

CMP: INR 248

Rating: BUY

Target Price: INR 328

Stock Info

BSE	532215
NSE	CSBBANK
Bloomberg	CSBBANK IN
Sector	BFSI
Face Value (INR)	10
Equity Capital (INR mn)	1735
Mkt Cap (INR bn)	43
52w H/L (INR)	275 / 178
Avg Yearly Vol (in 000')	866

Shareholding Pattern %

(As on Dec, 2022)

Promoters	49.7
Public & Others	47.4

Stock Performance (%)

	1m	3m	12m
CSB Bank	1.3	6.6	-2.1
Nifty	1.8	3.1	2.9

CSB Bank posted good numbers – PAT came in at INR 1.6 bn up by 29% qoq and 5% yoy. Asset growth was strong at 26% largely led by gold loans, rise in margins and steady asset quality. Management has highlighted that it will invest in building retail franchise both on assets and liabilities side with investment in technology, people, systems and branch network. Hence, cost/income ratio will remain in upper band of 55-60% levels

Advances growth strong led by gold loans - Advances grew at strong pace of 26.1% yoy and 5.7% qoq to INR 184.6 bn led by gold loans. Gold loans (45% share) grew by 50.7% yoy, retail loans (13% share) by 19.5% yoy, corporate loans (30% share) by 7.3% yoy and SME loans (11.8% share) declined by 1.2% yoy. Advances ex gold loans showed moderated growth of ~10% which is likely to grow by 15% in FY24. As per management, moderated growth is due to pricing pressures which is less ROE/ROA accretive for the bank. On the liability side, deposit growth was at 18.9% yoy and 8% qoq to INR 227 bn – partially growth in this quarter was driven by bulk deposits. CASA deposits growth was muted at 8% to INR 71.3 bn (share has fallen from 34.6% to 31.4% yoy).

Technology investments will accelerate to bring competitive edge and to build retail franchise – Management is aiming to bring technology to the fore to build retail franchise via investing in technology, people, systems & processes to fill product gaps & increase distribution reach from earlier being more of South focused. More focus is being put to build retail franchise both in assets and liabilities side, which in our view is difficult to build but not impossible.

Outlook & Valuations – It is trading at just 1.3x FY24e ABV on ROE ~19% and ROA of ~2%. Albeit lately, the bank has realized what it takes to be new generation private sector bank. Becoming technology advanced is the only way forward to remain competitive in current scenarios which was most lacking for old private banks. In this changing landscape, if it is able to maintain return matrix, that shall be icing on the cake. Valuations still have large room to grow. Retain BUY with TP of INR 328, upside of 32% from current levels

Exhibit 1: Financial Performance

(Rs.mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Net Interest Income	5,923	9,414	11,533	12,706	16,589
PAT	127	2,183	4,585	5,096	6,012
EPS (INR)	0.7	12.6	26.4	29.4	34.6
ABVPS (INR)	100	115	140	163	193
P/ABV (x)	2.5	2.2	1.8	1.6	1.3
RoA (%)	0.1%	0.9%	1.8%	1.6%	1.6%
RoE (%)	0.6%	10.0%	17.3%	16.1%	16.0%
NIM (%)	3.6%	4.7%	4.9%	4.6%	4.9%

Jyoti Khatri
jyoti.khatri@arihantcapital.com
022 67114834

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

Other Highlights

- **Margins improved by 20 bps qoq and 39 bps yoy to 5.8% led by better repricing of assets** (advances yields up by 20 bps qoq to 11%)
- Other income (ex-treasury profits) was up by 65% yoy and 26% qoq to INR 837 mn
- **Asset quality maintained** – Incremental slippages during the quarter was at INR 260 mn vs. INR 420 mn in Q2FY23 and INR 37 mn in Q1FY23. GNPA/NNPA declined to 1.45%/0.42% vs. 1.65%/0.6% qoq.

