

KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- The gross loan book increased by 29% YoY and 2% QoQ at INR21,945cr. The management anticipates the CASA ratio to remain in the 31-33% range through FY25 before beginning to meaningfully increase.
- Decent set of data were reported by the bank, with NII/PPoP growing by 17% YoY each.
- A rise in the cost of funds was offset by a nearly equal gain in yields, increasing net interest margin by 23 basis points year over year and 2 basis points quarterly to 5.4%. The cost of financing is anticipated to reach its high in Q2FY24 and then flatten or perhaps drop off.

2. MANAGEMENT COMMENTARY:

- The bank expects to have a portfolio split of 20% gold loans, 30% retail, 20-25% SME, and the remainder wholesale by 2030.
- GNPA will be less than 2% and NNPA will be less than 1% during the next three to four years.
- The cost-to-income ratio was found to be 62.6%. It is predicted to remain high through FY25 as a result of investments in technology, distribution infrastructure, and labor.

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

- The bank's management projected it to expand 30-50% faster than the system. It now expects to expand at least 50% faster than the industry.
- After Q2FY24, the cost of financing will level out or begin to decline. Thus, NII will stay mild in Q2FY24, but will pick up speed after that.
- Credit cost will likely be in single digits in FY24.
- Goal of expanding branch distribution to 1,500 branches by FY '30.
- CASA ratio will remain in the 30–33% range over the next couple of fiscals.
- The bank will keep GNPA/NNPA around 2%/1% and Credit costs in the 40-50bp range.

5. BANKING INDUSTRY

- The Indian banking sector has recovered strongly following the covid epidemic, owing to a variety of factors including as early regulatory action, careful capital raising by banks, improved lending discipline, and cautious provisioning practices at banks. Indian banks have an all-time high CET 1 / tier 1 level, decadal low gross / net NPAs, the highest PCR, and robust contingent provisions as of FY23.

6. VALUATION AND OUTLOOK:

- Expect the bank to post a RoA/RoE of 1.4%/19.6% in FY24E, a little decrease from current levels as NIM normalizes and the Gold segment contributes more growth, resulting in reduced credit costs. Because of expenditures in technology, distribution infrastructure, and labour, the cost-to-income ratio is likely to remain elevated through FY25. The bank's asset quality has improved dramatically over the previous year, and the trend of good recoveries and upgrades is projected to continue.
- We value the company at 10.41x FY24 EPS to arrive at the target of 366.

RECOMMENDATION - BUY

CMP - 318
TARGET - 366 (15%)

Industry	Bank - Private
NSE CODE	CSBBANK
BSE CODE	542867
Market Cap (₹ Cr)	5250.55
Shares Outstanding (in Cr)	17.35
52 wk High/Low (₹)	328 / 198
P/E	9.29
P/BV	1.66
Face Value (₹)	10.00
Book Value (₹)	182.46
EPS (FY23) (₹)	31.55
Dividend Yield (%)	0.00

SHAREHOLDING PATTERN

	Jun'23	Mar'23	Dec'22
Promoters	49.72	49.72	49.72
Mutual Funds	10.57	9.19	9.60
FII/FPI	5.89	5.73	5.37
Non-Institutions	32.19	32.93	32.98
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023A	2024E
Core			
Interest Earned	2038	2320	2900
Other Income	247	316	415
Total Income	2285	2635	3315
Interest Expense	885	985	1275
Profit from Ordinary Activity	614	733	810
PAT	458	547	610
EPS	26.43	31.55	35.05
Ratios			
ROE (%)	21.28	20.35	19.6
ROA (%)	1.90	2.06	1.9
Valuation			
P/E (x)	8.01	7.79	10.41
P/BV (x)	1.48	1.41	1.4

Historical & Industrial Val Ratios

Historical P/E	9.29
Industry P/E	21.65
Historical P/B	1.66
Industry P/B	2.93



Liability Trends	Q1FY24	Q4FY23	Q3FY23	Q2FY23	Q1FY23	Q4FY22	Q3FY22
Total Deposit	24475	24506	22664	20987	20267	20188	19056
CASA	7548	7886	7126	7193	7122	6795	6587
Total Advances	21945	21489	19342	18372	17066	16742	15610
CASA Ratio (%)	30.84	32.18	31.44	34.27	35.14	33.66	34.57

