

CSB Bank

CSB Bank formerly known as Catholic Syrian Bank is predominantly present in the state of Kerala (66.7% of deposits). After struggling for many years owing to lack of capital, the bank is gradually coming out of trouble backed by fund infusion from Fairfax group. CSB Bank was established in November 1920 and is the one of the oldest banks in India. It offers wide range of banking services, but the key focus of the bank is on SME, Retail (Gold) and NRI products.

Positives: (1) The bank is well capitalized (CAR - 22.7 & CET 1 - 22.10 as on Q2FY2020); (2) Improving trend in asset quality; the bank's GNPA declined from 7.89% in FY2018 to 4.87% in FY2019 and further to 2.86% by 1HFY2020; (3) Stable and granular deposit base; as on March 31, 2019, retail deposits constituted 93.73% of the total term deposits and these deposits have consistently exhibited renewal patterns of above 90%.

Investment concerns: (1) Bank has regional concentration in Southern India, especially Kerala; (2) Bank is planning to open new branches (350-400) over the next 3-4 years, which will keep cost to income elevated; (3) Exposure to NBFC/HFC is tad higher (18.2% exposure to NBFCs, including HFCs); (4) Strong competition in south where CSB wants to increase gold lending business; (5) Post-IPO, the promoters will hold about 50% stake in the bank. The promoter has to reduce stake to 40% in 5 years, 30% in 10 years and 15% in 15 years, as per the RBI regulation.

Outlook & Valuation: At the upper end of the price band, CSB Bank demands Adj. PB multiple of 2.4x of Q2FY2020 Adj. book value, which we believe is expensive considering the investment concerns. Similar banks are trading at lower valuation than CSB and have better return ratio (DCB Bank at P/ABV of 1.73x, Federal Bank at 1.36x, South Indian Bank at 0.5x, City Union Bank at 3.23x and Karur Vysya Bank at 0.8x). Gold financiers with better return profile and pan India presence are trading at 2.6x of Q2FY2020 Book Value. We believe investors should wait for price discovery before taking any investment decision. Hence, we have NEUTRAL view on the issue.

Key Financial

Y/E March (₹ cr)	FY17	FY18	FY19	1HFY20
NII	313	385	440	280
YoY Growth (%)		23	14	
PAT	(58)	(127)	(66)	44
YoY Growth (%)		-	-	
EPS	(7)	(16)	(8)	3
Adj Book Value	23	18	51	81
P/E	-	-	-	76
P/ABV	8.7	11.0	3.8	2.4
ROE (%)	-	-	-	7.1
ROA (%)	-	-	-	0.5

Source: Company: RHP, Angel Research; Note: Valuation ratios based at upper end of the price band. Valuation mentioned for relative banks are derived or Q2FY20 book value.

NEUTRAL

Issue Open: Nov 22, 2019

Issue Close: Nov 26, 2019

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹172cr

Offer for Sale: **1.98cr Shares

Fresh issue: ₹24cr

Post Eq. Paid up Capital: ₹173cr

Issue size (amount): *₹406cr - **410 cr

Price Band: ₹193-195

Lot Size: 75 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹3,348cr
- **₹3,382cr

Promoters holding Pre-Issue: 51.3%

Promoters holding Post-Issue: 49.7%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	49.7%
Others	50.3%

Jaikishan J Parmar

+022 39357600, Extn: 6810

Research Analyst

Jaikishan.parmar@angelbroking.com

Comp Background:

CSB Bank Ltd, originating from Kerala, was established in November 1920 becoming one of the oldest banks in India. It offers wide range of banking services to its 0.13 crore customer base with a loan book of ₹11,298cr. Further, the key focus of the bank is on SME, Retail and NRI products. Recently, the bank has been transforming itself into a modern age banking system. As part of this, it is re-aligning its organizational structure wherein the branches will be responsible only for deposits and cross-selling. All the loan products will be dealt by dedicated teams. Moreover, unprofitable branches will be shut down and focus will be on digital banking.

These initiatives are taken by the bank's new promoter group Fairfax India. The promoter infused ₹1,208cr into the bank to acquire 51% stake in CSB. This gave way to improvement in bank's Tier I capital from 10.9% in FY2017 to 16.7% at the end of FY2019. CSB became the very first bank in India to have a foreign promoter. All the new initiatives have started making positive impact in bank's financials like decrease in bad loan proportion & cost of funds and improvement in profitability.

Key Management Personnel:

Mr. Rajendran Chinna Veerappan is the Managing Director and Chief Executive Officer of CSB Bank. He holds a bachelor's degree and a master's degree in commerce and is an associate of the Indian Institute of Bankers. He holds a total experience of 40 years and previously served as the Chief Executive Officer of the Association of Mutual Funds in India and has also worked with many PSBs.

