

**CMP: INR 384**

**Rating: Accumulate**

**Target Price: INR 435**

**Stock Info**

BSE	542867
NSE	CSBBANK
Bloomberg	CSBBANK IN
Reuters	CSBB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Mn)	1,740
Mkt Cap (INR Mn)	66,640
52w H/L (INR)	371 / 214
Avg Yearly Vol (in 000')	538

**Shareholding Pattern %**

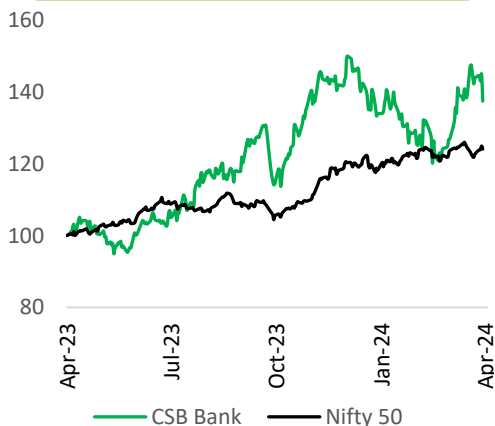
(As on March, 2024)

Promoters	49.7
Public & Others	50.3

**Stock Performance (%)**

	1m	6m	12m
CSB Bank	9.5	17.3	38.9
Nifty 50	0.4	17.1	24.1

**CSB Bank Vs Nifty 50**



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CSB Bank has posted flat net profit at INR 1,515 mn as a wholesale account slipped for the bank taking down its Asset Quality parameters along itself. Provision for the quarter was at INR 216 mn vs. negative Provisions in Q3FY24 and Q4FY23. NII of the bank grew marginally at 10.8% YoY driven by 17.8% YoY growth in advances. Asset quality of the bank deteriorated with GNPA/ NNPA increased by 25bps/20bps QoQ at 1.47%/0.51%. Bank has reported treasury gain of INR 170 mn in Q4FY24 as compared to INR 130 mn in the previous quarter. For full year FY24, the bank had a treasury gain of INR 480 mn against INR 20 mn in FY23. NIM declined by 6 bps QoQ at 5.04% due to increase in deposits. Business growth momentum of the bank started coming back with net advances growth at 17.8% YoY/7.4% QoQ led by gold loan book growth of 22% YoY.

**NIM declined due to increase in deposits:** NII growth for the quarter was at 0.9% QoQ/10.8% YoY to INR 3,860 mn. NIM of the bank declined by 6 bps QoQ at 5.04% due to increase in cost of deposits by 29 bps QoQ, while the yield improved by 28 bps QoQ. Other income for the quarter increased by 56.8% QoQ/ 55.6% YoY to INR 1,965 mn. Bank has reported operating profit jump of 16.4% QoQ/12.9% YoY basis at INR 2,280 mn. Cost to income ratio of the bank was down by 58 bps QoQ to 60.86%.

**Loan growth seen strong across retail portfolio:** Overall, net advances of the bank increased by 7.4% QoQ/17.8 YoY to INR 243 bn, driven by growth in retail, SME and gold loans. Within retail, gold loan portfolio increased by 22% YoY to INR 1,18,180 mn. Share of gold loan portfolio increased to 48% in Q4FY24. Corporate portfolio saw rundown of 2% YoY to INR 59,560 mn and SME book up by 28% YoY to INR 27,690 mn. Management has stated that Q1FY24 growth was driven by gold loans Deposits growth of the bank stood at 21% YoY. CASA ratio down by 500 bps QoQ at 30.84%.

**Asset quality improved:** Slippages ratio for the quarter stood at 2.20% as compared to 0.65% in Q3FY24 due to a wholesale account slipping during the quarter. Recoveries and upgrades for the quarter stood at INR 410 mn vs. INR 340 mn in Q3FY24. Calculated PCR ratio of the bank came at 86.44%, decreased by 541 bps QoQ.

**Valuation and View:** CSB Bank has posted healthy increase of 17.8% YoY of loan book growth along with deposit growth at 21.3% YoY. As the bank implements System Migration and new digital platform over the next 18 months, we believe the Cost to Income ratio may remain higher for sometime. We maintain our positive outlook on the bank backed by its stable asset quality and loan growth momentum. We value the bank at 1.3x FY27E ABV with a target price of INR 435 and Accumulate rating.

