

## Subscribe for Long Term

Issue Details	
Price Band (Rs)	193 - 195
Face Value (Rs)	10
Issue Size (Rs)	410 Cr
Issue Type	Book Building
Minimum lot	75 Shares
Issue Opens	November 22, 2019
Issue Closes	November 26, 2019
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	December 2, 2019
Unblocking of Funds	December 3, 2019
Credit of shares to Demat Account	December 3, 2019
Listing on exchange	December 4, 2019

Other Detail	
Book Running Lead Managers	Axis Capital Limited, IIFL Securities Limited
Registrar	Link Intime India Private Limited

Distribution Team
E: ipo@acm.co.in D: +91 22 6132 5931

Analyst
<b>Vrinda Aditya</b> E: vrinda.aditya@acm.co.in D: +91 22 2858 3209

## CSB Bank Limited

### Company Background

Incorporated in 1920, Kerala based CSB Bank Ltd (formerly known as Catholic Syrian Bank) is one of the oldest private sector banks in India. The bank has a significant presence in Kerala, Karnataka, Tamil Nadu, and Maharashtra. The bank offers a wide range of products and services to overall customer base of 1.3mn (as on March 31, 2019) with focus on SME, retail, and NRI customers. They operate through a network of 414 branches and 277 ATMs spread across 16 states and four union territories. They provide alternate channels such as micro ATMs, debit cards, internet banking, mobile banking, point of sale services, and UPI to its customers. In 2018, Canadian investor Prem Watsa's Fairfax India Holdings (FIH) Corporation acquired 51% stake in CSB infusing Rs.1207.68Cr capital. This has boosted the operations and efficiency of the bank turning it profitable after five years. Currently, CSB is focused on a new business model to work as a full-service bank.

### Issue Details

IPO offers 2.1Cr shares of face value Rs.10 each amounting to Rs.410Cr on the upper price band. Out of total shares, 12.3lac shares will be fresh issue and 1.97Cr shares are under offer for sale by various shareholders. Anchor investors will be offered 60% of the QIB tranche.

### Objectives Of the Issue are:

- To augment bank's Tier-I capital base to meet the bank's future capital requirements.
- To achieve the benefits of listing the equity shares on the stock exchanges and Offer for Sale.
- General corporate purposes.

### IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs. 193)	Upper Band (Rs.195)
QIB	75%	1,57,56,800	304.11	307.26
Non-Institutional	15%	31,51,360	60.82	61.45
Retail	10%	21,00,907	40.55	40.97
<b>Total</b>		<b>2,10,09,067</b>	<b>405.47</b>	<b>409.68</b>

Source: Company RHP, ACMIIL Research

### Outlook and Valuations

CSB Bank is one of the oldest banks in India with expertise in SME loans and loan against gold. They are transforming into a new-age bank by expanding its products and services, geographical expansion across Southern India, and technology and digitization. At the upper price band, asking price is at a P/BV of 2.19X at FY19BV of Rs.89 per share. **We recommend SUBSCRIBING the issue with a long-term prospective.**

## Business Overview

CSB Bank is one of the oldest private banks with forte in gold loans. The bank's operations can be segregated in following segments:

