

Capital Small Finance Bank Limited

EXECUTIVE SUMMARY

COMPANY HIGHLIGHTS

ISIN Number: INE646H01017
Face Value (INR) : 10
Authorised Share Capital: INR 50 Cr
Paid Up Capital: INR 34.04 Cr
Outstanding Shares : 3,40,44,091
Status : Unlisted
Industry: Banking
Business Divisions: Banking & Financial Services
HQ: Jalandhar, Punjab
CEO & MD: Mr. Sarvjit Singh Samra

KEY FINANCIAL METRICS (in ₹ cr.)

Particulars	FY22	FY21	FY20
Net int. inc.	255.28	198.61	172.62
Pre-prov. Profit	113.21	71.48	52.25
Net income	62.57	40.78	25.39
RoE	12.95%	9.51%	7.72%
RoA	0.93%	0.70%	0.52%
EPS (in ₹)	18.41	12.04	8.18
Gross NPAs	58.51	78.24	117.13
Net NPAs	41.25	42.14	63.23

SHAREHOLDING PATTERN AS ON
31 MAR 2022

Kind of shareholders	%
Promoter's shareholding	80.37%
Others	19.63%

Having started as a local area bank (LAB) in 2000, Capital Small Finance Bank (Capital SFB) stands tall as India's First Small Finance Bank (SFB). Culture of Transparency and deep understanding of the target customer segment, developed over the years has helped in steering their steady growth. They are among leading SFBs in terms of CASA ratio, cost of deposit, asset quality and secured diversified advance portfolio because of the following: Learning as LAB, IT backbone, prudent risk management framework, human resource and codified processes and policies.

It is engaged in providing a wide range of banking and financial services including retail & commercial banking and treasury operations.

Key highlights during the FY21-22 are as follows:

❖ Asset under management sector wise y-o-y Growth (in %)

Unit	Amount (in ₹ cr.)		
	31-Mar-22	31-Mar-21	Growth (in %)
Agriculture	1780.74	1423.21	25%
MSME and Trading	1092.62	973.04	12%
Mortgages	1128.45	809.65	39%
Others	686.89	557.09	23%

❖ Deposit wise y-o-y Growth (in %)

Type of deposits	Amount (in ₹ cr.)		
	31-Mar-22	31-Mar-21	Growth (in %)
CASA	2549.4	2092.63	22%
Term deposits	3496.96	3128.44	12%
Retail Term deposits	3337.92	3002.96	11%
Bulk deposits	159.04	125.48	27%
Deposits	6046.36	5221.07	16%

❖ The Bank's non-interest income accounted for 17.51% of the bank's Net total income for FY22 at ₹54.18 crores, which is an increase of 18.14% over last year.

❖ Disbursements increased from ₹1,344.22 crores for FY21 to ₹1,843 crores for FY22.

❖ Priority sector advances of the bank increased to ₹2,469.62 crores (Net amount after sale of PSCL of ₹657.50 crores and Purchase of PSCL of ₹235 crores) as on March 31, 2022 (quarterly average) as against ₹2,035.51 crores as on March 31, 2021, registering a growth of 21.33%. The Priority Sector Lending achievement of the Bank is 78.85% calculated as % to Adjusted Net Bank Credit of previous year ended March 31, 2021 and is well above the 75% benchmark set by the RBI.

Financial Highlights

₹ (in crores)

