

**PAT supported by negligible provision;
Margins declined due to reduction in yield**

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CMP: INR 209

Rating: Buy

Target Price: INR 292

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)	3,631
52w H/L (INR)	362 / 178
Avg Yearly Vol (in 000')	288

Shareholding Pattern %

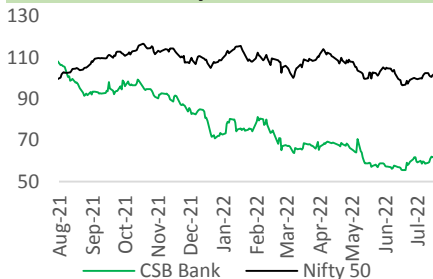
(As on June, 2022)

Promoters	49.7
FII	5.1
DII	11.2
Public & Others	34.0

Stock Performance (%)

	1m	3m	12m
CSB Bank	9.8	-5.5	-37.7
Nifty 50	6.2	-4.5	6.3

CSB Bank Vs Nifty 50



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CSB Bank has posted 88% YoY jump in net profit at INR 115 cr sharply higher than our estimate of INR 72 cr driven by negligible provision. Provision for the quarter was negligible at INR 2 cr vs. INR 93 cr in Q1FY22. NII growth of the bank was strong at 16% YoY driven by 17% YoY growth in net advances. Asset quality remained largely stable with slippages ratio at 0.92% vs. 0.96% QoQ. Headline GNPA ratio declined marginally by 2bps QoQ at 1.79% and NNPA declined by 8bps QoQ at 0.6%. Bank has reported treasury gain of INR 13 cr as compared to INR 1 cr in the previous quarter. NIM declined by 25bps QoQ at 5.2% due to decline in yield. Business growth momentum of the bank started coming back with gross advances growth at 14.8% YoY/2% QoQ led by retail loan book growth of 24% YoY. Corporate and SME book of the bank declined by 2% and 3% respectively on a sequential basis.

NIM declined due to decline in yield: NII growth for the quarter was at 16% YoY/2% QoQ to INR 311 cr was higher than our estimate of INR 304 cr. NIM of the bank declined by 25bps QoQ at 5.2% due to 45bps decline in yield on advances. Yield decline was visible in gold loan portfolio as gold portfolio yield declined sharply by 116bps QoQ at 11.2%. Cost of deposits of the bank decreased by 11bps QoQ at 4.1% due to decline in term deposits rates. Other income for the quarter declined by 23% YoY/14% QoQ to INR 55 cr. Fee income of the bank declined by 15% YoY while commission income increased by 63% YoY. Bank has reported operating profit decline of 11% YoY and increase of 9% on QoQ basis at INR 155 cr was ahead of our estimate of INR 134 cr. Cost to income ratio of the bank declined by 367bps QoQ at 57.7%. 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 was driven by retail portfolio: Overall, gross advances of the bank increased by 15% YoY/2% QoQ to INR 17,066 cr, driven by growth in retail segment. Within retail, gold loan portfolio increased by 26% YoY/8% QoQ to INR 7,107 cr, but the growth came in at lower yield. Share of gold loan portfolio increased from 39% to 42% QoQ. Corporate portfolio saw rundown of 2% QoQ to INR 5,329 cr and SME book declined by 3% QoQ to INR 2,389 cr. Management has stated that Q1FY23 growth was driven by gold loans and bank is now witnessing spurt in demand for credit from SME and Mid Corporate. 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 8.7% YoY/0.4% QoQ. CASA ratio increased by 146 bps QoQ at 35.1%.

Asset quality was stable: Slippages for the quarter stood at INR 37 cr as compared to INR 38 cr in Q4FY22. Recoveries and upgrades for the quarter stood at INR 34 cr vs. INR 137 cr QoQ. In the previous quarter, recoveries was strong and it was mainly from gold loan portfolio. Gold loan NPA of the bank declined from 0.54% to 0.41% on a sequential basis. Restructuring book declined from INR 85 cr to INR 82 cr (0.5% of advances). The bank continues to hold standard provision buffer of INR 107 cr or ~0.7% of advances. Calculated PCR ratio of the bank increased from 62.6% to 66.5% QoQ.

Valuation and View: CSB Bank has posted healthy quarter during Q1FY23 with stable asset quality. Credit growth of the bank was mainly led by gold loan portfolio and growth in non-gold portfolio is yet to pick. Hence, loan growth of the bank will continue to remain under watch. We maintain our positive outlook on the bank backed by its stable asset quality, better margins, adequate capitalized level. We reduced our target multiple due to increase in risk free rate and value the bank at 1.6x FY24E ABV which yield a target price of INR 292. We maintain our Buy rating on the stock.

