



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- The bank recorded a PAT of INR 138 crore, with a significant increase in fee income and treasury profits. NIM declined slightly quarter on quarter.
- NII rose 7% YoY and 2% QoQ to INR367cr
- Net advances increased by 20% YoY and 7% QoQ to INR26,602cr, driven by strong growth in retail loans and SME loans.
- Deposits grew 25% YoY and 6% QoQ to INR31,840cr. LCR stood at 118%.

### 2. MANAGEMENT COMMENTARY:

- Growth in advances was supported by the retail lending portfolio, which rose at a healthy rate. Gold loan growth decreased to 13% YoY and 4% QoQ, resulting in a 44% share of the portfolio mix in Q2 compared to 50% in Q1.
- Over the last year, the bank has opened more than 90 new branches. The branch expansion plan for FY25 is on track and will be finished in H2FY25
- Penal interest and increased cost of funds have an impact on margins and the bank has not been able to pass on asset yields.

### 3. BUSINESS OVERVIEW:

- CSB Bank is one of the oldest private sector banks in India with a history many years, and a strong base in Kerala along with significant presence in Tamil Nadu, Karnataka, and Maharashtra. Its offer a wide range of products and services to its overall customers, with particular focus on SME, retail, and NRI customers. The bank deliver products and services through multiple channels, including branches and ATMs spread across various states and four union territories as on March 31, 2023, and various alternate channels such as micro ATMs, debit cards, internet banking, mobile banking, point of sale services, and UPI. The bank has developed a well-recognized and trusted brand in south India, particularly in the states of Kerala and Tamil Nadu.

### 4. MANAGEMENT GUIDANCE

- Credit growth is likely to continue to outpace the system by 30% to 50%.
- RoA forecast remains at 1.5-1.8%, with increased fee lines and improved operational efficiency offsetting the impact.
- Credit costs guidance at 40 bps in the near to medium term.
- Able to retain GNPA/NNPA at or below current levels.
- Deposit interest rates remain high and are expected to maintain, putting pressure on CoF.
- The bank has de-grown three businesses: personal loans, two-wheelers, and microfinance. As the unsecured loan book shrinks, slippages are projected to decrease more.
- Tech investments will keep Cost to Income ratio elevated.

### 5. BANKING INDUSTRY

- Industry deposits increased by 11.6% YoY, reaching INR 215.1 Tn as of September 20, 2024. Credit to deposit ratio as on September 2024 continued at elevated levels of 79.1% for the industry, and this is expected to remain at the similar levels for FY25E, leading banks to focus on deposit mobilization strategies. Banks with higher exposure of MFI and unsecured portfolio are likely to see some stress in terms of higher slippages during the quarter.

### 6. VALUATION AND OUTLOOK:

- The retail lending portfolio supported the growth in advances. Gold loan growth slowed but the bank wants to maintain the gold loan portfolio's percentage above 40% during the next 16–18 months. The bank keeps its credit growth between 30 and 50 percent above the systemic level. C/I ratio remained elevated amid tech investments. In the medium it sees C/I ratio coming down to 50%. This quarter's margins were affected by higher CoF and the impact of penal interest.
- We value the company at 9.66x FY25 EPS to arrive at the target of 362.

## RECOMMENDATION - BUY

CMP - 301

TARGET - 350 (16%)

Industry	Bank - Private
NSE CODE	CSBBANK
BSE CODE	542867
Market Cap (₹ Cr)	5418
Shares Outstanding (in Cr)	17.35
52 wk High/Low (₹)	422 / 292
P/E	9.80
P/BV	1.41
Face Value (₹)	10.00
Book Value (₹)	219
EPS (FY24) (₹)	32.7
Dividend Yield (%)	0.00

## SHAREHOLDING PATTERN

	Sep'24	Jun'24	Mar'24
Promoters	40	40	49.72
Mutual Funds	16.1	17.03	14.24
FII/FPI	12.71	12.42	4.93
Non-Institutions	29.71	28.86	29.4
Promoter Pledging	0	0	0

