

## CSB BANK LIMITED (Subscribe)



### Issue Details:

Recommendation	Subscribe for IPO Gains
Issue Open	Nov 22nd, 2019 – Nov 26th, 2019
Issue Type	Fresh Issue and Offer for Sale
Issue Size	Rs. 24 crores
No. of shares	19,778,298 Equity Shares
Face Value	Rs 10 per Equity Share
Issue Price	Rs. 193 – Rs. 195 per share
Market Lot	75 Shares
Lead Managers	Axis Capital and IIFL Securities
Listing On	NSE/ BSE

### Timelines of CSB Bank IPO:

Bid/Offer Opens On	Nov 22nd, 2019
Bid/Offer Closes On	Nov 26th, 2019
Finalization of Basis of Allotment	On or about Dec 2, 2019
Initiation of refunds	On or about Dec 3, 2019
Credit of Shares to demat accounts	On or about Dec 3, 2019
Commencement of trading on the Stock Exchanges	On or about Dec 4, 2019

### Company Profile

CSB Bank is one the oldest private sector banks in India with a history of over 98 years and have a strong base in Kerala along with significant presence in Tamil Nadu, Karnataka, and Maharashtra. The bank offer a wide range of products and services to our overall customer base as on March 31, 2019 was 1.3 million users, with particular focus on SME, Retail, and NRI customers The bank has 414 and 277 ATMs spread across 16 states and four union territories as on March 31, 2019.

The bank has four principal business areas, namely, (a) SME banking, (b) retail banking, (c) wholesale banking, and (d) treasury operations.

- Under SME banking business, the bank caters to financial institutions, agriculture and allied businesses, and vendors and dealers of corporates.
- Under retail banking business, the bank offers a wide range of loan and deposit products to our retail and NRI customers and the retail lending products include gold loans, vehicle loans including two wheeler loans, loans against properties, personal loans, housing loans, educational loans.
- Under wholesale banking business, we cater to large and mid-size corporates and other business entities.
- The treasury operations primarily consist of statutory reserves management, asset liability management, liquidity management, investment and trading of securities, and money market.

### Objective of the issue

Two main objective of the offer are :-

1. The issue comprises of offer for sale of 1.97 crore shares by existing investors through worth Rs. 385 crore.
2. It also involves a fresh issue of shares of face value of Rs. 10 each to raise fresh capital up to Rs. 24 crore.

## Business Overview

The bank has four principal business areas, namely:

(a) SME Banking, (b) Retail banking, (c) Wholesale Banking, and (d) Treasury Operations.

### 1. SME Banking

The bank caters to financial institutions, agriculture and allied businesses, and vendors and dealers of corporates. As a percentage of our total advances, loans to SME customers accounted for 43%, 37%, and 32% as on March 31, 2017, March 31, 2018, and March 31, 2019, respectively.

The SME loan book of our Bank has increased from Rs. 3,538 crore as on March 31, 2017 to Rs. 3,598 crore as on March 31, 2018 recording growth of 1.6% and decreased to Rs. 3,473 crore as on March 31, 2019, down by 3.4%, both on YoY basis.

### 2. Retail Banking

% of total advances	2017	2018	2019
A. Retail Loans	44%	42%	45%
% of total deposits	2017	2018	2019
A. CASA Deposits	24.78%	27.03%	27.84%
B. NRI Deposits	23.98%	25.74%	24.87%

The bank's gold loans have grown at a CAGR of 28.3% and remains a mainstay product for the bank on the retail advances side.

- The CASA deposits grew at a CAGR of 7%, while NRI deposits grew at a CAGR of 3%, in the last year 3 fiscals. The retail deposits constituted 93.73% of the total term deposits

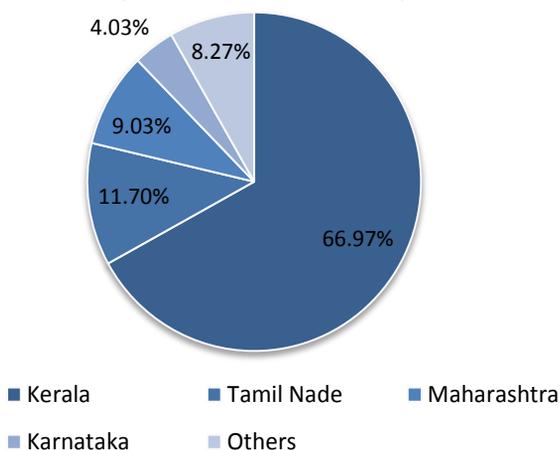
### 3. Wholesale Banking Business

As a percentage of our total gross advances, wholesale banking advances accounted for 13%, 21%, and 23% as on March 31, 2017, March 31, 2018, and March 31, 2019, respectively.

