

CSB Bank has reported its Q2 FY22 performance which beat our estimates on the profitability front, supported by lower provisions (Credit Cost -0.54% vs 2.73% QoQ), better margin (NIM 5.22% vs 5.04% QoQ) and stable loan growth (1.8% QoQ).

- **NII** came in at Rs 2784 Mn, 4% QoQ / 21.4% YoY
- **Net Income** came in at Rs 3382 Mn, -0.2% QoQ / 23.8% YoY
- **PPOP** came in at Rs 1494 Mn, -14.5% QoQ / 25.5% YoY
- **Provisions** came in at Rs -91 Mn, -Rs 932 Mn QoQ / Rs 269 Mn YoY
- **PAT** came in at Rs 1186 Mn, 94.4% QoQ / 72.1% YoY
- **EPS** stood at Rs 6.83 vs INR 3.52 / INR 4.0 in Q1FY22 / Q2FY21 respectively

Financial Highlights

- Bank's asset quality improved during the quarter, with GNPA at 4.11% (down by 77 bps QoQ) and NNPA at 2.63% (down by 58 bps QoQ). According to management, worst in terms of asset quality is over and expects strong recovery especially in gold loans in coming quarters. Gross NPA and Net NPA ratios excluding gold works out to 2.09% and 1.14%. PCR stood at 36.9% vs 35.4% QoQ and 57.8% YoY. Upgrades (Rs 0.96 Bn) and recoveries (Rs 1.9 Bn) combined for the quarter was higher than gross slippages (Rs 20.5 Bn).
- Bank is looking to reduce its overall GNPA's below 2% and net NPA's below 1% by Q4FY22. During Q2FY22, the bank has restructured loan worth Rs 56 Cr, while total restructured loans stood at Rs 113 Cr (0.79% of loan book). Bank is holding 25% provision on this book.
- Operational efficiency deteriorated during the quarter, with cost to income ratio stood at 55.8% (+737bps QoQ), backed by higher opex growth of 15% QoQ vs drop in net income (NII + other income) by 0.2% QoQ in Q2FY22.
- Operating profit declined by 14.5% QoQ mainly due to increased staff count, new branch opening, DA provisioning, etc. Besides, lower treasury gains and SR provisions amounting to Rs 18 Cr adversely impacted other income. Fees & commissions income up by 17.2% YoY/ 62.7% QoQ as business activity improved.
- Advances stood at Rs 140.70 Bn (12.2% YoY/1.8% QoQ), driven on sequential basis by corporate loans, SME loans, two-wheeler loans and Agri loans. However, Gold loan, which constitutes 36.3% of AUM, continue to fall 3% QoQ.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	5.9	9.4	11.2	13.0
Net profit	0.1	2.2	3.3	4.0
Net worth	19.6	21.8	25.1	29.1
EPS (Rs)	0.7	12.6	19.2	23.0
P/E (x)	418	24	16	13
P/Adj BV (x)	3.1	2.6	2.3	2.0
RoA (%)	0.1	1.0	1.3	1.4
RoE (%)	0.8	10.5	14.2	14.7

Source: Dalal & Broacha Research, Company

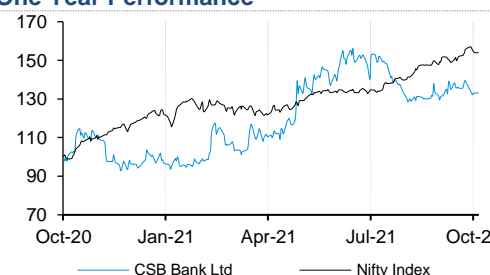
Rating	TP (Rs)	Up/Dn (%)
BUY	374	22

Market data

Current price	Rs	307
Market Cap (Rs.Bn)	(Rs Bn)	53
Market Cap (US \$ Mn)	(US \$ Mn)	734
Face Value	Rs	10
52 Weeks High/Low	Rs	374 / 193
Average Daily Volume	('000)	196
BSE Code		542867
Bloomberg		CSBBANK:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	49.7	49.7
FII	5.7	5.5
DII	11.7	11.2
Others	33.0	33.6
Total	100	100

Source: BSE

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- Management has guided for a 10-15% overall growth for FY22. Corporate loans, SME loans and gold loans will be the driver for overall loan growth for the remainder of the year.
- Deposits stood at Rs 190.55 Bn (9.1% YoY/ 2.2% QoQ). Bank reported 21% YoY growth in CASA deposits in Q2-2022; taking CASA ratio to 32.58% in Q2FY22 (vs 29.4% YoY).