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2023A	2024A	2025E
<b>Core</b>			
Interest Earned	2320	2927	3490
Other Income	316	584	695
Total Income	2635	3512	4185
Interest Expense	985	1451	1795
Profit from Ordinary Activity	733	761	840
PAT	547	567	630
EPS	31.55	32.7	36.2
<b>Ratios</b>			
ROE (%)	19.84	17.06	15.5
ROA (%)	2.01	1.74	1.5
<b>Valuation</b>			
P/E (x)	7.79	10.84	9.66
P/BV (x)	1.41	1.70	1.4

## Historical & Industrial Val Ratios

Historical P/E	9.95
Industry P/E	17.61
Historical P/B	1.39
Industry P/B	2.51



Liability Trends	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23
<b>Total Deposit</b>	<b>31840</b>	<b>29920</b>	<b>29719</b>	<b>27345</b>	<b>25438</b>	<b>24475</b>	<b>24506</b>
<b>CASA</b>	<b>7670</b>	<b>7449</b>	<b>8085</b>	<b>7543</b>	<b>7448</b>	<b>7548</b>	<b>7886</b>
<b>Total Advances</b>	<b>26871</b>	<b>25099</b>	<b>24572</b>	<b>22867</b>	<b>22468</b>	<b>21945</b>	<b>21489</b>
<b>CASA Ratio (%)</b>	<b>24.09</b>	<b>24.90</b>	<b>27.20</b>	<b>27.58</b>	<b>29.28</b>	<b>30.84</b>	<b>32.18</b>

### QUARTERLY PERFORMANCE (STANDALONE)

Y/E March	FY23		FY24				FY25		FY25E*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<b>Interest Earned</b>	<b>592.1</b>	<b>636.5</b>	<b>683.5</b>	<b>687.3</b>	<b>761.8</b>	<b>794.9</b>	<b>832.0</b>	<b>864.9</b>	<b>3490</b>
<b>YoY change (%)</b>	12.2%	22.5%	27.5%	23.8%	28.7%	24.9%	21.7%	25.8%	19.1%
<b>Other Income</b>	89.9	126.0	119.9	142.5	125.3	196.5	171.8	199.4	695
<b>Total Income</b>	<b>682.0</b>	<b>762.5</b>	<b>803.4</b>	<b>829.9</b>	<b>887.2</b>	<b>991.4</b>	<b>1003.9</b>	<b>1064.2</b>	<b>4185</b>
<b>Interest Expense</b>	242.3	288.1	319.5	343.7	379.2	408.8	470.1	497.4	1795
<b>Operating Expenses</b>	246.2	272.6	302.5	311.6	312.1	354.5	361.3	366.5	1495
<b>Operating Profit</b>	<b>193.4</b>	<b>201.9</b>	<b>181.4</b>	<b>174.6</b>	<b>195.9</b>	<b>228.0</b>	<b>172.5</b>	<b>200.4</b>	<b>895</b>
<b>Provision</b>	-15.0	-9.2	4.7	-3.3	-4.5	21.6	20.1	13.9	55
<b>Profit Before Tax</b>	208.4	211.1	176.7	178.0	200.4	206.4	152.4	186.4	840
<b>Tax</b>	52.5	54.7	44.5	44.8	50.4	54.9	39.1	48.0	210
<b>Net Profit After Tax</b>	<b>156.0</b>	<b>156.3</b>	<b>132.2</b>	<b>133.2</b>	<b>150.0</b>	<b>151.5</b>	<b>113.3</b>	<b>138.4</b>	<b>630</b>
<b>YoY change (%)</b>	5.19%	19.64%	15.46%	10.47%	-3.83%	-3.12%	-14.30%	3.93%	11.1%

Source: Company, Hem Securities Research.

