CSB BANK | Banking

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CSB Bank reported stable numbers in 1QFY24. A strong loan growth (31% YoY, 2.2% QoQ) was reported driven by Gold loans (42% YoY) and comfortable CDR level of 86%. The credit quality recovery (NNPA: 0.32% v/s 1.7% at the end of FY22) was meaningful driven by lower delinquencies and quicker recoveries. A healthy capital position (CAR: 26%), likely to keep the momentum going. Factoring double digit advance growth, stable NIMs and lower credit cost; the bank may post 22% PAT growth in current fiscal year. An attractive valuation (1.1xFY25E Adj. BVPS) makes the stock rewarding factoring FY24E ROA of 1.5%. Hence, we reiterate BUY.

Healthy credit growth trajectory driven by Gold Loans: The bank's advance growth remain strong in this quarter. Net advances' registered a growth of 31%. Gold loan book (46% of loans as on 1QFY24) has witnessed a robust growth of 42% YoY and accounted 74% of the incremental sequential credit growth. The share of Gold loan portfolio has increased from 36% in 2QFY22 to 46% in recent quarters. Additionally, the CDR of 86% provides further room for credit off-take. Moreover, the deposit traction remained strong at 21% YoY. Nonetheless, MSME loan growth was tepid, the management maintains its stance of it being the biggest growth driver in the non – gold book during this calendar year. Retail products in the bank's pipeline are expected to be launched in coming quarters. We expect the loan book to grow at a rate of around 20% in FY23E and FY24E. The gold loan share is expected to increase to half of the gross loans and then gradually come down as some of the other products start picking up. Management expects the bank's advance to grow at 1.5x the industry growth rate. Furthermore, the management targets 100 branches to be added every year for next five years and simultaneously invest in technology for customer acquisition.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	9,414	11,533	13,338	15,610	18,936
PPOP	5,155	6,137	7,074	8,241	10,782
PAT	2,184	4,585	5,474	5,372	6,629
Networth	21,805	26,514	32,042	37,414	44,043
Loans	144,380	158,144	206,510	256,541	318,747
Deposits	191,400	201,883	245,061	298,790	366,879

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
EPS	12.6	26.4	31.4	30.9	38.1
BVPS	126	153	184	215	253
GNPA Ratio	2.7	1.8	1.3	1.2	1.2
NNPA Ratio	1.2	0.7	0.4	0.3	0.3
ROA	1.1	2.0	2.1	1.5	1.5
ROE	10.5	19.0	18.7	14.4	15.1

Rating	BUY
Current Market Price (₹)	289
12 M Price Target (₹)	379
Potential upside (%)	31

Stock Data	
FV (₹) :	10
Total Market Cap (₹ bn) :	49
Free Float Market Cap (₹ bn) :	24
52-Week High / Low (₹)	300 / 195
1 Yr Avg. Dly Traded Volume (in lakh)	6
BSE Code / NSE Symbol	542867 / CSBBANK
Bloomberg :	CSBBANK IN

Shareholding Pattern

(%)	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	49.72	49.72	49.72	49.72
FPIs	5.89	5.73	5.37	5.16
MFs	10.57	9.19	9.60	6.94
AIF's	0.51	1.31	1.31	2.12
Insurance	1.11	1.11	1.01	1.43
Others	32.20	32.94	32.99	34.63

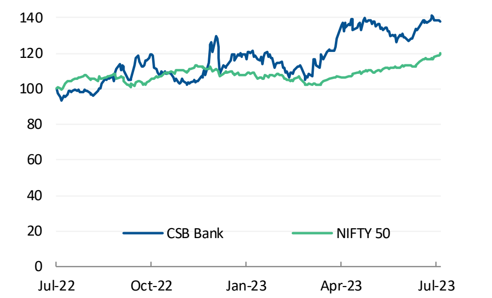
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
CSB Bank	8.6%	0.3%	14.5%	37.7%
Nifty 50	6.2%	13.4%	10.8%	20.3%

** To date / current date : July 20, 2023*

CSB Bank vs Nifty 50



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Strong asset quality showing: On asset quality front, the bank has done tremendous improvement; the GNPA ratio stable sequentially at 1.27%. The GNPA reduction was driven by lower delinquencies, which are attributed to a larger share of gold loans. The NNPA ratio improved 3bps to 0.32%. PCR remain broadly stable at 75% with PCR (including TWO) of 92%. We believe the bank has adequate cushioning to maintain a low credit cost trajectory in the coming quarters, as they continue to hold strong contingency buffer of Rs1.1bn. We estimate the GNPA to stay stable on the back of recoveries and upgrades and expect it be at 1.5% by FY24E with sound PCR to 75%.

NIMs maintained at 5.4%: The bank is enjoying superior margins (NIMs: 5.4%) on the back of higher YOA of 11.2% and moderate COD of 6.21%. Furthermore, credit cost to stay low owing to provision write – backs and additional contingent buffer. At present, investment in technology and distribution is substantial. Cost-to-income is likely to come down as the investments start paying off. Thus, at initial phase, C/I ratio will remain elevated but long term management target is ~45%. We estimate C/I ratio of 52.7% and 49.8% for FY23E and FY24E respectively. Driven by lower credit cost (40bps and 50bps for FY23E and FY24E) and reducing C/I ratio, the bank is likely to deliver a ROA and ROE of 1.5% and 14.4% for FY24E.

