

CSB Bank Limited
IPO Note
(SUBSCRIBE)

Analyst:

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IPO details

Key Data	
Issue Opens	22-Nov-18
Issue Closes	26-Nov-18
Equity Shares Offered (in mn.)	21.02
QIB	Up to 75%
NIB	Min 15%
Retail	Min 10%
Face Value (₹)	10
Price Band (₹)	193-195
Max. Issue Size (₹ mn)	4,097
Lot Size (Eq. Shares)	75 and multiple thereof

	Pre Issue		Post Issue [^]	
	# no. of Shares	% Holding	# no. of Shares	% Holding
Promoters	86,262,976.0	50.1%	86,262,976.0	44.6%
Public	80,962,082.0	47.0%	82,205,605.0	42.5%
Others	5,000,000.0	2.9%	5,000,000.0	2.6%
Offer for sale		0.0%	19,778,298.0	10.2%
Total	172,225,058.0	100.00%	193,246,879.0	100.0%

Object of the issue

- To augment Bank's Tier-I capital base to meet the Bank's future capital requirement
- To achieve the benefits of listing the Equity Shares on the Stock Exchanges and Offer for Sale.

Recommendation

CSB Bank is one of the Indian oldest bank. It operates mainly into SME and gold loans. Majorly the bank geographical presence is in Maharashtra and Kerala region.

The lender has witnessed turnaround in the recent quarter and has improved asset quality. The bank is trading at 2.4x P/ABV which is at premium amongst its peers. On a long term, the stock looks promising provided it successful overhaul. Therefore, we give SUBSCRIBE rating to this IPO.

Source: Red Herring Prospectus, Dealmoney Research

About the company..

- ❑ CSB Bank is one of 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.
- ❑ It offers a wide range of products and services to overall customer base of 1.3 million as on September 30, 2019, with particular focus on SME, Retail, and NRI customers. It delivers the products and services through multiple channels, including 412 branches (excluding three service branches and three asset recovery branches) and 290 ATMs spread across 16 states and four union territories as on September 30, 2019, and various alternate channels such as micro ATMs, debit cards, internet banking, mobile banking, point of sale services and UPI.
- ❑ The bank believes with focus on quality of service and nurturing long term relationship with customers, it has developed a well-recognized and trusted brand in south India, particularly in the states of Kerala and Tamil Nadu.
- ❑ While the bank has a long operating history as a traditional bank, we are currently focusing on implementation of strategic changes in its business model to function efficiently as a full service new age private sector bank backed by its new marquee investor - FIHM. To this end, the bank is re-aligning its organizational set-up for efficiently driving its operations and business strategy, wherein branches will be responsible only for deposits, cross-selling and customer servicing and all loan products will be driven by dedicated teams, with each business team operating as a profit centre.
- ❑ It has four principal business areas, namely, (a) SME banking, (b) retail banking, (c) wholesale banking, and (d) treasury operations. Under the SME banking business, it caters to financial institutions, agriculture and allied businesses, and vendors and dealers of corporates. It offers a wide range of products including term loans, working capital loans, invoice/bill discounting, letters of credit and bank guarantees. It believes that lending to SME customers enables the bank to diversify credit risk due to relatively smaller individual exposures. SME business compared to other businesses offers higher yields, cross-selling, and associated business opportunities
- ❑ As a percentage of our total advances, loans to SME customers accounted for 43%, 37%, 32% and 29.47% as on March 31, 2017, March 31, 2018, March 31, 2019, and September 30, 2019, respectively. The SME loan book of our Bank has increased from ₹ 35,384 million as on March 31, 2017 to ₹ 35,989 million as on March 31, 2018 and decreased to ₹ 34,733 million as on March 31, 2019. Further, as on September 30, 2019, the SME loan book of Bank was ₹ 33,605 million.
- ❑ Its gross NPAs decreased to 4.87% as of March 31, 2019 from 7.25% as of March 31, 2017. Further, the gross NPAs was 2.86% as on September 30, 2019. The net NPAs decreased to 2.27% as of March 31, 2019 from 4.12% as of March 31, 2017. The credit to deposit ratio increased from 53.65% in Fiscal 2017 to 70.19% in Fiscal 2019. Further, the banks' credit to deposit ratio was 72.84% for the six month period ended September 30, 2019.