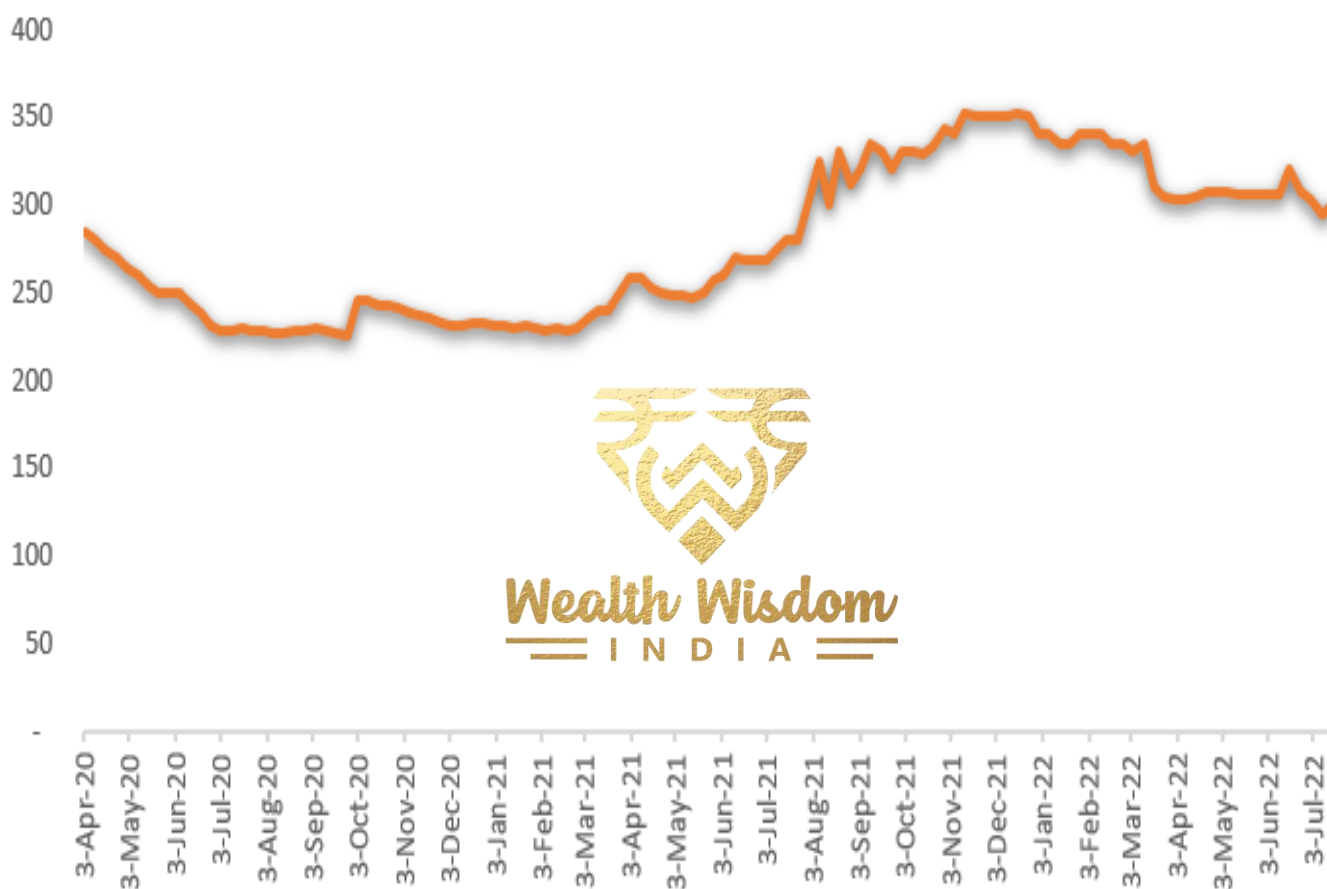
Particulars	Financial Year					CAGR
	2021-22	Y-o-Y Growth	2020-21	Y-o-Y Growth	2019-20	
Interest earned	578.22	13.06%	511.44	11.64%	458.13	8.07%
Interest expended	322.94	3.23%	312.83	9.57%	285.51	4.19%
Net interest income	255.28	28.53%	198.61	15.06%	172.62	13.93%
Other income	54.18	18.22%	45.83	6.68%	42.96	8.04%
Net total income	309.46	26.60%	244.44	13.39%	215.58	12.81%
Employee cost	106.56	17.84%	90.43	6.84%	84.64	7.98%
Other operating expenses	89.69	8.68%	82.53	4.88%	78.69	4.46%
Operating profit before provisions and contingencies	113.21	58.38%	71.48	36.80%	52.25	29.40%
Provisions (other than tax) and contingencies	28.72	61.80%	17.75	0.51%	17.66	17.60%
Profit before tax	84.49	57.25%	53.73	55.33%	34.59	34.67%
Tax expenses	21.92	69.27%	12.95	40.76%	9.20	33.56%
Profit after tax	62.57	53.43%	40.78	60.61%	25.39	35.07%
EPS	18.41	52.91%	12.04	47.19%	8.18	31.05%
Number of equity shares outstanding	34,044,091.00	0.39%	33,910,681.00	0.31%	33,807,217.00	0.23%
Equity share capital	34.04	0.38%	33.91	0.30%	33.81	0.23%
Total Network	515.78	14.42%	450.79	10.82%	406.78	8.24%
Total Assets	7,153.92	12.28%	6,371.24	19.54%	5,329.88	10.31%

Valuation Ratios

Particulars	FY22	FY21	FY20
Price (in ₹)	305.00	250.00	285.00
Price Growth (%)	22.00%	-12.28%	14.00%
EPS (in ₹)	18.41	12.04	8.18
EPS Growth %	53%	47%	20%
Price- Earnings (x)	16.57	20.76	34.84
BVPS (in ₹)	151.50	132.93	120.32
BV Growth (%)	13.97%	10.48%	36.90%
Price -BV (x)	2.01	1.88	2.37
Dividend	0.8	0	0.2
Dividend yield (%)	0%	0%	0%

WEEKLY PRICE MOVEMENT

Price Chart (in ₹)



Price movement pattern



Industry outlook

ECONOMIC OUTLOOK

GDO growth is expected to remain strong and broader, based at 8%. The union budget also encourages capital expenditure to fuel medium-term growth. On the supply side, from agricultural to industrial, the economy is recovering. The sectors that were negatively impacted during the FY21 lockdowns, are now returning gradually towards normalcy. The demand side pressure, is finding a steady release. These macro-economic factors, along with a healthy and balanced GDO growth expectation, point to overall economic revival.

It is likely that more variants will reach the country from around the world, the business-as-usual attitude will negate any potential drastic impact of such variants. Over 70% of India's almost 140 crore population has been vaccinated and is on its way to booster doses. The shift from 'lives our livelihood' to 'lives and livelihood' signals economic growth.

BANKING SECTOR OUTLOOK

OPPORTUNITIES

Middle Income group: A significant section of the middle-income population avails high-cost credit because they borrow from informal sources. This remains an untapped avenue, which when catered to, especially SFBs designed to penetrate deep and augment front with bode well for the banking sector.

Digitization: Accessing an untapped market doesn't mean that it will be at the cost of asset quality. The sector's focus will stay on risk assessment and maintaining the quality of asset.

Asset quality: Accessing an untapped market doesn't mean that it will be at the cost of asset quality. The sector's focus will stay on risk assessment and maintaining the quality of asset

Product Mix: Since mortgage, MSME and agricultural loans, have immense potential for growth, a balanced mix and a diversified portfolio are possible, reducing risk

SMALL FINANCE BANK (SFBs)

India accounts for 47% of the GDP, but only about of 9% of total credit and 11% of total deposits and, hence, SFBs have a lot of room to explore. The establishment of SFBs, give rural businesses, a chance of entering the banking and financial services sector. This will drive the long-term growth of the overall economy. The falling PSB share, rising SFB share and private banks share are indicative of a growth potential. They have a massive potential for increasing their customer base as they have touch with their customers at the ground level.