Outlook and Valuation

The bank is well equipped to report strong return ratios (FY24E ROA/ROE of 1.5%/14.4%) driven by better operating performance, balance sheet growth and improving asset quality. The stock trades at 1.1xFY25E Adj. BVPS of Rs253. We value the bank at 1.5xFY25E Adj. BVPS and arrive at a price target of Rs379; a potential upside of 31%.

Exhibit 1 : Quarterly Snapshot

(₹ mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Interest Earned	5,359	5,552	5,921	6,365	6,835	*27.5*	*7.4*
Interest Expended	2,252	2,302	2,423	2,881	3,195	*41.8*	*10.9*
Net Interest Income	3,107	3,250	3,497	3,484	3,640	*17.2*	*4.5*
Other Income	549	449	899	1,263	1,216	*121.6*	*-3.8*
Net Operating Revenue	3,655	3,699	4,396	4,748	4,856	*32.8*	*2.3*
Operating Expenses	2,108	2,126	2,462	2,729	3,041	*44.3*	*11.5*
Employee Cost	1,222	1,290	1,517	1,556	1,820	*48.9*	*16.9*
Other Operating Expenses	886	836	945	1,173	1,221	*37.8*	*4.2*
Pre - Provision Profit	1,547	1,574	1,934	2,019	1,814	*17.3*	*-10.1*
Provisions and Contingencies	17	-37	-150	-92	47	*181.5*	*-151.4*
PBT	1,530	1,611	2,084	2,111	1,767	*15.5*	*-16.3*
Tax	385	405	525	547	445	*15.4*	*-18.8*
Profit After Tax	1,145	1,206	1,560	1,563	1,322	*15.5*	*-15.4*
Deposits	202,670	209,870	226,640	245,060	244,755	*20.8*	*-0.1*
Advances	161,420	174,680	184,570	206,510	211,036	*30.7*	*2.2*
Amount of GNPA	2,930	2,910	2,713	2,626	2,707	*-7.6*	*3.1*
Amount of NNPA	968	989	777	718	678	*-30.0*	*-5.6*
NNPA (%)	0.60	0.60	0.40	0.35	0.32	*-47*	*-9*
GNPA (%)	1.80	1.70	1.50	1.26	1.27	*-29*	*1*
PCR (%, calculated)	66.98	66.03	71.37	72.65	74.96	*12*	*3*
CASA (%)	35	34	31	32	31	*-12*	*-4*
NIM %	5.20	5.60	5.80	5.40	5.40	*4*	*-*
ROA (%, annualized)	1.8	1.9	2.4	2.2	1.8	*-1*	*-19*
ROE (%, annualized)	18.8	19.9	22.6	22.0	16.5	*-12*	*-25*
CRAR (%)	25.5	25.1	25.8	27.1	26.0	*2*	*-4*
CDR (%)	79.6	83.2	81.4	84.3	86.2	*8*	*2*

Source: Company, LKP Research

Financial Projection

Exhibit 2: Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Interest Earned	18,723	20,383	23,197	28,345	34,897
Interest Expended	9,309	8,850	9,858	12,735	15,961
Net Interest Income	9,414	11,533	13,338	15,610	18,936
Other Income	*3,031*	*2,468*	*3,160*	*4,191*	*5,120*
Net Operating Income	12,445	14,001	16,499	19,801	24,056
Operating Expenses	7,290	7,864	9,425	11,560	13,274
Employee Cost	4,962	4,819	5,585	6,778	8,093
Other Operating expenses	2,328	3,045	3,839	4,782	5,181
Pre - Provision Profit	5,155	6,137	7,074	8,241	10,782
Provisions and Contingencies	2,230	-5	-262	1,041	1,897
Profit Before Tax	2,926	6,142	7,336	7,200	8,885
Taxes	742	1,557	1,863	1,828	2,256
Profit After Tax	2,184	4,585	5,474	5,372	6,629
EPS (Rs)	13	26	32	31	38

Exhibit 3: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	1,735	1,735	1,741	1,741	1,741
Total Reserves	20,070	24,779	30,301	35,673	42,302
Networth	21,805	26,514	32,042	37,414	44,043
Deposits	191,400	201,883	245,061	298,790	366,879
Borrowings	14,260	20,072	7,830	25,887	33,021
Other Liabilities & Provisions	5,910	5,094	6,700	6,120	11,254
Total Liabilities	**233,375**	**253,563**	**291,633**	**368,211**	**455,197**
Cash and balance with Reserve Bank of India	7,360	14,372	14,700	14,871	18,347
Balances with banks and money at call	9,780	1,005	3,670	8,976	11,012
Investments	61,260	70,116	58,490	80,145	97,854
Advances	144,380	158,144	206,510	256,541	318,747
Fixed Assets	2,700	2,879	3,190	3,312	3,471
Other Assets	7,895	7,047	5,073	4,366	5,766
Total Assets	**233,375**	**253,563**	**291,633**	**368,211**	**455,197**

Exhibit 4: Key indicators

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
GNPA (%)	2.7	1.8	1.3	1.2	1.2
NNPA (%)	1.2	0.7	0.4	0.3	0.3
PCR (%, calculated)	56.0	63.0	72.0	74.0	74.0
EPS (Rs)	*13*	*26*	*31*	*31*	*38*
BVPS (Rs, Calculated)	*126*	*153*	*184*	*215*	*253*
ROA(%, Calculated)	1.1	2.0	2.1	1.5	1.5
ROE(%, Calculated)	*10.5*	*19.0*	*18.7*	*14.4*	*15.1*
Cost Income Ratio	*58.6*	*56.2*	*57.1*	*58.4*	*55.2*

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