

Capital Small Finance Bank Limited

February 27, 2026

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 in Annexure-1.

#Ratings factors in additional risk arising due to existence of the lock in clause in hybrid instruments. Delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default per CARE Ratings Limited's (CareEdge 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

CARE Ratings Limited (CareEdge Ratings) has reaffirmed ratings assigned to Capital Small Finance Bank Limited (CSFBL), factoring in its granular and predominantly secured loan portfolio, stable asset quality, strong liability franchise, and comfortable capitalisation levels.

The bank's advances book remains well diversified across agriculture, micro, small and medium enterprise (MSME), loan against property (LAP), non-banking financial company (NBFC) lending, housing, and consumer segments, with ~99% of portfolio being secured in nature. The granular retail-focused portfolio, supported by cash-flow-based assessment and prudent loan to value (LTV) norms, has enabled the bank to maintain stable asset quality, with gross non-performing assets (GNPA) and net NPA (NNPA) at 2.68% and 1.35%, respectively, as on December 31, 2025, and limited write-offs over the years.

CSFBL also benefits from a strong and stable deposit franchise, built on its legacy presence in Punjab. Retail deposits constitute ~90% of total deposits, supporting a healthy current account saving account (CASA) ratio of 36% and competitive cost of funds. Deposits account for 82% of total liabilities, providing stability to its funding profile.

The bank remains well capitalised, with a capital adequacy ratio (CAR) of 21.60% and Tier-I CAR of 18.61% as on December 31, 2025, supported by internal accruals and proceeds of ₹450 crore from initial public offering (IPO; fresh issue) in February 2024. However, profitability metrics remain moderate owing to relatively lower yields given the fully secured nature of the loan book. Stable credit costs and operating discipline support consistent earnings. Return on total assets (ROTA) stood at 1.36% in FY25 and moderated to 1.22% in 9MFY26 due to margin compression following repo rate reductions. Improvement in margins is expected in the medium term, supported by lower funding costs, operating leverage, and faster growth in advances relative to deposits.

Ratings also consider the bank's modest scale compared to peers and high geographic concentration, with Punjab accounting for ~76% of the loan portfolio, 92% of deposits and 81% of branches as on December 31, 2025. While the bank is actively pursuing geographic diversification and deepening its presence within existing territories, its ability to scale up operations while maintaining asset quality will remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant scale-up in operations, accompanied by improved geographical diversification while maintaining asset quality.
- Improvement in profitability with ROTA exceeding 1.4% on a sustained basis.

Negative factors

- 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

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

Analytical approach:

Standalone

Outlook: Stable

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

Detailed description of key rating drivers:**Key strengths****Granular and well diversified secured loan portfolio with stable asset quality**

CSFBL focuses on the middle-income segment with a diversified loan book comprising agriculture (28%), MSME (25%), LAP (15%), NBFC lending (14%), housing (11%) and consumer loans (7%) as on December 31, 2025. The bank maintains a granular retail loan book with average ticket size of ₹18 lakh and wholesale loans limited to NBFC lending. Nearly 99% of advances are secured, with ~90% of the non-wholesale book backed by immovable property or bank fixed deposit receipt (FDRs). The bank follows a cash-flow-based underwriting approach with conservative LTV norms.

The secured and granular nature of the portfolio has supported stable asset quality, with GNPA maintained below 3% in the last five years and minimal write-offs. As on December 31, 2025, GNPA and NNPA stood at 2.68% and 1.35%, respectively (March 31, 2025: 2.58% and 1.30%), with a provision coverage ratio (PCR) of 50% per internal policy. Gross stressed assets to gross advances and net stressed assets to net worth stood at 3.03% and 9.27%, respectively, as on December 31, 2025 (March 31, 2025: 3.27% and 10.08%).

Strong depositor base and competitive cost of funds

With its legacy as a local area bank and established presence in its operating regions in Punjab, CSFBL has built a stable and granular depositor base. Post conversion into a small finance bank, the liability franchise scaled up significantly. Deposits constituted 82% of total liabilities as on December 31, 2025, followed by refinance borrowings from financial institutions.

The bank has steadily strengthened its retail deposit base, resulting in a CASA ratio of 36% as on December 31, 2025, among the highest in the small finance bank segment. Retail deposits account for ~90% of total deposits and exhibit high rollover rates, supporting a competitive cost of deposits. CareEdge Ratings expects the bank to sustain its strong CASA levels and competitive cost of funds in the medium term.

Comfortable capitalisation supported by stable profitability

CSFBL remains well-capitalised, maintaining a comfortable buffer above the minimum regulatory requirements to support its medium-term growth. As on December 31, 2025, the bank reported a total CAR of 21.60% and a Tier-I CAR of 18.61%. 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. CareEdge Ratings expects the bank to sustain adequate capitalisation in the medium term and to maintain CAR above 18%.