Concall Highlights

- **Management is looking at blended loan growth of 1.5x of industry growth rate. And within this, loan growth excluding gold loans i.e. SME + wholesale loans + retail is likely to witness 15% growth**
- **Also, it has highlighted that it will invest in building retail franchise both on assets and liabilities side with investment in technology, people, systems and branch network. Hence, cost/income ratio will remain in upper band of 55-60% levels**
- **Margins will be maintained at 5% levels**
- To build meaningful CASA franchise will take atleast 2-3 years, however, it is likely to see good growth on CASA deposits.
- Building product and service gaps by investing and building technologies
- SME loan book growth slower - Old book in SME is running down. With limited liability, capital usage is being done cautiously. On risk adjusted basis, it is not ROA accretive, hence it is going very aggressive in this segment
- Cost/Income ratio is expected to be at 55-60% levels atleast over next 1 yr given investments in building capacities
- CD book at 300-400 cr similar to last yr levels
- Outlook on the credit cost – It is anticipated to be negative zone in Q4 as well. However, from next year, credit cost could be <40 bps
- It holds contingent provisions amounting to 106 cr
- Earlier it had dominant presence in Tamilnadu & kerala , however, now it is building presence in Maharashtra, North & Karnataka as well.

Exhibit 2: Q3FY23 - Quarterly Performance (Standalone)

(in Mn)	Q3FY23	Q3FY22	yoy (%)	Q2FY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Interest earned	5920.5	5276.5	12.2	5551.8	6.6	16831.6	15187.5	10.8
-Interest/discount on advances/bills	4945.2	4180.6	18.3	4502.5	9.8	13594.6	11850.4	14.7
-Income on investments	944.5	924.9	2.1	965.6	-2.2	3044.5	2816.9	8.1
-Interest on bal. with RBI	8.2	147.2	-94.4	28.5	-71.2	91.6	415.5	-78.0
-Others	22.6	23.8	-5.0	55.2	-59.1	100.9	104.7	-3.6
Interest expenses	2423.1	2243.1	8.0	2302.1	5.3	6977.6	6692.8	4.3
Net Interest Income (NII)	3497.4	3033.4	15.3	3249.7	7.6	9854.0	8494.7	16.0
Other Income	899.0	521.6	72.4	449.4	100.0	1896.9	1831.9	3.5
Total income	4396.4	3555.0	23.7	3699.1	18.9	11750.9	10326.6	13.8
Operating expenses	2462.0	2079.5	18.4	2125.5	15.8	6695.7	5609.9	19.4
-Employee cost	1516.7	1220.9	24.2	1290.0	17.6	4028.9	3384.6	19.0
-Other operating expenses	945.3	858.6	10.1	835.5	13.1	2666.8	2225.3	19.8
Operating profit	1934.4	1475.5	31.1	1573.6	22.9	5055.2	4716.7	7.2
Provision for contingencies	-149.6	-505.6	-70.4	-37.3	301.1	-170.1	335.8	-150.7
PBT	2084.0	1981.1	5.2	1610.9	29.4	5225.3	4380.9	19.3
Provision for taxes	524.5	498.6	5.2	405.4	29.4	1315.1	1102.6	19.3
Net profit	1559.5	1482.5	5.2	1205.5	29.4	3910.2	3278.3	19.3
Equity	1735.4	1735.4	0.0	1735.4	0.0	1735.4	1735.4	0.0
EPS	8.99	8.54	5.2	6.95	29.4	22.53	18.89	19.3
Ratios (%)								
Int. exp/Int earned (%)	40.9	42.5	-	41.5	-	41.5	44.1	-
Cost/Income ratio (%)	56.0	58.5	-	57.5	-	57.0	54.3	-
Gross NPAs (Rs)	2712.9	3889.5	-30.3	2910.4	-6.8	2712.9	3889.5	-30.3
Net NPAs (Rs)	776.6	1997.4	-61.1	988.6	-21.4	776.6	1997.4	-61.1
Gross NPAs (%)	1.45	2.62	-	1.65	-	1.5	2.6	-
Net NPAs (%)	0.42	1.4	-	0.6	-	0.4	1.4	-
ROA (%)	2.4	2.4	-	1.9	-	1.5	1.5	-
CAR (%)	25.8	20.7	-	25.1	-	25.8	20.7	-
Balance Sheet (Rs.mn)								
Sources of Funds								
Deposits	2,26,640	1,90,560	18.9	2,09,866	8.0	2,26,640	1,90,560	18.9
Advances	1,84,567	1,46,370	26.1	1,74,683	5.7	1,84,567	1,46,370	26.1