Mr. Madhavan Karunakaran Menon is the part-time Chairman and a Non – executive Director of the bank. He holds a bachelor's degree and a master's degree in business administration from the George Washington University. Mr. Menon has over 30 years of experience in finance and banking sector derived from NZ Grindlays Bank Limited, Citibank N.A., Emirates Bank International, Birla Capital International AMC and so on. He is on CSB's board since September, 2018.

Ms. Veluthattil Maheswari is the bank's Chief Financial Officer and is in CSB since 1994. She holds a bachelor's degree in commerce from the University of Madras and is an associate of the Institute of Chartered Accountants of India. She has about 25 years of experience in the banking sector.

Mr. Arvind Sharma is the Chief Risk Officer of the bank. He holds a bachelor's degree in science and master's degree in arts (economics) from Kanpur University and apart from this he pursued various certifications in risk management from IICM, University of Pennsylvania, Columbia Business School and Harvard Business School. He has a total experience of 27 years and worked with SBI and Bank Sohar before joining CSB in August 2019.

Issue details

This IPO is a mix of OFS and issue of fresh shares. The issue would constitute fresh issue worth ₹24cr and OFS worth ₹386cr.

Under OFS, investors are offering 1.9 crore equity shares worth ₹386cr.

Exhibit 1: Pre and post-IPO shareholding pattern

Particular	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	8,62,62,976	50.1	8,62,62,976	49.73
Investor/Public	8,59,62,082	49.9	8,72,05,605	50.27
	17,22,25,058	100.0	17,34,68,581	100.0

Source: RHP Note: Calculated on upper price band

Exhibit 2: Top 7 Selling Shareholders

Shareholder	Shares Offered
HDFC Life Insurance Company Limited	40,44,000
ICICI Prudential Life Insurance Company Limited	30,44,000
The Federal Bank Limited	27,85,661
Bridge India Fund	25,00,000
Satellite Multicomm Private Limited	19,39,097
Way2Wealth Securities Private Limited	15,55,214
ICICI Lombard General Insurance Company Limited	10,00,000
Total shares	1,68,67,972

Source: Company, RHP

Objects of the offer

- The net proceeds of the Fresh Issue are proposed to be utilized for augmenting capital base and general corporate purposes.
- To achieve the benefits of listing the Equity Shares on the Exchanges and to carry out offer for sale of equity shares

Risk

- The operations are concentrated in two states and any adverse sustained economic downturn and political unrest/disruption could change repayment behavior of the borrowers.
- Significant exposure (33.2% of loans) to gold based lending. Any downward movement in gold prices or any disruptions in the gold market could cause potential in the bank's loan portfolio.

Exhibit 3: Relative Valuation

Bank	NIM	TTM PE	PBV	CAR	CET 1	ROE	CASA	GNPA	NPA	Mcap	TTM PAT
CSB	3.43	30.43	2.40	22.77	22.10	7.24	28.19	2.86	1.96	3,382	111
Karur Vysya	3.46	20.86	0.81	15.99	14.25	3.35	30.00	8.89	4.50	4,536	217
Federal Bank	3.01	11.64	1.36	13.98	12.87	9.75	31.55	3.07	1.59	17,650	1,516
South Ind.Babnk	2.69	6.44	0.50	12.08	9.60	4.68	24.90	4.92	3.84	2,009	312
City Union B	4.01	21.55	3.23	15.49		15.17	24.69	3.41	1.90	15,783	732
DCB Bank	3.67	15.46	1.73	16.16	12.58	10.91	23.00	2.09	0.96	5,485	355

Source: Company, CSB ROE on Annualized number, Other Bank ROE as on FY19

Outlook & Valuation: At the upper end of the price band, CSB Bank demands Adj. PB multiple of 2.4x of Q2FY2020 Adj. book value, which we believe is expensive considering the investment concerns. Similar banks are trading at lower valuation than CSB and have better return ratio (DCB Bank at P/ABV of 1.73x, Federal Bank at 1.36x, South Indian Bank at 0.5x, City Union Bank at 3.23x and Karur Vysya Bank at 0.8x). Gold financiers with better return profile and pan India presence are trading at 2.6x of Q2FY2020 Book Value. We believe investors should wait for price discovery before taking any investment decision. Hence, we have NEUTRAL view on the issue.

