

Asset quality improved led by better recoveries and lower NPA addition

CMP: INR 306

Rating: Buy

Target Price: INR 371

Stock Info

BSE	542867
NSE	CSBBANK
Bloomberg	CSBBANK IN
Reuters	CSBB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	174
Mkt Cap (INR Cr)	5,323
52w H/L (INR)	373 / 197
Avg Yearly Vol (in 000')	485

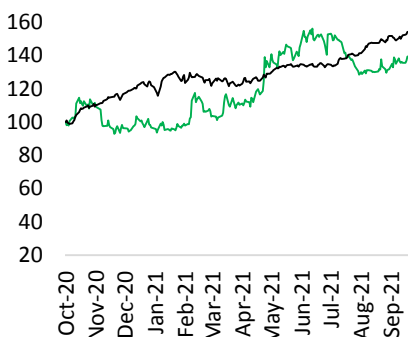
Shareholding Pattern %

(As on September, 2021)

Promoters	49.7
FII	5.7
DII	11.6
Public & Others	33.0

Stock Performance (%)	3m	YTD	12m
CSB Bank	-13.0	40.4	31.7
NIFTY 50	14.3	29.6	51.9

CSB Bank Vs Nifty 50



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CSB Bank has posted 1.7x YoY jump in its net profit at INR 119 cr as against our expectation of INR 69 cr, primarily driven by decline in provision. Provision for the quarter stood at INR -9 cr vs. INR 93 cr in the previous quarter. Headline NPA ratio of the bank improved with GNPA reduction of 77bps QoQ at 4.1% (Ex-gold loan GNPA stood at 2.1%) at and NNPA decreased by 58bps at 2.6% (Ex-gold loan NNPA stood at 1.1%) on a sequential basis. Recoveries during the quarter remained strong at INR 190 cr leading to improvement in asset quality. Business growth momentum of the bank slowed down compared to previous quarter mainly due to moderation in retail portfolio. Restructured book of the bank increased from 50bps to 80bps on a sequential basis.

Higher OPEX has impacted operating profit: NII growth for the quarter was strong at 21% YoY/4% QoQ to INR 278 cr vs. our estimate of INR 249 cr. Other income was impacted by revised regulatory norm wherein SR provision (INR 18 cr) have to now be netted off against treasury gains and recoveries from WO accounts are netted against provisions. Other income for the quarter grew by 37% YoY/-16% QoQ. Fee income of the bank increased by 7% YoY/85% QoQ to INR 17 cr. Operating profit of the bank increased by 26% YoY but it decreased by 15% QoQ to INR 149 cr, mainly due to increased staff cost due to increase in staff count & additional DA provision and lower treasury gains. NIM of the bank improved by 18bps QoQ at 5.2% largely due to 19bps reduction in cost of funds and 53bps increase in yield on advances (on account of recovery leading to interest reversal write back).

Retail loan growth moderated: Growth momentum of the bank slowed down during the quarter with overall advances growing by 12% YoY (vs. 23% YoY in Q1FY22). Growth in the retail portfolio stood at 15% YoY/-1% QoQ due to moderation in gold loan at 10% YoY (vs. 46% YoY in the previous quarter). Growth in Agri and MFI loans grew strongly by 25% QoQ. Corporate book of the bank has continued to witness good growth of 20% YoY/6% QoQ. Rating profile of corporate accounts has improved as out of 96% (vs. 93% in Q1FY22) externally rated corporate advances, 57% (vs. 54% in Q1FY22) are having A and above rating. SME portfolio decline has been arrested during the quarter as it grew by 0.6% on QoQ basis vs. 9% QoQ de-growth in Q1FY22. Share of gold loan in the overall advances reduced further to 36% from 38% in the previous quarter. Share of Retail, Corporate and SME loans stood at 49.2%, 35.3% and 15.4% respectively. Deposits growth of the bank moderated on YoY basis but it has picked up on sequential basis and grew by 9% YoY/2% QoQ (vs. 14% YoY/-3% QoQ in Q1FY22). CASA growth for the quarter stood at 21% YoY/1% QoQ with CASA ratio at 32.6%.

