

Deposit Franchising to Catch Up, Scaling 20–25% Growth

CMP: INR 352

Rating: Buy

Target Price: INR 438

Stock Info

BSE	542867
NSE	CSBBANK
Bloomberg	CSBBANK IN
Reuters	CSBB.BO
Sector	Banking
Face Value (INR)	10
Equity Capital (INR Mn)	1,740
Mkt Cap (INR Mn)	61,978
52w H/L (INR)	409 / 266
Avg Yearly Vol (in 000')	365

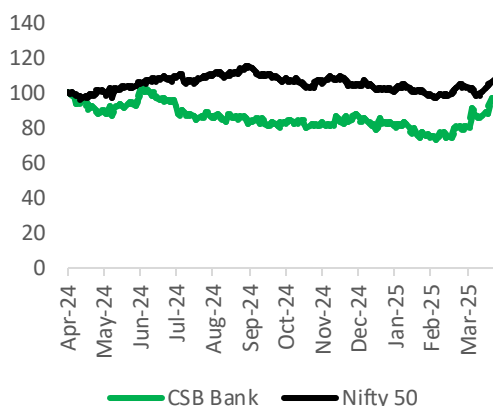
Shareholding Pattern %

(As on March, 2025)

Promoters	40.0
Public & Others	60.0

Stock Performance (%)	1m	6m	12m
CSB Bank	19.34	15.64	-4.80
Nifty 50	2.35	-0.58	6.16

CSB Bank Vs Nifty 50



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CSB Bank delivered a mixed performance in Q4FY25. Net Interest Income stood at INR 3,713 Mn compared to our estimate of INR 4,052 Mn, down by 1.1% QoQ / 3.8% YoY. PPOP came in at INR 3,167 Mn vs estimate of INR 2,209 Mn, up by 43.5% QoQ / 38.9% YoY. Provisions were at INR 602 Mn vs estimate of INR 47 Mn, rising 264.2% QoQ / 178.8% YoY. PAT stood at INR 1,904 Mn vs estimate of INR 1,604 Mn, up by 25.6% QoQ / 25.7% YoY. GNPA stood at 1.57% vs estimate of 1.30%, down by 1bps QoQ/ up by 10 bps YoY. NNPA stood at 0.52% vs estimate of 0.32%, down by 12 bps QoQ/ up by 1 bps YoY. Deposits increased to INR 3,68,615 Mn vs estimate of INR 3,46,361 Mn, up 10.3% QoQ / 24.0% YoY. Advances increased to INR 3,15,071 Mn vs estimate of INR 2,87,600 Mn, up 10.0% QoQ / 25.7% YoY.

Focused Technology Transformation as a Growth Multiplier: The bank is migrating its Core Banking System to Oracle, revamping its digital and transaction banking infrastructure, and implementing new platforms for CMS, supply chain finance, and loan origination. This transformation, slated for completion within 3–6 months, aims to unlock scalability and enable superior customer acquisition, cross-sell, and product innovation capabilities. We expect these tech investments can scale-up its business, with significant improvement in operating efficiency and return metrics thereafter. The Bank is targeting C/I Ratio reduction from 62–65% currently to 50% by FY30.

Strong Credit Growth Outpacing Industry Averages: The Bank has delivered exceptional credit growth of 29% YoY in FY25, significantly higher than the industry's ~12% YoY growth. Gold loans, traditionally CSB's stronghold, grew 35% YoY, while SME loans rose 33% YoY and wholesale banking assets expanded 22% YoY despite deliberate rundown of its Direct Assignment portfolio. Notably, corporate loans alone (excluding DA) surged 44% YoY. This strong growth trajectory showcases CSB's ability to capture market share across segments, positioning it for continued business momentum in FY26 and beyond.