COMPANY OUTLOOK

- Capital SFB's unique position as a new age SFB with over 20 years of experience in the sector, has earned goodwill through relationship-based banking, high-quality leadership, committed and trustworthy human capital, and a full range of product offering through both physical and digital means.
- A moderate to low NPA ratio has been a core feature that it has been able to stick to, since inception, reflecting appropriate credit risk management. The Bank has the lowest write-offs amongst SFBs and private sector bank. Customized products, driven by technology, have simplified operations from onboarding to servicing, making for a loyal and satisfied customer base. In addition, the bank has maintained and improved on these parameters through COVID-19 wave after wave.
- Capital SFB's robust fundamentals accord it a possible to sow and reap benefits. Its strong and stable business model has led to superior performance. Continued strong CASA, which helps the bank keep its cost of funds low, granular advances to a diversified customer base, healthy credit assessment, and recovery mechanism, contribute to its exemplary asset quality.
- When the credit to GDP is drilled down further, only the western and southern regions of India have credit penetration above 50%. The northern region, which is the area that capital SFB serves, has a substantial opportunity for business and retail customers. Capital SFB serves, has a substantial opportunity for business and retail customers. Within the northern region, Punjab where capital SFB wishes to expand in, have a plethora of opportunities. Punjab and Haryana also have high agricultural yields, making a case for the northern regions' potential for growth in the financial sector.

BUSINESS STRATEGIES

- Leverage technology and data analytics** – cashless banking, new & alternate delivery channels, customized products, risk assessment & monitoring
- Grow Loan portfolio with focus on asset quality** - Digitalization and data analytics, business partnership & asset first strategy for new ,existing areas & area with low presence.
- Boosting operational and profitability metrics** – Increase credit-to -deposit ratio, optimize costs, Boost fee income
- Strengthen our liability franchise** – cross sell products, expand geographically, relationship-based customer service, target government departments and agencies.

SCOT ANALYSIS

Strengths

- Strong and growing retail liability franchise
- Secured and diversified advances portfolio
- Robust credit assessment and risk management practices
- Consistent growth rate with improving operational metrics
- Strong corporate governance

Opportunities

- Potential to capture more market share in current geographies
- Tapping mobile penetration, digitization and the growing ubiquity of systems
- Growing more business partners to include more products offered with the aim of improving efficiencies & customer experience

Challenges

- Scaling up in new geographies and distribution channels
- Employee retention to cultivate future leaders
- Maintaining high quality asset at fast paced growth momentum

Threats

- Increasing cyber security threat with ever grow
- Tapping mobile penetration, digitization and the growing ubiquity of systems
- Growing more business partners to include more products offered with the aim of improving efficiencies & customer experience

