

CSFB.2024-2025/22

April 12, 2024

BSE Limited
Listing Compliance
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001
Maharashtra

National Stock Exchange of India Limited
The Listing Department,
Exchange Plaza,
Bandra Kurla Complex,
Mumbai - 400 051
Maharashtra

Scrip Code: 544120, 951995 & 953739

Symbol: CAPITALSFB

Subject: Intimation of revision in Credit Rating as per the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

Pursuant to the Regulations 30 and 51 read with Schedule III and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform you that Brickwork Ratings India Private Limited has reaffirmed the rating assigned to the Unsecured Redeemable Non-Convertible (Upper Tier II), Basel I Compliant Bonds 2014- 15 (Series XI) and Unsecured Redeemable Non-Convertible (Upper Tier II), Basel I Compliant Bonds 2015-16 (SERIES XIII) of the Bank as detailed below:

NCD SERIES	Issue Date	Amount (Rs. in Crores)	COUPON RATE	ISIN NO.	Previous Rating April 12, 2023	Rating assigned as on April 12, 2024
Unsecured Redeemable Non-Convertible (Upper Tier II), Basel I Compliant Bonds 2014-15 (Series XI)	March 31, 2015	15.00	11.75%	INE646H08012	BWR A+ Outlook: (Stable) (Reaffirmation)	BWR A+ Outlook: (Stable) (Reaffirmation)
Unsecured Redeemable Non-Convertible (Upper Tier II), Basel I	March 30, 2016	25.00	11.75%	INE646H08020	BWR A+ Outlook: (Stable) (Reaffirmation)	BWR A+ Outlook: (Stable) (Reaffirmation)

Capital Small Finance Bank Limited

Regd. & Head Off.: 'MIDAS Corporate Park', 3rd Floor, 37, G.T. Road, Jalandhar-144 001, INDIA
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 www.facebook.com/capitalbankindia | CIN : U65110PB1999PLC022634

Compliant Bonds 2015-16 (SERIES XIII)						
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Further, the Press Release issued by Brickwork Ratings India Private Limited dated April 12, 2024 for the aforesaid ratings is attached herewith as **Annexure-I**

This is for your information and kindly take the same on your record.

For **Capital Small Finance Bank Limited**

**AMIT
SHARMA**

Digitally signed by
AMIT SHARMA
Date: 2024.04.12
17:46:49 +05'30'

Amit Sharma
Company Secretary and Compliance Officer
FCS10888

Encl: as above



Rating Rationale

12 Apr 2024

Capital Small Finance Bank Ltd

Brickwork Ratings reaffirms the ratings for the Tier-II bonds aggregating to Rs. 65.00 Crs of Capital Small Finance Bank Ltd.

Particulars:

Facilities**	Amount Rated (Rs. Crs.)		Tenure		
	Previous	Present		Previous Rating (12 April 2023)	Rating*
Lower Tier II Bonds	25.00	25.00	Long Term	BWR A+ /Stable Reaffirmed	BWR A+ /Stable Reaffirmation
Upper Tier II Bonds	15.00	15.00			
Upper Tier II Bonds	25.00	25.00			
Total	65.00	65.00	Rupees Sixty-Five Crores only		

*Please refer to the BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of bonds rated are provided in Annexure-II

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) reaffirms the BWR A+/ Stable rating for the Lower Tier II Bonds and Upper Tier II Bonds of Rs 65.00 Crs of Capital Small Finance Bank Ltd. (CSFB or the bank), as tabulated above. BWR has principally relied on the company's audited financials up to FY23, provisional financials of 9MFY24, publicly available information, and information/clarifications provided by the company. The rating reaffirmation, inter alia, has factored in the company's long track record in the banking industry, comfortable capital position, and adequate liquidity. The ratings are, however, largely constrained by the regional concentration in geographical presence and its moderate asset size.