#### EWS\*Insights into the assumptions:

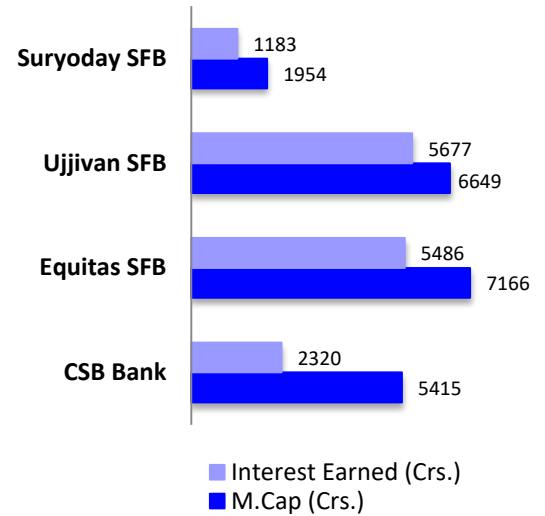
- 1> Bank credit growth is likely to increase up, Credit growth has started showing signs of recovery.
- 2> Asset quality improved as lower slippages and better recoveries helped the overall performance.
- 3> Banks are preparing to expand their digital offerings through partnerships with fintech companies or in-house development.
- 4> Improvement in collection.
- 5> Given the economy's return to normalcy, the forecast for company growth and credit costs remains positive.



## INDUSTRY OVERVIEW

- Credit to deposit ratio as on September 2024 continued at elevated levels of 79.1% for the industry, and this is expected to remain at the similar levels for FY25E, leading banks to focus on deposit mobilization strategies.
- Industry deposits increased by 11.6% YoY, reaching INR 215.1 Tn as of September 20, 2024. In FY25E, banks are focusing on deposit growth to reinforce their liability franchises through initiatives like competitive interest rates, specialized deposit products, and better digital banking offers.
- As of September 20, 2024, systemic credit growth has been reported at 13.0% YoY (including private and public sector banks), reaching INR 171.3 Tn. This growth was primarily driven by personal loans and MSMEs, with corporate credit also playing a significant role.
- The pace of growth has decelerated compared to the previous year due to various factors, including a high base effect and the impact of RBI measures like the imposition of higher risk weights and proposed liquidity coverage ratio (LCR) norms.
- Asset quality to remain stable across major banks However, banks with higher exposure of MFI and unsecured portfolio are likely to see some stress in terms of higher slippages during the quarter.