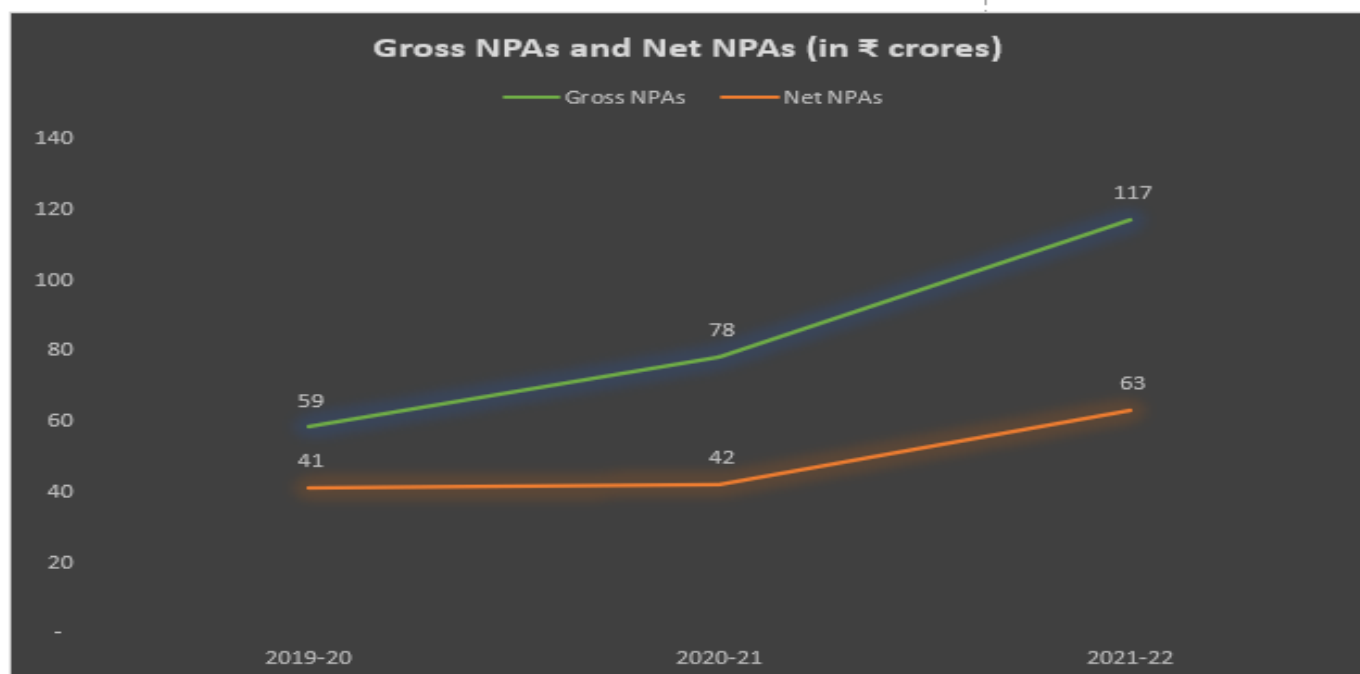
FINANCIALS

Balance Sheet

as on March 31, 2022

(₹ in thousands)			
Particulars	Schedule	As on March 31, 2022	As on March 31, 2021
CAPITAL & LIABILITIES			
Capital	1	3,40,441	3,39,107
Reserves and Surplus	2	48,17,374	41,68,797
Deposits	3	6,04,63,591	5,22,10,700
Borrowings	4	49,84,300	61,67,200
Other Liabilities and Provisions	5	9,33,506	8,26,578
Total		7,15,39,212	6,37,12,382
ASSETS			
Cash and Balances with Reserve Bank of India	6	36,39,949	72,17,237
Balances With Banks and Money at Call and Short Notice	7	65,50,617	56,86,994
Investments	8	1,35,70,627	1,21,22,519
Advances	9	4,63,48,002	3,72,68,860
Fixed Assets	10	8,35,866	8,65,540
Other Assets	11	5,94,151	5,51,232
Total		7,15,39,212	6,37,12,382
Contingent Liabilities	12	4,56,217	3,83,508
Bills for Collection		-	-
Significant Accounting Policies and Notes forming part of the Financial Statements	17 & 18		

Exhibit 1: Gross NPAs and Net NPAs (in ₹ cr.)



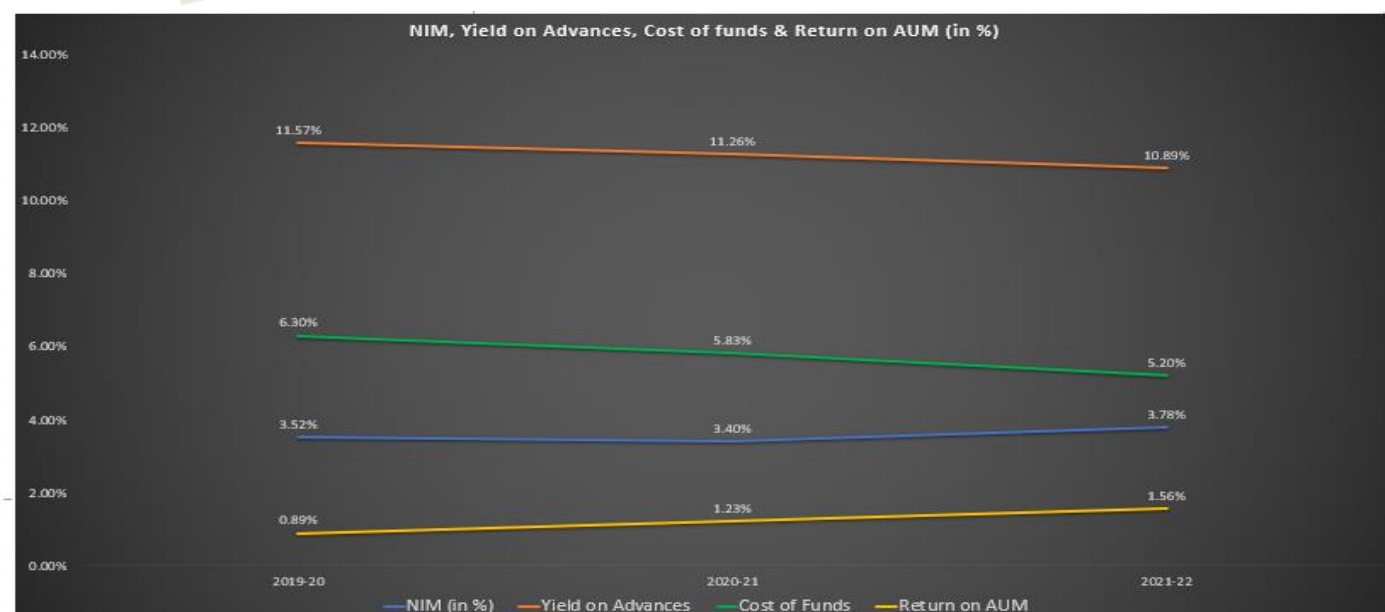
FINANCIALS

Profit & Loss Account

for the year ended March 31, 2022

(₹ in thousands)			
Particulars	Schedule	Year ended March 31, 2022	Year ended March 31, 2021
INCOME			
Interest Earned	13	57,82,177	51,14,388
Other Income	14	5,41,853	4,58,333
Total		63,24,030	55,72,721
EXPENDITURE			
Interest Expended	15	32,29,361	31,28,278
Operating Expenses	16	19,62,529	17,29,589
Provisions and Contingencies (Refer Note 25 of Schedule 18)		5,06,451	3,07,011
Total		56,98,341	51,64,878
PROFIT			
Net profit for the year		6,25,689	4,07,843
Profit brought forward		12,62,883	9,87,724
Total		18,88,572	13,95,567
APPROPRIATIONS			
Transfer to Statutory Reserve		1,56,422	1,01,961
Transfer to Special Reserve		18,043	6,923
Transfer to/(from) Revenue and Other Reserves (Investment Reserve Account)		138	(138)
Transfer to Revenue and Other Reserves (Investment Fluctuation Reserve)		16,556	23,938
Dividend		27,202	-
Balance carried over to Balance sheet		16,70,211	12,62,883
Total		18,88,572	13,95,567
EARNINGS PER SHARE			
Basic (₹)		18.41	12.04
Diluted (₹)		18.22	11.98
Face value (₹)		10.00	10.00
Significant Accounting Policies and Notes forming part of the Financial Statements	17 & 18		

