

## Higher than anticipated reversals aid earnings...

**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 a transformation and improved performance in the past few years.

- Gold, SME are key lending segments comprising ~45%, ~12%, respectively, of the book
- Liability franchise is healthy with loyal customer base of ~21 lakh

**Q3FY23 Results:** Strong performance; further improvement in NPA.

- NII up 15.3% YoY, 7.6% QoQ, NIM up 20 bps at 5.8%, yields at 11%
- C/I at 56% QoQ while provision witnessed a reversal. PAT reported growth of 5.2% YoY, 29.4% QoQ
- GNPA down 20 bps QoQ to 1.45%, NNPA down 15 bps QoQ to 0.42%

**What should investors do?** CSB Bank has given ~10% returns in the past two years. Continued focus on gold loans and gradual improvement in non-gold segment are seen aiding sustainable growth with control on credit cost, thereby driving RoA.

- Thus, we retain our **BUY** rating on the stock

**Target Price and Valuation:** CSB bank is expected to deliver credit growth higher than industry with RoA of ~2%+. Rolling to FY25E, we value CSB Bank at ~1.3x FY25E ABV with a revised target price of ₹ 300 vs. ₹ 275 earlier.

**Key triggers for future price performance:**

- Investment in branches, employees and technology to keep opex elevated in the near term though benefit to accrue gradually
- On track performance and gradual ramp up in liability franchise to aid business growth. Margins to sustain at ~5% levels
- Sustenance of gold business as a proportion of book coupled with gradual improvement in non-gold segment to bring diversification and steady RoA
- Management guidance remains encouraging in terms of growth & earnings

**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 ₹ 1100



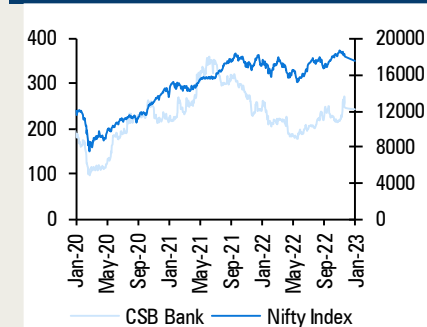
### Particulars

Particulars	Amount
Market Capitalisation	₹ 4429 crore
52 week H/L	275 /178
Net Worth	₹ 3046 Crore
Face value	₹ 10

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	49.7	49.7	49.7	49.7
FII	5.0	5.1	5.2	5.4
DII	12.4	11.2	10.5	11.9
Others	32.9	34.0	34.6	33.0

### Price Chart



### Recent Event & key risks

- Gold loan book growth at 51% YoY
- **Key Risk:** 1) Higher opex may dent earnings; 2) Moderation in gold loan business growth

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Narnolia  
vishal.narnolia@icicisecurities.com

Pravin Mule  
pravin.mule@icicisecurities.com

### Key Financial Summary

₹ crore	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-FY25E)
NII	592	941	1153	38%	1330	1556	1881	18%
PPP	281	516	614	258%	693	820	1038	19%
PAT	13	218	458	-	523	576	710	16%
ABV (₹)	91.9	107.3	138.0		167.3	196.8	234.5	
P/E	340.9	19.9	9.5		8.3	7.5	6.1	
P/ABV	2.7	2.3	1.8		1.5	1.3	1.1	
RoA	0.1	1.0	1.9		1.9	1.8	1.9	
RoE	0.8	10.5	19.0		18.0	16.8	17.5	

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: More than expected provision reversal leads to beat in PAT

- CSB Bank posted a good set of numbers on an overall basis with NII growth of 15.3% YoY, 7.6% QoQ driven by healthy business growth and improvement in NIMs
- Margins improved 20 bps QoQ (39 bps YoY) to 5.8%. Business growth was healthy as advances were up 24.5% YoY, 4.5% QoQ to ₹ 18457 crore. Gold loan segment grew at a faster pace of 51% YoY, 9% QoQ and now forms ~45.4% of total loan book. Deposits were up 18.9% YoY wherein CASA deposits increased 8% YoY
- Asset quality improved sequentially as GNPA and NNPA were down 20 bps and 15 bps QoQ to 1.45% and 0.42%, respectively. Slippages were at ₹ 26 crore vs. ₹ 42 crore QoQ, while recoveries were at ₹ 32 crore vs. ₹ 20 crore QoQ. Restructured book declined 21 bps QoQ to 0.20%
- Other income grew 72% YoY and doubled QoQ partly aided by processing fee, which jumped 27% QoQ and 148% YoY. During the quarter, the bank posted treasury gain vs. loss in Q2FY23
- Increased staff count and new branch openings led to 18.4% YoY and 15.8% QoQ uptick in opex. However, higher income levels kept C/I ratio lower at ~56% (down 249 bps YoY; 146 bps QoQ). In Q3FY23, provision reversal of ₹ 15 crore (vs. reversal of ₹ 3.7 crore in Q2FY23 and reversal of ₹ 50.5 crore in Q3FY22). PAT was reported at ₹ 156 crore, up 5.2% YoY, 29.4% QoQ

