

CMP: INR 228

Rating: Buy

Target Price: INR 327

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)	3,952
52w H/L (INR)	373 / 201
Avg Yearly Vol (in 000')	418

Shareholding Pattern %

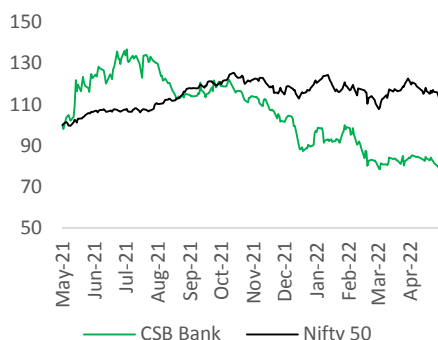
(As on March, 2022)

Promoters	49.7
FII	5.0
DII	12.4
Public & Others	32.9

Stock Performance (%)

	1m	3m	12m
CSB Bank	3.3	-12.4	-13.2
NIFTY 50	-7.8	-6.3	11.5

CSB Bank Vs Nifty 50



CSB Bank has posted 3x YoY increase in its net profit at INR 131 cr as against our expectation of INR 65 cr, led by negative credit cost, healthy business growth and stable margins. Provision write back for the quarter was at INR 34 cr vs provision expense of INR 71 cr in Q4FY21. Asset quality of the bank improved sharply as slippage ratio declined from 2.2% to 1% QoQ and strong recoveries leading to overall GNPA decline of 81bps QoQ at 1.8%. Gold loan NPA declined from 2% to 0.5% on a sequential basis. Business growth momentum of the bank started coming back with advances growth at 9.5% YoY/8% QoQ led by Gold loan (+13% QoQ), Agri & MFI (+27% QoQ) and SME portfolio (+4% QoQ). NIM was largely stable 5.4% QoQ, supported by higher growth in retail segment and further decline in cost of deposits.

Operating profit growth was lower due to decline in other income: Nil growth for the quarter was at 10% YoY/0.2% QoQ to INR 304 cr was higher than our estimate of INR 280 cr. Other income for the quarter declined by 43% YoY and increased by 22% QoQ to INR 636 cr. There was a treasury loss of INR 1.2 cr vs INR 16 cr loss in Q4FY21. Fee income of the bank was lower at 44% YoY/9% QoQ. Operating profit of the bank increased by 10% YoY/-4% QoQ to INR 142 cr. Cost to income ratio of the bank increased by 285bps QoQ at 61.3%. Management has stated that, Bank's digital related investments will keep cost ratios elevated in the medium term, with benefits of operating leverage coming over 2-3 years.

Loan growth improved led by retail loan portfolio: Overall, gross advances of the bank increased by 9% YoY/7% QoQ (vs. 3% QoQ growth in Q3FY22). Advances growth was driven by Retail segment which grew by 10% YoY/12% QoQ. Corporate portfolio increased by 13% YoY/2% QoQ while SME grew 4% sequentially. Within retail, Gold loan book growth has improved at 7% YoY/13% QoQ (vs. +3% YoY growth in Q4FY21). Growth in Agri and MFI loans grew strongly by 27% QoQ. Management intends to grow and have more focus to grow SME business even if it comes at the little lower margins. Focus of the bank continues on strengthening its liability franchise led by solution oriented customer acquisition strategy and continued branch additions. Deposits growth of the bank stood at 5.5% YoY/6% QoQ. CASA ratio declined by 91bps QoQ at 33.7%.

Asset quality surprised positively; GNPA reached at guided level: Lower slippages, better recoveries, increase in PCR and negative credit cost has led to strong performance on asset quality front. Slippages for the quarter came in lower at INR 38 cr (vs. INR 81 cr in Q3FY22). Recoveries and upgrades for the quarter stood at INR 134 cr vs. INR 278 cr QoQ. The bank continues to hold standard loan buffers at INR 106 cr or ~0.7% of advances, including 25% provisions made towards restructured and SMA book. Calculated PCR ratio of the bank increased from 48% to 63% QoQ.

Valuation and View:

CSB Bank has posted healthy quarter during Q4FY22 with improvement in asset quality. As guided by management, GNPA of the bank came down to below 2% and it has reached to its normalized level. We maintain our positive outlook on the bank backed by its strong show on asset quality, better margins, adequate capitalized level. However, loan growth will be the key to watch. As asset quality performance normalized, focus of the management will be on growth. We maintain our Buy rating on the stock with a revised target price of INR 327, based on 1.8x FY24E ABV.