The ratings of the upper & lower Tier-II bonds continue to be equated on account of the continuing healthy CRAR of 20.06% as of 9M FY24. The rating also takes into account the bank's improved capital base following its February 2024 IPO of equity shares.

Rating Outlook: Stable. BWR believes Capital Small Finance Bank Limited's business risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term.

The Capital Small Finance Bank is an SFB, having transitioned from a Local Area Bank to a Small Finance Bank. CSFB currently has a presence in 5 states and 1 Union Territory. The bank is extending loans primarily to medium-sized borrowers in Agriculture and MSME with ticket sizes up to Rs 25.00 lakhs.

The bank's business grew by 12.42% from Rs. 10,735.1 Crs. in FY22 to Rs.12,067.89 Crs in FY23 and further increased by 8.69% to Rs 13,116 Crs as of 31st December 2023. The total deposits grew 8.51 %

from Rs. 6046.36 Crs. in FY22 to Rs. 6,561 Crs in FY 23 and further increased by 14.04% to Rs 7482 Crs as of 31st December 2023. The CASA % is 41.90% for FY23. During 9MFY24 the same is 39.49%.

Bank's total advances grew by 17.15% during FY23 (for FY 23 it is at Rs.5,429 Crs and for FY 22 it is at 4,634.8 Crs) and further grew by 3.78% to Rs. 5,634 Crs as of 31 December 2023. For the overall asset quality, the bank has a GNPA of 2.77% & NNPA of 1.36% as of 31st March 2023 as against a GNPA of 2.5% & NNPA of 1.36% in FY22. As of 31 Dec 2023, GNPA is 2.97% & NNPA of 1.53%. The bank expects the NPA levels to decrease as of FY24.

Interest Income grew by 16.96% to Rs. 676 Crs in FY23 from Rs 578 Crs in FY22. For 9MFY24, the Bank has reported interest income of Rs.590 Crs. The increase in interest income is on the back of the growth in advances. PAT is Rs 93.6 Crs for FY23 as compared to Rs. 62.57 Crs in FY22. For 9MFY24, the profit is Rs. 83.32 Crs. ROA has increased to 0.97% in 9MFY24 as against 0.91% in 9MFY23 and 1.22% in FY23, Whereas ROE came down to 16.40% in 9MFY24 as against 16.80% in 9MFY23 and 16.60% in FY23. 99.8% of the bank's portfolio is adequately secured. The CD ratio is around 79% as of Dec 2023.

The majority of the portfolio is geographically concentrated in Punjab (91.65% of the portfolio). However, the bank is slowly expanding to other states.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:

The facility consists of Lower Tier II Bonds Series Series – XVII (INE646H08129) with quarterly interest payment, Upper Tier II Bonds Series XI (INE646H08012) with annual interest payment, and Upper Tier II Bonds SERIES XIII (INE646H08020) with annual interest payment.

Subject to the conditions specified by RBI, the bank has an unconditional right to call the instrument on the interest payment dates after the expiry of ten years from the deemed date of allotment.

KEY RATING DRIVERS

Credit Strengths:-

Comfortable capitalization levels: The Bank's CAR and Tier 1 CAR stood comfortable at 20.06% and 15 % as of 31 Dec 2023, respectively (Vs 19% and 13.54% respectively as of 31st December 2022). The bank's Net worth as on 31 March 2023 was Rs 610.61 Crs and as of 31 Dec 2023 stood at Rs.743.35 Crs as against Rs 516 Crs. as of 31 March 2022. The concluded IPO proceeds will raise the capitalization levels further.

The Bank is maintaining a leverage ratio of 7.99% as of December 31, 2023, which is well above the threshold limit. As of 31 December 2022, the Bank has reported a Leverage Ratio of 7%. The Leverage Ratio was 7.21% on 31st Mar 2023 and 6.73% on 31st March 2022.

Management Quality: The Board of Directors of the Bank comprises experienced professionals from different fields such as Law, Economics, Banking, Private Equity, Accounting, Finance, Business Administration & Agriculture.

