



CSB BANK LIMITED

Axis Capital

IPO NOTE

Issue highlights

- 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 ~₹ 1,207.68 crore.
- With the Fairfax's backing to vitalize CSB's Growth Engine, Bank has transformed into **New Age Bank** with having the pillars as **Capital Augmentation, Revamping Employee Base, Re-aligning Organisational Set-up, Digitization & Technology, Expanding Products & Services, Enhancing customer Experience and Marketing & Branch Building.**
- CSB has 4 principal business areas, namely, **SME Banking, Retail Banking, Wholesale Banking and Treasury operations.**
- As on September 30, 2019, CSB had a **network of 412 branches (excluding 3 service and 3 asset recovery branches) and 290 ATMs.**

Brief Financial Details*

(₹ In Cr)

	As at Sep'30		As at March 31,	
	2019	2019	2018	2017
Equity Share Capital	172.28	85.97	81.01	81.01
Reserves as stated	1,363.71	236.68	272.63	465.13
Net worth	1,535.99	974.00	353.64	546.15
Deposits	15,509.82	15,123.87	14,690.65	14,911.56
Deposits Growth (%)	-	2.95%	(1.48)%	-
Advances	11,402.83	10,905.48	9,685.25	8,271.59
Advances Growth (%)	-	12.60%	17.09%	-
Interest Earned	732.30	1,347.52	1,296.81	1,336.30
Interest Earned Growth (%)	-	3.91%	(2.96)%	-
EBITDA as stated	113.58	34.96	94.96	171.70
EBITDA (%)	15.51%	2.59%	7.32%	12.85%
Profit Before Tax	68.93	(97.61)	(194.89)	(100.44)
Profit after Tax	44.27	(65.69)	(127.09)	(57.99)
Net Profit as % to revenue	6.05%	(4.87)%	(9.80)%	(4.34)%
Net Interest Margin (%)	3.43%	2.80%	2.57%	2.11%
Gross NPA (%)	2.86%	4.87%	7.89%	7.25%
Net NPA (%)	1.96%	2.27%	2.87%	4.12%
EPS (Rs.) as stated^	3.86~	(7.90)	(15.70)	(7.66)
RoNW (%)^	2.88~	(6.74)	(35.94)	(10.62)
Net Asset Value (Rs.)^	89.19	73.54	43.68	67.46

Source: RHP *Summary Statement, ~ not annualised ^ Before taking into consideration of conversion of warrants and ESOP allotment

Issue Details

Fresh Issue of Equity shares aggregating upto ₹ 24 Crore and Offer for sale of up to 19,778,298 Equity Shares.

Issue summary

Net Issue size: ₹ 405.72 Cr – 409.68 Cr
No. of shares: 21,009,067 – 21,021,821
Face value: ₹ 10

Issue summary

Price band : ₹ 193 - 195
Bid Lot: 75 Shares and in multiple thereof

Post Issue Implied Market Cap = ₹ 3,348 – 3,382 Cr

BRLMs: Axis Capital, IIFL Securities
Registrar: Link Intime India Pvt. Ltd.

Issue opens on: Friday, 22nd Nov'2019
Issue closes on: Tuesday, 26th Nov'2019
The Anchor Investor Bidding Date shall be 21st Nov'2019.

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	02-12-2019
Refunds/Unblocking ASBA Fund	03-12-2019
Credit of equity shares to DP A/c	03-12-2019
Trading commences	04-12-2019

Issue break-up

	No. of Shares	₹ In Cr	% of Issue
QIB*	15,766,366 -15,756,801	304.29 – 307.26	75%
NIB	3,153,273 – 3,151,360	60.86 – 61.45	15%
Retail	2,102,182 – 2,100,906	40.57 – 40.97	10%
Total	21,021,821- 21,009,067	405.72 – 409.68	100%

* Company may allocate up to 60% Shares of the QIB Portion to Anchor Investors.

