

## Elevated opex to moderate earnings growth next year...

**About the stock:** CSB Bank is a south based private sector bank with Kerala contributing ~27% 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

**Q4FY23 Results:** Flat QoQ earnings growth; asset quality improved.

- NII up 14.7% YoY, -0.4% QoQ, NIM fell 42 bps at 5.4%, yields at 11.2%
- C/I at 57% QoQ while provision witnessed a reversal. PAT reported growth of 19.6% YoY, flat on QoQ basis
- GNPA down 19 bps QoQ to 1.26%, NNPA down 7 bps QoQ to 0.35%

**What should investors do?** CSB Bank has given ~10% returns in the past two years. The management's focus on branch expansion in new geographies will aid CASA accretion. Healthy growth in non-gold segment coupled with controlled delinquencies will aid overall performance. Near term earnings to moderate due to costs.

- Considering strong franchise, 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 ~1.5%. Thus, we value CSB Bank at ~1.4x FY25E ABV with a revised target price of ₹ 330 vs. ₹ 300 earlier.

**Key triggers for future price performance:**

- Majority of capex will be done in the next couple of quarters, which will keep opex elevated though the benefit to accrue gradually
- Expansion outside the southern region will bring diversification and target of 100 branch addition in FY24 will aid CASA growth
- Guidance of higher than industry credit growth with sustainable margins (at ~5% levels) and lower credit cost to keep RoA steady

**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



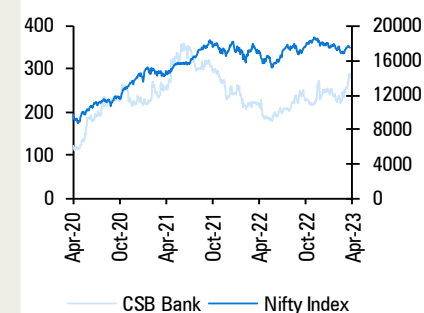
### Particulars

Particulars	Amount
Market Capitalisation	₹ 4848 crore
52 week H/L	279 / 178
Net Worth	₹ 3051 Crore
Face value	₹ 10

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	49.7	49.7	49.7	49.7
FII	5.1	5.2	5.4	5.7
DII	11.2	10.5	11.9	11.6
Others	34.0	34.6	33.0	32.9

### Price Chart



### Recent Event & key risks

- Gold loan book grew faster at 48% YoY
- **Key Risk:** 1) Elevated opex may dent PAT; 2) Higher competition in gold loan segment

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	2 Year CAGR (FY23-FY25E)
NII	592	941	1153	1334	31%	1574	1852	18%
PPP	281	516	614	707	36%	816	936	15%
PAT	13	218	458	547	-	552	607	5%
P/E	380.4	22.2	10.6	8.8		8.8	8.0	
P/ABV	3.0	2.6	2.0	1.6		1.4	1.2	
RoA	0.1	1.0	1.9	2.0		1.7	1.5	
RoE	0.8	10.5	19.0	18.7		15.9	15.1	

## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Largely in-line numbers; steady QoQ performance

- CSB Bank posted largely in line numbers. Despite strong business growth, the operational performance was impacted by margin contraction. Asset quality continued to improve in both percentage and absolute terms
- NII grew 14.7% YoY (declined 0.4% QoQ). NIMs contracted 42 bps QoQ and 4 bps YoY to 5.4% vs. estimate of decline to 5.6%. Other income jumped ~2x YoY and 1.4x QoQ mainly aided by processing fee and commission income
- Business growth was strong as advances were up 29.1% YoY, 10.7% QoQ to ₹ 20651 crore. Gold loan segment grew at a faster pace of 48% YoY, 10% QoQ and forms 45% of the total loan book. Deposits were up 21.4% YoY wherein CASA deposits increased 16% YoY
- Increase in staff count, branch expansion and expenses related to business activities led to 21.1% YoY and 10.8% QoQ uptick in opex, resulting in CI ratio inching up to 57.5% (vs. 61.3% in Q4FY22 and 56% in Q3FY23). In Q4FY23, the bank reported a provision reversal of ₹ 9.2 crore (vs. reversal of ₹ 15 crore in Q3FY23 and reversal of ₹ 34.1 crore in Q4FY22). PAT was reported at ₹ 156 crore up 19.6% YoY, flat QoQ
- Asset quality improved sequentially as GNPA and NNPA were down 19 bps and 7 bps QoQ to 1.26% and 0.35%, respectively. Slippages were at ₹ 35 crore vs. ₹ 25 crore QoQ while recoveries were at ₹ 29 crore vs. ₹ 32 crore QoQ. Restructured book continued to decline further to 0.16 vs. 0.20% in Q3FY23