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Valuation and outlook

We remain positive on the stock given its favorable loan mix, sustained margins, and comfortable liquidity position. Besides, strong liability franchise, decline in credit costs, adequate capitalization, and healthy provision buffer add to positivity. We expect the bank's RoA/RoE to be around 1.3%/14.2% in FY22 and improved to 1.4%/14.7% in FY23. At CMP the stock trades at 2.3x its FY22E ABV and 2.0x its FY23E ABV. **We assign BUY rating with a Target Price of Rs 374/share**, valuing the stock at a target multiple of 2.4x FY23E ABV. We believe the bank's current valuation and recent earnings provide limited downside risk

Highlights of the Conference Call

Yields & Cost of Deposits

- Yield on advances up by 76 bps QoQ to 11.38%, driven by gold loan yields. Interest reversal declined from Rs 23 Cr in Q1FY22 to Rs 2.21 Cr in Q2FY22, resulting gold loan yields gone up by 162 bps QoQ to 13.08% in Q2FY22.
- Cost of deposits dropped by 18 bps to 4.30%, mainly due to repricing of term deposits at lower rates (cost of term deposits drop by 23 bps QoQ to 5.29%).

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Other income

- As Gsec yields are moving upwards, the bank is not holding any major trading positions, resulting lower profit from treasury operations.
- SR provision amounting to Rs 18 Cr & netting of the same from treasury profit as per revised regulatory format change, resulted treasury loss of Rs 10 Cr in Q2FY22.

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Operating expenses

- There was an increase in head count by 1526 (46% YoY) and this together with increase in AS 15 provisions has caused the staff cost to increase by 15% YoY/23% QoQ. Currently, 879 employees (30% of work force) come under IBA category.
- Non- staff cost has increased by 39% YoY/3.9% QoQ due to increase in rent, depreciation repair & maintenance and other charges. Number of branches also increased by 121 to 542 branches. During H1FY22, Bank opened 36 new branches and merged 6 unviable branches. Bank is looking to open 50 plus branches in H2FY22.
- Bank is targeting cost to income ratio of below 50%

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Asset Quality

- Collection efficiency stood at 93% as of September 30, 2021.
- Bank is not going for aggressive auctioning of gold and give chance to borrower to redeem the jewellery. However, the bank has done some auctions and recognized loss of Rs Rs 88 lakh vs Rs 1 Cr in Q1FY22
- Bank is looking to reduce its overall GNPA's below 2% and net NPA's below 1% by Q4FY22.
- Recoveries made in gold loan portfolio stood at Rs 131 Cr in Q2FY22

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Other highlights

- Tier I ratio declined by 148 bps to 18.76% mainly due to increase in non-gold advances and deterioration in rating of few corporate customers.
- Bank is focusing on direct lending to agriculture and formed a separate vertical for this line of business. Bank used to operate in 3 markets (Kerala, Tamil Nadu & Maharashtra) for the same and now expanded selectively in other parts (Andhra Pradesh, Karnataka, etc).