QUARTERLY PERFORMANCE (STANDALONE)

(₹ Cr)

Y/E March	FY22			FY23			FY24	FY24E*	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3		Q1
Interest Earned	495.85	527.65	519.56	535.93	555.18	592.05	636.49	683.49	2900
YoY change (%)	5.51%	9.33%	4.51%	8.21%	11.97%	12.21%	22.51%	27.53%	25%
Other Income	59.79	52.16	63.61	54.85	44.94	89.90	126.32	121.55	415
Total Income	555.64	579.81	583.17	590.78	600.12	681.95	762.81	805.04	3315
Interest Expense	217.47	224.31	215.73	225.24	230.21	242.31	288.05	319.48	1215
Operating Expenses	188.79	207.95	225.39	210.82	212.55	246.20	272.88	304.13	1160
Operating Profit	149.38	147.55	142.05	154.72	157.36	193.44	201.88	181.43	940
Provision	-9.07	-50.56	-34.10	1.68	-3.73	-14.96	-9.20	4.73	130
Profit Before Tax	158.45	198.11	176.15	153.04	161.09	208.40	211.08	176.70	810
Tax	39.88	49.86	45.48	38.52	40.54	52.45	54.74	44.47	200
Net Profit After Tax	118.57	148.25	130.67	114.52	120.55	155.95	156.34	132.23	610
YoY change (%)	72.09%	179.45%	204.66%	87.74%	1.67%	5.19%	19.64%	15.46%	11.3%

Source: Company, Hem Securities Research.

EWS*Insights into the assumptions:

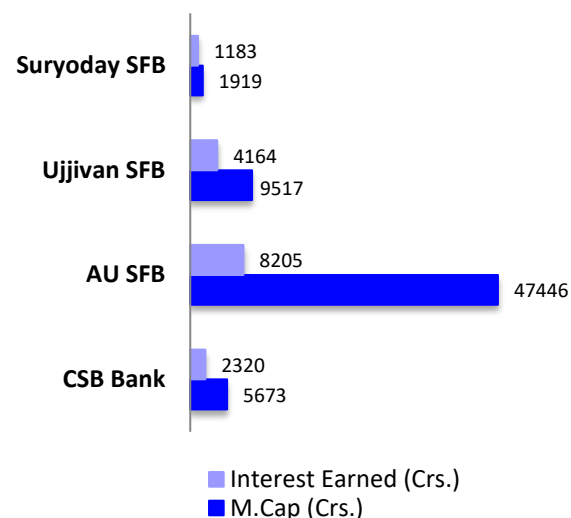
- 1> Bank credit growth is likely to increase up, Credit growth has started showing signs of recovery.
- 2> Asset quality improved as lower slippages and better recoveries helped the overall performance.
- 3> Banks are preparing to expand their digital offerings through partnerships with fintech companies 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

- The RBI changed its accommodative stance and raised the repo rate by a total of 225 basis points over the previous five monetary policy meetings, which led to an increase in interest rates. Banks may gain in the short run on the margin front because the majority of loans are made on a floating rate basis and higher deposit costs may take some time to take impact.
- Scheduled Commercial Banks (SCBs) continued to maintain robust capital positions, with CRAR and CET-1 Ratios of SCBs reaching as high as 16.7% and 13.6%, respectively, in March 2022. (RoE). The ratios of SCBs' gross nonperforming assets (GNPA) and net non-performing assets (NNPA) fell to six-year lows of 5.9 percent and 1.7%, respectively, in March 2022. The provisioning coverage ratio (PCR) increased from 67.6 percent in March 2021 to 70.9 percent in March 2022.
- Banks, especially larger banks, are getting ready to increase their digital offerings through internal development or partnerships with fintech. Incumbents will be helped by persistent focus on digital offerings to manage disruptive issues. Additionally, "digital banking," a new banking format, is developing steadily.
- According to RBI monthly figures, systemic credit growth reached a multi-year high of 15.0% YoY in FY23. Credit growth began the year at 11.2% (YoY) and peaked at 17.9% YoY in October'22.

