

Scrip Name	Offer Size
CSB Bank Ltd	Issue IPO : 405.7 – 409.6 crores

**Issue Highlights**

Issue Opens	Friday, 22nd November 2019
Issue Closes	Tuesday, 26th November 2019
Price Band	Rs.193 - 195
Bid Lot	75 equity shares and in multiples of 75 equity shares thereafter
Face Value	Rs. 10
BRLM	Axis Capital Ltd, IIFL Securities

**Offer Break-up**

Category	Allocation	Rs. In Crs.
QIB	75%	307.2
Non-Institutional	15%	61.4
Retail	10%	40.9
Total	100%	409.6

**Promoters of the Company**

FIH Mauritius Investments Ltd
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**Company Overview**

CSB Bank was incorporated on November 26, 1920 under the Indian Companies Act, 1913 as 'The Catholic Syrian Bank Limited'. A fresh certificate of incorporation under the Companies Act, 1956 was issued by the RoC on April 14, 1987. The Shareholders of the Bank approved the change of name of the Bank from 'The Catholic Syrian Bank Limited' to 'CSB Bank Limited' through a postal ballot resolution dated May 4, 2019. CSB Bank is one of the oldest private sector banks in India with a history of over 98 years and has a strong base in Kerala along with significant presence in Tamil Nadu, Karnataka, and Maharashtra. They offer a wide range of products and services to their overall customer base of 13 lakhs as on March 31, 2019, with particular focus on SME, Retail, and NRI customers. CSB delivers their products and services through multiple channels, including 414 branches (excluding three service branches and two asset recovery branches) and 277 ATMs spread across 16 states and four union territories as on March 31, 2019, and various alternate channels such as micro ATMs, debit cards, internet banking, mobile banking, point of sale services and UPI. With its focus on quality of service and nurturing long term relationship with its customers, CSB has developed a well-recognized and trusted brand in south India, particularly in the states of Kerala and Tamil Nadu.

The Bank has four principal business areas, namely, (a) SME banking, (b) retail banking, (c) wholesale banking, and (d) treasury operations. Under their SME banking business, CSB caters to financial institutions, agriculture and allied businesses, and vendors and dealers of corporate. Under retail banking business, the bank offers a wide range of loan and deposit products to its retail and NRI customers. Under the wholesale banking business, CSB caters to large and mid-size corporate and other business entities (with credit requirement of Rs. 25 crores and above). Its treasury operations primarily consist of statutory reserves management, asset liability management, liquidity management, investment and trading of securities, and money market and foreign exchange activities.

Source – Company DRHP

### Company strengths

**Strong capital base for growth:** CSB's capital position has been significantly strengthened post FIHMs investment in our Bank. Pursuant to a preferential allotment of Equity Shares and warrants to FIHM, for which we received Rs. 720.75 crores in Fiscal 2019 and the balance amount of Rs. 486.92 crores in Fiscal 2020, the bank has a strong capital base for growth acceleration, something which they were 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, is 16.70% (including capital conservation buffer). 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.

**Stable and granular deposit base:** The Bank's deposit base has remained stable. During last three Fiscals, despite a decline in term deposits due to their conscious strategy of not focusing on such deposits, the overall deposits base has remained intact and has increased from Rs. 14911.6 crores in Fiscal 2017 to Rs. 15123.9 crores in Fiscal 2019, owing to an increase in CASA deposits. Bank has cut rates this year and despite the cut seen a 98% renewal rate in retail term deposits, this should help contain cost of funds at low levels. CASA ratio stands at 28%, management intends to take this to over 40% in next few years.

**Operating costs:** In last 2 years, employee base has reduced from 3000 to 1900, additionally now the bank is out of the IBA wage agreements; almost all its employees are on CTC basis. Management has reduced employee cost significantly, and they target further reduction. Current average salary per employee is 11.5 lakh, where as new employees are being appointed at 3.5-4 lakh, it expects a material reduction in costs of wages in next few years. FY19 cost income ratio was 102%, it included onetime provisioning of 100 crore on account of VRS given to employees. Currently cost income ratio has improved to 66%, this should further see sharp improvement driven by higher income growth led by better margins and expansion in loan book, at the same time operating cost should be contained in account of continuous reduction in employee cost.

**Future Growth:** Company is actively looking to grow its bottom line and now has the option to pick and choose the assets they want to underwrite in a tough environment. Fairfax has plans for CSB to become a full licensed bank and is open to organic as well as inorganic growth. CSB is looking to expand immediately in areas where scope for growth is gold loans is attractive. As CSB is focusing on gold loans, they do not require large additional capital for growth. Also CSB is in the process of setting up dedicated team for MSME to grow in this segment. They already have a competent team in place for 2-wheeler loans and gold loans and are showing interesting results.

### Valuations

**Post issue market capitalization of the company will be around Rs. 3382 crores. The company will be valued at 1.7x P/B.** This is a typical average valuation for a small sized private bank and since CSB has shown an impressive performance in the second half of this year, the current price seems justified. One should subscribe this IPO for listing gains, the demand supply dynamics are highly skewed due to a relatively small issue size.

# KEYNOTE

Profit & Loss account (INR Crores)				
Particulars	H1'20	FY19	FY18	FY17
Interest	732.3	1347.5	<b>1296.8</b>	<b>1336.3</b>
Other Income	84.4	135.9	125.4	281.2
<b>Total Income</b>	<b>816.7</b>	<b>1483.4</b>	<b>1422.2</b>	<b>1617.5</b>
Interest Expended	452.8	907.6	912.0	1022.7
Operating Expenses	260.4	562.5	435.9	443.1
Provisions and Contingencies	59.3	111.0	269.2	252.2
<b>Total Expense</b>	<b>772.4</b>	<b>1581.0</b>	<b>1617.1</b>	<b>1717.9</b>
PBT	44.3	-97.6	-194.9	-100.4
Provision for tax	0.0	-31.9	-67.8	-42.5
<b>PAT</b>	<b>44.3</b>	<b>-65.7</b>	<b>-127.1</b>	<b>-58.0</b>

Balance Sheet (INR Crores)				
Year ended March 31	H1'20	FY19	FY18	FY17
Share Capital	172.3	737.3	81.0	81.0
Reserves & Surplus	1795.9	236.7	272.6	465.1
Deposits	15509.8	15123.9	14690.6	14911.6
Borrowings	0.0	0.0	41.8	41.8
Other Liabilities & Provisions	277.4	355.6	248.6	270.5
<b>Total Liabilities</b>	<b>17755.5</b>	<b>16453.5</b>	<b>15334.7</b>	<b>15770.0</b>
Cash and Bank	816.1	973.6	1215.1	1211.2
Investments	4314.1	4027.6	4083.3	5729.2
Advances	11297.8	10615.2	9184.9	8000.8
Fixed Assets	215.6	59.9	56.7	51.3
Other Assets	1111.8	777.1	794.7	777.6
<b>Total Assets</b>	<b>17755.5</b>	<b>16453.5</b>	<b>15334.7</b>	<b>15770.0</b>

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