Exhibit 2: Net Interest Margin, Yield on Advances, Cost of funds & Return on Asset under management (in %)



FINANCIALS

Cash Flow Statement

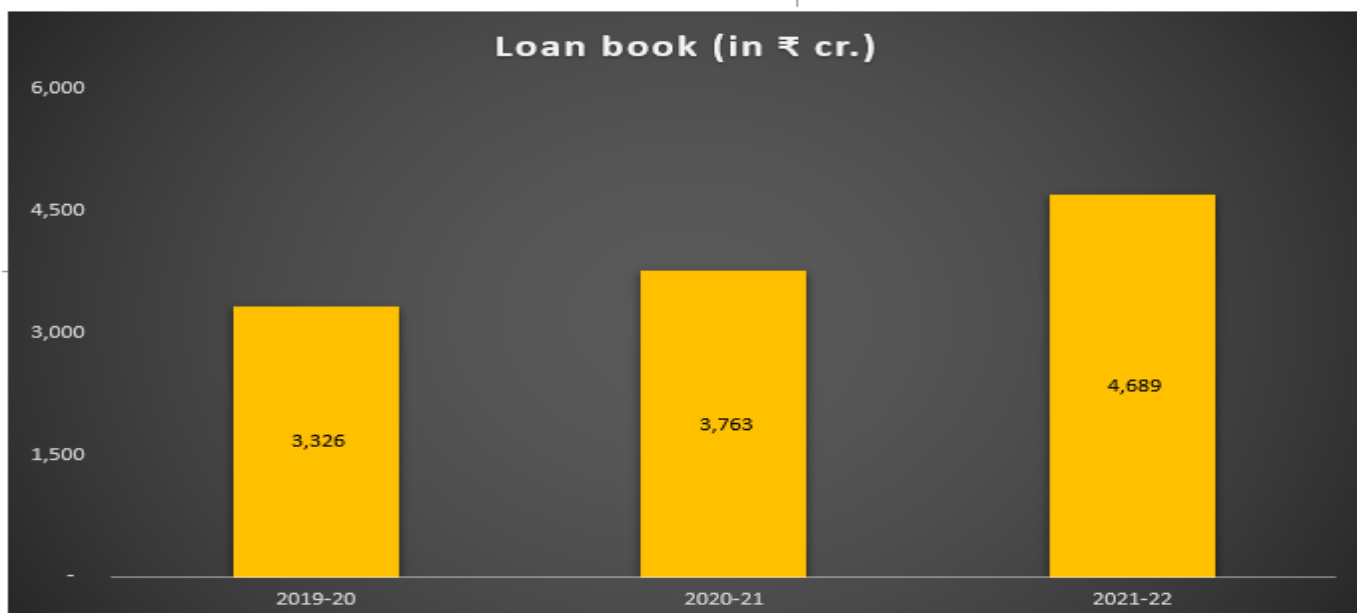
for the year ended March 31, 2022

Particulars	(₹ in thousands)	
	Year ended March 31, 2022	Year ended March 31, 2021
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Profit before Taxes	8,44,893	5,37,368
Adjustment For:		
Depreciation Charge on Fixed Assets	1,61,160	1,64,924
Loan Loss Provision	2,87,247	1,77,486
(Profit)/Loss on Sale of Fixed Assets	57	(16)
Employee Stock Option Expense	38,350	22,121
Depreciation on Investments	(245)	245
	13,31,462	9,02,128
Adjustment For:		
(Increase) in Term Deposits with other Banks	(7,22,312)	(11,59,628)
(Increase) In Investments	(14,47,863)	(16,04,019)
(Increase) In Advances	(92,57,161)	(43,74,216)
Increase In Deposits	82,52,891	77,44,467
(Increase)/Decrease In Other Assets	(28,135)	81,024
(Decrease)/Increase In Other Liabilities & Provisions	(28,390)	2,82,000
	(18,99,508)	18,71,756
Direct Taxes Paid (net of refunds)	(2,07,899)	(1,28,575)
NET CASH FLOW FROM OPERATING ACTIVITIES	(21,07,407)	17,43,181
CASH FLOW FROM/ (USED IN) INVESTING ACTIVITIES		
Purchase of Fixed Assets	(1,34,935)	(1,29,261)
Proceeds from Sale of Fixed Assets	3,392	5,051
NET CASH FLOW (USED IN) INVESTING ACTIVITIES	(1,31,543)	(1,24,210)
CASH FLOW FROM FINANCING ACTIVITIES		
Net Proceeds from equity shares issued under preferential allotment on private placement basis / ESOP allotment	13,075	10,140
Net proceeds from the new issue of Unsecured Redeemable Non-Convertible Bonds/ (Redemption of Bonds)	2,26,200	3,14,000
Net Increase/(Decrease) in Borrowings/Refinance	(14,09,100)	16,44,000
Dividend Payment	(27,202)	-
NET CASH FLOW FROM/ (USED IN) FINANCING ACTIVITIES	(11,97,027)	19,68,140
Net Increase / (Decrease) In Cash & Cash Equivalents	(34,35,977)	35,87,111
Cash & Cash Equivalents in the Beginning of the year	74,11,275	38,24,164
Cash & Cash Equivalents at the End of the year	39,75,298	74,11,275

NOTES:

- The above Cash Flow Statement has been prepared under the indirect method as set out in Accounting Standard 3 on Cash Flow Statements specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016.
- Figures in brackets indicate cash outflow.

Exhibit 3: Loan Book (in ₹ cr.)