## KEY PLAYERS



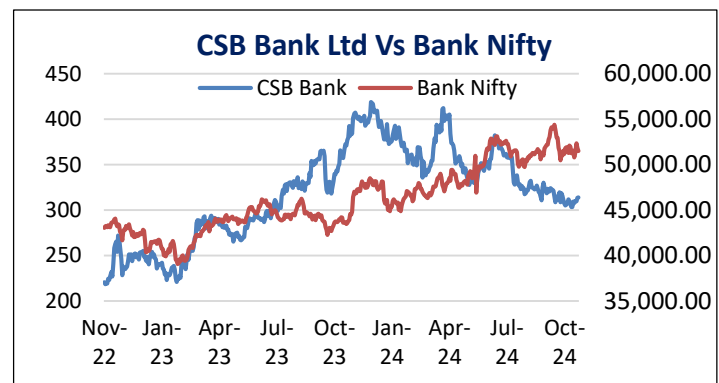
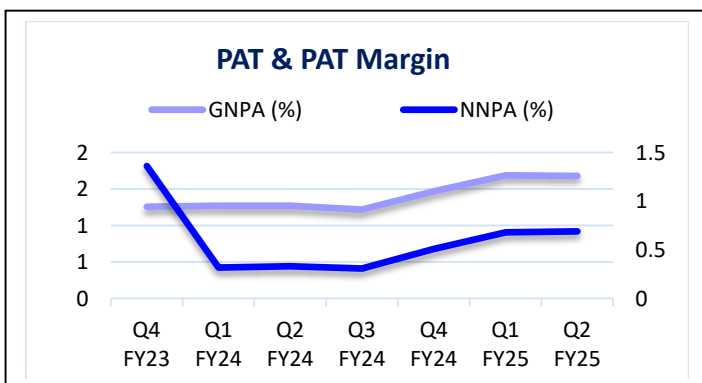
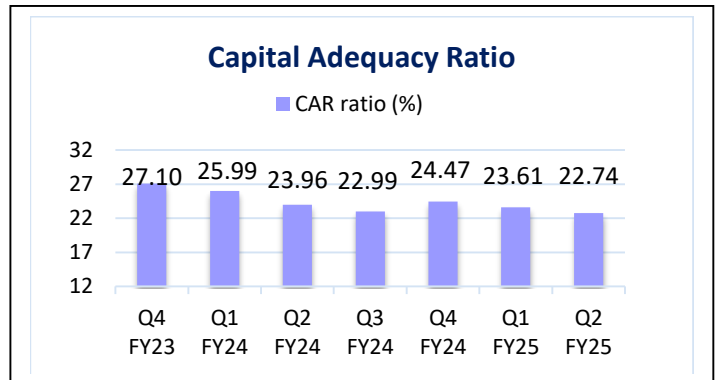
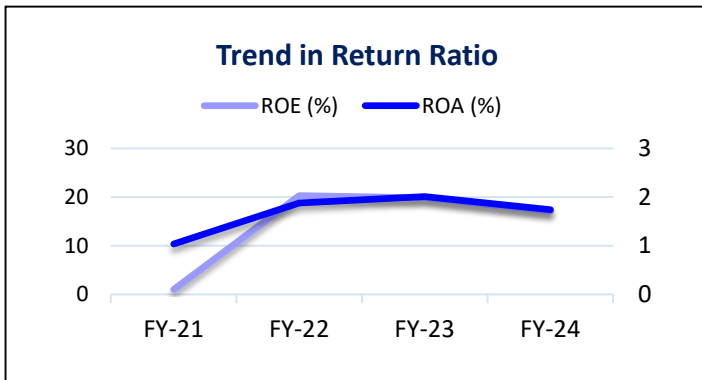
