

Capital Small Finance Bank Limited

March 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Lower Tier II	25.00	CARE A; Stable	Reaffirmed
Upper Tier II#	15.00	CARE A-; Stable	Reaffirmed
Upper Tier II#	25.00	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

#Ratings factors in the additional risk arising due to the existence of the lock in clause in hybrid instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in-clause, would constitute as an event of default per CARE Ratings' definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared to conventional subordinated debt instruments.

Rationale and key rating drivers

Reaffirmation of ratings assigned to CSFBL's debt instruments is driven by its strong track record in lending, highly experienced management team, and comfortable capitalisation levels, supported by a ₹523 crore IPO (₹450 crore fresh issue) in February 2024 and steady internal accruals. The bank maintains a secured loan book, with ~99% advances backed by collateral, helping bank in maintaining relatively stable asset quality with gross non-performing assets (GNPA) and net non-performing assets (NNPA) at 2.67% and 1.35%, respectively, as on December 31, 2024.

CSFBL also benefits from competitive cost of funds supported by a high CASA ratio of 39% and a stable retail deposit base enabling it to have one of the strongest liability franchises among small finance banks.

However, Ratings remain constrained by CSFBL's modest scale compared to its peers and its high geographic concentration, with Punjab accounting for 79% loan portfolio and 92% deposits. While CSFBL is making conscious efforts to diversify its presence and expand beyond Punjab, its growth trajectory remains a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade

- Significant increase in size of operations along while achieving geographical diversification of the loan book and improving profitability.
- Improvement in asset quality profile with gross stressed assets remaining below 2% advances on a sustained basis whilst ensuring controlled credit costs.

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade

- Significant deterioration in asset quality with NNPA ratio exceeding 3% on a sustained basis.
- Decline in profitability metrics with return on total assets (ROTA) below 0.5% on a sustained basis.

Analytical approach:

Standalone

Outlook: Stable

The stable outlook reflects the likely continuation of steady growth in advances with comfortable capitalisation and healthy profitability levels while maintaining stable asset quality.

Detailed description of key rating drivers:

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Key strengths

Established lending track record and experienced management

Founded in 2000 as a local area bank, CSFBL has a long-standing presence in agriculture, housing, and MSME lending to middle income customers. It transitioned to a small finance bank (SFB) in 2016, becoming the first to enter this space with 47 branches and have since expanded to 185 branches across five states and two Union Territories as on December 31, 2024.

The bank is led by Sarvjit Singh Samra (MD and CEO), who, and the promoter group, holds 18.77% stake. CSFBL benefits from a diversified board and a seasoned leadership team, with most senior executives being founding members, ensuring stability.

Granular and well diversified secured loan portfolio with stable asset quality

CSFBL mainly focusses on providing credit to the middle-income groups offering agriculture, mortgage, MSME, consumption loans, and lending to corporates / NBFCs. Agriculture continues to be highest contributing segment for the bank with ~32% advances of the bank as on December 31, 2024. Other than agriculture, the loan book is distributed towards mortgages (27% share), MSME (21%), consumer lending (7%) and NBFC lending (12%).

The bank maintains a granular loan book with retail advances comprising 69% total advances and an average ticket size of ₹16 lakh. ~100% loans are secured with 80% backed by immovable property or bank FDRs and follow a cash-flow-based lending approach with a conservative LTV.

As a result, CSFBL has kept its asset quality under control, with GNPA consistently below 3% over the last five years, supported by minimal write-offs. As on December 31, 2024, the GNPA and NNPA stood at 2.67% and 1.35%, respectively (March 31, 2024: 2.76% and 1.40%). The provision coverage ratio (PCR) was 50%, while gross stressed assets and net stressed assets to net worth stood at 3.59% and 11.78% as on December 31, 2024, respectively (March 31, 2024: 3.61% and 12.07%).

Strong depositor base and competitive cost of funds

With its legacy as a local area bank and a long-standing presence in its operating regions, the bank has built a stable depositor base. Its liability mix has grown significantly, with substantial deposits raised post its conversion to a small finance bank. The bank has been steadily expanding its retail deposit base, resulting in a strong CASA ratio of 39% as on December 31, 2024, among the highest in the small finance bank industry. Retail deposits account for 93% total deposits with a high rollover rate, contributing to one of the lowest funding costs in the sector. CARE Ratings expects the bank to sustain its competitive cost of funds and superior CASA in the medium term.