Listing : BSE and NSE

Shareholding (No. of Shares)

	Pre issue	Post issue^	Post issue#
No of shares	172,225,058	173,468,581	173,455,827

^@Upper price Band #@ Lower Price Band

Shareholding (%)

	Pre-Issue	Post-Issue
Promoters & Promoter Gr	50.09%	38.33%
Public	47.01%	58.79%
Non Promoter, Non Public	2.90%	2.88%
Total	100.00%	100.00%

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.

Pursuant to a preferential allotment of Equity Shares and warrants to FIHM, CSB received ₹ 720.75 crore in Fiscal 2019 and the balance amount of ₹ 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.

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 Equity Shares	50.08%
LIPL CSB OFS Escrow Demat Account	19,778,298 Equity Shares	11.48%
CSB ESOS Trust	5,000,000 Equity Shares	2.90%
Yusuffali Musaliam Veetil Abdul Kader	3,581,722 Equity Shares	2.08%
Volrado Venture Partners Fund II	3,273,286 Equity Shares	1.90%
Vallabh Bhanshali	2,185,392 Equity Shares	1.27%
Satpal Khattar	1,773,906 Equity Shares	1.03%
Lal Arakulath Sankappa	1,756,908 Equity Shares	1.02%
Zafar Ahmadullah	1,750,000 Equity Shares	1.02%
Thomas John Muthoot	1,665,633 Equity Shares	0.97%

OFFER DETAILS

The Offer	
Fresh Issue	Upto 1,230,769 [^] - 1,243,523 [~] Equity Shares <small>([^] at upper price band and [~] lower price band)</small>
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

OBJECTS OF THE ISSUE

Objects	Amount <small>(₹ In Cr)</small>
To utilize the Net Proceeds from the Fresh Issue towards augmenting its Tier-I capital base to meet future capital requirements.	[•]
To achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the Offer for Sale.	-
General Corporate Purposes	[•]
Total	[•]

BUSINESS OVERVIEW

CSB Bank Limited (“CSB”) 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. 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 delivers their products and services through multiple channels, including 412 branches (excluding 3 service branches and 3 asset recovery branches) and 290 ATMs spread across 16 states and 4 union territories as on September 30, 2019, and various alternate channels such as micro ATMs, debit cards, internet banking, mobile banking, point of sale services and UPI. The focus on quality of service and nurturing long term relationship with their customers, CSB has developed a well-recognized and trusted brand in south India, particularly in the states of Kerala and Tamil Nadu.

CSB a traditional bank, currently focusing on implementation of strategic changes in their business model to function efficiently as a full service new age private sector bank backed by their new marquee investor - FIHM, the Promoter. To this end, CSB is re-aligning their organizational set-up for efficiently driving their operations and business strategy, wherein branches will be responsible only for deposits, cross-selling and customer servicing and all loan products will be driven by dedicated teams, with each business team operating as a profit centre. They are in the process of rebranding themselves to “CSB Bank Limited” to address region and community related perceptual issues associated with their previous brand name.

CSB is engaged in lateral hiring along with hiring of new recruits by offering market based compensation with a performance linked variable pay component, including employee stock option plans, which will align their employees’ interest with the performance of the Bank. In Fiscal 2019, CSB has also introduced a mechanism for review of performance by a special committee of all officer employees of their Bank on completion of 50 years of age, and thereafter on yearly basis after 53 years of age. Further, CSB may on review by special committee, in its discretion, retire an officer employee any time after completion of 50 years of age and continuance in service up to age of 58 years is subject to suitable service performance.

CSB has also relocated their staff department and credit hub to Chennai, which will attract best talent and improve the productivity. They are also expanding their products suite, services and digital banking platform, with investments in technology aimed at improving their customers' experience, making it easier for them to interact with CSB, and offering them a range of products tailored to their financial needs.

CSB has 4 principal business areas, namely, SME Banking, Retail Banking, Wholesale Banking and Treasury operations.

