

Rating



Issue Details

Fresh issue of equity shares upto Rs 24 cr and OFS of up to 19,778,298 Equity Shares aggregating upto Rs 410 cr.

Issue Summary

Price Band (Rs)	193-195
Face Value (Rs)	10
Implied Market Cap (Rs Cr)	3,348/ 3,382
Market Lot	75 Shares
Issue Opens on	22 nd Nov 2019
Issue Close on	26 th Nov 2019
No. Of share pre-issue	172,225,058
No. Of share post issue [^]	173,455,827
Listing	NSE & BSE

[^]@ upper price band

Issue Break-up

	%
QIB Portion	75.0
NIB Portion	15.0
Retail Portion	10.0

Book running lead Managers

Axis Capital Ltd
IIFL Securities Ltd

Registrar

Link Intime India Pvt Ltd.

Shareholding Pattern

	Pre-issue	Post-issue
Promoters	50.1%	49.7%
Public + Others	49.9%	50.3%

Objects of the issue

To utilize the net proceeds from the fresh issue towards augmenting its Tier-I capital base to meet future capital requirements and achieve the benefits of listing the equity shares on the stock exchanges and for the Offer for Sale

CSB (Formerly known as Catholic Syrian Bank) is one of the oldest private sector bank in India with a history of over 98 years, backed by marquee investor – Fairfax India through FIH Mauritius Investments Ltd (FIHM). The bank has a total customer base of 1.3 mn with 412 branches across India having significant presence in Kerala and Tamil Nadu. The bank offers wide range of products and services, with particular focus on SME & Retail, particularly Gold loans, and wholesale banking.

Key Rationales:

- **Diversified lending profile with high share of gold loans:** CSB has diversified lending profile with major proportion of gold loans. It has three main business verticals i.e. SME, retail and wholesale advances which constitutes 29%, 46% and 24% of the total loans respectively. The bank's major proportion of loans is in gold loan business, which constituted 33% of the total advances as on H1FY20. Going forward, management focus will be mainly on Gold and MSME loans as these are high yielding businesses.
- **It has granular deposit base:** As on H1FY20, the bank has a total deposit base of Rs 15,510 cr, with high proportion of retail term deposit at ~67%. Its CASA ratio stood at 28% as on H1FY20. Management highlighted that renewal rate in retail term deposit is at 92%.
- **Adequately capitalized for future growth:** Post capital infusion by FIHM, CSB's capital position strengthened. Pursuant to a preferential allotment of equity shares and warrants to FIHM, for which the bank has received Rs 721cr in FY19 and the balance amount of Rs 487cr in FY20. CSB has a strong capital base for growth acceleration, something which the bank was not able to accomplish in past due to paucity of capital. As per the Basel III norms, its CRAR (Capital to risk assets ratio) in H1FY20 stood at 22.77% vs. 8.3% in FY18.
- **Asset quality improved sharply:** Asset quality of the bank improved sharply with GNPA/NNPA ratio at 2.9%/2.0% as on H1FY20 vs. 4.9%/2.3% in FY19. The bank's PCR ratio is one of the highest amongst Pvt. sector banks at 80% as on H1FY20. Management intends to establish separate teams for retail, SME, and corporate segments dedicated towards recovery of provisioned portfolio and also managing and monitoring of ongoing stressed portfolios.

Valuation and View:

At the upper price band of Rs 195, the stock is offered at 2.2x P/BV (post issue), which we believe is at premium as compared to other small private sector banks. However, in H1FY20 the bank has shown strong performance, which somewhat justifies its premium valuation. The bank has good track record of operations in south India with high focus on gold loans. The key positive factors for CSB are good promoter background, adequately capitalized position; focus on CASA deposit and high yielding business areas like gold loans. The bank has also shown strong improvement in asset quality with controlled credit cost. We recommend investors to subscribe to the issue for a long term horizon. We have a three star rating on the issue.

Loan Book profile of the bank

Advances (in cr.)	FY17	FY18	FY19	H1FY20
SME advances	3,538	3,599	3,473	3,361
% of total Advances	43%	37%	32%	29%
Retail advances	3,638	4,036	4,896	5,272
% of total Advances	44%	42%	45%	46%
- Gold Loan	2,026	2,484	3,333	3,782
- Home loans	344	315	303	294
- LAP	477	479	414	389
- Personal loan	623	612	555	550
- Agri Loan	39	35	30	34
- Others	129	111	261	224
Wholesale advances	1,095	2,051	2,537	2,770
% of total Advances	13%	21%	23%	24%
Total Gross Advances	8,272	9,685	10,906	11,403

Deposit trend of the bank

Deposits (in cr.)	FY17	FY18	FY19	H1FY20
Corporate (A)	570	352	685	788
Retail (B)	10,647	10,369	10,229	10,350
Total term deposits (C = A + B)	11,217	10,720	10,913	11,138
Current account (D)	608	628	617	659
Savings account (E)	3,087	3,343	3,594	3,713
Total CASA (F = D + E)	3,695	3,971	4,211	4,372
CASA Ratio (%)	24.8	27.0	27.8	28.2
Total Deposits (C+F)	14,912	14,691	15,124	15,510

Peer Group Comparison

Bank Name	CMP (Rs)	PAT (in Cr.)	EPS (Rs)	BVPS (Rs)	GNPA (%)	NNPA (%)	NIM (%)	Cost Income ratio (%)	RoE (%)	P/E	P/BV
CSB Bank[^]	195	-66	-7.9	74	4.9	2.9	2.8	97.7	-	NA	2.7
DCB Bank	179	325	10.5	101	1.8	0.7	3.4	56.9	12.0	17.0	1.8
Federal Bank	88	1244	6.7	67	2.9	1.5	3.2	50.0	10.7	13.1	1.3
South Indian Bank	11	248	1.4	28	4.9	3.5	2.3	54.9	4.9	7.9	0.4
City Union Bank	215	683	9.6	66	3.0	1.8	3.7	41.7	15.2	22.4	3.3
Karur Vysya Bank	58	211	2.6	80	8.8	5.0	3.5	48.6	3.3	22.2	0.7

All Financials are as on FY19, [^] @ upper price band

Note: Cost-Income ratio of CSB was higher in FY19. However, the bank has improved it in H1FY20 at 72%.