KEY PLAYERS



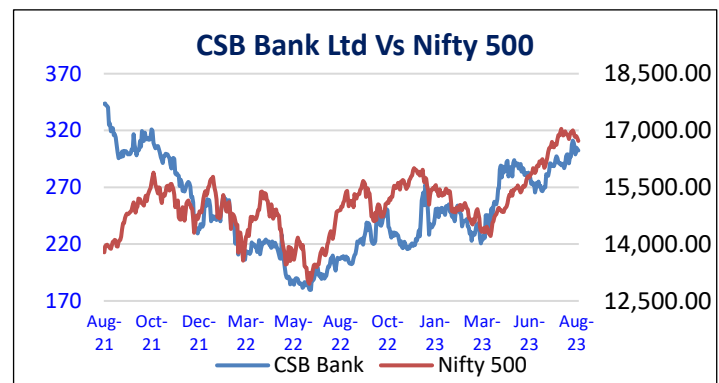
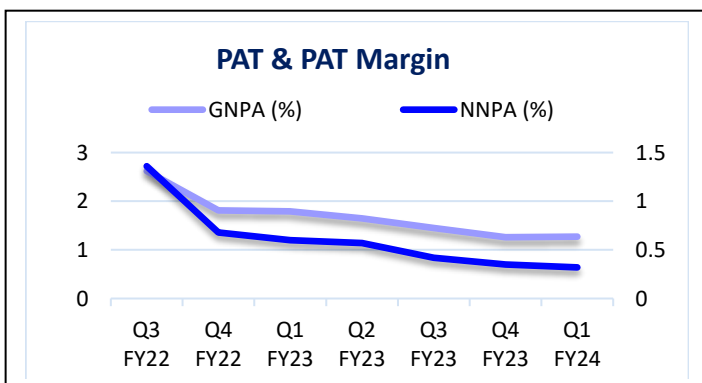
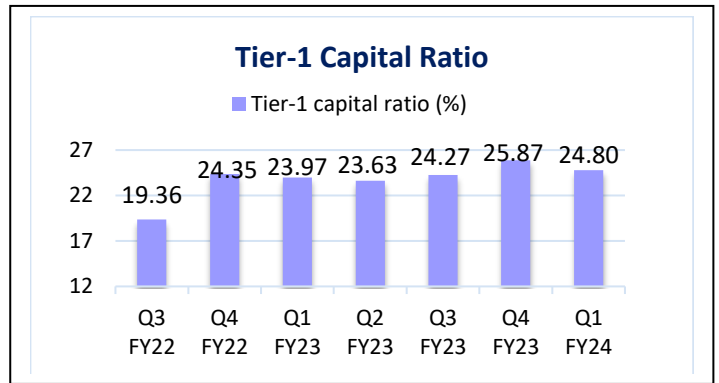
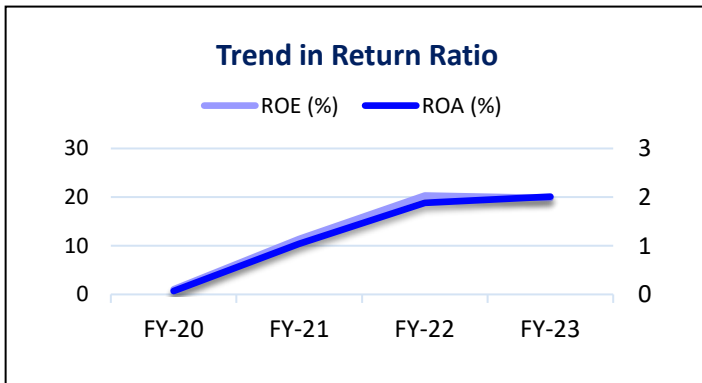
