



RATING RATIONALE

31 March 2021

Capital Small Finance Bank Limited

Brickwork Ratings reaffirms the ratings on Basel I Upper Tier II and Basel II Lower Tier II Bonds of Capital Small Finance Bank Ltd.

Particulars:

Instruments	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (April 2020)	Present
Lower Tier II Bonds	25.00	25.00	Long Term	BWR A+ (Stable)	BWR A+ (Stable) Reaffirmation
Upper Tier II Bonds	15.00	15.00			
Upper Tier II Bonds	25.00	25.00			
Total	65.00	65.00	INR Sixty Five Crores only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bonds is provided in Annexure-I&II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the BWR A+/Stable rating for the Lower Tier II Bonds and Upper Tier II Bonds of Rs 65.00 Crs of Capital Small Finance Bank Ltd.(CSFB or the bank), as tabulated above. BWR has principally relied on the company's audited financials upto FY20, provisional financials of 9MFY21, publicly available information and information/clarifications provided by the company.

The ratings reaffirmation, inter alia, has factored in the company's long track record in the banking industry, comfortable capital position and adequate liquidity. The ratings are, however, constrained by moderate asset quality and regional concentration in the portfolio.

Rating Outlook: Stable

BWR believes Capital Small Finance Bank Limited's business risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Comfortable capitalisation:** The bank's Capital Adequacy Ratio and Tier 1 Capital Adequacy Ratio stood comfortable, at 20.71% and 14.57%, respectively, as on 31 December 2020 (minimum regulatory requirement of 15% and 7.5%, respectively). The bank's net worth as on 31 March 2020 was Rs 402.83 Crs. and as on 31 December 2020

stood at Rs.429.46 Crs. as against Rs 248.87 Crs. as of 31 March 2019. BWR believes CSFM will continue to maintain comfortable capitalisation over the medium term.

- **Steady growth in business:** CSFB has witnessed consistent and sustainable growth in its business in the last 3 years. The bank's business grew by 23.83% from Rs. 6276.04 Crs. in FY19 to Rs. 7772.19 Crs. in FY20 and further increased by 14.27% to Rs 8881.79 Crs. as on 31 December 2020. The bank's loan book grew by 27% during FY20 from Rs 2608.78 Crs. in FY19 to Rs.3325.57 Crs. in FY20 and further grew by 7% to Rs.3564.26 Crs. as on 31 December 2020. The total deposits grew by 21.25% during FY20 from Rs 3667.26 Crs. in FY19 to Rs.4446.62 Crs. in FY20, and further deposits grew by 19.58% and stood at Rs.5317.53 Crs. as on 31 December 2020.
- **Liquidity profile:** The bank has a positive cumulative mismatch in the long run, indicating a comfortable liquidity position as far as the repayment of liabilities is concerned. The Liquidity Coverage Ratio (LCR) stood at 417.32% for the quarter ended December 2020, compared with the Basel III requirement of a minimum 100%.

Credit Risks:

- **Asset quality:** The bank's overall asset quality is moderate, with a GNPA of 1.76% and NNPA of 1.25% as of 31 March 2020, as against a GNPA of 1.30% and NNPA of 0.93% in March 2019. The asset quality improved in 9MFY21, with the gross NPA and net NPA decreasing to 1.54% and 0.91%, respectively, (1.99% and 1.44%, respectively, in 9MFY20), considering the Supreme Court order. Without considering the order, the GNPA was 2.01% and NNPA was at 1.31% as on 31 December 2020. The provision coverage ratio improved to 40.93% as per 9MFY21 (27.68% as per 9MFY20). Now since the supreme court has lifted the blanket ban on NPA classification the bank's asset quality will remain a key monitorable.
- **Moderate profitability:** The bank's interest income increased by 32.70% from Rs. 377.60 Cr in FY19 to Rs. 501.09 Crs. in FY20. During 9MFY21, the bank reported interest income of Rs. 410.27 Crs. The PAT increased by 30.75% from Rs. 19.41 Cr in FY19 to Rs. 25.38 Crs. in FY20 and reported a PAT of Rs. 27.01 Crs. during 9MFY21. The cost to income ratio declined from 79.31% during FY19 to 75.76% in FY20, which reduced to 71.95% during 9MFY21. Although the bank is in operations since 2000, the PAT has remained moderate in comparison to its peer and remains a key monitorable.
- **Regional concentration Risk:** As of December 2020, the bank operated 156 branches across Punjab, Chandigarh, Haryana, Rajasthan and Delhi. The bank is in a growth phase and is expected to diversify the branch network; this is expected to further grow the overall business. As of 31 December 2020, the majority of the bank portfolio was geographically concentrated in Punjab (~93 % of the portfolio). However, the bank is slowly expanding into other states, including Haryana, Chandigarh, Rajasthan and Delhi.



