

January 28, 2025

RESULT REPORT Q3 FY25 | Sector: Banks

CSB Bank Ltd

Sector level considerations barely matter

Our view – Margin decline the only near term concern

Balance sheet growth – Loan growth outcome far outstrips the banking system from a small base: Total advances in 3Q were Rs 286bn, up by 7.7% QoQ and 26.4% YoY whereas total deposits in 3Q were Rs 334bn, up by 4.9% QoQ and 22.2% YoY. Gold loans, other retail loans and SME loans grew 36%, 32% and 29% YoY, respectively. Corporate loan growth picked up and was 30% YoY on a gross basis but the reported growth was 5% YoY due to liquidation of the DA portfolio and other deliberate exits from certain accounts. The bank's gold loan business is not impacted by RBI's 30th September Circular in 3Q and will not be impacted by it going forward.

Net Interest Margin – Margin declined on sequential basis due to the shedding of higher-yield assets and tight liquidity: NIM was at 4.11%, down -19bps QoQ and -99bps YoY. The liquidity was tight during the quarter causing cost of funds to move up. There has been a decline in yield since high-yield segments such as 2W, personal loans, microfinance, agri loans and relatively higher yield corporate loans have seen de-growth. Management felt that NIM maximization in the current environment by pursuing high yield segments is not prudent.

Asset Quality – Asset quality remained under control with sector level aspects not having any bearing on the bank: Gross NPA additions amounted to Rs 0.62bn for 3QFY25, translating to calculated annualized slippage ratio of 0.9% for the quarter. Gross NPA additions had amounted to Rs 0.64bn during 2QFY25. The impact from unsecured retail and microfinance has been minimal for the bank. Provisions were Rs 0.17bn, up by 18.8% QoQ and translating to a calculated annualised credit cost of 24bps. The bank continues with its earlier approach of making accelerated provisions.

We maintain 'Buy' rating on CSB with a revised price target of Rs 380: We value the bank at 1.3x FY26 P/BV for an FY25/26/27E RoE profile of 14.0/14.8/15.2%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Other Highlights (See "Our View" above for elaboration and insight)

- **Opex control:** Total cost to income ratio at 62.9% was down/up by -175/146bps QoQ/YoY and the Cost to assets was at 3.6% down by -23/-25bps QoQ/YoY
- **Fee income:** Core fee income to average assets was at 2.0%, up 26/111bps QoQ/YoY.

Exhibit 1: Result table

(Rs mn)	Q3 FY25	Q2 FY25	% qoq	Q3 FY24	% yoy
Total Interest Income	9,194	8,649	6.3	7,618	20.7
Interest Expense	(5,439)	(4,974)	9.4	(3,792)	43.5
Net Interest Income	3,755	3,675	2.2	3,827	(1.9)
Fee Income	2,110	1,700	24.1	1,120	88.4
Non-fee Income	84	294	(71.5)	133	(37.3)
Total Non-Interest Income	2,194	1,994	10.0	1,253	75.0
Total Income	5,948	5,669	4.9	5,080	17.1
Employee Expense	(1,961)	(1,848)	6.1	(1,728)	13.5
Non-employee Opex	(1,780)	(1,817)	(2.0)	(1,393)	27.8
Total Operating expenses	(3,742)	(3,665)	2.1	(3,121)	19.9
PPOP	2,207	2,004	10.1	1,959	12.7
Provisions	(165)	(139)	18.8	45	NA
PBT	2,041	1,864	9.5	2,004	1.9
Tax	(525)	(480)	9.3	(504)	4.1
PAT	1,516	1,384	9.6	1,500	1.1

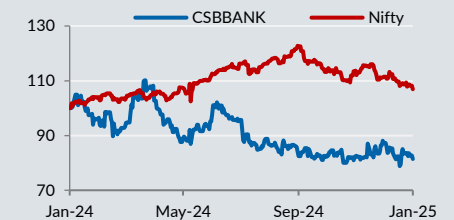
Source: Company, YES Sec-Research

Recommendation	: BUY
Current Price	: Rs 305
Target Price	: Rs 380
Potential Return	: +24%

Stock data (as on January 28, 2025)

