CSB Bank (CSBBAN)

CMP: ₹308 | Target ₹ 370 (20%) | Target Period: 12 months | BUY

October 26, 2026

Sequential improvement; Structural concerns linger

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

- Gold loans form substantial proportion - 53% of the book
- Healthy liabilities franchise with loyal customer base of ~21.5 lakh and 872 branches

Q2FY27 performance: CSB Bank reported an improvement in Q2FY27 performance, with gross advances growing 22% YoY (3.7% QoQ) to ₹42,383 crore, driven by gold loans (+36% YoY) and wholesale advances (+44% YoY), while SME growth remained subdued. Deposits increased 18% YoY (3.2% QoQ) to ₹46,889 crore, though CASA ratio moderated to 18.96% from 19.41% QoQ. NII grew 20% YoY (7% QoQ) to ₹510 crore, supported by a 15 bps QoQ improvement in NIM to 3.81%, aided by higher asset yields and stable funding cost. Other income declined 22% YoY (+20% QoQ) to ₹274 crore, due to lower treasury and PSLC income, despite healthy core fee growth. Elevated technology and distribution expense kept cost-to-income ratio at 64.8%, while operating profit stood at ₹276 crore (+10% QoQ). PAT increased 14% YoY (22% QoQ) to ₹183 crore, with RoA improving to 1.29% from 1.09% QoQ. Asset quality strengthened, with GNPA/NNPA declining to 1.58%/0.33%, slippages moderating to ₹66 crore and credit cost easing to 24 bps.

Investment Rationale:

- **Growth diversification underway; Liability franchise remains key:** Loan growth was primarily driven by wholesale advances (+11.4% QoQ), while gold loans (+1.8% QoQ) and SME (+2% QoQ) witnessed relatively muted growth. Management expects SME growth to revive from Q3FY27 and reiterated its strategy of reducing gold loan concentration from ~53% currently to ~50% by FY27-end and ~32% by FY30, supported by faster growth across wholesale, SME and eventually retail segment. However, the liability franchise remains a key constraint, with CASA declining to 18.9% (vs 19.4% in Q1FY27) and continued dependence on relatively expensive wholesale funding. Management expects CASA growth to outpace term deposits from FY28, supported by technology-led customer acquisition and transaction banking capabilities.
- **Execution of the scale-up strategy remains the key monitorable:** NIM recovery to 3.81% and moderation in credit cost to 24 bps (vs 43 bps in Q1FY27) supported sequential improvement in profitability, with RoA reaching 1.29%. Management expects NIM to remain around 3.75–3.80% and aims to reduce funding cost from 6.5% to ~6% in FY28, partly offsetting yield dilution from changing loan mix. FY28 RoA guidance of 1.5–1.8% reflects expectations of stronger core fees, SME recovery and operating leverage. Further, the potential Fairfax–IDBI transaction continues to create uncertainty around the promoter's eventual ownership roadmap.

Rating and Target Price: While sequential improvement in margins, asset quality and profitability provides some comfort, sustained earnings recovery remains dependent on strengthening the liability franchise, revival in SME growth and realisation of benefits from technology investment. Further, uncertainty surrounding Fairfax's ownership roadmap continues to pose an overhang, although sharp correction in stock price has improved risk-reward preposition. We therefore upgrade our rating to BUY (from HOLD) on the stock, valuing the bank at multiple of ~1x FY28E BV with target price of ₹370 (earlier ₹380).

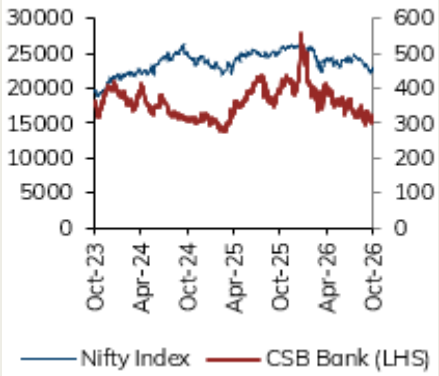
Particulars

Particulars	Amount
Market Cap	₹ 5,350 crore
52 week H/L	₹ 575 / 294
Net Worth	₹ 5,206 Crore
Face value	10.0

Shareholding pattern

(in %)	Dec-25	Mar-26	Jun-26	Sep-26
Promoter	40.0	40.0	40.0	40.0
FII	14.1	12.8	12.6	12.3
DII	15.6	15.2	15.0	15.7
Others	30.3	32.0	32.4	32.0

Price Chart



Key risks

(i) Adverse change in mix diluting margins

(ii) Promoter related overhang

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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%	2,072	2,513	30%
PPP	780	910	1,085	15%	1,178	1,474	27%
BV	211	251	273	16%	314	365	21%
PAT	567	594	633	5%	729	914	24%
P/E	9.4	9.0	8.4		7.3	5.8	
P/ABV	1.5	1.3	1.2		1.0	0.9	
RoA	1.7	1.4	1.2		1.2	1.2	
RoE	16.2	14.3	13.5		13.9	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

