

Gold loan NPAs took a hit on asset quality

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CMP: INR 323

Rating: Accumulate

Target Price: INR 375

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)	6,000
52w H/L (INR)	280 / 111
Avg Yearly Vol (in 000')	476

Shareholding Pattern %

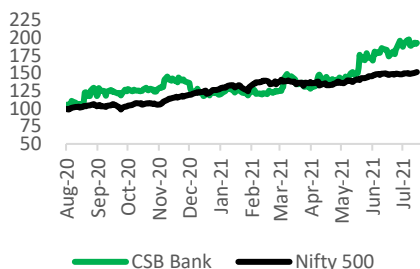
(As on June, 2021)

Promoters	49.7
FII	5.5
DII	11.2
Public & Others	33.7

Stock Performance (%)

	3m	6m	12m
CSB Bank	6.7	19.1	43.3
NSE 500	8.9	10.3	48.3

CSB Bank Vs NSE 500



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CSB Bank posted a PAT of INR 61 cr (+42% YoY/+14% QoQ) in Q1FY22, was below than our estimate of INR 84 due to a sharp rise in NPAs/provisions. GNPA jumped to 4.9% vs 2.7% in the last quarter and NNPA rose to 3.2% vs 1.2% in Q4FY21. Increase in GNPA was mainly led by sharp spike in gold loan NPAs (6.45% vs. 0.6% QoQ) due to shift in LTV (from 83% to 75% QoQ) and impact of the second wave and slow business momentum. Bank hardly has any MTM loss on the gold loan portfolio as on date. As things are easing, Management is optimistic of recovery from gold loan NPAs without much losses/haircuts. Operating profit growth for the quarter was strong at 39% YoY/QoQ to INR 180 cr, largely due to decline in expenses (previous quarter had one time expenses of INR 50 cr). As on Q1FY22, restructured book of the bank stood flat at 0.5% with no pending proposal.

Operating performance remained strong: Despite having NII reversal impact of INR 24 cr, NII for the quarter grew by 45% YoY to INR 268 cr vs. our estimate of INR 274 cr. Other income for the quarter grew by 3% YoY as treasury profit was down by 55% YoY. On a sequential basis, bank has registered good growth in treasury profit at INR 19.5 cr vs 1.5 cr. Provisions for the quarter remain elevated at INR 98 cr (+71% YoY/+39% QoQ). NIM of the bank moderated by 28bps QoQ at 5.1% due to decline in yield on advances in gold loan segment (11.5% vs. 12.7% QoQ) on account of NII reversal.

Gold loan growth moderated due to shift in LTV: Growth momentum continued with overall advances growing by 23% YoY, primarily driven by retail loan growth of 43% YoY/-7% QoQ. Gold loan grew by 46% YoY and declined by 8% QoQ, largely due to low disbursements and removal of LTV advantage. Management is optimistic on gold loan growth front as growth will continue. Corporate book of the bank has witnessed good growth of 17% YoY/5% QoQ. Rating profile of corporate accounts has improved as out of 93% externally rated corporate advances, 54% are having A and above rating (vs. 52% in Q4FY21). SME portfolio has registered a decline of 9% YoY/8.5% QoQ, due to cautious stance of the bank. Share of gold loan in the overall advances reduced to 38% from 40% in the previous quarter. Share of Retail, Corporate and SME loans stood at 50.5%, 33.9% and 15.6% respectively. Deposits growth of the bank moderated as compared to previous quarter as TD of the bank was down by 4% QoQ. However, CASA ratio of the bank improved further by 89bps QoQ at 33.1%.

High gold loan slippages led to deterioration in asset quality: Slippages for the quarter came in at INR 435 cr, of which INR 337 cr slippages has come from gold loan segment. As a result, GNPA/NNPA spiked by 220bps/204bps QoQ. It has SMA pool of 2.7% of loans, on which it carries 25% provision. Bank hold additional provision of INR 298 cr.