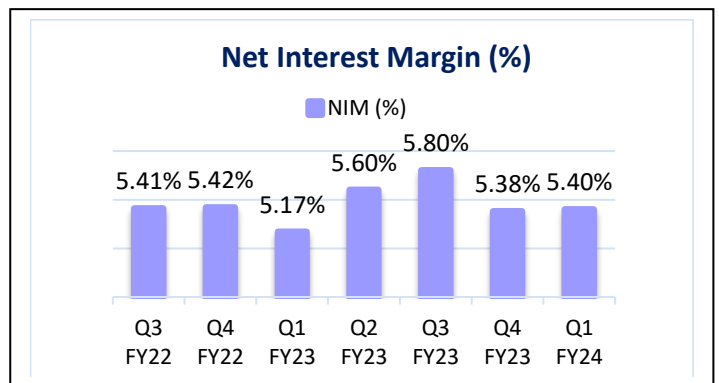
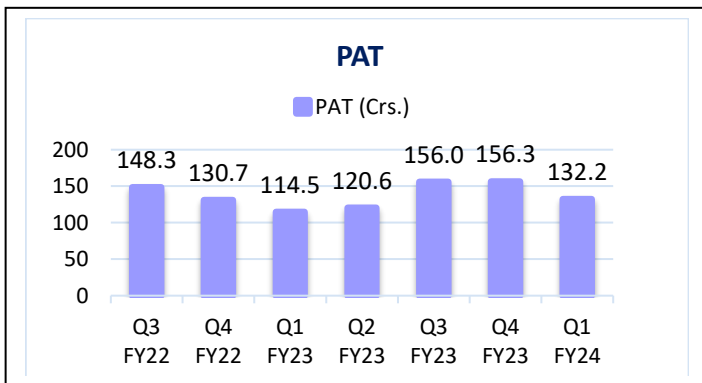
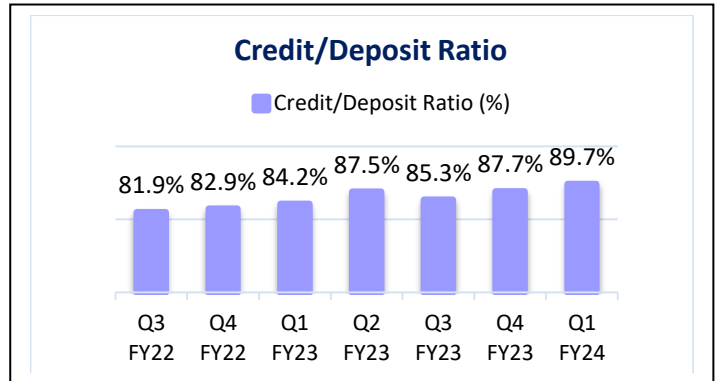
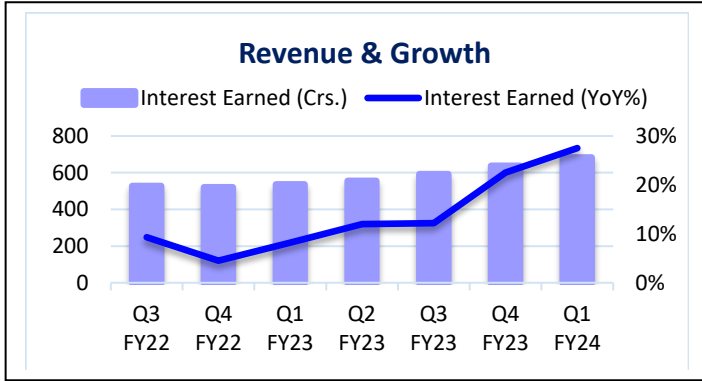
PEER PERFORMANCE

