

Treasury losses mar PAT; outlook remains healthy...

About the stock: CSB Bank is a south based private sector bank with Kerala contributing ~30% of total advances. Changed strategy in various aspects of lending have led to transformation and improved performance in the past few years.

- Gold, SME key lending segments comprising ~44%, ~13%, respectively, of book
- Liability franchise is healthy with loyal customer base of ~21 lakh

Q2FY23 Results: Steady performance; treasury loss plays spoiler.

- NII up 16.7% YoY, 4.6% QoQ, NIM surge 43 bps at 5.6%, up 38 bps YoY
- C/I at 57.5% QoQ, while provision witnessed reversal. PAT reported sluggish growth of 1.7% YoY due to treasury losses & no sale of PSLC
- GNPA down 14 bps QoQ to 1.65%, NNPA down 3 bps QoQ to 0.57%

What should investors do? CSB Bank has given flattish returns in the past two years post the initial run-up. The management's focus on sustainable & quality loan growth with control on credit cost to drive profitability.

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

Target Price and Valuation: CSB bank is expected to deliver a credit growth higher than industry with RoA of 1.5%+. Thus, we value CSB Bank at ~1.4x FY24E ABV with a revised target price of ₹ 275 vs. ₹ 250 earlier.

Key triggers for future price performance:

- PSLC income likely in H2FY23 will boost other income & earnings in FY23E
- Investment in branches, employees and technology to keep opex elevated in the near term, though benefit to accrue gradually
- Management aims at 25% CAGR, RoA at 1.6-1.8% in the long run
- Diversification into non-growth loans to impart growth; margins likely to decline

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 ₹ 1000



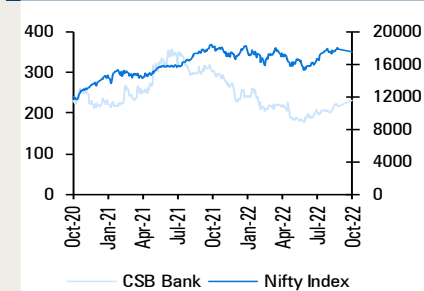
Particulars

Particulars	Amount
Market Capitalisation	₹ 4042 crore
52 week H/L	336 /178
Net Worth	₹ 2888 Crore
Face value	₹ 10

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	49.7	49.7	49.7	49.7	49.7
FII	5.7	5.7	5.0	5.0	5.2
DII	11.7	12.2	12.4	12.4	12.3
Others	32.9	32.3	32.9	32.9	32.8

Price Chart



Recent Event & key risks

- Gold loan book growth at 47% YoY
- **Key Risk:** 1) Liabilities accretion with increased competition; 2) Higher opex could impact bottom line

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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%	1320	1581	17%
PPP	13	281	516	614	258%	662	804	14%
PAT	-197	13	218	458	-	470	508	5%
ABV (₹)	138.5	91.9	107.3	138.0		164.0	189.9	
P/E	NA	317.7	18.5	8.8		8.6	8.0	
P/ABV	1.7	2.5	2.2	1.7		1.4	1.2	
RoA	(1.2)	0.1	1.0	1.9		1.7	1.5	
RoE	-17.0	0.8	10.5	19.0		16.3	15.1	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Healthy operational show; other income spoiler

- CSB Bank posted a good set of numbers on an overall basis with NII growth of 17% YoY, 5% QoQ driven by healthy business growth and improvement in NIMs. NIM improved 38 bps YoY, 43 bps QoQ to 5.6%, attributable to faster transmission of rate hikes
- Other income was down 25% YoY, 18% QoQ mainly due to treasury losses which remained unanticipated. Treasury profits impacted due to hardening of yields and SR provision of ₹ 17.4 crore. Core fee based income lines have reported healthy growth
- Increased staff count and new branch openings led to 13% YoY and 1% uptick in opex, though C/I ratio remained steady at ~57%. In Q2FY23, provision write-back of ₹ 3.7 crore was reported compared to credit cost of ₹ 2.9 crore in Q1FY23. PAT reported at ₹ 120.5 crore; up 2% YoY, 5% QoQ, largely impacted by treasury losses
- Asset quality improved sequentially as GNPA and NNPA were down 14 bps and 3 bps QoQ to 1.65% and 0.57%, respectively. Slippages were at ₹ 42 crore vs. ₹ 37 crore QoQ, while recoveries were at ₹ 20 crore vs. ₹ 17 crore QoQ. Restructured book declined ~9 bps QoQ to 0.41%
- Business growth was healthy as advances were up 24% YoY, 8% QoQ to ₹ 17468 crore. Gold loan segment grew at a faster pace of 47% YoY and now forms ~46% of total loan book. Deposits were up 10% YoY wherein CASA deposits increased 16% YoY