### Q3FY23 Earnings Conference Call highlights

- Aim to focus more on core fee income and expect growth of 14-15% in the medium term
- Margins to normalise in the near term and expected to sustain at ~5% levels
- Reversals during the quarter were aided by recoveries in gold loan segment
- Cost to income ratio expected at 58-60% levels in the near term and by FY24 end, CI ratio to be 42-45%. Higher opex to be largely due to investments in tech
- Gold loan portfolio comprises ~40% balance transfer from NBFCs/banks and remaining from new to bank customers
- Long term target of advances mix: retail – 30%, gold – 20%, SME – 20% and balance to be wholesale
- The bank will gradually ramp up its liability franchise while growth will be visible in the next 12 months
- CASA ratio not to fall below 30% levels. LCR at 124%
- Top 20 depositors have ~12% share in total deposits
- Till Q3FY23, the bank has opened ~100 branches (40 in Q3FY23)

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)			RoE (%)				
	₹	TP(₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Axis Bank (AXIBAN)	872	1,100	Buy	2,681	21.5	42.4	69.3	78.8	40.5	20.6	12.6	11.1	2.8	2.5	2.1	1.9	7.1	12.0	17.1	17.3
IndusInd Bank (INDBA)	1,092	1,450	Buy	847	36.7	59.5	93.1	111.0	29.8	18.3	11.7	9.8	2.0	1.8	1.6	1.4	7.3	10.1	14.2	14.9
Kotak Bank (KOTMAH)	1,730	2,175	Buy	3,436	35.1	43.0	51.5	56.3	49.2	40.2	33.6	30.7	5.6	4.8	4.2	3.8	12.4	12.6	13.2	12.6
CSB Bank (CSBBAN)	250	300	Buy	44	12.6	26.4	30.2	33.2	19.9	9.5	8.3	7.5	2.3	1.8	1.5	1.3	10.5	19.0	18.0	16.8
Bandhan (BANBAN)	243	265	Hold	392	-12.8	0.8	12.9	15.9	-18.9	311.2	18.9	15.3	3.8	2.5	2.2	2.0	-14.6	0.8	11.3	12.6
IDFC First (IDFBAN)	58	70	Buy	361	0.8	0.2	3.4	4.7	72.7	247.4	17.2	12.3	2.1	1.9	1.6	1.5	2.7	0.8	9.5	12.0

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
NII	349.7	339.8	303.3	15.3	325.0	7.6	Led by healthy business growth and margin expansion
NIM (%)	5.8	5.9	5.4	39 bps	5.6	20 bps	
Other Income	89.9	61.1	52.2	72.4	44.9	100.0	Processing fee jumped 148% YoY & 27% QoQ
Net Total Income	439.6	400.9	355.5	23.7	369.9	18.9	
Staff cost	151.7	131.9	122.1	24.3	129.0	17.6	Higher income levels kept CI ratio steady at ~56%
Other Operating Expenses	94.5	90.2	85.9	10.1	83.6	13.1	
PPP	193.4	178.9	147.6	31.1	157.4	22.9	
Provision	-15.0	-6.5	-50.6	-	-3.7	-	Recovery in gold loan portfolio aided reversals
PBT	208.4	185.4	198.1	5.2	161.1	29.4	
Tax Outgo	52.5	46.4	49.9	5.2	40.5	29.4	
PAT	156.0	139.1	148.3	5.2	120.6	29.4	Strong topline and provision reversals aided earnings
Key Metrics							
GNPA	271	289	389	-30.3	291	-6.8	Slippage ratio further moderated to 0.6%
NNPA	78	97	200	-61.1	99	-21.4	
Gross Advances	18,457	18,643	14,827	24.5	17,661	4.5	Gold loan segment grew 51% YoY
Deposit	22,664	22,664	19,056	18.9	20,987	8.0	CASA ratio moderated to 31.4% vs. 34.3% in Q2FY23