(₹ Cr)

Particulars	CSB Bank	AU Bank	Ujjivan SFB	Suryoday SFB
Market Cap	5673	47446	9517	1919
Interest Earned (FY-23)	2320	8205	4164	1183
Profit from Ordinary Activities	733	1864	1467	100
PAT	547	1428	1100	78
EPS(Rs)	31.55	21.86	5.82	7.32
Total Deposit	24475	69315	26660	5167
CASA Ratio	30.84	35	24.6	21.7
Net Interest Income	364	1246	793	210
NIM	5.40	5.7	9.2	10.4
Total Advances	21945	63635	25326	6114
Gross NPA (%)	1.27	1.76	2.4	3.1
Net NPA (%)	0.32	0.55	0.06	1.5
Provision Coverage Ratio	75	73	97.6	51.5
Capital Adequacy Ratio	25.99	21.5	26.7	33.72

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's total gross advances are increasing at a strong rate. Gold loans contributed to the expansion. Furthermore, the gold loan book accounted for 66% of the additional YoY credit growth. Gold loan increase was driven by tonnage growth from both existing and new clients. The bank has a 73% LTV (Loan to Value) ratio and 24.41 tonnes of gold as collateral, which is up 30% year on year. With 0.19% NPAs, the book has returned 11.44% to the bank. The bank's gold loans are largely subject to a set rate of interest.
- 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%.
- Significant improvement in asset quality.
- Following the infusion of funds by promoters and subsequent IPO fund raise, the bank has a very good capital adequacy level. Furthermore, the loan book is skewed towards gold loans, resulting in lower risk-weighted assets. The Capital Adequacy Ratio (CAR) was 25.99% as of Q1FY24, significantly over the legal threshold of 12%. Tier I capital for the bank was 24.8%. There are very few banks in India with a CAR of more than 25%.
- 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 June 2023, the bank's CASA Ratio was 30.84%, 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)					
	2019	2020	2021	2022	2023	2024E
Interest Earned	1347.52	1509.89	1872.29	2038.31	2319.65	2900
YoY change (%)	3.91%	12.05%	24.00%	8.87%	13.80%	25%
Other Income	135.92	221.61	303.13	246.80	316.01	415
Total Income	1483.43	1731.50	2175.42	2285.11	2635.66	3315
Interest Expense	907.56	917.60	930.91	885.01	985.81	1215
Operating Expense	562.51	533.32	729.00	786.38	942.46	1160
Provision	313.46	146.58	222.97	-0.51	-26.21	130
Profit from Ordinary Activities Before Tax	-300.10	133.99	292.55	614.23	733.61	810
YoY change (%)	100.92%	-144.65%	118.33%	109.96%	19.44%	2.1%
Tax	-102.68	121.27	74.15	155.74	186.25	200
Net Profit After Tax	-197.42	12.72	218.40	458.49	547.36	610
YoY change (%)	102.55%	-106.45%	1616.35%	109.93%	19.38%	11.3%
EPS	-22.98	0.73	12.59	26.43	31.55	35.05

Source: Company, Hem Securities Research.

Balance Sheet					
Y/E March	₹ Cr)				
	2019	2020	2021	2022	2023
Share Capital	86	174	174	174	174
Reserves	694	1,787	2,007	2,478	3,030
Borrowings	15,124	16,585	20,566	22,195	25,289
Other Liabilities	1,007	319	591	509	670
Total Liabilities & Equity	16,911	18,864	23,337	25,356	29,162
Fixed Assets	218	253	269	288	319
CWIP	0	0	0	0	0
Investments	4,028	5,360	6,126	7,012	5,849
Other Assets	12,666	13,251	16,942	18,057	22,994
Total Assets	16,911	18,864	23,337	25,356	29,162

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR))	2020	2021	2022	2023
Profit and Loss Account				
Net interest income	592	941	1153	1334
Employee expenses	331	496	481	558
ROE (%)	0.99	12.48	21.28	20.35
ROA (%)	0.07	0.99	1.90	2.06
EPS	0.73	12.59	26.43	31.55
Key Performance Indicator				
NIM (%)	3.20	4.81	5.27	5.48
CASA (%)	29.17	32.19	33.7	32.18
Yield on Assets (%)	10.56	11.28	11.19	11.17
Cost of Funds (%)	6.90	6.23	5.34	5.40
Cost-to-Income	66	59	56	57
GNPA (%)	3.54	2.68	1.81	1.26
NNPA (%)	1.91	1.17	0.68	0.35
Provision Coverage Ratio (%)	80.02	84.89	89.65	92.11
Credit/Deposit (%)	77.52	80.40	82.93	87.69
Capital Adequacy Ratio (%)	22.46	21.37	25.90	27.10
Tier I (%)	21.79	19.96	24.35	25.87
Valuations Ratios				
P/E (x)	161.53	18.48	8.01	7.79
P/BV (x)	1.14	1.99	1.48	1.41
Dividend Yield (%)	0	0	0	0
OPERATIONAL				
Advances	11366	14438	15815	20651
Deposit	15791	19140	20188	24506
Net Interest Income	592	941	1153	1334
Net Profit	13	218	458	547

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
19-August-2023	BUY	366

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Name of the Research Analyst: Madhur Mandhana

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4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
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10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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