### Q4FY23 Earnings Conference Call highlights

- Guidance – 5% NIMs, GNPA to be < 2%, NNPA to be < 1%, credit cost to be <40 bps in the next three to four years
- Fee income will continue to grow faster than credit growth. The management indicated that PSLC and treasury income will not be negative in FY24
- Majority of investment will be on distribution channels, employees, etc, to scale up the liability franchise. Maximum capital expenditure on tech will happen in FY24, which will keep CI ratio elevated (to 55-60%) in the near term but gradually come down to 40-45%
- Hiring process is on track and looking to add more front & mid-level employees. Employee growth will 30-40% on a YoY basis
- Significant investment in tech will start showing benefits from FY25
- Of total loan ~60% is at fixed rate, ~30% is linked to MCLR and balance is repo rate linked
- Aim to add 100 branches in FY24. Total 50-60% incremental branch addition will be in west and north
- Recovery from written off accounts was ₹ 70 crore in FY23 vs. ₹ 77 crore in FY22

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)					P/E (x)					P/ABV (x)					RoA (%)					RoE (%)				
	₹	TP(₹)	Rating		FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E					
Axis Bank (AXIBAN)	855	1,100	Buy	2,640	42.4	31.1	88.9	106.1	20.2	27.5	9.6	8.1	2.5	2.2	1.7	1.5	1.2	0.8	1.9	2.0	12.0	8.0	19.1	18.4					
HDFC Bank (HDFBAN)	1,676	2,050	Buy	9,357	66.7	79.1	93.3	108.3	25.1	21.2	18.0	15.5	3.9	3.4	3.0	2.5	1.9	1.9	2.0	2.0	16.7	17.0	17.3	17.1					
Kotak Bank (KOTMAH)	1,937	2,290	Buy	3,501	43.0	55.2	64.8	74.3	45.0	35.1	29.9	26.1	5.4	4.7	4.0	3.7	2.1	2.4	2.4	2.4	12.6	14.0	14.3	14.6					
CSB Bank (CSBBAN)	279	330	Buy	48	26.4	31.5	31.8	35.0	10.6	8.8	8.8	8.0	2.0	1.6	1.4	1.2	1.9	2.0	1.7	1.5	19.0	18.7	15.9	15.1					
Bandhan (BANBAN)	230	265	Hold	370	0.8	12.9	15.9	20.2	294.4	17.8	14.5	11.4	2.4	2.1	1.9	1.7	3.9	-2.0	0.1	1.4	0.8	11.3	12.6	14.3					

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	348.4	344.1	303.8	14.7	349.7	-0.4	QoQ growth muted due to margin contraction
NIM (%)	5.4	5.6	5.4	-4 bps	5.8	-42 bps	
Other Income	126.3	94.8	63.6	98.6	89.9	40.5	Processing fee jumped 305% YoY & 49% QoQ
Net Total Income	474.8	438.9	367.4	29.2	439.6	8.0	
Staff cost	155.6	154.9	143.4	8.5	151.7	2.6	Higher income levels kept CI ratio largely steady at ~57%
Other Operating Expenses	117.3	94.3	82.0	43.0	94.5	24.1	
PPP	201.9	189.8	142.1	42.1	193.4	4.4	
Provision	-9.2	-4.2	-34.1	-	-15.0	-	Improved recoveries during the quarter aided reversals
PBT	211.1	194.0	176.2	19.8	208.4	1.3	
Tax Outgo	54.7	48.5	45.5	20.4	52.5	4.4	
PAT	156.3	145.5	130.7	19.6	156.0	0.3	Sequential performance impacted due to decline in NIMs
<b>Key Metrics</b>							
GNPA	263	292	290	-9.3	271	-3.2	Slippage ratio inched up slightly to 0.76%
NNPA	72	83	107	-32.9	78	-7.5	
Gross Advances	20,651	20,842	15,998	29.1	18,651	10.7	Gold loan segment grew 48% YoY
Deposit	24,506	24,506	20,188	21.4	22,664	8.1	CASA ratio improved to 32.2 vs 31.4% in Q3FY23

