

CMP: ₹ 365

Target: ₹ 420 (15%)

Target Period: 12 months

BUY

August 14, 2025

**Long term plan amid tech transformation to set stage...**

**About the stock:** CSB Bank is a south based private sector bank with Kerala contributing ~20% of total advances. Changed strategy in various aspects of lending have led to a transformation and improved performance in the past few years.

- Gold loans form substantial proportion - 44% of the book
- Healthy liability franchise with loyal customer base of ~21.5 lakh, 834 branches and 791 ATMs

**Q1FY26 business performance:** CSB Bank reported healthy growth in Q1FY26, with gross advances up 31% YoY (3.3% QoQ) to ₹32,552 crore, led by gold loans (36% YoY), corporate (32%), SME (31%) and retail ex-gold (19%), while deposits rose 20.1% YoY (-2.5% QoQ) to ₹35,935 crore, supported by 22.3% YoY growth in term deposits. However, margin pressure persisted, with NIM contracting 21 bps QoQ to 3.54% due to excess liquidity and higher funding costs. Other income rose 42% YoY, with fee-based income up 22% YoY. Asset quality optically weakened, with GNPA rising 27 bps QoQ to 1.84%, though one large account has been subsequently upgraded; excluding this, slippages remained stable YoY. Provisions rose sharply (+203% YoY) on prudent buffers, and PAT grew 5% YoY to ₹119 crore.

**Investment Rationale:**

- **Tech overhaul to power growth:** Management highlighted that the completed tech transformation and CBS migration will strengthen the bank's liabilities profile, improve CASA mobilisation, and enable business scale-up from FY27 onwards. For FY26, the bank reiterated its guidance of >20% credit growth, led by gold, SME, corporate, and retail ex-gold portfolios, alongside steady deposit growth with a rising share of granular liabilities. Margin are likely to bottom out at ~3.5% levels with pickup to be expected from H2FY26. Thus, expect credit growth at 22% CAGR in FY26-27E and margins to stay at ~3.5-4% for the full year.
- **RoA anchored with core levers:** Going ahead, RoA is expected to have bottomed out and is likely to see a revival, driven by: 1) improvement in margins, given ~60% of loan book is fixed and repricing of high-cost bulk deposits 2) continued focus on the core fee engine (~14% of total income), aided by growth in transaction and wholesale banking. Management has revised its credit cost guidance upward to <50 bps for FY26, which remains a key monitorable. While elevated provisioning and flattish margins remain near-term headwinds, robust business growth and healthy fee income are expected to keep RoA sustainable at ~1.5% levels.

**Rating and Target Price**

- While start to the fiscal remained softer owing to margin pressure and higher credit cost, the bank is well poised to recover with continued growth momentum and gradual benefit of tech transformation undertaken. Expect credit growth to remain healthy at ~23-25% CAGR with RoA at ~1.4-1.5% ahead. Thus, we continue to value CSB Bank at 1.2x FY27E BV and provide target price of ₹ 420 per share. Recommend **BUY** rating.

**Key Financial Summary**

₹ crore	FY23	FY24	FY25	3 Year CAGR (FY22-FY25)	FY26E	FY27E	3 Year CAGR (FY25-FY27E)
NII	1,334	1,476	1,476	9%	1,706	2,142	20%
PPP	707	780	910	14%	1,012	1,323	21%
PAT	547	567	594	9%	635	858	20%
P/E	11.6	11.2	10.7		10.0	7.4	
P/ABV	2.1	1.8	1.5		1.3	1.1	
RoA	2.0	1.7	1.4		1.2	1.5	
RoE	18.7	16.2	14.3		13.2	16.8	

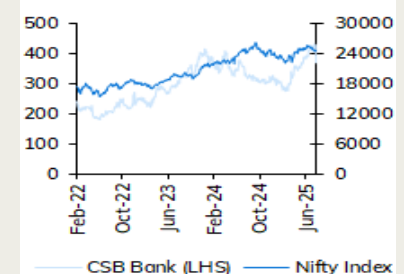
Source: Company, ICICI Direct Research

**Particulars**

Particulars	Amount
Market Capitalisation	₹ 6,432 crore
52 week H/L	446 /266
Net Worth	₹ 4,498 Crore
Face value	10.0

