SEC/303/2024

August 17, 2024

BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400001.
Scrip code: 542867

National Stock Exchange of India Ltd.,
Exchange Plaza, 5th Floor,
Bandra-Kurla Complex,
Bandra (E), Mumbai 400051.
Symbol: CSBBANK

Dear Sir/Madam,

Reaffirmation of Rating by India Ratings & Research

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that, India Ratings & Research, vide letter dated August 16, 2024, has reaffirmed its rating of 'IND A' with Outlook Stable, to the Rs. 500 Crore, Basel III- compliant Tier II bonds issue Programme of the Bank. The Bank has not yet issued bonds as part of the programme.

The rating rationale provided by India Ratings & Research is enclosed herewith.

Kindly take the same on record.

Thanking You.

Yours faithfully,
SIJO
VARGHESE

Digitally signed by SIJO VARGHESE
DN: st=KERALA,
serialNumber=da67d16a892dbce0f63c24da300ebd6a93ef99e00629fb3f519fd7bc49a7ccee,
postalCode=680020, ou=BOARD AND SHARES DEPARTMENT, o=CSB BANK LIMITED, c=IN,
cn=SIJO VARGHESE
Date: 2024.08.17 12:59:23 +05'30'

Sijo Varghese
Company Secretary

India Ratings & Research
A Fitch Group Company

India Ratings Affirms CSB Bank's Tier II Bonds at 'IND A'; Outlook Stable

Aug 16, 2024 | Private Sector Bank

India Ratings and Research (Ind-Ra) has affirmed CSB Bank Limited's (CSB) Tier II bonds as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned along with Outlook/Watch	Rating Action
Basel III-complaint Tier II bonds*	-	-	-	INR5.0	IND A/Stable	Affirmed

* Yet to be issued

Analytical Approach

Ind-Ra continues to take a standalone view of CSB to arrive at the rating.

Detailed Rationale of the Rating Action

The affirmation reflects CSB's stable and granular liability franchise and the availability of adequate capital buffers in FY24. Nearly 50% of the bank's loan book consist of gold loans which offers advantages such as higher yields, a high security coverage, and low risk weights as well as credit costs. The bank has also calibrated its loan book towards higher-rated entities in the corporate book having about 80% of the corporate loans having a rating of 'A' or above category. Re-calibrating the exposure towards micro, small & medium enterprises (MSMEs) and maintaining its gold loan book have positively impacted the bank's overall risk weighted assets. The rating is, however, constrained with the bank having a moderate size franchise along with regional concentration; Tamil Nadu and Kerala contributed 28% and 22%, respectively, to the gross advances in 1QFY25).

List of Key Rating Drivers

Strengths

- Comfortable capitalisation
- Reasonable deposit profile
- Fairfax presence a positive
- Adequate profitability buffers with slight pressure in near term; stable asset quality

Weaknesses

- High-but-reducing Regional Concentration
- Modest-sized franchise with evolving asset mix

Detailed Description of Key Rating Drivers

Comfortable Capitalisation: CSB's common equity tier 1 (CET1) ratio remained stable at 22.23% in 1QFY25 (FY24: 23.10%; FY23: 25.9%, FY22: 24.4%) mainly on account of accrual from profitability and gold portfolio share. The bank's CET1 ratio is one among the highest in the scheduled commercial bank universe. Ind-Ra does not expect the bank to require material incremental capital from external sources to meet its mid-term growth plans. The bank's net advances grew about 18% yoy to INR248.4 billion, while the credit risk weighted assets/gross advances remained stable at 51% in 1QFY25. CSB had a net worth of INR39.41 billion at end-1QFY25. The healthy capital levels are aided substantially by gold loans that typically have low risk weights and the fact that about 80% of the advances in the corporate segment have a rating of 'A' or above. The bank plans to maintain over 45% of its advances in gold loan products over the near-to-medium term, and hence, a substantial portion of this capital benefit could continue.

Reasonable Deposit Profile: The bank's total deposits grew 22% yoy to INR299.20 billion in 1QFY25 (FY24: INR297.19 billion FY23: INR245 billion; FY22: INR201.9 billion). Ind-Ra opines that CSB has one of the lowest cost of deposits among the mainstream commercial banks, benefiting from a sticky depositor base. CSB's current account deposits as a percentage of deposits is lower than most mainstream banks' since it has a limited franchise. CSB has taken several initiatives towards building a pan-India franchise such as opening branches outside Kerala and Tamil Nadu along with expanding its product portfolio. The bank's non-resident external deposits constituted over 16% of the total deposits in FY24, due to its legacy of being a community-driven bank and having a presence in remittances (especially from non-resident Indians in the Middle East). The bank's current account savings account ratio (CASA) declined to 24.90% during 1QFY25 (FY24: 27.20%; FY23: 32.18%; FY22: 33.7%) due to a higher traction in term deposits supported by higher interest rates. The bank's resource profile is favourable, compared with its peers'; the cost of deposits increased but remained lower than peers' at 5.96% in 1QFY25 (FY24: 5.35%, FY23: 4.38%; FY22: 4.31%).

The share of deposits above INR20 million increased to 35% of the term deposits in FY24 (FY23: 26%, FY22: 15.6%). In addition, during FY24, almost 61.70% of the bank's total deposits were from the two southern states - Kerala and Tamil Nadu (4QFY23: 73%). The bank set up 76 branches in FY24 and plans to set up another 60 in FY25. The new branches, as and when they mature, will begin delivering granular deposits as well as reduce the bank's dependence on its two southern states. Considering CSB's low-cost of deposits and its plans to ramp-up loans through new products over the medium term, if the traction on the deposit side is lower than advances over the near-to-medium term, either the deposit rates will need to be ramped up faster than peers' and/or the bank will need to look at wholesale deposits/borrowings.

