

CMP: ₹ 250

Target: ₹ 320 (28%)

Target Period: 12 months

January 24, 2022

BUY

## 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 key lending segments comprising 37%, 13%, respectively, of book
- Liability franchise is healthy with loyal customer base of ~19 lakh

**Q3FY22 Results:** Provision reversals bolster profits.

- NII up 21% YoY, NIM up 24 bps QoQ at 5.5%, C/I up to 58% from 56% QoQ
- Overall provisions write-back of ₹ 50.6 crore boosted PAT at ₹ 148 crore
- GNPA down 149 bps QoQ to 2.6%, R/S book at ~0.9% of loans

**What should investors do?** CSB Bank stock has given marginal returns in past one year, primarily on account of apprehensions on asset quality SME segment due to lockdowns but we believe as these overhang fade away the stock should see a positive reflection.

- We retain our BUY rating on the stock

**Target Price and Valuation:** We value CSB Bank at ~1.7x FY24E ABV and keep unchanged our target price at ₹ 320.

**Key triggers for future price performance:**

- Healthy recovery in gold segment to aid performance
- Multiple levers for margin improvement
- Credit cost to remain benign due to and 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 ₹ 970



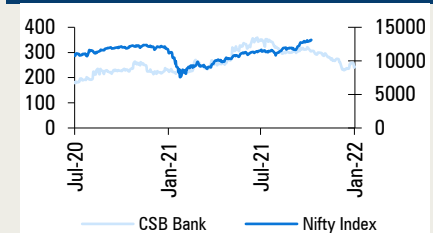
### Particulars

Particulars	Amount
Market Capitalisation	₹ 4332 crore
52 week H/L	373 /215
Net Worth	₹ 2513 Crore
Face value	₹ 10

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	49.7	49.7	49.7	49.7	49.7
FII	5.1	5.3	5.5	5.7	5.7
DII	8.1	9.3	11.1	11.7	12.2
Others	37.1	35.7	33.6	32.9	32.3

### Price Chart



### Recent Event & key risks

- GNPA excluding gold loans at 1.87%
- **Key Risk:** Impact of third wave of pandemic could delay recovery

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### Key Financial Summary

₹ crore	FY19	FY20	FY21	3 Year CAGR (FY18-FY21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21 - FY24E)
NII	440	592	941	35%	1162	1365	1622	20%
PPP	13	281	613	102%	660	802	993	17%
PAT	-197	13	218	-	427	478	586	39%
ABV (₹)	138.5	91.9	107.3		129.5	155.7	186.9	
P/E	NA	340.9	19.9		10.2	9.1	7.4	
P/ABV	1.8	2.7	2.3		1.9	1.6	1.3	
RoA	(1.2)	0.1	1.0		1.8	1.8	1.8	
RoE	(17.0)	0.8	10.5		17.9	16.9	17.5	

## Key takeaways of recent quarter & conference call highlights

### Q3FY22 Results: Subdued quarter

- NII reported growth of 20.7% YoY to ₹ 303 crore on the back of 24 bps QoQ expansion in NIMs. Margins were boosted by healthy interest income recoveries. Other income was down 12.7% QoQ as treasury profits declined
- The bank during the quarter had a provision write-back of ₹ 50.6 crore against write-back of ₹ 9 crore QoQ. This was mainly on account of a healthy performance on the asset quality front. Thus, as a result of negative credit cost, net profit jumped 179% YoY and 25.0% QoQ to ₹ 148 crore
- Asset quality improved sequentially as GNPA and NNPA were down 149 bps and 127 bps QoQ to 2.62% and 1.36%, respectively. Gold loan NPAs declined from ₹ 288 crore to ₹ 102 crore sequentially. Slippages were at ₹ 81 crore vs. ₹ 205 crore QoQ while recoveries were at ₹ 206 crore vs. ₹ 190 crore QoQ. The bank currently has ₹ 105.9 crore provisions for likely impact due to Covid
- Business growth was modest as advances were up 11.4% YoY to ₹ 14637 crore. However, on sequential basis, credit offtake was better at 4.0% wherein gold loans posted 7% QoQ growth. Deposits were up 7.3% YoY to ₹ 19056 crore and flattish QoQ. CASA deposits increased 22% YoY and 6.1% QoQ. As a result, CASA ratio improved to 34.5% vs. 32.58% in the previous quarter

