

On steady recovery path...

About the stock: CSB Bank is a south based private sector bank with Kerala contributing ~50% of the total business. Changed strategy in various aspects of lending has led to transformation and improved performance in the past few years.

- Gold, SME are key lending segments comprising 36%, 13%, respectively, of book
- Liability franchise is healthy with loyal customer base of ~17 lakh

Q2FY22 Results: CSB Bank reported a decent overall performance.

- NII up 21% YoY, NIM up 18 bps QoQ at 5.2%, C/I up to 56% from 48% QoQ
- Overall provisions write-back of ₹ 9 crore boosted PAT at ₹ 118 crore
- GNPA down 77 bps QoQ to 4.11%. R/s book at ~0.8% of loans

What should investors do? CSB Bank's stock has given more than 30% returns in the past year.

- We retain our BUY rating on the stock

Target Price and Valuation: We value CSB Bank at ~2.6x FY23E ABV and keep our target price unchanged at ₹ 380.

Key triggers for future price performance:

- Strong recovery in gold & MSME loans should continue
- Credit cost to remain benign due to healthy recovery thus aiding profits
- Loan growth to pick up as unlocking progresses and launch of new products

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 ₹ 900

Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21	3 Year CAGR (FY18-FY21)	FY22E	FY23E	2 Year CAGR (FY21 - FY23E)
NII	385	440	592	941	35%	1153	1361	20%
PPP	74	13	281	613	102%	633	776	13%
PAT	-97	-197	13	218	-	343	429	40%
ABV (₹)	58.4	138.5	91.9	107.3		124.8	147.8	
P/E	NA	NA	418.6	24.4		15.6	12.4	
P/ABV	5.3	2.2	3.3	2.9		2.5	2.1	
RoA	(0.6)	(1.2)	0.1	1.0		1.4	1.4	
RoE	(10.3)	(17.0)	0.8	10.5		14.6	15.8	

Source: Company, ICICI Direct Research



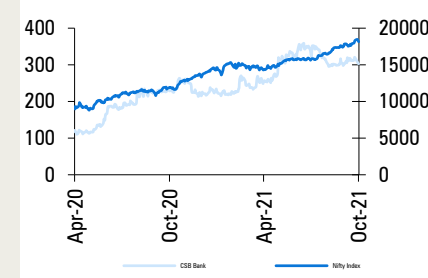
Particulars

Particulars	Amount
Market Capitalisation	₹ 5323 crore
52 week H/L	373 /197
Net Worth	₹ 2362 Crore
Face value	₹ 10
DII Holding (%)	11.7
FII Holding (%)	5.7

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	49.7	49.7	49.7	49.7	49.7
FII	3.3	5.1	5.3	5.5	5.7
DII	7.9	8.1	9.3	11.1	11.7
Others	39.2	37.1	35.7	33.6	32.9

Price Chart



Recent Event & key risks

- Gold loan GNPA down from ₹ 353 crore to ₹ 287 crore QoQ
- Key Risk:** Persisting impact of Covid-19 could impact asset quality and, thus, overall performance

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Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Subdued quarter

- NII was up of 21.4% YoY to ₹ 278 crore owing to 18 bps sequential rise in NIMs to 5.2%. Other income was up 36.5% YoY to ₹ 59.8 crore, led by commission income growth of 30% YoY and PSLC premium jump of 132%
- C/I ratio increased QoQ to 56% from 48% as a result of a rise in employee expenses mainly due to change in mortality assumptions pertaining to employee benefits. The bank had a provision write-back of ₹ 9 crore due to reversal of provisions in gold loan segment and also due to recovery from bad debts. As a result, net profit for the quarter came in at ₹ 118.5 crore, up 68.9% YoY
- Asset quality for the bank improved on a sequential basis as GNPA and NNPA were down 77 bps and 58 bps QoQ to 4.11% and 2.63%, respectively. Gold loan NPAs declined from ₹ 353 crore to ₹ 287 crore sequentially while GNPA excluding gold segment for the bank was at 2.09%
- As on September 2021, it had provision buffer of ₹ 318 crore on its book. The bank currently has ₹ 113 crore worth restructured book, ~80 bps vs. 48 bps QoQ
- Business growth was soft as advances were up 12.2% YoY to ₹ 14070 crore mainly due to slower growth in gold credit, up 10.3% YoY. Corporate credit showed better traction with a growth of 17% YoY
- Deposits were up 9.1% YoY to ₹ 19055 crore primarily led by 21% YoY uptick in CASA. Thus, CASA ratio increased from 29.3% to 32.5% YoY

