

**CMP: INR 375**

**Rating: Hold**

**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 bn)	1.74
Mkt Cap (INR bn)	65
52w H/L (INR)	422 / 218
Avg Yearly Vol (in 000')	438

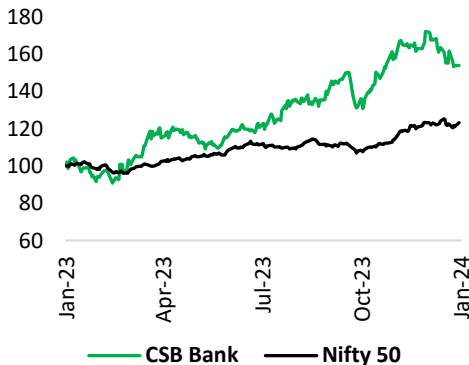
**Shareholding Pattern %**

(As on December, 2023)

Promoters	49.7
Public & Others	50.3

Stock Performance (%)	1m	6m	12m
CSB Bank	-10.1	25.9	54.2
Nifty 50	0.0	10.0	23.2

**CSB Bank Vs Nifty 50**



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CSB Bank has posted 12.6% YoY jump in net profit at INR 1.5 bn., Provision for the quarter was at INR -45 mn vs. INR -33 mn in Q2FY24. NII of the bank grew marginally at 9.4% YoY/11.3% QoQ due to moderate growth in advances by 22.8% YoY / 1.8% QoQ. Asset quality of the bank improved as GNPA/NNPA improved by 5bps/2bps QoQ at 1.22%/0.31%. Bank has reported treasury gain of INR 0.12 bn as compared to INR 0.06 bn in the previous quarter. NIM increased by 26 bps QoQ at 5.1% due to increase in yields on advances by 69 bps QoQ. Business growth momentum sequentially slowed for the bank as the Management intended to keep the Gold Loan LTV at 74% due to the elevated price levels of Gold.

**NIM increase as Yields improve sequentially:** NII growth for the quarter grew by 9.4% YoY/11.3% QoQ to INR 3.8 bn. NIM of the bank increased to 5.1%, up by 26bps QoQ/down 70 bps YoY due to the yield improving by 69 bps QoQ/46 bps YoY. Other income for the quarter declined by 15.6% QoQ/ up 39.4% YoY to INR 1.2 bn. Bank has reported operating profit jump of 12.2% QoQ/1.3% YoY at INR 1.95 bn. Cost to income ratio of the bank was down by 307 bps QoQ at 61.44%.

**Loan growth slowed due to slow growth in Gold portfolio:** Overall, net advances of the bank increased by 22.8% YoY/1.8% QoQ to INR 226.5 bn. Within retail, gold loan portfolio increased by 23.2% YoY/1.9% QoQ to INR 108 bn. Share of gold loan portfolio fell to 48% of the mix. SME portfolio saw rundown of INR 1.7-1.8 bn during the quarter. Management has stated that Q3FY24 growth was moderate as they increased their yields and stick with LTV of 74% for the Gold Loans segment. Deposits growth of the bank was by 20.7% YoY/7.5% QoQ. CASA ratio was down by 97 bps QoQ/279 bps YoY at 27.58%.

**Asset quality improved:** Slippages ratio for the quarter stood at 0.65% as compared to 1.02% in Q2FY24. Recoveries and upgrades for the quarter stood at INR 340 mn vs. INR 400 mn QoQ. GNPA/NNPA stood at 1.22%/0.31% respectively improving by 5 bps/2 bps sequentially.

**Valuation and View:** CSB Bank has posted muted growth in the last quarter with the bank prioritizing higher yields and better asset quality over growth. We maintain our positive outlook on the bank backed by its stable asset quality and large Gold loan segment. . We value the bank at 2.1x FY26E ABV which yields a target price of INR 410. We reduce our rating to Hold on the stock as we expect to see growth coming in FY25.

**Financial Summary**

Y/E Mar (Rs Mn)	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%

## Q3FY24 - Quarterly Performance (Standalone)

(in INR Mn)

Standalone (INR Mn)	Q3FY24	Q2FY23	Q3FY23	Q-o-Q	Y-o-Y
Interest Income	7,618	6,873	5,921	10.8%	28.7%
Interest Expended	3,792	3,437	2,423	10.3%	56.5%
<b>Net Interest Income</b>	<b>3,827</b>	<b>3,437</b>	<b>3,497</b>	<b>11.3%</b>	<b>9.4%</b>
Other Income	1,253	1,485	899	-15.6%	39.4%
Operating Income	5,080	4,921	4,396	3.2%	15.6%
Operating Expenses	3,121	3,175	2,462	-1.7%	26.8%
Employee Expenses	1,728	1,757	1,517	-1.7%	13.9%
Other Operating Expenses	1,393	1,418	945	-1.7%	47.4%
<b>PPOP</b>	<b>1,959</b>	<b>1,746</b>	<b>1,934</b>	<b>12.2%</b>	<b>1.3%</b>
Provisions	-45	-33	-150	-36.3%	-69.7%
PBT	2,004	1,780	2,084	12.6%	-3.8%
Tax Expenses	504	448	525	12.6%	-3.8%
<b>Net Income</b>	<b>1,500</b>	<b>1,332</b>	<b>1,560</b>	<b>12.6%</b>	<b>-3.8%</b>
<b>Balance Sheet Analysis</b>					
Advances	2,26,582	2,22,560	1,84,567	1.8%	22.8%
Deposits	2,73,448	2,54,384	2,26,640	7.5%	20.7%
Total Assets	3,30,339	3,14,228	2,65,546	5.1%	24.4%
CASA Deposits	75,430	74,480	71,260	1.3%	5.9%
CASA (%)	27.58%	29.28%	31.44%	-169bps	-386bps
CAR (%)	22.99%	23.96%	25.78%	-97bps	-279bps
<b>Spreads</b>					
<b>NIMs (%)</b>	<b>5.10%</b>	<b>4.84%</b>	<b>5.80%</b>	<b>26bps</b>	<b>-70bps</b>
Cost of Funds	5.42%	5.22%	4.28%	20bps	114bps
Yield on Average Advances	11.47%	10.79%	11.01%	69bps	46bps
<b>Asset Quality</b>					
GNPA	2,787	2,848	2,710	-2.1%	2.8%
NNPA	702	725	780	-3.1%	-10.0%
<b>GNPA (%)</b>	<b>1.22%</b>	<b>1.27%</b>	<b>1.45%</b>	<b>-5bps</b>	<b>-23bps</b>
<b>NNPA (%)</b>	<b>0.31%</b>	<b>0.33%</b>	<b>0.42%</b>	<b>-2bps</b>	<b>-11bps</b>
<b>Returns &amp; Expenses</b>					
<b>RoA</b>	<b>1.84%</b>	<b>1.73%</b>	<b>2.37%</b>	<b>11bps</b>	<b>-53bps</b>
RoE	16.55%	15.34%	20.48%	121bps	-393bps
Cost / Income Ratio	61.44%	64.52%	56.00%	-307bps	544bps