- **SME Banking:** Under SME Banking, the bank offers banking services to financial institutions, agriculture and allied businesses, vendors, and dealers of corporate. The products offered to this category include working capital loans, letters of credit, term loans, bank guarantees, and invoice/bill discounting. SME business compared with other businesses offers higher yields, cross-selling and associated business opportunities. As a percentage of total advances, loans to SME customers' accounts for 29.47% as on September 30, 2019. The SME loan book stands at Rs.33605mn as on September 30, 2019.
- **Retail Banking:** Under retail banking, a wide range of loan and deposit products are offered to retail and NRI customers. Retail lending products include gold loans, vehicle loans, loans against properties, personal loans, housing loans, agricultural loans, and education loans. Deposit products include current accounts, savings accounts, fixed deposits, recurring deposits, and corporate salary accounts. Retail loans (including gold loans) constituted ~ 46.23% of total advances as on September 30, 2019. Gold loans advances have grown at a CAGR of 28.3% during FY17-19 to Rs.37818mn as on September 30, 2019. Gold loan advances constituted 33.17% of total advances as on September 30, 2019. For deposits, CASA is 28.19% of total deposits. Further, NRI deposits have been a stable source of funding for bank constituting 24.59% of total deposits.
- **Wholesale Banking:** CSB cater to large and mid-size corporates and other business entities with credit requirement of Rs.250mn and above. As a percentage of total gross advances, wholesale banking advances accounted for 24.30% as on September 30, 2019.
- **Treasury operations:** This business consists of statutory reserves management, asset liability management, liquidity management, investment and trading of securities, money market, and foreign exchange activities. CSB investment in sovereign debt instruments, commercial papers, mutual funds, certificates of deposits, bonds, and debentures to manage short-term surplus liquidity and to further optimize yield and generate profits thereon. They also distribute life insurance products of Edelweiss Tokio Life Insurance Company Limited, HDFC Life Insurance Company, CICI Prudential Life Insurance Company Limited, and general insurance products of ICICI Lombard General Insurance Company Limited and Reliance General Insurance Company Limited under contractual arrangements entered into with them.

## Investment Rationale

### Well-connected Network

CSB bank is one of the leading banks in South India with a network of 412 branches, excluding 3 service branches and 3 asset recovery branches. Out of 412 branches, 64 branches are in metropolitan areas, 86 branches are in urban areas, 220 branches are in semi-urban areas, and 42 branches are in rural areas. They have 8 zonal offices across with 267 branches in Kerala, 56 branches in Tamil Nadu, 30 in Maharashtra and 42 in Karnataka. They have 3250 employees. As on date they have 277 ATMs and have launched a mobile application BHIM CSB Pay, based on UPI platform. Moving ahead management plans to expand their touch points through new branches, ATMs, micro ATMs, and door step services provided by dedicated relationship managers for certain products and services. They plan to open 425 branches in next 5 years. Bank is also strengthening their IT infrastructure and creating a technology platform for customer interaction and transaction.

### Asset quality is improving

CSB's asset quality is improving with better recovery rates. For FY19, GNPA's were 4.87% compared to 7.25% in FY17. GNPA's were 2.86% as on September 30, 2019. NNPAs were 2.27% for FY19 compared to 4.12% in FY17. As on September 30, 2019 NNPAs were 1.96%. Provisioning coverage ratio is 79.45% as on September 30, 2019. Management is planning to establish separate teams for retail, SME, and corporate segments dedicated towards recovery of provisioned portfolio and also managing and monitoring of ongoing stressed portfolios.

### Strong Capital base

CSB' capital position strengthened with FHIMs investments of Rs.12,000mn. They have a strong capital base for growth acceleration. As per the Basel III Norms, the CRAR, as assessed by CSB Bank as on March 31, 2019 and September 30, 2019, was 16.70% and 22.77% (including capital conservation buffer), respectively. This is above the minimum prescribed CRAR of 10.875% (including capital conservation buffer of 1.875%) stipulated by the RBI in the Basel III Norms. As on September 2019 Tier 1 CRAR and common equity Tier 1 CRAR both were at 22.11%, well above the minimum prescribed requirements of 7% and 5.5%, respectively which would enable long term growth. As on September 30, 2019, Tier 2 CRAR stood at 0.66%, bank has significant head room available to raise Tier 2 capital.

## Well established SME business

CSB has a forte in SME business segment with presence in 166 clusters out of 388 SME clusters. They plan to expand further in other clusters covering Tamil Nadu, Andhra Pradesh, Telangana and Gujarat. Average ticket size for SME loan is Rs.46.1lacs and for MSME is Rs.8.8lacs. MSME is ~10% of total SME loans which in turn is 30% of total loan books. As on September 30, 2019, advances to SME customers aggregated to Rs.33,605mn spread across 7,534 accounts. Working capital advances such as cash credit and overdraft facilities to SME customers constituted 11.11% of total advances while terms loans to SME customers constituted 18.36% of total advances. SME business offers comparatively higher yields, cross-selling and associated business opportunities, and higher degree of secured and collateralized loans. As on September 30, 2019, 96.11% of SME loan portfolio was secured by tangible collateral, respectively.

