

CMP: ₹ 325

Target: ₹ 400 (23%) Target Period: 6-12 months

Jan 03, 2025

BUY

Gold loans aid performance; diversification strategy underway...

About the stock: CSB Bank is a south based private sector bank with Kerala contributing ~22% of total advances. Changed strategy in various aspects of lending have led to a transformation and improved performance in the past few years.

- Gold loans form substantial proportion - 45% of the book
- Healthy liability franchise with loyal customer base of ~21.5 lakh, 802 branches and 771 ATMs

Q3FY25 business performance: CSB Bank reported strong performance in Q3FY25, building on its prior momentum. Gross advances grew 26.5% YoY (7.6% QoQ) to ₹28,914 crore, driven by 36.3% YoY (8.4% QoQ) increase in gold loans to ₹13,018 crore. Deposit growth stood at 22.2% YoY (4.9% QoQ) to ₹33,406 crore, supported by term deposit growth of 28.1% YoY (4.7% QoQ) to ₹25,365 crore. Accretion of CASA deposits remained slower at 6.6% YoY, though CASA ratio maintained broadly steady at 24.07%.

Investment Rationale:

- **Traction in gold loans aids credit growth and margins:** Continued traction in gold loans (~45% of book), amid rise in gold prices and moderation in competitive intensity, has aided business growth as well as yields. Adopting caution strategy, management has maintained LTV in gold loans at ~73%. Expect credit growth to remain healthy at ~23% CAGR in FY25-27E, with gold loans to remain in focus. Repricing of deposits, faster accretion in term deposit and regulatory changes have impacted margin trajectory (-80 bps last 3 quarters), however, management guidance (NIM at 4.3 – 4.5%) indicates bottoming of margins amid increase in CD ratio and support from traction in gold loans.
- **Expansion in non-gold segment to provide diversification:** Investment in building distribution capabilities (added 83 branches in last 4 quarters) along with introduction of various payment & retail/ MSME loan products is seen to keep opex elevated in the near term. However, such strategy is seen to provide sustained business growth, diversification in asset mix and gradual improvement in CI ratio towards long term vision of 50%.
- **Lower credit cost to aid RoA with gradual improvement in CI ratio:** Lower slippages, healthy recoveries is expected to keep asset quality prudent. Expect credit cost at ~25-35 bps in FY25-26E. Thus, healthy business growth, steady credit cost and gradual improvement in CI ratio is seen to aid RoA trajectory to reach ~1.5% in FY27E.

Rating and Target Price

- Continued focus on gold loans portfolio coupled with strategy to diversify asset mix is seen to aid business growth, margins as well as gradual improvement in RoA. Expect ~23-25% CAGR growth in advances with RoA at ~1.5% ahead. Thus, we value CSB Bank at 1.3x FY27E BV and assign a target price of ₹ 400 per share. Recommend **BUY** rating.

Key Financial Summary

₹ crore	FY22	FY23	FY24	2 Year CAGR (FY22-FY24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
NII	1153	1334	1476	13%	1500	1792	2124	13%
PPP	614	707	780	13%	782	976	1197	15%
PAT	458	547	567	11%	538	645	792	12%
P/E	12.3	10.3	10.0		10.5	8.7	7.1	
P/ABV	2.4	1.9	1.6		1.4	1.2	1.1	
RoA	1.9	2.0	1.7		1.4	1.3	1.5	
RoE	19.0	18.7	16.2		13.2	13.9	16.0	

Source: Company, ICICI Direct Research



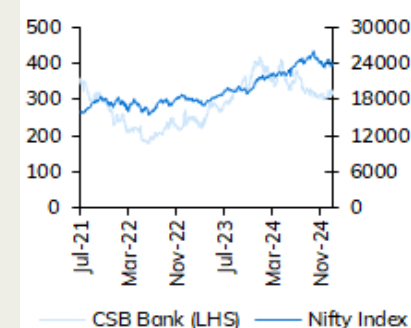
Particulars

Particulars	Amount
Market Capitalisation	₹ 5622 crore
52 week H/L	420 /292
Net Worth	₹ 3804 Crore
Face value	10.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	49.7	49.7	40.0	40.0
FII	4.6	4.9	12.4	12.7
DII	16.1	15.9	18.7	17.6
Others	29.6	29.4	28.9	29.7