**Financial Summary**

Particulars (Rs Cr)	FY23	FY24	FY25E	FY26E	FY27E
NII	13338	14764	20637	24893	29673
PAT	5474	5668	6220	7102	8274
Networth	32036	38036	44256	51358	59632
EPS (Rs)	32	33	36	41	48
P/E (x)	12.2	11.8	10.7	9.4	8.1
P/Adj BV (x)	2.3	1.9	1.6	1.4	1.1
RoA (%)	1.9%	1.6%	1.4%	1.4%	1.3%
RoE (%)	17.1%	14.9%	14.1%	13.8%	13.9%

## Q4FY24 - Quarterly Performance (Standalone)

(in INR Mn)

Standalone (INR Mn)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Interest Income	7,949	7,618	6,365	4.3%	24.9%
Interest Expended	4,088	3,792	2,881	7.8%	41.9%
<b>Net Interest Income</b>	<b>3,860</b>	<b>3,827</b>	<b>3,484</b>	<b>0.9%</b>	<b>10.8%</b>
Other Income	1,965	1,253	1,263	56.8%	55.6%
Operating Income	5,825	5,080	4,748	14.7%	22.7%
Operating Expenses	3,545	3,121	2,729	13.6%	29.9%
Employee Expenses	1,900	1,728	1,556	10.0%	22.1%
Other Operating Expenses	1,645	1,393	1,173	18.1%	40.3%
<b>PPOP</b>	<b>2,280</b>	<b>1,959</b>	<b>2,019</b>	<b>16.4%</b>	<b>12.9%</b>
Provisions	216	-45	-92	575.8%	-334.8%
PBT	2,064	2,004	2,111	3.0%	-2.2%
Tax Expenses	549	504	547	8.9%	0.4%
<b>Net Income</b>	<b>1,515</b>	<b>1,500</b>	<b>1,563</b>	<b>1.0%</b>	<b>-3.1%</b>
<b>Balance Sheet Analysis</b>					
Advances	2,43,356	2,26,582	2,06,506	7.4%	17.8%
Deposits	2,97,188	2,73,448	2,45,058	8.7%	21.3%
Total Assets	3,60,560	3,30,339	2,91,623	9.1%	23.6%
CASA Deposits	80,840	75,430	78,860	7.2%	2.5%
CASA (%)	27.20%	27.58%	32.18%	-38bps	-498bps
CAR (%)	24.47%	22.99%	27.10%	148bps	-263bps
<b>Spreads</b>					
<b>NIMs (%)</b>	<b>5.04%</b>	<b>5.10%</b>	<b>5.38%</b>	<b>-6bps</b>	<b>-34bps</b>
Cost of Funds	5.43%	5.42%	4.77%	1bps	66bps
Yield on Average Advances	11.24%	11.47%	10.81%	-23bps	42bps
<b>Asset Quality</b>					
GNPA	3,611	2,787	2,630	29.5%	37.3%
NNPA	1,249	702	720	77.8%	73.5%
<b>GNPA (%)</b>	<b>1.47%</b>	<b>1.22%</b>	<b>1.26%</b>	<b>25bps</b>	<b>21bps</b>
<b>NNPA (%)</b>	<b>0.51%</b>	<b>0.31%</b>	<b>0.35%</b>	<b>20bps</b>	<b>16bps</b>
<b>Returns &amp; Expenses</b>					
<b>RoA</b>	<b>1.79%</b>	<b>1.84%</b>	<b>2.14%</b>	<b>-5bps</b>	<b>-35bps</b>
RoE	15.93%	16.55%	19.52%	-62bps	-359bps
Cost / Income Ratio	60.86%	61.44%	57.48%	-58bps	338bps

Source: Arianth Research, Company Filings

## Concall Highlights:

### Q4FY24 - Concall Highlights

#### Guidance:

- The Management says that the bank's Cost to Income ratio will start tapering down FY26 and beyond from current levels of ~60% and come well below 50% by FY30.
- The Management does not intend to compromise growth against margins, and hence expects the margins to be lower than 5.0% in FY25, somewhere between 4.5-5%.
- The Management denied any reports of merger with IDBI Bank on rumours of Fairfax bid for IDBI Bank getting through. The Management clarified that had there been any information with them, they are implementing Oracle software for their bank while IDBI Bank has Finnacle, so wouldn't have done that.
- Many of the bank's branches were earlier focussed on handling Gold Loans as their Primary product, and didn't had ATMs installed. Since, now the Bank has decided to convert all branches into full service branches, they are adding ATMs in those branches.