Nifty	22,957
52 Week h/l (Rs)	419 / 289
Market cap (Rs/USD mn)	50792 / 587
Outstanding Shares (mn)	169
6m Avg t/o (Rs mn):	117
Div yield (%):	-
Bloomberg code:	CSBBANK IN
NSE code:	CSBBANK

Stock performance



	1M	3M	1Y
Absolute return	-6.6%	-1.6%	-18.5%

Shareholding pattern (As of Sep'24 end)

Promoter	40.0%
FII+DII	30.4%
Others	27.1%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	380	385

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
NII	15,355	18,565	21,948
PPOP	8,541	10,548	12,768
Net Profit	5,735	7,006	8,341
Growth (%)	1.2	22.2	19.0
EPS (Rs)	33.0	40.4	48.1
BVPS (Rs)	252	293	341
P/E (x)	9.2	7.6	6.4
P/BV (x)	1.2	1.0	0.9
ROE (%)	14.0	14.8	15.2
ROA (%)	1.4	1.4	1.4
Tier-1 (%)	21.3	20.5	19.9

Δ in earnings estimates

Rs.	FY25E	FY26E	FY27E
EPS (New)	33.0	40.4	48.1
EPS (Old)	33.4	40.4	48.4
% change	-0.9%	0.0%	-0.7%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 0.62bn for 3QFY25, translating to calculated annualized slippage ratio of 0.9% for the quarter. (Gross NPA additions had amounted to Rs 0.64bn during 2QFY25.)
 - The impact from unsecured retail and microfinance has been minimal for the bank.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 0.41bn for 3QFY25, implying net NPA addition of Rs 0.21bn for the quarter.
- **Provisions**
 - Provisions were Rs 0.17bn, up by 18.8% QoQ and against provision write-back of Rs 0.05bn in 3QFY24, translating to a calculated annualised credit cost of 24bps.
 - The bank continues with its earlier approach of making accelerated provisions.
 - **Outstanding provisions**
 - The PCR rose marginally QoQ to 60.12%, excluding technically written off accounts.
 - The intention is to take the PCR to 70% at some point.
 - **Excess provisions**
 - Contingent provisions continue to be held and have not been utilised.
 - The bank holds additional provisions worth Rs 1.81bn, of which Rs 1.05bn are Covid provisions now classified as contingent provisions.
 - The contingent provisions contain Rs 0.34bn provision still held on a large account despite the same being regularized.
- **NPA ratios**
 - GNPA ratio stands at 1.58%, down by -10bps QoQ but up 36bps YoY while NNPA ratio stands at 0.64%, down -5bps QoQ but up 33bps YoY.

Net interest margin

- **Margin for the quarter**
 - NIM was at 4.11%, down -19bps QoQ and -99bps YoY.
 - The liquidity was tight during the quarter.
- **Decline in yield**
 - There has been a decline in yield since high-yield segments such as 2W, personal loans, microfinance, agri and relatively higher yield corporate loans have seen de-growth.
- **Comment on NIM**
 - Management felt that NIM maximization in the current environment by pursuing high yield segments is not prudent.

Return on assets

- The RoA for the quarter amounted to 1.52%.
- The RoE for the quarter amounted to 15.28%.

(Con call takeaways continue on the next page)

Deposits growth

- Total deposits were at Rs 334 bn, up by 4.9% QoQ and 22.2% YoY.
- CASA deposits were up 7% YoY.

Loan growth

- Total advances for the bank stood at Rs 286 bn, up by 7.7% QoQ and 26.4% YoY.
- **Segmental outcomes**
 - Gold loans, other retail loans and SME loans grew 36%, 32% and 29% YoY.
 - Corporate loan growth picked up and was 30% YoY on gross basis but the reported growth was 5% YoY due to liquidation of the DA portfolio and other deliberate exits from certain accounts.
- **Gold loans**
 - **LTV aspects**
 - The LTV has declined from 74% to 70% due to rise in gold prices.
 - The LTV limit for retail gold loans is 75% whereas the internal limit for agri gold loan is 85%.
 - The blended LTV for retail gold loan book is below 70% and for the agri gold loan book is somewhere between 75-85%.
 - **Average ticket size**
 - The average ticket size for gold loan is Rs 100,000-200,000.
 - **30th September circular**
 - The bank is not impacted by it in 3Q and will not be impacted by it going forward.
- **Growth segments**
 - Some of the areas for growth going forward are going to be LAP and CV/CE.

