

**Issue Snapshot:**

Issue Open: November 22 – November 26, 2019

Price Band: Rs. 193 –195

Issue Size: 21,021,821 eq shares  
(Fresh Issue of 1243523 eq sh + Offer for sale of 19778298 eq sh)

Issue Size: Rs. 405.7 -410.0 crs

QIB	atleast 75% eq sh
Non Institutional	upto 15% eq sh
Retail	upto 10% eq sh

Face Value: Rs 10

Book value: Rs 89.15 (Sept 30, 2019)

Bid size: - 75 equity shares and in multiples thereof

100% Book built Issue

**Capital Structure:**

Pre Issue Equity:	Rs. 172.22 cr
Post issue Equity:	Rs. 173.46 cr

Listing: BSE & NSE

Book Running Lead Manager: Axis Capital Limited, IIFL Securities Limited

Registrar to issue: Link Intime India Private Limited

**Shareholding Pattern**

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	50.09	49.73
Public & Employee	49.91	50.27
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source for this Note: RHP

**Background & Operations:**

CSB Bank 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 its overall customer base of 1.3 million as on September 30, 2019, with particular focus on SME, Retail, and NRI customers. It delivers its products and services through multiple channels, including 412 branches (excluding three service branches and three asset recovery branches) and 290 ATMs spread across 16 states and four 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. Its focus on quality of service and nurturing long term relationship with its customers, it has developed a well-recognized and trusted brand in south India, particularly in the states of Kerala and Tamil Nadu. It has four principal business areas, namely, (a) SME banking, (b) retail banking, (c) wholesale banking, and (d) treasury operations.

While CSB Bank has a long operating history as a traditional bank, it is currently focusing on implementation of strategic changes in its business model to function efficiently as a full service new age private sector bank backed by its new marquee investor - FIHM, its Promoter.

Under SME banking business, it caters to financial institutions, agriculture and allied businesses, and vendors and dealers of corporates. It 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 it to diversify its credit risk due to relatively smaller individual exposures. SME business compared to other businesses offers higher yields, cross-selling, and associated business opportunities. All of its SME loans are given based on its assessment of borrowers' business, cash-flows, repayment capacity and are further secured with significant tangible security. CSB Bank's agriculture finance portfolio helps to meet its priority sector lending obligations, where it is required to lend 40% of its ANBC or credit equivalent amount of off balance sheet exposure, whichever is higher, towards priority sectors, out of which 18% of its ANBC or credit equivalent amount of off balance sheet exposure, whichever is higher, is required to be directed towards agriculture.

Under retail banking business, it offers a wide range of loan and deposit products to its retail and NRI customers. Its retail lending products include gold loans, vehicle loans including two wheeler loans, loans against properties, personal loans, housing loans, agricultural loans, and education loans. Its deposit products include current accounts, savings accounts, fixed deposits, recurring deposits, and corporate salary accounts. For facilitating fund transfer services required by its NRI customers, it has remittance and rupee drawing arrangements with major exchange houses in the Middle East and also has tie ups with major money transfer agents, which enhances its capability to provide inward remittance services to the customers and strengthens its NRI business.

Under wholesale banking business, CSB caters to large and mid-size corporates and other business entities (with credit requirement of Rs 250 million and above). As a percentage of its total gross advances, wholesale banking advances accounted for 13%, 21%, 23% and 24.30% as on March 31, 2017, March 31, 2018, March 31, 2019, and September 30, 2019, respectively.

In recent years, its growth was constrained by low capital adequacy and higher operating costs, which adversely impacted its financial performance. However, in last three Fiscals from Fiscal 2017 to Fiscal 2019, CSB Bank 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.

CSB Bank also distributes life insurance products of Edelweiss Tokio Life Insurance Company Limited, HDFC Life Insurance Company, and ICICI Prudential Life Insurance Company Limited, and general insurance products of ICICI Lombard General Insurance Company Limited and Reliance General Insurance Company Limited under contractual arrangements entered into with them, which increases its product portfolio and helps to generate fee income. As on September 30, 2019, it had a network of 412 branches (excluding three service and three asset recovery branches) and 290 ATMs. Out of these 412 branches, 64 branches are in metropolitan areas, 86 branches are in urban areas, 220 branches are in semi-urban areas, and 42 branches are in rural areas. It has wide presence in India, with 267, 56, 30, 17, and 42 of these 412 branches located in the states of Kerala, Tamil Nadu, Maharashtra, Karnataka, and others, respectively. Further, as on September 30, 2019, it had organized all its branches under eight zonal offices.

Its gross NPAs decreased to 4.87% as of March 31, 2019 from 7.25% as of March 31, 2017. Further, its gross NPAs was 2.86% as on September 30, 2019. The net NPAs decreased to 2.27% as of March 31, 2019 from 4.12% as of March 31, 2017. Further, its net NPAs was 1.96% as on September 30, 2019, while its provisioning coverage ratio was 65.50%, 75.83%, 78.16% and 79.45 % in respect of NPAs (including technical write-offs) as of March 31, 2017, March 31, 2018, March 31, 2019, and September 30, 2019, respectively.

Pursuant to a preferential allotment of Equity Shares and warrants to FIHM, CSB Bank received Rs 7,207.53 million in Fiscal 2019 and the balance amount of Rs 4,869.29 million in second quarter of Fiscal 2020, which made it well capitalized and improved its 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. Its Tier I capital ratio has been further augmented post capital infusion in second quarter of Fiscal 2020. Further, as per the Basel III Norms, the CRAR, as assessed by CSB Bank as on September 30, 2019 was 22.77% (including capital conservation buffer).

#### **Objects of Issue:**

The Offer comprises of a Fresh Issue by the Bank and an Offer for Sale by the Selling Shareholders.

#### **Fresh Issue**

The objects of the Offer are to augment CSB Bank's Tier-I capital base to meet Bank's future capital requirements which are expected to arise out of growth in Bank's assets, primarily its Bank's loans/advances and investment portfolio and to ensure compliance with Basel III and other RBI guidelines. Further, the proceeds from the Offer will be used towards meeting the expenses of the Offer.

#### **Offer for Sale**

The Selling Shareholders propose to sell an aggregate of up to 19,778,298 Equity Shares after deducting the Offer related expenses. The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the Offer for Sale. The Selling Shareholders will be entitled to the proceeds of the Offer for Sale after deducting the Offer related expenses with respect to its respective Offered Shares.

#### **Competitive Strengths**

**Strong channel network and trusted brand in South India:** CSB Bank provides its products and services primarily through an extensive physical network of branches and ATMs. It operates in 16 States and four Union Territories in India, reaching 1.3 million customers through 412 branches (excluding three service branches and three asset recovery branches) and 290 ATMs, as on September 30, 2019. In addition to its physical network, it has made investments in development of alternate channels from time to time. It formed a dedicated alternate delivery channels unit in the year 2014 for enhancing its online banking capabilities and digital payment solutions for providing services to its customers via non-branch outlets to improve their banking experience. 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 it has built strong relationships with many of its customers, which has been one of its key growth drivers. It is known for its consistent approach to developing long-term relationships with its customers, based on its local knowledge and experience, amongst other things.

**Strong capital base for growth:** CSB's capital position has been significantly strengthened post FIHMs investment in its Bank. It has a strong capital base for growth acceleration, something which it was not able to accomplish in past due to paucity of capital. As per the Basel III Norms, the CRAR, as assessed by its Bank as on March 31, 2019 and September 30, 2019, was 16.70% and 22.77% (including capital conservation buffer), respectively. As on March 31, 2019, its 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. Further, as on September 30, 2019, its Tier 1 CRAR (including capital conservation buffer) and common equity Tier 1 CRAR (including capital conservation buffer) stood at 22.11% and 22.11%, respectively, well above the minimum prescribed requirements of 7% and 5.5%, respectively, which would enable CSB Bank long term growth. As on March 31, 2019 and September 30, 2019, its Tier 2 CRAR stood at 0.67% and 0.66%, respectively and therefore its bank has significant head room available to raise Tier 2 capital to supplement its 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. It focuses on meeting the funding and banking requirements of these SME customers. As a percentage of its total advances, loans to SME customers accounted for 43%, 37%, 32% and 29.47% as on March 31, 2017, March 31, 2018, March 31, 2019 and September 30, 2019, respectively. Lending to SMEs enables CSB to diversify its credit risk profile due to relatively smaller individual exposures. SME business offers comparatively higher yields, cross-selling and associated business opportunities, and higher degree of secured and collateralized loans. As on March 31, 2019 and September 30, 2019, 99.26% and 96.11% of its SME loan portfolio was secured by tangible collateral, respectively. Lending to SMEs also helps to meet its priority sector lending targets. To enhance sales and marketing efforts, CSB has established a separate team focusing on SME business with credit analysts, relationship managers, and cluster heads assisting the branches in sourcing additional business and achieving deeper penetration. It synergistically leverage its branch network and the expertise of its branch managers and the SME team to create a customer-centric culture, where the emphasis is on satisfying the complete banking and financial needs of its SME customers by offering them a portfolio of products and services including term loans, working capital loans, export finance, import finance, and letters of credit, customized and tailor-made to their specific requirements.

**Retail offering driven by strong gold loan portfolio:** Gold loans constituted a major portion of CSB's advances, contributing 24%, 26%, 31% and 33.17% of its total advances as on March 31, 2017, March 31, 2018, March 31, 2019, and September 30, 2019, respectively. Apart from liquidity of the security and low probability of credit losses, gold loan advances offer benefits of hassle-free lending and lower operational costs. Its gold loan book has grown by 23% from Rs 20,263 million as on March 31, 2017 to Rs 24,836 million as on March 31, 2018 and by 34% to Rs 33,331 million as on March 31, 2019. Further, its gold loan book accounted for Rs 37,818 million as on September 30, 2019. It has a dedicated team within its retail banking business to focus on gold loan product offerings and has established internal processes towards origination, valuation of gold being pledged as security, and subsequent monitoring and collection from customers towards loan repayment, including timely disposal of pledged gold to realize its receivables in the event of default. In addition to its internal procedures, it also engage professional appraisers to determine the purity and value of the gold pledged.