Q2FY22 Earnings Conference Call highlights

- Plans to open 50 branches in the next quarter
- Interest reversals during the quarter were ₹ 2.2 crore vs, ₹ 23 crore QoQ
- Total restructured book was at ₹ 113 crore while the bank has 25% provisions on it
- ECLGS book is at ₹ 141 crore
- Collections have reached 93% in September 2021
- Target GNPA below 2% by year end
- Employee expenses could be in the range of ~₹ 130 crore per quarter
- Around 30% of employee base is under IBA

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	₹	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BoB (BANBAR)	96	120	Buy	489	2.5	8.9	13.4	38.6	10.8	7.2	0.9	0.8	0.7	0.1	0.4	0.5	1.7	5.8	8.2
SBI (STABAN)	506	540	Buy	4488	22.9	30.5	35.8	22	16.6	14.1	2.1	1.9	1.7	0.5	0.6	0.6	8.4	10.2	10.8
Indian Bank (INDIBA)	187	180	Buy	174	26.6	32.9	46.7	7.0	5.7	4.0	0.9	0.9	0.8	0.6	0.6	0.8	9.9	10.4	13.5
Axis Bank (AXIBAN)	845	900	Buy	2459	21.5	46.0	58.2	39.3	18.4	14.5	2.7	2.4	2.1	0.7	1.4	1.6	7.1	13.0	14.5
City Union (CITUNI)	176	200	Buy	126	8.8	9.3	11.7	20.0	18.9	15.1	2.7	2.4	2.0	1.3	1.2	1.4	11.9	11.3	12.4
Federal Bank (FEDBAN)	104	120	Buy	218	8.0	8.8	11.3	13.1	11.8	9.2	1.4	1.4	1.2	0.8	0.9	1.0	10.4	10.9	12.7
HDFC Bank (HDFBAN)	1,656	2,000	Buy	9335	47.9	56.4	65.5	34.6	29.3	25.3	5.4	4.6	4.0	1.9	1.9	1.9	16.4	16.6	16.5
IndusInd Bank (INDBA)	1,177	1,150	Buy	936	36.7	69.1	76.1	32.1	17.0	15.5	2.2	2.1	2.0	0.8	1.4	1.4	7.3	12.1	12.8
Kotak Bank (KOTMAH)	2,157	2,040	Buy	4305	35.1	43.9	55.7	61.4	49.1	38.7	7.0	6.2	5.3	1.9	2.1	2.4	12.4	12.8	14.2
CSB Bank (CSBBAN)	307	380	Buy	53	12.6	19.7	24.7	24.4	15.6	12.4	2.9	2.5	2.1	0.1	1.0	1.4	10.5	14.6	15.8
Bandhan (BANBAN)	310	310	Hold	519	13.7	19.0	29.5	22.6	16.3	10.5	3.4	2.9	2.3	2.1	2.5	3.2	13.5	16.3	21.1
IDFC First (IDFBAN)	49	60	Buy	306	0.8	0.6	2.9	61.5	83.0	16.8	1.6	1.3	1.2	0.3	0.2	0.9	2.7	1.8	7.3

Source: Company, ICICI Direct Research

We believe CSB Bank's performance should see meaningful improvement, going ahead with improvement in overall asset quality.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
NII	278.4	287.1	229.3	21.4	267.8	4.0	Driven by margin expansion
NIM (%)	5.2	5.2	4.5	74 bps	5.0	18 bps	NIMs up due to better asset quality leading to lesser reversals of interest
Other Income	59.8	93.9	43.8	36.5	71.2	-16.1	YoY uptick due to commissions and PSLC income
Net Total Income	338.2	381.0	273.1	23.8	339.0	-0.2	
Staff cost	119.2	102.1	103.8	14.8	97.2	22.6	Jump in employee expense due to change in mortality assumptions for employee benefits
Other Operating Expenses	69.6	77.1	50.3	38.5	67.0	3.9	
PPP	149.4	201.9	119.0	25.5	174.7	-14.5	
Provision	-9.1	94.2	26.9	-133.7	93.2	-109.7	Healthy recoveries in gold loans led to write-back
PBT	158.5	107.7	92.1	72.1	81.5	94.4	
Tax Outgo	39.9	27.5	23.2	72.0	20.5	94.3	
PAT	118.6	80.2	68.9	72.1	61.0	94.4	Provisions write-back aided profitability
Key Metrics							
GNPA	587	549	387	51.5	686	-14.5	Improvement due to gold loan recoveries
NNPA	370	329	164	126.3	444	-16.6	
Advances	14,070	14,053	12,538	12.2	13,817	1.8	Slightly lower growth due to slower gold loan book
Deposit	19,056	19,062	17,468	9.1	18,653	2.2	Driven by CASA deposits