Strengths

- ❑ **Strong channel network and trusted brand in South India** : it provides products and services primarily through an extensive physical network of branches and ATMs. It operates in 16 States and four Union Territories in India, reaching 1.3 million customers through 412 branches (excluding three service branches and three asset recovery branches) and 290 ATMs, as on September 30, 2019. In addition to the physical network, it has made investments in development of alternate channels from time to time. It has formed a dedicated alternate delivery channels unit in the year 2014 for enhancing the online banking capabilities and digital payment solutions for providing services to its customers via non-branch outlets to improve their banking experience.
- ❑ **Strong capital base for growth**: Its capital position has been significantly strengthened post FIHM's investment in the bank. Pursuant to a preferential allotment of Equity Shares and warrants to FIHM, for which it has received ₹ 7,207.53 million in Fiscal 2019 and the balance amount of ₹ 4,869.29 million in Fiscal 2020, it has a strong capital base for growth acceleration, something which the bank was not able to accomplish in past due to paucity of capital. As per the Basel III Norms, the CRAR, as assessed by the 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. Capital augmentation post infusion of funds by FIHM helped vitalize the bank's growth engine.
- ❑ **Well established SME business**: It believes that SMEs are more often confronted with challenges such as availability of adequate and timely financial resources than large corporates. It focuses on meeting the funding and banking requirements of these SME customers. As a percentage of the total advances, loans to SME customers accounted for 43%, 37%, 32% and 29.47% as on March 31, 2017, March 31, 2018, March 31, 2019 and September 30, 2019, respectively.
- ❑ **Retail offering driven by strong gold loan portfolio**: Gold loans constituted a major portion of the advances, contributing 24%, 26%, 31% and 33.17% of the total advances as on March 31, 2017, March 31, 2018, March 31, 2019, and September 30, 2019, respectively. As on March 31, 2019 and September 30, 2019, we had 522,248 and 595,121 gold loan accounts, with advances aggregating to ₹ 33,331 million and ₹ 37,818 million, implying an average ticket size of approximately ₹ 0.06 million and ₹ 0.06 million, respectively.
- ❑ **Stable and granular deposit base** : CSB bank's deposit base has remained stable. During last three Fiscals, despite a decline in term deposits due to conscious strategy of not focusing on such deposits, overall deposits base has remained intact and has increased from ₹ 149,116 million in Fiscal 2017 to ₹ 151,239 million in Fiscal 2019, owing to an increase in CASA deposits. The overall deposits base was ₹ 155,098 million for the six month period ended September 30, 2019 .
- ❑ **Professional and experienced management with strong and independent Board** : The Key Managerial Personnel bring substantial experience and in-depth knowledge of banking operations and management. While some of the Key Managerial Personnel have been with the Bank for more than 35 years, it has also brought in other experienced professionals from the banking industry. It believes that the management's capabilities, strong reputation, extensive network of industry relationships, and wide-ranging experience in the finance and banking industry will continue to help us to grow, modernize, and develop further.

