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Slippages spiked in Q3, normalisation expected in few quarters

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

- Gold loans form substantial proportion - 51% of the book
- Healthy liabilities franchise with loyal customer base of ~21.5 lakh and 846 branches

Q3FY26 business performance: CSB Bank's Q3FY26 performance was mixed, with healthy balance sheet growth and margin improvement offset by elevated slippages and higher provisioning, which weighed on profitability. Gross advances grew 29% YoY (7% QoQ) to ₹37,161 crore, driven by gold loans and wholesale segments, while deposits rose 21% YoY (2% QoQ) to ₹40,460 crore, though CASA moderated to 20.6%. NII increased 21% YoY to ₹453 crore, supported by asset growth and NIM expansion to 3.86% (up 5 bps QoQ), aided by elevated CD ratio. However, asset quality deteriorated sequentially, with GNPA/NNPA rising to 1.96%/0.67% (up 15 bps/15bps) respectively, led by higher SME slippages, resulting in increase in provisions. PAT remained largely flat YoY at ₹153 crore (-5% QoQ).

Investment Rationale:

- **Higher SME slippages weigh on profitability:** Asset quality pressures weighed on earnings in Q3FY26, with slippages of ~₹197 crore (vs. ₹62 crore in Q3FY25), largely originating from the SME segment (~12% of total advances), leading to elevated provisioning and a moderation in profitability. Management clarified that these SME slippages were driven by ~10–12 accounts, many of which slipped due to technical or timing-related issues. Further, management also indicated that ~40–50% of SME slippages, with early upgrades already visible post quarter-end (~₹30 crore already upgraded). The SME portfolio remains ~80%+ collateralised, with management emphasising strong borrower intent and cash-flow visibility. Expect credit costs to normalise by Q1FY27, as upgrades materialise and asset quality stabilises.
- **NIM stability and tech scale-up to support medium-term RoA:** Core profitability drivers remain intact, with NIM improving to 3.86% (up 5 bps QoQ), supported by a gold-heavy loan mix (~51% of advances) and elevated CD ratio. While RoA moderated to 1.22% in Q3 (vs 1.33% in Q2FY25) due to higher provisions, management remains confident of RoA improvement toward ~1.4–1.5% as credit cost eases and operating leverage improves. The completion of CBS migration and digital platform upgrades is expected to aid CASA build-up (currently ~20.6%), enable scalable growth in retail and SME segments, and drive structural improvement in efficiency over the medium term.

Rating and Target Price

- We believe recent spike in slippages is transitory, while strategy to scale up growth with product launch and customer accretion remains intact. Given sharp correction in the stock price, valuations appear relatively comfortable. Rolling forward to FY28E, we maintain our BUY rating on stock with target price of 470, assigning multiple of 1.2x FY28E BV.

Key Financial Summary

₹ crore	FY24	FY25	3 Year CAGR (FY22-FY25)	FY26E	FY27E	FY28E	3 Year CAGR (FY25-FY28E)
NII	1,476	1,476	9%	1,730	2,157	2,671	22%
PPP	780	910	14%	1,051	1,356	1,725	24%
PAT	567	594	9%	590	825	1,056	21%
P/E	12.2	11.7		11.8	8.4	6.6	
P/ABV	2.0	1.7		1.5	1.3	1.1	
RoA	1.7	1.4		1.1	1.5	1.5	
RoE	16.2	14.3		12.3	16.3	18.0	

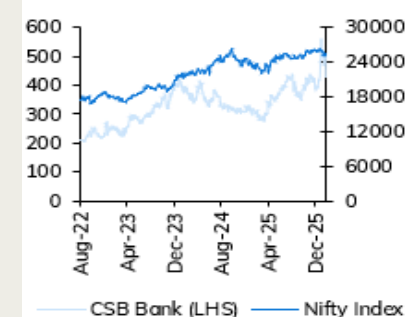
Source: Company, ICICI Direct Research

**Particulars**

Particulars	Amount
Market Capitalisation	₹ 7,300 crore
52 week H/L	575 / 266
Net Worth	₹ 4,700 Crore
Face value	10.0

Shareholding pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	40.0	40.0	40.0	40.0
FII	13.0	15.4	14.2	14.1
DII	17.0	14.6	16.1	15.6
Others	30.0	30.0	29.7	30.3

Price Chart**Key risks**

- Continued slippages from SME or lower than expected upgrades
- Slower credit growth amid softening of gold prices