Better recoveries has led to an improvement in asset quality: Slippages for the quarter came in at INR 205 cr (vs. INR 435 cr in Q1FY22), of which INR 170 cr slippages has come from gold loan segment. Recoveries and upgrades for the quarter stood higher at INR 286 cr vs. INR 56 cr QoQ. Out of the total GNPA of INR 587 cr, 51% slippages are still from gold portfolio which should be largely recovered in H2FY22. Management guided that GNPA could decline to ~2% levels by FY22. Bank hold additional provision of INR 238 cr.

Valuation and View; Revised to Buy: Despite lower advances growth, bank has reported better set of numbers with low restructuring and improvement in asset quality. We continue to like the bank due to its better margin profile, strong capital ratio and improving funding profile. Advances growth of the bank to pick up with pick up in gold loan. We roll forward our estimates to FY24E and value the stock at 2x FY24E P/ABV to arrive at the target price of INR 371 and revise our rating on the stock to Buy from Accumulate. We believe, bank is well positioned to deliver RoA/RoE of 1.4%/16% by FY24E.

Q2FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Quarterly Result Update (Rs Cr)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Interest Income	496	495	470	0.1%	5.5%
Interest Expended	217	228	241	-4.4%	-9.7%
Net Interest Income	278	268	229	4.0%	21.4%
Other Income	60	71	44	-16.0%	36.5%
Operating Income	338	339	273	-0.2%	23.8%
Operating Expenses	189	164	154	14.9%	22.6%
Employee Expenses	119	97	104	22.6%	14.8%
Other Operating Expenses	70	67	50	3.9%	38.5%
PPOP	149	175	119	-14.5%	25.5%
Provisions	-9	93	27	-109.7%	-133.7%
PBT	158	81	92	94.5%	72.1%
Tax Expenses	40	21	23	94.3%	72.0%
Net Income	119	61	69	94.5%	72.1%
Balance Sheet Analysis					
Advances	14,070	13,817	12,538	1.8%	12.2%
Deposits	19,055	18,653	17,468	2.2%	9.1%
Total Assets	23,425	22,672	22,115	3.3%	5.9%
CASA Deposits	6,208	6,172	5,134	0.6%	20.9%
CASA (%)	32.6%	33.1%	29.4%	-51bps	319bps
CAR (%)	20.1%	21.6%	19.7%	-151bps	43bps
Spreads					
NIMs (%)	5.2%	5.0%	4.5%	18bps	74bps
Cost of Funds	4.3%	4.5%	5.1%	-19bps	-82bps
Yield on Average Advances	11.2%	10.7%	11.1%	53bps	13bps
Asset Quality					
GNPA	587	685	387	-14.4%	51.5%
NNPA	370	444	164	-16.6%	126.3%
GNPA (%)	4.1%	4.9%	3.0%	-77bps	107bps
NNPA (%)	2.6%	3.2%	1.3%	-58bps	133bps
Returns & Expenses					
RoA	2.02%	1.08%	1.25%	95bps	78bps
RoE	20.07%	10.87%	13.23%	920bps	683bps
Cost / Income Ratio	55.83%	48.46%	56.41%	737bps	-58bps

*Cost/Income ratio during the quarter stood higher partially due to lower other income.

Source: Arian Research, Company Filings

Story in charts

Exhibit 1: NIM improved further driven by decline in cost of funds

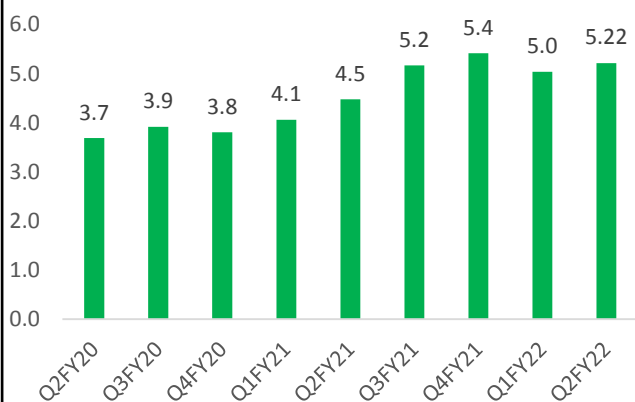


Exhibit 2: CASA ratio share decreased QoQ; In absolute term it has increased by 21% YoY/0.6% QoQ

