# CSB Bank (CSBBAN)

CMP: ₹339 | Target ₹ 380 (12%) | Target Period: 12 months | HOLD

August 3, 2026

## Weak quarter; Execution & promoter overhang weighs...

**About the stock:** CSB Bank is a south based private sector bank with Kerala contributing ~17% of total advances.

- Gold loans form substantial proportion - 54% of the book
- Healthy liabilities franchise with loyal customer base of ~21.5 lakh and 868 branches

**Q1FY27 performance:** CSB Bank reported a weak Q1FY27 performance, as healthy balance-sheet growth was offset by margin pressure, lower fee income and weaker sequential profitability. Gross advances grew 24% YoY (1.3% QoQ) to ₹40,867 crore, led primarily by corporate segment, while momentum in gold loans moderated sequentially; deposits rose 26% YoY (2.6% QoQ) to ₹45,415 crore, though CASA remained modest at 19.4%. NII increased 26% YoY (3% QoQ) to ₹479 crore, but NIM contracted 17 bps QoQ to 3.66% due to the full-quarter impact of high-cost March deposit, higher bulk funding and adverse mix. Other income declined 7% YoY, primarily due to lower treasury gains and slower disbursement, which weighed on processing-fee income. Asset quality remained broadly stable, with GNPA/NNPA at 1.75%/0.39%, despite slippages of ~₹96 crore largely from SME, which management expects to be partly upgraded over Q2–Q3. PAT stood at ₹150 crore, up 27% YoY but down 26% QoQ, while RoA declined sequentially to 1.09% (vs 1.53% in Q4FY26).

**Investment Rationale:**

- **Business growth revives; calibrated wholesale expansion to support normalization:** Advances grew 24% YoY to ₹40,867 crore, but incremental growth was largely driven by wholesale (5.8% QoQ), while gold loan momentum moderated (1.6% QoQ) and retail (-11.7% QoQ) remained impacted by the run-down of the gold-backed LAS portfolio. Deposits rose 26% YoY, though liability mix remained weak with CASA at 19.4% and bulk deposits accounting for over half of term deposits (~52%), keeping funding costs elevated. Management reiterated its aspiration to diversify loan book, targeting gold loans at ~30% of advances by FY30 while increasing wholesale exposure to a similar level of 30-32%. While this should improve franchise diversification, the evolving loan mix and its implications for portfolio yields, margins and profitability will remain key monitorable.
- **Execution of the scale-up strategy remains the key monitorable:** Management continues to guide for FY27 RoA of 1.3–1.5% and expects Q1 margins to mark the trough, supported by improvement in CASA franchise, normalisation in fee income and upgrades from the SME book over Q2–Q3. However, slippages remained volatile, with limited upgrades during the quarter, and the bank has consequently turned cautious on SME growth. While the completion of the technology transformation provides platform for liability acquisition, transaction banking and retail scale-up, meaningful benefits are likely to be gradual, with CASA improvement and unsecured retail expansion expected only from FY28 onwards.

**Rating and Target Price:** While the bank's long-term franchise-building strategy remains intact, near-term earnings outlook has turned less favourable amid execution challenges. In addition, any acquisition related activity by promoter creates an ownership overhang. We therefore downgrade the stock to HOLD, as limited visibility on profitability improvement and promoter ownership uncertainty are likely to constrain re-rating in the near term. Basis this, we revise our target price to ₹380, assigning multiple of ~1x FY28E BV.

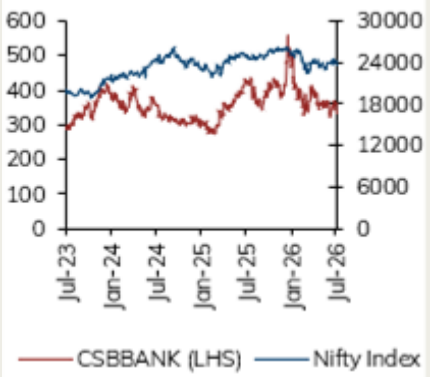
### Particulars

| Particulars | Amount |
|---|---|
| Market Cap | ₹ 5,866 crore |
| 52 week H/L | ₹ 575 / 317 |
| Net Worth | ₹ 4,894 Crore |
| Face value | 10.0 |

### Shareholding pattern

| (in %) | Sep-25 | Dec-25 | Mar-26 | Jun-26 |
|---|---|---|---|---|
| Promoter | 40.0 | 40.0 | 40.0 | 40.0 |
| FII | 14.2 | 14.1 | 12.8 | 12.6 |
| DII | 16.1 | 15.6 | 15.2 | 15.0 |
| Others | 29.7 | 30.3 | 32.0 | 32.4 |

