



IPO note: CSB Bank Ltd. (CSB) – Turning around and transforming into a new age Bank – “SUBSCRIBE for listing gains”

Incorporated on November 26, 1920, **CSB Bank Limited** (“CSB”) is one of the oldest private sector banks in India with a history of over 98 years, transforming to a new age private bank backed by a **new marquee investor – Fairfax India through FIH Mauritius Investments Ltd. (FIHM)**. It offers a wide range of products and services to their **overall customer base of 1.3 million as on September 30, 2019, with particular focus on SME, Retail, and NRI customers**. CSB has a strong base in Kerala along with significant presence in Tamil Nadu, Karnataka, and Maharashtra. In 2018, RBI accorded its approval to Fairfax India through FIHM to acquire 51% stake resulting in capital infusion of ~Rs. 1,207.68 crore.

With the new Promoter’s backing, CSB is transforming into **New Age Bank** and has already taken steps towards **Capital Augmentation, Revamping Employee Base, Re-aligning Organisational Set-up, Digitization & Technology, Expanding Products & Services, Enhancing customer Experience and Marketing & Branch Building**.

To improve operating efficiency and Cost/Income ratio, the Company has reduced retirement age of officers to 58 years. All new recruitments in the past 3 years are in CTC scale – Now 40% under CTC from none in FY17. CSB Bank has reduced the age of IBA staff from 55 years to 50 years for performance review to improve the productivity and accountability

CSB Bank has reduced Term deposit rates to below that of peers – despite this bank could maintain high renewal rates. It has focused on CASA business resulting in improvement of CASA ratio to 28% from 25% in FY17. Cost of deposits reduced by 100 bps to 5.9% at present from 6.9% in FY17. NIM improved to 3.4% from 2.1% in FY17.

Investment recommendation and rationale

At upper end of the price band of Rs. 195, the issue is valued at a P/BV of 2.2x which we believe is at a premium as compared to other listed small private Banks with better ROE profile owing to the following factors: a) trusted brand in South India - one of the oldest private sector bank with a vast network of 412 branches across 16 States and 4 Union Territories, b) retail offering (46.2 percent of overall loan book) driven by strong gold loan portfolio (33 percent of total loan book), c) one of the highest CRAR in the industry of 22.8% post the capital infusion by Fairfax India, d) strong parentage, e) Fairfax’s backing to vitalize CSB’s Growth Engine, f) steady growth in advances, g) expanding CASA in overall deposits, h) operating performance driven largely by focus on low risk loan products along with operational efficiencies, i) gradually improving cost structure leading to turnaround in core operating profit, j) substantial cleansing of Balance Sheet in Fiscal 2019, k) focussing more on improving quality of SME portfolio instead of growth during the tough macro environment in recent years, l) controlled credit cost with declining NPAs and increasing provisioning coverage, m) no legacy issues and no major exposure to NCLT accounts, n) wants to create niche for itself and not compete with PSU banks, o) gradually turning around and transforming into a new age Bank. We recommend investors with medium risk appetite to “SUBSCRIBE the issue for listing gains”.

IPO note date	November 20, 2019
Issue date	November 22 - 26, 2019
Listing date	December 04, 2019
Issue type	Fresh Issue: Rs. 24 crores Offer for sale up to 19,778,298 Equity Shares
Issue size	Rs. 409.6 crores
Issue structure	QIB – 75% NIB – 15% Retail – 10%
Price Band	Rs. 193 – Rs. 195
Face value	Rs. 10
Post Issue equity shares	17.345 crores equity shares
Post issue Market Cap	Rs. 3,382 crores
Pre/Post issue Promoter holding	50.1 %/ %
Bid lot	75 Equity shares and in multiples thereof
Book Running Lead Managers	Axis Capital, IIFL Securities
Registrar to the issue	Link Intime India Pvt. Ltd.

Y/e 31 Mar :Rs. crs	H1FY20	FY19	FY18	FY17
NII	280	440	385	314
Operating profit	104	13	74	152
PAT	44	(66)	(127)	(58)
Gross Advances	11,298	10,906	9,685	8,272
Deposits	15,510	15,124	14,691	14,912
CASA (%)	28.2	27.8	27.0	24.8
Cost/Income (%)				
Absolute GNPA	326	531	764	600
GNPA (%)	2.9	4.9	7.9	7.3
Absolute NNPA	222	241	264	330
NNPA (%)	2.0	2.3	2.9	4.1
Fresh slippages		198	281	367
PCR (%)	79.5	78.2	75.8	65.5
Credit cost (%)	0.4	0.7	1.7	1.6
Share Capital	172.3	86	81	81
Networth	1,536	974	354	546
Tier I Capital (%)	22.1	16.0	7.9	10.3
Tier II Capital (%)	0.7	0.7	0.5	0.6
CRAR (%)	22.8	16.7	8.3	10.9
Book value (Rs.)	89	74	44	67
P/BV (x)	2.2	2.6	4.4	2.9
RoE (%)	2.88	(6.74)	(35.9)	(10.6)