**Stable and granular deposit base:** CSB Bank's deposit base has remained stable. During last three Fiscals, despite a decline in term deposits due to its conscious strategy of not focusing on such deposits, its overall deposits base has remained intact and has increased from Rs 149,116 million in Fiscal 2017 to Rs 151,239 million in Fiscal 2019, owing to an increase in CASA deposits. Its overall deposits base was Rs 155,098 million for the six month period ended September 30, 2019. As on March 31, 2019, retail deposits constitute 93.73% of its total term deposits and these deposits has consistently exhibited renewal patterns of above 90%. Further, as of September 30, 2019, its CASA ratio was standing at 28.19% and its retail deposits constituted 92.93% of its total term deposits, and these deposits has consistently exhibited renewal patterns of above 90%. CSB's 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, its deposit renewal rate was 97.86% as on September 30, 2019. For facilitating fund transfer services required by its NRI customers, it has remittance and rupee drawing arrangements with exchange houses in the Middle East. It also has tie ups with major money transfer agents, which enhances its capability to provide inward remittance services to its customers and strengthens its NRI business.

**Professional and experienced management with strong and independent Board:** CSB Bank's Key Managerial Personnel bring substantial experience and in-depth knowledge of banking operations and management. While some of its Key Managerial Personnel has been with its Bank for more than 35 years, it has also brought in other experienced professionals from the banking industry. Its management's capabilities, strong reputation, extensive network of industry relationships, and wide-ranging experience in the finance and banking industry will continue to help to grow, modernize, and develop further. The members of its Board has significant finance and banking experience, including in the RBI, NABARD, Small Industries Development Bank of India ("SIDBI"), KPMG, Thomas Cook (India) Limited, and Fairbridge Capital Private Limited, and include chartered accountants and associates of the Indian Institute of Banking & Finance.

**Streamlined risk management controls, policies and procedures:** CSB Bank has instituted prudent risk management controls, policies, and procedures that are critical for the long-term sustainable development of the business. It has implemented risk management procedures for its credit exposures, including credit evaluation, credit scoring, risk based pricing models, and risk monitoring and control mechanisms. It has developed its own credit risk rating framework in terms of which all exposures of Rs 2.5 million and above are brought within a rating mechanism. The rating framework incorporates, *inter-alia*, financial analysis and sensitivity and industrial and management risks. Bank's credit risk policy is periodically reviewed and updated to incorporate changes in the environment, market, and regulatory guidelines. It has an asset liability management committee for managing market risk; a credit risk management committee for managing credit risk; and an operations risk management committee for managing operations risk. It is focused on maintaining high standards of asset quality through risk management and mitigation practices.

**Business Strategy:**

**Accelerate transformation as new age private bank:** CSB Bank has designed a new organizational set up which makes it more capable of attaining the long-term targets for its business growth and successfully evolve into a new age private sector bank. It is now moving to a business segment wise organizational set-up, wherein branches will be responsible for origination of deposits, cross selling, and customer servicing, and advances will be driven by a dedicated team for each loan product, i.e. retail, SME, and corporate loans, with respective business strategy, standardized policy framework, clear separation of credit assessment and sanction of loans from the origination team within each business segment to ensure independent analysis and appraisal of loan proposals. Further, CSB Bank will have specialized loan product teams within retail banking to focus on specific products like gold loans, two wheeler loans, etc. based on its priorities. While CSB Bank has a long operating history, its previous branch centric structure had created multiple business and decision making centres which worked independent of each other without any coordination, thereby, adversely impacting its ability to develop and adopt a coherent uniform approach in line with latest developments in the banking sector and to implement available technology solutions for its banking operations across various business segments, operations, etc. With its revamped organizational structure and decision making process, CSB Bank will have greater ability to evolve, introduce, and implement better operational strategies, business approach, and procedures uniformly across the Bank. It intends to adopt and implement such strategies based on latest developments in the banking sector and the practices followed by various other banks operating in India as well as overseas to put in place an operational architecture which is more efficient, cost effective, and facilitates superior customer servicing. CSB Bank will focus on partnership driven model in certain aspects of its operations including credit and risk assessment. It also intends to enter into similar business partnerships and alliances to create more value for its various business segments. It will also focus on building a digital franchise by introducing the right technology to enhance the scope of digital banking for its customers which will provide them with a choice to minimize their physical engagement with its Bank if they so desire and to transact digitally instead. Similarly, on the basis of CSB Bank's market experience and latest trends in payments space in India, it has launched a mobile application *BHIM CSB Pay*, based on UPI platform. CSB Bank will continue to focus more on the UPI platform instead of developing its own branded payments wallet. It will be able to continually discard outdated technologies and adopt more efficient modern technologies, thereby enhancing its competitiveness.

CSB Bank's strategy for ensuring superior customer experience encompasses a mix of physical touch points in form of its branches, ATMs, micro ATMs, and door step services provided by dedicated relationship managers for certain products and services, and creating a technology platform which gives choice to its customers to interact and transact with it based on their preference. CSB Bank intends to introduce new products to widen its service offering as a full service Bank, while continuing to remain focused on SME customers by providing them support through the life cycle of their business, and to also capitalize on the opportunity presented by retail banking by enhancing its product and service offerings and customer delivery capabilities. In furtherance of this strategy, it intends to introduce wealth management services (which can be cross sold to its existing NRI and high net worth customers as well as to new customers), trade finance products, foreign exchange products, supply chain finance products, and cash management products. CSB Bank is also in the process of setting up a separate team for promotion of capital market products to prospective customers, for which it has already appointed a relationship manager at its zonal office in Mumbai. Offering a wider range of products as mentioned above will enhance CSB Bank's customer retention capabilities. It also intends to launch credit cards for its customers in the near future. It will evaluate a co-branded card with an existing non competing issuer as well as launching full fledged card services on its own.

**Grow asset business with focus on SME, agricultural and retail customers by leveraging capital position:** CSB Bank is also in the process of penetrating into MSME sector by establishing a dedicated MSME team for offering better services to the customers in that segment. In order to maintain better asset quality as well as optimize operating costs, it intends to follow differentiated credit approach for SME and MSME loans. SME loans, being higher ticket in nature, will be appraised by dedicated SME credit team on the basis of business cash-flow profile of the respective SME and its repayment capability. Further, its SME loans will also be secured by way of charge against some tangible assets of the concerned SME or its promoters. It also intends to adopt consistently monitored portfolio approach for SME loans to maintain balance between various industrial and services sectors its SME customers are engaged in. To support SME and Wholesale banking businesses, CSB Bank also plans to launch capital market linked products including lending products linked to capital market instruments.

CSB Bank has also established a separate vertical for its agriculture based business to provide a variety of agriculture based banking products. It also intends to grow its agriculture based business by focusing on lending to customer service units, Primary Agricultural Credit Societies ("PACS"), Farmer's Service Societies ("FSS"), and Large-sized Adivasi Multi-Purpose Societies ("LAMPS"), thereby mitigating the risk of lending directly to farmers. In order to further grow its retail loan portfolio and diversify loan portfolio mix, it intends to mainly focus on gold loans, two wheeler loans, loans against property, and personal loans. Apart from its own loan origination, it also intends to enter into various strategic partnerships and alliances with fintech companies and NBFCs to originate retail loans in focused product categories. For two wheeler loans, CSB Bank has already started sourcing business in Kerala and will be gradually expanding to other states, starting with Tamil Nadu. It also intends to explore opportunities for buyout of portfolios of two wheeler loans and other auto loans. It also intends to increase its gold loan origination by entering into business partnerships based on business correspondence model and by enrolling direct



selling agents. It intends to increase its branch presence in the states of Karnataka, Andhra Pradesh, Telangana, Maharashtra, and Gujarat to achieve a good geographical spread and to attract new customers.

**Continue to leverage strong deposits franchise:** The share of CASA deposits in CSB Bank's total deposits increased from 24.78% in Fiscal 2017 to 27.84% in Fiscal 2019. Further, the share of CASA deposits in its total deposits was 28.19% for the six month period ended September 30, 2019. Though its CASA ratio has improved, it remains its endeavor to further increase CASA ratio so as to reduce its overall cost of deposits. In the past, its focus was not on growing deposits due to lower growth in advances, constrained by low Tier 1 capital adequacy; however, now with the additional capital infusion in the Bank, it intends to grow its deposits to support its growth strategy for advances, particularly by providing attractive interest rates, using pricing as a tool to attract new customers, and by cross selling its products and services.

To improve CSB Bank's wholesale deposit base, it intends to leverage its relationships with various institutions like educational institutions, temple trusts, and churches. It also intends to leverage its corporate and SME relationships by cross selling salary accounts for their employees. Also, its focus on growing SME customers and increasing product offerings for them like supply chain finance and cash management services will help to generate more current account deposits. CSB Bank intends to continue to focus on increasing its NRI deposit base, which has been one of its key growth engines on the deposits side and has also proved to be a stable source of funding for its Bank. It intends to create a separate NRI product, sales and relationship team and are focused on augmenting its NRI business from its branches, all of which are equipped to offer specialized services to its NRI customers. It also intends to provide convenient banking experience to customers by improving its branch ambience and access and by offering differentiated products and solutions to meet the specific needs of particular customer demographics.

**Grow and diversify the distribution infrastructure in key geographical locations:** Apart from developing CSB Bank's home market in Kerala, it intends to increase its presence in the rest of India. Towards this objective, it plans to open 425 branches in next five years, subject to regulatory approvals. It aims to focus on maintaining the significant advantage it enjoy in the Kerala sub-market by way of its branch reach. It aims to strengthen its presence in key locations in states such as Maharashtra, Gujarat, Andhra Pradesh, Punjab, Karnataka and Telangana in addition to its home state, Kerala. In rural locations, it will focus on expanding its presence largely through business correspondence model. In CSB Bank's SME business, as on September 30, 2019, out of the total 388 SME cluster areas spread across India, as identified by UNIDO, it has presence in 166 such clusters, and it intends to expand its SME business in the remaining clusters, specifically in the states of Tamil Nadu, Andhra Pradesh, Telangana, and Gujarat. This expansion would be through a slew of measures, including opening of new branches selectively in the chosen geographies, increasing its digital reach, increasing the strength of employees recruited from respective states in which the branches are located, and focusing on fresh customer acquisition and retention.

**Maximizing non-interest income by widening products and services for corporates as well as retail customers:** Besides CSB Bank focus on increasing interest income, it also intends to focus on increasing its non-interest income from various conventional and non-conventional sources. In order to grow its non-interest income, it distribute third-party investment products, such as life insurance and general insurance products. It also intends to foray into sale of forex, derivatives, and trade products, and provision of wealth management services. It intends to continue trading in PSL certificates in order to enhance its non-interest income. Further, CSB bank also intend to grow its income from locker fee by increasing the number of lockers through better utilization of space within its branches. These measures will provide a steady income flow and will improve its cost to income ratio.