Asset Quality: For the overall asset quality, the bank has a GNPA of 2.77% & NNPA of 1.36% as of 31st March 2023 as against a GNPA of 2.5% & NNPA of 1.36% in March 2022. The GNPA is 2.97% and

NNPA is 1.53% in 9MFY24 as against GNPA and NNPA of 2.96% and 1.60% respectively in 9MFY23. The bank has been able to keep the GNPA level below 3% over the last five years.

The provision coverage ratio is 49.15% in 9MFY24 as against 51.48% in FY23 and 48% in 9MFY23. The SMA portfolio as of 31.12.2023 comprises 3.19 in the SMA 1 category, and 2.82% in the SMA2 category, in addition to the 2.97% of NPA.

Income and profitability: Interest Income grew by 16.96% from Rs. 578.22 Crs in FY22 to Rs 676 Crs in FY23. For 9MFY24, the Bank has reported an interest income of Rs. 590 Crs. The increase in interest income is on the back of the growth in advances. PAT increased by 49.59% from Rs.62.57 Crs FY22 to Rs.93.6 Crs in FY23 and Rs. 83.32 Crs for 9MFY24.

ROA has increased to 0.97% in 9MFY24 as against 0.91% in 9MFY23 and 1.22% in FY23, Whereas ROE came down to 16.40% in 9MFY24 as against 16.80% in 9MFY23 and 16.60% in FY23.

Credit Weakness:-

Regional Concentration of Operations and Moderate Asset Size: The majority of the portfolio is geographically concentrated in Punjab (91.65% of the portfolio), mainly due to its earlier status as a Local Area Bank. However, after graduating from a Small Finance Bank, the bank is expanding to other states (now operating in 5 states and 1 Union Territory), which should help in diversifying its portfolio. The asset size of the bank remains moderate.

Large Agriculture Portfolio: The bank's agriculture portfolio continues to be high, being about 36.68% of the total advances as of 31 Dec 2023. This is largely due to the area of operations being the agri-dominant states of Punjab and Haryana. However, the bank has a long track record of managing this portfolio well over the past two decades. It is also diversifying its field of exposure, to spread the credit risk.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). It has considered the standalone financials of the Bank.

RATING SENSITIVITIES

Going forward, the company's ability to show substantial growth in its loan portfolio, while maintaining asset quality, profitability, and adequate liquidity will be a key rating sensitivity factor.

- **Upward:** The ability to substantially increase the Asset size, interest income, PAT, improvement in the resource profile, and retention of asset quality from any further deterioration will be key rating positives.
- **Downward:** Deterioration in the asset quality from the current level and its impact on the profitability and overall performance of the bank will remain monitorable.

LIQUIDITY INDICATORS: Adequate

As of 31 December 2023, the bank had cash and bank-balances of Rs.1,164 crores indicating adequate liquidity to meet its debt requirements. The liquidity coverage ratio as of December 2023 as per Basel III

disclosure is 242.53% as against the minimum requirement of 100%. The leverage ratio as of December 2023 was 7.99%. The surplus SLR is 9.26% and the CRR is 4.50%

ABOUT THE COMPANY

“Capital Small Finance Bank Limited (CSFB)” started operations as India's 1st Small Finance Bank on 24 April 2016, after conversion from “Capital Local Area Bank”. The Bank received in-principle approval from RBI to set up a Small Finance Bank in September 2015 and it received the regular licence on 4th March 2016. The Bank was listed in Schedule II of the Reserve Bank of India Act on November 8, 2016, and has also received the Authorised Dealer II license. Before conversion to a Small Finance Bank, “Capital Local Area Bank” was operating as India's largest local area bank since January 14, 2000. The Bank transitioned from a Local Area Bank to a Small Finance Bank with 47 Branches. As of Dec 2023, the bank operates 175 branches and 177 ATMs across the states of Punjab, Chandigarh, Haryana, Rajasthan, Delhi, and Himachal Pradesh. The shares of Capital Small Finance Bank were listed on BSE, and NSE on February 14, 2024.

