

Growth outlook optimistic; opex, deposit trend key...

About the stock: CSB Bank is a south based private sector bank with Kerala contributing ~47% of 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 39%, 15%, respectively, of book
- Liability franchise is healthy with loyal customer base of ~21 lakh

Q4FY22 Results: CSB Bank reported a meaningful improvement in asset quality.

- NII up 10.2% YoY and flat QoQ, NIM stable YoY at 5.4%, C/I at 61% QoQ
- Overall provisions write-back of ₹ 34 crore boosted PAT at ₹ 130 crore
- GNPA down 81 bps QoQ to 1.81%, NNPA down 68 bps QoQ to 0.68%

What should investors do? CSB Bank's stock has underperformed in the past few quarters on account of concerns over stress formation in SME & gold loans, but we believe these concerns should take a backseat now as we have witnessed healthy recoveries in the last two quarters. Clarity over new leadership is keenly awaited and should be a key catalyst for a re-rating. While the management is aiming to boost growth, liabilities accumulation and opex control remain key.

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value CSB Bank at ~1.4x FY24E ABV with a revised target price of ₹ 270 vs. ₹ 320 earlier.

Key triggers for future price performance:

- With new products added to the kitty we believe business growth should get a fillip as opportunities to cross sell also increase
- Investments in technology could push opex to average assets beyond current levels of 3.2% but the management expects this to reap benefits in 15-18 months and shall reflect on its C/I ratio
- Better show in the non-gold lending segment should aid the overall operating performance and boost 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 ₹ 970



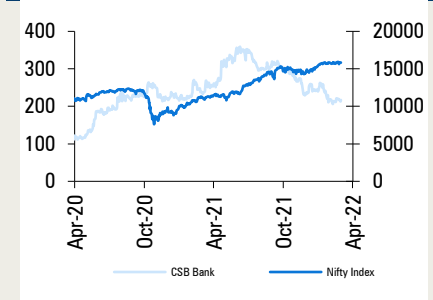
Particulars

Particulars	Amount
Market Capitalisation	₹ 3948 crore
52 week H/L	373 /201
Net Worth	₹ 2651 Crore
Face value	₹ 10

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	49.7	49.7	49.7	49.7	49.7
FII	5.3	5.5	5.7	5.7	5.0
DII	9.3	11.1	11.7	12.2	12.4
Others	35.7	33.6	32.9	32.3	32.9

Price Chart



Recent Event & key risks

- Gold loan GNPA at ₹ 28.8 crore vs. ₹ 45.4 crore QoQ
- Key Risk:** Resurgence of Covid wave; slower balance sheet growth could impact earnings

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Namolia
vishal.namolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	2 Year CAGR (FY22 - FY24E)
NII	440	592	941	1153	38%	1369	1632	19%
PPP	13	281	516	614	258%	812	1017	29%
PAT	-197	13	218	458	-	510	605	15%
ABV (₹)	138.5	91.9	107.3	132.8		165.6	197.6	
P/E	NA	310.9	18.1	8.6		7.8	6.5	
P/ABV	1.6	2.5	2.1	1.7		1.4	1.2	
RoA	(1.2)	0.1	1.0	2.0		1.9	1.8	
RoE	(17.0)	0.8	10.5	20.2		17.6	17.6	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Modest quarter on overall basis

- NII witnessed growth of 10.2% YoY and was flat on a QoQ basis to ₹ 303.8 crore on the back of stable margins YoY and QoQ at 5.4%. Other income was flat YoY due to lower treasury income
- The bank during the quarter had a provision write-back of ₹ 34 crore against write-back of ₹ 50.6 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 204% YoY to ₹ 130.7 crore
- Asset quality improved sequentially as GNPA and NNPA were down 81 bps and 68 bps QoQ to 1.81% and 0.68%, respectively. Slippages were at ₹ 38 crore vs. ₹ 81 crore QoQ while recoveries were at ₹ 98 crore vs. ₹ 206 crore QoQ
- Business growth was modest as advances were up 9.5% YoY to ₹ 15815 crore. However, on a sequential basis, credit offtake was better at 8% wherein gold loans posted 7.2% growth
- Deposits were up 5.5% YoY, 5.9% QoQ to ₹ 20188 crore. CASA deposits increased 10.2% YoY. CASA ratio was at 33.7% vs. 34.6% in previous quarter