**Invest in technology to improve operational efficiency, scalability and customer experience:** The increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of reaching customers and running businesses. Its digital strategy therefore focuses on (i) acquiring customers, (ii) enhancing customer experience, and (iii) making internal business operations more efficient. CSB Bank intends to enhance the capabilities of its core banking platform to meet its growing business needs. It currently provides a range of options for customers to access their accounts, including internet banking and mobile banking and it has also launched a mobile application *BHIM CSB Pay* based on UPI platform. It intends to invest in technology platforms which provide early warning signals for stressed asset, and in customer relationship management systems, peripheral systems which integrate its systems with that of its various business partners for origination and other operational functions, and alternate channels such as corporate internet banking, POS facility, and payment system interfaces. On the operations side, investments in internal systems and security technology lead to enhanced customer satisfaction, and therefore enhance CSB Bank's competitiveness. Accordingly, it intends to invest in technology in order to improve its banking operations and efficiency and to reduce errors arising out of manual intervention.

**Strengthening risk management:** Effective risk management is essential for CSB Bank's growth, strategic planning, and long-term sustainable development. It plans to continuously focus on strengthening its risk management and internal control capabilities by improving its policies and procedures and introducing advanced risk management tools. It has also implemented some of the recommendations provided in Fiscal 2016 by CRISIL Risk Solutions, a division of CRISIL Risk and Infrastructure Solutions Limited, to revamp its credit framework.

It aims to continue to enhance its credit risk management systems and processes in line with the growth of its business. In terms of business operations, it is implementing an important change wherein loan approval function is separated from loan origination function to put in place a maker and checker approach and ensure independence of credit appraisal process. CSB Bank also intend to implement latest technology/ analytical tools for effective implementation of operational and process controls and credit evaluation, and thereby continue to focus on containment of its NPA levels. It also intends to develop a technology platform for identifying early warning signals of stress across various industries, sectors and segments.

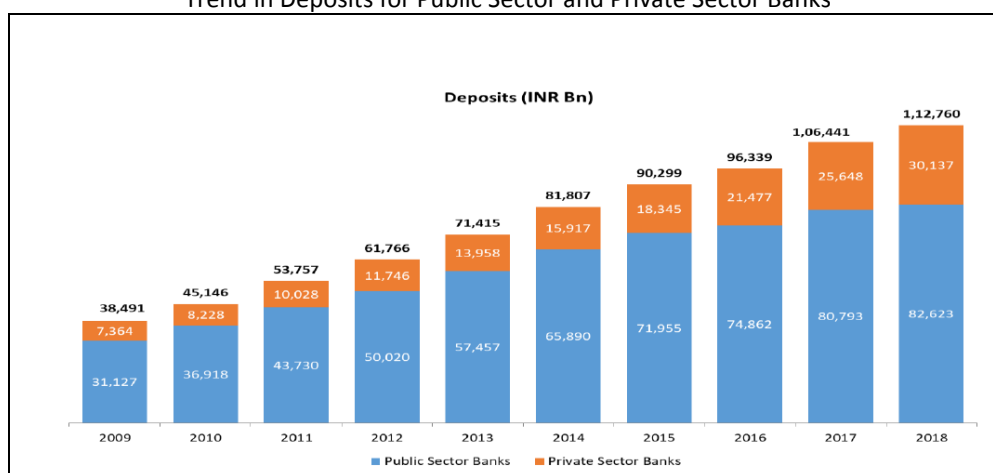
**Focus on NPA recovery and improve asset quality:** CSB Bank intends to establish separate teams for retail, SME, and corporate segments dedicated towards recovery of provisioned portfolio and also managing and monitoring of ongoing stressed portfolios.

## Industry

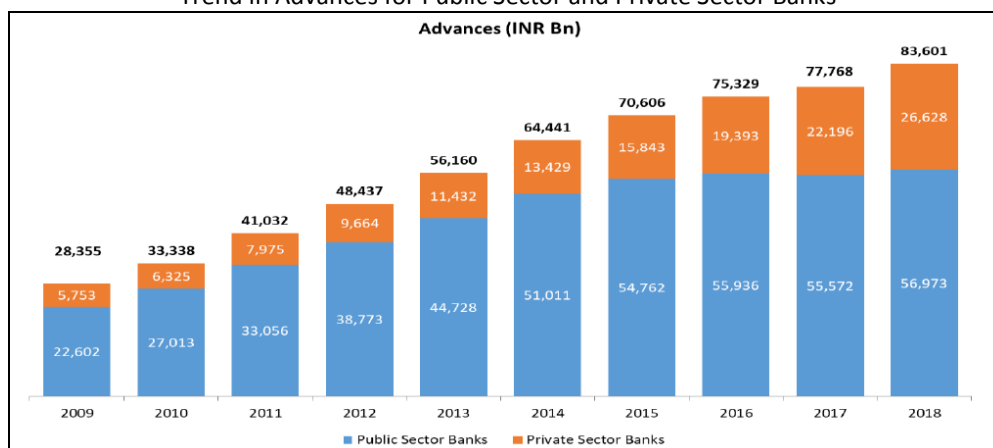
### Overview on Indian Banking Industry

In the recent years, India's banking sector has been facing a large overhang of balance sheet stress. During 2017-18, the persisting deterioration in asset quality necessitated sharp increases in provisions and for the first time since 1993-94, the banking system as a whole, particularly driven by public sector banks (PSBs), registered losses

Trend in Deposits for Public Sector and Private Sector Banks



Trend in Advances for Public Sector and Private Sector Banks



### Progress on Financial Inclusion

With a view to increase banking penetration, promote financial inclusion and to provide at least one bank account per household across the country, a National Mission on Financial Inclusion known as Pradhan Mantri JanDhan Yojana (PMJDY) was launched on 28th August, 2014 at National level by the Prime Minister. The scheme aims at increasing basic savings bank deposit accounts (BSBDAs) or no-frills accounts without any need to maintain minimum or monthly average balance.

**Achievements under PMJDY:**

- Approx. 32.41 crore Jan Dhan accounts have been opened with more than Rs 81,200 crore of deposit balance.
- 53% women Jan Dhan account holders and 59% Jan Dhan accounts are in rural and semi urban areas. More than 83% operative Jan Dhan accounts (except states of Assam, Meghalaya, J&K) are Aadhaar seeded, with issuance of approx 24.4 crore RuPay cards to these account holders.
- More than 7.5 crore JanDhan accounts receiving DBTs.
- Banking Correspondents (BCs) have been deployed in 1.26 lakh Sub Service Areas (rural areas), each catering to 1000-1500 households. Nearly 13.16 crore Aadhaar Enabled Payment System (AePS) transactions have taken place through BCs during the month of July, 2018.
- 13.98 crore subscribers under Pradhan Mantri Suraksha Bima Yojana (PMSBY) with 19,436 claims, involving an amount of Rs, 388.72 crore settled so far.
- Similarly, 5.47 crore subscribers under Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) with 1.10 lakh claims, involving an amount of Rs. 2206.28 crore settled so far.
- 1.11 crore persons have subscribed for Atal Pension Yojana (APY)

A pipeline has been created for the implementation of PMJDY through which JanDhan accounts and mobile banking have been linked to Aadhaar (JAM). This pipeline is not only facilitating savings, disbursement of credit, social security, etc. but more importantly channelizing direct benefits of various government schemes to poor people of the country through DBT. It has been decided to continue the flagship financial inclusion program (PMJDY), with focus on opening accounts from "every household to every adult". The pipeline of JanDhan-Aadhaar-Mobile (JAM) will continue to provide the necessary backbone for coverage of these activities and thereby accelerating the pace of digitized, financially included & insured society. As per the World Bank Global Findex Report 2017, the adult bank account holders in India were 35% in 2011 and 53% in 2014. After the implementation of financial inclusion programme, adult bank account holders were 80% in 2017. India stands second for largest unbanked population with about 190 million Indian adults still do not have bank account. The total unbanked adults across the world are 1700 million. India has a share of 11% in the global unbanked adult population. And also, In India, around 4 in 10 unbanked adults are in the age group of 15 to 24 years.

**ATMs of Scheduled Commercial Banks**

The number of ATMs and in particular, on-site ATMs, declined during the year on account of rationalisation of the number of branches by a few PSBs whereas PVBs recorded an increase in the number of their ATMs. During 2018- 19 (up to August), the number of ATMs (excluding SFBs and PBs) declined further to 204,285, attributable to the increasing use of electronic means of payments. The growth of White-label ATMs (WLAs) has tapered off in recent years, although the number of WLAs crossed 15,000 during 2017-18. In order to facilitate cash availability for WLA operators, sourcing of cash from retail outlets in addition to banks was allowed from December 2016. (Source: RBI report on trend and progress of banking in India 2017-18)

**Retail Banking in India**

Retail banking refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed, current / savings accounts on the liabilities side and personal loans like Consumer Durables, Housing (Including Priority Sector Housing), Advances against Fixed, Advances to Individuals against share, bonds, etc., Credit Card Outstanding, Education, Vehicle Loans and Other Personal Loans, etc. on the assets side, are the key products offered by banks in India. Related ancillary services include credit cards, cross sell of third party financial products, depository services. Today's retail banking sector is characterized by three basic characteristics:

- Multiple products - Deposits, assets, credit cards, insurance, investments and securities
- Multiple channels of distribution - Call centre, branch, Internet and kiosk
- Multiple customer groups - Consumer, small business, and corporate).