Q2FY23 Earnings Conference Call highlights

- The management sees traction in non-gold segments. Retail will take some time to pick-up. Aim for 15% YoY credit growth and CAGR of 25% in next three years
- NIMs to be maintained at 5-5.5% in the next 12 months
- Target of opening 100 branches every year for the next few years
- Investment in branches and technology to be undertaken ahead. CI aimed at 55-60%. These investments to aid business growth ahead. By end of 2030E, CI ratio to be <45%
- PSLC pricing not attractive. Thus, the bank has not sold any PSLC in Q2FY23. PSLC income likely in H2FY23 as the management expects to get better pricing. Have buffer of ~ ₹ 34 crore
- Significant focus on liabilities accretion to fund asset growth with minimal dependence on wholesale funding. The management will primarily focus on customer acquisition strategy
- GNPA of <2% and NNPA of <1% to keep credit cost lower
- In gold loan segment, tonnage traction to increase with customer addition and steady prices. Gold loans not to surpass ~45% of book
- Gold loans led to higher return ratios despite higher CaR. Diversification of advances to result in reduction in return ratios ahead. The management will focus on non-interest income and expect RoA to be 1.7-1.8%

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)	900	1,000	Buy	2,765	21.5	42.4	66.1	72.9	42	21.2	13.6	12.3	2.9	2.6	2.2	2.1	7.1	12.0	16.3	16.2
Federal Bank (FEDBAN)	132	155	Buy	279	8.0	9.0	12.0	14.6	17	14.7	11.0	9.1	1.8	1.6	1.5	1.3	10.4	10.8	12.8	13.9
HDFC Bank (HDFBAN)	1,438	1,750	Buy	8,011	56.4	66.7	76.9	94.1	25	21.6	18.7	15.3	4.0	3.4	3.0	2.6	16.6	16.7	16.6	17.7
IndusInd Bank (INDBA)	1,142	1,350	Buy	885	36.7	59.5	91.3	107.0	31	19.2	12.5	10.7	2.1	1.9	1.7	1.5	7.3	10.1	13.9	14.4
Kotak Bank (KOTMAH)	1,902	2,250	Buy	3,778	35.1	43.0	50.7	58.8	54.1	44.2	37.5	32.3	6.2	5.3	4.6	4.0	12.4	12.6	13.0	13.2
CSB Bank (CSBBAN)	233	275	Buy	40	12.6	26.4	27.1	29.3	18.5	8.8	8.6	8.0	2.2	1.7	1.4	1.2	10.5	19.0	16.3	15.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	325.0	348.4	278.4	16.7	310.7	4.6	Aided by improved business growth & margin expansion
NIM (%)	5.6	5.3	5.2	38 bps	5.2	43 bps	Primarily attributed to rate transmission
Other Income	44.9	55.5	59.8	-24.8	54.9	-18.1	Treasury loss & no sale of PSLC impacted other income
Net Total Income	369.9	403.9	338.2	9.4	365.5	1.2	
Staff cost	129.0	128.7	119.2	8.3	122.2	5.6	CI to remain elevated in the near term
Other Operating Expenses	83.6	90.5	69.6	20.0	88.6	-5.7	
	212.6		188.8	12.6	210.8		
PPP	157.4	184.7	149.4	5.3	154.7	1.7	
Provision	-3.7	3.5	-9.1	-58.9	1.7	-322.0	
PBT	161.1	181.2	158.5	1.7	153.0	5.3	
Tax Outgo	40.5	45.3	39.9	1.7	38.5	5.2	
PAT	120.6	135.9	118.6	1.7	114.5	5.3	Steady performance marred by treasury loss
Key Metrics							
GNPA	291	279	587	-50.4	293	-0.7	Steady asset quality
NNPA	99	94	370	-73.3	97	2.2	
Gross Advances	17,468	17,661	14,288	22.3	16,339	6.9	Primarily driven by gold loans
Deposit	20,987	20,987	19,056	10.1	20,267	3.6	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	1,330	1,320	-0.8	1,570	1,581	0.7
Pre Provision Profit	687	662	-3.7	815	804	-1.4
NIM(%) (calculated)	5.4	5.4	-5 bps	5.4	5.4	0 bps
PAT	441	470	6.4	496	508	2.3
ABV per share (₹)	162	164	1.0	188	190	1.2

