

May 5, 2026

**Sharp retraction in credit cost aids profitability...**

**About the stock:** CSB Bank is a south based private sector bank with Kerala contributing ~18% of total advances.

- Gold loans form substantial proportion - 53% of the book
- Healthy liabilities franchise with loyal customer base of ~21.5 lakh and 862 branches

**Q4FY26 business performance:** CSB Bank delivered a decent Q4FY26 performance, with PAT at ₹202 crore, up 6% YoY (32% QoQ), driven by lower provisions and stable operating performance. Net Advances grew 27% YoY (9% QoQ) to ₹39,848 crore, led by continued traction in gold and wholesale segments, while deposits rose 20% YoY (9% QoQ) to ₹44,246 crore, though CASA remained modest at ~20%. NII grew 25% YoY (2% QoQ) to ₹464 crore, while other income declined 20% YoY (11% QoQ) due to weak treasury, but improved sequentially on the back of fee income. NIM remained broadly stable at 3.83% (-3 bps QoQ) despite funding cost pressures, while C/I ratio increased to ~61.9% due to higher opex. Provisions declined sharply 62% YoY (73% QoQ) to ₹23 crore, aiding profitability. Asset quality improved meaningfully, with GNPA/NNPA at 1.66%/0.4%, supported by strong upgrades and lower slippages. RoA improved to 1.53% (vs. 1.22% QoQ).

**Investment Rationale:**

- **Asset quality improves sharply; SME growth to be calibrated:** Q4FY26 saw a meaningful improvement in asset quality, with GNPA/NNPA declining to 1.66%/0.4% (vs. 1.96%/0.67% QoQ), supported by lower slippages and strong upgrades, particularly in the SME segment. The elevated slippages seen in Q3—largely from ~10–12 SME accounts—were partly technical in nature, in-line with management's earlier commentary. Consequently, provisions declined sharply (~73% QoQ), with management maintaining a conservative buffer (~₹200+ crore), supporting earnings visibility and stability in asset quality going forward. Notably, management has further moderated SME book to 10.8% of advances (vs 13.3% Q4FY25 & ~2–3% YoY growth in FY26), reflecting a cautious stance amid macro uncertainties, with acceleration contingent on improving external conditions.
- **NIM to remain range bound while tech scale-up to support medium-term RoA:** Margins remained steady at ~3.83%, with management guiding for 3.75–4% range, supported by gold-led mix (~53% of advances) and improving pricing discipline. While near-term growth will be driven by gold and wholesale segments, the focus is shifting toward liability franchise build-out (current CASA at ~20%) and diversification, with bulk deposits (~50% of term deposits) being a temporary strategy. With core banking transformation complete and multiple product launches planned, the bank is entering a scale-up phase, targeting loan growth of at least 25%, though meaningful traction in retail and SME is expected from FY28, which should drive operating leverage and improve return ratios structurally.

**Rating and Target Price**

- While strategy to scale up growth with product launch and customer accretion remains intact, pace of liabilities accretion and asset mix trajectory remains monitorable. Expect bank to deliver ~20-22% CAGR in business and RoA at ~1.3-1.5%. Basis this, we maintain our BUY rating on stock with target price of ₹470, assigning multiple of 1.25x FY28E BV.

**Key Financial Summary**

₹ crore	FY24	FY25	FY26	3 Year CAGR (FY23-FY26)	FY27E	FY28E	2 Year CAGR (FY26-FY28E)
NII	1,476	1,476	1,720	9%	2,114	2,624	33%
PPP	780	910	1,085	15%	1,348	1,698	37%
PAT	567	594	633	5%	781	988	29%
P/E	11.8	11.3	10.6		8.6	6.8	
P/ABV	1.9	1.6	1.5		1.3	1.1	
RoA	1.7	1.4	1.2		1.2	1.3	
RoE	16.2	14.3	13.5		14.8	16.1	

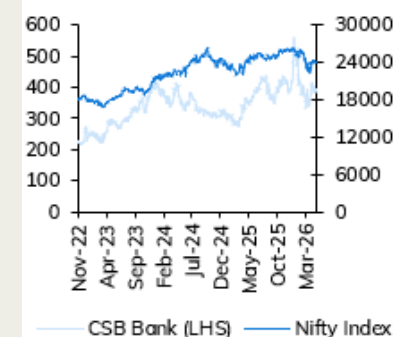
Source: Company, ICICI Direct Research

**Particulars**

Particulars	Amount
Market Capitalisation	₹ 6,720 crore
52 week H/L	575 / 322
Net Worth	₹ 4,894 Crore
Face value	10.0