**Retail Assets**

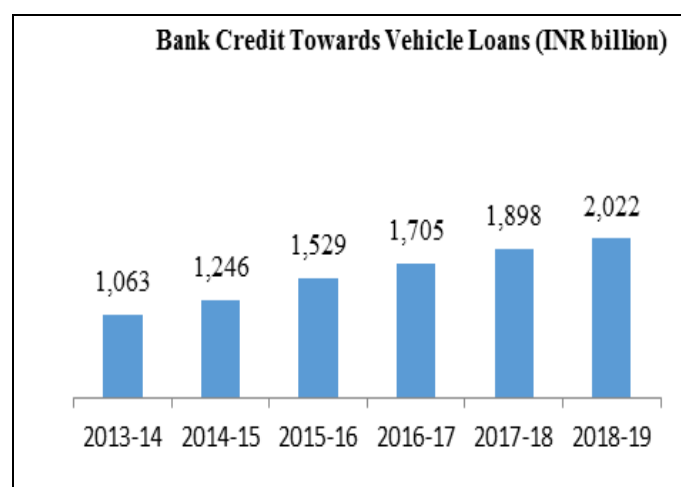
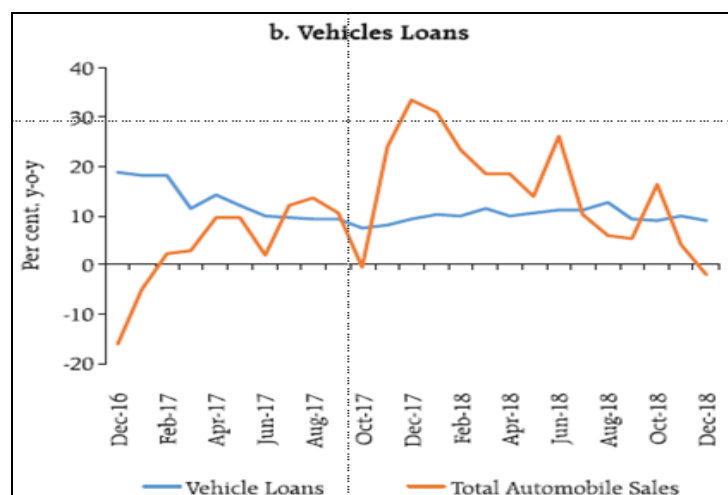
The sectoral deployment of bank credit has undergone a qualitative shift with aggressive lending to the retail segment in the form of personal loans. In the personal loans segment, credit has been growing much above the industry average, largely driven by credit card, housing, vehicle loans and other personal loans. Unsecured lending has been growing at a robust pace as reflected in the high growth of other personal loans and credit cards outstanding. Housing and vehicle loans account for more than 50% of the personal loan portfolio. Credit card outstanding, though not very large in overall credit, has also shown a significant increase growing at a CAGR of 29% between 2013-14 to 2018-19. Education witnessed slower credit-offtake, while credit to consumer durables remained in the contraction zone during 2017-18. (Source: RBI bulletin on sectoral deployment of Bank Credit – February 2019)

## Gold Loans

India has traditionally been a leading consumer of gold in the world with average household holding ~11% in gold assets as mentioned above in the chart on Country wise Financial Assets and liabilities holding pattern. It is known that the gold demand in India is influenced strongly by the feature of gold as an attractive investment option. The demand for gold loans is influenced by many factors. As the gold loans are granted against the gold ornaments deposited by the Borrower, the size of the stock of gold jewellery, available with the Borrowers is a crucial parameter. The needs of the Borrower coinciding with various purposes like cropping season, academic year, festivals, Medical purposes etc, are also critical in determining the demand for gold loans.

## Vehicle Finance Segment:

Indian automobiles industry is one of the largest in the world, comprising commercial vehicles, passenger vehicles, three-wheelers and two wheelers, with the latter accounting for the largest share. A growing middle class, the young population and development of the rural economy has further aided the two-wheeler segment. Vehicles loans have managed to grow by around 10% in 2017-18, despite some hiccups in the beginning of the year. The growth in vehicle loans in the recent period has moderated, reflecting lower automobile sales.



## Micro, Small & Medium Finance Segment

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. (Source: MSME Annual Report 2018-19) As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities. It is seen that 31% MSMEs were found to be engaged in Manufacturing activities, while 36% were in Trade and 33% in Other Services. Again out of 633.88 estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) were in rural area and 309 lakh MSMEs (48.75%) were in the urban areas. (Source: MSME Annual Report 2018-19)

## Steady Increase in MSME Finance

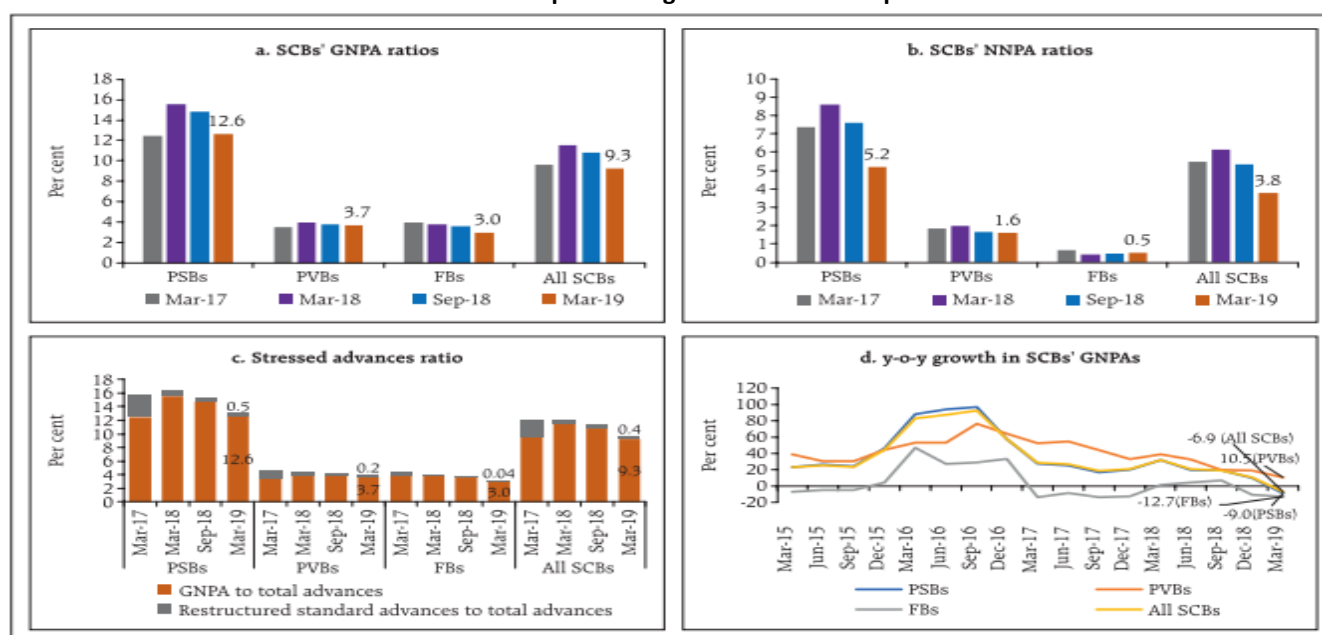
MSME sector plays an important role in the overall growth of Indian Economy. MSMEs primarily rely on bank finance for their operations and ensuring timely and adequate flow of credit to the sector has been an overriding public policy objective. The access to finance and cost of credit have been a concern for the MSME sector. To address this issue, the government of India, on November 2, 2018, announced 2 per cent interest subvention for the MSME sector, applicable for 2018-19 and 2019-20. All fresh or incremental amount of working capital or new term loan to the extent of only Rs10 million in the sector would be eligible for interest subvention during the period of the scheme. All MSMEs which have a valid Udyog Aadhaar Number (UAN) and GSTN Number are eligible under the scheme. Further, the loan accounts of the eligible beneficiaries under the scheme, on the date of filing claim, should not have been declared as NPA as per the extant guidelines in this regard. No interest subvention shall be admissible to the eligible beneficiaries for any period during which their loan accounts remain under NPA category. Small Industries Development Bank of India (SIDBI) is the nodal national level implementing agency for the scheme. Regarding implementation of the scheme, the Reserve Bank has issued the operational guidelines to SCBs in February 2019. (Source – RBI Annual Report 2018-19)



## Asset Quality Trends

The deterioration in asset quality of Indian banks, especially PSBs, can be traced to the credit boom of 2006-2011 when bank lending grew at an average rate of over 20%. Other factors that contributed to the deterioration in asset quality were lax credit appraisal and post sanction monitoring standards; project delays and cost overruns; and absence of a strong bankruptcy regime until May 2016. During 2017-18, the GNPA ratio reached 14.6% for PSBs due to restructured advances slipping into NPAs and better NPA recognition. For PVBs, it remained at a much lower level but rose during the year. The asset quality of FBs improved marginally as shown in the below chart on GNPA Ratios. Supervisory data suggest that during H1:2018-19, the resolution of some large NPA accounts resulted in an improvement in asset quality of SCBs. The increased pace at which NPAs were recognised led to the NPA cycle peaking in March 2018. With most of the NPAs already recognised, the NPA cycle turned around with GNPA ratio declining to 9.3 per cent in March 2019. There was convergence of stressed advances ratio with GNPA ratio across all bank groups. The y-o-y growth in GNPA also decelerated across all bank groups. The provision coverage ratio (PCR) of all SCBs increased sharply from 52.4 per cent in September 2018 to 60.6 per cent in March 2019. Y-o-Y growth in NPA provisions of SCBs was, however, lower in March 2019 at 14.7 per cent as compared to 40 per cent in September 2018 due to the base effect of March 2018.

**Trends in Non-performing Assets -Bank Group-wise**



Bank-wise distribution of asset quality shows that the number of banks having very high GNPA ratio (more than 20 per cent) came down in March 2019 as compared to September 2018. This implies a broader improvement in asset quality. (Source: RBI financial stability report June 2019) Resolute efforts on the part of PVBs to clean up their balance sheets through higher write-offs and better recoveries also contributed to low GNPA ratios. Data from supervisory returns suggest a decline in the ratio of write-offs to GNPA during H1:2018-19 across bank groups and an improvement in actual recoveries. In terms of the net NPA ratio, PSBs experienced significant deterioration during 2017-18. During the year, the share of doubtful advances in total GNPA increased sizably, driven up by PSBs. The share of sub-standard and loss assets in GNPA of PVBs declined under the impact of aggressive write-offs. During H1:2018-19, the share of sub-standard and doubtful advances of SCBs declined, while that of loss assets increased marginally. (Source: Report on Trend and Progress of Banking in India 2017-17, and 2017-18) Supervisory returns suggest that on top of the elevated level of stressed assets, fresh slippages rose during 2017-18 in respect of PSBs as against a decline in the previous year. This is largely attributable to restructured advances slipping into NPAs and a decline in standard advances. Slippages in respect of PVBs moderated. Quarterly data from supervisory returns suggest a significant decline in fresh slippages across bank groups during H1:2018-19. Sector-wise, industrial sector receives 37.3% of total loans and advances, but it contributes about three-fourth of total NPAs. Asset quality in the industrial sector deteriorated during 2017-18, mainly with better recognition. The agricultural sector posted an uptick in the GNPA ratio possibly reflecting debt waiver by several states. During H1:2018-19, some moderation in industrial NPAs occurred due to resolution of certain large accounts. At the same time, the asset quality of loans to the agricultural sector worsened further. Loan defaults in retail loans remained at a low level. Size-wise, one-fourth of loans to large industries turned into NPAs by the end of March 2018. Medium sized industries underwent improvement in loan quality during 2017-18, although in H1:2018-19, these industries were faced with an uptick in the GNPA ratio.