### Price Chart




### Key risks

(i) Adverse change in mix diluting margins

(ii) Clarity on promoter ownership

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Result Update

ICICI Securities – Retail Equity Research

### Key Financial Summary

| ₹ crore | FY24 | FY25 | FY26 | 3 Year CAGR (FY23-FY26) | FY27E | FY28E | 2 Year CAGR (FY26-FY28E) |
|---|---|---|---|---|---|---|---|
| NII | 1,476 | 1,476 | 1,720 | 9% | 2,069 | 2,519 | 31% |
| PPP | 780 | 910 | 1,085 | 15% | 1,297 | 1,601 | 33% |
| BV | 211 | 251 | 273 | 16% | 315 | 365 | 21% |
| PAT | 567 | 594 | 633 | 5% | 743 | 917 | 24% |
| P/E | 10.4 | 9.9 | 9.3 | | 7.9 | 6.4 | |
| P/ABV | 1.7 | 1.4 | 1.3 | | 1.1 | 1.0 | |
| RoA | 1.7 | 1.4 | 1.2 | | 1.2 | 1.2 | |
| RoE | 16.2 | 14.3 | 13.5 | | 14.1 | 15.1 | |

*Source: Company, ICICI Direct Research*

## Concall highlights and outlook

**Performance and growth outlook**

- Gross advances grew 24% YoY (1.3% QoQ) to ₹40,867 crore, led primarily by the corporate segment, while momentum in gold loans moderated sequentially.
- Deposits rose 26% YoY (2.6% QoQ) to ₹45,415 crore, CASA remained modest at 19.4%.
- Gold loans constituted ~54% of advances in Q1FY27; management expects the mix to remain around 50% during FY27 before gradually declining toward ~30% by FY30 as other businesses scale.
- Gold loan growth remains healthy, with management indicating potential growth of ~30–35%, while wholesale could continue growing at ~35–40%.
- The decline in retail portfolio/disbursements was largely due to the run-down of the gold-backed replacer/LAS book, which reduced from over ₹2,100 crore to ~₹60 crore and is expected to be fully run off by the next quarter.
- Gold disbursement were also affected by implementation of regulatory requirements, including end-use monitoring and documentation, along with fewer renewals/top-ups as gold prices moderated.
- Management expects gold disbursements and related processing fees to recover from Q2 as operational implementation stabilises.
- The bank has launched an income-generating gold loan product targeted at productive/working-capital use, supporting diversification within the gold portfolio.
- Gold loan LTV remained higher than some peers due to a larger agricultural gold-loan mix, where permissible LTV is higher; management plans to gradually reduce the agricultural mix, which should lower blended LTV over time.
- Bulk deposits accounted for ~52% of term deposits and ~40% of total deposits, resulting in a relatively elevated cost of funds of ~6.5%.
- Deposits raised toward the end of March carried a full-quarter cost in Q1FY27, creating a sequential drag on margins.
- Strategic improvement in deposit mix will take time: management expects CASA growth to match deposit growth only from FY28, with CASA ratio improvement becoming visible from FY29.
- Management indicated that overall growth should remain above 20%, with an aspiration to sustain growth closer to 25%.
- Wholesale is expected to grow 35–40%, while gold loans could grow 30–35% in FY27.
- The key challenge is accelerating SME and retail sufficiently to bring gold mix down from 54% to ~50% during FY27.
- By FY30, management targets broadly similar shares for gold and wholesale at around 30–32% each, with the balance comprising SME and retail.

**Margins**

- NIM contracted 17 bps QoQ to 3.66% due to the full-quarter impact of high-cost March deposits, higher bulk funding and adverse mix.
- Gold loan yield declined marginally by ~15 bps due to portfolio mix rather than any deliberate pricing reduction.
- BLG/SME yield declined from around 9.8% to 9.3%, reflecting tighter underwriting, lower-risk incremental business and interest reversals from temporary slippages.
- Management expects margins to improve from Q2 as deposit cost soften and some SME accounts are upgraded.

**Asset Quality and Opex**

- Q1FY27 slippages were around ₹96 crore, stress remained concentrated in BLG/SME rather than wholesale.
- The SME portfolio remains fully secured, limiting eventual loss risk despite quarterly volatility in slippages.
- Management expects a meaningful portion of Q1 SME slippages to be upgraded during Q2 and Q3, similar to the Q3FY26–Q4FY26 pattern.