Operating expenses

- **Total opex**
 - Total Opex, at Rs. 3.74bn, is up 2.1% QoQ and 19.9% YoY.
 - Consequently, cost/income ratio came in at 62.9%, down by -175bps QoQ but up 146bps YoY.
- **Staff expenses**
 - The staff opex is up by 6.1% QoQ and 13.5% YoY.
- **Non-staff expenses**
 - Non-staff opex is down by -2.0% QoQ but up 27.8% YoY.
 - **Branch addition**
 - 34 branches have been added in 9M, taking branch count to 807.
 - **Tech transformation**
 - Post FY26, there would be nothing left in terms of tech transformation.

Fee income

- The share of fee income has risen from 5% in total income 2 years ago to about 19% as of now.
- Of this, about 15% share is core fee income and the remaining 4% is PSLC income.

(Con call takeaways continue on the next page)

Capital adequacy

- The CRAR is 21.08% whereas the Tier 1 Capital Ratio is 19.73%, not including profit.
- The RWA density is low, being close to 40%.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q3FY25	Q2FY25	% qoq#	Q3FY24	% yoy	Q3FY25*	chg QoQ*	chg YoY*
Gross Advances	289,150	268,710	7.6	228,670	26.4	100.0	0bps	0bps
Corporate Loans	63,560	61,050	4.1	60,350	5.3	22.0	-74bps	-441bps
SME	36,920	34,290	7.7	28,550	29.3	12.8	1bps	28bps
Gold Loans	130,180	120,050	8.4	95,530	36.3	45.0	35bps	325bps
Retail Loans	58,490	53,320	9.7	44,240	32.2	20.2	39bps	88bps
Total Deposits	334,070	318,402	4.9	273,448	22.2	100.0	0bps	0bps
CASA	80,420	76,700	4.9	75,426	6.6	24.1	-2bps	-351bps
Term	253,650	241,702	4.9	198,022	28.1	75.9	2bps	351bps
RWA	180,023	167,290	7.6	141,914	26.9	NA	NA	NA
Investments	101,320	83,696	21.1	71,529	41.6	NA	NA	NA
Investments/(Invest. + Net Adv.) (%)	26.1	23.9	220bps	24.0	214bps	NA	NA	NA
Borrowings	44,740	23,468	90.6	13,614	228.6	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	11.8	6.9	495bps	4.7	707bps	NA	NA	NA

Source: Company, YES Sec – Research, *Share in Total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q3FY25	Q2FY25	chg QoQ	Q3FY24	chg YoY
Net interest margin	4.11	4.30	-19bps	5.10	-99bps
Yield on advances	11.06	11.21	-15bps	11.49	-43bps
Cost of deposits	6.19	6.09	10bps	5.42	77bps
Loan to Deposit ratio	85.7	83.5	218bps	82.9	287bps
Non-interest income/Total income	36.9	35.2	171bps	24.7	1221bps
Fee Income to Avg. Total Assets	2.0	1.8	26bps	0.9	111bps
Cost to Income	62.9	64.7	-175bps	61.4	146bps
Opex to Avg. Total Assets	3.6	3.9	-23bps	3.9	-25bps
Credit Cost	0.2	0.2	2bps	(0.1)	32bps
RoE	15.3	14.5	75bps	17.9	-263bps
RoA	1.5	1.5	0bps	1.8	-36bps
Annualised Slippage Ratio	0.9	1.0	-10bps	0.6	25bps
Provision Coverage	60.1	59.5	67bps	74.8	-1468bps
Gross NPA	1.6	1.7	-10bps	1.2	36bps
Net NPA	0.6	0.7	-5bps	0.3	33bps
Capital adequacy ratio	21.1	22.7	-166bps	23.0	-191bps
Tier I capital ratio	19.7	21.4	-164bps	21.6	-187bps