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY22E			FY23E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Net Interest Income	1,133	1,153	1.8	1,402	1,361	-2.9
Pre Provision Profit	700	633	-9.6	857	776	-9.4
NIM(%) (calculated)	5.0	5.2	23 bps	5.1	5.3	19 bps
PAT	317	343	8.0	443	429	-3.3
ABV per share (₹)	123	125	1.2	147	148	0.8

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY21	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	27.0	16.0	21.0	25.0	24.0
Deposit Growth (%)	21.2	18.2	19.1	21.7	21.8
NIM Calculated (%)	5.0	5.2	5.3	5.0	5.1
Cost to income ratio (%)	54.3	55.8	53.8	54.1	53.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement

	₹ crore				
(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	1,347.5	1,509.9	1,872.3	2,266.2	2,677.3
Interest Expended	907.6	917.6	930.9	1,113.3	1,316.1
Net Interest Income	440.0	592.3	941.4	1,152.9	1,361.1
Growth (%)	14.3	34.6	58.9	22.5	18.1
Non Interest Income	135.9	221.6	400.8	280.6	319.9
Net Income	575.9	813.9	1,342.2	1,433.5	1,681.0
Employee cost	384.4	286.9	496.2	521.0	583.6
Other operating Exp.	178.1	246.4	232.8	279.3	321.2
Operating Income	13.4	280.6	613.2	633.1	776.2
Provisions	313.5	146.6	320.7	173.3	201.0
PBT	(300.1)	134.0	292.6	459.8	575.2
Taxes	(102.7)	121.3	74.2	117.3	146.7
Net Profit	(197.4)	12.7	218.4	342.6	428.6
Growth (%)	NA	NA	1,616.4	56.9	25.1
EPS (₹)	(23.0)	0.7	12.6	19.7	24.7

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of shares (crore)	8.6	17.4	17.4	17.4	17.4
EPS (₹)	-23.0	0.7	12.6	19.7	24.7
DPS (₹)	0.0	0.0	0.0	0.6	0.7
BV (₹)	166.5	104.4	117.0	136.1	160.1
ABV (₹)	138.5	91.9	107.3	124.8	147.8
P/E	-13.4	418.6	24.4	15.6	12.4
P/BV	1.8	2.9	2.6	2.3	1.9
P/ABV	2.2	3.3	2.9	2.5	2.1
Yields & Margins (%)					
Net Interest Margins	3.1	3.8	5.0	5.2	5.3
Avg. cost on funds	6.1	5.8	5.0	5.0	5.1
Yield on average advances	9.7	10.6	10.7	10.9	11.1
Quality and Efficiency (%)					
Cost to income ratio	97.7	65.5	54.3	55.8	53.8
Credit/Deposit ratio	70.2	72.0	75.4	74.0	75.2
GNPA %	4.9	3.5	2.7	2.4	1.9
NNPA %	2.3	1.9	1.2	1.2	1.1
ROE	-17.0	0.8	10.5	14.6	15.8
ROA	-1.2	0.1	1.0	1.4	1.4

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet

	₹ crore				
(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	86.0	173.5	173.5	173.5	173.5
Reserves and Surplus	1345.7	1787.2	2006.7	2339.0	2754.7
Networth	1431.7	1960.7	2180.2	2512.5	2928.2
Deposits	15123.9	15790.7	19140.0	22627.2	26940.8
Borrowings	0.0	794.0	1425.9	1339.9	1215.9
Other Liabilities & Provisions	355.6	318.9	591.2	626.1	938.8
Total	16911.2	18864.2	23337.4	27105.7	32023.7
Application of Funds					
Fixed Assets	217.7	228.3	269.5	288.4	308.5
Investments	4027.6	5359.8	6126.0	7014.4	7812.8
Advances	10615.2	11366.4	14438.1	16748.2	20265.3
Other Assets	1076.9	970.4	789.7	1697.0	2020.6
Cash with RBI & call money	973.6	939.3	1714.1	1357.6	1616.4
Total	16911.2	18864.2	23337.4	27105.7	32023.7

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)

(% growth)	FY19	FY20	FY21	FY22E	FY23E
Total assets	6.6	11.5	23.7	16.1	18.1
Advances	13.7	7.1	27.0	16.0	21.0
Deposit	2.9	4.4	21.2	18.2	19.1
Total Income	12.9	41.3	64.9	6.8	17.3
Net interest income	14.3	34.6	58.9	22.5	18.1
Operating expenses	29.0	(5.2)	36.7	9.8	13.0
Operating profit	(82.0)	2,000.4	118.6	3.2	22.6
Net profit	NA	NA	1,616.4	56.9	25.1
Net worth	61.0	36.9	11.2	15.2	16.5
EPS	NA	NA	1,616.1	56.9	25.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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