Exhibit 4: DuPont

Particular	Karur Vysya Bank		Federal Bank		South Ind. Bank		City Union Bank		DCB Bank		CSB Bank	
	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19
Interest Income	8.83	8.52	7.69	7.66	7.88	7.85	9.05	8.84	8.88	9.21	8.34	8.48
Interest Exp	5.27	5.06	4.86	4.86	5.38	5.54	5.24	5.06	5.22	5.73	5.86	5.71
NII	3.56	3.46	2.82	2.80	2.50	2.31	3.80	3.78	3.67	3.48	2.47	2.77
Provisions	1.97	2.03	0.75	0.57	1.25	0.98	1.11	0.74	0.51	0.42	1.73	0.70
Adj NII	1.59	1.43	2.08	2.23	1.25	1.33	2.69	3.04	3.15	3.05	0.74	2.07
Other Income	1.39	1.41	0.91	0.91	1.07	0.83	1.42	1.21	1.14	1.06	0.81	0.86
Total Income	2.98	2.84	2.99	3.13	2.32	2.15	4.11	4.25	4.30	4.12	1.55	2.92
Operating Exp	2.20	2.37	1.93	1.85	1.68	1.72	2.01	2.08	2.88	2.58	2.80	3.54
Employee Expenses	0.99	1.12	0.98	0.92	0.91	0.94	0.84	0.86	1.40	1.31	1.84	2.42
Other Expenses	1.21	1.25	0.95	0.93	0.77	0.78	1.17	1.22	1.47	1.27	0.96	1.12
PBT	0.78	0.47	1.06	1.28	0.64	0.43	2.10	2.17	1.42	1.53	(1.25)	(0.61)
TAX	0.24	0.16	0.37	0.44	0.21	0.15	0.53	0.57	0.52	0.55	(0.44)	(0.20)
ROA	0.54	0.31	0.69	0.83	0.43	0.28	1.57	1.60	0.90	0.98	(0.82)	(0.41)
Leverage	11.42	10.76	11.98	11.69	15.58	16.56	9.73	9.46	10.85	11.16	34.57	23.94
ROE	6.12	3.32	8.30	9.75	6.64	4.68	15.31	15.17	9.80	10.99	(28.25)	(9.91)

Source: Angel Research, Company

Income Statement

Y/E March (₹ cr)	FY17	FY18	FY19	1HFY20
Net Interest Income	313	385	440	280
- YoY Growth (%)		23	14	
Other Income	281	125	136	84
- YoY Growth (%)		(55)	8	
Operating Income	595	510	576	364
- YoY Growth (%)		(14)	13	
Operating Expenses	443	436	562	260
- YoY Growth (%)		(2)	29	
Pre - Provision Profit	152	74	13	104
- YoY Growth (%)		(51)	(82)	
Prov. & Cont.	252	269	111	35
- YoY Growth (%)		7	(59)	
Profit Before Tax	(101)	(195)	(98)	69
- YoY Growth (%)		94	(50)	
Prov. for Taxation	(42)	(68)	(32)	25
- as a % of PBT	42	35	33	36
PAT	(58)	(127)	(66)	44
- YoY Growth (%)		119	(48)	

Balance Sheet

Y/E March (₹ cr)	FY17	FY18	FY19	1HFY20
Equity	81	81	86	172
Reserve & Surplus	465	273	888	1,364
Net worth	546	354	974	1,536
Deposits	14,893	14,685	15,124	15,510
- Growth (%)		(1)	3	
Borrowings	60	48	-	-
Other Liab. & Prov.	271	249	356	277
Total Liabilities	15,770	15,335	16,453	17,323
Cash Balances	127	101	82	165
Bank Balances	1,084	1,114	892	651
Investments	5,729	4,083	4,028	4,314
Advances	8,001	9,185	10,615	11,298
- Growth (%)		15	16	
Fixed Assets	51	57	60	59
Other Assets	778	795	777	837
Total Assets	15,770	15,335	16,453	17,323

Key Ratio

Y/E March	FY17	FY18	FY19	1hFY20
Profitability ratios (%)				
NIMs		2.9	3.2	3.7
Cost to Income Ratio	75	85	98	72
RoA		-	-	0.52
RoE		-	-	7.06
Asset Quality (%)				
Gross NPAs	7.3	7.9	4.9	2.9
Net NPAs	4.1	2.9	2.3	2.0
Slippages	4.6	3.1	1.9	1.5
Credit Cost	3.2	2.9	1.0	0.6
Provision Coverage	43	64	53	31
Per Share Data (₹)				
EPS	(7.2)	(15.7)	(7.6)	2.6
ABVPS (70% cover.)	23	18	51	81
Valuation Ratios				
PER (x)	-	-	-	76
P/ABVPS (x)	8.7	11.0	3.8	2.4

Valuation done at upper IPO price band

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.comWebsite: www.angelbroking.com

DISCLAIMER

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies 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 this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information..