

# NVS Wealth Managers Pvt. Ltd.

Investment Banking | Wealth Management | Debt

## CSB Bank Limited IPO Note – The Best IPO Opportunity of 2020

### Reco: Subscribe

Issue Opens: 22<sup>nd</sup> November, 2019

Issue Closes: 26<sup>th</sup> November, 2019

Initial Public Offering of up to [ x ] Equity Shares of FV Rs. 10/- each, consisting of Offer for Sale (OFS) of 1,97,78,298 Equity Shares aggregating to Rs. [ x ] Crs. and a Fresh Issue of [ x ] Equity Shares aggregating to Rs. 24 Crs. at a price band of Rs. 193 – Rs. 195 per Equity Share. (Market Capitalization at issue price of Rs. 195 per Equity Share – only Rs. 3,380 Crs.)

- ✓ CSB will complete 100 years in 2020.
- ✓ Deposit Base Rs. 15,500 Crs. – 412 Branches – 290 ATMs – across 16 states and 4 Union Territories
- ✓ 1<sup>st</sup> bank in India's banking history - 51% stake sale permitted by RBI to a foreign non banking entity
- ✓ Canadian Billionaire Mr. Prem Watsa – Biggest Bet on the Banking Sector in India
- ✓ “Fairfax India Holdings Corporation” owned by Mr. Prem Watsa – acquired 51% stake in CSB at a price of Rs. 140 per share in October 2018 - infusing Rs. 1,200 Crs. into the bank – **NOW THE CHIEF PROMOTER OF THE BANK.**

### I. CSB – Musings from Fairfax India's Annual Report - 2018

- ✓ It would be interesting to quote below the excerpts from Annual Report of Fairfax India 2018, which highlights the excellent team work developed by the Fairfax Group for India.

*“Since we began, Mr. Deepak Parekh has provided us with invaluable advice on almost all of our transactions both as a trusted advisor and a member of the Board of Directors.”*

*“To assist in CSB achieving these objective, Fairfax India was extremely fortunate to have been able to retain the services of Mr. Paresh Sukthankar as a senior advisor. Mr. Sukthankar recently retired from his position as deputy managing director and a member of the Board of Directors of India's leading private sector bank, HDFC Bank.”*

- ✓ Mr. Deepak Parekh, Chairman - HDFC Ltd. and ‘The Bhisma Pitamah’ of the Indian Finance Sector is on the board of Fairfax India. We believe Mr. Deepak Parekh expertise and guidance would transform CSB into One of India's Dynamic Private Sector Bank.

## II. CSB - Top 10 Shareholders (as on RHP Filing Date)

Name of the Shareholder	No. of Equity Shares	% of the Pre-Offer Equity Share Capital
FIH Mauritius Investments Ltd.	86,262,976	50.08%
LIPL CSB OFS Escrow Demat Account	19,778,298	11.48%
CSB ESOS Trust	5,000,000	2.90%
Yusuffali Musaliam Veetil Abdul Kader	3,581,722	2.08%
Volrado Venture Partners Fund II	3,273,286	1.90%
Vallabh Bhanshali	2,185,392	1.27%
Satpal Khattar	1,773,906	1.03%
Lal Arakulath Sankappa	1,756,908	1.02%
Zafar Ahmadullah	1,750,000	1.02%
Thomas John Muthoot	1,665,633	0.97%

## III. CSB – Metamorphosis Complete !!!

- ✓ GNPA slashed from 7.3% in FY2017 to 2.9% in H1FY2020
- ✓ NNPA slashed from 4.1% in FY2017 to 1.9% in H1FY2020
- ✓ NIM has improved from 2.1% in FY2016 to 3.4% in H1FY2020 on the back of better credit deposit ratio and better loan book mix
- ✓ Cost to Income ratio sharply improved from 97.7% in FY2019 to 71.5% in H1FY2020
- ✓ Current book mix – 33% Gold Loan, 32% SME, 28% Corporate and 8% Retail
- ✓ Employee base reduced from 3,000 to 1,900 employees over last 2 years – almost all employees are on CTC basis vis – a – vis the erstwhile IBA Wage agreement basis
- ✓ New employees are being appointed at Rs. 3.5 – 4 Lacs p.a. against Current employee average salary of Rs. 11.5 Lacs p.a. – triggering a material reduction in the cost of wages over next few years.
- ✓ CSB capital position post **Fairfax Investment** stands at **28.2%** as on H1FY2020 which is above the RBI's minimum prescribed **CAR of 10.875%**. Capital augmentation post infusion of funds by **Fairfax** has helped vitalize the Bank's growth engine.

## IV. CSB – How Much Wealth Could CSB Generate for Investors???

Particulars (Rs. in Crs.)	M Cap in FY2007 (Rs. in Crs.)	Current M -Cap (Rs. in Crs.)*	% Gains
RBL Bank Ltd.	315	14,732	<b>4,577%</b>
IndusInd Bank Ltd.	1,342	100,958	<b>7,423%</b>
Kotak Mahindra Bank Ltd.	10,822	307,777	<b>2,744%</b>
HDFC Bank Ltd.	30,323	700,498	<b>2,210%</b>
Bajaj Finance Ltd.	1,495	250,302	<b>16,643%</b>
Cholamandalam Invst. & Fin. Co. Ltd.	376	25,120	<b>6,581%</b>
Shriram Transport Finance Co. Ltd.	7,470	25,667	<b>243%</b>
CSB (Catholic Syrian Bank Ltd.)	-	3,380	<b>???</b>

\*Current Market Capitalization as on 20<sup>th</sup> November, 2019.