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY23E			FY24E			FY25E
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	1,320	1,330	1	1,581	1,556	-2	1,881
Pre Provision Profit	662	693	5	804	820	2	1,038
NIM(%) (calculated)	5.4	5.5	12 bps	5.4	5.5	7 bps	5.5
PAT	470	523	11	508	576	13	710
ABV per share (₹)	164	167	2	190	197	4	234

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	23.0	21.0	21.0	19.0	21.0
Deposit Growth (%)	17.4	17.9	18.0	15.5	17.9
NIM Calculated (%)	5.5	5.5	5.5	5.4	5.4
Cost to income ratio (%)	56.9	56.0	53.4	58.5	57.7

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Interest Earned	2,038.3	2,314.4	2,705.8	3,226.3
Interest Expended	885.0	984.4	1,150.0	1,345.7
Net Interest Income	1,153.3	1,329.9	1,555.8	1,880.6
Growth (%)	22.5	15.3	17.0	20.9
Non Interest Income	246.8	276.4	309.6	346.7
Net Income	1,400.1	1,606.3	1,865.3	2,227.4
Employee cost	481.9	554.2	631.7	713.9
Other operating Exp.	304.5	359.3	413.2	475.2
Operating Income	613.7	692.9	820.4	1,038.3
Provisions	(0.5)	(9.7)	47.1	85.4
PBT	614.2	702.6	773.3	952.9
Taxes	155.7	179.2	197.2	243.0
Net Profit	458.5	523.4	576.1	709.9
Growth (%)	109.9	14.2	10.1	23.2
EPS (₹)	26.4	30.2	33.2	40.9

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
	FY22	FY23E	FY24E	FY25E
Valuation				
No. of shares (crore)	17.4	17.4	17.4	17.4
EPS (₹)	26.4	30.2	33.2	40.9
DPS (₹)	0.8	0.9	1.0	1.2
BV (₹)	152.8	173.4	205.6	245.3
ABV (₹)	138.0	167.3	196.8	234.5
P/E	9.5	8.3	7.5	6.1
P/BV	1.6	1.4	1.2	1.0
P/ABV	1.8	1.5	1.3	1.1
Yields & Margins (%)				
Net Interest Margins	5.3	5.5	5.5	5.5
Avg. cost on funds	4.1	4.2	4.2	4.1
Yield on average advances	10.8	10.4	10.2	10.0
Quality and Efficiency (%)				
Cost to income ratio	56.2	56.9	56.0	53.4
Credit/Deposit ratio	78.3	82.0	84.2	86.3
GNPA %	1.8	1.5	1.5	1.5
NNPA %	0.7	0.5	0.6	0.7
ROE	19.0	18.0	16.8	17.5
ROA	1.9	1.9	1.8	1.9

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Capital	173.5	173.5	173.5	173.5
Reserves and Surplus	2477.9	2985.6	3544.5	4233.0
Networth	2651.4	3159.2	3718.0	4406.6
Deposits	20188.3	23709.4	27962.0	32999.1
Borrowings	2007.2	972.6	2118.3	2563.2
Other Liabilities & Provisions	509.4	691.5	693.9	1403.3
Total	25356.3	28532.6	34492.2	41372.2
Application of Funds				
Fixed Assets	287.9	308.1	329.6	352.7
Investments	7011.6	6164.4	7549.7	8909.8
Advances	15814.7	19452.1	23537.0	28479.8
Other Assets	668.4	1185.5	1398.1	1650.0
Cash with RBI & call money	1573.8	1422.6	1677.7	1979.9
Total	25356.3	28532.6	34492.2	41372.2

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)				
(% growth)	FY22	FY23E	FY24E	FY25E
Total assets	8.7	12.5	20.9	19.9
Advances	9.5	23.0	21.0	21.0
Deposit	5.5	17.4	17.9	18.0
Total Income	12.5	14.7	16.1	19.4
Net interest income	22.5	15.3	17.0	20.9
Operating expenses	7.9	16.2	14.4	13.8
Operating profit	19.0	12.9	18.4	26.6
Net profit	109.9	14.2	10.1	23.2
Net worth	21.6	19.2	17.7	18.5
EPS	109.9	14.2	10.1	23.2

Source: Company, ICICI Direct Research

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**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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