#### Key Highlights:

- NII grew by 0.9% QoQ/10.8% YoY to INR 3,860 mn, PPOP grew by 16.4% QoQ/12.9% YoY to INR 2,280 mn and Net Profits increased by 1.0% QoQ/down 3.1% YoY, respectively.
- For full year FY24, the NII/PPOP/Net Income grew by 10.7%/10.3%/3.6% respectively.
- In FY24, the bank's advances grew by 17.8% and deposits grew by 21.3%.
- Gold Portfolio grew by 22% YoY to INR 1,18,180 mn.
- Yield on Advances increased by 28 bps QoQ/60 bps YoY to 11.77%.
- The Bank has added 76 branches in the fiscal year FY24 taking the total number of branches to 776 branches.
- The bank is planning to go live in Phase 1 of their Whole System Migration and is on track of all timelines.
- In the next year, the Management informs of carrying out the Implementation of the System Migration Project along with opening of 60-75 branches.
- The Management attributes the spike in slippage ratio in Q4FY24 to 2.20% from 0.65% in Q3FY24 was due to 1 account which slipped where the bank had an exposure of INR 170-180 mn, hence they have to do Provisioning of INR 200 mn for that account. The Management says that account alone caused the spike in slippages and GNPA, NNPA and PCR levels as well.
- The Management says they have grown their other segments apart from the Wholesale book, where they have intentionally de-grew the book as the high interest rates by Central Bank and the LCBD business with its own risk reward scenarios is not lucrative enough. Hence, unless the bank sees changes in rates, they will not be growing the wholesale book.
- The Retail, SME Loans and Gold Loans Portfolio has grown by 38% YoY, 28% YoY and 22% YoY respectively, while the Corporate Loans segment has de-grew by 2% YoY for the bank.
- The bank will be ready in the next 18 months with all the Technology and platform for providing universal banking services to their customers through their digital platforms.
- The Management says they didn't grow the wholesale book due to the LCBD where there is no scope of business franchisee building.
- The Management expresses concerns that they do not see interest rates being cut by Central Banks across the globe over the next 2-3 quarters. Hence, maintain a margin guidance of 4.5-5%.
- The Yields of different banking business of the banks stood at: SME yields at 10.7%, with the MSME it goes little higher, Wholesale yields at 9.0-9.5%, SME 10.5-11%, Gold Loans at 12-12.5%, and the Microfinance and Agri loans yields goes to 15-16% while the Retail Loans have yield of 10-11%.
- The LTV of the Gold Loans is 77-78% as of Q4FY24, and may have come down to 73-74% currently. The Bank intends to keep the LTV below 80% in the future as they keep checking their risk in the Portfolio.
- While all the branches have to provide all kinds of banking services, some are more focussed for particular business, like, SME business segment is focussed on not more than 100 branches, MSME is focussed on 200 branches, Gold is focussed mainly in Kerala, Tamil Nadu, Andhra Pradesh and Telangana to some extent.

## Key Financials

Profit & Loss Statement (in INR Mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	23,197	29,275	35,418	41,523	48,384
Interest Expended	9,858	14,511	14,781	16,629	18,711
<b>Net Interest Income</b>	<b>13,338</b>	<b>14,764</b>	<b>20,637</b>	<b>24,893</b>	<b>29,673</b>
Other Income	3,160	5,843	3,309	3,581	3,878
Operating Income	16,499	20,607	23,947	28,474	33,552
Operating Expenses	9,425	12,808	13,184	14,960	17,232
Employee Expenses	5,585	7,147	8,493	9,994	11,991
Other Operating Expenses	3,839	5,661	4,692	4,967	5,242
<b>PPOP</b>	<b>7,074</b>	<b>7,799</b>	<b>10,763</b>	<b>13,514</b>	<b>16,319</b>
Provisions	-262	185	2,451	4,023	5,263
<b>PBT</b>	<b>7,336</b>	<b>7,614</b>	<b>8,312</b>	<b>9,491</b>	<b>11,057</b>
Tax Expenses	1,863	1,946	2,092	2,389	2,783
<b>Net Income</b>	<b>5,474</b>	<b>5,668</b>	<b>6,220</b>	<b>7,102</b>	<b>8,274</b>

