

CMP: INR 258

Rating: BUY

Target Price: INR 322

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)	4,469
52w H/L (INR)	280 / 111
Avg Yearly Vol (in 000')	350

Shareholding Pattern %

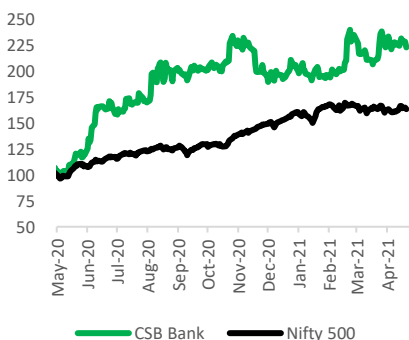
(As on Mar, 2021)

Promoters	49.7
FII	5.3
DII	9.3
Public & Others	35.7

Stock Performance (%)

	3m	6m	12m
CSB Bank	17.6	0.7	128.6
NSE 500	2.3	25.2	67.0

CSB Bank Vs NSE 500



CSB Bank has reported good performance during Q4FY21 on most parameters like improvement in asset quality, further increase in margins, strong loan growth and good traction in CASA. However, bottomline of the bank got impacted due to one off during the quarter. There was a one-off expense of INR 50 cr (INR 38 cr towards change in actuarial assumptions on mortality towards staff cost and INR 12 cr towards change in depreciation policy). Profit for the quarter came in at INR 43 cr vs. our estimates of INR 80 cr impacted due to one off. Adjusting for this one-off expenses, profit for the quarter was in line with our estimates at INR 80 cr. Asset quality of the bank improved with sharp 74 bps reduction in GNPA and 76bps reduction in NNPA at 2.7%/1.2%. Loan growth for the quarter was quite strong with 21% YoY/10% QoQ growth in gross advances at INR 15,388 cr. Deposit book continued to gaining traction with deposits growth of 21% YoY and CASA at 32.2%.

Adjusting for one-off, operating performance was strong: NIM at 5.4% (+25 bps QoQ) is highest amongst peers driven by rising share of gold loans and lower cost of funds (-32 bps QoQ). Consequently, NII was up by 75% YoY/10% QoQ at INR 276 cr. Staff cost for the quarter was higher by 126% YoY/40% QoQ due to one off expense of INR 38 cr on account of pension provision. Due to this one off, operating profit came in lower and grew by 21% YoY to INR 129 cr. Adjusting for this one off, operating profit for the quarter stood at INR 179 cr vs. our estimate of INR 172 cr. Profit for the quarter stood at INR 43 cr vs loss of INR 60 cr in Q4FY20.

Strong loan growth continues driven by gold loans: Growth momentum continued with overall loans growing by 21% YoY/10% QoQ, primarily driven by retail loan growth of 54% YoY/10% QoQ. Corporate book has de-grown by 2% YoY while it grew by 11% on a sequential basis. SME portfolio has reported 5% sequential growth. Within retail, gold loan grew by 61% YoY/9% QoQ. Share of gold loan in the overall advances stood at 40% (vs 30% a year ago). 2W loans are beginning to gain traction, though from a low base. Share of Retail, Corporate and SME loans stood at 52.4%, 31.1% and 16.4% respectively. Liability profile of the bank gaining traction with CASA share at 32.2% vs. 30.4% QoQ.

Asset quality improved: Asset quality of the bank improved with GNPA ratio at 2.7% vs. proforma GNPA of 3.4% in Q3FY21. Slippages for the quarter stood at INR 188 cr, of which INR 44 cr is from gold loans, INR 30-40 cr from other retail loans and rest is from SME and Corporate book. The bank carries a standard asset provision of INR 168 cr, which includes additional provision for the stressed assets including SMA book. It has SMA pool of 2.7% of loans, on which it carries 25% provision. Restructuring book stood lower at INR 65 cr (0.5% of advances).

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

We maintain our Buy rating on the stock with a revised target price of INR 322, based on 2x FY23E ABV of INR 160 (vs our initiation TP of INR 316). Q4FY21 performance of the bank was impressive in terms of asset quality, loan book growth and margins front. Gold loan will still remain the key growth driver in the medium term. With limited stress on its asset quality and negligible restructuring, we expect credit costs to moderate from FY22E. We marginally increase our FY23 PAT estimates by 3% to factor in better loan growth, offset by higher operating expenses. We believe, bank is well positioned to deliver RoA/RoE of 1.4%/15% by FY23E.