**Shareholding pattern**

	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	40.0	40.0	40.0	40.0
FII	12.7	12.8	13.0	15.4
DII	17.6	17.0	17.0	14.6
Others	29.7	30.2	30.0	30.0

**Price Chart****Key risks**

- (i) Slower than anticipated growth
- (ii) Margin pressure persists

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## Concall highlights

### Performance and growth outlook

- Gross advances up 31% YoY (3.3% QoQ) to ₹32,552 crore, led by gold loans (36% YoY), corporate (32%), SME (31%) and retail ex-gold (19%). Deposits rose 20.1% YoY (-2.5% QoQ) to ₹35,935 crore, supported by 22.3% YoY growth in term deposits.
- Management reiterated confidence of maintaining FY26 loan growth at 20–25% YoY and similar for liabilities accretion.
- CD ratio increased to 91% (from 83–86%) as liquidity risk in system eased; guidance of 85–90% (earlier 80–85%).
- Bulk deposits (~35–40% of liabilities) and CDs repricing downward to aid CoF reduction from Q2/Q3; management targets at least 20 bps CoF drop by Q4.
- FY26 mix guidance:
  - Wholesale share to rise ~1–2%.
  - SME to increase ~50 bps.
  - Gold to remain stable, but may see technical increase from LAS reclassification.
  - Retail share to remain steady or slightly lower.
- Medium-term aim: Post-liabilities build-up, sustain credit growth above 25%, with FY27–FY30 identified as the “scale phase” in the SBS 2030 roadmap.
- Transaction banking, CMS, trade, and supply chain platforms to be rolled out post-CBS migration, supporting wholesale and fee income growth.

### Margins outlook

- NIM contracted 21 bps QoQ to 3.54% due to excess liquidity and decline in yields.
- Margin support factors:
  - Drop in bulk/CD rates (bulk ~35–40% of deposits) to ease CoF.
  - Low share of EBLR/T-bill-linked loans (~17%) limits yield compression from rate cuts.
  - Large fixed-rate book (~60%) offers stability.
  - Rebuild of current account base via transaction banking and wholesale business.

### Fees income trend and sustainability

- Q1 non-interest income up 42% YoY, contributing 19% of total income; core fee income constitutes ~14–15%.
- Growth drivers ahead:
  - Insurance distribution: deeper penetration on a growing customer base.
  - Transaction banking: launch of CMS, trade finance, and supply chain platforms post-tech migration.
  - Syndication income from selective wholesale deals.
  - Seasonal PSLC income (higher in Q4).
  - Large AFS book positioned to benefit from falling yields.

### Asset Quality

- FY26 guidance: Credit cost <50 bps; steady-state (FY27 onwards) GNPA <2%, NNPA <1%.
- Q1 slippages at ₹139 crore:
  - SME: few accounts, with ~₹25 crore already recovered in Q2.
  - Retail unsecured (PL, MFI, credit cards): ~₹25–30 crore.
  - No systemic stress; SME slippages fully secured and expected to be recovered.

## Exhibit 1: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	379.4	362.0	4.8	371.3	2.2	Muted NII owing to margin pressure
NIM (%)	3.54	4.36	-82 bps	3.75	-21 bps	Decline in yields and excess liquidity impacted NIMs
Other Income	245.0	171.8	42.6	381.5	-35.8	Healthy fees & treasury income aided YoY growth
Net Total Income	624.4	533.8	17.0	752.7	-17.0	
Staff cost	221.1	177.0	24.9	196.3	12.6	
Other Operating	182.8	184.4	-0.9	239.7	-23.7	Steady opex
PPP	220.6	172.5	27.9	316.8	-30.4	
Provision	60.8	20.1	203.0	60.2	1.0	Provisions were increased prudently owing to stress buildup
PBT	159.8	152.4	4.8	256.5	-37.7	
Tax Outgo	40.9	39.1	4.6	66.1	-38.1	
PAT	118.9	113.3	4.9	190.4	-37.6	Other income aided earnings
<b>Key Metrics</b>						
GNPA	606.5	424.0	43.0	498.5	21.7	GNPA rose 27 bps QoQ to 1.84%
NNPA	215.2	169.1	27.2	163.5	31.6	
Gross Advances	32,552.0	24,844.0	31.0	31,507.0	3.3	Healthy growth across all verticles
Deposit	35,935.0	29,920.0	20.1	36,861.0	-2.5	Term deposits grew by 22.3% YoY

