

**CMP: INR 348**

**Outlook: Positive**

**Target Price: NA**

**Stock Info**

BSE	544120
NSE	CAPITALSFB
Bloomberg	CAPITALS:IN
Reuters	CPIT.BO
Sector	NBFC
Face Value (INR)	10
Equity Capital (INR cr)	34.2
Mkt Cap (INR cr)	1556
52w H/L (INR)	469 / 313
Avg Yearly volume (in 000')	195

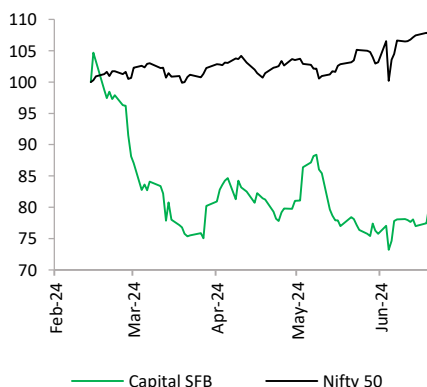
**Shareholding Pattern %**

(As on May, 2024)

Promoters	18.85
Public & Others	81.15

Stock Performance (%)	1m	6m	12m
Capital SFB	1.99	-20	-20
Nifty 50	4.69	11.52	25.35

**Capital SFB Vs Nifty**



Abhishek Jain  
[abhishek.jain@arihantcapital.com](mailto:abhishek.jain@arihantcapital.com)  
Harshit Jain  
[harshit.jain@arihantcapital.com](mailto:harshit.jain@arihantcapital.com)

**Business Highlights**

- Capital Small Finance Bank Ltd. commenced operations as India's first small finance bank in 2016, offering a range of banking products on the asset and liability side, in Punjab, Haryana, Delhi, Rajasthan, Himachal Pradesh and Union Territory of Chandigarh.
- Prior to becoming a Small Finance Bank, it started operations as a local area bank, with 47 branches, in Jalandhar, Kapurthala and Hoshiarpur and expanded its operations into Ludhiana and Amritsar, thereby extending its outreach to a total of 5 districts.
- The core strategy of the Bank is to build a retail focused business model with special emphasis on rural and semi urban geographies and Middle - Income Group segment.
- Its asset products primarily include 37% agriculture loans, 19% MSME and trading loans (working capital, machinery loans etc.) and 26% mortgages (housing loans and loans against property).
- They are a secured lender with 99.9% secured book, with an average ticket size of INR 14.2 Lakhs. The security is valued at collateral value rather than market value.
- The management of the company is optimistic about future recoveries, which will help them to improve their asset quality. The GNPA ratio stood at 2.8% for FY24.
- Capital SFB is predominantly operating in Punjab and Haryana, where market opportunity is believed to be immense. They currently have a market share of only 1.15% in Punjab with an incremental share of 1%.
- Their USP lies in providing RM and personnel services specifically in Punjab and Haryana, markets where competitors do not offer these services. This strategic differentiation is expected to enhance their market share in these regions.
- Company has a high rollover ratio of 91.15%, depicting a stable deposit base.
- More than 65% of the branches are matured and as the scale of business increases, more branches will mature. This will help them to maintain their Opex ratio at 3% levels.
- Quarter 1 is generally weak for banks but management projects a healthy Q1FY25, due to the availability of growth capital.

**Guidance**

- Management aims to improve its NIM to 4.5% over the next three years, up from the current 3.9%.
- Currently operating with 177 branches across 5 states and 1 Union Territory, the Bank plans to enhance its footprint by adding 25 branches in FY25 and 35 branches in FY26. This expansion will include entering new states as the business grows.
- Opex ratio for the FY24 stands at approximately 3%. Management expects it remain at similar levels on the back of increasing scale of business and growing matured branches.
- The GNPA ratio stood at 2.8% for FY24. Management is optimistic about future recoveries, which are expected to enhance asset quality.
- Bank is targeting to achieve a loan portfolio growth ranging from 22% - 24% in FY25. The Bank has provided a ROA guidance of 1.4% for FY25, an improvement from the current 1.3%. Additionally, the ROE is expected to increase to 16% in FY25, up from 14.6% in FY24.
- Management is focused on growing the middle - income group (MIG) segment.

**OUTLOOK**

Capital Small Finance Bank is Retail focused liability franchise with a high share of CASA, indicating strong deposit base stability. It has a Secured and diversified advances portfolio, which helps mitigating credit risk. Asset quality is expected to improve going forward, backed by strong recoveries in the future. Additionally, with adequate growth capital, CSFB is well-positioned to leverage the expanding middle-income segment. Currently trading at a Price-to-Book Value (P/BV) of 1.26x, we maintain a long-term positive outlook on the stock.

**Q4FY24 Concall Highlights:****OUTLOOK**

The bank provides affordable credit services and catering to middle income group segment with emphasis on rural and semi urban areas. They are expected to apply for universal bank in the coming years, subject to fulfilment of eligibility criteria. Their loan book is expected to grow by 22 – 24% in FY25. We have a long term positive outlook on the stock.

**Guidance for FY25**

- \* Bank is targeting to achieve a loan portfolio growth ranging from 22% - 24% in FY25.
- \* ROA guidance of 1.4% for FY 25 v/s current ROA of 1.3%.

**Industry Highlights**

- \* Growth in India is projected to remain strong at 6.9 per cent in FY25.
- \* India is aspiring to reach high middle - income status over the coming period.
- \* Amidst this economic landscape, Bank is strategically positioned to capitalize on the rise of the middle-income segment.

**Highlights**

- \* The core strategy of the Bank is to build a retail focused business model with special emphasis on rural and semi urban geographies and Middle - Income Group segment.
- \* The Bank is presently having 177 branches spread over 5 states and 1 UT.
- \* Bank's PAT increases to INR 1.12 bn (19% YoY & 16% QoQ).
- \* Their Gross advances increased to INR 61.60 bn (8% QoQ).
- \* Bank's portfolio comprises of 37% agriculture, 26% mortgage and 19% MSME and trading book.
- \* They are a secured lender with 99.9% secured book.

**\* Bank plans to apply for Universal Bank license in the coming years, which will help them to expand their geographical footprint across India.**

**Arihant Research Desk**Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
<b>INH000002764</b>	<b>SMS: 'Arihant' to 56677</b>	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:instresearch@arihantcapital.com">instresearch@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880