Q1FY23 - Quarterly Performance (Standalone)					
(in INR Cr)					
Quarterly Result Update (Rs Cr)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Interest Income	536	520	495	3.2%	8.2%
Interest Expended	225	216	228	4.4%	-1.0%
Net Interest Income	311	304	268	2.3%	16.0%
Other Income	55	64	71	-13.8%	-23.0%
Operating Income	366	367	339	-0.5%	7.8%
Operating Expenses	211	225	164	-6.5%	28.4%
Employee Expenses	122	143	97	-14.8%	25.7%
Other Operating Expenses	89	82	67	8.1%	32.2%
PPOP	155	142	175	8.9%	-11.4%
Provisions	2	-34	93	-104.9%	-98.2%
PBT	153	176	81	-13.1%	87.8%
Tax Expenses	39	45	21	-15.3%	87.7%
Net Income	115	131	61	-12.4%	87.9%
Balance Sheet Analysis					
Advances	16,142	15,815	13,817	2.1%	16.8%
Deposits	20,267	20,188	18,653	0.4%	8.7%
Total Assets	25,495	25,356	22,672	0.5%	12.5%
CASA Deposits	7,117	6,795	6,172	4.7%	15.3%
CASA (%)	35.1%	33.7%	33.1%	146bps	203bps
CAR (%)	25.5%	25.9%	21.6%	-44bps	383bps
Spreads					
NIMs (%)	5.2%	5.4%	5.0%	-25bps	13bps
Cost of Funds	4.1%	4.0%	4.5%	4bps	-44bps
Yield on Average Advances	10.4%	10.8%	10.7%	-45bps	-28bps
Asset Quality					
GNPA	293	290	685	1.0%	-57.2%
NNPA	97	107	444	-9.6%	-78.2%
GNPA (%)	1.8%	1.8%	4.9%	-2bps	-309bps
NNPA (%)	0.6%	0.7%	3.2%	-8bps	-261bps
Returns & Expenses					
RoA	1.8%	2.1%	1.1%	-26bps	72bps
RoE	16.6%	19.7%	10.9%	-316bps	569bps
Cost / Income Ratio	57.7%	61.3%	48.5%	-367bps	922bps

Source: Arian Research, Company Filings

Advances break-up; Loan growth driven by retail portfolio

Advances Break-up (Rs Cr)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Retail	9,348	8,859	7,512	5.5%	24.4%
- Gold Loan	7,107	6,570	5,627	8.2%	26.3%
- Other Retail Loans	998	1,049	1,162	-4.9%	-14.1%
- Two Wheeler Loans	178	175	173	1.7%	2.9%
- Agri & MFI Loans	1,065	1,065	550	0.0%	93.6%
Corporate	5329	5421	5039	-1.7%	5.8%
SME	2389	2463	2312	-3.0%	3.3%
Total Gross Advances	17,066	16,743	14,863	1.9%	14.8%

Advances Break-up (%)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Retail	54.8	52.9	50.5	186bps	423bps
Corporate	31.2	32.4	33.9	-115bps	-268bps
SME	14.0	14.7	15.6	-71bps	-156bps

Concall Highlights:

- Banking ecosystem is growing at good pace with 13% credit growth rate and 10% growth on the liability side.
- Management maintain its NIM guidance of ~5%.
- Cost of deposits declined by 11bps QoQ at 4.1% which may not sustain as deposits rates started increasing.
- CRAR of the bank was at one of the best in the industry at 25.46%.
- Bank is looking to open 100 branches in a year. Bank has identified 50 location for branch opening.
- Bank will continue to focus on leadership, technology, customer acquisition and building granular liability profile.
- LCR of the bank was higher than RBI requirement at 147%.
- Bank will have repricing benefit of the increased benchmark interest rate from the next quarter as it is effective from 1st July 2022 or there is time lag of 1 quarter.
- Due to reduce PSLC premium in the market in June quarter, bank has adopted wait and watch policy and decided to not to book any PSLC income.
- As bank is on expansion mode, cost will remain elevated in the shorter run and will taper down over the year.
- Gold loan share increased from 39.2% to 41.6% on a sequential basis.
- In the current quarter, gold loan portfolio declined by 116bps QoQ. Bank is expecting yield on advances on the gold loan portfolio to increase in the coming quarter.
- Bank is expecting a growth of 1.5x of industry growth on a 3 years CAGR basis. Growth in the current year will continue to driven by gold loan portfolio. Growth in other retail portfolio will also increase gradually.
- Ticket size in the gold loan portfolio is ranging from 1-1.1 lakhs.
- Of the total portfolio, ~54% book is fixed in nature and rest is on floating basis.

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)	285.0	16.6	7.9	9.4	7.1
P/BV (x)	1.8	1.7	1.4	1.2	1.0
P/ABV (x)	2.1	1.8	1.5	1.3	1.1

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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