Valuation and View; On track to deliver RoA/ RoE of 1.4%/ 15% by FY23:

Q1FY22 performance of the bank was reflective of increase in gold loan NPA due to LTV management, and lockdown impact. However, we expect the recovery would be higher in coming quarter and NPA to normalize by Q2FY22/Q3FY22. Gold loan is mainstay of the bank and we expect growth will continue to be higher in the portfolio. With expectation of strong recovery and low restructuring book, we expect credit cost to normalize by end of FY22. While maintaining our estimates, we revise our rating on the stock to 'Accumulate' from 'Buy' with a revised target price of INR 375, (earlier INR 322) based on 2.3x FY23E ABV of INR 160. We believe, bank is well positioned to deliver RoA/RoE of 1.4%/15% by FY23E.

Q1FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Quarterly Result Update (Rs Cr)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Interest Income	495	497	423	-0.4%	17.2%
Interest Expended	228	221	237	2.7%	-4.1%
Net Interest Income	268	276	185	-2.9%	44.5%
Other Income	76	112	74	-32.1%	2.7%
Operating Income	344	388	260	-11.3%	32.6%
Operating Expenses	164	259	130	-36.6%	25.9%
Employee Expenses	97	179	86	-45.6%	13.0%
Other Operating Expenses	67	80	44	-16.6%	50.9%
PPOP	180	129	129	39.4%	39.3%
Provisions	98	71	58	38.5%	70.8%
PBT	82	58	72	40.6%	13.9%
Tax Expenses	21	15	18	35.7%	14.0%
Net Income	61	43	54	42.3%	13.9%
Balance Sheet Analysis					
Advances	13,817	14,438	11,229	-4.3%	23.1%
Deposits	18,653	19,140	16,338	-2.5%	14.2%
Total Assets	22,672	23,337	20,517	-2.9%	10.5%
CASA Deposits	6,172	6,162	4,776	0.2%	29.2%
CASA (%)	33.1%	32.2%	29.2%	89bps	386bps
CAR (%)	21.6%	21.4%	18.9%	26bps	270bps
Spreads					
NIMs (%)	5.14%	5.42%	4.06%	-28bps	108bps
Cost of Funds	4.49%	4.51%	5.50%	-2bps	-101bps
Yield on Average Advances	10.67%	11.10%	10.78%	-44bps	-12bps
Asset Quality					
GNPA	685	392	401	74.7%	70.9%
NNPA	444	169	195	162.9%	127.3%
GNPA (%)	4.88%	2.68%	3.51%	220bps	137bps
NNPA (%)	3.21%	1.17%	1.74%	204bps	147bps
Returns & Expenses					
RoA	1.08%	0.73%	1.04%	34bps	3bps
RoE	10.88%	7.87%	10.64%	302bps	24bps
Cost / Income Ratio	47.74%	66.77%	50.26%	-1903bps	-252bps

*Cost/Income ratio in Q4FY21 was higher because of one-off expenses.

Source: Arian Research, Company Filings

Story in charts

Exhibit 1: Consistent improvement seen in margins led by increased share of high yielding business and lower cost of funds