- Unsecured loans constituted only ~2% of advances; management does not plan to scale this segment materially in FY27.
- Meaningful expansion in personal loans, cards and other unsecured products is expected only from FY28, once the liability franchise and customer-acquisition engine are established.

**Other updates**

- Management clarified that CSB Bank is not involved in any discussions regarding Fairfax's reported interest in acquisition of another bank.
- Fairfax has advised CSB management to continue operating on a business-as-usual basis.
- Management stated that Fairfax has historically allowed CSB to make independent operating and technology decisions, including the decision to select Oracle.
- The bank had disbursed only ~₹50–60 crore under ECLGS and is not actively marketing the scheme.
- The bank has implemented the new CBS, around 52 surrounding systems, transaction-banking infrastructure, ServiceNow and upgraded data-centre capabilities.

Exhibit 1: Variance Analysis

| | Q1FY27 | Q1FY26 | YoY (%) | Q4FY26 | QoQ (%) | Comments |
|---|---|---|---|---|---|---|
| NII | 478.7 | 379.4 | 26.2 | 464.2 | 3.1 | Supported by healthy loan growth of ~24% YoY |
| NIM (%) | 3.66 | 3.54 | 12 bps | 3.83 | -17 bps | QoQ decline was led by higher bulk funding and adverse mix |
| Other Income | 228.8 | 245.0 | -6.6 | 306.2 | -25.3 | Drag was largely led due to lower disbursement QoQ and benign treasury gains |
| | | | | | | |
| Net Total Income | 707.4 | 624.4 | 13.3 | 770.4 | -8.2 | |
| Staff cost | 252.6 | 221.1 | 14.3 | 251.3 | 0.5 | Stable staff cost |
| Other Operating Expenses | 204.1 | 182.8 | 11.7 | 225.4 | -9.4 | Tech cost largely completed |
| | | | | | | |
| PPP | 250.8 | 220.6 | 13.7 | 293.7 | -14.6 | |
| Provision | 49.0 | 60.8 | -19.3 | 23.0 | 113.0 | Credit cost spiked QoQ, led by slippages in MSME segment |
| PBT | 201.7 | 159.8 | 26.2 | 270.7 | -25.5 | |
| Tax Outgo | 51.7 | 40.9 | 26.3 | 69.1 | -25.1 | |
| PAT | 150.0 | 118.9 | 26.2 | 201.6 | -25.6 | Impacted by lower other income and higher provision |
| | | | | | | |
| **Key Metrics** | | | | | | |
| GNPA | 715.4 | 606.5 | 18.0 | 669.8 | 6.8 | GNPA increased by 9 bps sequentially to 1.75% |
| NNPA | 157.7 | 215.2 | -26.7 | 158.2 | -0.3 | |
| Net Advances | 40,309.0 | 32,552.0 | 23.8 | 39,848.0 | 1.2 | Led by strong momentum in gold loans (46.7% YoY) and wholesale (37.3%) |
| Deposit | 45,415.0 | 35,935.0 | 26.4 | 44,246.0 | 2.6 | CASA ratio at ~19.4% |

*Source: Company, ICICI Direct Research*

## Financial summary

Exhibit 2: **Profit and loss statement** ₹ crore

| (₹ Crore) | FY25 | FY26 | FY27E | FY28E |
|---|---|---|---|---|
| Interest Earned | 3,597.1 | 4,505.2 | 5,418.7 | 6,580.5 |
| Interest Expended | 2,121.0 | 2,784.9 | 3,349.3 | 4,061.4 |
| Net Interest Income | 1,476.2 | 1,720.3 | 2,069.4 | 2,519.0 |
| Growth (%) | 0.0 | 16.5 | 20.3 | 21.7 |
| Non Interest Income | 972.1 | 1,176.6 | 1,364.9 | 1,583.2 |
| Net Income | 2,448.2 | 2,896.9 | 3,434.2 | 4,102.3 |
| Employee cost | 754.3 | 932.3 | 1,100.2 | 1,298.2 |
| Other operating Exp. | 783.7 | 879.2 | 1,037.4 | 1,203.4 |
| Operating Income | 910.2 | 1,085.4 | 1,296.6 | 1,600.7 |
| Provisions | 110.7 | 234.2 | 296.0 | 366.4 |
| PBT | 799.5 | 851.2 | 1,000.6 | 1,234.2 |
| Taxes | 205.8 | 218.0 | 257.6 | 317.7 |
| Net Profit | 593.7 | 633.2 | 743.1 | 916.5 |
| Growth (%) | 4.7 | 6.6 | 17.4 | 23.3 |
| EPS (₹) | 34.2 | 36.5 | 42.8 | 52.8 |