Source: RHP, P/E and P/BV calculated at upper end of price band – Rs. 195 per share



Top 10 shareholders as on RHP filing date

Name of the Shareholder	No. of Equity Shares
FIH Mauritius Investments Ltd	86,262,976 Equity Shares
LIPL CSB OFS Escrow Demat Account	19,778,298 Equity Shares
CSB ESOS Trust	5,000,000 Equity Shares
Yusuffali Musaliam Veettil Abdul Kader	3,581,722 Equity Shares
Volrado Venture Partners Fund II	3,273,286 Equity Shares
Vallabh Bhanshali	2,185,392 Equity Shares
Satpal Khattar	1,773,906 Equity Shares
Lal Arakulath Sankappa	1,756,908 Equity Shares
Zafar Ahmadullah	1,750,000 Equity Shares
Thomas John Muthoot	1,665,633 Equity Shares

Objects of the issue

Fresh issue: Rs. 24 crores (Augment the tier - I capital base to meet the bank's future capital requirements and to ensure compliance with Basel III and other RBI guidelines)

Offer for Sale*	Up to 19,778,298 Equity Shares
* Offer for sale by the Selling Shareholder:	Shares up to:
HDFC Life Insurance Company Ltd	4,044,000 Equity Shares
ICICI Prudential Life Insurance Company Ltd	3,044,000 Equity Shares
The Federal Bank Ltd	2,785,661 Equity Shares
Bridge India Fund	2,500,000 Equity Shares
Satellite Multicomm Private Ltd	1,939,097 Equity Shares
Way2Wealth Securities Private Ltd	1,555,214 Equity Shares
ICICI Lombard General Insurance Co Ltd	1,000,000 Equity Shares
Vinod Mohan Nair	1,000,000 Equity Shares
Edelweiss Tokio Life Insurance Co Ltd	846,100 Equity Shares
P-Cube Enterprises Private Ltd	324,000 Equity Shares
Other Selling shareholders	740,226 Equity Shares

Source: RHP

Promoters and Management background

Company and Directors

The Bank was incorporated as 'The Catholic Syrian Bank Limited' on November 26, 1920. The current Promoter of the Bank is FIH Mauritius Investments Ltd ("FIHM"). (FIHM is a wholly owned subsidiary of Fairfax India Holdings Corporation). Currently, FIHM holds 86,262,976 Equity Shares, representing 50.09% of the issued, subscribed and paid-up equity share capital of the Bank.



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Pursuant to a preferential allotment of Equity Shares and warrants to FIHM, CSB received Rs. 720.75 crore in Fiscal 2019 and the balance amount of Rs. 486.93 crore in 2nd quarter of Fiscal 2020, which made CSB well capitalized and improved their capital adequacy ratio (including capital conservation buffer), as per Basel III Norms, from 10.93% as of March 31, 2017 to 16.70% as of March 31, 2019. Their Tier I capital ratio has been further augmented post capital infusion in 2nd quarter of Fiscal 2020. Further, as per the Basel III Norms, the CRAR as assessed by CSB as on September 30, 2019 was 22.77% (including capital conservation buffer). This acquisition by FIHM in CSB is first of a kind in the banking space in the country.

Madhavan Karunakaran Menon is the Part – time Chairman and a Non – executive Director of the Bank. He has over 30 years of experience in the finance and banking sector. He has previously worked with ANZ Grindlays Bank Limited, Citibank N.A., Emirates Bank International, Birla Capital International AMC Limited in the past. He is currently the chairman and managing director of Thomas Cook (India) Limited and has been on the Bank Board since September 3, 2018.

Rajendran Chinna Veerappan is the Managing Director and Chief Executive Officer of the Bank. He previously served as the chief executive of the Association of Mutual Funds in India and is currently responsible for overall management and expansion of the Bank. He has over 40 years of experience in banking and finance sector and was previously associated with Corporation Bank, Andhra Bank and Bank of Maharashtra. He has been on the Bank Board since November 24, 2016.

Sumit Maheshwari is the Non – executive Director of the Bank. He has completed the post graduate programme in management from the Indian School of Business. He has over 10 years of experience in finance sector. Previously, he has worked with KPMG and is currently the managing director and chief executive officer of Fairbridge Capital Private Limited. He has been on the Board since September 3, 2018.

Thomas Mathew, Bhama Krishnamurthy, Aravamuthan Madhavan and Syed Nagoor Ali Jinnah are the Independent Director of the Bank.

Veluthattil Maheswari is the Chief Financial Officer of the Bank. She has about 25 years of experience in the banking sector. She has been associated with the Bank since 1994 and is *inter alia*, responsible for finalization and reporting of accounts, balance sheet management and profit planning, cost management, tax planning, capital adequacy planning and management and coordinating the capital raising activities of the Bank.

Sijo Varghese is the Company Secretary and Compliance Officer and **Vincy Louis Pallissery** is the Chief Compliance Officer of the Bank.



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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Registered and Corporate office

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062