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Upward: The ability to increase the interest income, PAT, improvement in the resource profile and retention of asset quality from any further deterioration will be key rating positives.

Downward: Deterioration in the asset quality from the current level and its impact on the profitability and overall performance of the bank will remain monitorable.

LIQUIDITY POSITION: ADEQUATE

The bank has adequate liquidity, as reflected through its liquidity coverage ratio of 417.32% for the quarter ended December 2020 (as against Min LCR of 100%) and positive cumulative mismatches up to a 1-year time bucket, as per the structural liquidity statement dated 31 December 2020.

COMPANY PROFILE

Capital Small Finance Bank Limited started operations as India's first small finance bank on 24 April 2016, after a conversion from a capital local area bank. The bank received an in-principal approval from the RBI to set-up a small finance bank in September 2015 and it received the regular license on 4 March 2016. The bank got listed in the Schedule II of the Reserve Bank of India Act on 8 November 2016 and has also received the Authorized Dealer II license. Prior to the conversion to a small finance bank, the “capital local area bank” was operating as India's largest local area bank since 14 January 2000. The bank transitioned from a local area bank to small finance bank with 47 branches. As of December 2020, the bank operates 156 branches across Punjab, Chandigarh, Haryana, Rajasthan and Delhi, as against 150 branches at the end of FY19.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY19	FY20
Result Type		Audited	Audited
Total Business	Rs in Crs	6276.04	7772.19
Net Interest Income	Rs in Crs	135.14	172.62
NIM	%	3.58	3.52
Profit After Tax	Rs in Crs	19.41	25.38
GNPA	%	1.30	1.76
NNPA	%	0.93	1.25
CRAR	%	17.47	19.11
Tier I	%	10.51	14.00

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NIL

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NIL

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]

S. No	Name of Instrument Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (Year T)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crs)	Rating (2021)	Date(s)& Rating(S) assigned in year T-1 (1-Apr-20)	Date(s) & Rating(s) assigned in Year T-2 (29 Mar 19)	Dates(s) & Rating(s) Assigned in Year T-3 (23-Mar-18)
1	Lower Tier II Bonds	Long Term	25.00	BWR A+ (Stable)	BWR A+ (Stable)	BWR A+ (Stable)	-
2	Upper Tier II Bonds	Long Term	15.00	BWR A+ (Stable)	BWR A+ (Stable)	BWR A+ (Stable)	BWR A+ (Stable)
3	Upper Tier II Bonds	Long Term	25.00	BWR A+ (Stable)	BWR A+ (Stable)	BWR A+ (Stable)	BWR A+ (Stable)
4	Upper Tier II Bonds	Long Term	-	-	-	Withdrawn	BWR A+ (Stable)
5	Additional Tier I Bonds	Long Term	-	-	-	Withdrawn	BWR A- (Stable)
	Total		65.00	INR Sixty Five Crores only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks and Financial Institutions](#)
- [Basel III Compliant Instruments](#)
- [Complexity levels of the Rated Instruments](#)

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Capital Small Finance Bank Ltd.

ANNEXURE I

Details of Bank Loan Facilities rated by BWR: NA

ANNEXURE II

INSTRUMENT (Bonds) DETAILS

Instrument	Issue Date	Amount Rs. Crs.	Coupon Rate	Maturity Date	ISIN Particulars
Lower Tier II Bonds	31-Mar-2019	25.00	10.00 payable quarterly	31-Mar-2029	INE646H08129
Upper Tier II Bonds	31-Mar-2015	15.00	11.75 payable Annually	31-Mar-2030	INE646H08012
Upper Tier II Bonds	30-Mar-2016	25.00	11.75 payable Annually	30-Mar-2031	INE646H08020
	Total	65.00			

ANNEXURE III

List of entities consolidated: NA



For print and digital media

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