licenses, mainly microfinance institutions. SFBs and payment banks expand in rural areas, driving financial awareness and growth. Between 2015-2023, credit accounts in semi-urban areas grew 10% annually, deposits 6%. Rural credit accounts also grew 10%, while deposits rose 3% annually. SFBs have experience managing local stakeholders and operating efficiently. Its assets under management grew 29% annually from 2018-2023. SFBs' loan portfolio is expected to grow 22-24% annually from 2023-2025. It has the lowest branch share in central and eastern regions, presenting expansion opportunities. SFBs' deposit and credit share is expected to reach 1.5% and 1.6% by 2025, respectively. It can gain market share from public sector banks in rural and semi-urban areas. With focused penetration and local reach, SFBs are poised for further growth.

## Outlook

Capital Small Finance Bank stands out as the pioneer non-NBFC microfinance entity to land the coveted SFB license in 2015. Currently rooted in the North, this ambitious player eyes nationwide expansion through an extensive branch network in the coming years. Boasting consistent top and bottom line growth, the issue seems attractively priced. Savvy investors seeking long-term gains might consider this a promising opportunity.

## An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	07-February-24
BID/ISSUE CLOSSES ON	09-February-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	12-February-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	13-February-24
Credit of Equity Shares to demat accounts of Allottees	13-February-24
Commencement of trading of the Equity Shares on the Stock Exchanges	14-February-24

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-23 (6 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Interest earned	385.98	676.01	578.22
Interest expended	215.01	354.02	322.94
<b>Net Interest Income</b>	<b>170.97</b>	<b>321.98</b>	<b>255.28</b>
Other Income	29.23	49.48	54.19
<b>Total Net Income</b>	<b>200.21</b>	<b>371.46</b>	<b>309.47</b>
Other Expenses	145.82	277.86	246.90
<b>PBT</b>	<b>54.39</b>	<b>93.60</b>	<b>62.57</b>
Tax	0.00	0.00	0.00
<b>PAT</b>	<b>54.39</b>	<b>93.60</b>	<b>62.57</b>

#### Key Ratio (%)

	Sep-23	FY23	FY22	FY21
CASA	41.56	41.88	42.16	40.08
Net Interest Margin	4.06	4.19	3.74	3.36
Gross NPA	2.60	2.77	2.50	2.08
Net NPA	1.35	1.36	1.36	1.13
CRAR	18.61	18.87	18.63	19.80
ROA	1.10	1.22	0.92	0.69
ROE	15.33	16.62	12.95	9.51
Provison Coverage ratio	50.96	51.48	46.02	46.14

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-23	As on 31-Mar-23	As on 31-Mar-22
<b>Assets</b>			
Cash and balances with Reserve	502.46	462.65	364.00
Bank of India			
Balances with banks and money at call and short notice	350.14	418.21	655.06
Investments	1549.46	1488.58	1357.06
Advances	5784.19	5428.69	4634.80
Fixed assets	80.76	82.59	83.59
Other assets	123.69	110.05	59.42
<b>Total Assets</b>	<b>8390.69</b>	<b>7990.77</b>	<b>7153.92</b>
<b>Liabilities</b>			
Deposits	7000.29	6560.62	6046.36
Borrowings	572.76	721.38	498.43
Other liabilities and provisions	105.89	98.16	93.35
<b>Total Liabilities</b>	<b>7678.93</b>	<b>7380.16</b>	<b>6638.14</b>
Net worth represented by:			
Equity Share Capital	35.35	34.25	34.04
Other equity	676.41	576.36	481.74
<b>Net Worth</b>	<b>711.76</b>	<b>610.61</b>	<b>515.78</b>



## RANKING METHODOLOGY

<b>WEAK</b>	★
<b>NEUTRAL</b>	★★
<b>FAIR</b>	★★★
<b>GOOD</b>	★★★★
<b>EXCELLENT</b>	★★★★★

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