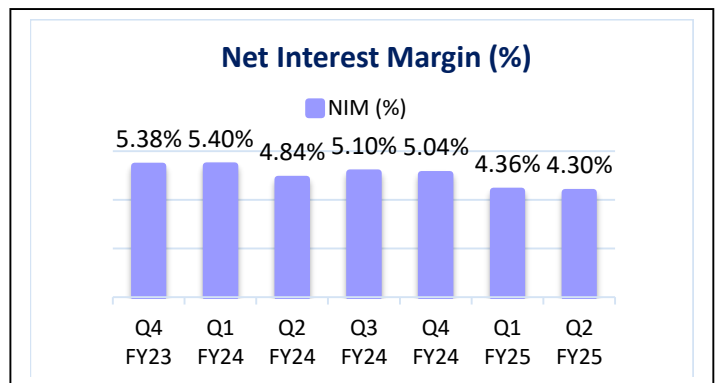
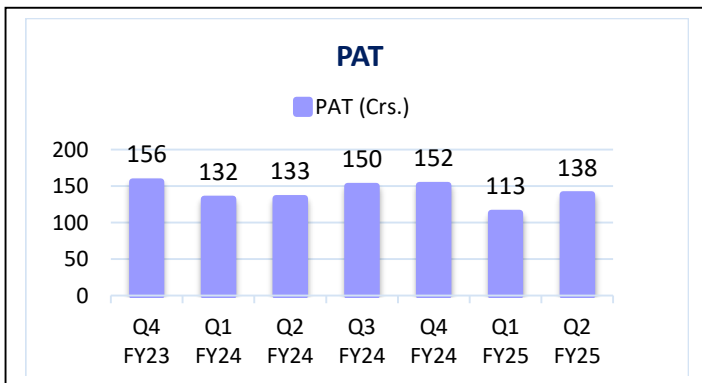
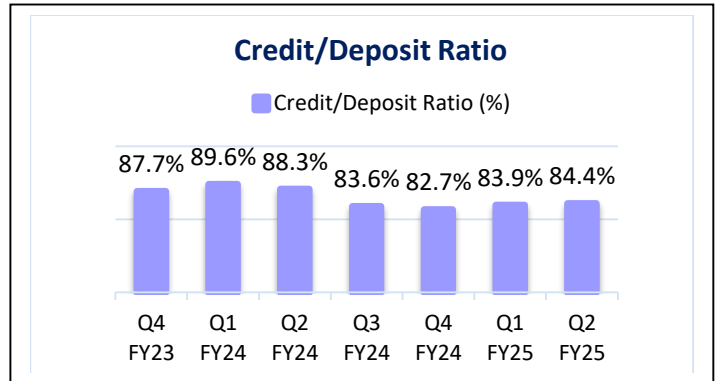
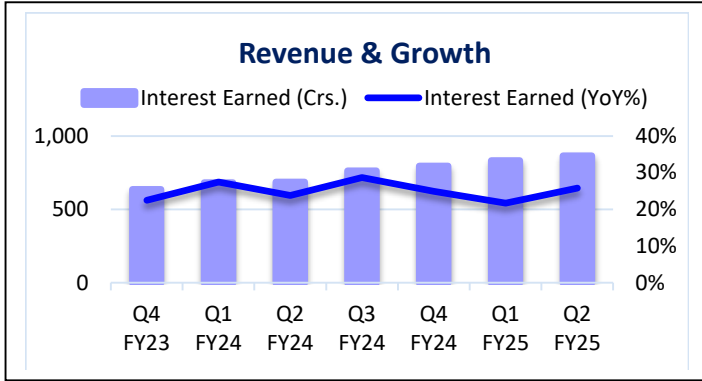
## PEER PERFORMANCE