**Shareholding pattern**

	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	40.0	40.0	40.0	40.0
FII	15.4	14.2	14.1	12.8
DII	14.6	16.1	15.6	15.2
Others	30.0	29.7	30.3	32.0

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

- Volatility in credit cost
- Slower pace of alteration in liabilities accretion

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## Concall highlights

### Performance and growth outlook

- Advance (Net) grew by 26% YoY to ₹39,848 crore, supported by a robust growth of 53% YoY in gold loans and 37% in Wholesale.
- The bank will focus on productive and secured retail assets such as commercial vehicles, commercial equipment, healthcare, inventory funding and auto loans.
- Unsecured retail growth remains deliberately cautious; management noted that portfolio run-down has helped contain slippages and credit cost.
- Meaningful retail asset growth is expected from FY28, as customer acquisition through liability products improves.
- New products launched include school fee financing and loan against mutual funds, with plans to expand to other securities over time.
- BLG/SME growth was muted at 2–3% YoY in FY26 due to deliberate caution amid tariff-related uncertainties and West Asian crisis impact on exports and supply chain.
- Management expects single-digit SME growth as a base case in FY27, with acceleration depending on macro clarity.
- Long-term SME mix target remains ~18% of advances under SBS 2030, compared with ~11% currently.
- PSLC income and treasury gains were significantly lower than Q4FY25, but core fee income remained healthy, supporting overall fee growth.
- NRI deposits form ~15–16% of deposits; management aims to increase this to ~20% over time, supported by a dedicated NRI vertical and planned Dubai representative office.
- Long-term strategy is to reduce gold loan share to ~30% of total advances by FY30, including ~5% working-capital gold-backed loans.
- Bulk deposits remain high at ~50% of term deposits, but management clarified this is tactical, with most wholesale deposits booked for 6–12 months, enabling faster repricing as rates soften.
- CASA remains low at ~20%, but liability build-out is now a key focus post-CBS migration, with new products such as Smart Save current account, Smart Save savings account and Freedom Account being launched.

### Asset Quality, Slippages & Credit Cost

- Management did not disclose account-wise recovery details, but indicated that several Q3 SME slippages were resolved through upgrades or recoveries in Q4.
- SMA book has improved sharply, with Q4 SMA at the lowest level in the last five quarters.
- Additional standard asset / contingency provisions, including ~₹105 crore COVID-era provision, are expected to partly offset ECL-related requirements.

### Opex and CI ratio

- Headcount increased by ~525 employees on a base of ~7,700, largely due to investment in higher-cost, higher-quality talent across wholesale and transaction banking.
- Cost-to-income ratio is expected to remain in the 60–65% range until FY27, with sharper operating leverage benefits expected from FY28 onward.
- Q4 opex increased sequentially partly due to bunching of CSR expenses.

### Margins outlook

- Management reiterated NIM guidance in the 3.75–4% range, with current NIM around the middle of this band.
- Yield compression in Q4 was driven by repo-linked repricing in BLG and MCLR-linked repricing in wholesale loans.
- While business mix may create interim NIM volatility, management expects lower-yielding businesses to be offset by fees, cross-sell and liability benefits.

- Management expects RoA at ~1.5% and RoE at ~15% to sustain over the medium term.
- Gold loans (fixed-rate) and asset mix continue to act as natural margin stabilisers.

**Other updates**

- Management stated that even a 10% fall in gold prices would not materially impact the portfolio due to available LTV cushion.
- Management indicated that LCR averaged 109% in Q4, largely due to tactical liquidity management during year-end when deposit cost were elevated; current LCR is stated to be meaningfully higher.
- PCR improved meaningfully to 76.38% excluding prudential write-offs.
- Capital position remains comfortable, with CRAR at 20.66% and Tier-I ratio at 18.93%, well above regulatory requirement.
- Technology transformation includes CBS, LMS, LOS, data centre investment, OBDX, ServiceNow platform and transaction banking systems.
- CMS, trade finance and transaction banking upgrades are expected to be implemented over the next 3–4 months.