Q4FY22 Earnings Conference Call highlights

- Looking for meaningful investment in technology
- Had additional Covid related provisions of ₹ 106 crore
- The bank has total ₹ 214 crore provisions over and above RBI requirement
- Of total GNPA of ₹ 289 crore, gold loan NPA contributed ₹ 28.8 crore and has high recoverability
- Adding more products and services in branches would help operating leverage
- Corporate yield – 8.5 to 9%, SME yield - ~10%, Gold loans – 11%+
- NIM expected to remain steady in the near term though the management is said to prefer credit growth over NIMs
- Opex to average assets could rise slightly due to investments in technology

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoA (%)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	673	970	Buy	2067	21.5	42.4	52.7	63.7	31.3	15.9	12.8	10.6	2.2	1.9	1.7	1.6	0.7	1.2	1.4	1.5	7.1	12.0	13.3	14.8
Federal Bank (FEDBAN)	91	115	Buy	190	8.0	9.0	10.5	12.9	11.4	10.1	8.6	7.1	1.2	1.2	1.1	1.0	0.8	0.9	1.0	1.0	10.4	10.8	11.6	13.1
IndusInd Bank (INDBA)	917	1,150	Buy	710	36.7	59.5	82.4	101.0	25.0	15.4	11.1	9.1	1.7	1.6	1.5	1.3	0.8	1.2	1.5	1.6	7.3	10.1	13.1	15.1
Kotak Bank (KOTMAH)	1,773	2,150	Buy	3519	35.1	43.2	49.6	57.8	50.5	41.0	35.7	30.7	5.8	5.1	4.4	3.9	1.9	2.1	2.1	2.1	12.4	12.6	12.9	13.1
CSB Bank (CSBBAN)	228	270	Buy	39	12.6	28.2	29.4	34.8	18.1	8.1	7.7	6.5	2.1	1.7	1.4	1.2	1.0	2.0	1.9	1.8	10.5	20.2	17.6	17.6
Bandhan (BANBAN)	318	300	Hold	512	13.7	-5.0	21.1	31.3	23.2	-63.0	15.1	10.2	3.5	3.8	3.0	2.4	2.1	-0.7	2.5	3.1	13.5	-4.8	19.0	23.1
IDFC First (IDFBAN)	39	56	Buy	240	0.8	0.2	2.4	3.6	48.6	165.4	16.3	10.7	1.4	1.3	1.0	1.0	0.3	0.1	0.7	1.0	2.7	0.7	6.4	8.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	303.8	340.9	275.7	10.2	303.3	0.2	In line with yearly growth
NIM (%)	5.4	5.4	5.4	0 bps	5.4	1 bps	Stable margins aided by recoveries and asset quality
Other Income	63.6	60.5	63.7	-0.2	52.2	22.0	YoY flat due to lower treasury income
Net Total Income	367.4	401.4	339.5	8.2	355.5	3.4	
Staff cost	143.4	129.4	178.6	-19.7	122.1	17.5	Opex on the higher side as tech and staff addition continues
Other Operating Expenses	82.0	91.4	80.4	1.9	85.9	-4.5	
PPP	142.1	180.5	80.4	76.7	147.6	-3.7	
Provision	-34.1	8.0	22.4	-252.4	-50.6	-32.6	Improvement in asset quality aids negative credit costs
PBT	176.2	172.5	58.0	203.7	198.1	-11.1	
Tax Outgo	45.5	44.0	15.1	200.8	49.9	-8.8	
PAT	130.7	128.5	42.9	204.7	148.3	-11.9	PAT boosted by provisions write back
Key Metrics							
GNPA	290	405	393	-26.4	389	-25.6	Loan recoveries help improve asset quality
NNPA	107	202	169	-36.6	200	-46.4	
Advances	15,815	15,998	14,438	9.5	14,637	8.0	Sequential growth healthy with 7.2% rise in gold loans
Deposit	20,188	20,188	19,140	5.5	19,056	5.9	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY23E			FY24E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Net Interest Income	1,365	1,369	0.3	1,622	1,632	0.6
Pre Provision Profit	802	812	1.3	993	1,017	2.4
NIM(%) (calculated)	5.7	5.7	1 bps	5.6	5.6	5 bps
PAT	478	510	6.6	586	605	3.2
ABV per share (₹)	156	166	6.3	187	198	5.7