## Financials are improving with business expansion

During FY17-19, net interest income increased to Rs.4400mn with 2.80% NIM. For H1FY20, net interest income was Rs. 2795mn with 3.43% NIM. During FY17-19, CSB incurred loss due to heavy provisioning. For H1FY20, net profit was Rs.443mn. Gross assets increased to Rs.169112mn for FY19 from Rs.161276mn for FY17. As on September 30, 2019, gross assets were Rs.177555mn. For FY19, deposits were Rs.151239mn which increased to Rs.155098mn during H1FY20. Cost of deposits improved to 5.91% for H1FY20 as CASA deposits raised to Rs.43719mn with 28.19% CASA ratio. Advances in FY17 were Rs.80008mn which increased to Rs.106152mn by FY19. For H1FY20, advances were Rs.112978mn. Yield on advances decreased from 11.10% as on March 31, 2017 to 9.85% as on March 31, 2019. Further, yield on advances was 10.22% as on September 30, 2019. Effective risk weight of standard advances decreased from 52.63% as on March 31, 2017 to 41.57% as on March 31, 2019 and for H1FY20 it was 39.97%.

## Risk and Concern

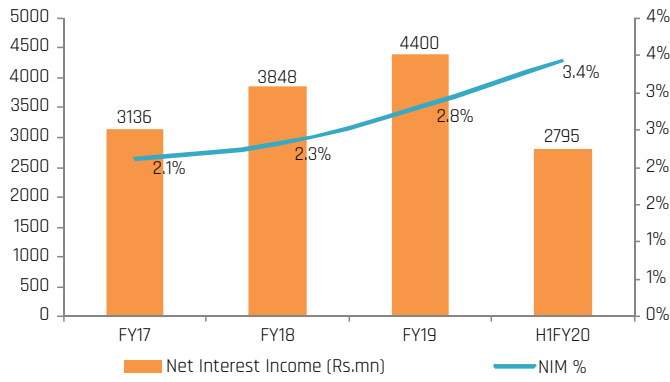
- **RBI regulations:** CSB is a full licensed bank authorized to carry any banking activity. It is under strict regulations and norms of RBI. Any amendments in laws and regulations might impact the scope of operations.
- **Geographical Concentration:** Bank is based in Kerala and has strong presence in Southern India only. Any change in political, economic or geographical conditions might impact the operations.
- **Gold Price volatility:** Loan portfolio consists mainly of advances secured by gold ornaments. Any decline in gold prices or default might impact the loan book and interest income.

## Peer Comparison

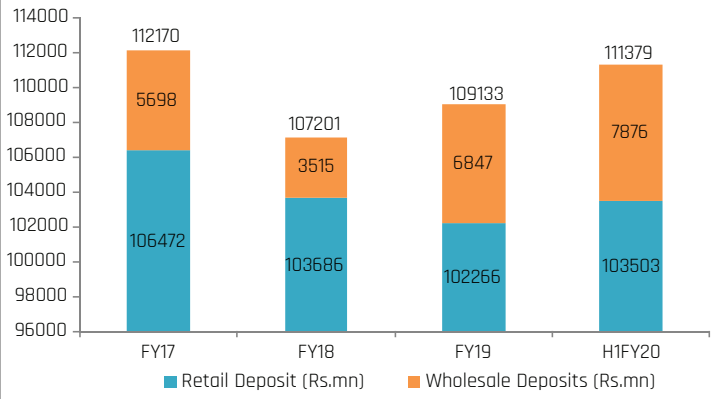
Name of the Bank	Face Value (Rs)	P/BV	RoNW	NAV (Rs)
CSB Bank Limited	10	2.2	-6.70%	74
DCB bank	10	2.2	11.30%	93
Federal bank	2	1.4	9.80%	68
South Indian bank	1	0.6	4.90%	28
City Union	1	3.1	14.10%	66
Karur Vysya Bank	2	0.9	3.30%	80