Source: Company, ICICI Direct Research

## Financial Summary

**Exhibit 2: Profit and loss statement**

₹ crore

(₹ Crore)	FY24	FY25	FY26E	FY27E
Interest Earned	2,927.5	3,597.1	4,425.7	5,313.4
Interest Expended	1,451.1	2,121.0	2,719.2	3,171.0
Net Interest Income	1,476.4	1,476.2	1,706.5	2,142.5
Growth (%)	10.7	0.0	15.6	25.5
Non Interest Income	584.3	972.1	1,166.5	1,376.4
Net Income	2,060.7	2,448.2	2,872.9	3,518.9
Employee cost	714.7	754.3	905.1	1,068.0
Other operating Exp.	566.1	783.7	956.2	1,128.3
Operating Income	779.9	910.2	1,011.7	1,322.6
Provisions	18.5	110.7	156.3	166.8
PBT	761.4	799.5	855.4	1,155.8
Taxes	194.6	205.8	220.2	297.5
Net Profit	566.8	593.7	635.2	858.3
Growth (%)	3.6	4.7	7.0	35.1
EPS (₹)	32.7	34.2	36.6	49.5

Source: Company, ICICI Direct Research

**Exhibit 3: Key ratios**

(Year-end march)	FY24	FY25	FY26E	FY27E
No. of shares (crore)	17.4	17.4	17.4	17.4
EPS (₹)	32.7	34.2	36.6	49.5
DPS (₹)	1.0	1.0	1.1	1.5
BV (₹)	210.5	250.5	286.1	334.0
ABV (₹)	203.3	241.1	273.2	317.6
P/E	11.2	10.7	10.0	7.4
P/BV	1.7	1.5	1.3	1.1
P/ABV	1.8	1.5	1.3	1.1
Yields & Margins (%)				
Net Interest Margins	5.1	3.9	3.6	3.7
Avg. cost on funds	5.1	5.7	5.8	5.7
Yield on average advances	10.9	10.5	10.2	10.1
Quality and Efficiency (%)				
Cost to income ratio	62.2	62.8	64.8	62.4
Credit/Deposit ratio	81.9	85.5	87.1	86.7
GNPA %	1.5	1.6	1.6	1.7
NNPA %	0.5	0.5	0.6	0.6
RoE	16.2	14.3	13.2	16.8
RoA	1.7	1.4	1.2	1.5

Source: Company, ICICI Direct Research

**Exhibit 4: Balance sheet**

₹ crore

(₹ Crore)	FY24	FY25	FY26E	FY27E
<u>Sources of Funds</u>				
Capital	173.5	173.5	173.5	173.5
Reserves and Surplus	3,630.1	4,324.2	4,940.3	5,772.9
Networth	3,803.7	4,497.7	5,113.9	5,946.4
Deposits	29,718.8	36,861.5	44,834.9	55,000.2
Borrowings	1,757.4	5,546.3	5,860.3	4,766.4
Other Liabilities & Provisions	776.2	930.8	1,430.5	2,937.8
Total	36,056.0	47,836.2	57,239.6	68,650.9
<u>Application of Funds</u>				
Fixed Assets	405.9	628.7	685.3	746.9
Investments	7,551.4	11,389.3	13,002.1	15,400.1
Advances	24,335.6	31,507.0	39,068.7	47,663.9
Other Assets	608.2	719.0	896.7	1,100.0
Cash with RBI & call money	3,154.9	3,592.2	3,586.8	3,740.0
Total	36,056.0	47,836.2	57,239.6	68,650.9

Source: Company, ICICI Direct Research

**Exhibit 5: Growth ratios**

(% growth)	FY24	FY25	FY26E	FY27E
Total assets	23.6	32.7	19.7	19.9
Advances	17.8	29.5	24.0	22.0
Deposit	21.3	24.0	21.6	22.7
Total Income	24.9	18.8	17.3	22.5
Net interest income	10.7	0.0	15.6	25.5
Operating expenses	35.9	20.1	21.0	18.0
Operating profit	10.3	16.7	11.1	30.7
Net profit	3.6	4.7	7.0	35.1
Net worth	18.7	18.2	13.7	16.3
EPS	3.6	4.8	7.0	35.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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