**Exhibit 1: Variance Analysis**

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	Comments
NII	464.2	371.3	25.0	453.2	2.4	Supported by healthy loan growth of ~27% YoY
NIM (%)	3.83	3.75	8 bps	3.86	-3 bps	Margins were protected by fixed rate gold-loans
Other Income	306.2	381.5	-19.7	276.5	10.8	Fee income was steady though offset by treasury losses
Net Total Income	770.4	752.7	2.3	729.7	5.6	
Staff cost	251.3	196.3	28.0	231.8	8.4	Opex increased due to ~525 employee additions (~7% of base) and CSR expense bunching in Q4
Other Operating Exp	225.4	239.7	-6.0	205.8	9.5	
PPP	293.7	316.8	-7.3	292.1	0.5	
Provision	23.0	60.2	-61.8	86.8	-73.5	Driven by lower slippages and large upgrades
PBT	270.7	256.5	5.5	205.3	31.8	
Tax Outgo	69.1	66.1	4.5	52.7	31.1	
PAT	201.6	190.4	5.8	152.7	32.0	Aided by higher credit growth and lower credit cost

**Key Metrics**

GNPA	669.8	498.5	34.4	729.4	-8.2	GNPA improved by 30 bps sequentially to 1.66%
NNPA	158.2	163.5	-3.2	245.7	-35.6	
Net Advances	39,848.0	31,507.0	26.5	36,677.0	8.6	Led by strong momentum in gold loans (53% YoY) and wholesale (37%)
Deposit	44,246.0	36,861.0	20.0	40,460.0	9.4	CASA ratio at ~20%

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY25	FY26	FY27E	FY28E
Interest Earned	3,597.1	4,505.2	5,371.6	6,550.9
Interest Expended	2,121.0	2,784.9	3,257.3	3,927.0
Net Interest Income	1,476.2	1,720.3	2,114.3	2,623.9
Growth (%)	0.0	16.5	22.9	24.1
Non Interest Income	972.1	1,176.6	1,388.4	1,638.3
Net Income	2,448.2	2,896.9	3,502.7	4,262.2
Employee cost	754.3	932.3	1,100.2	1,298.2
Other operating Exp.	783.7	879.2	1,055.0	1,266.0
Operating Income	910.2	1,085.4	1,347.5	1,698.0
Provisions	110.7	234.2	296.5	367.6
PBT	799.5	851.2	1,051.1	1,330.4
Taxes	205.8	218.0	270.5	342.4
Net Profit	593.7	633.2	780.5	988.0
Growth (%)	4.7	6.6	23.3	26.6
EPS (₹)	34.2	36.5	45.0	56.9

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios				
(Year-end march)	FY25	FY26	FY27E	FY28E
No. of shares (crore)	17.4	17.4	17.4	17.4
EPS (₹)	34.2	36.5	45.0	56.9
BV (₹)	250.5	273.4	317.0	372.3
ABV (₹)	241.1	260.5	300.4	351.4
P/E	11.3	10.6	8.6	6.8
P/BV	1.5	1.4	1.2	1.0
P/ABV	1.6	1.5	1.3	1.1
Yields & Margins (%)				
Net Interest Margins	3.9	3.6	3.7	3.7
Avg. cost on funds	5.7	5.8	5.8	5.8
Yield on average advances	10.5	10.2	10.1	10.0
Quality and Efficiency (%)				
Cost to income ratio	62.8	62.5	61.5	60.2
Credit/Deposit ratio	85.5	90.1	91.2	92.0
GNPA %	1.6	1.7	1.6	1.7
NNPA %	0.5	0.6	0.6	0.6
RoE	14.3	13.5	14.8	16.1
RoA	1.4	1.2	1.2	1.3

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(₹ Crore)	FY25	FY26	FY27E	FY28E
<u>Sources of Funds</u>				
Capital	173.5	173.5	173.5	173.5
Reserves and Surplus	4,324.2	4,720.7	5,477.8	6,436.2
Networth	4,497.7	4,894.3	5,651.4	6,609.7
Deposits	36,861.5	44,245.9	54,170.6	66,563.6
Borrowings	5,546.3	7,154.4	6,917.6	7,965.1
Other Liabilities & Provisions	930.8	1,431.9	2,838.6	4,804.8
Total	47,836.2	57,726.5	69,578.1	85,943.1

### Application of Funds

Fixed Assets	628.7	709.8	773.7	843.3
Investments	11,389.3	11,955.3	14,626.1	17,972.2
Advances	31,507.0	39,847.8	49,411.3	61,270.0
Other Assets	719.0	1,116.8	1,083.4	1,331.3
Cash with RBI & call money	3,592.2	4,096.8	3,683.6	4,526.3
Total	47,836.2	57,726.5	69,578.1	85,943.1

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios				
(% growth)	FY25	FY26	FY27E	FY28E
Total assets	32.7	20.7	20.5	23.5
Advances	29.5	26.5	24.0	24.0
Deposit	24.0	20.0	22.4	22.9
Total Income	18.8	18.3	20.9	21.7
Net interest income	0.0	16.5	22.9	24.1
Operating profit	16.7	19.2	24.2	26.0
Net profit	4.7	6.6	23.3	26.6
Net worth	18.2	8.8	15.5	17.0
EPS	4.8	6.7	23.2	26.6

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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