## **Constituents of the Indian Banking Industry**

### **The Reserve Bank of India**

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as "to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth." The Reserve Bank of India performs the supervisory function under the guidance of the Board for Financial Supervision (BFS). The Board was constituted in November 1994 as a committee of the Central Board of Directors of the Reserve Bank of India under the Reserve Bank of India (Board for Financial Supervision) Regulations, 1994. The primary objective of BFS is to undertake consolidated supervision of the financial sector comprising Scheduled Commercial and Co-operative Banks, All India Financial Institutions, Local Area Banks, Small Finance Banks, Payments Banks, Credit Information Companies, Non-Banking Finance Companies and Primary Dealers.

### **Indian Banking System – Commercial Banks**

The commercial banking sector in Indian is quite diverse. Based on the ownership pattern, banks can be broadly categorised into public sector banks, private sector banks and foreign banks. While the State Bank of India, nationalised banks and Regional Rural Banks (RRBs) are constituted under respective enactments of the Parliament, the private sector banks and foreign banks are considered banking companies as defined in the Banking Regulation Act, 1949. Till 2015, only universal banking licenses were being issued in India. However, since 2015, licenses for differentiated banks (niche banks) are also being issued alongside licenses for universal banks. (Source: RBI Functions & working report Jan 15, 2018).

### **Regional Rural Banks:**

Regional Rural Banks (RRBs) were setup with a view to developing the rural economy by providing credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Being local level institutions, RRBs together with commercial and co-operative banks, were assigned a critical role to play in the delivery of agriculture and rural credit. The equity of the RRBs was contributed by the Central Government, concerned State Government and the sponsor bank in the proportion of 50:15:35. The function of financial regulation over RRBs is exercised by Reserve Bank and the supervisory powers have been vested with NABARD. (Source: RBI Functions & working report Jan 15, 2018)

### **Foreign Banks:**

Foreign banks have been operating in India for more than a century and a half. Foreign banks are permitted to operate in India either as branches or Wholly Owned Subsidiaries ("WOS"). Permission for opening of branches by foreign banks in India is guided by India's commitment to WTO. (Source: RBI Functions & working report Jan 15, 2018)

### **Payments Banks:**

The Reserve Bank has issued payments bank ("PBs") licences to seven entities, out of which five PBs were operational by End-March 2018 and the remaining two were also operational at end-November 2018. The primary objective of establishing PBs is to harness technology so as to increase financial inclusion by opening small savings accounts and providing payments/ remittance services to migrant labourers, small businesses, low income households and other entities in the unorganised sector, by using the digital medium. (Source: Report on Trend and Progress of Banking in India 2017-18)

### **Small Finance Banks:**

Small Finance Banks (SFBs) have been set up to deepen financial inclusion by catering to clientele such as migrant labourers, low income households, small businesses and other unorganised sector entities. Since nine out of ten SFBs were earlier operating as NBFCs, their legacy reliance on borrowings continued. SFBs are, however, subject to a regulatory ceiling on inter-bank borrowings. Given their MFI background, loans and advances constituted 67% of total assets, which was much higher than that of other SCBs, and the share of investments in total assets was correspondingly lower. (Source: Report on Trend and Progress of Banking in India 2017-18)

### **Overall Assessment of Indian Banking Sector**

In an environment of worsening asset quality of banks, resolution of stressed assets and ensuring adequate provisions as well as capital ascended the hierarchy of priorities for the Reserve Bank in 2017-18 and these concerns persisted in H1:2018-19, although some improvement was visible. Provisions for mark-to-market losses on account of hardening of yields on government securities added to these pressures, and in this context, the Reserve Bank allowed banks to spread the losses across four quarters, providing some relief. That banks managed to improve their capital positions and maintained other soundness indicators such as the leverage ratio and the LCR well above the minimum regulatory requirements testifies to the gradually building resilience of the banking sector. (Source: Report on Trend and Progress of Banking in India 2017-18)

Bank credit is recovering from the risk aversion of recent years and bank intermediation in the flow of resources to the commercial sector is regaining lost ground. There are shifts underway, though, with a renewed focus on lending to less stressed sectors such as retail loans. Lending to the agricultural sector is getting adversely impacted possibly reflecting deteriorating asset quality in the sector. Policy initiatives such as expanding the ambit of PMJDY—from every household to every adult— and the ongoing third phase of the financial inclusion plan is expected to deepen formal financialisation of disadvantaged sections of society. Furthermore, capital infusion in weak RRBs and operationalisation of an increased number of SFBs and PBs is expected to enable the expansion of the geographical penetration of banking services. On the consumer protection front, improvements in grievance redressal, introduction of innovative products for digital payments, and measures to improve cyber security in banking are all expected to leverage on the progress made so far to expand financial inclusion to encompass all Indians and to provide financial services efficiently and cost effectively. (Source: Report on Trend and Progress of Banking in India 2017-18) Going forward, the IBC and the evolving framework for resolution of stressed assets is expected to address the bad loan problem and improve debtor-creditor relationships even as competition from NBFCs, bond market and fintech companies intensifies. In this environment, banks need to augment their capital base to guard against future balance sheet stress, and improve their credit monitoring and risk management strategies in order to support inclusive growth in the evolving financial landscape. (Source: Report on Trend and Progress of Banking in India 2017-18).

During 2019-20, the banking sector is poised to build upon the consolidation achieved in the year gone by. Stress tests for credit risk conducted by the Reserve Bank indicate that under the baseline scenario, SCBs' gross NPA ratio may decline further to 9.0 per cent by end-March 2020 (9.1 per cent as at end-March 2019). This would release headroom for provisioning efforts, a turnaround in financial performance and for energising and broadening the flow of credit to the productive sectors of the economy. Concomitantly, several regulatory and supervisory measures are underway to strengthen the soundness of the banking system. The Reserve Bank will issue draft guidelines on (a) corporate governance in banks; and (b) revised standardised approach for calculating minimum capital requirement for operational risk in order to align the current regulatory framework with global best practices. Further, draft revised guidelines will be issued on capital charge for credit risk as well as on securitisation. The regulatory framework for Interest Rate Risk in Banking Book will be finalised. These measures will work in conjunction with the revised prudential framework for resolution of stressed assets framed in June 2019 and the large exposures framework, effective April 1, 2019 to incentivise a prudent credit culture. (Source: RBI Annual Report 2018-2019). Reviving consumption demand and private investment has assumed the highest priority in 2019-20. This may involve strengthening the banking and non-banking sectors, a big push for spending on infrastructure and implementation of much needed structural reforms in the areas of labour laws, taxation, and other legal reforms, which will also enhance ease of doing business in pursuit of fulfilling the vision of India becoming a US\$ 5 trillion economy by 2024-25. (Source: RBI Annual Report 2018-2019).

#### Key Concerns:

**Business and financial performance could suffer if CSB Bank is unable to effectively manage the level of its NPAs:** Although CSB Bank is making efforts to improve collections and to foreclose on existing impaired loans in a timely manner, there cannot be any assurance that it will be successful in its efforts or that the overall quality of its Bank's loan portfolio will improve or will not deteriorate in the future. If its Bank is unsuccessful in controlling or reducing its impaired loans, or if there is a significant increase in impaired loans or deterioration in the quality of the assets that the Bank holds as security, its Bank's future financial performance could be materially and adversely affected. There can be no assurance that it will be able to contain or further reduce NPAs or that the overall quality of its loan portfolio will improve or will not deteriorate in the future. Various factors beyond its control, such as rise in unemployment, prolonged recessionary conditions in the world economy, a sharp and sustained rise in the interest rates, developments in the Indian economy, movements in global commodity markets and exchange rates, increased global competition, and adverse changes in Indian laws, regulations, and policies (including farm loan waivers), could have an adverse impact on the quality of its loan portfolio.

**Issued notices and initiated various recovery proceedings against defaulting borrowers under the SARFAESI Act:** Three notices, each involving an amount equal to or above Rs 37.09 million, has been issued by the Bank under the SARFAESI Act against defaulting borrowers, involving an aggregate amount, to the extent quantifiable, of Rs 217.92 million. Further to the notices issued under the SARFAESI Act, its Bank has initiated three civil proceedings, each involving an amount equal to or above Rs 37.09 million, for possession of properties and other assets furnished as security with respect to the outstanding borrowings, involving an aggregate amount, to the extent quantifiable, of approximately Rs 115.24 million. Bank has also initiated sixty four recovery proceedings against defaulting borrowers, each involving an amount equal to or above Rs 37.09 million, involving an aggregate amount, to the extent quantifiable, of approximately Rs 7296.09 million. There can be no assurance that the defaulting borrowers would repay the outstanding borrowings pursuant to the notices, or that it would succeed in these suits. As on November 10, 2019, it has made provisions to the tune of Rs 4,801.42 million in relation to these defaulting loans. Any significant increase in write-offs and/or provisions would materially and adversely impact Bank's financial performance.

**CSB Bank has regional concentration in southern India, especially Kerala:** As of September 30, 2019, CSB has 412 branches in India. It also has three service branches and three asset recovery branches. Out of its 412 branches (excluding three service branches and three asset recovery branches), 349 branches were located in southern India (including 267 branches located in Kerala and 56 branches located in Tamil

Nadu) constituting 78.39% of total branch network. Its concentration in the southern India, and specifically in Kerala, exposes it to many adverse economic or political circumstances in the region as compared to other public and private sector banks that have a more diversified national presence. Any political unrest, disruption, disturbance, or sustained downturn in the economy of Kerala and other states in southern India could adversely affect the business, financial condition, and results of operations.

**CSB Bank is required to lend a minimum percentage of its ANBC to certain priority sectors:** In accordance with the Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2016 dated July 7, 2016, as amended from time to time, all banks in India, including CSB, are subject to directed lending regulations. It is required to lend a minimum of 40% of its Adjusted Net Bank Credit (ANBC), or credit equivalent amount of off balance sheet exposure, whichever is higher, towards priority sectors. Its priority sector advances include advances for agriculture, social infrastructure, renewable energy, loans to MSMEs, housing loans, and educational loans. Further, the RBI has also mandated sub-targets of 18% of its ANBC, or credit equivalent amount of off balance sheet exposure, whichever is higher, to agriculture, 7.50% to MSMEs, and 10% to weaker sections. It has experienced instances of shortfalls in its directed lending to priority sectors in the past. Further, non-achievement of lending targets to priority sectors may also be considered as a factor by the RBI while deciding grant of regulatory clearances and approvals for various purposes. It cannot be assured that it will be able to meet the lending targets towards priority sectors. In case it is unable to meet such targets, it may have to deposit the shortfall with any one of such agencies, and failure to do so may result in refusal of the RBI to grant regulatory clearances and approvals in the future. Further, any change in the RBI's guidelines may require CSB to increase its lending to the priority sectors, and inability of borrowers from the priority sectors to repay loans may result in an increase in NPAs, which may materially and adversely affect its business, results of operations, and financial condition.