Raju Barnawal
raju.b@arihantcapital.com
022 67114870

Q4FY21 - Quarterly Performance (Standalone)

(in INR Cr)

Quarterly Result Update (INR Cr)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Interest Income	497	483	389	3.0%	27.8%
Interest Expended	221	231	231	-4.3%	-4.3%
Net Interest Income	276	251	158	9.8%	75.0%
Other Income	112	117	87	-3.7%	29.7%
Operating Income	388	368	244	5.5%	58.9%
Operating Expenses	259	185	137	39.7%	88.9%
Employee Expenses	179	128	79	39.8%	126.3%
Other Operating Expenses	80	58	58	39.5%	38.3%
PPOP	129	182	107	-29.3%	20.5%
Provisions	71	111	84	-36.4%	-15.9%
PBT	58	71	23	-18.2%	155.4%
Tax Expenses	15	18	82	-15.2%	-81.6%
Net Income	43	53	-60	-19.2%	NA
Balance Sheet Analysis					
Advances	14,438	13,137	11,366	9.9%	27.0%
Deposits	19,140	17,753	15,791	7.8%	21.2%
Total Assets	23,337	21,497	18,864	8.6%	23.7%
CASA Deposits	6,162	5,393	4,607	14.3%	33.8%
CASA (%)	32.2%	30.4%	29.2%	182bps	302bps
CAR (%)	21.4%	21.0%	22.5%	35bps	-109bps
Spreads					
NIMs (%)	5.42%	5.17%	3.81%	25bps	161bps
Cost of Funds	4.51%	4.83%	5.80%	-32bps	-129bps
Yield on Average Advances	11.10%	11.21%	10.69%	-11bps	42bps
Asset Quality					
GNPA	392	234	409	67.4%	-4.2%
NNPA	169	90	217	88.6%	-22.2%
GNPA (%)	2.68%	1.77%	3.54%	91bps	-86bps
NNPA (%)	1.17%	0.68%	1.91%	49bps	-74bps
Returns & Expenses					
RoA	0.73%	0.99%	-1.26%	-25bps	NA
RoE	7.87%	9.93%	-12.17%	-206bps	NA
Cost / Income Ratio*	66.77%	50.42%	56.16%	1635bps	1061bps

*Cost/Income ratio in Q4FY21 is 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

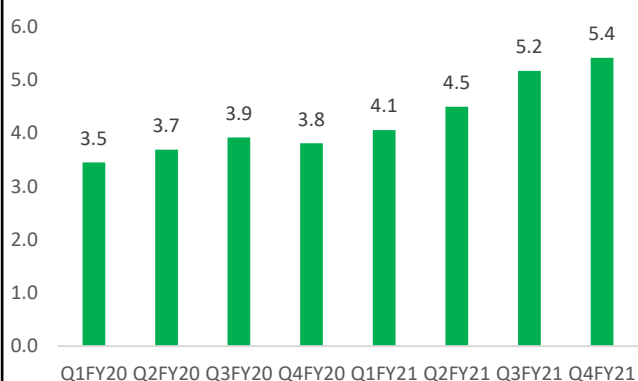


Exhibit 2: Improving CASA share

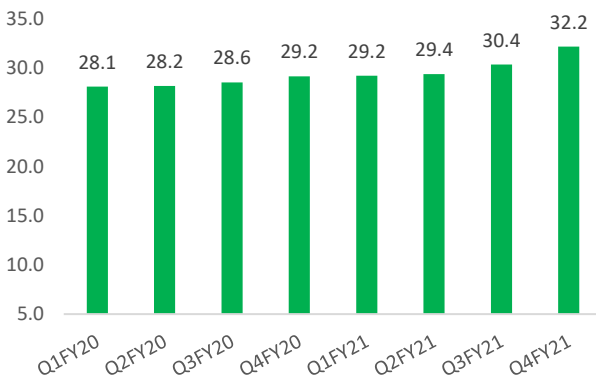
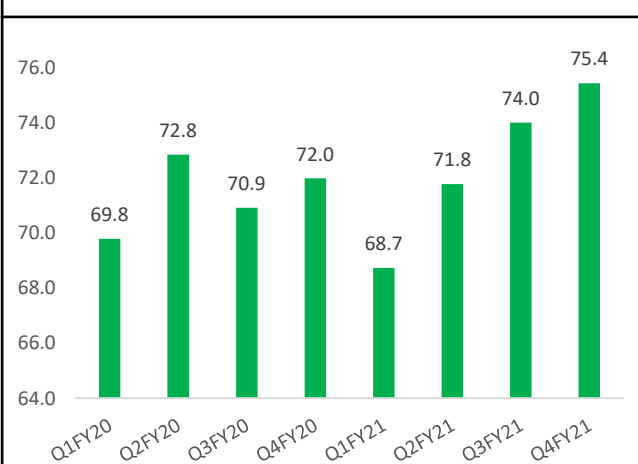


