

Lower provision boost PAT; outlook remains positive

About the stock: CSB Bank is a south based private sector bank with Kerala contributing ~48% of total business. Changed strategy in various aspects of lending has led to transformation and improved performance in the past few years.

- Gold, SME key lending segments comprising 42%, 14%, respectively, of book
- Liability franchise is healthy with loyal customer base of ~21 lakh

Q1FY23 Results: Gold loan pick up; lower provision boost earnings

- NII up 16% YoY and 2.3% QoQ, NIM down 25 bps at 5.2%, up 13 bps YoY
- C/I at 58% QoQ, overall provisions at ₹1.7 crore boosted PAT at ₹ 114.5 crore
- GNPA down 2 bps QoQ to 1.79%, NNPA down 8 bps QoQ to 0.60%

What should investors do? CSB Bank has given almost flattish returns in past two years post initial run-up, as of concerns over stress formation in SME & gold loans emerged. The management is aiming to boost growth, liabilities accumulation and opex control which should help boost profitability.

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value CSB Bank at ~1.3x FY24E ABV with a revised target price of ₹ 250 vs. ₹ 270 earlier

Key triggers for future price performance:

- Product launches and focus on gold business to aid growth; sanity returning in gold finance industry to aid margins
- Investment in branches, employees and technology to keep opex elevated, though benefit to accrue gradually in 12-18 months
- Enhanced cross sell and regain in PSLC income to boost other income. Base effect of provision write back getting over to keep RoA at 1.5-1.6%
- Improving mix of non-gold lending segment in medium term to bring diversification

Alternate Stock Idea: Apart from CSB Bank, we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with a target price of ₹ 970

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	2 Year CAGR (FY22 - FY24E)
NII	440	592	941	1153	38%	1330	1570	17%
PPP	13	281	516	614	258%	687	815	15%
PAT	-197	13	218	458	-	441	496	4%
ABV (₹)	138.5	91.9	107.3	138.0		162.4	187.7	
P/E	NA	286.3	16.7	7.9		8.3	7.3	
P/ABV	1.5	2.3	2.0	1.5		1.3	1.1	
RoA	(1.2)	0.1	1.0	1.9		1.6	1.5	
RoE	(17.0)	0.8	10.5	19.0		15.4	14.9	



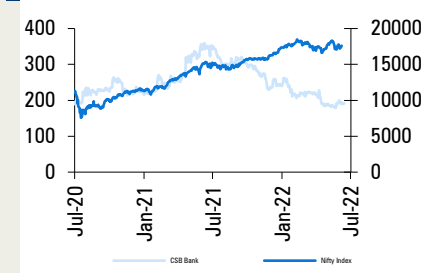
Particulars

Particulars	Amount
Market Capitalisation	₹ 3645 crore
52 week H/L	362 / 178
Net Worth	₹ 2767 Crore
Face value	₹ 10

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	49.7	49.7	49.7	49.7
FII	5.7	5.7	5.0	5.0
DII	11.7	12.2	12.4	12.4
Others	32.9	32.3	32.9	32.9

Price Chart



Recent Event & key risks

- Gold loan book growth at 26% YoY
- **Key Risk:** 1) Slower accretion in gold business; 2) Elevated opex could dent earnings momentum

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Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Growth momentum improves

- NII growth was 16% YoY and 2.3% QoQ driven by healthy business growth and steady NIMs on YoY basis. Sequentially, NIMs were down by 25 bps to 5.17% due to lower yield in gold loans. Other income was down 23% YoY mainly due to fall in treasury income and absence of PSLC income.
- Cost control helped the bank to reduce opex sequentially by 6.5% and as a result of which C/I ratio was down 367 bps QoQ to 57.7%. Provisions remained benign at ₹1.7 crore. As a result, PAT was up 87.7% YoY to ₹114.5 crore.
- Asset quality improved sequentially as GNPA and NNPA were down 2 bps and 8 bps QoQ to 1.79% and 0.60%, respectively. Slippages were at ₹ 37 crore vs. ₹ 38 crore QoQ, while recoveries were at ₹17 crore vs. ₹98 crore QoQ. Restructured book stands at 0.5%. The bank carries additional Covid related provisions worth ₹106 crore and total PCR has now crossed 90% mark.
- Business growth was healthy as advances were up 16.8% YoY and 2.1% QoQ to ₹16142 crore. Gold loan segment grew at a faster pace of 26.3% YoY and now forms ~41% of total loan book. Deposits were up 8.6% YoY wherein CASA deposits increased 15.4% YoY.