We believe, bank is well positioned to deliver RoA/RoE of 1.4%/14.5% by FY24E.

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Q4FY22 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Cr)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Interest Income	520	528	497	-1.5%	4.5%
Interest Expended	216	224	221	-3.8%	-2.6%
Net Interest Income	304	303	276	0.2%	10.2%
Other Income	64	52	112	22.0%	-43.4%
Operating Income	367	356	388	3.4%	-5.3%
Operating Expenses	225	208	259	8.4%	-13.0%
Employee Expenses	143	122	179	17.5%	-19.7%
Other Operating Expenses	82	86	80	-4.5%	1.9%
PPOP	142	148	129	-3.7%	10.2%
Provisions	-34	-51	71	-32.6%	-148.1%
PBT	176	198	58	-11.1%	203.8%
Tax Expenses	45	50	15	-8.8%	200.8%
Net Income	131	148	43	-11.9%	204.8%
Balance Sheet Analysis					
Advances	15,815	14,637	14,438	8.0%	9.5%
Deposits	20,188	19,056	19,140	5.9%	5.5%
Total Assets	25,356	23,710	23,337	6.9%	8.7%
CASA Deposits	6,795	6,587	6,162	3.2%	10.3%
CASA (%)	33.7%	34.6%	32.2%	-91bps	146bps
CAR (%)	25.9%	20.7%	21.4%	516bps	453bps
Spreads					
NIMs (%)	5.4%	5.4%	5.4%	1bps	0bps
Cost of Funds	4.0%	4.3%	4.5%	-33bps	-49bps
Yield on Average Advances	10.8%	11.7%	11.1%	-82bps	-27bps
Asset Quality					
GNPA	290	389	392	-25.4%	-26.1%
NNPA	107	200	169	-46.4%	-36.6%
GNPA (%)	1.8%	2.6%	2.7%	-81bps	-87bps
NNPA (%)	0.7%	1.4%	1.2%	-69bps	-49bps
Returns & Expenses					
RoA	2.1%	2.5%	0.7%	-44bps	133bps
RoE	19.7%	23.6%	7.9%	-388bps	1185bps
Cost / Income Ratio	61.3%	58.5%	66.8%	285bps	-543bps

Source: Arihant Research, Company Filings

Advances break-up; Loan growth driven by Retail segment

Advances Break-up (Rs Cr)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Retail	8,859	7,928	8,070	11.7%	9.8%
- Gold Loan	6,570	5,826	6,131	12.8%	7.2%
- Other Retail Loans	1,049	1,086	1,201	-3.4%	-12.7%
- Two Wheeler Loans	175	175	171	0.0%	2.3%
- Agri & MFI Loans	1065	841	567	26.6%	87.8%
Corporate	5421	5320	4790	1.9%	13.2%
SME	2463	2362	2528	4.3%	-2.6%
Total Gross Advances	16,743	15,610	15,388	7.3%	8.8%

Advances Break-up (%)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Retail	52.9	50.8	52.4	212bps	47bps
Corporate	32.4	34.1	31.1	-170bps	125bps
SME	14.7	15.1	16.4	-42bps	-172bps

Concall Highlights:

- Overall, growth will come back into banking system and with consolidation happening in the banking system both in the private and the public sectors, there will be opportunities to grow retail, SME or mid-market business.
- Management focus has been shifted on growing the balance sheet and scale up the business. Bank aims to grow 1.5x of system growth rate.
- SME, gold and Agri portfolio will be the key drivers for growth. Management sees SME as a major opportunity in the next 2-3 years.
- Liquidity ratio has improved to 154%.
- Bank is looking to grow and strengthen its liability profile. Liability strategy: i) Bank has high base of loyal customers who have continued across interest rate cycles with 95% plus kind of renewal rate. ii) investing or addition into branches, iii) Bank is not looking at rates as the primary way of gaining customers but at rather building solutions, iv) building digital and partnerships.
- Bank is looking to make significant investment in technology. Hence, cost/assets expected to rise in the medium term and operating leverage will come down. From FY25, real operating leverage will come in.
- Margins could remain in the range of over 5% in the near term. Several of long term deposits are still priced higher vs current rates.