Note: Market Capitalization of Shriram Transport Finance Co. Ltd. is as on January, 2008.

*This clearly shows the wonders a Private Financial Institutions can achieve with an excellent management at the helm and we can only expect the same mammoth gains for CSB in next 3–5–7–10 years. CSB is poised to generate huge wealth for its stakeholders.*

## V. CSB – Financials at a Glance

Particulars (Rs. in Crs.)	FY2017	FY2018	FY2019	H1FY2020
Total Income	1,618	1,422	1,483	<b>817</b>
Net Interest Income	314	385	440	<b>280</b>
PBT	(100)	(195)	(98)	<b>69</b>
PAT	(58.0)	(127)	(66)	<b>44</b>
EPS	(7.7)	(15.7)	(7.9)	<b>7.7<sup>1</sup></b>
Face Value	10	10	10	<b>10</b>
Eq. Sh. Cap	81	81	86 <sup>3</sup>	<b>172</b>
Net Worth	999	889	1,640	<b>2,281</b>
BVPS <sup>2</sup>	123	110	190 <sup>4</sup>	<b>132</b>
Deposits	14,911	14,690	15,123	<b>15,510</b>
Advances	8,001	9,185	10,615	<b>11,298</b>
<b>Ratios</b>				
PBT Margin (%)	(6.2 %)	(13.7 %)	(6.6 %)	<b>8.4 %</b>
PAT Margin (%)	(3.6 %)	(8.9 %)	(4.4 %)	<b>5.4 %</b>
NIM (%)	2.1 %	2.6 %	2.8 %	<b>3.4 %</b>
GNPA (%)	7.3 %	7.9 %	4.9 %	<b>2.9 %</b>
NNPA (%)	4.1 %	2.9 %	2.3 %	<b>1.9 %</b>
CAR (%)	10.9 %	8.3 %	16.7 %	<b>22.8 %</b>
PCR (%)	65.5 %	75.8 %	78.2 %	<b>79.5 %</b>
CASA (%)	24.8 %	27.0 %	27.8 %	<b>28.2 %</b>
Cost to Income (%)	74.5 %	85.4 %	97.7 %	<b>71.5 %</b>
ROA (%)	(0.4 %)	(0.8 %)	(0.4 %)	<b>0.5 %</b>

1) EPS of Rs. 7.7 for FY2020 is on Annualized Basis as per CSB's RHP (Page No. 271)

2) BVPS = Equity Share Capital + Statutory Reserves + Capital Reserves + Share Premium + Revenue and Other Reserve

3) Equity Share Capital includes 8.1 Crs. of Fully paid up Equity Shares of FV Rs. 10 each and 1.98 Crs. of partly Paid Up Equity Shares of FV Rs. 2.5 per Share

4) FY2019 BVPS is calculated based on Equity Shares as per note No. 3 assuming being fully paid up.

## VI. CSB – CVR RAJENDRAN, CEO, CSB BANK – Crystal Gazes the Future

*“There are many opportunities because we are not a big bank. We are looking at expanding gold loan and SME portfolios. Gold loans were dominated by NBFCs. Now that they have slowed, there is enough space for us to grow. Banks which can take quicker decisions can take capture more of the market. We being small, our decision taking is much faster than the bureaucratic bigger banks so we have a natural advantage in taking over the NBFC space immediately. We cannot fight State Bank of India in market share. We have to fight with small banks and NBFCs which is what we will do. We will play in niche markets and products.”*

## VII. CSB – Valuation and Recommendation

- ✓ It is pertinent to note that **CSB** is a classic turnaround case in India's banking sector – **THE INDUCTION OF FAIRFAX GROUP WITH 51% HOLDING IS THE BIGGEST TURNING POINT IN THE HISTORY OF CSB**
- ✓ **The bank has posted a superlative performance from a loss before tax of Rs. 98 Crs. in FY2019 to a PBT of Rs. 69 Crs. in H1FY2020 (PAT of Rs. 44 Crs. in H1FY2020). It is even more noteworthy that CSB has**

posted this profitability in the backdrop of one of the worst quarters for the entire Indian Banking Sector in recent times.

- ✓ At a higher end of the price band, CSB is trading at a P/E multiple of 25 times of its FY2020E annualized EPS of Rs. 7.70 and at a P/BV multiple of 1.5 times.  
CSB has all the characteristics of a WINNER from Indian Banking Sector differentiating from its banking peers by increase in CASA to 28.19%, reduction in Cost to Income to 71.5%, improvement in NIM to over 3.4%, ROA of 0.5%, PCR of around 79.5% and strong management pedigree.
- ✓ The management has left enough money on the table for the investors by pricing the issue in the band of Rs. 193 – Rs. 195 per Equity Share and we believe CSB could be One of the Best Investment Opportunity for 2020.

**We recommend all investors to SUBSCRIBE to this issue with an 18-24 month horizon.**

***“Success is 1 percent inspiration and 99 percent capital gains” – J. P. Morgan***

#### CSB IPO Details

<b>Bid Lot</b>	75 Equity Shares and in multiples of 75 Equity Shares thereafter
<b>Price Band</b>	Rs. 193 – Rs. 195 per Equity Share
<b>Lead Manager</b>	Axis Capital Ltd. & IIFL Securities Ltd
<b>Registrar</b>	Link Intime India Pvt. Ltd.
<b>UPI Mechanism</b>	All retail applications are compulsorily in UPI Mode
<b>Listing</b>	NSE, BSE

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