

**CMP: INR 377**

**Stock Info**

|                         |            |
|-------------------------|------------|
| BSE                     | 544120     |
| NSE                     | CAPITALSFB |
| Sector                  | Banks      |
| Face Value (INR)        | 10         |
| Equity Capital (INR Bn) | 0.34       |
| Mkt Cap (INR Bn)        | 16.93      |
| 52w H/L (INR)           | 469/320    |
| Avg Daily Vol (in 000') | 252        |

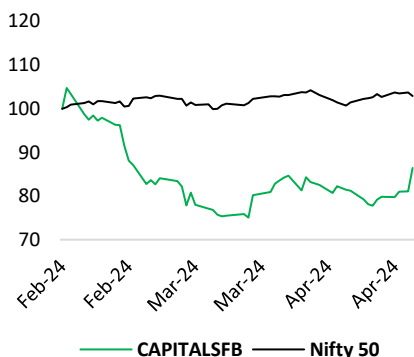
**Shareholding Pattern %**

(As on March, 2024)

|                 |        |
|-----------------|--------|
| Promoters       | 18.85% |
| Public & Others | 81.15% |

| Stock Performance (%) | 1m   | 3m   |
|-----------------------|------|------|
| CAPITALSFB            | 6.86 | -13  |
| Nifty 50              | -0.8 | 2.91 |

**CAPITALSFB Vs Nifty 50**



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Capital Small Finance Bank offers a wide range of banking products on the asset as well as liability side. Currently, the bank operates in the northern India – Punjab, Haryana, Delhi, Rajasthan, Himachal Pradesh and Chandigarh. The bank does not have any subsidiaries. They currently operate 173 branches and 175 ATMs with 76.3% of total branches in rural and semi urban areas. 75.75% of total customers are from these areas. The Average business per branch is INR 760mn while the average business per employee is at INR 72mn. Product portfolio includes agriculture loans, MSME and Trading loans and mortgages. The bank aims to provide affordable credit services and operate in their niche of catering to middle income group segment with emphasis on rural and semi urban areas. The primary focus is on the middle-income customer segments i.e., customers with an average annual income of INR 0.4 million to INR 5 million in semi-urban and rural areas with 41.62% of their branches in rural areas, 34.68% branches in semi-urban areas and 23.70% of their branches in urban areas.

**Investment Rationale:**

**Business acquisition and digital expansion strategies:** The bank offers a range of credit and non credit products and services to address all financial requirements of the customers. They follow branch network driven business acquisition strategy which helps them to identify the customer needs effectively and respond with solutions. The target market of the bank i.e. rural and semi urban areas, have lower risk of customer migration, better credit behaviours and in turn, lower delinquency rates. They even encourage local hiring to stay connected to their customers. They are moving towards digital on-boarding of customers, helping them in widening their customer base by specially targeting millennials. Exploring new channels like self service portals, kiosks, host to host API based tax payments etc. They plan to launch dedicated customer facing mobile application.

**Retail focused liability franchise with a diversified portfolio:** The bank provides a comprehensive suite of products including savings bank deposits, current deposits, term deposits, NRE and NRO deposits and tax saver deposits. Since inception, they have focused on enhancing retail deposits mainly because they have lower costs compared to wholesale deposits and last longer. The bank's deposit rollover ratio has been consistent around 90% for Term deposits, which showcases trust of customers and stable liquidity profile. The well diversified portfolio of the bank enables them to mitigate risk and optimise resources. Their retail focus enables them to maintain high levels of CASA as compared to peers. The Bank has maintained a granular CASA book with CASA ratio between 38-40% over the years. The Bank will have a leverage of 4.0-4.2x in the future. They intend to increase CASA and retail deposits along with a perfect mix of wholesale deposits to optimise cost of funds. Average ticket size of the bank's agriculture product was INR 1.24mn, MSME & Trading products was INR 1.81mn and mortgage lending products was INR 1.15mn as on Sept'23. The 9MFY24 Credit to Deposit Ratio is at 79.2%. Acknowledging that most other small finance banks are at more than 90% C/D ratio, the bank maintains its growth stance.

**Expansion plans led by organic growth:** The bank intends to leverage its brand presence in Chandigarh and further penetrate in existing markets of Northern India. They also intend to undertake geographical expansion and enter into newer territories. They plan to enter into business partnerships in regions where they do not have much presence to gain an understanding of the market. Other than their primary focus area i.e. semi urban and rural areas, they also target to open branches in urban/metro areas in order to grow their business. Growth strategies include maximizing deposit acquisition by cross-selling to both new and existing customers, developing trust through relationship building, and prioritizing government and institutional banking groups.

**Valuation & Outlook:** Capital Small Finance Bank's proactive approach to serving the financial needs of rural and semi-urban communities by strategically positioning its branches in these regions and adopting digital solutions to enhance accessibility, ensures sustainable growth while engaging with a younger demographic. Their focus on building a robust liability franchise along with a well-diversified portfolio and high proportion of secured loans, reflects their risk management approach and commitment to stability. Their strategic initiatives to expand geographically and strengthen partnerships displays their vision. Book value per share (BVPS) of the bank is INR 201.34 as of H1FY24. At CMP, the bank trades at 1.87x P/BVPS.

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| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY                | >20%            |
| ACCUMULATE         | 12% to 20%      |
| HOLD               | 5% to 12%       |
| NEUTRAL            | -5% to 5%       |
| REDUCE             | -5% to -12%     |
| SELL               | <-12%           |

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