

CMP: INR 360

Rating: Accumulate

Target Price: INR 410

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)	6,336
52w H/L (INR)	371 / 214
Avg Yearly Vol (in 000')	538

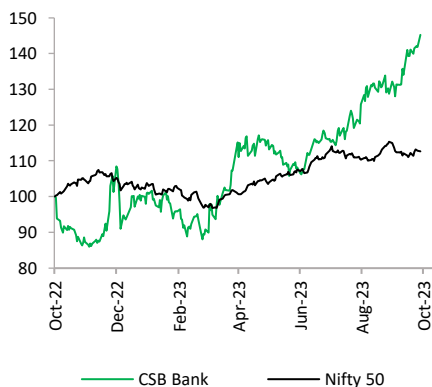
Shareholding Pattern %

(As on September, 2023)

Promoters	49.7
Public & Others	50.3

Stock Performance (%)	1m	6m	12m
CSB Bank	11.4	26.7	46.1
Nifty 50	-1.4	11.4	11.7

CSB Bank Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
Anmol Das
anmol.das@arihantcapital.com
Harshit Jain
harshit.jain@arihantcapital.com

CSB Bank has posted 10.5% YoY jump in net profit at INR 1.33bn,. Provision for the quarter was at INR (-33 mn) vs. INR 47 mn in Q1FY24. NII of the bank grew marginally at 5.8% YoY due to the increased interest expenses that grew by 49% YoY. Asset quality of the bank remained flat. GNPA/NNPA stood at 1.27% / 0.33% which was flat sequentially. Bank's treasury gain also fell this quarter to INR 58 mn against INR 122 mn in the previous quarter. NIM declined by 56bps QoQ to 4.84% due to increase in cost of deposits. Business growth momentum of the bank slowed sequentially with net advances growth at 27.4% YoY/5.5% QoQ led by gold loan book growth of 32% YoY.

NIM declined due to increase in deposits: NII growth for the quarter was at 5.8% YoY/down 5.6% QoQ to INR 3.43 bn. NIM of the bank declined by 56bps QoQ at 4.84% due to increase in cost of term deposits by 22bps to 6.32% for Q2FY24 and cost of total deposits by also 22bps to 5.22%, whereas the yield fell by 30bps due to the fall in Yield on Gold loans by around 70 bps sequentially. Other income for the quarter increased by 230% YoY / +22.1% QoQ to INR 1.48 bn. Bank has reported operating profit jump of 11% YoY and decline of 3.7% QoQ basis at INR 1.7 bn. Cost to income ratio of the bank up by 133bps QoQ at 65.39%.

Loan growth was driven by retail portfolio: Overall, net advances of the bank increased by 31% YoY/14% QoQ to INR 21,103 cr, driven by growth in retail and gold loans. Gold loan portfolio increased to 47% of the mix to INR 10.6 bn. Corporate portfolio increase of 17% YoY to INR 6.1 bn and SME book up by 22% YoY to INR 2.3 bn. CASA fell by 499 bps YoY / 156 bps QoQ to 29.3%.

Asset quality stayed flattish: Slippage ratio for the quarter stood 1.02% for Q2FY24. Recoveries and upgrades for the quarter increased sequentially to INR 260 mn and INR 140 mn.

Valuation and View: CSB Bank is facing stiff competition from larger Peers as the increased interest rates is not passed on to Yield completely, while higher interest expenses are straining their spreads. Opening more branches is a good strategy to increase their franchise, however, timing of that strategy's execution is not falling in the bank's favour. We maintain long term positive outlook on the bank backed by its business model and a bottoming out NIMs. We value the bank at 2.1x FY26E ABV which yield a target price of INR 410. We increase our rating to Accumulate on the stock with NIMs catching up in the H2FY24.

Financial Summary

Y/E Mar (Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
NII	11533	13338	16229	19680	23995
PAT	4585	5474	5599	7086	8952
Networth	26514	32036	37635	44720	53672
EPS (Rs)	26	32	32	41	52
P/E (x)	13.6	11.4	11.2	8.8	7.0
P/Adj BV (x)	2.6	2.2	1.8	1.5	1.2
RoA (%)	1.8%	1.9%	1.6%	1.7%	1.8%
RoE (%)	17.3%	17.1%	14.9%	15.8%	16.7%

Q2FY24 - Quarterly Performance (Standalone)

(in INR Mn)