### Q3FY22 Earnings Conference Call highlights

- Expect strong recoveries in March quarter
- January has seen gold loan recoveries of ~₹ 40 crore
- Q3 had ~₹ 50 crore gold loan slippage
- Normalised credit cost to be less than 1%
- Provision write back due to higher recoveries from written-off accounts
- Total interest income recoveries ~₹ 11 crore in gold loan segment for Q3
- Expect CD ratio to improve to 82-85%
- Expect yields in SME segment to improve, repricing in gold loan to be faster as average tenor is four months. Hence, yield improvement can be seen here also
- Plan to increase proportion of short term deposits
- Do not expect much challenges from union employees
- Gold loan average ticket size ₹ 1.3 lakh
- SMA book at ~₹ 286 crore

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	₹	TP(₹)	Rating	(₹ Bn)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E		
Axis Bank (AXIBAN)	708	970	Buy	2214	21.5	41.0	52.7	32.9	17.3	13.4	2.3	2.1	1.8	0.7	1.2	1.4	7.1	11.7	13.4		
Federal Bank (FEDBAN)	93	120	Buy	209	8.0	8.8	11.3	11.6	10.6	8.2	1.3	1.2	1.1	0.8	0.9	1.0	10.4	10.9	12.7		
HDFC Bank (HDFBAN)	1,506	2,000	Buy	8564	56.4	65.7	77.6	26.7	22.9	19.4	4.2	3.6	3.1	1.9	2.0	2.0	16.6	16.5	16.8		
IndusInd Bank (INDBA)	859	1,400	Buy	713	36.7	57.4	72.9	23.4	15.0	11.8	1.6	1.4	1.5	0.8	1.2	1.3	7.3	10.0	12.3		
Kotak Bank (KOTMAH)	1,863	2,550	Buy	3843	35.1	38.9	48.9	53.0	47.9	38.1	6.1	5.4	4.7	1.9	1.9	2.1	12.4	11.4	12.7		
CSB Bank (CSBBAN)	250	320	Buy	43	12.6	24.6	27.6	19.9	10.2	9.1	2.3	1.9	1.6	0.1	1.0	1.8	10.5	17.9	16.9		
Bandhan (BANBAN)	304	300	Hold	489	16.4	18.1	13.7	18.6	16.8	22.2	3.3	3.3	3.4	3.9	3.9	2.1	19.0	22.1	13.5		
IDFC First (IDFBAN)	46	60	Buy	305	0.8	0.5	1.6	57.7	95.5	28.7	1.5	1.2	1.2	0.3	0.2	0.5	2.7	1.4	4.1		

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
NII	303.3	290.3	251.2	20.8	278.4	9.0	Healthy growth aided by margin expansion
NIM (%)	5.5	0.0	5.2	29 bps	5.2	24 bps	NIMs improve with strong interest income recoveries
Other Income	52.2	68.7	131.4	-60.3	59.8	-12.8	Decline due to low treasury gains
Net Total Income	355.5	359.0	382.6	-7.1	338.2	5.1	
Staff cost	122.1	125.1	127.8	-4.5	119.2	2.5	
Other Operating Expenses	85.9	73.1	57.6	49.0	69.6	23.3	Rise in business activity leads to higher expenditure
PPP	147.6	160.8	197.2	-25.2	149.4	-1.2	
Provision	-50.6	44.0	126.3	-140.0	-9.1	457.4	Reversal due to better asset quality
PBT	198.1	116.8	70.9	179.5	158.5	25.0	
Tax Outgo	49.9	29.8	17.8	179.5	39.9	25.0	
PAT	148.3	87.0	53.1	179.5	118.6	25.0	Low credit cost boosts PAT
Key Metrics							
GNPA	389	610	235	65.6	587	-33.7	Healthy recoveries aid asset quality improvement
NNPA	200	372	90	123.1	370	-46.0	
Advances	14,637	14,655	13,137	11.4	14,070	4.0	Loan growth driven by corporate segment
Deposit	19,056	19,056	17,753	7.3	19,056	0.0	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	1,153	1,162	0.8	1,361	1,365	0.3	1,622
Pre Provision Profit	633	660	4.3	776	802	3.3	993
NIM(%) (calculated)	5.2	5.4	22 bps	5.3	5.7	40 bps	5.6
PAT	343	427	24.7	429	478	11.6	586
ABV per share (₹)	125	129	3.8	148	156	5.3	187