Key Financials

Profit & Loss Statement (in INR Cr)	FY20A	FY21A	FY22	FY23E	FY24E
Interest Income	1,510	1,872	2,038	2,523	2,861
Interest Expended	918	931	885	1,244	1,312
Net Interest Income	592	941	1,153	1,279	1,549
Other Income	222	401	247	292	306
Operating Income	814	1,342	1,400	1,571	1,855
Operating Expenses	533	729	786	901	992
Employee Expenses	331	497	482	596	663
Other Operating Expenses	202	232	305	305	329
PPOP	281	613	614	670	863
Provisions	147	321	-1	156	181
PBT	134	292	614	514	682
Tax Expenses	121	74	156	129	172
Net Income	13	218	458	385	510

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

Balance Sheet (in INR Cr)	FY20A	FY21A	FY22	FY23E	FY24E
Equity & Liabilities					
Share Capital	174	174	174	174	174
Reserves & Surplus	1,787	2,007	2,478	2,862	3,373
Net Worth	1,961	2,180	2,651	3,036	3,546
Deposits	15,791	19,140	20,188	23,639	27,988
Borrowings	794	1,426	2,007	3,131	3,178
Other Liabilities and Provisions	319	591	509	657	830
Total Capital & Liabilities	18,864	23,337	25,356	30,463	35,543
Assets					
Cash & Balances with RBI	548	736	948	955	1,257
Balances with Other Banks & Call Money	392	978	626	1,242	1,569
Investments	5,360	6,126	7,012	7,713	8,484
Advances	11,366	14,438	15,815	19,526	22,682
Fixed Assets	228	269	288	307	328
Other Assets	970	790	668	720	1,222
Total Assets	18,864	23,337	25,356	30,463	35,543

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

Key Ratios

Ratios	FY20A	FY21A	FY22	FY23E	FY24E
Growth rates					
Advances (%)	7.1%	27.0%	9.5%	23.5%	16.2%
Deposits (%)	4.4%	21.2%	5.5%	17.1%	18.4%
Total assets (%)	11.5%	23.7%	8.6%	20.1%	16.7%
NII (%)	34.6%	58.9%	22.5%	10.9%	21.1%
Pre-provisioning profit (%)	2000.4%	118.5%	0.1%	9.2%	28.8%
PAT (%)	NA	1615.3%	110.0%	-16.1%	32.6%
Balance sheet ratios					
Credit/Deposit (%)	72.0%	75.4%	78.3%	82.6%	81.0%
CASA (%)	29.2%	32.2%	33.7%	39.3%	41.4%
Advances/Total assets (%)	60.3%	61.9%	62.4%	64.1%	63.8%
Leverage (x) (Asset/Shareholder's Fund)	9.6%	10.7%	9.6%	10.0%	10.0%
CAR (%)	26.4%	21.4%	24.9%	23.1%	23.2%
CAR - Tier I (%)	25.7%	20.0%	24.3%	22.5%	22.7%
Operating efficiency					
Cost/income (%)	65.5%	54.3%	56.2%	57.3%	53.5%
Opex/total assets (%)	2.8%	3.1%	3.1%	3.0%	2.8%
Opex/total interest earning assets	2.0%	2.5%	2.1%	2.2%	2.1%
Profitability					
NIM (%)	3.6%	4.7%	4.9%	4.8%	4.9%
RoA (%)	0.1%	0.9%	1.8%	1.3%	1.4%
RoE (%)	0.6%	10.0%	17.3%	12.7%	14.4%
Asset quality					
Gross NPA (%)	3.5%	2.7%	1.8%	1.6%	1.5%
Net NPA (%)	1.9%	1.2%	0.7%	1.0%	1.2%
PCR (%)	47.0%	56.3%	63.3%	37.8%	21.6%
Credit cost (%)	0.9%	1.7%	0.0%	0.6%	0.6%
Per share data / Valuation					
EPS (INR)	0.7	12.6	26.4	22.2	29.4
BVPS (INR)	113	126	153	175	204
ABVPS (INR)	100	115	140	157	182
P/E (x)	310.9	18.1	8.6	10.3	7.8
P/BV (x)	2.0	1.8	1.5	1.3	1.1
P/ABV (x)	2.3	2.0	1.6	1.5	1.3

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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