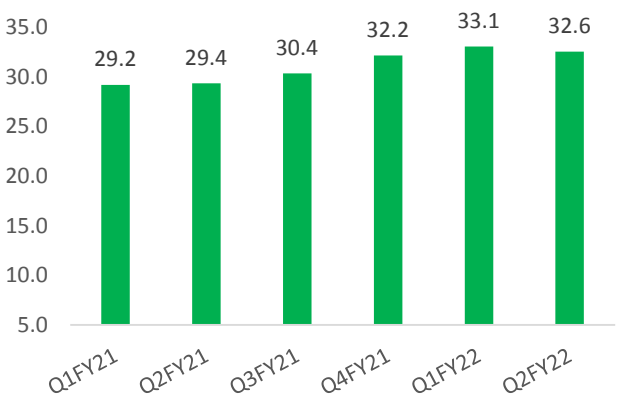


Exhibit 3: Credit-deposits ratio declined on sequential basis

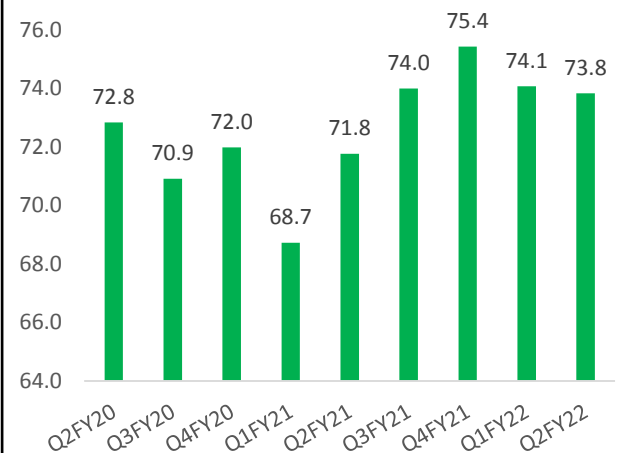


Exhibit 4: Asset quality improved QoQ

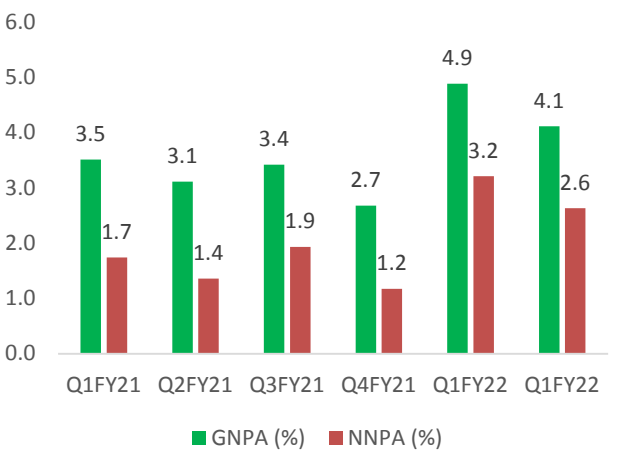
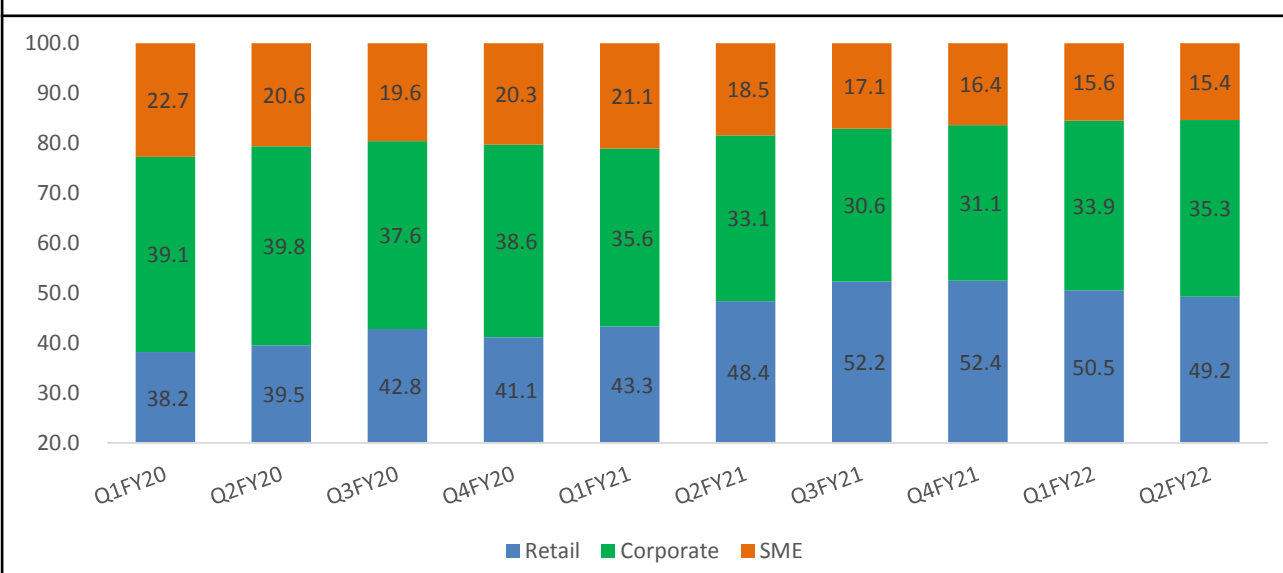