CSFBL's profitability and return ratios remain moderate, primarily due to the entirely secured nature of its advances portfolio. The conservative asset mix leads to relatively lower yields and, consequently, moderate net income margins (NIMs), though this is offset by contained credit costs and stable asset quality.

Despite this, the bank has demonstrated steady and improving profitability since its transition to a small finance bank in FY16, supported by the absence of direct microfinance exposure and a stable operating model. The bank reported a ROTA of 1.36% for FY25, which moderated to 1.22% for 9MFY26, largely considering NIM compression, following repo rate reductions from February 2025, resulting in yield compression and lagged deposit repricing.

Going forward, margins and return metrics are expected to improve, supported by reduction in funding costs, faster growth in advances relative to deposits leading to expansion in the credit-deposit (CD) ratio, and operating leverage benefits. The bank's ability to optimise its asset mix, maintain credit discipline and sustain mobilisation of low-cost deposits will remain critical to strengthening profitability and return ratios in the medium term.

Key weaknesses

Geographic concentration

CSFBL operates 203 branches across five states and two union territories, of which 165 branches are concentrated in Punjab. As on December 31, 2025, Punjab accounted for ~76% of the bank's total loan portfolio and 92% of its deposits, reflecting a high geographic concentration.

The bank is actively pursuing geographic diversification by expanding its presence in northern India through entry into additional states and opening new branches outside Punjab. The bank follows a strategy of deepening its presence within its existing territories to strengthen franchise value.

Modest size compared to peers

With advances of ₹8,164 crore and total assets of ₹12,091 crore as on December 31, 2025, the bank remains relatively smaller in scale compared to its small finance bank (SFB) peers. Advances registered a healthy year-on-year growth of 20% as of December 2025.

Going forward, the bank intends to accelerate growth, targeting a doubling of its advances book by FY29, supported by adequate capital buffers. Its ability to scale operations through geographic expansion while preserving asset quality will remain a key monitorable.

Liquidity: Adequate

CSFBL's liquidity profile remained adequate with no negative cumulative mismatches in time buckets up to one year per asset liability maturity (ALM) statement as on December 31, 2025. CSFBL's average liquidity coverage ratio (LCR) stood at 216% and net stable funding ratio (NSFR) stood at 111% for the quarter-ended December 31, 2025, against the regulatory requirement of 100%. The bank maintained excess statutory liquidity ratio (SLR) of 4.3% as a percentage of net demand and time liabilities (NDTL), which can be readily used for repo or liquidated in the secondary market. The bank can also resort to Rupee borrowing as CDs, term money, portfolio securitisation, and re-finance from domestic financial institutions in case of liquidity need. The bank also has access to facilities such as liquidity adjustment facility (LAF), marginal standing facility (MSF), and call money market to meet liquidity requirements.

Environment, social, and governance (ESG) risks

Given CSFBL's service-oriented nature of business, its direct exposure to environmental risks remains low. However, it faces implicit environmental risks through its portfolio of assets. Customer data privacy and security remain the key social risk-related vulnerabilities for CSFBL as breaches could attract regulatory attention and damage the bank's reputation. While digital banking offers many benefits to the bank, poor execution of IT strategies and failure to adequately meet customer needs could lead to high costs. On a positive note, CSFBL is enhancing financial inclusion by offering products and services aimed at marginalised sections of society, addressing social concerns. Prudent lending to these underserved segments could create growth opportunities, which must be weighed in the context of asset quality risks, including borrower creditworthiness, economic vulnerabilities, and regulatory uncertainties. CSFBL's Board comprises 10 Directors, of which seven are Independent Directors, including one female Director.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Banks](#)

[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, 2025, it had 203 branches across five states and two Union Territories.

The bank's focus is on retail segment for loans and deposits. The gross advances are diversified with 28% towards Agricultural, 11% towards Housing, 15% towards LAP, 25% for MSME, trading and other business loans, 7% for consumer lending and 14% for NBFC lending as on December 31, 2025.

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, 2024 (A)	March 31, 2025 (A)	9MFY26 (UA)
Total income	862	995	848
Profit after tax (PAT)	112	132	101
Total assets	9,295	10,108	12,091
Net interest margin (NIM) (%)	3.99	4.23	4.09
ROTA (%)	1.29	1.36	1.22
Gross non-performing assets (NPA) (%)	2.76	2.58	2.68
Net non-performing assets (NPA) (%)	1.40	1.30	1.35
Capital adequacy ratio (CAR) (%)	27.39	25.39	21.60

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/facilities

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 2025-2026	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
1	Bonds-Upper Tier II	LT	15.00	CARE A-; Stable	-	1)CARE A-; Stable (07-Mar-25)	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 (07-Mar-25)	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 (07-Mar-25)	1)CARE A; Stable (12-Mar-24)	1)CARE A; Stable (13-Mar-23)

LT: Long 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: CareEdge 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.

Contact us

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