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

CA Parth Chintkindi
parth.chintkindi@icicisecurities.com

Concall highlights

Asset Quality, Slippages & Credit Cost

- Total slippages stood at ~₹197 crore in Q3, largely concentrated in the SME segment; wholesale slippages were negligible (₹5-6 crore), while retail slippages were largely in line with the previous quarter.
- Management clarified that the SME slippages were driven by ~10-12 accounts, many of which slipped due to technical or timing-related issues, rather than structural stress.
- ~40-50% of SME slippages are expected to be upgraded over the next 1-2 quarters; ₹30 crore of SME accounts have already been upgraded post quarter-end.
- SME portfolio remains ~80%+ collateralised, with management emphasising strong intent and cash-flow visibility among borrowers.
- Elevated credit cost in Q3 was termed as a peak, with management confident of normalisation from Q4 onwards.

Opex and CI ratio

- Sequential decline in opex was partly due to favourable PSLC timing effects.
- CI ratio at ~60% is not structural and may tick up modestly in coming quarters due to PSLC normalisation.
- Technology cost will not meaningfully decline near-term, as maintenance and AMC expenses continue post-migration.
- Structural improvement in CI ratio is expected from FY28 onwards, with management targeting ~50% CI ratio by FY30 as scale benefits kick in.
- Exposure to unsecured retail, MFI, and two-wheeler loans has been consciously reduced, limiting incremental risk.
- Unsecured retail now forms only ~2-2.5% of the overall loan book, with the portfolio gradually running down.

Performance and growth outlook

- Asset growth of ~25%+ YoY and deposit growth of ~20%+ YoY expected to continue into FY27.
- Deposit growth has been supported by a higher share of bulk deposits (~46-47% of total term deposits), reflecting balance sheet scale constraints.
- Bulk deposits are largely short-tenor (≤ 1 year), allowing repricing flexibility if liquidity conditions ease.
- Management expects bulk deposit rates to soften faster than retail rates once system liquidity improves.
- Retail CASA build-up is expected to accelerate gradually over the next 12-18 months, supported by new products post-CBS migration.
- Gold loans currently constitute ~50-51% of advances, with management emphasising low LTV (sub-60%) and short-tenor nature of loans.
- A new focus segment is emerging in gold-backed working capital loans, with higher ticket sizes and repeat usage.
- Over the long term (by FY30), management aims to reduce gold share to ~25-30%, as SME (18-20%), and wholesale (~30%) and retail (remaining) portfolios scale up.
- SME growth has been intentionally moderated to ~20% YoY in 9MFY26 (vs. ~30% in FY25), reflecting a risk-first approach amid global and export-related uncertainties.
- Management highlighted selective stress in export-linked SME pockets, but noted that exposures are well collateralised and not legacy in nature.
- Once asset quality stabilises, SME is expected to re-emerge as a key growth engine from FY27, supported by strengthened underwriting and monitoring.

Margins outlook

- NII increased 21% YoY to ₹453 crore, supported by asset growth and NIM expansion to 3.86% (up 5 bps QoQ), aided by elevated CD ratio.
- Management guided for NIM to stabilise in the 3.7–3.9% range, acknowledging systemic deposit and liquidity pressures.
- Incremental borrowing costs have eased marginally, though benefits are partly offset by higher hedging costs.
- Gold loans (fixed-rate) and asset mix continue to act as natural margin stabilisers.

Other updates

- Branch additions remain calibrated at ~40–45 branches annually, with focus on leveraging existing network rather than aggressive expansion.
- RoA target of ~1.5% over the medium term remains intact.

Exhibit 1: Variance Analysis

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
NII	453.2	375.5	20.7	423.6	7.0	Healthy loan growth at 29% YoY
NIM (%)	3.86	4.11	-25 bps	3.81	5 bps	Aided sequentially by elevated CD ratio
Other Income	276.5	219.4	26.0	349.2	-20.8	Driven by fee income though treasury income was muted
Net Total Income	729.7	594.8	22.7	772.8	-5.6	
Staff cost	231.8	196.1	18.2	228.1	1.6	includes ₹5.22 crore provision related to labour code
Other Operating Exp	205.8	178.0	15.6	265.3	-22.5	
PPP	292.1	220.7	32.4	279.3	4.6	
Provision	86.8	16.5	424.9	63.7	36.3	Higher slippages of ~197 crore, largely from SME segment
PBT	205.3	204.1	0.6	215.7	-4.8	
Tax Outgo	52.7	52.5	0.3	55.3	-4.8	
PAT	152.7	151.6	0.7	160.3	-4.8	Remained flat YoY owing to higher credit cost
Key Metrics						
GNPA	729.4	458.2	59.2	628.8	16.0	GNPA increased by 15 bps sequentially
NNPA	245.7	182.7	34.5	178.5	37.7	
Gross Advances	36,677.0	28,639.0	28.1	34,261.6	7.0	Led by strong momentum in gold loans and wholesale
Deposit	40,460.0	33,407.0	21.1	39,651.5	2.0	CASA ratio at 20.55%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement

₹ crore

(₹ Crore)	FY25	FY26E	FY27E	FY28E
Interest Earned	3,597.1	4,407.0	5,336.6	6,525.0
Interest Expended	2,121.0	2,677.1	3,179.7	3,854.1
Net Interest Income	1,476.2	1,729.9	2,156.9	2,670.8
Growth (%)	0.0	17.2	24.7	23.8
Non Interest Income	972.1	1,166.5	1,376.4	1,624.2
Net Income	2,448.2	2,896.4	3,533.3	4,295.0
Employee cost	754.3	905.1	1,068.0	1,260.3
Other operating Exp.	783.7	940.5	1,109.8	1,309.5
Operating Income	910.2	1,050.8	1,355.5	1,725.2
Provisions	110.7	256.0	244.2	302.8
PBT	799.5	794.8	1,111.4	1,422.5
Taxes	205.8	204.6	286.1	366.1
Net Profit	593.7	590.2	825.3	1,056.3
Growth (%)	4.7	-0.6	39.8	28.0
EPS (₹)	34.2	34.0	47.6	60.9

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end march)	FY25	FY26E	FY27E	FY28E
No. of shares (crore)	17.4	17.4	17.4	17.4
EPS (₹)	34.2	34.0	47.6	60.9
DPS (₹)	1.0	1.0	1.4	1.8
BV (₹)	250.5	283.5	329.7	388.7
ABV (₹)	241.1	270.7	313.2	368.0
P/E	11.7	11.8	8.4	6.6
P/BV	1.6	1.4	1.2	1.0
P/ABV	1.7	1.5	1.3	1.1
Yields & Margins (%)				
Net Interest Margins	3.9	3.7	3.8	3.7
Avg. cost on funds	5.7	5.8	5.7	5.6
Yield on average advances	10.5	10.2	10.1	10.0
Quality and Efficiency (%)				
Cost to income ratio	62.8	63.7	61.6	59.8
Credit/Deposit ratio	85.5	89.2	89.0	88.7
GNPA %	1.6	1.9	1.7	1.7
NNPA %	0.5	0.6	0.6	0.6
RoE	14.3	12.3	16.3	18.0
RoA	1.4	1.1	1.5	1.5

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet

₹ crore

(₹ Crore)	FY25	FY26E	FY27E	FY28E
Sources of Funds				
Capital	173.5	173.5	173.5	173.5
Reserves and Surplus	4,324.2	4,896.7	5,697.2	6,721.9
Networth	4,497.7	5,070.2	5,870.8	6,895.4
Deposits	36,861.5	44,137.8	54,857.1	68,293.6
Borrowings	5,546.3	5,907.6	6,837.0	7,872.3
Other Liabilities & Provisions	930.8	1,284.5	1,656.8	2,758.4
Total	47,836.2	56,400.0	69,221.7	85,819.8
Application of Funds				
Fixed Assets	628.7	685.3	746.9	814.2
Investments	11,389.3	11,917.2	14,811.4	18,439.3
Advances	31,507.0	39,383.8	48,835.9	60,556.5
Other Assets	719.0	882.8	1,097.1	1,365.9
Cash with RBI & call money	3,592.2	3,531.0	3,730.3	4,644.0
Total	47,836.2	56,400.0	69,221.7	85,819.8

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(% growth)	FY25	FY26E	FY27E	FY28E
Total assets	32.7	17.9	22.7	24.0
Advances	29.5	25.0	24.0	24.0
Deposit	24.0	19.7	24.3	24.5
Total Income	18.8	18.3	22.0	21.6
Net interest income	0.0	17.2	24.7	23.8
Operating expenses	20.1	20.0	18.0	18.0
Operating profit	16.7	15.4	29.0	27.3
Net profit	4.7	-0.6	39.8	28.0
Net worth	18.2	12.7	15.8	17.5
EPS	4.8	-0.6	39.8	28.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headsquality@icicidirect.com Contact Number: 18601231122

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