Source: Aриhant Research, Company Filings

## Concall Highlights:

### Management Guidance:

- **Management exuberated confidence that the NIM has started picking up, and they will be able to post an annual NIM for FY24 above 5%.**
- **Management expects the liquidity conditions to improve in FY25.**
- **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.**
- **Management is expecting the Non-Gold segment to start picking up from FY25 and beyond as the bank is putting up their processes and systems for that.**

### Key Highlights:

- On a sequential basis the Cost of Deposits increased from 5.22% to 5.42%, yield on advances increased from 10.88% to 11.49% 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 24% YoY. Growth across different segments is said to be stable and will remain so in future.
- Advances grew by 22.8% YoY and deposits grew by 20.7% YoY, against the industry growth by 13%.
- The Cost to Income ratio came at 61.44%, higher by 544 bps YoY / lower by 265 bps QoQ, due to the substantial investments the bank is making in their operational networks as they have added 104 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 Gold Loan Portfolio is touching 48% of the bank's portfolio, and the bank's focus is to maintain a 74% LTV for the Gold loan portfolio. However, competitors in the market are offering higher LTV, the bank remained conservative in increasing further risk as the Management believes the global Gold Prices are still at much elevated levels.**
- **Yield on Gold loan last quarter was 10.99%, and this quarter in Q3FY24 is 11.63%. Hence, the bank has got rid of some of the higher LTV customers.**
- The Management says the Other Income growth will sustain in-line as it has remained consistent at around ~14% of total income.
- The Management says that the bank's focus was to balance their Portfolio, and with an eye on increasing cost of funds, the bank grew slowly on a sequential basis. Despite the Management's focus on keeping Gold Loan LTV at 74%, the portfolio grew slowly and Gold loans remained at as high as 48% of their book.
- The Bank intends to reach to all those geographies and customer pyramids which are not properly catered by the larger banks.
- The Management says that their biggest segment will remain Gold Loan for next couple of years. However, in the long term, the Gold loan could come down to 20% by FY30, and that will not be because they grew it slow but because the other segments start outperforming in the long run.
- The Banks NNPA is at 0.31% while the NNPA for Gold segment was much lower than that. Hence, the Management clarifies that the Gold Loan Portfolio carries much lesser risk compared to other segments, hence they expect it to remain largest segment for them in coming years as well.
- The Management maintains higher provisioning with around INR 1.6-1.7 bn of overall additional provisioning.
- The bank's Yield increased during the quarter due to them giving loans at higher yields as the Management didn't wanted to let the LTV go beyond 74% like their competitors.
- The Management says their Term deposits renewals are very high, and comes at a reasonable rate. Hence, that is the reason for their slow CASA growth. Also, the Management attributed that the CASA growth is getting slow across the industry, and their CASA growth was even slower.
- **The Gold loans portfolio has a yield of less than 12% depending upon the customer.**

## 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
<b>Net Interest Income</b>	<b>11,533</b>	<b>13,338</b>	<b>16,229</b>	<b>19,680</b>	<b>23,995</b>
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
<b>PPOP</b>	<b>6,137</b>	<b>7,074</b>	<b>8,721</b>	<b>11,551</b>	<b>15,174</b>
Provisions	-5	-262	1,239	2,082	3,212
<b>PBT</b>	<b>6,142</b>	<b>7,336</b>	<b>7,482</b>	<b>9,469</b>	<b>11,963</b>
Tax Expenses	1,557	1,863	1,883	2,383	3,011
<b>Net Income</b>	<b>4,585</b>	<b>5,474</b>	<b>5,599</b>	<b>7,086</b>	<b>8,952</b>

Source: Arihant Research, Company Filings

Balance Sheet (INR Mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Equity &amp; Liabilities</b>					
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
<b>Total Capital &amp; Liabilities</b>	<b>2,53,563</b>	<b>2,91,622</b>	<b>3,37,359</b>	<b>3,88,000</b>	<b>4,55,074</b>
<b>Assets</b>					
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
<b>Total Assets</b>	<b>2,53,563</b>	<b>2,91,623</b>	<b>3,43,942</b>	<b>4,07,584</b>	<b>4,85,460</b>

Source: Arihant Research, Company Filings

Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth rates</b>					
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%
<b>Balance sheet ratios</b>					
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%
<b>Operating efficiency</b>					
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%
<b>Profitability</b>					
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%
<b>Asset quality</b>					
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%
<b>Per share data / Valuation</b>					
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

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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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