**Volatility in the market price of gold may adversely affect the financial condition, cash flows, and results of operations:** Significant portion of CSB Bank's loan portfolio consist of advances that are secured by gold ornaments. As on September 30, 2019, its gold loans represented 33.17% of the total loans outstanding, while it was 24%, 26% and 31% of the total loans outstanding as on March 31, 2017, 2018, and 2019, respectively. A sustained decrease in the market price of gold could cause a decrease in new gold loans in its loan portfolio, and as a result, its interest income. In addition, some of its customers may not repay their loans and a sharp downward movement in the price of gold could result in decline in the value of the gold ornaments securing the loans, which may result in losses. If the price of gold decreases significantly, its financial condition, cash flows, and results of operations may be adversely affected.

**Business, financial condition, results of operations, and prospects could be materially and adversely affected if CSB Bank is unable to successfully execute business and growth strategies and manage growth effectively:** CSB Bank continues to develop and implement a number of growth initiatives to become more competitive and promote sustainable growth. It has increased its focus on building SME advances, LAP products, two wheeler loan products, and personal loan products on the asset side, and NRI franchise and retail deposits on the liability side. It also intends to grow its CASA ratio, in order to reduce the cost of funds and improve core deposits. Due to the increased concentration risk, CSB Bank is cautious in its lending against gold ornaments. It is also now more cautious in advancing corporate loans. It has in the past set targets for its business growth and will continue to set growth targets in the future; however, there can be no assurance that it will meet its current targets or any future targets. Further, there can be no assurance that it will be able to successfully implement its growth strategies in a timely manner or at all, or that any of its new products and services will gain customer acceptance. Its ability to sustain and manage growth is also affected by factors outside of its control, such as GDP growth, changes in regulatory policies, changes in customer demand for loans, and changes in interest rates. CSB Bank may not be able to successfully maintain growth rates due to unfavorable changes in any one or more of the aforementioned factors. Its inability to effectively manage any of these operational issues or react to external factors may materially and adversely affect the business, prospects, financial condition, and results of operations.

**CSB may not be able to maintain or grow its CASA ratio in accordance with its strategy which may materially affect the financial condition and results of operations:** CSB Bank's CASA ratio improved from 24.78% as on March 31, 2017 to 27.03% as on March 31, 2018 and to 27.84% as on March 31, 2019. Further, as on September 30, 2019 its CASA ratio was 28.19%. Its medium term strategy is to improve CASA ratio to industry standards by expanding its client base through new-to-bank acquisitions and growing CASA book through deeper engagement with existing relationships. Over the last three Fiscals and for the six month period ended September 30, 2019, it has attempted to increase the CASA ratio through various initiatives, which include conducting CASA mobilisation campaigns, increasing focus on cross-sale of fee based products to improve customer retention, increasing non-resident savings base through a combination of acquisition and growth of non-resident savings portfolio on a relationship managed basis, and rationalizing of service charges for CASA products and services. However, attracting customer deposits in the Indian market is competitive. Recently, apart from public and private sector banks, CSB has also started facing competition from small finance banks and payment banks. In future, it may also be forced to increase interest rates for its CASA products further to remain competitive and there is no guarantee that from such move it will be able to enhance its customer base enough to compensate for the increase in interest rates. If it fails to maintain or grow its CASA ratio, its Bank's financial condition and results of operations may be materially and adversely affected.



**Business is vulnerable to interest rate related risks:** Interest rates are sensitive to many factors beyond its control, including the RBI's monetary policy and domestic and international economic and political conditions, as well as other factors. Volatility and changes in market interest rates could disproportionately affect the interest CSB Bank earn on its assets as compared to the interest it pays on its liabilities. The difference could result in an increase in interest expense relative to interest income leading to a reduction in net interest income. Accordingly, volatility in interest rates could materially and adversely affect the business and financial performance. An increase in interest rates may also adversely affect the rate of growth of important sectors of the Indian economy, such as corporate, retail, and agricultural sectors, which may materially and adversely impact the business. Furthermore, in the event of rising interest rates, CSB Bank's borrowers may not be willing to pay correspondingly higher interest rates on their borrowings and may choose to repay/pre-pay their loans with it, particularly if they are able to switch to more competitively priced loans offered by other banks. Inability to retain customers as a result of rising interest rates may adversely impact the earnings in future periods. Similarly, in the event of falling interest rates, bank may face more challenges in retaining its customers if it is unable to offer competitive rates on deposits as compared to other banks in the market which could materially and adversely affect the business and financial results.

**CSB's funding requirements are primarily met through customer deposits. If it fails to sustain or achieve growth of its deposit base, including its current and savings account deposit base, its business may be adversely affected:** CSB meet its funding requirements through short-term (i.e., maturity up to one year) and long-term (i.e., maturity for more than one year) deposits from retail depositors (deposits of less than Rs 20 million) and wholesale depositors (deposits of Rs 20 million and above). Banks usually face an asset-liability mismatch due to the difference in maturity patterns of their liabilities and assets. Where maturing liabilities are more than the assets, there is a negative mismatch and a potential liquidity problem. Non-renewal of retail term deposits or higher than expected volatility in non-maturity deposits or delay in repayment of loans or increase in the proportion of long term loans can alter the mismatch position of the Bank adversely. Consequently, it may face a liquidity problem. As a result, CSB bank may be required to pay higher interest rates to attract deposits, which may have an adverse impact on its business and results of operations.

**CSB Bank have concentration of loans to and deposits from certain customers, which expose to the risk of credit losses and premature withdrawal of deposits from these customers:** As of March 31, 2017, March 31, 2018, March 31, 2019, and September 30, 2019, CSB Bank's total advances to the 20 largest borrowers were Rs 10,041.8 million, Rs 14,543.70 million, Rs 16,196.70 million and Rs 18,121 million, respectively. The percentage of advances to the 20 largest borrowers to total advances of its Bank accounted for approximately 10.85%, 13.87%, 13.50% and 15.47%, as of March 31, 2017, March 31, 2018, March 31, 2019, and September 30, 2019, respectively. Loan facilities provided to few of these 20 largest borrowers has also been restructured. It cannot be assured that these borrowers will continue to honour their commitments and that there will be no defaults in future. It cannot be assured that there will not be any delay in payments of interest and/or principal from these borrowers. If any or a substantial number of its 20 largest depositors withdraw their deposits or do not roll over their time deposits upon maturity, it may be required to seek more expensive sources of funding, including paying higher interest rates in order to attract and/or retain further deposits, and it cannot be assured that it will be able to obtain additional funding on commercially reasonable terms as and when required. In such an event, its Bank's liquidity position, financial condition, business, and results of operations may be materially and adversely affected.

**Operate in a highly regulated environment:** CSB Bank operates in a highly regulated environment in which it is regulated by the SEBI, the RBI, the IRDAI, and other regulators. Accordingly, legal and regulatory risks are inherent and substantial in its business. As it operates under licences or registrations obtained from appropriate regulators, it is subject to actions that may be taken by such regulators in the event of any non-compliance with any applicable policies, guidelines, circulars, notifications, and regulations issued by the relevant regulators. In addition, CSB Bank is also exposed to the risk of it or any of its employees being non-compliant with insider trading rules or engaging in front running in securities markets. In the event of any such violations, regulators could take actions, including financial penalties against the bank and the concerned employees. This could have a materially adverse financial and reputational impact on CSB. Any change to the existing legal or regulatory framework will require the bank to allocate additional resources, which may increase its regulatory compliance costs and direct management attention and consequently affect the business.

**Business is vulnerable to investment risk, and any protracted or sudden decrease in the value of the investments can adversely affect the results of operation and financial condition:** CSB Bank is required to maintain a minimum specified percentage, currently 18.50%, of its net demand and time liabilities in Government securities and other approved assets as SLR. Yields on these investments, as well as yields on its other interest-earning assets, are dependent to a large extent on interest rates and valuation. In a rising interest rate environment, especially if the increase is sudden or sharp, and/or due to changes in valuation of the investments/assets, it could be adversely affected by a decline in the market value of its Government securities portfolio and other fixed income securities and may be required to further provide for depreciation in the "Available for Sale" and "Held for Trading" categories. CSB bank's investment portfolio as on March 31, 2019, and September 30, 2019, included security receipts of Rs 2,110.21 million and Rs 1,969.27 million issued by ARCs, respectively. As per the RBI guidelines on declaration of net asset value of security receipts issued by a securitisation company, these receipts have to be valued on NAV



basis. Values of these receipts are dependent on the value of underlying securities, recoverability, disposability, and market factors. Where there is a decline in value, it will have to make provision for the same and its profitability will be affected to that extent.

**Success depends largely upon the management team and skilled personnel:** The breadth of experience of CSB Bank's management team coupled with their in-depth knowledge of banking operations and management provides it the anchor to continue building a robust and sustainable organization. Its management's capabilities, strong reputation, extensive network of industry relationships, and extensive experience in the finance and banking industry are the key to its growth, modernization, and development. It relies heavily on the expertise and experience of its senior management personnel. Its performance and success depend largely on the ability to nurture and retain the continued service of the management team and skilled personnel. Any increase in its attrition levels may add to its expenditure on personnel. Failure to retain its management team and skilled personnel or to attract new talent to aid growth and carry out its strategies could materially and adversely affect the business, prospects, financial condition, and results of operations.

**CSB Bank focuses and intends to continue to focus on the SME business:** As on March 31, 2019, and September 30, 2019, 32.00% and 29.47% of CSB Bank's total advances were to its SME customers, respectively. The Government of India has from time to time taken economic policy initiatives to promote this sector and enhance credit to SMEs. Some of the initiatives of the Government to support small enterprise financing include setting up a credit guarantee fund trust for small industries, Prime Minister's Employment Generation Programme, mudra loan schemes, risk sharing facilities, venture capital funding, and micro credit. The small enterprises finance sector currently is catered to largely by public sector banks, public financial institutions, and local unorganized private financiers. Any change in the regulatory requirements in connection with the SME sector, change in government policies, and slowdown in liberalization and reforms affecting the sector could affect the performance of SMEs and demand for SME finance, and in turn, CSB's business and results of operations.

**CSB Bank may be unable to expand its NRI banking business, which could adversely impact the financial results:** CSB Bank intends to continue its focus on further growth in NRI banking business by offering new products and personalized services. The strategy is to grow its NRI business by expanding its client base through new-to-bank acquisitions and top-up growth and by cross-selling with existing relationships. While it anticipates continued demand in the NRI banking business, growth of its NRI portfolio is subject to various factors including geographical location of its branches, availability of funding/inflows in such locations, quality of products offered, demand from NRIs, and competitiveness at such locations. It cannot be assured that it will be able to expand its NRI banking business, which could materially and adversely affect its growth prospects, financial condition, and results of operations.