Q1FY23 Earnings Conference Call highlights

- Looking for meaningful investment in technology. To open 100 branches in FY23E
- Plan to double the pace of customer acquisition
- Accumulated losses to be wiped out in coming year
- NIMs have declined due to reduction in yield on advances. Yields have declined due to teaser rates in gold loans
- No interest reversal this quarter versus ₹7 crore earlier
- Expect retail to be have largest pie in overall business in long run
- Employee structure: 1300 IBA, 3500 CTC based, will add another 2000 this year
- 54% of loan book is fixed rate; majority chunk contributed by gold loans
- Expect loan growth to be around 1.5x Industry on CAGR basis. Gold loan could reach 45% of total loans in next 12 months and then gradually taper down
- Average ticket size is around ₹1.1 lakh for gold loans

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	715	970	Buy	2166	21.5	42.4	39.7	55.9	33.2	16.9	18.0	12.8	2.3	2.1	1.9	1.8	7.1	12.0	10.1	13.5
Federal Bank (FEDBAN)	107	110	Hold	220	8.0	9.0	10.8	12.4	13.4	11.9	9.9	8.6	1.5	1.3	1.2	1.1	10.4	10.8	11.5	12.0
HDFC Bank (HDFBAN)	1,361	1,650	Buy	7,587	56.4	66.7	77.1	93.7	24.1	20.4	17.6	14.5	3.8	3.2	2.8	2.5	16.6	16.7	16.6	17.9
IndusInd Bank (INDBA)	948	1,150	Buy	734	36.7	59.5	90.2	107.3	25.8	15.9	10.5	8.8	1.8	1.6	1.5	1.3	7.3	10.1	14.0	15.0
Kotak Bank (KOTMAH)	1,800	2,150	Buy	3,575	35.1	43.0	49.6	57.8	51.2	41.8	36.3	31.2	5.8	5.2	4.5	3.9	12.4	12.6	12.9	13.1
CSB Bank (CSBBAN)	210	250	Buy	36	12.6	26.4	25.4	28.6	16.7	7.9	8.3	7.3	2.0	1.5	1.3	1.1	10.5	19.0	15.4	14.9

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	310.7	305.0	267.8	16.0	303.8	2.3	Aided by improved business growth
NIM (%)	5.2	5.4	5.0	13 bps	5.4	-25 bps	Sequential decline due to lower gold loan yields
Other Income	54.9	55.4	71.2	-23.0	63.6	-13.8	Fall due to decline in treasury & PSLC income
Net Total Income	365.5	360.4	339.0	7.8	367.4	-0.5	
Staff cost	122.2	126.4	97.2	25.7	143.4	-14.8	Controlled Opex helps improve C/I
Other Operating Expenses	88.6	87.2	67.0	32.2	82.0	8.1	
PPP	154.7	146.9	174.7	-11.5	142.1	8.9	
Provision	1.7	24.1	93.2	-98.2	-34.1	-104.9	Benign due to low slippage and some recoveries
PBT	153.0	122.8	81.5	87.7	176.2	-13.1	
Tax Outgo	38.5	31.3	20.5	87.7	45.5	-15.3	
PAT	114.5	91.5	61.0	87.7	130.7	-12.4	Low provisions boost profits
Key Metrics							
GNPA	293	289	686	-57.3	290	1.2	Sequential improvement as recoveries continue
NNPA	97	104	444	-78.2	107	-9.6	
Advances	16,142	16,050	13,817	16.8	15,815	2.1	Growth driven by gold loans
Deposit	20,267	20,267	18,653	8.7	20,188	0.4	CASA growth higher than overall deposits

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	1,369	1,330	-2.9	1,632	1,570	-3.8
Pre Provision Profit	812	687	-15.4	1,017	815	-19.8
NIM(%) (calculated)	5.7	5.4	-24 bps	5.6	5.4	-23 bps
PAT	510	441	-13.5	605	496	-17.9
ABV per share (₹)	166	162	-1.9	198	188	-5.0