Business	Business Areas
SME Banking	CSB caters to financial institutions, agriculture and allied businesses, and vendors and dealers of corporates. They offers a wide range of products including term loans, working capital loans, invoice/bill discounting, letters of credit and bank guarantees. Lending to SME customers enables CSB to diversify their credit risk due to relatively smaller individual exposures. It offers higher yields, cross-selling and associated business opportunities. As on September 30, 2019, the SME loan book of the Bank was ₹ 3,360.5 crore.
Retail Banking	CSB offers a wide range of loan and deposit products to their retail and NRI customers. Their retail lending products include gold loans, vehicle loans including 2-wheeler loans, loans against properties, personal loans, housing loans, agricultural loans, and education loans. Their deposit products include current accounts, savings accounts, fixed deposits, recurring deposits, and corporate salary accounts.
Wholesale Banking	CSB caters to large, mid-size corporates and other business entities (Credit requirement of ₹ 25 Cr. and above).
Treasury operations	This primarily consists of statutory reserves management, asset liability management, liquidity management, investment and trading of securities and money market and foreign exchange activities. CSB is also involved in the trading of securities and foreign exchange, and investment in sovereign debt instruments, commercial papers, mutual funds, certificates of deposits, bonds etc.

CSB also distributes life insurance products of Edelweiss Tokio Life Insurance Co. Ltd, HDFC Life Insurance Co., and ICICI Prudential Life Insurance Co. Ltd. and general insurance products of ICICI Lombard General Insurance Co. Ltd. and Reliance General Insurance Co. Ltd under contractual arrangements entered into with them, which increases their product portfolio and helps CSB to generate fee income. The income from bancassurance was ₹ 5.1crore, ₹ 6.9 crore, and ₹ 9.6 crore for Fiscals 2017, 2018, and 2019, respectively and has grown at a CAGR of 37% during the last 3 fiscals. Further, the income from bancassurance was ₹ 4.65 crore as on September 30, 2019.

In recent years, their growth was constrained by low capital adequacy and higher operating costs. However, **from Fiscal 2017 to Fiscal 2019, CSB has improved its growth by focusing on better yield loan products with low risk and therefore, the surplus funds parked in investments were re-deployed to advances with particular focus on gold loans and corporate advances to entities with high credit ratings which have low risk weights to minimize capital consumption.** They also launched new retail products like 2-wheeler finance in Fiscal 2019. Within deposits, CSB focused more on increasing CASA by deploying a dedicated team to mobilize CASA from institutional customers which helped them to reduce cost of deposits. Further they adopted a conscious strategy of repricing term deposits to manage its share in overall deposits given their low credit to deposit ratio in Fiscal 2017 and to further reduce cost of deposits.

Further, they focused on upgrading technology platform to enhance customer servicing and experience by introducing various features like account portability, that is, flexibility for customizing account features, and upgradation of existing system for debit cards, addition of features like IMPS, E-Deposits, etc. for increasing ease in internet banking.

The revamped operating strategy resulted in revival of growth with gradual improvement in profitability despite their low capital adequacy and lead to turnaround in their core operating profit (profit before provisioning and tax, excluding profit on sale of investments) from ₹ (44.19) crore in Fiscal 2017 to ₹ 5.35 crore in Fiscal 2019. The core operating profit (profit before provisioning and tax, excluding profit on sale of investments) was ₹ 90.62 crore for the 6 month period ended September 30, 2019.

The major performance highlights for the 6 month period ended September 30, 2019:

- The Total Assets (gross) were ₹ 17,755.5 crore.
- The overall deposits were ₹ 15,509.8 crore. The CASA deposits was ₹ 4,371.9 crore
- The advances were ₹ 11,297.8 and the yield on advances was 10.22%
- The credit to deposit ratio was 72.84%. The effective risk weight of standard advances was 39.97%.
- The gross NPAs was 2.86% and the net NPAs was 1.96

The major performance highlights for the 6 month period ended September 30, 2019:

- The total NPA provisioning of the Bank was ₹ 55.63 crore and total write-offs including technical/prudential write offs was ₹ 214.88 crore, together amounting for ₹ 270.51 crore.
- The restated credit cost was 0.38% (annualized). The net interest margin was 3.43% and the net interest income was ₹ 279.52 crore for the same period.
- The non-interest income was ₹ 84.42 crore, however, excluding profit on sale of investments the non-interest income was ₹ 71.46 crore and the cost to income ratio is 71.54%.