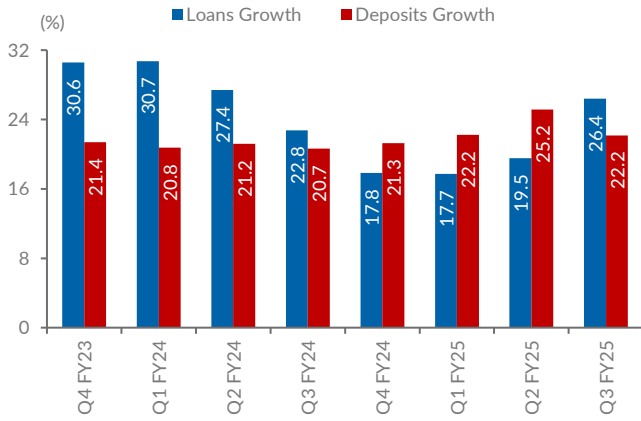
Source: Company, YES Sec – Research

Exhibit 4: Quarterly Actuals Vs Estimates

Q3 FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	3,755	3,914	(4.1)
Pre-Prov. Operating Profit	2,207	2,156	2.3
Profit After Tax	1,516	1,508	0.6

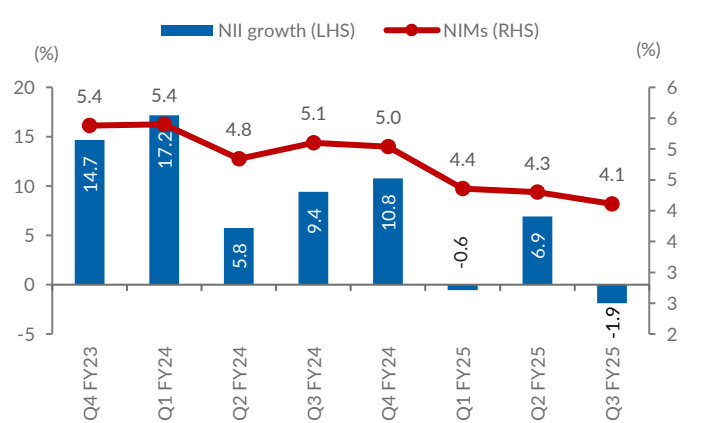
Source: Company, YES Sec – Research

Exhibit 5: Loans and Deposits growth (YoY %)



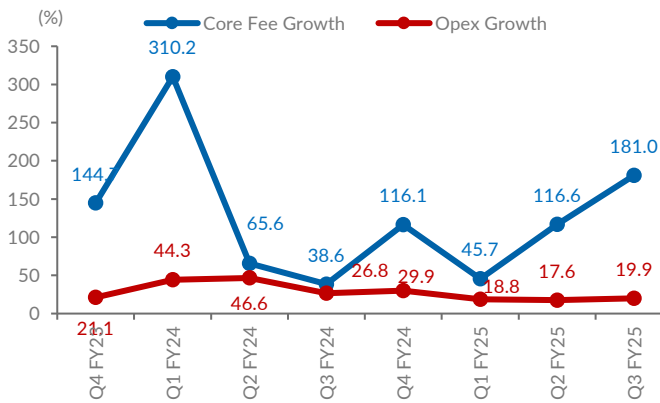
Source: Company, YES Sec - Research

Exhibit 6: NII growth (YoY %) and NIM (%)



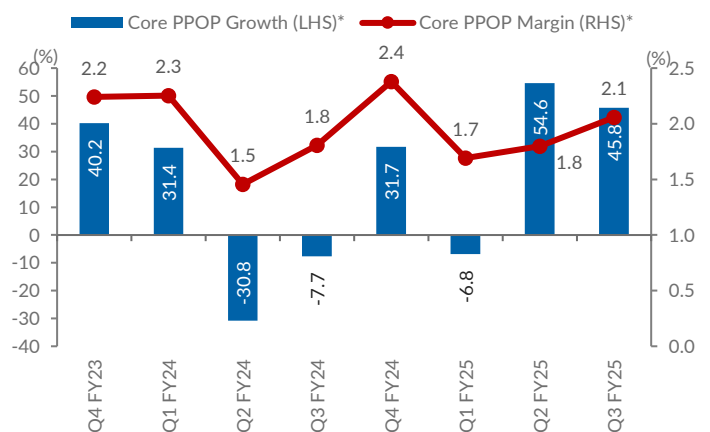
Source: Company, YES Sec - Research

Exhibit 7: Core Fee and Opex growth (YoY %)