FINANCIALS

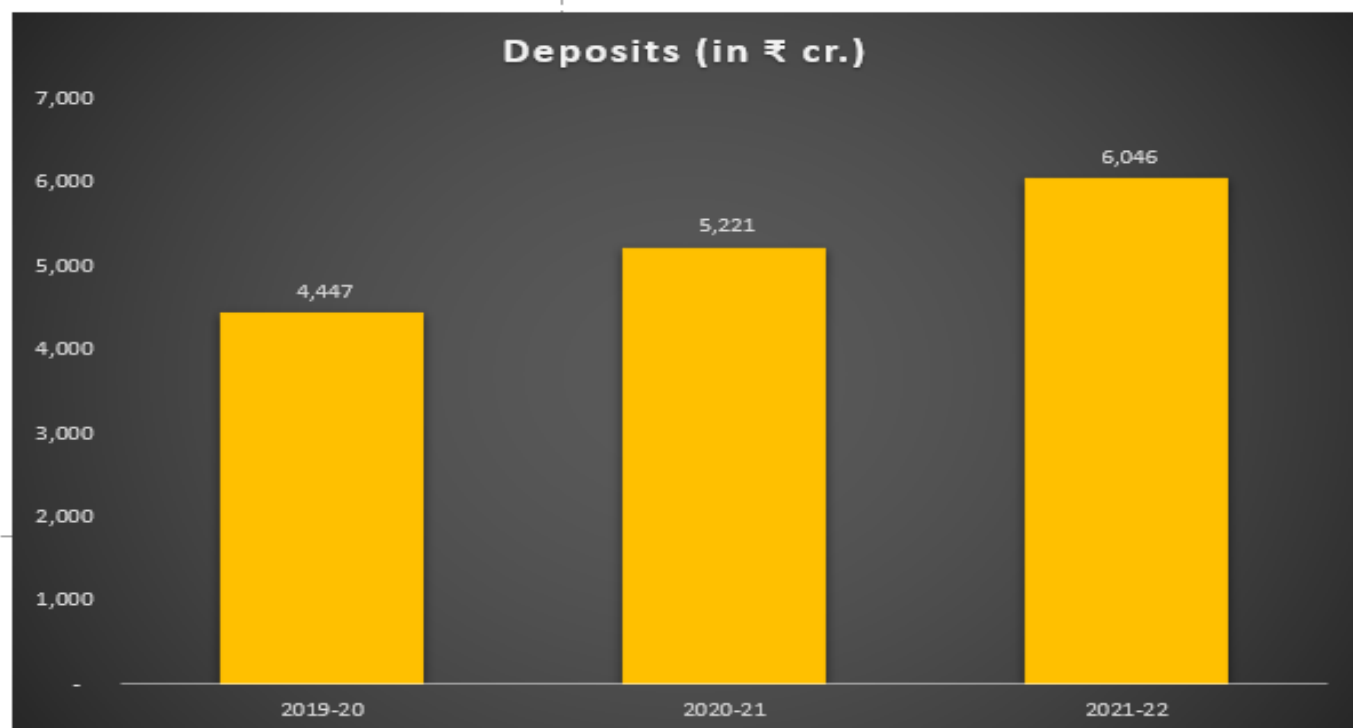
Financial Metrics

Particulars	FY22	FY21	FY20
Asset Quality ratio			
GNPA	2.50%	2.08%	1.76%
NNPA	1.36%	1.13%	1.25%
CRAR	18.63%	19.80%	19.11%
PCR	46.02%	46.14%	29.50%
Profitability & Efficiency ratio			
RoE	12.95%	9.51%	7.72%
RoA	0.93%	0.70%	0.52%
Return on AUM	1.56%	1.23%	0.89%
Cost to Income	63.42%	70.76%	75.76%
Balance Sheet structure ratios			
AUM growth (in %)	24.60%	13.15%	27.48%
Deposit growth (in %)	15.81%	17.42%	21.25%
Equity/ Assets (in %)	7.21%	7.08%	7.63%
Equity/ Loans (in %)	110.01%	119.80%	122.32%
Credit to Deposit (in %)	77.55%	72.07%	74.79%
Spread analysis			
Yield on advances	10.89%	11.26%	11.57%
Cost of deposit	5.02%	5.68%	6.10%
Spread	5.87%	5.58%	5.47%
Net Interest Margin	3.74%	3.40%	3.52%

- ❖ Opex ratio as a % of average assets has improved to 2.90% FY22 over 3.33% in FY20
- ❖ The Bank has a CAR of 18.63% as on 31 March 2022 as compared to 19.80% as on 31 March 2021.
- ❖ CASA ratio for the past 3 FYs ending 31 March 2022, 31 March 2021 and 31 March 2020 stood at 42.16%, 40.07% and 36.31% respectively.
- ❖ Cost of fund stood at 5.20% and 5.83% for the fiscal year ended 31 March 2022 and 31 March 2021 respectively
- ❖ Net total income grew by 27% reaching ₹309 crores and net interest income grew by 29% to ₹255 crores.
- ❖ Deposits increased from ₹5,221.07 crores in FY 21 to ₹6,046.36 crores in FY 22
- ❖ Loan books increased from ₹3,762.99 crores in FY21 to ₹4,688.70 crores in FY 22
- ❖ Balance sheet size increased from ₹6,371 crores in FY21 to ₹7,153 crores in FY22
- ❖ PAT increased from ₹40.78 crores in FY21 to ₹62.57 crores in FY22 (y-o-y growth of 53.42%)
- ❖ Reduction of 10.83% in cost-to-income ratio over last 5 years
- ❖ Operating profit CAGR of 36.42% over a period of 5 years