Future road ahead

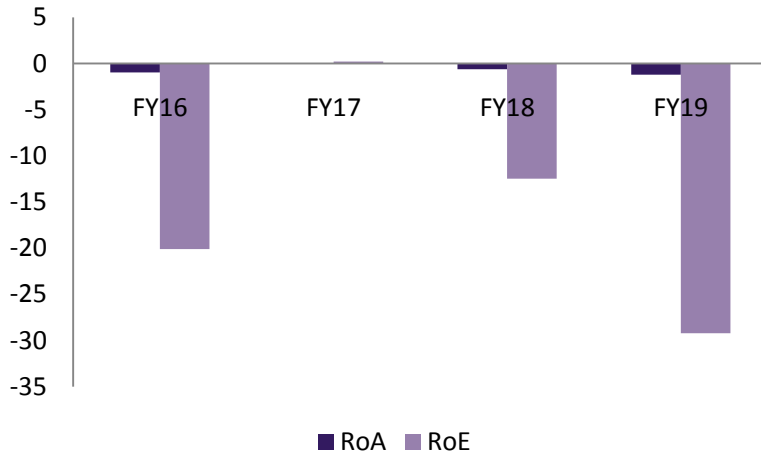
- ❑ **Accelerate transformation as new age private bank:** Re-align the organizational set-up for efficiently driving the operations and business strategy. It has designed a new organizational set up which the bank believe makes it more capable of attaining the long-term targets for the business growth and successfully evolve into a new age private sector bank. In the past, the organizational set-up was branch centric, wherein the branches were main drivers of the business, taking care of everything from deposits to lending and customer servicing. Within lending operations too, everything from origination to processing, credit assessment, collections, and monitoring was being undertaken at branch level. This typically had inherent conflict of interest as origination and sanction of loans were with the same branch and branch head.
- ❑ **Rebranding with new name to address region and community related perceptual issues:** Despite being in existence for nearly ten decades, the previous brand name 'The Catholic Syrian Bank Limited' had limited reach and was recognized only in Kerala and other nearby states, even though it had branches in 16 states and four union territories of India. Additionally, it believes that there is a perceived misconception among the general public that a part of the previous brand name either reflects interference by a religious community or represents a foreign country .
- ❑ **Business approach considering latest developments in banking sector:** While it has a long operating history, the previous branch centric structure had created multiple business and decision making centres which worked independent of each other without any coordination, thereby, adversely impacting the ability to develop and adopt a coherent uniform approach in line with latest developments in the banking sector and to implement available technology solutions for the banking operations across various business segments, operations, etc .
- ❑ **Focus on enhancing customer experience :** The strategy for ensuring superior customer experience encompasses a mix of physical touch points in form of the branches, ATMs, micro ATMs, and door step services provided by dedicated relationship managers for certain products and services, and creating a technology platform which gives choice to the customers to interact and transact with the bank based on their preference.
- ❑ **Expand the products suite, services, and customer interface as a full service Bank :** It intends to introduce new products to widen the service offering as a full service Bank, while continuing to remain focused on SME customers by providing them support through the life cycle of their business, and to also capitalize on the opportunity presented by retail banking by enhancing our product and service offerings and customer delivery capabilities. In furtherance of this strategy, it intends to introduce wealth management services (which can be cross sold to the existing NRI and high net worth customers as well as to new customers), trade finance products, foreign exchange products, supply chain finance products, and cash management products.

Peer Comparison

Peer Comparison	Loans (Rs bn)	CASA (%)	GNPA (%)	NNPA (%)	PCR (%)	Tier I	ROA (%)	ROE (%)	P/ABV
CSB Bank	113.0	28.2	2.9	2.0	32.1	22.1	0.5	3.0	2.4
Federal Bank	1,159.0	31.6	3.1	1.6	49.0	12.9	1.0	12.2	1.4
South Indian Bank	629.0	25.0	4.9	3.5	30.3	9.6	0.4	6.1	0.6
Karur Vysya Bank	471.0	26.0	8.9	4.5	51.8	14.3	0.3	3.9	1.0
City Union Bank	327.0	24.7	3.4	1.9	45.0	15.0	1.6	15.2	3.5

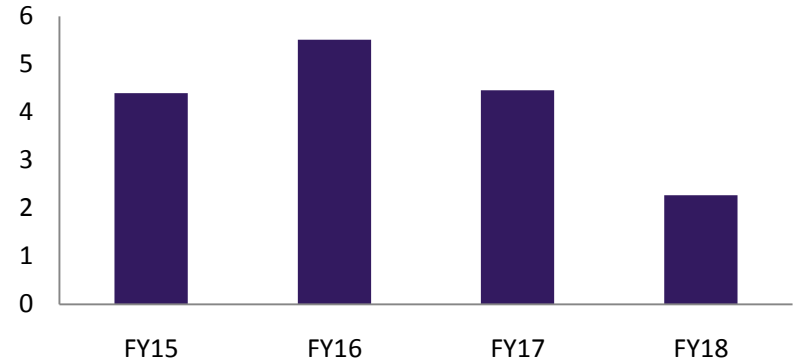
Financial Performance

Return Ratios (%)