Source: Company RHP, ACMIL Research

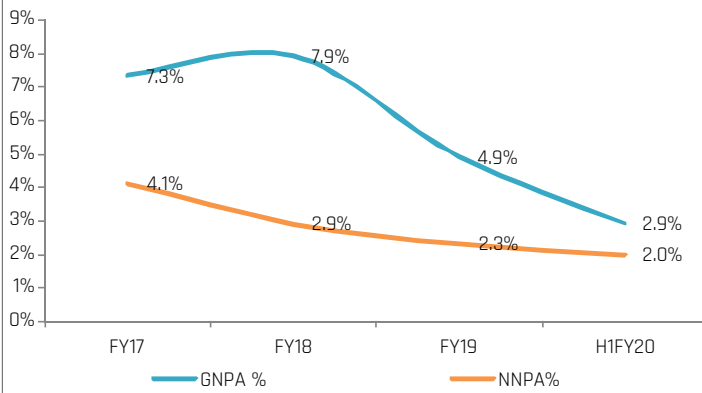
### Net Interest Income



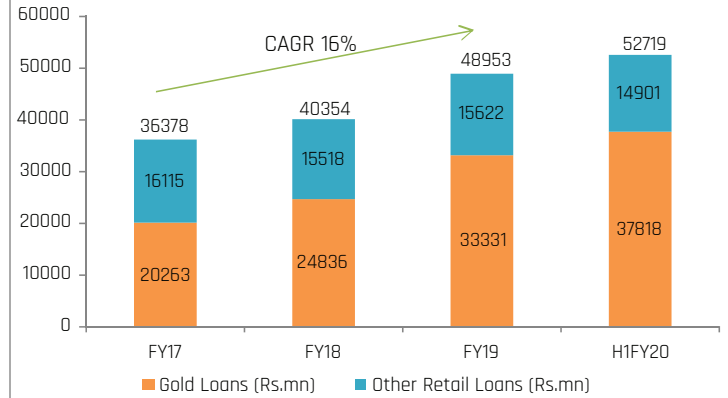
### Deposits



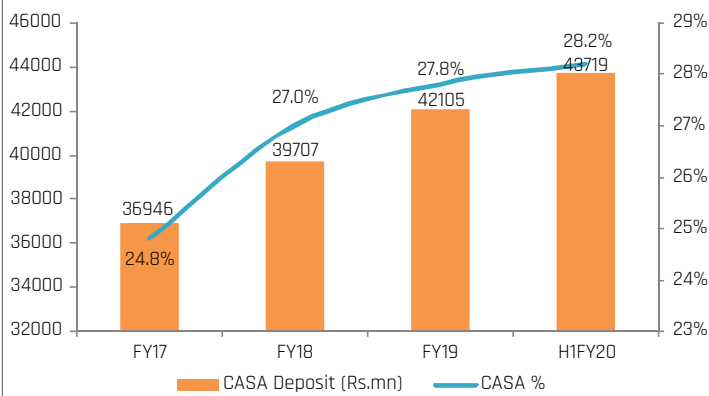
### GNPA & NNPA



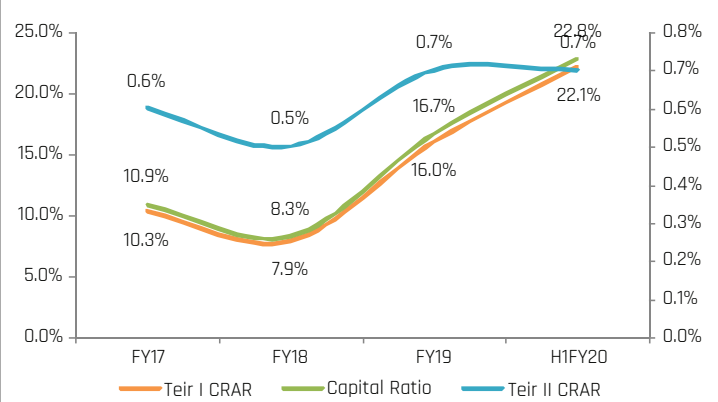
### Retail Loan Growth



### CASA



### Capital Ratio



Source: Company RHP, ACMIIL Research

## Financials

### Income statement

Particulars (Rs.mn)	FY17	FY18	FY19	H1FY20
<b>Income</b>				
<b>Interest Earned</b>	13,362.95	12,968.06	13,475.15	7,322.98
Interest & Discount on advance/bills	8,808.80	9,128.14	9,686.17	5,631.33
Income on Investment	4,125.60	3,362.04	3,473.69	1,534.01
Interest on balance with RBI & other Inter				
Bank Lending	26.94	59.38	23.65	24.67
Interest - Others	401.61	418.5	291.64	132.97
<b>Other Income</b>	2,812.01	1,254.20	1,359.18	844.16
<b>TOTAL INCOME</b>	16,174.96	14,222.26	14,834.33	8,167.14
<b>EXPENDITURE</b>				
<b>Interest Expended</b>	<b>10,227</b>	<b>9,120</b>	<b>9,076</b>	<b>4,528</b>
Interest on Deposits	10,041	8,973	8,618	4,483
Interest on RBI/Inter Bank borrowings	93	49	315	18
Others	93	98	142	27
<b>Operating Expenses</b>	<b>4,431</b>	<b>4,359</b>	<b>5,625</b>	<b>2,604</b>
<b>Total Expenditure</b>	<b>14,657</b>	<b>13,479</b>	<b>14,701</b>	<b>7,131</b>
<b>Operating Profit</b>	<b>1,517</b>	<b>743</b>	<b>133</b>	<b>1,036</b>
Less: Provisions & Contingencies	2,521	2,692	1,109	346
<b>PBT</b>	<b>-1,004</b>	<b>-1,949</b>	<b>976</b>	<b>689</b>
Provision for Tax including deferred tax	-424	-678	-319	247
<b>Net Profit</b>	<b>-580</b>	<b>-1271</b>	<b>-657</b>	<b>443</b>

Source: Company RHP, ACMIIL Research

## Balance sheet

Particulars (Rs.mn)	FY17	FY18	FY19	H1FY20
<b>ASSETS</b>				
Cash in Hand	506	549	584	549
Balance with RBI	7058	6229	6670	6513