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	27.0	9.5	19.0	21.0	18.0	20.0
Deposit Growth (%)	21.2	5.5	15.5	17.9	16.7	17.2
NIM Calculated (%)	5.0	5.3	5.4	5.4	5.4	5.4
Cost to income ratio (%)	54.3	56.2	58.5	57.7	57.6	57.3

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	2,409.5	2,839.7
Interest Expended	917.6	930.9	885.0	1,089.9	1,258.5
Net Interest Income	592.3	941.4	1,153.3	1,319.6	1,581.1
Growth (%)	34.6	58.9	22.5	14.4	19.8
Non Interest Income	221.6	303.1	246.8	276.4	320.6
Net Income	813.9	1,244.5	1,400.1	1,596.0	1,901.8
Employee cost	286.9	496.2	481.9	568.6	659.6
Other operating Exp.	246.4	232.8	304.5	365.4	438.5
Operating Income	280.6	515.5	613.7	662.0	803.7
Provisions	146.6	223.0	(0.5)	31.6	122.3
PBT	134.0	292.6	614.2	630.4	681.4
Taxes	121.3	74.2	155.7	160.7	173.7
Net Profit	12.7	218.4	458.5	469.6	507.6
Growth (%)	NA	1,616.3	109.9	2.4	8.1
EPS (₹)	0.7	12.6	26.4	27.1	29.3

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	27.1	29.3
DPS (₹)	0.0	0.0	0.8	0.8	0.9
BV (₹)	104.4	117.0	152.8	170.4	198.8
ABV (₹)	91.9	107.3	138.0	164.0	189.9
P/E	317.7	18.5	8.8	8.6	8.0
P/BV	2.2	2.0	1.5	1.4	1.2
P/ABV	2.5	2.2	1.7	1.4	1.2
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	10.7
Quality and Efficiency (%)					
Cost to income ratio	65.5	54.3	56.2	58.5	57.7
Credit/Deposit ratio	72.0	75.4	78.3	80.7	82.9
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	16.3	15.1
ROA	0.1	1.0	1.9	1.7	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	2933.5	3425.8
Networth	1960.7	2180.2	2651.4	3107.0	3599.4
Deposits	15790.7	19140.0	20188.3	23307.6	27479.9
Borrowings	794.0	1425.9	2007.2	1881.9	2049.4
Other Liabilities & Provisions	318.9	591.2	509.4	1552.5	3162.9
Total	18864.2	23337.4	25356.3	29849.0	36291.5
Application of Funds					
Fixed Assets	228.3	269.5	287.9	308.1	329.6
Investments	5359.8	6126.0	7011.6	7458.4	9343.1
Advances	11366.4	14438.1	15814.7	18819.5	22771.6
Other Assets	970.4	789.7	668.4	1864.6	2198.4
Cash with RBI & call money	939.3	1714.1	1573.8	1398.5	1648.8
Total	18864.2	23337.4	25356.3	29849.0	36291.5

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)					
(% growth)	FY20	FY21	FY22	FY23E	FY24E
Total assets	11.5	23.7	8.7	17.7	21.6
Advances	7.1	27.0	9.5	19.0	21.0
Deposit	4.4	21.2	5.5	15.5	17.9
Total Income	41.3	52.9	12.5	14.0	19.2
Net interest income	34.6	58.9	22.5	14.4	19.8
Operating expenses	(5.2)	36.7	7.9	18.8	17.6
Operating profit	2,000.4	83.7	19.0	7.9	21.4
Net profit	NA	1,616.3	109.9	2.4	8.1
Net worth	36.9	11.2	21.6	17.2	15.8
EPS	NA	1,616.1	109.9	2.4	8.1

Source: Company, ICICI Direct Research

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