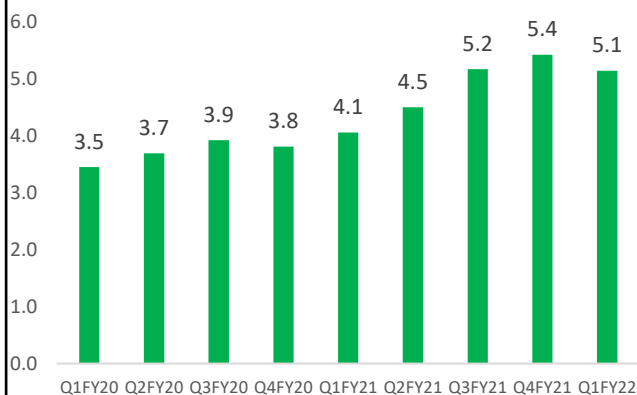


Exhibit 2: Improving CASA share

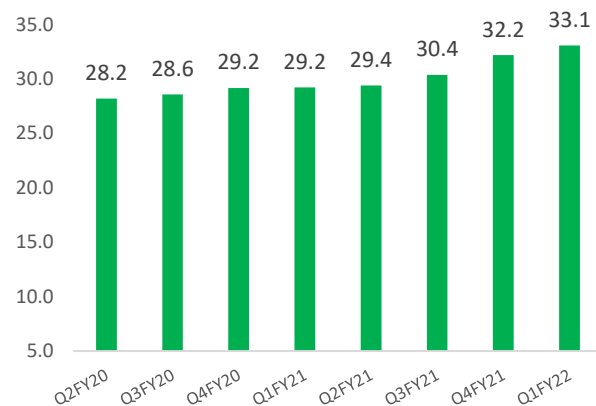
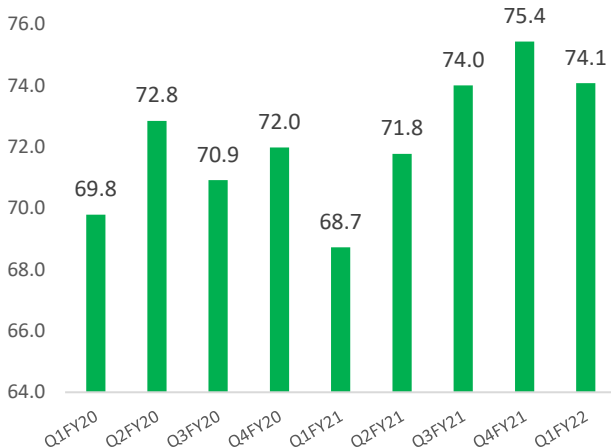


Exhibit 3: Credit-deposits ratio improving consistently



**Exhibit 4: Asset quality improved
* On proforma basis**

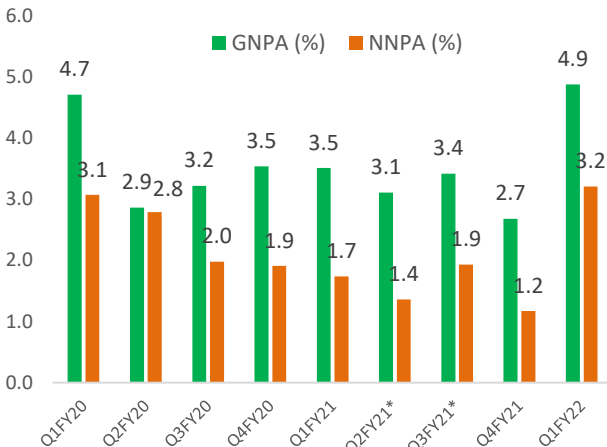
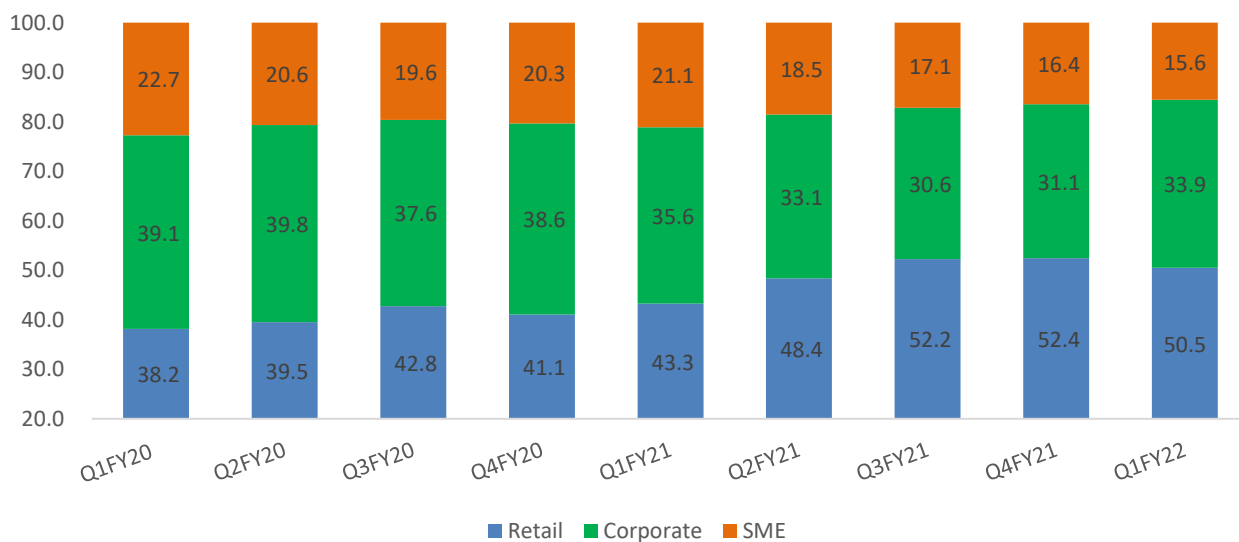