Fee Income Scale-up with Embedded Sustainability Levers: Fee income surged 66% YoY and 94% QoQ in Q4FY25, with non-interest income contributing 21% to total income for the year, a step up from the historical 18% average. While Q4 included a one-off treasury trading gain, management was clear that sustainable levers like insurance distribution, gold loan processing fees, credit cards, SME transaction banking, and PSLC income are gaining momentum. With new transaction banking systems, CMS platforms, and a modernized LOS/LMS on the anvil, it is expected that the fee income to structurally improve, targeting core fee income share to consistently exceed 14–15% of total income in the coming periods.

Valuation and View: The Bank is entering into transition phase, focusing on completing a major technology transformation over the next 3–6 months. This upgrade will modernize its core banking system, digital platforms, and transaction banking infrastructure, setting the stage for stronger retail, SME, and wholesale banking growth from FY27 onwards. The bank guided for 20–25% loan growth in FY26, with a credit cost target of below 30 bps. While the NIMs are expected to stabilize between 3.75% and 4% after recent pressures, fee income should remain strong, supported by insurance distribution, transaction banking, and treasury opportunities. We value the bank at 1.2x FY28E ABV with a target price of INR 438 with a Buy rating.

Exhibit: Financial Performance

Particulars (Rs Cr)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	1334	1476	1476	1641	1886	2066
PAT	547	567	594	680	757	804
Networth	3204	3804	4498	5178	5935	6739
EPS (Rs)	32	33	34	39	44	46
P/E (x)	9.0	8.7	8.3	7.2	6.5	6.1
P/Adj BV (x)	1.6	1.3	1.1	1.0	0.9	0.8
RoA (%)	1.9%	1.6%	1.2%	1.3%	1.3%	1.2%
RoE (%)	17.1%	14.9%	13.2%	13.1%	12.8%	11.9%

Source: Arihant Research, Company Filings

Q4FY25 - Quarterly Performance (Standalone)

(in INR Cr)

Quarterly Result Update (Rs Cr)	Q4FY25	Q3FY25	Q2FY24	Q-o-Q	Y-o-Y
Interest Income	981	919	795	6.7%	23.4%
Interest Expended	610	544	409	12.1%	49.1%
Net Interest Income	371	375	386	-1.1%	-3.8%
Other Income	381	219	197	73.9%	94.1%
Operating Income	753	595	583	26.5%	29.2%
Operating Expenses	436	374	355	16.5%	23.0%
Employee Expenses	196	196	190	0.1%	3.3%
Other Operating Expenses	240	178	165	34.6%	45.7%
PPOP	317	221	228	43.6%	38.9%
Provisions	60	17	22	264.2%	178.8%
PBT	257	204	206	25.7%	24.3%
Tax Expenses	66	52	55	25.9%	20.3%
Net Income	190	152	151	25.6%	25.7%
Balance Sheet Analysis					
Advances	31,507	28,639	24,336	10.0%	29.5%
Deposits	36,861	33,407	29,719	10.3%	24.0%
Total Assets	47,836	43,109	36,056	11.0%	32.7%
CASA Deposits	8,918	8,042	8,085	10.9%	10.3%
CASA (%)	24.2%	24.1%	27.2%	12bps	-301bps
CAR (%)	22.5%	21.1%	24.5%	138bps	-201bps
Spreads					
NIMs (%)	4.13%	4.11%	5.09%	2bps	-96bps
Cost of Funds	6.07%	6.10%	5.43%	-2bps	64bps
Yield on Average Advances	10.5%	11.0%	11.2%	-57bps	-76bps
Asset Quality					
GNPA	498	458	360	8.8%	38.5%
NNPA	164	183	125	-10.6%	30.9%
GNPA (%)	1.57%	1.58%	1.47%	-1bps	10bps
NNPA (%)	0.52%	0.64%	0.51%	-12bps	1bps
Returns & Expenses					
RoA	1.59%	1.52%	1.79%	7bps	-20bps
RoE	16.94%	15.28%	15.93%	166bps	101bps
Cost / Income Ratio	57.92%	62.90%	60.86%	-498bps	-294bps

Source: Arianth Research, Company Filings

Concall Highlights

Q4FY25 - Concall Highlights

Guidance:

- Wholesale, SME, and gold portfolios are expected to continue driving growth, while retail loan growth will gain momentum post the technology transformation.
- The management remains confident of achieving 20–25% loan growth in FY26, contingent on the ability to mobilize adequate deposits to support the asset expansion.
- The bank's NIM for FY25 stood at 4.13%, with Q4FY25 NIM moderating to 3.75% owing to increased funding costs and hedging expenses. The management says that NIM has bottomed out and is unlikely to fall below current levels, with FY26 guidance in the range of 3.75%–4.14%.
- The bank reported a ROA of 1.53% for FY25 and 1.79% in Q4FY25. Over the medium term, management reiterated its target to maintain an ROA in the range of 1.5–1.8% and an ROE between 15–18%.

Key Highlights:

- The bank is undertaking a comprehensive technology transformation, including migrating its core banking system to Oracle and revamping its digital stack and platforms.
- The bank conducted 2 successful dry runs for the system migration and expects the full rollout within the next 3–6 months.
- The PCR improved meaningfully to 83.71% including write-offs and 67.19% excluding write-offs, from around 60% in the prior quarter.
- The bank continues to maintain a healthy provisioning buffer of INR 1,850 Mn over and above the regulatory requirements.
- The credit cost for FY25 was 29 bps, and management has guided for it to remain below 30 bps in FY26.
- Slippages for Q4FY25 stood at 1.19%, a notable reduction from 2.16% in the Q4FY24.
- The CASA deposits grew by 10% YoY, with the CASA ratio standing at 24.19% as of Mar 2025.
- The gold loan portfolio registered a strong growth of 35% YoY, remaining a core driver for the bank's lending business.
- Retail advances grew by 24% YoY, while the SME portfolio expanded by 33% over the same period. The wholesale banking portfolio grew 22% YoY, despite a deliberate liquidation of the DA (Direct Assignment) portfolio.
- The bank maintained a CD ratio of 86% and an average LCR of 124% for Q4FY25, while the net stable funding ratio (NSFR) stood at 121%.
- The bank is actively reducing its exposure to unsecured retail loans, which now comprise only 3.3% of the overall book, and expects this to become immaterial over the next 2 quarters.
- The Bank envisions a long-term business mix by FY30 comprising 30% wholesale banking, 20% SME, 30% retail, and 20% gold loans, compared to the current 44% share of gold loans.
- The wholesale and SME segments are now scaling well, with wholesale advances (adjusted for DA) growing over 40% and SME loans by 33% YoY in FY25.
- Core fee income for FY25 stood at ~14–15% of total income, while non-core fee income (primarily from treasury and PSLC transactions) contributed around 6% in Q4FY25.
- Expanded its network to 829 branches and 791 ATMs by March 2025, adding 56 new branches during FY25 and intends to maintain a steady pace of network expansion, adding 50–100 branches annually until FY27.
- The management expects fee income growth to sustain in FY26, aided by both core fee drivers and additional opportunities arising from treasury operations as interest rates decline.

Key Financials

Profit & Loss Statement (in INR Cr)	FY23A	FY24A	FY25A	FY26E	FY27E	FY28E
Interest Income	2,320	2,928	3,597	4,093	4,604	5,208
Interest Expended	986	1,451	2,121	2,452	2,718	3,142
Net Interest Income	1,334	1,476	1,476	1,641	1,886	2,066
Other Income	316	584	972	1,041	1,171	1,322
Operating Income	1,650	2,061	2,448	2,682	3,056	3,388
Operating Expenses	942	1,281	1,538	1,710	1,970	2,229
Employee Expenses	553	715	754	819	967	1,094
Other Operating Expenses	390	566	784	892	1,003	1,135
PPOP	707	780	910	972	1,086	1,160
Provisions	-26	18	111	63	74	86
PBT	734	761	800	909	1,012	1,074
Tax Expenses	186	195	206	229	255	270
Net Income	547	567	594	680	757	804