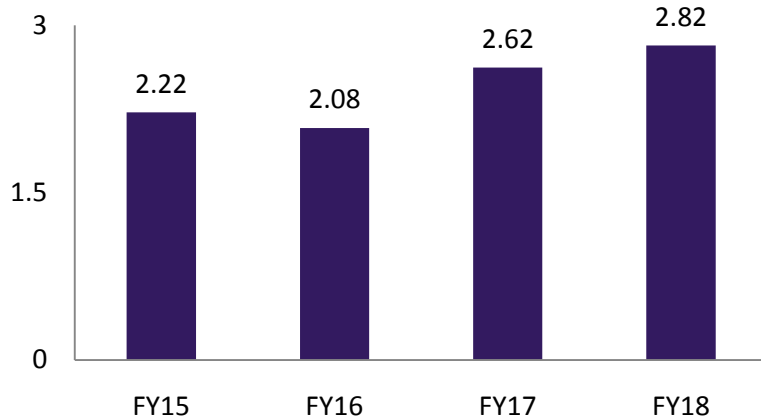


Asset Quality

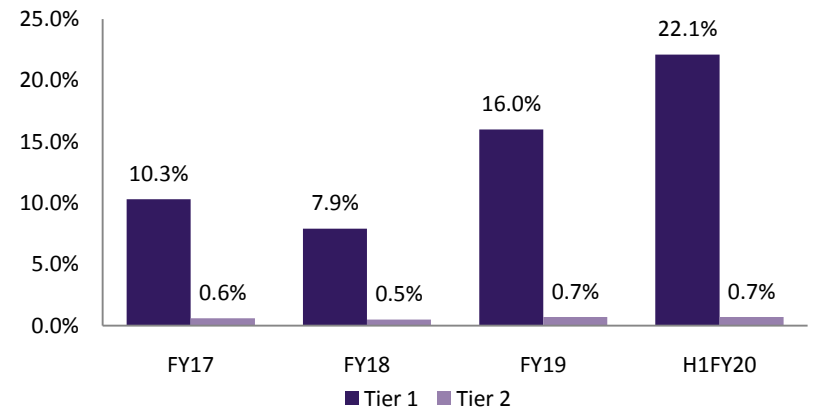
NNPA



NIM



Strong Capital Positioning



Standalone Summary Financials

Income Statement

DESCRIPTION (in Crs)	March-16	March-17	March-18	March-19
INCOME				
Interest Earned	1,483	1,336	1,297	1,348
Other Income	105	281	125	136
Total Income	1,588	1,617	1,422	1,483
EXPENDITURE				
Interest Expended	1,159	1,023	912	908
Operating Expenses	432	443	436	563
Provisions and Contingencies	225	161	224	313
Profit Before Tax	(228)	(9)	(149)	(300)
Taxes	(79)	(10)	(52)	(103)
Total	1,737	1,616	1,520	1,681
PROFIT AND LOSS				
Profit After Tax	(150)	2	(97)	(197)

Balance Sheet

DESCRIPTION (in Crs)	March-16	March-17	March-18	March-19
SOURCES OF FUNDS:				
Share Capital	72	81	81	86
Share Warrants & Outstandings	-	-	-	651
Total Reserves	821	918	808	694
Deposits	14,438	14,912	14,691	15,124
Borrowings	42	42	42	
Other Liabilities & Provisions	279	271	249	356
Total Liabilities	15,652	16,223	15,870	16,911
APPLICATION OF FUNDS :				
Cash and balance with Reserve Bank of India	676	756	678	725
Balances with banks and money at call	50	455	537	248
Investments	5,987	5,762	4,114	4,028
Advances	7,853	8,119	9,337	10,615
Gross block	316	321	324	331
Less: Accumulated Depreciation	101	106	108	114
Less: Impairment of Assets				
Net Block	215	215	216	218
Lease Adjustment				
Capital Work in Progress				
Other Assets	871	916	987	1,077
Total Assets	15,652	16,223	15,870	16,911

Source: Red Herring Prospectus, Dealmoney research

Key Risks

- ❑ Increase in NPA may impact earnings
- ❑ Managing asset quality in given current stressed scenario particularly in corporate/SME portfolio
- ❑ Volatility in gold prices may impact financials
- ❑ Promoter Fairfax (FIHM) will have to dilute 50.1% stake to 15% over the coming 15 years which may create an overhang in the long term.

Source: Red Herring Prospectus, Dealmoney research

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