Exhibit 5: Advances mix share (%); Share of retail portfolio increasing



Source: Company, Arianth Research

Advances break-up; Loan growth driven by gold

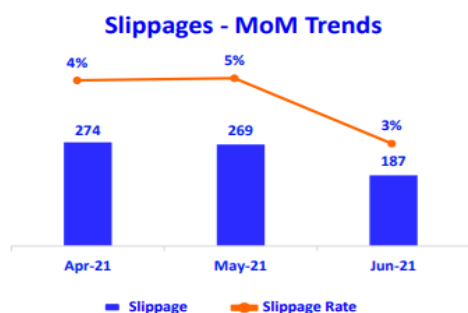
Advances Break-up (Rs Cr)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Retail	7,512	8,070	5,239	-6.9%	43.4%
- Gold Loan	5,627	6,131	3,849	-8.2%	46.2%
- Other Retail Loans	1,162	1,201	1,132	-3.2%	2.7%
- Two Wheeler Loans	173	171	83	1.2%	108.4%
- Agri & MFI Loans	550	567	175	-3.0%	214.3%
Corporate	5039	4790	4307	5.2%	17.0%
SME	2312	2528	2553	-8.5%	-9.4%
Total Gross Advances	14,863	15,388	12,099	-3.4%	22.8%

Advances Break-up (%)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Retail	50.5	52.4	43.3	-190bps	724bps
Corporate	33.9	31.1	35.6	277bps	-170bps
SME	15.6	16.4	21.1	-87bps	-555bps

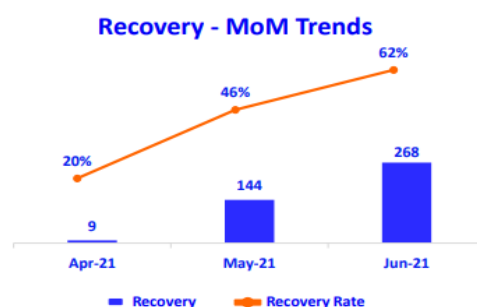
Gold loan Recovery and Slippages trends:

Gold Loans – Asset Quality

Amt in Cr



Slippage ↓ Month on Month
Recovery ↑ Month on Month



- Downward trend in slippages with the easing of Covid related restrictions
- Stable gold market trends and the centralization of recovery processes is supporting collections.
- Centralisation includes - Dedicated call center, E-auction, Offsite Verification, Customer intimation

Concall Highlights:

- Management is optimistic on recovery from gold loan NPA.
- Bank has been cautious on disbursement in SME segment.
- Collection efficiency (ex- gold loan) for the quarter was at 93%.
- The bank is in talks with housing cos to sell home loans and could also launch a white label credit card with a fintech company. Also, bank is planning to launch commercial equipment loan, LSF loans, small MSME loans etc.
- Auction for the quarter stood at INR 42 cr.
- Bank has not restructured any gold loan. Restructuring for the quarter stood at 0.48% and there is further pending proposal for OTR.
- Credit cost for FY22 on steady state basis expected to be at below 1%.
- Due to covid disruption in the current year, Advances growth is expected to be in the range of 20%-25%.
- The bank intends to bring down the Cost/income ratio to 50% in the near term and upto 40% in the longer term.