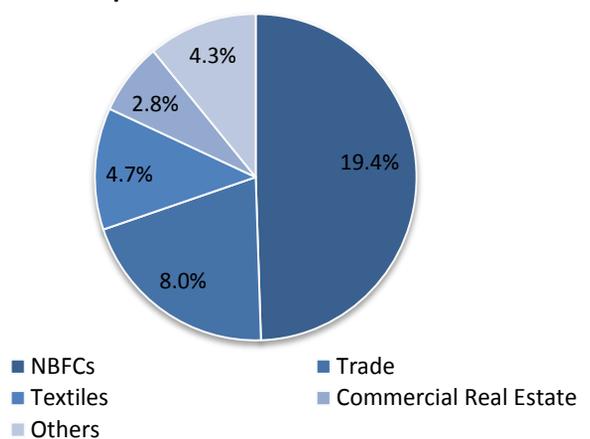
### 4. Treasury Operation

Along with statutory reserves management, asset liability mismatch, liquidity management, the bank is involved in trading of securities and foreign exchange and distributes life insurance products too. The bank's income from banc assurance was Rs. 5.1 crore, Rs. 6.9 crore, and Rs. 9.6 crore for fiscals 2017, 2018, and 2019, respectively and has grown at a CAGR of 37% during this period.

Regional Distribution of Deposits



Exposure as % of Total Advances



## Financials

Particulars	Fiscal Year (Rs. in Cr)		
	2017	2018	2019
Deposits	14,911.5	14,690.6	15,123.8
Advances	8,000.7	9,184.8	10,615.2
CASA	3694.5	3970.6	4210.5
CASA (%)	24.7%	27.0%	27.8%
Gross NPA (Rs. In crore)	600.9	764.1	530.6
Gross NPA (%)	7.25%	7.89%	4.87%
Net NPA (Rs. In crore)	329.4	263.7	240.6
Net NPA (%)	4.12%	2.87%	2.27%
Provisions	252.1	269.2	110.9
Net Profit	(57.9)	(127.0)	(65.6)
Interest Earned	1,336.2	1,296.8	1,347.5
Interest Paid	1,004.1	897.2	861.8
Cost of Funds (%)	6.9%	6.1%	5.9%
Yield on Advances	8.9%	8.6%	8.5%
Net Interest Margin (%)	2.11%	2.57%	2.8%
Cost to Income Ratio	74.4%	85.4%	97.6%
Credit to Deposit Ratio	53.6%	62.5%	70.1%
ROA(%)	(0.3%)	(0.7%)	(0.3%)
CRAR (%)	10.9	8.33	16.7
Provision Coverage Ratio	65.5%	75.8%	78.1%
No. of branches	423	418	414

## Recommendation

The bank's advances has seen a decent growth in the last 3 fiscals and are growing at a CAGR of 9.8% and the deposit growth has also been growing at a CAGR of 0.46%. The GNPA and NNPA both have reduced in the recent times, which has led to a fall in provisions too. The bank is yet a loss making bank, on account of high interest on deposits paid. The cost of funds for the company lies at 5.9% for the bank, whereas the yield on advances is at 8.5%, resulting in the net income margin of a mere 2.8%. The bank has a very high exposure to the NBFC segment, which is one of the major reasons for the bank's high NPA is the past. The bank currently has 414 branches and is majorly present in Kerala and plans to add another 425 branches in the country over the next 5 years, majorly in the southern part of the country except Kerala and the western region. The management said the focus of the bank on the lending side will continue to be on gold loans and will reduce the share of corporate loans to 15% from the current level of 25%.

We recommend **Subscribe** for CSB Bank IPO at its price band of Rs.193 – Rs. 195 for a lot size of 75 shares for IPO gains.

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Disclosure of Interest Statement	
1. Financial interest of research analyst or IGSL or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or IGSL or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No