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier	
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E
Credit growth (%)	27.0	10.5	18.0	23.0	16.0	21.0
Deposit Growth (%)	21.2	3.3	13.3	15.4	18.2	19.1
NIM Calculated (%)	5.0	5.4	5.7	5.6	5.2	5.3
Cost to income ratio (%)	54.3	53.6	51.8	49.6	55.8	53.8

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E	FY24E
Interest Earned	1,509.9	1,872.3	2,129.3	2,434.4	2,888.2
Interest Expended	917.6	930.9	967.4	1,069.7	1,266.2
Net Interest Income	592.3	941.4	1,161.9	1,364.7	1,621.9
Growth (%)	34.6	58.9	23.4	17.5	18.8
Non Interest Income	221.6	400.8	260.5	299.6	347.5
Net Income	813.9	1,342.2	1,422.4	1,664.3	1,969.5
Employee cost	286.9	496.2	471.4	528.0	591.3
Other operating Exp.	246.4	232.8	291.0	334.6	384.8
Operating Income	280.6	613.2	660.0	801.7	993.3
Provisions	146.6	320.7	86.6	159.5	207.1
PBT	134.0	292.6	573.4	642.2	786.2
Taxes	121.3	74.2	146.2	163.8	200.5
Net Profit	12.7	218.4	427.2	478.4	585.8
Growth (%)	NA	1,616.4	95.6	12.0	22.4
EPS (₹)	0.7	12.6	24.6	27.6	33.8

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
	FY20	FY21	FY22E	FY23E	FY24E
Valuation					
No. of shares (crore)	17.4	17.4	17.4	17.4	17.4
EPS (₹)	0.7	12.6	24.6	27.6	33.8
DPS (₹)	0.0	0.0	0.7	0.8	1.0
BV (₹)	104.4	117.0	140.9	167.6	200.3
ABV (₹)	91.9	107.3	129.5	155.7	186.9
P/E	340.9	19.9	10.2	9.1	7.4
P/BV	2.4	2.1	1.8	1.5	1.2
P/ABV	2.7	2.3	1.9	1.6	1.3
Yields & Margins (%)					
Net Interest Margins	3.8	5.0	5.4	5.7	5.6
Avg. cost on funds	5.8	5.0	4.7	4.8	5.0
Yield on average advances	10.6	10.7	10.8	10.8	10.9
Quality and Efficiency (%)					
Cost to income ratio	65.5	54.3	53.6	51.8	49.6
Credit/Deposit ratio	72.0	75.4	80.7	84.1	89.6
GNPA %	3.5	2.7	2.5	2.0	1.8
NNPA %	1.9	1.2	1.2	1.1	1.0
ROE	0.8	10.5	17.9	16.9	17.5
ROA	0.1	1.0	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Capital	173.5	173.5	173.5	173.5	173.5
Reserves and Surplus	1787.2	2006.7	2421.0	2885.1	3453.3
Networth	1960.7	2180.2	2594.6	3058.7	3626.9
Deposits	15790.7	19140.0	19767.3	22397.0	25835.2
Borrowings	794.0	1425.9	1276.3	1129.6	1389.3
Other Liabilities & Provisions	318.9	591.2	1598.4	2851.8	5035.4
Total	18864.2	23337.4	25236.6	29437.0	35886.9
Application of Funds					
Fixed Assets	228.3	269.5	288.4	308.5	330.1
Investments	5359.8	6126.0	6325.5	7167.0	8784.0
Advances	11366.4	14438.1	15954.1	18825.9	23155.8
Other Assets	970.4	789.7	1482.5	1791.8	2066.8
Cash with RBI & call money	939.3	1714.1	1186.0	1343.8	1550.1
Total	18864.2	23337.4	25236.6	29437.0	35886.9

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)					
(% growth)	FY20	FY21	FY22E	FY23E	FY24E
Total assets	11.5	23.7	8.1	16.6	21.9
Advances	7.1	27.0	10.5	18.0	23.0
Deposit	4.4	21.2	3.3	13.3	15.4
Total Income	41.3	64.9	6.0	17.0	18.3
Net interest income	34.6	58.9	23.4	17.5	18.8
Operating expenses	(5.2)	36.7	4.6	13.1	13.2
Operating profit	2,000.4	118.6	7.6	21.5	23.9
Net profit	NA	1,616.4	95.6	12.0	22.4
Net worth	36.9	11.2	19.0	17.9	18.6
EPS	NA	1,616.1	95.6	12.0	22.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

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## ANALYST CERTIFICATION

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