Comfortable capitalisation

SFBL remains well-capitalised, maintaining a comfortable buffer above the minimum regulatory requirements to support its medium-term growth. As on December 31, 2024, the bank reported a total capital adequacy ratio (CAR) of 25.82% and a Tier-I CAR of 21.87%. Its capital position is bolstered by regular equity infusions and steady internal accruals. The most recent equity raise was through an IPO in February 2024, amounting to ₹523 crore, of which ₹450 crore was a fresh issue. CARE Ratings expects the bank to sustain adequate capitalisation in the medium term and to maintain CAR above 18%.

Key weaknesses

Geographic concentration

CSFBL operates 185 branches across five states and two union territories, with 158 branches in Punjab. As on December 31, 2024, Punjab accounted for ~79% bank's total loan portfolio and 92% deposits. The bank is actively working to diversify its geographic presence and expand deeper into northern India by adding new states and opening of new branches outside Punjab.

Modest size compared to peers

With advances of ₹6,724 crore and total assets of ₹8,384 crore as on December 31, 2024, the size of bank is relatively smaller compared to other SFB peers. The advances have grown 19% year-over-year (y-o-y) as on December 2024 and going forward the bank plans to grow at a faster rate supported by availability of sufficient capital. The bank's ability to increase its scale of operations by expanding geographically and maintaining asset quality remains a key monitorable.

Liquidity: Adequate

The bank's liquidity profile is supported by the bank's strong retail and CASA depositor base. The asset liability maturity (ALM) profile as on December 31, 2024, had no negative cumulative mismatches in time buckets up to one year. The average LCR for the quarter ended December 31, 2024, was 239%, well above the present prescribed minimum requirement of 100%. Comfort can also be drawn from the excess statutory liquidity ratio (SLR) maintained by CSFBL at 9.6% of net demand and time liabilities as on December 31, 2024.

Environment, social, and governance (ESG) risks

The bank prioritises environmental sustainability and ecological balance, where maintaining green belts and conducting tree plantations are some initiatives taken to contribute to a healthier environment. The bank has installed water coolers and water purifiers for clean drinking water, promotes healthcare with treatment for the underprivileged and conducts preventive health camps, and distributes winter wear including blankets and warm clothes, addressing crucial needs for a better society.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Bank](#)

[Financial Ratios - Financial Sector](#)

[Rating Basel III - Hybrid Capital Instruments issued by Banks](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Other bank

CSFBL is headquartered at Jalandhar, Punjab and started operations as India's first small finance bank on April 24, 2016, after conversion from Capital Local Area Bank. Prior to 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 small finance bank with 47 branches. As on December 31, 2024, it had 185 branches across five states and two Union Territories.

The bank's focus is on retail segment for loans and deposits. Retail advances form 69% total gross advances, whereas retail deposits form 93% total deposits as on December 31, 2024. Gross advances are diversified with 32% to agricultural, 27% to mortgages, 21% for MSME, 7% for consumer lending and 12% for NBFC lending as on December 31, 2024.

The bank came out with its maiden IPO of equity shares and offer for sale of size ₹523 crore, of which ₹450 crore was the fresh issue and rest constituted offer for sale. The bank got listed on stock exchanges on February 14, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	725.48	862.41	737.49
PAT	93.59	111.53	97.41
Total Assets	7,990.77	9,295.28	10,184.49
Net NPA (%)	1.36	1.40	1.35
ROTA (%)	1.24	1.29	1.33

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Bonds-Lower Tier II	INE646H08129	31-Mar-2019	10	31-Mar-2029	25.00	CARE A; Stable
Bonds-Upper Tier II	INE646H08012	31-Mar-2015	11.75	31-Mar-2030	15.00	CARE A-; Stable
Bonds-Upper Tier II	INE646H08020	30-Mar-2016	11.75	30-Mar-2031	25.00	CARE A-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Bonds-Upper Tier II	LT	15.00	CARE A-; Stable	-	1)CARE A-; Stable (12-Mar-24)	1)CARE A-; Stable (13-Mar-23) 2)CARE A-; Positive (30-Jan-23)	-
2	Bonds-Upper Tier II	LT	25.00	CARE A-; Stable	-	1)CARE A-; Stable (12-Mar-24)	1)CARE A-; Stable (13-Mar-23)	-
3	Bonds-Lower Tier II	LT	25.00	CARE A; Stable	-	1)CARE A; Stable (12-Mar-24)	1)CARE A; Stable (13-Mar-23)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Lower Tier II	Complex
2	Bonds-Upper Tier II	Highly Complex

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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