Key Financials

Profit & Loss Statement (in INR Cr)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	1,297	1,348	1,510	1,872	2,263	2,669
Interest Expended	912	908	918	931	1,167	1,362
Net Interest Income	385	440	592	941	1,096	1,307
Other Income	125	136	222	401	343	389
Operating Income	510	576	814	1,342	1,439	1,696
Operating Expenses	436	563	533	729	770	871
Employee Expenses	287	384	331	497	525	602
Other Operating Expenses	149	178	202	232	245	270
PPOP	74	13	281	613	669	825
Provisions	224	313	147	321	198	208
PBT	-149	-300	134	292	471	617
Tax Expenses	-52	-103	121	74	119	155
Net Income	-97	-197	13	218	353	462

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

Balance Sheet (in INR Cr)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E
Equity & Liabilities						
Share Capital	81	86	174	174	174	174
Reserves & Surplus	808	1,346	1,787	2,007	2,359	2,821
Net Worth	889	1,432	1,961	2,180	2,533	2,994
Deposits	14,691	15,124	15,791	19,140	23,183	28,251
Borrowings	42	0	794	1,426	1,454	1,527
Other Liabilities and Provisions	249	356	319	591	670	863
Total Capital & Liabilities	15,870	16,911	18,864	23,337	27,840	33,636
Assets						
Cash & Balances with RBI	678	725	548	736	662	667
Balances with Other Banks & Call Money	537	248	392	978	835	1,657
Investments	4,114	4,028	5,360	6,126	6,739	7,412
Advances	9,337	10,615	11,366	14,438	17,568	21,924
Fixed Assets	216	218	228	269	318	375
Other Assets	987	1,077	970	790	1,718	1,600
Total Assets	15,870	16,911	18,864	23,337	27,840	33,636

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

Key Ratios

Ratios	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E
Growth rates						
Advances (%)	15.0%	13.7%	7.1%	27.0%	21.7%	24.8%
Deposits (%)	-1.5%	2.9%	4.4%	21.2%	21.1%	21.9%
Total assets (%)	-2.2%	6.6%	11.5%	23.7%	19.3%	20.8%
NII (%)	22.7%	14.3%	34.6%	58.9%	16.4%	19.3%
Pre-provisioning profit (%)	-51.0%	-82.0%	2000.4%	118.5%	9.1%	23.2%
PAT (%)	NA	NA	NA	1615.3%	61.6%	30.9%
Balance sheet ratios						
Credit/Deposit (%)	63.6%	70.2%	72.0%	75.4%	75.8%	77.6%
CASA (%)	27.0%	27.8%	29.2%	32.2%	34.5%	37.1%
Advances/Total assets (%)	58.8%	62.8%	60.3%	61.9%	63.1%	65.2%
Leverage (x) (Asset/Shareholder's Fund)	17.9%	11.8%	9.6%	10.7%	11.0%	11.2%
CAR (%)	9.9%	16.7%	26.4%	21.4%	21.4%	20.3%
CAR - Tier I (%)	9.5%	16.0%	25.7%	20.0%	20.9%	19.8%
Operating efficiency						
Cost/income (%)	85.4%	97.7%	65.5%	54.3%	53.5%	51.4%
Opex/total assets (%)	2.7%	3.3%	2.8%	3.1%	2.8%	2.6%
Opex/total interest earning assets	1.9%	2.5%	2.0%	2.5%	2.2%	2.1%
Profitability						
NIM (%)	2.6%	2.9%	3.6%	4.7%	4.6%	4.5%
RoA (%)	-0.6%	-1.2%	0.1%	0.9%	1.3%	1.4%
RoE (%)	-11.0%	-13.8%	0.6%	10.0%	13.9%	15.4%
Asset quality						
Gross NPA (%)	7.9%	4.9%	3.5%	2.7%	2.8%	2.4%
Net NPA (%)	4.5%	2.3%	1.9%	1.2%	1.0%	1.0%
PCR (%)	45.5%	54.6%	47.0%	56.3%	65.4%	59.1%
Credit cost (%)	2.5%	3.1%	1.3%	2.4%	1.2%	1.0%
Per share data / Valuation						
EPS (INR)	-12.0	-23.0	0.7	12.6	20.3	26.6
BVPS (INR)	110	167	113	126	146	173
ABVPS (INR)	58	139	100	115	135	160
P/E (x)	-26.8	-14.1	440.4	25.7	15.9	12.1
P/BV (x)	2.9	1.9	2.9	2.6	2.2	1.9
P/ABV (x)	5.5	2.3	3.2	2.8	2.4	2.0

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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