Balance with Banks in India	576	188	128	88
Balance with Banks outside India	191	275	104	1011
Money at Call & Short Notice	3780	4910	2250	0
India Gross Investment	57771	41630	41118	43972
Less: Depreciation on Investment	479	797	842	831
India Net Investment	57292	40833	40276	43141
Advances	80008	91849	106152	112978
Fixed Assets	2153	2161	2177	2156
Less: Revaluation Reserve	1640	1595	1578	1571
Net Fixed Assets	513	567	599	585
Other Assets	9712	10583	10770	11118
Less: Intangible Assets and Deferred Tax Assets	1936	2635	2999	2751
Net Other Assets	7776	7947	7771	8367
<b>Total Assets</b>	<b>157700</b>	<b>153347</b>	<b>164535</b>	<b>173233</b>
<b>LIABILITIES</b>				
<b>Demand Deposit</b>				
From Banks	6	5	5	13
From Others	6071	6276	6166	6580
Saving Deposits	30868	33425	35935	37125
Term Deposits from Banks	183	59	1901	1830
Term Deposits from others	111986	107141	107232	109549
Subordinate Debts(Tier-II Bonds)	418	418	0	0
Other Liabilities & Provisions	2705	2486	3556	2774
<b>Total Liabilities</b>	<b>152239</b>	<b>149810</b>	<b>154795</b>	<b>157873</b>
<b>Share Capital</b>	<b>810</b>	<b>810</b>	<b>860</b>	<b>1723</b>
Equity Share Capital	810	810	860	1723
Share Warrant			6513	0
<b>RESERVE &amp; SURPLUS</b>				
Statutory Reserve	1468	1468	1468	1468
Capital Reserve	717	717	717	720
Revaluation Reserve	1640	1595	1578	1571
Share Premium	6475	6475	7120	17689
Revenue & Other Reserve	1139	1184	1201	1208
<b>Total Reserves</b>	<b>11439</b>	<b>11439</b>	<b>12083</b>	<b>22656</b>
Less: Revaluation Reserve	1640	1595	1578	1571
Less: Intangible Assets and Deferred Tax Asset	1936	2635	2999	2751
Less: Profit & Loss (Dr.)	3212	4483	5140	4697
<b>Net Reserves</b>	<b>4651</b>	<b>2726</b>	<b>2367</b>	<b>13637</b>
<b>Total Equity &amp; Liability</b>	<b>157700</b>	<b>153347</b>	<b>164535</b>	<b>173233</b>