(₹ Cr)

Particulars	CSB Bank	Equitas SFB	Ujjivan SFB	Suryoday SFB
Market Cap	5415	7166	6649	1954
Interest Earned (FY-24)	2927	5486	5677	1588
Profit from Ordinary Activities	762	1063	1702	287
PAT	568	799	1281	216
EPS(Rs)	32.77	7.12	6.66	20.34
Total Deposit	29719	36129	31462	7777
CASA Ratio	27.20	32	26.5	20.1
Net Interest Income	1476	3080	3409	962
NIM	5.09	8.17	9.1	9.8
Total Advances	24572	34337	29780	8650
Gross NPA (%)	1.47	2.52	2.23	2.94
Net NPA (%)	0.51	1.12	0.28	0.86
Provision Coverage Ratio	83	56	87	71.2
Capital Adequacy Ratio	24.47	21.70	24.69	28.41

Source: Company, Hem Securities Research.

**STORY IN CHARTS**





## INVESTMENT RATIONALE:

- CSB Bank has embarked on a Sustain - Build - Scale 2030 (SBS 2030) initiative. The bank's goals are to maintain its solid foundation and essential strengths, build the future highway via investments in technology, digital infrastructure, partnerships, leadership, products, and processes, among other things, and scale the bank to the next level of growth and excellence.
- The bank intends to open 60 to 75 locations this fiscal year, having opened 76 branches in fiscal 2024. The bank intends to gradually expand its footprint in other regions of the nation and create branches outside of South India. To serve HNIs and SME's nationwide, the Bank also intends to create specialist branches. Being able to increase deposits at a rate that matches the growth of advances will be crucial when the bank expands outside of Kerala.
- It has established a brand identity among NRIs in the Southern area, resulting in consistent inflows and stability to its deposit base. The bank also benefits significantly from a huge and sticky NRI deposit base, which has remained constant. Over the last five years, the deposit renewal rate has stayed above 90%.
- Bank common equity tier 1 (CET1) ratio remained stable at 23.10% in 2QFY25 (FY24: 23.10%; FY23: 25.9%, FY22: 24.4%) mainly on account of accrual from profitability and gold portfolio share. The bank's CET1 ratio is one among the highest in the scheduled commercial bank universe. The healthy capital levels are aided substantially by gold loans that typically have low risk weights.
- Consistent yields, modest loan book growth, especially in the retail and gold loan segments, and a low-cost deposit profile supported CSB's consistent operating metrics. In the medium run, all of these elements will support the bank's continued prosperity.
- Following a substantial decline in performance, the bank chose to restructure its management and named Mr. C VR Rajendran as MD & CEO in November 2016. Since his appointment, the bank has started cleaning up the books, recognizing the accounts as NPAs, and implementing an expedited provisioning programme. Mr Pralay Mondal has been appointed as the MD and CEO upon his retirement. Mr. Mondal has over 30 years of leadership experience in retail banking with HDFC Bank, Yes Bank, and Axis Bank. The majority of senior management has more than 20 years of banking expertise. The bank has also begun adding mid- and low-level experienced personnel for several verticals, therefore improving its overall workforce.

## RISK FACTORS:

- As of Sep 2024, the bank's CASA Ratio was 24.09%, which was lower than the industry average. The situation has been steadily improving recently but needs to be vigilant.
- Higher-than-expected deterioration in the asset quality.
- Kerala, Tamil Nadu, Maharashtra, Andhra Pradesh, and Karnataka account for 89% of all Advances. As of Q4FY23, gold loans accounted for 45% of total loan book. This demonstrates that the bank has a high concentration of both product offerings and geographical presence. Any negative developments in these geographies/sectors might have a substantial negative influence on the bank's performance.

## COMPANY RECAP

- CSB Bank is one of the oldest private sector banks in India with a history many years, and a strong base in Kerala along with significant presence in Tamil Nadu, Karnataka, and Maharashtra. Its offer a wide range of products and services to its overall customers, with particular focus on SME, retail, and NRI customers. The bank deliver products and services through multiple channels, including branches and ATMs spread across various states and four union territories as on March 31, 2023, and various alternate channels such as micro ATMs, debit cards, internet banking, mobile banking, point of sale services, and UPI. The bank has developed a well-recognized and trusted brand in south India, particularly in the states of Kerala and Tamil Nadu.
- Mr. Pralay Mondal was appointed as the Managing Director of the Bank with effect from 15th September, 2022. His prior appointment in the Bank since February 17, 2022 was as Deputy Managing Director of the Bank and prior to that since September 23, 2020 was as President (Retail, SME, Operations and IT) of the Bank. Mr. Pralay is an Engineer from IIT, Kharagpur and a Management graduate from IIM, Calcutta. Prior to joining CSB Bank, Mr. Pralay was Executive Director & Head of Retail Banking at Axis Bank. He has around 30 years of banking experience across multiple business and functions including retail assets, retail liabilities, business banking, products and technology. Before joining Axis Bank, Mr. Pralay was the Senior Group President and Head of Retail and Business Banking at Yes Bank. He was instrumental in setting up the entire retail franchise in that bank in a short period of time. At Yes Bank, Mr. Pralay used to frequently meet the Investors and Analysts and have been part of the core group engaging with relevant people in India or overseas to represent the bank for raising capital. Prior to that he had a successful 12 years' stint at HDFC Bank and was earlier associated with Standard Chartered Bank, Wipro InfoTech and Colgate Palmolive. Mr. Mondal's achievements include pioneering efforts in doorstep banking and direct sales, creating deep geography distribution, and building and scaling up of retail businesses. He is also credited with building capital market, wealth management, private banking, NBFC, credit cards, payments and digital businesses, from scratch.