KEY CONSTRAINTS AND ACTION TAKEN BY BANK

Constraints Faced	Actions Taken
Low Capital Base - CRAR of 8.3% in FY18- Falling Below the Regulatory Minimum	<ul style="list-style-type: none"> • One of the highest CRAR in the industry of 22.8% post the capital infusion by Fairfax India
High People Cost Structure & Low Staff Productivity	<ul style="list-style-type: none"> • 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 nearly 0% in FY17 • Reduced the age of IBA staff from 55 years to 50 years for performance review to improve the productivity and accountability
High NPAs	<ul style="list-style-type: none"> • Net NPA reduced to 2% from 4.1% in FY17 • Provisioning coverage ratio increased to 79.5% from 66% in FY17
High Cost of Deposits	<ul style="list-style-type: none"> • Term deposit rates reduced to below that of peers – despite this bank could maintain high renewal rates • Focused on CASA business resulting in improvement of CASA ratio to 28%1 from 25% in FY17 • Cost of deposits reduced to 5.9% from 6.9% in FY17 – 100 bps decrease
Falling NIM on the back of Low Credit Deposit Ratio & Resultant Accumulation of Lendable Surplus	<ul style="list-style-type: none"> • Credit Deposit Ratio improved to 73%1 in FY19 from 54% in FY17 with advances growing at a CAGR of 14% • NIM improved to 3.4%1 from 2.1% in FY17

STREAMLINED RISK MANAGEMENT CONTROLS, POLICIES AND PROCEDURES

Key Risk Controls	Credit Risk Policies
<ul style="list-style-type: none"> • Developed internal credit risk rating framework for rating of all exposures above ₹0.25 Cr • Business focus is consistent with risk appetite 	<ul style="list-style-type: none"> • Separate Credit risk management committee for managing credit risk • 94.9% (i.e. ₹ 10,815.5 Cr), of advances were secured as of 30th September, 2019
<ul style="list-style-type: none"> • Independent Risk Management team 	<ul style="list-style-type: none"> • PCR ratio increased to 79.5% as of 30th September, 2019 from 65.5% in FY17
<ul style="list-style-type: none"> • Strengthened audit and inspection framework, further strengthening continues with the help of reputed consultant 	<ul style="list-style-type: none"> • GNPA's / NNPA's have also decreased from FY17 to FY19

BANK'S PRODUCT AND SERVICES

Deposit products	SME products	Retail Asset products	Corporate products	Other products
<ul style="list-style-type: none"> ▪ Current account ▪ Savings bank account ▪ Corporate Salary Savings accounts for employee groups ▪ Term deposit accounts for domestic customers ▪ Cumulative deposit accounts ▪ Products for NRI customers ▪ Other deposit products 	<ul style="list-style-type: none"> ▪ Term loans ▪ Working capital loans ▪ Export Finance ▪ Import Finance ▪ Letter of Credit ▪ Buyers'/ Suppliers' Credit ▪ Bank Guarantee ▪ Commercial Vehicle loans ▪ Inland bill discounting ▪ TReDS bill discounting 	<ul style="list-style-type: none"> ▪ Home loans ▪ Personal loans ▪ Vehicle loans ▪ Loans against property ▪ Agricultural loans ▪ Gold loans ▪ Education Loans 	<ul style="list-style-type: none"> ▪ Working capital finance ▪ Corporate loans ▪ Term loans ▪ Bill Finance ▪ Export/ Import Finance ▪ Buyers'/Suppliers' Credit ▪ Letter of Credit ▪ Bank Guarantee ▪ Bills discounted under domestic L/C ▪ Cash management services ▪ Treasury Products 	<ul style="list-style-type: none"> ▪ Money transfers and remittances ▪ RTGS/ NEFT ▪ Utility and bill payments ▪ Internet banking ▪ Mobile banking ▪ Foreign exchange ▪ Distribution of Insurance products ▪ Safe Deposit Locker facility ▪ Cash Management ▪ Institutional Fee Collection Portal – CSB INSTA pay