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
NII	509.9	423.6	20.4	478.7	6.5	Supported by healthy loan growth of ~22% YoY
NIM (%)	3.81	3.81	0 bps	3.66	15 bps	YoA increased 27 bps QoQ, while CoF were largely flat
Other Income	273.5	349.2	-21.7	228.8	19.6	Core fee income witnessed healthy growth, although treasury remained weak
Net Total Income	783.4	772.8	1.4	707.4	10.7	
Staff cost	266.3	228.1	16.7	252.6	5.4	Stable staff cost
Other Operating Expenses	241.4	265.3	-9.0	204.1	18.3	CI ratio remains elevated at 64.8%
PPP	275.8	279.3	-1.3	250.8	10.0	
Provision	30.1	63.7	-52.7	49.0	-38.6	credit cost moderated to 24 bps (vs 43 bps Q1FY27)
PBT	245.7	215.7	13.9	201.7	21.8	
Tax Outgo	63.0	55.3	13.8	51.7	21.8	
PAT	182.7	160.3	14.0	150.0	21.8	Supported by operating leverage and lower credit cost
Key Metrics						
GNPA	670.6	628.8	6.7	715.4	-6.3	GNPA increased by 17 bps sequentially to 1.58%
NNPA	139.6	178.5	-21.8	157.7	-11.5	
Net Advances	41,852.0	34,261.6	22.2	40,309.0	3.8	Led by wholesale advances (+11.4% QoQ), while gold loans (+1.8% QoQ) and SME (+2% QoQ)
Deposit	46,889.0	39,651.5	18.3	45,415.0	3.2	CASA ratio at 18.9% (vs ~19.4% Q1FY27)

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	5,395.5	6,520.1
Interest Expended	2,121.0	2,784.9	3,323.7	4,007.4
Net Interest Income	1,476.2	1,720.3	2,071.8	2,512.7
Growth (%)	0.0	16.5	20.4	21.3
Non Interest Income	972.1	1,176.6	1,200.1	1,392.2
Net Income	2,448.2	2,896.9	3,271.9	3,904.9
Employee cost	754.3	932.3	1,100.2	1,298.2
Other operating Exp.	783.7	879.2	993.5	1,132.6
Operating Income	910.2	1,085.4	1,178.2	1,474.1
Provisions	110.7	234.2	196.1	242.7
PBT	799.5	851.2	982.2	1,231.4
Taxes	205.8	218.0	252.8	317.0
Net Profit	593.7	633.2	729.4	914.4
Growth (%)	4.7	6.6	15.2	25.4
EPS (₹)	34.2	36.5	42.0	52.7

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	42.0	52.7
BV (₹)	250.5	273.4	314.2	365.3
ABV (₹)	241.1	264.3	303.6	352.6
P/E	9.0	8.4	7.3	5.8
P/BV	1.2	1.1	1.0	0.8
P/ABV	1.3	1.2	1.0	0.9
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	64.0	62.2
Credit/Deposit ratio	85.5	90.1	91.3	91.2
GNPA %	1.6	1.7	1.5	1.6
NNPA %	0.5	0.4	0.4	0.4
RoE	14.3	13.5	13.9	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	5,428.2	6,315.2
Networth	4,497.7	4,894.3	5,601.8	6,488.8
Deposits	36,861.5	44,245.9	53,696.6	66,542.7
Borrowings	5,546.3	7,154.4	6,861.8	7,888.1
Other Liabilities & Provisions	930.8	1,431.9	2,447.0	3,259.4
Total	47,836.2	57,726.5	68,607.2	84,179.0
Application of Funds				
Fixed Assets	628.7	709.8	773.7	843.3
Investments	11,389.3	11,955.3	13,961.1	16,635.7
Advances	31,507.0	39,847.8	49,012.8	60,677.9
Other Assets	719.0	1,116.8	1,208.2	1,497.2
Cash with RBI & call money	3,592.2	4,096.8	3,651.4	4,524.9
Total	47,836.2	57,726.5	68,607.2	84,179.0

Source: Company, ICICI Direct Research

Exhibit 5: **Growth ratios**

(% growth)	FY25	FY26	FY27E	FY28E
Total assets	32.7	20.7	18.8	22.7
Advances	29.5	26.5	23.0	23.8
Deposit	24.0	20.0	21.4	23.9
Total Income	18.8	18.3	12.9	19.3
Net interest income	0.0	16.5	20.4	21.3
Operating profit	16.7	19.2	8.6	25.1
Net profit	4.7	6.6	15.2	25.4
Net worth	18.2	8.8	14.5	15.8
EPS	4.8	6.7	15.1	25.4

Source: Company, ICICI Direct Research

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