

Continued traction in gold business to aid performance....

About the stock: CSB Bank is a south based private sector bank with Kerala contributing ~24% of total advances. Changed strategy in various aspects of lending have led to a transformation and improved performance in the past few years.

- Gold loans forms substantial proportion - 47% of the book
- Healthy liability franchise with loyal customer base of ~21 lakh, 747 branches and 570 ATMs

Investment Rationale:

- **Gold loan segment to aid business growth:** CSB Bank has been focusing on gold loans (at ~47% of book) which has aided business growth and margins. The bank seems to be one of the beneficiaries of recent run-up in gold prices and stabilization in competitive intensity in the segment. Though the management remains cautious amid increase in gold price, focus on gold loans is expected to continue which is seen to aid growth as well as yields. **Expect credit growth at ~20% CAGR in FY24-26E.**
- **Focus on gold loans & scope to increase CD ratio to aid margins:** The bank has slowed down pace of MSME loans (owing to repo linked loans) and unsecured loans (due to increased risk weight). However, continued focus on gold loans is seen to provide support to the business momentum. Repricing of deposits and faster accretion in term deposit (amid elevated competition in liabilities) is expected to increase cost of funds, however, continued traction in gold loans and scope to increase CD ratio (at ~82-83% in Q4FY24) provides room to lower pressure on margin. Management has guided for NIM at 5% in FY24E and not below 4.5% in FY25E.
- **CI ratio to improve in FY26E; lower credit cost to aid RoA:** Lower slippages, healthy recoveries (amid higher proportion of gold loans) is expected to keep asset quality prudent. Expect credit cost at ~25-35 bps in FY25-26E. Investment in distribution capacity (branch addition target of 75-100) is expected to keep CI ratio elevated in FY25E, post which is expected to come down at ~60% in FY26E. However, lower credit cost and healthy business growth is seen to keep RoA at 1.5-1.8% in FY25-26E.

Rating and Target Price

- Continued focus on gold loans portfolio is seen to aid business growth as well as safeguard pressure on margins, thus providing room for the bank to strengthen liabilities franchise and non-gold business through investment in distribution capacities, technology and partnerships.
- The bank is seen as a beneficiary of recent run-up in gold prices and expect to deliver business growth at 20% CAGR with RoA at 1.5-1.8% in FY25-26E
- At CMP, the stock is trading ~1.4x FY26E ABV which seems reasonable with steady growth to drive valuation. Assigning a multiple of ~1.7x FY26E ABV, we ascribe target of ₹ 470 per share and a **BUY** rating



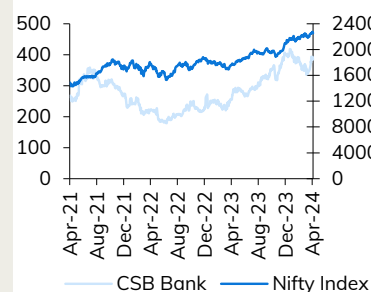
Particulars

Particulars	Amount
Market Capitalisation	₹ 6677 crore
52 week H/L	422 /263
Net Worth	₹ 3624 Crore
Face value	10.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	49.7	49.7	49.7	49.7
FII	5.9	4.7	4.6	4.9
DII	12.2	14.4	16.1	15.9
Others	32.2	31.3	29.6	29.4

Price Chart



Recent Event & Key risks

- Credit growth at 17.9% YoY and deposit accretion at 21.2% YoY in FY24
- **Key Risk:** (i) Accretion of liabilities at competitive price, (ii) Slower pace in gold loan business

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Key Financial Summary

₹ crore	FY21	FY22	FY23	2 Year CAGR (FY21-FY23)	FY24E	FY25E	FY26E	3 Year CAGR (FY24-FY26E)
NII	941	1153	1334	19%	1525	1778	2163	27%
PPP	516	614	707	17%	760	882	1114	26%
PAT	218	458	547	58%	548	591	750	17%
P/E	30.7	14.6	12.3		12.3	11.4	9.0	
P/ABV	3.6	2.8	2.3		1.9	1.7	1.4	
RoA	1.0	1.9	2.0		1.7	1.5	1.6	
RoE	10.5	19.0	18.7		15.8	14.7	16.1	

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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