Quarterly Result Update (INR Mn)	Q2FY24	Q1FY23	Q2FY23	Q-o-Q	Y-o-Y
Interest Income	6,873	6,835	5,552	0.6%	23.8%
Interest Expended	3,437	3,195	2,302	7.6%	49.3%
Net Interest Income	3,437	3,640	3,250	-5.6%	5.8%
Other Income	1,485	1,216	449	22.1%	230.3%
Operating Income	4,921	4,856	3,699	1.4%	33.0%
Operating Expenses	3,175	3,041	2,126	4.4%	49.4%
Employee Expenses	1,757	1,820	1,290	-3.4%	36.2%
Other Operating Expenses	1,418	1,221	836	16.1%	69.7%
PPOP	1,746	1,814	1,574	-3.7%	11.0%
Provisions	-33	47	-37	-170.4%	-10.7%
PBT	1,780	1,767	1,611	0.7%	10.5%
Tax Expenses	448	445	405	0.7%	10.5%
Net Income	1,332	1,322	1,206	0.7%	10.5%
Balance Sheet Analysis					
Advances	2,22,560	2,11,035	1,74,683	5.5%	27.4%
Deposits	2,54,384	2,44,755	2,09,866	3.9%	21.2%
Total Assets	3,14,228	2,93,642	2,57,436	7.0%	22.1%
CASA Deposits	74,480	75,480	71,928	-1.3%	3.5%
CASA (%)	29.3%	30.8%	34.3%	-156bps	-499bps
CAR (%)	24.0%	26.0%	25.1%	-203bps	-118bps
Spreads					
NIMs (%)	4.84%	5.40%	5.60%	-56bps	-76bps
Cost of Funds	5.22%	5.04%	4.13%	18bps	109bps
Yield on Average Advances	10.8%	10.9%	10.7%	-15bps	7bps
Asset Quality					
GNPA	2,848	2,710	2,910	5.1%	-2.2%
NNPA	725	678	989	7.0%	-26.7%
GNPA (%)	1.27%	1.27%	1.65%	0bps	-38bps
NNPA (%)	0.33%	0.32%	0.57%	1bps	-24bps
Returns & Expenses					
RoA	1.70%	1.80%	1.87%	-11bps	-18bps
RoE	15.34%	15.85%	16.69%	-51bps	-135bps
Cost / Income Ratio	65.39%	64.06%	58.15%	133bps	724bps

Source: Arianth Research, Company Filings

Concall Highlights:

Management Guidance:

- **Management exuberated confidence that the NIM has bottomed out, and they will be able to post an annual NIM for FY24 above 5%, despite the Q2NIM at 4.84%.**
- **Management guidance remains on GNPA below 2%, NNPA below 1% and Credit cost at 40-50 bps for the the bank's performance till FY30.**

Key Highlights:

- On a sequential basis the Cost of Deposits increased from 5% to 5.22%, yield on advances declined from 11.18% to 10.88% for the quarter, though the Management says they will be able to increase it in the coming quarters.
- Gold loan portfolio saw a growth of 32% YoY. Growth across different segments is said to be stable and will remain so in future.
- Advances grew by 27,4% YoY and deposits grew by 21.2% YoY, which was higher than the industry growth by 50%, and Management says they intend to maintain a growth of at least 50% above the industry growth rates.
- The Cost to Income ratio came at 63.4%, higher by 724 bps YoY / 133 bps QoQ, due to the substantial investments the bank is making in their operational networks as they have added 111 branches over the last 12 months. The Management says the Cost to Income ratio will start tapering off from FY25 and go down below 50% by FY30.
- The Bank is making significant investments and will keep on doing so towards full servicing of their customers.
- **The Yield has come down due to the Gold loans as the prices of Gold came down, so did the yield on gold loans also came down by 25-30 bps, and the bank being risk averse, closed few customers with higher LTVs. However, as the Israel war started, the prices have again gone up, and whether the prices are sustainable or not, they will still be able to achieve annual NIMs at above 5%.**
- **Yield on Gold loan last quarter was 11.78%, and this quarter in Q2FY24 is 10.99%. Hence, the bank has got rid of some of the higher LTV customers.**
- The Management says the Other Income growth will sustain in-line with the Balance sheet growth.
- The Management says that they will not sacrifice 'growth' for 'NIMs'.
- The Bank intends to reach to all those geographies and customer pyramids which are not properly catered by the larger banks.
- The Bank will not be using any pricing strategy to attract customers by offering higher interest rates on liabilities. Hence, will be focussing on servicing strategies to cater customer's all-round requirements.
- In the Portfolio mix, Gold loans at around 47%, with wholesale and retail growing faster than Gold loans growth, but due to lower mix, their growth hasn't changed the mix and SME has remained the same.
- The Management maintains higher provisioning even after the Covid Provisioning is not required by earmarking against certain SMA accounts as well as regulatory provisions, rather than taking them to the P&L as a risk averse measure for contingent risks.
- **Overall around 125 bps increase in the term deposits rates, with around 200 bps increase in the incremental term deposits due to the industry rates going higher.**
- The Management says their Term deposits renewals are very high, and comes at a reasonable rate.
- **The Gold loans slippages doesn't materialise to actually losses as per the Management, as the recoveries happen eventually due to the collateral gold.**
- **The Bank is focussing on acquiring more liabilities and customers, and is investing heavily in technology and customer acquisition machinery to build up their franchise bigger.**