Price Chart



Recent Event & Key risks

- Credit growth at 26.5% YoY & deposit accretion at 22.2% YoY in Q3FY25
- **Key Risk:** (i) Accretion of liabilities at competitive price, (ii) Slower pace in gold loan business

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Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY24	FY25E	FY26E	FY27E
Interest Earned	2,927.5	3,582.1	4,187.1	5,045.3
Interest Expended	1,451.1	2,082.4	2,395.2	2,921.3
Net Interest Income	1,476.4	1,499.8	1,791.9	2,124.0
Growth (%)	10.7	1.6	19.5	18.5
Non Interest Income	584.3	747.9	897.5	1,077.0
Net Income	2,060.7	2,247.6	2,689.3	3,201.0
Employee cost	714.7	786.2	912.0	1,057.9
Other operating Exp.	566.1	679.3	801.6	945.8
Operating Income	779.9	782.2	975.8	1,197.3
Provisions	18.5	60.4	110.4	134.7
PBT	761.4	721.8	865.4	1,062.5
Taxes	194.6	184.1	220.7	270.9
Net Profit	566.8	537.8	644.7	791.6
Growth (%)	3.6	(5.1)	19.9	22.8
EPS (₹)	32.7	31.0	37.2	45.6

Source: Company, ICICI Direct Research

Exhibit 2: Key ratios				
(Year-end march)	FY24	FY25E	FY26E	FY27E
Valuation				
No. of shares (crore)	17.4	17.4	17.4	17.4
EPS (₹)	32.7	31.0	37.2	45.6
DPS (₹)	1.0	0.9	1.1	1.4
BV (₹)	210.5	240.6	276.6	320.9
ABV (₹)	203.3	229.0	263.3	304.9
P/E	10.0	10.5	8.7	7.1
P/BV	1.5	1.4	1.2	1.0
P/ABV	1.6	1.4	1.2	1.1
Yields & Margins (%)				
Net Interest Margins	5.1	4.2	4.1	4.0
Avg. cost on funds	5.1	6.0	5.7	5.7
Yield on average advances	10.9	11.0	10.5	10.4
Quality and Efficiency (%)				
Cost to income ratio	62.2	65.2	63.7	62.6
Credit/Deposit ratio	81.9	84.6	85.4	86.1
GNPA %	1.5	1.6	1.7	1.7
NNPA %	0.5	0.7	0.6	0.6
ROE	16.2	13.2	13.9	16.0
ROA	1.7	1.4	1.3	1.5

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(₹ Crore)	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Capital	173.5	173.5	173.5	173.5
Reserves and Surplus	3630.1	4151.7	4777.1	5544.9
Networth	3803.7	4325.3	4950.6	5718.5
Deposits	29718.8	35676.0	43120.4	52164.6
Borrowings	1757.4	2112.3	2945.2	4042.3
Other Liabilities & Provisions	776.2	991.6	1588.6	2293.7
Total	36056.0	43105.2	52604.9	64219.1
Application of Funds				
Fixed Assets	405.9	442.5	482.3	525.7
Investments	7551.4	8919.0	10995.7	13562.8
Advances	24335.6	30176.1	36814.9	44914.1
Other Assets	608.2	713.5	862.4	1043.3
Cash with RBI & call money	3154.9	2854.1	3449.6	4173.2
Total	36056.0	43105.2	52604.9	64219.1

Source: Company, ICICI Direct Research

Exhibit 4: Growth ratios				
(% growth)	FY24	FY25E	FY26E	FY27E
Total assets	23.6	19.6	22.0	22.1
Advances	17.8	24.0	22.0	22.0
Deposit	21.3	20.0	20.9	21.0
Total Income	24.9	9.1	19.7	19.0
Net interest income	10.7	1.6	19.5	18.5
Operating expenses	35.9	14.4	16.9	16.9
Operating profit	10.3	0.3	24.8	22.7
Net profit	3.6	(5.1)	19.9	22.8
Net worth	18.7	13.7	14.5	15.5
EPS	3.6	(5.1)	19.9	22.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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