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	27.0	10.5	18.0	21.0	18.0	23.0
Deposit Growth (%)	21.2	3.3	14.2	17.3	13.3	15.4
NIM Calculated (%)	5.0	5.8	5.7	5.6	5.7	5.6
Cost to income ratio (%)	54.3	50.7	51.3	48.6	51.8	49.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement ₹ crore						
(₹ Crore)	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	1,347.5	1,509.9	1,872.3	2,038.3	2,399.4	2,864.9
Interest Expended	907.6	917.6	930.9	885.0	1,030.1	1,232.8
Net Interest Income	440.0	592.3	941.4	1,153.3	1,369.3	1,632.1
Growth (%)	14.3	34.6	58.9	22.5	18.7	19.2
Non Interest Income	135.9	221.6	303.1	246.8	299.6	347.5
Net Income	575.9	813.9	1,244.5	1,400.1	1,668.9	1,979.7
Employee cost	384.4	286.9	496.2	481.9	528.0	591.3
Other operating Exp.	178.1	246.4	232.8	304.5	328.8	371.5
Operating Income	13.4	280.6	515.5	613.7	812.2	1,016.8
Provisions	313.5	146.6	223.0	(0.5)	127.6	205.3
PBT	(300.1)	134.0	292.6	614.2	684.5	811.5
Taxes	(102.7)	121.3	74.2	155.7	174.6	206.9
Net Profit	(197.4)	12.7	218.4	458.5	510.0	604.6
Growth (%)	NA	NA	1,616.3	109.9	11.2	18.5
EPS (₹)	(23.0)	0.7	12.6	28.2	29.4	34.8

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios						
	FY19	FY20	FY21	FY22	FY23E	FY24E
Valuation						
No. of shares (crore)	8.6	17.4	17.4	17.4	17.4	17.4
EPS (₹)	-23.0	0.7	12.6	26.4	29.4	34.8
DPS (₹)	0.0	0.0	0.0	0.8	0.9	1.0
BV (₹)	166.5	104.4	117.0	152.8	172.8	206.6
ABV (₹)	138.5	91.9	107.3	132.8	165.6	197.6
P/E	-9.9	310.9	18.1	8.6	7.8	6.5
P/BV	1.4	2.2	1.9	1.5	1.3	1.1
P/ABV	1.6	2.5	2.1	1.7	1.4	1.2
Yields & Margins (%)						
Net Interest Margins	3.1	3.8	5.0	5.8	5.7	5.6
Avg. cost on funds	6.1	5.8	5.0	4.3	4.5	4.6
Yield on average advances	9.7	10.6	10.7	10.8	10.9	11.0
Quality and Efficiency (%)						
Cost to income ratio	97.7	65.5	54.3	50.7	51.3	48.6
Credit/Deposit ratio	70.2	72.0	75.4	80.7	81.0	83.5
GNPA %	4.9	3.5	2.7	1.8	1.7	1.6
NNPA %	2.3	1.9	1.2	0.7	0.7	0.7
ROE	-17.0	0.8	10.5	20.2	17.6	17.6
ROA	-1.2	0.1	1.0	2.0	1.9	1.8

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet ₹ crore						
(₹ Crore)	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds						
Capital	86.0	173.5	173.5	173.5	173.5	173.5
Reserves and Surplus	1345.7	1787.2	2006.7	2477.9	2975.3	3561.7
Networth	1431.7	1960.7	2180.2	2651.4	3148.8	3735.2
Deposits	15123.9	15790.7	19140.0	20188.3	23058.9	27053.1
Borrowings	0.0	794.0	1425.9	2007.2	1680.0	1806.9
Other Liabilities & Provisions	355.6	318.9	591.2	509.4	1694.3	3306.6
Total	16911.2	18864.2	23337.4	25356.3	29582.0	35901.9
Application of Funds						
Fixed Assets	217.7	228.3	269.5	287.9	308.5	330.1
Investments	4027.6	5359.8	6126.0	7011.6	7378.8	9198.1
Advances	10615.2	11366.4	14438.1	15814.7	18666.3	22586.3
Other Assets	1076.9	970.4	789.7	668.4	1844.7	2164.2
Cash with RBI & call money	973.6	939.3	1714.1	1573.8	1383.5	1623.2
Total	16911.2	18864.2	23337.4	25356.3	29582.0	35901.9

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)						
(% growth)	FY19	FY20	FY21	FY22	FY23E	FY24E
Total assets	6.6	11.5	23.7	8.1	17.2	21.4
Advances	13.7	7.1	27.0	10.5	18.0	21.0
Deposit	2.9	4.4	21.2	3.3	14.2	17.3
Total Income	12.9	41.3	52.9	12.5	19.2	18.6
Net interest income	14.3	34.6	58.9	22.5	18.7	19.2
Operating expenses	29.0	(5.2)	36.7	4.6	12.4	12.4
Operating profit	(82.0)	2,000.4	83.7	19.0	32.3	25.2
Net profit	NA	NA	1,616.3	109.9	11.2	18.5
Net worth	61.0	36.9	11.2	21.6	18.8	18.6
EPS	NA	NA	1,616.1	109.9	11.2	18.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

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,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Namolia, MBA and Sameer Sawant, MBA Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.