Key Financials

Profit & Loss Statement (INR Mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest Income	20,383	23,197	29,778	34,856	40,762
Interest Expended	8,850	9,858	13,549	15,176	16,767
Net Interest Income	11,533	13,338	16,229	19,680	23,995
Other Income	2,468	3,160	3,792	4,551	5,461
Operating Income	14,001	16,499	20,021	24,231	29,455
Operating Expenses	7,864	9,425	11,300	12,680	14,281
Employee Expenses	4,819	5,585	6,884	7,989	9,315
Other Operating Expenses	3,045	3,839	4,417	4,692	4,967
PPOP	6,137	7,074	8,721	11,551	15,174
Provisions	-5	-262	1,239	2,082	3,212
PBT	6,142	7,336	7,482	9,469	11,963
Tax Expenses	1,557	1,863	1,883	2,383	3,011
Net Income	4,585	5,474	5,599	7,086	8,952

Source: Arihant Research, Company Filings

Balance Sheet (INR Mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity & Liabilities					
Share Capital	1,735	1,735	1,735	1,735	1,735
Reserves & Surplus	24,779	30,301	35,900	42,985	51,937
Net Worth	26,514	32,036	37,635	44,720	53,672
Deposits	2,01,883	2,45,058	2,63,039	3,03,261	3,58,651
Borrowings	20,072	7,830	27,307	28,295	29,570
Other Liabilities and Provisions	5,094	6,699	9,378	11,723	13,181
Total Capital & Liabilities	2,53,563	2,91,622	3,37,359	3,88,000	4,55,074
Assets					
Cash & Balances with RBI	14,732	14,699	19,171	24,922	32,399
Balances with Other Banks & Call Money	1,005	3,668	1,858	1,366	1,857
Investments	70,116	58,487	65,988	73,308	81,440
Advances	1,58,147	2,06,507	2,47,808	2,97,369	3,56,843
Fixed Assets	2,880	3,194	3,542	3,928	4,356
Other Assets	6,684	5,069	5,575	6,691	8,564
Total Assets	2,53,563	2,91,623	3,43,942	4,07,584	4,85,460

Source: Arihant Research, Company Filings

Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
Growth rates					
Advances (%)	9.5%	30.6%	20.0%	20.0%	20.0%
Deposits (%)	5.5%	21.4%	7.3%	15.3%	18.3%
Total assets (%)	8.7%	15.0%	15.7%	15.0%	17.3%
NII (%)	22.5%	15.7%	21.7%	21.3%	21.9%
Pre-provisioning profit (%)	0.1%	15.3%	23.3%	32.4%	31.4%
PAT (%)	518.3%	19.4%	2.3%	26.6%	26.3%
Balance sheet ratios					
Credit/Deposit (%)	78.3%	84.3%	94.2%	98.1%	99.5%
CASA (%)	33.7%	30.7%	36.6%	38.4%	41.5%
Advances/Total assets (%)	62.4%	70.8%	72.0%	73.0%	73.5%
Leverage (x) (Asset/Shareholder's Fund)	9.6	9.1	9.1	9.1	9.0
CAR (%)	24.9%	28.0%	22.5%	21.8%	21.8%
CAR - Tier I (%)	24.3%	27.4%	22.0%	21.8%	21.8%
Operating efficiency					
Cost/income (%)	56.2%	57.1%	56.4%	52.3%	48.5%
Opex/total assets (%)	3.1%	3.2%	3.3%	3.1%	2.9%
Opex/total interest earning assets	2.1%	2.1%	2.2%	2.2%	2.1%
Profitability					
NIM (%)	4.9%	5.1%	5.3%	5.4%	5.5%
RoA (%)	1.8%	1.9%	1.6%	1.7%	1.8%
RoE (%)	17.3%	17.1%	14.9%	15.8%	16.7%
Asset quality					
Gross NPA (%)	1.8%	1.5%	0.8%	0.3%	-0.2%
Net NPA (%)	0.7%	1.0%	0.9%	0.7%	0.4%
PCR (%)	63.3%	35.5%	-11.8%	-165.9%	304.3%
Credit cost (%)	0.0%	-0.1%	0.4%	0.6%	0.8%
Per share data / Valuation					
EPS (INR)	26.4	31.5	32.3	40.8	51.6
BVPS (INR)	153	185	217	258	309
ABVPS (INR)	140	166	197	239	294
P/E (x)	13.6	11.4	11.2	8.8	7.0
P/BV (x)	2.4	1.9	1.7	1.4	1.2
P/ABV (x)	2.6	2.2	1.8	1.5	1.2

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

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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