Balance Sheet (in INR Cr)	FY23A	FY24A	FY25A	FY26E	FY27E	FY28E
Equity & Liabilities						
Share Capital	174	174	174	174	174	174
Reserves & Surplus	3,030	3,630	4,324	5,004	5,762	6,566
Net Worth	3,204	3,804	4,498	5,178	5,935	6,739
Deposits	24,506	29,719	36,861	39,998	45,093	51,374
Borrowings	783	1,757	5,546	6,656	7,987	9,584
Other Liabilities and Provisions	670	776	931	1,318	1,318	1,318
Total Capital & Liabilities	29,162	36,056	47,836	53,150	60,333	69,015
Assets						
Cash & Balances with RBI	1,470	3,090	3,187	2,578	1,369	971
Balances with Other Banks & Call Money	367	65	405	425	446	469
Investments	5,849	7,551	11,389	12,653	14,056	15,616
Advances	20,651	24,336	31,507	35,600	41,775	48,117
Fixed Assets	319	406	629	974	1,508	2,336
Other Assets	507	608	719	920	1,178	1,508
Total Assets	29,162	36,056	47,836	53,150	60,333	69,016

Source: Arianth Research, Company Filings

Key Ratios

Ratios	FY23A	FY24A	FY25A	FY26E	FY27E	FY28E
Growth rates						
Advances (%)	30.6%	17.8%	29.5%	13.0%	17.3%	15.2%
Deposits (%)	21.4%	21.3%	24.0%	8.5%	12.7%	13.9%
Total assets (%)	15.0%	23.6%	32.7%	11.1%	13.5%	14.4%
NII (%)	15.7%	10.7%	0.0%	11.2%	14.9%	9.6%
Pre-provisioning profit (%)	15.3%	10.3%	16.7%	6.8%	11.8%	6.8%
PAT (%)	251.5%	3.6%	4.8%	14.5%	11.4%	6.2%
Balance sheet ratios						
Credit/Deposit (%)	84.3%	81.9%	85.5%	89.0%	92.6%	93.7%
CASA (%)	32.2%	27.2%	25.6%	27.3%	26.5%	25.8%
Advances/Total assets (%)	70.8%	67.5%	65.9%	67.0%	69.2%	69.7%
Leverage (x) (Asset/Shareholder's Fund)	9.1%	9.5%	10.6%	10.3%	10.2%	10.2%
CAR (%)	27.1%	24.5%	22.1%	22.5%	22.0%	21.6%
CAR - Tier I (%)	25.9%	23.1%	22.1%	22.5%	22.0%	21.6%
Operating efficiency						
Cost/income (%)	57.1%	62.2%	62.8%	63.8%	64.5%	65.8%
Opex/total assets (%)	3.2%	3.6%	3.2%	3.2%	3.3%	3.2%
Opex/total interest earning assets	2.1%	2.3%	1.9%	1.7%	1.8%	1.8%
Profitability						
NIM (%)	5.1%	4.7%	3.6%	3.4%	3.5%	3.4%
RoA (%)	1.9%	1.6%	1.2%	1.3%	1.3%	1.2%
RoE (%)	17.1%	14.9%	13.2%	13.1%	12.8%	11.9%
Asset quality						
Gross NPA (%)	1.3%	1.5%	1.5%	1.4%	1.4%	1.4%
Net NPA (%)	0.3%	0.5%	0.6%	0.6%	0.6%	0.6%
PCR (%)	72.8%	65.6%	61.9%	57.5%	57.4%	58.0%
Credit cost (%)	-0.1%	0.0%	0.3%	0.1%	0.1%	0.1%
Per share data / Valuation						
EPS (INR)	31.5	32.7	34.2	39.2	43.6	46.3
BVPS (INR)	185	219	259	298	342	388
ABVPS (INR)	180	212	249	286	328	372
P/E (x)	9.0	8.7	8.3	7.2	6.5	6.1
P/BV (x)	1.5	1.3	1.1	0.9	0.8	0.7
P/ABV (x)	1.6	1.3	1.1	1.0	0.9	0.8

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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