Exhibit 5: Advances mix share (%); Share of Corporate loan has increased



Source: Company, Arianth Research

Advances break-up; Loan growth driven by gold

Advances Break-up (Rs Cr)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Retail	7,435	7,512	6,489	-1.0%	14.6%
- Gold Loan	5,460	5,627	4,949	-3.0%	10.3%
- Other Retail Loans	1,112	1,162	1,197	-4.3%	-7.1%
- Two Wheeler Loans	177	173	109	2.3%	62.4%
- Agri & MFI Loans	686	550	234	24.7%	193.2%
Corporate	5336	5039	4441	5.9%	20.2%
SME	2326	2312	2481	0.6%	-6.2%
Total Gross Advances	15,097	14,863	13,411	1.6%	12.6%

Advances Break-up (%)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Retail	49.2	50.5	48.4	-129bps	86bps
Corporate	35.3	33.9	33.1	144bps	223bps
SME	15.4	15.6	18.5	-15bps	-309bps

Concall Highlights:

- Staff count of the bank increased by 46% YoY. Out of the 4879 employee base, 30% employees are IBA based employee.
- Higher OPEX costs was mainly due to branch expansion and DA provision.
- Bank is looking to open 50 branches during current fiscal year.
- Yields during the quarter increased due to negative net GNPL addition and interest write back.
- Restructured book of the bank stood at INR 113 cr or 80bps of loans as on Q2FY22. Bank has made 25% provisioning for the same.
- Management expect gold loan slippages to normalise by end of this fiscal year.
- SMA 0-2 accounts of the bank declined from 3% to 2.6% on QoQ basis. Bank has not reversed INR 20 cr provision against this and stated that this will be unwound once covid fear subsidize.
- Expect GNPA/NNPA to come down to 2%/1% levels by FY22 end. Non gold GNPA is already down 100 bps since FY21 levels to 3.1%.
- Out of total recoveries of INR 190 cr, gold recoveries was at INR 130 cr.
- MSME growth was muted during the quarter due to competitive pricing and high balance transfer to other banks.
- Gold LTVs was higher during the quarter at 79% due to incremental lending towards agri gold book, where 85% LTV is permitted.
- Management expect loan growth of 10-15% for the fiscal and expect it should revert to the 25% YoY number post that.
- Bank has started selling HDFC home loans for the time being – so that branches get acquainted with the product and do not lose high end customers to other banks. Bank home loan yields are 8-9%.
- New product roll outs including retail and MSME products will take a while to garner volumes. Material growth will come from SME, wholesale banking and gold.