Source: Arihant Research, Company Filings

Exhibit 3: – Full Year Financials

Profit & Loss Statement (in INR Cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Interest Income	1,510	1,872	2,038	2,678	3,325
Interest Expended	918	931	885	1,378	1,567
Net Interest Income	592	941	1,153	1,300	1,757
Other Income	222	401	247	293	319
Operating Income	814	1,342	1,400	1,593	2,076
Operating Expenses	533	729	786	901	1,081
Employee Expenses	331	497	482	596	685
Other Operating Expenses	202	232	305	305	396
PPOP	281	613	614	692	995
Provisions	147	321	-1	-19	94
PBT	134	292	614	711	901
Tax Expenses	121	74	156	179	227
Net Income	13	218	458	532	674

Balance Sheet (in INR Cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Equity & Liabilities					
Share Capital	174	174	174	174	174
Reserves & Surplus	1,787	2,007	2,478	2,987	3,589
Net Worth	1,961	2,180	2,651	3,161	3,762
Deposits	15,791	19,140	20,188	24,282	28,843
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	31,231	36,613
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	7,573	7,951
Advances	11,366	14,438	15,815	21,052	25,578
Fixed Assets & Other Assets	1,199	1,059	956	409	258
Total Assets	18,864	23,337	25,356	31,231	36,613

Ratios	FY20A	FY21A	FY22A	FY23E	FY24E
Growth rates					
Advances (%)	7.1%	27.0%	9.5%	33.1%	21.5%
Deposits (%)	4.4%	21.2%	5.5%	20.3%	18.8%
Total assets (%)	11.5%	23.7%	8.6%	23.2%	17.2%
NII (%)	34.6%	58.9%	22.5%	10.2%	30.6%
Pre-provisioning profit (%)	2000.4%	118.5%	0.1%	8.0%	35.3%
PAT (%)	NA	1615.3%	110.0%	11.1%	18.0%
Balance sheet ratios					
Credit/Deposit (%)	72.0%	75.4%	78.3%	86.7%	88.7%
CASA (%)	29.2%	32.2%	33.7%	38.2%	40.2%
Advances/Total assets (%)	60.3%	61.9%	62.4%	67.4%	69.9%
Leverage (x) (Asset/Shareholder's Fund)	9.6%	10.7%	9.6%	9.9%	9.7%
CAR (%)	26.4%	21.4%	24.9%	22.3%	21.8%
CAR - Tier I (%)	25.7%	20.0%	24.3%	21.8%	21.3%
Operating efficiency					
Cost/income (%)	65.5%	54.3%	56.2%	57.6%	54.7%
Opex/total assets (%)	2.8%	3.1%	3.1%	2.9%	3.0%
Opex/total interest earning assets	2.0%	2.5%	2.1%	2.2%	2.0%
Profitability					
NIM (%)	3.6%	4.7%	4.9%	4.6%	4.9%
RoA (%)	0.1%	0.9%	1.8%	1.6%	1.6%
RoE (%)	0.6%	10.0%	17.3%	16.1%	16.0%
Asset quality					
Gross NPA (%)	3.5%	2.7%	1.8%	1.5%	1.3%
Net NPA (%)	1.9%	1.2%	0.7%	1.0%	1.1%
PCR (%)	47.0%	56.3%	63.3%	34.7%	15.0%
Credit cost (%)	0.9%	1.7%	0.0%	0.7%	0.7%
Per share data / Valuation					
EPS (INR)	0.7	12.6	26.4	29.4	34.6
BVPS (INR)	113	126	153	182	217
ABVPS (INR)	100	115	140	163	193
P/E (x)	346.3	20.2	9.6	8.6	7.3
P/BV (x)	2.2	2.0	1.7	1.4	1.2
P/ABV (x)	2.5	2.2	1.8	1.6	1.3

Source: Arianth Research, Company Filings

Arihant Research DeskEmail: 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

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 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