KEY FINANCIAL AND OPERATIONAL METRICS

Yield, Spreads and Margins

(₹ In Cr)

	As at Sep'30	As of/ for the year ended March 31,		
	2019	2019	2018	2017
Interest Income	732.30	1,347.52	1,296.81	1,336.29
Average Interest earning Assets	1,6262.20	15,698.89	14,985.27	14,871.55
Interest Expense	452.78	907.56	912.00	1,022.69
Average interest bearing Liabilities	15,330.01	15,266.22	14,810.79	14,802.56
Net Interest Income	279.52	439.95	384.81	313.60
Net Profit After Tax	44.27	(65.69)	(127.09)	(57.99)
Average Net Total assets (Net of Revaluation Reserve)	17,931.43	17,016.85	16,216.85	16,099.20
Average Share Capital & Reserves (Net of Revaluation Reserve)	1,487.97	914.96	817.51	821.34
Average interest earning assets as % of average net total assets)	90.69%	92.26%	92.41%	92.37%
Average interest bearing liabilities as % of average net total assets	85.49%	89.71%	91.33%	91.95%
Average interest earning assets as % of average interest bearing liabilities	106.08%	102.83%	101.18%	100.47%
Yield	8.98%	8.58%	8.65%	8.99%
Average Cost of Loan Funds	5.89%	5.94%	6.16%	6.91%
Spread	3.09%	2.64%	2.50%	2.08%
Net Interest Income/Average earning Assets	3.43%	2.80%	2.57%	2.11%
Return on average Net Total Assets	0.49%	(0.39)%	(0.78)%	(0.36)%
Average Share Capital & Reserves to Average Total Net Assets	8.30%	5.38%	5.04%	5.10%
Profit Available for Equity shareholders to Average Equity Shareholders fund	5.93%	(7.18)%	(15.55)%	(7.06)%
Cost to Income	71.54%	97.68%	85.43%	74.49%
Cost to Income (Excluding treasury profits and increase in AS-15)#	59.21%	83.68%	85.89%	111.08%
Credit to Deposit	72.84%	70.19%	62.52%	53.65%

computed after excluding profit on sale of investments, incremental portion of DA and increase in As-15 provision on account of various reasons like reduction of retirement age of officers from 60 years to 58 years during year 2018-19, decrease in return on plan assets, decrease in discount rate used for arriving present value of obligation liability etc.

Total Deposits

Particulars	As at Sep'30		As of March 31,					
	2019		2019		2018		2017	
	₹ Cr	% to Total	₹ Cr	% to Total	₹ Cr	% to Total	₹ Cr	% to Total
• Corporate	787.6		684.7		351.5		569.8	
• Retail	10,350.3		10,228.6		10,368.5		10,647.2	
Total Term Deposits (a)	11,137.9	71.8%	10,913.3	72.2%	10,720.0	73.0%	11,217.0	75.2%
Current Account (b)	659.4	4.3%	617.1	4.1%	628.1	4.3%	607.8	4.1%
Savings Account (c)	3,712.5	23.9%	3,593.5	23.8%	3,342.5	22.8%	3,086.8	20.7%
Total CASA (d=b+c)	4,371.9	28.2%	4,210.6	27.8%	3,970.6	27.0%	3,694.6	24.8%
Total Deposits (a+d)	15,509.8	100.0%	15,123.9	100.0%	14,690.6	100.0%	14,911.6	100.0%

Loan Portfolio (Sector-wise) - Gross Advances

Category	As at Sep'30		CAGR	As of March 31,					
	2019			2019		2018		2017	
	₹ Cr	% to Total		₹ Cr	% to Total	₹ Cr	% to Total	₹ Cr	% to Total
SME Advances	3,360.5	29.47%	(0.9)	3,473.3	31.85%	3,598.9	37.16%	3,538.4	42.78%
Retail Advances	5,271.9	46.23%	16.0	4,895.3	44.89%	4,035.4	41.67%	3,637.8	43.98%
Wholesale Advances	2,770.4	24.30%	52.2	2,536.9	23.26%	2,050.9	21.18%	1,095.4	13.24%
Total Gross Advances	11,402.8	100.00%	14.8	10,905.5	100.00%	9,685.2	100.00%	8,271.6	100.00%