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	27.0	9.5	18.0	20.0	18.0	21.0
Deposit Growth (%)	21.2	5.5	16.7	17.2	14.2	17.3
NIM Calculated (%)	5.0	5.3	5.4	5.4	5.7	5.6
Cost to income ratio (%)	54.3	56.2	57.6	57.3	51.3	48.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	1,509.9	1,872.3	2,038.3	2,425.3	2,835.9
Interest Expended	917.6	930.9	885.0	1,095.2	1,266.1
Net Interest Income	592.3	941.4	1,153.3	1,330.1	1,569.8
Growth (%)	34.6	58.9	22.5	15.3	18.0
Non Interest Income	221.6	303.1	246.8	291.2	337.8
Net Income	813.9	1,244.5	1,400.1	1,621.3	1,907.7
Employee cost	286.9	496.2	481.9	568.6	653.9
Other operating Exp.	246.4	232.8	304.5	365.4	438.5
Operating Income	280.6	515.5	613.7	687.3	815.3
Provisions	146.6	223.0	(0.5)	94.9	149.3
PBT	134.0	292.6	614.2	592.4	666.0
Taxes	121.3	74.2	155.7	151.1	169.8
Net Profit	12.7	218.4	458.5	441.3	496.1
Growth (%)	NA	1,616.3	109.9	(3.7)	12.4
EPS (₹)	0.7	12.6	26.4	25.4	28.6

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of shares (crore)	17.4	17.4	17.4	17.4	17.4
EPS (₹)	0.7	12.6	26.4	25.4	28.6
DPS (₹)	0.0	0.0	0.8	0.8	0.9
BV (₹)	104.4	117.0	152.8	168.8	196.5
ABV (₹)	91.9	107.3	138.0	162.4	187.7
P/E	286.3	16.7	7.9	8.3	7.3
P/BV	2.0	1.8	1.4	1.2	1.1
P/ABV	2.3	2.0	1.5	1.3	1.1
Yields & Margins (%)					
Net Interest Margins	3.8	5.0	5.3	5.4	5.4
Avg. cost on funds	5.8	5.0	4.1	4.6	4.6
Yield on average advances	10.6	10.7	10.8	10.7	10.8
Quality and Efficiency (%)					
Cost to income ratio	65.5	54.3	56.2	57.6	57.3
Credit/Deposit ratio	72.0	75.4	78.3	79.2	81.1
GNPA %	3.5	2.7	1.8	1.5	1.5
NNPA %	1.9	1.2	0.7	0.6	0.7
ROE	0.8	10.5	19.0	15.4	14.9
ROA	0.1	1.0	1.9	1.6	1.5

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ crore				
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	173.5	173.5	173.5	173.5	173.5
Reserves and Surplus	1787.2	2006.7	2477.9	2906.0	3387.3
Networth	1960.7	2180.2	2651.4	3079.5	3560.8
Deposits	15790.7	19140.0	20188.3	23556.2	27609.6
Borrowings	794.0	1425.9	2007.2	1866.1	2015.4
Other Liabilities & Provisions	318.9	591.2	509.4	1303.4	2790.0
Total	18864.2	23337.4	25356.3	29805.2	35975.9
Application of Funds					
Fixed Assets	228.3	269.5	287.9	308.1	329.6
Investments	5359.8	6126.0	7011.6	7538.0	9387.3
Advances	11366.4	14438.1	15814.7	18661.3	22393.6
Other Assets	970.4	789.7	668.4	1884.5	2208.8
Cash with RBI & call money	939.3	1714.1	1573.8	1413.4	1656.6
Total	18864.2	23337.4	25356.3	29805.2	35975.9

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)					
(% growth)	FY20	FY21	FY22	FY23E	FY24E
Total assets	11.5	23.7	8.7	17.5	20.7
Advances	7.1	27.0	9.5	18.0	20.0
Deposit	4.4	21.2	5.5	16.7	17.2
Total Income	41.3	52.9	12.5	15.8	17.7
Net interest income	34.6	58.9	22.5	15.3	18.0
Operating expenses	(5.2)	36.7	7.9	18.8	17.0
Operating profit	2,000.4	83.7	19.0	12.0	18.6
Net profit	NA	1,616.3	109.9	(3.7)	12.4
Net worth	36.9	11.2	21.6	16.1	15.6
EPS	NA	1,616.1	109.9	(3.7)	12.4

Source: Company, ICICI Direct Research

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