Key Financials

Profit & Loss Statement (in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Interest Income	1,510	1,872	2,224	2,631	3,026
Interest Expended	918	931	1,157	1,411	1,553
Net Interest Income	592	941	1,066	1,219	1,474
Other Income	222	401	343	389	431
Operating Income	814	1,342	1,409	1,608	1,905
Operating Expenses	533	729	770	866	959
Employee Expenses	331	497	525	596	663
Other Operating Expenses	202	232	245	270	297
PPOP	281	613	639	743	946
Provisions	147	321	189	191	230
PBT	134	292	450	552	716
Tax Expenses	121	74	113	139	180
Net Income	13	218	337	413	536

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Equity & Liabilities					
Share Capital	174	174	174	174	174
Reserves & Surplus	1,787	2,007	2,343	2,756	3,292
Net Worth	1,961	2,180	2,517	2,930	3,465
Deposits	15,791	19,140	22,793	27,157	32,556
Borrowings	794	1,426	1,454	1,527	1,604
Other Liabilities and Provisions	319	591	670	863	1,251
Total Capital & Liabilities	18,864	23,337	27,434	32,477	38,876
Assets					
Cash & Balances with RBI	548	736	662	667	733
Balances with Other Banks & Call Money	392	978	835	1,657	2,420
Investments	5,360	6,126	6,739	7,412	8,154
Advances	11,366	14,438	16,842	20,187	24,316
Fixed Assets	228	269	318	375	443
Other Assets	970	790	2,039	2,178	2,811
Total Assets	18,864	23,337	27,434	32,477	38,876

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Ratios

Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
Growth rates					
Advances (%)	7.1%	27.0%	16.6%	19.9%	20.5%
Deposits (%)	4.4%	21.2%	19.1%	19.1%	19.9%
Total assets (%)	11.5%	23.7%	17.6%	18.4%	19.7%
NII (%)	34.6%	58.9%	13.3%	14.4%	20.9%
Pre-provisioning profit (%)	2000.4%	118.5%	4.3%	16.1%	27.4%
PAT (%)	NA	1615.3%	54.2%	22.6%	29.7%
Balance sheet ratios					
Credit/Deposit (%)	72.0%	75.4%	73.9%	74.3%	74.7%
CASA (%)	29.2%	32.2%	34.5%	37.3%	40.4%
Advances/Total assets (%)	60.3%	61.9%	61.4%	62.2%	62.5%
Leverage (x) (Asset/Shareholder's Fund)	9.6%	10.7%	10.9%	11.1%	11.2%
CAR (%)	26.4%	21.4%	22.2%	21.6%	21.1%
CAR - Tier I (%)	25.7%	20.0%	21.7%	21.0%	20.7%
Operating efficiency					
Cost/income (%)	65.5%	54.3%	54.6%	53.8%	50.4%
Opex/total assets (%)	2.8%	3.1%	2.8%	2.7%	2.5%
Opex/total interest earning assets	2.0%	2.5%	2.2%	2.2%	2.0%
Profitability					
NIM (%)	3.6%	4.7%	4.5%	4.4%	4.5%
RoA (%)	0.1%	0.9%	1.2%	1.3%	1.4%
RoE (%)	0.6%	10.0%	13.4%	14.1%	15.5%
Asset quality					
Gross NPA (%)	3.5%	2.7%	2.9%	2.6%	2.2%
Net NPA (%)	1.9%	1.2%	1.0%	1.0%	1.0%
PCR (%)	47.0%	56.3%	65.7%	60.8%	55.2%
Credit cost (%)	0.9%	1.7%	0.9%	0.7%	0.8%
Per share data / Valuation					
EPS (INR)	0.7	12.6	19.4	23.8	30.9
BVPS (INR)	113	126	145	169	200
ABVPS (INR)	100	115	135	157	185
P/E (x)	417.2	24.3	15.8	12.9	9.9
P/BV (x)	2.7	2.4	2.1	1.8	1.5
P/ABV (x)	3.0	2.7	2.3	2.0	1.7

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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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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