Non Performing Assets (NPAs)

Category	As of Sep' 30,		As of March 31,					
	2019		2019		2018		2017	
	₹ Cr	% to Total Advances	₹ Cr	% to Total Advances	₹ Cr	% to Total Advances	₹ Cr	% to Total Advances
Gross NPAs	326.21	2.86%	530.62	4.87%	764.13	7.89%	600.10	7.25%
Net NPAs	221.50	1.96%	240.68	2.27%	263.78	2.87%	329.48	4.12%

Net Interest Income

(₹ in Cr, except %)

Particulars	As of March 31,		
	2019	2018	% Change
Interest/discount on advance/bills	968.62	912.81	6.11%
Income on investments	347.37	336.20	3.32%
Interest on balance with RBI and other inter-bank lending	2.37	5.94	(60.10)%
Interest on others	29.16	41.85	(30.32)%
Interest earned (A)	1,347.52	1,296.81	3.91%
Interest on deposits	861.83	897.26	(3.95)%
Interest on RBI/inter-bank borrowings	31.49	4.93	538.74%
Others	14.25	9.81	45.26%
Interest expended (B)	907.56	912.00	(0.49)%
Net interest income (C=A-B)	439.95	384.81	14.33%

Capital Adequacy Ratio

(₹ in Cr, except %)

Particulars	As at Sep' 30,		As of March 31,					
	2019		2019		2018		2017	
	(Basel II)	(Basel III)	(Basel II)	(Basel III)	(Basel II)	(Basel III)	(Basel II)	(Basel III)
Risk weighted assets	7,340.91	7,411.07	7,041.48	7,067.80	7,364.25	7,368.31	6,775.21	6,784.11
Total Capital	1,687.81	1,687.81	1,180.55	1,180.55	614.08	614.08	742.44	741.44
• Tier-I Capital	1,638.52	1,638.52	1,133.31	1,133.31	579.76	579.76	699.44	699.44
• Tier-II Capital	49.28	49.28	47.24	47.24	34.32	34.32	43.00	42.00
Total CRAR	22.99%	22.77%	16.77%	16.70%	8.34%	8.33%	10.96%	10.93%
• Tier I CRAR	22.32%	22.11%	16.09%	16.03%	7.87%	7.87%	10.32%	10.31%
• Tier II CRAR	0.67%	0.66%	0.67%	0.67%	0.47%	0.46%	0.64%	0.62%

Summarisation of Bank performance:

(₹ in Cr)

Year	Net worth	Deposits	Net Advances	Total Income	Net Profit	No. of Branches	No of Employees
H1 2020	1,535.99	15,509.82	11,297.84	816.71	44.27	418	3,250
2018-19	973.99	15,123.87	10,615.24	1,483.43	(65.69)	419	3,001
2017-18	353.64	14,690.65	9,184.85	1,422.23	(127.09)	421	2,855
2016-17	546.15	14,911.56	8,000.78	1,617.50	(57.99)	426	2,716

COMPETITIVE STRENGTHS

- Strong channel network and trusted brand in South India**

CSB provides their products and services primarily through an extensive physical network of branches and ATMs. The alternate channel network comprises of ATM debit cards, internet banking, mobile banking, point of sales ("POS"), QR payments, UPI, 24*7 phone banking, ePassbook, micro ATMs, prepaid (co-branded) cards and payment gateway services through tie ups, (collectively "Alternate Channel Network"). The number of transactions undertaken through Alternate Channel Network has increased from 42.10% in March 31, 2017 to 56.57% in March 31, 2019 and was 64.18% for the 6 month period ended September 30, 2019, against the branch manual transaction which includes cash, clearing, transfer, RTGS, NEFT done from branches of their Bank ("Branch Manual Transaction"). With over 98 years of history, CSB has developed a well-recognized and trusted brand in south India, particularly in the states of Kerala and Tamil Nadu, where they have built strong relationships with many of their customers, which has been one of their key growth drivers.