## ANNUAL PERFORMANCE

Financials & Valuations						
Income Statement	₹ Cr)					
	2020	2021	2022	2023	2024	2025E
Interest Earned	1509.9	1872.3	2038.3	2319.7	2927.5	3490
YoY change (%)	12.0%	24.0%	8.9%	13.8%	26.2%	19.1%
Other Income	221.6	303.1	246.8	316.0	584.3	695
<b>Total Income</b>	<b>1731.5</b>	<b>2175.4</b>	<b>2285.1</b>	<b>2635.7</b>	<b>3511.8</b>	<b>4185</b>
Interest Expense	917.6	930.9	885.0	985.8	1451.1	1795
Operating Expense	533.3	729.0	786.4	942.5	1280.8	1495
Provision	146.6	223.0	-0.5	-26.2	18.5	55
<b>Profit from Ordinary Activities Before Tax</b>	<b>134.0</b>	<b>292.6</b>	<b>614.2</b>	<b>733.6</b>	<b>761.4</b>	<b>840</b>
YoY change (%)	-144.7%	118.3%	110.0%	19.4%	3.8%	10.2%
Tax	121.3	74.2	155.7	186.3	194.6	210
<b>Net Profit After Tax</b>	<b>12.7</b>	<b>218.4</b>	<b>458.5</b>	<b>547.4</b>	<b>566.8</b>	<b>630</b>
YoY change (%)	-106.4%	1616.3%	109.9%	19.4%	3.6%	11.1%
EPS	0.7	12.6	26.4	31.6	32.7	36.2

Source: Company, Hem Securities Research.

Balance Sheet					
Y/E March	₹ Cr)				
	2020	2021	2022	2023	2024
Share Capital	174	174	174	174	174
Reserves	1,787	2,007	2,478	3,030	3,630
Borrowings	16,585	20,566	22,195	25,289	31,476
Other Liabilities	319	591	509	670	776
<b>Total Liabilities &amp; Equity</b>	<b>18,864</b>	<b>23,337</b>	<b>25,356</b>	<b>29,162</b>	<b>36,056</b>
Fixed Assets	253	269	288	319	406
CWIP	0	0	0	0	0
Investments	5,360	6,126	7,012	5,849	7,551
Other Assets	13,251	16,942	18,057	22,994	28,099
<b>Total Assets</b>	<b>18,864</b>	<b>23,337</b>	<b>25,356</b>	<b>29,162</b>	<b>36,056</b>

Source: Company, Hem Securities Research.



<b>Ratios</b>				
<b>Y/E March (Basic (INR)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Profit and Loss Account</b>				
Net interest income	941	1153	1334	1476
Employee expenses	496	481	558	714
ROE (%)	11.41	20.33	19.84	17.06
ROA (%)	1.04	1.88	2.01	1.74
EPS	12.59	26.43	31.55	32.67
<b>Key Performance Indicator</b>				
NIM (%)	4.81	5.27	5.48	5.09
CASA (%)	32.19	33.66	32.18	27.20
Yield on Advances (%)	12.97	12.89	11.23	12.03
Yield on Investments(%)	9.54	5.86	7.20	6.15
Cost of Liabilities	4.53	3.99	3.90	4.61
GNPA (%)	2.68	1.81	1.26	1.47
NNPA (%)	1.17	0.68	0.35	0.51
Provision Coverage Ratio (%)	84.89	89.65	92.11	86.44
Credit/Deposit (%)	80.40	82.93	87.69	82.68
Capital Adequacy Ratio (%)	21.37	25.90	27.10	24.47
Tier I (%)	19.96	24.35	25.87	23.10
<b>Valuations Ratios</b>				
P/E (x)	18.48	8.01	7.79	10.84
P/BV (x)	1.99	1.48	1.41	1.70
Dividend Yield (%)	0	0	0	0
<b>OPERATIONAL</b>				
Advances	14438	15815	20651	24572
Deposit	19140	20188	24506	29719
Net Interest Income	941	1153	1334	1476
Net Profit	218	458	547	567

Source: Company, Hem Securities Research.



## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
14-November-2024	BUY	350

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Name of the Research Analyst: Madhur Mandhana

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2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.