Exhibit 3: Credit-deposits ratio improving consistently



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

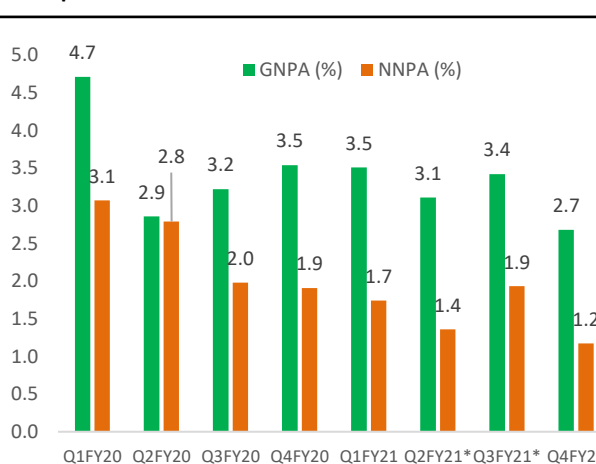
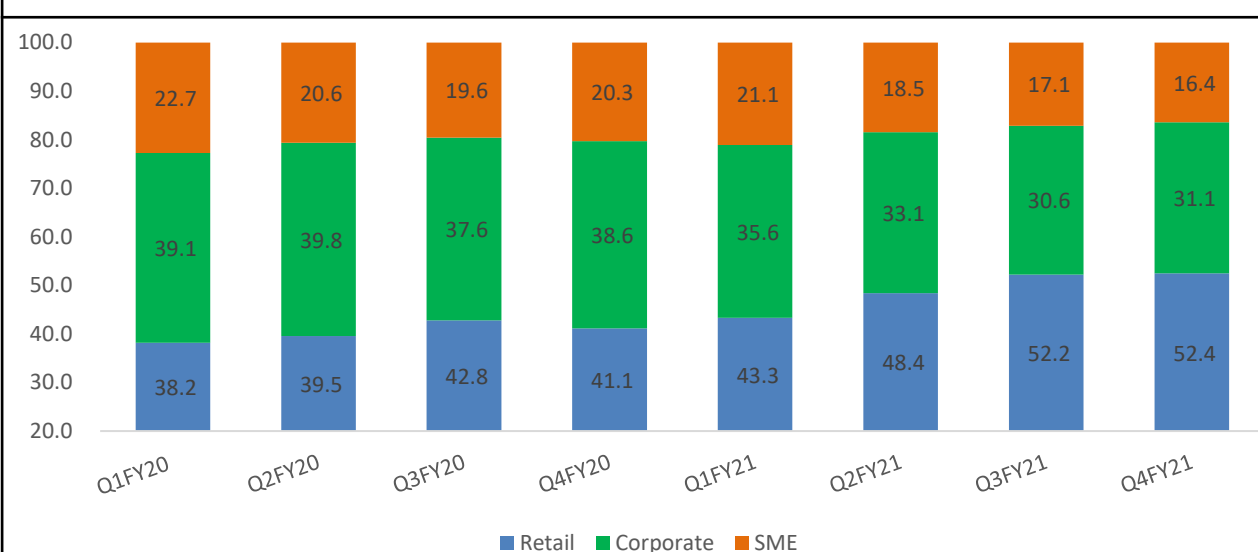


Exhibit 5: Advances mix share (%); Share of retail portfolio increasing



Source: Company, Arianth Research

Advances break-up; Loan growth driven by gold

Advances Break-up (Rs Cr)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Retail	8,070	7,342	5,228	9.9%	54.4%
- Gold Loan	6,131	5,644	3,799	8.6%	61.4%
- Other Retail Loans	1,201	1,187	1,193	1.2%	0.7%
- Two Wheeler Loans	171	141	78	21.3%	119.2%
- Agri & MFI Loans	567	370	158	53.2%	258.9%
Corporate	4790	4305	4905	11.3%	-2.3%
SME	2528	2408	2584	5.0%	-2.2%
Total Gross Advances	15,388	14,055	12,717	9.5%	21.0%

Advances Break-up (%)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Retail	52.4	52.2	41.1	21bps	1133bps
Corporate	31.1	30.6	38.6	50bps	-744bps
SME	16.4	17.1	20.3	-70bps	-389bps

Concall Highlights:

- Collection efficiency in April and 1st week of May was lower vs. March levels as local lockdowns in the key states like Kerala and Tamil Nadu impacting the recovery.
- Total restructured book stood at 0.5% of advances or INR 65 cr, with provisions at 25% (vs. RBI requirement of 10%).
- SMA book of the bank stood at INR 385 cr or 2.7% of net advances. The bank carries 25% provision against this.
- Sequential growth of 11% in the Corporate advances was led by manufacturing segment including auto ancillaries, food processing, textile spinning. Yield in the Corporate book stood at 9.5%.
- On revision in mortality assumptions, there was a change in actuary and the current actuary went for a different mortality table, resulting in one-time impact of INR 38 cr. Employee benefit provisions held by CSB per employee were always higher vs peers.
- The bank has opened 101 branches during FY21, of which 9% branches opened in Kerala and rest is in outside Kerala. The bank plans to add 200 branches in FY22.
- The bank intends to bring down the Cost/income ratio to 50% in the near term and upto 40% in the longer term.
- LTV ratio in the gold loan stood at 83% vs. 75% QoQ. Weighted yield in the gold loan portfolio stood at 12.7% vs. 12.6% QoQ. At present, LTV ratio stood lower at 78%.

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%	61.5%	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%	1.1%	1.0%
PCR (%)	45.5%	54.6%	47.0%	56.3%	62.6%	59.8%
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)	-21.4	-11.2	351.8	20.5	12.7	9.7
P/BV (x)	2.4	1.5	2.3	2.1	1.8	1.5
P/ABV (x)	4.4	1.9	2.6	2.2	1.9	1.6

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

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	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% to -12%
SELL	<-12%

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

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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