Key Managerial Personnel:

Madhavan Karunakaran Menon (Part – time Chairman and Non-executive Director)	Mr. Madhavan Karunakaran Menon is the Part – time Chairman of the bank. He has over 30 years of experience in the finance and banking sector. He has previously worked with ANZ Grindlays Bank Limited, Citibank N.A., Emirates Bank International, Birla Capital International AMC Limited in the past. He is currently on the chairman and managing director of Thomas Cook (India) Limited and has been on bank’s board since September 3, 2018.
Mr. Rajendran Chinna Veerappan (MD and CEO)	Mr. Rajendran Chinna Veerappan is the Managing Director and Chief Executive Officer of the bank. He previously served as the chief executive of the Association of Mutual Funds in India and is currently responsible for overall management and expansion of the bank. He has over 40 years of experience in banking and finance sector and was previously associated with Corporation Bank, Andhra Bank and Bank of Maharashtra. He has been on banks board since November 24, 2016.
Mr. Sumit Maheshwari (Non – executive Director)	Sumit Maheshwari is the Non – executive Director of the Bank. He has completed the post graduate programme in management from the Indian School of Business. He has over 10 years of experience in finance sector. Previously, he has worked with KPMG and is currently the managing director and chief executive officer of Fairbridge Capital Private Limited. He has been on the board since September 3, 2018.
Veluthattil Maheswari (CFO)	Veluthattil Maheswari is the Chief Financial Officer of the bank. She has about 25 years of experience in the banking sector. She has been associated with the bank since 1994 and is inter alia, responsible for finalization and reporting of accounts, balance sheet management and profit planning, cost management, tax planning, capital adequacy planning and management and coordinating the capital raising activities of the Bank.

Objectives of issue:

The Offer comprises of the fresh Issue and the Offer for Sale. The main object of the offer is to comply with regulatory norms by listing of equity shares on the stock exchange and for the OFS. The objects of the fresh issue are to augment Bank’s Tier-I capital base to meet its future capital requirements.

Competitive Strength:

- Strong channel network and trusted brand in South India.
- Well established SME business.
- Retail offering driven by strong gold loan portfolio.
- Professional and experienced management with strong and independent Board.

Key Risk Areas:

- Volatility in the market price of gold may adversely affect the business.
- The bank has regional concentration in southern India, especially Kerala. Any adverse change in the economic, political, or geographical conditions of Kerala and other states in southern India can impact its results of operations.

Income Statement				
Year to 31st March (Rs.Cr)	FY17	FY18	FY19	H1FY20
Interest Income	1336	1297	1348	732
Interest Expenses	1023	912	908	453
Net Interest Income	314	385	440	280
Other Income	281	125	136	84
Operating Income	595	510	576	364
Operating Expenses	443	436	563	260
- Staff Cost	294	287	384	168
- Other Operating Exp.	150	149	178	92
Gross Profits	152	74	13	104
Provisions	252	269	111	35
Profit Before Taxes	-101	-195	-98	69
Taxes	43	68	32	25
Profit/(Loss) After Taxes	-58	-127	-66	44

Balance Sheet				
As on 31st March (Rs. cr)	FY17	FY18	FY19	H1FY20
LIABILITIES				
Capital	81	81	86	172
Share Warrants	-	-	651	-
Reserves & Surplus	465	273	237	1364
Deposits	14911	14691	15124	15510
Borrowings	42	42	-	-
Other liabilities & provisions	271	249	356	278
Total Liabilities	15770	15335	16454	17323
ASSETS				
Cash and Bank Balance	1211	1215	974	816
Net Advances	8001	9185	10616	11298
Investments	5729	4083	4028	4314
Fixed assets	51	57	60	59
Other assets	778	795	777	837
Total Assets	15770	15335	16454	17323

Ratio Analysis				
Particulars	FY17	FY18	FY19	H1FY20
Per Share Data (Rs)				
EPS	-7.7	-15.7	-7.9	3.9
Book Value per share	67.5	43.7	73.5	89.2
Asset Quality				
Gross NPAs (%)	7.3%	7.9%	4.9%	2.9%
Net NPAs (%)	4.1%	2.9%	2.3%	2.0%
PCR (%)	65.5%	75.8%	78.2%	79.5%
Other ratios (%)				
NIM	2.11%	2.50%	2.80%	3.43%
Cost to Income	74.5%	85.4%	97.7%	71.6%
CD-ratio (%)	53.7%	62.5%	70.2%	72.8%
CRAR as per Basel III (%)	10.9%	8.3%	16.7%	22.8%
Valuation (x)				
P/E [^]	NA	NA	NA	50.5
P/BV [^]	2.9	4.5	2.7	2.2

[^] @ upper price band of Rs 195

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park ,
 Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E).
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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