Source: Company, ICICI Direct Research

Exhibit 3: **Key ratios** ₹ crore

| (Year-end march) | FY25 | FY26 | FY27E | FY28E |
|---|---|---|---|---|
| No. of shares (crore) | 17.4 | 17.4 | 17.4 | 17.4 |
| EPS (₹) | 34.2 | 36.5 | 42.8 | 52.8 |
| BV (₹) | 250.5 | 273.4 | 314.9 | 366.2 |
| ABV (₹) | 241.1 | 260.5 | 298.3 | 345.3 |
| P/E | 9.9 | 9.3 | 7.9 | 6.4 |
| P/BV | 1.4 | 1.2 | 1.1 | 0.9 |
| P/ABV | 1.4 | 1.3 | 1.1 | 1.0 |
| Yields & Margins (%) | | | | |
| Net Interest Margins | 3.9 | 3.6 | 3.6 | 3.6 |
| Avg. cost on funds | 5.7 | 5.9 | 5.9 | 5.9 |
| Yield on average advances | 10.5 | 10.4 | 10.2 | 10.1 |
| Quality and Efficiency (%) | | | | |
| Cost to income ratio | 62.8 | 62.5 | 62.2 | 61.0 |
| Credit/Deposit ratio | 85.5 | 90.1 | 90.5 | 90.5 |
| GNPA % | 1.6 | 1.7 | 1.6 | 1.7 |
| NNPA % | 0.5 | 0.6 | 0.6 | 0.6 |
| RoE | 14.3 | 13.5 | 14.1 | 15.1 |
| RoA | 1.4 | 1.2 | 1.2 | 1.2 |

Source: Company, ICICI Direct Research

Exhibit 4: **Balance sheet** ₹ crore

| (₹ Crore) | FY25 | FY26 | FY27E | FY28E |
|---|---|---|---|---|
| Sources of Funds | | | | |
| Capital | 173.5 | 173.5 | 173.5 | 173.5 |
| Reserves and Surplus | 4,324.2 | 4,720.7 | 5,441.5 | 6,330.6 |
| Networth | 4,497.7 | 4,894.3 | 5,615.1 | 6,504.1 |
| Deposits | 36,861.5 | 44,245.9 | 54,513.8 | 67,448.6 |
| Borrowings | 5,546.3 | 7,154.4 | 6,906.4 | 7,939.4 |
| Other Liabilities & Provisions | 930.8 | 1,431.9 | 2,040.8 | 3,158.6 |
| Total | 47,836.2 | 57,726.5 | 69,076.1 | 85,050.7 |
| | | | | |
| Application of Funds | | | | |
| Fixed Assets | 628.7 | 709.8 | 773.7 | 843.3 |
| Investments | 11,389.3 | 11,955.3 | 14,173.6 | 17,199.4 |
| Advances | 31,507.0 | 39,847.8 | 49,331.6 | 61,072.6 |
| Other Assets | 719.0 | 1,116.8 | 1,090.3 | 1,349.0 |
| Cash with RBI & call money | 3,592.2 | 4,096.8 | 3,706.9 | 4,586.5 |
| Total | 47,836.2 | 57,726.5 | 69,076.1 | 85,050.7 |

Source: Company, ICICI Direct Research

Exhibit 5: **Growth ratios**

| (% growth) | FY25 | FY26 | FY27E | FY28E |
|---|---|---|---|---|
| Total assets | 32.7 | 20.7 | 19.7 | 23.1 |
| Advances | 29.5 | 26.5 | 23.8 | 23.8 |
| Deposit | 24.0 | 20.0 | 23.2 | 23.7 |
| Total Income | 18.8 | 18.3 | 18.5 | 19.5 |
| Net interest income | 0.0 | 16.5 | 20.3 | 21.7 |
| Operating profit | 16.7 | 19.2 | 19.5 | 23.4 |
| Net profit | 4.7 | 6.6 | 17.4 | 23.3 |
| Net worth | 18.2 | 8.8 | 14.7 | 15.8 |
| EPS | 4.8 | 6.7 | 17.3 | 23.3 |

Source: Company, ICICI Direct Research

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