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Financials

(Rs Mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY23
Interest Earned	4,700	4,826	4,971	4,953	4,959
Interest Expended	2,407	2,314	2,214	2,275	2,175
NII	2,293	2,512	2,757	2,678	2,784
Other Income	438	1,166	1,123	712	598
Net Income	2,731	3,678	3,880	3,390	3,382
Opex	1,540	1,854	2,591	1,643	1,888
PPOP	1,190	1,824	1,290	1,747	1,494
Provisions	269	1,115	710	932	(91)
PBT	921	709	580	815	1,585
Tax	232	178	151	205	399
PAT	689	531	429	610	1,186
Balance Sheet					
Net-worth	20,831	21,366	21,802	22,430	23,635
Deposits	174,684	177,530	191,400	186,528	190,555
Advances	125,376	131,373	144,381	138,172	140,701
Growth (%)					
NII	55.9	61.8	75.0	44.5	21.4
PPOP	87.5	160.5	20.5	35.4	25.5
PAT	178.6	88.5	-171.9	13.9	72.1
Deposits	12.6	16.5	21.2	14.2	9.1
Advances	11.0	21.6	27.0	23.1	12.2
Efficiency (%)					
GNPA	3.0	1.8	2.7	4.9	4.1
NNPA	1.3	0.7	1.2	3.2	2.6
PCR	57.8	61.9	57.1	35.4	36.9
Credit Cost (annualized)	0.9	3.4	2.0	2.7	-0.3
C/I Ratio	56.4	50.4	66.8	48.5	55.8
CASA	29.4	30.4	32.2	33.1	32.6
Yields, Cost of Deposits & NIM					
Yield on Advances	10.9	11.0	11.3	10.6	11.4
Cost of Deposits	5.2	4.9	4.8	4.5	4.3
NIM	4.5	5.2	5.3	5.0	5.2

Source: Dalal & Broacha Research, Company

Financial

P&L (Rs Bn)	FY20	FY21	FY22	FY23
Interest income	15.10	18.72	22.02	26.32
Interest expense	9.18	9.31	10.87	13.33
NII	5.92	9.41	11.15	12.98
Non-interest income	2.22	4.01	3.80	4.66
Net revenues	8.14	13.42	14.96	17.65
Operating expenses	5.33	7.29	8.32	9.43
PPOP	2.81	6.13	6.64	8.22
Provisions	1.47	3.21	2.18	2.88
PBT	1.34	2.93	4.46	5.34
Tax	1.21	0.74	1.12	1.34
PAT	0.13	2.18	3.34	3.99

Balance sheet	FY20	FY21	FY22	FY23
Share capital	1.74	1.74	1.73	1.73
Reserves & surplus	17.87	20.07	23.40	27.40
Net worth	19.61	21.80	25.14	29.13
Deposits	157.91	191.40	227.93	274.63
Borrowings	7.94	14.26	11.53	8.81
Other liability	3.19	5.91	5.92	6.90
Total liabilities	188.64	233.37	270.52	319.46
Fixed assets	2.53	2.69	2.90	3.11
Investments	53.60	61.26	73.34	86.32
Loans	113.66	144.38	165.62	205.12
Cash	9.39	17.14	19.95	15.87
Other assets	9.45	7.90	8.71	9.04
Total assets	188.64	233.37	270.52	319.46

Source: Dalal & Broacha Research, Company

Ratios	FY20	FY21	FY22	FY23
Growth (%)				
NII	34.62	58.94	18.45	16.44
PPOP	2000.35	118.55	8.28	23.78
PAT	(106.45)	1616.35	52.82	19.57
Advances	7.08	27.03	14.71	23.85
Deposits	4.41	21.21	19.08	20.49
Spread (%)				
Yield on Funds	9.1	9.4	9.1	9.3
Cost of Funds	5.8	5.0	4.9	5.1
Spread	3.3	4.4	4.3	4.2
NIM	3.6	4.7	4.6	4.6
Asset quality (%)				
Gross NPAs	3.5	2.7	2.6	2.2
Net NPAs	1.9	1.2	1.1	1.0
Provisions	46	56	58	55
Return ratios (%)				
RoE	0.8	10.5	14.2	14.7
RoA	0.1	1.0	1.3	1.4
Per share (Rs)				
EPS	0.7	13	19	23
BV	113	126	145	168
ABV	100	116	134	156
Valuation (x)				
P/E	418	24	16	13
P/BV	2.7	2.4	2.1	1.8
P/ABV	3.1	2.6	2.3	2.0

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