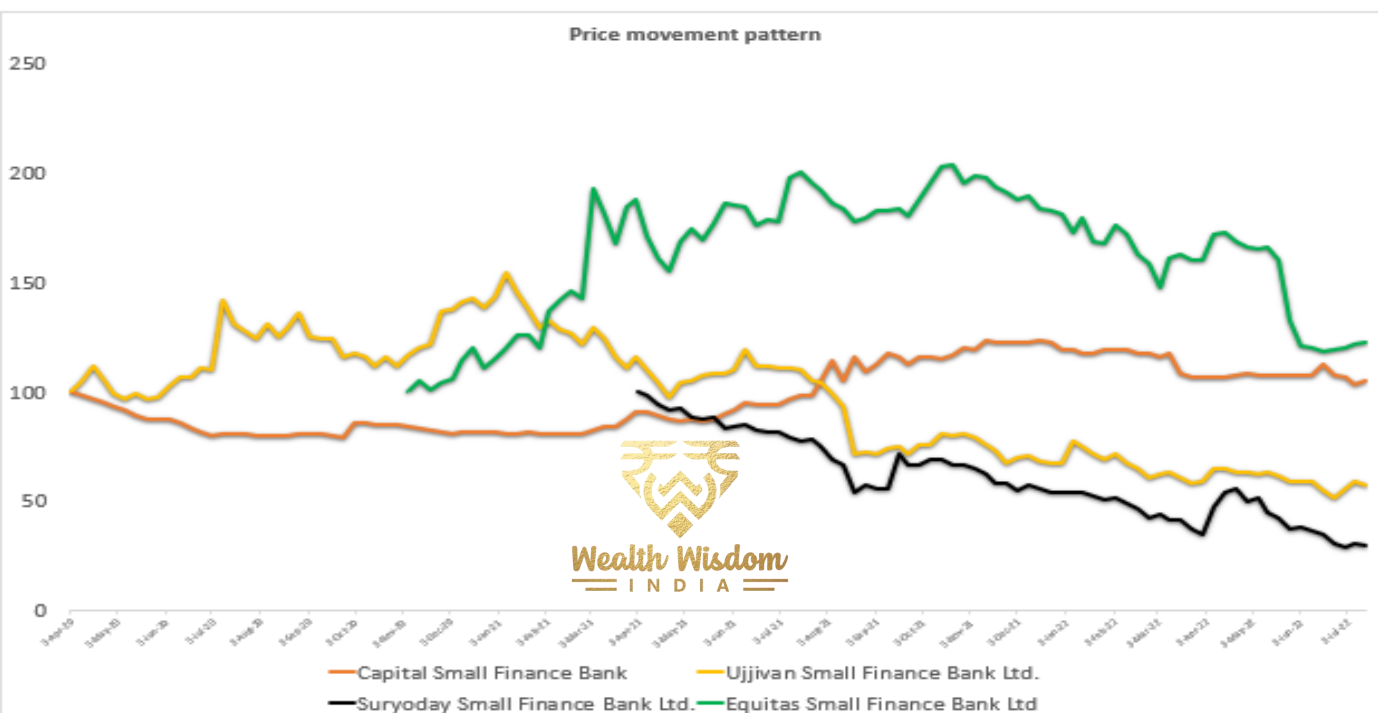
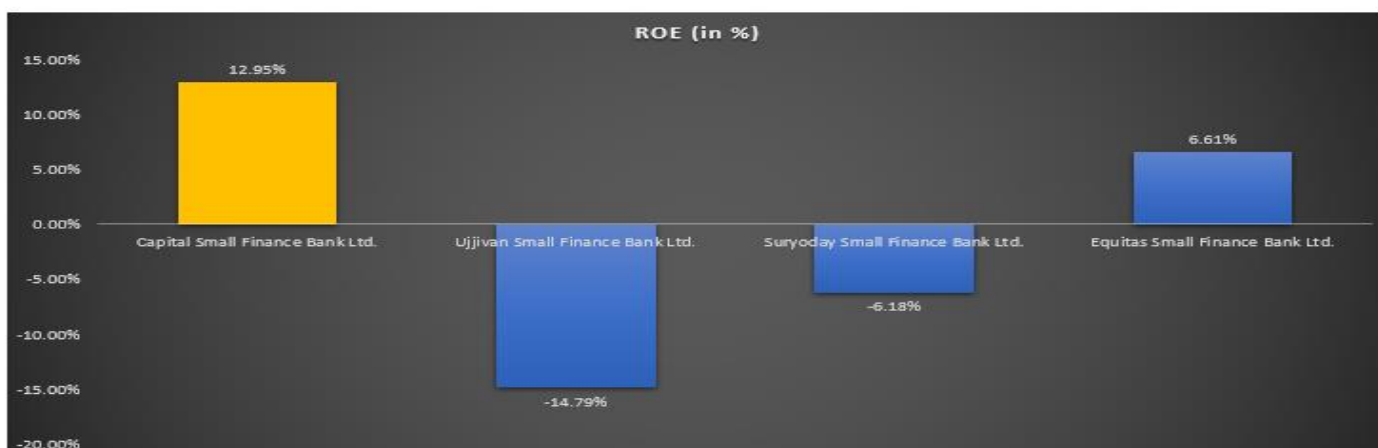
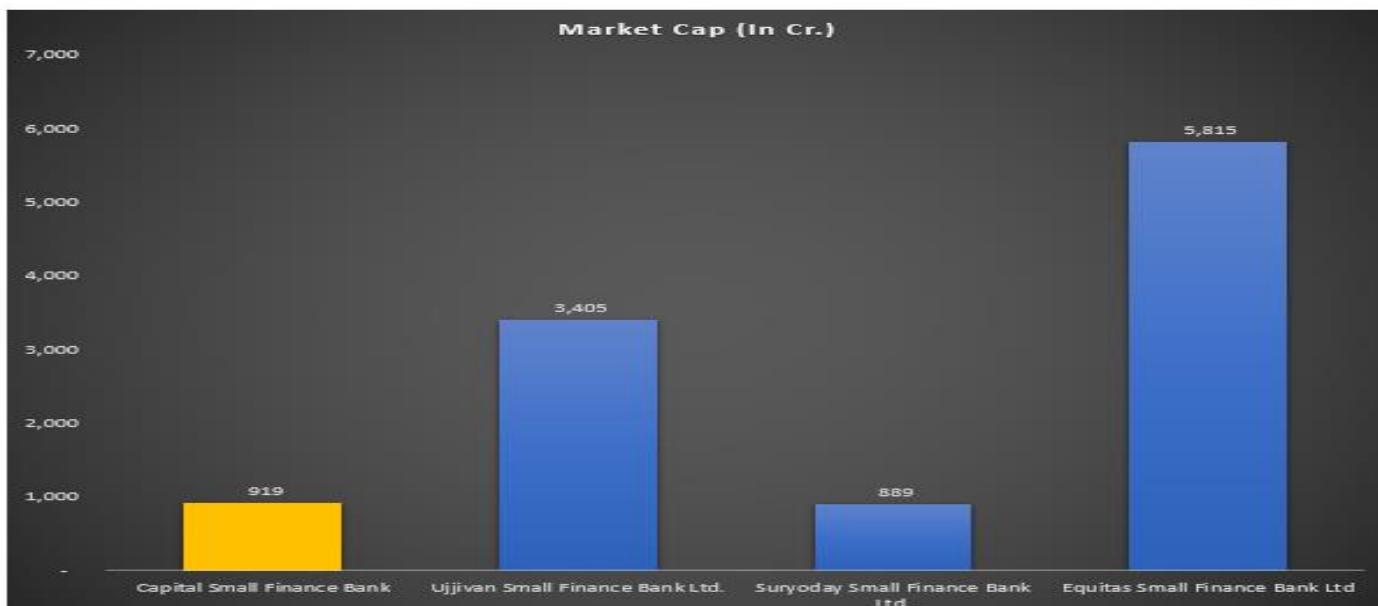
Cashflow Statement: There was negative cashflows from operating, financing and investing activities resulting in **cash and cash Equivalents to reduce from ₹741 Cr in FY 21 to ₹398 Cr. in FY 22.**