**CSB Bank is required to maintain CRR and SLR and any increase in these requirements could materially and adversely affect the business, financial condition, and results of operations:** As a result of the statutory reserve requirements stipulated by the RBI, CSB Bank may be more exposed structurally to interest rate risk than banks in other countries. Under the extant RBI's Master Circular - Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) dated July 1, 2015, it is subject to a CRR requirement under which the bank is currently required to keep 4.00% of its demand and time liabilities in current account with the RBI. It does not earn interest on cash reserves maintained with the RBI. The RBI may further increase the CRR requirement as a monetary policy measure and has done so on numerous occasions in the past. Increases in the CRR requirement could materially and adversely affect the business, net interest income, results of operations, and financial condition. In addition, under the RBI's regulations, its liabilities are subject to a SLR requirement, according to which 18.50% of the net demand and time liabilities need to be invested in Government securities, state government securities and other securities approved by the RBI from time to time. When the interest rate rises, the value of these fixed coupon securities depreciates. It cannot be assured that investment in such securities will provide returns better than other market instruments or whether it will be able to maintain the CRR and the SLR in future. Further, any increase in the CRR and the SLR requirements would reduce the amount of cash available for lending, which may materially and adversely affect the business, financial condition, and results of operations.

**Significant portion of lending is backed by collateral :** As on March 31, 2019, and September 30, 2019, 95.95% and 94.85% of CSB Bank's advances were secured by collateral, including real estate assets, property, gold ornaments, plant, equipment, inventory, receivables, and pledges or charges on bank deposits, LIC policies, or marketable securities. The value of the collateral securing its loans, including, in particular, any property and gold ornaments, may significantly fluctuate or decline due to factors beyond control, including those affecting the Indian and global economy in general. In the event its borrowers default on the repayment of loans, CSB Bank may not be able to realize the full value of the collateral due to various reasons, including a possible decline in the realizable value of the collateral, defective title or pledge of spurious items as security, prolonged legal proceedings, and fraudulent actions by borrowers, or it may not be able to foreclose on the collateral at all. Its inability to realize the full value of assets securing its loans on a timely basis or at all, and any compulsion to restructure the loans, could materially and adversely affect the asset quality, business, results of operations, and financial condition.

**The Indian banking industry is very competitive and CSB's success will depend on the ability to compete effectively:** CSB faces competition from public and private sector Indian commercial banks and foreign commercial banks in all its products and services. Some such banks are

large institutions and may have much larger customer and deposit bases, larger branch networks, and wider capital base. It also face competition in some of its products and services from NBFCs, small finance banks, post office savings schemes, exchange houses, micro financing institutions, co-operative banks, and other entities operating in the financial sector. Further liberalisation of the Indian financial sector could also lead to a greater presence or new entries of Indian and foreign banks offering a wider range of products and services, which could adversely affect the competitive environment. Banks like CSB are also facing increased competition from non-banks including NBFCs and MFIs. Going ahead, there may be increase in the non-bank related financing activities through innovations like P2P lending. P2P lending, also referred to as 'social investing', 'marketplace lending' or 'direct consumer lending', is the practice of borrowing and lending of money among unrelated individuals and business entities, on online platforms, without any role of a traditional financial intermediary like a bank or a non-banking financial institution. Its future success will depend in large part on its ability to respond to such developments in an effective and timely manner and on its ability to compete effectively. Increased competitive pressure may have an adverse impact on CSB's business, financial condition, and results of operations.

**CSB may face labour disruptions that could interfere with its operations and it may be unable to manage its employee costs and expenses which could adversely affect the financial condition and results of operations:** CSB Bank is exposed to the risk of strikes and other industrial actions by its employees as well as trade unions that its employees are a part of. As of September 30, 2019, out of its 3,250 employees, 1,095 officers, 633 clerks, 79 peons, and 22 part-time sweepers were members of trade unions. CSB Bank has not signed the mandate of IBA which requires its Bank to participate in the negotiation talks for wage hike and other terms in respect of the 11<sup>th</sup> Bipartite settlement which started in November, 2017. However, CSB may implement the terms mentioned in the 11<sup>th</sup> Bipartite settlement with prospective effect, which may have an adverse effect on the cost of operations of the Bank. CSB cannot guarantee that its employees will not undertake or participate in strikes, work stoppage, or other industrial actions in the future. Any such employee unrest events result in negative publicity about it and adversely impact its brand and reputation, and could disrupt its operations, possibly for a significant period of time, or result in increased wages and other benefits, or otherwise have a material adverse effect on its business, financial condition, or results of operation. Further, there are several cases filed against CSB Bank by its former or current employees before various tribunals and courts, in relation to claims for alleged wrongful termination of service, reinstatement along with back wages, transfers, and disciplinary actions taken against them. If any of the pending cases are decided against it, it may be subject to payment of back-wages, compensations, or may even be required to re-instate the employees, which could increase its administrative costs and adversely affect its financial condition and results of operations.

**CSB has limited access to credit and other financial information on borrowers than banks in other economies, which may decrease the accuracy of its assessment of credit risks and thereby increase the likelihood of borrower defaults:** CSB's principal activity is to provide financing to borrowers located in India. The credit risk associated with its borrowers, including retail customers, SMEs, small and mid-sized corporates, agricultural and rural customers, and priority sectors, may be higher than in other economies due to the higher uncertainty in its regulatory, political, and economic environment, and the inability of its borrowers to adapt to global technological advances. Its corporate borrowers may suffer from low profitability because of increased competition as a result of economic liberalization policies, a sharp decline in commodity prices, a high debt burden, high interest rates in the Indian economy, and other factors. Moreover, the availability of accurate and comprehensive credit information on retail customers and small businesses in India is even more limited than for larger corporate customers, which reduces CSB's ability to accurately assess the credit risk associated with lending to this category of borrowers. Such difficulties in assessing credit risks associated with its day-to-day lending operations and risks associated with the business environment in India may lead to an increase in the level of its non-performing and restructured assets, which could materially and adversely affect its business and financial results.

**A portion of its advances are unsecured:** As on March 31, 2017, March 31, 2018, March 31, 2019, and September 30, 2019, 4.91% or Rs 4,057 million, 3.99% or Rs 3,867 million, 4.05% or Rs 4,418 million, and 5.15% or Rs 5,873.65 million, respectively, of CSB's total advances were unsecured. While it has been selective in its lending policies and strive to satisfy itself with the credit worthiness and repayment capacities of its customers, there can be no assurance that it will be able to recover the principal advanced by it and interest thereon in a timely manner or at all. Any failure to recover the unsecured advances given to its customers would expose CSB to a potential loss that could adversely affect its business, financial condition, and results of operations.

**CSB's ability to open branches in Tier 1 to Tier 6 centres is subject to fulfillment of certain eligibility criteria prescribed by the RBI:** As on September 30, 2019, CSB's branch network comprised of 412 branches (excluding three service branches and three asset recovery branches) and 290 ATMs across India. The opening of new branches and shifting of existing branches of banks is governed by the provisions of the Banking Regulation Act and the RBI guidelines. In terms of the RBI circular dated May 18, 2017, domestic scheduled commercial banks are permitted to open BOs in Tier 1 to Tier 6 centres without permission of the RBI, subject to certain conditions being satisfied. The time given to a bank for opening an outlet in a URC is one year. If a bank fails to adhere to the requirement of opening 25% BOs in a year, appropriate penal measures, including restrictions on opening of Tier 1 branches, may be imposed. Its ability to raise fresh deposits and grow its deposit

base depends in part on its ability to expand its network of branches. Failure on CSB's part to expand its branch network may adversely affect its business prospects, financial condition, and results of operations.

**CSB is required to obtain prior permission from the RBI to open new branches:** Pursuant to a letter dated January 30, 2015, from the RBI in relation to broadening of capital base and listing of the Equity Shares, the general permission for opening new branches was withdrawn from CSB Bank and its Bank is not permitted to open any new branches without prior approval of the RBI. Its Bank had vide its letters dated February 15, 2019, and March 28, 2019, requested the RBI to grant permission to open new branches. Pursuant to its requests, the RBI has vide its letter dated May 13, 2019, subject to certain conditions, granted permission to its Bank to open 10 new BOs at certain locations indicated by the RBI. There can be no assurance that (i) it will be able to open new branches, (ii) it will continue to satisfy the eligibility criteria for branch expansion, (iii) the restrictions imposed by the RBI will be revoked, (iv) the RBI will give approval to open new branches in future, or (v) the RBI will not impose similar restrictions on it in the future, as a result of which its business prospects could be adversely affected

**Any closure of branches or loss of key branch personnel may adversely affect the ability to build and maintain relationships with the customers, which could adversely affect the business:** CSB Bank's business is dependent on its key branch personnel's ability to establish, build, and maintain customer relationships. It encourage dedicated branch personnel to service clients in certain business segments since this leads to long-term client relationships, a trust-based business environment, and over time, better cross-selling opportunities. While no individual branch manager and no single operating group of managers contribute a meaningful percentage of its business, it may suffer materially if a substantial number of branch managers leave the organization or if some of its branches are closed for any reason beyond its control. For instance, recent floods in the south Indian state of Kerala impacted 12 branches and nine ATMs and caused major disruptions in its operations and adversely affected the business.

**Risk management policies and procedures may not adequately address unidentified or unanticipated risks:** CSB has devoted significant resources to developing its risk management policies and procedures and expect to continue to do so in the future. It has policies and procedures in place to measure, manage, and control the various risks to which it is exposed, including (i) Credit Risk Management Policy, (ii) Operational Risk Management Policy, (iii) Outsourcing Policy, and (iv) Business Continuity Plan, that articulate its approach to identification, measurement, monitoring, controlling, and mitigation of various risks associated with its banking operations, in addition to providing certain important guidelines for strict adherence. The Risk Management Committee of the Board and the Board reviews its risk management policies periodically. Despite this, its policies and procedures to identify, monitor, and manage risks may not be fully effective. Some of its risk management systems are not automated and are subject to human error. Some of its methods of managing risk are based upon the use of observed historical market behavior. As a result, these methods may not accurately predict future risk exposures which could be significantly greater than the risk exposures indicated by historical measures. As it seeks to expand the scope of its operations, it also face the risk of inability to develop risk management policies and procedures that are properly designed for those new business areas in a timely manner. Any inability to develop and implement effective risk management policies may adversely affect its business, prospects, financial condition, and results of operations.