The deposit renewal rate has increased from 88.01% as of March 31, 2017 to 93% as of March 31, 2018 and to 97.24% as of March 31, 2019. Further, the deposit renewal rate was 97.86% as on September 30, 2019.

- ***Strong capital base for growth***

Company's capital position has been significantly strengthened post FIHMs investment in CSB. Pursuant to a preferential allotment of Equity Shares and warrants to FIHM, for which CSB received ₹ 720.75 crore in Fiscal 2019 and the balance amount of ₹ 486.93 crore in Fiscal 2020, they have 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 CSB as on March 31, 2019 and September 30, 2019, was 16.70% and 22.77% (including capital conservation buffer), respectively. Capital augmentation post infusion of funds by FIHM helped vitalize CSB's growth engine.

As on March 31, 2019, the Tier 1 CRAR (including capital conservation buffer) and common equity Tier 1 CRAR (including capital conservation buffer) stood at 16.03% and 16.03%, respectively, well above the minimum prescribed requirements of 7% and 5.5%, respectively, which would enable their long term growth. CSB currently does not have any Tier 2 bonds as they have redeemed ₹ 41.8 crore worth of unsecured redeemable non-convertible subordinated lower Tier II bonds on March 30, 2019. As on March 31, 2019 and September 30, 2019, the Tier 2 CRAR stood at 0.67% and 0.66%, respectively and therefore CSB has significant head room available to raise Tier 2 capital to supplement their strong Tier 1 capital base.

- ***Well established SME business***

SMEs are more often confronted with challenges such as availability of adequate and timely financial resources than large corporates. CSB focus on meeting the funding and banking requirements of these SME customers. Lending to SMEs enables CSB to diversify their credit risk profile due to relatively smaller individual exposures. As on March 31, 2019 and September 30, 2019, the advances to SME customers aggregated to ₹ 3,473.3 crore and ₹ 3,360.5 crore, respectively, spread across 7,529 accounts and 7,534 accounts, respectively, implying an average ticket size of approximately ₹ 0.46 crore and ₹ 0.45 crore, respectively. As on September 30, 2019, out of the total 388 SME cluster areas identified by United Nations Industrial Development Organization ("UNIDO") spread across India, CSB has presence in 166 such clusters and they intend to expand their SME business in the remaining clusters.

- ***Retail offering driven by strong gold loan portfolio***

Gold loans constituted a major portion of their advances, contributing 24%, 26%, 31% and 33.17% of their total advances as on March 31, 2017, March 31, 2018, March 31, 2019 and September 30, 2019, respectively. As on March 31, 2019 and September 30, 2019, CSB had 522,248 and 595,121 gold loan accounts, with advances aggregating to ₹ 3,333.1 crore and ₹ 3,781.80 crore, implying an average ticket size of approximately ₹ 60,000 respectively. The gold loan book accounted for ₹ 3,781.8 crore as on September 30, 2019.

- ***Stable and granular deposit base***

During last 3 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 ₹ 14,911.6 crore in Fiscal 2017 to ₹ 15,123.9 crore in Fiscal 2019. The CASA ratio improved from 24.78% in Fiscal 2017 to 27.84% in Fiscal 2019, which has led to reduced cost of borrowings for CSB and improvement in net interest margin in Fiscal 2019.

As on March 31, 2019, retail deposits constitute 93.73% of the total term deposits and these deposits have consistently exhibited renewal patterns of above 90%. The NRI deposits has grown at a CAGR of 3% during the last 3 Fiscals. Further, NRI deposits constituted 24.59% of the total deposits as on September 30, 2019.

- ***Professional and experienced management with strong and independent Board***

The management's capabilities, strong reputation, extensive network of industry relationships and wide-ranging experience in the finance and banking industry will continue to help CSB to grow, modernize, and develop further. Some of the Key Managerial Personnel has been with CSB for more than 35 years.