Exhibit 4 : Deposits (in ₹ cr.)



PEER COMPARISON (CMP Dated July 27, 2022)

Particulars	Capital Small Finance Bank Ltd.	Ujjivan Small Finance Bank Ltd.	Suryoday Small Finance Bank Ltd.	Equitas Small Finance Bank Ltd.
CMP* (in ₹)	270	19.70	83.70	46.40
Market Cap (In Cr.)	919.19	3,404.78	888.55	5,814.98
EPS (Earnings Per Share) (in ₹)	18.41	-2.40	-8.76	2.43
P/E	14.67	-	-	19.09
BVPS	151.50	14.53	141.78	33.91
P/BV	1.78	1.36	0.59	1.37
Return on Asset	0.93%	-1.75%	-1.13%	1.04%
Return on Equity	12.95%	-14.79%	-6.18%	6.61%
Capital adequacy ratio (%)	18.63%	18.99%	37.86%	25.16%
Gross NPA (in %)	2.50%	7.34%	11.80%	4.10%
Net NPA (in %)	1.36%	0.61%	5.97%	2.15%
Net interest margin (%)	3.74%	7.51%	7.14%	7.56%
Net profit margin	24.51%	-14.73%	-9.87%	8.11%



FORMULAE USED

Net Interest Income = Interest income – Interest expense

Cost to income ratio =
$$\frac{\text{Operating Expense}}{\text{Net interest income} + \text{Other income}}$$

Dividend Yield =
$$\frac{\text{Dividend per share}}{\text{Current Price}}$$

Operating profit margin =
$$\frac{\text{EBIT (1-t)}}{\text{Gross Income}}$$

Return on Equity = (RoNW)
$$\frac{\text{Net profit}}{\text{Shareholder's Funds}}$$

Return on Assets =
$$\frac{\text{Net profit}}{\text{Total assets}}$$

Net Interest margin =
$$\frac{\text{Net interest income}}{\text{Total Assets}}$$

Net profit margin =
$$\frac{\text{Net profit}}{\text{Total Income}}$$

BVPS =
$$\frac{\text{Shareholder's Funds}}{\text{Number of shares}}$$

DISCLAIMER

The figures as on 31 March 2022 has been taken from the Company's annual report.

This material has been prepared for information purpose only and on the basis of publicly available information, internally developed data and other sources believed to be reliable. We do not warrant its completeness and accuracy. It does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. Publishing lists of products merely indicates the funds and securities which we deal in on an execution basis and shall not be construed as recommended schemes /securities. Investors are advised to consult their investment advisors and not base their investment decisions on the publication made. Investors are advised to obtain individual financial advice based on their risk profile before taking any action based on the information contained in this material. Investors alone shall have the right to choose their investments and shall be responsible to invest in with their objectives and risk appetite, for which we hold no liability. We may have positions in the securities mentioned in the report and may offer to buy or sell such securities or any related investments. We do not guarantee the performance of the security listed in this note and accept no responsibility whatsoever including any loss suffered by clients resulting from investing in such security.