KEY FINANCIAL INDICATORS (As available with BWR)

Key Financial Indicators	Units	FY22 (31 Mar 2022)	FY23 (31 Mar 2023)	9MFY24 (31 Dec 2023)
Result Type		Audited	Audited	Unaudited
Total Business	Rs. in Crs.	10735.1	12069.89	13116
Gross Interest Income	Rs. in Crs.	578.22	676	590
NIM	%	3.80	4.20	4.00
Profit after Tax	Rs. in Crs.	62.57	93.60	83.32
GNPA	%	2.50	2.77	2.97
NNPA	%	1.36	1.36	1.53
CRAR%	%	18.60	18.87	20.06
Tier I	%	13.21	13.69	15

The provisional numbers of 31.3.2024 are subject to audit disclosed by the bank.

Loan Portfolio: The gross advances of the Bank aggregated to ₹6,159.83 crores as of March 31, 2024, with a secured portfolio of more than 99%. The advances have grown by 8% on a quarter-on-quarter basis.

Disbursement: The Bank has disbursed loans amounting to ₹ 675.81 crores during the quarter ending March 31, 2024, with an increase of 76% on a quarter-on-quarter basis.

Asset Quality: The Bank maintained strong asset quality, with Gross NPAs at 2.76% as of March 31, 2024.

Deposit: The total deposits of the Bank aggregated to ₹7,477.74 crores as of March 31, 2024, with a high CASA ratio of 38.28%. The deposits have grown by 14% on a year-on-year basis.

Loan to Deposit Ratio: The average* CD ratio of the Bank for FY24 stood at 79%.

Liquidity: The average* LCR of the Bank for the quarter ended March 31, 2024, stood at 264.05%.

Capital Raise: The Bank's equity shares were listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) on February 14, 2024, following a fresh issue capital raise of ₹450 crores. As of December 31, 2023, the Bank's net worth (Capital + Reserves) was ₹743.35 crores.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: NIL

ANY OTHER INFORMATION: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Sr. No.	Name of the instrument	Current Rating			Rating History		
		Type	Amount (Rs Crs)	Rating	12-Apr-23	08-Apr-22	31-Mar-21
1	Lower Tier II Bonds	Long Term	25.00	BWR A+ /Stable	BWR A+ /Stable	BWR A+ /Stable	BWR A+ /Stable
2	Upper Tier II Bonds	Long Term	15.00	BWR A+ /Stable	BWR A+ /Stable	BWR A+ /Stable	BWR A+ /Stable
3	Upper Tier II Bonds	Long Term	25.00	BWR A+ /Stable	BWR A+ /Stable	BWR A+ /Stable	BWR A+ /Stable
	Total		65.00	Rupees Sixty Five Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS: Highly Complex

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Bank Financial Institution](#)
- [Basel III Compliant Instruments](#)
- [Capital Instruments Issued by Banks & FI](#)

Analytical Contacts	
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**ANNEXURE I:
Details of Bank Loan Facilities rated by BWR: NA**

**ANNEXURE II:
INSTRUMENT (Bonds) DETAILS**

Instrument	Issue Date	Amount (Rs. Crs.)	Coupon Rate (%)	Maturity Date	ISIN Particulars
Lower Tier II Bonds	31-Mar-2019	25.00	10.00 payable Quarterly	31-Mar-2029	INE646H08129
Upper Tier II Bonds	31-Mar-2015	15.00	11.75 payable Annually	31-Mar-2030	INE646H08012
Upper Tier II Bonds	30-Mar-2016	25.00	11.75 payable Annually	30-Mar-2031	INE646H08020
Total		65.00	Rupees Sixty- Five Crores only		

**ANNEXURE- III
List of Entities Consolidated : Not Applicable**



For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

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