The members of the Board have significant finance and banking experience, including in the RBI, NABARD, SIDBI, KPMG, Thomas Cook (I) Ltd and Fairbridge Capital Pvt. Ltd., and include chartered accountants and associates of the Indian Institute of Banking & Finance. The Part-time Chairman of CSB, Madhavan Karunakaran Menon, has over 30 years of experience in the financial sector.

- ***Streamlined risk management controls, policies and procedures***

CSB has implemented risk management procedures for their credit exposures, including credit evaluation, credit scoring, risk based pricing models and risk monitoring and control mechanisms. They have developed their own credit risk rating framework in terms of which all exposures of ₹ 0.25 crore and above are brought within a rating

mechanism. The rating framework incorporates, *inter-alia*, financial analysis and sensitivity and industrial and management risks.

KEY BUSINESS STRATEGIES

- **Accelerate transformation as new age private bank**
 - *Re-align the organizational set-up for efficiently driving the operations and business strategy*
 - *Rebranding with new name to address region and community related perceptual issues*
 - *Business approach considering latest developments in banking sector*
 - *Focus on enhancing customer experience*
 - *Expand the products suite, services, and customer interface as a full service Bank*
- **Grow the asset business with focus on SME, agricultural and retail customers**
 - *SME business:* specialized SME team to strengthen their marketing SME business.
 - *Agriculture business:* Pre-harvest products, Post-harvest products, Agri-infrastructure products, Allied activities products and Financing for agri-ancillary units.
 - *Retail business:* gold loans, 2-wheeler loans, loans against property and personal
- **Continue to leverage strong deposits franchise**

The share of CASA deposits was 28.19% for the 6 month period ended September 30, 2019. Though their CASA ratio has improved, it remains their endeavor to further increase CASA ratio so as to reduce the overall cost of deposits.

- **Grow and diversify the distribution infrastructure in key geographical locations**

CSB plans to open 425 branches in next 5 years, subject to regulatory approvals. They aim to focus on maintaining the significant advantage they enjoy in the Kerala sub-market by way of their branch reach. CSB aims to strengthen their presence in key locations in other states in addition to their home state, Kerala.

- **Maximizing non-interest income by widening products and services for corporates as well as retail customers**

The Bank also intends to foray into sale of forex, derivatives, and trade products, and provision of wealth management services.

- **Invest in technology to improve operational efficiency, scalability and customer experience**

Company's digital strategy focuses on (i) acquiring customers, (ii) enhancing the customer experience, and (iii) making the internal business operations more efficient.

- **Strengthening risk management**

CSB has implemented some of the recommendations provided in Fiscal 2016 by CRISIL Risk Solutions, a division of CRISIL Risk and Infrastructure Solutions Limited, to revamp the credit framework.

- **Focus on NPA recovery and improve asset quality**

The Bank intends to establish separate teams for retail, SME and corporate segments dedicated towards recovery of provisioned portfolio and also managing and monitoring of ongoing stressed portfolios

COMPARISON OF ACCOUNTING RATIOS WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2019)

Name of the Bank	Face Value	Total Income (Rs. Cr)	EPS (Basic)	P/BV	NAV	P/E (Basic)	RoNW (%)
CSB Bank Ltd	10	1,483.43	(7.9)	[•]	73.54	[•]	(6.7)%
DCB Bank	10	3,391.70	10.5	2.2	92.7	19.4	11.3%
Federal Bank	2	12,970.70	6.7	1.4	68.0	14.5	9.8%
South Indian Bank	1	7,602.70	1.4	0.6	28.2	12.1	4.9%
City Union Bank	1	4,281.60	9.6	3.1	65.9	21.3	14.1%
Karur Vysya Bank	2	6,778.60	2.6	0.9	80.4	27.1	3.3%

Source: Stock Exchange. Based on Audited Financials for the year ended March 31, 2019

P/E ratio based on closing market price as on March 31, 2019 available on www.bseindia.com and using Basic EPS

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