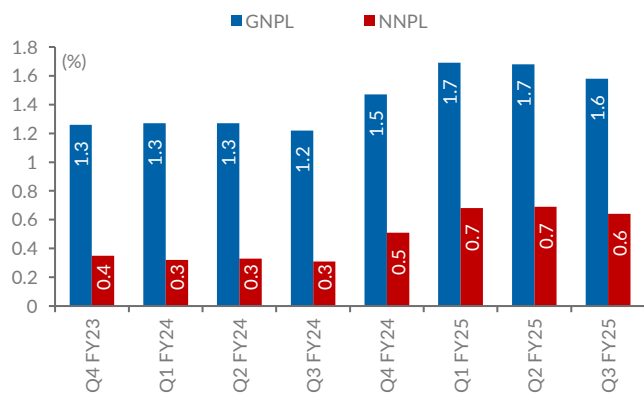
Source: Company, YES Sec - Research

Exhibit 8: Core PPOP growth (YoY %) and Core PPOP margin (%)



Source: Company, YES Sec - Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 9: Gross NPA and Net NPA (%)



Source: Company, YES Sec - Research

Exhibit 10: Credit Cost (%)



Source: Company, YES Sec - Research

Exhibit 11: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 12: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Total cash & equivalents	18,367	31,549	36,503	43,804	50,375
Investments	58,487	75,514	86,841	99,868	114,848
Advances	206,506	243,356	304,195	365,034	438,040
Fixed assets	3,194	4,059	4,668	5,368	6,173
Other assets	5,069	6,082	9,731	15,569	24,911
Total assets	291,623	360,560	441,938	529,643	634,347
Net worth	32,036	38,036	43,771	50,778	59,118
Deposits	245,058	297,188	362,569	442,335	530,802
Borrowings	7,830	17,574	21,089	25,306	30,368
Other liabilities	6,699	7,762	14,509	11,224	14,060
Total liabilities incl. Equity	291,623	360,560	441,938	529,643	634,347

Source: Company, YES Sec – Research

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest income	23,197	29,275	33,434	40,608	48,594
Interest expense	(9,858)	(14,511)	(18,080)	(22,042)	(26,646)
Net interest income	13,338	14,764	15,355	18,565	21,948
Non-interest income	3,160	5,843	8,341	9,968	11,915
Total income	16,499	20,607	23,695	28,533	33,863
Operating expenses	(9,425)	(12,808)	(15,154)	(17,985)	(21,095)
PPoP	7,074	7,799	8,541	10,548	12,768
Provisions	262	(185)	(791)	(1,080)	(1,497)
Profit before tax	7,336	7,614	7,750	9,468	11,271
Taxes	(1,863)	(1,946)	(2,015)	(2,462)	(2,931)
Net profit	5,474	5,668	5,735	7,006	8,341

Source: Company, YES Sec – Research

Exhibit 15: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY23	FY24	FY25E	FY26E	FY27E
Interest income	8.5	9.0	8.3	8.4	8.3
Interest expense	-3.6	-4.5	-4.5	-4.5	-4.6
Net interest income	4.9	4.5	3.8	3.8	3.8
Non-interest income	1.2	1.8	2.1	2.1	2.0
Total income	6.1	6.3	5.9	5.9	5.8
Operating expenses	-3.5	-3.9	-3.8	-3.7	-3.6
PPoP	2.6	2.4	2.1	2.2	2.2
Provisions	0.1	-0.1	-0.2	-0.2	-0.3
Profit before tax	2.7	2.3	1.9	1.9	1.9
Taxes	-0.7	-0.6	-0.5	-0.5	-0.5
Net profit	2.0	1.7	1.4	1.4	1.4

Source: Company, YES Sec – Research

Exhibit 16: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Interest Income	15,355	18,565	21,948	15,905	18,786	22,209	(3.5)	(1.2)	(1.2)
Pre-Prov. Operating Profit	8,541	10,548	12,768	8,687	10,664	12,791	(1.7)	(1.1)	(0.2)
Profit after tax	5,735	7,006	8,341	5,789	7,006	8,402	(0.9)	0.0	(0.7)