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	1,556	1,574	1	1,881	1,852	-2
Pre Provision Profit	820	816	-1	1,038	936	-10
NIM(%) (calculated)	5.5	5.3	-17 bps	5.5	5.2	-35 bps
PAT	576	552	-4	710	607	-14
ABV per share (₹)	197	198	0	234	229	-2

Source: Company, ICICI Direct Research

**Exhibit 4: Assumption**

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
Credit growth (%)	21.0	21.0	21.0	21.0
Deposit Growth (%)	14.8	19.8	17.9	18.0
NIM Calculated (%)	5.3	5.2	5.5	5.5
Cost to income ratio (%)	57.7	58.4	56.0	53.4

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement		₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E	
Interest Earned	2,038.3	2,319.7	2,798.4	3,354.3	
Interest Expended	885.0	985.8	1,224.5	1,502.5	
Net Interest Income	1,153.3	1,333.8	1,573.9	1,851.8	
Growth (%)	22.5	15.7	18.0	17.7	
Non Interest Income	246.8	316.0	353.9	396.4	
Net Income	1,400.1	1,649.9	1,927.8	2,248.2	
Employee cost	481.9	558.5	659.0	777.7	
Other operating Exp.	304.5	383.9	453.0	534.6	
Operating Income	613.7	707.4	815.8	935.9	
Provisions	(0.5)	(26.2)	75.0	120.9	
PBT	614.2	733.6	740.8	815.0	
Taxes	155.7	186.3	188.9	207.8	
Net Profit	458.5	547.4	551.9	607.2	
Growth (%)	109.9	19.4	0.8	10.0	
EPS (₹)	26.4	31.5	31.8	35.0	

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios		FY22	FY23	FY24E	FY25E
Valuation					
No. of shares (crore)		17.4	17.4	17.4	17.4
EPS (₹)		26.4	31.5	31.8	35.0
DPS (₹)		0.8	0.9	1.0	1.0
BV (₹)		152.8	176.0	206.8	240.7
ABV (₹)		138.0	171.8	197.6	229.3
P/E		10.6	8.8	8.8	8.0
P/BV		1.8	1.6	1.3	1.2
P/ABV		2.0	1.6	1.4	1.2
Yields & Margins (%)					
Net Interest Margins		5.3	5.4	5.3	5.2
Avg. cost on funds		4.1	4.2	4.4	4.5
Yield on average advances		10.8	10.4	10.2	10.0
Quality and Efficiency (%)					
Cost to income ratio		56.2	57.1	57.7	58.4
Credit/Deposit ratio		78.3	84.3	88.9	89.8
GNPA %		1.8	1.3	1.6	1.6
NNPA %		0.7	0.3	0.6	0.7
ROE		19.0	18.7	15.9	15.1
ROA		1.9	2.0	1.7	1.5

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet		₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E	
Sources of Funds					
Capital	173.5	173.5	173.5	173.5	
Reserves and Surplus	2477.9	3030.1	3565.4	4154.4	
Networth	2651.4	3203.6	3739.0	4327.9	
Deposits	20188.3	24505.8	28122.7	33685.0	
Borrowings	2007.2	783.0	2248.9	2721.1	
Other Liabilities & Provisions	509.4	669.9	1905.1	2666.5	
Total	25356.3	29162.3	36015.6	43400.6	
Application of Funds					
Fixed Assets	287.9	319.4	341.7	365.6	
Investments	7011.6	5848.7	7593.1	9095.0	
Advances	15814.7	20650.7	24987.3	30234.6	
Other Assets	668.4	506.9	1406.1	1684.3	
Cash with RBI & call money	1573.8	1836.7	1687.4	2021.1	
Total	25356.3	29162.3	36015.6	43400.6	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)		FY22	FY23	FY24E	FY25E
(% growth)					
Total assets		8.7	15.0	23.5	20.5
Advances		9.5	30.6	21.0	21.0
Deposit		5.5	21.4	14.8	19.8
Total Income		12.5	17.8	16.8	16.6
Net interest income		22.5	15.7	18.0	17.7
Operating expenses		7.9	19.8	18.0	18.0
Operating profit		19.0	15.3	15.3	14.7
Net profit		109.9	19.4	0.8	10.0
Net worth		21.6	20.8	16.7	15.8
EPS		109.9	19.4	0.8	10.0

Source: Company, ICICI Direct Research

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