Source: Company RHP, ACMIL Research

## ACMIIL Retail Research Products

Informational Products	Recommendation Products
Morning Notes	Momentum Calls
Equi-Tea	Positional Calls
Market Watch	Smart Delivery Calls
Investor First Magazine	Investment Ideas
IPO/NCD/ETF/OFS/BOND	Master Trades High Risk
Market Pulse	Master Trades Medium Risk
RBI Monetary Policy	Techno-Funda
Union Budget Report	Top Mutual Fund Schemes
Weekly Derivative Synopsis	Portfolio Review
Rollover Snapshot	Equity SIP
Rollover Analysis	

For More Information on Retail Research Products please visit  
<http://www.investmentz.com/research-report/>

# Asit C. Mehta

## INVESTMENT INTERMEDIATES LTD.

### Retail Research Desk:

Akhil Rathi	D: 91 22 2858 3210
Hrishikesh Yedve	D: 91 22 2858 3207
Vrinda Aditya	D: 91 22 2858 3209
Neeraj Sharma	D: 91 22 2858 3208
Rohan Gawale	D: 91 22 2858 3213
Karan Desai	D: 91 22 2858 3221

Email: [retailresearch@acm.co.in](mailto:retailresearch@acm.co.in)

**Research Analyst Registration Number:**  
**INH000002483**

**CIN: U65990MH1993PLC075388**

**An ISO 9001:2015 Certified Company**

Information pertaining to Asit C. Mehta Investment Intermediates Limited (ACMIIL):

ACMIIL is a SEBI registered Stock Broker, Merchant Banker and Depository Participant. It is also a AMFI registered Mutual Fund Distributor. It does not have any disciplinary history. Its associate/group companies are Asit C. Mehta Commodity Services Limited, Asit C. Mehta Realty Services Pvt. Ltd, Asit C. Mehta Forex Pvt. Ltd, Nucleus IT Enabled Services , Asit C. Mehta Financial Services Limited (all providing services other than stock broking and merchant banking).

#### Disclosures

ACMIIL/its associates and its Research analysts have no financial interest in the companies covered on the report. ACMIIL/its associates and Research analysts did not have actual/beneficial ownership of one per cent or more in the companies being covered at the end of month immediately preceding the date of publication of the research report. ACMIIL/its associates or Research analysts have no material conflict of interest, have not received any compensation/benefits for any reason (including investment banking/ merchant banking or brokerage services) from either the companies concerned/third parties with respect to the companies covered in the past 12 months. ACMIIL/its associates and research analysts have neither managed or co-managed any public offering of securities of the companies covered nor engaged in market making activity for the companies being covered. Further, the companies covered neither are/nor were a client during the 12 months preceding the date of the research report. Further, the Research analyst/s covering the companies covered herein have not served as an officer/director or employee of the companies being covered

#### Disclaimer:

This report is based on information that we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon such. ACMIIL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in the report. To enhance transparency we have incorporated a Disclosure of Interest Statement in this document. This should however not be treated as endorsement of the views expressed in the report

Follow us on:

