

CMP: ₹ 429

Target: ₹ 500 (17%)

Target Period: 12 months

BUY

November 7, 2025

**Strong Q2 recovery aided by margin revival and sustained gold momentum...**

**About the stock:** CSB Bank is a south based private sector bank with Kerala contributing ~19% of total advances.

- Gold loans form substantial proportion - 47% of the book
- Healthy liability franchise with loyal customer base of ~21.5 lakh, 838 branches and 791 ATMs

**Q2FY26 business performance:** CSB Bank delivered a strong Q2FY26 performance with advances up 29% YoY to ₹34,712 crore, driven by gold (+37%), SME (+31%), and corporate (+32%) segments. Deposits grew 25% YoY to ₹39,651 crore, led by term deposits. NIM expanded 27 bps QoQ to 3.81%, aided by a better asset mix and lower funding cost. Other income jumped 75% YoY, supported by robust fee income, while the CI ratio improved to 63.9%. Asset quality stayed healthy with GNPA/NNPA at 1.81%/0.52%, and RoA rose 30 bps QoQ to 1.33%. PAT grew 16% YoY (35% QoQ) to ₹160 crore.

**Investment Rationale:**

- **Margins firm up, fee income strengthens:** CSB Bank regained momentum after a soft Q1FY26, with NIMs improving 27 bps QoQ to 3.81%, led by higher gold loan yields, improved mix in wholesale and SME segments, and faster repricing of bulk deposits. Directionally, margins are expected to remain within the guided range of 3.7–3.9%, assuming no further rate cuts. Overall, strong disbursement momentum (50% YoY) across segments aided robust fee income growth (101% YoY) which partially offset lower treasury gains. Management expects a meaningful pickup in the retail business from FY27E, supported by the completion of core system transformation and digital lending platform rollout.
- **Stable asset metrics amid expansion:** RoA improved ~30 bps QoQ to 1.33%, led by revival in margins and stable asset quality. Operating expenses remained elevated due to continued tech investments, with the CI ratio at ~63.9%, expected to stay in 60–65% range through FY27E before improving as scale benefits materialize. Management guided for credit cost between ~40–50 bps, supported by a high PCR of 84% and incremental recoveries from MSME accounts. Asset quality remained strong, with GNPA/NNPA at 1.81%/0.52%, reflecting prudent provisioning and negligible unsecured exposure (<3%). The bank continues to expand its branch network steadily, adding 50–60 branches annually, while maintaining focus on asset quality discipline and cost optimization as growth scales up.

**Rating and Target Price**

- Factoring ~60% fixed rate loan book, stable margins at 3.7–3.9% and sustained business momentum. We expect credit growth to remain healthy at ~23–25% CAGR with RoA at ~1.4–1.5% ahead, valuing CSB Bank at 1.4x FY27E BV and provide target price of ₹ 500 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%	1,753	2,246	23%
PPP	707	780	910	14%	1,058	1,426	25%
PAT	547	567	594	9%	669	933	25%
P/E	13.6	13.1	12.5		11.1	8.0	
P/ABV	2.5	2.1	1.8		1.6	1.3	
RoA	2.0	1.7	1.4		1.3	1.6	
RoE	18.7	16.2	14.3		13.9	18.1	

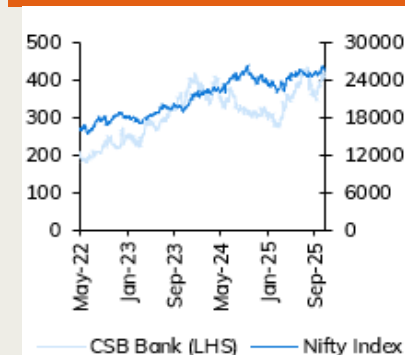
Source: Company, ICICI Direct Research

**Particulars**

Particulars	Amount
Market Capitalisation	₹ 7,492 crore
52 week H/L	446 /266
Net Worth	₹ 4,700 Crore
Face value	10.0

**Shareholding pattern**

	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	40.0	40.0	40.0	40.0
FII	12.8	13.0	15.4	14.2
DII	17.0	17.0	14.6	16.1
Others	30.2	30.0	30.0	29.7

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

- Lower fee income inflating CI ratio
- Slower credit growth amid softening of gold prices

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## Concall highlights

### Performance and growth outlook

- Advances grew 29% YoY (vs. 11.4% system growth), supported by all segments — gold, SME, corporate, and retail.
- Gold loans remained the largest segment at 47% of total advances, followed by wholesale banking and SME.
- Net profit stood at ₹160 crore (+16% YoY, +35% QoQ) and operating profit rose 39% YoY (+27% QoQ) to ₹279 crore, reflecting broad-based improvement across business segments.
- NII increased 15% YoY and 12% QoQ, while other income surged 75% YoY and 43% QoQ, contributing 24% of total income.
- Gold portfolio expected to remain between 25–30% of total AUM by FY30, as new SME-linked gold lending products gain traction.
- Deposits grew 25% YoY and 10% QoQ, outpacing system trends; CASA ratio stood at 21.17% (+9% YoY).

### Margins outlook

- Margin expansion was supported by both rising loan yields and marginally lower cost of funds, driven by reduced bulk deposit rates and strategic shift toward shorter tenors.
- The bank expects NIM to remain stable in the 3.7–3.9% range for the rest of FY26.
- Strong disbursement momentum (50% YoY) across gold, SME, and wholesale segments aided processing fee income, which formed the bulk of non-interest income.
- Core fee income (insurance, processing, transaction banking) grew robustly and is viewed as sustainable, with ~80–90% being granular in nature.

### Asset Quality and Opex

- GNPA/NNPA improved to 1.81%/0.52% (vs. 1.84%/0.66% in Q1FY26); PCR rose to 84.1% (with write-offs) and 71.6% (without).
- The bank holds ₹199 crore contingency provisions over regulatory requirements.
- Credit cost remained at 53 bps, and management guided for a normalized 40–50 bps range going forward.
- Gold loan portfolio continues to exhibit low delinquencies; overall unsecured exposure is <3% of total book.
- Management indicated that technology-related costs currently form ~8–9% of total opex, expected to normalize as scale benefits accrue.
- Cost-to-income ratio is expected to remain between 60–65% over FY26–FY27 before improving sharply from FY28 onwards.
- Branch network reached 838 branches and 810 ATMs; expansion will continue at ~50–60 branches per year, targeting ~1,000 branches before reassessment.

### Other updates

- CRAR stood at 20.99% with Tier-1 ratio at 19.19%, among the highest in the sector, aided by strong internal accruals and low RWA intensity (driven by gold-backed assets).
- The bank maintains comfortable liquidity buffers with LCR at 126% and NSFR at 116%.
- The core banking system (FlexCube) migration and integration of 52 surround systems have been successfully stabilized; Phase 2 of digital transformation is underway.

**Exhibit 1: Variance Analysis**

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
NII	423.6	367.5	15.3	379.4	11.6	Healthy NII growth
NIM (%)	3.81	4.30	-49 bps	3.54	27 bps	Sequential growth aided by faster repricing in bulk deposits
Other Income	349.2	199.4	75.1	245.0	42.5	Healthy fees aided by higher disbursement
Net Total Income	772.8	566.9	36.3	624.4	23.8	
Staff cost	228.1	184.8	23.4	221.1	3.2	
Other Operating	265.3	181.7	46.0	182.8	45.2	Elevated tech exps
PPP	279.3	200.4	39.4	220.6	26.6	
Provision	63.7	13.9	357.6	60.8	4.7	Provisions were increased prudently
PBT	215.7	186.4	15.7	159.8	34.9	
Tax Outgo	55.3	48.0	15.2	40.9	35.2	
PAT	160.3	138.4	15.8	118.9	34.9	Other income aided earnings
<b>Key Metrics</b>						
GNPA	628.8	452.1	39.1	606.5	3.7	GNPA delined 3 bps QoQ to 1.84%
NNPA	178.5	183.3	-2.7	215.2	-17.1	
Gross Advances	34,261.6	26,602.1	28.8	32,552.0	5.3	Healthy growth across all verticles
Deposit	39,651.5	31,840.2	24.5	35,935.0	10.3	Term deposits grew by 29.3% 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	4,449.8	5,402.5
Interest Expended	1,451.1	2,121.0	2,696.7	3,157.0
Net Interest Income	1,476.4	1,476.2	1,753.2	2,245.6
Growth (%)	10.7	0.0	18.8	28.1
Non Interest Income	584.3	972.1	1,166.5	1,376.4
Net Income	2,060.7	2,448.2	2,919.6	3,622.0
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	1,058.4	1,425.7
Provisions	18.5	110.7	156.9	168.9
PBT	761.4	799.5	901.4	1,256.9
Taxes	194.6	205.8	232.0	323.5
Net Profit	566.8	593.7	669.4	933.3
Growth (%)	3.6	4.7	12.7	39.4
EPS (₹)	32.7	34.2	38.6	53.8

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	38.6	53.8
DPS (₹)	1.0	1.0	1.2	1.6
BV (₹)	210.5	250.5	288.0	340.1
ABV (₹)	203.3	241.1	275.1	323.7
P/E	13.1	12.5	11.1	8.0
P/BV	2.0	1.7	1.5	1.3
P/ABV	2.1	1.8	1.6	1.3
Yields & Margins (%)				
Net Interest Margins	5.1	3.9	3.7	3.8
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	63.8	60.6
Credit/Deposit ratio	81.9	85.5	87.1	87.4
GNPA %	1.5	1.6	1.6	1.7
NNPA %	0.5	0.5	0.6	0.6
RoE	16.2	14.3	13.9	18.1
RoA	1.7	1.4	1.3	1.6

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	4,973.5	5,878.9
Networth	3,803.7	4,497.7	5,147.1	6,052.4
Deposits	29,718.8	36,861.5	45,019.0	55,225.8
Borrowings	1,757.4	5,546.3	4,903.3	4,824.8
Other Liabilities & Provisions	776.2	930.8	2,849.8	4,319.8
Total	36,056.0	47,836.2	57,919.1	70,422.9
<u>Application of Funds</u>				
Fixed Assets	405.9	628.7	685.3	746.9
Investments	7,551.4	11,389.3	13,505.7	16,567.7
Advances	24,335.6	31,507.0	39,226.3	48,248.3
Other Assets	608.2	719.0	900.4	1,104.5
Cash with RBI & call money	3,154.9	3,592.2	3,601.5	3,755.4
Total	36,056.0	47,836.2	57,919.1	70,422.9

Source: Company, ICICI Direct Research

**Exhibit 5: Growth ratios**

(% growth)	FY24	FY25	FY26E	FY27E
Total assets	23.6	32.7	21.1	21.6
Advances	17.8	29.5	24.5	23.0
Deposit	21.3	24.0	22.1	22.7
Total Income	24.9	18.8	19.3	24.1
Net interest income	10.7	0.0	18.8	28.1
Operating expenses	35.9	20.1	21.0	18.0
Operating profit	10.3	16.7	16.3	34.7
Net profit	3.6	4.7	12.7	39.4
Net worth	18.7	18.2	14.4	17.6
EPS	3.6	4.8	12.7	39.4

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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