Source: Arihant Research, Company Filings

Balance Sheet (in INR Mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Equity &amp; Liabilities</b>					
Share Capital	1,735	1,735	1,735	1,735	1,735
Reserves & Surplus	30,301	36,301	42,521	49,623	57,897
<b>Net Worth</b>	<b>32,036</b>	<b>38,036</b>	<b>44,256</b>	<b>51,358</b>	<b>59,632</b>
<b>Deposits</b>	<b>2,45,058</b>	<b>2,97,188</b>	<b>3,56,626</b>	<b>4,27,951</b>	<b>5,13,541</b>
Borrowings	7,830	17,574	28,295	29,570	29,570
Other Liabilities and Provisions	6,699	7,762	9,702	13,181	13,181
<b>Total Capital &amp; Liabilities</b>	<b>2,91,622</b>	<b>3,60,560</b>	<b>4,38,878</b>	<b>5,22,060</b>	<b>6,15,924</b>
<b>Assets</b>					
Cash & Balances with RBI	14,699	30,897	43,502	54,828	63,686
Balances with Other Banks & Call Money	3,668	652	1,366	1,101	672
Investments	58,487	75,514	94,393	1,11,384	1,31,433
<b>Advances</b>	<b>2,06,507</b>	<b>2,43,356</b>	<b>2,87,160</b>	<b>3,38,849</b>	<b>3,99,841</b>
Fixed Assets	3,194	4,059	5,159	6,558	8,335
Other Assets	5,069	6,082	7,298	9,341	11,957
<b>Total Assets</b>	<b>2,91,623</b>	<b>3,60,560</b>	<b>4,38,878</b>	<b>5,22,060</b>	<b>6,15,924</b>

Source: Arihant Research, Company Filings

## Key Ratios

Ratios	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Growth rates</b>					
Advances (%)	27.0%	9.5%	30.6%	16.8%	14.8%
Deposits (%)	21.2%	5.5%	21.4%	7.3%	15.3%
Total assets (%)	23.7%	8.7%	15.0%	15.7%	14.7%
NII (%)	58.9%	22.5%	15.7%	33.6%	14.5%
Pre-provisioning profit (%)	118.5%	0.1%	15.3%	29.1%	15.3%
PAT (%)	-38.9%	110.0%	19.6%	0.4%	10.1%
<b>Balance sheet ratios</b>					
Credit/Deposit (%)	75.4%	78.3%	84.3%	91.7%	91.3%
CASA (%)	32.2%	33.7%	30.7%	36.6%	38.4%
Advances/Total assets (%)	61.9%	62.4%	70.8%	71.5%	71.5%
Leverage (x) (Asset/Shareholder's Fund)	10.7%	9.6%	9.1%	9.0%	8.9%
CAR (%)	21.4%	24.9%	28.0%	23.1%	22.9%
CAR - Tier I (%)	20.0%	24.3%	27.4%	22.6%	22.9%
<b>Operating efficiency</b>					
Cost/income (%)	54.3%	56.2%	57.1%	56.3%	55.6%
Opex/total assets (%)	3.1%	3.1%	3.2%	3.5%	3.4%
Opex/total interest earning assets	2.5%	2.1%	2.1%	2.4%	2.4%
<b>Profitability</b>					
NIM (%)	4.7%	4.9%	5.1%	5.8%	5.8%
RoA (%)	0.9%	1.8%	1.9%	1.6%	1.6%
RoE (%)	10.0%	17.3%	17.1%	14.8%	14.0%
<b>Asset quality</b>					
Gross NPA (%)	2.7%	1.8%	1.5%	1.1%	0.7%
Net NPA (%)	1.2%	0.7%	1.0%	0.9%	0.7%
PCR (%)	56.3%	63.3%	35.5%	12.3%	-10.8%
Credit cost (%)	1.7%	0.0%	-0.1%	0.6%	0.7%
<b>Per share data / Valuation</b>					
EPS (INR)	12.6	26.4	31.5	32.0	35.2
BVPS (INR)	126	153	185	217	252
ABVPS (INR)	115	140	166	197	233
P/E (x)	22.5	10.7	9.0	8.8	8.0
P/BV (x)	2.3	1.9	1.5	1.3	1.1
P/ABV (x)	2.5	2.0	1.7	1.4	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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