Fairfax Presence a Positive: The presence of FIH Mauritius Investments Limited (FIH; Fairfax Holdings Company), as a large investor (40% stake at end-1QFY25), not only provided CSB with about INR12 billion of equity, leading to the write-off of legacy non-performing assets mostly by FYE19, but also enhanced the bank's capability to attract talent and improve governance through the implementation of best practices. CSB also benefits from the various forms of support generally available with the backing of a large investor with pedigree. The bank has, over the past two years, appointed many senior management personnel and is likely to build upon on teams over the medium term. This, along with a clean balance sheet, enables CSB to expand beyond its comfort zone in terms of geography, scale and products. While Ind-Ra believes CSB might not require capital support from its parent in a normal business scenario, it expects the key shareholder to provide support to the extent possible within the regulatory contours and its dilution commitment to the regulator.

Adequate Profitability Buffers with Slight Pressure in Near Term; Stable Asset Quality: CSB's operating metrics remained stable, on the back of stable yields, reasonable loan book growth, particularly in the retail segment and gold loans, and low-cost deposit profile. All these factors will help the bank to deliver sustained profitability in the medium term, according to Ind-Ra. Although CSB's return on asset and return on equity declined, they remained adequate at 1.27% and 12.69%, respectively, in 1QFY25 (FY24: 1.79% and 17.37%, FY23: 2.06% and 20.35%, FY22: 1.90% and 21.28%). Since 50% of the loan book is into gold loans, the bank benefits from low credit cost and stable asset quality with its gross non-performing assets (NPAs) at 1.69% and net NPAs at 0.68%. Ind-Ra expects slippages and the corresponding credit costs to remain low in FY25. The net NPAs of 0.68% at end-1QFY25 indicate a limited requirement for provisioning on legacy NPAs. Ind-Ra opines the overall asset quality will be encouraging in FY25, with the gross and net NPAs remaining at almost similar levels.

High-but-reducing Regional Concentration: CSB faces high concentration risk with Kerala and Tamil Nadu accounting for 35% and 17% of the overall branches in FYE24, respectively. However, the advance share in Kerala and Tamil Nadu reduced to 23% and 28%, respectively, at end-4QFY24 from the FY23 levels of 27% and 29%, respectively. A similar trend was visible on the deposit side too, with Kerala contributing around 47% to the deposit in FY24 (FY23: 55%). Ind-Ra opines the high geographic concentration increases the risk profile of the bank; hence, any effort towards diversifying its geographical presence is a move in the right direction.

Modest-sized Franchise with Evolving Asset Mix: CSB has a modest franchise in south India states with an overall share in advances and deposits of less than 0.5%. At FYE24, the bank's portfolio mix consisted of 48% gold loans (FYE23: 47%), 11% small and medium enterprises loans (10%), 17% agri & retail loans (14%), and 24% corporate and other loans (29%). The top 20 exposures accounted for about 8.57% of the total exposure at FYE24 (FYE23: 10.4%). The bank has expanded its product suite and revamped its credit policies on various products over the past two-to-three years. Furthermore, it has a vision up to FY30 as part of the Sustain, Build, Scale 2030 strategy approved by the board.

CSB is building scale in most of the products, including retail segments (home loans, loans against property, personal/consumer loans, auto loans, among others). Most of these segments have a small share in the total book and will take some time to achieve a material scale and seasoning. The bank is likely to continue to focus on gold loans to keep benefitting from higher yields, low credit costs and lower risk weights over the medium term. Over the long-term, CSB aims to become a mid-sized bank with pan-India presence and a diversified portfolio.

Liquidity

Adequate: The bank's one-year cumulative surplus (assets less liabilities maturing in one year) was about 55% of the total cumulative outflow at FYE24. This also factors in almost 85% renewal rate of its term deposits, which is higher than some of the larger banks'. The average liquidity coverage ratio stood at 117% at FYE24 (FYE23: 119%; FYE22: 149%), which the bank expects to increase in the near term. CSB has about INR39.5 billion as excess statutory liquidity ratio investments (mostly in liquid investments) for liquidity support. The bank's deposit rates are comparable to those of higher-rated banks, despite its savings account rates being lower than even some of the higher rated banks'.

Rating Sensitivities

Positive: A substantial increase in the franchise, experience in corporate assets, strengthening and improvement of the deposit profile, especially outside Kerala and Tamil Nadu, a scaling up of non-gold loans materially and consistent profitability ratios could lead to a positive rating action.

Negative: The bank's CET1 falling below 13% due to equity erosion on a sustained basis or substantial slippages in the non-gold portfolio exceeding 5% could lead to a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on CSB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

CSB was established in 1920 as The Catholic Syrian Bank Limited. It is the oldest private sector bank in Kerala with 794 branches and has presence across around 19 states.

Key Financials Indicators

Particulars	FY24	FY23
Total assets (INR billion)	360.5	291.6
Total net worth (INR billion)	38.0	32.03
Net profit (INR billion)	5.67	5.47
Return on assets (%)	1.79	2.06
Common equity tier 1 ratio (%)	23.1	25.9
Capital adequacy ratio (%)	24.5	27.1
Source: CSB		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating /Outlook		
	Rating Type	Rated Limits (billion)	Rating	17 August 2023	18August 2022	19August 2021
Basel III-complaint Tier II bonds	Long-term	INR5.0	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Basel III tier 2 bonds	Moderate

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process