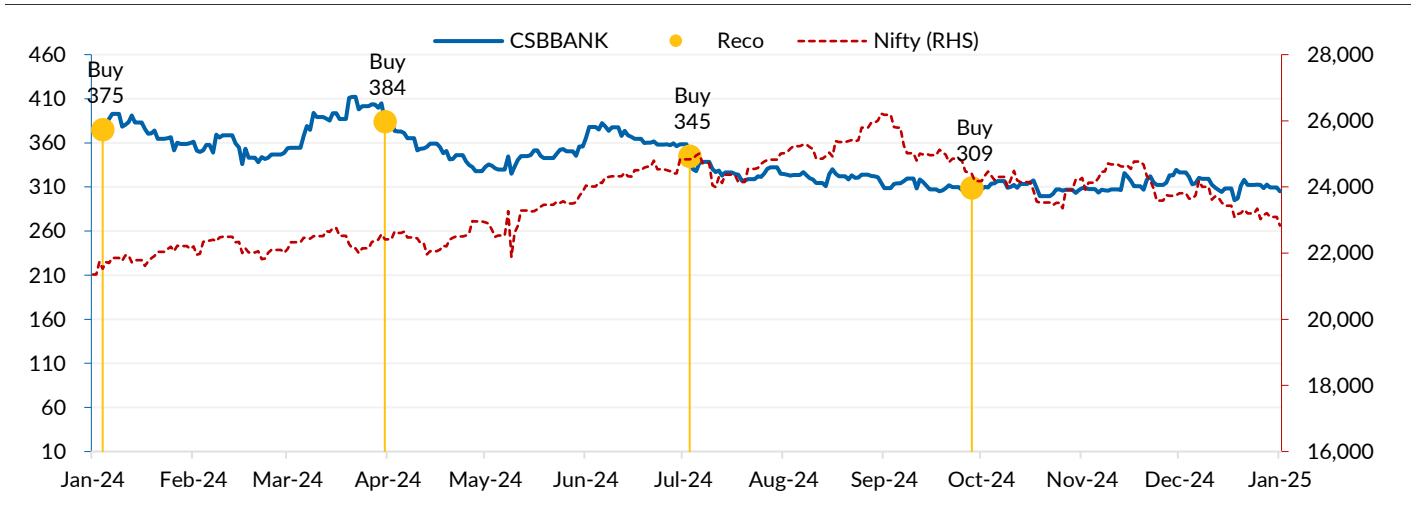
Source: Company, YES Sec – Research

Exhibit 17: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)					
Net interest income	15.7	10.7	4.0	20.9	18.2
PPoP	15.3	10.3	9.5	23.5	21.0
Net profit	19.4	3.6	1.2	22.2	19.0
Loans	30.6	17.8	25.0	20.0	20.0
Deposits	21.4	21.3	22.0	22.0	20.0
Profitability Ratios (%)					
Net interest margin	5.5	5.1	4.3	4.3	4.3
Return on Average Equity	18.7	16.2	14.0	14.8	15.2
Return on Average Assets	2.0	1.7	1.4	1.4	1.4
Per share figures (Rs)					
EPS	31.5	32.7	33.0	40.4	48.1
BVPS	184.6	219.2	252.2	292.6	340.7
ABVPS	180	212	237	271	313
Valuation multiples					
P/E	9.7	9.3	9.2	7.6	6.4
P/BV	1.7	1.4	1.2	1.0	0.9
P/ABV	1.7	1.4	1.3	1.1	1.0
NIM internals (%)					
Yield on loans	10.4	10.9	10.1	10.2	10.2
Cost of deposits	4.1	5.0	5.4	5.4	5.4
Loan-deposit ratio	84.3	81.9	83.9	82.5	82.5
CASA ratio	32.2	27.2	27.2	27.2	27.2
Opex control (%)					
Cost/Income ratio	57.1	62.2	64.0	63.0	62.3
Cost to average assets	3.5	3.9	3.8	3.7	3.6
Capital adequacy (%)					
Tier 1 capital ratio	25.9	23.1	21.3	20.5	19.9
Asset quality (%)					
Gross slippage ratio	0.4	0.8	1.1	1.0	1.0
Gross NPL ratio	1.3	1.5	1.7	1.8	1.9
Credit cost	-0.2	0.0	0.2	0.3	0.3
Net NPL ratio	0.3	0.5	0.9	1.0	1.1

Source: Company, YES Sec – Research

Recommendation Tracker



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Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit, Suraj Singhania

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