**Business is highly dependent on information technology systems:** CSB's information technology systems are a critical part of the business that helps to manage, among other things, its risk management, regulatory compliance, deposit servicing, and loan origination functions, as well as its increasing portfolio of products and services in all its business segments. In particular, the secure transmission of confidential information is critical to its operations. Any technical failures associated with its information technology systems or network infrastructure, including those caused by power failures and breaches in security caused by computer viruses and other unauthorised tampering, may cause interruptions or delays in its ability to provide services to its customers on a timely basis or at all, and may also result in costs for information retrieval and verification. Any failure to improve or upgrade information technology systems effectively or in a timely manner could materially and adversely affect its competitiveness, financial condition, and results of operations.

**Face significant risks and challenges in developing fee income business:** As part of CSB's growth strategy, it has been diversifying and expanding its para-banking activities to offer distribution of life insurance and general insurance products and money transfer services through branch channels as well as through direct remittance. Additionally, as part of its banking services, it offers letter of credit, bank guarantees, and forex transaction facilities to its corporate clients. Such products and services entail a number of risks and challenges. If it is unable to successfully expand and diversify its products and services, its fee income from such products and services may be less than anticipated, which could have a material adverse effect on its business and financial results.

**Ability to pay dividends is restricted:** In view of losses reported for Fiscals 2017, 2018 and 2019 the Board of Directors did not recommend any dividend on the Equity Shares. Further, there are regulatory restrictions on banks with respect to payment of dividend as well. As per the RBI guidelines, maximum dividend payout is linked to a matrix of Net NPA percentage and level of CRAR. Further, the Basel III Norms impose additional restrictions on dividend payout. Dividends distributed by CSB Bank will attract dividend distribution tax at rates applicable

from time to time. It cannot be assured that it will generate sufficient income to cover its operating expenses and pay dividends to its shareholders. Its ability to pay dividends could also be restricted under certain financing arrangements that it may enter into in the future.

**Profit & Loss**
**Rs in million**

Particulars	H1FY20	FY19	FY18	FY17
<b>INCOME</b>				
<b>Interest Earned</b>	<b>7323.0</b>	<b>13475.2</b>	<b>12968.1</b>	<b>13363.0</b>
Interest & Discount on advance/bills	5631.3	9686.2	9128.1	8808.8
Income on Investment	1534.0	3473.7	3362.0	4125.6
Interest on balance with RBI & other Inter Bank Lending	24.7	23.7	59.4	26.9
Interest - Others	133.0	291.6	418.5	401.6
<b>OTHER INCOME</b>	<b>844.2</b>	<b>1359.2</b>	<b>1254.2</b>	<b>2812.0</b>
Commission, Exchange & Brokerage	137.1	272.4	233.6	204.9
Profit on sale of Investments(Net)	129.6	80.1	27.3	1959.1
Profit on sale of land, building & other assets (Net)	-3.7	-7.5	15.3	-2.8
Profit on exchange transaction(Net)	37.3	70.5	88.1	93.4
Miscellaneous Income	543.9	943.8	890.1	557.4
<b>TOTAL INCOME</b>	<b>8167.1</b>	<b>14834.3</b>	<b>14222.3</b>	<b>16175.0</b>
<b>EXPENDITURE</b>				
<b>Interest Expended</b>	<b>4527.8</b>	<b>9075.6</b>	<b>9120.0</b>	<b>10226.9</b>
Interest on Deposits	4483.1	8618.3	8972.6	10041.5
Interest on RBI/Inter Bank borrowings	17.8	314.9	49.3	92.7
Others	27.0	142.5	98.1	92.7
<b>Operating Expenses</b>	<b>2603.6</b>	<b>5625.1</b>	<b>4359.0</b>	<b>4430.9</b>
Payment to & provision for employees	1681.4	3844.3	2869.1	2935.8
Rent, Tax & Lighting	278.0	505.9	459.1	414.6
Printing & Stationery	20.9	40.4	35.3	45.9
Advertisement & Publicity	3.4	7.8	17.2	8.6
Depreciation on Banks Properties /Assets	100.0	165.3	155.7	149.3
Director's fees, allowances and expenses	3.7	7.7	10.2	14.3
Auditor's Fees & Expenses	8.4	18.4	15.9	17.8
Law Charges	11.6	31.6	25.6	19.6
Postage, Telegrams, Telephones etc.	50.1	97.42	84.42	88.60
Repairs & Maintenance	45.5	85.1	76.3	70.0
Insurance	86.5	165.6	159.3	153.5
Other Expenditure	314.0	655.8	451.0	513.0
<b>TOTAL EXPENDITURE</b>	<b>7131.4</b>	<b>14700.8</b>	<b>13479.0</b>	<b>14657.8</b>
<b>Operating Profit (before Extra Ordinary Items and Provision &amp; Contingencies)</b>	<b>1035.8</b>	<b>133.6</b>	<b>743.3</b>	<b>1517.1</b>
Less: Provisions & Contingencies (other than Provision for Tax)	346.41	1109.7	2692.2	2521.6
<b>Profit Before Tax</b>	<b>689.3</b>	<b>-976.1</b>	<b>-1948.9</b>	<b>-1004.4</b>
Provision for Tax including deferred tax	246.62	-319.2	-678.1	-424.52
<b>Net Profit after tax</b>	<b>442.7</b>	<b>-656.9</b>	<b>-1270.9</b>	<b>-579.9</b>

**Balance Sheet:**
**Rs in million**

Particulars	H1FY20	FY19	FY18	FY17
<b>Assets</b>				
Cash in Hand	549.22	<b>584.3</b>	<b>549.5</b>	<b>505.9</b>
Balance with RBI	6,512.84	6669.8	6229.5	7,057.9
<b>Balance with Banks</b>				
<i>In India</i>	<i>88.33</i>	<i>128.1</i>	<i>187.9</i>	<i>576.4</i>
<i>Outside India</i>	<i>1,011.10</i>	<i>104.2</i>	<i>274.7</i>	<i>191.2</i>
Money at Call & Short Notice	0	2250.0	4909.8	3780.0
<b>Investments</b>				

In India Gross Investment	43,972.35	41118.1	41629.5	57771.1
Less: Depreciation on Investment	831.32	842.0	796.6	479.3
<b>In India Net Investment</b>	<b>43,141.03</b>	<b>40276.1</b>	<b>40832.9</b>	<b>57291.8</b>
<b>Advances</b>				
<i>In India</i>	1,12,978.35	1,06,152.37	91,848.53	80007.8
<b>Fixed Assets</b>	2,156.27	2,177.29	2,161.17	2152.6
Less: Revaluation Reserve	1,571.13	1,578.25	1,594.67	1639.6
<b>Net Fixed Assets</b>	<b>585.14</b>	<b>599.0</b>	<b>566.5</b>	<b>513.0</b>
Other Assets	11,117.64	10769.5	10582.5	9712.2
Less: Intangible Assets and Deferred Tax Asset	2,751.07	2998.7	2635.2	1936.1
Net Other Assets	8,366.57	7770.8	7947.3	7776.1
<b>TOTAL ASSETS</b>	<b>1,73,232.58</b>	<b>1,64,534.60</b>	<b>1,53,346.62</b>	<b>1,57,700.26</b>
<b>LIABILITIES</b>				
<b>DEPOSITS</b>				
<b>Demand Deposit</b>				
<i>From Banks</i>	13.43	5.28	5.15	6.3
<i>From Others</i>	6,580.47	6,165.59	6,276.31	6071.2
<b>Saving Deposits</b>	<b>37,125.25</b>	<b>35935.0</b>	<b>33425.1</b>	<b>30868.3</b>
Term Deposits from Banks	1,829.99	1900.5	58.9	183.4
Term Deposits from others	1,09,549.06	1,07,232.33	1,07,141.01	1,11,986.40
<b>Borrowings</b>				
Subordinate Debts(Tier-II Bonds)	0	0.0	418.0	418.0
Other Liabilities & Provisions	2,774.47	3555.9	2485.7	2705.2
<b>TOTAL</b>	<b>1,57,872.67</b>	<b>1,54,794.65</b>	<b>1,49,810.19</b>	<b>1,52,238.80</b>
<b>NET WORTH</b>	<b>15,359.91</b>	<b>9740.0</b>	<b>3536.4</b>	<b>5461.5</b>
<b>Share Capital</b>				
Equity Share Capital	1,722.77	859.7	810.1	810.1
Share Warrant	0	6513.4	0.0	0.0
<b>RESERVE &amp; SURPLUS</b>				
<b>Statutory Reserve</b>	<b>1,467.56</b>	<b>1467.6</b>	<b>1467.6</b>	<b>1467.6</b>
Capital Reserve	720.49	717.3	717.3	717.3
Revaluation Reserve	1,571.13	1578.3	1594.7	1639.6
Share Premium	17,689.27	7119.6	6475.1	6475.1
Revenue & Other Reserve	1,207.76	1200.6	1184.2	1139.3
<b>TOTAL</b>	<b>22,656.21</b>	<b>12083.4</b>	<b>11438.8</b>	<b>11438.8</b>
Less: Revaluation Reserve	1,571.13	1578.3	1594.7	1639.6
Less: Intangible Assets and Deferred Tax Asset	2,751.07	2998.7	2635.2	1936.1
Less: Profit & Loss (Dr.)	4,696.87	5139.6	4482.7	3211.8
<b>TOTAL</b>	<b>13,637.14</b>	<b>2366.8</b>	<b>2726.3</b>	<b>4651.3</b>
<b>NET WORTH</b>	<b>15,359.91</b>	<b>9740.0</b>	<b>3536.4</b>	<b>5461.5</b>



HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

**Disclaimer:**

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

**HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066**

**Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600**

**HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193**

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

**Disclaimer :** HDFC securities Ltd is a financial services intermediary and is engaged as a distributor of financial products & services like Corporate FDs & Bonds, Insurance, MF, NPS, Real Estate services, Loans, NCDs & IPOs in strategic distribution partnerships. Investment in securities market are subject to market risks, read all the related documents carefully before investing. Customers need to check products & features before investing since the contours of the product rates may change from time to time. HDFC securities Ltd is not liable for any loss or damage of any kind arising out of investments in these products. Investments in Equity, Currency, Futures & Options are subject to market risk. Clients should read the Risk Disclosure Document issued by SEBI & relevant exchanges & the T&C on [www.hdfcsec.com](http://www.hdfcsec.com) before investing. Equity SIP is not an approved product of Exchange and any dispute related to this will not be dealt at Exchange platform.

**This report is intended for non-Institutional Clients only. The views and opinions expressed in this report may at times be contrary to or not in consonance with those of Institutional Research or PCG Research teams of HDFC Securities Ltd. and/or may have different time horizons. Mutual Fund Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.**